



**KANSAS CITY  
2Q17 INDUSTRIAL MARKET**

**2.8 MILLION SQUARE FEET  
OF NET ABSORPTION IN  
FIRST HALF OF 2017**

The Kansas City industrial market continued its strong growth into the second quarter of 2017, as 1.2 million square feet of net absorption was posted. The market has experienced over 1.4 million square feet in average quarterly net absorption during the past three years. Average quoted rents decreased from \$4.76/SF to \$4.70/SF. A total of 1.8 million square feet of space delivered to the market during the quarter, while projects under construction remained significant, with 6.4 million square feet of product planned for delivery. Overall vacancy increased 20 basis points from the prior quarter to 6.1%.

**UPS Commits to 397,000 Square Feet of New Space in the Market**

The Kansas City metro received another major tenant commitment in second-quarter 2017 from the world's largest package delivery company, United Parcel Service, Inc. (UPS). The Georgia-based company will invest \$220.0 million between two separate projects occupying 397,000 square feet of new space. UPS has begun a 200,000-square foot expansion project on its current facility at 14650 Santa Fe Trail Drive in Lenexa, Kansas, to increase its total occupancy to 430,000 square feet. The expansion, scheduled to complete by 2020, will increase the center's processing capacity by more than 42%. The firm will also develop a new, 197,000-square-foot facility at Logistics Park Kansas City in Edgerton, Kansas. The distribution center, located at 19400 Essex Street, is expected to deliver prior to the 2017 holiday shipping season and will include a UPS Customer Center as well as offer package delivery service within the metro. The development affirms the area's logistical advantages and competitive cost structure for various types of freight transportation. The company is expected to create approximately 100 new jobs within the next five years from the combined investments. Both projects follow UPS' purchase of the 300,840-square-foot industrial facility located at 11011 Lackman Road in Lenexa, Kansas in January.

**Speculative Development Project Plans to Deliver 487,700 Square Feet to South Johnson County Submarket**

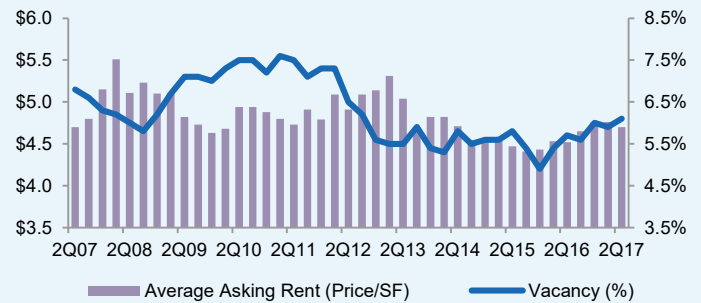
Following years of successful leasing activity, plans were announced for a new, 487,700-square-foot development situated at 191st Street and Homestead next to BNSF Railway's intermodal facility and adjacent to Logistics Park Kansas City in Edgerton, Kansas. Marketed as Midwest Gateway, the two-building development, Midwest Gateway I and II, will be built on a speculative basis and designed to accommodate tenants down to as little as 50,000 square feet. The structures will total 301,600 square feet and 186,100 square feet, respectively, and contain 32-foot clear heights, 51 dock doors total with the ability to expand, six drive-ins and T5 motion-sensor lighting. Delivery for the project is scheduled for first-quarter 2018.

**Current Conditions**

- 2.8 million SF of net absorption in first half of 2017.
- UPS commits to 397,000 SF of new space in the metro.
- Speculative development will deliver 487,700 SF to South Johnson County.
- Pacific Sunwear building trades for \$19.4 million.
- Hy-Vee to open 136,510 SF e-commerce and central kitchen in South Jackson County.

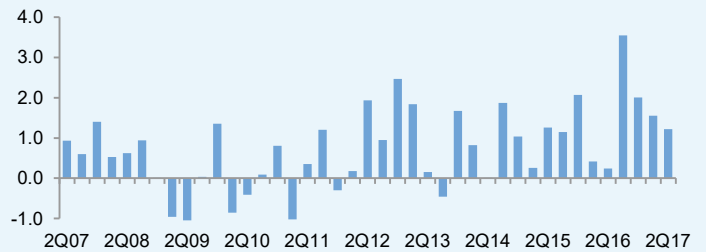
**Market Analysis**

**Asking Rent and Vacancy**



**Net Absorption**

Square Feet, Millions



**Market Summary**

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	275MSF	272MSF	264MSF	↑
Vacancy Rate	6.1%	5.9%	5.7%	↔
Quarterly Net Absorption	1,221,948	1,556,043	243,439	↑
Average Asking Rent	\$4.70	\$4.76	\$4.52	↑
Under Construction	6,412,730	7,475,412	10,791,095	↔
Deliveries	1,814,252	1,365,566	912,348	↔



