March 2021

ANNUAL REPORT

KANSAS CITY

2020 Market Research Report

CUSHMAN & WAKEFIELD

A MESSAGE FROM OUR **MARKET LEADER**

Cushman & Wakefield Kansas City has taken great pride in producing a comprehensive annual report for over 20 years now, but never has one theme dominated a year the way we saw in 2020. In collecting data, comparing it to previous years, and looking for trends, there was always one topic that came to the forefront. Everyone reading this report knows what that was, and we will all be feeling the effects of the COVID-19 pandemic and learning about what changes it created for years to come.

In looking at the actual performance of the Kansas City commercial real estate market in 2020, I am encouraged by the overall resilience of our community and our local economy. This report contains a thorough review of all aspects of commercial real estate, but those will always be overshadowed by other events from the past year. Much of the sufferings and loss can be quantified, as seen in the tragic numbers of deaths, hospitalizations, and business closings. Most of the great efforts, specifically the heroic work of doctors, nurses, and other front-line workers along with the generosity and compassion of the people in Kansas City to get through this, cannot be quantified. There are no charts or tables to express what those people did this year, yet there is no question those people and their work were the biggest forces in 2020.

Our office is built around learning and adapting while always striving to provide better service to our clients. This

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year, we were reminded that the most valuable thing we have to offer is our listening. In the most challenging and turbulent business environment I have ever witnessed, the one thing we could do that was the most helpful was stop and listen. Tenants and landlords all had a huge range of new questions, and before we could even try to answer them, we had to listen and learn. Cushman & Wakefield Kansas City offers services in brokerage, capital markets, asset services, project & development, and valuation & advisory. In every one of those areas, there was a lot to learn this year. Every day we learned of new questions, concerns, and uncertainties, and every day we worked to gain a better understanding of those issues and communicate with our clients.

We know 2021 will be different than 2020, and I believe that this team is now even better prepared to listen and learn than ever before. We look forward to sharing the insights and lessons we have acquired and using that information to benefit our clients. As different as the past 12 months have been, our dedication to be the premier provider of service and knowledge in the commercial real estate sector has been a constant, and that will continue going forward.

Please do not hesitate to contact me if I can ever be of assistance.

Sincerely,

Michael T. Mayer, SIOR
Managing Principal

ECONOMIC OVERVIEW

KANSAS CITY METROPOLITAN AREA

Economic Indicators	Dec 2019	Dec 2020
KC Employment	111K	1,089K
KC Unemployment (not seasonally adjusted)	3.1%	4.9%
U.S. Unemployment (seasonally adjusted)	3.5%	6.7%
U.S. CCI (quarterly average)	126.0	95.2

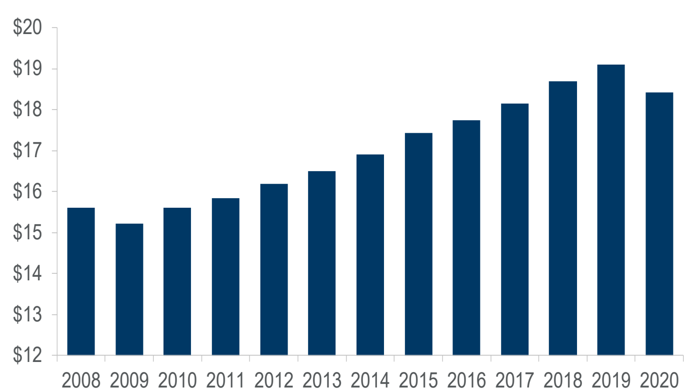
A YEAR OF **UNPRECEDENTED SHOCK**

January of 2020 started with plenty of predictable questions, including how an election year might shape the economy, would the longest economic expansion on record continue, and what kind of impact tariffs would have. By the end of March, all those topics were essentially non-stories as the world grappled with its first pandemic in a century and economies took an immediate hit unlike anything before. It is unlikely that even the small number of people who were familiar with the term "COVID-19" by January 15, 2020 could have described what the rest of the year would look like.

For our annual report, we have elected to include our normal graphs with no adjustment to the scales to account for what happened from March through June. This is not intended to scare people or create a sense of drama—this has been done to demonstrate just how beyond comprehension and completely outside the normal parameters the impact of COVID-19 was. In April, the US economy lost 20.8 million jobs. The graph displaying monthly change in total employment looks ridiculous because of this, but no one ever could have anticipated a change of 20 million in that number over the course of a year, let alone a single month.

As has traditionally been the case, the Kansas City labor market was more resilient than the national labor market. When the unemployment rate peaked in April, both nationally and locally, Kansas City was at 11.3% compared to the national level of 14.8%. By year-end, both numbers had dropped sharply, with

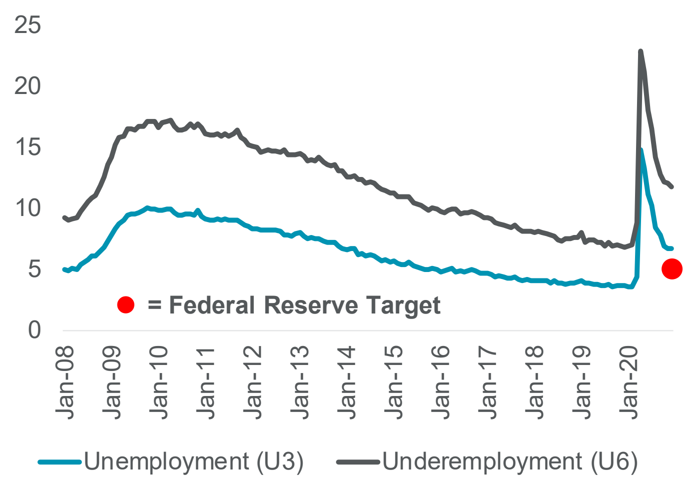
US GDP in Trillions of Chained 2009 Dollars



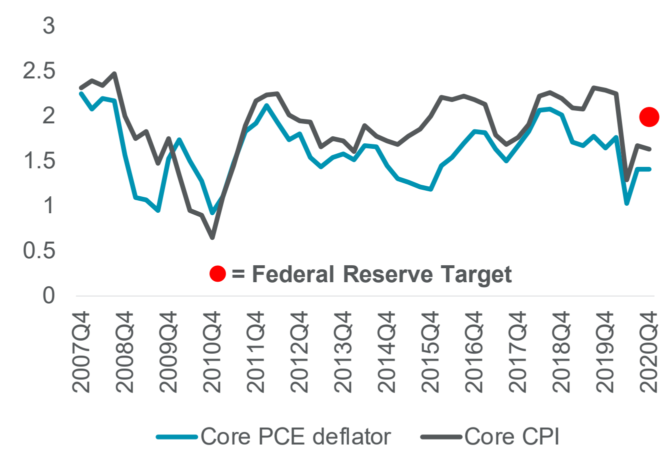
Source: Bureau of Economic Analysis

What Drives The Fed's Rate Decisions

UNEMPLOYMENT



INFLATION



Source: BLS, Cushman & Wakefield Research

the national rate at 6.7% over the last two months of the year while Kansas City saw its number fall as low as 4.4% in November before settling at 4.9% in December. The Federal Reserve Bank traditionally considers a 5.0% unemployment rate to be "full employment," but just looking at the unemployment rate alone offers an inaccurate perspective.

ON AVERAGE, 12,400 JOBS WERE ADDED PER-MONTH DURING THE FOURTH QUARTER

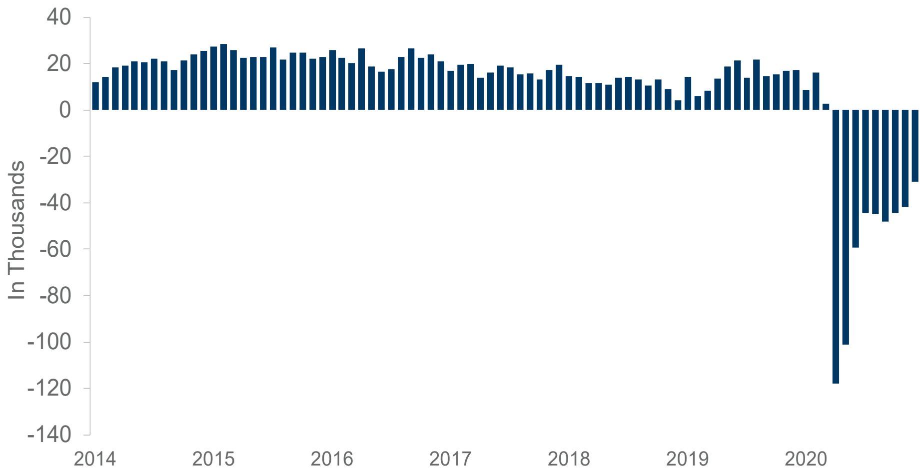
The number of nonfarm jobs in the local economy peaked at 1,112,700 in November 2019 with an unemployment rate of just 2.9%. At that point, it was possible that a lack of available workers was slowing the pace of economic expansion. But in April of 2020 the total nonfarm employment was just 993,200, a drop of 10.7% as 119,500 jobs disappeared over that time and the unemployment rate more than tripled, rising 835 basis points (bps).

Economic growth corresponds with total job growth, and while the unemployment rate is a common benchmark it includes the variables of both people working and people looking for work. In times of economic distress, the labor force—which is the combined total of people who are employed and people who are actively seeking employment—tends to fall. As people stop looking for work, the denominator portion of the equation shrinks, which lowers the unemployment rate even as the key issue of a lack of actual jobs remains unaffected. This can be a lagging indicator, as people gradually slide out of the labor force due to discouragement and a lack of opportunities causes people to abandon their job search.

A decrease in the size of the labor force can create a "false positive" situation, which was most evident in Kansas City in the month of September. Kansas City saw the local unemployment rate go from 7.3% in August to 5.0% in September, a shocking drop. However, the total number of nonfarm jobs in the local economy fell by 3,700, and the change in unemployment rate was due exclusively to a decrease of 31,500 in the labor force. Any belief that a return to sub-5.0% unemployment is proof the local economy has recovered is misguided. Average employment for the last three months of 2019 was 1,111,100, while over the last three months of 2020 it was just 1,077,800.

In more encouraging news, both the Kansas City labor force and total employment levels increased each month in October, November, and December. On average, 12,400 jobs were added per-

Year-Over-Year Change In Kansas City Employment



Source: Bureau of Labor Statistics

month during the fourth quarter and the labor force grew by an average of 12,900 people during that time. The fact that jobs are returning and people are looking for those jobs as they reappear is a very encouraging sign for the recovery ahead, although it is by no means a guarantee that the momentum will continue. There is still a long way to go before the economy returns to where it was prior to the COVID-19 pandemic.

Along with job data, the other major indicator for commercial real estate is Gross Domestic Product (GDP) , the most comprehensive measurement of economic activity. The shock to GDP in the second quarter matched the labor statistics in terms of scale, as the US economy contracted by 5.0% in the first quarter—an number that would be shockingly large in anything resembling a normal year—before falling 31.4% in the second quarter. Gross Private Domestic Investment, the portion of GDP outside of consumer and government spending, fell 46.6% in the second quarter. The US economy emerged from the first half of the year in a massive hole.

