Mixed Signals as Vacancy Rate Declines with Negative Net Absorption

▼ 22.1%
Vacancy Rate

▼ (13,011)
SF Net Absorption

▲ $19.57
FSG/YR Class A CBD Direct Asking Lease Rate

▼ $22.44
FSG/YR Class A Suburban Direct Asking Lease Rate

▼ $19.27
FSG/YR Overall Direct Asking Lease Rate

Note: Arrows indicate change from previous quarter.

Market Overview

Marketwide vacancy rate decreased 60 basis points to 22.1%

– CBD Class A vacancy rate decreased 300 basis points to 28.9%

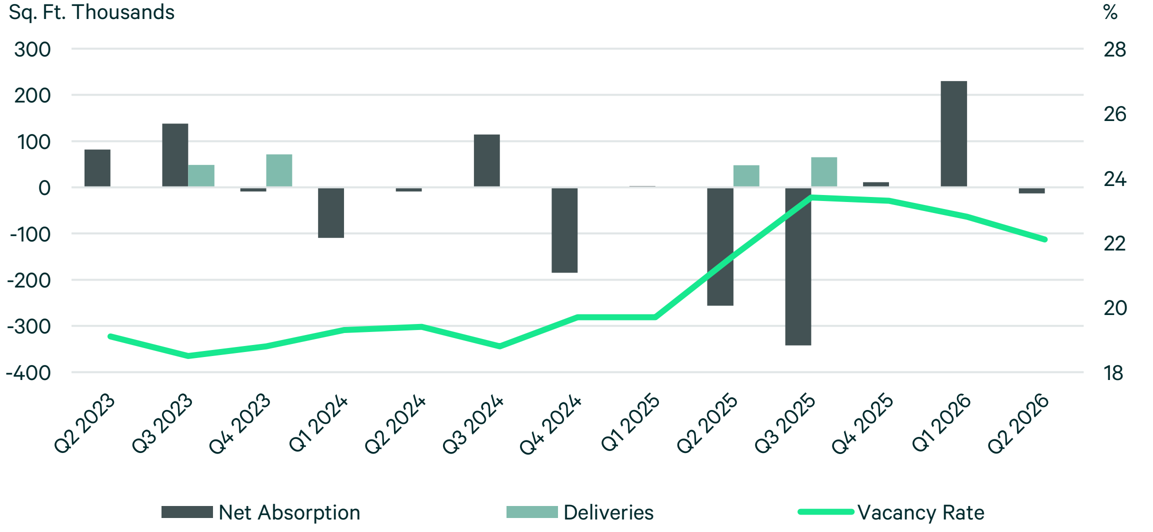
– Suburban Class A vacancy rate decreased 70 basis points to 19.5%

– CBD Class A average asking lease rate increased $0.18 per sq. ft. to $19.57 per sq. ft.

– Suburban Class A average asking lease rate decreased $0.11 per sq. ft. to $22.44 per sq. ft.

In the second quarter, the 346,213 sq. ft. Class A tower at 401 South Fourth Street that was nearly vacant was removed due to a planned conversion to a hotel later this year. This change did not impact net absorption but did affect vacancy in the Central Business District (CBD) and overall market. Leasing activity dipped in the second quarter to 155,764 sq. ft. and the amount of available sublease space in the market increased slightly to just over 171,000 sq. ft., though this figure is still 38% lower than one year ago. The overall market average asking lease rate decreased slightly to $19.27 per sq. ft. and net absorption year-to-date is just under 217,000 sq. ft.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

Vacancy

The marketwide vacancy rate declined 60 bps to 22.1% in the second quarter. Class A overall vacancy was 23.0%, down 190 bps quarter-over-quarter but 150 bps higher year-over-year. The CBD Class A sector recorded a 300 bps decrease to 28.9%, largely due to the removal of 401 South Fourth Street, which is slated for hotel conversion this year. The CBD Class B sector recorded a 20 bps increase to 24.9%. Suburban submarkets posted a 70 bps decline in the Class A vacancy rate to 19.5% and Class B Suburban properties recorded a 110 bps increase to 20.1%. The overall Suburban vacancy rate increased slightly to 19.6%. The Central Louisville Class A sector posted the largest decline in vacancy to 17.0%, a 2050 bps decrease mainly due to a 20,432 sq. ft. lease.

