MARKETBEAT

LOUISVILLE
OFFICE REPORT

2Q11

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Overview

The modest improvement in the office market we predicted at the end of the first quarter seems to have come to fruition during the second quarter, with noticeable improvement in both leasing activity and absorption. All indications suggest that there will likely be further improvement during the second half of the year as Louisville's long awaited recovery gains momentum.

Job gains in the manufacturing sector have somewhat tamed unemployment and expansion efforts underway at both Ford Motor Company and General Electric portend further improvement over the next twelve to eighteen months. Unfortunately, housing prices continue to decline placing a decided drag on the local economy and stifling new single-family permits throughout the first six months of the year.

Leasing Activity

Central Business District (CBD) leasing activity for the second quarter of 53,570 sf brought the year-to-date total to 138,998 sf, eclipsing leasing activity of 111,894 sf for all of 2010. The vast majority of that leasing activity, 48,803 sf, occurred in the class B market. Significant gains are anticipated in leasing activity for the CBD throughout the balance of 2011 as major tenants look to secure favorable lease terms on the relatively few large blocks of space available in the downtown office market.

Suburban leasing activity increased significantly during the second quarter reaching 177,421 sf, and bringing the mid-year total to 277,190 sf, well ahead of mid-year 2010 total leasing activity of 170,869 sf. Unlike the CBD activity, most of the suburban leasing activity occurred in the class A market, once again reflecting a flight to quality.

Vacancy and Absorption

With 44,782 sf of positive absorption in the CBD market, the overall CBD vacancy rate fell from 12.8% to 12.3%, the lowest level since the fourth quarter of 2009. Despite recognizing 100,000 sf of vacancy at Aegon Center during the first quarter, we remain optimistic that CBD absorption for the year will be positive, underscoring our confidence in the long awaited economic recovery. Class A absorption of 4,767 sf brought the class A vacancy rate in the CBD down from 9.2% to 9.1% while 40,015 sf of class B absorption reduced the class B vacancy rate from 15.1% to 14.4%.

The overall suburban vacancy rate fell from 17.3% to 17.1% during the quarter, the lowest rate since the third quarter of 2008. Class A absorption accounted for 11,978 sf of the total suburban absorption of 16,458 sf which came as good news following four consecutive quarters of negative absorption. A 10,850-sf expansion of Trover Solutions and a 10,218-sf commitment by Dometic Corporation at Paragon Place contributed to the positive absorption in the Suburban market during the quarter.

Outlook

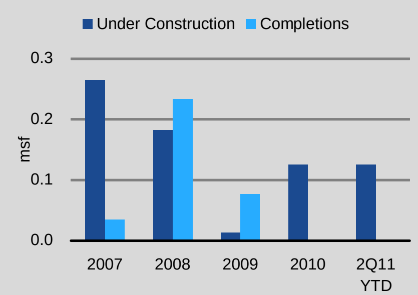
Growth in the Louisville economy should accelerate during the coming months driven in large measure by significant gains in manufacturing employment. The $600 million retooling of Ford Motor Company's Louisville Assembly Plant is expected to add 1,800 new jobs over the next twelve to eighteen months, bringing total employment at LAP to 2,900 by the end of 2012.

Office sector employment should also improve as the business community responds to the tandem benefits of Louisville's lower cost of living and lower cost of doing business when compared with competing cities in the Midwest.

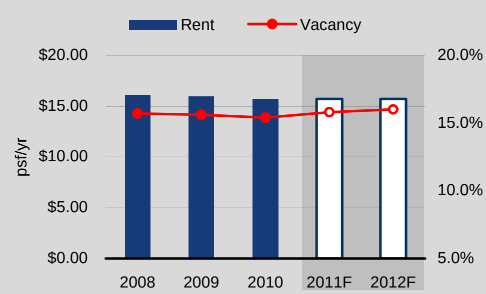
Stats on the Go

	2Q10	2Q11	Y-o-Y Change	12 month Forecast
Overall Vacancy	15.7%	14.9%	-0.8 pp	
Direct Asking Rents	$15.83	$16.12	1.8%	
YTD Leasing Activity (sf)	223,884	416,188	85.9%	

