

LOUISVILLE OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Louisville Employment	670k	675k	▲
Louisville Unemployment	3.9%	3.7%	▲
U.S. Unemployment	3.9%	3.6%	▼

Numbers above are quarterly averages; May 2019 data used to represent Q2 2019 for Louisville

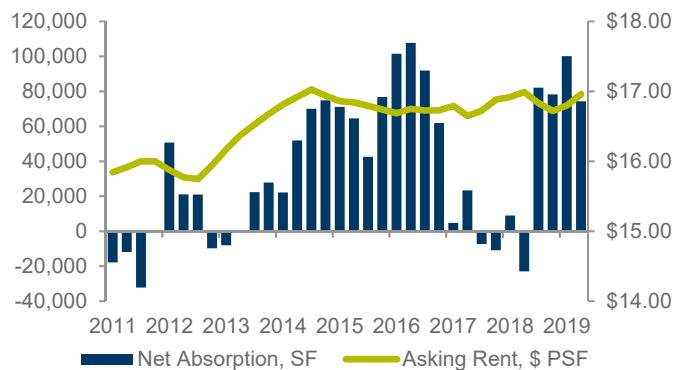
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	13.5%	13.0%	▲
YTD Net Absorption (sf)	29k	15k	▼
Under Construction (sf)	201k	184k	▲
Average Asking Rent*	\$16.82	\$17.47	▼

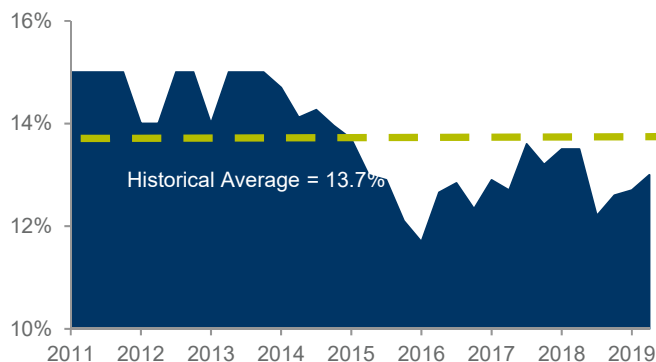
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

The forecast for global economic growth is “still good... just not as good”, according to Kevin Thorpe, Chief Economist and Global Head of Research for Cushman & Wakefield. Globally, GDP is projected to grow by 3.3% in 2019 – a reasonably solid rate but somewhat slower than the 3.6% growth in 2018 and the near 4.0% growth experienced in 2017. The slowdown in the global economy can be attributed to the fading fiscal stimulus in the U.S., escalating trade tensions, four interest rate hikes by the Federal Reserve, and the continued uncertainty of Brexit.

The U.S. Gross Domestic Product (GDP) rebounded from 2.2% in the fourth quarter of 2018 to 3.1% in the first quarter of 2019, despite the longest government shutdown on record. While growth rates are expected to moderate over the course of the year, most forecasters continue to expect GDP growth rates in the 2.0 to 2.5% range for 2019. The underlying economic fundamentals that drive demand for real estate remain healthy, including job growth, which has averaged 164,000 net new jobs per month through May. U.S. unemployment currently stands at 3.6%, a 49-year-low thanks to the continuing economic expansion, which in July will officially become the longest on record.

Market Overview

Second quarter CBD leasing activity reached 18,810 square feet (sf) bringing the mid-year total to 45,780 sf, 51% more than mid-year 2018. At mid-year 2019, 69% of the CBD leasing activity occurred in Class B space, reflecting a deficit of leasing activity in the Class A market. Notable activity in the Class B market included Conviva Care Solutions’ 7,919 sf lease at One Riverfront Plaza.

The overall CBD vacancy rate rose to 15.8%, a 70 basis-point (bp) increase from the first quarter. The CBD Class A vacancy rate rose 240 bps from 13.2% in the first quarter to its current 15.6%, largely due to Humana and MedSynergies reducing their footprints at PNC Tower and Brown & Williamson Tower respectively. The Class B vacancy rate dropped 50 bps to its current 16.1%.

The CBD reported 64,485 sf of negative absorption in the second quarter with 23,011 sf of positive absorption in Class B being offset by Class A negative absorption of 90,469 sf. Ironically, the CBD average gross asking rents for Class A increased to \$19.44 per square foot (psf).