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### Pacific Sunwear Building Trades for \$19.4 Million in South Johnson County

Sales activity remained strong for the South Johnson County submarket, as locally-based BF3 Pac Sun SPE LLC purchased the Pacific Sunwear building, a 446,930-square-foot, Class A distribution center located on 70 acres at 21800 West 167th Street in Olathe, Kansas. The distribution center was sold by Pacific Sunwear Stores LLC as a sale/leaseback transaction for \$19.4 million, or \$43/SF, and is currently appraised by the county at \$21.9 million. The building was one of the first large-scale properties located near Lone Elm to offer modern amenities including 40 dock doors, three drive-ins and ceiling heights from 32 to 37 feet. As Pac-Sun's first warehouse outside of California and one of the largest build-to-suit projects on the Kansas side of the metro, the facility delivered to the market in May 2007 and assisted Pacific Sunwear in consolidating operations from its Anaheim location.

### Three Trails Industrial Park Lands 136,510-Square-Foot Commitment from Hy-Vee

Three Trails Industrial Park in South Jackson County received another major tenant commitment in second-quarter 2017 from employee-owned grocer Hy-Vee, Inc. The Iowa-based company will occupy 136,510 square feet of the 494,650-square-foot, Class A, multi-tenant Three Trails Building III. Hy-Vee will invest \$29.0 million to create an ecommerce fulfillment center servicing its "Aisles Online" order program and central kitchen, which will prepare food for stores within the metro. The firm expects to employ 127 workers upon opening and more than 200 positions in the future. Located at Elmwood Avenue and 87th Street in Kansas City, the facility was built on a speculative basis and is the third industrial warehouse located on the 180-acre site.

## POSITIVE NET ABSORPTION HAS OCCURRED IN 23 OUT OF THE PAST 25 QUARTERS, WITH THE LAST INSTANCE OF NEGATIVE ABSORPTION OCCURRING IN 3Q-2013

The industrial real estate market in Kansas City continues to be a strategic location, poised for ongoing expansion. However, rental rate growth will remain stagnant in the near term, as the increasing amount of vacancy in the newly built and to-be-delivered Class A speculative buildings creates a competitive environment that will have a trickledown effect throughout the entire market. The metro continues to expand, as positive net absorption has occurred in 23 out of the past 25 quarters, with the last instance of negative absorption occurring in third-quarter 2013. With over 1.4 million square feet in average quarterly net absorption occurring during the past three years, the metro's largest industrial parks continue to announce new leases from both local and out-of-town tenants. Vacancy should hold steady near 6.0% through the rest of 2017, as a portion of the 6.4 million square feet of product currently under construction delivers to the market.

### Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
UPS	14650 Santa Fe Trail Dr	South Johnson County	Expansion Construction	200,000
UPS	19400 Essex St	South Johnson County	New Construction	197,000
Virbac Corporation	SubTropolis	Northland	New	151,200
Hy-Vee	Three Trails Ind. Park – Bldg III	South Jackson County	New	136,510
Dri Duck Traders	9601 Woodend Rd	Wyandotte County	New	97,000
Aspen Products	5220-5320 Winner Rd	East Jackson County	New	80,000
CMC Foods	2001 Bedford Ave	Northland	New	65,000

### Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
21800 W 167 <sup>th</sup> St	South Johnson County	\$19,400,000	\$43	446,930
8226-8256 Nieman Rd	North Johnson County	\$2,150,000	\$41	53,060
10735-10749 W 84 <sup>th</sup> Ter	North Johnson County	\$4,000,000	\$106	37,860
4925 Stilwell St	East Jackson County	\$1,400,000	\$40	32,270
15333 W 109 <sup>th</sup> St	South Johnson County	\$2,350,000	\$98	24,000



