KANSAS CITY

ANNUAL
MARKET RESEARCH
REPORT

MARCH 2022

CUSHMAN & WAKEFIELD

A MESSAGE FROM OUR **MARKET LEADER**

The theme of Cushman & Wakefield's 2021 annual report is recovery. The impact of the pandemic was widespread, affecting all aspects of our business—some positively and others negatively—and reminding us that demand for real estate endures through even the worst of times.

While this report contains a wealth of data, one statistic stands out: The monthly Kansas City labor force and employment figures in 2021 were higher than 2019 for all twelve months of the year. The greatest economic shock of 2020 was the unprecedented loss of jobs, and we all understood there could be no real recovery until people were back to work. Throughout 2020, we heard various narratives on why people weren't returning to work around the country. But in Kansas City, where entrepreneurship and work ethic are essential elements of our identity, people showed up to work. I can't think of anything more promising for KC's future than the strength and commitment of our labor market.

While making predictions can be a fool's errand, I am confident that 2022 will be remembered as the year we all got back together. As I write this, thousands of enthusiastic fans from around the Midwest are on their way to Kansas City for an energetic, bustling, fun-filled Big 12 basketball

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tournament. Two years ago this month—on March 12, 2020, to be exact—the tournament was canceled, delivering the sobering message to Kansas City that everything had changed. But today our office has fully reopened and our Cushman & Wakefield teammates are interacting in real-life instead of dialing into virtual conference calls. The benefits are real and I can feel the difference every day.

Returning to the office means more interaction, more collaboration, a stronger sense of mission and feeling part of a community. The last two years taught everyone at Cushman & Wakefield not only to be better at commercial real estate but hopefully to be better people, as well. We are here to listen to your questions and to share our insights, whether addressing new challenges or chipping away at old ones. We are excited about the ongoing recovery and bullish for Kansas City's future.

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

Sincerely,

Gib Kerr, CCIM
Managing Principal

ECONOMIC OVERVIEW

KANSAS CITY METROPOLITAN AREA

Economic Indicators	Dec 2020	Dec 2021
KC Employment	1,064K	1,103K
KC Unemployment (not seasonally adjusted)	4.5%	2.5%
U.S. Unemployment (not seasonally adjusted)	6.5%	3.7%
U.S. CCI (quarterly average)	95.2	113.2

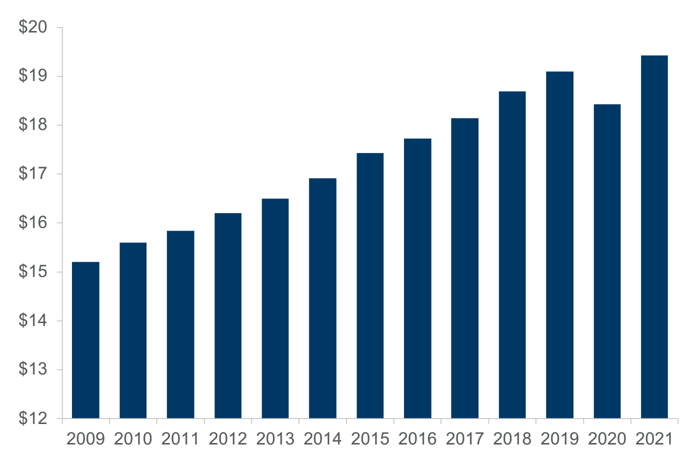
THE FIRST STEPS **FORWARD**

One of the great false hopes or general misconceptions about the economic shock brought on by the COVID-19 pandemic was that everything would come to an orderly end and a clear recovery would get underway. The reality is hitting "pause" on the global economy was always much easier than hitting "restart" would ever be. While 2021 offered many positives in analytics, anecdotes, and overall day-to-day life, there were also numerous setbacks and disruptions. The past twelve months were an improvement for the economy, but numerous challenges remain.

As with our 2020 annual report, Cushman & Wakefield has chosen to use all charts and graphs normally included. For all but one, there is a multi-year history that provides some perspective to the shocks of 2020 and the rebounds of 2021, with our bar chart of Month-Over-Month Change in US Employment the one exception. In 2020, this chart showed such a huge drop in April that the rest of the chart was basically meaningless. This year, the chart shows strong periods of growth and momentum along with slowdowns as the recovery encountered bumps along the road.

One important factor to keep in mind with all the major economic indicators is that year-over-year comparisons—traditionally the measure of success or failure—are not generally applicable. The last 24 months have seen too many wild swings for that to be the case. The Month-Over-Month Change in US Employment actually looks normal, but that is because it only looks at the past 12 months. For the 60-month period of January 2015 through December 2019, average monthly job creation was 190,000 with a high of 402,000. In 2021, the average was 555,000 and only one month was below 424,000.

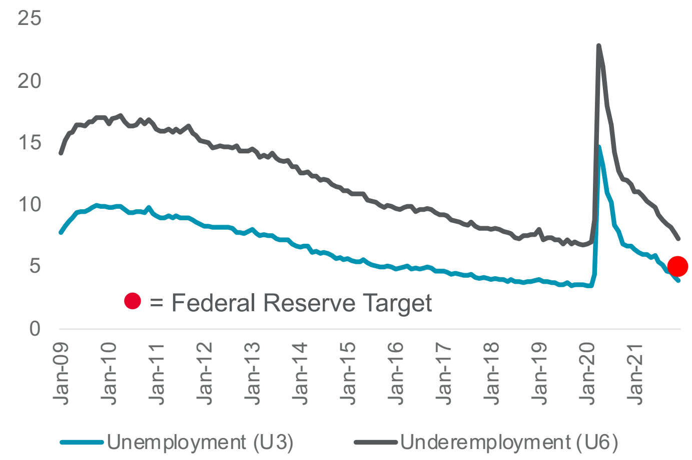
US DPG In Trillions of Chained 2009 Dollars



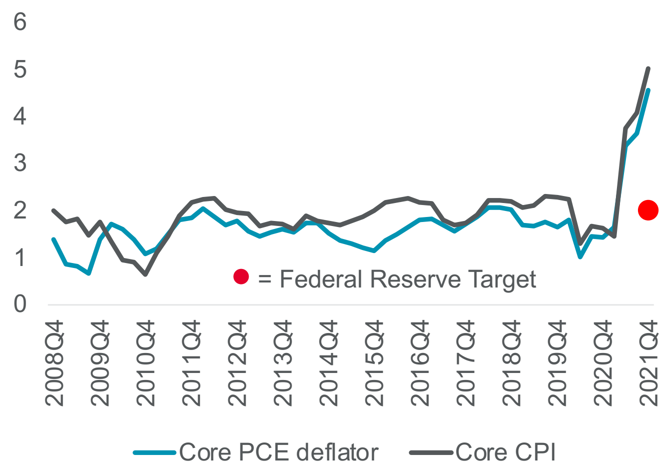
Source: Bureau of Economic Analysis

Key Metrics for The Federal Reserve Bank

UNEMPLOYMENT



INFLATION



Source: BLS, Cushman & Wakefield Research

THE PAST TWELVE MONTHS WERE AN IMPROVEMENT FOR THE ECONOMY, BUT NUMEROUS CHALLENGES REMAIN.

All of that is a long way of emphasizing that "record year-over-year growth" may not be all that meaningful in 2021. The charts of 2020 showed precipitous drops and many of those same metrics rebounded strongly in 2021. The challenge is understanding where things really stand, and that requires looking back at least 24 months in most cases.

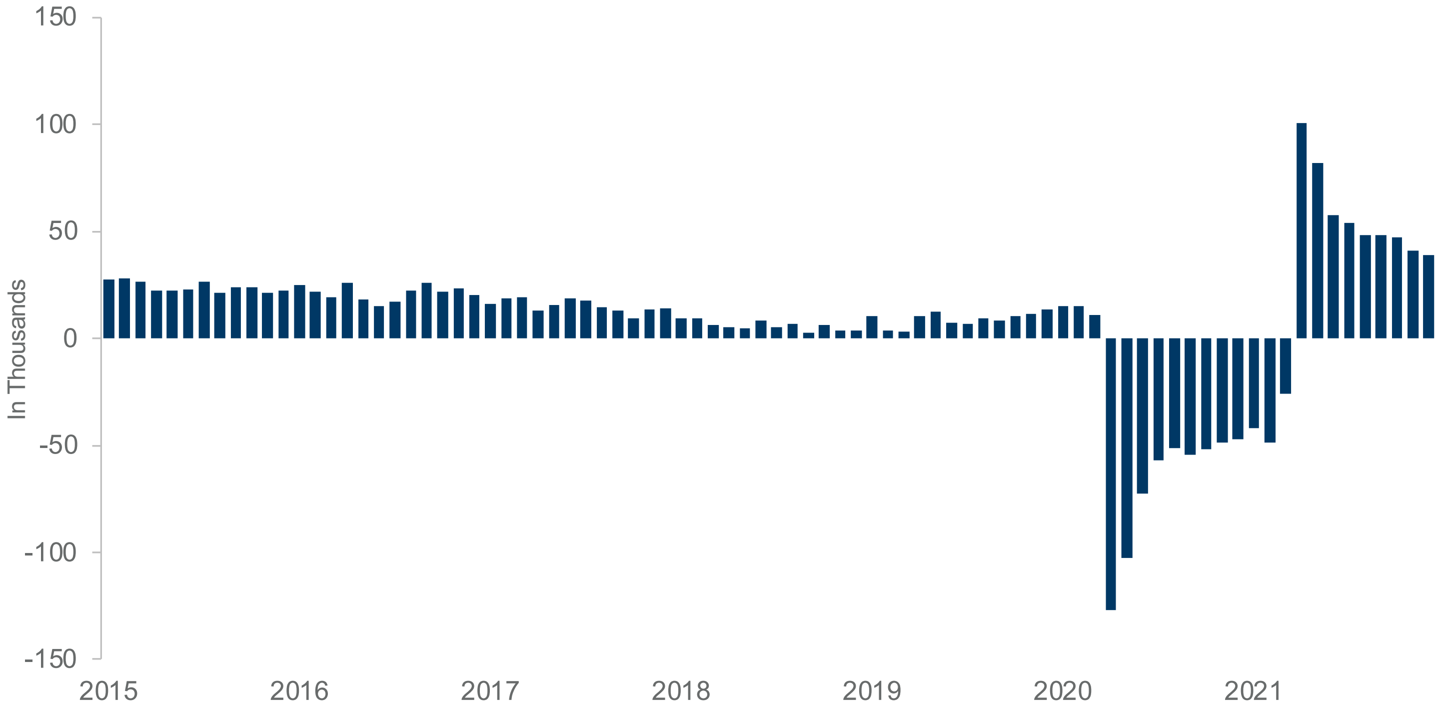
While there are questions about the long-term impact of remote work and hybrid situations on the office market, no single metric is more closely tied to the success of commercial real estate than employment figures. As mentioned above, simply looking at monthly or even year-over-year figures for Kansas City will not give an accurate account of the state of the local labor market. Until the economy recovered the jobs lost in the first half of 2020, the best anyone could hope for was stagnation.

