

MARKETBEAT LOUISVILLE

Office Q4 2021



CUSHMAN &
WAKEFIELD

Commercial Kentucky

17.3%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



-649K

YTD Net Absorption, SF



\$18.24

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2021

660.1K

Louisville
Employment

YoY
Chg



12-Mo.
Forecast



3.9%

Louisville
Unemployment Rate



4.2%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

The U.S. unemployment rate has dropped significantly from 5.2% during the third quarter to 3.9% in the fourth quarter according to the Bureau of Labor Statistics. Additionally, employment levels increased by 199,000 people during December 2021. According to the Bureau of Economic Analysis, GDP increased at an annual rate of 2.1% in the third quarter of 2021, reflecting the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic.

The unemployment rate in Louisville remained unchanged at 3.9% during the fourth quarter of 2021. The employment level in Louisville increased by 5,800 jobs from the third quarter to the fourth quarter and is up 16,900 from this point last year. The unemployment rate has dropped to the lowest level since before the COVID-19 pandemic, but that statistic is getting skewed by pandemic-era labor distortions and seasonal adjustments. High COVID-19 case levels, fueled by the delta variant and now concerns over the omicron strain, may be sidelining workers as the labor force participation rate continues to decline.

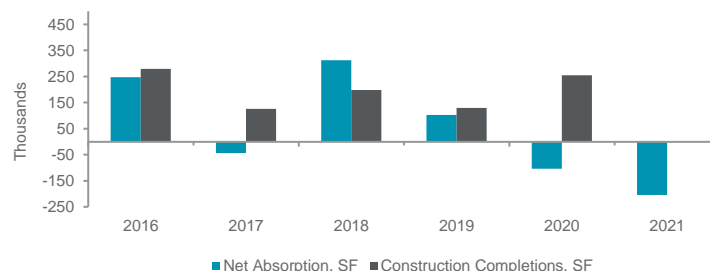
CBD

Leasing activity in the Central Business District (CBD) remained steady during the fourth quarter of 2021 with 68,937 square feet (sf) of leasing activity recorded, which brings the year-to-date (YTD) total up to 177,410 sf. This marks the second consecutive quarter since 2019 where CBD leasing activity has been greater than 10,000 sf. This can mainly be attributed to long awaited Return to Office. In addition to the uptick in leasing activity, LDG Development announced plans to open a new headquarters facility in Downtown Louisville with the purchase of The Madrid Building. The 45,000 sf facility is located at 545 South Third Street. The developer will occupy the second and third floors initially and will potentially expand to the first floor. Construction is expected to start before the end of first quarter 2022, with occupancy taking place by the fourth quarter 2022.

Overall net absorption in the CBD for the fourth quarter was negative 146,475 sf which brings the YTD total to negative 350,257 sf. Class A overall net absorption in the CBD was negative 161,303 sf while Class B was negative 188,954 sf. As a result, the vacancy rate in the CBD increased 130 basis points (bps) from 20.3% to 21.6% during the fourth quarter. Compared to the fourth quarter of 2020, the overall vacancy rate in the CBD has increased 310 bps. The Class A vacancy rate increased from 21.8% to 25.8%, the highest Class A vacancy rate ever recorded in the CBD. The Class B vacancy rate increased 20 bps from 18.5% to 18.7%.

CBD overall average asking rents increased from \$16.84 per square foot (psf) to \$17.21 psf during the fourth quarter. Class A CBD overall average asking rents increased from \$18.53 psf to \$19.11 psf during the quarter while Class B CBD overall average asking rents increased from \$14.74 psf to \$15.00 psf.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Suburban

The Suburban market leasing activity finished the fourth quarter at 154,640 sf, which brings the YTD total to 485,422 sf. Suburban Class A leasing activity was 112,450 sf while Class B was 42,190 sf. The YTD totals for Class A and Class B are 338,129 sf and 137,912 sf respectively. The Hurstbourne/Eastpoint submarket recorded 97,539 sf of leasing activity during the third quarter which accounted for 63% of all suburban leasing activity during the quarter.

Overall net absorption for the Suburban office market ended the fourth quarter at negative 57,382 sf, marking the sixth consecutive quarter of negative absorption. The YTD total for overall net absorption in the Suburban market fell to negative 298,797 sf. Overall net absorption for the Class A Suburban market was negative 26,655 sf while the Class B suburban market experienced 30,727 sf of negative absorption during the fourth quarter. The Northeast submarket was the only submarket to experience positive net absorption during the fourth quarter with positive 60,325 sf.

