

# KANSAS CITY INDUSTRIAL MARKET

## MARKET REMAINS STRONG WITH 4.4 MILLION SQUARE FEET OF NET ABSORPTION DURING THE YEAR

The Kansas City industrial market continued to tighten in the fourth quarter of 2018, as 1.4 million square feet of net absorption was posted. Average quoted rents decreased from \$4.83/SF to \$4.82/SF. A total of 646,392 square feet of space was delivered to the market during the quarter, while projects under construction decreased slightly, from 3.5 million square feet to 3.4 million square feet. Overall vacancy decreased 30 basis points, from 5.3% in the prior quarter to 5.0%.

### FORMER TOYS 'R' US DISTRIBUTION CENTER IN LEE'S SUMMIT SELLS FOR \$26.5 MILLION

Lee's Summit received encouraging news, as its largest industrial building, totaling 725,770 square feet, will now be occupied by Mid-States Distributing, LLC, a Minnesota-based cooperative. Located at 420 Southeast Thompson Drive in Lee's Summit, Missouri, the former Toys "R" Us distribution center was purchased at a bankruptcy auction for \$26.5 million, or \$37/SF. The per square foot sale price was aided by significant infrastructure and equipment that was included as a part of the sale. The Class B facility is located east of Highway 291 and both south and west of Southeast Thompson Drive on 41.8 acres. The distribution center was delivered to the market in 1994 and includes 55 dock doors, three drive-ins and ceiling heights of 32 feet. Mid-States Distributing plans to initially lease a portion of the building to a third-party tenant and eventually grow into the entire space. With 39 members and 675 retail stores in its cooperative, Mid-States Distributing plans to invest \$35.0 million in the facility. Local members include Family Center Farm & Home, based in Harrisonville, Missouri, and Liberal Standard Supply, in Liberal, Kansas. With more than \$6.5 billion in annual sales, Mid-States Distributing, LLC is the leading United States and Canadian farm and ranch retail store cooperative.

### HEART TO HEART INTERNATIONAL PURCHASES FORMER SILPADA DESIGNS HEADQUARTERS

The South Johnson County submarket ended the calendar year with solid sales activity, as the former Silpada Jewelry headquarters in Lenexa, Kansas, was purchased by Heart to Heart International (HHI), a locally based nonprofit health organization. Newmark Grubb Zimmer assisted Silpada in the divestiture of the property for \$9.3 million, or \$62/SF. Located at 11550 Renner Boulevard, the 149,830-square-foot building comprises 85,000 square feet of Class A office space and 64,830 square

## CURRENT CONDITIONS

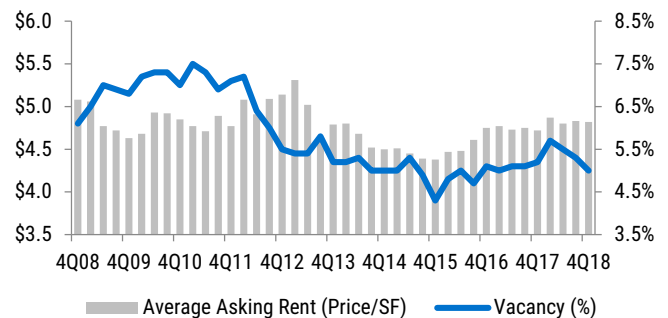
Positive net absorption has occurred in 27 out of the past 28 quarters with quarterly absorption averaging 1.3 million square feet.

Mid-States Distributing purchases largest industrial building in Lee's Summit and the former Toys "R" Us distribution center for \$26.5 million.

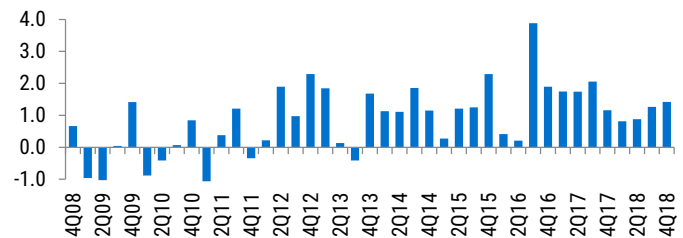
Heart to Heart International purchases former Silpada Designs headquarters in Lenexa for \$9.3 million.