Fortunately, a closer look at the employment figures comparing 2021 to 2019 shows the Kansas City market to be in a very strong place. In most years, the seasonally unadjusted Kansas City employment peaks in summer, and in July 2019 that figure stood at a record-high of 1,123,300 with an unemployment rate of 4.0%. In July 2021, those same figures were 1,143,500 and 4.4%. The seasonally unadjusted statistics can be prone to dramatic swings, which causes some people to prefer the seasonally adjusted total non-farm employment statistic. Once again, Kansas City performed well. In December of 2019, the seasonally adjusted total non-farm employment number for Kansas City was 1,104,900 and in December 2021 it was 1,103,200, or 99.8% of the pre-pandemic level. Nationally, the seasonally adjusted total non-farm employment comparison for that same time was 98.3%. No one would argue that it is perfect, but Kansas City's jobs recovery was strong in 2021.

The Federal Reserve Bank is often said to have a dual mandate of keeping the unemployment rate at or below 5.0% and inflation under 2.0%. In the second half of 2021, the focus turned sharply to the topic of inflation. While the Consumer Price Index (CPI) is the most well-known inflation metric and certainly the one that is most often referenced in the media, the Federal Reserve Board focuses more on Personal Consumption Expenditure (PCE). From 2009 through 2020, the average quarterly PCE was 1.55 and there were only four instances where it reached 2.00, none of which saw it rise above 2.06. For more than a decade, inflation was a non-issue.

But that changed in 2021, and average quarterly inflation over the final nine months of the year came in at 3.86, with each of the three quarters above 3.38 and the fourth quarter coming in at 4.56. While some month-to-month reports and other metrics (such as the CPI) have reported even sharper jumps, most of those measures are more volatile and subject to short-term swings that may not accurately reflect the situation. More to the point, there is no need at all to add any sense of extreme to the situation: inflation of 4.0% is a major problem and the Federal Reserve has already signaled it will make this a key priority in 2022 and beyond.

Year-Over-Year Change In Kansas City Employment



Source: Bureau of Labor Statistics

The most powerful tool available to the Federal Reserve is to raise the Federal Funds target rate, which it has already signaled will happen in the first quarter of 2022 and multiple times later in the year. Additionally, while the Fed has shown a preference of moving the target rate in 25-basis point (bps) increments—especially when raising them—it has left open the possibility of larger bumps than normal to counter inflationary pressures. On the days these increases occur, there is no doubt it will be headline news and much discussion will take place, but it is important to remember that the Federal Reserve goes to great lengths to avoid shocking the financial markets and the immediate impact of the rate hike on the business world should be minimal as there has been ample time to prepare.

Along with raising the Federal Funds target rate, the Fed has signaled it will be changing its course on quantitative easing, the practice where it buys large amounts of bonds and mortgage-backed securities. In 2020, the Fed was purchasing up to $120 billion per-month in treasury notes and other securities and although the amount of money being spent has been greatly reduced the practice remains in place. Indications are the Fed would continue to buy somewhere in the region of $10 billion to $20 billion per-month in the early part of 2022 and would look to shut down the program altogether in March. At that point the focus will shift to how the Fed will start selling off the securities is has acquired.

Some economists have argued that the quantitative easing program went too far and is the primary culprit behind rising inflation. Only time will tell what impact these policy changes will have on the markets, but it is important to realize that after more than a decade of historically low interest rates and two massive periods of quantitative easing (one in response to the Great Financial Crisis and the other in response to the pandemic), there are historic levels of capital available and indeed waiting to be deployed. Some of this has already started to make its way into the commercial real estate investment sector (discussed further in that section of this report) and most industry experts believe there is even more "dry powder" eyeing the market.

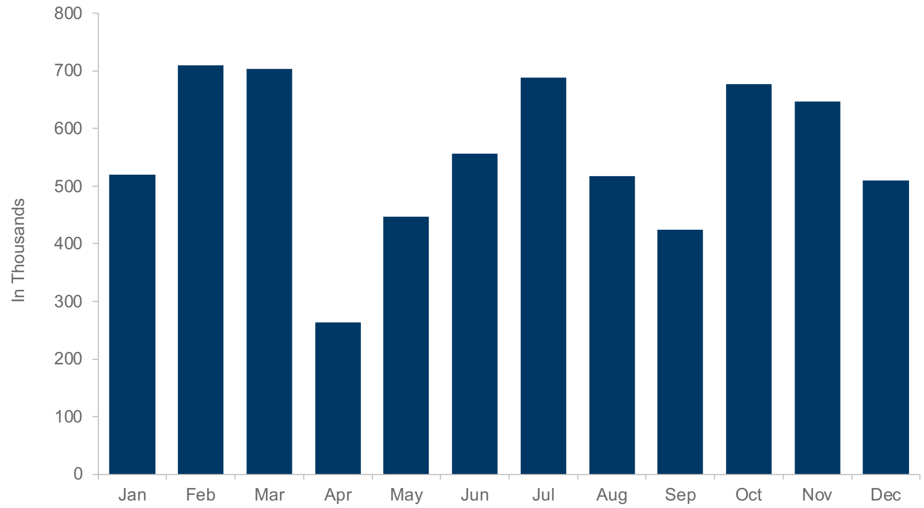
But more important than having money looking to purchase commercial real estate access is that there will be ample sources of capital for businesses looking to invest and grow. As the US and global economy move forward in a post-pandemic world, many things will look different. Businesses will be forced to adapt, and that will require doing things differently than in the past. The most important measure of economic growth is Gross Domestic Product

(GDP), and it is hard to imagine any scenario where there is meaningful growth in GDP without capital investment. The Federal Reserve and the US government have taken previously unthinkable steps to help the individuals and the economy navigate challenges not seen for a century. These programs were never intended to be a new normal and the hope is that in 2022 and beyond the short-term challenges of tightening fiscal policy will be outweighed by the benefits that have put a sizeable amount of capital in the economy.

GDP growth for the US was strong in 2021, as was the Kansas City Gross Metro Product (GMP) growth rate. But as mentioned above, it is dangerous to read too much into year-over-year comparisons. Much of that growth was simply reclaiming ground that was lost in 2020 when the economy contracted, and long-term it will be insightful to see how much the GDP and GMP—both of which are measured in total dollars—owe their 2021 performance to inflation. Preliminary numbers from the Bureau of Economic Analysis (BEA) show that the US economy was 1.8% larger in 2021 than it was in 2019, while early forecasts that are subject to larger revisions have the Kansas City GMP performing slightly better than that. Normally, a "lost year" of economic growth would be considered a major setback, but if in fact both the local and national economy end 2021 showing growth from 2019, it will be sign that a recovery is well underway.

Two major metrics Cushman & Wakefield keeps a close eye on that are not directly associated with our core business are consumer confidence and retail spending, which we look at in several ways. The US is a consumer driven economy, and it is worth noting that while consumer confidence rebounded strongly over

Month-Over-Month Change in US Employment



Source: Bureau of Labor Statistics

the past 18 months, it dipped a bit in the second half of the year and never quite reached pre-pandemic levels in 2021. From the second half of 2017 through the first quarter of 2020, consumer confidence averaged 128.7 and had a low 121.3 (the third quarter of 2017, the only time it was below 125.0). Consumer confidence reached a high of 121.0 in the second quarter of 2021 and averaged 112.0 for the year. While total consumer spending showed a huge spike year-over-year, it is hard to make too much of those figures after 2020. For the economy to fully recover, consumer behavior will have to return to previous levels (even if the way consumers are shopping is different).

A final data point has to do with residential housing, an area that continues to surge. Some of this can be seen in the performance of Kansas City multi-family assets and that is discussed in more detail later in the Investment section of this report, but single-family home sales were one of the few parts of the economy not dramatically impacted in 2020. The total number of single-family homes (both new and existing) sold had remained relatively flat during the later part of the last decade, but in 2020 it was up 5.8% and in 2021 it was up another 8.7%. Predictably, the average price and other associated metrics have moved as you would associate with a tight market as the average sales price rose more than 10.0% in each of the last two years. Kansas City is by no means one of the runaway residential markets in the country and an increase in housing values is almost always a positive sign, but it is also one area where perhaps the market would benefit from some additional supply.

TRYING TO SEE INTO THE **FUTURE**

The year 2021 started off with a cautious yet optimistic outlook for the office real estate market, both in Kansas City and across the nation. After spending the last three quarters of 2020 in a virtual shutdown from the pandemic, there was hope that 2021 would be a year of gradual progress with minor yet important benchmarks attained each month as things began to return to normal. Industry experts understood there would be no miraculous recovery to make up for the negative absorption of the previous year as large moveouts and subleases were likely to continue, but it was easy to foresee a steady, positive path forward.

Unfortunately, that is not what happened. There certainly were positive developments during the year and despite what statistics may say at a glance, 2021 was a much more positive year than 2020. The problem was instead of following a slow yet smooth path forward, the year was instead filled with setbacks and obstacles that prevented the market from ever gaining much momentum. It was a classic "two steps forward, one step back" process. Most damaging of all though, was the uncertainty. The biggest challenge the office market faced in 2020 was an overwhelming sense of unknown and the hope for 2021 was solid answers would start to replace shoulder shrugs. There is more clarity now than there was twelve months ago, but far too many times in 2021 the phrase "wait, we're going to have to hold off on that a big longer" was heard.

OFFICE MARKET

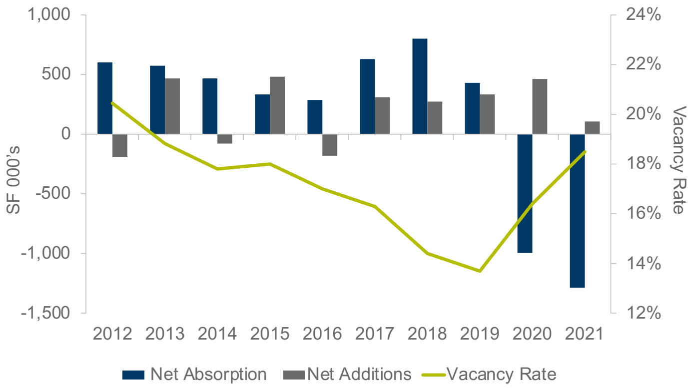
KANSAS CITY OFFICE MARKET 2021 RESULTS & FUTURE TRENDS

Overall Vacancy	18.5%	▼
Net Absorption	-1,286K	▲
Deliveries	108K	▲
Class A Asking Rent	$25.69	◀▶
Class B Asking Rent	$19.91	▼

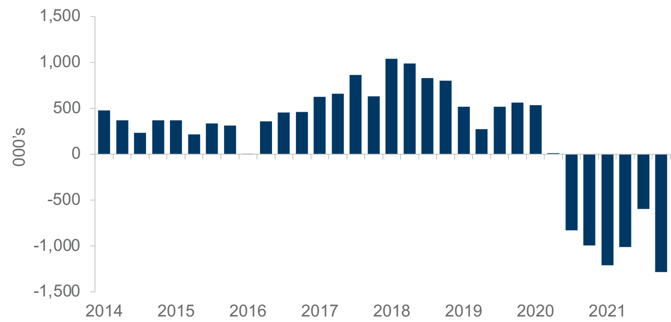
Arrows = Expected 2022 Trends

- Despite the sizeable amount of negative absorption, Class A absorption was positive in 2021.
- The rise in vacancy rate at the end of the year was sharp, but it was not due to the pandemic.
- As market activity accelerates, tenants will focus more and more on high quality product.

Kansas City Class A & B Office Market



Rolling Four-Quarter Net Absorption



WHERE IS THE KANSAS CITY MARKET **NOW?**

For decades, the overall state of a real estate market was judged by looking at the absorption total and vacancy rate and comparing that to the previous year, previous three years, previous five years. The arrival of the first global pandemic in more than a century in early 2020 meant that plan had to be abandoned. Unlike previous slumps in the office markets, such as the dot.com bust and The Great Financial Crisis, this setback was caused by non-business-related factors. When the office market slumped due to economic factors, it was simply a measure of watching to see when demand began to return. In 2020 and 2021, the factors impacting office demand, or even impacting the perception of office demand, were completely beyond the control of the business world.

