

MARKETBEAT
Louisville
Office Q4 2018



LOUISVILLE OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Louisville Employment	669k	670k	▲
Louisville Unemployment	3.8%	4.1%	▲
U.S. Unemployment	4.1%	3.7%	▼

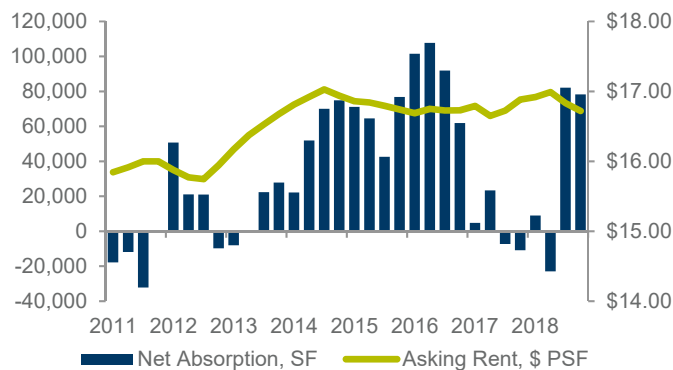
Numbers above are quarterly averages; November 2018 data used to represent Q4 2018 for Louisville

Market Indicators (Overall, All Classes)

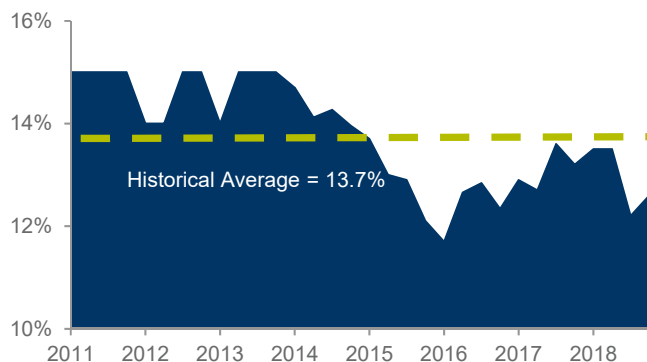
	Q4 17	Q4 18	12-Month Forecast
Vacancy	13.2%	12.6%	▼
YTD Net Absorption (sf)	-44k	313k	▲
Under Construction (sf)	301k	260k	▲
Average Asking Rent*	\$17.15	\$16.70	▲

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent
4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

While investor anxiety and geo-political uncertainty have dominated the headlines, the U.S. economy continues to demonstrate remarkable strength and resiliency. Real gross domestic product (GDP) increased at an annual rate of 3.4% in the third quarter of 2018, strongly suggesting that U.S. economic growth will exceed 3.0% for the year and likely reach or exceed 3.0% for 2019. Global economic growth, while slowing of late, is expected to be 3.7% for 2018 and 2019.

Stronger than expected December job growth of 312,000 jobs, more than doubled November's addition of 155,000 jobs, netting employers 2.6 million jobs for 2018, the best year since 2015. Payrolls have grown for 99 straight months and put the economy on track to create more than 2.0 million jobs for a record eighth consecutive year.

Robust job growth was accompanied by an increase in average hourly earnings of 3.2% in 2018, the largest full-year gain in a decade and soothing concerns that tariffs and rising interest rates are restricting the growth of the U.S. economy. Recent comments from Federal Reserve Chairman Jerome Powell have suggested that the Fed would be patient about further increases in the federal funds rate in 2019. This should bode well for borrowers and positively impact consumer confidence, which has reached the second most positive level in almost 20 years, as the combination of robust hiring and bigger wage gains places more money in household pocketbooks.

Market Overview

Fourth quarter CBD leasing activity of 30,854 square feet (sf) pushed the CBD year-end total to 102,565 sf, 41% less than reported last year. Year-end Class A and B leasing activity totaled 46,228 sf and 56,337 sf respectively.

The overall CBD vacancy rate ended 2018 at 15.5%, a 20-basis-point (bp) increase from last year's 15.3%. The CBD Class A vacancy rate decreased from 13.8% to 13.2%, while the Class B rate rose from 16.7% to 17.3%

The CBD reported 17,149 sf of positive absorption in the fourth quarter reducing the overall year-end total to negative 8,893 sf. Class A absorption was a positive 21,886 sf with Class B at negative 26,194 sf.