## MARKET ANALYSIS

### Asking Rent and Vacancy



### Net Absorption (SF, Millions)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	278 MSF	277 MSF	274 MSF	↑
Vacancy Rate	5.0%	5.3%	5.2%	↔
Quarterly Net Absorption	1,418,874	1,263,547	1,161,429	↑
Average Asking Rent	\$4.82	\$4.83	\$4.72	↑
Under Construction	3,387,505	3,458,897	4,244,989	↓
Deliveries	646,392	854,238	1,608,233	↔

feet of modern industrial space. HHI is expected to move into its new facility by the end of the first quarter of 2019.

## FIRST MAJOR SPECULATIVE INDUSTRIAL BUILDING IN THE REGION PURCHASED BY SEALY & COMPANY

Sales activity remained strong for the South Johnson County submarket, as Dallas-based real estate investment firm Sealy & Company, Inc. purchased the region's first major industrial building built on a speculative basis. Located on 40 acres at 22101 West 167th Street in Olathe, Kansas, the 601,830-square-foot, Class A, multi-tenant bulk distribution center was sold by Sun Life Assurance Company of Canada, a member of the Sun Life Financial group of companies.

Located within the I-35 Logistics Park and across from the PacSun property, the building was delivered to the market in 2008 and includes 128 dock doors, two drive-ins and ceiling heights of 32 feet. The property is currently fully occupied by FedEx (345,380 square feet) and Bushnell Corporation (256,450 square feet). 22101 West 167th Street is currently appraised by the county at \$29.0 million.

Nearby comparable sales include the 496,370-square-foot Lone Elm Logistics Center, which traded in October 2016 for \$47/SF, the 515,130-square-foot Lone Elm 515, which traded in March 2017 for \$48/SF, and the 718,070-square-foot Lone Elm 716, which traded in December 2017 for \$44/SF.

## THE PACE OF DEVELOPMENT HAS ADJUSTED, WITH THE MARKET REALIZING A DECREASE IN UNDER CONSTRUCTION ACTIVITY OF 20.0% IN THE PAST YEAR AND 60.0% OVER THE PAST TWO YEARS

The Kansas City industrial market ended the fourth quarter of 2018 with steady leasing and sales activity. Out-of-town investors and high-level credit tenants are entering and remaining in the market, as the area continues to display logistical and economic advantages, especially in the ecommerce, distribution and automotive industries.

The pace of development has adjusted, with the market realizing a decrease in under construction activity of 20.0% in the past year and 60.0% over the past two years, based upon overall square footage. Positive net absorption has occurred in 27 out of the past 28 quarters for the overall Kansas City market, with an impressive 4.1 million square feet of deliveries in the past year.

Vacancy should hold steady in the 4.7% to 5.4% range throughout 2019, as a portion of the 3.4 million square feet of product currently under construction delivers to the market. Expect quoted rental rates to range from \$4.80/SF to \$4.92/SF in 2019.

### LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Geodis Logistics, LLC	Space Center Exec. Park (Underground)	East Jackson County	New	367,000
Ford Motor Company	Northland Park – Bldg IV	Northland	New	303,620
PBI-Gordon Corporation	1240/1340-48 Quebec St & 1501 Bedford Ave	Northland	New	189,000
Cargo Largo	1250 Southern Rd	East Jackson County	New	55,000

### SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
1800/1850 N Corrington Port. (2)	East Jackson County	\$11,250,000	\$65	173,090
11550 Renner Blvd	South Johnson County	\$9,300,000	\$62	149,830
4304 NW Mattox Rd	Northland	\$2,750,000	\$31	88,000
1120 W 149th St	South Johnson County	\$1,901,250	\$50	38,400
650 Shawnee Ave	Wyandotte County	\$1,800,000	\$51	35,510
8201 NW 97th Ter	Northland	\$1,350,000	\$53	25,600
1136 Swift Ave	Northland	\$1,450,000	\$89	16,310

