

# MARKETBEAT LOUISVILLE



CUSHMAN &  
WAKEFIELD

Commercial Kentucky

Office Q2 2024

YoY Chg 12-Mo. Forecast

**16.5%**

Vacancy Rate



**-75K**

YTD Net Absorption, SF



**\$18.82**

Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2024

YoY Chg 12-Mo. Forecast

**698.3K**

Louisville  
Employment



**4.0%**

Louisville  
Unemployment Rate



**4.1%**

U.S.  
Unemployment Rate



Source: BLS

## ECONOMIC OVERVIEW

While 2024 opened with economists feeling optimistic, the midway point has left many with a feeling of uncertainty. A downshift in economic performance is expected in 2024 as pockets of the economy experience a mini recession. Real gross domestic product (GDP) increased at an annual rate of 1.4% in the first quarter of 2024, reflecting an increase in consumer spending. According to the Atlanta Fed GDP Now forecast, the current estimate of GDP growth for the second quarter stands at 1.5%. Meanwhile, non-farm payroll increased by 207,000 in June which was down 5.5% from May and down 14.17% from one year ago. The U.S. unemployment rate increased to 4.1% with the labor force participation rate remaining steady at 62.6%. The Louisville unemployment rate also increased during the second quarter from 3.9% to 4.0%.

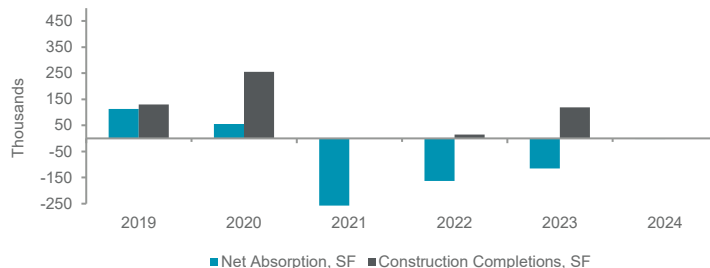
All eyes are now focused on the Federal Reserve relative to whether we may expect an interest rate cut at the September meeting as the Fed faces the tough choice between lowering rates to stimulate the economy or holding firm to curb inflation. Today's higher interest rate environment continues to put tremendous pressure on commercial real estate nationwide, having significant impact on underperforming urban office properties with maturing debt over the next 12 to 18 months. Nowhere is that more evident locally than the recent appointment of a court appointed receiver to administer the management of the 26-story Meidinger Tower located in the 400 block of South Fourth Street in the heart of Louisville's Central Business District.

## CBD

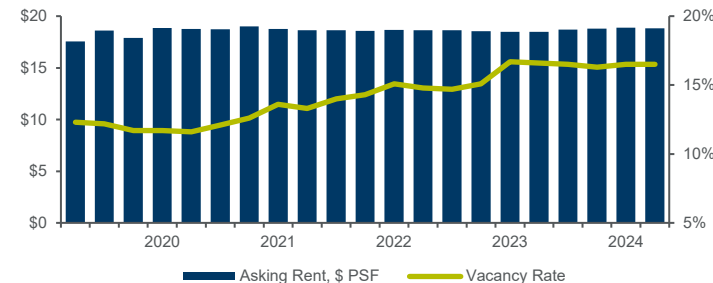
Leasing activity in the CBD during the second quarter totaled 16,574 square feet (sf) bringing the mid-year total to 34,225 sf, barely half of the 68,440 sf of leasing activity experienced at mid-year 2023. The majority of the new leasing activity resulted from activity at SomeraRoad's 500W where several existing tenants expanded their leased footprints and Citadel and Clariant signed new leases in the recently renovated Tower. Negative absorption continues to plague Louisville's CBD where an additional 18,465 sf of negative absorption recorded during the second quarter brought the year-to-date total negative absorption to 65,789 sf. Nonetheless, this is a significant improvement over the 229,695 sf of negative absorption experienced at this time last year.

Class A absorption was positive for the quarter at 18,982 sf with the vast majority of the positive absorption occurring at 500W as a result of GardaWorld, Citadel, KPFF and Business First occupying new office space during the quarter. Class A absorption reached 30,817 sf at mid-year 2024 compared to 14,776 sf of negative absorption at mid-year 2023. Class B experienced 37,477 sf of negative absorption for the quarter bringing the year-to-date class B negative absorption to 96,636 sf.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT





The class A vacancy rate finished the quarter at 26.7%, a decrease of 50 basis points from Q1 2024 but still the second highest class A vacancy rate ever recorded in the CBD. The class B vacancy rate increased 80 basis points from 17.0% to 17.8% as tenants continued to right-size their office footprints. We could soon expect a decline in the class B vacancy rate in the future as the historic 168,000 sf Heyburn Building is currently on the market to be sold. The property is a prime candidate for adaptive re-use as multifamily or hospitality, thus reducing the inventory of class B office space within the CBD.