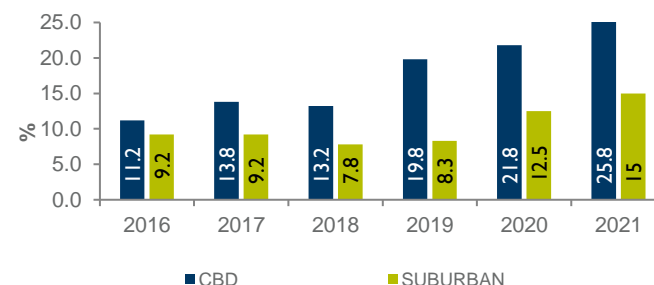
The overall Suburban vacancy rate increased 40 bps from 13.7% to 14.1%, surpassing the highest suburban vacancy rate recorded since the third quarter of 2013. Compared to this time last year, the overall Suburban vacancy rate has increased 290 bps. The Class A vacancy rate increased from 14.7% to 15.0% while the Class B vacancy rate increased from 12.8% to 13.3%.

Overall average asking rents in the suburbs decreased from \$19.72 psf to \$19.42 psf. Class A Suburban average asking rents also decreased from \$21.87 psf to \$21.21 psf while Class B Suburban average asking rents decreased from \$16.87 psf to \$16.78 psf. The Northeast and Hurstbourne/Eastpoint submarkets continue to have the highest average asking rents with \$22.88 psf and \$21.37 psf respectively.

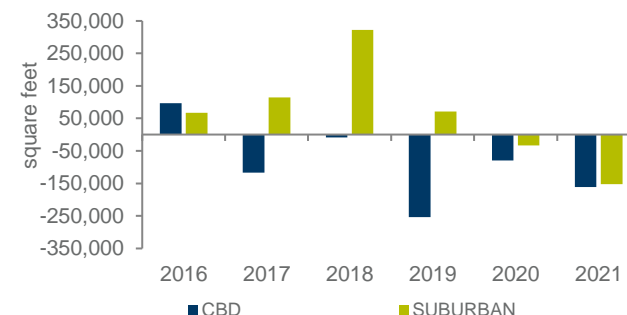
Outlook

- With COVID-19 still dominating headlines in 2022, absorption is expected to remain weak. Hybrid work is expected to be the new normal. Company leaders have been tasked with figuring out how to make a semi-in-office, semi-remote workforce equitable. That includes redesigning and reconfiguring office spaces to accommodate needs of employees, including those most reluctant to come back.
- Leasing activity in the CBD is expected to remain sluggish for the beginning of the year as major employers continue to push back their return to office date due to the COVID-19 omicron variant
- While the CBD continues to struggle with negative absorption, paltry leasing activity and record high vacancy rates, close in neighborhoods like NuLu have rebounded to pre-pandemic levels of activity with even more development underway or on the drawing books.

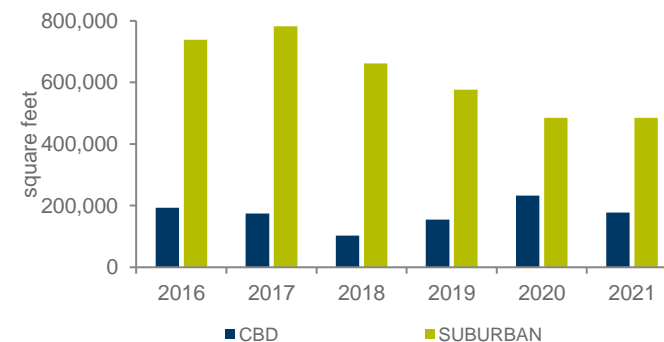
Class A Overall Vacancy Rates – CBD & Suburban