The suburban submarkets reported 114,000 sf of leasing activity during the second quarter bringing the mid-year total to 244,102 sf, almost mirroring the 241,660 sf of leasing activity recorded at mid-year 2018. Class A represented 68% of the total suburban mid-year leasing activity. Notable activity included the 36,580 sf BrightSpring / Pharmerica expansion in the Hurstbourne / Eastpoint submarket.

The overall suburban vacancy rate decreased slightly to 10.9%, a 10-bp decrease from last quarter. The Class A vacancy rate rose slightly to 9.4% with Class B decreasing to 12.6%. The suburban submarket reported only 2,799 sf of absorption during the second quarter bringing the mid-year total to 64,938 sf. Most submarkets reported some negative absorption in the second quarter with the Plainview/Middletown submarket being the exception with 23,374 sf of positive absorption.

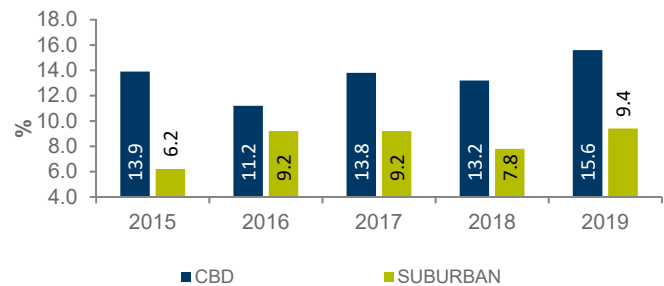
Outlook

As we predicted, the CBD office market continues to struggle as the Class A vacancy rate reached 15.6% at mid-year. Absent any new construction or significant absorption, the Class A vacancy rate in the CBD may exceed 18% by year-end.

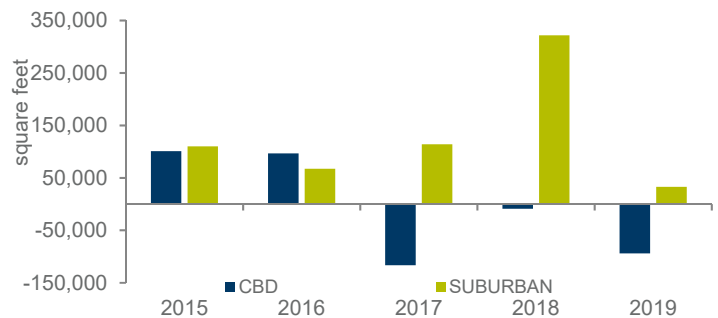
Nationally, it has been estimated that 4.6 billion square feet of office space is over 20 years old and not renovated, prompting many to say that in some U.S. cities, we are not overbuilding but under-demolishing. Most of Louisville's CBD Class A product is 27 to 47 years old and in need of renovation. As a consequence, many Class A landlords looking to lure new tenants are facing staggering tenant improvement costs to create a more efficient and collaborative office environment at competitive rental rates. Tenants are recognizing real estate as a valuable recruiting and retention tool to attract and retain a younger, tech-savvy workforce.

The new suburban office product continues to command premium rents for modern collaborative space that can accommodate the densification tenants desire - more people in less space. While suburban absorption has slowed somewhat, modest construction completions for the balance of the year should keep suburban Class A vacancy rates near single-digit levels.

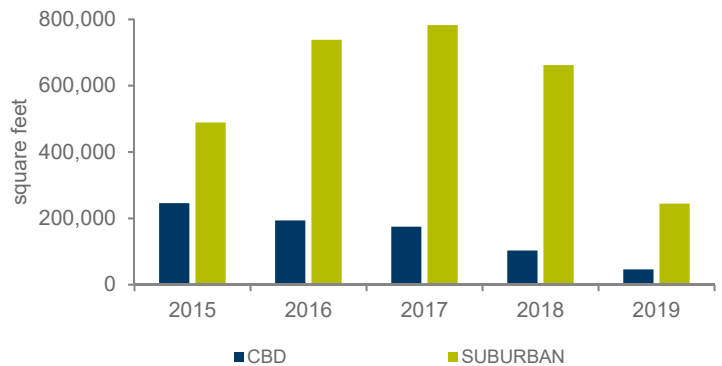
Class A Overall Vacancy Rates – CBD & Suburban



