

MARKETBEAT LOUISVILLE



CUSHMAN &
WAKEFIELD

Commercial Kentucky

Office Q4 2020

YoY Chg 12-Mo. Forecast

14.3%

Vacancy Rate



-104K

YTD Net Absorption, SF



\$18.38

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

YoY Chg 12-Mo. Forecast

643.2K

Louisville
Employment



6.1%

Louisville
Unemployment Rate



6.7%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

The U.S. unemployment rate has fallen from a high of 14.7% in April 2020 to 6.7% at the end of the fourth quarter. Gross Domestic Product increased during the third quarter at 33.4% with a projected range of 4.0% to 8.8% increase during the fourth quarter. This puts a year end estimate on the GDP at negative 3.5%.

The unemployment rate in Louisville increased to 6.1% during the fourth quarter, a possible result of more shutdown measures being implemented due to a COVID-19 spike.

CBD

Leasing activity in the Central Business District (CBD) for the fourth quarter was 7,994 square feet (sf) which brings the 2020 year-end total to 232,248 sf. Not surprisingly, first quarter leasing activity accounted for 84% of total CBD leasing activity for 2020. CBD Class A leasing activity for the year was 113,779 sf while CBD Class B leasing activity was 118,469 sf.

Overall net absorption for the fourth quarter was positive 30,781 sf in the CBD, bringing the year end total to negative 36,070 sf. Class A and B overall net absorption ended the year at negative 79,725 sf and positive 43,205 sf respectively. Positive overall net absorption in the CBD for the fourth quarter ended a streak of six consecutive quarters of negative net absorption.

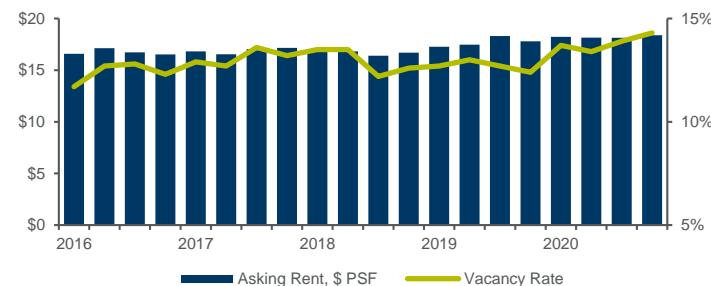
The vacancy rate in the CBD decreased 40 basis-points (bps) from the third quarter down from 18.9% to 18.5%. The Class A vacancy rate increased from 21.4% to 21.8% while the Class B vacancy rate decreased 100 bps from 17.1% to 16.1%. Compared to year end 2019, the overall CBD vacancy rate has increased from 17.5% to 18.5%.

CBD overall average asking rents increased from \$16.71 per square foot (psf) to \$16.73 psf during the fourth quarter. However, the overall average asking rent is down from \$16.83 psf observed at the end of 2019. Class A CBD overall average asking rents decreased from \$18.50 psf to \$18.49 psf during the quarter while Class B CBD overall average asking rents remained at \$14.92 psf. Class A average asking rents have decreased from \$18.81 psf to \$18.49 psf from the end of 2019 while Class B average asking rents have increased from \$14.69 psf to \$14.92 psf over the same period.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Suburban

After a slow third quarter, the suburban office market leasing activity ramped back up during the fourth quarter with 138,694 sf recorded during the quarter. This brings the year end total to 485,574 sf which is 90,766 sf less than what was recorded during 2019. Suburban Class A leasing activity for the fourth quarter was 112,028 sf and accounted for 81% of total suburban leasing activity. Class A and Class B leasing activity in 2020 was 371,918 sf and 110,641 sf respectively. The Northeast submarket reported the most leasing activity during the fourth quarter with 62,542 sf leased. The Hurstbourne/Eastpoint and Northeast submarkets had the most leasing activity during the year with 220,188 sf and 152,933 sf respectively.

Overall net absorption for the suburban office market ended the fourth quarter at negative 36,495 sf which brought the 2020 total to negative 67,888 sf, making 2020 the first year the suburban office market experienced negative overall net absorption since 2009. Overall net absorption for the Class A suburban market was negative 14,580 sf while the Class B suburban market experienced 21,915 sf of negative absorption during the fourth quarter. Overall net absorption for Class A in 2020 was negative 33,233 sf while Class B was negative 34,655 sf. The Northeast submarket recorded the most positive net absorption during 2020 with positive 55,550 sf of net absorption.