Fortunately, there was a substantial uptick in the final six months of the year and in the end the US GDP shrunk by 3.5% in 2020. For comparison, The Great Recession saw economic activity contract by 2.5% in 2009, although that was also coming off a small negative number in 2008. This recession is undoubtedly different: while the immediate impact was far greater, there was no underlying fundamental flaw with the US or global economy. As opposed to what happened in 2008 and 2009, where massive failings in the financial markets created hundreds of billions of dollars in losses, the recession in 2020 was brought about by a literal "stop" of significant portions of the US economy. As those parts of the economy reopen, total output should rapidly increase. However, the loss of millions of jobs for months will have a lasting impact that will be felt even after GDP returns to previous levels.

Most economists withdrew all forecasts and openly acknowledged that established models were never designed to incorporate anything like what happened from March through May. As such, regional or local measures for economic activity like the Gross Metropolitan Product (GMP) for Kansas City should be viewed with a modest degree of skepticism. The Bureau of Economic Analysis will not release GMP numbers until later in the year, and those figures are likely to be subject to revision going forward (as are almost all economic statistics for 2020). Current economist projections are that the Kansas City GMP declined faster than the US GDP, but a more accurate statement might be "the local economy performed roughly inline with expectations given the national situation." Kansas City has a diverse economy and while it no doubt suffered in 2020, it is well-positioned to recover.

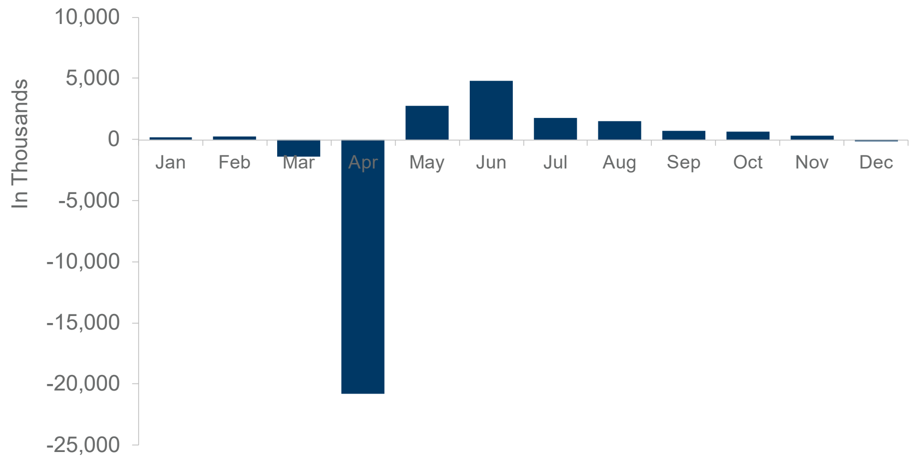
In most recessions or economic downturns the impact is spread across all sectors—that was not the case in 2020. Instead of broad consumer pullback that created a drop in revenue for a wide range of businesses, some industries saw record levels of revenue that are unlikely to be matched any time soon. Retail giant Target saw revenue for fiscal year 2020 rise by 19.8% and operating income jump by an absurd 40.4%. In a sign of just how uncertain the near future remains, the company declined to offer guidance or projections for the coming year.

There were two other major data points that helped illustrate how much everyday life was turned upside down. The first was in late April, when oil was trading at negative values, reaching negative $40 per-barrel in some instances. While the exact mechanics of what causes a commodity to trade at a negative value are somewhat intricate, the cause was quite simple: an unprecedented excess of supply with a shocking drop in demand. The other indicator came when fast-food giant McDonald's released their year-end earnings with a 10.1% drop in revenue and a 19.3% decrease in operating income.

At first glance, the drop in oil prices and a slump in McDonald's sales may not appear related, but in fact they are greatly connected. The way Americans lived changed dramatically in the span of a few weeks. People weren't driving as much and almost all travel was cancelled—two activities that drive a significant amount of McDonald's revenue and are the primary source of demand for oil. It wasn't as though commercial airlines went from an average of 90% capacity on domestic flights to 80%, commercial air traffic pretty much stopped altogether. Hotels were empty, convention halls and meeting spaces were closed, and entertainment venues became ghost towns.

Even though there is strong optimism the economy will be able to recover quickly, the massive imbalance of the recession's impact on different sectors of the economy means the recovery will not be evenly distributed. Exactly what sectors see an increase in activity and indeed which areas now see a slowdown as options that had been unavailable once again open up will be unpredictable and closely watched. 2021 will be a year where life "returns to normal" while at the same time evolutions and adjustments to businesses and day-to-day life that were brought about by the extreme circumstances of 2020 come into sharper focus.

Month-Over-Month Change in US Employment



Source: Bureau of Labor Statistics

One final regional economic indicator is the single-family housing market, which continued to thrive in Kansas City in 2020. The average price of all single-family home sales (both new and existing) was up 10.4% over the past year, while the number of days on market fell from 50 to 43. Much has been made of the housing market nationally, but Kansas City outperformed the overall US by a significant margin. The National Association of Realtors reported that the median price of existing home sales across the country rose 9.2% in 2020, while in Kansas City that figure was up 10.8%. Long term, the development of a housing shortage could be an impediment to the Kansas City economy, and with roughly half as many houses on the market at year-end 2020 as there were the year prior this is a topic to watch going forward. However, at this time Kansas City remains affordable compared to most major metropolitan areas.

OFFICE MARKET

KANSAS CITY OFFICE MARKET
2020 RESULTS & FUTURE TRENDS

Overall Vacancy	16.4%
Net Absorption	-994K
Deliveries	629K
Class A Asking Rent	$26.34
Class B Asking Rent	$19.91

Arrows = Expected 2021 Trends

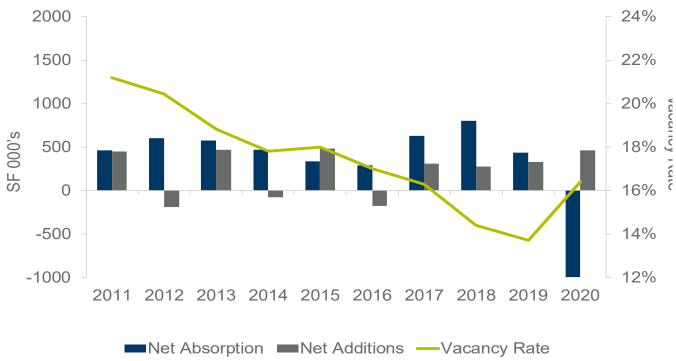
- Uncertainty throughout the year led to a severely reduced amount of activity in the office market, but the mass exodus some people feared never materialized.
- The vacancy rate did rise to 16.4%, but that was still below the ten-year average and only 10 basis points higher than it was at year-end 2017.
- While office activity should begin to resume its normal pace sometime in the summer, there are still many unknowns ahead.

THE YEAR OF THE **GHOST**

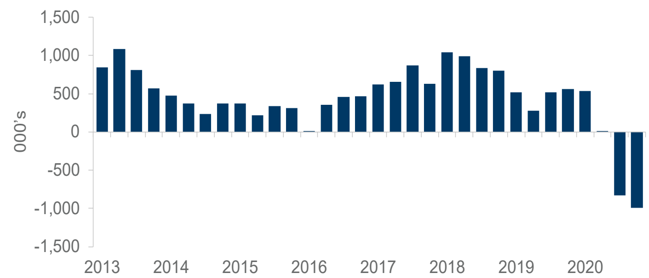
Coming into 2020, the Kansas City office market was in robust health and riding a steady wave of positive momentum. The pace of new, ground up speculative development was starting to accelerate, and proposed projects that for years had been little more than fancy marketing materials were showing signs of real progress. At the start of the year, Waddell & Reed officially confirmed they would be relocating to the Central Business District (CBD) and work began immediately on a 260,000-square-foot (sf) build-to-suit (bts) tower for the financial advisory firm. After totaling a combined 1.3 million square feet (msf) of absorption in 2018 and 2019 a lot of people were looking for another strong year in 2020. But by the middle of March, the office market had literally come to a complete standstill. Buildings sat empty as employers instituted work-from-home policies and there was uncertainty unlike ever before.

It was that uncertainty that would dominate the year. The commercial real estate market for office space is not known for sharp movements or reactions. New buildings are developed and constructed over time, large occupiers and owners tend to value stability, and the best decisions

Kansas City Class A & B Office Market



Rolling Four-Quarter Net Absorption



are deliberate, well-planned ones that establish a company's position for years to come. The events of 2020 made it impossible to operate in that manner

PERSPECTIVE IS **IMPERATIVE**

Trying to evaluate the statistical impact of 2020 on the Kansas City office market requires taking a broad viewpoint. The traditional way of measuring a market's performance is to compare one year to another, which in this case is impossible. Even if reliable data existed from the last global pandemic—the 1918 Influenza pandemic—comparing market performance between 1918 or 1919 and 2020 would be a foolish exercise. The 1918 pandemic took place about 40 years before the Interstate highway system would start to take shape. The US Department of Defense completed the first node-to-node communication between two computers (i.e. the birth of the internet) in October 1969.

While 2020 was brutal on the statistics for the Kansas City office market, the broader perspective paints a much more encouraging picture. It is important to understand that while the impact of the pandemic was virtually immediate, the recovery will be more measured. There is still the strong possibility that the first six months of 2021 will be in line with the slow, tenuous, cautious climate of the second half of 2020. But the indications are Kansas City will be working from a strong foundation as the market recovers and evolves going forward.

At the end of 2019, the key statistical measures of the Kansas City office market were the strongest they had been in a decade. The market was on a nine-year run of positive absorption, averaging 510,000 sf per-year over that time. At the end of 2011, the overall vacancy rate in the market was 20.3%, but by the start of 2020 that number had fallen to 13.7%, the lowest in at least a generation. As mentioned above, new construction was also on the rise.

The last nine months of 2020 saw a dramatic reversal of those trends. After a modest first quarter of the year saw positive absorption of 25,000 sf, the market then had three consecutive quarters of negative absorption, ending the year at negative 994,000 sf. The vacancy rate rose sharply to 16.4% and leasing activity was down 34.6%. Not surprisingly, the second and third quarters were the most

THE BROADER PERSPECTIVE PAINTS A MUCH MORE ENCOURAGING PICTURE

impacted, with negative 476,000 sf of absorption in the second and negative 459,000 sf in the third while there was a total of just 697,000 sf of leasing activity over that six-month period.