## SUBMARKET STATISTICS

Submarket	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)
<b>Downtown</b>	ALL	12,940,401	0	1.20%	123,944	304,019	\$7.90	\$11.08	\$9.44
	Warehouse	12,449,083	0	1.30%	122,544	297,219	\$7.90	\$11.08	\$9.44
	Flex	491,318	0	0.00%	1,400	6,800	-	-	-
	Underground	0	0	-	0	0	-	-	-
<b>East Jackson Co.</b>	ALL	64,759,790	250,000	3.40%	-121,495	-1,722	\$3.32	\$4.93	\$5.01
	Warehouse	47,175,888	250,000	3.80%	-121,352	117,561	\$3.56	\$3.96	\$4.01
	Flex	1,726,842	0	11.60%	-143	-29,707	\$4.32	\$8.09	\$8.01
	Underground	15,857,060	0	1.20%	0	-89,576	\$2.81	-	-
<b>Midtown</b>	ALL	9,192,296	0	4.20%	28,993	113,125	\$4.30	\$7.87	\$7.87
	Warehouse	6,292,773	0	2.80%	24,987	111,288	\$3.92	\$7.31	\$7.31
	Flex	1,563,176	0	0.90%	0	8,834	-	\$10.00	\$10.00
	Underground	1,336,347	0	13.30%	4,006	-6,997	\$4.87	-	-
<b>North Johnson Co.</b>	ALL	25,604,543	140,604	6.60%	69,561	57,637	\$5.92	\$5.82	\$6.18
	Warehouse	20,894,150	140,604	6.60%	38,504	50,255	\$5.49	\$5.59	\$6.00
	Flex	2,210,393	0	11.10%	-14,943	-68,618	\$10.37	\$9.53	\$9.03
	Underground	2,500,000	0	3.30%	46,000	76,000	\$3.95	-	-
<b>Northland</b>	ALL	58,067,585	1,139,799	6.10%	293,058	1,207,723	\$3.67	\$4.24	\$4.29
	Warehouse	48,258,273	1,139,799	5.60%	266,641	1,155,580	\$4.02	\$4.33	\$4.34
	Flex	1,758,665	0	25.50%	26,417	52,143	\$8.83	-	\$10.69
	Underground	8,050,647	0	6.40%	0	0	\$2.17	\$3.00	\$3.00
<b>South Jackson Co.</b>	ALL	20,079,723	0	3.50%	180,749	271,128	\$5.10	\$4.44	\$3.95
	Warehouse	19,099,770	0	3.30%	186,810	270,776	\$5.05	\$4.21	\$3.90
	Flex	979,953	0	7.20%	-6,061	352	\$10.20	\$8.26	\$10.00
	Underground	0	0	-	0	0	-	-	-
<b>South Johnson Co.</b>	ALL	46,901,262	1,857,102	8.70%	823,080	1,988,590	\$7.48	\$4.60	\$4.84
	Warehouse	43,675,140	1,841,842	9.10%	803,792	1,918,106	\$7.16	\$4.45	\$4.30
	Flex	3,226,122	15,260	3.70%	19,288	70,484	\$10.17	\$8.92	\$12.67
	Underground	0	0	-	0	0	-	-	-
<b>Wyandotte Co.</b>	ALL	41,256,079	0	3.20%	20,984	431,122	\$4.30	\$3.60	\$3.76
	Warehouse	40,461,139	0	3.20%	30,484	410,158	\$3.99	\$3.60	\$3.76
	Flex	794,940	0	5.50%	-9,500	20,964	\$8.92	-	-
	Underground	0	0	-	0	0	-	-	-
<b>Kansas City Market</b>	ALL	278,801,679	3,387,505	5.00%	1,418,874	4,371,622	\$4.18	\$4.71	\$4.82
	Warehouse	238,306,216	3,372,245	5.10%	1,352,410	4,330,943	\$4.26	\$4.54	\$4.53
	Flex	12,751,409	15,260	9.00%	16,458	61,252	\$8.95	\$8.59	\$10.26
	Underground	27,744,054	0	3.40%	50,006	-20,573	\$2.80	\$3.00	\$3.00

