

LOUISVILLE OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Louisville Employment	669k	675k	▲
Louisville Unemployment	3.6%	3.9%	▲
U.S. Unemployment	4.1%	3.8%	▼

Numbers above are quarterly averages; February 2019 data used to represent Q1 2019 for Louisville

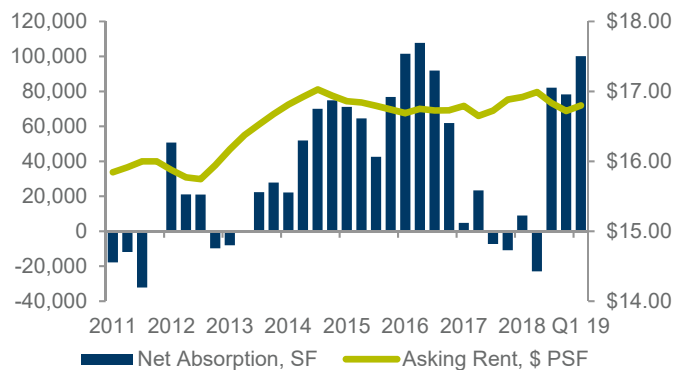
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	13.5%	12.7%	▲
YTD Net Absorption (sf)	-13k	75k	▼
Under Construction (sf)	201k	182k	▲
Average Asking Rent*	\$16.96	\$17.27	▼

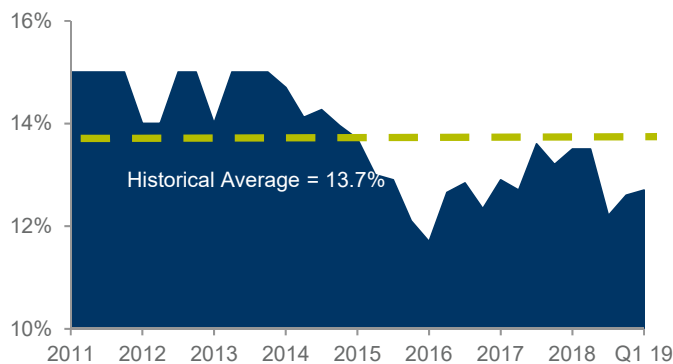
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economic Overview

The U.S. economy appears to be powering through global headwinds and market volatility and continues to perform well. U.S. gross domestic product (GDP) slowed during the fourth quarter but managed to finish the year at a 2.9% growth rate, barely short of the anticipated 3%. GDP is expected to grow by 2.3% to 2.7% in 2019; slower than in 2018 but still a healthy backdrop for property markets.

Market volatility aside, on a three-months rolling basis, the U.S. created 186,000 net new jobs per month through February of 2019. The current unemployment rate remains near a 70-year low and hourly earnings grew 3.4% year-over-year in February.

2018 on the whole was among the best years of the decadelong recovery from the Great Recession. The government shutdown made little difference to fourth quarter GDP growth of 2.6%, but could dampen growth early in 2019. However, most economists are not forecasting a recession this year which puts the current economic expansion on track to become the longest on record.

There are signs that the local economic expansion may be losing steam as employment gains have slowed despite accelerated job growth nationally and in the South. The unemployment rate in Louisville increased from 3.7% in January to 3.9% in February.

Market Overview

The Louisville CBD leasing activity reached 26,970 square feet (sf) for the first quarter, well above the 16,008 sf recorded in the first quarter of 2018. Class A reported 9,619 sf and Class B 15,739 sf of leasing activity during the quarter.

The overall CBD vacancy rate stood at 15.1%, a 40-basis-point (bp) decrease from the fourth quarter. The CBD Class A vacancy rate held at 13.2% and Class B dropped to 16.6% representing a 70-bp decrease since last quarter.

The CBD reported 14,806 sf of positive absorption in the first quarter with Class A at negative 3,721 sf and Class B at 16,915 sf of positive absorption. The CBD average asking rents increased with overall average gross rents at \$16.44 per square foot (psf), Class A at \$19.30 psf, and Class B at \$14.67 psf.

The suburban office market reported 114,102 sf of overall leasing activity during the first quarter, slightly less than the 118,781 sf recorded in the first quarter of 2018. Class A product captured 79% of total leasing activity. The Hurstbourne / Eastpoint submarket alone accounted for 79% of the total suburban leasing activity.

