

2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



CBRE

Louisville



Louisville’s big-box industrial market continued its strong performance in 2020. Rents grew because developable sites are scarce. Louisville is a prime target for any company seeking a distribution presence in the Midwest. Having the world’s fourth busiest air cargo hub, combined with its advantageous geographic location to reach a large percentage of the population in a day’s drive, will continue to attract users to Louisville. Demand from all sectors, combined with GE’s Appliance Park and five auto assembly plants in the region, will continue to push demand and highlight Louisville as a major market for big-box development.”

– Kevin Grove, Senior Vice President





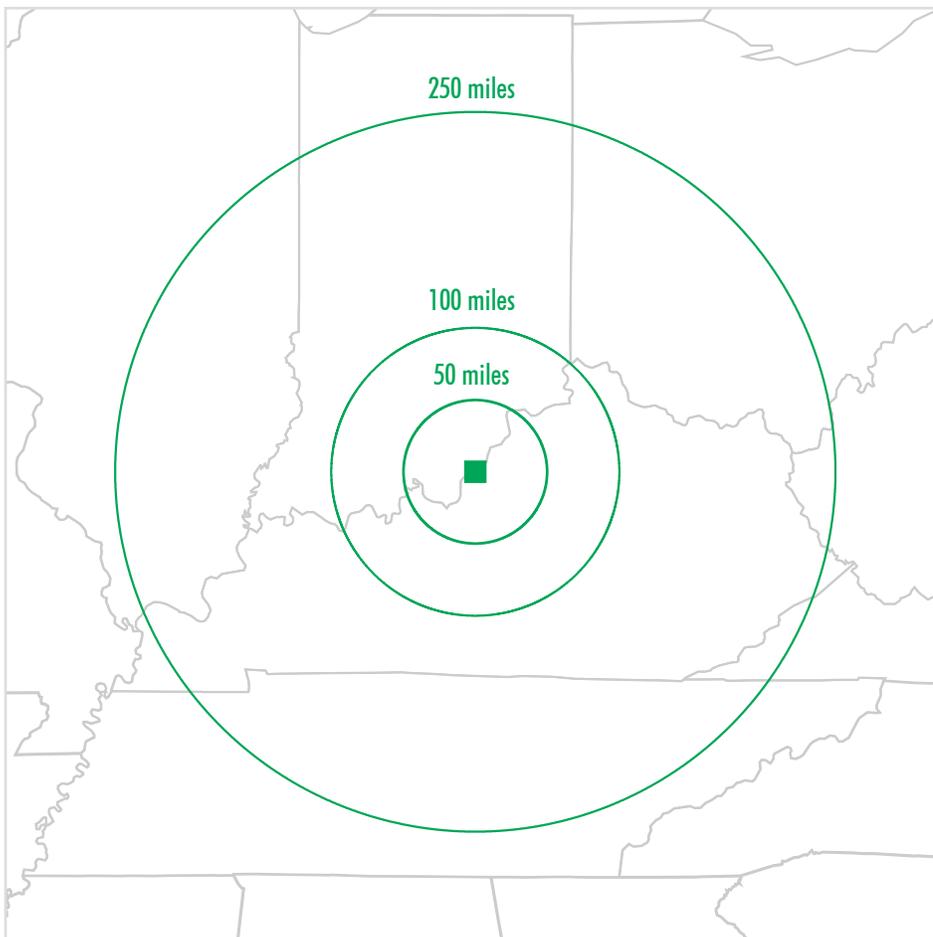
Louisville

Demographics

Nearly 30 million people—23% of them in the 18-to-34 age demographic—live within 250 miles of downtown Louisville, with a 2.5% projected growth rate over the next five years. Louisville reaches a higher population concentration within a 250-mile radius than other major industrial markets, including the Inland Empire, Dallas/Ft. Worth, Phoenix, Memphis and Kansas City.

An influx of occupiers increased the number of warehouse workers in the region. According to [CBRE Labor Analytics](#), the local warehouse labor force of 42,592 is expected to grow by 18.4% over the next 10 years. The average salary for non-supervisory warehouse workers is \$13.77 per hour, 2% below the national average.

Figure 1: Louisville Population Analysis



Distance from Downtown Louisville	2020 Total Population	5 Year Growth
50 miles	1,709,967	2.9%
100 miles	5,683,513	2.7%
250 miles	29,661,932	2.4%

Source: CBRE Location Intelligence.

