

Kansas City Industrial Market

Low Vacancy and Strong Tenant Demand Apply Upward Pressure on Rents

The Kansas City industrial sector tightened during the first quarter of 2023. Although the market displayed the first signs of a reduction in the pace of total net absorption during the quarter, the market registered a record-breaking 7.5 million square feet of net absorption in the fourth quarter of 2022, equating to 3.5 million square feet above a six-year record registered in the fourth quarter of 2021. Net absorption during the past four quarters totaled 13.0 million square feet, with projections indicating 14.7 million square feet of total net absorption could occur during the next six quarters. Asking rental rates for modern industrial buildings have increased by 8.1% during the past four quarters and are forecasted to rise at a similar pace for the remainder of the year. Rental rates increased \$0.05/SF during the past quarter, up \$0.43/SF during the past year. Projects under construction decreased by 12.7%, compared with 12 months ago. The market realized 12.3 million square feet of deliveries during the past four quarters, an increase of 81.2% when compared with the average prior three-year time period. Vacancy has trended downward since the third quarter of 2020 as record levels of net absorption, totaling 24.7 million square feet during the past two years, counterbalanced historical levels of deliveries.

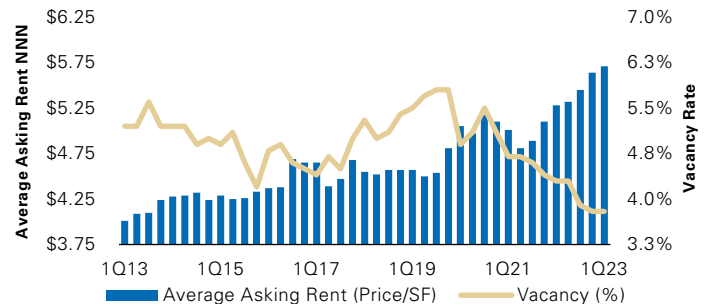
Macroeconomic uncertainty, financial volatility, limited and expensive debt financing, additional scrutiny of commercial real estate loans at regional banks and the increasing risk of recession will likely impact the near-term outlook for industrial space as some firms may decide to enact a wait-and-see approach. Expect developer's difficulty in obtaining acceptable construction financing to slow the pace of speculative development, even though the pace of demand is still projected to be robust for the remainder of 2023. Kansas City is the 31st largest metropolitan statistical area by population in the U.S. but ranked an impressive 15th in overall industrial market size. Further, the market ranked fourth in percentage of net absorption to market size only trailing the Phoenix, Houston and Indianapolis metros, demonstrating extremely robust leasing activity. Development and future projects in the pipeline were also solid as Kansas City ranked fifth overall in percentage of total deliveries to market size and 12th in percentage of under-construction square footage to market size during the past four quarters.

Current Conditions

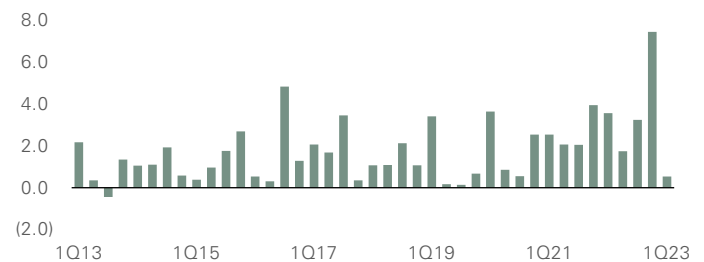
- Kansas City is one of the most active markets in the U.S., ranking 4th in % of net absorption to market size, 5th in % of total deliveries to market size and 12th in % of under-construction square footage to market size.
- Vacancy remained stable at 3.8% as 2.6 million square feet of space delivered to the market during 1Q23.
- Nuuly to lease 604,000 SF in Raymore Commerce Center. Project Big House expected to occupy 406,960 SF at Scannell 435 Logistics Center. Project Sandhills will total 320,000 SF in Olathe. Chick-fil-A to invest \$31 million in Lone Elm Commerce Center.

Market Analysis

ASKING RENT (NNN) AND VACANCY RATE



NET ABSORPTION (SF, Millions)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	321 MSF	319 MSF	309 MSF	↑
Vacancy Rate	3.80%	3.80%	4.30%	↓
Qtr. Net Absorp.	541,713	7,461,506	3,580,291	↔
Ask. Rent/All	\$5.71	\$5.64	\$5.28	↑
Ask. Rent/Cls A Bulk	\$5.46	\$5.35	\$5.17	↑
Under Construction	6,377,114	8,997,458	7,305,692	↓
Deliveries	2,639,855	6,205,266	3,507,260	↔

Nuuly to Occupy 604,000 Square Feet in Raymore Commerce Center

Nuuly, a subscription rental clothing service and one of Urban Outfitters, Inc. (URBN) global consumer brands, announced in January it will occupy 604,000 square feet at Raymore Commerce Center in the North Cass submarket. The \$60.0-million fulfillment and laundry center is expected to generate a total of 750 jobs. The distribution center is URBN's second major investment in the market following its \$403.0-million, 1.5-million-square-foot facility in Kansas City, Kansas.