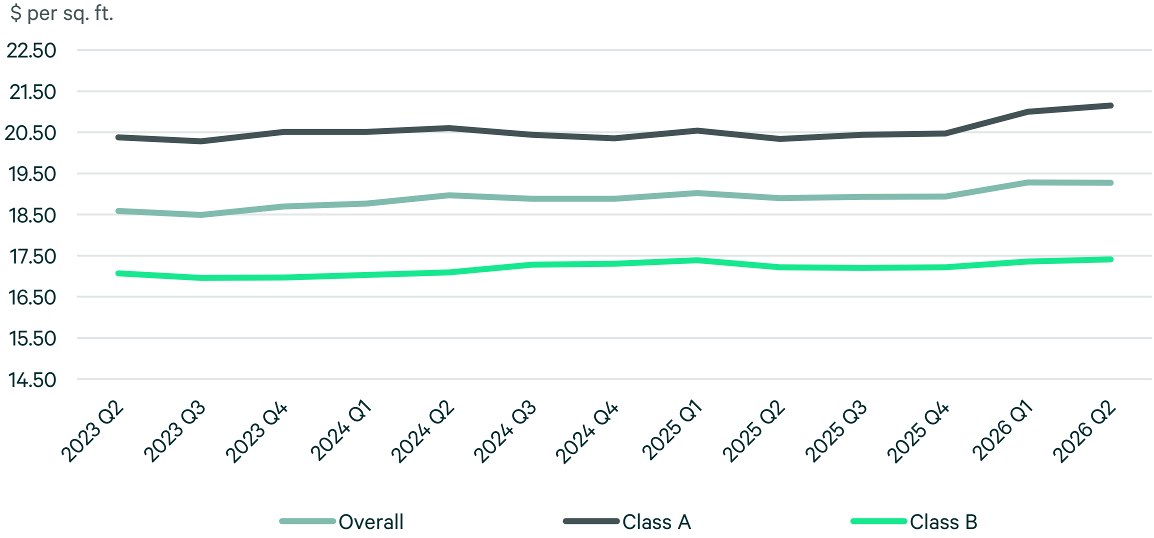
Figure 2: Vacancy Rates by Class

Source: CBRE Research, Q2 2026

Asking Rate

The average asking lease rate for the overall market remained nearly unchanged at $19.27 per sq. ft. The Class A CBD sector increased $0.18 per sq. ft. to $19.57 per sq. ft. and the Class B CBD sector declined slightly to $16.06 per sq. ft. The CBD overall average asking lease rate declined $0.09 per sq. ft. to $17.76 per sq. ft. The Suburban Class A sector declined $0.11 per sq. ft. to $22.44 per sq. ft., while conversely the Class B Suburban sector increased $0.11 per sq. ft. to $18.52 per sq. ft., which is the highest rate recorded for this sector in market history. The overall Suburban sector average asking lease rate posted a $0.05 per sq. ft. decline to $20.53 per sq. ft.