Figure 2: Louisville Warehouse & Storage Labor Fundamentals



Source: CBRE Labor Analytics.
 *Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

Location Incentives

Over the past five years, there have been 278 economic incentives deals totaling more than \$235 million at an average of \$12,665 per new job in the Louisville metropolitan area, according to Wavteq.

According to [CBRE’s Location Incentives Group](#), among the top incentive programs offered in Louisville is the Kentucky Business Investment Program (KBI), which provides income tax credits and wage assessments to businesses engaged in manufacturing, agribusiness, headquarter operations,

alternative fuel, renewable energy or carbon dioxide transmission pipelines. To qualify, companies must create and maintain an annual average of at least 10 new full-time jobs for Kentucky residents during the length of the incentive agreement.

Another popular incentive program is the Kentucky Enterprise Initiative Act (KEIA), which provides companies with a sales and use tax refund for building and construction materials used to improve real property value. This refund is also available for research & development, data processing and flight simulation equipment.

Figure 3: Louisville Top Incentive Programs

Program	Description
Kentucky Business Investment (KBI) Program	Income tax credits or wage assessments up to 4% of gross payroll for up to 10 years
Kentucky Enterprise Initiative Act (KEIA) Program	Refund of sales and use tax paid for construction and building materials
Bluegrass State Skills Corporation (BSSC) Program	Job training grant up to 50% reimbursement for eligible training activities
Kentucky Industrial Development Act (KIDA)	Tax credit equal to 100% of state corporate income tax liability or retention of 3% of gross wages of new employment; limited to manufacturers and state-only assistance
Property Tax Abatement	Discretionary abatement of real estate taxes and personal property taxes

Source: CBRE Location Incentives Group.
 Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

Louisville

Logistics Driver

Louisville Muhammad Ali International Airport was recently named the world's fourth busiest air cargo hub by Airport Councils International. The airport is home to UPS Worldport, one of the largest package-handling facilities in the world. E-commerce is significantly increasing cargo flights at the airport,

where package volume grew by 22% year-over-year in 2019. As e-commerce's share of total retail sales continues to increase, more distributors are expected in the region to take advantage of its air cargo capabilities.

Capital Markets



Louisville's strong operating fundamentals attracted more institutional investors and private equity funds last year. Cap rates for Class A core properties were in the +/- 5.0% range, but the next large core profile property should achieve a mid-4% cap rate. Sizable demand from investors should keep pricing strong and make Louisville a strong performer in 2021."

– Chris Riley, Vice Chairman

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	5.00% - 5.25%	5.75% - 6.25%
2019	3.75% - 4.25%	6.00% - 6.50%

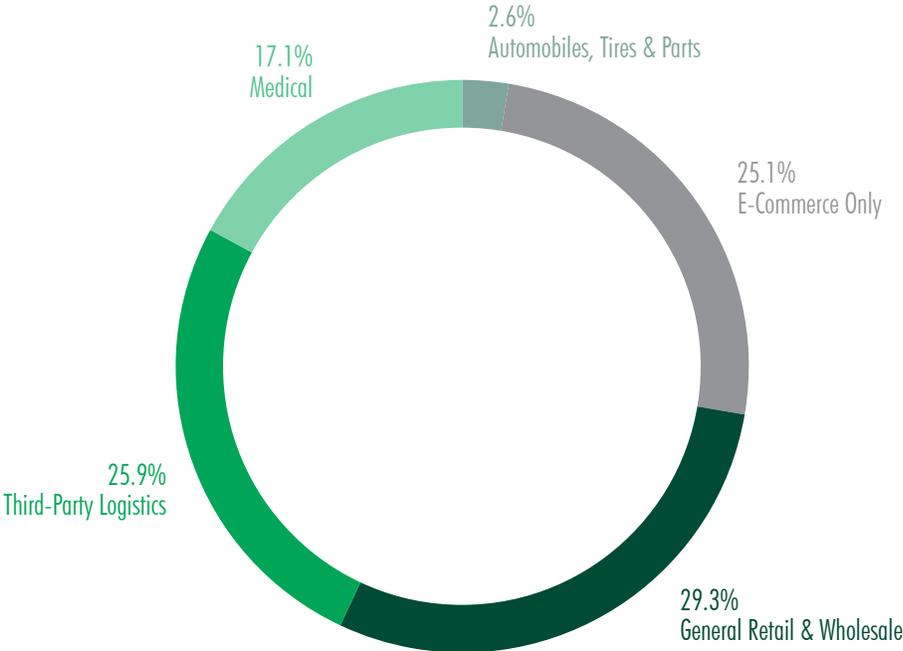
Source: CBRE Research.

