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1Q24

# Kansas City Industrial Market Overview

# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. February’s 3.2% unemployment rate was significantly lower than the 4.0% 10-year historical average.
- Year over year, job gains have been most pronounced in the Education & Health and Government industries, while job losses have been most pronounced in the Information and Business & Professional sectors.
- Industrial firms are continuing to adjust labor needs. Locally, two out of the three industrial sectors, experienced growth during the past year. Manufacturing registered 1.5%, Trade/Transportation/Utilities registered 0.1% and Construction registered negative 0.5%.

## Major Transactions

- Various significant development and leasing announcements highlighted the first quarter of 2024: Google announced it will build a \$1.0-billion data center in the Hunt Midwest Business Center; Marvin selected the Scannell 435 Logistics Center for a new \$76.5-million, 400,000-SF manufacturing facility; and Americold Realty Trust announced its intention to build a \$127.5-million, 335,000-SF cold-storage facility at the I-49 Industrial Center on the CPKC network. Excellerate will expand by 438,000 SF at its current location at 21800 W 167th St. in Olathe; Nuuly expanded by an additional 420,910 SF in Raymore Commerce Center to occupy a total of 1.0 million SF; and McKesson Medical-Surgical, Inc. will occupy 306,560 SF in a future BTS at Hunt Midwest Business Center.

## Leasing Market Fundamentals

- Absorption in the first quarter of 2024 recalibrated totaling negative 295,788 SF. The slowdown is more acute in large bulk buildings, while leasing velocity and rent growth in mid-sized and small bay industrial spaces was strong and is expected to remain active. Other factors contributing to the slowdown include lower international trade volume, an uncertain economic climate, the upcoming election and a tapering demand for short-term space needs, recently solved exiting the pandemic.
- The construction pipeline increased to 9.7 million SF as 222,090 SF delivered to the market during the quarter, while 854,310 SF of new product started construction. As this recently-completed inventory leases, the next construction cycle will offer very few alternatives, leading to a tightening of vacancy. Vacancy increased 10 basis points to 5.5% during the quarter.

## Outlook

- As the 15th largest industrial market in the United States, totaling 332.6 million SF, Kansas City will continue to prosper due to its geographically-central location, skilled labor force, extensive transportation network and reasonable real estate and energy costs. Rampant over supply has not occurred during or after the pandemic. Vacancy is projected to remain under 6.0% in the near-term with steady demand and slowing supply.
- Industrial average asking rents increased by a record 32.4% during the past five years. The pace of both asking and contract rental rate growth will moderate in 2024 but will remain strong compared to pre-pandemic levels as demand continues and developers compensate for rising construction costs.

