

Apartment Snapshot Q2 2017

Louisville



Apartment Market Overview

The data in this report represents approximately 53,000 apartment units in the Louisville Metropolitan Statistical Area (MSA) which has a population of over 1,200,000. This data focuses on complexes with a minimum of 50 units. The Louisville MSA apartment market surveyed is divided into 11 submarkets, as shown in the map on the next page.

The Louisville apartment market continues to achieve high occupancy levels throughout the metropolitan area. Of the 50,000+ units surveyed, the average occupancy rate continues to range at 95%. This high-level of occupancy throughout the market has encouraged developers and their lenders to continue to develop new units throughout the Louisville Metropolitan area.

Currently, there are 4,309 units under construction throughout the Louisville Metropolitan area. 38% of these units are in the central/downtown region or are considered near-urban locations. Historically, Louisville has been in short supply of quality market rate housing in the city core. That is going to change over the next 12-24 months with current delivery of Axis, which is experiencing a quick lease up pace east of downtown, Bradford Mill Lofts and Germantown Lofts just south of the CBD. These first to the market projects are encouraging remaining developers to push for delivery of new product in the central core of Louisville at rents that could surpass the highest rents currently achieved in the Louisville metropolitan area. Louisville should see rents that start with \$2/SF within this next 12-24 month time frame given the quality and type of construction being built in these urban and near-urban locations.

East of I-264 there are 1,282 units currently under construction. These units are in communities that offer tenants high-end amenity

packages and contemporary interior designs on well-located thoroughfares in the eastern quadrant of Jefferson County.

There are also 1,262 units currently under construction in the southern and southwestern quadrants of the city. These communities offer tenants in this area of Jefferson County new product at competitive prices for those submarkets. These communities have also been experiencing a good pace of lease-up as they deliver units in the southern and southwestern quadrants of Louisville and Jefferson County.

The high occupancy level throughout the metropolitan area has also allowed apartment communities to get full market rents without offering much, if any, rental concessions. The lack of rental concessions has been the norm for Louisville apartment owners for the last 24-36 months. It is anticipated that some of the new development throughout the metro area will offer initial concessions of one month on average to quicken the lease-up of their new developments.

The Louisville economy continues to grow and add jobs throughout not only the downtown and east end, but also in the southern and southwestern quadrants. The addition of new jobs throughout the Metro should keep our occupancy levels in the mid 90% range for the foreseeable future.

We anticipate the occupancy level in the central downtown submarket to continue to stabilize and the average market rent to substantially increase as the delivery of over 1,651 units come on line within the next 12-18 months. We anticipate that this central downtown region will most likely have the highest rents in the market and even above what is currently being achieved at Axis and RiverPark Place.

Urban Core - Class A

| TYPE | #/TYPE | SF LOW | SF HGIH | AVG SF | RENT LOW | RENT HIGH | AVG RENT | OCC. RATE | AVG RENT PER SF |
|--------|--------------|--------|---------|--------|----------|-----------|----------|-----------|-----------------|
| 1 BDRM | 496 | 550 | 1,032 | 761 | \$1,001 | \$1,553 | \$1,200 | 94% | \$1.58 |
| 2 BDRM | 235 | 950 | 1,290 | 1,069 | \$1,337 | \$1,680 | \$1,518 | 94% | \$1.42 |
| 3 BDRM | 15 | 1,773 | 1,844 | 1,809 | \$2,250 | \$2,740 | \$2,495 | 93% | \$1.38 |
| STUDIO | 263 | 430 | 546 | 469 | \$810 | \$973 | \$902 | 98% | \$1.92 |
| LOFT | 267 | 706 | 1,651 | 1,004 | \$792 | \$1,653 | \$1,207 | 96% | \$1.20 |
| | 1,276 | | | | | | | | |



