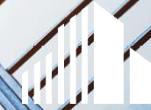


MARKETBEAT LOUISVILLE

Office Q3 2022



CUSHMAN &
WAKEFIELD

Commercial Kentucky

YoY
Chg

12-Mo.
Forecast

15.5%

Vacancy Rate



-173K

YTD Net Absorption, SF



\$18.66

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

YoY
Chg

12-Mo.
Forecast

679.6K

Louisville
Employment



3.1%

Louisville
Unemployment Rate



3.5%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

The U.S. unemployment rate decreased slightly during the third quarter of 2022 from 3.6% to 3.5% according to the Bureau of Labor Statistics (BLS). Additionally, employment levels increased by 315,000 jobs during the quarter bringing employment to pre-pandemic levels despite widespread expectations of a slowdown as the Federal Reserve raises interest rates to combat inflation. The labor force participation rate as of August stood at 62.4%, up from the 61.7% seen this time last year.

U.S. consumer spending increased in August, but the increase may be at least in part reflective of persistent high inflation coursing through the economy. Wage growth has slowed, and consumers are tapping into savings to deal with higher prices. That, combined with multiple interest rate hikes from the Federal Reserve, points toward the potential for economic slowdown in the not-too-distant future.

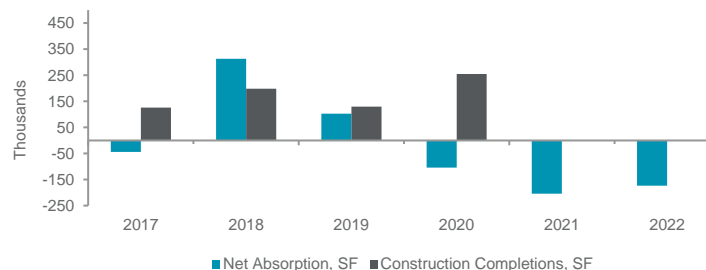
The unemployment rate in Louisville decreased from 3.3% during the second quarter of 2022 to 3.1% during the third quarter. Louisville metro employment levels totaled roughly 686,200 people in August. That is roughly 15,500 more than we saw in February 2020, before the start of the pandemic.

CBD

Leasing activity in the Central Business District (CBD) during the third quarter totaled 45,658 square feet (sf) of new leasing activity bringing the year-to-date (YTD) total to 111,070 sf. With few new market entrants active in the CBD, landlords are focusing their attention on retaining existing tenants and courting other tenants from competing, neighboring properties. With the threat of a recession ahead, landlords continue to pursue deals aggressively, offering an array of lease incentives including shorter lease terms, termination options, longer rent abatements and outsized tenant improvement allowances.

Overall net absorption in the CBD for the third quarter was negative 58,187 sf. Class A overall net absorption in the CBD totaled negative 49,007 sf while Class B totaled negative 22,962 sf. The vacancy rate in the CBD decreased 310 basis points (bps) from 21.6% at the end of the second quarter to 18.5% during the third quarter of 2022. This decrease comes as a 200,000 sf Class B vacant office building was taken off the market with plans to be converted into a mixed-use development, dropping the Class B vacancy rate from 18.9% to 12.5%. The Class A vacancy rate increased from 25.5% to 25.9%. The overall vacancy rate in the CBD remained 200 bps higher than this time last year.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Suburban

Suburban leasing activity finished the third quarter at 143,967 sf bringing the YTD total to 544,456 sf. The Hurstbourne/Eastpoint submarket recorded the most leasing activity this quarter totaling 51,381 sf. This accounted for 36% of all suburban leasing activity this quarter. The Planview/Middletown submarket was a close second, recording 42,146 sf of leasing activity. Suburban Class A leasing activity totaled 51,528 sf while Class B totaled 90,671 sf. The Planview/Middletown submarket recorded the two largest Class B leases this quarter.

Overall net absorption for the Suburban office market ended the third quarter at 11,255 sf, marking two consecutive quarters of positive absorption for the first time since the fourth quarter of 2019, before the start of the pandemic. Overall net absorption for the Class A Suburban market was negative 17,964 sf while the Class B suburban market experienced 38,679 sf of positive absorption. The St. Matthews and South Central submarkets were the only two submarkets to experience negative overall net absorption during the third quarter of -5,621 sf and -49,062 sf respectively. The South Central submarket was impacted by Passport Health vacating 80,934 sf in Commerce Crossings. The majority of the Class A absorption occurred in the Hurstbourne/Eastpoint submarket.