It is at this point that the perspective becomes important. For the five-year period ending in 2020, the total net absorption for office space in Kansas City was 1.2 msf and the vacancy rate dropped 161 basis points (bps). The only year with negative absorption or an increase in vacancy rate was 2020—the year no market could have expected to emerge unscathed from. An annual average of 200,000-to-250,000 sf of absorption, which is where

KEY **SALES TRANSACTIONS**

PROPERTY	SF	SELLER/ BUYER	INVESTOR/USER	SUBMARKET
9300 Ward Parkway	486,000	JCE/US Realty Advisors	Investor	South Kansas City
5200 Metcalf Avenue	313,385	Lexington Realty/ Somera Road	Investor	North Johnson County
9201 State Line	166,641	Lexington Realty/Real Capital Solutions	Investor	South Kansas City
9001 W 67th Street	146,604	VF Jeanswear Limited/Nations Holding	User	North Johnson County

KEY **LEASE TRANSACTIONS**

PROPERTY	SF	TENANT	TRANS TYPE	SUBMARKET
800-850NW Chipman Road	313,209	GSA	Renewal	E and SE Jackson County
1400 Baltimore	260,000	Waddell & Reed	BTS Lease	Downtown
5700 Broadmoor Avenue	80,025	VinSolutions	Renewal	North Johnson County
7101 College	34,404	BOK	Lease	South Johnson County
7321 W 80th Street	32,000	MMGY Global	Lease	North Johnson County
10561 Barkley	30,861	Examinetics	Renewal	North Johnson County
1712 Main Street	30,716	Plexpod	Lease	Crossroads
11400 Tomahawk Creek	30,111	Euronet	Lease	South Johnson County

the five-year average ended up, is below expectations, but there is no denying that the Kansas City office market finished 2020 in better condition than it did in 2015.

THE SPECTER OF **SUBLEASE SPACE**

When uncertainty takes hold, you can count on dread to create a sense of panic. By the second quarter of 2020, the immediate great fear in the office sector was that massive quantities of sublease space would flood the market, which would increase the amount of available supply while also lessening demand at the same time. The long-term impact of subleases put on the market either directly because of COVID or due to changes in how companies handle their office spaces and employees following the dramatic shift in workplace practices is still to be determined. In some larger office markets around the country, these sublease spaces have already had a major impact and appear set to have a significant influence for some time. But in Kansas City in 2020, sublease space did not upend the market to a major degree.

THE CLEAR TREND IS THAT TENANTS ARE PREPARED TO PAY THE RATES ASSOCIATED WITH NEW, GROUND UP CONSTRUCTION

At the end of 2019, Cushman & Wakefield research reported 44 sublease spaces totaling 372,000 sf, while at the end of 2020 those numbers had risen to 63 and 912,000 sf. The increase in space available is eye-popping, but the net addition of just 19 sublease spaces is more telling. While the market ended the year with a net increase of 539,000 sf of vacant sublease space, the three largest subleases accounted for 51.0% of that total. At least 78,000 sf of new sublease space was offered in a single-tenant, BTS office tower and that decision was not related to the pandemic. Of those three largest subleases, one is located in the Northland submarket, one in the CBD, and one in the southwest corner of the North Johnson County submarket, meaning they are about as spread out as possible.

If those three major sublease spaces are removed from the equation, Kansas City saw a net increase of 16 available subleases while the average size of a sublease space rose approximately 500 sf. In a normal year, those numbers might warrant a bit more investigation, but they would hardly be a cause for concern. That reasonable uptick in numbers along with three major sublease listings (at least one of which was non-pandemic related) is a better outcome than what most people were fearing during May and June.

This is not to say that the market no longer has to worry about the potential fallout from sublease space, and perhaps more significantly, tenant downsizing. The overwhelming force in the Kansas City office market in 2020 was uncertainty, and many tenants may have been waiting to get some sense of what their offices would look like when employees began returning in major numbers before making decisions. Most occupiers in the Kansas City market adopted a patient, disciplined strategy in 2020 and appeared set on learning more before making long-term decisions. While 2021 should see workers return to the office at a steady rate, there are still decisions to be made, and those could certainly lead to more space being made available, either via sublease or negotiating downsizes with landlords.

THE EXISTING OFFICE WENT QUIET **BUT THE CONSTRUCTION NEVER STOPPED**

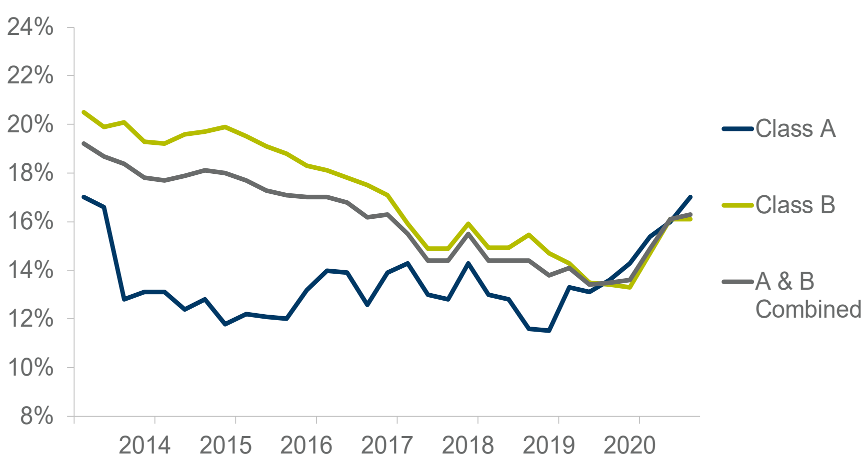
One of the most encouraging signs over the past few years that Kansas City was entering a period of sustained expansion was the increase in the amount of speculative office construction. From 2009 through 2019, only four true speculative buildings 100,000 sf or larger were delivered in the Kansas City market. In 2020 alone, three such buildings were completed, and it is worth noting all three had significant pre-leasing activity. As for the speculative buildings delivered between 2009 and 2019, those four buildings total 517,000 sf and have a vacancy rate of just 3.6%. The demand for new office product exists, it's just that no one was creating a supply.

The most visible of the new projects to deliver in 2020 was 46 Penn Centre, a Class A-plus office tower on the north side of the Plaza that has 194,000 sf of office space built on top of structured parking with retail on the ground floor. The striking tower incorporates features such as a rooftop deck, modern engineering that allows for more efficient floorplates, and large windows to maximize natural light. 46 Penn Centre was constructed with an eye towards setting a new standard for premium office product in the market, and it has done so. The building was just over half-leased when it was completed this summer, and additional tenants should be secured in 2021 as leasing activity begins to resume and tenants look to upgrade their spaces.

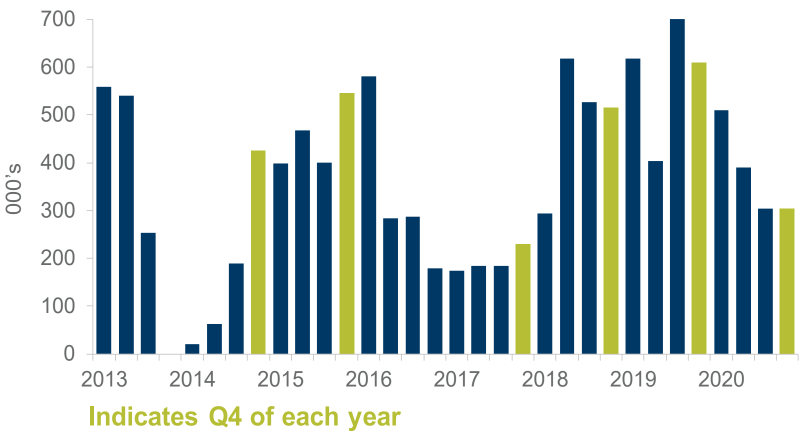
In North Johnson County, the Edison District delivered a 107,000-sf Class A office building as part of a larger redevelopment that is transforming the downtown Overland Park area around 80th and Metcalf into more of a live-work-play "suburban urban neighborhood." At I-435 and College Boulevard in South Johnson County, work was completed on the second 120,000-sf Class A building at the mixed use CityPlace project. The first office building at CityPlace delivered in 2019 and is already 100% occupied.

The clear trend is that tenants are prepared to pay the rates associated with new, ground up construction, which are noticeably higher than the overall weighted average Class A rents in the market. For years, developers were wary about pushing the envelope on rents, but as tenants become familiar with the quality of product and benefits of new office construction there is increased interest. New construction

Vacancy Trend



Leaseable Space Under Construction



starts in 2020 slowed, no doubt in part to the overall uncertainty throughout the economy. Work on the 108,000-sf Creative Campus Three, which will join the two existing buildings and complete the development, was underway at year-end and while the 122,000-sf Building One was 100% pre-leased prior to starting construction, the third building is a true speculative project.

OUTLOOK

- Kansas City should expect to see negative absorption in at least the first quarter as the slow pace of new leasing and tenant uncertainty continue to impact the market.
- Employers are expected to gradually bring more and more employees back into the office, and while there will be an increase in the number of people working from home, companies will continue to maintain an office presence.
- Sustained low interest rates will create investment interest in the Kansas City market, but single-tenant buildings will be the most attractive.
- Class B rental rates will likely struggle in 2021, with landlords having to discount or offer significant tenant improvement allowances to secure new leases.

WHERE WE GO **FROM HERE**

Following 2020, the coming year will be a period of mapping out the future of the office market in Kansas City. Following the enforced work-from-home experiment, it is likely some companies will reduce the number of employees in the office, and in doing so lessen the overall demand for office space. However, there will also be changes in how day-to-day activity is conducted in offices and how to best accommodate those needs. There will be long-lasting changes to the office market, and those who adapt and implement creative solutions will be the most successful, both tenants and landlords.

Despite everything that happened over the past 12 months, the long-term fundamentals remained stable. Coming into the year, there were signs that tenants wanted an improved office product in the form of Class A-plus, ground-up, new construction, and they were prepared to pay for it. The owners of Aspiria (formerly the Sprint Campus) in Overland Park announced plans late in the year regarding the development of roughly 60 acres of land on the property that will include retail, entertainment, multi-family, and office space. Multiple Class A office buildings totaling 1.4 msf are part of those plans, and work on the first new building should start in 2021, with at least one major tenant already secured. Moving on from 2020 will be a gradual process for the office market, but things are expected to pick up this year and there is optimism 2022 will see a very strong recovery.