## SUBMARKET STATISTICS – WAREHOUSE

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	12,449,083	0	1.30%	122,544	297,219	\$7.90	\$11.08	\$9.44
East Jackson Co.	47,175,888	250,000	3.80%	-121,352	117,561	\$3.56	\$3.96	\$4.01
Midtown	6,292,773	0	2.80%	24,987	111,288	\$3.92	\$7.31	\$7.31
North Johnson Co.	20,894,150	140,604	6.60%	38,504	50,255	\$5.49	\$5.59	\$6.00
Northland	48,258,273	1,139,799	5.60%	266,641	1,155,580	\$4.02	\$4.33	\$4.34
South Jackson Co.	19,099,770	0	3.30%	186,810	270,776	\$5.05	\$4.21	\$3.90
South Johnson Co.	43,675,140	1,841,842	9.10%	803,792	1,918,106	\$7.16	\$4.45	\$4.30
Wyandotte Co.	40,461,139	0	3.20%	30,484	410,158	\$3.99	\$3.60	\$3.76
<b>Kansas City Market</b>	<b>238,306,216</b>	<b>3,372,245</b>	<b>5.10%</b>	<b>1,352,410</b>	<b>4,330,943</b>	<b>\$4.26</b>	<b>\$4.54</b>	<b>\$4.53</b>

## SUBMARKET STATISTICS – FLEX

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	491,318	0	0.00%	1,400	6,800	-	-	-
East Jackson Co.	1,726,842	0	11.60%	-143	-29,707	\$4.32	\$8.09	\$8.01
Midtown	1,563,176	0	0.90%	0	8,834	-	\$10.00	\$10.00
North Johnson Co.	2,210,393	0	11.10%	-14,943	-68,618	\$10.37	\$9.53	\$9.03
Northland	1,758,665	0	25.50%	26,417	52,143	\$8.83	-	\$10.69
South Jackson Co.	979,953	0	7.20%	-6,061	352	\$10.20	\$8.26	\$10.00
South Johnson Co.	3,226,122	15,260	3.70%	19,288	70,484	\$10.17	\$8.92	\$12.67
Wyandotte Co.	794,940	0	5.50%	-9,500	20,964	\$8.92	-	-
<b>Kansas City Market</b>	<b>12,751,409</b>	<b>15,260</b>	<b>9.00%</b>	<b>16,458</b>	<b>61,252</b>	<b>\$8.95</b>	<b>\$8.59</b>	<b>\$10.26</b>

## ECONOMIC CONDITIONS

The local economy continued to improve through November, with total employment growth of 1.5% and positive growth occurring in eight out of ten industries, calculated on a 12-month percent change basis.

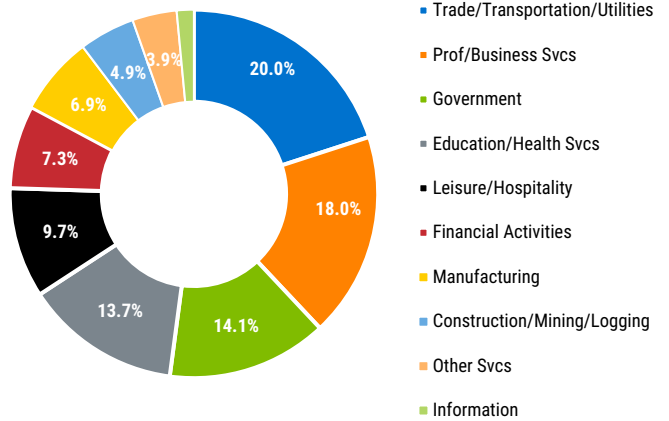
Payroll employment in Kansas City remained flat compared to the prior year registering 1.5% in November 2018. The national average also remained flat at 1.6%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States remained flat compared to the prior year registering 2.2% in November 2018. The Midwest Urban CPI decreased 50 basis points to 1.4% in November 2018.