In June 2020, the idea of a substantial two-year slump in absorption and increase in vacancy would have sounded very reasonable. It was already understood that there would be no meaningful return to office occupancy until some point in 2021 and even that was sure to be a gradual process. During that time, tenants would decline to make space commitments until there was more certainty in terms of both what the new office environment would like and how the market would react. In early 2020, the emergency break was pulled on the entire office-using community. There is no magic button to return it to normal pace.

With that in mind, it helps to evaluate the stats of 2020 and 2021 as one group and then look back over the past several years to determine where the Kansas City office market stands. For the 24 months ending December 31, 2021, Kansas City reported negative 2.3 million square feet (msf) of absorption, with 1.3 msf coming in 2021. The vacancy rate rose from a generational low of 13.7% at the end of 2019 to 18.5% at the end of 2021. While certain major markets were hit far worse than Kansas City, on the whole the local market performed slightly worse than the national figures. From the end of the 2019 to 2021, Kansas City saw 4.3% of its total office inventory switch from occupied to vacant while across the US the figure was 3.2%. The national vacancy rate rose by 460 basis points (bps) while in Kansas City it jumped 484 bps.

THIS SETBACK WAS CAUSED BY NON-BUSINESS-RELATED FACTORS

Looking at things from a historical perspective, Kansas City absorbed 2.2 msf from 2016 through 2019, and the vacancy rate was last above 18.5% and the end of 2013. From 2012 through 2019, Kansas City averaged 516,000 square feet (sf) of absorption per-year and the lowest single-year total was 287,000 sf. There is no denying that the last two years have been brutal to the Kansas City market, but while it is a significant setback it is also a manageable setback. The local market has not seen anywhere near the shock that completely reset the dynamics within some markets. Austin, Midtown Manhattan South, and San Francisco all saw their vacancy rates more than double (in the case of San Francisco, nearly quadruple) and all those markets reported year-end 2021 vacancy rates higher than Kansas City. In terms of working through a recovery, it is one thing to deal with a meaningful amount of space being put on the market and an increased vacancy rate. Dealing with a situation where the entire supply/demand balance has been thrown for a loop is a whole different challenge.

KEY **SALES TRANSACTIONS**

PROPERTY	SF	SELLER/ BUYER	INVESTOR/USER	SUBMARKET
800 NW Chipman Road	484,000	Sovereign Group / Easterly Government Properties	Investor	East & Southeastern Jackson County
3315 N Oak	265,000	Cerner / NorthPoint Development	User	Northland
1540 Genessee	140,000	Zurich RE / Blue Scope Steel	User	Downtown
400 N Rogers Road	137,308	96-OP Prop / Olathe School District	User	South Johnson County
7220 NW 101st Terrace	94,378	Keenan Development Associates / Easterly Government Properties	Investor	Northland
3822 Summit	61,695	Baltimore Partnership / Housing Authority of Kansas City	User	Midtown

KEY **LEASE TRANSACTIONS**

PROPERTY	SF	TENANT	TRANS TYPE	SUBMARKET
Aspiria	84,684	Yellow	New Lease	South Johnson County
8501 W 137th Street	80,170	Spectrum Business	New Lease	South Johnson County
Creative Campus	65,000	Creative Planning	New Lease	South Johnson County
5100 W 115th Place	60,000	Optive Security	Sublease	South Johnson County
Briarcliff III	41,205	MetLife	Renewal	Northland
Plaza West	34,714	DiPasquale and Moore	New Lease	Plaza
5200 Metcalf	34,635	Industrial Accessories Company	New Lease	North Johnson County
11520 Ash Street	24,146	First Federal Bank of Kansas City	New Lease	South Johnson County

UNDERSTANDING WHERE **VACANCY CAME FROM**

To understand the office market and figure out how to best move into a recovery it is important to understand where the floods of vacant space have come from. As mentioned above, Kansas City has seen negative absorption of 2.2 msf over the past 24 months (the overall US office market has seen 175.8 msf of negative absorption). From the very start of the pandemic, there have been very vocal concerns about sublease space crowding the market. Kansas City has traditionally had less sublease activity than the national average and at the end of 2019, 5.1% of all vacant office space in the Kansas City market was sublease space, while nationally the rate was 8.5% of all vacancy. By the end of 2021, the amount of sublease as a percentage of total vacancy in Kansas City was up to 12.1% while nationally the figure had risen to 12.5%.

JUST FIVE BUILDINGS ACCOUNT FOR 42.9% OF ALL SUBLEASE VACANCY IN THE KANSAS CITY MARKET.

At first glance, those numbers are disturbing. Kansas City has seen the amount of vacant sublease space jump from 372,000 sf to 1.2 msf in just two years. A bit more investigation offers both encouragement and caution for the future.

Just five buildings account for 42.9% of all sublease vacancy in the Kansas City market, and the largest of those subleases is a seven-floor, 184,000-sf vacancy in a single-tenant office tower in Crown Center. An additional 103,000 sf of sublease vacancy is located in a Class B building near the KCI airport. Prior to the onset of the pandemic, there was a grand total of 372,000 sf of sublease vacancy in the entire market and now there is 287,000 sf in just two buildings (the third largest sublease is a 97,000-sf full-building vacancy in North Johnson County, which means three buildings alone account for more vacant sublease space than in all of Kansas City just two years ago). While those numbers are encouraging and there has not been a massive exodus of tenants, the harsh reality is it will be challenging for any of those spaces to secure a tenant in the near future. The amount of sublease vacancy is likely to fall going forward, but it will be important to watch how much of it switches from sublease vacancy to direct vacancy, which will have no impact on the amount of occupied space.

While a few smaller submarkets did report effectively flat absorption totals or even small amounts of positive absorption (25,000 sf or less) over the past year, there was one major trend that stood out. Despite the headline number of negative 1.3 msf of absorption for the year, Class A space had positive absorption of 21,000 sf. While this is not a huge number, the gap between Class A and Class B could hardly have been more pronounced, and it is that variance that offers the most insight into the Kansas City office market and where it is headed.

More specifically, this flood of Class B vacancy came late in the year. After three quarters of 2021, a rolling four-quarter net absorption graph of the market looked very encouraging, as things bottomed out in the latter part of 2020 and began to gradually improve in 2021 with an eye towards absorption turning positive in the middle part of 2022. Then, late in the year a huge influx of Class B space was made available at Aspiria in South Johnson County. The 18-building, 3.7-msf office campus had been sold by the owner-user to an investor in the second half of 2019 in a complicated sale-leaseback that included numerous short-term leases and options. As the new owners navigated the pandemic and prepared Aspiria for its future—which will include the development of new construction, Class A office—it was always understood that the listing of a sizeable amount of space was a real possibility. In the fourth quarter of the year, 611,000 sf of Class B space was listed as vacant at Aspiria, which ended up accounting for 47.5% of all negative absorption in Kansas City for 2021.

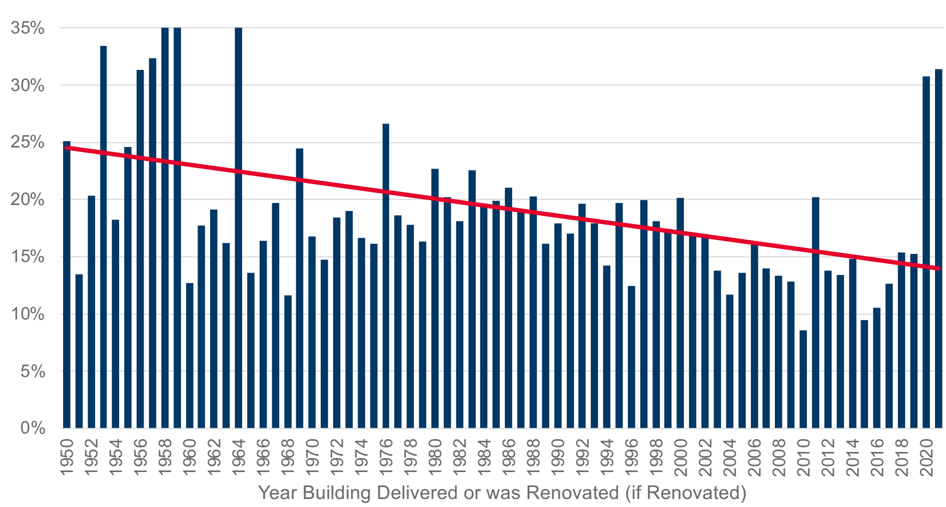
MOVING FORWARD: **THE FIGHT TO QUALITY**

As observers have searched for trends that will help the office market recover, there has been one theme that has consistently jumped out: moving forward, tenants will demand a higher-quality office product. One of the highest levels of correlation when it comes to Class A vacancy is the number of years it has been since the building was completed (or significantly renovated).

Despite all of the bad news over the past 24 months, there have been success stories in the Kansas City office market and almost all of them revolve around Class A, new construction. The Creative Campus at 110th and Nall delivered its first building in 2018 and now has three buildings totaling 307,000 sf with an occupancy rate of 94.4%. A little farther west at Interstate 435 and 69 Highway is the CityPlace mixed-use development that has delivered twin 120,000-sf office buildings since 2019 and boasts an occupancy of 84.5%. In downtown Overland Park, which is part of the North Johnson County submarket, Avenue 82 and Edison District both delivered in 2020 with a total of 153,000 sf of space and despite the pandemic the buildings have a combined occupancy of 78.8%. Finally, in the Plaza submarket the 46 Penn tower that delivered right in the middle of the pandemic saw leasing activity resume in 2021 and finished the year close to two-thirds occupied with expectations that more tenants will be secured in the first half of 2022.

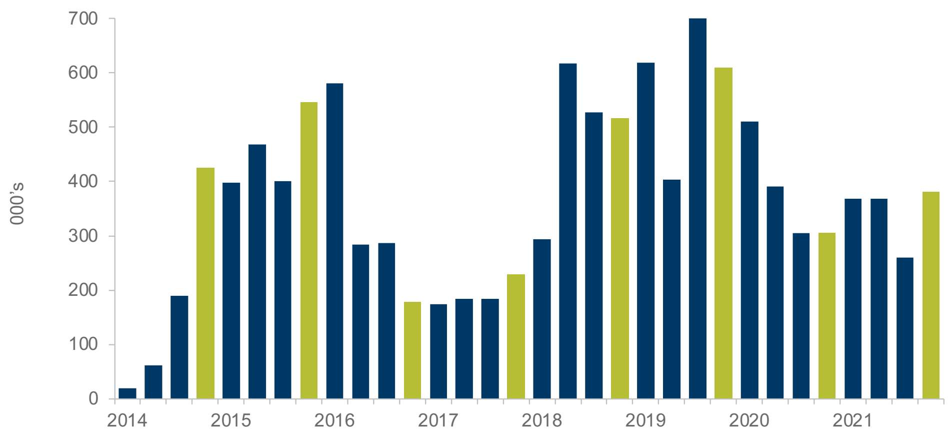
Even in Class B space, there are signs that tenants are raising their demands. While Aspiria reported a huge chunk of negative absorption in 2021, it also signed 190,000 sf in leases (and not all the tenants have moved in). While Aspiria is considered a Class B asset, the amenities of such a modern campus are appealing to employers looking for suburban space. Aspiria includes on-site coffee shops, dining options, a fitness center, health clinic, and a large amount of walkabout outdoor space, with even more to come as mixed-used development on the southeast portion of the property

Class A Vacancy Rate



Source: Cushman & Wakefield Research
Note: Based on sample of buildings that registered some form of leasing activity from 2016 onward (25,717 buildings).

