



# KANSAS CITY RETAIL REPORT

**Newmark Grubb**

Zimmer

SUMMER 2017

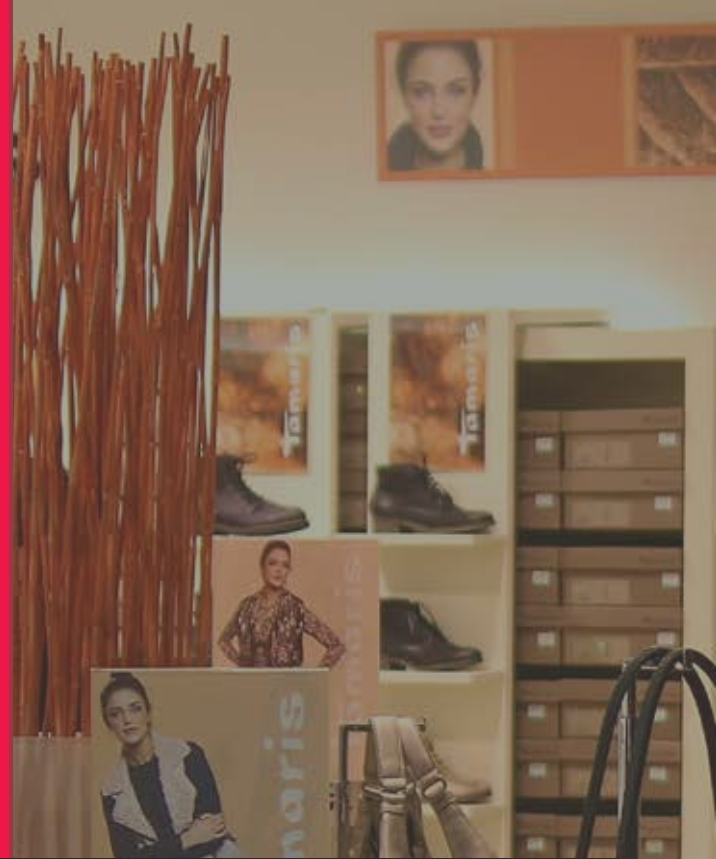


# EXECUTIVE SUMMARY

Newmark Grubb Zimmer (NGZ) is constantly monitoring market indicators, tracking and analyzing supply and demand drivers, cyclical patterns and industry trends. The following quarterly research report examines the multifaceted Kansas City retail market.

NGZ research and analytics has established a system of data flow unique in our industry. Rather than rely on third party data sources, our data acquisition efforts involve inputs from advisors in the field, analysts and brokers executing transactions. NGZ research converts market data and analysis into knowledge that creates value for our clients.

Our clients include market-leading landlords and distinguished institutions in and around the Kansas City area and the Midwest. Our market knowledge continues to expand as the market progresses and evolves.



## SELECT MARKET TRANSACTIONS

### **WALGREENS - SHAWNEE**

**14,820 SF GLA – SOLD FOR \$6,170,000 (\$416/SF)**

*North Johnson County | 11830 W. 75th Street*

### **CHARLES SCHWAB – OVERLAND PARK**

**6,760 SF GLA – SOLD FOR \$5,757,000 (\$852/SF)**

*South Johnson County | 13501 Nall Avenue*

### **AT&T | SUBWAY – MERRIAM**

**6,940 SF GLA – SOLD FOR \$4,648,000 (\$670/SF)**

*North Johnson County | 8801 Johnson Drive*

### **AUTOZONE - GLADSTONE**

**7,370 SF GLA – SOLD FOR \$2,250,000 (\$305/SF)**

*Clay County | 6450 N. Prospect Avenue*

### **BRENTWOOD PLAZA SHOPPING CENTER - OLATHE**

**16,590 SF GLA – SOLD FOR \$2,140,000 (\$129/SF)**

*South Johnson County | 18575-18597 W. 151st Street*



# METRO KANSAS CITY TRENDS

## RETAIL MARKET OVERVIEW

The overall Kansas City market has tightened over the past year, realizing a 60-basis-point drop in vacancy. Demonstrating the strength of the local retail market, over 2.0 million square feet of net absorption occurred during the past four quarters, with over 3.0 million square feet absorbed over the past two years. The average quoted rental rate measured \$13.22/SF, up \$0.77/SF from the prior year. Although the market is showing positive indicators, including decreasing vacancy rates, substantial net absorption and increasing rental rates during the past year, the metropolitan Kansas City retail market slowed during the spring shopping season.

