



Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2022



Source: BLS, Moody's Analytics
2022Q3 data are based on latest available data

ECONOMY

The third quarter of 2022 was all about big announcements in the Kansas City commercial real estate market. On the office side, the lease of the entire 260,000-square-foot (sf) 1400KC building by a single tenant would be the most significant local deal in years even if it hadn't taken place in a brand new, Class A tower in the Central Business District (CBD). On the industrial side, a 309-acre development site in western Johnson County was selected for the construction of a 2.5-million-square-foot (msf) manufacturing plant for batteries to be used in electric vehicles. While these two announcements dominated the headlines, neither will have an immediate impact on the commercial real estate statistics, as the office tenant has announced they will not move in until 2025 while realistically the battery plant will not be operational until the end of 2024 at the very earliest.

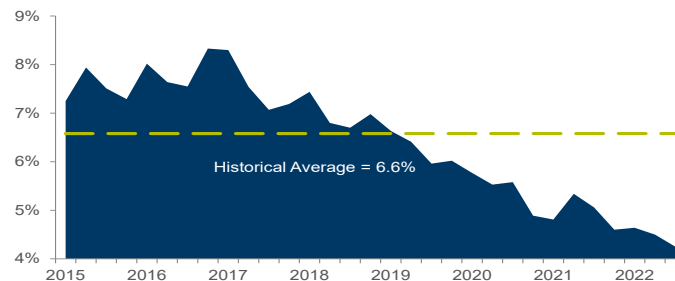
From a macro-economic perspective, a pair of 75-basis point (bps) rate hikes in the third quarter reinforced that the Federal Reserve Bank will make combating inflation its primary goal for the foreseeable future. The Federal Funds Effective Rate has risen from just 8 bps to 308 bps during the first nine months of the year, with three consecutive 75 bps increases and all indications that the Fed will continue to push rates higher in the fourth quarter of 2022 and the early part of 2023. While some key economic indicators from the third quarter showed inflation beginning to slow, unemployment remained historically low at 3.7% and to date the US economy has added 4.1 million jobs this year.

MARKET OVERVIEW

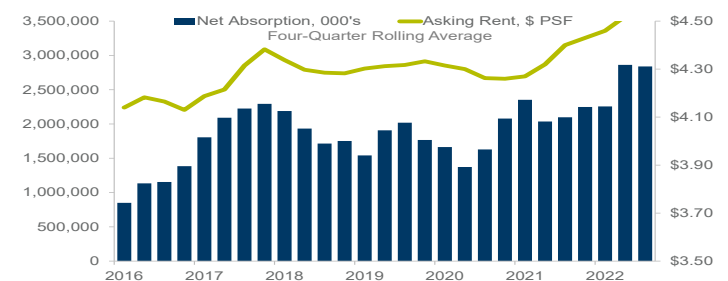
Over the past seven years, Kansas City has seen a consistent stream of eye-popping absorption and delivery numbers that have been pointed to as proof of how strong the market was. Through the first nine months of 2022, 8.0 msf had been absorbed, meaning the market will likely surpass the record high of 9.2 msf set in 2017. Depending on what projects are completed in the fourth quarter it could also see a new record for space delivered in a year.

The absorption and delivery statistics have firmly established Kansas City as one of the most in-demand and fastest growing markets in the country, but the record growth has somewhat overshadowed the trend in the vacancy rate.

OVERALL VACANCY



NET ABSORPTION/ASKING RENT



From 2015 through 2021, the average quarterly vacancy rate in Kansas City was 6.6%, but the general trend has been a steady drop. Over that time, the vacancy rate peaked in the fourth quarter of 2016 at 8.3% and reached 6.6% in the first quarter of 2019. By the end of 2019, the rate was down to 6.0% and from the start of 2020 through the first three quarters of 2022, the rate averaged 5.0% and never rose above 5.8%. At the end of the third quarter of 2022, it was at an all-time low of 4.3%.

Amazingly, even the 4.3% number does not represent just how tight space is in Kansas City. The Underground product class, which serves a purpose but is not suitable for many clients, totals 27.8 msf or 11.2% of all space in market. However, the vacancy rate for Underground is 7.4%, far higher than the market average. If Underground space is removed from the equation, the vacancy rate for Kansas City drops to 3.8%. Going one step farther, if Underground space is taken out and the large spaces in existing buildings that have been leased but not yet occupied are removed from the vacant total, that number would be 3.0%. The market has gone through an unprecedented expansion, and space is still tighter than ever.

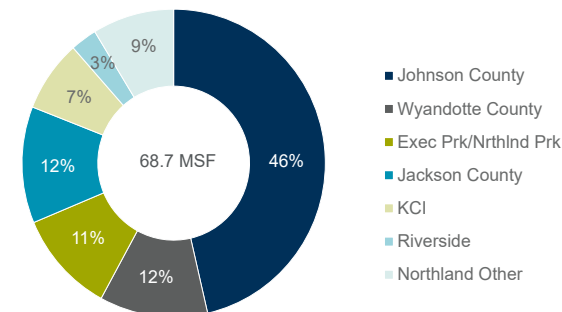
Nowhere is the health of the Kansas City industrial market on better display than at Turner Logistics Center, in Wyandotte County. First announced in 2019, Turner Logistics Center was designed to offer modern construction at an ideal infill location with buildings that could be offered to tenants looking for 60,000 sf up to more than 300,000 sf. The first building was delivered at the end of 2020, and by the end of the third quarter of 2022 there were five completed buildings totaling 1.9 msf. That space is already 100% leased, and later this year work will begin on an additional three buildings that will add almost another 1.0 msf to the park by the end of 2023 or early 2024.

