

MARKETBEAT LOUISVILLE



Office Q3 2023

	YoY Chg	12-Mo. Forecast
16.5% Vacancy Rate	▲	▲
-181K YTD Net Absorption, SF	▲	▼
\$18.70 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
691.6K Louisville Employment	▲	▲
3.3% Louisville Unemployment Rate	▲	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMIC OVERVIEW

The U.S. economy remains stubbornly resilient despite significant headwinds. Real gross domestic product (GDP) increased at an annual rate of 2.1 percent in the second quarter of 2023, and the current estimate of GDP growth for the third quarter stands at 4.9% according to the Atlanta Fed GDPNow forecast. Meanwhile, non-farm payroll employment increased by 187,000 in August with the U.S. employment rate little changed at 3.7 percent. The labor force participation rate increased slightly from 62.6% to 62.8%, the highest since February 2020.

Nonetheless, the U.S. economy faces formidable challenges ahead. With oil prices heading north, interest rates increasing, credit conditions tightening, student loan repayments resuming, workers going on strike, and broad selloffs in the bond market, the combination of these threats could be the “perfect storm” that finally tips the U.S. economy into recession. Consumer spending continues to be the bright spot, but troubles at home and abroad may undermine consumer confidence later this year and well into 2024.

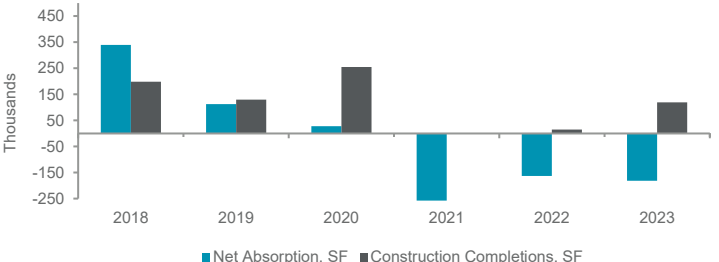
CBD

Leasing activity in the Central Business District (CBD) during the third quarter totaled 51,076 square feet (sf), bringing the year-to-date (YTD) total to 166,633 sf. While CBD leasing activity is down slightly from the second quarter, it is up 11.8% year-over-year (YOY). Class A leasing activity totaled 42,632 sf for the quarter, up slightly from Q2 2023 and well above the 14,040 sf recorded in Q3 2022. All Class A leasing activity for the quarter occurred in SomeraRoad’s newly renovated 500W.

Overall net absorption, while negative at 41,629 sf for the quarter, is up YOY from the -58,187 sf recorded in Q3 2022. The vast majority of this negative absorption was seen in Class A properties as a result of Stoll Keenon Ogden law firm and Greater Louisville Inc. downsizing and relocating within the CBD. As a result, the Class A vacancy rate increased 70 basis points (bps) to 26.6%, while the Class B vacancy rate remained unchanged at 17.2%.

The “flight to quality” persists throughout the CBD as the long-anticipated “Return-to-Office” has stalled. A recent University of Toronto School of Cities study found that Downtown Louisville saw only 46% of the cell phone traffic it did during the same period

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





in 2019, indicating many people simply have not returned to the city core. This comes on the heels of an announcement from LG&E that they are planning to vacate their Main Street office building, which they have occupied for more than 30 years. As 2023 is the first year without any major COVID-19 impediments, this could possibly be the new normal for the downtown office sector as tenants continue to downsize and re-evaluate their leased footprints.

Suburban

Suburban leasing activity totaled 59,146 for the third quarter, declining 75% from the second quarter. Once again, the Hurstbourne/Eastpoint submarket recorded the most leasing activity this quarter totaling 23,165 sf, accounting for 39% of all suburban leasing activity for the quarter. Major leases in this submarket included an expansion of Trilogy Healthcare and new leases from Fisher Homes and Houchens Insurance Group. The St. Matthews submarket accounted for another 23% of suburban leasing activity for the quarter. Suburban Class A leasing activity totaled 28,346 sf while Class B leasing activity was not far behind at 23,657 sf.