Figure 3: Average Direct Asking Rate by Class

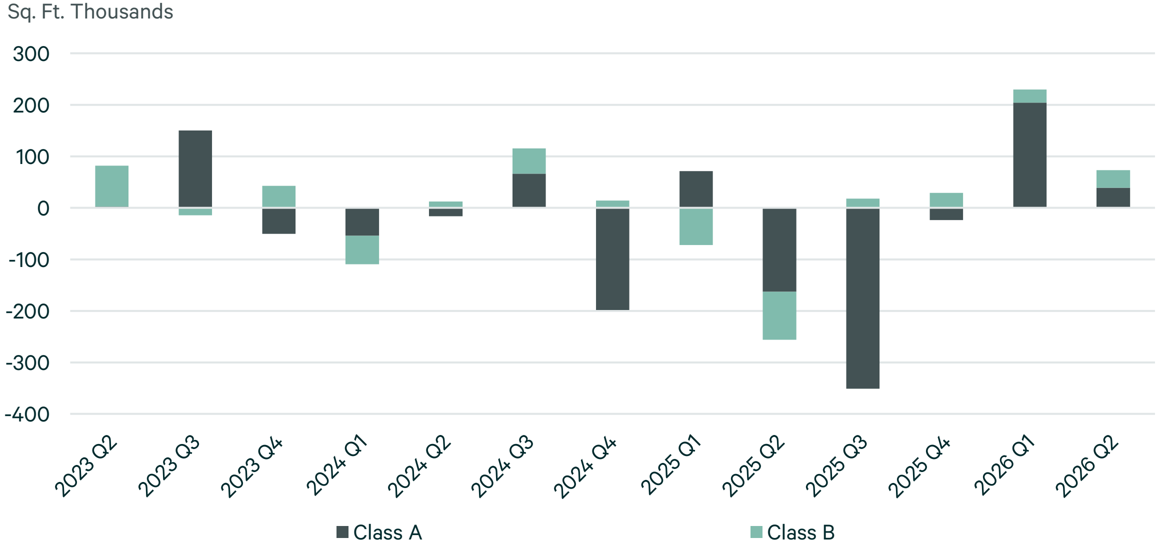


Source: CBRE Research, Q2 2026

Net Absorption

The Louisville office market recorded 13,011 sq. ft. of negative net absorption in the second quarter with the addition of a few larger blocks of vacant space across several submarkets. These included a new 30,000 sq. ft. vacancy by Genscape in the Central Louisville submarket, a new 18,000 sq. ft. vacancy by Firstsource in the Hurstbourne Parkway/Shelbyville Road submarket, and Payment Alliance vacated 13,000 sq. ft. in the East County submarket. New leases of 17,900 sq. ft. in the Central Louisville submarket, 14,500 sq. ft. in the Hurstbourne Parkway/Shelbyville Road submarket, and 16,500 sq. ft. in the South submarket, among others, were not enough to offset these new vacancies. The CBD sector recorded 9,422 sq. ft. of negative net absorption and the Suburban sector posted 3,589 sq. ft. of negative net absorption for the quarter.

Figure 4: Net Absorption Trend



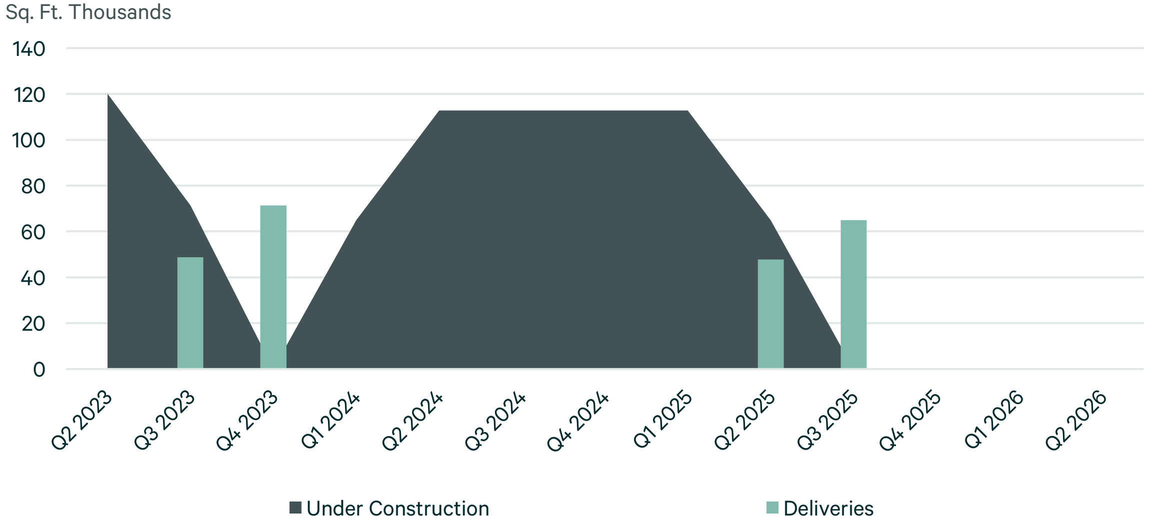
Source: CBRE Research, Q2 2026

Construction Activity

Several office projects are in the planning phase, but no projects are fully committed. One significant project doing preliminary sitework is the proposed 269,000-sq.-ft. development known as Chamberlain Woods located near Norton Commons and Brownsboro Crossings in the I-71/ Brownsboro Road submarket.

