

MARKETBEAT LOUISVILLE



**CUSHMAN &
WAKEFIELD**
Commercial Kentucky

Office Q2 2022

YoY Chg 12-Mo. Forecast

17.1%

Vacancy Rate



-136K

YTD Net Absorption, SF



\$18.61

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

YoY Chg 12-Mo. Forecast

675.1K

Louisville
Employment



3.3%

Louisville
Unemployment Rate



3.6%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

The U.S. unemployment rate remained unchanged during the second quarter of 2022 at 3.6% according to the Bureau of Labor Statistics. Additionally, employment levels increased by 390,000 jobs during the quarter. The labor force participation rate as of June stood at 62.2% and the employment population ratio was 59.9%. Both values remain below where they stood in February 2020, prior to the COVID-19 pandemic. According to the Bureau of Economic Analysis, GDP decreased at an annual rate of 1.6% in the first quarter of 2022, reflecting the downward revisions to personal consumption expenditures that was partially offset by an upward revision to private inventory investment.

At present, US economic activity and the labor market remain solid, despite headwinds from inflation and interest rates. However, these forces are likely to restrict consumer spending and business investment over the coming months. Russia's invasion of Ukraine in February 2022 resulted in an increase in energy and food prices that may keep inflation rates high even if pandemic-related drivers subside.

The unemployment rate in Louisville decreased significantly from 4.3% during the first quarter of 2022 to 3.3% during the second quarter. The employment level in Louisville increased by 23,000 jobs from the first quarter 2022. The employment level is up 21,959 from this point last year. We are likely to see a steady growth of employment levels as workers continue to return to office, albeit slowly.

CBD

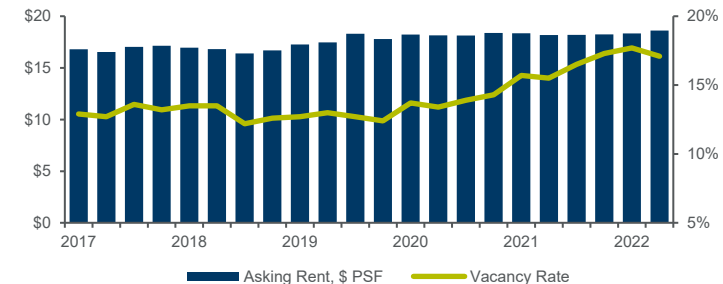
Leasing activity in the Central Business District (CBD) increased during the second quarter with 55,900 square feet (sf) of new leasing activity recorded, which is up 48,963 sf compared to this time last year. However, landlords continue to struggle to attract new tenants and retain existing tenants. As the uncertainty of the pandemic persists, and with the threat of a recession on the rise, Landlords have begun to offer tenants shorter lease terms allowing for more flexibility in evaluating their future office needs.

Overall net absorption in the CBD for the second quarter was negative 46,818 sf. Class A overall net absorption in the CBD totaled negative 22,408 sf while Class B totaled negative 24,410 sf. The vacancy rate in the CBD increased 10 basis points (bps) from 21.5% at the end of the first quarter 21.6% during the second quarter of 2022. Compared to the second quarter of 2021, the overall vacancy rate in the CBD has increased 250 bps. The Class A vacancy rate increased from 25.2% to 25.5%. The Class B vacancy rate remained unchanged at 18.9%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Suburban

Suburban market leasing activity finished the second quarter at 236,453 sf, which is 27% greater than the 185,956 sf recorded in the first quarter. Suburban Class A leasing activity was 179,317 sf while Class B was 55,688 sf. The Hurstbourne/Eastpoint submarket recorded the most leasing activity with 179,725 sf. This accounted for 76% of all suburban leasing activity during the quarter.

Overall net absorption for the Suburban office market ended the second quarter at 102,398 sf, ending eight consecutive quarters of negative absorption. Overall net absorption for the Class A Suburban market was 132,301 sf while the Class B suburban market experienced 31,351 sf of negative absorption. The Plainview / Middletown and St. Matthews submarkets were the only two submarkets to experience negative overall net absorption during the second quarter of negative 23,181 sf and negative 16,180 sf respectively. The majority of the Class A absorption occurred in the Hurstbourne/Eastpoint submarket.

The overall Suburban vacancy rate decreased 120 bps from 14.9% to 13.7%. Compared to this time last year, the overall Suburban vacancy rate has increased 90 bps. The Class A vacancy rate decreased from 16.5% to 14.0% while the Class B vacancy rate increased from 13.5% to 13.7%.

