

# INVESTMENT FORECAST

## RETAIL

Kansas City Metro Area

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS

2019

## Development Slows Amid Robust Employment, Retail Environment; Coastal Capital Flows Into Kansas City

**Cycle-low construction at odds with tightening retail vacancy.** As unemployment reached the low-3 percent range by the end of 2018, the retail environment in Kansas City remains well positioned for future advancement. Consistent job gains and steady construction have sponsored a dramatically tighter vacancy rate; it reached a cycle low as net absorption averaged 1.5 million square feet over the past eight years. Despite the strong performance, development over the coming year will reach the lowest point in over a decade, with the pipeline skewed heavily toward net-leased projects in suburban locations. The largest slated completion will be the retail portion of the Village South mixed-use project just south of the Legends Outlets and Kansas Speedway in Edwardsville. The 27-acre development will include two hotels, a 22,000-square-foot conference center and more than 60,000 square feet of retail space. The diminished pipeline will allow for a further contraction in the metro vacancy rate, with average asking rents posting a second year of a low-single-digit gain.

**Yield-oriented investors raise allocations to Kansas City metro as prices, cap rates remain highly attractive.** Dwindling cap rates in larger metros have underpinned a transfer of capital from coastal markets to Kansas City, where first-year returns will begin in the low-7 percent range. Core assets in Overland Park and Eastern Jackson County draw the majority of dollar volume due to their high-quality demographics and property values, while many institutions remain focused on assets in Downtown Kansas City along the Streetcar line between Union Station and the Plaza. Rental rates in downtown and midtown suburbs have surged in recent quarters amid a rapidly expanding local population due to the increased density from new apartments. However, years of deferred maintenance in many locations will motivate additional investors to deploy capital in order to recognize internal rates of return well above the broader metro average.

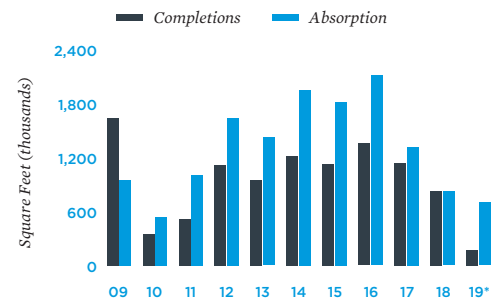
## 2019 Market Forecast

- Employment** up 1.4%  
Unemployment in the low-3 percent range trims hiring from 16,000 jobs last year to 15,000 positions in 2019.
- Construction** 170,000 sq. ft.  
Development falls to a cycle low as completions slide sharply from the 830,000 square feet delivered in 2018. Floor plates are concentrated in Johnson and Wyandotte counties.
- Vacancy** down 40 bps  
After treading water last year, strong net absorption will push vacancy down 40 basis points to 5.4 percent.
- Rent** up 2.7%  
Following a 3.9 percent gain in 2018, the average asking rent climbs to \$13.10 per square foot, powered by strength in midtown and downtown Kansas City.
- Investment**  
Properties in Leawood and Eastern Overland Park are drawing buyers seeking stable cash flows amid extremely tight vacancy rates. Limited to negligible construction in these areas will boost sales prices of these assets.

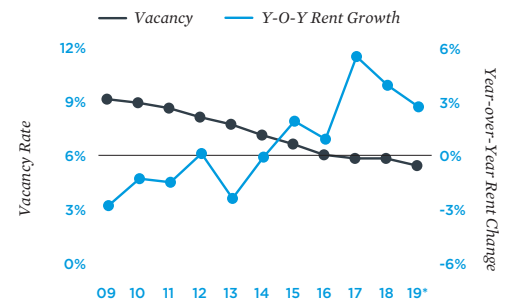
### Employment vs. Retail Sales Trends



### Retail Completions



### Asking Rent and Vacancy Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

### Scott M. Holmes

Senior Vice President | National Director  
(602) 687-6689  
scott.holmes@ipausa.com

Marcus & Millichap is not affiliated with, sponsored by, or endorsed by any commercial tenant or lessee identified in this advertisement. The presence of any corporation's logo or name is not intended to indicate or imply affiliation with, or sponsorship or endorsement by, said corporation Marcus & Millichap, its affiliates or subsidiaries, or any agent, product, service, or commercial listing of Marcus & Millichap, and is solely included for informational purposes only. 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. All rental rates are calculated using triple net (NNN) rental rates. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. 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. © Marcus & Millichap 2019 | www.ipausa.com