

MARKETBEAT
Louisville
Industrial Q3 2018



LOUISVILLE INDUSTRIAL

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Louisville Employment	668k	670k	▲
Louisville Unemployment	4.2%	4.1%	▲
U.S. Unemployment	4.4%	3.9%	▼

*Numbers above are quarterly averages; August 2018 data used to represent Q3 2018 for Louisville

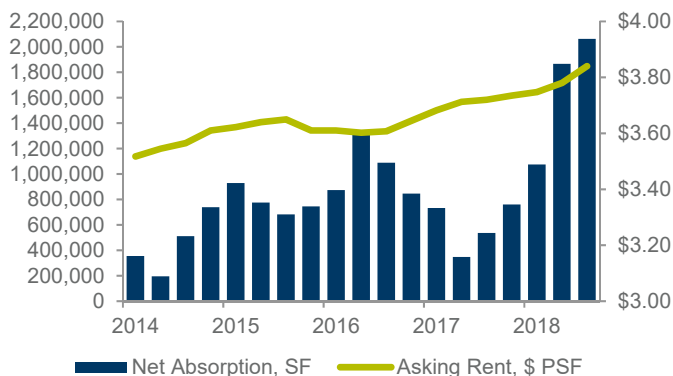
Market Indicators (Overall, All Product Types)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	8.1%	5.9%	▼
YTD Net Absorption (sf)	1.8M	7.0M	▲
Under Construction (sf)	6.5M	3.7M	▼
Average Asking Rent*	\$3.70	\$3.94	▲

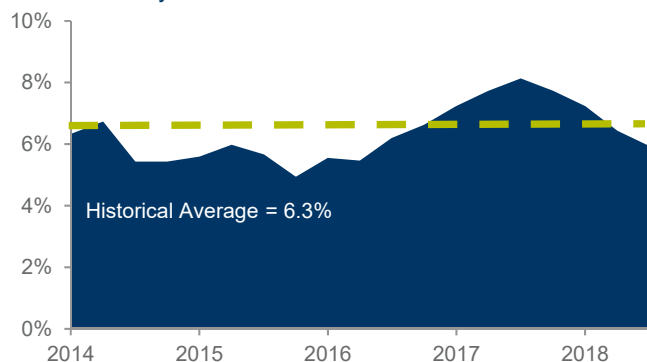
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

Despite concerns over recent trade agreements and tariffs, global economic growth continues to lead to increased imports and exports. Imports are 9% higher in the second quarter of 2018 than from a year ago, with exports up 11% for that same period. eCommerce continues to be a leader with double-digit growth projected in this sector throughout the next three years.

Although transportation and storage costs have been rising rapidly, the industrial market remains vibrant. Demand of industrial space for the 2015 – 2020 year period is expected to reach 1.5 billion square feet (bsf) – well above the 1.3 bsf of construction that will have been delivered by that time. This disconnect between supply and demand, especially in secondary and tertiary markets, has spurred increased competition for limited space.

Globally, net absorption has topped 200 million square feet (msf) for the last five years. This trend should continue, with net absorption expected to surpass 250 msf in 2018, and remain well above 200 msf in 2019 and 2020. Looking forward, overall industrial asking rents will remain strong in 2018, with a 6.5% growth rate and continued acceleration in 2019/2020.

Overall Market Overview

Third quarter leasing activity of 2.4 msf brought the year-to-date (YTD) total to 6.8 msf. The warehouse / distribution sector represented 95% of this quarter's activity. Combined, Bullitt County and the South submarket accounted for 69% of this quarter's activity.

The third quarter overall vacancy rate decreased 50 basis points (bps) during the quarter from 6.4% reported in the second quarter to 5.9%. Bullitt County experienced the largest decrease in vacancy for the quarter from 14.0% reported in the second quarter to 9.4%. This major drop in vacancy was due to a 721,050-square foot (sf) eCommerce lease, which also represents the largest speculative lease on record for the Louisville MSA.

Overall absorption of 2.0 msf in the third quarter brought the YTD total to a record setting 7.0 msf, 66% more than the previous record set in 2008 of 4.2 msf. The South submarket alone accounts for almost half of this year's total absorption with Bullitt County and Southern Indiana representing 18.0% and 17.0% of the total respectively.