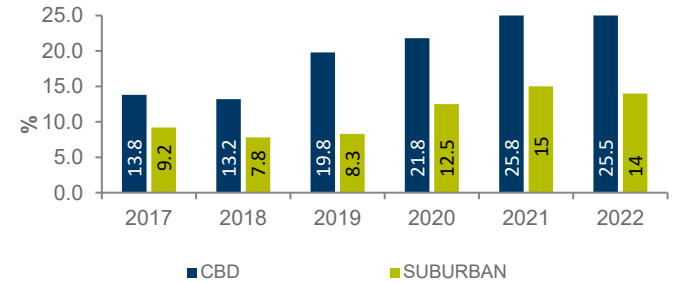
Overall average asking rents in the suburbs decreased from \$19.59 per square feet (psf) to \$19.55 psf. Class A Suburban average asking rents increased from \$21.70 psf to \$22.01 psf while Class B Suburban average asking rents remained unchanged at \$16.67 psf. The Northeast and Hurstbourne/Eastpoint submarkets continue to have the highest average asking rents with \$21.73 psf and \$21.45 psf respectively.

Class A Suburban properties are outperforming the market as a whole and are expected to continue their strong performance through the end of this year. Vacancy across the Class A Suburban inventory is at historically healthy levels and rents remain steady. Inflation has negatively impacted tenant construction pricing, but landlords generally are able to recover higher than expected costs with longer term commitments and larger annual increases.

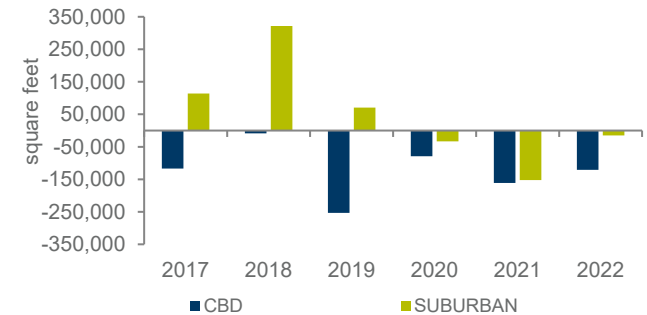
Outlook

- Persistent vacancy in the CBD continues to force Landlords to compete aggressively to land new tenants. Prospective tenants are being courted with heavily incentivized lease proposals, including discounted rents, shorter lease terms, longer rental abatement periods, free parking accommodations, and larger tenant improvement dollar packages.
- As remote work dwindles down and tenants start to return to the office, four-day workweeks may come to occupy a place in the “perk hierarchy” that remote work has occupied since the onset of the Covid-19 pandemic.
- We saw an uptick in leasing activity this quarter, but with summer in full swing, as well as rising gas prices, it’s likely that office utilization will flatten at least until the end of August as more people take vacations and as employers continue to encourage their employees to return to the workplace.
- Look for unused Downtown office buildings to be converted into hotels or residential properties as we continue to deal with the aftermath of the Covid-19 pandemic.
- Year-over-year inflation rates are expected to peak in Q2 2022 but will remain well above the Federal Reserve’s 2% target through the end of 2023.

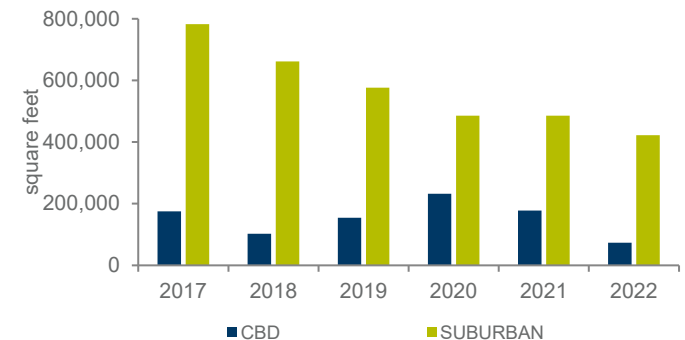
Class A Overall Vacancy Rates – CBD & Suburban