Continued national retailer closings, malls filling vacancies with restaurants and grocers and Amazon's remarkable rise dominated the news in the second quarter of 2017. The first half of 2017 was tough for multiple brick-and-mortar retailers and malls. In addition to the top 18 retailers projecting stores closures, brands announcing closures this quarter include:

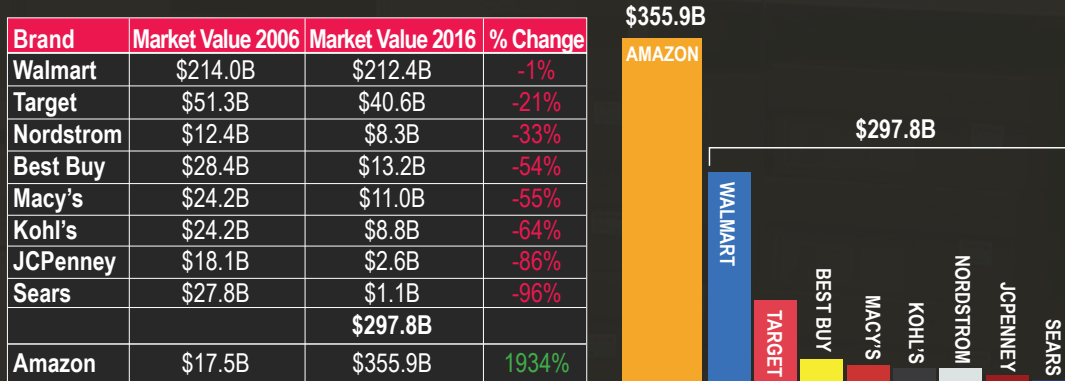
| # | COMPANY NAME                                  | STORES CLOSING | # | COMPANY NAME     | STORES CLOSING |
|---|---|----------------|---|------------------|----------------|
| 1 | Rue21   | 400            | 5 | GameStop         | 150            |
| 2 | Gymboree                                      | 375-450        | 6 | Michael Kors     | 100-125        |
| 3 | Ann Taylor, Dress Barn, Justice & Lane Bryant | 270-670        | 7 | Foot Locker      | 100            |
| 4 | Bebe  | 180            | 8 | Office Depot     | 75             |
|   |   |                | 9 | Pier One Imports | 25             |

In today's retail environment, merchants must satisfy shoppers by offering a product, service or experience with the best price, selection and ease of purchase. The inability to adapt to these key factors, rising rental rates and increasingly stiff competition have forced some retailers to undergo major restructuring efforts and close stores. Apparel retailers in particular have experienced some of the stiffest competition to date, leading to some of their lowest prices in a decade. On average, retail margins fell from 10.5% in 2012 to 9.0% in 2016, and the competitive retail environment shows no signs of easing. Malls in the United States are expected to suffer alongside retailers. Credit Suisse predicts that 20% to 25% of malls will close within the next five years, due in part to the possibility of more than 8,600 brick-and-mortar store closures by the end of 2017.

Malls will need to identify successful retailers from weak operators and invest in tenants and amenities that will offer shoppers an experience-driven, destination shopping/entertainment combination. Some mall owners are combating the closings of retailers by replacing them with food and beverage retailers and grocers. Landlords realize the benefits of the "stay longer, spend longer" trend to the overall success of their malls; thus, food and beverage merchants and grocers are becoming a substantial component of their tenant mix. According to the second-largest U.S. mall developer General Growth Properties (GGP), the percentage of its space occupied by restaurants and other food sellers is forecast to increase from 13.0% to 20.0% by 2025. Restaurants such as LongHorn Steakhouse, Chipotle, Capital Grille and Olive Garden continue to occupy retail mall space, while grocers Kroger Co., Whole Foods Market and Wegmans Food Markets all have recently backfilled vacant space from department store retailers. The rise of restaurants over the past 10 years has been impressive, with sales at restaurants and bars growing twice as fast as non-food retail.