The quarter-end total of 12.9 msf under construction is near the record high set at mid-year of 13.1 msf, so there is space on the way to meet the continuing demand. Of that space, 30.3% is owner-user, build-to-suit, or pre-leased. While this may end up being the peak of the Kansas City industrial market boom, there are no indicators of the market weakening anytime soon.

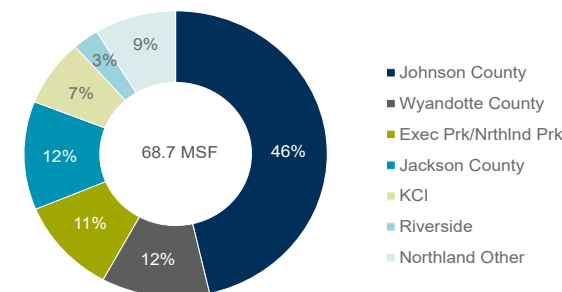
Outlook

- The development of the large electric vehicle battery plant in western Johnson County could lead to additional industrial demand for suppliers to the facility.
- While Johnson County may dominate in terms of new construction for the next few quarters, plans are underway for large industrial parks in both Jackson County and the KCI submarket.
- Asking rates throughout the market have risen rapidly over the past year, but so far there has been little pushback from tenants looking to lease.

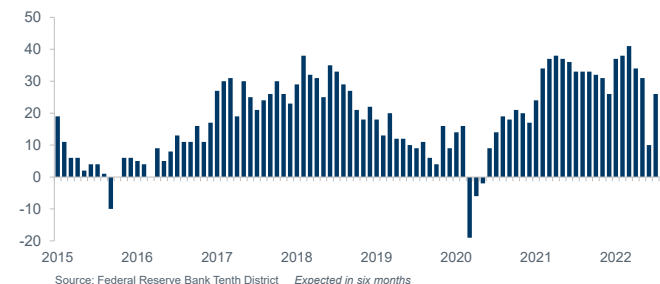
BULK DISTRIBUTION BY SUBMARKET



NET ADDITIONS, ABSORPTION & VACANCY



FEDERAL RESERVE 10TH DISTRICT MFG SURVEY



MARKET STATISTICS

Submarket	Total Bldgs	Inventory	Sublet Vacant	Direct Vacant	Overall Vacancy Rate	Current Qtr Overall Absn	YTD Overall Absn	Under Construction	Current Qtr Completions	YTD Completions	Overall Weighted Average Net Rents
Johnson County	1,003	80,328,201	71,833	4,287,463	5.4%	457,321	2,269,745	4,976,652	703,158	1,945,003	\$6.06
Wyandotte County	387	35,150,502	-	1,416,858	4.0%	135,822	418,540	1,477,154	-	595,811	\$4.57
Executive Park / Northland Park	188	19,731,390	-	273,874	1.4%	160,827	466,708	478,295	-	-	\$5.34
Jackson County	786	61,078,276	-	2,802,750	4.6%	179,222	676,374	4,956,906	10,000	1,332,424	\$4.75
North Kansas City	245	14,741,897	16,250	377,759	2.7%	104,411	44,527	120,000	-	-	\$4.57
KCI	71	9,109,769	-	138,635	1.5%	466,005	724,003	-	459,680	676,000	\$6.46
Riverside	59	6,177,433	-	110,729	1.8%	125,439	113,549	-	-	-	\$5.52
Northland	95	21,671,623	-	1,063,315	4.9%	1,004,027	3,324,842	847,475	1,049,827	3,227,306	\$4.85
Cass County	11	741,515	-	-	0.0%	0	-	-	-	-	n/a
Kansas City Totals	2,845	248,730,606	88,083	10,471,383	4.3%	2,633,074	8,038,288	12,856,482	2,222,665	7,776,544	\$5.36

	Total Bldgs	Inventory	Sublet Vacant	Direct Vacant	Overall Vacancy Rate	Current Qtr Overall Absn	YTD Overall Absn	Under Construction	Current Qtr Construction	YTD Construction	Overall Weighted Average Net Rents
Bulk Distribution & Warehouse	797	128,278,636	78,784	6,451,794	5.1%	2,259,890	7,025,145	11,729,482	2,079,101	6,937,882	\$4.74
Office/Warehouse	753	20,218,970	9,299	734,715	3.7%	303,884	640,750	75,000	143,564	316,662	\$8.16
Flex/R&D	153	5,267,631	-	195,069	3.7%	35,815	8,313	70,000	-	22,000	\$10.42
Manufacturing	1,130	67,201,938	0	1,035,983	1.5%	173,197	445,295	0	-	500,000	\$5.08
Underground	12	27,763,431	0	2,053,822	7.4%	-139,712	-81,215	982,000	-	0	\$2.96

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Inland Port LII	Johnson County	Simmons Pet Foods	1,007,515	New Lease
Turner Logistics Center	Wyandotte County	Orange EV	417,826	New Lease
Turner Logistics Center	Wyandotte County	Hill's Pet Nutrition	325,957	New Lease
Inland Port V	Johnson County	Excel Industries	246,592	Renewal
5414 Front Street	Executive Park	Chep USA	190,000	Renewal
Northland Park VII	Northland	Chadwell Supply	85,556	New Lease
Riverside Horizons V	Riverside	Charles D Jones	82,349	New Lease
Blue River Commerce Center II	Jackson County	Genesis Land & Property	68,530	New Lease
Blue River Commerce Center II	Jackson County	Beyond Warehousing	57,897	New Lease
Turner Logistics Center	Wyandotte County	Snyder's Lance	57,642	New Lease

*Renewals not included in leasing statistics