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	1,897,366	21.6%	-46,818	-120,939	73,294	0	\$17.75	\$19.18
SUBURBAN	11,797,988	91,806	1,519,834	13.7%	102,398	-14,822	422,409	136,203	\$19.55	\$22.01
Old Louisville	399,940	0	50,356	12.6%	0	0	0	0	\$18.00	N/A
Hurstbourne / Eastpoint	5,026,318	65,808	747,727	16.2%	73,552	-52,151	255,252	121,203	\$21.45	\$22.38
Plainview / Middletown	1,457,721	15,149	319,868	23.1%	-23,181	-7,806	52,733	0	\$17.64	\$21.00
Southeast	1,182,652	10,849	123,632	10.8%	750	-6,090	750	0	\$15.65	\$19.75
Northeast	896,861	0	23,556	2.6%	25,763	37,787	26,016	0	\$21.73	\$22.10
St. Matthews	1,402,562	0	144,825	10.8%	-16,180	-26,974	7,990	14,000	\$19.27	\$20.42
South Central	1,182,652	0	109,870	7.6%	41,694	40,412	79,668	0	\$16.74	N/A
LOUISVILLE TOTALS	20,752,068	128,848	3,417,200	17.1%	55,580	-135,761	495,703	136,203	\$18.61	\$20.50

*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	10,005,970	46,045	1,793,081	18.4%	109,893	-33,374	374,258	88,203	\$20.53	\$20.50
Class B	10,093,301	82,803	1,561,386	16.3%	-117,849	-165,225	119,631	48,000	\$16.39	\$16.26
Class C	652,797	0	62,733	9.6%	1,448	750	1,814	0	\$14.00	\$14.00

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
13400 Eastpoint Centre Drive	Hurstbourne / Eastpoint	Vogt Engineering	32,500	Lease
5111 Commerce Crossings Drive	South Central	Ellie Diagnostics	29,668	Lease
10350 Ormsby Park Place	Hurstbourne / Eastpoint	Long John Silvers	21,920	Lease
1650 Lyndon Farm Court	Hurstbourne / Eastpoint	Confluent Health	17,898	Lease

KEY SALE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
200 South Fifth Street	CBD	FT Louisville / The Simpson Organization	135,497	\$8,950,000 / \$66.05
888 West Market Street	CBD	Zirmed Tower LLC / KB Diversified Healthcare 60, DST	128,710	\$27,200,000 / \$211.33

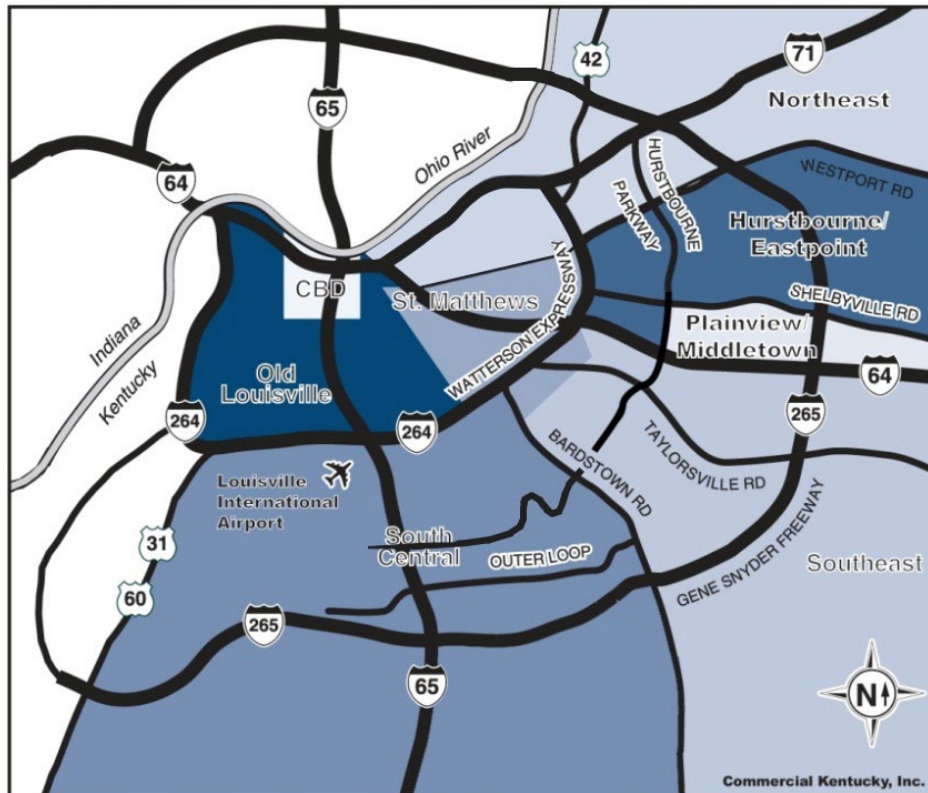


OFFICE SUBMARKETS

- 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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