Leaseable Space Under Construction



Indicates Q4 of each year

moves forward. Across the board, almost all of the major leasing activity to take place in the Kansas City office market in 2021 involved a tenant moving into the newest available space, upgrading their current space, or establishing a new presence in Kansas City and opting for the property that was at the top end of its class.

This flight-to-quality practice is not a passing fad or an outlier trend. Cushman & Wakefield's national research team surveyed over 25,000 Class A buildings across the country and the results showed that the more recent a building has been delivered (or renovated), the more likely it is to have a high occupancy rate. Buildings completed during the five-year time frame of 2015 through to 2019 had an average vacancy rate of just 12.6%, while buildings completed between 1980 and 1984 had average vacancy of 20.6%. Based on local leasing activity and national trends, a compelling argument can be made that the biggest hinderance threatening the Kansas City office market is a lack of suitable product.

OUTLOOK

- As leasing activity gathers momentum, absorption could be positive over the second half of the year.
- While tenants may investigate ways to reduce their overall office footprint, those that do so will look to occupy a higher-quality space.
- Local companies with decision makers on-site will be ahead of large national corporations in terms of both executing strategies and taking advantage of new opportunities.
- If speculative development does accelerate, the vacancy rate will likely be slow to drop as tenants vacate older product to relocate to new construction

RETURN TO OFFICE, **RETURN TO NORMAL?**

After a series of false dawns throughout 2021, it appears that Kansas City will be "back in the office" sometime during the first quarter, which is ahead of most major markets. But by summer the US office market should be back operating again with minimal pandemic-related restrictions. That doesn't mean things will go back to how they were in 2019. Remote work, hybrid models, and other office practices from the last two years will have a much larger presence than before. In particular, properties that tried to position themselves as value offerings or discount alternatives face an uncertain future. In the past there was always a certain segment of the market looking to save money on their office costs, but the past two years have shown many of those companies there is an even cheaper option: remote work.

THIS FLIGHT TO QUALITY PRACTICE IS NOT A PASSING FAD OR AN OUTLIER TREND

But while some potential tenants have seen an opportunity to cut costs during the forced two-year experiment that began in early 2020, many others have come to realize just how valuable an office is. While collaboration, culture, and personal interaction may not be easy to quantify on a quarterly balance sheet the best leaders in business understand how vital they are to a company's long-term success. Companies that strive for innovation, development, and high-performance will continue to search out office settings that are attractive to both current and potential employees and also benefit both the individuals and the company.

	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									
Class A	3,721,309	99,500	836,398	22.5%	(28,658)	(158,663)	62,477	260,000	$23.09
Class B	3,297,344	61,587	345,153	10.5%	(1,678)	(71,913)	58,038	0	$16.49
Total	7,018,653	161,087	1,181,551	16.8%	(30,336)	(230,576)	120,515	260,000	$21.18
CROWN CENTER/CROSSROADS									
Class A	1,974,757	183,555	522,961	26.5%	12,294	2,017	66,084	0	$24.47
Class B	2,634,657	74,435	696,091	26.4%	977	(114,258)	50,675	0	$21.40
Total	4,609,414	257,990	1,219,052	26.4%	13,271	(112,241)	116,759	0	$22.72
CBD TOTALS									
Class A	5,696,066	283,055	1,359,359	23.9%	(16,364)	(156,646)	128,561	260,000	$23.63
Class B	5,932,001	136,022	1,041,244	17.6%	(701)	(186,171)	108,713	0	$19.82
Total	11,628,067	419,077	2,400,603	20.6%	(17,065)	(342,817)	237,274	260,000	$21.97
SUBURBAN									
PLAZA									
Class A	2,187,618	12,414	305,336	14.0%	758	6,504	96,696	0	$31.31
Class B	1,068,551	14,732	228,358	21.4%	(8,811)	(10,388)	48,732	0	$25.92
Total	3,256,169	27,146	533,694	16.4%	(8,053)	(3,884)	145,428	0	$29.07
SOUTH KANSAS CITY									
Class A	939,000	0	0	0.0%	0	0	0	0	N/A
Class B	2,527,180	37,598	321,741	12.7%	22,010	4,172	68,652	0	$19.94
Total	3,466,180	37,598	321,741	9.3%	22,010	4,172	68,652	0	$19.94
NORTHLAND									
Class A	898,063	0	217,839	24.3%	(3,142)	1,066	12,558	0	$23.48
Class B	2,706,486	141,292	940,402	34.7%	9,125	(2,912)	61,937	0	$17.23
Total	3,604,549	141,292	1,158,241	32.1%	5,983	(1,846)	74,495	0	$18.03
EAST & SE JACKSON COUNTY									
Class A	107,107	0	15,547	14.5%	12,141	6,118	11,649	0	N/A
Class B	2,888,687	0	411,570	14.2%	(16,914)	19,060	44,649	0	$20.30
Total	2,995,794	0	427,117	14.3%	(4,773)	25,178	56,298	0	$20.30
NORTH JOHNSON COUNTY									
Class A	1,481,157	0	320,254	21.6%	15,141	(26,878)	23,387	0	$27.07
Class B	5,596,494	196,931	1,074,643	19.2%	(36,895)	(41,018)	336,059	0	$19.13
Total	7,077,651	196,931	1,394,897	19.7%	(21,754)	(67,896)	359,446	0	$21.09
SOUTH JOHNSON COUNTY									
Class A	4,373,021	23,016	482,833	11.0%	133,503	190,631	410,481	120,527	$27.59
Class B	15,600,933	351,264	3,005,635	19.3%	(941,191)	(1,100,537)	799,226	0	$22.18
Total	19,973,954	374,280	3,488,468	17.5%	(807,688)	(909,906)	1,209,707	120,527	$23.12
OTHER SUBURBAN MARKETS									
Class A	110,800	0	0	0.0%	0	0	0	0	N/A
Class B	1,332,801	0	181,433	13.6%	2,048	11,009	27,804	0	$16.95
Total	1,443,601	0	181,433	12.6%	2,048	11,009	27,804	0	$16.95
SUBURBAN TOTAL									
Class A	10,096,766	35,430	1,341,809	13.3%	158,401	177,441	554,771	120,527	$27.92
Class B	31,721,132	741,817	6,163,782	19.4%	(970,628)	(1,120,614)	1,387,059	0	$20.45
Total	41,817,898	777,247	7,505,591	17.9%	(812,227)	(943,173)	1,941,830	120,527	$21.88
ALL SUBMARKETS									
Class A	15,792,832	318,485	2,701,168	17.1%	142,037	20,795	683,332	380,527	$25.69
Class B	37,653,133	877,839	7,205,026	19.1%	(971,329)	(1,306,785)	1,495,772	0	$20.35
TOTAL	**53,445,965**	**1,196,324**	**9,906,194**	**18.5%**	**(829,292)**	**(1,285,990)**	**2,179,104**	**380,527**	**$21.90**

The information contained in this report was provided by sources deemed to be reliable. However, no guarantee is made as to its accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

CLEARING UP **EXPECTATIONS**

For several years, it has been easy to say the Kansas City industrial market has exceed expectations and had a great year. In 2016, the market reported absorption of 5.5 million square feet (msf) which followed a two-year run that saw a total of 8.0 msf absorbed from 2014 to 2015. The health of the market was celebrated and people referenced what a strong run Kansas City was on. If only we had known...

A national industrial expansion was underway by 2015 and to many it looked as if Kansas City was just following along with the trend. But the last five years have established that Kansas City was not just participating in an unprecedented boom—it was helping lead the way. In 2021, Kansas City had 9.0 msf of absorption, bring to close a five-year period that saw average annual absorption of 8.1 msf from 2017 through 2021.

INDUSTRIAL MARKET

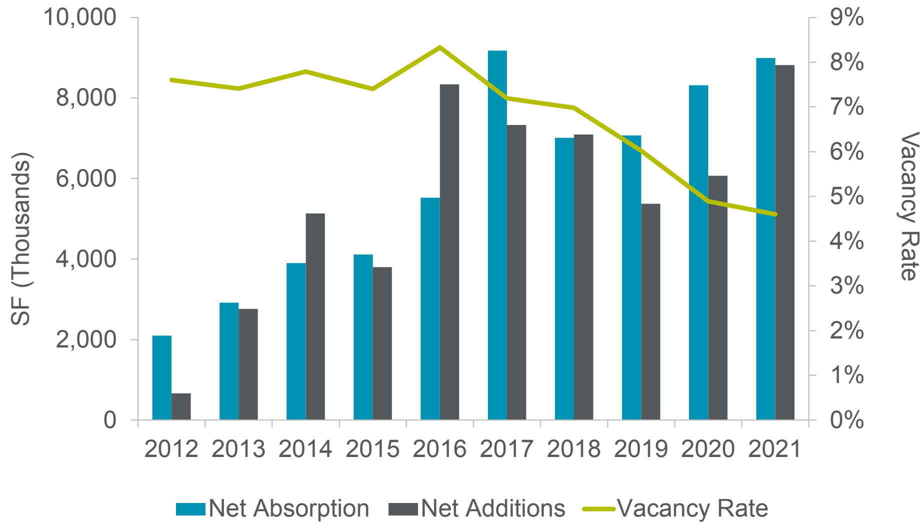
KANSAS CITY INDUSTRIAL MARKET 2021 RESULTS & FUTURE TRENDS

Overall Vacancy	4.60%	◀▶
Net Absorption	8,993 MSF	◀▶
Deliveries	8,815 MSF	▲
Asking Rent	$4.43	▲

Arrows = Expected 2022 Trends

- Not only did Kansas City set a record for deliveries in 2021, but it also reached a new high for space under construction.
- Kansas City remains one of the strongest and fastest growing markets in the US, which as a whole is in the midst of an unprecedented industrial boom.
- Rental rates will begin to rise at a quicker rate due both increased costs of new construction and high levels of demand.

Net Addition, Absoprtion, and Vacancy



A STRONG **OVERALL MARKET**

During any period of rapid expansion, absorption, under construction, and deliveries are three of the most closely watched metrics. While this makes sense, as all three focus on the actual growth in size of a market, to fully appreciate the strength of Kansas City right now you have to look a bit further. At the end of 2016 (the initial three-year surge), the overall vacancy rate was 8.3%. In the five years since, 34.7 msf of new space has been delivered and the vacancy rate has fallen by 373 basis points (bps) to just 4.6%. Not only is the market adding space faster than ever before, but its vacancy rate has also dropped to the lowest point in at least twenty years.

While Class B Warehouse and Manufacturing are two product classes that may not grab many headlines, they account for 110.3 msf of inventory (45.4% of the total market). The combined vacancy rate for those two product types is miniscule 2.0%. While many of the tenants taking space in the new buildings throughout the market are national companies establishing a new presence here there have also been a good number of groups that relocated from older, legacy product to take advantage of the new development. The fact that older buildings continue to backfill space and remain in high demand speaks to a healthy market that is not seeing cannibalization or creating a void that will eventually need to be corrected.

Speculative development has powered the Kansas City market for close to a decade and looks set to continue doing so for the foreseeable future. Throughout this surge there have been various times where people have asked if Kansas City was pushing beyond its limits and overexpanding. In 2021, every submarket and every product type tracked by Cushman & Wakefield reported positive absorption. Based on both long-term and short-term trends, demand for the Kansas City market remains strong and should continue to support the recent pace of expansion.