As a growing number of consumers have become dissatisfied with the offerings of various long-time brick-and-mortar merchants, they have turned to online and discount retailers, i.e., Amazon. According to Yahoo Finance, Amazon, Inc.'s market value has grown from \$17.5 billion at the end of 2006 to \$355.9 billion at the end of 2016.

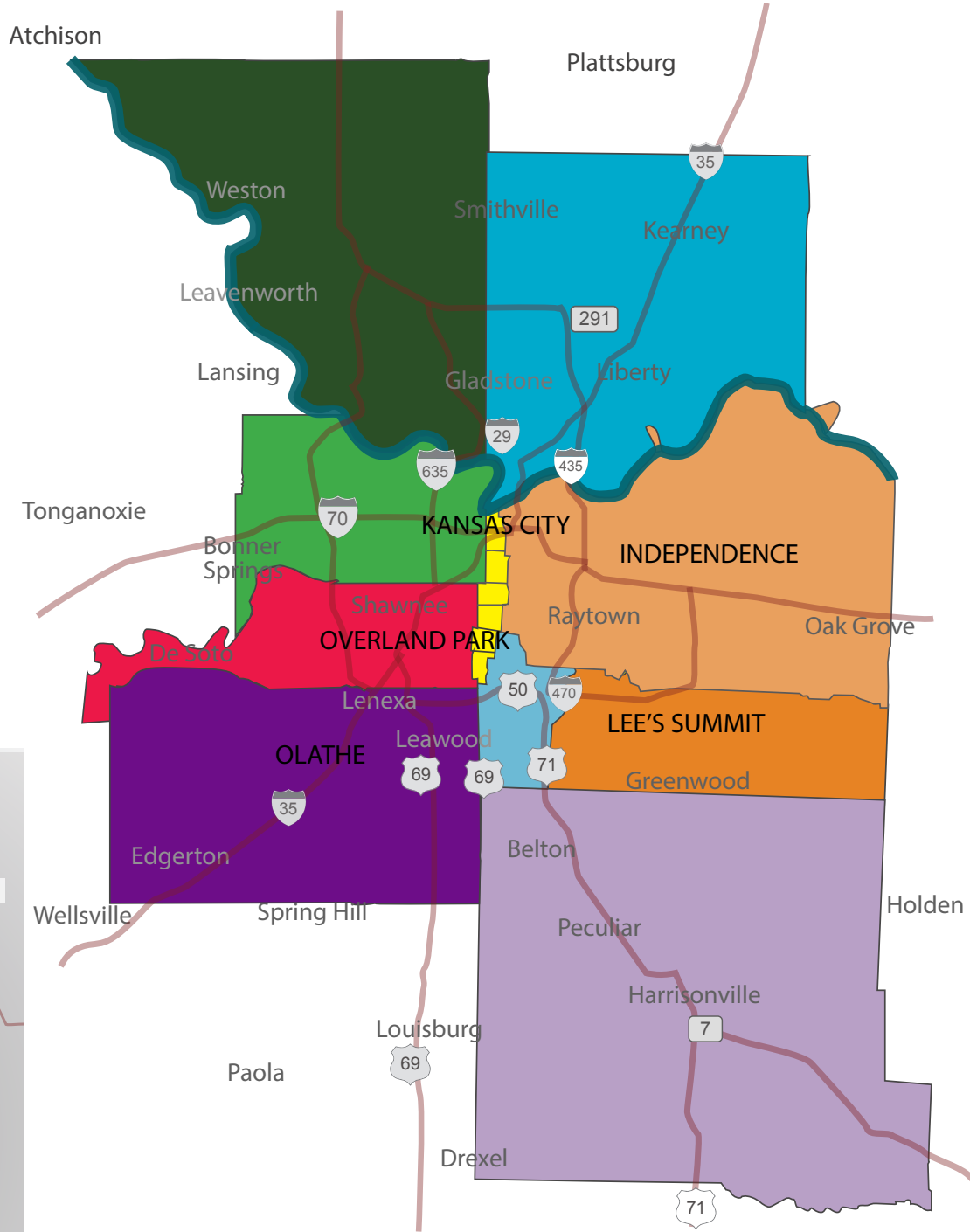
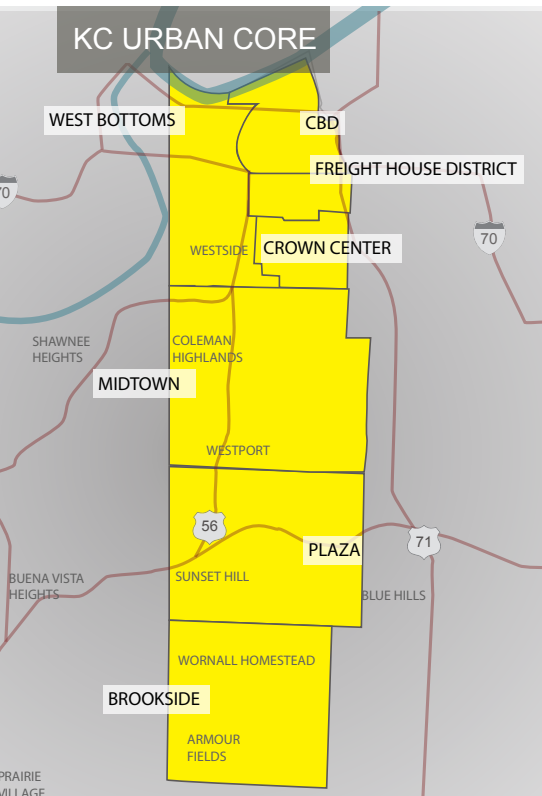
### Market Value - Devaluation of Brick-and-Mortar versus Amazon: 2006-2016



