LOUISVILLE INDUSTRIAL MARKET BENEFITS FROM ITS INTERSTATE CONNECTIVITY

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Louisville has a lot going for it when it comes to logistics. In addition to its prime location on the Ohio River, the city benefits from three major interstates running through it: Interstates 64, 65 and 71. I-65 is considered a Tier 1 Corridor due to the high volume of trucks that travel over this route, connecting Chicago and Indianapolis through Louisville to the Southern states. Louisville's location also allows companies to reach 60 percent of the country's population within a 12-hour drive.

Perhaps most importantly, Louisville is home to UPS Worldport, the largest automated package handling facility in the world, and the center point of UPS's worldwide air network. More than 300 flights arrive and depart daily, and the hub processes roughly two million packages a day and more than 4 million during peak holiday shipping season. E-commerce lives here and UPS offers customers the ability to drop shipments at Worldport much later in the day, compared to other cities, while still providing next morning/day delivery.

Louisville is not only a great logistics hub, it has a strong manufacturing base. Louisville is home to GE Appliance Park and two Ford Plants: Louisville Assembly Plant and Kentucky Truck Plant. Louisville Assembly Plant is over 3 million square feet and is where Ford builds the Ford Escape. Kentucky Truck Plant is 6 million square feet and home to the F-250 through F-550, Super Duty pickups, Ford Expedition and Lincoln Navigator. Louisville is also located near two Toyota Plants in Georgetown, Ky., and Princeton, Ind.

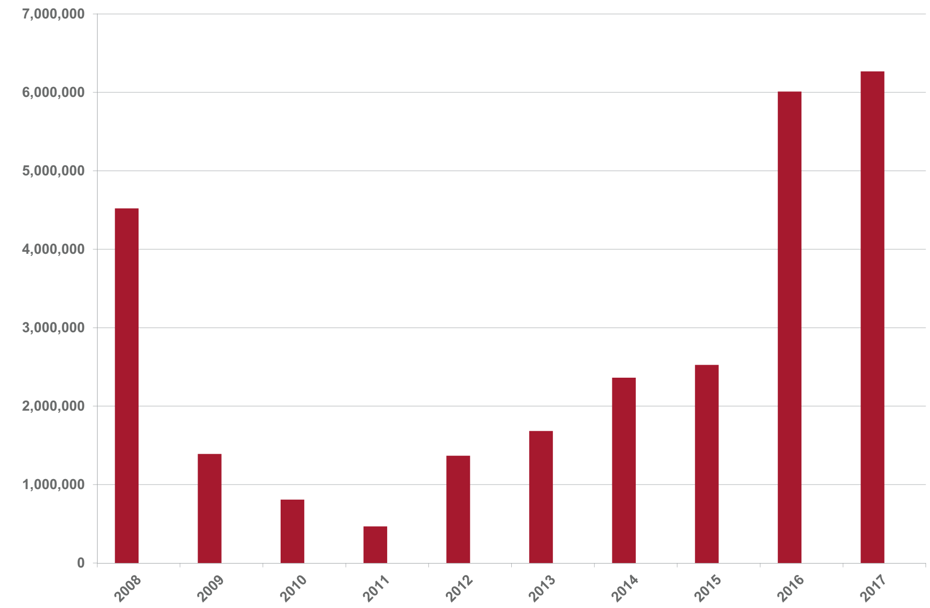
During the Great Recession from 2008 to 2010, Louisville was only one of 10 metros that experienced positive net absorption, with 5.7 million square feet of positive absorption in that time period. Only Indianapolis, the PA 1-81/I-78 Corridor, Inland Empire and Atlanta performed better, and all are much larger industrial markets. The Louisville industrial vacancy rate never exceeded 10 percent during the Great Recession, with the highest vacancy rate in 2008 of only 9.7 percent.

Since the economic recovery (2011-2016), the market has continued to perform well. Louisville ranks in the top 20 of all U.S. industrial markets for net absorption, with 15.9 million square feet absorbed over the past six years, while also being the smallest market on the list. To take it a step further, Louisville ranks in the top 10 for net absorption as a percentage of total inventory. In 2015, the vacancy rate reached an incredibly low level of 4.9 percent.