1. Economy
2. Leasing Market Fundamentals
3. Submarket Statistics



1Q24

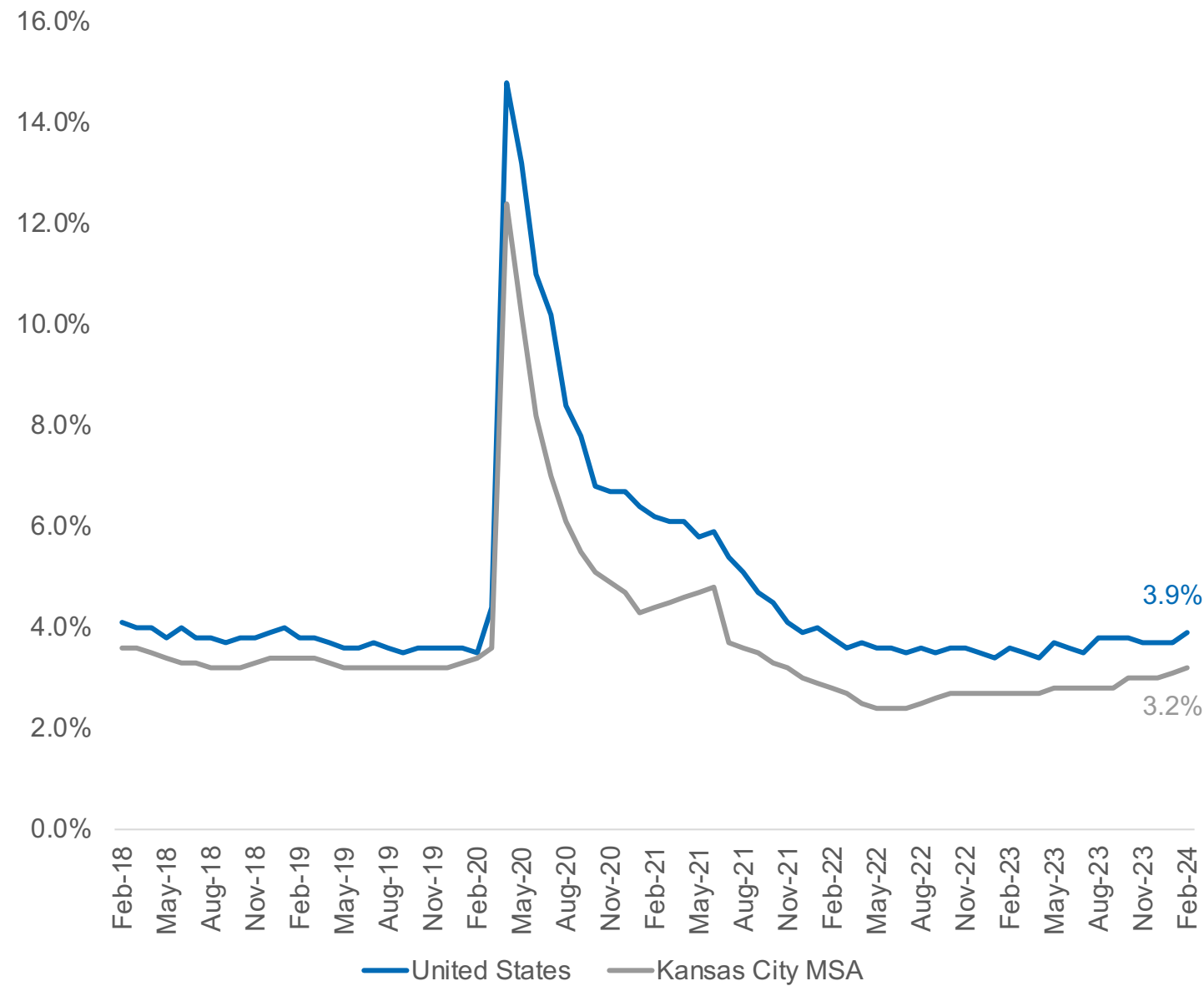
# Economy



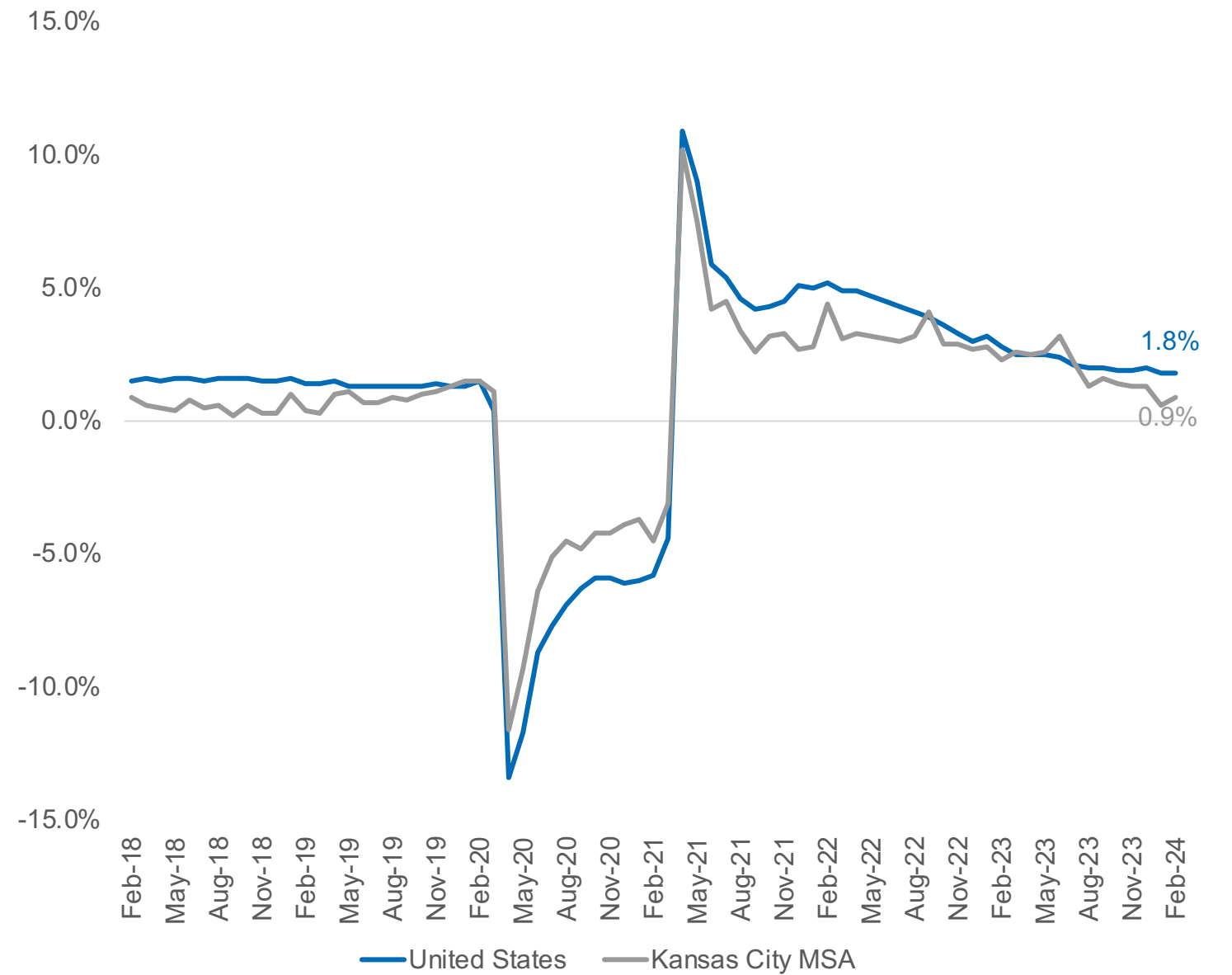
# Metro Employment Trends Signal a Slowing Economy

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



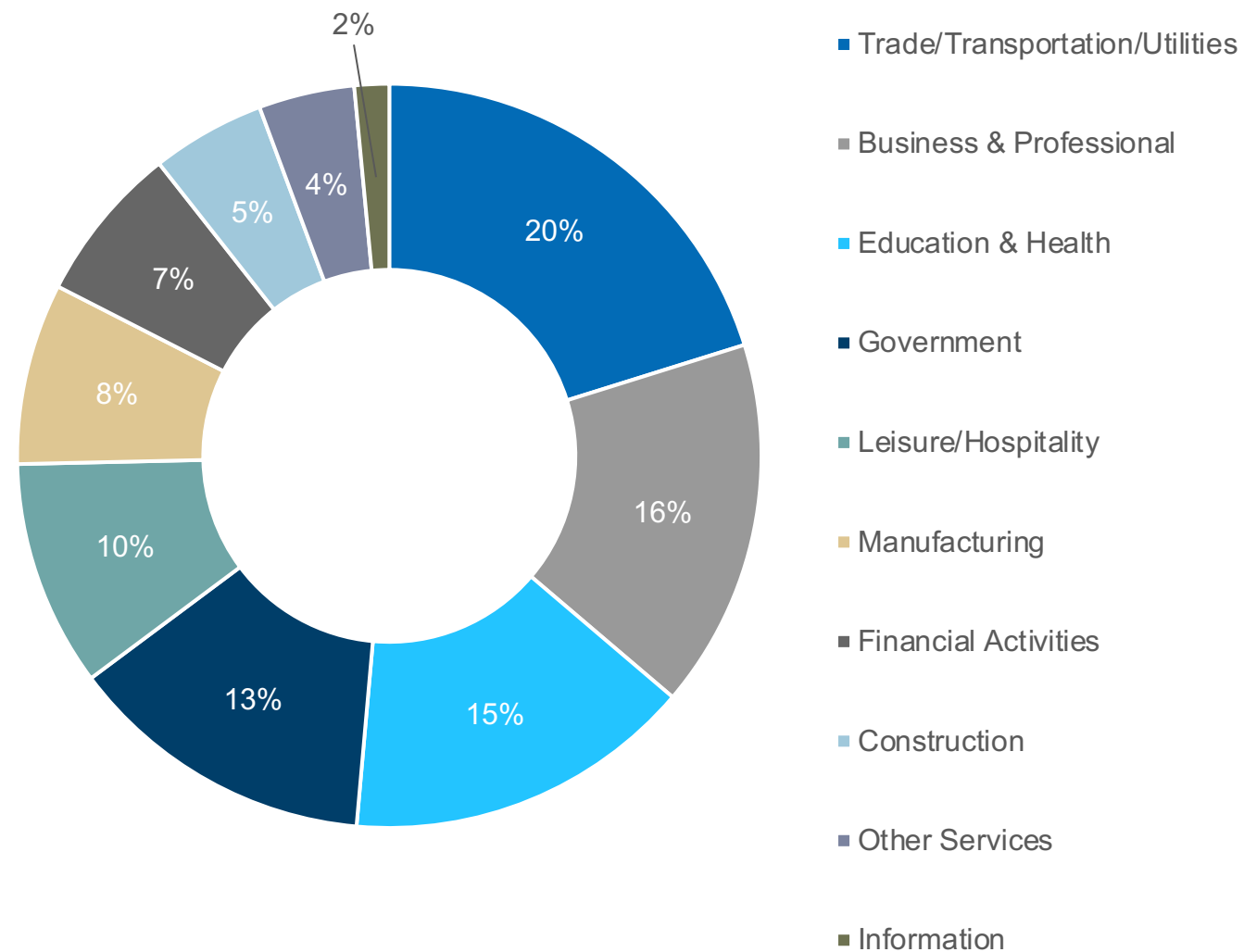
Source: U.S. Bureau of Labor Statistics, Kansas City MSA