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## Submarket Statistics

Submarket Cluster	Building Type	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr. Absorption (SF)	YTD Absorption (SF)	Asking Rent Industrial Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
Downtown		13,097,831	0	3.40%	-124,750	-33,718	\$2.31	\$9.96	\$8.37
	Warehouse	12,581,084	0	3.50%	-124,750	-33,718	\$2.31	\$9.96	\$8.06
	Flex	516,747	0	0.20%	0	0	-	-	\$13.00
	Underground	0	0	-	0	0	-	-	-
East Jackson County		65,898,666	0	6.10%	-149,610	66,350	\$2.91	\$4.53	\$4.24
	Warehouse	47,094,903	0	5.80%	-245,497	-30,391	\$3.05	\$3.63	\$3.49
	Flex	1,635,962	0	5.10%	-10,113	-9,259	\$5.43	\$8.00	\$8.00
	Underground	17,167,801	0	7.00%	106,000	106,000	\$2.14	-	-
Midtown		8,918,065	0	5.90%	-15,875	23,933	\$4.05	\$7.15	\$5.37
	Warehouse	6,067,582	0	5.40%	-14,000	43,594	\$3.75	\$7.15	\$5.37
	Flex	1,514,136	0	0.30%	-4,834	-4,834	\$6.27	-	-
	Underground	1,336,347	0	14.40%	2,959	-14,827	\$4.18	-	-
North Johnson County		25,153,057	170,000	4.30%	180,002	123,427	\$5.39	\$5.87	\$6.52
	Warehouse	20,185,579	170,000	4.10%	130,347	-37,686	\$5.37	\$5.74	\$6.45
	Flex	2,167,478	0	7.70%	-2,345	109,113	\$8.84	\$9.42	\$7.81
	Underground	2,800,000	0	3.30%	52,000	52,000	\$3.52	-	-
Northland		52,462,413	1,027,157	5.90%	776,354	737,489	\$3.75	\$4.24	\$4.26
	Warehouse	43,434,870	1,027,157	6.00%	944,600	922,983	\$4.18	\$4.33	\$4.35
	Flex	976,896	0	8.10%	-15,105	-33,453	\$6.96	\$11.96	\$11.96
	Underground	8,050,647	0	6.40%	-153,141	-152,041	\$2.90	\$2.50	\$2.50
South Jackson County		24,484,679	519,654	3.80%	12,969	602,236	\$7.11	\$4.72	\$4.50
	Warehouse	23,240,389	519,654	3.80%	16,189	605,456	\$7.11	\$4.12	\$4.33
	Flex	1,244,290	0	4.30%	-3,220	-3,220	-	\$7.39	\$7.18
	Underground	0	0	-	0	0	-	-	-
South Johnson County		43,810,275	3,000,919	10.60%	789,484	1,520,941	\$5.18	\$4.51	\$4.59
	Warehouse	40,458,591	3,000,919	10.70%	808,715	1,611,429	\$5.00	\$4.33	\$4.33
	Flex	3,351,684	0	8.90%	-19,231	-90,488	\$7.39	\$9.90	\$10.36
	Underground	0	0	-	0	0	-	-	-
Wyandotte County		40,687,228	1,695,000	4.80%	-246,626	-261,567	\$4.09	\$6.23	\$6.50
	Warehouse	39,892,412	1,695,000	4.60%	-240,526	-261,280	\$3.80	-	\$6.50
	Flex	794,816	0	11.40%	-6,100	-287	\$8.61	\$6.23	-
	Underground	0	0	-	0	0	-	-	-
<b>Kansas City Market</b>		<b>274,512,214</b>	<b>6,412,730</b>	<b>6.10%</b>	<b>1,221,948</b>	<b>2,779,091</b>	<b>\$3.83</b>	<b>\$4.60</b>	<b>\$4.70</b>
	<b>Warehouse</b>	<b>232,955,410</b>	<b>6,412,730</b>	<b>6.00%</b>	<b>1,275,078</b>	<b>2,820,387</b>	<b>\$3.89</b>	<b>\$4.42</b>	<b>\$4.54</b>
	<b>Flex</b>	<b>12,202,009</b>	<b>0</b>	<b>6.40%</b>	<b>-60,948</b>	<b>-32,428</b>	<b>\$7.72</b>	<b>\$8.32</b>	<b>\$9.12</b>
	<b>Underground</b>	<b>29,354,795</b>	<b>0</b>	<b>6.80%</b>	<b>7,818</b>	<b>-8,868</b>	<b>\$2.82</b>	<b>\$2.50</b>	<b>\$2.50</b>



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### WAREHOUSE - Statistics by Submarket