Dundee Place Apartments

Source: Integra Realty Resources Kentucky-Southern Indiana

MARKET UPDATE

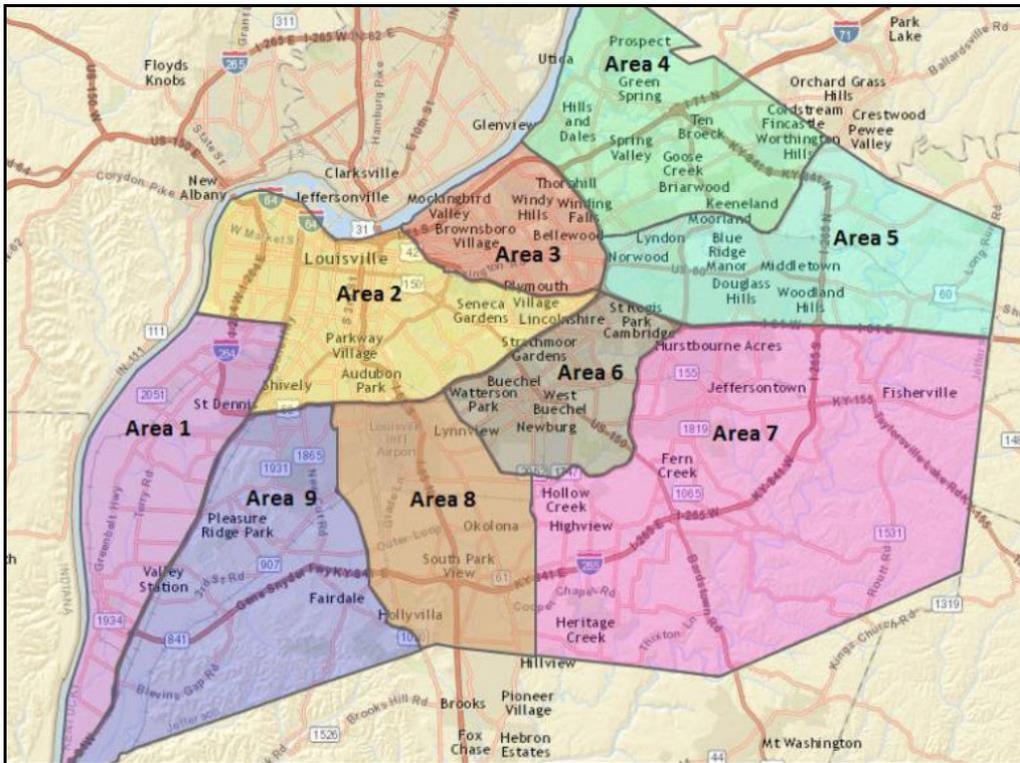
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- SUBMARKET IDENTIFICATION**
- AREA 1: Dixie Highway Corridor
 - AREA 2: Central/Downtown
 - AREA 3: Frankfort Ave/Brownsboro Road Corridor
 - AREA 4: East Brownsboro/Westport Road Corridor
 - AREA 5: Shelbyville Road Corridor
 - AREA 6: Mid-Bardstown/Taylorsville Road Corridor
 - AREA 7: South Bardstown Road Corridor
 - AREA 8: South Preston Highway Corridor
 - AREA 9: New Cut Road Corridor
 - AREA 10: Clark and Floyd Counties (IN)
 - AREA 11: Oldham, Shelby and Bullitt Counties (KY)



Park at Hurstbourne Apartments

| 1ST & 2ND QUARTER 2017 APARTMENT SALES | | | | | | |
|---|------|---------------------------------------|--------------------------|------------|----------------|------------|
| PROPERTY NAME | AREA | BUYER | SELLER | # OF UNITS | PURCHASE PRICE | PRICE/UNIT |
| Claiborne Crossings | 5 | Preferred Apartment Communities, Inc. | American First Group | 242 | \$45,200,000 | \$186,777 |
| Park at Hurstbourne | 7 | Besyata Investment Group | Och-Ziff Realty | 689 | \$51,100,000 | \$74,165 |
| Enclave at Breckinridge | 5 | Forum Real Estate Group | Covenant Capital Group | 376 | \$34,000,000 | \$90,426 |
| Stonewater Park Apartments | 4 | FREG Stonewater Park Associates, LLC | Fireside Cedar Park, LLC | 236 | \$20,500,000 | \$86,864 |
| <i>Source: Cushman & Wakefield Commercial Kentucky Research Dept.</i> | | | | | | |