Plans are moving forward on the proposed mixed-use project located next to Slugger Field on East Main Street in the CBD, which will contain 500,000 sq. ft. with 60,000 sq. ft. of office space. In addition, the mixed-used development known as One Park in the Central Louisville submarket received final approval of the TIF district from the Kentucky Economic Development Finance Authority in late June. The project is slated to contain approximately 240,000 sq. ft. of office space along with residential and retail space.

Figure 5: Construction Activity

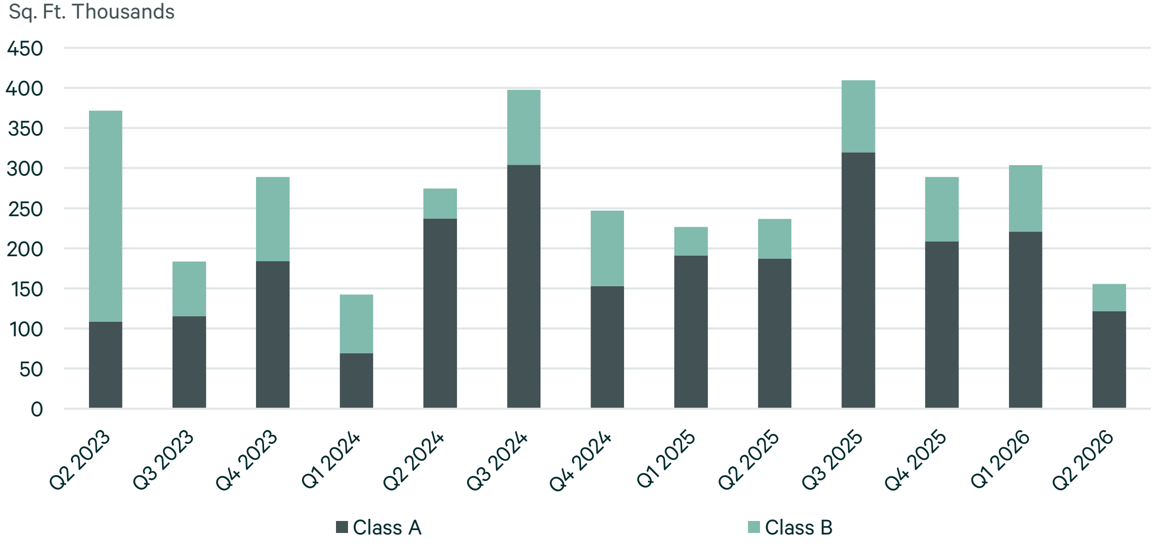


Source: CBRE Research, Q2 2026

Leasing Activity

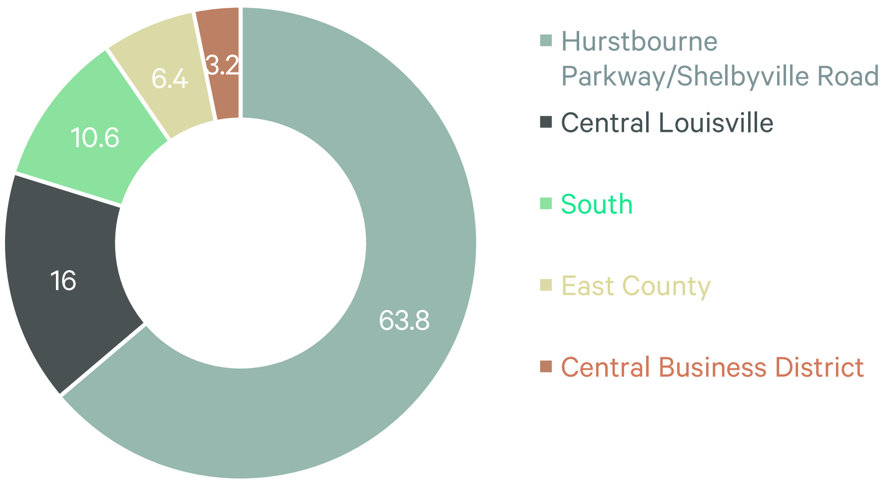
The market recorded 155,764 sq. ft. of leasing activity in the second quarter, which was down 49% quarter-over-quarter. This was the lowest amount of leasing activity in over two years. 97% of the leasing activity occurred in the Suburban submarkets. The Hurstbourne Parkway/Shelbyville Road submarket led the way with 102,675 sq. ft. of activity, followed by the Central Louisville submarket with 24,963 sq. ft. leased. Top leases recorded during the quarter included a new lease by Air Equipment Company in the Central Louisville submarket of 20,432 sq. ft., a 16,500-sq.-ft. lease by the Kentucky State Cabinet for Health and Family Services in the South submarket, and a new lease of 14,511 sq. ft. by Wurth Group in the Hurstbourne Parkway/Shelbyville Road submarket.

Figure 6: Leasing Activity Trend



Source: CBRE Research, Q2 2026

Figure 7: Leasing by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Air Equipment Company	20,000	New Lease	750 E Jefferson St	Central Louisville