Bulk Market Overview

Third quarter 2018 bulk leasing activity of 2.0 msf, brought the YTD total to a record setting 5.1 msf of leasing activity and 5.5 msf of positive absorption. The third quarter bulk vacancy rate decreased 160 bps from 11.1% last quarter to 9.5%. There is currently 5.6 msf of vacant bulk space in the Louisville metro area, 32% of which is in River Ridge, 24% in the South, 23% in Bullitt County, and 20% in the Riverport submarkets. The third quarter overall bulk average asking rent increased to \$3.90 per square foot (psf) net compared to \$3.73 psf for the same period last year.

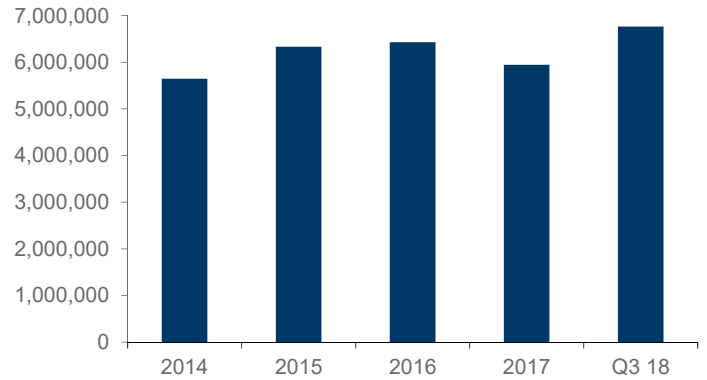
Bulk construction completions for the third quarter totaled 1.2 msf bringing the YTD total of completions to over 4.6 msf, including two build-to-suits (BTS) by Grainger (1.5 msf) and UPS (895,375 sf). Construction completions for the quarter included two speculative buildings: Verus Molto's 677,685-sf warehouse in the South submarket and Exeter's 506,177-sf distribution center in River Ridge.

There is over 4.0 msf under construction including 2.5 msf of build to suit (BTS) and 1.5 msf of speculative product, almost half of which is located in River Ridge. We anticipate that 2.2 msf of this construction will be completed during the fourth quarter of 2018, resulting in an all-time record for most construction completions recorded in a single year of almost 7 msf. Despite these additional construction completions, we anticipate continued upward pressure on rental rates for the foreseeable future.

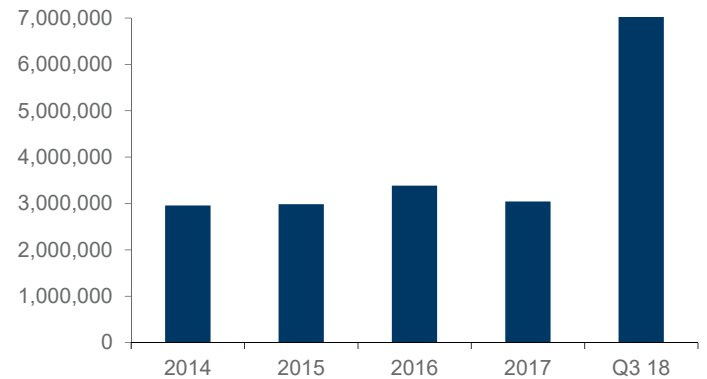
Outlook

- The Louisville industrial market is setting records for absorption and construction in 2018, outpacing Indianapolis, Nashville, Cincinnati, Kansas City, and St. Louis.
- Despite an active development pipeline, which is expected to peak in 2018, vacancy rates are not expected to rise significantly.
- Rent growth will remain strong in 2018 and gradually begin to decelerate in 2019.

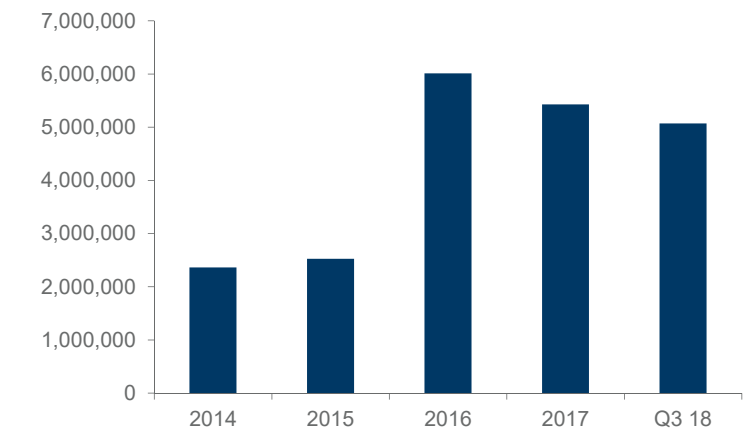
Overall Leasing Activity (square feet)