Supply & Demand

Louisville’s central location is attracting new occupiers, leading to robust demand and a plethora of new development. Nearly 7.8 million sq. ft. transacted in 2020, on par with 2019. Net absorption doubled year-over-year to 4.2 million sq. ft. Developers built 5.4 million sq. ft. of industrial product, nearly 2 million sq. ft. of which was in facilities of 750,000 sq. ft. or more. The 1.2 million sq. ft. of big-box product currently under construction is fully preleased.

Occupier demand was split evenly between 3PLs, e-commerce companies and traditional retailers and wholesalers. Louisville had one of the largest percentages of medical-use transactions, accounting for 17% of total volume. Continued demand will lead to new construction as the year progresses and add much-needed first-generation options, keeping transaction volume at a high level in 2021.

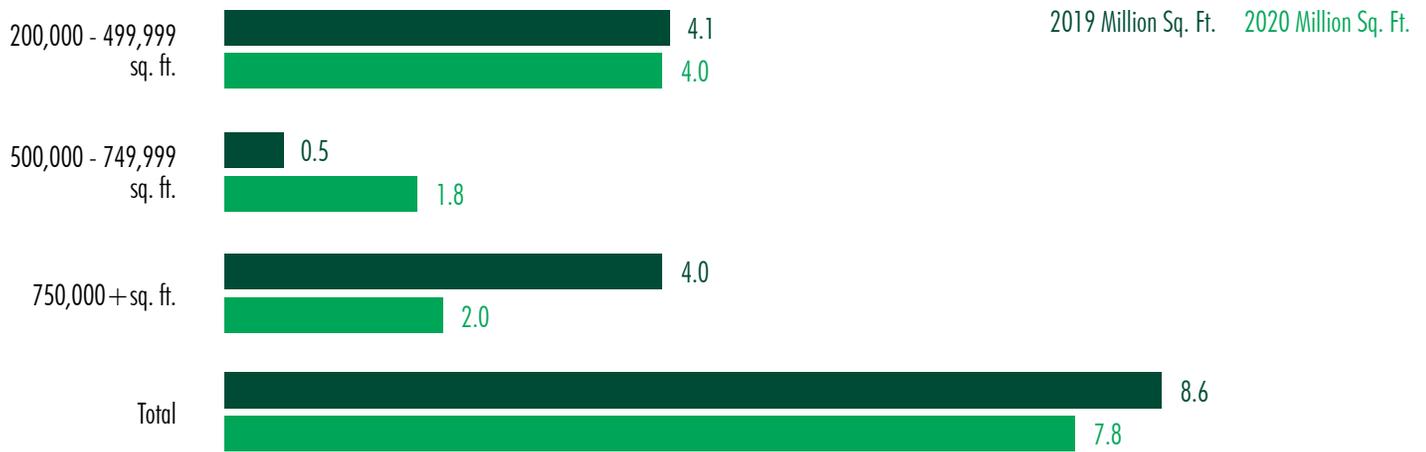
Figure 5: 2020 Occupier Transaction Market Share



Source: CBRE Research.

Louisville

Figure 6: Transaction Volume



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.
Source: CBRE Research.

Figure 7: Big Box Year-Over-Year Data Comparison

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	190	56,127,307	5.2%	2,461,268	2,106,971	\$3.88
500,000-749,999 SF	41	24,598,415	6.0%	689,075	1,362,590	\$4.06
750,000+ SF	23	28,111,157	4.2%	1,055,825	1,948,758	N/A
Total	254	108,836,879	5.1%	4,206,168	5,418,319	\$3.95
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	181	53,356,192	6.3%	833,301	1,100,928	\$4.26
500,000-749,999 SF	40	23,763,075	3.8%	1,133,581	0	N/A
750,000+ SF	20	25,378,649	0.2%	56,053	0	N/A
Total	241	102,497,916	4.2%	2,022,935	1,100,928	\$4.26

