



YoY Chg 12-Mo. Forecast

**12.4%**  
Vacancy Rate



**103K**  
YTD Net Absorption, SF



**\$17.80**  
Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q4 2019

YoY Chg 12-Mo. Forecast

**679K**  
Louisville Employment



**3.6%**  
Louisville Unemployment Rate



**3.6%**  
U.S. Unemployment Rate



Source: BLS

## ECONOMIC OVERVIEW

While the United States economy remains strong, it is clear that growth continued to slow down in 2019. Real Gross Domestic Product (GDP) is projected to come in at 2.0% for the fourth quarter 2019 and at 2.3% for the year, a 60 basis-point (bp) decrease from the 2.9% seen in 2018. Global GDP is expected to come in at 3.0% for 2019, its slowest pace since the global financial crisis.

After slowing down in the third quarter, job growth in the U.S. saw an uptick. The Bureau of Labor Statistics announced 266,000 jobs were created in November. The manufacturing sector bounced back by adding 54,000 jobs in November after a decline of 43,000 in October. Average hourly earnings for all jobs increased 1.1% from November 2018 to November 2019, a much lower number from the 3.2% for the year 2018.

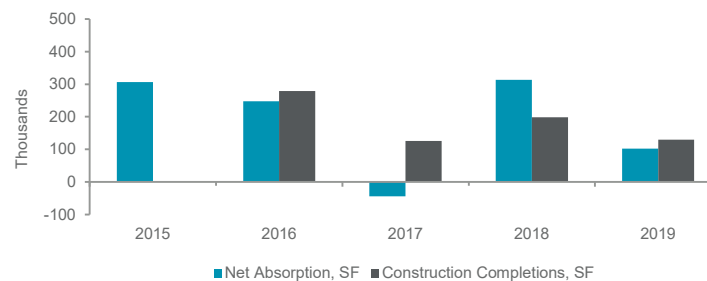
Federal Reserve cut interest rates three times between July and October ending the year between 1.50% and 1.75%. Fed officials do not expect any rate changes during 2020, but are employing a wait-and-see outlook with the economy before making any more moves.

## PRICING

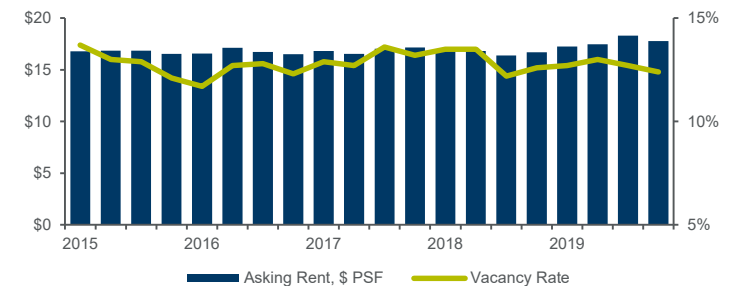
Overall gross average asking rent in the CBD ended the year at \$16.83 per square foot (psf). Surprisingly, this overall number is 4.3% higher than the 2018 number of \$16.13 psf. For the first time since 2005, the average asking rent of Class A properties in the CBD dropped below \$19.00 psf. Class B average asking rents ended the year at \$14.69 psf, hovering around the numbers from the past few years. Part of the reason for the downward trend in asking rent is the increased vacancy rate. Landlords are heavily incentivizing lease proposals to attract tenants to vacant space.

Conversely, the suburban market average asking rents continued to climb in 2019. The overall average asking rent was \$19.35 psf, the highest ever recorded. Class A and B average asking rents increased to \$22.12 psf and \$16.78 psf respectively. Within the Plainview/Middletown submarket, an all time high was hit in both Class A and B properties at \$21.00 psf and \$17.43 psf respectively. Suburban rent should continue to rise in 2020 due to the low vacancy rate, and newer inventory.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT





### CBD

Fourth quarter CBD leasing activity of 74,314 square feet (sf) pushed the CBD year-end total to 154,398 sf, 50.5% more than reported last year. Year-end Class A and B leasing activity totaled 78,898 sf and 70,915 sf respectively.

The CBD reported 91,743 sf of negative absorption in the fourth quarter increasing the overall year-end total to negative 196,382 sf. Class A absorption was negative 253,474 sf with Class B at positive 52,507 sf.

The overall CBD vacancy rate ended 2019 at 17.5%, a 200 bp increase from last year's 15.5%. The CBD Class A vacancy rate increased from 13.2% to 19.8%, while the Class B rate dropped from 17.3% to 15.8%

### Suburban

The suburban office market reported 249,293 sf of overall leasing activity during the fourth quarter bringing the year-end total to 576,340 sf, 13% less than reported in 2018. Class A represented 63% of the total with Class B claiming 36%.

