

MARKETBEAT LOUISVILLE



CUSHMAN &
WAKEFIELD

Commercial Kentucky

Office Q3 2020

YoY Chg 12-Mo. Forecast

13.9%

Vacancy Rate



-120K

YTD Net Absorption, SF



\$18.13

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2020

YoY Chg 12-Mo. Forecast

629.8K

Louisville
Employment



5.9%

Louisville
Unemployment Rate



8.8%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

While hopes of a V-shaped economic recovery have faded, the U.S. economy has proven to be very resilient. The U.S. unemployment rate has fallen from a high of 14.7% in April 2020 to 8.8% at the end of the third quarter. Gross Domestic Product, which was negative 31.4% during the second quarter, bounced back to a projected range of 27% to 35% during the third quarter and is expected to settle near 1.9% for the year.

The unemployment rate in Louisville dipped to 5.9% during the third quarter, a 1,090 basis-points (bps) decrease from the high of 16.8% in April, a welcome sign that the local economy has begun to turn the corner towards a full recovery. Although the local economy has begun the recovery process, the CBD has shown little signs of recovery. Due to COVID-19 and civil unrest, many businesses still have not returned to their downtown offices. Many businesses that depend on the downtown workforce have closed permanently, and those spaces will not likely be backfilled until a full workforce returns to the CBD.

Following the arrival of COVID-19 in the U.S. in March, the economy entered a recession, recording the worst decline in post-war history. Mounting evidence indicates that a recovery began in May or June with Q3 2020 data likely reflecting that. However, until there is a public health resolution to the pandemic, the recovery is likely to remain uneven and prolonged. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

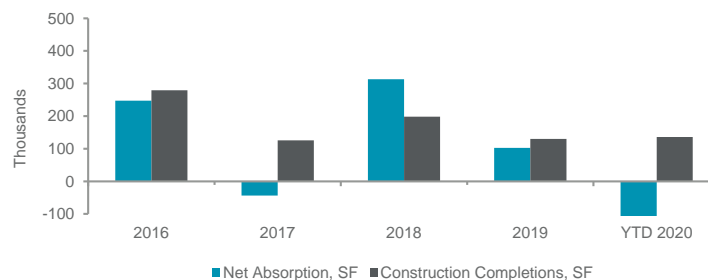
CBD

For the first time since the third quarter of 2013 there was virtually no leasing activity in the CBD for an entire quarter. The year-to-date (YTD) leasing activity remains at 219,444 sf with 105,785 sf coming in Class A and 113,659 sf coming in Class B. Despite the lack of activity this quarter, YTD leasing activity for 2020 is still 139,360 sf more than the YTD total at the end of third quarter 2019.

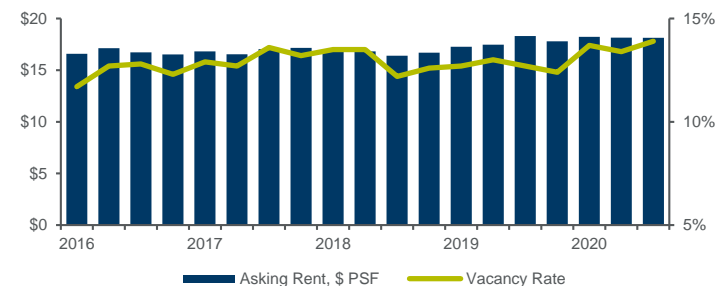
Overall CBD net absorption for the third quarter was negative 54,811 sf bringing the YTD total to negative 71,661 sf. Third quarter Class A overall net absorption was negative 45,129 sf while Class B was negative 9,682 sf. Year-to-date overall net absorption for Class A and B is negative 64,696 sf and negative 6,965 sf respectively. Of the negative 54,811 sf of net absorption, 82% came in the form of space being offered for sublease.

The vacancy rate in the CBD increased 100 bps from 17.9% to 18.9% at the end of the third quarter. The Class A vacancy rate increased 190 bps from 19.5% to 21.4%, while the Class B vacancy rate increased 30 bps from 16.8% to 17.1%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





CBD overall average asking rent decreased from \$16.72 per square foot (psf) to \$16.71 psf at the end of the quarter. Class A average asking rent decreased from \$18.74 psf in the second quarter to \$18.50 psf in the third quarter. Class B average asking rent increased from \$14.88 psf to \$14.92 psf. CBD average asking rents are down 5.3% from the \$17.66 psf recorded at the end of the third quarter of 2019.

