

4Q23

Kansas City Industrial Market Overview

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. November’s 3.0% unemployment rate was significantly lower than the 4.1% 10-year historical average.
- Year-over-year, job gains have been most pronounced in the financial activities and government industries while job losses have been most pronounced in the information and manufacturing sectors.
- Industrial firms are continuing to adjust labor needs. Locally, all three industrial sectors experienced retraction during the past year. Construction registered negative 0.3%, trade/transportation/utilities registered negative 0.3% and manufacturing registered negative 1.3%.

Major Transactions

- Build-to-suits, inclusive of megaprojects, will continue as the pace of market-wide speculative development slows in response to the high cost of construction financing.
- Blue Buffalo will occupy 729,200 SF in a future build-to-suit property within the I-35 Logistics Park. In addition, LKQ will occupy 530,460 SF at Building III of Heartland Logistics Park in Shawnee, Kansas and Quality Logistics Solutions leased 442,100 SF at Building B1 of New Century Commerce Center. Winland Foods subleased 339,680 SF at Northland Park V and A4 Apparel leased 205,760 SF in Building II of Dean Commerce Center in Raymore, Missouri. Other significant leases and renewals during the quarter include GXO Logistics, Motion Industries, Amerhart, BC Recycling and Banner Logistics.

Leasing Market Fundamentals

- Absorption in the fourth quarter of 2023 totaled 340,849 SF, down from 1.9 million SF of absorption last quarter. Total net absorption during the past four quarters totaled 4.5 million SF, equating to a decrease of 25.0% compared with the average annual absorption during the pre-pandemic period from 1Q15 to 4Q19.
- The 9.1-million-SF construction pipeline decreased as 1.5 million SF delivered to the market during the quarter. As delivered speculative inventory becomes leased, the next construction cycle will offer very few alternatives, leading to a tightening of vacancy. Vacancy increased 50 basis points to 5.4% during the quarter as unleased space across four buildings delivered to the market. The increase in vacancy is not due to a weakness in leasing fundamentals, as seen in other markets.

Outlook

- As the 15th largest industrial market in the United States, totaling 332.5 million SF, Kansas City will continue to prosper in the current environment as it is geographically centered, benefits from a skilled labor force and extensive transportation network and offers reasonable real estate and energy costs. Rampant over supply has not occurred during or after the pandemic. Vacancy is projected to remain under 5.7% in the near-term with steady demand and slowing supply.
- Rent growth, aggressive from 2019 through 2022, has decelerated and will continue to reduce its pace of growth throughout 2024 but will maintain levels which exceed pre-pandemic highs as demand fundamentals persist and developers compensate for the rising cost of construction.

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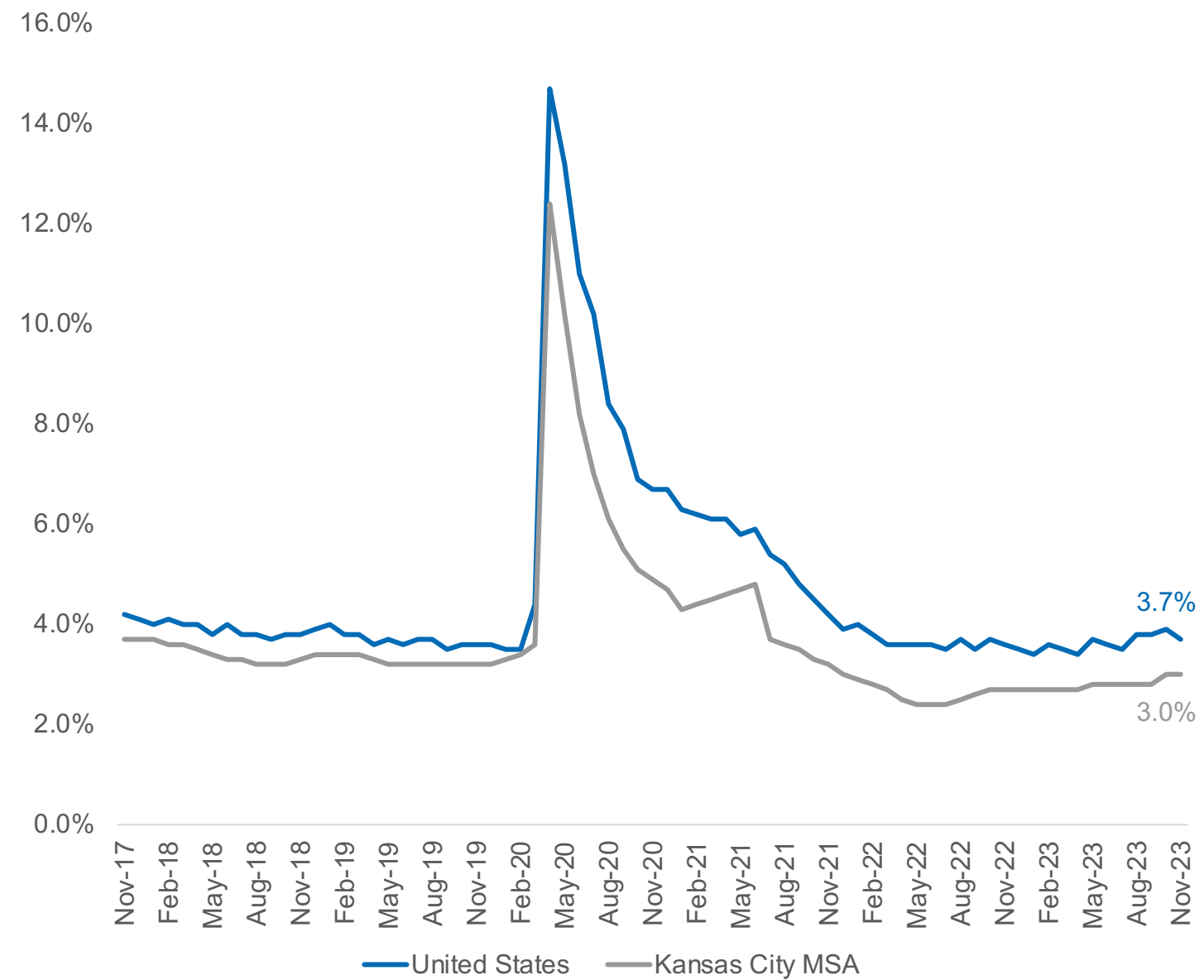
Economy