The suburban office market reported 260,727 sf of overall leasing activity during the fourth quarter bringing the year-end total to 661,832 sf, 18% less than reported in 2017. Class A represented 57% of the total with Class B claiming 41%. The Hurstbourne / Eastpoint submarket alone accounted for almost half of the total suburban leasing activity.

The fourth quarter overall suburban overall vacancy rate is 10.5%, representing the lowest year-end vacancy rate recorded since 1999. Several submarkets reported record-breaking low vacancy rates including Old Louisville at 14.6%, the lowest since 2002; St. Matthews at 6.9%, the lowest since 1995; and Hurstbourne / Eastpoint at 6.5%, the lowest since 1995. The suburban Class A vacancy rate decreased from 9.2% last year to 7.8%. The suburban Class B vacancy rate fell to 13.6% compared to 14.2% last year.

The combined suburban submarkets recorded 321,785 sf of positive absorption for 2018, the ninth consecutive year that the suburban submarket ended the year with positive absorption. Class A accounted for a staggering 94% of this year-end total. Combined, the Hurstbourne / Eastpoint and Southeast submarkets accounted for 78% of the total year's absorption.

Outlook

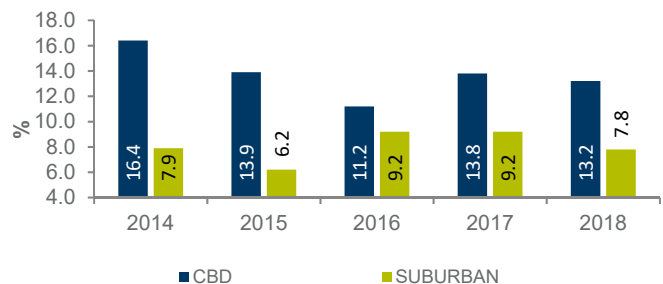
Near-record suburban office absorption of over 300,000 sf represented the most active year for suburban absorption since the Great Recession. The demand for Class A suburban office space continues to outpace the supply as the Class A vacancy rate decreased throughout 2018 from 9.2% to 7.8%. For 2019, we can expect modest new construction completions at Shelbyhurst, Old Henry and Olympia Park Plaza II as developers are rewarded with premium rents for quality product.

The CBD office market should show improvement in 2019 as it market recovers from an abysmal showing in 2018. The enhanced energy and vitality of the CBD, coupled with a very competitive rent environment, should result in increased leasing activity and absorption.

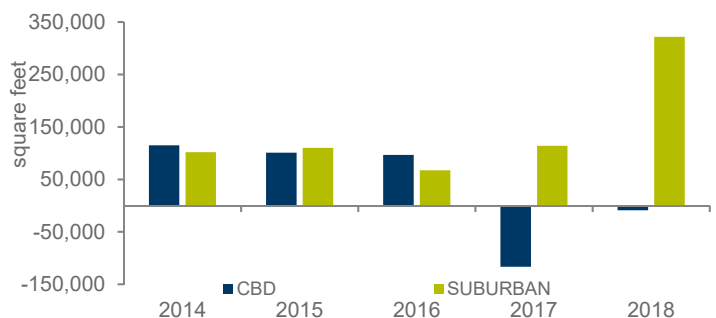
The availability of larger blocks of space in several downtown high-rises, along with an anticipated "flight to quality" as tenants seek to improve the quality and efficiency of their office space, will add to the appeal of CBD office product.

The completion of the Omni, the renovation and re-opening of the Kentucky International Convention Center (KICC), the plethora of new boutique hotels and the significant increase in market-rate, amenity-filled apartment accommodations in the downtown and near downtown area have certainly added to the appeal of downtown as a place to live, work and play. This appeal is being recognized by savvy employers as a recruiting tool for businesses located in the CBD and other close-in neighborhoods.