Suburban

The suburban office market leasing activity slowed in the third quarter with only 48,422 sf recorded during the quarter. This brought the YTD total to 346,130 sf, which is 19,000 sf more than this point last year. Suburban Class A leasing activity for the third quarter was 39,276 sf and accounted for 81% of total suburban leasing activity. Year-to-date leasing activity for Class A and Class B is 259,890 sf and 83,225 sf respectively. The only submarkets with recorded leasing activity during the third quarter were the Hurstbourne/Eastpoint, St. Matthews and Northeast submarkets.

Overall net absorption for the suburban office market ended the third quarter at negative 10,063 sf which brought the YTD total to negative 48,104 sf. The South Central submarket was the only submarket that recorded positive net absorption for the quarter. This was due to Baptist Healthcare purchasing and occupying 3605 Fern Valley Road, resulting in positive 31,391 sf of net absorption. Overall net absorption for the Class A suburban market was positive 10,221 sf while the Class B suburban market experienced 20,864 sf of negative absorption during the third quarter. Year-to-date overall net absorption for Class A is negative 32,848 sf while Class B is negative 15,256 sf.

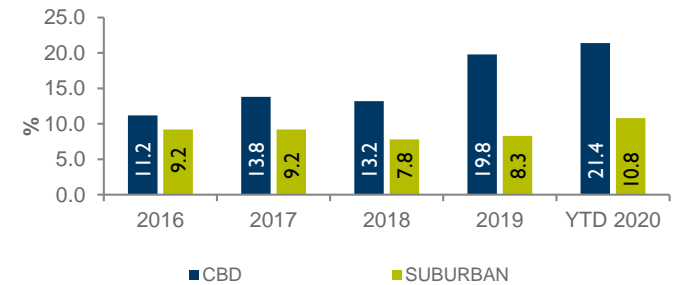
The overall vacancy rate increased 10 bps from 10.0% to 10.1%. Compared to the vacancy rate at the end of the third quarter in 2019, the suburban vacancy rate increased 20 bps from the 9.9% recorded. The Class A vacancy rate decreased from 11.0% to 10.8% while the Class B vacancy rate increased from 8.7% to 9.2%. The South Central submarket had the biggest change in vacancy rate from the previous quarter decreasing from 7.6% to 5.4%.

Overall average asking rent increased from \$19.96 psf to \$19.99 psf. Class A suburban average asking rent increased from \$22.32 psf to \$22.53 psf while Class B suburban average asking rent decreased from \$16.87 psf to \$16.82 psf. Compared to this point last year, overall average asking rent has increased 4.3%.

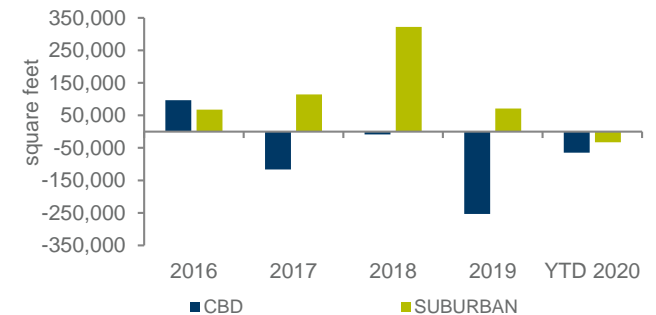
Outlook

- Expect more spaces to come up for sublease during the fourth quarter as occupiers begin to adjust their size requirements to fit current working conditions.
- Fourth quarter leasing activity will continue to lag behind the typical square footage seen in the market.
- The expected fourth quarter completion of the new Class A building in Shelbyhurst may entice tenants looking to leave the CBD, thus causing the CBD vacancy rate to continue to increase.

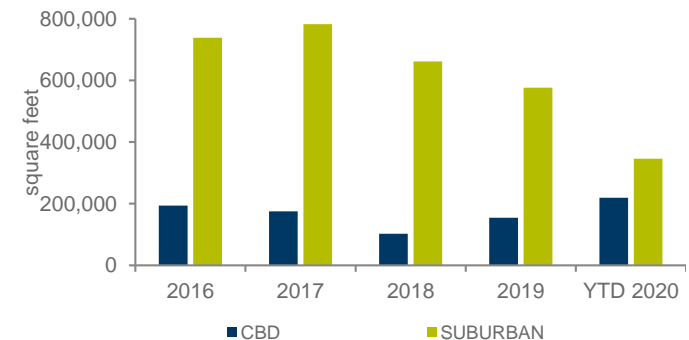
Class A Overall Vacancy Rates – CBD & Suburban