Amazon continues to rework the retail environment, as it recently announced its intent to purchase Whole Foods for \$13.0 billion. The company's reach to consumers will widen as it invents a new method of selling using technology to integrate nearly the entire consumption process. With nearly 80 million American households with Prime memberships, Amazon has created the most efficient order-fulfillment system in the world.

# SUBMARKET MAPS DOWNTOWN & SUBURBS

- CASS COUNTY
- CLAY COUNTY
- EAST JACKSON COUNTY
- KC URBAN CORE
- NORTH JOHNSON COUNTY
- PLATTE COUNTY
- SOUTH JOHNSON COUNTY
- SOUTH KC
- SOUTHEAST JACKSON COUNTY
- WYANDOTTE COUNTY



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# 2Q17 KANSAS CITY RETAIL MARKET STATISTICS TABLE

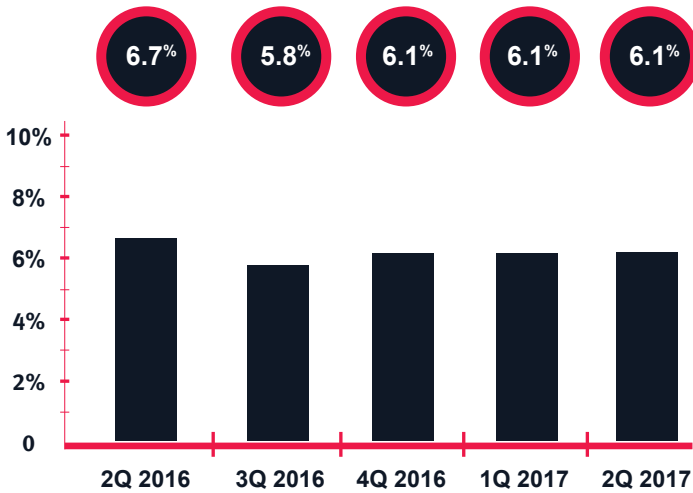
|                          | Type       | # of Buildings | Total Inventory (SF) | Total Vacancy Rate | Qtr. Absorption (SF) | YTD Absorption (SF) | Total Asking Rent (NNN) |
|--------------------------|------------|----------------|----------------------|--------------------|----------------------|---------------------|-------------------------|
| CASS COUNTY              | All        | 498            | 5,375,117            | 9.30%              | -57,752              | -98,179             | \$11.60                 |
|                          | Small Shop | 363            | 1,268,432            | 4.20%              | -9,652               | -27,023             | \$17.83                 |
|                          | Big Box    | 135            | 4,106,685            | 10.90%             | -48,100              | -71,156             | \$10.98                 |
| CLAY COUNTY              | All        | 891            | 13,487,379           | 6.90%              | 53,628               | 105,741             | \$13.33                 |
|                          | Small Shop | 569            | 1,996,908            | 4.20%              | -303                 | -10,460             | \$15.55                 |
|                          | Big Box    | 322            | 11,490,471           | 7.40%              | 53,931               | 116,201             | \$13.13                 |
| EAST JACKSON COUNTY      | All        | 2,209          | 23,544,621           | 5.40%              | -146,307             | -34,771             | \$11.12                 |
|                          | Small Shop | 1,627          | 5,246,729            | 3.60%              | -25,793              | 1,886               | \$14.26                 |
|                          | Big Box    | 582            | 18,297,892           | 5.90%              | -120,514             | -36,657             | \$10.65                 |
| KC URBAN CORE            | All        | 959            | 8,911,759            | 3.40%              | -45,929              | -24,412             | \$11.42                 |
|                          | Small Shop | 658            | 2,276,221            | 2.50%              | -43,538              | -45,156             | \$13.31                 |
|                          | Big Box    | 301            | 6,635,538            | 3.70%              | -2,391               | 20,744              | \$10.56                 |
| NORTH JOHNSON COUNTY     | All        | 1,121          | 19,458,469           | 8.00%              | 180,900              | 146,642             | \$12.96                 |