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	8,928,580	51,022	1,881,875	21.7%	-146,475	-350,257	177,410	0	\$17.21	\$19.11
SUBURBAN	11,807,988	134,156	1,525,537	14.1%	-57,382	-298,797	485,422	121,203	\$19.42	\$21.39
Old Louisville	399,940	0	50,356	12.6%	0	5,868	8,326	0	\$18.00	N/A
Hurstbourne / Eastpoint	5,026,318	103,010	676,170	15.5%	-33,943	-163,359	263,871	121,203	\$21.37	\$21.87
Plainview / Middletown	1,457,721	0	346,720	23.8%	-11,855	-99,875	20,998	0	\$17.47	\$21.00
Southeast	1,182,652	10,849	56,145	5.7%	0	28,300	55,712	0	\$18.65	\$19.75
Northeast	896,861	20,297	53,798	8.3%	60,325	38,219	67,549	0	\$22.88	\$22.88
St. Matthews	1,402,562	0	188,316	13.4%	-4,753	-61,527	52,552	0	\$16.35	\$19.27
South Central	1,441,934	0	154,032	10.7%	-67,156	28,300	16,504	0	\$17.25	\$18.50
LOUISVILLE TOTALS	20,736,568	185,178	3,407,412	17.3%	-203,587	-649,054	662,832	121,203	\$18.24	\$20.21

*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	120,596	1,787,692	19.1%	-88,258	-313,674	492,940	73,203	\$20.26	\$20.12
Class B	10,103,301	64,582	1,552,487	16.0%	-115,599	-336,186	160,511	48,000	\$15.84	\$15.79
Class C	652,797	0	67,233	10.3%	0	806	9,381	0	\$12.09	\$12.09

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
400 West Market Street	CBD	Stoll Keenon Ogden Law Firm	41,698	Direct
400 West Market Street	CBD	Raymond James & Associates	16,004	Renewal
435 North Whittington Pkwy.	Hurstbourne / Eastpoint	USI Insurance	11,515	Direct

KEY SALE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
545 South Third Street	CBD	Interlock Realty Company LLC / LDG Development	45,900	\$8.7M / \$190.63



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.

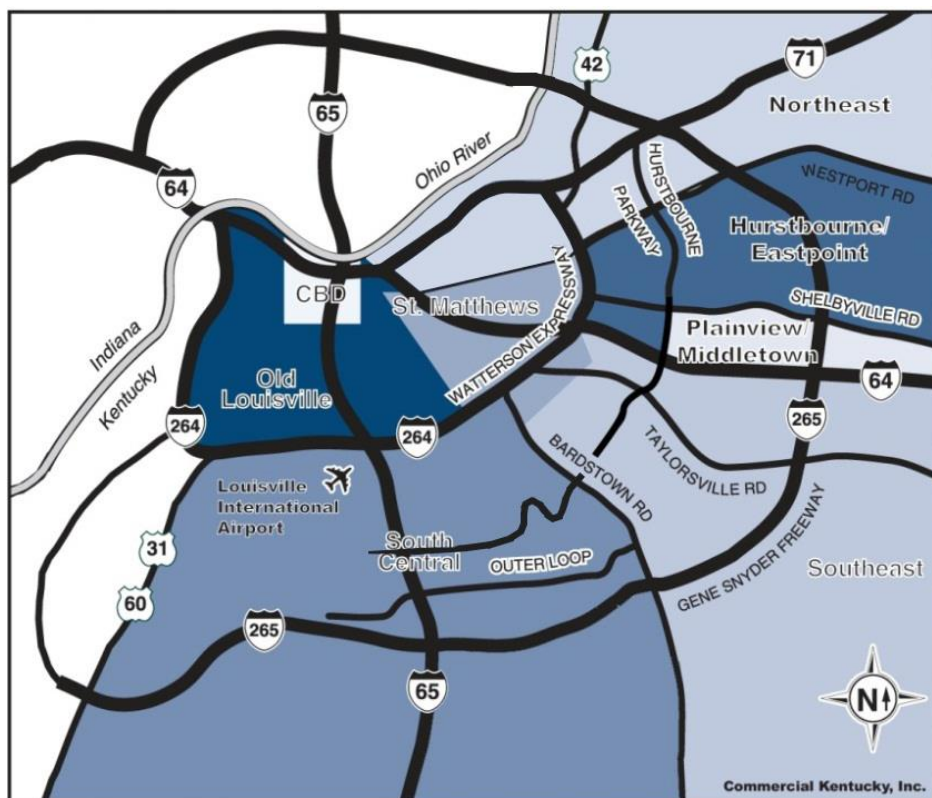
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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.



KRISTINE MCFARLAND

Research Analyst

Tel: +1 502 589 5150

kmcfarland@commercialkentucky.com

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