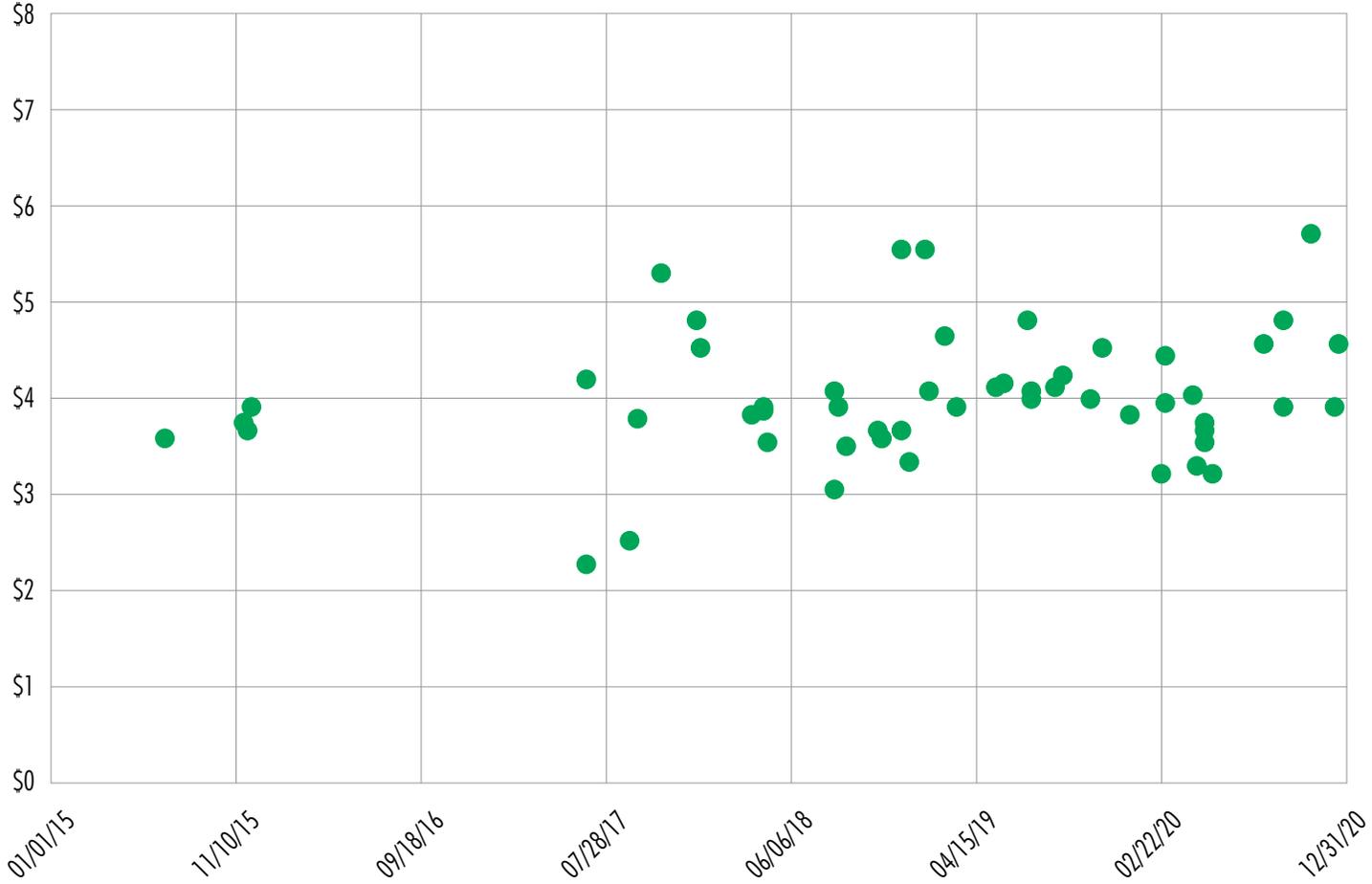
Source: CBRE Research.

Figure 8: Under Construction & Percentage Released

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	264,100	100.0%
500,000-749,999 sq. ft.	0	N/A
750,000+ sq. ft.	931,907	100.0%
Total	1,196,007	100.0%

Source: CBRE Research.

Figure 9: First Year Taking Rents (psf/yr)



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.
 Source: CBRE Research.

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