|                          | Small Shop | 702            | 2,474,335            | 2.20%              | 5,291                | -151                | \$19.84                 |
|                          | Big Box    | 419            | 16,984,134           | 8.90%              | 175,609              | 146,793             | \$12.25                 |
| PLATTE COUNTY            | All        | 341            | 5,949,095            | 4.60%              | -19,491              | 175,571             | \$13.17                 |
|                          | Small Shop | 203            | 786,999              | 4.20%              | -5,785               | -11,859             | \$17.92                 |
|                          | Big Box    | 138            | 5,162,096            | 4.60%              | -13,706              | 187,430             | \$12.44                 |
| SOUTH JOHNSON COUNTY     | All        | 1,136          | 19,406,216           | 6.00%              | 70,021               | 188,184             | \$19.06                 |
|                          | Small Shop | 627            | 2,301,200            | 4.90%              | -9,663               | 1,981               | \$20.32                 |
|                          | Big Box    | 509            | 17,105,016           | 6.10%              | 79,684               | 186,203             | \$18.88                 |
| SOUTH KC                 | All        | 550            | 6,010,939            | 13.10%             | -109,052             | -92,093             | \$10.97                 |
|                          | Small Shop | 386            | 1,145,761            | 2.70%              | -3,045               | 6,172               | \$15.02                 |
|                          | Big Box    | 164            | 4,865,178            | 15.50%             | -106,007             | -98,265             | \$10.84                 |
| SOUTHEAST JACKSON COUNTY | All        | 472            | 5,897,401            | 3.40%              | 13,159               | 92,488              | \$15.84                 |
|                          | Small Shop | 331            | 1,218,896            | 2.70%              | -4,547               | 4,004               | \$17.86                 |
|                          | Big Box    | 141            | 4,678,505            | 3.60%              | 17,706               | 88,484              | \$15.64                 |
| WYANDOTTE COUNTY         | All        | 960            | 9,347,410            | 2.90%              | 50,617               | 21,295              | \$9.17                  |
|                          | Small Shop | 747            | 2,349,936            | 2.50%              | 9,123                | -7,207              | \$18.03                 |
|                          | Big Box    | 213            | 6,997,474            | 3.00%              | 41,494               | 28,502              | \$8.03                  |
| <b>TOTALS</b>            | All        | <b>9,137</b>   | <b>117,388,406</b>   | <b>6.10%</b>       | <b>-10,206</b>       | <b>480,466</b>      | <b>\$13.22</b>          |
|                          | Small Shop | <b>6,213</b>   | <b>21,065,417</b>    | <b>3.30%</b>       | <b>-87,912</b>       | <b>-87,813</b>      | <b>\$16.80</b>          |
|                          | Big Box    | <b>2,924</b>   | <b>96,322,989</b>    | <b>6.80%</b>       | <b>77,706</b>        | <b>568,279</b>      | <b>\$12.78</b>          |