THINGS ARE EXPECTED TO PICK UP THIS YEAR AND THERE IS OPTIMISM 2022 WILL SEE A VERY STRONG RECOVERY

	INVENTORY (SF)	SUBLET VACANT (SF)	TOTAL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*
CBD									
DOWNTOWN									
A	3,721,309	71,643	682,529	18.3%	(35,000)	(54,656)	355,821	360,000	$23.41
B	3,297,344	0	273,240	8.3%	(4,790)	(10,494)	70,675	0	$18.42
Total	7,018,653	71,643	955,769	13.6%	(39,790)	(65,150)	426,496	360,000	$21.93
CROWN CENTER/CROSSROADS									
A	1,974,757	183,555	524,978	26.6%	1,822	(31,973)	77,268	0	$24.94
B	2,634,657	19,471	581,833	22.1%	6,933	(136,500)	95,995	0	$20.11
Total	4,609,414	203,026	1,106,811	24.0%	8,755	(168,473)	173,263	0	$22.58
CBD TOTALS									
A	5,696,066	255,198	1,207,507	21.2%	(33,178)	(86,629)	433,089	360,000	$24.09
B	5,932,001	19,471	855,073	14.4%	2,143	(146,994)	166,670	0	$19.51
Total	11,628,067	274,669	2,062,580	17.7%	(31,035)	(233,623)	599,759	360,000	$22.27
SUBURBAN									
PLAZA									
A	2,187,618	35,536	327,751	15.0%	(24,800)	57,349	35,731	0	$30.12
B	1,068,551	17,518	217,970	20.4%	1,138	(60,034)	47,852	0	$25.42
Total	3,256,169	53,054	545,721	16.8%	(23,662)	(2,685)	83,583	0	$25.40
SOUTH KANSAS CITY									
A	939,000	0	0	0.0%	0	142,000	0	0	N/A
B	2,527,180	8,282	331,057	13.1%	(25,658)	(10,157)	71,982	0	$19.72
Total	3,466,180	8,282	331,057	9.6%	(25,658)	131,843	71,982	0	$19.72
NORTHLAND									
A	934,239	0	256,084	27.4%	(33,294)	10,923	28,570	0	$24.25
B	2,805,599	118,130	1,010,274	36.0%	8,804	(225,834)	32,785	0	$17.02
Total	3,739,838	118,130	1,266,358	33.9%	(24,490)	(214,911)	61,355	0	$18.11
EAST & SE JACKSON COUNTY									
A	107,107	0	21,665	20.2%	0	(6,679)	2,022	0	N/A
B	2,888,687	0	430,778	14.9%	35,501	12,064	63,613	0	$19.42
Total	2,995,794	0	452,443	15.1%	35,501	5,385	65,635	0	$19.42
NORTH JOHNSON COUNTY									
A	1,481,157	0	293,376	19.8%	0	140,678	125,858	96,885	$30.29
B	5,749,328	213,979	1,095,778	19.1%	27,756	(262,528)	306,195	0	$19.47
Total	7,230,485	213,979	1,389,154	19.2%	27,756	(121,850)	432,053	96,885	$21.79
SOUTH JOHNSON COUNTY									
A	4,265,021	58,669	565,464	13.3%	(61,616)	(40,838)	203,634	108,000	$27.52
B	15,600,933	184,902	1,928,865	12.4%	(41,107)	(489,162)	616,164	0	$22.04
Total	19,865,954	243,571	2,494,329	12.6%	(102,723)	(530,000)	819,798	108,000	$23.37
OTHER SUBURBAN MARKETS									
A	110,800	0	0	0.0%	0	0	0	0	N/A
B	1,332,801	0	231,491	17.4%	4,885	(27,992)	47,989	0	$17.97
Total	1,443,601	0	231,491	16.0%	4,885	(27,992)	47,989	0	$17.97
SUBURBAN TOTAL									
A	10,024,942	94,205	1,464,340	14.6%	(119,710)	303,433	395,815	204,885	$28.34
B	31,973,079	542,811	5,246,213	16.4%	11,319	(1,063,643)	1,186,580	0	$19.97
Total	41,998,021	637,016	6,710,553	16.0%	(108,391)	(760,210)	1,582,395	204,885	$21.77
ALL SUBMARKETS									
A	15,721,008	349,403	2,671,847	17.0%	(152,888)	216,804	828,904	564,885	$26.34
B	37,905,080	562,282	6,101,286	16.1%	13,462	(1,210,637)	1,353,250	0	$19.91
TOTAL	**53,626,088**	**911,685**	**8,773,133**	**16.4%**	**(139,426)**	**(993,833)**	**2,182,154**	**564,885**	**$21.89**

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INDUSTRIAL MARKET

KANSAS CITY INDUSTRIAL MARKET
2020 RESULTS & FUTURE TRENDS

Overall Vacancy	4.9%	◀▶
Net Absorption	8.316 MSF	◀▶
Deliveries	6.067 MSF	▲
Asking Rent	$4.31	◀▶

Arrows = Expected 2021 Trends

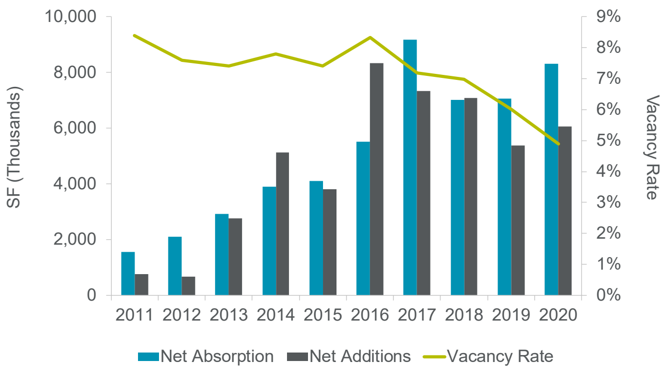
- Kansas City ended the year with a record high of 9.7 msf of space under construction and it is expected 2021 will set a record for deliveries.
- Owner-user opportunities have been somewhat rare for newer buildings, but strong demand may cause developers to reconsider and look at selling new projects.
- The acceleration of e-commerce growth in 2020 is expected to continue in 2021 and even beyond.

A SHOCK, FOLLOWED BY **ACCELERATION**

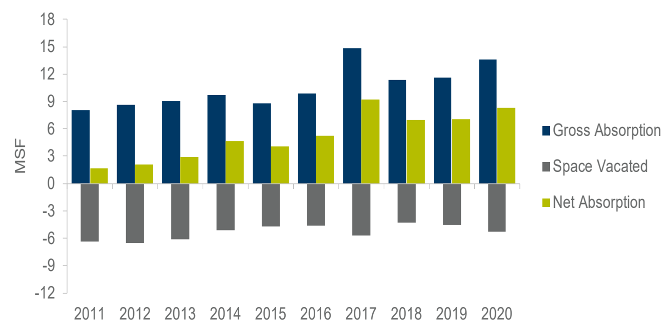
Kansas City entered 2020 on a strong run. From 2017 through 2019, the industrial market averaged 7.8 million square feet (msf) of absorption per-year, and Cushman & Wakefield research was confident another year of 7.0 msf lay ahead. The average annual absorption for 2011 through 2016 was 3.4 msf, so even if the market were to continue with 6.0 msf to 7.0 msf of absorption for the foreseeable future, that would be considered strong performance.

The entire country has been in the midst of huge expansion in industrial space over the past several years, driven in large part by the growth of e-commerce and increased demand for high speed logistics capabilities in almost every sector of the economy. Kansas City has been one of the major beneficiaries of that expansion, but no one could have anticipated the shocks that hit the economy during the first half of 2020. While many sections of the economy ground to a halt or were completely upended, the forces driving the industrial expansion saw an unprecedented increase in demand.

Net Addition, Absoprtion, and Vacancy



Net and Gross Absorption



CAN'T GO **FAST ENOUGH**

The most high-profile driver of the industrial expansion has been the rise in e-commerce, and no major retailer or producer of consumer goods will be able to survive in the future without being able to operate in the e-commerce realm at the highest level of efficiency. In that sense, the continued demand for new industrial space in the Kansas City market was predictable and unsurprising. But it was impossible to anticipate just how fast things would change.

By mid-April, it was apparent that everyday life in United States was going to be different for the foreseeable future. One of the consequences of the lockdown orders and social distancing protocols was a forced change in American shopping and consumption habits. These changes were already underway—e-commerce had been growing as a percentage of total sales for well over a decade and there was no reason to believe that would change. But the outside forces created a spike in the rate of e-commerce growth and pushed the consumer economy forward along its e-commerce shift faster than anyone could have anticipated. For companies that had created 2020-2025 plans to build out their e-commerce infrastructure, by May 1, 2020 those plans had become "RIGHT NOW."

Kansas City has benefitted from an unprecedented amount of speculative construction over the past several years, with an average of 6.8 msf of new space delivered per-year over the past five years. At times, there have been skeptics who questioned the wisdom of building new space at such a rate, despite the continued high absorption totals. As it turns out, Kansas City has been doing just barely enough to keep pace with demand.

KANSAS CITY ON THE **NATIONAL SCENE**

The commercial real estate industry has traditionally seen a handful of dominant markets that command an outsized proportion of the national attention. In the office market, New York, San Francisco, Washington DC, and a few other metro areas have long been viewed as gateway markets, with everywhere else residing on a distinctly lower tier. Industrial was similar, with Chicago, Dallas-Ft. Worth, and Los Angeles playing the role of 800-lb gorilla. In fact, the five largest markets tracked by Cushman & Wakefield research account for 27.5% of all industrial inventory in the US, and three of those five markets reported more than 21.0 msf of absorption this past year.

While the dominant forces in the market are likely to remain in that position, a "super second" tier of markets has emerged over the last decade. These markets, most of which are located farther inland and are central hubs of railroad and Interstate activity, have seen an explosive level of growth. Of all markets with less than half-a-billion square feet of inventory, Kansas City has posted the fifth highest net absorption total over the past four years. What makes that feat even more impressive is the four markets which rank ahead of Kansas City have an average inventory of 329.9 msf, while Kansas City ended the year with 233.7 msf. There is no question that Kansas City has been one of the most dynamic and fastest growing markets in the country over the past few years.

KEY SALES TRANSACTIONS

PROPERTY	SF	SELLER/ BUYER	INVESTOR/USER	SUBMARKET
I-35 Logistics Center	1,388,778	Sun Life Insurance/MDH	Investor	Jackson County
11401 N Congress Ave	500,000	Harley-Davidson/Melaleuca	User	KCI
Midwest Gateway 2	186,107	Copaken Brooks/Dots Pretzels	User	Johnson County
2401 Midpoint Drive	180,000	EPC Real Estate/Midpoint	Investor	Wyandotte County

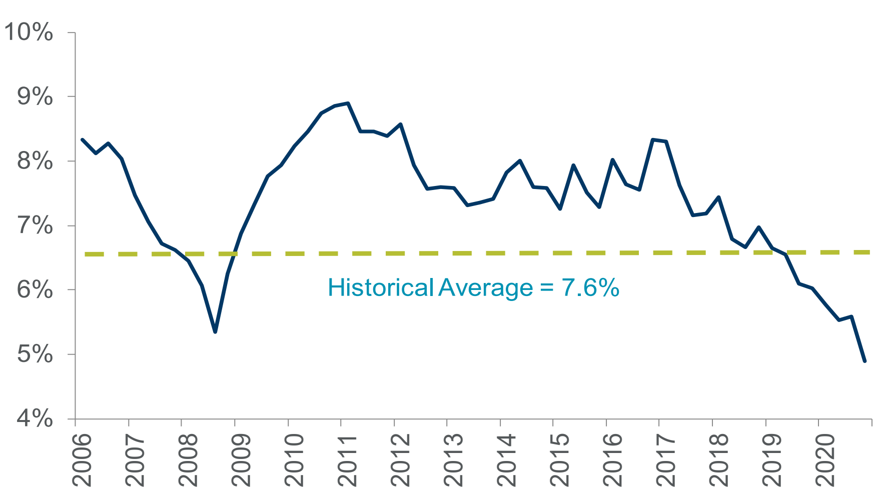
KEY LEASE TRANSACTIONS

PROPERTY	SF	TENANT	TRANS TYPE	SUBMARKET
Inland Port VII	952,956	Gatorade	Lease	Johnson County
Southview Commerce #3	800,000	Ecommerce Tenant	BTS-Lease	Jackson County
Southview Commerce#2	575,000	Boxy Charm	Lease	Jackson County
Northland Park #6	548,560	FedEx	Lease	Northland Park
Midwest Gateway #1	301,603	Bayer	Lease	Johnson County
Turner Logistics Center I	315,424	Harte-Hanks	Lease	Wyandotte County
1331 Saline Street	250,000	Reverse Logistics	Lease	North Kansas City
10707 NW Airworld Drive	200,304	DHL	Lease	KCI

