MARKET REPORT

Retail

Kansas City Metro Area

INSTITUTIONAL PROPERTY ADVISORS

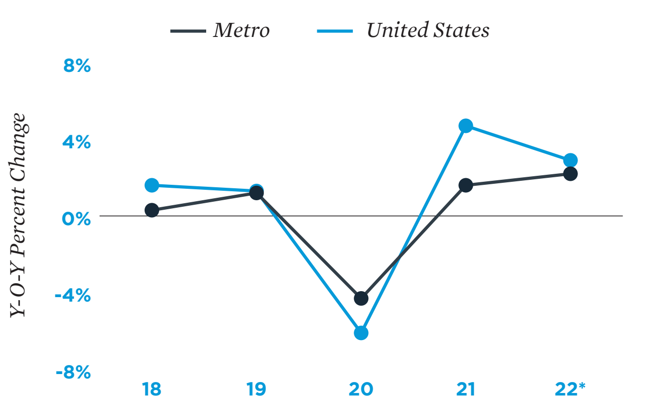
2Q/22

Suburban Migration Fuels Retail Demand, Even as Downtown Vacancy Remains Tight

Kansas City exhibits high growth among regional markets. As the metro continues to see a tightening unemployment rate, 40 basis points below the national level at 3.2 percent in March, retail sales remain elevated with an estimated 20.3 percent year-over-year increase. Consumer spending is bolstered by rising median household incomes in Kansas City, ranking as one of the highest and fastest growing among major Midwestern markets in this metric. A stronger consumer base is driving demand for space by vendors. Net absorption nearly totaled 1.9 million square feet over the past five quarters, which dropped metro vacancy by 110 basis points to 5.5 percent. This rate is already below the past decade average, and availability should remain equally tight in the coming quarters as demand aligns with new supply.

Retailers follow renters to downtown-adjacent submarkets. Average asking rents in downtown are still the highest at $20.30 per square foot, with low vacancy at 3.4 percent in March. Midtown, however, has been receiving a notable share of new completions, with over 3,000 square feet coming online in the first quarter after no deliveries in 2021, while maintaining a vacancy rate of 3.1 percent and elevated rents. This location provides the convenience of being near homes and access to a reopening downtown. Additionally, hybrid workers who only commute some days may be drawn to live and, therefore, shop in these areas. This aligns with a migration of renters to downtown-adjacent areas, as retailers absorb supply.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

24,000 JOBS
will be created

EMPLOYMENT:

The Kansas City employment base is on track to expand 2.2 percent this year, boosting the metro's job count within 8,000 positions of the pre-pandemic benchmark. Growth in the trade, transportation and utilities sector supports this lift.

620,000 SQ. FT.
will be completed

CONSTRUCTION:

Deliveries will fall under 1 million square feet for the fifth consecutive year. Completions sit below the trailing five-year average of 810,000 square feet and will grow inventory by just 0.4 percent.

0 BASIS POINT
change in vacancy

VACANCY:

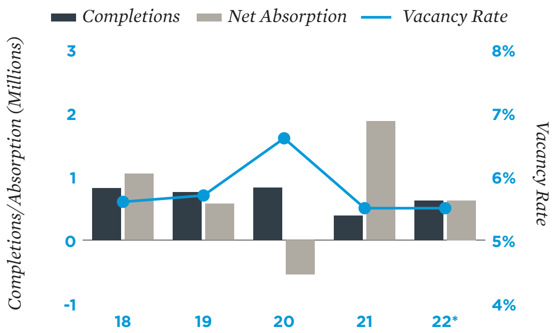
Vacancy will hold flat at 5.5 percent this year after dropping in 2021, when the construction pipeline was about half as large. While availability is not expected to decrease in 2022, the rate is already below the 2019 equivalent.

3.7% INCREASE
in asking rent

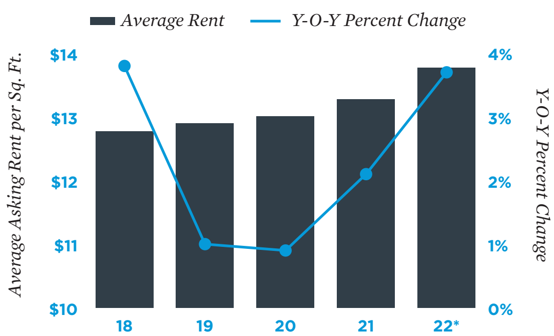
RENT:

Rents will grow for the eighth consecutive year to reach an average asking rate of $13.77 per square foot. Multi-tenant properties in the market ended last year with a 2.7 percent rise, while single-tenant spaces posted a 1.9 percent gain.

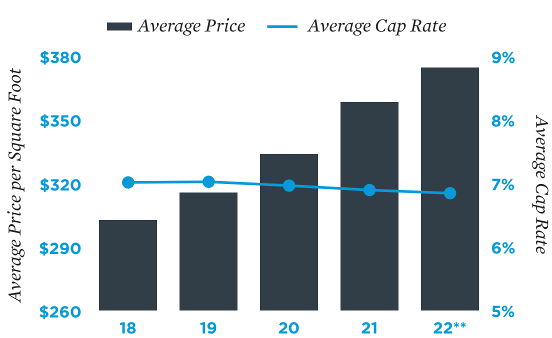
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

308,000 sq. ft. completed

- Completions decreased over the past 12 months ended in March, with a delivery volume almost 320,000 square feet lower than what was finalized in the previous yearlong period.
- Of the 41,400 square feet that came online in the first quarter, over half was in East Jackson County.

VACANCY

60 basis point decrease in vacancy Y-O-Y

- The metro's vacancy rate tightened to 5.5 percent, aided by Downtown's recovery as urban openings tightened local vacancy here to 3.4 percent
- Availability is the highest in multi-tenant properties, with single-tenant locations driving down overall retail vacancy. This is most notable in Lafyette and Miami counties, where availability is below 2.0 percent.

RENT

2.7% increase in the average asking rent Y-O-Y

- Kansas City's average asking rent increased to $13.44 per square foot in the first quarter. This rise comes after a marginal change in the prior period.
- Among the 10 largest submarkets by inventory, rent growth was the strongest in Southeast Jackson County and St. Joseph. On the other hand, rates dipped in the North of the River submarket.

Investment Highlights

- Transaction velocity last year more than doubled from the 2020 measure and surpassed the pre-pandemic benchmark, indicating a strong return in investor demand. Single-tenant properties, in particular, saw a rapid increase in trading relative to previous years, accounting for over 60 percent of reported deals. Meanwhile, multi-tenant assets recorded an increase in deal flow as well.
- The Interstate 35 corridor in Clay County saw an uptick in trades last year, specifically involving storefronts. The investor interest in the I-35 corridor is in line with the metro's suburban absorption trends and demand for properties along routes with high traffic.
- The median age of properties traded in 2021 landed at 40 years old, significantly different than the 2019 and 2020 median of 70-plus years old. As newer properties become more popular, particularly in suburban locations that house convenience stores and fast-food restaurants, this trend has lifted the average sale price. During the 12-month period ended in March, retail assets in Kansas City transacted for $375 per square foot on average, up 10 percent from the prior period. This shift in preference toward newer assets was also reflected in the mean cap rate dipping to 6.8 percent.