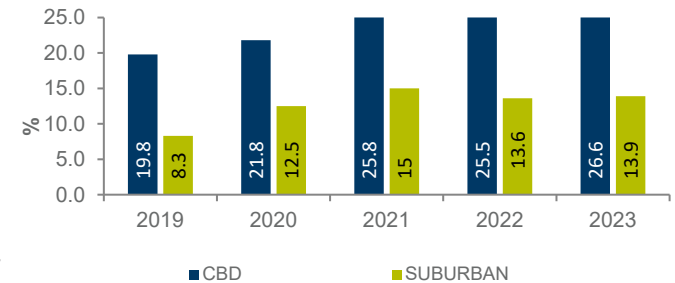
Despite a fall in suburban leasing activity, overall net absorption for the suburban office market totaled 131,670 sf for the quarter. Overall absorption for the Class A suburban market totaled 86,705 sf with the Class B suburban market experiencing 6,222 sf of absorption. The vast majority of the Class A absorption occurred in the Hurstbourne/Eastpoint submarket due to large commitments by V-Soft Consulting Services and Congo Brands. The Southeast submarket also recorded a significant amount of absorption, totaling 57,501 sf for the quarter.

The overall Suburban vacancy rate decreased 110 bps from 14.0% to 12.9% during the third quarter. The Class A vacancy rate decreased from 14.6% to 13.9% during the quarter while the Class B vacancy rate decreased slightly from 13.1% to 13.0% during the quarter. Construction completions for the quarter totaled 119,380 sf, which included V-Soft Consulting Services completing a new building of 48,000 sf and The West at Old Henry, a 71,380 sf speculative Hillman-Paully development.

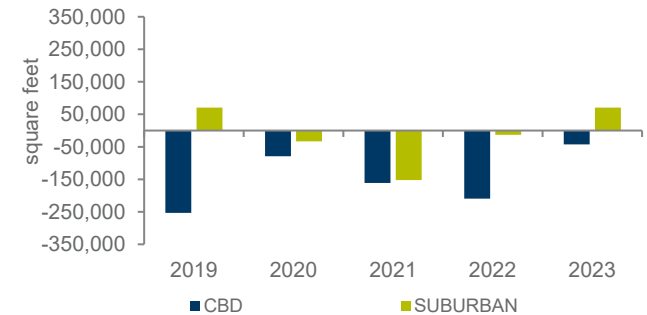
Outlook

- Landlords continue to focus their attention on retaining existing tenants and courting other tenants from competing, neighboring properties.
- The business community and the Greenberg administration alike must re-double their efforts to revitalize the Central Business District.
- The bourbon trail, and other efforts on behalf of Louisville Tourism, will continue to attract more and more visitors to Downtown Louisville.

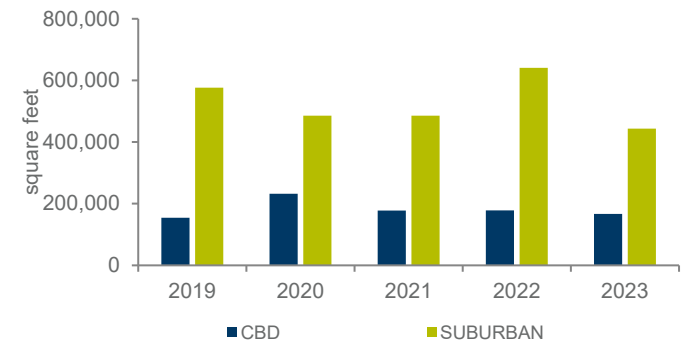
Class A Overall Vacancy Rates – CBD & Suburban



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	8,954,080	37,042	1,860,375	21.2%	-41,629	-271,324	166,633	0	\$17.79	\$19.46
SUBURBAN	11,731,432	108,058	1,402,533	12.9%	131,670	89,929	443,274	0	\$19.87	\$21.89
Old Louisville	399,940	0	0	0.0%	0	0	0	0	N/A	N/A
Hurstbourne / Eastpoint	5,035,702	67,996	608,939	13.4%	84,577	124,051	179,771	0	\$22.00	\$22.84
Plainview / Middletown	1,356,781	37,181	307,626	25.4%	565	-16,111	41,220	0	\$17.55	\$21.50
Southeast	1,244,740	0	77,902	6.3%	57,501	47,473	97,265	0	\$19.64	\$19.75
Northeast	896,861	0	44,928	5.0%	-32,400	-34,488	26,606	0	\$16.08	\$16.08
St. Matthews	1,355,474	2,881	151,367	11.4%	21,427	23,901	51,476	0	\$20.96	\$29.22
South Central	1,441,934	0	211,771	14.7%	0	-54,898	46,936	0	\$17.78	\$17.50
LOUISVILLE TOTALS	20,685,512	145,100	3,262,908	16.5%	90,041	-181,395	609,907	0	\$18.70	\$20.52