The overall suburban vacancy rate increased 50 bp to 11.0% due to the new construction deliveries at Old Henry Crossings. ARGI's 51,000-sf preleasing commitment will leave approximately 75,000 sf of vacant space in the two-building complex. New construction deliveries in the Hurstbourne / Eastpoint submarket account for the 200-bp increase in the submarket vacancy from 6.5% last quarter to 8.5% this quarter.

The combined suburban submarkets recorded 59,860 sf of positive absorption during the first quarter, 18% less than reported in the first quarter of 2018. Class A and B represented 66% and 32%, respectively, of the total first quarter absorption. The suburban average asking rents also increased with overall average rent at \$18.18 psf, Class A at \$22.27 psf, and Class B at \$15.88 psf.

Outlook

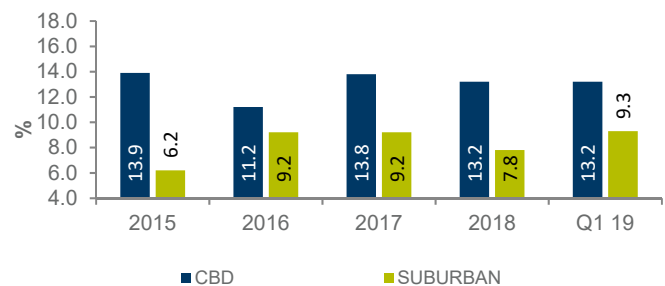
The CBD office market will likely struggle throughout 2019 as the Class A vacancy rate continues to climb, possibly reaching 19% by mid-year. Significant vacancies will plague both 500 West Jefferson and 101 South 5th Street as a result of tenant relocations and corporate downsizing.

Despite the enhanced energy and vitality of the CBD, the downtown market momentum has clearly shifted to tenants, leaving landlords questioning how to backfill significant vacancies that occurred during 2018 and those that will occur during 2019. Concessions will abound with downward pressure on rental rates for Class A product. "Flight to quality" tenants will be highly sought after throughout 2019 as Class A landlords attempt to lure tenants out of Class B space by offering more efficient space at competitive rental rates achieved through overly generous rent concessions and tenant improvement allowances.

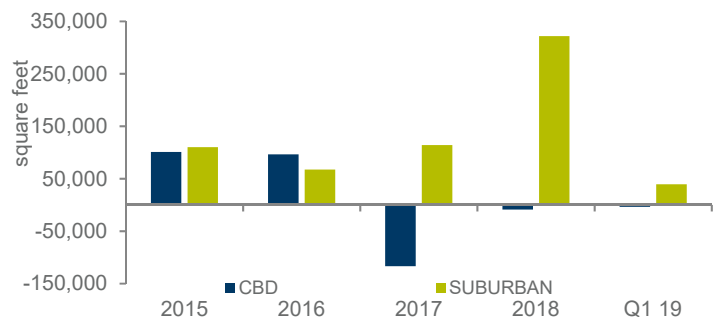
While the overall suburban vacancy rate increased only slightly in the first quarter from 10.5% to 11.0%, the Class A vacancy rate increased 150 bp from 7.8% at year-end to 9.3% at the end of the first quarter. First quarter leasing activity mirrored first quarter 2018 activity, but absorption was off almost 20%, perhaps signaling a potential slowdown in 2019. Suburban landlords, enjoying single digit Class A vacancy rates throughout 2018 were also able to achieve a steady increase in average asking rents. However, asking rents for new Class A suburban office product ranging from \$22.50 psf to \$27.50 psf have challenged the ability of many suburban tenants to "pay the freight" for new product.

With construction costs at an all time high and with absorption softening somewhat, we do not look for any appreciable new construction beyond what is already underway at Shelbyhurst, Old Henry, and the Brownsboro Crossing area. On the bright side, escalating Class A rental rates have allowed Class B and Class A landlords with existing space, to command higher rents from renewing and expanding tenants unwilling to pay the higher rates for new Class A office product.