Class A YTD Overall Net Absorption CBD & Suburban



YTD Leasing Activity – CBD & Suburban



MARKETBEAT
Louisville
Office Q2 2019



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 AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	8,738,155	0	1,383,275	15.8%	-64,485	-49,679	45,780	0	\$16.67	\$19.44
Suburban	11,556,635	152,559	1,107,308	10.9%	2,799	64,938	244,102	183,917	\$18.38	\$22.39
Old Louisville	399,940	0	52,437	13.1%	0	6,132	0	0	\$8.78	N/A
Hurstbourne/Eastpoint	4,910,882	7,324	416,116	8.6%	-10,803	14,626	165,319	48,000	\$22.50	\$24.52
Plainview/Middletown	1,457,721	0	254,204	17.4%	23,374	46,769	41,414	0	\$16.72	\$21.00
Southeast	1,182,652	0	41,982	3.5%	3,265	15,457	12,964	0	\$15.96	\$17.00
Northeast	760,944	0	54,872	7.2%	-4,811	-7,402	4,749	135,917	\$22.82	\$23.97
St. Matthews	1,402,562	4,340	102,268	7.6%	-10,590	-10,699	12,094	0	\$16.30	\$22.19
South Central	1,441,934	140,895	185,429	22.6%	2,364	55	7,562	0	\$16.58	\$17.81
LOUISVILLE TOTALS	20,294,790	152,559	2,490,583	13.0%	-61,686	15,259	289,882	183,917	\$17.47	\$20.81

*Rental rates reflect gross asking \$psf/year
**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	9,729,117	110,266	1,038,540	11.8%	-97,134	-61,472	175,360	135,917	\$21.20	\$20.81
Class B	9,912,876	42,293	1,377,796	14.3%	34,320	72,821	103,630	48,000	\$15.16	\$15.27
Class C	652,797	0	74,247	11.4%	1,128	3,910	10,892	0	\$9.60	\$9.60

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
10300 Ormsby Park Place	119,765	Charter/Spectrum Mid-America LLC	Renewal	Hurstbourne / Eastpoint
805 North Whittington	36,580	BrightSpring / Pharmerica	Expansion	Hurstbourne / Eastpoint
401 West Main Street	7,919	Conviva Care Solutions	New Lease	CBD

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
734 West Main Street	44,820	TMT Ventures LLC / Calella LLC	\$6,050,000 / \$134.98	CBD
713 West Main Street	12,000	713 West Main Street LLC / DP Design & Development LLC	\$1,250,000 / \$104.17	CBD

OFFICE SUBMARKETS

LOUISVILLE, KENTUCKY

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.

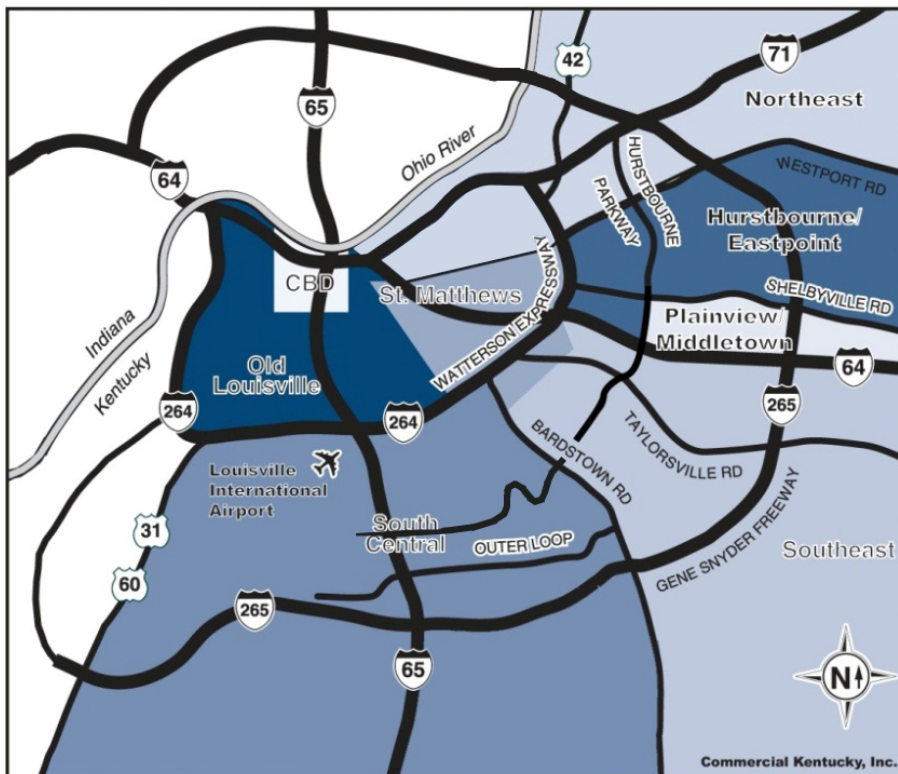
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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