

INVESTMENT FORECAST

Office
Louisville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2026

Small-Business Office Demand Rises as Fortune 500 Companies Sign More Conservative Leases

Suburban submarkets post record compression. Louisville's nationally low office vacancy rate has been driven by compression in Class B/C properties, which comprise most of the stock. In the CBD, Class B/C vacancy fell about 200 basis points last year, approaching 8 percent. In some smaller submarkets, such as St. Matthews and Old Louisville, segment vacancy ended the year near 2 percent. While recognizable Louisville companies like Humana and YUM! Brands have consolidated space, small-business leasing activity has more than compensated for enterprise-level relinquishment. State-level tax changes may encourage this going forward. Kentucky lowered its income tax rate from 4.0 percent to 3.5 percent earlier this year, the first phase in a plan to eliminate the tax. This will likely stimulate demand for smaller, Class B/C spaces among pass-through businesses. Overall, net absorption is expected to exceed last year's level modestly, setting up vacancy for a slightly larger reduction by year's end.

Dueling tax cuts across state borders. Louisville's office deal flow grew by about 35 percent year-over-year in 2025. The search for very low vacancy may carry investors north of the river into New Albany and South Clark County, where the local rate ended 2025 below 5 percent. Limited conventional inventory may make listings competitive, while recent medical office transactions indicate local interest for that property type as well. Additionally, Indiana's income-tax cut — lowering the rate from 3.05 percent to 3.0 percent in 2025 and to 2.9 percent in 2027 — should aid the competitiveness of buildings in this submarket relative to Kentucky locations. Meanwhile, tenants are also entering into owner-user transactions, including in southeast Louisville. Below-metro-average vacancy here may also attract conventional investors.

2026 MARKET FORECAST

+1.0%



Employment: The employment base in greater Louisville expands by 7,500 jobs. In contrast to the national trend of slowing hiring, the pace of job creation will accelerate slightly in 2026.

156,000
sq. ft.



Construction: The annual inventory growth rate rises marginally from last year, expanding stock by 0.3 percent in 2026. This measure is below the annual mean rate of 0.6 percent from 2016 to 2025.

-30 bps



Vacancy: The market vacancy rate declines to 8.3 percent. This is the third lowest among major metros, behind the Inland Empire and Charleston.

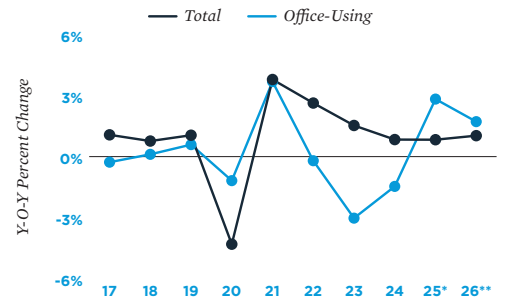
+0.9%



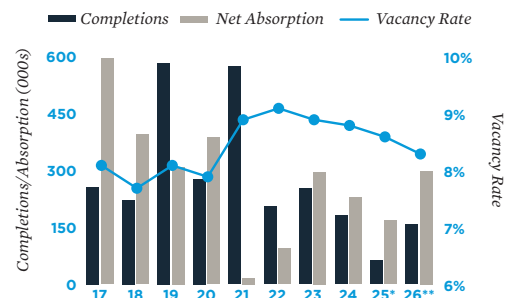
Rent: The average asking rent rises to \$18.26 per square foot. The modest pace of rent growth broadly aligns with that of nearby Indianapolis but falls short of Nashville's above-1-percent projected gain.

INVESTMENT: *Improving mid- and low-tier vacancy may draw buyers back to the CBD, a common location for past trades of these buildings. Ongoing redevelopment plans may improve the appeal of surrounding offices.*

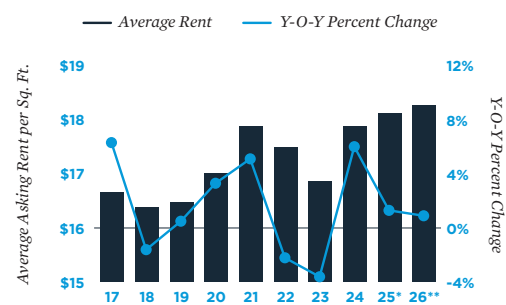
Employment Trends



Supply and Demand



Rent Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

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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 January 2026. 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 office 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 guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.