Class A Overall Vacancy Rates – CBD & Suburban



Class A YTD Overall Net Absorption CBD & Suburban



MARKETBEAT
Louisville
Office Q1 2019



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	8,738,155	0	1,318,819	15.1%	14,806	14,806	26,970	0	\$16.44	\$19.30
Suburban	11,556,635	151,563	1,115,138	11.0%	59,860	59,860	114,102	181,932	\$18.18	\$22.27
Old Louisville	399,940	0	52,437	13.1%	6,132	6,132	0	0	\$8.78	N/A
Hurstbourne/Eastpoint	4,910,882	6,223	410,384	8.5%	23,259	23,259	90,226	48,000	\$22.19	\$24.11
Plainview/Middletown	1,457,721	0	277,429	19.0%	23,395	23,395	9,649	0	\$16.15	\$21.00
Southeast	1,182,652	0	45,247	3.8%	12,192	12,192	9,733	0	\$15.76	\$17.53
Northeast	760,944	0	50,170	6.6%	-2,700	-2,700	0	133,932	\$24.17	\$24.86
St. Matthews	1,402,562	4,340	91,678	6.8%	-109	-109	2,862	0	\$16.20	\$21.46
South Central	1,441,934	141,000	187,793	22.8%	-2,309	-2,309	1,632	0	\$16.77	\$18.22
LOUISVILLE TOTALS	20,294,790	151,563	2,433,957	12.7%	74,666	74,666	141,072	181,932	\$17.27	\$20.79

*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	9,729,117	109,165	944,984	10.8%	35,553	35,553	99,978	181,932	\$21.20	\$20.79
Class B	9,912,876	42,398	1,413,598	14.7%	36,331	36,331	39,132	0	\$15.10	\$15.21
Class C	652,797	0	75,375	11.5%	2,782	2,782	1,962	0	\$9.69	\$9.69

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2201 High Wickham	51,000	ARGI	New Lease	Hurstbourne / Eastpoint
805 North Whittington	16,546	First Data Corporation	New Lease	Northeast
101 South 5 th Street	9,619	Insight Global	New Lease	CBD
9410 Bunsen Parkway	7,882	Airlines Reporting Corporation	New Lease	Southeast
101 Bullitt Lane	7,572	People's United Bank	New Lease	Hurstbourne / Eastpoint
10350 Ormsby Park	7,390	Schneider Electric	Expansion	Hurstbourne / Eastpoint
545 South 3 rd Street	5,587	Park National Bank	New Lease	CBD

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
445 East Market Street	41,000	GBX Group	\$6,000,000 / \$166	CBD
10301 Linn Station	30,956	Kentucky Organ Donor Affiliates	\$3,175,000 / \$103	Plainview / Middletown

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.

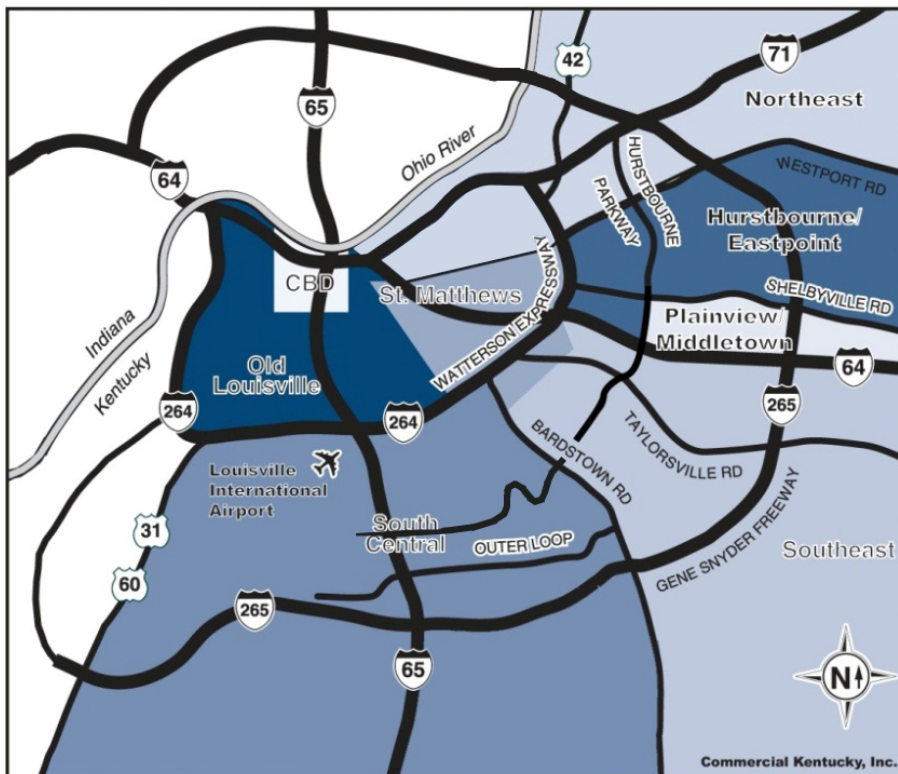
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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