MARKETBEAT

LOUISVILLE

Office Q1 2023

CUSHMAN & WAKEFIELD
Commercial Kentucky

	YoY Chg	12-Mo. Forecast
16.9% Vacancy Rate	▼	▲
-307K YTD Net Absorption, SF	▼	▼
$18.47 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
688.2K Louisville Employment	▲	▲
3.8% Louisville Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMIC OVERVIEW

Many of the challenges faced by the U.S. economy during 2022 continued throughout the first quarter of 2023: persistent inflation, rising interest rates, the war in Ukraine and geo-political concerns regarding China, Russia and Iran, all combined to fuel uncertainty in the economy. The year-end estimate of Gross Domestic Product (GDP) growth proved overly ambitious and has been revised downward from 3.9% to 2.6%, reflecting a slowing economy and a softening of real domestic demand.

Meanwhile, the Federal Reserve continues to raise interest rates to curb inflation putting further pressure on a struggling housing market while corporate layoffs threaten to push the U.S. unemployment rate toward 4%. The March job report reflected the smallest gain in more than two years while, locally, the Louisville unemployment rate increased from 3.3% to 3.8% during the quarter.

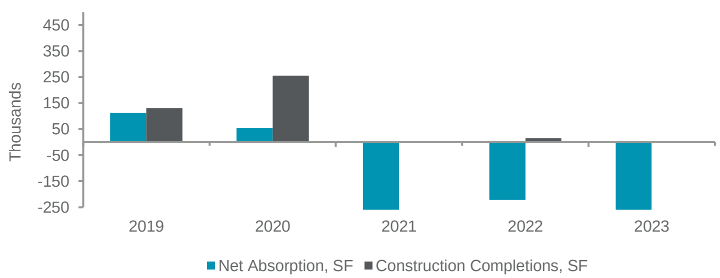
U.S. consumer spending, which represents approximately two-thirds of the GDP, remains somewhat steady, although the 2% increase in consumer spending recorded in January fell to only 0.2% in February. Despite a surprisingly resilient labor market and positive wage growth, consumer sentiment as measured by the University of Michigan hit its lowest level on record in June of 2022 and remained at historically low levels during the first quarter of 2023. Abrupt changes in confidence tend to coincide with the onset of recessions with little lead time, suggesting that the U.S. consumer may be the “canary in the coal mine”.

CBD

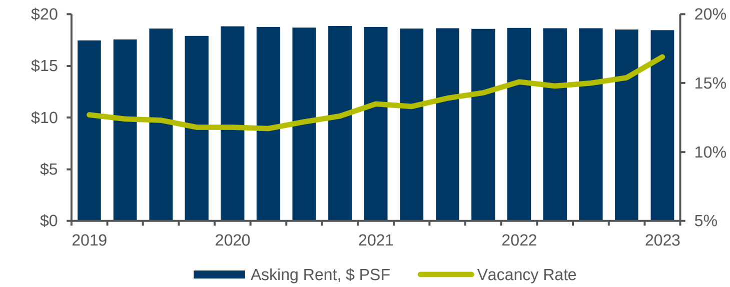
Leasing activity in the Central Business District (CBD) during the first quarter totaled 43,361 square feet (sf) up 31% from the fourth quarter of 2022. Class A leasing activity of 25,139 sf was down 52% from the fourth quarter of 2022. Once again, the majority of new leasing activity came from existing CBD tenants with expiring leases either renewing or relocating to different CBD properties with few new inbound tenants.

Overall net absorption was significantly negative in the first quarter, totaling -222,551 sf, largely the result of Humana exiting several downtown properties throughout 2022. The vast majority of this negative absorption, -199,840 sf was experienced in Class B properties. Class A negative absorption for the first quarter stood at -22,711 sf. The impact of negative absorption resulted in the increase of the overall CBD vacancy rate from 18.4% to 20.9% at the end of the quarter. The Class A vacancy rate, likewise, increased from 25.5% to 26.1%, while the Class B vacancy rate increased from 13.1% to 17.0% for the quarter.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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The “flight to quality” persists throughout the CBD as downtown tenants focus on both the quality and efficiency of competing office properties. Class A Buildings tend to offer greater efficiency allowing tenants to put more people in less space. At the same time, enhanced amenities provide employers with yet another “carrot” to entice employees back to the workplace. Nowhere is that more apparent than at 500 West Jefferson Street where SomeraRoad has invested over $16 million in building upgrades including a newly renovated lobby, a fourth-floor tenant lounge adjacent to a rooftop garden, a fully equipped fitness center, conference center and even a golf simulator, all for the convenience and use of building tenants and their employees.