OUTLOOK

- Kansas City finished the year with a record amount of space under construction, and even more is expected to get underway during the first half of 2021.
- With large-scale build-to-suits and aggressive speculative development, 7.0 msf of absorption should be the baseline for a healthy year over the near future.
- Older, Class B product has performed well and given the lack overall available space in the market those buildings should continue to maintain a high occupancy rate

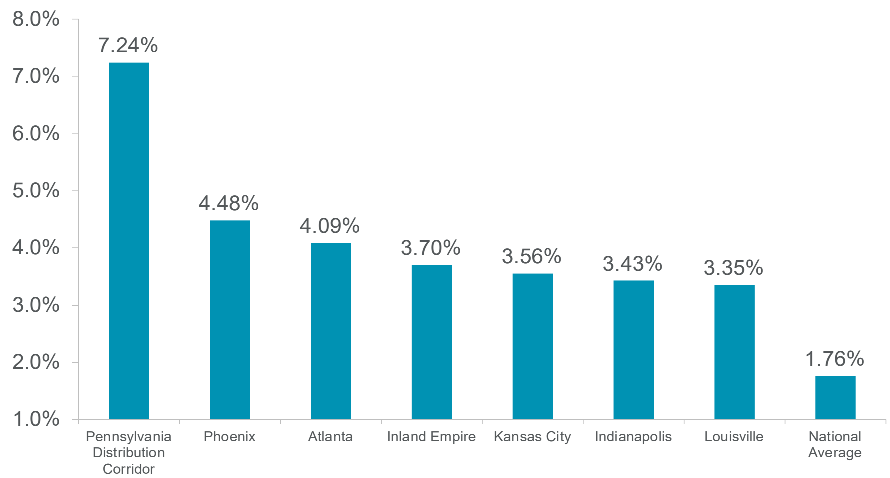
Overall Vacancy Rate



All signs point to Kansas City continuing to strengthen its position as one of the most important and successful markets behind the long-established giants. At certain times in Kansas City's expansion there have been questions as to whether or not it had hit the ceiling. The most notable moment was mid-year 2019, when the second quarter ended with "only" 3.3 msf of space under construction following 4.4 msf of absorption in the first six months of the year. It was possible to look at the statistics and feel that supply had caught up with demand

and it was time to recalibrate. However, it turns out that a variety of factors combined to create a low under construction total right when the second quarter ended, and things quickly picked up again. By the third quarter of 2019, the under construction total was back up to 6.2 msf, and 2020 ended with a record shattering 9.7 msf of space under construction and a vacancy rate below 5.0% for the first time in Cushman & Wakefield's records.

Net Absoprtion As a Percentage of Inventory



REIMAGINING THE **WAREHOUSE**

A significant part in the industrial expansion of the last decade has been the evolution of industrial product, as better lighting, more dock doors, and bigger parking lots also saw ceiling heights go from 32' to 36' and now even 40'. Speculative developers were offering a much improved and more desirable product, and tenants gravitated towards it. But as the product itself changed, so did the way tenants viewed their industrial space.

Not long ago, a warehouse was where products were stored. In the retail business in particular, they were viewed as a necessary cost center that was needed to support the income generating profit centers, but cost centers nonetheless. The rise of e-commerce combined with the increased focus on efficient operating led companies to take a different view of warehouse and distribution space. While it is easy to see how the rise in e-commerce increased the value of modern industrial buildings, there are many less obvious factors that created demand for top-of-the-line industrial product. Following the Great Recession, every company increased its focus on cash management and maintaining low inventories to improve financial efficiency. Yet at the same time, it became even more vital to avoid out of stock items. A customer in a bricks-and-mortar retail store that can't find a specific product might choose something different or return another time. With the advent of online shopping, going to a different store—and taking your money with you—became as simple as clicking a button.

AS THE PRODUCT ITSELF CHANGED, SO DID THE WAY TENANTS VIEWED THEIR INDUSTRIAL SPACE

This is the powerful combination of factors that has driven the industrial expansion: a demand for more selections that can be delivered or distributed in a shorter period of time while maintaining lower inventory levels. A modern industrial park of buildings delivered in the last five years looks much different than what a distribution park looked like 15 or even 10 years ago. Higher ceilings, better parking lots, more room for trailer storage, and dock doors at almost every every opportunity, with activity buzzing around 24 hours a day. American shopping habits and expectations have been changing, and as two-day delivery became next-day delivery and is now becoming same-day delivery, modern distribution space is racing to catch up.

Changing the fundamental way consumers in America shop is a massive undertaking, and we are in the midst of seeing an entire national network be created to meet the evolving demands. Kansas City has established that it will be a key part of that network. As mentioned previously, five-year plans were accelerated into six-month plans during 2020. National interest in the Kansas City market is expected to remain high and that demand should continue to support levels of absorption in the 6.0 msf to 8.0 msf range per-yer, if not higher.

Absoprtion, 2017-2020, Markets Less Than 500 MSF

SUCCESS **ACROSS THE BOARD**

A granular inspection of the industrial statistics for the Kansas City market in 2020 shows no weak spots. All eight major submarkets reported positive absorption, while the KCI, Jackson County, Johnson County, and combined Executive Park & Northland Park submarkets all saw more than 950,000 sf of absorption. Each of those submarkets, along with Wyandotte County, ended the year with over 800,000 sf under construction, and additional construction is set to get underway in the Liberty area in the first quarter of 2021. The only other two major submarkets are North Kansas City, where the only way there could be new construction of any significance is if existing buildings are demolished for redevelopment, and Riverside, which is currently built out and will not see any more new construction unless the city government decides to open up additional parcels of land for industrial use.

While much of the focus on Kansas City's industrial success has centered on the construction of new modern distribution space, older product continues to perform well. Buildings considered Class B Warehouse total 41.8 msf of the Kansas City inventory, not too far behind the 53.7 msf of modern distribution. Many tenants have relocated from Class B buildings to new construction over the past several years, but tenants have rapidly been filling that space and at the end of 2020 the vacancy rate for Class B Warehouse was only 4.6% after the category reported 1.2 msf of absorption. The Class B vacancy rate has been volatile in recent years as moveouts create new vacancies and that space is then backfilled, but the strong demand for older space is the sign of a healthy market and will also support rental rates in new buildings.

CHANGING THE FUNDAMENTAL WAY CONSUMERS IN AMERICA SHOP IS A MASSIVE UNDERTAKING, AND WE ARE IN THE MIDST OF SEEING AN ENTIRE NATIONAL NETWORK BE CREATED

In the Manufacturing product class, Kansas City was home to one of the most high-profile transactions in the country in 2020, when the former Harley-Davidson assembly plant was purchased by Melaleuca, an e-commerce retailer, manufacturer, and distributor of nutritional, pharmaceutical, and personal wares products. The plant was dark for just more than a year before going under contract, and during that time it was impeccably maintained. The new owners were attracted to the property in large part because it was a very unique opportunity to establish production capabilities and have them online much quicker than building a new facility.

The exact needs of tenants looking to the Kansas City market vary greatly, and that can be seen in several trends. There are companies looking to establish national distribution centers and require massive amounts of space to do so, and for the second time in three years the market saw a single tenant lease a speculative building larger than 900,000 sf at Logistics Park Kansas City (LPKC).

	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	2020 DELIVERIES
Submarket								
Johnson County	986	75,684,636	188,116	3,137,090	4.4%	3,711,173	3,306,345	1,588,756
Wyandotte County	391	32,596,125	34,608	1,214,657	3.8%	495,438	2,953,642	406,000
Exec Park / Northland Park	186	18,927,944	39,900	594,483	3.4%	1,010,051	815,074	1,162,968
Jackson County	831	59,065,140	50,537	2,943,661	5.1%	1,403,123	1,608,323	1,068,225
North Kansas City	251	15,016,397	-	447,269	3.0%	285,379	-	-
KCI	67	7,608,943	-	714,246	9.4%	956,307	850,344	892,130
Riverside	58	6,027,433	-	598,694	9.9%	130,281	-	207,752
Other Northland	88	18,010,996	-	1,458,241	8.1%	324,196	181,321	741,000
Cass County	12	752,515	-	-	0.0%	-	-	-
Warehouse/Distribution	776	140,017,573	211,222	7,967,150	5.8%	7,379,342	9,196,049	5,516,956
Manufacturing	1,188	68,354,396	-	1,204,885	1.8%	1,194,771	500,000	425,000
Office Service/Flex	905	25,098,160	101,939	1,936,306	8.1%	(258,165)	19,000	124,875
High Tech	1	220,000	-	-	0.0%	-	-	-
TOTAL	**2,870**	**233,690,129**	**313,161**	**11,108,341**	**4.9%**	**8,315,948**	**9,715,049**	**6,066,831**

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Anticipating that jumbo tenants will remain active and continue to consider Kansas City, NorthPoint Development has started work on a 1.1 msf speculative building at LPKC. But the Kansas City market is being driven by a wide range of tenants. In 2020, leases ranging in size from 58,000 sf to 953,000 sf were signed just in speculative buildings that were delivered in 2020 or were still under construction at year end. Altogether, those leases totaled 4.0 msf.

Moving forward, the most immediate demand is likely to be focused on new construction at infill locations and no development is better situated to meet those needs than Turner Logistics Center. Located along Interstate 70 and the Turner Diagonal in Wyandotte County at the site of a completely reworked interchange, Turner Logistics Center sits on one of the major east-west highways in the country, offers direct access into the Central Business District, and can connect with the Johnson County suburbs via Interstate 635. Plans call for Turner Logistics Center to total 3.0 msf in eight buildings, although tenant demand could casue for those plans to change. At year-end, the first building had delivered while another two were under construction, and multiple leases had already been signed in the park.

RETAIL MARKET

KANSAS CITY RETAIL MARKET
2020 RESULTS & FUTURE TRENDS

Vacancy	8.1%
Net Absorption	-358,000 SF
Lease Asking Rent (NNN)	$13.23

Arrows = Expected 2020 Trends

- The COVID-19 pandemic had a larger impact on retail than on any other commercial real estate sector.
- While a sizeable percentage of retail tenants struggled, some set records for revenue and profit.
- It will not be until the third quarter of 2021 at the earliest that a picture of what the future holds for retail space begins to materialize.

BEYOND A **CHALLENGE**

2020 was a year of uncertainty for all aspects of the economy, but aside from medical facilities, no portion of the commercial real estate industry was as dramatically impacted as retail. Many retail tenants were forced to shut down altogether for extended periods of time, and even when allowed to resume business they were forced to do so in ways that were challenging and in some ways impractical. Not only was the retail landscape facing unprecedented challenges, but the landscape was shifting literally day-by-day.

Kansas City retail started off okay in 2020, with 43,000 square feet (sf) of absorption in the first quarter nearly matching the 54,000-sf total from the year before. However, that was followed by three consecutive quarters of negative absorption, including a painful negative 211,000 sf in the third quarter. By year-end, the market had recorded negative 358,000 sf of absorption and the vacancy rate had risen to 8.1%. Total leasing activity was also down compared to 2019, which does not bode well for a quick rebound in the coming year.