The overall Suburban vacancy rate decreased 50 bps from 13.7% to 13.2%. Compared to this time last year, the overall Suburban vacancy rate has decreased 50 bps as well. The Class A vacancy remained unchanged at 14.0% while the Class B vacancy rate decreased 120 bps from 13.7% to 12.5%.

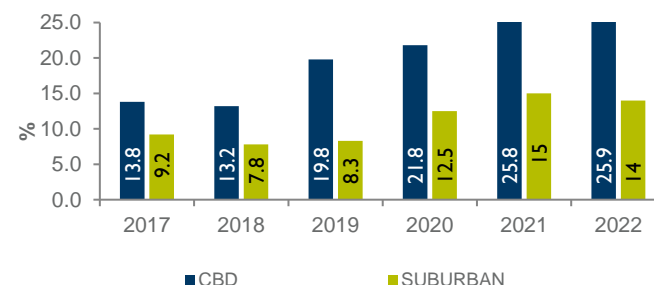
Overall average asking rents in the suburbs decreased slightly from \$19.55 per square foot (psf) to \$19.48 psf. Class A Suburban average asking rents decreased from \$22.01 psf to \$21.42 psf while Class B Suburban average asking rents increased from \$16.67 psf to \$16.74 psf.

Class A Suburban properties continue to lead the broader office market with vacancy holding steady at historically healthy levels and rents remaining strong. Inflation is having some effect on leasing, with landlords seeking higher annual renewal increases to combat rising costs. Additionally, inflationary pressures are driving construction pricing higher, over and above what tenant improvement allowances will cover on a project. As a result, tenants are increasingly coming out of pocket to cover costs or looking to landlords to amortize construction overages as additional rent.

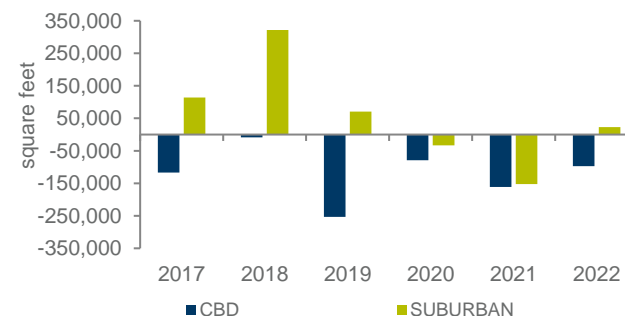
Outlook

- The hybrid work model is here to stay for the foreseeable future. Not only do employees across industries want hybrid solutions, but their reasons for going to the office have changed to be about socialization, collaboration and connection.
- Office buildings are not dead. They do however need to adapt to be successful in this new era of the hybrid workplace. This includes adding stronger tenant amenity packages. Those who do not adjust will continue to struggle as leases expire over the next several years.
- Despite steady job growth in the Louisville metro area, it is yet to be determined how new job creation will impact office occupancy levels.
- Vacant office buildings will continue to be a hot spot for redevelopment opportunities for the Multifamily and Hospitality sectors, with some even being converted into short-term rentals.

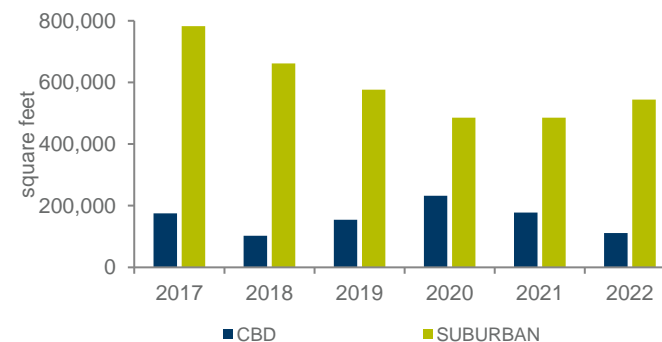
Class A Overall Vacancy Rates – CBD & Suburban