Unemployment in the United States decreased 20 basis points to 3.7% in November, while unemployment in Kansas City remained flat at 3.2% compared to the past quarter. Unemployment in Kansas City decreased 50 basis points from a year prior.

## EMPLOYMENT BY INDUSTRY

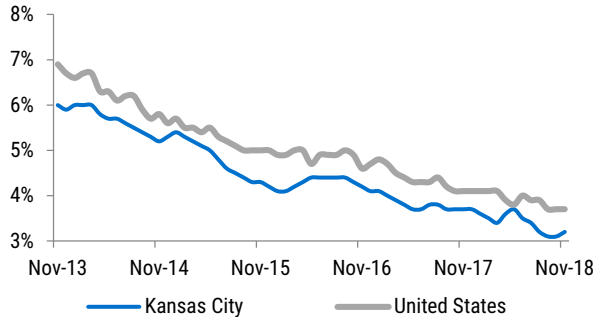
Kansas City, November 2018



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

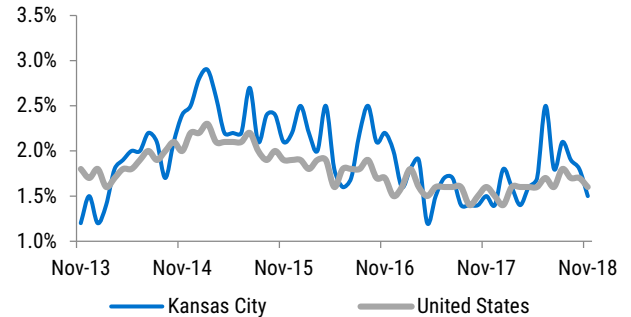
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

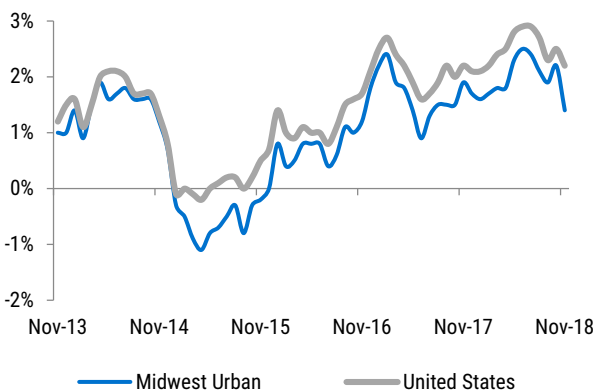
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

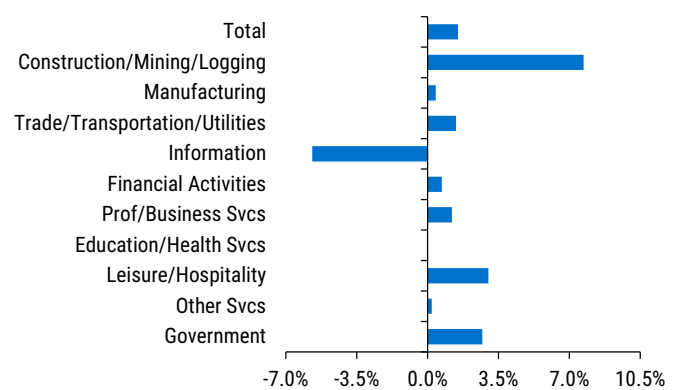
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