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Asking Rent Industrial Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
Downtown	12,581,084	0	3.50%	-124,750	-33,718	\$2.31	\$9.96	\$8.06
East Jackson County	47,094,903	0	5.80%	-245,497	-30,391	\$3.05	\$3.63	\$3.49
Midtown	6,067,582	0	5.40%	-14,000	43,594	\$3.75	\$7.15	\$5.37
North Johnson County	20,185,579	170,000	4.10%	130,347	-37,686	\$5.37	\$5.74	\$6.45
Northland	43,434,870	1,027,157	6.00%	944,600	922,983	\$4.18	\$4.33	\$4.35
South Jackson County	23,240,389	519,654	3.80%	16,189	605,456	\$7.11	\$4.12	\$4.33
South Johnson County	40,458,591	3,000,919	10.70%	808,715	1,611,429	\$5.00	\$4.33	\$4.33
Wyandotte County	39,892,412	1,695,000	4.60%	-240,526	-261,280	\$3.80	-	\$6.50
<b>Kansas City Market</b>	<b>232,955,410</b>	<b>6,412,730</b>	<b>6.00%</b>	<b>1,275,078</b>	<b>2,820,387</b>	<b>\$3.89</b>	<b>\$4.42</b>	<b>\$4.54</b>

### FLEX - Statistics by Submarket

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Asking Rent Industrial Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
Downtown	516,747	0	0.20%	0	0	-	-	\$13.00
East Jackson County	1,635,962	0	5.10%	-10,113	-9,259	\$5.43	\$8.00	\$8.00
Midtown	1,514,136	0	0.30%	-4,834	-4,834	\$6.27	-	-
North Johnson County	2,167,478	0	7.70%	-2,345	109,113	\$8.84	\$9.42	\$7.81
Northland	976,896	0	8.10%	-15,105	-33,453	\$6.96	\$11.96	\$11.96
South Jackson County	1,244,290	0	4.30%	-3,220	-3,220	-	\$7.39	\$7.18
South Johnson County	3,351,684	0	8.90%	-19,231	-90,488	\$7.39	\$9.90	\$10.36
Wyandotte County	794,816	0	11.40%	-6,100	-287	\$8.61	\$6.23	-
<b>Kansas City Market</b>	<b>12,202,009</b>	<b>0</b>	<b>6.40%</b>	<b>-60,948</b>	<b>-32,428</b>	<b>\$7.72</b>	<b>\$8.32</b>	<b>\$9.12</b>



**KANSAS CITY  
2Q17 INDUSTRIAL MARKET**

**ECONOMIC CONDITIONS**

The local economy continued to improve through May, with total employment growth of 1.9% and positive growth occurring in eight out of ten industries, calculated on a 12-month percent change basis.

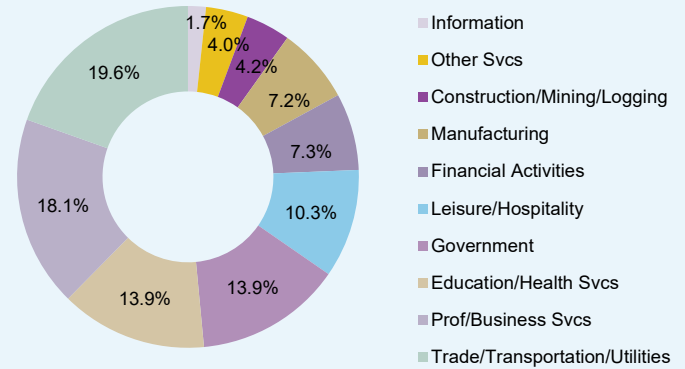
Payroll employment in Kansas City increased 10 basis points compared to the prior year registering 1.9% in May 2017. The national average decreased 10 basis points to 1.5%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States increased 90 basis points to 1.9% over the past year. The Midwest Urban CPI increased 60 basis points to 1.4% in May 2017.

Unemployment in the United States decreased 40 basis points to 4.3% in May, while unemployment in Kansas City decreased 20 basis points to 3.9% over the past quarter. Unemployment in Kansas City decreased 40 basis points from a year prior.