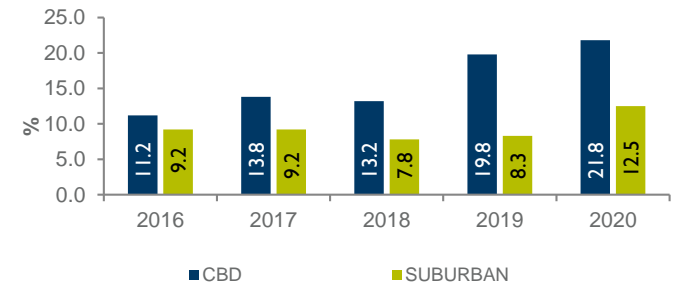
The overall suburban vacancy rate increased 90 bps from 10.1% to 11.2%, a 260 bps increase over the 8.6% vacancy rate at the end of 2019. The Class A vacancy rate increased from 10.8% to 12.5% while the Class B vacancy rate increased from 9.2% to 9.5%. The increase in the Class A vacancy rate was due in part to the completion of the 119,011 sf 435 building at Shelbyhurst. The 435 building was completely vacant at the time of completion although the first tenant, Dean Dorton, is expected to move in during Q1 2021.

Overall average asking rents in the suburbs increased from \$19.99 psf to \$20.46 psf. Compared to 2019, suburban overall average asking rents have increased 5.7% from the \$19.35 psf at the end of the year. Class A suburban average asking rents increased from \$22.53 psf to \$23.10 psf while Class B suburban average asking rents increased from \$16.82 psf to \$16.86 psf. The Northeast and Hurstbourne/Eastpoint submarkets ended the year with the highest average asking rents with \$23.61 psf and \$22.54 psf respectively.

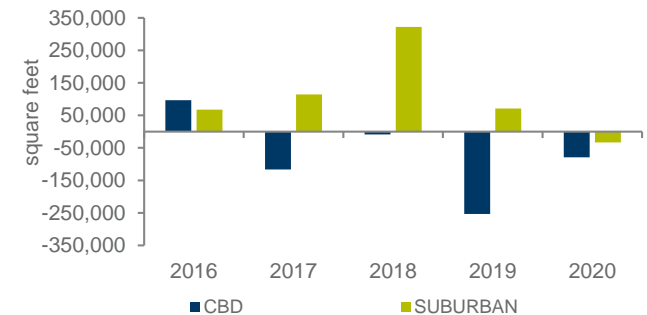
Outlook

- As the COVID-19 vaccination process continues to progress during 2021, activity should begin to return to a volume that is more consistent with historical norms.
- Office occupancy levels should improve throughout 2021, although work from home (WFH) strategies may continue to impact occupancy levels in the near term
- The energy and vitality of the CBD will not return until employees return to the workplace and support restaurants and other local service providers who have suffered through the pandemic

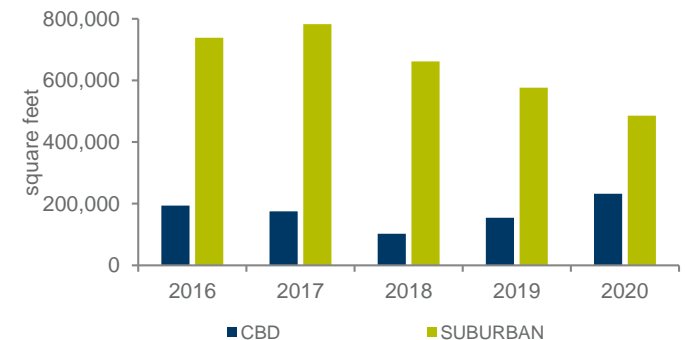
Class A Overall Vacancy Rates – CBD & Suburban



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 | 1,568,870 | 18.5% | 30,781 | -36,070 | 232,248 | 0 | \$16.73 | \$18.49 |
| SUBURBAN | 11,807,988 | 82,038 | 1,235,078 | 11.2% | -36,495 | -67,888 | 485,574 | 48,000 | \$20.46 | \$23.10 |
| Old Louisville | 399,940 | 0 | 56,224 | 14.1% | 0 | 0 | 0 | 0 | \$16.18 | N/A |
| Hurstbourne / Eastpoint | 5,026,318 | 46,723 | 616,475 | 13.2% | -13,685 | -125,428 | 220,188 | 48,000 | \$22.54 | \$23.13 |
| Plainview / Middletown | 1,457,721 | 0 | 230,839 | 15.8% | -1,298 | 7,459 | 33,720 | 0 | \$17.52 | \$21.00 |
| Southeast | 1,182,652 | 10,849 | 31,347 | 3.6% | 3,422 | -9,318 | 13,879 | 0 | \$17.07 | \$18.00 |
| Northeast | 896,861 | 20,297 | 94,731 | 12.8% | -12,848 | 55,550 | 152,933 | 0 | \$23.61 | \$23.61 |
| St. Matthews | 1,402,562 | 4,169 | 125,244 | 9.2% | -10,303 | -25,759 | 22,318 | 0 | \$16.83 | \$22.46 |
| South Central | 1,441,934 | 0 | 80,218 | 5.6% | -1,783 | 29,608 | 42,536 | 0 | \$15.77 | N/A |
| LOUISVILLE TOTALS | 20,698,620 | 156,381 | 2,803,948 | 14.3% | -5,714 | -103,958 | 717,822 | 48,000 | \$18.38 | \$20.70 |

