

MARKET REPORT

Retail
Kansas City Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

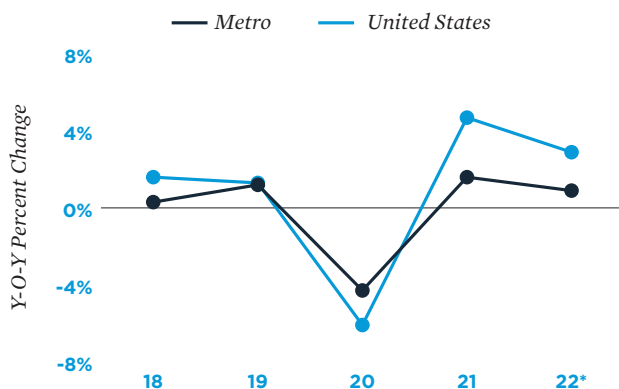
3Q/22

Tight Conditions Spread Across Store Types; Renter Movement Spurs Retailer Expansion

Vacancy reaches record low. Some of the largest leases signed in the first half of the year were by Furniture Mall of Kansas, Super Dealz and Ollie's Bargain Outlet. Interest by discount stores seeking to meet local demand for lower-priced goods amid elevated inflation has enabled the multi-tenant vacancy rate to compress 30 basis points year-over-year in the second quarter to 6.0 percent, its second-lowest rate on record. Single-tenant vacancy has compressed at an even steeper rate of 110 basis points to 5.0 percent. This can partly be attributed to an uptick in restaurant leasing activity. The restaurant chain Penn Station East Coast Subs announced it is expanding in several of its current markets, including Kansas City. In January, the chain signed leases for 23 locations across the metro. Little Caesars and MOD Pizza also inked additional leases.

Retailers target single-tenant space in renter-dense areas. Of the 12 Kansas City submarkets with more than 3 million square feet of stock, five absorbed more than 180,000 square feet each across the trailing yearlong period. South KC noted the greatest net absorption, predominantly in the single-tenant sector, as local vacancy in the property segment fell 450 basis points annually to land at 6.2 percent. This is the lowest South KC single-tenant rate in the last 15 years, reflecting how retailers are targeting downtown-adjacent areas that have witnessed expanding renter pools. Areas like South KC were much less occupied pre-pandemic, but elevated demand and a dearth of completions scheduled here will aid tightening vacancy.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**10,000
JOBS**
will be created

EMPLOYMENT:

The second quarter ended with a local unemployment rate of 2.7 percent. As a result of the shrinking labor pool, total employment is expected to expand by only 0.9 percent, driven by gains in the education and health services sector.



**820,000
SQ. FT.**
will be completed

CONSTRUCTION:

After a dropoff in completions last year, the metro will return to its prior pattern of inventory growth, expanding around 0.6 percent. North of the River and North Johnson County are slated to receive half of 2022 deliveries.



**10
BASIS POINT**
decrease in vacancy

VACANCY:

Net absorption will overtake completions by year-end, allowing vacancy to compress further to 5.5 percent. Higher deliveries will, however, cause availability to shrink slower than last year.

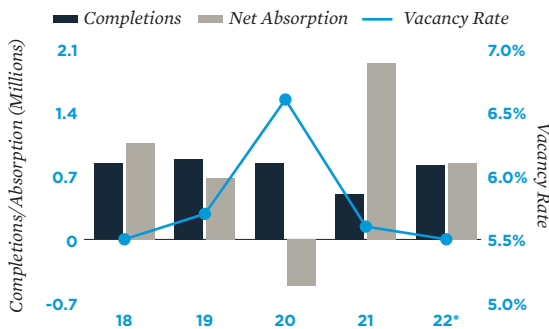


**3.2%
INCREASE**
in asking rent

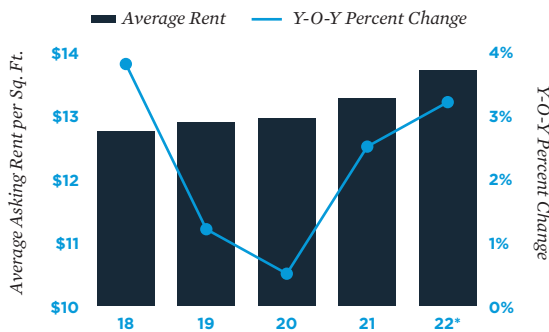
RENT:

The average asking rent in Kansas City will continue to grow at a steady rate, ending the year at \$13.70 per square foot. This marks the eighth consecutive year of annual rent growth in the metro.

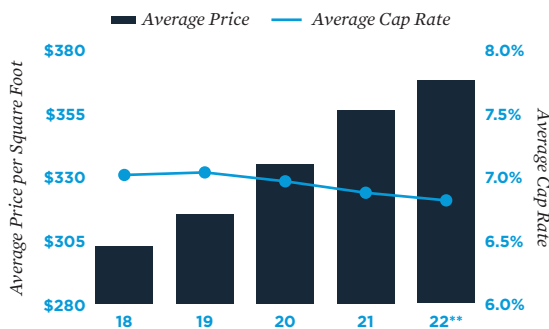
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

305,000 sq. ft. completed

- The greatest volume of deliveries during the trailing 12 months ended in June came online in East Jackson County.
- Nearly 70 percent of inventory that was delivered during the yearlong period was single-tenant space. Five of Kansas City's submarkets near the border between Kansas and Missouri received 80 percent of these builds.



VACANCY

80 basis point decrease in vacancy Y-O-Y

- Compressing to 5.3 percent in the second quarter, vacancy fell to its lowest level on record since at least 2007. Twelve of the metro's submarkets noted positive net absorption.
- Among submarkets with more than three million square feet of inventory, Midtown and Southeast Jackson County reported the lowest availability.



RENT

2.6% increase in the average asking rent Y-O-Y

- June ended with an average asking rent at \$13.57 per square foot. Rent gains were fueled by a 15.2 percent annual rise in South Kansas City mean asking rents, most of which came from multi-tenant advances in the area.
- Single- and multi-tenant properties in the metro reported average asking rents per square foot within 20 cents of each other.

Investment Highlights

- Deal flow in the trailing 12 months ended in June rose by nearly 40 percent within the metro. Trades within the \$1 million to \$10 million price tranche rose the fastest as private investors increased their activity. Storefront retail/office spaces were the most commonly targeted.
- During the past yearlong interval, Kansas City properties were traded at \$370 per square foot on average. The corresponding mean cap rate landed at 6.8 percent, 10 basis points below the previous period. Single-tenant builds registered the greatest change in average sale price. While multi-tenant structures logged a 4.0 percent increase, single-tenant facilities posed an 8.0 percent gain per square foot.
- In the first six months of 2022, North of the River and East Jackson County noted the greatest volume of trades. Investors in these areas targeted single-tenant properties around interstate highways, such as in the I-35 and I-29 corridors. Trades in these areas typically landed in the \$1 million to \$5 million price tranche, and often reported cap rates in the mid-5 percent to high-6 percent range. North of the River saw an elevated number of auto parts shops trade along the I-35 Corridor, following renewed road trip traffic as people began to travel more after early pandemic lockdowns.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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