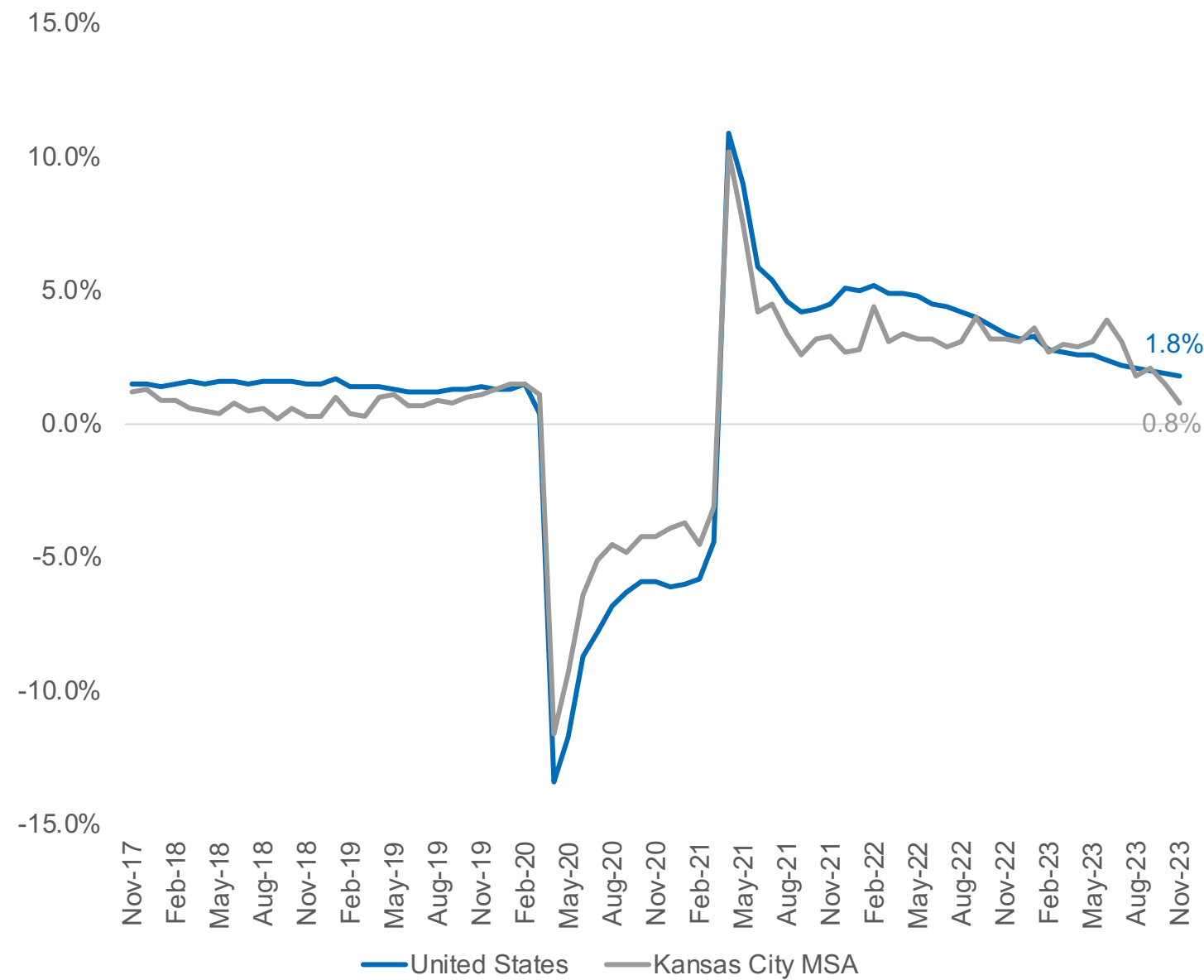
Metro Employment Trends Signal a Slowing Economy

Unemployment in the region recovered from the pandemic and remains 70 bps