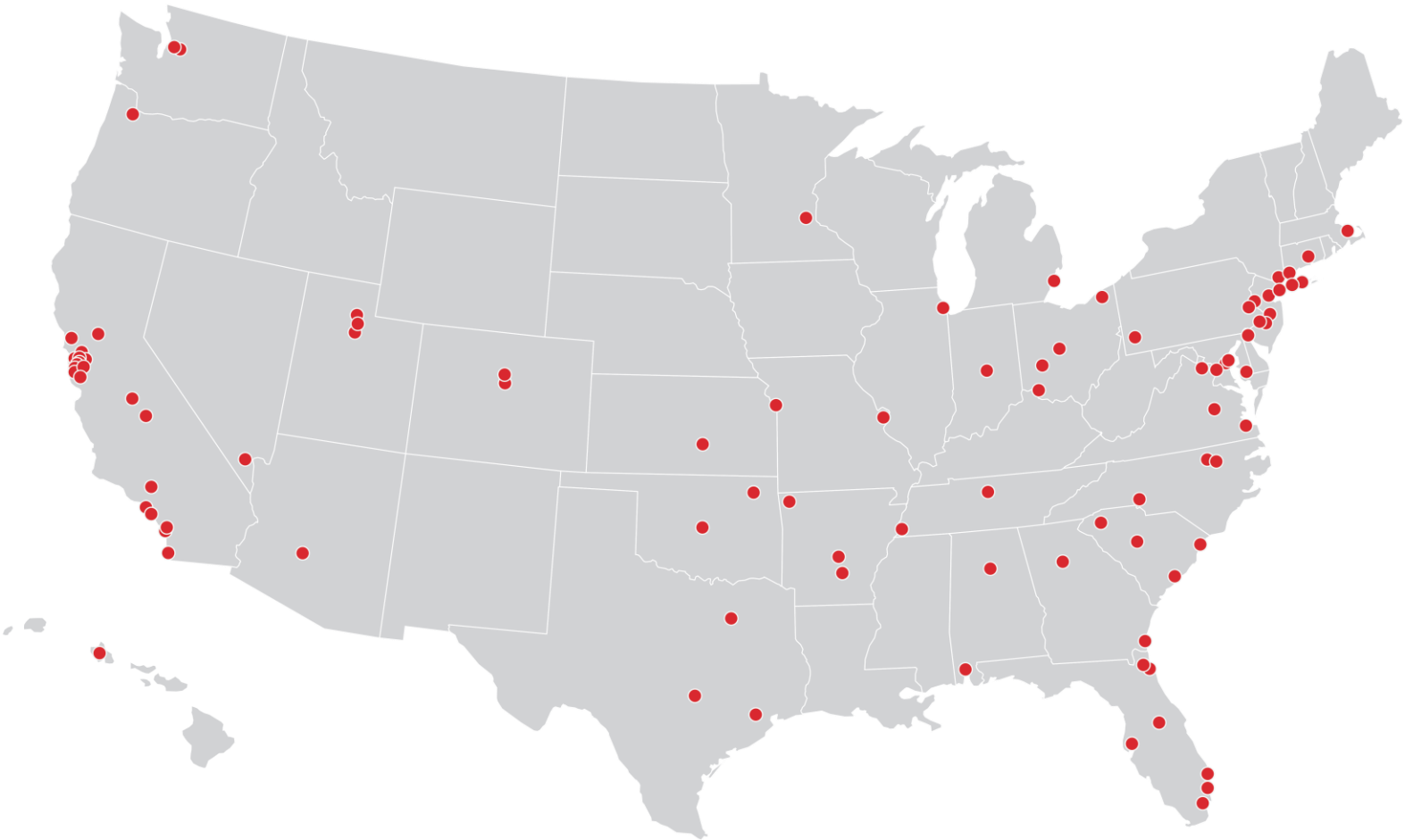
## EMPLOYMENT GROWTH BY INDUSTRY

KC, Nov. 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

## NEWMARK KNIGHT FRANK UNITED STATES OFFICE LOCATIONS



### KANSAS CITY

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

### ST. LOUIS

8235 Forsyth Boulevard, Suite 310  
Clayton, MO 63105  
T. 314.254.4600

### LEE'S SUMMIT

1485 SW Market Street  
Lee's Summit, MO 64081  
T. 816.474.2000

### SALINA

P.O. Box 3224  
Salina, KS 67402  
T. 785.342.9106

### MARK C. LONG, SIOR, CCIM, LEED AP

President & CEO - NGZ  
816.512.1011  
mlong@ngzimmer.com

### ANDREW J. GARTEN

Director, Research  
816.474.2000  
agarten@ngzimmer.com

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