Kentucky Cabinet	17,000	New Lease	5111 Commerce Crossings Dr	South
Qk4	15,000	Renewal	9920 Corporate Campus Dr	Hurstbourne Parkway/Shelbyville Road
Wurth Group North America	15,000	New Lease	9410 Bunsen Pkwy	Hurstbourne Parkway/Shelbyville Road
Confidential	10,000	New Lease	500 N Hurstbourne Pkwy	Hurstbourne Parkway/Shelbyville Road
Legato Insurance Group	8,000	Renewal	10200 Forest Green Blvd	Hurstbourne Parkway/Shelbyville Road
PMR Companies	8,000	New Lease	9901 Linn Station Rd	Hurstbourne Parkway/Shelbyville Road
Finish Line Staffing	7,000	New Lease	2000 High Wickham Pl	East County

Source: CBRE Research, Q2 2026

Market Statistics

Figure 9: Suburban Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	6.24M	19.5	22.5	20.9	1.5	22.44	43,000	30,000	-	-
Class B	4.93M	20.1	21.9	21.7	0.2	18.52	(47,000)	(48,000)	-	-
Class C	273,000	11.7	11.7	11.7	-	15.04	-	-	-	-
Total	**11.45M**	**19.6**	**22.0**	**21.0**	**0.9**	**20.53**	**(4,000)**	**(18,000)**	**-**	**-**

Source: CBRE Research, Q2 2026

Figure 10: Downtown Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	3.73M	28.9	27.9	27.9	-	19.57	(4,000)	213,000	-	-
Class B	3.68M	24.9	25.9	24.2	1.8	16.06	(5,000)	22,000	-	-
Class C	578,000	10.7	10.7	10.7	-	12.77	-	-	-	-
Total	**7.99M**	**25.8**	**25.7**	**24.9**	**0.8**	**17.76**	**(9,000)**	**235,000**	**-**	**-**

Source: CBRE Research, Q2 2026

Figure 11: Metro Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	9.97M	23.0	24.5	23.5	1.0	21.15	39,000	243,000	-	-
Class B	8.62M	22.2	23.6	22.7	0.9	17.41	(52,000)	(26,000)	-	-
Class C	850,000	11.0	11.0	11.0	-	13.54	-	-	-	-
Total	**19.44M**	**22.1**	**23.5**	**22.6**	**0.9**	**19.27**	**(13,000)**	**217,000**	**-**	**-**