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	8,890,632	74,343	1,604,461	18.9%	-54,811	-71,661	219,444	0	\$16.71	\$18.50
SUBURBAN	11,688,977	58,808	1,119,513	10.1%	-10,063	-48,104	346,130	167,011	\$19.99	\$22.53
Old Louisville	399,940	0	56,224	14.1%	0	0	0	0	\$16.18	N/A
Hurstbourne / Eastpoint	4,907,307	43,790	502,673	11.1%	-15,523	-127,704	170,074	167,011	\$21.57	\$22.03
Plainview / Middletown	1,457,721	0	229,541	15.7%	-3,622	8,757	28,335	0	\$17.50	\$21.00
Southeast	1,182,652	10,849	34,769	3.9%	-10,849	-12,740	6,079	0	\$16.83	\$17.00
Northeast	896,861	0	102,930	11.5%	-9,313	67,648	89,641	0	\$25.29	\$25.40
St. Matthews	1,402,562	4,169	114,941	8.5%	-2,147	-15,456	20,961	0	\$16.86	\$22.53
South Central	1,441,934	0	78,435	5.4%	31,391	31,391	31,040	0	\$15.51	N/A
LOUISVILLE TOTALS	20,579,609	133,151	2,723,974	13.9%	-64,874	-119,765	565,574	167,011	\$18.13	\$20.37

*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	9,861,459	89,275	1,380,298	14.9%	-34,908	-97,544	365,675	119,011	\$20.54	\$20.37
Class B	10,065,353	43,876	1,275,637	13.1%	-30,546	-22,221	196,884	48,000	\$15.71	\$15.67
Class C	652,797	0	68,039	10.4%	580	0	3,015	0	\$11.83	\$11.83

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
9931 Corporate Campus Drive	Hurstbourne / Eastpoint	Gloutouch	11,731	Sublease
295 Hubbards Lane	St. Matthews	Limestone Title & Escrow	7,198	Direct
4360 Brownsboro Road	Northeast	Accent Fx	6,103	Direct

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
3605 Fern Valley Road	South Central	Signature Properties LLC / Baptist Healthcare System	34,000	\$40M / \$116



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.

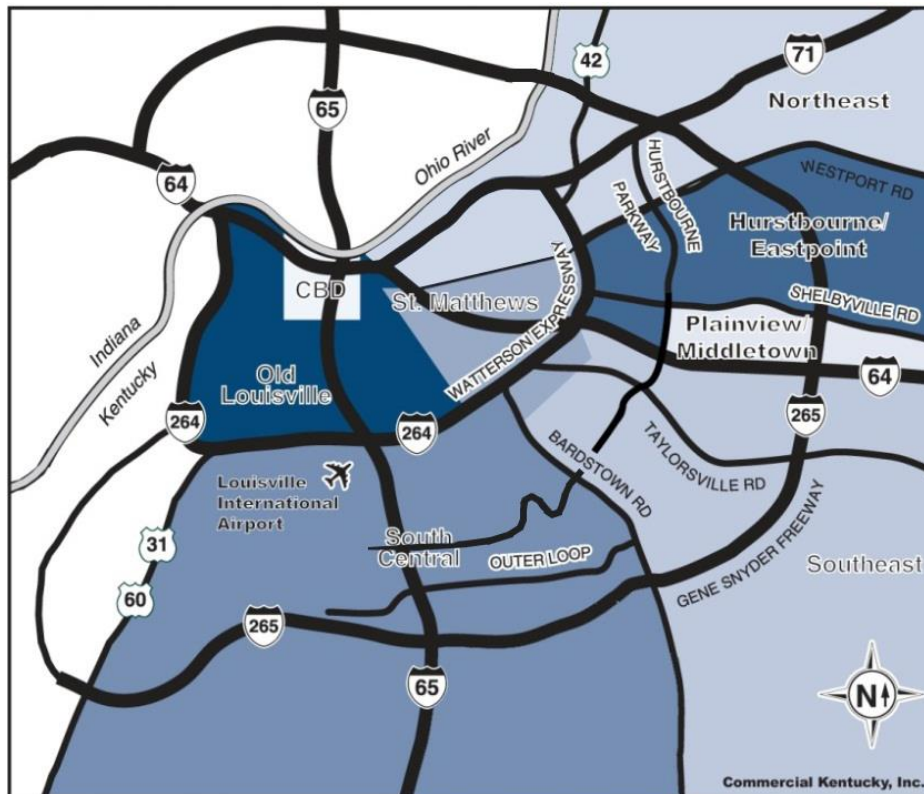
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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RESEARCH PUBLICATION

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