

# MARKETBEAT OFFICE SNAPSHOT



## LOUISVILLE, KY

A Cushman & Wakefield Research Publication

Q2 2014



### ECONOMIC OVERVIEW

Despite the disappointing performance of the economy during the first quarter, with GDP contracting at a 2.9% annual rate, there has been some positive news of late. The Labor Department recently announced that the U.S. economy added 288,000 jobs in June, making it the fifth consecutive month that employment growth has exceeded 200,000, lowering U.S. employment to 6.1% at the end of the second quarter. Stronger employment growth during the next two years should lead to greater absorption and faster declines in vacancy rates than the U.S. has experienced thus far in the recovery, but further declines are likely to be slower than in past recoveries.

### LEASING ACTIVITY

CBD leasing activity of 58,468 sf nearly mirrored first quarter activity and boosted the mid-year total to 116,740 square feet (sf) – a 39% increase over mid-year 2013. Well over 90% of the second quarter's leasing activity was in the class B market with only 2,444 sf of leasing activity in the CBD class A market.

Second quarter suburban leasing activity of 88,918 sf pushed the mid-year total to 222,305 sf, representing a 45% decrease from mid-year 2013. Class A leasing activity of 57,198 sf was more than double the class B leasing activity of 27,193 sf.

### VACANCY & ABSORPTION

The overall CBD vacancy rate declined .4% from 17.2% to 16.8% at mid-year. The class A vacancy rate declined 1.4% during the second quarter from 19.0% to 17.6% versus 16.1% at mid-year 2013. Class A net absorption during the quarter of 49,801 sf brought the mid-year total to 58,751 sf, in stark contrast to the 31,445 sf of negative class A absorption this time last year. Virtually all of the class A absorption occurred at Nucleus with more to follow when Atria Senior Living expands and relocates to the Nucleus campus later this year.

The overall suburban vacancy rate decreased from 12.5% to 11.8% during the quarter and the class A suburban vacancy rate decreased from 7.7% to 6.9%, the lowest level since the second quarter of 1996. Class A net absorption of 28,789 sf brought the mid-year total to only 37,155 sf, less than 20% of the mid-year 2013 total. With class B suburban absorption reaching 63,941 sf at mid-year, the overall suburban absorption totaled 113,202 sf, over 40% less than mid-year 2013.

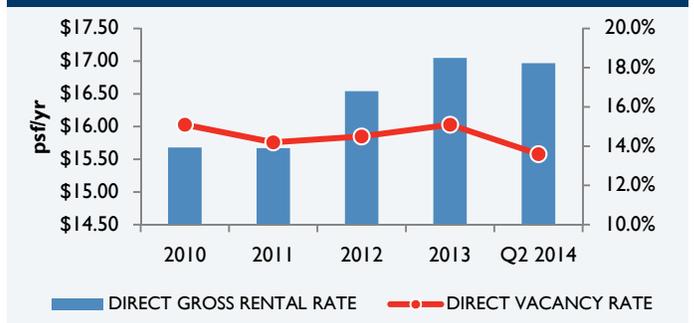
### OUTLOOK

The CBD office market appears to have “bottomed out” as landlords have become more aggressive and class A rents have re-set, reflecting the unusually high vacancy rate in the class A office market. While virtually all of the jobs lost during the Great Recession have been recovered, tenants continue to reengineer their work environment, putting more people in less space, thereby slowing the absorption of office space when compared to previous recoveries.

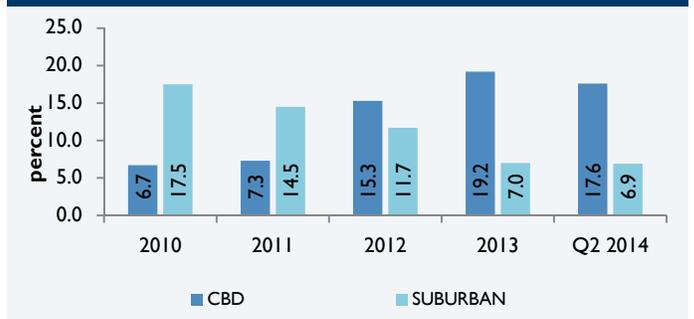
### STATS ON THE GO

	Q2 2013	Q2 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	14.7%	14.1%	-0.6pp	▼
Direct Asking Rents (psf/yr)	\$16.52	\$16.97	2.7%	◀▶
YTD Leasing Activity (sf)	483,685	339,045	-29.9%	▲

### DIRECT RENTAL VS. VACANCY RATES



### CLASS A VACANCY RATES – CBD & SUBURBAN



## LOUISVILLE, KY

SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE*	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	9,202,218	16.8%	16.1%	116,740	0	0	60,994	34,755	\$17.63	\$21.07
<b>SUBURBAN</b>	<b>10,601,422</b>	<b>11.8%</b>	<b>11.4%</b>	<b>222,305</b>	<b>130,000</b>	<b>24,823</b>	<b>122,900</b>	<b>113,202</b>	<b>\$16.03</b>	<b>\$19.98</b>
Old Louisville	362,146	20.5%	20.5%	4,500	0	0	14,419	14,419	\$9.19	N/A
Hurstbourne/ Eastpoint	4,146,995	9.6%	9.0%	76,761	130,000	0	15,368	5,670	\$18.32	\$19.85
Plainview/ Middletown	1,487,091	22.8%	22.2%	25,052	0	0	14,562	14,562	\$15.58	\$16.50
Southeast	1,207,724	7.6%	7.1%	4,965	0	0	12,076	12,076	\$14.88	\$15.19
Northeast	735,207	9.9%	9.9%	35,220	0	24,823	20,447	20,447	\$20.98	\$22.22
St. Matthews	1,369,542	10.1%	10.1%	23,986	0	0	(1,116)	(1,116)	\$14.22	\$19.88
South Central	1,292,717	10.5%	10.5%	51,821	0	0	47,144	47,144	\$14.14	N/A
<b>TOTALS</b>	<b>19,803,640</b>	<b>14.1%</b>	<b>13.6%</b>	<b>339,045</b>	<b>130,000</b>	<b>24,823</b>	<b>183,894</b>	<b>147,957</b>	<b>\$16.92</b>	<b>\$20.69</b>
Class A	9,038,458	11.4%	10.8%	142,908	130,000	24,823	105,604	95906	\$20.51	\$20.69
Class B	10,043,407	16.7%	16.2%	187,582	0	0	66,184	39,945	\$15.14	\$15.19
Class C	721,775	13.3%	13.3%	8,555	0	0	12,106	12,106	\$9.43	\$9.43
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\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## LOUISVILLE 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.