*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 | 9,980,470 | 112,505 | 1,491,043 | 16.1% | -29,159 | -112,508 | 485,697 | 0 | \$20.91 | \$20.70 |
| Class B | 10,065,353 | 43,876 | 1,244,866 | 12.8% | 23,445 | 8,550 | 229,110 | 48,000 | \$15.73 | \$15.70 |
| Class C | 652,797 | 0 | 68,039 | 10.4% | 0 | 0 | 3,015 | 0 | \$11.83 | \$11.83 |

KEY LEASE TRANSACTIONS Q4 2020

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|-------------------------------|-------------------------|-------------|--------|--------|
| 4803 Olympia Park Plaza | Northeast | Undisclosed | 34,388 | Direct |
| 435 North Whittington Parkway | Hurstbourne / Eastpoint | Dean Dorton | 30,745 | Direct |
| 3810 Springhurst Boulevard | Northeast | Undisclosed | 11,769 | Direct |
| 4803 Olympia Park Plaza | Northeast | Undisclosed | 11,047 | Direct |



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.

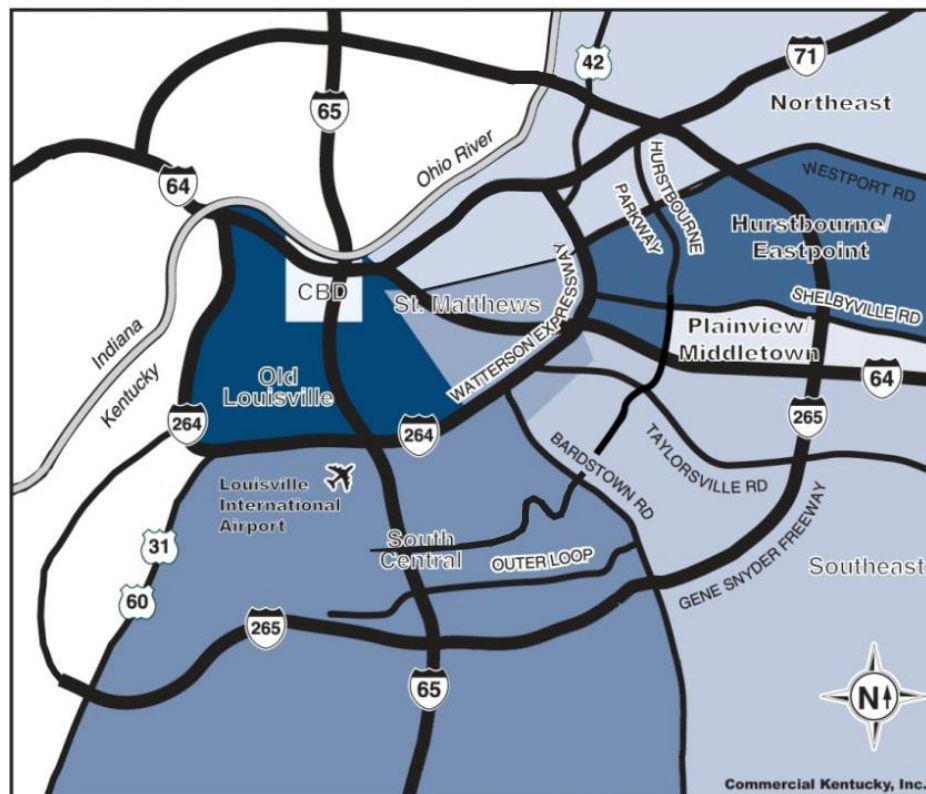
South Central: Encompasses an area southwest of Bardstown Rd. to Shively, which includes Louisville International Airport.

JOHNNY TOBE

Research Analyst

Tel: +1 502 589 5150

jtobe@commercialkentucky.com

A CUSHMAN & WAKEFIELD
RESEARCH PUBLICATION

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