Overall Absorption (square feet)



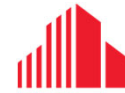
Overall Construction Completions (square feet)



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Industrial Market Statistics – Overall – Q3 2018

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	*DIRECT WEIGHTED AVG. NET RENT (MF)	*DIRECT WEIGHTED AVG. NET RENT (OS)	*DIRECT WEIGHTED AVG. NET RENT (W/D)
Central	429	20,796,576	163,315	6.7%	371,181	0	23,750	\$3.03	\$6.48	\$3.16
Downtown	219	9,683,129	72,299	12.5%	188,864	0	0	\$2.89	\$4.42	\$2.75
I-64	61	1,886,323	62,456	5.0%	-11,706	0	23,750	\$4.39	\$12.43	\$3.50
I-65	149	9,227,124	28,560	0.9%	194,023	0	0	\$4.12	\$8.01	N/A
East	401	25,919,091	0	1.5%	359,367	452,440	228,157	\$6.88	\$7.30	N/A
Jeffersontown	283	12,637,207	0	2.2%	281,630	55,350	105,807	N/A	\$6.84	N/A
Middletown / Eastpoint	79	3,643,371	0	2.7%	35,514	0	75,000	\$6.88	\$9.92	N/A
Westport Road	39	9,638,513	0	0.1%	42,223	397,090	47,350	N/A	\$6.01	N/A
South	508	53,428,546	284,000	4.9%	3,381,329	383,587	4,161,174	\$4.36	\$7.19	\$4.03
Airport	175	28,565,886	0	4.6%	3,133,482	225,300	3,788,106	\$4.89	\$6.73	\$3.95
Bishop Lane	211	8,919,947	0	4.6%	-58,972	29,200	23,068	\$3.96	\$7.56	\$3.73
Fern Valley	122	15,942,713	284,000	5.6%	306,819	129,087	350,000	\$4.99	\$4.25	\$4.19
West / Southwest	185	22,563,514	181,309	5.2%	469,708	210,960	0	N/A	\$6.43	\$3.61
Iroquois	12	1,280,881	0	35.3%	0	0	0	N/A	N/A	\$3.75
Riverport	111	17,397,786	118,809	4.2%	389,225	210,960	0	N/A	\$6.43	\$3.52
Westend	62	3,884,847	62,500	0.0%	80,483	0	0	N/A	N/A	N/A
Bullitt County	62	15,836,043	0	9.4%	1,264,169	807,013	27,093	N/A	N/A	\$3.93
Southern Indiana	253	23,233,845	475,000	11.1%	1,181,311	1,831,566	628,377	\$3.70	\$8.34	\$3.56
Floyd County	93	5,367,705	455,000	2.4%	523,820	12,566	0	\$3.25	\$13.00	\$4.20
Clark County	160	17,866,140	20,000	13.7%	657,491	1,819,000	628,377	\$4.07	\$5.00	\$3.55
LOUISVILLE TOTALS	1,838	161,777,615	1,103,624	5.9%	7,027,065	3,685,566	5,068,551	\$3.53	\$7.25	\$3.78

*Rental rates reflect asking \$psf/year

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

Industrial Market Statistics – By Property Type – Q3 2018

PROPERTY TYPE	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	YTD OVERALL LEASING ACTIVITY (SF)	*DIRECT WEIGHTED AVG. NET RENT Q3 2017	*DIRECT WEIGHTED AVG. NET RENT Q3 2018
Warehouse/Distribution	618	83,425,292	463,607	8.5%	6,116,097	3,556,050	4,863,778	6,031,550	\$3.59	\$3.78
Manufacturing	992	70,572,369	618,281	3.0%	842,027	44,966	154,809	573,180	\$3.43	\$3.53
Office Service/Flex	228	7,779,954	21,736	5.9%	68,941	84,550	49,964	158,470	\$6.85	\$7.25
LOUISVILLE TOTALS	1,838	161,777,615	1,103,624	5.9%	7,027,065	3,685,566	5,068,551	6,763,200	\$3.69	\$3.92