\$70.0-Million Project Big House Planned at Scannell 435 Logistics Center

Robust activity continued in the first quarter of 2023 as a construction materials supply company, announced a \$70.0-million investment for a site within Scannell 435 Logistics Center in Wyandotte County. The proposed facility at 9822 Leavenworth Rd. is projected to total 406,960 square feet and will employ 55 workers initially. The company is expected to hire approximately 600 employees over the first four years of operation. The Unified Government of Wyandotte County/Kansas City, Kansas, recently gave early approval on an

incentives package that includes a 10-year, 65.0% property tax abatement and sales tax exemption component, which are valued together for a total of \$10.1 million. The facility is expected to be in operation by 2024.

Project Sandhills Progresses with Key Incentives

The City of Olathe, Kansas approved a \$257.0-million bond request by an undisclosed beef processor for a 60-acre facility located at the northwest corner of 167th St. and U.S. Highway 169. The firm will also receive a 10-year, 50.0% property tax abatement on the \$152.0-million, 320,000-square-foot facility. Known as "Project Sandhills," the firm is expected to generate 667 jobs over the next 10 years at the meat packing and production factory.

Chick-fil-A Commits to 147,960 Square Feet

Chick-fil-A Supply, LLC, the distribution service for Chick-fil-A, announced in March it will occupy 147,960 square feet in Building IV at Lone Elm Commerce Center in Olathe. The \$31.0-million build-to-suit distribution center is expected to generate a total of 60 jobs. The distribution center will be Chick-fil-A's first in the state of Kansas and the fifth within the U.S. The firm projects it will be operational by 2024.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
URBN (Nuuly)	Raymore Commerce Center	North Cass County	New	604,000
Allen Distribution	1550 S Geospace Dr	East Jackson County	New	367,000
West Liberty Foods	I-49 Industrial Center	South Jackson County	New	327,000
Chick-fil-A Supply LLC	22610 W 167th St	South Johnson County	New	147,960
Datasource, Inc.	1400 N Universal Ave	East Jackson County	Renewal	131,000
AT&T	3141 W Heartland Dr	Northland	New	108,000
Synetic Technologies, Inc.	218 E 11th Ave/1118-1120 Clay St	Northland	New	79,300
Nitto Denko Automotive	901 NW Platte Valley Dr	Northland	Renewal	74,880

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
7501 NW 106th Ter	Northland	\$17,770,000	\$44	400,830
4901 Stilwell St	East Jackson County	\$3,600,000	\$60	59,810
5121 E Front St	East Jackson County	\$1,950,000	\$46	42,000
2000 Guinotte Ave	Downtown	\$2,250,000	\$65	34,400
22013, 22019 W 83rd St Portfolio (2)	North Johnson County	\$3,150,000	\$111	28,480
4435-4439 Shawnee Dr	Wyandotte County	\$1,300,000	\$50	25,780
1073-1091 Innovation Dr	Northland	\$1,590,000	\$66	24,000
600 E 15th Ave	Northland	\$1,650,000	\$79	20,880