# MARKET INDICATORS

## VACANCY RATE, ASKING RENT & NET ABSORPTION

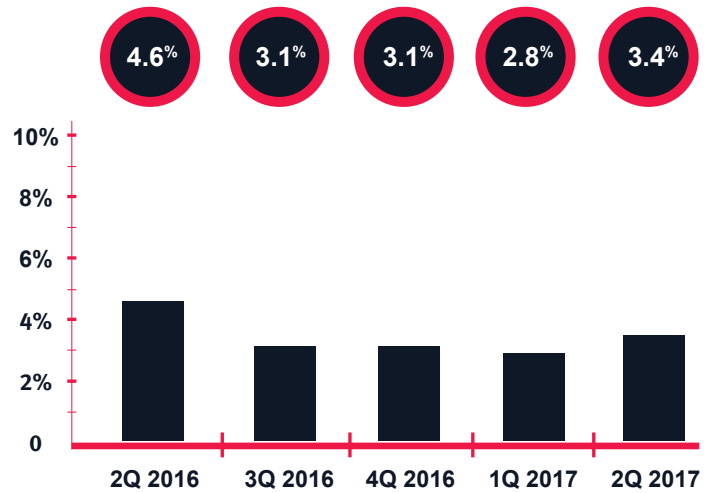
### METRO MARKET VACANCY RATE

The metro market vacancy rate has displayed a downward trend dropping 60 basis points over the past year.



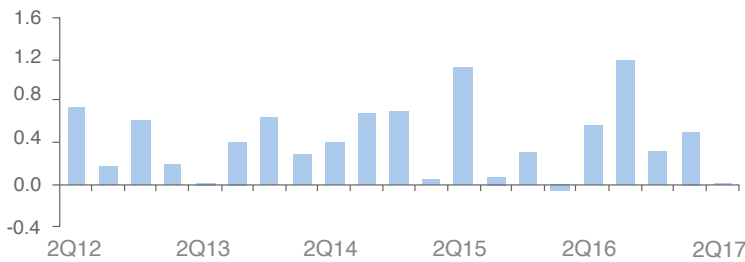
### KC URBAN CORE VACANCY RATE

The KC Urban Core vacancy rate decreased 120 basis points from the prior year. At 3.4%, the KC Urban Core posts the second-lowest vacancy rate in the metro.

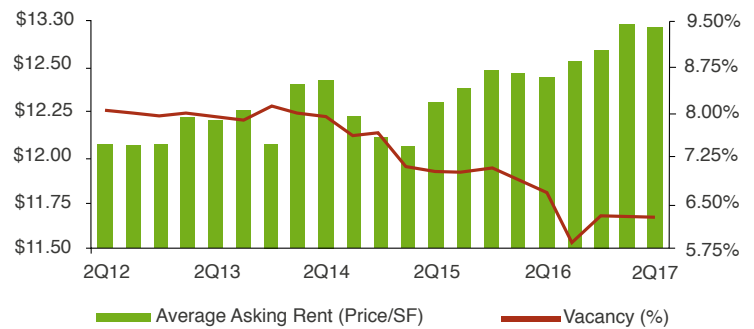


### NET ABSORPTION

Square Feet, Millions



### ASKING RENT AND VACANCY



Small Shop: Retail buildings in which GLA is 7,500 square feet or less.

