

MARKETBEAT LOUISVILLE

Office Q2 2023



CUSHMAN &
WAKEFIELD

Commercial Kentucky

YoY
Chg

12-Mo.
Forecast

17.0%

Vacancy Rate



-307K

YTD Net Absorption, SF



\$18.56

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2023

YoY
Chg

12-Mo.
Forecast

689.1K

Louisville
Employment



3.1%

Louisville
Unemployment Rate



3.6%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

Uncertainty is the word that perhaps best describes the U.S. economy. The commercial real estate sector, like many sectors of the economy, continues to face significant near-term headwinds including elevated recession risks, stubbornly high inflation, interest rate uncertainty, tighter lending conditions and financial sector stress.

Real gross domestic product (GDP) increased at an annual rate of 2.0 percent in the first quarter of 2023 and the current estimate of GDP growth for the second quarter stands at 2.3 percent according to the Atlanta Fed GDPNow forecast. Continued growth in the U.S. economy, while seemingly defying an impending recession, may force the Federal Reserve to further increase interest rates at the July meeting after skipping such a move at the June meeting. Many economists believe that the Fed's efforts to curb inflation will ultimately lead us into a recession later this year.

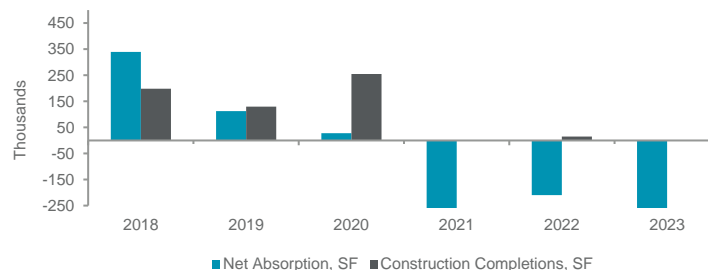
Meanwhile, non-farm payroll employment increased by 209,000 in June with the U.S. employment rate little changed at 3.6 percent. The labor force participation rate remained at 62.6 percent for the fourth consecutive month. Ironically, the "jobless recovery" of the early 2000's may be replaced by a "full employment recession" with the economy contracting as employment grows.

CBD

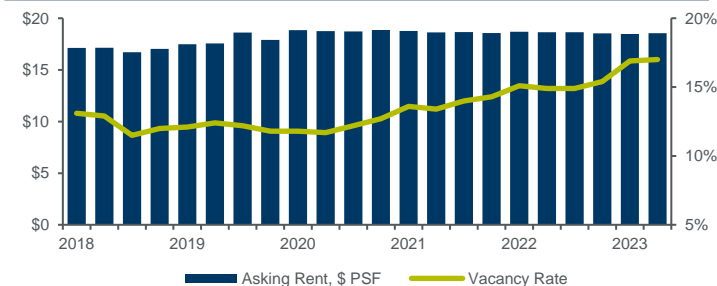
Leasing activity in the Central Business District (CBD) during the second quarter totaled 68,440 square feet (sf), up 58% from the first quarter of 2023. Year-to-date (YTD) leasing activity in the CBD totaled 115,557 sf, which is 58% higher compared to this time last year. Class A leasing activity of 41,620 sf is up 66% from the first quarter of 2022. FORVIS signed a 17,184 sf lease at PNC Tower and will be relocating from the suburbs.

Overall net absorption, while negative at 15,144 sf, significantly improved during the second quarter from the -222,551 experienced during the first quarter of 2023. The vast majority of this negative absorption continues to be seen in Class B properties as a result of Humana vacating space in downtown properties. Class A overall absorption for the second quarter totaled 7,935 sf, an improvement compared to the -22,711 sf seen in the first quarter of 2023. As a result, the Class A vacancy rate decreased 20 basis points (bps) to 25.9%, while the Class B vacancy rate increased 20 bps to 17.2%.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





The “flight to quality” persists throughout the CBD while office demand continues to taper off as more companies embrace remote or hybrid models, or downsize into higher-quality space while awaiting economic improvements. For tenants today, offices need to be better than what an employee can get at home. Following in SomeraRoad’s footsteps, KennMar has plans just for that. The real estate investment firm purchased Fifth Third Tower, also known as Brown & Williamson Tower, with plans for a \$10M renovation. Renovations will include updates to mechanical systems, elevators, lobby, restrooms, fitness center, and tenant lounge. Amenities that were once offered at a separate cost are today being negotiated as perks in order to retain and attract new tenants.