A review of the statistics may not be all that informative in terms of understanding the actual state of the retail real estate market at this time. The federal government took unprecedented steps, both in terms of speed of action and amount of resources devoted to support the economy, and the retail and hospitality industry was one of—if not the—largest recipients of this aid. As those support programs begin to expire, there could be a much larger shakeup in retail.

SUDDEN SILENCE

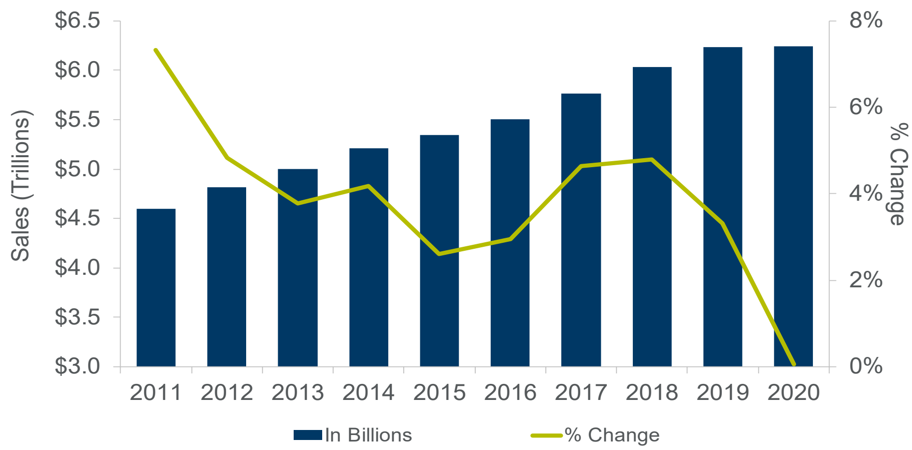
While real estate occupancy statistics can be a lagging indicator, employment numbers tend to offer a very immediate view of what is happening in a particular sector.

EMPLOYMENT NUMBERS TEND TO OFFER A VERY IMMEDIATE VIEW OF WHAT IS HAPPENING IN A PARTICULAR SECTOR

Not surprisingly, companies that traditionally occupy retail spaces were hammered during the second quarter. In the Kansas City metro area, the combined number of jobs in the Leisure & Hospitality sector (which includes restaurants, bars, and entertainment venues) and Retail Trade sector went from 210,900 in March to just 155,000 in April.

As shocking as those numbers were, it's important to realize that they could have been even worse. The US first declared a public health

US Retail & Food Service Sales



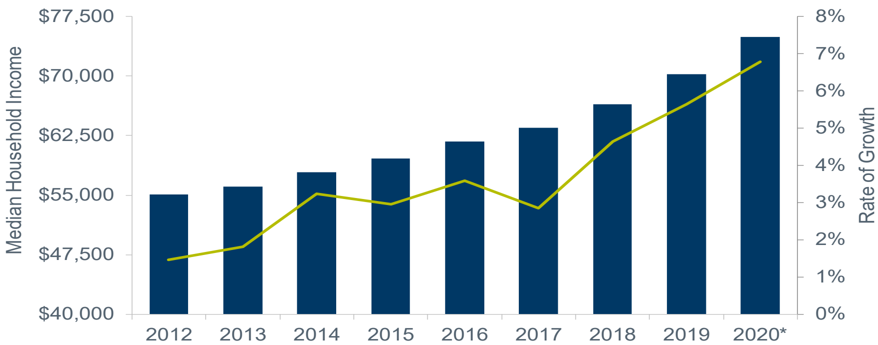
Source: U.S. Census Bureau

emergency on February 3rd and it was not until March 13th that a National Emergency was officially declared. Exactly two weeks later on March 27th, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law, providing $2.2 trillion in economic stimulus. That type of speed is not normally associated with the federal government.

Despite the unprecedented amount of government intervention, there was simply no way to fully make up for the blow to retail businesses. Movie theaters were forced to shut down completely, entertainment venues ranging from 200-person event spaces to 50,000-seat baseball stadiums were empty, and while a large amount of retail operations were able to claim "essential" status, many local businesses were forced to cease operating on a temporary basis or switch to practices that were not conducive to profitable operation. Even the type of businesses that some people may have instinctively thought would benefit suffered. There was a sense that pizza and barbecue restaurants would see an increase in business given their long history of carry-out, but even an increase in carry-out orders would at best offset the loss of in-person revenue. Those same restaurants traditionally rely on catering events and parties as well—a revenue stream that no longer existed. It's nice when five people from a single office decide to order a pizza from your restaurant on a Tuesday night, but it still does not make up for catering a 20-person lunch in that same office.

The most encouraging metric for the Kansas City retail market comes from the rebound in jobs after the sudden drop in April. Looking just at Retail Trade numbers, which do not include Leisure & Hospitality jobs at hotels, restaurants, and entertainment venues, the total number of jobs increased every month from May through December

Kansas City Median Household Income



Source: US Census, Moody's Analytics
** projected*

with just one exception. In fact, from August through December the number of Retail Trade jobs was higher than the same month in 2019. Where that trend goes moving forward is uncertain. Many retailers brought on extra employees to handle the new protocols related to operating in a pandemic and what becomes of those jobs in the future remains to be seen. Regardless, the fact that during the second half of the year retailers in Kansas City were actively hiring is a positive sign.

OUTLOOK

- Landlords must maintain open channels of communication with their tenants as government stimulus programs expire or are modified.
- Reopening all portions of the economy will be a massive boost for the retail sector, but expect closures to continue as some shops face the reality that traffic is unlikely to recover in the near future.
- All retail outlets, especially restaurants, will examine which alternative revenue generating strategies they developed during the pandemic are worth maintaining as a part of their core operation.

A REVOLUTIONIZED LANDSCAPE

The most useful way to understand just how large the challenges to retail were in 2020 is to start by looking at the major metrics. Most notably, sales classified as "Retail and Food Services" by the US Department of Commerce increased by just five basis points (bps) during the year. From 2010 through 2019, the category grew on average by 438 bps per-year, with the lowest one-year total coming in at 261 bps. Even if the disruption to the economy had been evenly distributed, that lack of increase in spending would have presented a sizeable challenge to the industry.

But the distribution of those losses was in no way evenly distributed. It is not an exaggeration to say that the grocery store anchoring a large strip center probably had its best ever year by a wide margin while every other tenant in the center—such as barber shops, fitness centers, casual dining, and tailors/dry cleaners—saw months of little to in some cases zero revenue. Packaged liquor stores had record years while the dining industry collapsed. The Retail sector of commercial real estate is hardly a zero-sum game: having a portion of the occupied space thrive cannot make up for other tenants that are in dire straits.

From a long-term perspective, the ongoing threat to bricks-and-mortar retailers has been e-commerce, which has seen both revenue and market share increase at an extremely consistent rate. In every year from 2013 through 2019, the total volume of dollars spent via e-commerce would rise in each quarter of the year, with a spike in the fourth quarter generated by the holidays. The first quarter total of the following year would be roughly $4.5 billion to $6.5 billion higher than the third quarter of the previous year, and the pattern would then repeat. E-commerce was growing and consistently reinforcing its base, and that general trend was expected to continue in 2020.

Instead, following the onset of stay-at-home and shelter-in-place orders, e-commerce exploded in the second quarter of the year. From April through June 2020, e-commerce sales totaled $200.6 billion and accounted for 15.1%

of all US retail activity. Both of those numbers were record highs, which would then be broken in the fourth quarter with $245.3 billion in e-commerce totaling 15.7% of all retail sales during the last three months of the year. No one should have been surprised that e-commerce reached those totals, but the speed at which the growth accelerated in 2020 was completely unexpected.

A PATH **FORWARD**

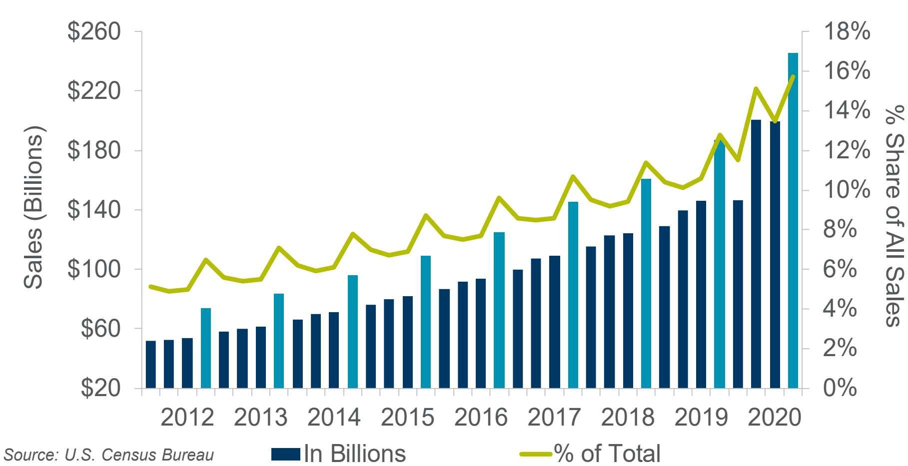
As the number of people vaccinated continues to increase, there are moderate hopes that retail, and especially the hospitality and entertainment sectors, will see a rebound in 2021. While it is unlikely there will be a meaningful uptick in the first quarter—the first two months of 2020 were largely unimpacted by the COVID-19 pandemic and expecting activity to immediately pick up where it left off is unrealistic—there is genuine hope that the period from April to June of this year will offer evidence of positive momentum for traditional retail tenants. During the second half of 2021, the commercial real estate business may gain a great deal of understanding about what the future of retail looks like.

The history of the American economy is one of innovation, and it is undeniable that for two decades a large portion of the retail economy has been slow to react and resistant to change. Companies that ignored the rise of e-commerce and its impact on how Americans shopped now make up a lengthy list of well-recognized names that in a short period of time went from being icons to bankruptcy filings. Others have adapted and survived, but there were questions as to whether or not those companies were just bailing water out of a sinking ship—arguing that a company was "well-established in the retail business" made no sense because "the retail business" had completely changed.

2020 saw major retailers of all sorts adapt on the fly. In an odd way, companies were forced to find new and better ways to engage with their customers because physical engagement was highly discouraged (in some cases prohibited). Retailers dramatically improved the "order online, pickup at store" function. Curbside delivery services became an expected offering. Restaurants refined their menus and websites to allow for more practical to-go offerings and a higher-quality product even when it was forced to travel. Businesses that successfully implemented innovations may now be much better positioned to compete against the advantages of e-commerce, and in some cases may develop new revenue streams.

The one major support that remains for bricks-and-mortar retail tenants is the opportunity for experience. The term "experiential retail" had become a buzzword in the commercial real estate business, and while in 2020 the opportunity to offer an in-person experience went away, it is hard to believe that the demand for such a thing did. No small part of the rise in e-commerce was the ease of use, but its primary weakness is the inability to offer a genuine experience. The best retailers have always placed a high value on customer service, and as Americans begin venturing out again and setting foot into retail operations, those businesses with the highest standards and greatest focus on providing an unique, enjoyable experience are certain to be the ones who see more customers quicker and succeed in the long run.

