



Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2022



Source: BLS, Moody's Analytics
2022Q4 data are based on latest available data

ECONOMY

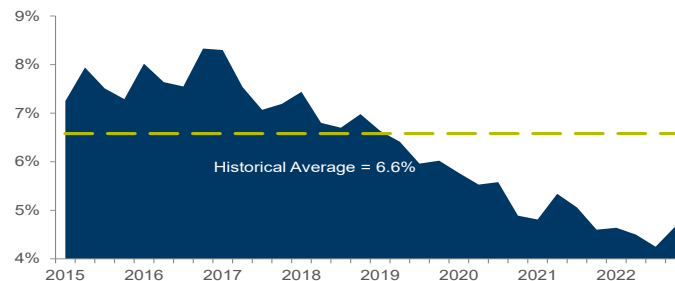
Looking back over 2022, the standout story for the Kansas City commercial real estate market was major announcements that bode very well for the future but will not come to fruition until at least 2024. On the office side, the entire 260,000-square-foot (sf) Class A 1400KC tower in Downtown, which only delivered in the second quarter of the year, was fully leased by a single tenant. On the industrial side it was confirmed that the Kansas City area will be the site of a state-of-the-art, multi-billion dollar and multi-million square-foot battery manufacturing facility to support the electric vehicle industry. Most years are about what has happened over the past 12 months, but for Kansas City in 2022 it was more about where the city is going.

On the macroeconomic side of things, inflation and interest rate hikes were the key topics. The Federal Reserve began raising interest rates in the first quarter of the year, but it was not enough to keep inflation from reaching its highest level in roughly four decades over the summer. While there were signs late in the year that inflation may be retreating, the Federal Reserve has clearly indicated its main priority over the short term will be getting key inflation metrics back near the 2.0% target. Uncertainty and instability are the greatest threats to any investment market and rising interest rates were the major reason investment transactions in the commercial real estate sector dramatically slowed in the second half of 2022.

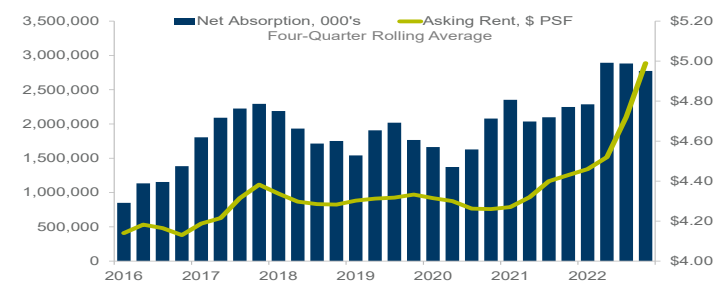
MARKET OVERVIEW

If an economic slowdown lies ahead, it may be useful to date Kansas City's industrial boom as starting in 2013 and "ending" in 2022, although no one is anticipating a collapse in the market. Instead, that clean 10-year period should be recognized as not only the greatest expansion cycle in the market's history but also as a time that repositioned Kansas City on a national level. Prior to 2013, the record for annual absorption was slightly over 4.0 million square feet (msf). In 2017, a new record of 9.2 msf was set, before absorption reached 11.1 msf in 2022. The average quarterly under construction total in 2022 was an astounding 11.9 msf. A "slowdown" may lie ahead, but the Kansas City industrial market at the start of 2023 is significantly different than it was a decade earlier.

OVERALL VACANCY



NET ABSORPTION/ASKING RENT



The huge absorption total from 2022 was driven by the area around Liberty in the northeast corner of the metro area. For much of the past decade, that submarket had been the quietest part of the city, but 2021 saw huge pre-leasing and build-to-suit commitments and in 2022 that space delivered. In all, the Northland reported 3.4 msf of absorption—quite an impressive total for a submarket that started the year with 18.5 msf of total inventory and just 1.2 msf of vacant space. To reaffirm how strong demand in the area was, the vacancy rate also fell over the last twelve months by 177 basis points (bps) to 4.5%. While the Northland may have been what made 2022 a record shattering year, at the southwestern edge of the metro area Johnson County continued to assert itself as the preeminent submarket in Kansas City with 3.8 msf of absorption.