### Suburban

The Suburban market ended the second quarter of 2024 with 124,808 sf of new leasing activity, roughly half the amount recorded in the second quarter last year. Suburban Class A captured the bulk of that new leasing activity at 102,063 sf for the quarter; the remainder of new leasing activity recorded in Class B properties. The Northeast submarket saw the most activity, recording 47,959 sf of leasing activity after logging no activity in the first quarter. The entirety of new leasing in the Northeast submarket was concentrated in Class A properties. The Hurstbourne/Eastpoint submarket was not far behind, logging in another 46,776 sf of new leasing activity for the quarter.

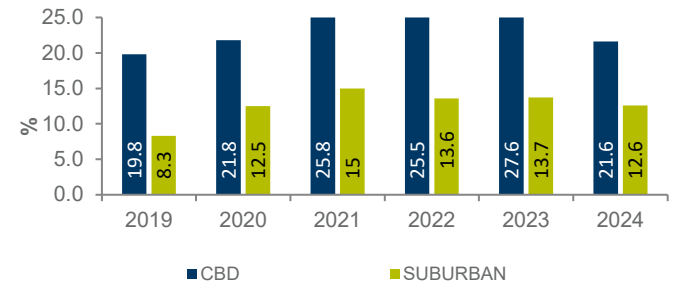
Despite the tepid leasing activity, the suburban office market did realize 16,187 sf of overall net absorption for the quarter. Net absorption for Class A properties totaled 6,874 sf for the quarter and 11,013 sf for the Class B suburban market.

The overall Suburban vacancy rate decreased 40 bps from 12.8% at the end of Q1 2024 to 12.4% during Q2 2024. The Class A vacancy rate decreased from 14.1% to 14.0% during the quarter while the Class B vacancy rate decreased from 12.7% to 12.5% during the quarter. The Suburban office market is increasingly benefitting from tenants and business owners wanting highly amenitized quality office spaces within close proximity to their customers and employees.

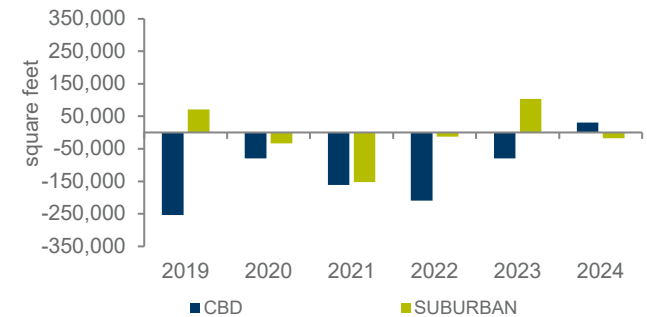
### Outlook

- With Meidinger Tower in receivership and headed for foreclosure and the Humana Tower vacant and unlikely to be re-occupied, property valuations downtown could be significantly and negatively impacted over the short term.
- Tenant “flight-to-quality” continues to be the defining trend in both the CBD and Suburban markets. Rent growth should be expected in Suburban Class A properties moving forward as vacancy is considerably less than the CBD and there are no new Class A construction deliveries in the pipeline.
- Uncertainty around interest rate policy and the upcoming Presidential election will combine to keep the brakes on new leasing activity in the back half of 2024.

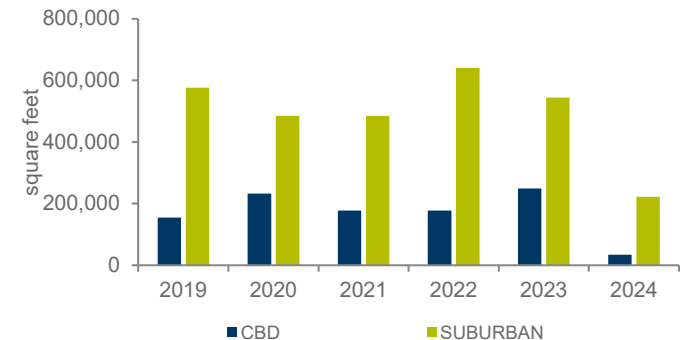
**Class A Overall Vacancy Rates – CBD & Suburban**



**Class A YTD Overall Net Absorption – CBD & Suburban**



**YTD Leasing Activity – CBD & Suburban**





**MARKET STATISTICS**

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION(SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CBD	8,908,080	3,930	1,916,714	21.6%	-18,465	-65,789	34,225	44,000	\$18.00	\$19.55
SUBURBAN	11,584,938	80,508	1,383,336	12.6%	16,187	-9,471	222,715	0	\$19.97	\$22.01
Old Louisville	399,940	0	0	0.0%	0	0	0	0	N/A	N/A
Hurstbourne / Eastpoint	4,887,723	42,327	637,911	13.9%	-21,212	-8,458	97,944	0	\$22.33	\$23.03
Plainview / Middletown	1,356,781	37,181	304,408	25.2%	-7,700	-11,049	37,936	0	\$17.36	N/A
Southeast	1,244,740	0	63,616	5.1%	0	5,151	14,035	0	\$19.72	\$19.82
Northeast	898,346	1,000	41,056	4.7%	-3,057	-378	47,959	0	\$18.41	\$18.41
St. Matthews	1,355,474	0	118,462	8.7%	10,204	-9,471	24,841	0	\$17.85	\$23.50
South Central	1,441,934	0	217,883	15.1%	-4,472	-4,472	0	0	\$17.90	\$17.50
<b>LOUISVILLE TOTALS</b>	<b>20,493,018</b>	<b>84,438</b>	<b>3,300,050</b>	<b>16.5%</b>	<b>-2,278</b>	<b>-75,260</b>	<b>256,940</b>	<b>44,000</b>	<b>\$18.82</b>	<b>\$20.57</b>