KANSAS CITY'S PLACE IN THE **NATIONAL INDUSTRIAL MARKET**

As strong as the statistics have been in Kansas City, there are many other markets around the country celebrating massive surges in industrial as well. Nationally, the 287.8 msf of absorption in 2018 was a record high until that total record was shattered in 2021 when a staggering 532.6 msf of space was absorbed. While the expectation is the industrial market will remain strong, no one is expecting 50% year-over-year growth going forward. That type of growth is not sustainable.

What separates Kansas City from markets that experienced a huge leap in 2021 is that the year was more or less on pace with recent performance. The 8.9 msf of absorption was roughly in line with the past five years, each of which had seen between 7.0 msf and 9.2 msf absorption. In terms of new deliveries, the market did report a record high of 8.8 msf, breaking the previous record of 8.3 msf set in 2016, but the overall vacancy rate of 4.6% indicates there is no surplus of space beginning to appear. The year-end vacancy rate has fallen for five straight years now, a trend that indicates the market is actually falling behind existing demand. Even though the year ended with 12.8 msf of space under construction, more than one-third of that space is build-to-suit (BTS).

KEY SALES TRANSACTIONS

PROPERTY	SF	SELLER/ BUYER	INVESTOR/ USER	SUBMARKET
10500 Lackman Road	2,070,156	JC Penney / GLAS USA	Investor	Johnson County
17150 Mercury	1,107,000	LINK / Apollo	Investor	Johnson County
2551 S Liberty Parkway	741,000	Flint Development / New Street Properties	Investor	Northland
Lone Elm 716	716,040	Exeter Property Group / GIC	Investor	Johnson County
Kansas Commerce Center Portfolio	657,362	MEPT / Atlas	Investor	Johnson County
1100 S Dean	564,970	VanTrust / Southern Glazers Wine & Spirits	User	Jackson County

KEY LEASE TRANSACTIONS

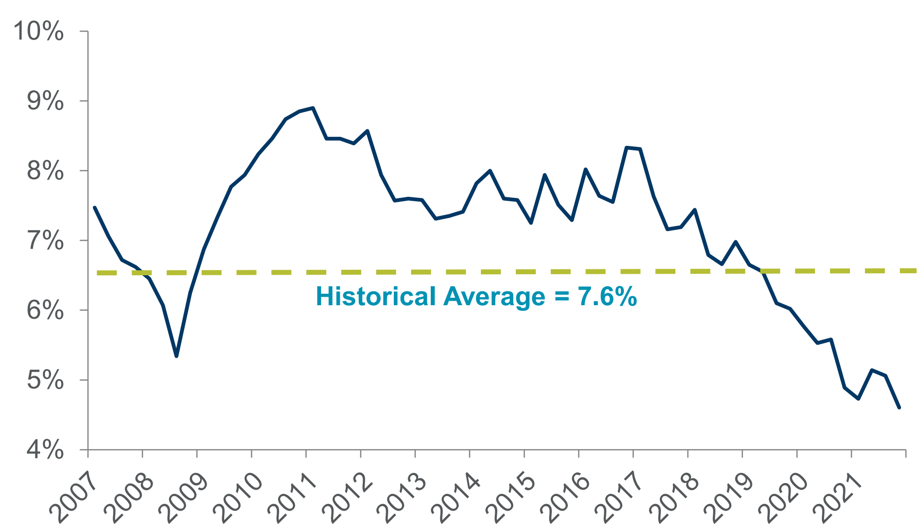
PROPERTY	SF	TENANT	TRANS. TYPE	SUBMARKET
Liberty Commerce Center	1,049,827	Ecommerce Tenant	New Lease	Northland
Blue Springs Logistics Center	584,820	Pepsi	New Lease	Jackson County
Liberty Commerce Center VII	517,000	Ecommerce Tenant	New Lease	Northland
Liberty Commerce Center VI	513,432	Ford	New Lease	Northland
Liberty Commerce Center V	462,472	Ford	New Lease	Northland
7501 NW 106th Terrace	400,828	Urban Outfitters	New Lease	KCI
Blue River Commerce Center IV	246,349	ALPLA	New Lease	Jackson County
Turner Logistics Center II	217,627	Pratt Corrugated Holdings	New Lease	Wyandotte County

OUTLOOK

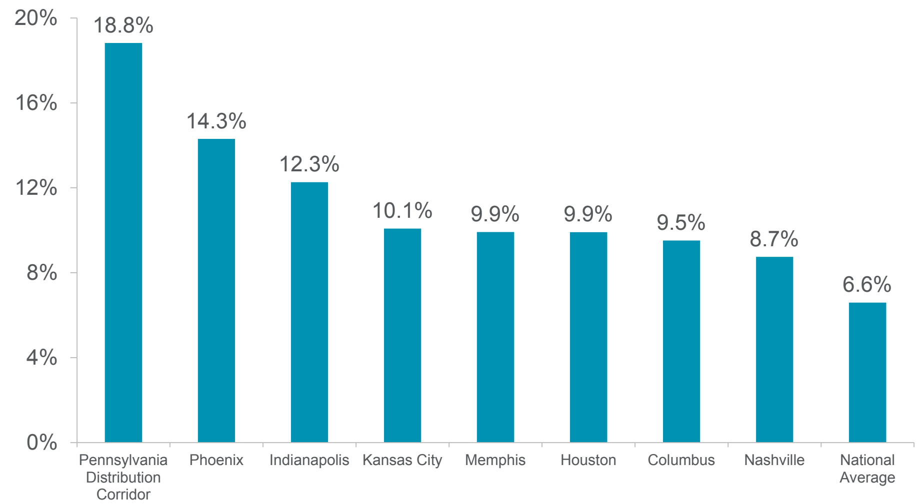
- All four quarters in 2021 finished with more than 10.0 msf of space under construction, but unless any specialized, major build-to-suit projects are announced the under construction level should remain steady.
- Kansas City should continue to view 7.0 msf to 8.0 msf of absorption as the baseline for a healthy year going forward.
- To date, Kansas City has seen very little in the way of high-tech data center space developed, but that could begin to change in 2022 or 2023.

In terms of where Kansas City sits in the national scene, it is a market that has firmly established itself as one of the strongest and fastest growing in the second tier of key industrial markets. The major markets such

Overall Vacancy Rate



Net Absoprtion As a Percentage of Inventory



as Atlanta, Chicago, Dallas-Ft. Worth and Los Angeles (along with Inland Empire) stand alone. Those markets all have in excess of 650.0 msf of inventory, each of them saw absorption in excess of 25.0 msf, and all of them had more than 25.0 msf of space under construction (Dallas-Ft. Worth ended 2021 with 54.1 msf of space under construction). Those markets exist in a class by themselves.

But after those behemoths, Kansas City is right in the discussion with other major industrial markets. When looking at markets with between 150.0 msf and 500.0 msf of inventory, Kansas City showed the fourth highest rate of growth as measured by dividing net absorption from 2019-2021 by year-end 2021 inventory. The only three markets showing a faster rate of growth were the Pennsylvania Distribution Corridor (a young market that has sprung up to accommodate demand that built-out northeast markets no longer can supply and has exploded over the past five years), the southwest hub of Phoenix, and the well-established industrial stronghold of Indianapolis.

KANSAS CITY IS RIGHT IN THE DISCUSSION WITH OTHER MAJOR INDUSTRIAL MARKETS

Looking at numbers from just 2021, Kansas City ranked fourth amongst all markets between 200.0 msf and 800.0 msf in terms of growth as measured by dividing the amount of space under construction by the year-end inventory, once again behind the same three markets. The overall growth rate for markets between 200.0 msf and 800.0 msf was 3.6% while Kansas City came in nearly 50% above that at 5.3%.

Once upon a time, people looked at the amount of development in Kansas City and wondered where the demand would come from. The answer was simple: it would come from companies all around the country and in fact all around the world. Whenever there is discussion of a major national distribution center or a regional one located between the coasts, the Kansas City market is at the front of those discussions.

A MORE BALANCED MARKET **THAN EVER BEFORE**

The first signs of the Kansas City industrial boom were visible in 2014, when a then eye-popping 5.1 msf of new space was delivered. Two years later in 2016, the total of new deliveries was 8.3 msf and the rush was really getting started. But there was an obvious—and major—potential pitfall in the expansion.

Stretching south along I-35 as it runs southwest out of Kansas City, Johnson County was already the core of the Kansas City industrial market in many ways. While the ample supply of land, favorable tax climate for development, and infrastructure always had made the submarket attractive (and will continue to make it attractive in the future), Kansas City's industrial expansion was completely unbalanced. From 2015 through 2019, Johnson County's share of deliveries in the market varied between 44.1% and 69.1%. All told, 59.7% of all deliveries in Kansas City during that five-year period were in Johnson County.

Any major jump forward was going to require one submarket to lead the way, and with the ambitious project at Logistics Park Kansas City (LPKC), Johnson County was always going to be that submarket. But for Kansas City to really establish itself on the national scene it would require development to take place around the metro area. While there were bursts here and there, most notably two large BTS delivering in Wyandotte County in 2017, in 2020 and 2021 development became evenly distributed across Kansas City. Over the past two years, Johnson County has accounted for 26.2% and 28.3% of deliveries, and at year-end 2021 both Jackson County and the Northland submarket around Liberty had higher totals of space under construction than Johnson County.

Johnson County also finished the year third in total absorption, coming in behind Jackson County (which benefitted from owner-user sale activity) and Wyandotte County (which saw the delivery of a 1.1 msf specialized BTS distribution facility). None of this means Johnson County is in danger from slipping from its perch as the prominent submarket in Kansas City. There remains ample room for expansion at LPKC and new developers are in the process of kicking off additional projects. Also, out-of-market groups made several sizeable investments in the submarket during 2021, adding further evidence to the idea that Johnson County is still the strongest submarket in all of Kansas City.

HEADING **NORTH**

During the fourth quarter of 2021, it was possible to see development taking place in literally every direction. Along I-70, work was continuing at Turner Logistics Center and an 800,000-sf BTS was nearing completion at the Kansas Speedway on the western edge of the metro while a 585,000-sf speculative building that was 100% pre-leased was completed in Blue Springs to the east. Large speculative projects stretched along I-49 heading southeast out of the city while the KCI submarket along I-29 in the northwest corner of the city saw construction continue at the KCI Intermodal BusinessCentre. Along I-35 in Johnson County new projects were getting underway to meet the continued demand in the southwestern portion of the city.

IT WAS POSSIBLE TO SEE DEVELOPMENT TAKING PLACE IN LITERALLY EVERY DIRECTION

But the headlines of 2021 came from the portion of I-35 at the northeastern edge of the city, and most likely 2022 will continue to see the area around Liberty be a hub of activity. For the first 16 years of this century, the Northland area around Liberty saw the delivery of just 2.8 msf of warehouse space before a 741,000-sf speculative distribution center was delivered in 2020. By 2021, that building had already seen substantial leasing activity and was sold to an out-of-market investor. But that was only the start of the story.

Located just east of the Ford Claycomo Assembly Plant is Liberty Commerce Center, which saw 2.6 msf of leasing activity between May and the end of the year. As 2021 came to a close, Liberty Commerce Center had delivered its first 272,000-sf speculative building while another five buildings totaling 3.1 msf were under construction. With some of that space being BTS and strong pre-leasing activity already underway, 2.6 msf sf of the 3.3 msf of space either completed or under construction at Liberty Commerce was committed to by year-end.