RESEARCH Q1 2023

Submarket Statistics									
Submarket	Building Type	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	Past 4 Qtrs Absorption (SF)	Asking Rent Ind. Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
Downtown	ALL	11,111,144	0	4.50%	51,331	175,948	\$7.33	\$10.16	\$9.16
	Warehouse	10,640,214	0	4.30%	30,827	170,524	\$7.33	\$9.39	\$8.87
	Flex	470,930	0	10.80%	20,504	5,424	-	\$17.50	\$10.50
	Underground	0	0	-	0	0	-	-	-
East Jackson Co.	ALL	64,070,491	721,473	2.20%	-207,783	92,972	\$4.42	\$8.47	\$5.94
	Warehouse	45,349,817	721,473	1.50%	-83,485	506,028	\$4.11	\$8.42	\$5.82
	Flex	1,765,680	0	6.60%	-15,551	40,132	\$12.50	\$9.67	\$9.70
	Underground	16,954,994	0	3.40%	-108,747	-453,188	-	-	\$4.20
Midtown	ALL	8,498,496	0	3.70%	-36,469	97,260	\$6.25	\$8.56	\$9.35
	Warehouse	5,566,025	0	1.30%	-11,224	121,332	\$6.25	\$7.00	\$7.64
	Flex	1,596,124	0	1.20%	0	35,400	-	\$14.00	\$14.00
	Underground	1,336,347	0	16.80%	-25,245	-59,472	-	-	\$8.12
North Cass Co.	ALL	5,319,669	0	17.50%	603,380	612,968	\$8.50	\$4.50	\$4.50
	Warehouse	5,223,744	0	17.80%	603,380	606,798	\$8.50	-	\$4.50
	Flex	95,925	0	0.00%	0	6,170	-	-	\$7.50
	Underground	0	0	-	0	0	-	-	-
North Johnson Co.	ALL	27,101,916	345,864	4.80%	-456,145	-81,966	\$8.51	\$6.09	\$6.67
	Warehouse	21,737,625	345,864	4.00%	-315,047	19,455	\$8.22	\$5.81	\$6.52
	Flex	2,364,291	0	7.00%	24,402	64,079	\$11.19	\$8.71	\$8.63
	Underground	3,000,000	0	9.10%	-165,500	-165,500	-	-	\$8.00
Northland	ALL	71,430,159	1,140,320	3.50%	-85,505	4,961,004	\$7.08	\$6.19	\$5.40
	Warehouse	60,726,658	1,140,320	2.90%	-58,486	4,982,327	\$7.00	\$6.17	\$5.38
	Flex	1,743,435	0	6.90%	-27,019	-21,323	\$10.00	\$6.75	\$7.80
	Underground	8,960,066	0	7.00%	0	0	-	-	\$3.00
South Jackson Co.	ALL	24,493,895	897,860	7.70%	58,822	1,105,182	\$9.09	\$5.64	\$5.30
	Warehouse	23,350,140	897,860	7.90%	47,964	1,109,270	\$9.15	\$5.53	\$5.22
	Flex	1,143,755	0	4.00%	10,858	-4,088	\$7.95	\$7.81	\$7.81
	Underground	0	0	-	0	0	-	-	-
South Johnson Co.	ALL	61,761,538	3,231,597	4.20%	-124,927	3,886,200	\$13.19	\$5.54	\$5.08
	Warehouse	57,587,456	3,231,597	4.10%	-107,901	3,689,805	\$13.35	\$5.15	\$4.80
	Flex	4,174,082	0	5.60%	-17,026	196,395	\$10.98	\$10.99	\$13.13
	Underground	0	0	-	0	0	-	-	-
Wyandotte Co.	ALL	47,526,269	0	1.50%	739,009	2,156,792	\$5.75	\$4.24	\$4.50
	Warehouse	46,783,294	0	1.40%	745,150	2,169,012	\$5.75	\$4.17	\$4.40
	Flex	742,975	0	9.60%	-6,141	-12,220	-	\$8.84	\$8.84
	Underground	0	0	-	0	0	-	-	-
Kansas City Market	ALL	321,313,577	6,337,114	3.80%	541,713	13,006,360	\$7.56	\$5.71	\$5.30
	Warehouse	276,964,973	6,337,114	3.50%	851,178	13,374,551	\$7.39	\$5.32	\$5.12
	Flex	14,097,197	0	5.80%	-9,973	309,969	\$10.94	\$10.06	\$11.00
	Underground	30,251,407	0	5.90%	-299,492	-678,160	-	-	\$4.85

Submarket Statistics - Warehouse

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	Past 4 Qtrs Absorption (SF)	Asking Rent Ind. Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
Downtown	10,640,214	0	4.30%	30,827	170,524	\$7.33	\$9.39	\$8.87
East Jackson Co.	45,349,817	721,473	1.50%	-83,485	506,028	\$4.11	\$8.42	\$5.82
Midtown	5,566,025	0	1.30%	-11,224	121,332	\$6.25	\$7.00	\$7.64
North Cass Co.	5,223,744	0	17.80%	603,380	606,798	\$8.50	-	\$4.50
North Johnson Co.	21,737,625	345,864	4.00%	-315,047	19,455	\$8.22	\$5.81	\$6.52
Northland	60,726,658	1,140,320	2.90%	-58,486	4,982,327	\$7.00	\$6.17	\$5.38
South Jackson Co.	23,350,140	897,860	7.90%	47,964	1,109,270	\$9.15	\$5.53	\$5.22
South Johnson Co.	57,587,456	3,231,597	4.10%	-107,901	3,689,805	\$13.35	\$5.15	\$4.80
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Kansas City Market	276,964,973	6,337,114	3.50%	851,178	13,374,551	\$7.39	\$5.32	\$5.12

Submarket Statistics - Flex

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	Past 4 Qtrs Absorption (SF)	Asking Rent Ind. Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
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Kansas City Market	14,097,197	0	5.80%	-9,973	309,969	\$10.94	\$10.06	\$11.00

Economic Conditions

The local economy continued to improve in February, with total employment growth of 2.6% and growth occurring in all 10 industries, calculated on a 12-month percent change basis.