below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



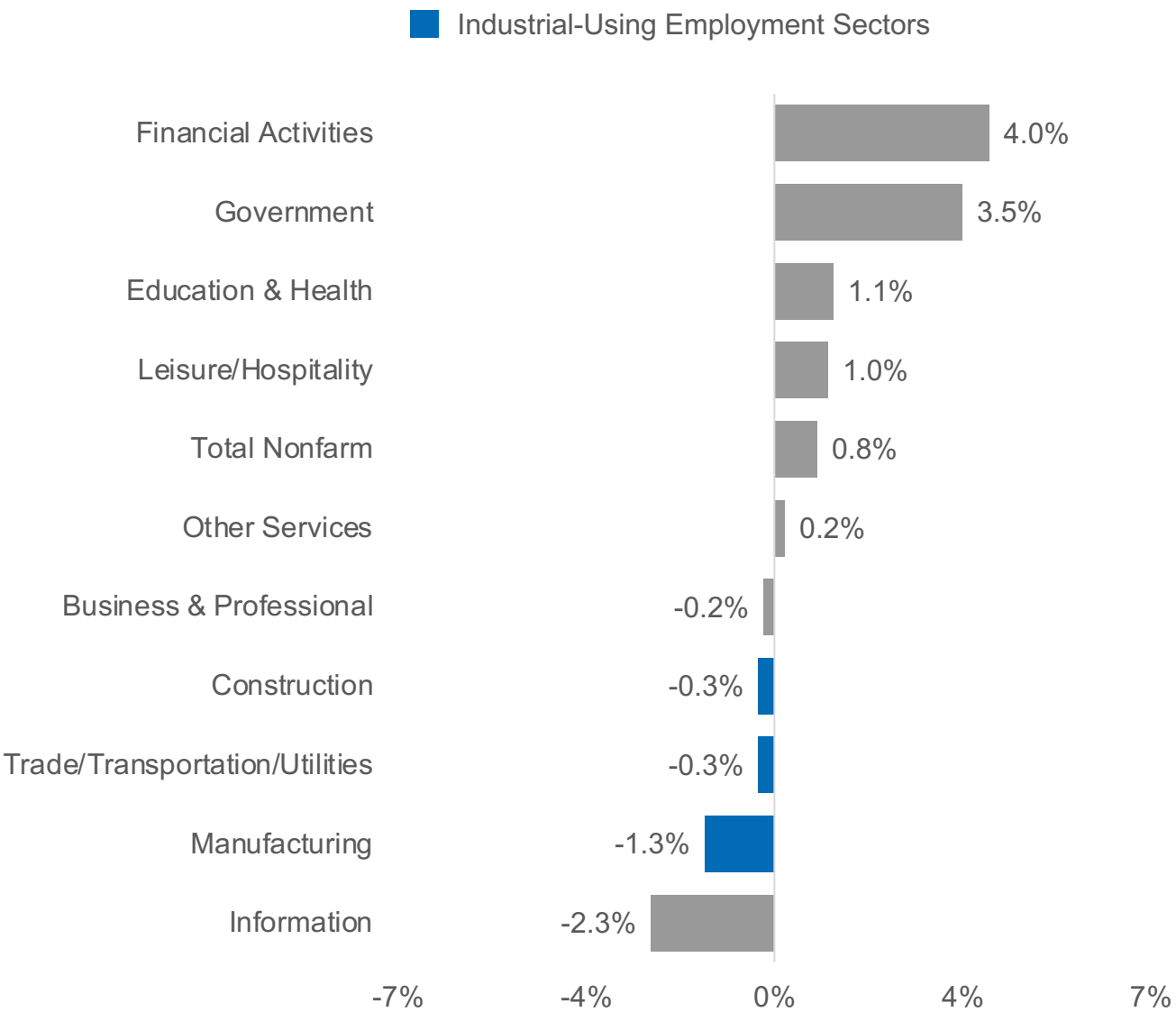
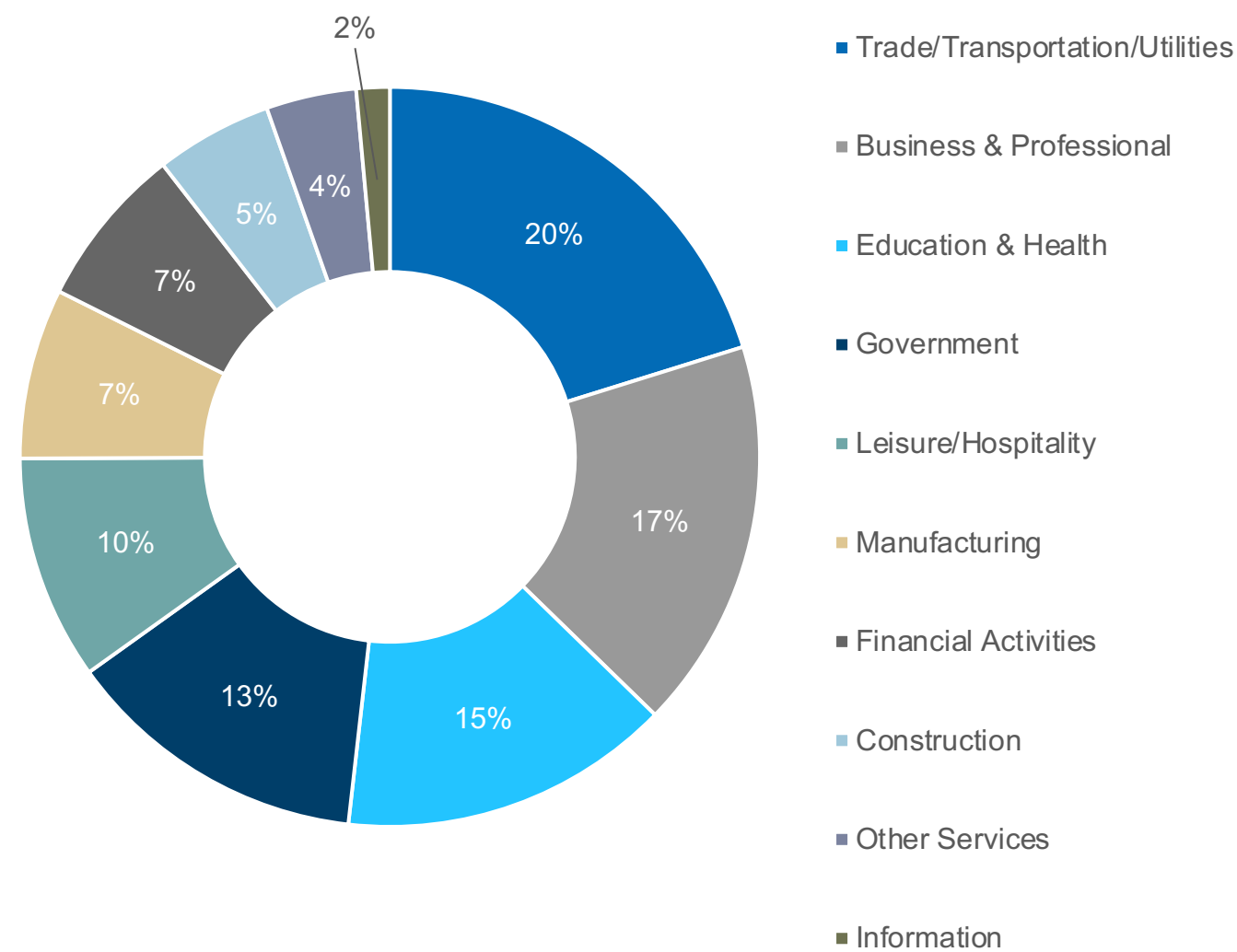
Source: U.S. Bureau of Labor Statistics, Kansas City MSA