Suburban

Suburban leasing activity rebounded significantly during the first quarter of 2023, reaching 144,534 square feet (sf), more than double the leasing activity experienced during the fourth quarter of 2022. Once again, the Hurstbourne/Eastpoint submarket recorded the most leasing activity this quarter totaling 87,998 sf, accounting for 61% of all suburban leasing activity for the quarter. The Southeast and Northeast submarkets, collectively, accounted for another 27% of suburban leasing activity for the quarter. Suburban Class A leasing activity totaled 95,812 sf while Class B leasing activity trailed significantly at 23,634 sf.

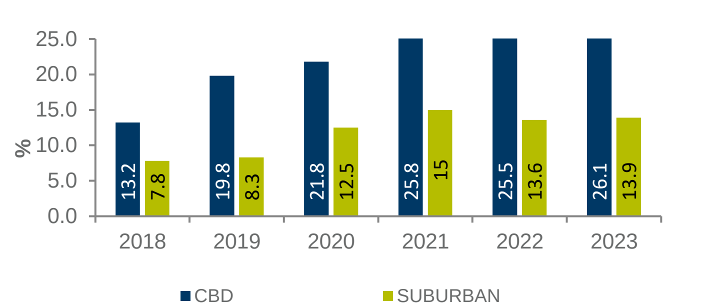
Despite a spike in suburban leasing activity, overall net absorption for the suburban office market ended the first quarter at -84,981 sf, extending negative absorption for the second consecutive quarter. Overall negative absorption for the Class A suburban market was -29,153 sf with the Class B suburban market experiencing -55,335 sf of negative absorption. The vast majority of the Class A negative absorption occurred when Donan Engineering vacated 38,400 square feet in the Southeast submarket.

The overall Suburban vacancy rate increased from 13.2% to 13.9% during the first quarter, the highest level since the first quarter of 2022. The Class A vacancy rate increased from 13.6% to 13.9% during the quarter while the Class B vacancy rate increased from 11.9% to 13.2% during the quarter. With 121,203 sf of new construction underway, we can expect suburban vacancy rates to increase somewhat during 2023.

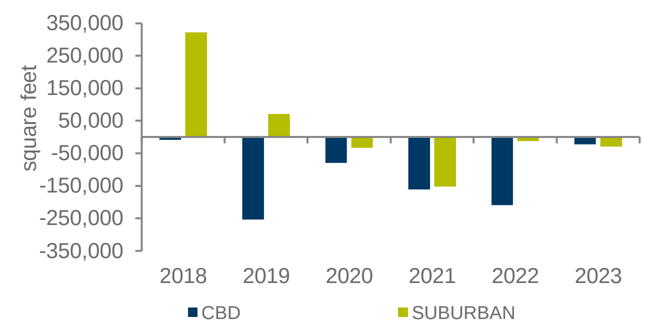
Outlook

- Despite efforts to the contrary, 2023 has not yet seen a “return to the office” as office utilization remain substantially below pre-pandemic levels.
- Recent banking system stresses, along with higher interest rates, may trigger a pull back in lending which could present a huge problem for the estimated $1.1 trillion in commercial mortgages maturing in the next two years.
- The “flight to quality” trend will continue throughout 2023 and underperforming office buildings will be forced to invest in expensive upgrades to remain competitive.
- Negative absorption will likely persist throughout the first half of 2023 as the labor market softens and ultimately sheds jobs.

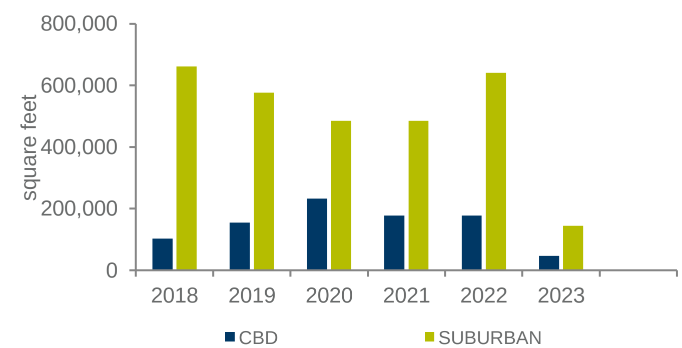
Class A Overall Vacancy Rates – CBD & Suburban