MARKET UPDATE

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Investment Sales

Investment activity in Louisville remains very strong with projects that are being brought to market receiving 10-20 offers per project. Apartment cap rates in Louisville have continued to remain at low levels with the recent Legends at Indian Springs trading at a 5.3% cap rate on annualized trailing 4 month financials. Groups looking to buy in Louisville are from across the nation with the most recent buyer of Park at Hurstbourne being a NYC-based syndication group, and the most recent buyer of Legends at Indian Springs being a Los Angeles-based private REIT. The smaller communities are attracting active 1031 buyers, who are willing to step up and outbid most conventional buyers.

We are seeing the greatest demand for apartments that have a value-add component. The value-add component ranges from well-located communities with minor interior upgrades, to communities that are looking for significant capital replacement, as well as interior upgrades. National-based buyers see the overall Louisville market rents as low compared to neighboring cities and feel that interior upgrades or even full capital replacements will allow them to achieve higher rents and increased returns on their investment. The buying community has expressed interest in Louisville based upon the higher cap rates they can achieve in a secondary market such as Louisville, as well as the continued job growth and diversified economic base that Louisville offers. Many buyers acknowledge that the diversified economy and growing employment have attracted them to Louisville for a stabilized occupancy level. This job growth will create the market growth over their hold periods. We anticipate that buyers headquartered outside the market will continue to look at Louisville for acquisitions for the foreseeable future.

Louisville Market Overview

Unemployment rates in the Louisville area dropped to a low of 3.9% at the end of 2016. While there was a slight rise in January, numbers have been declining again. As of the end of March 2017, the rate is at 4.4%. Louisville's unemployment rate continues to stay below of the national average, which was 4.5% for the same period.

Recent economic news for the area includes the following items:

- Amazon announced that it will add 1,000 full-time jobs to its Kentucky facilities over the next 18 months.

About Cushman & Wakefield

Cushman & Wakefield is a global leader in commercial real estate services, helping clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms in the world with revenues of \$5 billion across core services of agency leasing, asset services, capital markets, facilities services (branded C&W Services), global occupier services, investment management (branded DTZ Investors), tenant representation and valuations & advisory. To learn more, visit www.cushmanwakefield.com or follow @Cushwake on Twitter.

- Jacksonville, FL based Diversified Consultants has leased 40,000 SF in the Commerce Crossings business park. The company projects a total workforce of 433 employees.
- Interapt, LLC plans to renovate a 22,000 SF warehouse in the Portland neighborhood and open a new headquarters. The move is expected to create 250 jobs over four years.
- Linak U.S., Inc. broke ground on the site of their new 145,000 SF facility in Louisville's East End. The new building is expected to open in January 2018 and is expected to create 413 new jobs.
- Tech company, Data Strategy, LLC is moving nearly 100 employees to Louisville from their New Albany location.
- Phamacord, LLC is planning to establish its corporate headquarters in Louisville, along with a call center and mail-order pharmacy operations. This equates to an investment of \$7.3 million and will initially create 50 jobs, with a target of 180 jobs within one year and 300 jobs within 2 years.

Outlook

The lower interest rate environment and the available debt markets should provide plenty of buying activity for investors in the Louisville market for the foreseeable future. Louisville continues to deliver new communities primarily in the northeast submarket, the urban core, and south of the Louisville International Airport. To date, there have not been many concessions offered for the new communities that have been recently delivered in the Louisville Metro area. Cushman & Wakefield is seeing trends in other cities that include concessions where units are being delivered at a higher pace than Louisville. Therefore, we anticipate in certain submarkets where we will see peak apartment deliveries that may include rental concessions for newer communities.

We anticipate that the balance of 2017 will provide multifamily owners with rent growth and high occupancy levels. With the delivery of almost 1600 units in or near the urban core, or near urban core, we anticipate the record rents per sf to continue to climb in Louisville with these highly amenitized, well-located communities. Louisville is going to find out how strongly residents want to dwell in or near the urban core with the delivery of these units adding a more active and vibrant city center for Louisville.

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