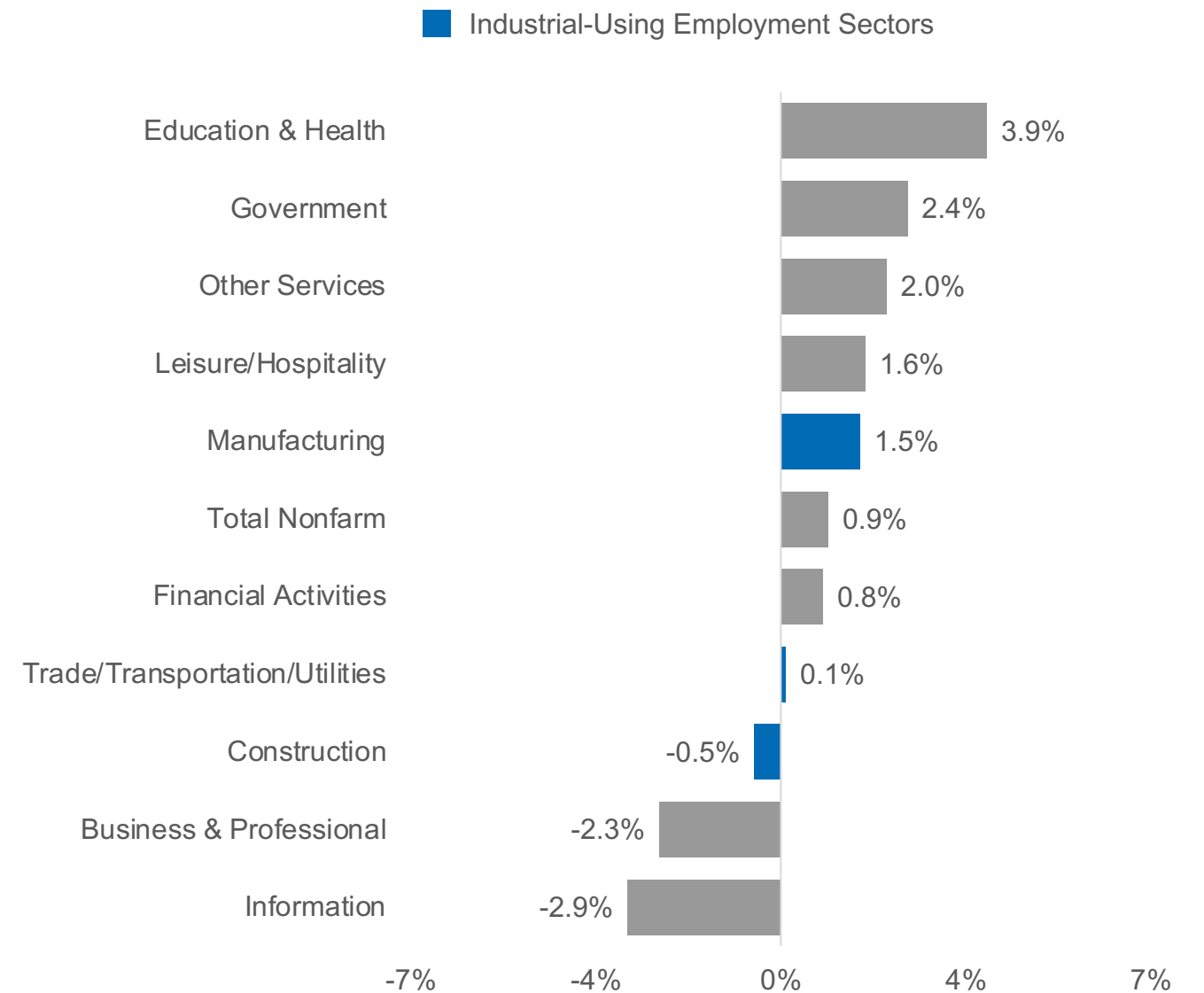
# Job Growth Driven Primarily by Shift in Spending

The Education & Health and Government sectors led all industries in regional annual job growth at 3.9% and 2.4%, respectively. Along with Other Services and Leisure/Hospitality, the top four sectors are benefitting from a post-pandemic shift in spending from goods to services, travel and healthcare expenses. Two out of three industrial-occupying industries saw annual job gains year over year.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

