MARKET REPORT

INDUSTRIAL

Kansas City Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2H/19

Lower Living Expenses Pose Positive Yields for Aged Building Stock and New Development

Lower living expense than most major markets boosts population and household income growth throughout Kansas City. Kansas city's year-over-year household income growth is strong in ranking among major United States metros, as the median household income is slightly above the national rate. The attractive cost of living is keeping recent graduates from Kansas City universities within the metro, as well as drawing professionals from out of state. Silicon Valley company ITRenew recently expanded into Kansas City seeking a larger array of skills and resources. The firm will occupy an approximately 315,000-square-foot industrial facility southwest of the metro near I-35. California-based firm Niagara Bottling will open its largest North American facility in Kansas City, a new 420,000-square-foot distribution facility also in the southwest section of the market. It, too, sought out the metro for its large manufacturing and logistics workforce. Though several of this year's completions are build-to-suit, speculative development continues albeit at a slower pace than 2018. Following a six-year annual delivery average of 5.6 million square feet, net absorption will fail to keep pace raising vacancy for the second year in a row.

Competitive pricing is creating a high bidding atmosphere. Kansas City's average industrial price per square foot offers an entry price point lower than most other major cargo-handling hubs, migrating out-of-state capital to the market. As a result of the elevated buyer pool, transaction velocity has increased nearly 40 percent within the last year. Popular trade areas include the southwest near major interstates I-35 and the I-435 corridor, as well as the city center. Throughout the southwest of the metro industrial property is sought out for 7 to 8 percent cap rates. This area comprises approximately 50 percent of transactions. The older building stock near the city center is also trading for slightly higher yields in the mid-8 to 9 percent range. Bidding on the aged city properties is posing a great opportunity for investors that are seeking investments for redevelopment purposes with potential for strong returns.

2019 Market Forecast

Employment up 0.8% — Tight unemployment will keep the pace of job growth on par with last year as 9,000 workers are hired in 2019.

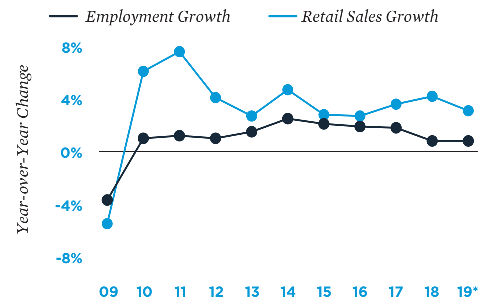
Construction 2.9 million sq. ft. — Annual delivery volume declines more than 50 percent year over year from last year's surge of deliveries. This is the slowest year for construction since 2012.

Vacancy up 70 bps — The average vacancy rate rises for the second consecutive year to 5.6 percent. Last year the rate rose 30 basis points.

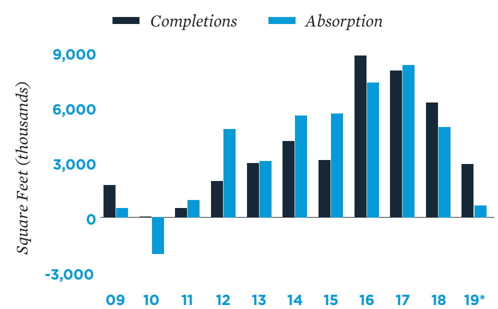
Rent up 1.1% — This year the average asking rent rises to $4.46 per square foot following declines the prior two years as more tenants opted for the new space opening in the market, leaving older vacant space to skew the market average.

Investment — An influx of out-of-state capital has generated a competitive bidding market for assets, driving up cap rates approximately 100 basis points to the mid-8 percent range.

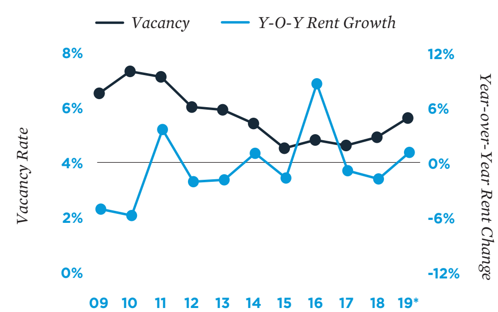
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

For information on national industrial trends, contact:

Alan L. Pontius *Senior Vice President | IPA National Office and Industrial Properties*
Tel: (415) 963-3070 | apontius@ipausa

John Chang *Senior Vice President | Research Services*
Tel: (602) 707-9700 | jchang@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. 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. Forecasts for employment and industrial data are made during the third 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.

© Marcus & Millichap 2019 | www.marcusmillichap.com