Source: CBRE Research, Q2 2026

Market Statistics by Submarket

Figure 12

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate	Class A Asking Rent ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Central Business District	7.99M	25.8	25.7	24.9	0.8	17.76	19.57	(9,000)	235,000	-	-
Central Louisville	759,000	19.6	21.0	19.6	1.4	16.88	23.97	(17,000)	(16,000)	-	-
East County	2.48M	18.5	18.6	17.8	0.8	21.87	22.16	(16,000)	(11,000)	-	-
Hurstbourne Parkway/Shelbyville Road	5.12M	21.2	23.4	22.2	1.3	20.40	22.42	18,000	20,000	-	-
Interstate 71/ Brownsboro Road	763,000	9.8	14.2	12.7	1.5	24.59	24.61	-	-	-	-
South	1.48M	26.8	31.3	31.3	-	19.08	20.31	17,000	(14,000)	-	-
St. Matthews	840,000	9.3	14.2	14.2	-	24.21	28.83	(5,000)	3,000	-	-
Total	**19.44M**	**22.1**	**23.5**	**22.6**	**0.9**	**19.27**	**21.15**	**(13,000)**	**217,000**	**-**	**-**

Source: CBRE Research, Q2 2026

National Economic Overview

The U.S. economy enters mid-2026 navigating crosscurrents but growing at a healthy pace, with CBRE projecting GDP growth averaging 2.2%, broadly in line with 2025. The AI investment boom is certainly a key driver of this expansion. Concerns surrounding the sustainability of this growth are valid, but we expect AI-related business investment to continue.

The more pressing concern in recent months has been the U.S./Iran conflict and its impact on world energy prices, which recently pushed U.S. inflation to 4.2%. Should the prospective peace deal announced in June come to fruition, inflation would fall to the upper 3% range by year-end as energy prices slowly decrease. Stickier inflation has pushed Treasury yields well above 4%, complicating real estate markets. On the upside, the prospect for peace and normal trade flows in the Persian Gulf could refresh the optimism the CRE market felt at the beginning of the year.

Louisville, KY Employment Update

4.0%
Unemployment Rate

0.7M
Labor Force

140.0k
Office Using Jobs

241.3k
Industrial Using Jobs

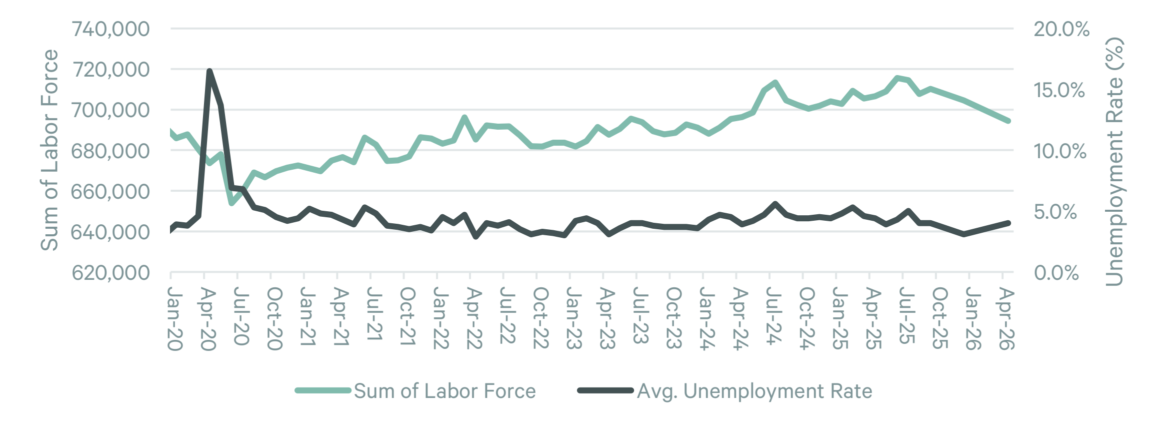
98.2k
Retail Using Jobs

Employment Change by Sector – Yearly + Monthly
Bars indicate yearly trend, arrows indicate monthly trend

