

MARKET REPORT

Retail
Kansas City Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

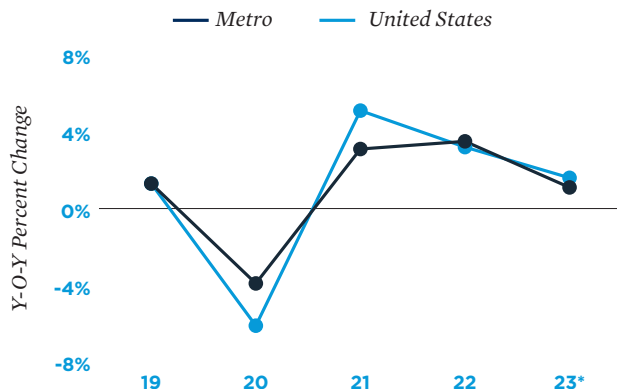
4Q/23

Remarkably Low Vacancy Downtown Underpins Region-Leading Retail Performance Trends

Metro joins high-performing cadre. Kansas City's retail sector is on track to end 2023 with a vacancy rate 110 basis points below its year-end 2019 mark. Only seven other major U.S. markets will claim a decline of equal or greater measure, including Indianapolis and high-population growth markets like Phoenix and Salt Lake City. Strong property performance is supported by favorable wealth generation trends. Kansas City employers are adding jobs faster than in most other major Midwest markets. The metro is also in high standing among its regional peers for median income growth and single-family home value appreciation, allowing owners to build equity. At the same time that household wealth is improving, Kansas City also boasts the Midwest's lowest-cost retail asking rent outside of Ohio, offering further encouragement for tenant expansions.

Vacancy in metro's core exceptionally low. At 1.5 percent in June, Downtown Kansas City holds one of the tightest vacancy rates of any major urban core. Marginal construction since 2008 has allowed tenant demand here to catch up to supply, with retailers taking note of the area's recent residential growth. Local apartment construction picked up substantially beginning in 2016, increasing the number of occupied units by 38 percent as of the third quarter of this year. Recent leasing by restaurants and cafes reflects a residential focus. This strong space demand extends beyond the core as well, down into Midtown and west into the Kansas side of the city.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**13,000
JOBS**

will be created

EMPLOYMENT:

Despite lost manufacturing jobs, hiring in the public sector, as well as in leisure, hospitality, education and health services, will help the metro's overall employment base rise by 1.1 percent in 2023.



**600,000
SQ. FT.**

will be completed

CONSTRUCTION:

While deliveries pick up from last year, completions for 2023 will fall well below the 1-million-plus-square-foot threshold routinely surpassed in the 2012-2018 period. Openings represent 0.4 percent of current stock.



**10
BASIS POINT**

decrease in vacancy

VACANCY:

Although net absorption in 2023 is tapering compared to the two years prior, it is still keeping ahead of supply. The metrowide vacancy rate will tick down to 4.5 percent as a result, the lowest year-end rate in over a decade.



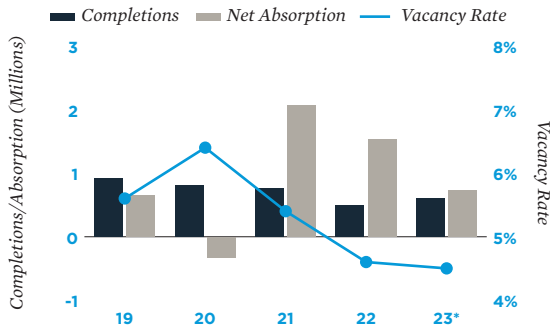
**2.0%
INCREASE**

in asking rent

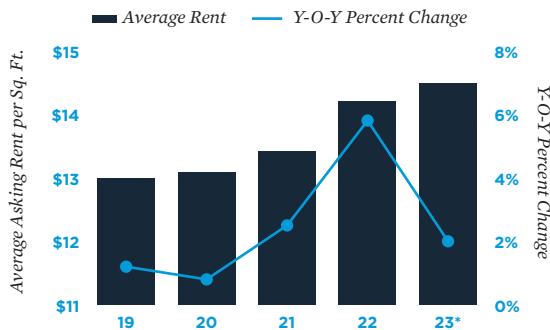
RENT:

Competition for available, well-located space will drive the average asking rate up to \$14.48 per square foot. The resulting year-over-year gain is nearly double the 2010-2019 average of 1.1 percent per annum.

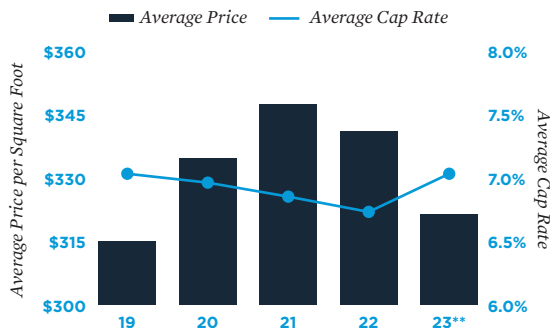
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

478,000 sq. ft. completed

- Approximately 90,000 more square feet was delivered over the four-quarter span ended in June than in the year prior. Of total completions, about 106,000 square feet opened North of the River.
- While less than 200,000 square feet is actively underway, another 630,000 square feet is under proposal and could join the pipeline at a later date.



VACANCY

50 basis point decrease in vacancy Y-O-Y

- Since 2020, Kansas City has not recorded a negative quarter of retail net absorption, with vacancy falling to 4.6 percent in June. Both the single- and multi-tenant segments reported similar year-over-year contractions.
- Every local submarket with more than 10 million square feet of inventory recorded a year-over-year vacancy drop of at least 20 basis points.



RENT

3.8% increase in the average asking rent Y-O-Y

- A 6.6 percent decline in the average multi-tenant asking rent over the year ended in June was offset by a mean single-tenant gain of 7.1 percent, resulting in an overall metro average of \$14.36 per square foot.
- Rent growth was more pronounced outside the core, with double-digit percentage growth in East and Southeast Jackson County.

Investment Highlights

- While down from 2021 and 2022, transaction velocity through the first three quarters of 2023 was on par with the years leading up to the pandemic. This activity appears to be reflecting greater alignment in buyer and seller expectations. Over the 12 months ending in June, retail properties changed hands with an average sale price 7.5 percent below the prior span. Downward pressure on pricing is likely a response to higher lending rates, prompting investors to seek greater yielding properties. The mean cap rate increased 30 basis points over the corresponding period to 7.7 percent.
- Submarkets that typically reported the most trades in the past continued to stand out so far in 2023. These areas include Johnson County and East Jackson County, as well as the North of the River area. While properties traded across the metro, this activity underscores the appeal of available listings in the major suburbs surrounding Kansas City proper.
- Aligning with the prevalence of suburban trades, the number of restaurants and fast food establishments changing hands recently is higher than in years past. Eating and drinking places have been a focal point of retail spending nationally this year, supporting this shift.

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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