Industrial Market Statistics – * Bulk – Q3 2018

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD INVESTMENT SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	YTD CONSTR COMPLETIONS (SF)	YTD OVERALL LEASING ACTIVITY	*OVERALL WEIGHTED AVG. NET RENT Q3 2017	*OVERALL WEIGHTED AVG. NET RENT Q3 2018
Central	2	526,540	0	0%	84,200	251,317	0	84,200	\$3.95	N/A
East	22	4,623,490	0	1.5%	201,350	324,940	0	271,350	N/A	\$4.32
South	49	18,216,893	110,000	7.3%	3,098,815	609,587	4,127,390	2,443,440	\$3.93	\$4.15
West / Southwest	46	12,090,309	673,052	9.6%	356,979	210,960	0	456,979	\$3.41	\$3.59
Bullitt County	30	13,772,866	832,000	9.3%	1,237,026	807,013	0	1,237,076	\$3.82	\$3.98
Southern Indiana	25	10,230,399	592,800	17.7%	595,775	1,819,000	506,177	700,775	\$3.86	\$3.84
LOUISVILLE TOTALS	174	59,460,497	2,207,852	9.5%	5,574,195	4,022,817	4,633,567	5,193,820	\$3.73	\$3.90

*Bulk is defined by 100,000 sf +, Class A, 28'+ clear, and EsFR.

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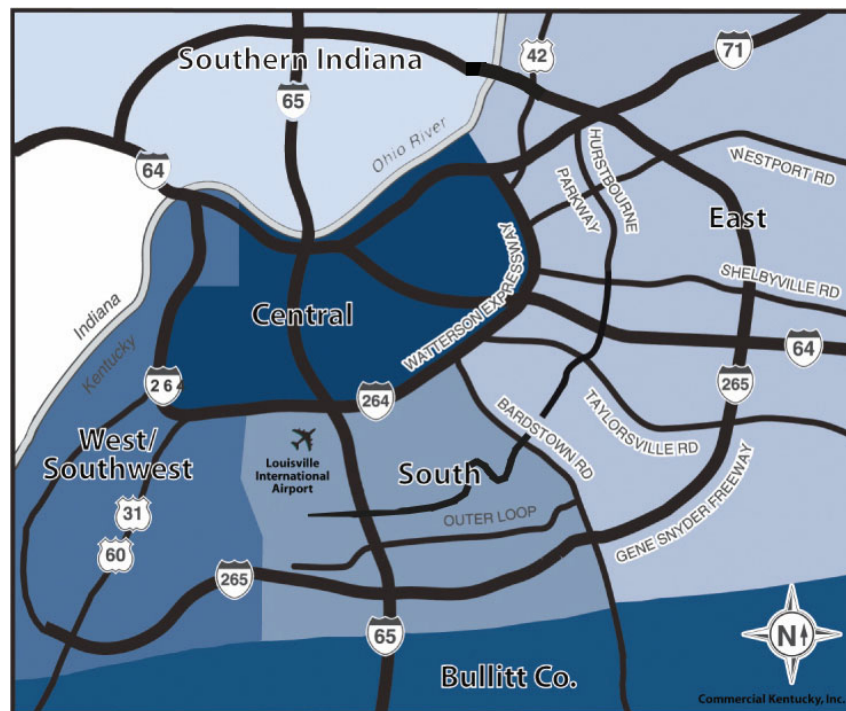
Key Bulk Lease Transactions – Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
120 Velocity Way	721,050	eCommerce Tenant	New Lease	Bullitt County
10301 Air Commerce Drive	369,710	Ford	New Lease	South
9101 Minor Lane	324,991	eCommerce Tenant	New Lease	South
7101 Distribution Drive	267,600	Pegasus	New Lease	West / Southwest
350 Salem Road	252,515	Bluegrass Supply	New Lease	Southern Indiana

Key Bulk Sales Transactions – Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
250 Hilton Drive	592,800	Van Trust / GLP	\$38,400,000 / \$65	Southern Indiana

Louisville Industrial Submarkets



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