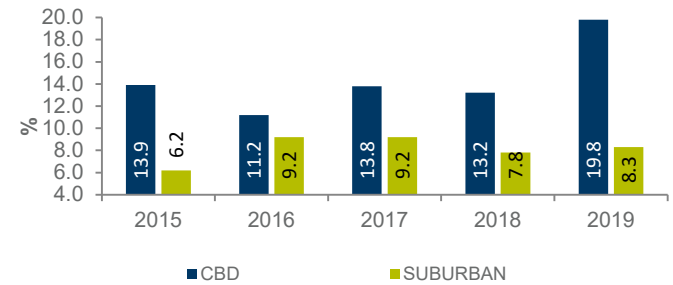
The combined suburban submarkets recorded 299,101 sf of positive absorption for 2019, the 10<sup>th</sup> consecutive year that the suburban submarket ended the year with positive absorption. Class B accounted for 75% of this year-end total. Individually, the South Central submarket accounted for 74% of the total year's absorption.

The fourth quarter overall suburban vacancy rate fell to 8.6%, breaking the year-end record low of 9.5% from 1995. Several submarkets reported record-breaking low vacancy including South Central at 7.2%, the lowest since 2002; Plainview/Middletown at 16.3%, the lowest since 2007; and Northeast at 4.6%, the lowest since 1997. The suburban Class A vacancy rate increased from 7.8% last year to 8.3%. The suburban Class B vacancy rate fell to 8.7%, the lowest vacancy rate ever recorded for suburban Class B.

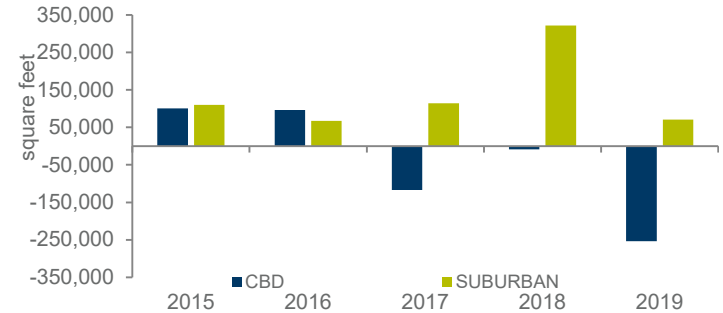
### Outlook

- The vacancy gap between the suburban and CBD office markets should remain about the same, if not widening just a bit going forward in 2020. Traditional office users in the downtown space have been reducing their leased footprint and using smaller, more efficient spaces. This is a trend that will continue in 2020. Without an increase in professional service jobs, the CBD office market will continue to struggle moving forward.
- Demand for Class A space in the suburban market should continue to remain high going into 2020. Olympia Park Plaza II in the Northeast submarket will be completed in the first quarter which will add new supply to keep pace with the increasing demand.
- Asking rents in the suburbs should continue to creep up in 2020 due to the high demand and limited supply. On the other hand, CBD rents will remain stagnant or decrease as landlord's start to offer more enticing packages to attract and retain tenants.

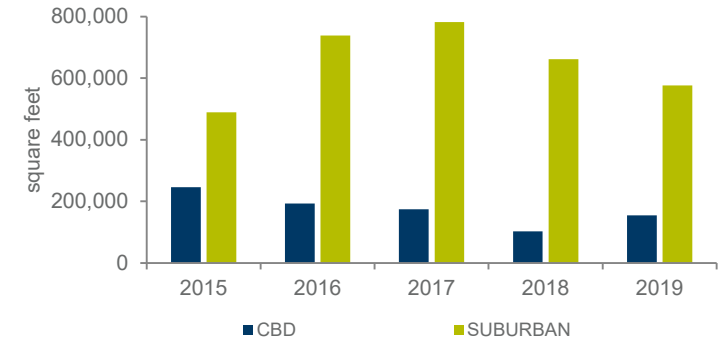
Class A Overall Vacancy Rates – CBD & Suburban