Job Growth Driven Primarily by Shift in Spending

The financial activities and government sectors led all industries in regional annual job growth at 4.0% and 3.5%, respectively. Along with education and health and leisure/hospitality, the top four sectors underline industries which are still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services and healthcare-related expenses. All three industrial-occupying industries saw annual job losses.

Employment by Industry, November 2023

Employment Growth by Industry, 12-Month % Change, November 2023

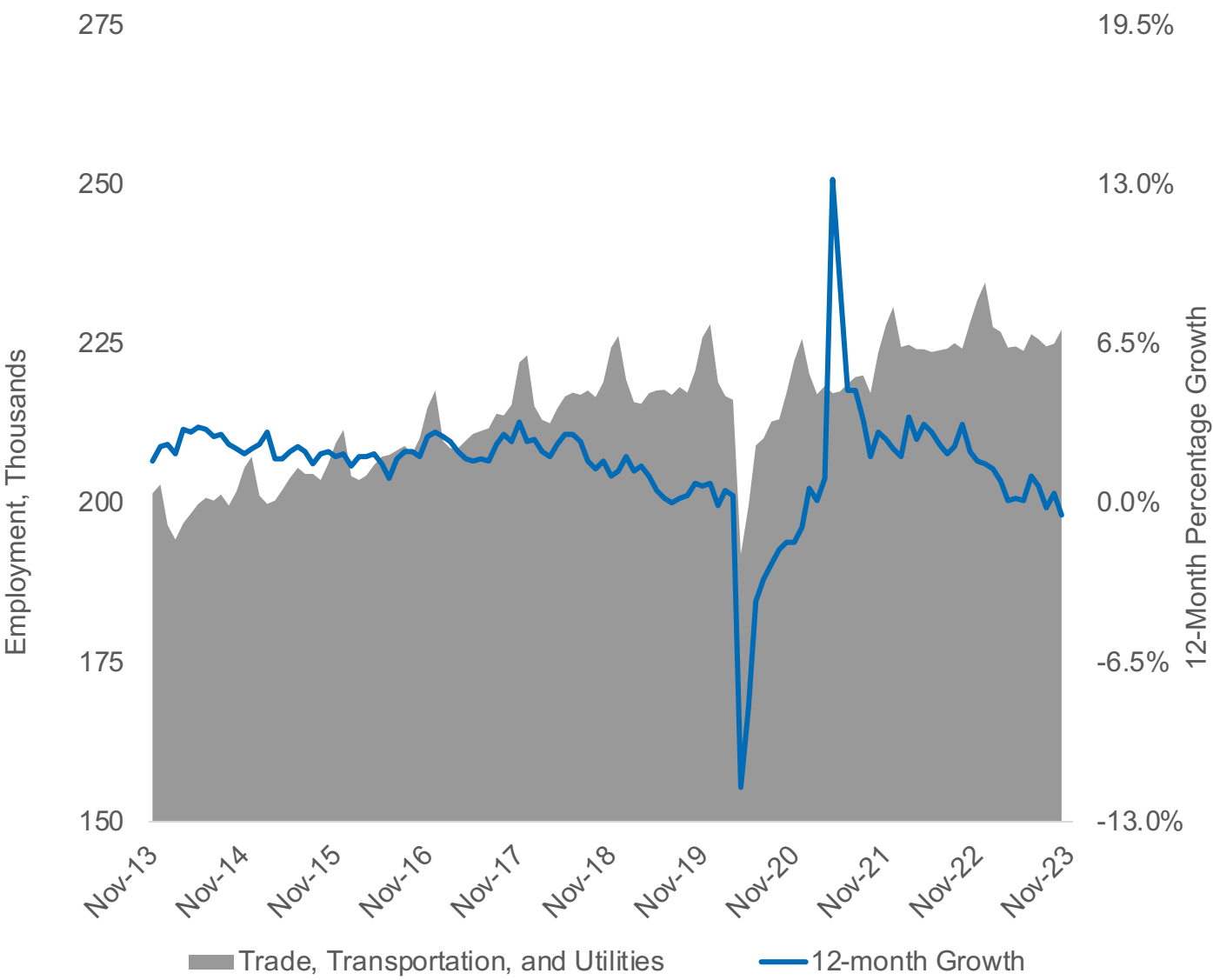


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

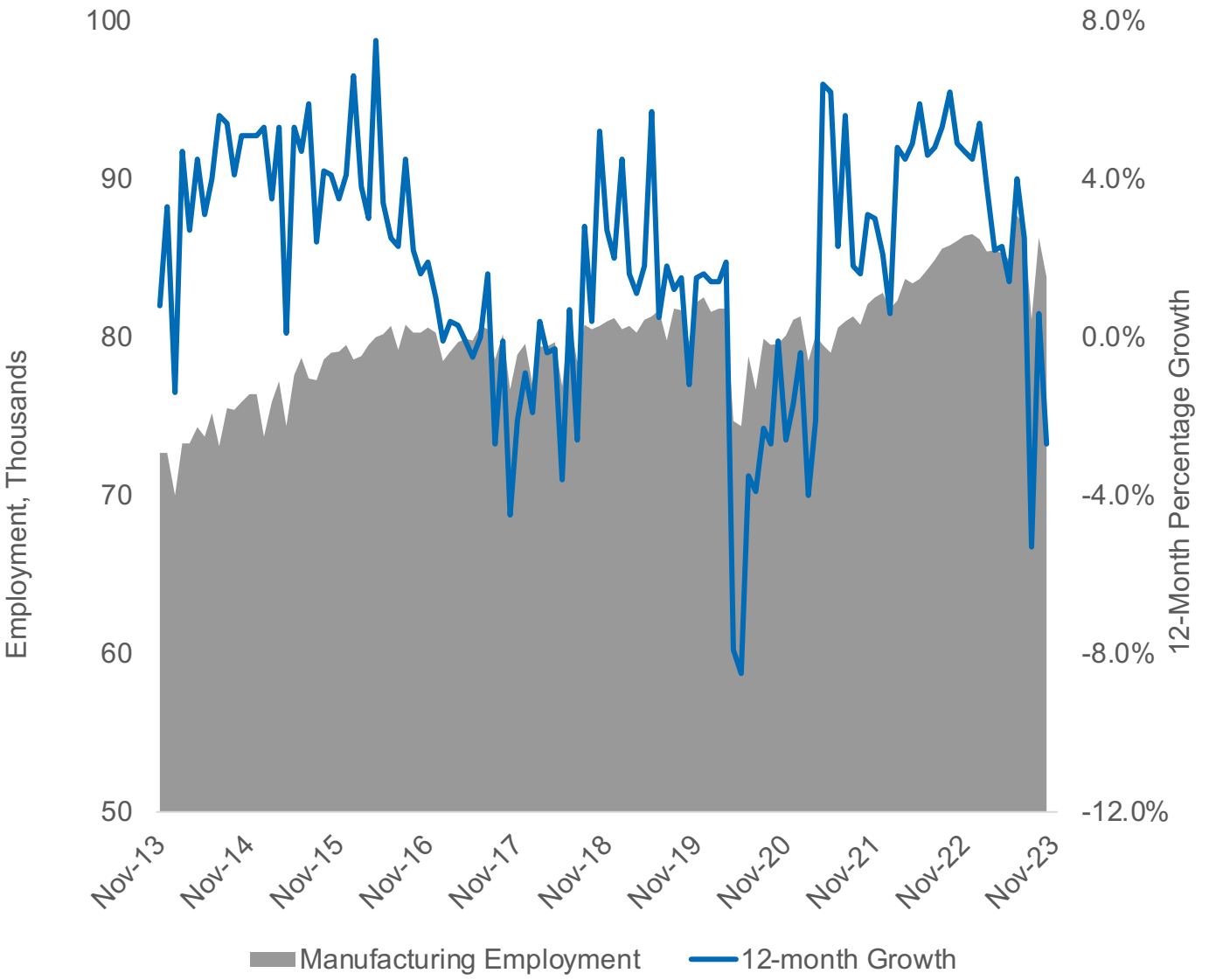
Overall Industrial-Using Employment Has Rebounded

The number of industrial jobs has rebounded to pre-pandemic levels. While there is a small seasonal dip in employment rates at the beginning of each year, the region has already stabilized and rates are expected to increase. Firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Kansas City MSA