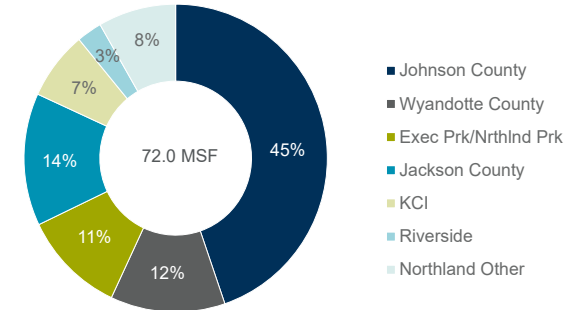
Yet reducing the story of 2022 to just two submarkets with eye-popping absorption totals fails to describe the overall strength of Kansas City industrial market. Every submarket reported positive absorption. Every product type showed positive absorption. The only submarket with a vacancy rate above 5.5% was Jackson County, where 67.6% of all vacant space is either in the Underground product class or a large speculative Modern Distribution center that only delivered in the fourth quarter of the year. Whatever the geographic area, whatever the product type, there has been ample demand in Kansas City.

Some economists have predicted a pullback in 2023 and the end of the industrial expansion that has swept the country over the past several years, so it is fair to ask if the Kansas City market faces the threat of oversupply. A look at the historical data indicates any local concerns are overblown. At the end of 2012, the vacancy rate in Kansas City was 7.6%. At the end of 2022, after adding 66.1 msf of inventory over the previous decade, the vacancy rate had fallen 293 bps to just 4.7%. The absorption record set in 2022 may last for quite a while, but all quantitative data says the market is not overbuilt and should not experience any significant shocks or corrections.

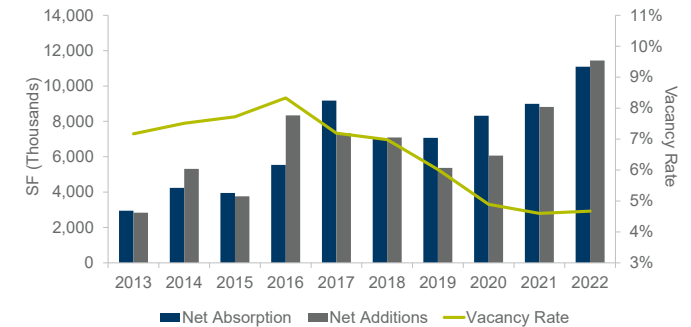
Outlook

- In late December 2022, details and timelines regarding the new battery plant in Johnson County began to become public; as more specifics become clear, Cushman & Wakefield research will add the facility to “Under Construction” statistics in 2023.
- Work has started on the first major data center in the Northland area, and that particular segment of the industrial market could become a major factor in the coming years.
- Asking rates and overall achieved rates are expected to remain high, even if select individual speculative buildings take longer than others to secure tenants.

BULK DISTRIBUTION BY SUBMARKET



NET ADDITIONS, ABSORPTION & VACANCY



FEDERAL RESERVE 10TH DISTRICT MFG SURVEY



Industrial Q4 2022

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	1,009	81,027,061	1,188,122	3,163,235	5.4%	1,179,183	3,772,185	4,420,852	555,800	2,500,803	\$6.28
Wyandotte County	388	36,030,756	-	1,780,755	4.9%	516,357	632,030	596,900	880,254	1,476,065	\$4.26
Executive Park / Northland Park	189	20,209,685	-	540,230	2.7%	211,939	678,647	-	478,295	478,295	\$6.16
Jackson County	790	62,709,562	13,000	3,505,442	5.6%	791,520	1,591,968	4,642,291	1,631,286	2,963,710	\$5.00
North Kansas City	246	14,861,897	-	485,467	3.3%	28,542	73,069	-	120,000	120,000	\$4.52
KCI	71	9,109,769	-	107,190	1.2%	1,445	755,448	-	-	676,000	\$6.72
Riverside	59	6,177,433	-	40,858	0.7%	69,871	183,420	328,320	-	-	\$6.75
Northland	95	21,671,623	-	980,515	4.5%	82,800	3,407,642	2,659,475	-	3,227,306	\$4.85
Cass County	11	741,515	-	-	0.0%	0	-	-	-	-	n/a
Kansas City Totals	2,858	252,539,301	1,201,122	10,603,692	4.7%	2,881,657	11,094,409	12,647,838	3,665,635	11,442,179	\$5.53

	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	808	132,002,331	1,169,534	6,794,599	6.0%	2,608,450	9,808,059	11,605,838	3,580,635	10,518,517	\$4.78
Office/Warehouse	754	20,233,970	23,088	765,328	3.9%	-29,402	611,348	60,000	15,000	331,662	\$8.22
Flex/R&D	154	5,337,631	-	191,768	3.6%	73,301	81,614	0	70,000	92,000	\$10.37
Manufacturing	1,130	67,201,938	8,500	940,975	1.4%	86,508	531,803	0	-	500,000	\$5.21
Underground	12	27,763,431	0	1,911,022	6.9%	142,800	61,585	982,000	-	0	\$2.96