Class A YTD Overall Net Absorption – CBD & Suburban



YTD Leasing Activity – CBD & Suburban



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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	42,543	1,824,412	20.9%	-222,551	-222,551	46,361	0	$17.68	$19.30
SUBURBAN	11,647,048	109,992	1,510,135	13.9%	-84,981	-84,981	144,534	121,203	$19.44	$21.36
Old Louisville	399,940	0	46,569	11.6%	0	0	0	0	N/A	N/A
Hurstbourne / Eastpoint	4,951,318	72,811	602,363	13.6%	13,870	13,870	87,998	121,203	$21.45	$22.20
Plainview / Middletown	1,356,781	37,181	299,033	24.8%	-7,518	-7,518	3,016	0	$17.57	$21.00
Southeast	1,244,740	0	152,926	12.3%	-27,551	-27,551	25,088	0	$16.68	$19.75
Northeast	896,861	0	14,923	1.7%	-4,483	-4,483	14,189	0	$19.34	$19.34
St. Matthews	1,356,781	0	177,723	13.1%	426	426	9,416	0	$19.39	$20.68
South Central	1,441,934	0	216,598	15.0%	-59,725	-59,725	4,827	0	$17.78	$17.50
LOUISVILLE TOTALS	**20,601,128**	**152,535**	**3,334,547**	**16.9%**	**-307,532**	**-307,532**	**190,895**	**121,203**	**$18.47**	**$20.23**

**Rental rates reflect full service asking*

***Does not include renewals*

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT 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	9,945,970	59,362	1,790,484	18.6%	-51,864	-51,864	120,951	73,203	$20.23	$20.23
Class B	9,940,273	93,173	1,414,083	15.2%	-255,175	-255,175	44,856	48,000	$16.77	$16.61
Class C	714,885	0	129,980	18.2%	-493	-493	25,088	0	$14.22	$14.22

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
500 West Jefferson Street	CBD	McBrayer	24,336	Renewal/Expansion
9500 & 9520 Ormsby Station Road	Hurstbourne / Eastpoint	Aerotek	20,216	Renewal
500 West Main Street	CBD	PriceWaterhouseCoopers	11,334	Renewal
500 West Jefferson Street	CBD	KPFF	9,300	Lease

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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.

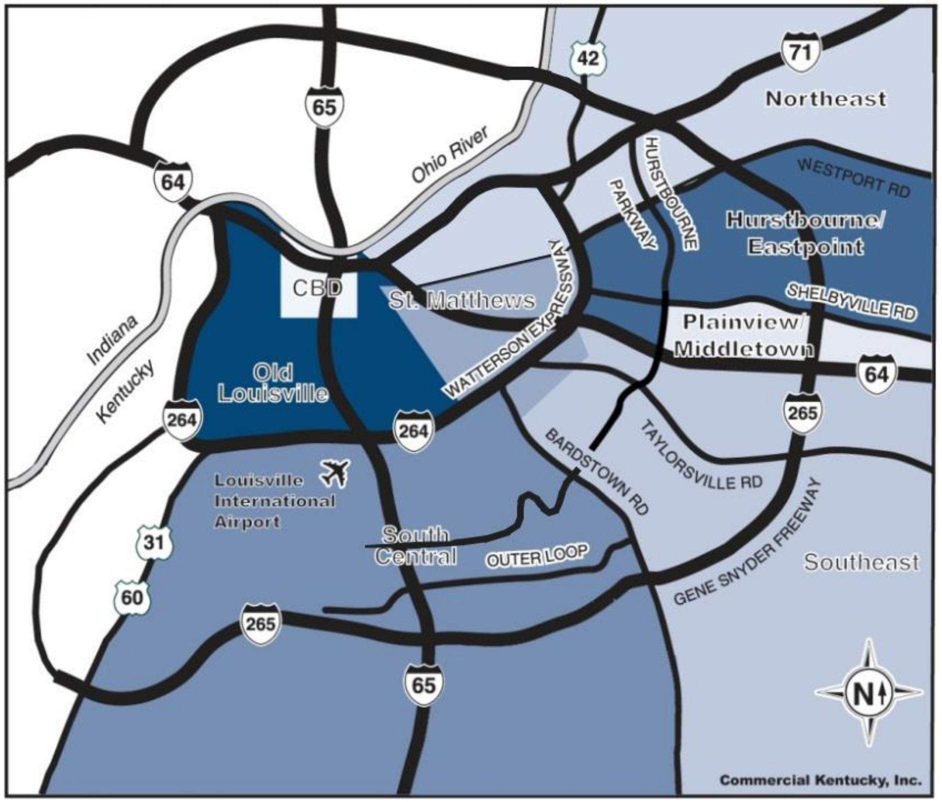
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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