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	8,954,080	42,543	1,610,184	18.5%	-58,187	-181,315	111,070	0	\$17.90	\$19.24
SUBURBAN	11,797,988	121,749	1,432,169	13.2%	11,255	7,879	544,456	136,203	\$19.48	\$21.42
Old Louisville	399,940	0	50,356	12.6%	0	0	0	0	N/A	N/A
Hurstbourne / Eastpoint	5,026,318	76,934	667,337	22.3%	57,458	10,222	284,713	121,203	\$21.58	\$22.29
Plainview / Middletown	1,447,721	33,966	288,138	22.3%	4,225	1,107	94,879	0	\$17.66	\$21.00
Southeast	1,244,740	10,849	122,362	10.7%	150	-5,940	20,357	0	\$15.52	\$19.75
Northeast	896,861	0	11,500	1.3%	4,105	41,892	29,125	0	\$19.25	\$19.25
St. Matthews	1,340,474	0	147,611	11.0%	-5,621	-32,258	33,510	15,000	\$18.91	\$19.80
South Central	1,441,934	0	144,865	10.1%	-49,062	-7,144	81,872	0	\$17.17	\$17.50
LOUISVILLE TOTALS	20,752,068	164,292	3,042,353	15.5%	-46,932	-173,436	655,526	136,203	\$18.66	\$20.28

*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	10,005,970	57,199	1,799,004	18.6%	-40,926	-74,616	410,024	88,203	\$20.30	\$20.28
Class B	10,093,301	107,093	1,175,600	12.7%	3,454	-90,110	241,920	48,000	\$16.47	\$16.32
Class C	652,797	0	67,479	10.4%	-9,460	-8,710	3,582	0	\$17.27	\$17..27

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
100 Witherspoon Street	CBD	ISCO Industries	38,495	Renewal/Expansion
9420 Bunsen Parkway	Southeast	Jack Henry & Associates	17,675	Renewal
401 West Main Street	CBD	Sterling G. Thompson	11,525	Lease
10168 Linn Station Road	Southeast	Rainbow Design Services	11,339	Lease

KEY SALE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
9200 Shelbyville Road / 9300 Shelbyville Road	Hurstbourne / Eastpoint	Viking Partners / Albany Road	100,000 / 234,239	Confidential
1901 Eastpoint Parkway	Hurstbourne / Eastpoint	Eastpoint Lakeside LLC / Stockyards Bank	75,000	\$11,485,500 / \$153.10

**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.

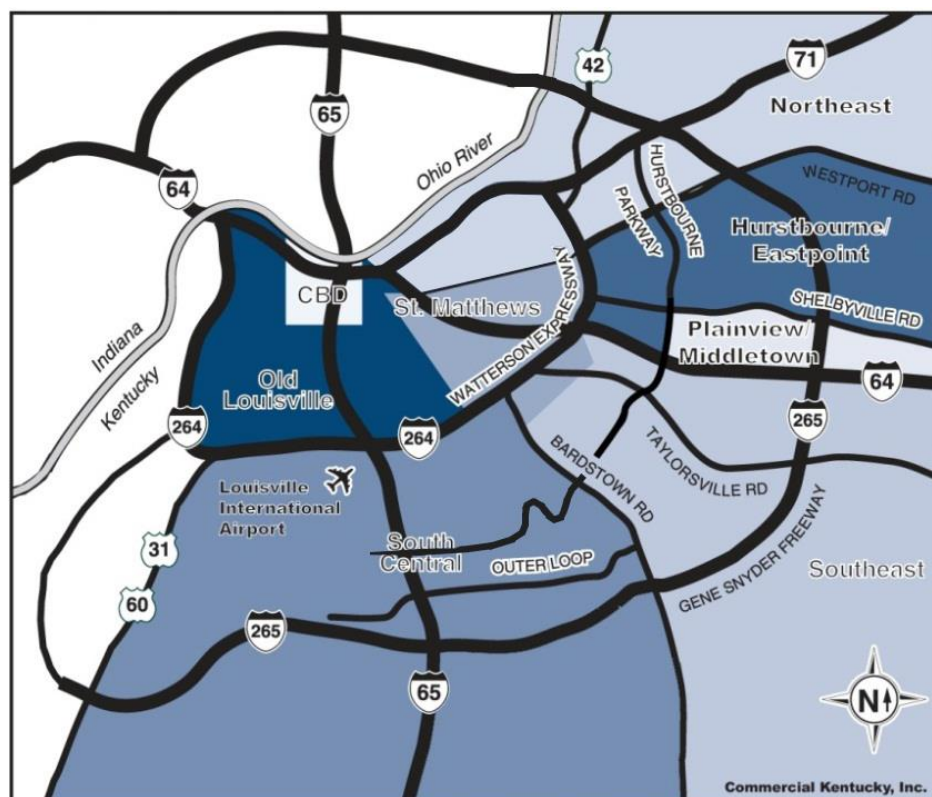
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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