Kansas City's industrial market has benefitted from the rise of ecommerce, unparalleled rail and highway infrastructure, and a location that makes it the logistics center of the US. The record-setting national statistics from 2021 may not be matched again at a national level, but the success of the local market has been driven by a diversified group of local tenants looking to expand along with national and international corporations establishing local operations from 20,000 sf to over 2.0 msf. The perception and expectations of Kansas City as an industrial market have evolved and those new expectations look likely to be met. The perception of the area should only improve in the coming year.

	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VA-CANT (SF)	OVERALL VACANCY RATE	YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	2020 DELIVERIES
SUBMARKET								
Johnson County	997	78,265,689	114,155	4,569,883	6.0%	1,063,819	2,471,464	2,496,051
Wyandotte County	395	34,669,513	-	1,294,117	3.7%	2,027,236	1,476,065	2,073,388
Exec Park / Northland Park	189	19,779,390	-	740,582	3.7%	708,967	478,295	815,166
Jackson County	835	61,258,283	-	2,174,583	3.5%	3,012,758	3,602,582	2,193,143
North Kansas City	251	15,016,397	35,608	408,928	3.0%	2,733	-	-
KCI	69	8,263,287	-	446,638	5.4%	901,952	676,000	634,344
Riverside	59	6,177,433	10,900	213,378	3.6%	524,416	-	150,000
Other Northland	90	18,464,317	50,313	1,110,538	6.3%	750,711	4,074,781	453,321
Cass County	12	752,515	-	-	0.0%	-	-	-
Warehouse/Distribution	786	121,062,557	186,062	,492,309	5.5%	7,878,222	2,198,064	8,720,413
Manufacturing	1,188	68,390,676	10,900	998,261	1.5%	195,724	500,000	-
Office Service/Flex	910	25,210,160	14,014	1,495,470	6.0%	549,061	81,123	95,000
High Tech	1	220,000	-	-	0.0%	-	-	-
High Tech	12	27,763,431	-	1,972,607	7.1%	369,585	-	-
TOTAL	**2,897**	**242,646,824**	**210,976**	**10,958,647**	**4.6%**	**8,992,592**	**12,779,187**	**8,815,413**

THE DOORS **REOPEN**

No sector of the commercial real estate market has been as focused on the day-to-day aspects of the pandemic as retail. While office workers were asked to work remotely and those in industrial fields had to adjust to new practices and policies, many retail businesses were in fact ordered to shut down operations altogether for portions of 2020. Even as the drawn-out process of reopening started, the restrictions and capacity limits hindered the performance of retail operators and large portions of the population were not ready to venture back out. The bricks-and-mortar business wasn't just disrupted or hindered by the pandemic—it was decimated.

As 2021 got underway there was hope that retailers would recover, and the overall performance of key metrics indicates that in Kansas City the market outperformed most expectations. Net absorption totaled over half-a-million square feet (msf), the highest total since 2017 and enough to give Kansas City a positive figure over the past 24 months. It's hard to overstate the importance of strong absorption in 2021 as there were real concerns about the viability of bricks-and-mortar and how willing businesses would be to establish retail operations. The early returns are very encouraging.

RETAIL MARKET

KANSAS CITY RETAIL MARKET
2021 RESULTS & FUTURE TRENDS

Vacancy	7.2%
Net Absorption	542K
Lease Asking Rent (NNN)	$13.43

Arrows = Expected 2022 Trends

- Retail space generally faired better than expected in 2021.
- Adaption and innovation will be crucial for all retail tenants.
- Labor issues will continue to be a challenge for the retail and entertainment sectors.

The year-end vacancy rates from 2018, 2019, and 2021 were within 12 basis points (bps) of each other, which indicates the overall balance of supply and demand is pretty even in the Kansas City retail market. Not surprisingly, there was very little in the way of new deliveries in 2020 and 2021 and not much is on the way in terms of new construction. The past 12 months established that retail has survived the worst, but it remains a category undergoing evolution and many challenges that existed before the pandemic remain.

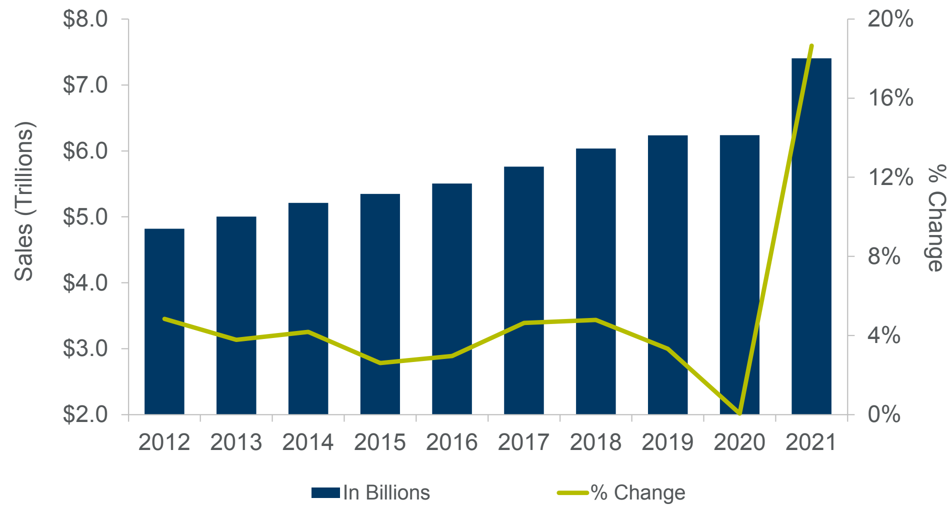
THE PAST 12 MONTHS ESTABLISHED THAT RETAIL HAS SURVIVED THE WORST

SLOWLY GETTING **BACK GOING**

Most commercial real estate metrics are lagging indicators that fail to express sudden shocks. To best understand just how big a hit the retail sector took in early 2020, it is best to look at the jobs figures from the Bureau of Labor Statistics for the Leisure & Hospitality sector (which includes restaurants, bars, and entertainment venues) and Retail Trade sector. In just one month, that total went from 216,300 to 150,100—a drop of 30.6%. The next two months saw strong increases, but that momentum dissipated and over the last six months of 2020 the number of those jobs fluctuated between 195,200 and 197,600.

Fortunately, 2021 saw a prolonged, steady recovery and in December there were 222,500 Kansas City jobs across the Leisure & Hospitality and Retail Trade sectors. From 2017-2019, the December jobs figure for those categories was always between 225,100 and 225,200. Kansas City didn't quite make it back to where it was pre-pandemic on the retail jobs front, but it came awfully close.

US Retail & Food Service Sales

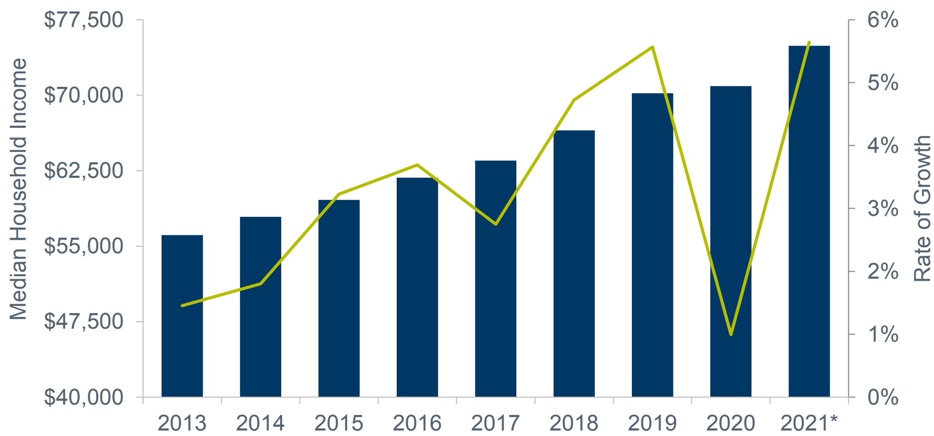


Source: U.S. Census Bureau

As workers returned to their jobs and hotels, restaurants, and retailers moved back towards full capacity, there was an abundance of demand. Figures from the US Census Bureau showed that in 2020, Retail and Food Service sales rose just 0.1%. In the previous decade (2010-2019), sales grew by 4.4% per-year on average and only once fell below a growth rate of 3.0% (in 2015, at 2.6%). While some bounce back was expected, 2021's shocking spike of 18.7% certainly exceed most expectations. Whether or not this was pent up demand being let loose, a delayed release of government stimulus money, or a combination of factors is uncertain, and that kind of growth should not be expected to continue. But the idea that 2020 made everyone comfortable sitting at home all the time has been put to rest.

It is also crucial to point out that the threat of inflation is very real to the retail sector. Many large, national retailers noted substantial increases in shipping costs and the rise of food prices presents major challenges to the restaurant business. Some economists have cited that the primary culprit in these hikes has been a global supply chain that spent the second half of the year pressed beyond a breaking point and will hopefully begin to operate normally in the later part of 2022. However, consumer dollars are not infinite and a sizeable increase in the cost of necessities will lead to pull backs in discretionary spending, which would have a very negative impact on the retail sector of commercial real estate.

Kansas City Median Household Income



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

OUTLOOK

- The changing philosophy of major, national chains means both smaller tenants and landlords of all sizes can no longer count of traditional anchors providing high levels of foot traffic

- Tenants and concepts that embrace the lessons learned from the pandemic and the new revenue streams and techniques to draw attention will drastically outperform businesses hoping for a return to pre-2020 conditions and shopping habits

- Staffing challenges will continue to be an ongoing problem and may force several sectors of the retail business to re-evaluate their wage structure completely

THE ECOMMERCE **CONUNDRUM**

For several years, one of the most predictable graphs on the US economy dealt with the rise of ecommerce sales and their percentage of all retail revenue. Each year, there would be a modest growth in ecommerce sales between quarters one and two and quarters two and three, followed by a strong spike in the fourth quarter. The following year, the first quarter would show a slight increase over the third quarter of the previous year. But one of the biggest changes in day-to-day economics brought about in 2020 was as people were encouraged to stay home as much as possible, ecommerce sales spiked strongly. In the second half of 2020 there were genuine mumbles that online shopping was going to not just continue growing but would do so at an even faster rate than before and put severe stress on bricks-and-mortar retail.

But then something strange happened. After surging to an all-time high in the second quarter of 2020—even above the total from the fourth quarter of 2019—ecommerce sales and their percentage as a total of all retail sales declined slightly in the third quarter of 2020. Many were quick to point out that this was simply people making use of opportunities that were not available during the height of the lockdown. After the normal fourth quarter spike, ecommerce sales in the first quarter of 2021 dipped below total from the second and third quarter of 2020 and after a modest rise in the second quarter, the third quarter of the year saw a decrease. The pandemic upended what had been a very stable, predictable cycle, but there were also signs that maybe ecommerce momentum was if not decreasing at least stabilizing. In the first quarter of 2020, ecommerce sales were up less than $1.0 billion over the third quarter of the previous year while for the previous six years they had averaged a jump of $5.3 billion and never once had the increase been less than $4.6 billion.

This is not to say that ecommerce has reached its peak. Indeed, even measuring ecommerce has become complicated and will continue to be challenging. Is an order placed over a smart phone, paid for electronically, and then picked up at a local retailer without ever stepping out of the car considered ecommerce or bricks-and-mortar? If an order is placed through a third-party delivery service who sends someone into a store to physically make a purchase and then take it to the end customer who never left their house, what is that classified as?