US E-Commerce Sales



Source: U.S. Census Bureau

Indicates Q4 of each year

INVESTMENT MARKET

KANSAS CITY INVESTMENT MARKET
2020 RESULTS & FUTURE TRENDS

Annual Dollar Volume	$1.68 billion	▼
Number of Transactions	98	▼

Arrows = Annual Trend

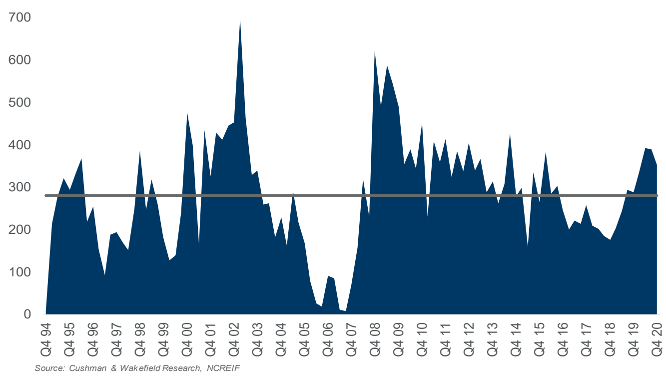
- After seeing several of the largest assets in the market trade over the past few years, there were no transactions over $125 million in 2020.
- The industrial category is seeing a large increase in interest around the country, and Kansas City is well-positioned to attract investors with the ongoing industrial expansion.
- Kansas City's multi-family market continues to perform well, both in terms of total volume and per-unit-price.
- While all product types were affected by the pandemic, retail saw the greatest impact.

AN **UNDERSTANDABLE LULL**

The number one enemy of all investment markets is uncertainty, so it was no surprise that the total volume of real estate investment transactions in 2020 was down. This was true in Kansas City, but it was also true across the entire country. Faced with an unprecedented spike in unemployment and a sudden economic shock that would have been unimaginable at the start of the year, investors predictably exercised caution in terms of pursuing acquisitions while those looking to sell were put off by valuations that were far below what they were hoping for.

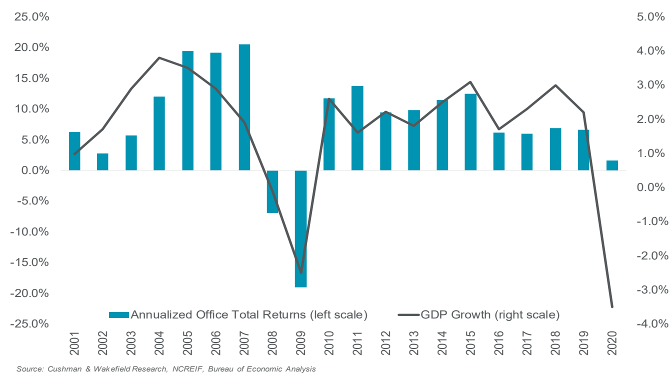
Kansas City's total transaction volume in 2020 was $1.6 billion, a drop of 33.2% from the record high of $2.3 billion in 2019. Between 2016 and 2019, three of the largest assets in the Kansas City market traded hands, which certainly provided a boost to the transaction numbers. The Country Club Plaza (2016), Corporate Woods (2017), and Aspiria (formerly known as the Sprint Campus; 2019) provided an elevated base for each of those years. Simply put, there aren't that many single assets in the Kansas City market that can command a quarter-of-a-billion-

Cap Rate Minus 10-Year Treasury Yields



Source: Cushman & Wakefield Research, NCREIF

US Office Returns vs. Real GDP Growth



Source: Cushman & Wakefield Research, NCREIF, Bureau of Economic Analysis

dollar price, but three of the last four years have seen one of those select few assets trade.

In some ways, the most useful comparison for 2020 investment volume in the Kansas City market is 2018, which saw $1.7 billion in transactions, led by a record high in the multi-family category. Using 2018 as the baseline, Kansas City was down 7.0%, or $120 million, which is solid overall performance. Upon closer investigation, there are encouraging signs from 2020, most notably that if the troubled retail category is taken out then the past year saw a higher transaction volume than in 2018.

NO MARKET OR PRODUCT **UNTOUCHED**

While there are encouraging signs to be found amongst the data from 2020, the simple reality is that on the national level every product category saw a significant drop in volume. According to Real Capital Analytics, all four major product types (Apartment, Industrial, Office, Retail) saw a drop of at least 15.0% in total volume compared to 2019. For Apartment, Office, and Retail, the drop was over 25.0% and none of those product types was even within 10.0% of the lowest total from any of the previous the five years. The total transaction volume for 2020 against the previous five-year average was down 18.1% for Apartment, 39.1% for Office, and 50.9% for retail.

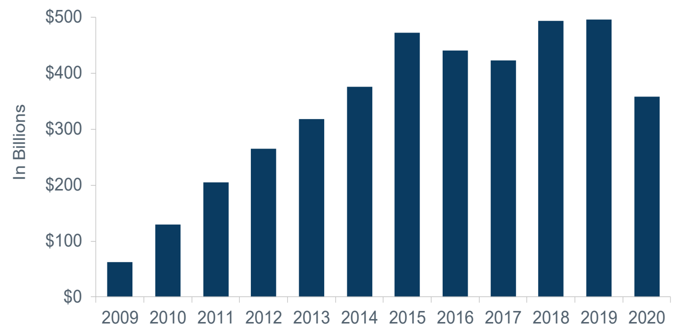
Even Industrial space, which has been a quickly rising star, was down, falling from $116.7 billion in 2019 to $97.5 billion in 2020. At negative 16.4%, that was the smallest drop of any product type and was 14.0% above the five-year average. The growth in industrial has been so strong that even with that decrease, 2020 was still the second highest year on record and 60.8% above the total from as recently as 2016. Most striking of all, total Industrial volume has been higher than total Office volume for five of the past six quarters and ended the year 11.5% above Office. For comparison, Office volume over the previous five years was on average 65.7% above Industrial.

AT ITS HEART, COMMERICAL REAL ESTATE IS AN INVESTMENT IN THE OVERALL ECONOMY

It should come as no surprise that the second and third quarters were the major underperformers. The year started off strong, with a total transaction volume of $116.4 billion in the first quarter, well above the $97.2 billion number from the first three months of 2019. But with the onset of the COVID-19 pandemic, unprecedented uncertainty hit the commercial real estate markets and deal flow slowed to crawl. The combined volume of the second and third quarters was $108.7 billion, compared to $261.9 billion over the same time frame in 2019.

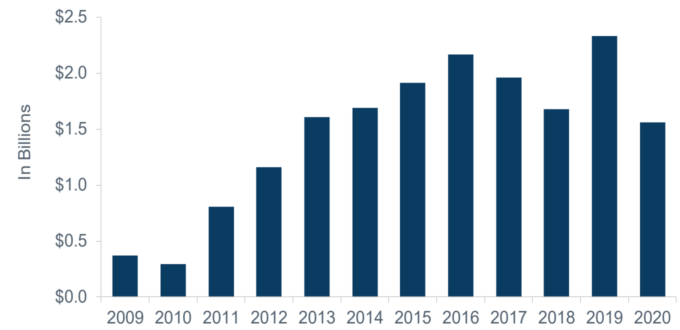
The relationship between cap rates and interest rates is a common theme in commercial real estate investing, although there is a lower rate of correlation between the two than some people imagine. Starting in late February, the yield on the 10-year US Treasury note began a dramatic slide that would see it shatter the previous record for all-time low. During the third quarter, the yield on the 10-Year Treasury closed at less than 60 basis points (bps) for roughly two straight

US Annual Sales, All Products



Source: Cushman & Wakefield

Kansas CIty Annual Sales, All Products



Source: Cushman & Wakefield

weeks. The yield on Treasury notes is subject to a much quicker change than cap rates on commercial real estate investments, so while cap rates generally remained flat, the spread between those cap rates and interest rates increased. With all signs pointing towards the Federal Reserve keeping interest rates low for the foreseeable future, the cash return on commercial real estate investment properties will look more and more attractive.

THERE IS OPTIMISM THAT THE US HAS ALREADY STARTED TO RECOVER AND THE SECOND HALF OF 2021 WILL SEE SIGNIFICANT GROWTH

Of course, there is more to investing in commercial real estate than just the cap rate, and the US economy did see the sharpest recession in its history over the summer. There is optimism that the US has already started to recover and the second half of 2021 will see significant growth, but the historical correlation between growth in Gross Domestic Product and the overall value of commercial real estate. At its heart, commercial real estate is an investment in the overall economy, and increased jobs and production are what is required to drive commercial real estate forward.

OUTLOOK

- Cap rate compression in major markets will continue to create investor demand for higher-yielding properties and cause institutional groups to investigate markets like Kansas City.
- While Kansas City is well-positioned to see an improved level of transaction volume in 2021, the lack of properties capable of attracting a price of $200 million or more makes it unlikely the total will reach the record-setting level of 2019.
- Overall interest in Kansas City's Industrial properties will continue to grow, but the sale of a specialized industrial building at an extremely high per-square-foot price means Industrial volume will likely be down in 2021.
- Single-tenant, triple-net leased buildings will be the most attractive assets for investment purchase.

OFFICE MARKET

Kansas City's Office market did reasonably well in 2020, with total transaction volume finishing the year at $254.7 million, down 11.0% from 2018. The record high for the market came in 2017 at $673.3 million, which was almost matched in 2019 with $664.1 million, but those years saw the sale of multi-million square-foot office parks. In comparison, Kansas City saw less than 1.5 million square feet (msf) trade hands in 2020 and only two buildings larger than 150,000 square feet (sf) were sold. Fortunately, the largest transactions in Kansas City were of the highly desirable solid-credit, single-tenant, triple-net buildings, which helped push the prices up.

The three largest transactions in the market, both in terms of total price and per-square-foot (psf) price were buildings occupied by Burns & McDonnell in the South Kansas City submarket. Burns & McDonnell is the dominant figure in South Kansas City, where the company's global headquarters are located. The engineering, architecture, construction, and environmental consulting firm is Kansas City's fourth-largest private employer at over 3,000 jobs, and the company has laid out comprehensive plans to expand that number over the next several years. Two of the buildings purchased were at the built-to-suit campus at 9400 Ward Parkway, which has been developed in three separate phases. The company also occupies all of the building at 9201 State Line Road, which is only about 2,000 feet away as the crow flies. The three buildings, which were all purchased by separate investors, combined to total $188.8 million, or 74.1% of the total dollar volume for the year.

South Johnson County and in particular the College Boulevard area have long been the backbone of the Kansas City office market, and in the early part of the year it was reported that multiple high-profile properties in that area were being readied for offer. However, uncertainty and a lack of any real market activity put those plans on hold. As companies begin to return employees to offices and a path forward starts to take shape, those owners may once again look to market those assets in 2021. The past several years saw several larger portfolio offerings bring in buyers who had never previously been active in Kansas City and there is the belief that as market activity resumes that trend will continue.