Class A Overall Vacancy Rates – CBD & Suburban



Class A YTD Overall Net Absorption CBD & Suburban



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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	8,692,843	0	1,344,023	15.5%	17,149	-8,893	102,565	0	\$16.13	\$19.12
Suburban	11,626,358	154,887	1,067,943	10.5%	24,473	321,785	661,832	260,000	\$17.35	\$21.54
Old Louisville	399,940	0	58,569	14.6%	6,300	8,300	3,247	0	\$9.46	N/A
Hurstbourne/Eastpoint	4,768,046	6,223	303,803	6.5%	70,914	181,662	307,546	120,000	\$21.09	\$23.39
Plainview/Middletown	1,509,721	3,324	320,874	21.5%	-60,649	-32,487	115,128	0	\$15.73	\$20.00
Southeast	1,343,211	0	59,660	4.4%	4,256	208,980	41,274	0	\$16.72	\$18.52
Northeast	760,944	0	47,470	6.2%	9,514	12,642	43,424	140,000	\$24.40	\$25.16
St. Matthews	1,402,562	4,340	92,234	6.9%	-10,512	-5,875	59,203	0	\$16.26	\$21.89
South Central	1,441,934	141,000	185,333	22.6%	4,650	-51,437	92,010	0	\$16.66	\$18.22
LOUISVILLE TOTALS	20,319,201	154,887	2,411,966	12.6%	41,622	312,892	764,397	260,000	\$16.70	\$20.23

*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	9,759,452	109,165	853,858	9.9%	55,658	325,555	425,568	260,000	\$20.61	\$20.23
Class B	9,906,952	45,722	1,479,951	15.4%	-18,548	-9,293	329,997	0	\$14.80	\$14.91
Class C	652,797	0	78,157	12.0%	4,512	-3,370	8,832	0	\$9.87	\$9.87

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
805 North Whittington	70,742	BrightSpring	New Lease	Hurstbourne / Eastpoint
10400 Linn Station	41,000	First Source	New Lease	Plainview / Middletown
1951 Bishop Lane	31,040	McKesson	New Lease	South Central
700 North Hurstbourne	24,650	Lloyd McDaniel	New Lease	Hurstbourne / Eastpoint
9901 Linn Station	22,032	Appriss	Expansion	Plainview / Middletown
1930 Bishop Lane	16,748	UPS	New Lease	South Central
10507 Timberwood Circle	15,046	Beyond	Expansion	Plainview / Middletown
9200 Shelbyville Road	11,031	Family Health Centers	New Lease	Hurstbourne / Eastpoint

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
500 West Jefferson	556,042	Optima / Somera Road	Undisclosed	CBD
6100 Dutchmans Lane	85,000	Kaden / In-Rel Properties	\$10,500,000 / \$91	St. Matthews

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.

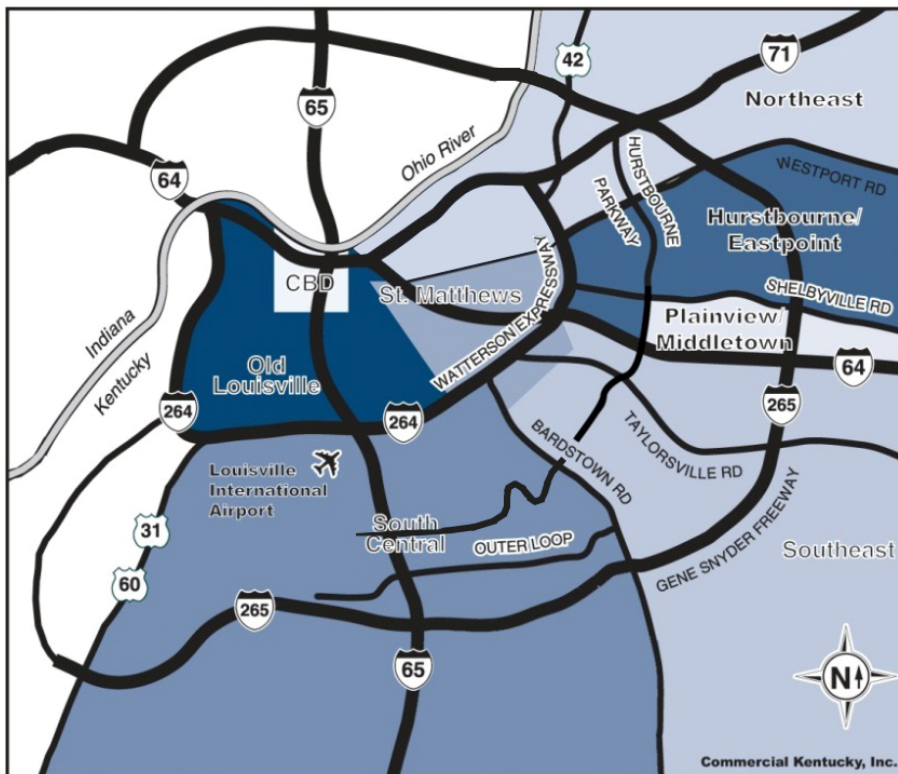
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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