

# MARKET REPORT

Office  
Louisville Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

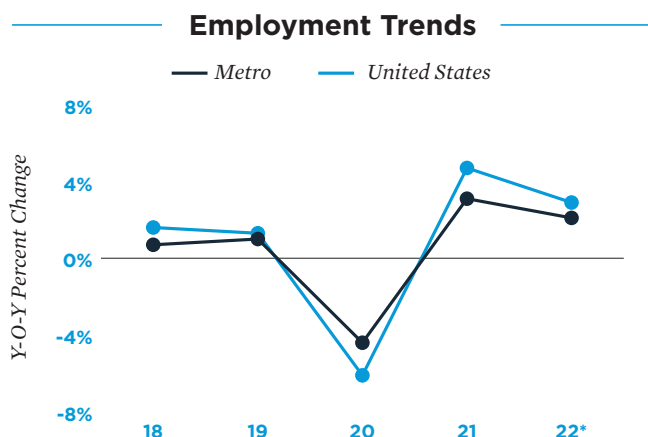
2Q/22

## Outlook Brightens Further as Availability Marches Toward Pre-Pandemic Levels

### Nationally strong fundamentals highlight metro's resilience.

Louisville's office sector is emerging from the pandemic in a better position than many other U.S. metros. Office vacancy here is the lowest of any major American market, and Louisville is the only major metro that has maintained sub-10 percent vacancy throughout the health crisis. Additionally, the market was able to grow its traditionally office-using workforce during the omicron variant surge. Firms expanding payrolls locally have sparked several notable leases, including commitments from Kroger and Consumer Cellular. These factors, along with scant development, suggest the metro will remain a leader in office performance nationally, as availability retreats throughout this year.

**Firms target critical office-nodes.** Mid-sized and smaller companies are taking advantage of current asking rents in desirable locations, before demand drives potential increases. Space in the metro's largest office hubs have benefited most from this shift. The CBD recorded absorption of more than 100,000 square feet in the first quarter of 2022, leading to a 60-basis-point retreat for the submarket's vacancy rate. Additionally, assets in Old Louisville and St. Matthews are performing ahead of historic averages. Both submarkets have vacancy at least 160 basis points below their year-end 2019 levels, and vacancy rates well under the metro average, in the mid-3 percent range. Class B/C vacancy dropped year-over-year in these submarkets, except for the CBD, where Class A vacancy contracted.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook



**14,000  
JOBS**  
*will be created*

### EMPLOYMENT:

Employers are expected to expand job counts by 2.1 percent this year, with 5,000 of these roles being traditionally office-using. Entering May, employment in the office-using segment was nearly 6,000 positions ahead of the pre-pandemic level.



**245,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Development of new office space will fall in Louisville for the third consecutive year as inventory growth retreats to 0.5 percent. Most of this space is located along Interstate 265, between Prospect and Anchorage.



**80  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

After climbing 100 basis points in 2021, the Louisville office market will reach an inflection point in 2022. Vacancy will drop to 8.2 percent by the end of December, just 30 basis points above the year-end 2019 level.

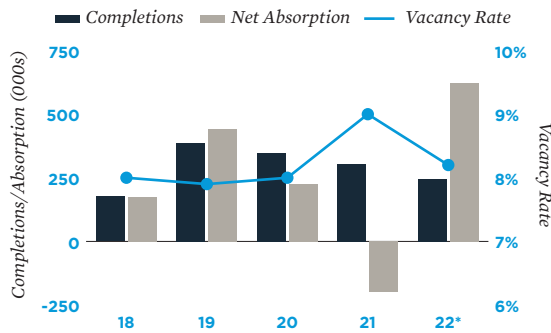


**2.2%  
INCREASE**  
*in asking rent*

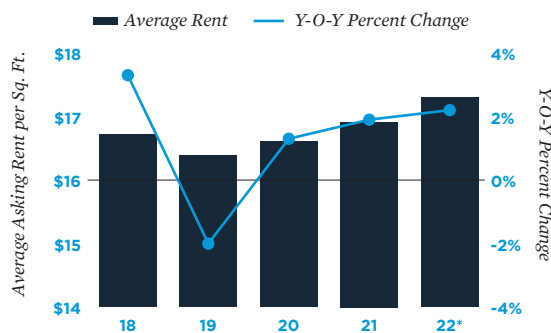
### RENT:

Breaking from national trends, the average asking rent has managed to grow on an annual basis each year since the health crisis started. This year's rise to \$17.30 per square foot translates to a 5.6 percent gain since the start of 2020.

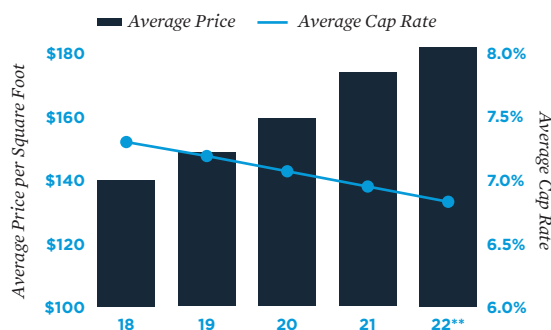
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

Louisville Office:

**Josh Caruana**

First Vice President, District Manager

Tel: (502) 329-5900 | josh.caruana@marcusmillichap.com

For information on national office trends, contact:

**John Chang**

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

## 1Q 2022 - 12-Month Period



### CONSTRUCTION

**395,000 sq. ft. completed**

- Builders expanded inventory by roughly 0.8 percent in the 12 months preceding April. Annual completions have failed to eclipse 400,000 square feet in Louisville in any year since 2014.
- Outlying Clark County added 170,000 square feet during this period, while recording net absorption of more than 190,000 square feet.



### VACANCY

**10 basis point decrease in vacancy Y-O-Y**

- Employment recovery and sparse development have dampened local vacancy rates. Entering April, available space sat at 8.6 percent of stock, a rate 40 basis points lower than the year-end 2021 mark.
- Outlying Clark County, South Central and Westport Road-Brownsboro Road all reported annual vacancy declines of at least 100 basis points.



### RENT

**2.5% increase in the average asking rent Y-O-Y**

- Average marketed rents climbed to \$17.03 per square foot at the end of the first quarter. Overall, only two of the metro's 22 submarkets reported negative rent movement during the annual period ended in March.
- The mean Class A asking rent grew 7.0 percent annually in the Westport Road-Brownsboro Road submarket entering April.

## Investment Highlights

- Transaction velocity grew in the 12-month window preceding April when compared to 2020, and remained only slightly lower than the trailing five-year average. Additionally, medical office sales climbed to their highest level on record last year, with pricing in this segment rising to nearly \$290 per square foot. Location has grown more important for office investors, with assets along key transit routes changing hands most often. Increased fervor on behalf of buyers has resulted in the average office cap rate retreating to 6.8 percent in the year ended in March, which is still elevated when compared to other markets with solid pandemic-era performance.
- Investors targeting the CBD are prioritizing properties between Main Street and East Jefferson Street. Meanwhile, in Old Louisville, buildings proximate to Interstate 65 are selling regularly. Here, sales pricing is frequently below the metro mean of \$182 per square foot, but post-1980-built buildings can command entry costs above \$200 per square foot.
- Newer assets are trading frequently in eastern submarkets along Brownsboro Road, Shelbyville Road and Interstate 64. Sales pricing in these suburbs is ahead of the market average, with the Hurstbourne-Lyndon area recording the highest average sales price in the metro.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

© Marcus & Millichap 2022 | www.ipausa.com