Under Construction vs. Completions



Overall Rental vs. Vacancy Rates



Market/Submarket Statistics

Market / Submarket	Inventory*	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate**	Direct Wtd. Avg. Class A Gross Rental Rate**
CBD	**9,161,133**	**12.3%**	**11.9%**	**138,998**	**0**	**0**	**(39,600)**	**(39,600)**	**$16.34**	**$22.27**
Suburban	**10,659,467**	**17.1%**	**16.9%**	**277,190**	**125,000**	**0**	**(29,824)**	**(29,824)**	**$15.93**	**$18.98**
Old Louisville	401,146	35.4%	35.4%	0	0	0	(19,385)	(19,385)	$9.91	N/A
Hurstbourne/Eastpoint	4,087,459	19.6%	19.6%	69,408	125,000	0	(7,372)	(7,372)	$18.28	$19.00
Plainview/Middletown	1,523,153	18.0%	16.6%	45,686	0	0	21,645	21,645	$14.32	$16.50
Southeast	1,207,724	7.5%	7.5%	29,760	0	0	3,439	3,439	$14.68	$16.82
Northeast	734,384	16.0%	16.0%	13,650	0	0	917	917	$19.16	$20.29
St. Matthews	1,412,918	15.6%	15.6%	24,095	0	0	(4,018)	(4,018)	$14.05	$18.20
South Central	1,292,683	13.6%	13.6%	94591	0	0	(25,050)	(25,050)	$13.25	$18.00
TOTAL	**19,820,600**	**14.9%**	**14.6%**	**416,188**	**125,000**	**0**	**(69,424)**	**(69,424)**	**$16.08**	**$19.77**
Class A	8,786,495	13.8%	13.4%	258,456	125,000	0	(98,618)	(98,618)	$19.72	$19.77
Class B	10,312,330	15.6%	15.4%	147,676	0	0	45,023	45,023	$13.75	$13.77
Class C	721,775	17.7%	17.7%	10056	0	0	(15,829)	(15,829)	$9.68	$9.68
TOTAL	**19,820,600**	**14.9%**	**14.6%**	**416,188**	**125,000**	**0**	**(69,424)**	**(69,424)**	**$16.08**	**$19.77**

* Inventory includes multi-tenant buildings with at least 5,000 square feet.

** 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.

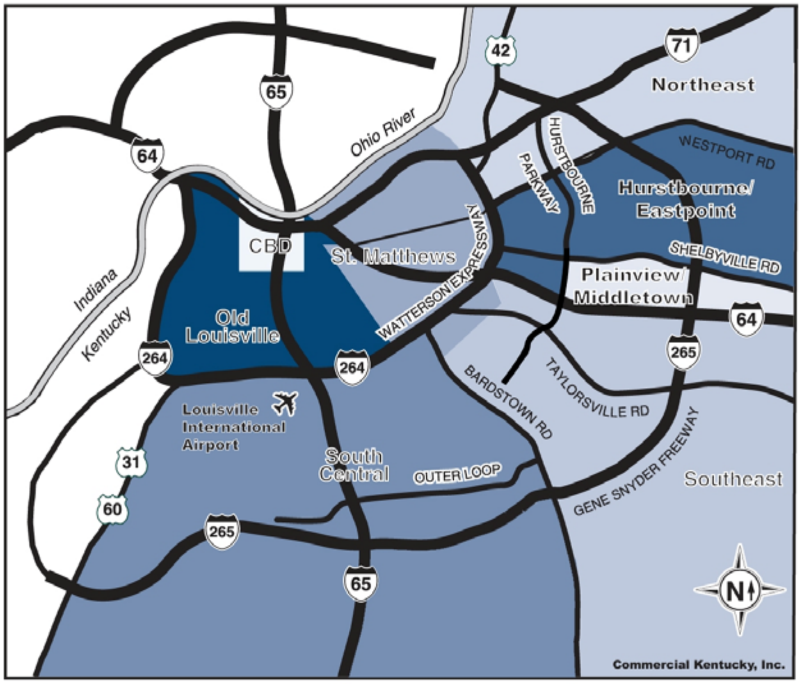
Plainview/Middletown: Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.

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.



CUSHMAN & WAKEFIELD. COMMERCIAL KENTUCKY INDEPENDENTLY OWNED & OPERATED

Commercial Kentucky, Inc.

333 E. Main Street, Suite 510, Louisville, KY 40202 (502)589-5150

www.commercialkentucky.com