In recent years, the Louisville industrial market has seen an increase in institutional and speculative development across the metro area. Companies like Pinchal & Co. in Houston, Browning Investments and The Opus Group (from Indianapolis), Van Trust from Kansas City and Dermody Properties from Reno, Nev., all recently invested in the Louisville market. Couple the investment from those companies with a handful of local developers, Louisville has seen a great deal of construction activity over the last two years.

Louisville experienced over 2.5 million square feet of new industrial construction in 2015, followed by a record-setting 6 million square feet in 2016, greatly exceeding the previous high water mark of 4.5 million square feet set in 2008. And new construction completions for 2017 are on pace to exceed the 2016 record.

2017 Forecast: Louisville's Industrial Market to Surpass 2016 Record for Completions



Source: Cushman & Wakefield | Commercial Kentucky

At the end of the second quarter, there was more than 3 million square feet of new construction completions, and we expect an additional 3.2 million square feet to be completed by year-end. Four new construction starts are expected to commence before year-end totaling nearly 2.5 million square feet, with 11 million more square feet in the planning phase. Of the 5.8 million square feet of new bulk constructions expected for 2017, 75 percent (4.3 million square feet) is spec construction. With this new spec construction, the vacancy rate has climbed slightly, ending the second quarter at 7.7 percent. Leasing activity is strong and the expectation is the vacancy rate will remain steady over the next six to nine months.

Investment activity has been very strong and there continues to be a great deal of interest in the Louisville industrial market. Since the beginning of 2016, we have seen over $400 million of investment sales for more than 7 million square feet of space. Recent transactions include Cardinal Real Estate's acquisition of two buildings from RC Tway for $27 million and Global Logistic Properties (GLP) purchasing 612,000 square feet within three buildings from DCT for $26.8 million. Cap rates have been in the 6 percent range with a low of 5.8 percent when Roebling Investment Group bought a recently completed build-to-suit leased by FedEx.

The end is not in sight. River Ridge Commerce Center in nearby Jeffersonville, Ind., offers 4,800 acres remaining for development out of 6,000 total acres. River Ridge is conveniently located on Interstate 265 near the newly completed East End Bridge. River Ridge also offers a 1,547-acre, shovel-ready "megasite." To the South in Bullitt County, Browning Investments' Velocity 65 development spans more than 260 acres adjacent to I-65. Velocity 65 will house up to six bulk distribution buildings totaling over 4 million square feet. Browning and Velocity 65 were the catalyst for a new I-65 interchange at the southern end of the development. This new interchange will provide access to additional land sites ripe for development.

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Bristol Development Group. Bristol, a Nashville-based multifamily developer, having successfully developed Veranda at Norton Commons in Prospect, is currently under construction with its first urban Louisville project, Main and Clay.

The 263-unit project will be one of the first downtown developments to come on line with multiple competing projects either underway or announced. While an acknowledged shortage of urban core units currently exists, perhaps the biggest uncertainty in the Louisville multifamily environment is the depth of demand for what will inevitably be record-setting asking rents necessitated by higher land costs, along with continuing construction cost escalations.

> Louisville has added more than 15,000 jobs each year since 2013, outpacing the national index for job growth.

One aspect of the market not in question is investor demand for Louisville apartments. Leading broker Craig Collins of Cushman & Wakefield | Commercial Kentucky reports that on his last two assignments, over 20 letters of intent were submitted from investors from California to New York. Multifamily investors seeking to trade out of more expensive markets to capture potentially higher yields along with geographic diversification are expected to continue to aggressively bid for Louisville product.

Fundamentals remain strong with increases in asking rent in each of the metro area's submarkets reported over the last 12 months. Cycle high unit completions in the fourth quarter of 2017 are expected to increase the Louisville vacancy rate to 5.2 percent, up nominally from a very respectable 4.7 percent today, according to Reis.

Late in the cycle? Maybe for other markets, but for Louisville, fashionably late works just fine.