**Employment By Industry**

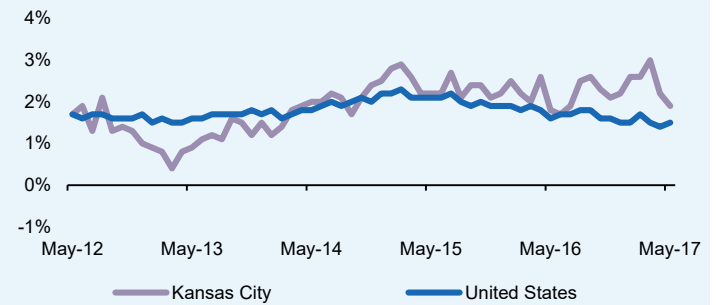
Kansas City, May 2017



Source: U.S. Bureau of Labor Statistics

**Payroll Employment**

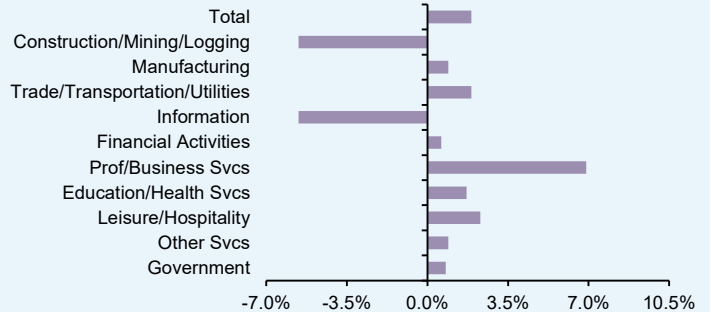
Total Nonfarm, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

**Employment Growth by Industry**

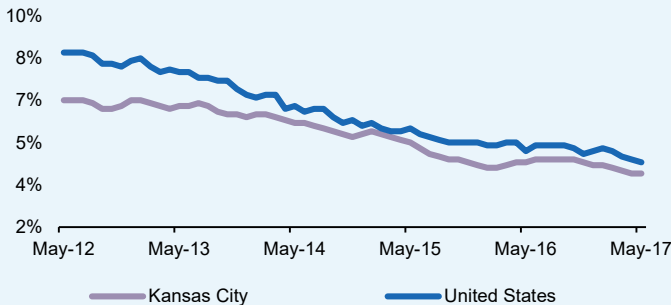
Kansas City, May 2017, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

**Unemployment Rate**

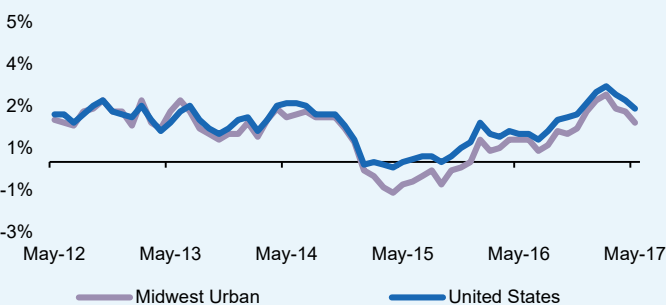
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

**Consumer Price Index (CPI)**

All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

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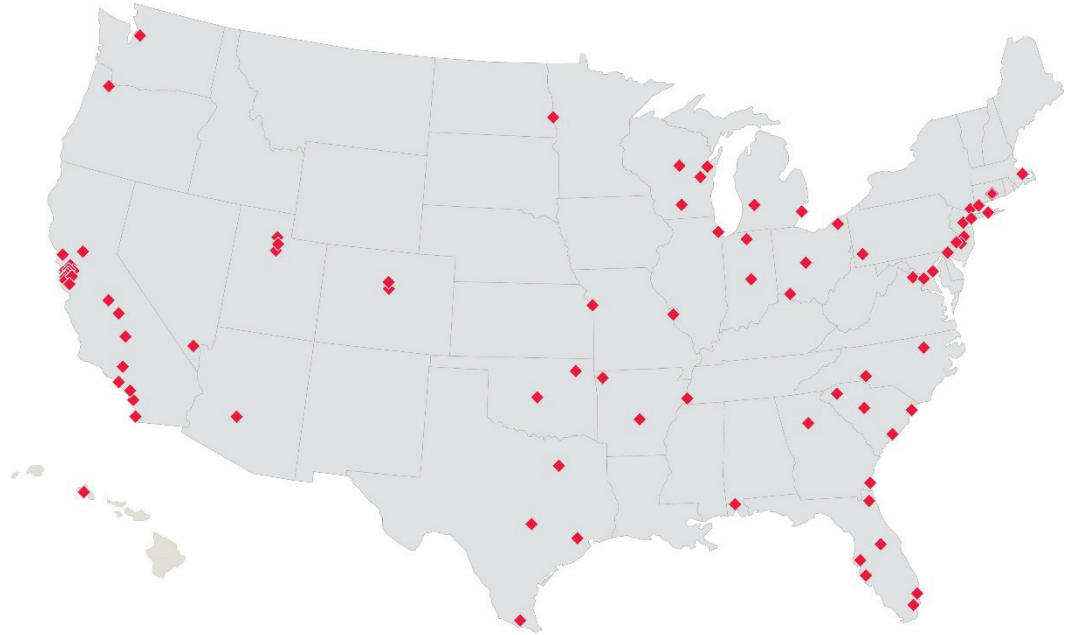
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