Big Box: Retail buildings in which GLA is 7,501 square feet or more.

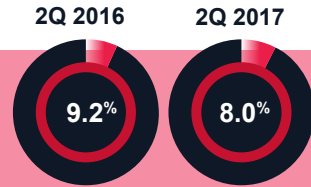
Examination and calculation of supply and demand determinants by building size uncovered statistically significant inflection points consistently at the 7,500-square-foot building size.

For this reason, the division between small-shop and big-box occurs at 7,500 square feet.

# 2Q17 KANSAS CITY SUBMARKET VACANCY RATE

## NORTH JOHNSON COUNTY VACANCY RATE

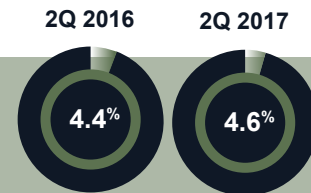
Small shop space is hard to find in North Johnson County as vacancy for this niche sits at 2.2%. Big Box space is readily available posting a 8.9 % vacancy rate.



**120** ↑  
Improved by 120 basis points over the past year.

## PLATTE COUNTY VACANCY RATE

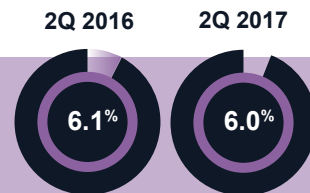
Platte County displays the second-lowest vacancy rate in the metro. The Northland continues to attract key retailers as residential offerings grow.



**20** ↓  
Worsened by 20 basis points over the past year.

## SOUTH JOHNSON COUNTY VACANCY RATE

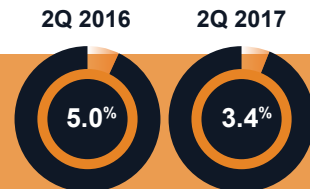
The South Johnson County submarket led the metro with the highest asking rents for big box and small shop space.



**10** ↑  
Improved by 10 basis points over the past year.

## SOUTHEAST JACKSON COUNTY VACANCY RATE

The Southeast Jackson County submarket continues to flourish with the largest annual drop in vacancy. Retail hubs in Lee's Summit drove the recovery.



**160** ↑  
Improved by 160 basis points over the past year.







**KANSAS CITY, MO**

1220 Washington Street, Suite 300  
Kansas City, MO 64105  
816.474.2000

**ST. LOUIS, MO**

8235 Forsyth Boulevard, Suite 310  
Clayton, MO 63105  
314.254.4600

**EASTERN JACKSON COUNTY**

1485 SW Market Street  
Lee's Summit, MO 64081  
816.474.2000

**SALINA, KS**

P.O. Box 3224  
Salina, KS 67402  
816.474.2000

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United States

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France  
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Ireland  
Italy  
Netherlands  
Poland  
Portugal  
Romania  
Russia  
Spain  
Switzerland  
United Kingdom

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Thailand

**Africa**

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Malawi  
Nigeria  
South Africa  
Tanzania  
Uganda  
Zambia  
Zimbabwe

**Middle East**

Saudi Arabia  
United Arab Emirates

**Retail Terms and Definitions**

**Gross Leasable Area (GLA)** – Expressed in square feet. It is the total floor area designed for the occupancy and exclusive use of tenants, including basements and mezzanines. It is the standard measure for determining the size of retail spaces, specifically shopping centers, where rent is calculated based on GLA occupied. There is no real difference between RBA (Rentable Building Area) and GLA except that GLA is used when referring to retail properties while RBA is used for other commercial properties.

**Vacancy Rate** – The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant.

**Net Absorption** – The net change in physically occupied space over a period of time.

**Average Asking Rent** – The dollar amount asked by landlords for available space expressed in dollars per square foot per year. Retail rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a prorata basis. The asking rent for each building in the market is weighed by the amount of available space in the building.

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