Source: US BLS, April 2026

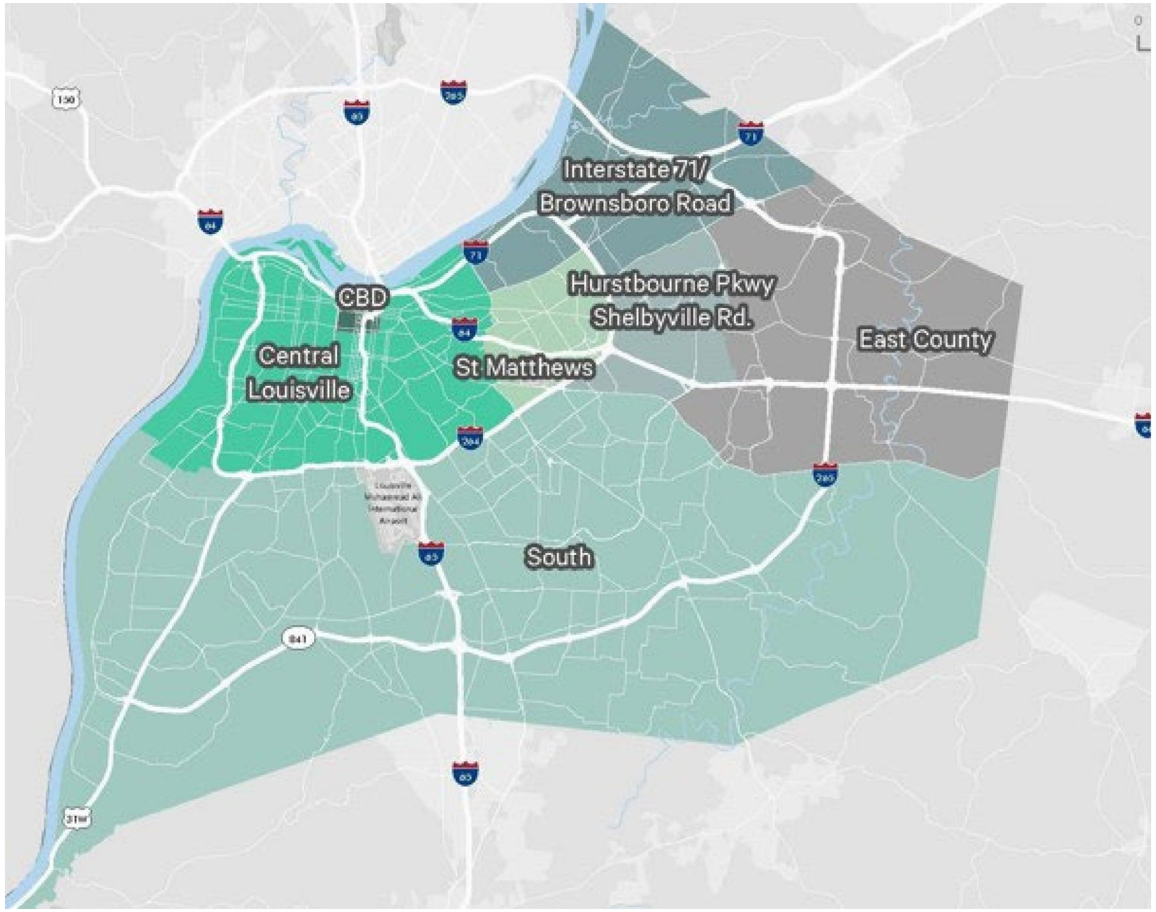
Note: Arrows indicate month-over-month change.

Unemployment Rate and Labor Force Trends



Source: US BLS, April 2026

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building. Activity: All lease transactions completed within a specified time period. Excludes user and investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all office buildings 20,000 sq. ft. and greater in size in Jefferson county. Excludes single-tenant owner-occupied buildings, government owned and occupied buildings, or medical buildings. Buildings which have begun construction are evidenced by site excavation or foundation work.

Contacts

Heather Nevin
Senior Managing Director
+1 513 369 1305
heather.nevin@cbre.com

Jill Morzillo
Senior Field Research Analyst
+1 502 412 7621
jill.morzillo@cbre.com

10200 Forest Green Blvd
Suite 500
Louisville, KY 40223
+1 502 429 6700
www.cbre.com/louisville