Technology has disrupted every aspect of life and it continues to work its way further and further into how American consumers behave. The above examples point out that any retailer looking to survive and even flourish will have to develop an online presence and determine how to best use that presence to create revenue. While there will be a few exceptions that exist only in the virtual world or only as a physical space, it's impossible to imagine a retailer having much success without customers interacting with the retailer—and making purchases—through a virtual environment at least some of the time.

NEW TRICKS AND A WHOLE **NEW GAME**

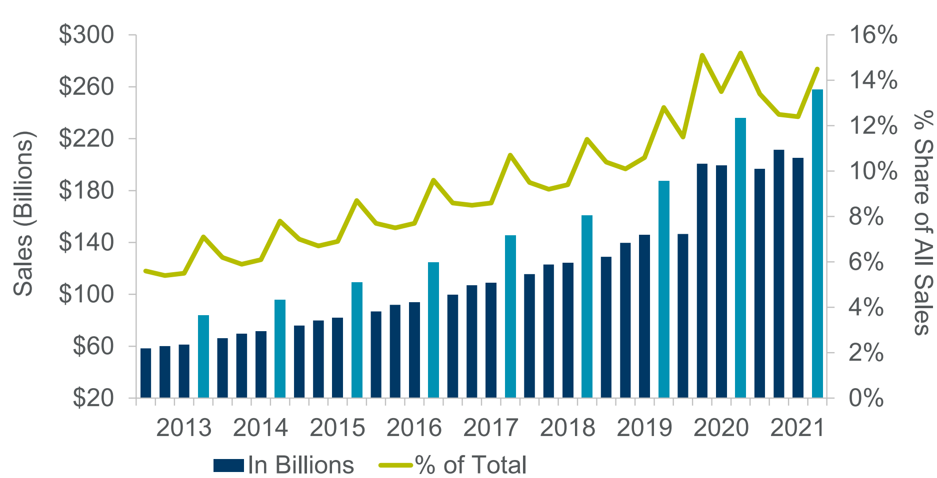
As ecommerce exploded during the first two decades of this millennium, it is impossible to overlook the poor response and adaptation from many retailers. Online shopping and the advent of new technology presented challenges to existing companies but many of those companies either chose to ignore the emerging threat to their business or simply were not able to adapt. There is a long list of retail businesses that were considered iconic near the end of the twentieth century that no longer exist, and one common thread amongst those groups is a failure to innovate.

In a free market economy, nothing sparks innovation like necessity, and that has been visible over the past 18 months as short-term fixes turned into viable revenue streams. Many states, counties, and municipalities have revised regulations to allow for restaurants to not just sell alcohol to go but also to make it much easier for outdoor dining, patio seating, and other modifications to handle increased carry-out business. Every one of those changes has an impact on a tenant's relationship with their landlord and in retail centers with a large number of restaurants it is imperative that expectations and operations are made clear. Three years ago, making sure there were enough parking spots for all tenants and employees was enough...now, disputes over who has the rights to patios, sidewalks, or even sections of parking lot that can be used for sales must be managed and parking spots for carry-out are more important than ever. These are all problems that can be solved via good communication, but to maximize the value of these new opportunities there must be a clear understanding of responsibilities and practices.

Along with restaurants adding tables outside, many businesses were forced to make investments and upgrades to survive during the pandemic. Virtual menus in restaurants, pickup stations for grocery stores and general merchandise retailers, and electronic payment options for every type of retail imaginable have become more and more common. While this no doubt added costs and stress, an argument can be made that the retailers who were aggressive and proactive ended up adopting changes that customers already wanted. For those restaurants and shops that now offer a more positive experience than three years ago, there are great opportunities in the post-pandemic world.

Retailers in Kansas City (and their landlords) can find comfort in the strong rise in household income the market saw in 2021. Early projections are Kansas City saw a 5.6% rise in median household income last year, the same rate as in 2019. While the threat of inflation looms in the background of that number, it is encouraging that overall people in Kansas City have more money to spend. It appears the entertainment and shopping options that were unavailable for much of the last two years are now up and running again and 2022 should offer more clarity on what successful retail operations will look like as ecommerce continues its rise and the pandemic fades into memory.

US E-Commerce Sales



Source: U.S. Census Bureau

POWERFUL **YEAR**

The uncertainty of 2020 led to a predictable decline in commercial real estate transactions, so as with most metrics looking at year-over-year growth is not useful in determining the overall strength or health of a market. For many metrics, a comparison of 2019 and 2021 shows some growth but still leaves open the question of how much “real” growth has occurred over the past two years with a precipitous drop followed by a sharp rebound. But for commercial real estate investment, the message is clear: demand is strong.

In the first half of the last decade, there was a steady national trend of growth in total investment transactions, with average volume increasing between $58.8 billion and $96.2 billion each year from 2011 through 2015. The next two years saw a slight downtick (2017 was $49.0 billion less than 2015), and then a strong recovery in 2018 and a very modest increase in 2019, when total US investment sales came in at just under half-a-trillion dollars.

Predictably, investment volume was hit hard in 2020 after months of literally no activity in the face of overwhelming uncertainty and fear. Everyone expected an increase in 2021, the question was simply would it be enough to make up for the lost activity in 2020 and return to the general growth pattern of the past decade. The answer was a resounding “yes.”

INVESTMENT MARKET

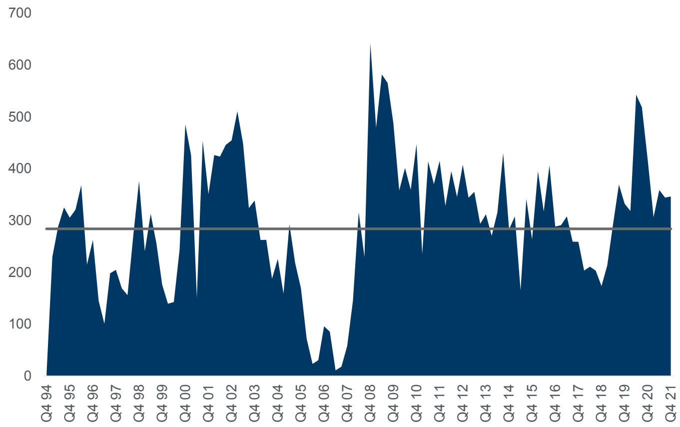
KANSAS CITY 2021 RESULTS

Annual Dollar Volume	$2.36 billion	▲
Number of Transactions	126	▲

Arrows = Annual Trend

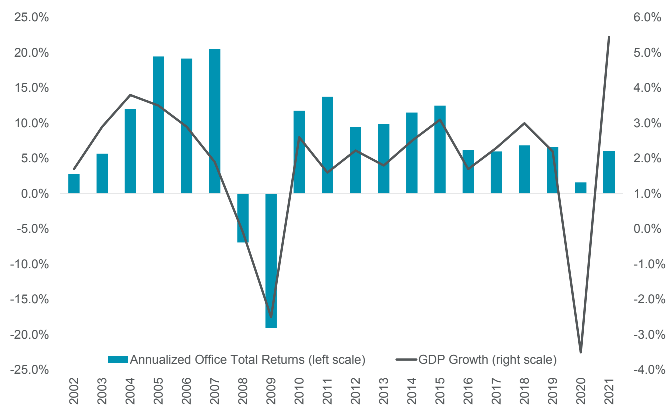
- The local investment market was driven by Industrial and Multifamily sales, both of which set records for total volume.
- Interest in Industrial product has been growing for the past few years nationally, and Kansas City saw a huge spike this year.
- While total volume was still lower than historical averages, the Retail product class saw a strong recovery in 2021.
- Kansas City achieved a record level of transaction volume without relying on a single, signature transaction.

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

Total transaction volume more than doubled in 2021, jumping to $717.5 billion. Two years earlier, the market flirted with $500 million but didn't quite get there. In 2021, not only was the $500 billion mark surpassed but the $600 billion and $700 billion levels were also left in the rearview mirror.

EVERY PRODUCT **STANDS STRONGER**

Not surprisingly, all four major product classes participated in the strong year. Office showed the smallest year-over-year growth, coming in at just 61.3%, but the total volume was still higher than in 2019, 2018, and 2017. The much-maligned Retail category showed the second highest year-over-year increase with 104.4% more in total transactions that 2020 as the 2021 total was also higher than the totals from both 2019 and 2017, showing that there is a future for Retail even though there are still challenges ahead for the sector.

For the past several years, the US has been enjoying a boom in Industrial development and since about 2018 a broader audience has been getting more and more intrigued by a category that was once home to a specific niche of investors. Not only did Industrial set a new record for total volume, but for the second straight year it surpassed Office and for the fifth straight year is bettered Retail. Impressive for a product that in 2016 was at only 86.9% of Retail and barely half of Office.

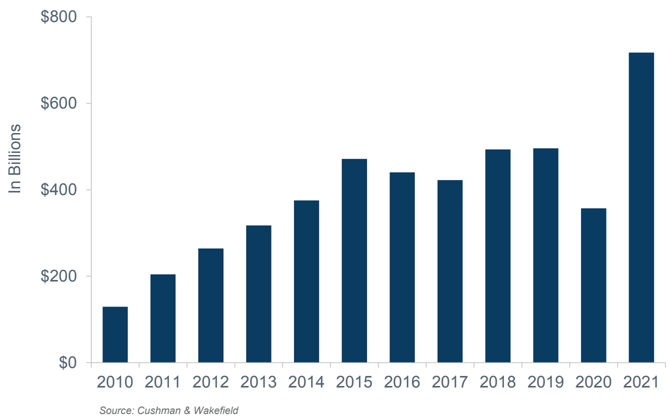
THE SHINING STAR WAS ONCE AGAIN THE APARTMENT SECTOR

But the shining star was once again the Apartment (Multifamily) sector, which was up 147.0% over 2020. The previous record high for Apartment transactions came in 2019, and the 2021 total was 84.7% higher. An increase in rental rates around the country, a tightening single-family housing market that makes renting more attractive to many, and more and more economic indicators that demand for residential space will be outpacing supply for the foreseeable future have all helped drive up the value of Apartment assets.

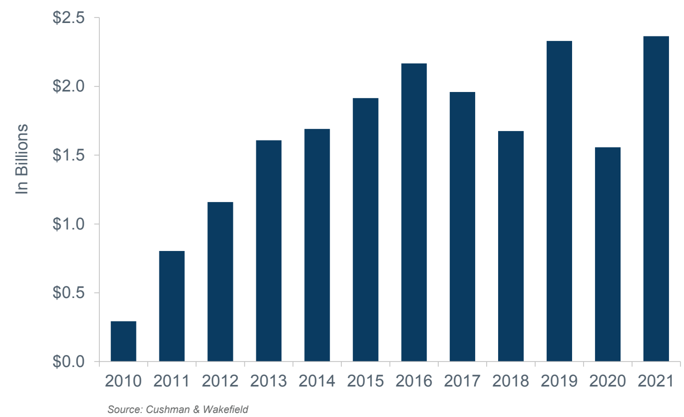
The Kansas City investment market generally followed the national trends and it also set a new record in 2021, although total transaction was only $30 million above the previous high set in 2019. But that is not the real story. Only twice had the total transaction volume for Kansas City exceeded $2.0 billion prior to 2019 and in both of those years (2016, The Plaza; 2019, The Sprint Campus/Aspiria) there was a single, massive transaction that provided a huge boost. In 2021, it was a steady increase in Apartment sales along with a surge of investor interest in Industrial that pushed Kansas City to a new record. Unlike 2016 and 2019, the blueprint that pushed Kansas City to a new record high in 2021 is repeatable.