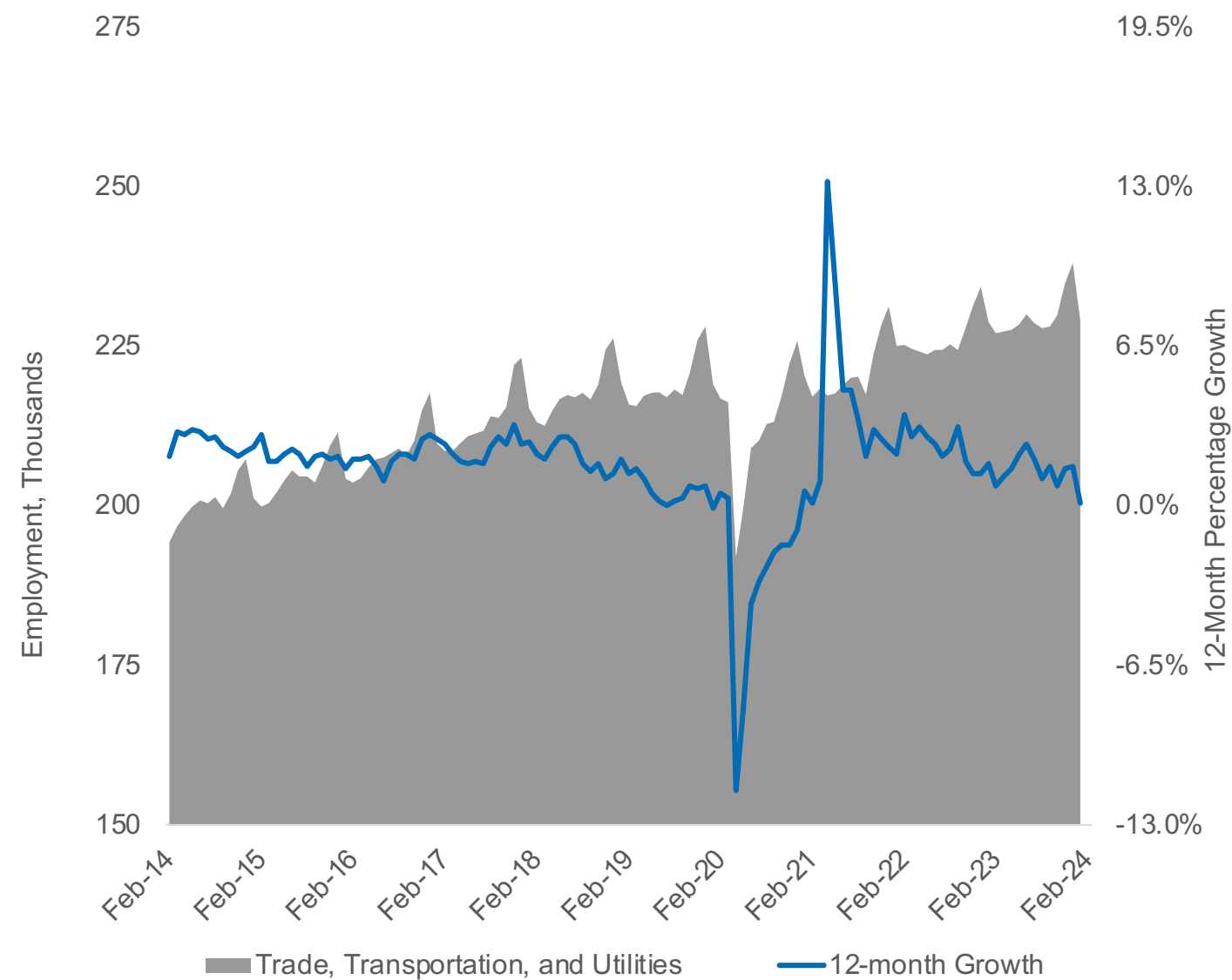


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

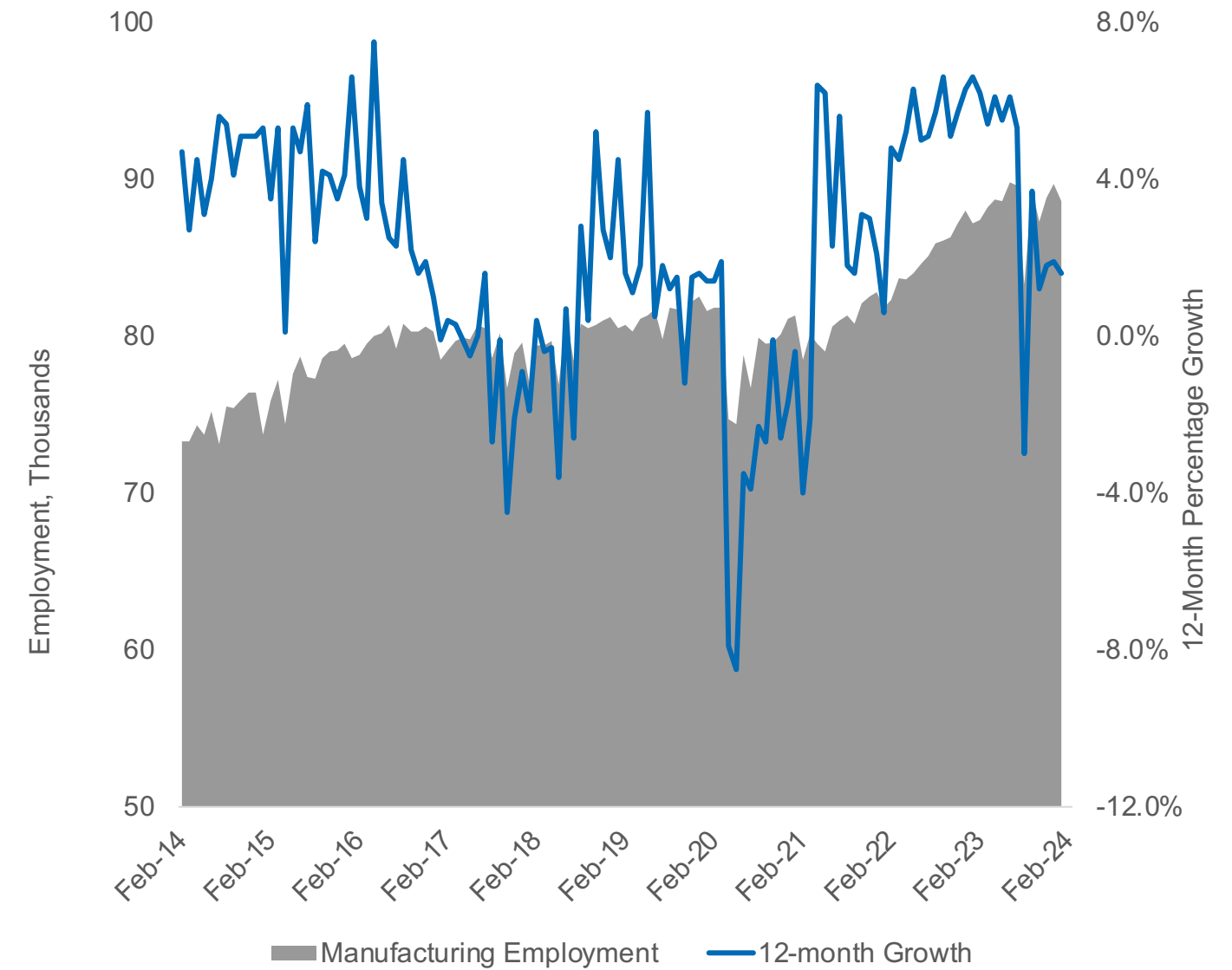
# Overall Industrial-Using Employment Has Rebounded

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



1Q24

# Leasing Market Fundamentals





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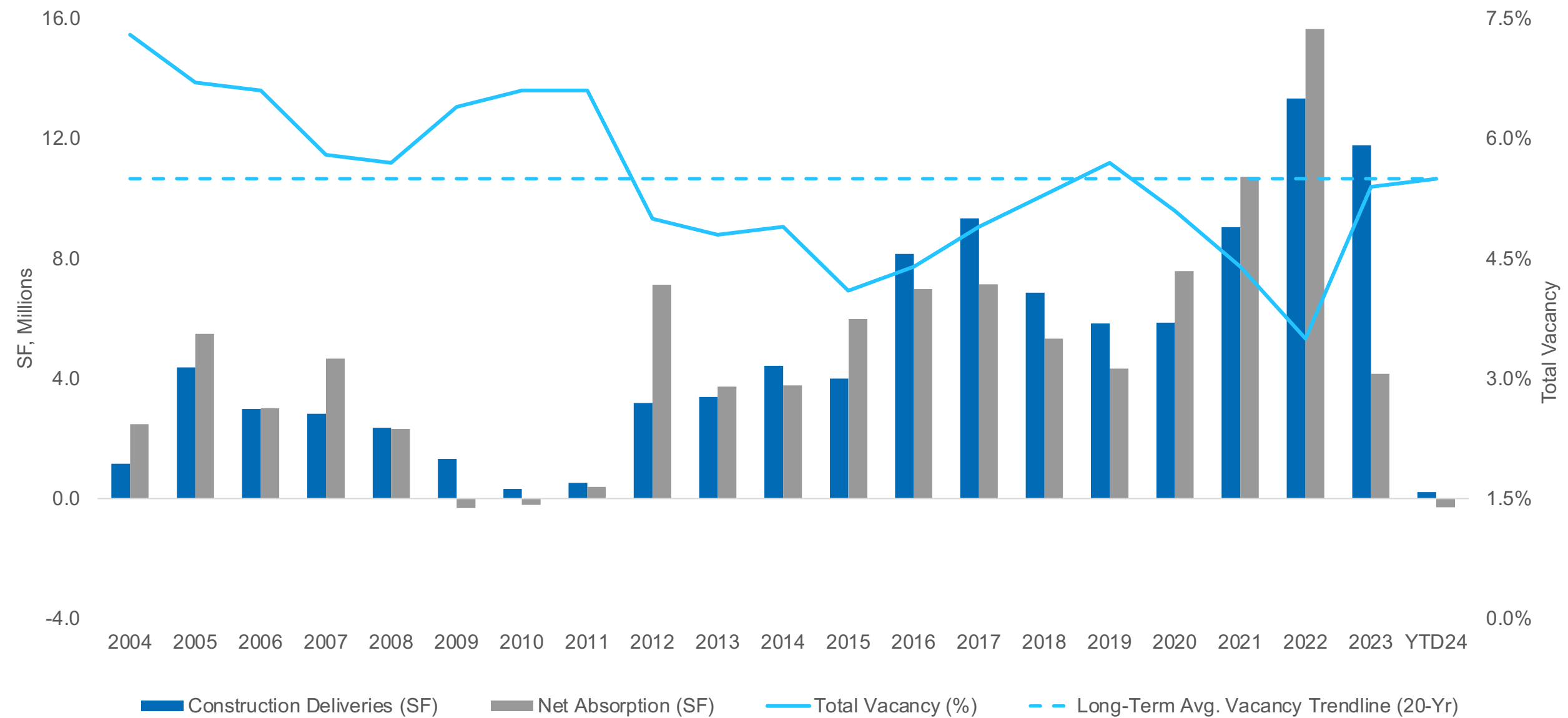
# Market Overview

