

# INVESTMENT FORECAST

OFFICE

Louisville Metro Area

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS






2020

## Tenants Adhere to Metro Cost Efficiencies, Advancing Materialization of Lifestyle-Rich Office Communities

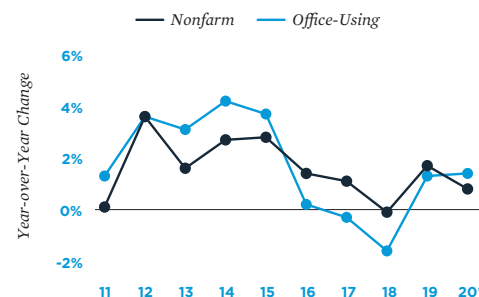
**Louisville delivers second tightest vacancy rate in the nation.** Suburban space has been a major component of office demand with trade, transportation, and logistics businesses moving into cost-effective locations to grow future operations. UPS, for example, recently announced a \$750 million expansion beginning in 2020 to grow air express shipping performance and make additions to the firm's operational offices and training centers. Leasing activity is robust near areas such as UPS' corporate location in the eastern suburbs, where tenants with logistics synergies can flourish. All of the 286,000 square feet of development slated for delivery this year will also be concentrated in these areas. The largest project is a 140,000-square-foot speculative building, Two Olympia Park Plaza, comprising approximately half of this year's construction. Despite speculative projects, landlords are confident in the substantial absorption of space with leasing activity expected to stay in close balance with supply in 2020, positioning vacancy in the 8 percent range for the fifth consecutive year.

**Value-add opportunities ripple from urban core to outlying districts.** As tenant demand grows in the suburbs for Class B and Class C space, local buyers are seeking aged assets that can be purchased in the \$70 to \$100 per square foot range with cap rates in the low-8 to low-9 percent band. Out-of-state investors are also taking the opportunity to deploy capital into the metro in an effort to capture higher returns than available in home markets, though higher-priced, stable properties top their list. These trades are occurring in the \$4 million to \$11 million price tranche, with returns between 5.0 and 8.5 percent.

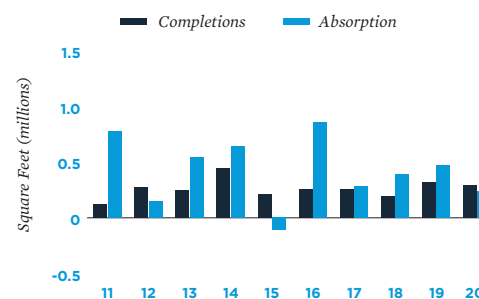
## 2020 Market Forecast

- Employment**  Building on a 11,200-job gain in 2019, hiring will advance by 5,400 workers this year. Office-using employers contribute nearly 2,000 positions in 2020. up 0.8%
- Construction**  Building will slow this year, remaining in line with new space demand. Last year 317,000 square feet was added. 286,000 sq. ft.
- Vacancy**  Vacancy will remain stable at 8.0 percent this year, following a 30-basis-point decline in 2019. no change
- Rent**  Following a decline in rent in 2019, the average asking rent will rise to \$17.54 per square foot. up 2.2%
- Investment**  Evolving entertainment landscape downtown adds value to investments in urban core as buyers pursue value-add assets in this area at a sharp discount.

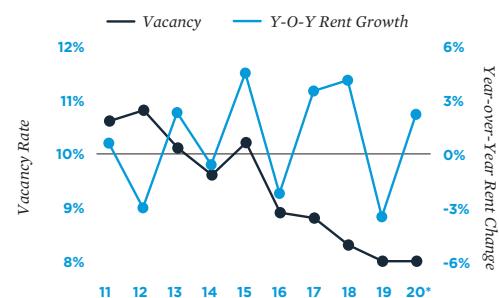
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 guaranty, 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.