Historically, an outsized portion of investment interest in commercial real estate has been focused on six key markets (Boston, Chicago, Los Angeles, New York, San Francisco, Washington DC) and in the past few years that outsized level of capital flow has led to rapidly rising prices and a decreased rate of return (known as cap rate compression). As cap rate compression has

US Annual Sales, All Products



Kansas CIty Annual Sales, All Products



accelerated over the past few years, institutional investors and international money has started to search for new markets where the risk-return balance is more favorable than in the traditional destinations. To many buyers, the Kansas City market has become very attractive.

OUTLOOK

- As interest rates rise, higher cap rates in markets such as Kansas City will become even more attractive to investors
- The Kansas City industrial market remains strong and will continue to draw interest from a wide audience, but a large amount of the inventory is controlled by an owner that has shown a strong preference for retaining control of its projects
- Single-tenant, triple-net leased buildings will be the most attractive assets for out-of-market investors and will earn a premium over comporable properties
- Rental rate increases should support a continued high-volume of Apartment transactions throughout Kansas City.

OFFICE MARKET

The investment market for office product in Kansas City was soft in 2021, dropping to its lowest level in a decade. After being pushed above $650.0 million in 2019 thanks to the purchase of Aspiria, Office investment activity in Kansas City was surprisingly resilient in 2020, coming in at $254.7 million. What made that performance misleading is that the sale of two large, single-tenant,long-termleasedproperties—both occupied by the same tenant—accounted for more than half of the market's total in 2020. In 2021, the uncertainly surrounding the future of office assets hit home and total volume came in at just $87.7 million.

TO MANY BUYERS, THE KANSAS CITY MARKET HAS BECOME VERY ATTRACTIVE

Where there was strong interest in office space in 2021 was companies looking to acquire their own office space. The most dramatic example of this was NorthPoint Development acquiring a 265,000-sf office building in North Kansas City to serve as its headquarters, but mostly it was smaller tenants looking to control their own buildings. In total, 25 office buildings between 10,000 sf and 50,000 sf were purchased in the Kansas City market during 2021, many of which were owner-user transactions. Low interest rates and high levels of available capital made owning an office property appealing to smaller, local businesses, even if in many instances they will look to lease out a portion of the building to third-party tenants.

INDUSTRIAL MARKET

For several years now, the Industrial product class has been going through an unprecedented expansion across the US and Kansas City has been one of the leaders in new development. Such a strong re-imagining of Industrial space has begun to attract new investors that previously had shown no interest in warehouses and distribution centers. In 2019, the market set a post-Great Financial Crisis record of $271.0 million in transactions and then just slightly bettered that number in 2020 with $273.6 million. But in 2021, the activity rocketed past anything Kansas City had ever seen before, coming in at an astounding $794.0 million. That is nearly three times the 2020 number and more than $100 million above the highest single-year Office total on record.

What makes the performance of Industrial even more impressive is it was certainly not a situation where one major transaction titled the scales. Over the course of the year, 22 separate buildings were purchased for between $10.0 million and $50.0 million while an additional two multi-building portfolios were purchased for approximately $25.0 million and $45.0 million each. Some of the buildings purchased were delivered in 2020 and even 2021, while others date back to the early 1970's and are half-a-century old.

Not only are investors comfortable with older buildings in Kansas City, but the demand for Industrial assets is so high that every geographic area saw investment activity. Five different submarkets (Jackson County, Johnson County, KCI, North Kansas City, and Northland) saw a single building trade from over $22.5 million while Wyandotte County saw a pair of neighboring buildings sell for a combined total of $31.4 million. The specialized nature of some Manufacturing facilities can create a wide range of per-square-foot (psf) prices, but if the sales of two buildings occupied by significant auto industry tenants are removed from the calculation, Kansas City reported a weighted average psf price of $64.84, well above the comparable figure from 2020 of $50.79 psf.

The powerful year for investment in Kansas City Industrial product was driven by a diverse range of factors, which implies the total volume is sustainable going forward. The market's ability to attract out-of-market and even out-of-country capital is vital to any leap forward and 2021 proved new money is indeed flowing into Kansas City. Perhaps the biggest "hinderance" to Kansas City is at least one dominant local developer has shown a strong preference for retaining ownership of its buildings and while that may reduce the number of properties eligible to trade hands it is also a powerful statement about the strength of Kansas City Industrial assets. That belief in the long-term value of modern Industrial product located in this market is exactly what will help draw more money in.

RETAIL MARKET

Few asset classes of any kind were hammered by the pandemic shutdown like the retail business, and the investment transaction volume in 2020 certainly reflected that. In Kansas City, the volume in 2020 was just 22.9% of what it had been in 2019, a much steeper drop than what was seen across the nation as a whole. But just as Retail commercial real estate surprised many people with a strong rebound in 2021, Kansas City exceed almost everyone's expectations by doing more than three-and-half times the previous year's volume with $176.3 million in total transactions.

There is no doubt the Retail asset class faces challenges going forward, many of which were in place prior to the pandemic. The rise of ecommerce and a complete change in American shopping habits has started a shift that is not going to stop. But that does not mean traditional Retail is dead…those reports have been greatly exaggerated. Nationally, 2021 Retail transaction volume was at 99.6% of the annual average for the five-year period of 2015-2019.

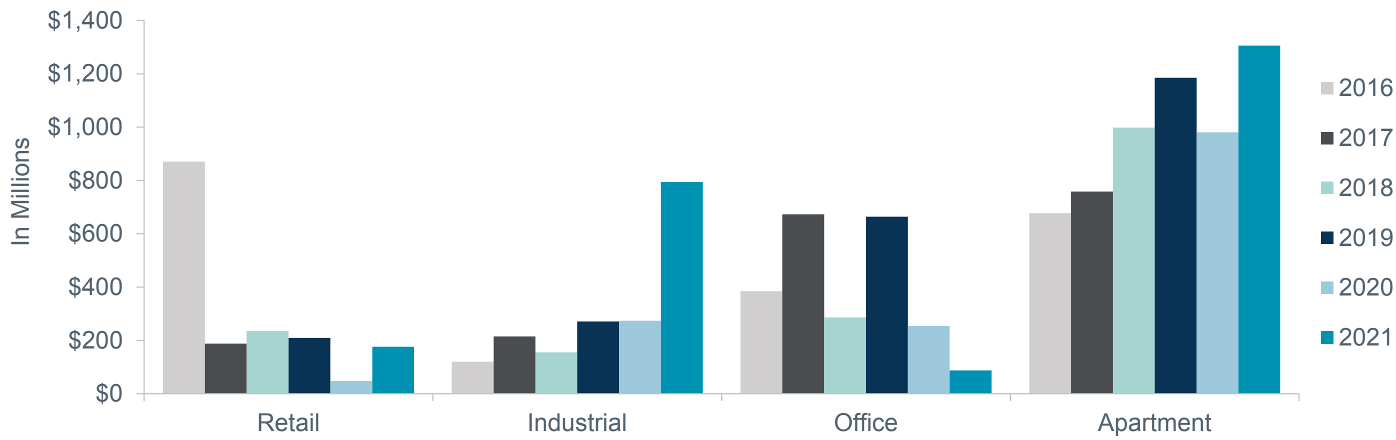
THAT BELIEF IN THE LONG-TERM VALUE OF MODERN INDUSTRIAL PRODUCT LOCATED IN THIS MARKET IS EXACTLY WHAT WILL HELP DRAW MORE MONEY IN

From 2017 through 2019, the Kansas City market averaged $211 million in Retail property sales (the Plaza was sold in 2016, so averages for years further back are dramatically skewed), which means 2021 was 83.6% of the three-year average prior to the pandemic. While the Kansas City retail market has not recovered as quickly as much of the rest of the country, 2021 demonstrated there is still appetite for quality Retail assets in and around Kansas City.

APARTMENT MARKET

Starting with the residential redevelopment projects that really kicked off the urban renaissance in downtown more than a decade ago, Kansas City began to receive a new type of Apartment (Multifamily) product that not only was higher end living space than the market was used to but also incorporated amenities that had never been seen before in this market. The success of

Kansas City Annual Sales by Product



Source: Cushman & Wakefield

those properties spurred developers not just in the River-Crown-Plaza submarket that stretches from the Missouri River to the Country Club Plaza and area around Loose Park to improve the level or product, but the expectations from residents for what was available in a new Apartment property have risen throughout the market. As a result, Kansas City set a record high for Apartment transaction volume in 2015, 2018, 2019, and 2021

KANSAS CITY SET A RECORD HIGH FOR APARTMENT TRANSACTION VOLUME IN 2015, 2018, 2019, AND 2021

Much of the interest in Kansas City and other non-gateway real estate markets has been driven by the rise in prices and cap rate compression in those larger cities, but in 2021 Kansas City saw the strongest overall rent increases for apartments in more than a decade. Overall, effective rents rose 8.6% in 2021 and several submarkets showed double-digit growth. Perhaps most importantly, the River-Crown-Plaza submarket—which has been a focal point of new development and has often led the market in growth rate as new, higher-end properties have delivered—reported the lowest growth rate at just 6.4%. This indicates that organic growth is taking place throughout the market and there is healthy demand in all parts of the city.

One potential sign of worry is that the total number of units transacted in 2021 dropped slightly, down from 9,700 in 2020 to 9,000 this past year. However, this was more than offset by a huge increase in higher quality assets. In 2020, 2,300 Class A units traded at a weighted average price of $178,800 per-unit. The 2021 totals were 3,800 Class A units at a weighted average price of $200,500 per-unit. It was this demand for Class A Multifamily assets that drove the overall weighted average price up 44.0%, going from $100,800 to $145,000.

SIGNIFICANT INVESTMENT TRANSACTIONS OF 2021

PROPERTY	SIZE	PRICE	UNIT PRICE
Office Transactions			
9801 Renner	116,540	$22,612,000	$194
Lindenwood Business Center	137,308	$6,865,400	$50
Southcreek XI	30,532	$4,550,000	$149
9140 Ward Parkway	35,677	$3,400,000	$95
***Annual Total**	**712,969**	**$87,702,399**	**$123**
Industrial Transactions			
10500 Lackman Road	2,070,156	$98,243,832	$47
Liberty Logistics Center	741,000	$49,647,000	$67
Lenexa Logistics VII	401,098	$26,479,068	$66
Heartland Park #1	272,882	$17,900,000	$66
2401 Midpoint Drive	180,000	$13,977,649	$78
1501-1599 N Topping Ave	119,118	$6,227,340	$52
***Annual Total**	**11,937,624**	**$794,015,781**	**$67**
Multi-Family Transactions			**Per-Unit**
RM West	257 units	$66,900,000	$260,311
The Locale	201 units	$60,000,000	$298,507
Carlyle Apartments	436 units	$54,000,000	$123,853
Avenutura Clear Creek	288 units	$51,275,000	$178,038
Kenilworth	246 units	$45,200,000	$183,740
Pickwick Plaza	261 units	$39,000,000	$149,425
Waterstone	372 units	$32,150,000	$86,425
Chapel Ridge Townhomes	105 units	$27,775,000	$264,524
***Annual Total**	**9,005 units**	**$1,306,052,187**	**$145,036/unit**

**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. New industrial development along I-49 in northern Cass County is being included in the Jackson County submarket.
- 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.

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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