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# Vacancy Rises as Construction Deliveries Outpace Net Absorption

Vacancy increased 1.8% (180 bps) to 5.5% year over year due to 9.1 million SF of space delivering to the market during the past four quarters. Net absorption totaled negative 295,788 SF during the quarter. The slowdown is more acute in large bulk buildings, while expectations are that tenant leasing velocity and rent growth will remain active in mid-sized and small bay industrial spaces. The Kansas City industrial market is expected to draw above-average interest and leasing activity compared to other U.S. markets.

Historical Construction Deliveries, Net Absorption, and Vacancy



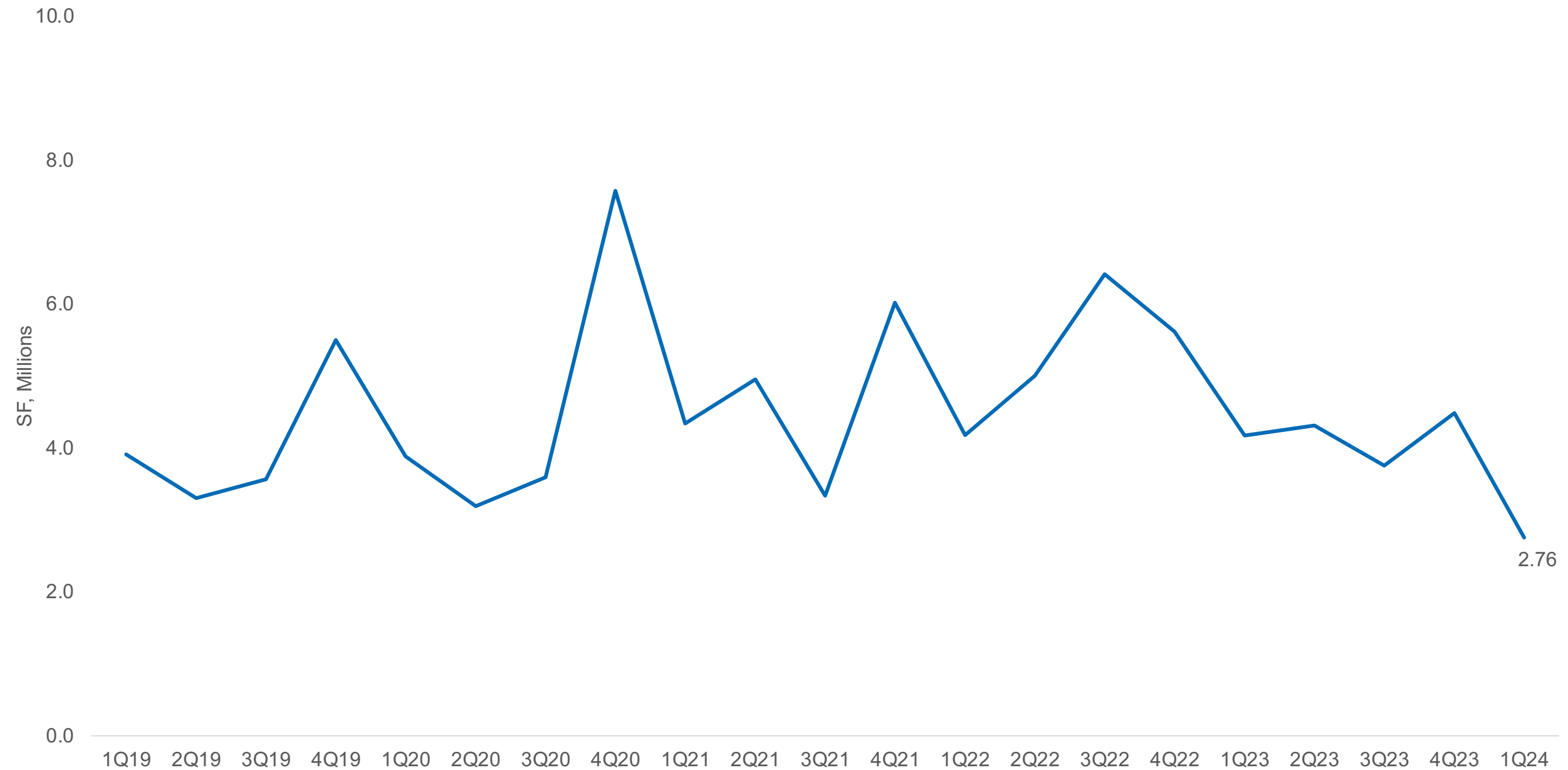
Source: Newmark Research



# Industrial Leasing Activity Decelerates in 1Q24

Demand for industrial space registered 2.8 million SF in the first quarter of 2024. This equates to a 34.1% decrease compared to the quarterly average of 4.2 million SF during 2023. Factors contributing to the slowdown include lower international trade volume, an uncertain economic climate, the upcoming election and short-term space needs being recently solved exiting the pandemic environment.

Total Leasing Activity (MSF)