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	8,738,155	7,170	1,519,683	17.5%	-91,743	-196,382	154,398	0	\$16.83	\$18.81
SUBURBAN	11,556,635	35,214	957,963	8.6%	145,718	299,101	576,340	183,917	\$19.35	\$22.12
Old Louisville	399,940	0	56,224	14.1%	-3,787	2,345	0	0	\$16.18	N/A
Hurstbourne / Eastpoint	4,910,882	32,272	389,853	8.6%	-59,035	10,889	242,037	48,000	\$22.10	\$22.64
Plainview / Middletown	1,457,721	0	238,298	16.3%	2,247	61,005	66,459	0	\$17.51	\$21.00
Southeast	1,182,652	0	33,923	2.9%	7,435	23,716	16,277	0	\$16.24	\$17.00
Northeast	760,944	0	35,218	4.6%	15,816	-13,748	31,890	135,917	\$22.25	\$22.63
St. Matthews	1,402,562	2,942	100,712	7.4%	-4,685	-7,759	34,777	0	\$16.33	\$22.19
South Central	1,441,934	0	103,726	7.2%	187,727	222,653	184,900	0	\$16.73	\$18.50
<b>LOUISVILLE TOTALS</b>	<b>20,294,790</b>	<b>42,384</b>	<b>2,477,646</b>	<b>12.4%</b>	<b>53,975</b>	<b>102,719</b>	<b>730,738</b>	<b>183,917</b>	<b>\$17.80</b>	<b>\$20.05</b>

\*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	9,729,117	40,305	1,203,855	12.8%	-57,561	-182,731	439,761	135,917	\$20.09	\$20.05
Class B	9,912,876	2,079	1,204,141	12.2%	110,871	277,729	276,774	48,000	\$15.51	\$15.51
Class C	652,797	0	69,650	10.7%	665	7,721	14,203	0	\$11.42	\$11.42

## KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF	TYPE
5200 Commerce Crossings	South Central	Baptist Health	100,000	Sublease
5100 Interchange Way	South Central	Lash Group	59,725	Sublease
400 West Market	CBD	Wyatt, Tarrant & Combs	40,998	Direct
325 West Main Street	CBD	Humana	26,946	Direct
4965 US Highway 42	Northeast	Norton Healthcare	15,547	Expansion

## KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1901 Campus Place	Southeast	/ Baptist Health	93,293	\$15M / \$164
10200 Linn Station Road	Plainview / Middletown	/ SF Partners	92,800	\$6.7M / \$72



## 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.

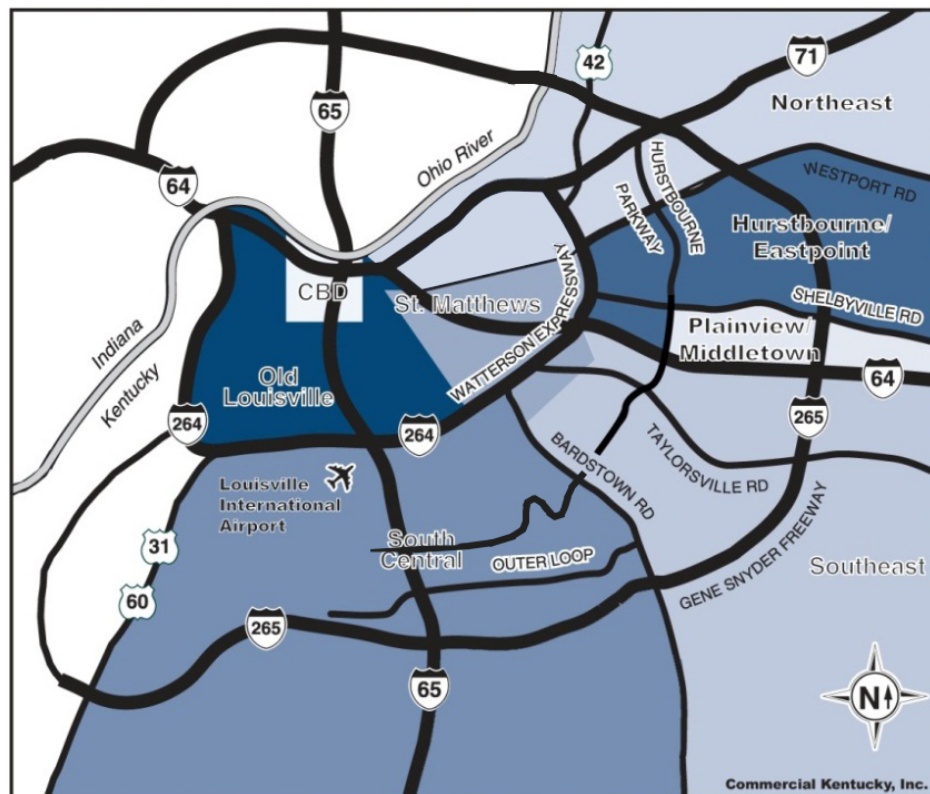
**South Central:** Encompasses an area southwest of Bardstown Rd. to Shively, which includes Louisville International Airport.

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