INDUSTRIAL MARKET

The shining star of the commercial real estate market has been the Industrial product class for the past several years, and that trend looks set to continue. Nationally, the total volume of Industrial transactions went from $60.7 billion in 2016 to $75.2 billion in 2017 to $96.4 billion in 2018 and then $116.6 billion in 2019. As mentioned above, Industrial saw the smallest slide of any product class in 2020, dropping to $97.5 billion, or just above the 2018 total. Given the substantial investment made in developing new modern distribution space—Cushman & Wakefield's national research team reported that a record total of 352.9 msf of new supply was delivered in 2020—all expectations are that the Industrial sector will continue to attract investors.

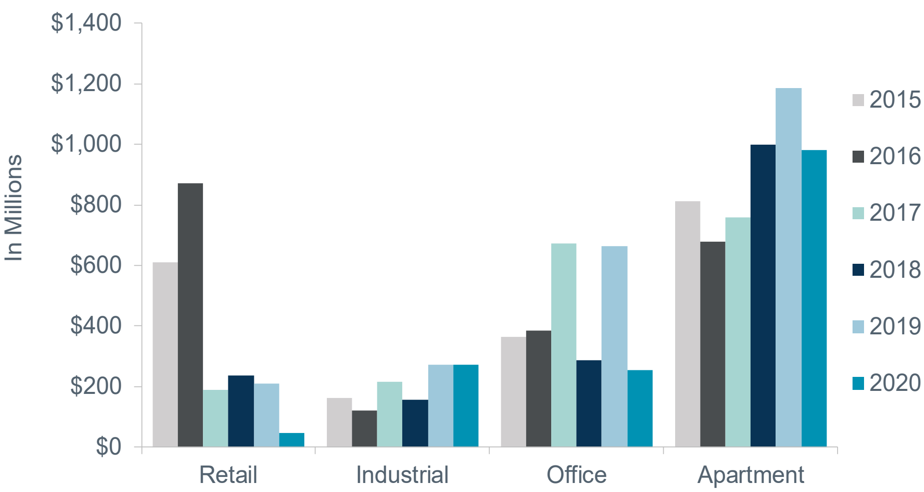
Investor views towards Industrial space are evolving, and that can be seen in looking at the largest transaction in Kansas City in 2020. A highly specialized e-commerce facility located along Interstate-70 at the Turner Diagonal was purchased by JDM Partners for $107.0 million, which works out to well over $100.00 psf based on the footprint of the building. However, that per-square-foot price might be a bit misleading, as the facility in question has multiple levels of functioning mezzanine inside and is by no means a "traditional" single-floor warehouse. But what is even more interesting is the background of the buyers. Investors in Industrial product have traditionally focused almost exclusively on that type of product, but the new owners have a track record of developing NBA arenas and Major League Baseball stadiums along with top-end golf resorts. The group's recent move into the Industrial sector, and they have purchased Industrial assets around the country, reaffirms the broadening market of investors interested in the product class.

The early portion of Kansas City's industrial expansion was centered in the Johnson County submarket, and some of the early developers in that area have been selling off their projects. Late in the year, I-35 Logistics Park was sold by its original developers, with the two existing buildings that total 1.4 msf acquired by MDH Partners while Scannell Properties purchased 200 acres of undeveloped land and has already started additional speculative construction. Perhaps the only thing keeping the Kansas City Industrial investment transaction volume numbers down is a reluctance of developers and the existing owners to sell, with so many buildings achieving occupancy within a short period of time and generating impressive levels of return. There is certainly interest from around the country in the Kansas City market, but many of the owners already feel very good about their position.

OVER THE PAST SEVERAL YEARS, KANSAS CITY HAS BENEFITED FROM BEING VIEWED AS A BETTER VALUE INVESTMENT THAN LARGER MARKETS

Commercial real estate investment is traditionally viewed through the lens of income generating

Kansas City Annual Sales by Product



Source: Cushman & Wakefield

assets, but it is worth nothing that some companies choose to make substantial internal investments in real estate. The sale of the former Harley-Davidson Assembly Plant to Melaleuca, an ecommerce retailer, manufacturer, and distributor of nutritional, pharmaceutical, and personal wares products, was one of two eight-figure owner-user purchases of industrial facilities in 2020 (Melaleuca will transition the plant into a production facility for household goods). The other sizeable owner-user purchase was Dots Pretzels buying the Midwest Gateway 2 building in Edgerton, which was completed in 2018 but had remained vacant. Interest from companies who want to own their own buildings only increases the demand for quality Industrial product in the Kansas City market, which will push prices higher.

RETAIL MARKET

Entering 2020, the Retail product class was already under pressure. The continued rise in e-commerce had led to several major brick-and-mortar chains filing for bankruptcy over the past several years, malls across the country had been devastated by a drop in foot traffic and the loss of major anchor tenants, and trends were emerging that younger consumers preferred experiences to goods. It was almost universally believed that retail would need to adapt and evolve, both from a business perspective and a real estate perspective. 2020 was already set to be a challenging year before the onset of COVID-19, shelter-in-place orders, and capacity restrictions hammered what was already a fragile industry.

At the national level, the average quarterly transaction volume for retail properties from 2015 through 2019 was $19.2 billion, with a quarterly low of $12.3 billion. In a sign of the category's struggles, the first quarter of 2020 saw just $13.3 billion in transaction volume, the second-lowest total since the start of 2015. During the second and third quarters, the combined total was just $12.2 billion. The fourth quarter rebounded a bit to see $12.1 billion in transactions, but the year-end total was down 42.5%, off 56.4% from 2018's number, and 50.9% below the average annual transaction level from the previous five years, making Retail by far and away the poorest performing category in 2020.

From a local standpoint, Kansas City significantly underperformed against the national averages. Retail transaction deals basically came to a halt altogether, with no sales of note during the first five months of the year. Total volume for the year was only 22.9% of the 2019 number, and there was no end-of-year rush or acceleration of deal flow. It is worth noting that the per-square-foot prices and cap rates on the limited number of deals that did take place were reasonable, but the deal count was extremely low. The retail trade faces many questions going forward and there are signs that some operators made adjustments in 2020 that could prove beneficial in the long term. But until there is some clarity regarding the full re-opening of the US retail economy, retail-based commercial real estate assets will remain in a form a limbo.

IT WAS ALMOST UNIVERSALLY BELIEVED THAT RETAIL WOULD NEED TO ADAPT AND EVOLVE

MULTI-FAMILY MARKET

Apartment (Multifamily) was the second most resilient product category in 2020, seeing a drop of 27.7% in total volume. Like the rest of the commercial real estate investment market, the severe drop in deal flow during the second quarter was too much to overcome, but it also showed the fastest rebound. Fourth quarter transactions totaled $55.6 billion, the highest single-quarter total in at least ten years. While there are numerous factors at play in each of the product classes, the continued enthusiasm for Multifamily properties is a strong sign that investors feel the overall economy will move forward in 2021.

Over the past several years, Kansas City has benefited from being viewed as a better value investment than larger markets, where there are concerns Apartments have become overpriced. Transaction volume in Kansas City was down from $1,185.3 million in 2019 to $980.9 million in 2020, a fall of 17.2%, substantially less than the national decrease and still well above the average volume of $886.3 million from 2015 through 2019. The total number of units sold was down 16.8% to just over 9,700, but the per-unit-price was steady, down less than $500 per-unit at the end 2020 at $100,755. The most encouraging sign for the Kansas City market is the strength of the per-unit-price number, which has been helped by the development and then sale of higher-quality properties with a greater degree of amenities. While many of these amenities may have been unavailable or of limited use to tenants during the pandemic, they offer long-term value and will continue to be an important component of premium Apartment properties going forward.

Despite many disruptions to everyday life in 2020, the greater Kansas City area did not see much of a slowdown on the development and construction of new Apartment properties. Approximately 3,400 new units were delivered in 2020, with about half of those coming in the area between the River Market and Plaza, and at year-end 7,600 units were under construction. The Apartment product class has been the steady, driving force behind Kansas City's investment market for the past several years and there is ample evidence that not only did it perform well given the conditions of 2020 but it is set to continue leading the way.

SIGNIFICANT INVESTMENT TRANSACTIONS OF 2020

PROPERTY	SIZE	PRICE	UNIT PRICE
Office Transactions			
9300 Ward Parkway	486,000	$121,000,000	$249
9201 State Line	166,641	$23,600,000	$142
Corporate Ridge II	120,000	$19,350,000	$161
20/20 Building	70,170	$7,400,000	$105
***Annual Total**	**1,331,448**	**$254,741,551**	**$191**
Industrial Transactions			
I-35 Logistics Park B	821,663	$45,172,054	$55
I-35 Logistics Park C	567,115	$31,177,927	$55
Midwest Gateway 2	186,107	$11,166,420	$60
9700 Widmer Blvd	140,604	$10,545,300	$75
1601 St. Louis Avenue	244,400	$9,861,869	$40
7601 NW 107th Terrace	187,600	$9,651,206	$51
Annual Total	**4,075,806**	**$273,617,990**	**$67**
Multi-Family Transactions			**Per-Unit**
4800 Oak Street	398 units	$66,920,000	$168,140
Lexington Farms	404 units	$61,880,000	$153,168
Watermark at Tiffany Springs	276 units	$60,000,000	$217,391
The Savoy	252 units	$48,000,000	$190,476
The Mansion	550 units	$46,122,734	$83,860
Cold Storage Lofts	226 units	$26,100,000	$115,487
Arbors Of Grandview	298 units	$21,800,000	$73,154
Chestnut Heights	161 units	$17,675,000	$109,782
***Annual Total**	**9,736 units**	**$980,946,638**	**$100,755**

**Includes all transactions for product type*

KANSAS CITY RESEARCH METHODOLOGY

Cushman & Wakefield is focused on providing the most accurate and relevant research possible. The goal is to offer information and data that is applicable to our clients and allows us to be knowledgeable of the market as it relates to the needs of our clients. As such we have established basic parameters to define the market for the statistical purposes in an attempt to improve our accuracy and prioritize the information that will impact our clients.

- GEOGRAPHY: Cushman & Wakefield defines the Kansas City market for commercial real estate as Clay, Jackson, and Platte Counties in Missouri along with Johnson and Wyandotte Counties in Kansas.
- OFFICE: The Office inventory consists of Class A and Class B, actively listed and/or occupied, multi-tenant buildings 10,000 square feet and larger. Buildings under construction, scheduled for demolition, or going through significant renovation or repurposing are removed from inventory. Single-tenant buildings that are occupied by the owner, government-owned buildings, and many special-purpose buildings are not included in inventory for statistical purposes.
- INDUSTRIAL: The Industrial inventory consists of buildings and finished commercial underground spaces 10,000 square feet and larger that are actively listed and/or occupied, with the exception of unique, large-scale, owner-occupied properties such as the NNSA complex. Properties that would require complete repurposing, such as the former Leeds Assembly Plant, are also removed from inventory for statistical purposes.

At least one sizeable office building that is slated for demolition and redevelopment is currently listed as fully occupied despite the belief that space is being vacated and not listed for lease. Cushman & Wakefield Research may consider removing this building from inventory in 2021, which will create negative absorption. Any changes will be noted in the specific report from the relevant quarter or quarters.

The market statistics included in this report are based on the above criteria. If you are interested in more specific details, are interested in topics not covered in this report, or have any additional questions please ask your broker or contact our local researcher below.

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