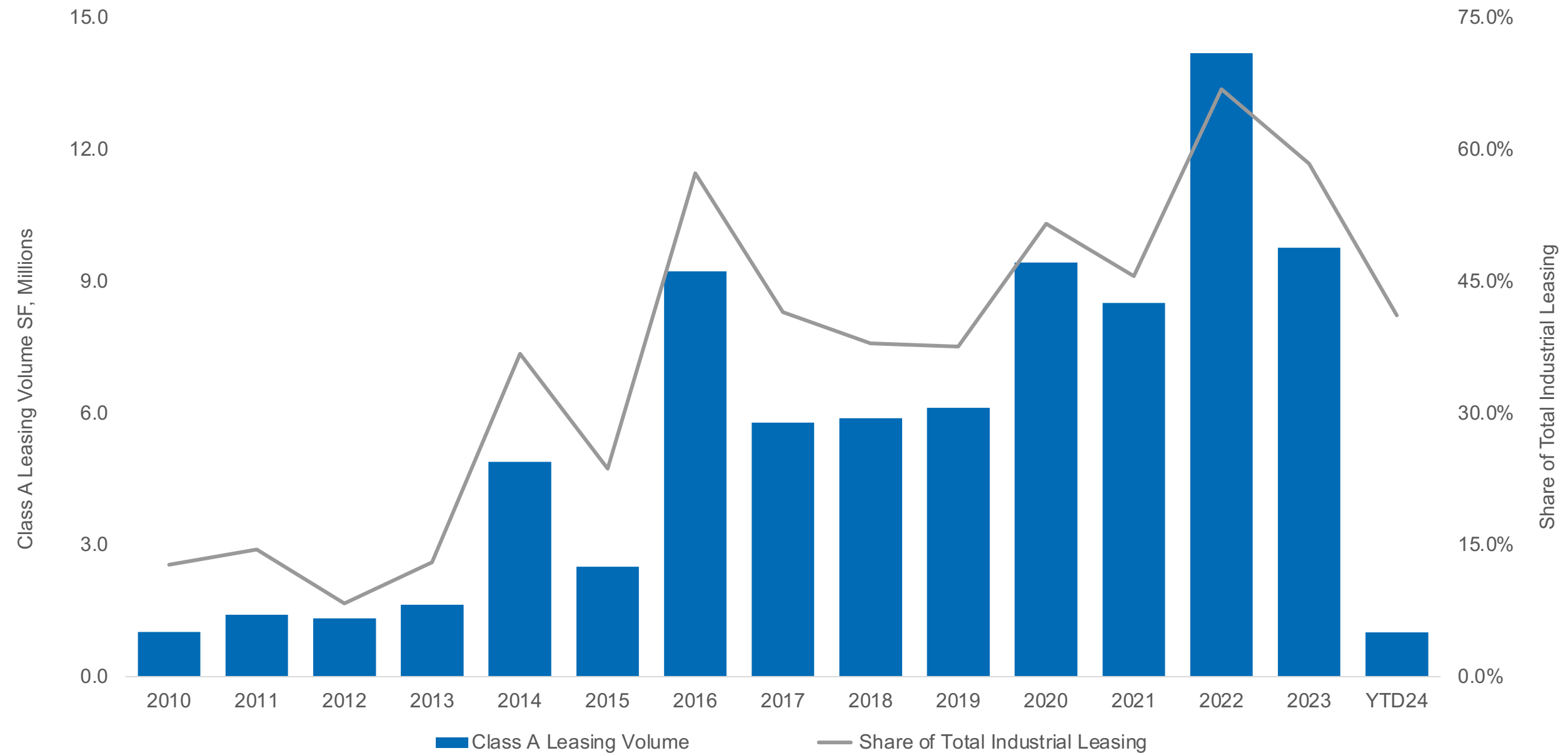


Source: Newmark Research, CoStar

# Class A Bulk Warehouse Leasing Activity Declines to 41.1% 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 41.1% of overall activity in the first quarter of 2024, down from the record high of 66.9% in 2022, but above the five-year pre-pandemic average from 2015 to 2019 of 39.6%.

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



Source: Newmark Research, CoStar



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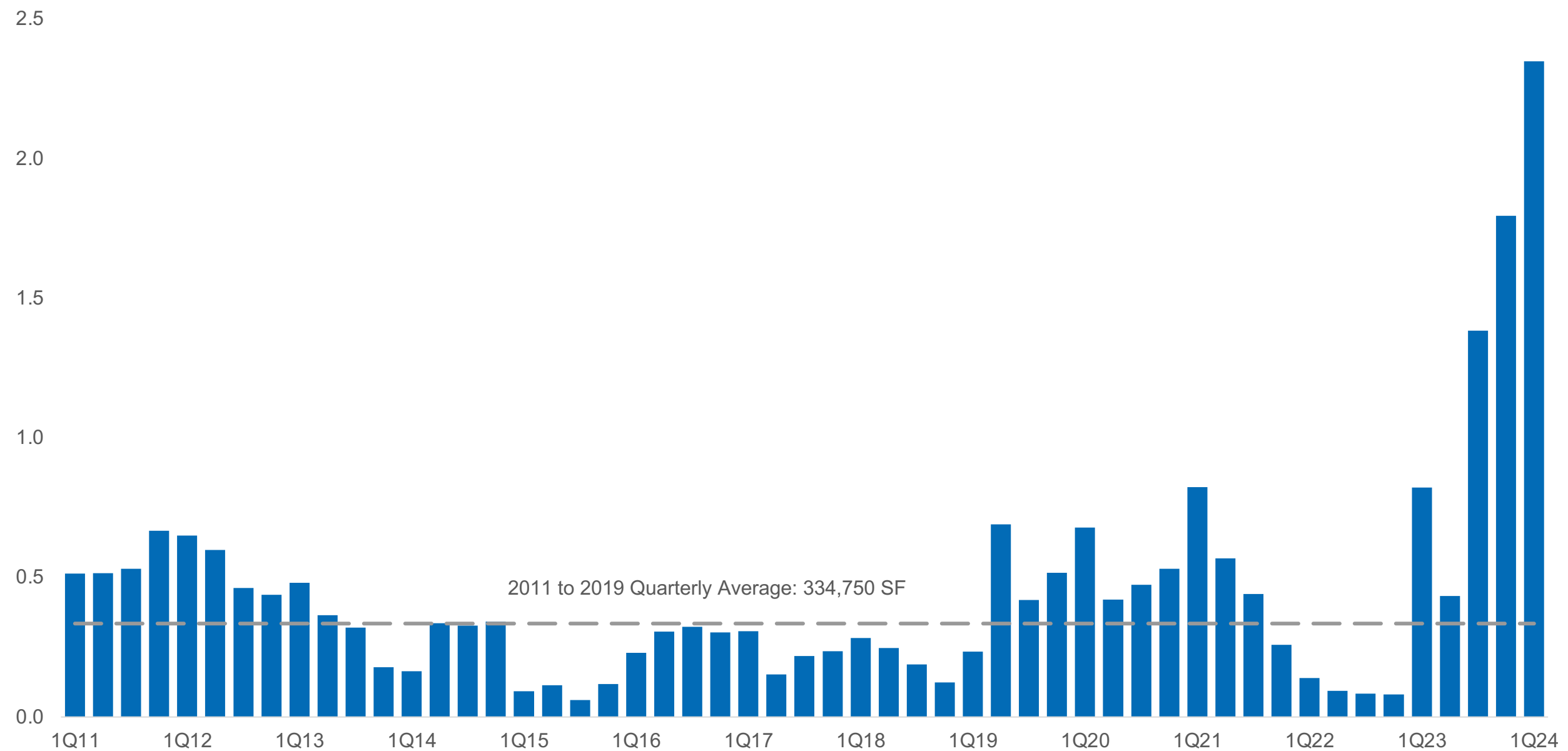
## Vacancy Rises to 9.3% in South Johnson Co. and South Jackson Co. Submarkets

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# Vacant Sublease Availability at Record High but Only Totals 0.7% 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 second half of 2024, 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 0.7% of the total market.