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Leasing Market Fundamentals



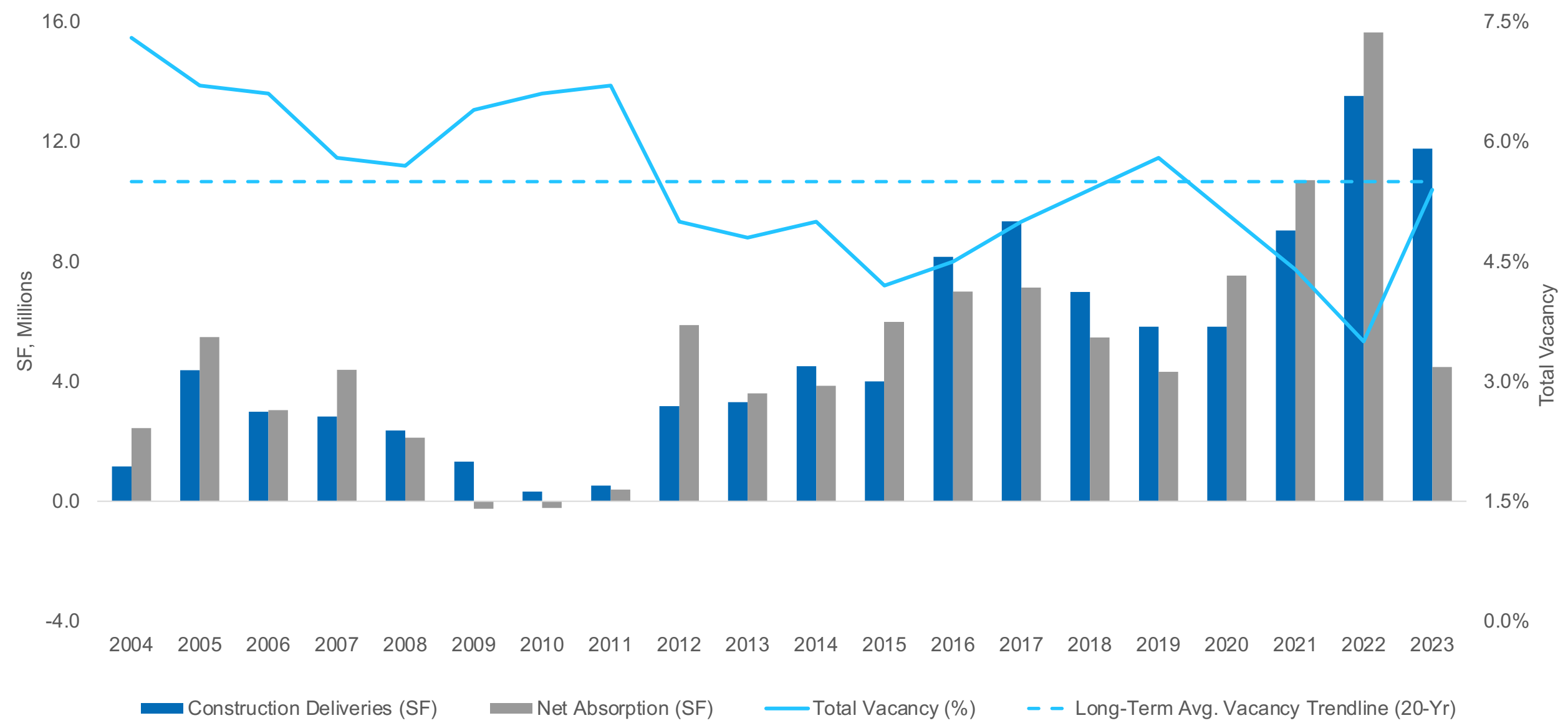


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Vacancy Rises as Construction Deliveries Outpace Net Absorption in 2023

Vacancy increased 0.5% (50 bps) to 5.4% due to 1.8 million SF of space delivering to the market during the fourth quarter of 2023. Net absorption totaled 340,849 SF during the quarter, down from 1.9 million SF of absorption last quarter but totaling 4.5 million SF during 2023. The Kansas City industrial market is expected to draw above-average interest and leasing activity compared to other U.S. markets. Net absorption is expected to outpace deliveries during the next two quarters.

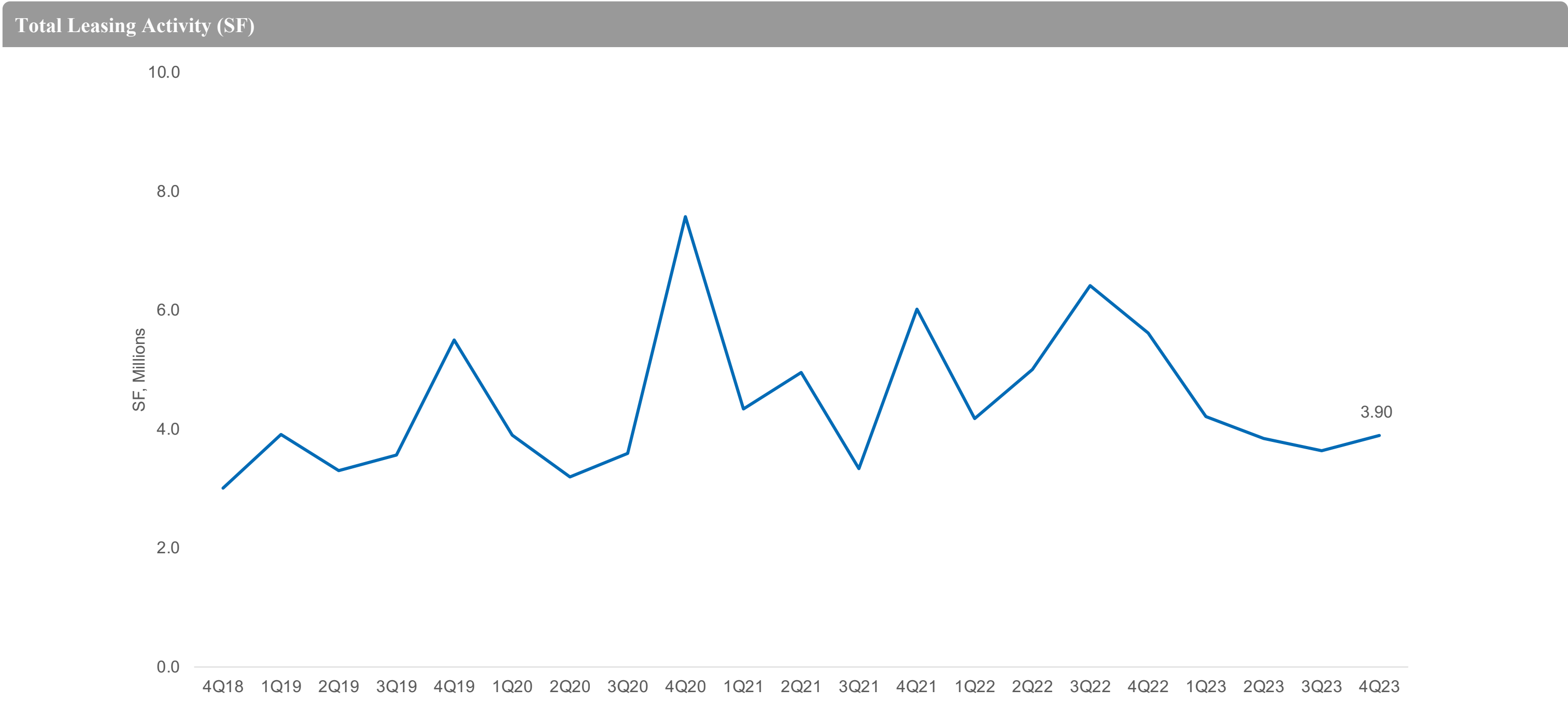
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Remains Stable During 2023

In the fourth quarter of 2023, demand for industrial space slightly accelerated to 3.9 million SF from 3.6 million SF. Leasing activity remained stable during 2023, ranging from 3.6 million SF to 4.2 million SF. Leasing volume is down 13.4% for 2023 compared to the historical average over the past five years. Activity is expected to increase in the first half of 2024.