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Southview Commerce Center	Jackson County	The Hillman Group	305,045	New Lease
Blue River Commer Center V	Jackson County	Imperial Bag & Paper	201,003	New Lease
4001 E 149th Street	Jackson County	Skymark Refuelers	146,640	New Lease
Blue River Commer Center I	Jackson County	Midland Industries	128,595	New Lease

*Renewals not included in leasing statistics

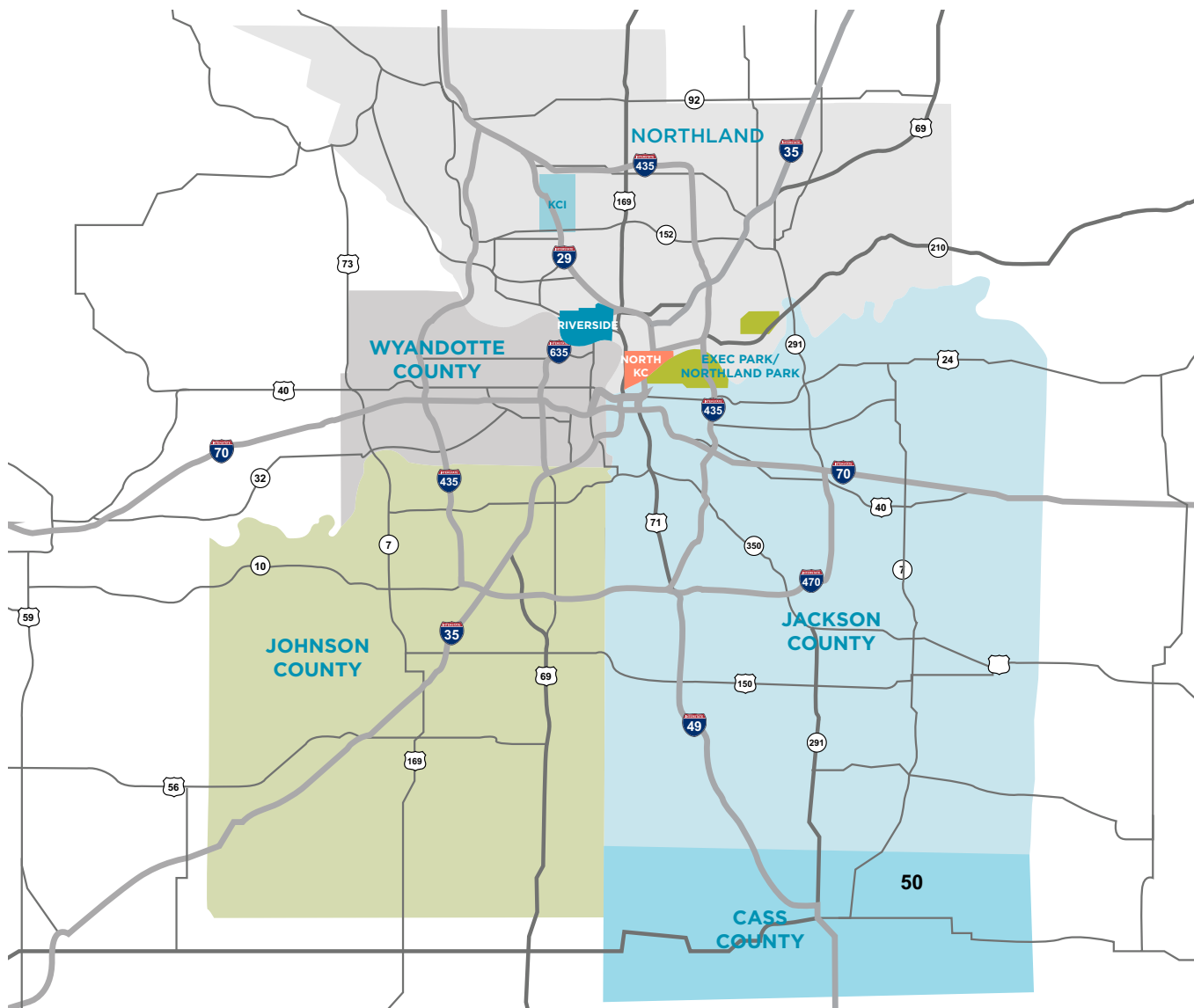
KEY SALE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	TYPE
Northtown Portfolio	North Kansas City	Northtown DevCo / ATCAP	2,497,614	Investor
6920 Executive Drive	Executive Park	NorthPoint Development / Intermodal Marketing	404,397	Investor
7910 Hedge Lane Terr	Johnson County	BridgeCap Partners / Serta Simmons	129,425	Investor
9400 W 55th St	Johnson County	T&S Partners / Cumulus Real Estate	126,856	Investor

KANSAS CITY

Industrial Q4 2022

INDUSTRIAL SUBMARKETS

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