Vacant Available Industrial Sublease Volume (MSF)



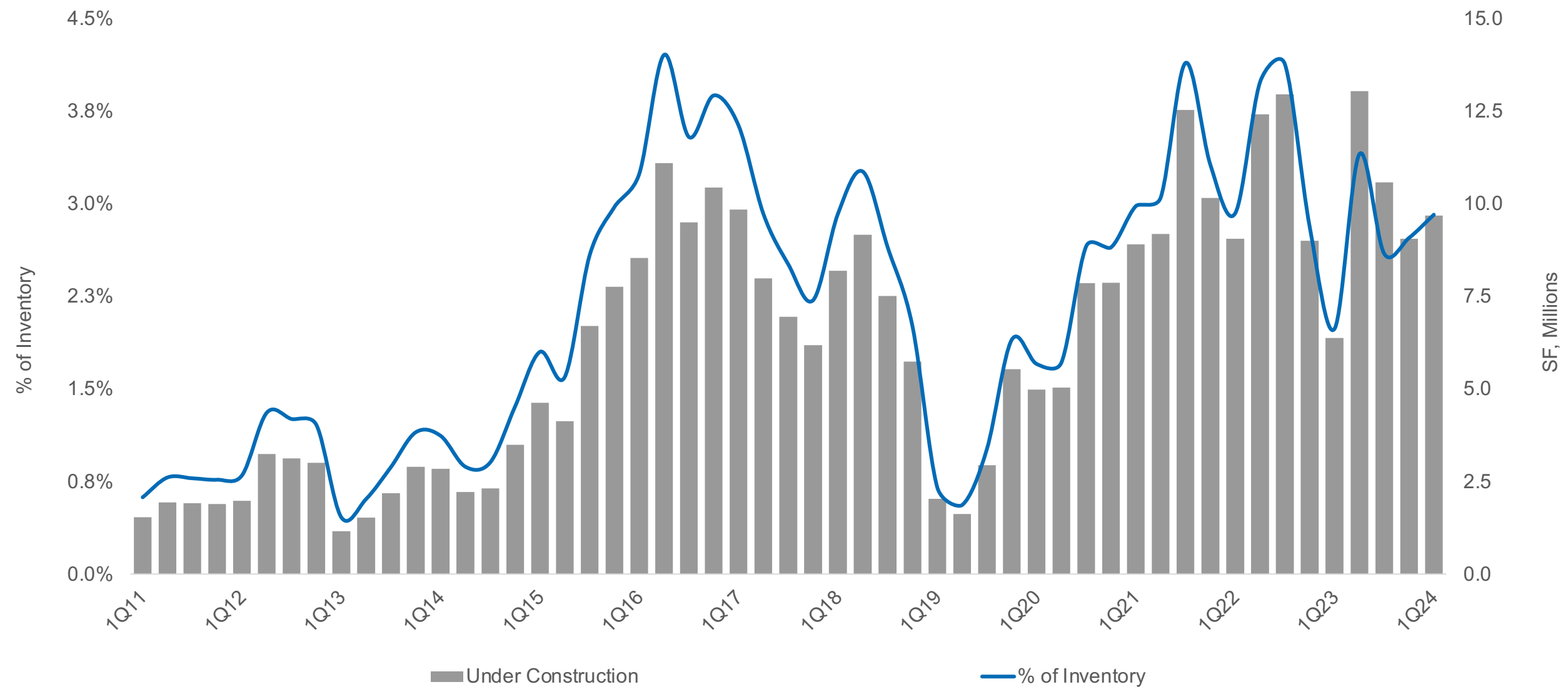
Source: Newmark Research, CoStar



# Speculative Construction Activity in Decline

The combined build-to-suit and speculative construction pipeline is trending downward. While there is a total of 9.8 MSF under construction, over 56% of this space is in the 5.5 million-SF Panasonic BTS, where construction began in the second quarter of 2023. BTS project announcements in the Metro are increasing, while spec activity is decreasing with 3.8 million SF currently under construction; the largest spec development is 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 introduced to the market in this construction cycle.

## Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

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# Speculative Construction Supply is Limited as Build-to-Suits Gain Momentum