Suburban

Suburban leasing activity continued to rise during the second quarter of 2023, reaching 239,594 sf, bringing the YTD total to 384,128. Once again, the Hurstbourne/Eastpoint submarket recorded the most leasing activity this quarter totaling 68,608 sf, accounting for 28% of all suburban leasing activity for the quarter. The Southeast submarket accounted for another 26% of suburban leasing activity for the quarter. Suburban Class A leasing activity totaled 109,658 sf while Class B leasing activity was not far behind at 92,936 sf.

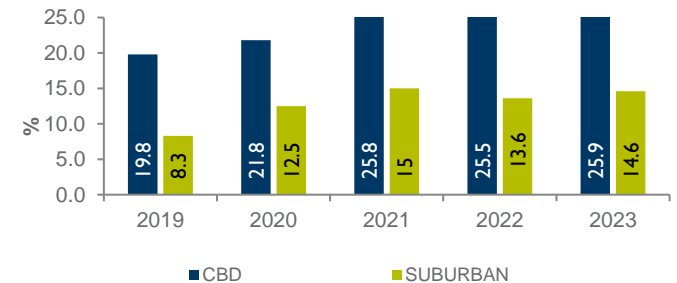
Despite a rise in suburban leasing activity, overall net absorption for the suburban office market totaled just 7,347 sf for the quarter, but nonetheless, ending two consecutive quarters of negative absorption. Overall absorption for the Class A suburban market was -14,375 sf with the Class B suburban market experiencing -3,366 sf of absorption. The vast majority of the Class A negative absorption occurred when Century Mortgage vacated 25,577 sf in the Hurstbourne/Eastpoint submarket. Driving the overall positive net absorption was the Class C suburban market which experienced 25,088 sf of overall net absorption for the quarter.

The overall Suburban vacancy rate increased slightly from 13.9% to 14.0% during the second quarter, the highest level since the first quarter of 2022. The Class A vacancy rate increased from 13.9% to 14.6% during the quarter while the Class B vacancy rate decreased slightly from 13.2% to 13.1% during the quarter. With 121,203 sf of new construction underway, we can expect suburban vacancy rates to increase somewhat in the near term.

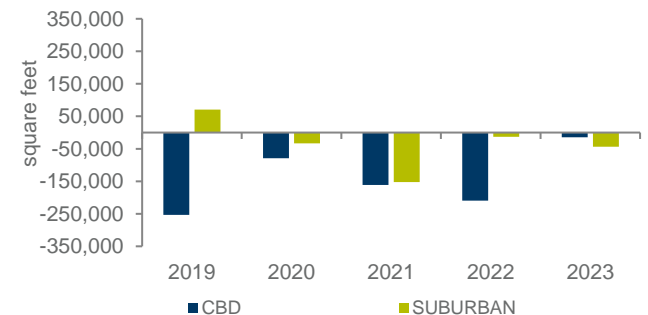
Outlook

- Downtown Landlords have become significantly more aggressive in attempts to retain existing tenants and attract new tenants to the CBD
- Efforts are underway to restore the pre-pandemic energy and vitality level of the downtown environment, bolstered by strong tourism growth.
- The commercial real estate market is bracing for the “tsunami” of debt maturing in commercial mortgages over the next two years.

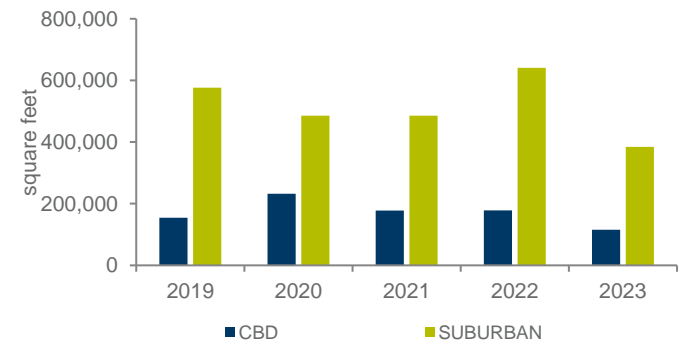
Class A Overall Vacancy Rates – CBD & Suburban