*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	10,030,354	59,151	1,823,772	18.8%	58,912	28,167	343,963	0	\$20.53	\$20.52
Class B	9,940,273	85,949	1,419,556	15.2%	-7,614	-272,900	196,713	0	\$16.79	\$16.55
Class C	714,885	0	19,580	2.7%	38,743	63,338	69,231	0	\$17.03	\$17.03

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
500 West Jefferson Street	CBD	Louisville Metro Government	37,062	Lease
2550 Eastpoint Parkway	Hurstbourne / Eastpoint	Fischer Homes	9,516	Lease
2550 Eastpoint Parkway	Hurstbourne / Eastpoint	Houchens Insurance Group	6,502	Lease
303 North Hurstbourne Parkway	Hurstbourne / Eastpoint	Trilogy Healthcare	6,315	Renewal/Expansion

KEY SALE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
2701 Eastpoint Parkway	Hurstbourne / Eastpoint	Baptist Healthcare / LG&E	103,860	\$16.5M / \$159
13551 Triton Park Blvd.	Hurstbourne / Eastpoint	Fenley Real Estate / Congo Brands	103,602	Undisclosed
Fenley Office Park A & B	Northeast	Norton Healthcare / Fenley Real Estate	89,806	\$25.3M / \$282
315 West Market Street	CBD	Commonwealth of KY / Hollyhock Rentals	46,000	\$3M / \$65

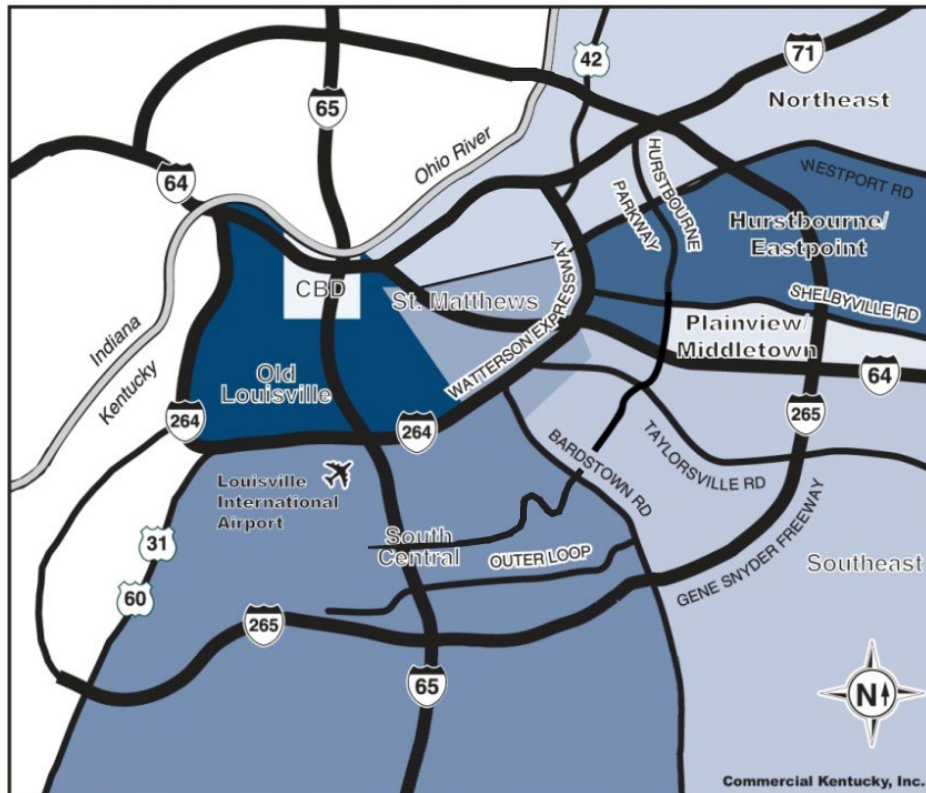


OFFICE SUBMARKETS

- 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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