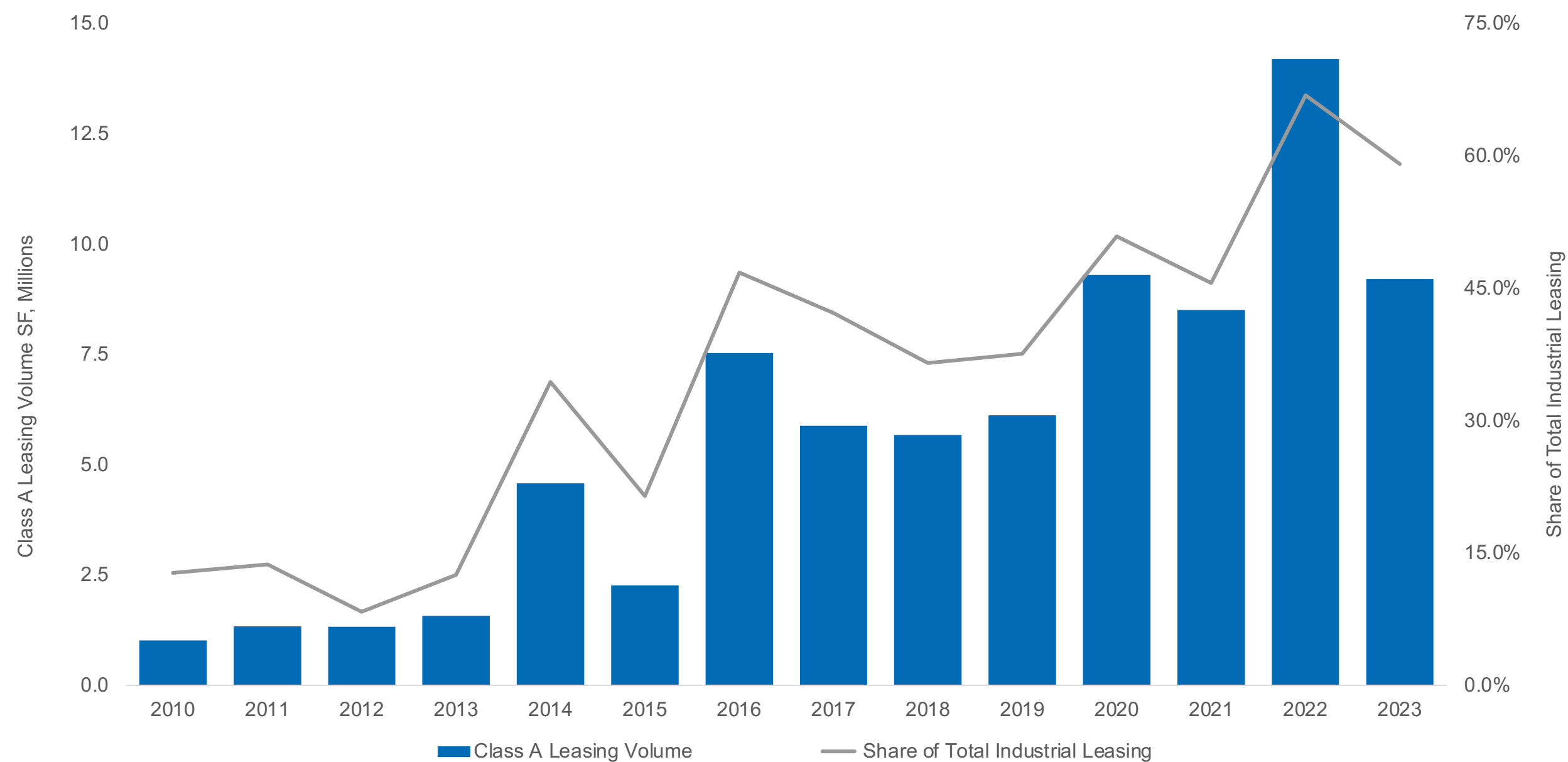


Source: Newmark Research, CoStar

Class A Warehouse Leasing Activity at 59.1% of All Volume

Non-Gateway markets like Kansas City have historically seen slower developer response to occupier needs for modern Class A warehouse space, but as development accelerated over the past five years, Class A leasing increased in turn. Class A warehouse leasing represented 59.1% of overall activity in the fourth quarter of 2023, slightly down from the record high of 66.9% in 2022, but above the five-year pre-pandemic average from 2015 to 2019 of 36.9%.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

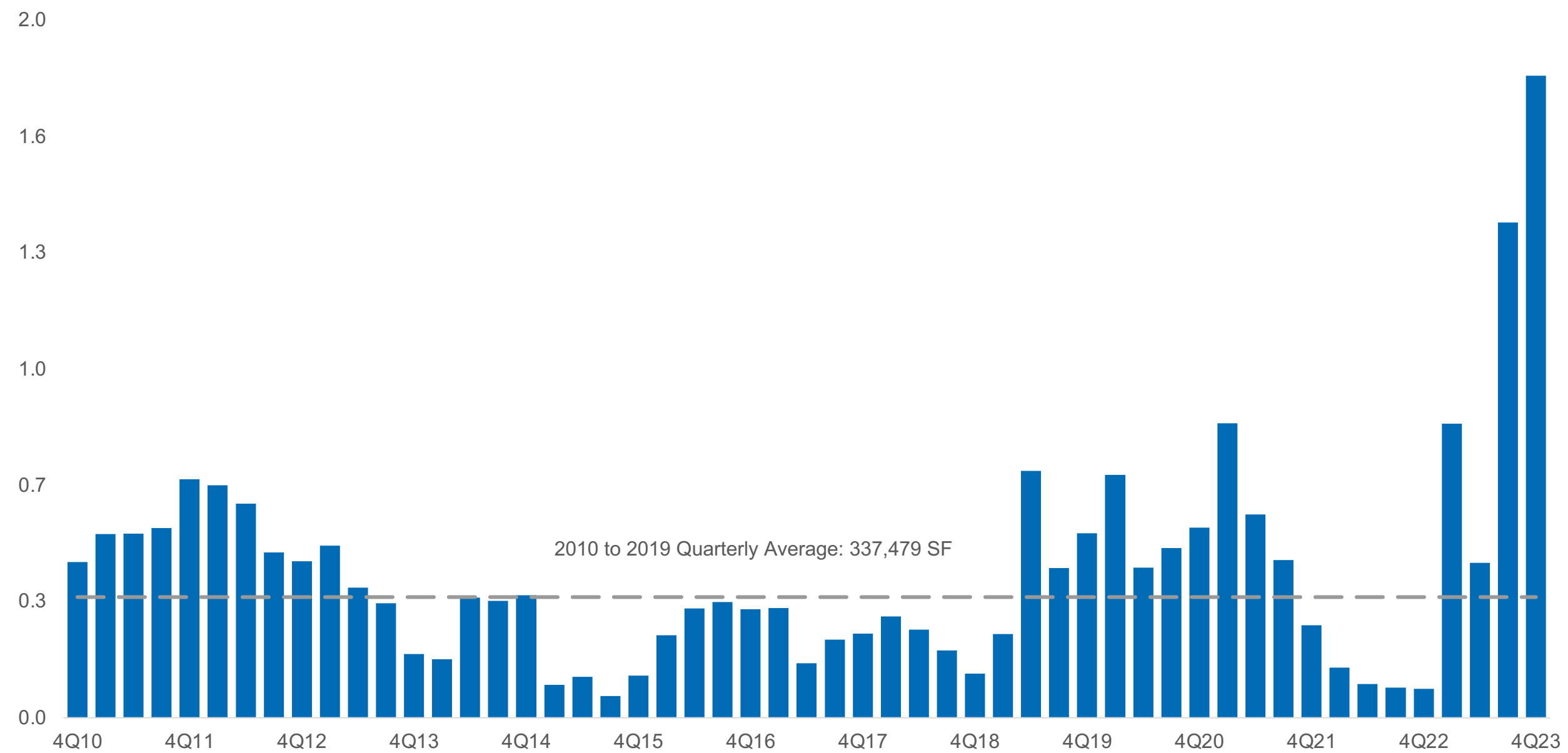


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Vacant Sublease Availability at Record High but Only Totals 0.5% of the Market

A record high was registered for vacant available sublease space during the quarter. Additional active offerings are expected to be absorbed during the first half of 2023, resulting in a moderate decrease of available sublease space. Compared to other markets in the U.S., total available vacant sublet space is minimal and only totals 0.5% of the total market.

