

INVESTMENT FORECAST

Retail
Kansas City

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

Job Creation and Residential Expansion in Johnson County Elicit Vendor Expansions and Buyer Activity

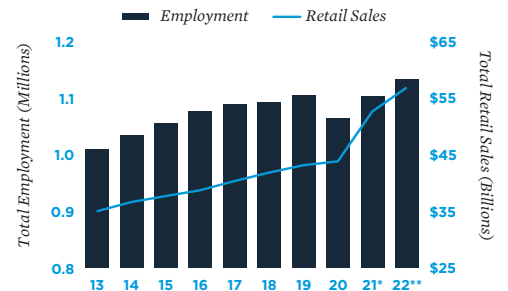
Metro vacancy poised to reach 15-year low. Kansas City's retail sector enters 2022 on solid footing, following a 12-month span when sparse supply additions coincided with a notable improvement in leasing activity. The resulting net absorption of 1.5 million square feet last year lowered metro vacancy 110 basis points below its trailing 10-year average. Vendor demand has been most pronounced in the Kansas portion of the market, highlighted by activity in Wyandotte and Johnson counties. The latter locale represents the epicenter of apartment development and higher-paying job creation in the metro, which is facilitating retailer expansions, specifically in Overland Park and cities adjacent. Recent office leases by TreviPay, Industrial Accessories and Optiv, alongside the potential establishment of a NetPMD headquarters this year, indicate an imminent boost in well-paying jobs. The increase in consumer spending and retailer demand that is likely to follow could compress vacancy in Johnson County during 2022, a boon for Kansas City's overall retail availability, as the area is home to one-fourth of the market's inventory.

Single-tenant trades account for larger slice of overall deal flow. A minimal development pipeline, historically low vacancy and expectations for higher-paying job growth are attracting investors to Kansas City retail listings. Over the past year, the metro registered a noteworthy improvement in single-tenant sales, many of which involved net-leased assets or properties that were part of larger portfolio transactions. Closings in Johnson and Jackson counties are accounting for the bulk of deal flow, with single-tenant investors most active in Overland Park, Olathe and cities proximate to Interstate 70. Across these locales, minimum returns for dining establishments hover in the low-5 percent band. Both counties also attract multi-tenant buyers, including out-of-state investors focused on post-2000 built neighborhood and power centers. Dependent on location, tenant roster and lease terms, these assets trade at low-5 percent to high-7 percent cap rates.

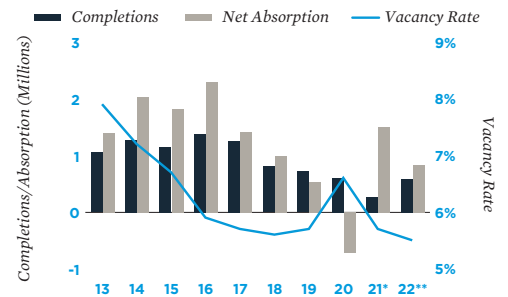
2022 Market Forecast

- Employment**
up 2.7%
Employers add 30,000 positions in 2022, pushing the year-end headcount more than 2 percent above the pre-pandemic mark.
- Construction**
590,000 sq. ft.
Supply additions increase on an annual basis during 2022; delivery volume, however, trails the prior 10-year average by nearly 400,000 square feet, as inventory rises by just 0.4 percent.
- Vacancy**
down 20 bps
Net absorption exceeds completions for a second consecutive year, compressing year-end vacancy to 5.5 percent. In 2021, the metro registered a 90-basis-point decline.
- Rent**
up 3.8%
Historically low vacancy supports an eighth straight year of positive rent growth that pushes Kansas City's average marketed rate up to a record \$13.80 per square foot.
- Investment**
Industrial growth north of the Missouri River bolsters spending at nearby restaurants, fast-food eateries and multi-tenant centers, drawing more buyers to local listings.

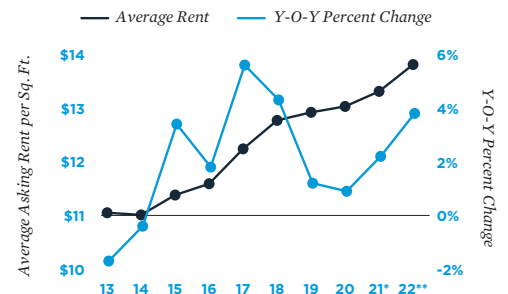
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.