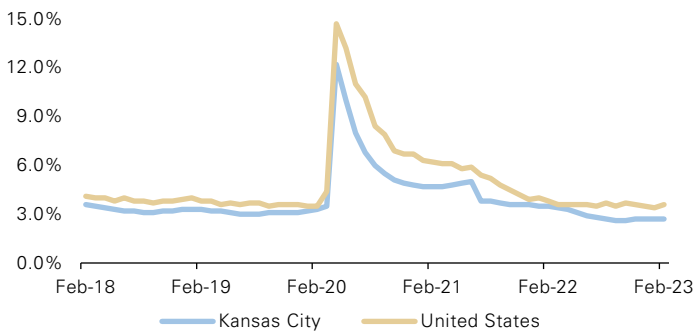
Payroll employment in Kansas City decreased to 2.6% in February 2023, compared with 4.4% in February 2022. The national average decreased, down from 5.3% in February 2022 to 2.9% in February 2023.

The Consumer Price Index for the U.S. decreased 190 basis points compared to the prior year, registering 6.0% in February 2023, while the Midwest Urban CPI decreased 240 basis points to 5.6%.

Unemployment in the U.S. remained flat at 3.6%, as unemployment in Kansas City also remained flat at 2.7% compared with the past quarter. Unemployment in Kansas City decreased 80 basis points from a year prior.

Unemployment Rate

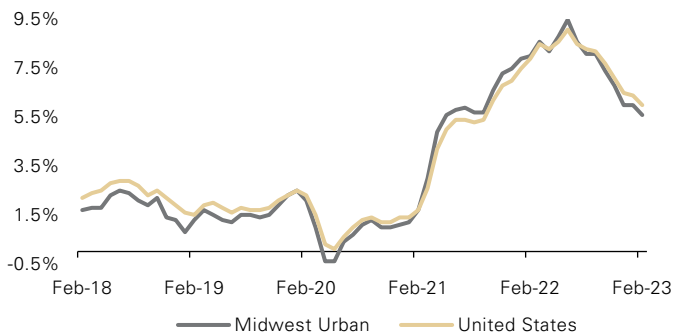
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2023

Consumer Price Index (CPI)

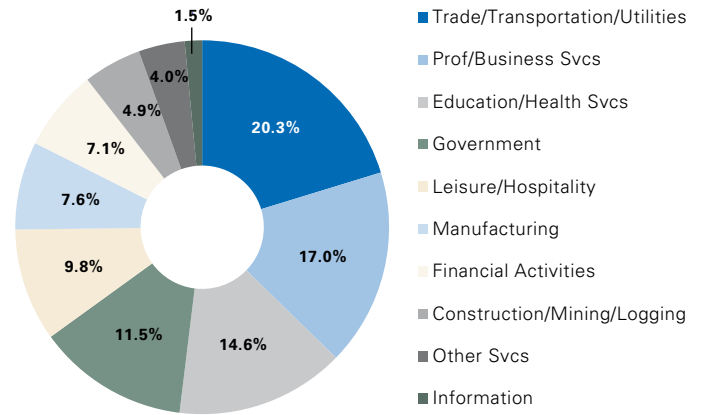
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2023

Employment By Industry

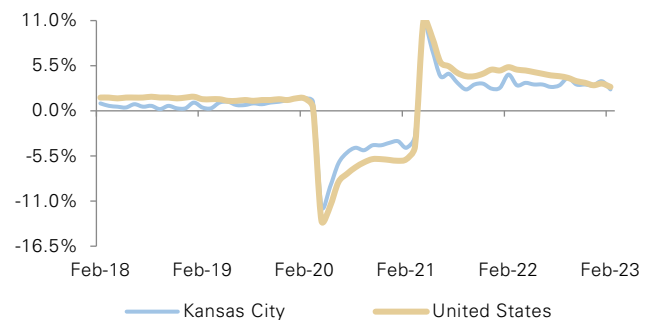
Kansas City, February 2023



Source: U.S. Bureau of Labor Statistics, March 2023

Payroll Employment

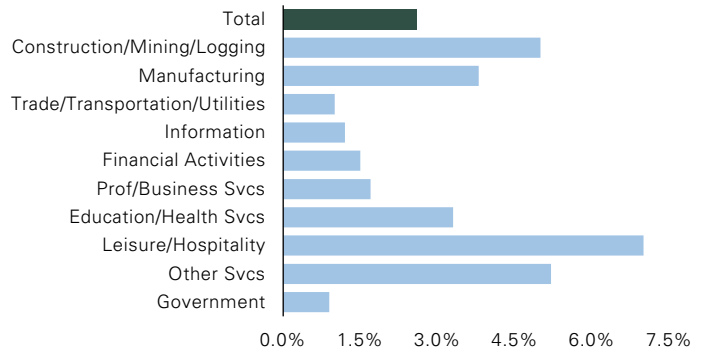
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, March 2023

Employment Growth By Industry

KC, Feb. 2023, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2023

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