Vacant Available Industrial Sublease Volume (MSF)

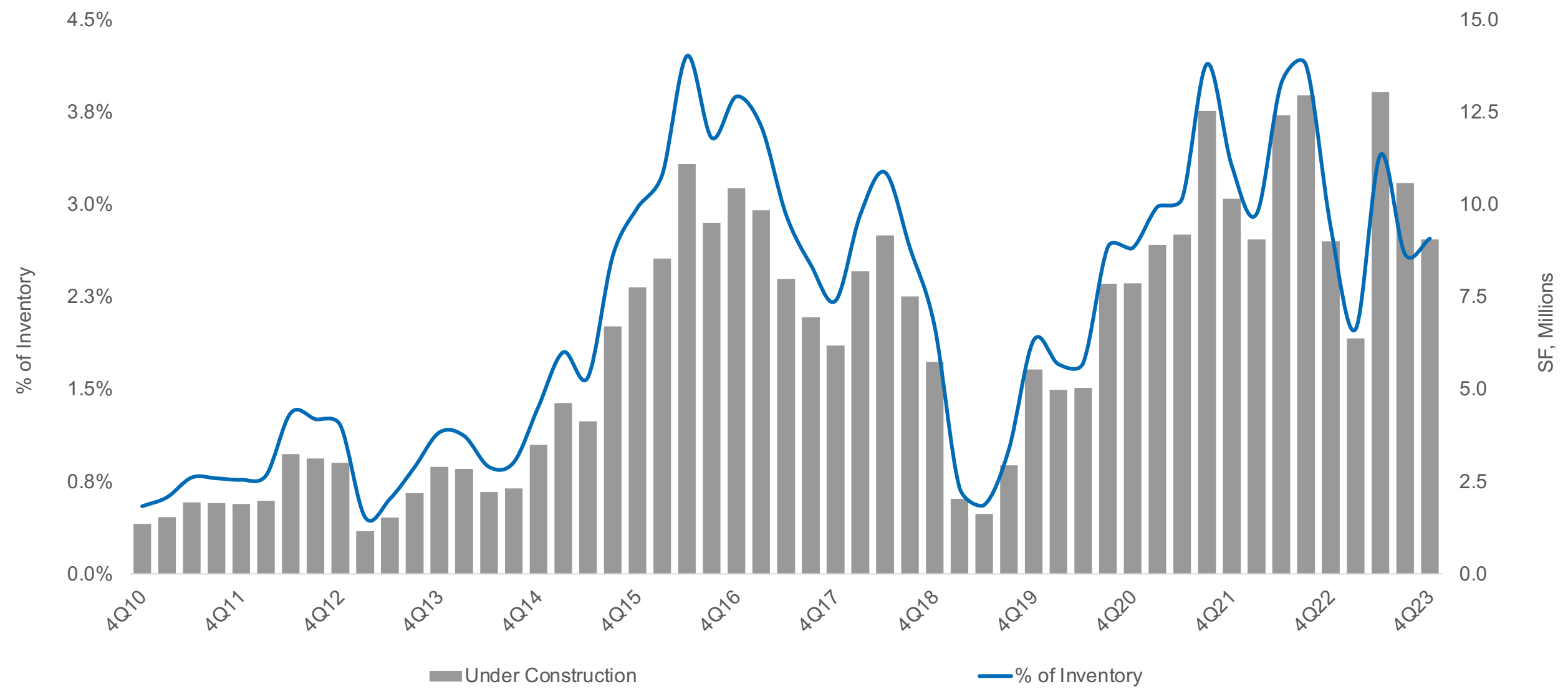


Source: Newmark Research, CoStar

Speculative Construction Activity in Decline

The combined build-to-suit and speculative construction pipeline is trending downward. Although under-construction projects currently total 9.1 million SF, the Panasonic BTS megaproject which began construction in the second quarter of 2023, accounts for 5.5 million SF, equating to 60.7% of the entire market. With recent announcements including Ace Hardware Corp.’s BTS at KCI 29 Logistics Park and Community Wholesale Tire’s BTS at HMBC Logistics Park, BTS projects are increasing, while spec activity is decreasing with less than 3.1 million SF currently under construction; the major spec announcement being the 1.0-million-SF Building C at Flint Commerce Center. Expect spec activity to significantly decline from last year’s record high of 13.0 million SF as existing projects are absorbed, with limited new supply being introduced to the market in this construction cycle.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