\*Rental rates reflect full service asking

\*\*Does not include renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)*	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	9,883,860	40,268	1,831,590	18.9%	25,856	13,094	175,503	44,000	\$20.60	\$20.57
Class B	9,894,273	44,170	1,456,640	15.2%	-26,434	-90,714	81,437	0	\$16.80	\$16.75
Class C	714,885	0	11,820	1.7%	-1,700	2,360	0	0	\$15.06	\$15.06

**KEY LEASE TRANSACTIONS Q2 2024**

PROPERTY	SUBMARKET	TENANT	SF	TYPE
4803 Olympia Park Plaza / Two Olympia	Northeast	T-Mobile Central, LLC	24,990	Lease
2305 River Road	Northeast	Park National Bank	11,415	Lease
661 South Hurstbourne Parkway	Plainview / Middletown	Kentucky Elder Law	10,789	Lease
500 West Jefferson Street	CBD	AECOM	7,152	Lease
9600 Brownsboro Road	Northeast	The Tarian Group	7,075	Lease

**KEY SALE TRANSACTIONS Q2 2024**

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
10000 Shelbyville Road	Plainview / Middletown	Royal Key Holdings 1 LLC / GSL Group, LLC	21,000	\$3,100,000 / \$147.62
13102 Eastpoint Park Boulevard	Hurstbourne / Eastpoint	Krauser Brown Realty / KTI Investments LLC	12,456	\$2,305,000 / \$185.05

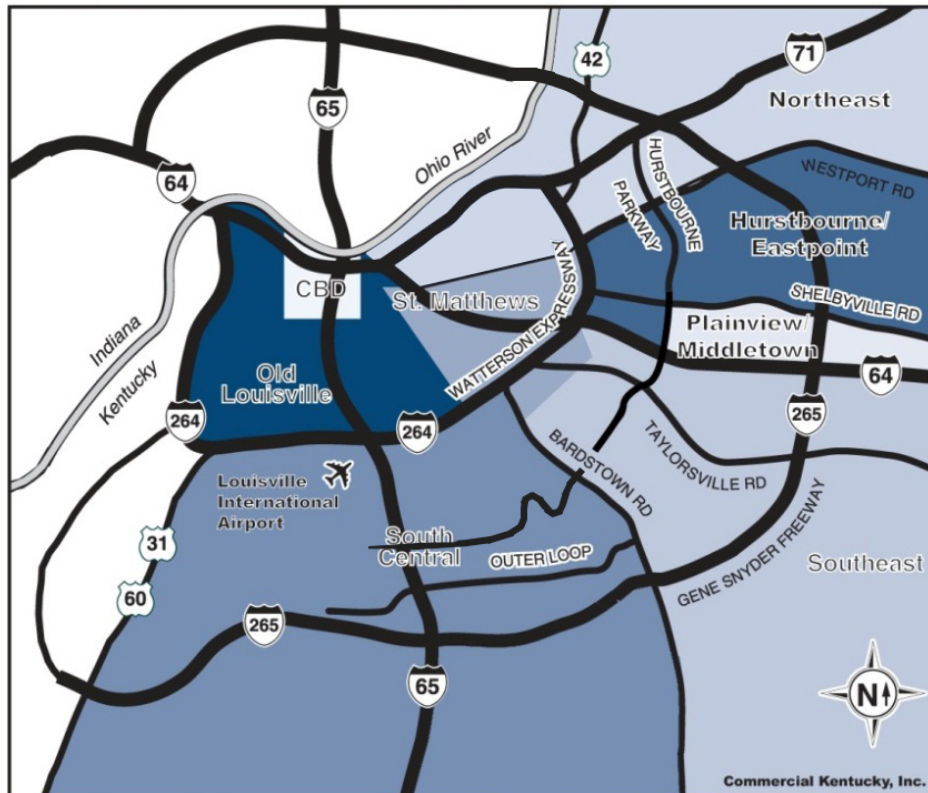


**OFFICE SUBMARKETS**

- Central Business District (CBD):** Extends from River Rd. to York St. and from Hancock St. to Ninth St.
- Old Louisville:** Includes the downtown area immediately surrounding the CBD, as well as Old Louisville.
- Hurstbourne/Eastpoint:** Largest suburban market includes areas east of I-264, north of Shelbyville Rd. and south of Westport Rd.
- Plainview/Middletown:** Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.
- Southeast:** Includes the area along S. Hurstbourne Parkway, extending south from I-64 to Bardstown Rd.
- Northeast:** Embodies an area south of the Ohio River, north of Westport Rd. and east of I-264.
- St. Matthews:** Largely within I-264 and east of Bardstown Rd.
- South Central:** Encompasses an area southwest of Bardstown Rd. to Shively, which includes Louisville International Airport.

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