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	1,823,942	20.9%	-15,144	-237,695	115,557	0	\$17.60	\$19.17
SUBURBAN	11,647,048	94,020	1,537,985	14.0%	7,347	-69,300	384,128	121,203	\$19.79	\$21.82
Old Louisville	399,940	0	46,569	11.6%	0	0	0	0	N/A	N/A
Hurstbourne / Eastpoint	4,951,318	56,839	647,848	14.2%	-10,288	11,916	156,606	121,203	\$21.80	\$22.48
Plainview / Middletown	1,356,781	37,181	308,191	25.5%	-9,158	-16,676	32,740	0	\$17.38	\$21.00
Southeast	1,244,740	0	135,403	10.9%	17,523	-10,028	88,130	0	\$19.38	\$19.75
Northeast	896,861	0	12,528	1.4%	2,395	-2,088	21,686	0	\$19.03	\$19.03
St. Matthews	1,356,781	0	175,675	13.0%	2,048	2,474	38,030	0	\$19.62	\$24.96
South Central	1,441,934	0	211,771	14.7%	4,827	-54,898	46,936	0	\$17.78	\$17.50
LOUISVILLE TOTALS	20,601,128	136,563	3,361,927	17.0%	-7,797	-306,995	499,685	121,203	\$18.56	\$20.34

*Rental rates reflect full service asking

**Does not include renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR 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	9,945,970	54,983	1,828,862	18.9%	-6,440	-58,304	272,985	73,203	\$20.34	\$20.34
Class B	9,940,273	81,580	1,428,173	15.2%	-26,445	-273,286	164,612	48,000	\$16.84	\$16.58
Class C	714,885	0	104,892	14.7%	25,088	24,595	62,088	0	\$17.48	\$17.48

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	SF	TYPE
600 North Hurstbourne Parkway	Hurstbourne / Eastpoint	Churchill Downs	34,000	Lease
101 South Fifth Street	CBD	FORVIS	17,184	Lease
3939 Shelbyville Road	St. Matthews	Gray Ice Higdon, PLLC	15,000	Lease
500 West Jefferson Street	CBD	Kellogg, Hansen, Todd & Frederick, PLLC	12,436	Lease

KEY SALE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
401 South Fifth Street	CBD	Koplin B&W LLC / KennMar	346,213	\$9,000,000 / \$25.99

**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.

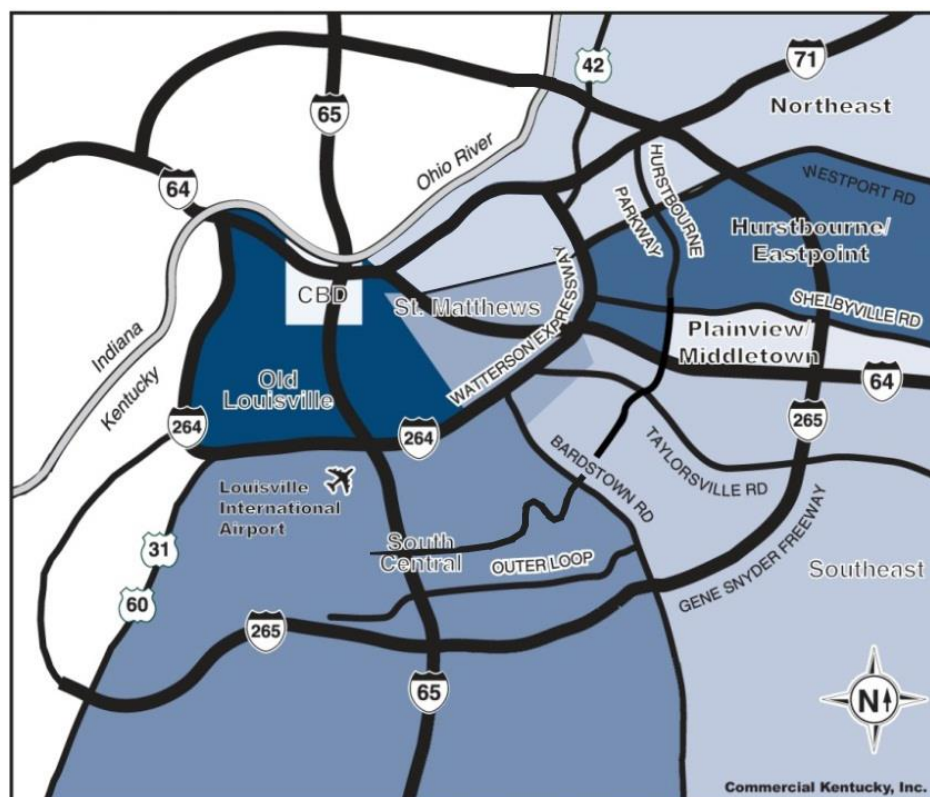
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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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