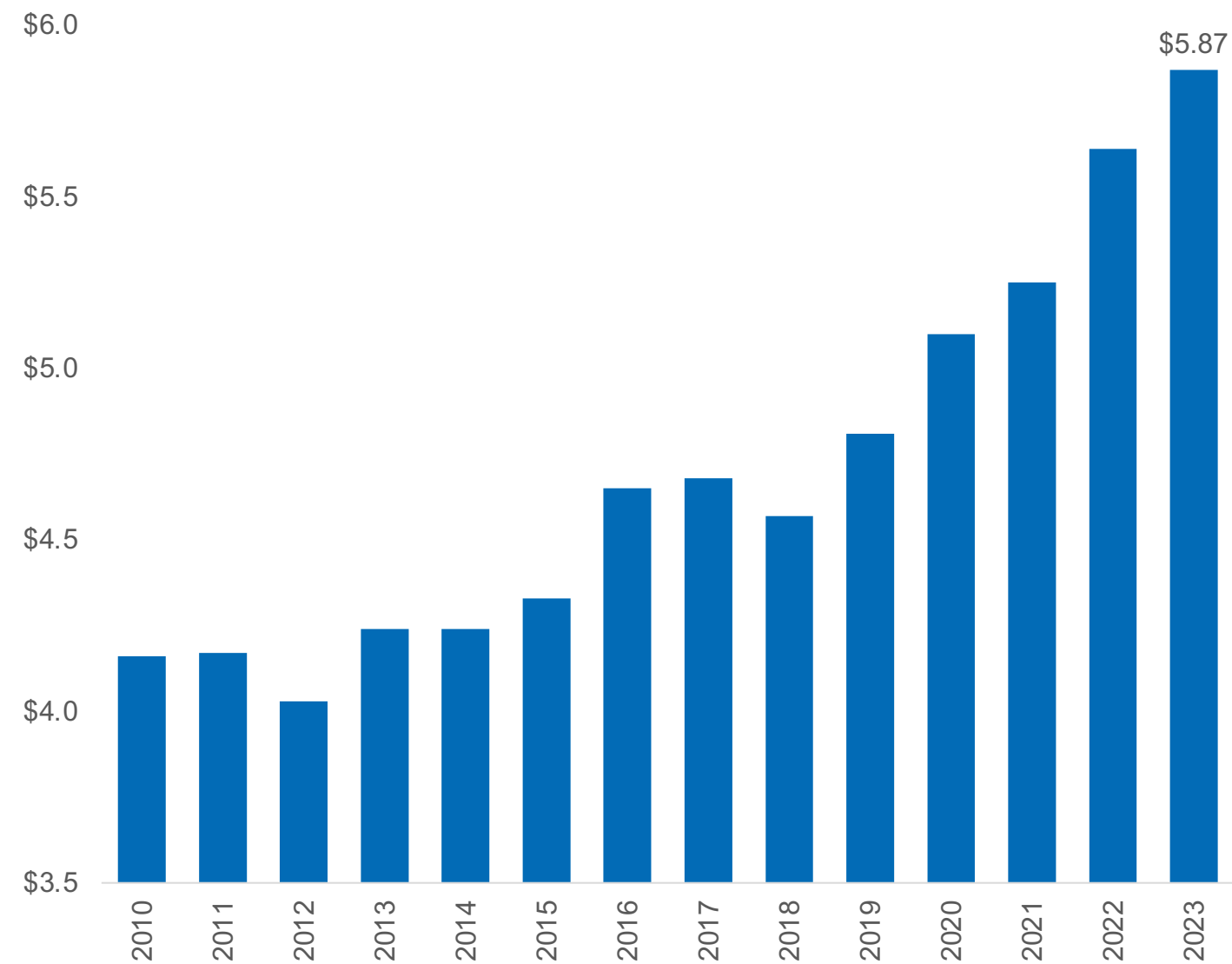


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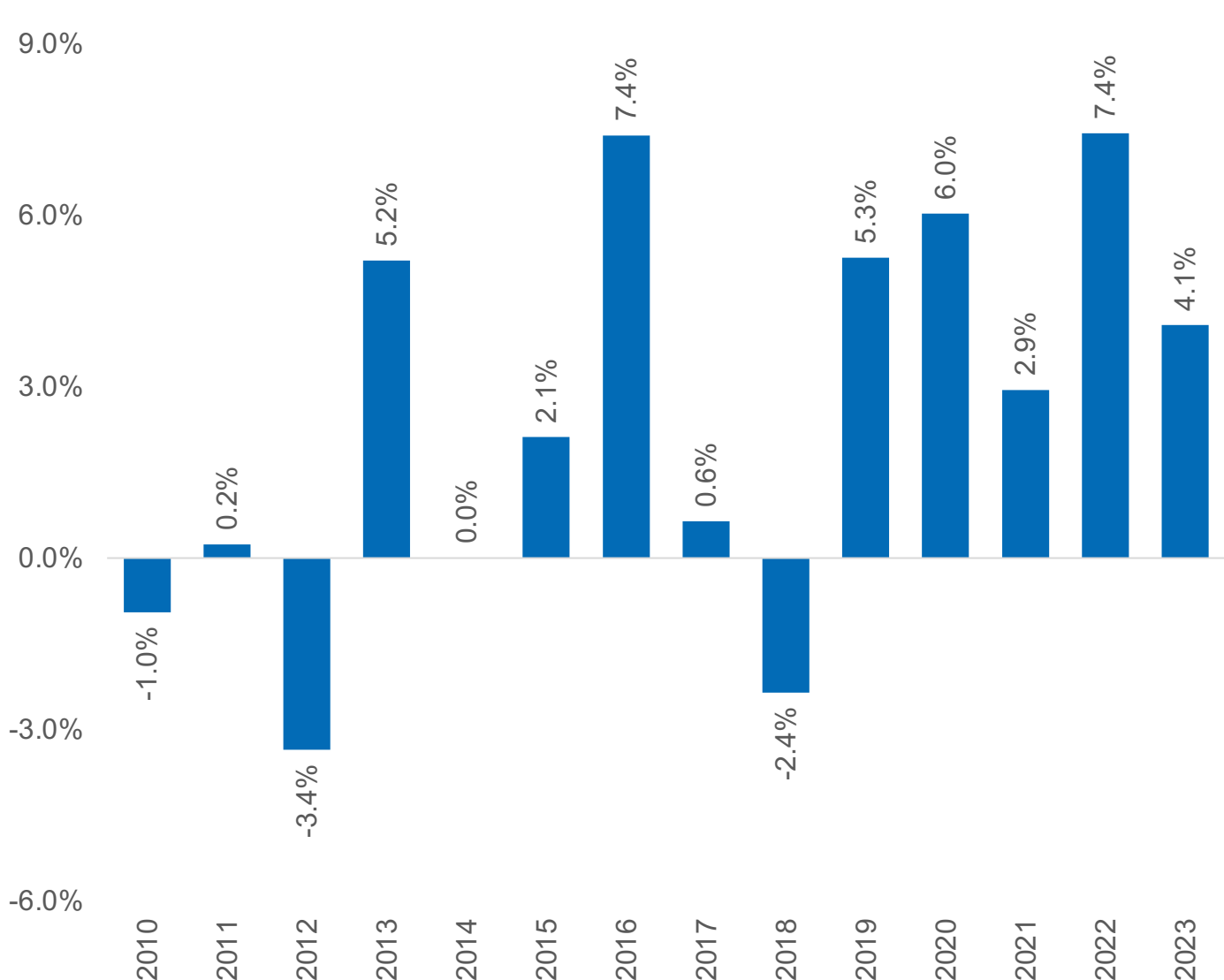
Record-Pace Industrial Asking Rent Growth Beginning to Moderate

Industrial average asking rents increased by a record 28.5% during the past five years. Both asking and contract rental rate growth is expected to moderate during 2024, with asking rates expected to range from \$5.90/SF to \$6.05/SF. Expect higher-priced quality space coming online to help maintain rent growth.

Industrial Average Asking Rent, \$/SF, NNN



Year-Over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



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Notable 4Q23 Lease Transactions

The market tightened with 340,849 SF of net absorption during the quarter, but vacancy increased 50 bps due to unleased space within buildings delivering to the market in the fourth quarter of 2023. New industrial park announcements will continue to incentivize market-wide industrial development and leasing activity. In addition to the below transactions, the following tenants signed leases and/or renewals above 100,000 SF during the quarter: GXO Logistics, Motion Industries, Amerhart, BC Recycling and Banner Logistics.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Blue Buffalo	I-35 Logistics Park – Building III	South Johnson County	Direct New	729,200
Blue Buffalo will occupy a 729,200 SF within a build-to-suit property at I-35 Logistics Park being developed by Scannell Properties.				
LKQ	24525 W 43rd Street – Building III	North Johnson County	Direct New	530,460
LKQ will occupy 530,460 SF of the 852,830-SF facility planned for construction at 24525 West 43rd St. in Heartland Logistics Park. The Class A building being developed by Hunt Midwest is expected to deliver to the market in the fourth quarter of 2024.				
Quality Logistics Solutions	New Century Commerce Center – B1	South Johnson County	Direct New	442,100
Quality Logistics Solutions will occupy 442,100 SF of space within the 756,570-SF Building B1 at New Century Commerce Center. The Class A distribution center delivered to the market in the second quarter of 2023 and features 75 docks, a 40-foot clear height and parking for 176 trailers and 377 vehicles.				
Winland Foods	4033 N Pleasant Avenue	Northland	Sublease	339,680
Winland Foods will move into 339,680 SF of space within Northland Park building V. The Class B facility, which delivered in 2020, features 110 dock doors, a 36-foot clear height and parking for 366 trailers and 298 vehicles. The sublease space marketed at a rate of \$8.50/SF prior to being subleased.				
A4 Apparel	1200 S Dean Avenue – Building II	North Cass County	Direct New	205,760
A4 Apparel will occupy 205,760 SF of space in Building II of the Dean Commerce Center in Raymore, Missouri. The 498,600-SF, Class A property recently delivered to the market in the second quarter of 2023. Harmar Mobility leased 146,660 SF of space in the same building in the third quarter of 2023.				

Source: Newmark Research

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Submarket Statistics





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