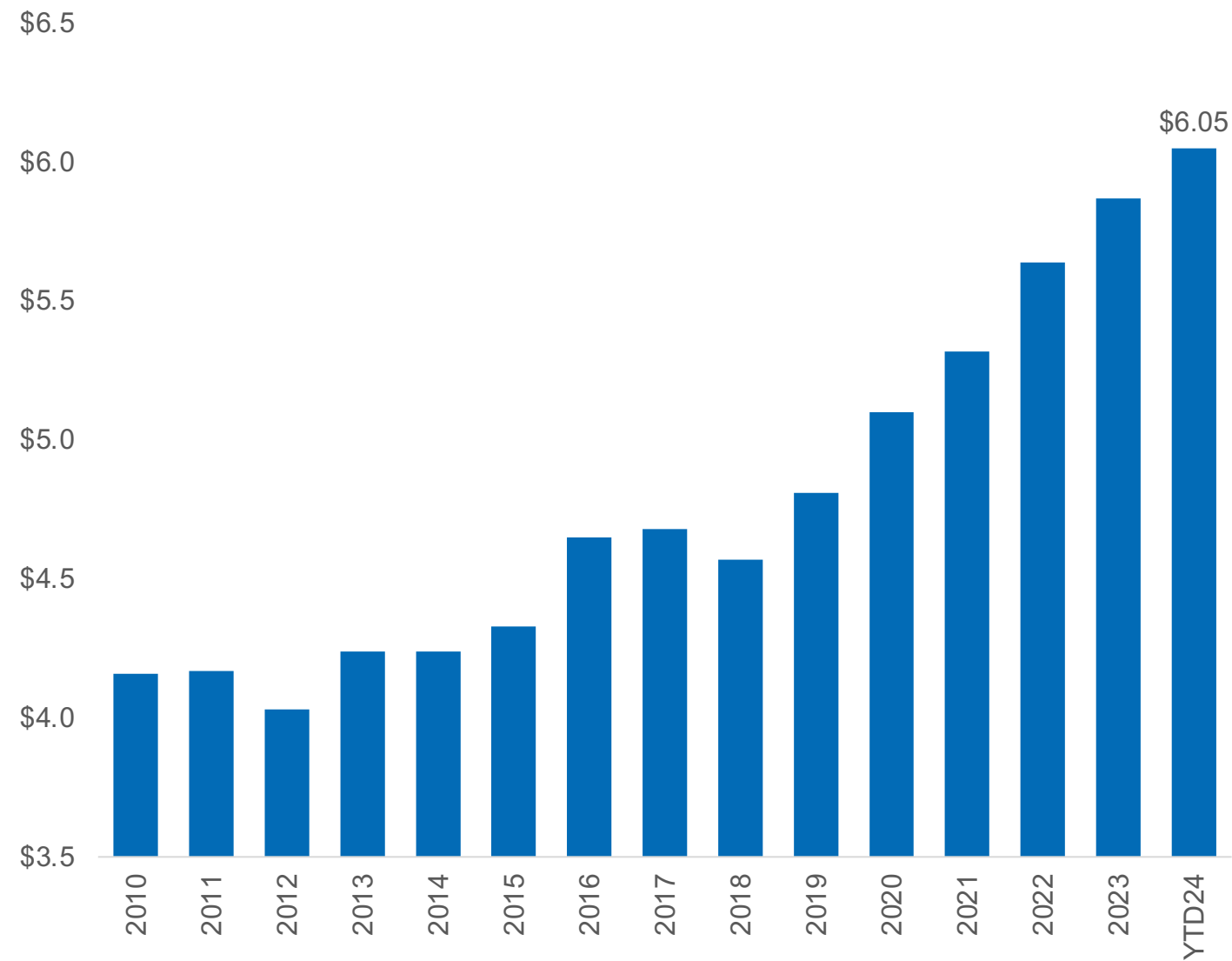
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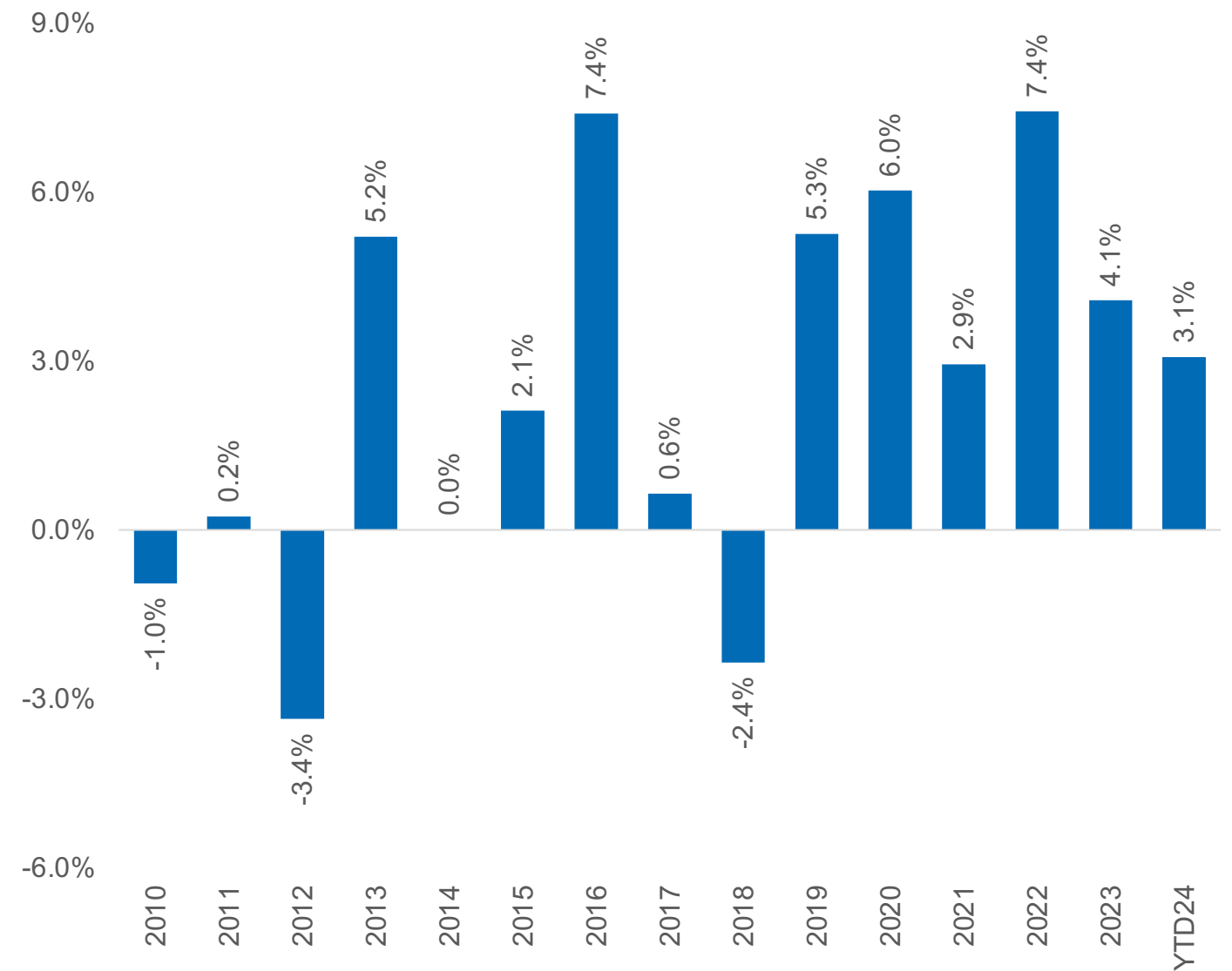
# Record-Pace Industrial Asking Rent Growth Should Begin to Moderate

Industrial average asking rents increased by a record 32.4% during the past five years. Both asking and contract rental rate growth are expected to moderate during 2024, with asking rates expected to range from \$6.00/SF to \$6.15/SF. The completion of higher-priced new construction will 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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## Class A Warehouse Rents Continue to Climb

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# Notable 1Q24 Announcements and Lease Transactions

Significant development and leasing highlights in 1Q24: Google announced it will build a \$1.0-billion data center in the Hunt Midwest Business Center; Marvin selected the Scannell 435 Logistics Center for a new \$76.5-million, 400,000-SF manufacturing facility; and Americold Realty Trust announced its intention to build a \$127.5-million, 335,000-SF cold-storage facility, expected at the I-49 Industrial Center on the CPKC network.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Excellerate	21800 W 167th Street	South Johnson County	Direct New (Expansion)	438,000
<i>Excellerate announced plans to expand 438,000-SF to produce construction and electrical products in Olathe at Lone Elm and 167th Street. The firm expects to hire an additional 400 employees.</i>				
Nuuly	1300 S Dean Avenue – Building III	North Cass County	Direct New (Expansion)	420,910
<i>Nuuly officially opened its new fulfillment and laundry facility during the quarter in Building III of Raymore Commerce Center. In addition to the 603,380 SF of space the firm originally announced, Nuuly expanded its lease in March by 420,910 SF to occupy the entire 1.0 million-SF building.</i>				
McKesson Medical-Surgical, Inc.	Hunt Midwest Business Center VI	Northland	Direct New (BTS)	306,560
<i>After seeking incentives for the \$108.0-million facility in November 2023, McKesson Medical-Surgical leased the entire 306,560-SF HMBC VI to be developed by Hunt Midwest. The firm will move from its current warehouse location at 1405 North Chouteau Tfwy. in Executive Park.</i>				
Three Dog Bakery	21100 W 159th Street	South Johnson County	Direct New	111,480
<i>Three Dog Bakery signed a 10-year lease and will move into 111,480 SF of space within the 236,160-SF Great Plains Commerce Center building A. The firm is expected to move-in by August 2024. The space was marketed at an asking rate of \$6.50/SF.</i>				
RB America, Corp.	1000-1010 N Century Drive	East Jackson County	Direct New	96,600
<i>RB America, Corp. will occupy 96,600 SF of space in the 133,400-SF building in Executive Park. Newmark Zimmer acted as both the tenant as landlord representative in the transaction.</i>				

Source: Newmark Research



1Q24

# Submarket Statistics





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Submarket Statistics: All Classes (Pages 1-3), Warehouse (Page 4), Flex (Page 5)

Please reach out to your  
Newmark business contact for this information

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*For more information:*

**Mark Long, CRE, SIOR, CCIM, LEED AP**

*President & CEO*

*Newmark Zimmer*

mlong@nzimmer.com

**Andrew Garten**

*Director, Research*

agarten@nzimmer.com

**Kansas City**

1220 Washington Street, Suite 300

Kansas City, MO 64105

t 816-474-2000

**St. Louis**

1001 Highlands Plaza Drive W,

Suite 250

St. Louis, MO 63110

t 314-254-4600

**Lee's Summit**

1485 SW Market Street

Lee's Summit, MO 64081

t 816-474-2000

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