

INVESTMENT FORECAST

Office
Louisville

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Limited Construction Provides Path to Lower Vacancy; Investors Stick to Areas Resilient During the Pandemic

Constrained development facilitates tighter market conditions. Rents have returned to a positive growth territory in Louisville heading into this year, and the metro should sustain rent gains in the near term as more firms, such as Humana, return to offices. Demand for space will surpass pre-pandemic levels this year, while subdued deliveries will allow for moderate vacancy tightening and slight rent growth. Tenants have favored Class A office projects, including nearly all of the space in buildings that came online in 2021. The construction that is moving forward this year is primarily in the eastern suburbs, potentially the result of developers targeting areas closer to residential neighborhoods that are less impacted by pandemic-related shifts in office use than the central districts. The only major project slated to open in the core is the 40,000-square-foot Norton Healthcare Office, which is fully pre-leased.

Class B and Class C properties garner the most interest. Transaction activity has eased since the onset of COVID-19, with far fewer Class A properties changing hands relative to pre-pandemic averages. In the past few months, the greatest increase in activity has been deals involving Class B and C buildings in core areas, though investors remain most active in suburban submarkets. Prices are around \$20 per square foot lower in the core than in some suburbs to the east and southeast, which have performed better than the CBD since the pandemic began. The most targeted areas are Lyndon, Jeffersontown, St. Matthews and South Central locations like Okolona and Newburg. Cap rates in these communities are usually reported near 8 percent, around 30 basis points lower than those observed Downtown. These yields can climb slightly higher in outlying eastern neighborhoods within Shelby County. Additional trades also occur in Indiana along the Ohio River, usually involving assets near or less than 50,000 square feet.

2022 Market Forecast

- Employment** ↑
 up 2.3%

A total of 15,000 new jobs will be added this year, 5,000 of these being office-using after 4,000 such roles were lost in 2021.
- Construction** ↔
 200,000 sq. ft.

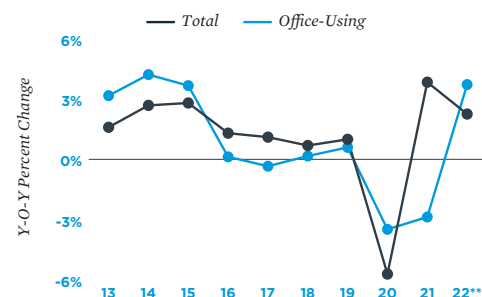
Deliveries will ease slightly from last year, with only 200,000 square feet set to enter the market. This figure is roughly 75,000 square feet lower than the previous five-year annual average.
- Vacancy** ↔
 down 20 bps

The net absorption of 280,000 square feet is less than the annual average recorded over the past decade, but is nevertheless sufficient to create a small retreat in vacancy to 8.5 percent
- Rent** ↑
 up 1.3%

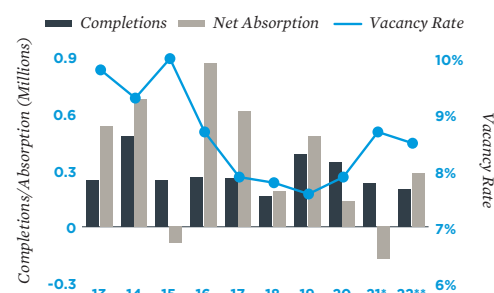
In line with a mild tightening in vacancy, the average asking rent will grow modestly to \$17.00 per square foot. This is the largest yearly rent increase in the metro since 2018.
- Investment** ○

Soft fundamentals in Old Louisville have caused trading velocity to slow recently. This submarket is poised to benefit from a return to normalcy, potentially providing a buying opportunity.

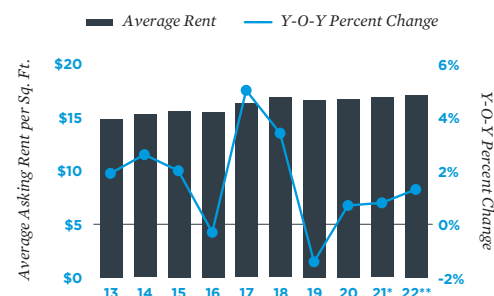
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.