

2Q24

Kansas City Industrial Market Overview

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 3.3% unemployment rate was 40 basis points lower than the 3.7% 10-year historical average.
- Year over year, job gains have been most pronounced in the Education & Health and Leisure/Hospitality industries, while job losses have been most pronounced in the Information and Business & Professional sectors.
- Industrial firms are continuing to adjust labor needs. Locally, all three industrial sectors experienced growth during the past year: Trade/Transportation/Utilities, by 1.2%; Manufacturing, by 1.1%; and Construction, by 0.7%.

Major Transactions

- Various development and leasing announcements highlighted the second quarter of 2024: Plans for ‘Project Falcon’ were submitted to the City of Kansas City, Missouri, for a 630,000-SF facility within KCI 29 Logistics Park, with local news outlets linking Amazon to the project; BlueScope Properties Group were seeking tax incentives for its third building at Great Plains CC; CJ Logistics America announced it will open a new 291,000-SF cold storage warehouse in New Century, Kansas; and the second phase of development by VanTrust at New Century CC will begin with mass grading on 300 acres. Nuuly leased an additional 204,000 SF in Raymore Commerce Center; Keystone Technologies leased 163,160 SF at Blue River Commerce Center; and Olathe Millwork leased 132,500 SF at New Century Commerce Center.

Leasing Market Fundamentals

- The market tightened as leasing activity equated to 2.3 million SF of net absorption during the second quarter of 2024. Vacancy remained flat at 5.5% as net absorption counterbalanced 2.4 million SF of deliveries during the quarter, with a sizeable amount of space delivering unoccupied. Leasing velocity and rent growth in mid-sized and small bay industrial spaces will remain active during the next four quarters.
- The construction pipeline increased to 9.9 million SF from 9.5 million SF last quarter. As this recently completed inventory leases, the next construction cycle will offer very few alternatives, leading to a tightening of vacancy. Although the combined build-to-suit and speculative construction pipeline totals 9.9 million SF, over 80%, equating to 7.9 million SF, are in BTS projects including: Panasonic’s 5.5 MSF; Ace Hardware’s 1.5 MSF; Heartland Coca Cola’s 600,000 SF; and Walmart’s 330,000-SF beef plant.

Outlook

- As the 15th largest industrial market in the United States, totaling 336.0 million SF, Kansas City will continue to prosper due to its geographically central location, skilled labor force, extensive transportation network and reasonable real estate and energy costs. Rampant oversupply has not occurred during or after the pandemic. Vacancy is projected to decline from 5.5% by the end of 2024 with steady demand and slowing speculative supply.
- Industrial average asking rents increased by a record 33.8% during the past five years. The pace of both asking and contract rental rate growth will moderate over the next four quarters but will remain strong compared with pre-pandemic levels as demand continues and developers compensate for rising construction costs.

1. Economy
2. Leasing Market Fundamentals
3. Submarket Statistics

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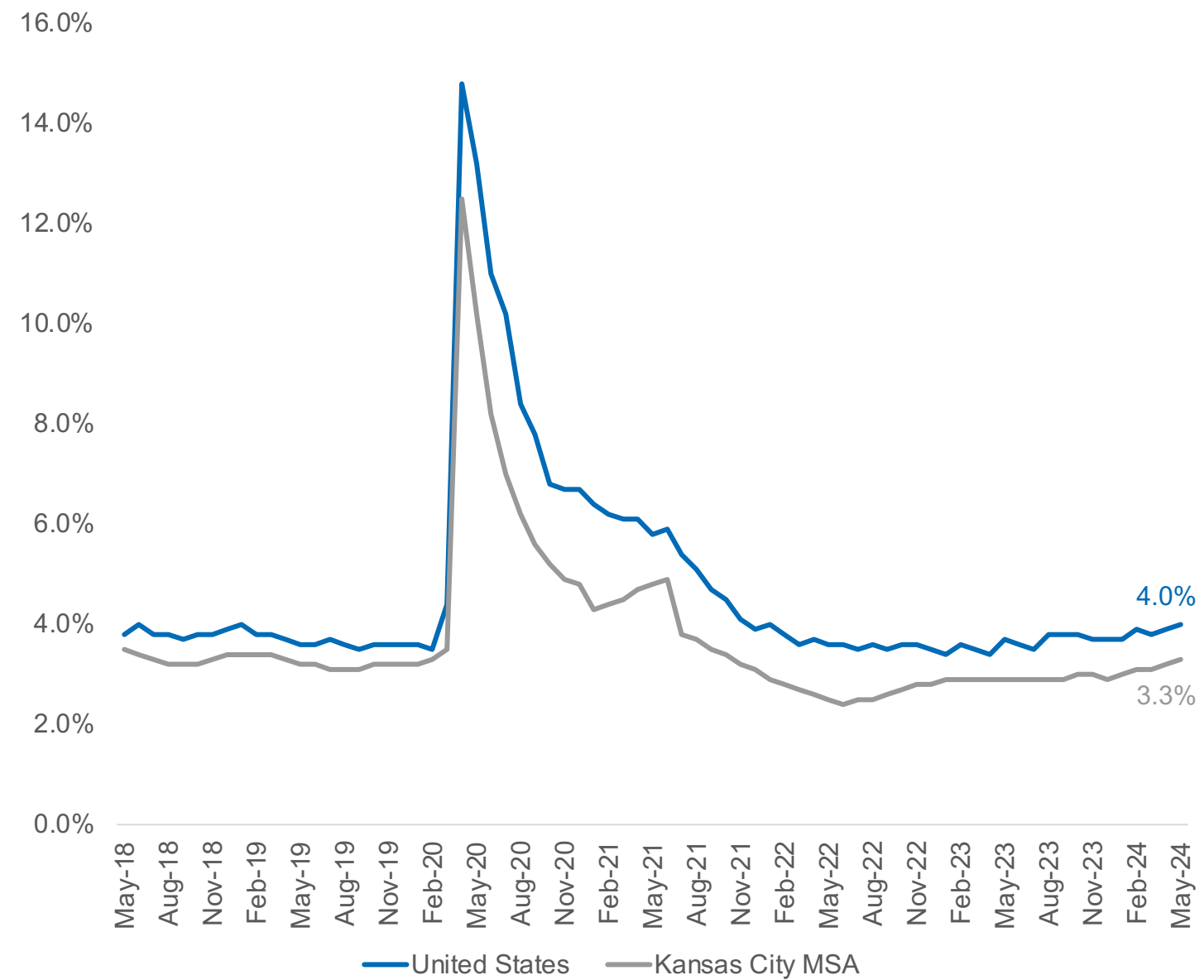
Economy



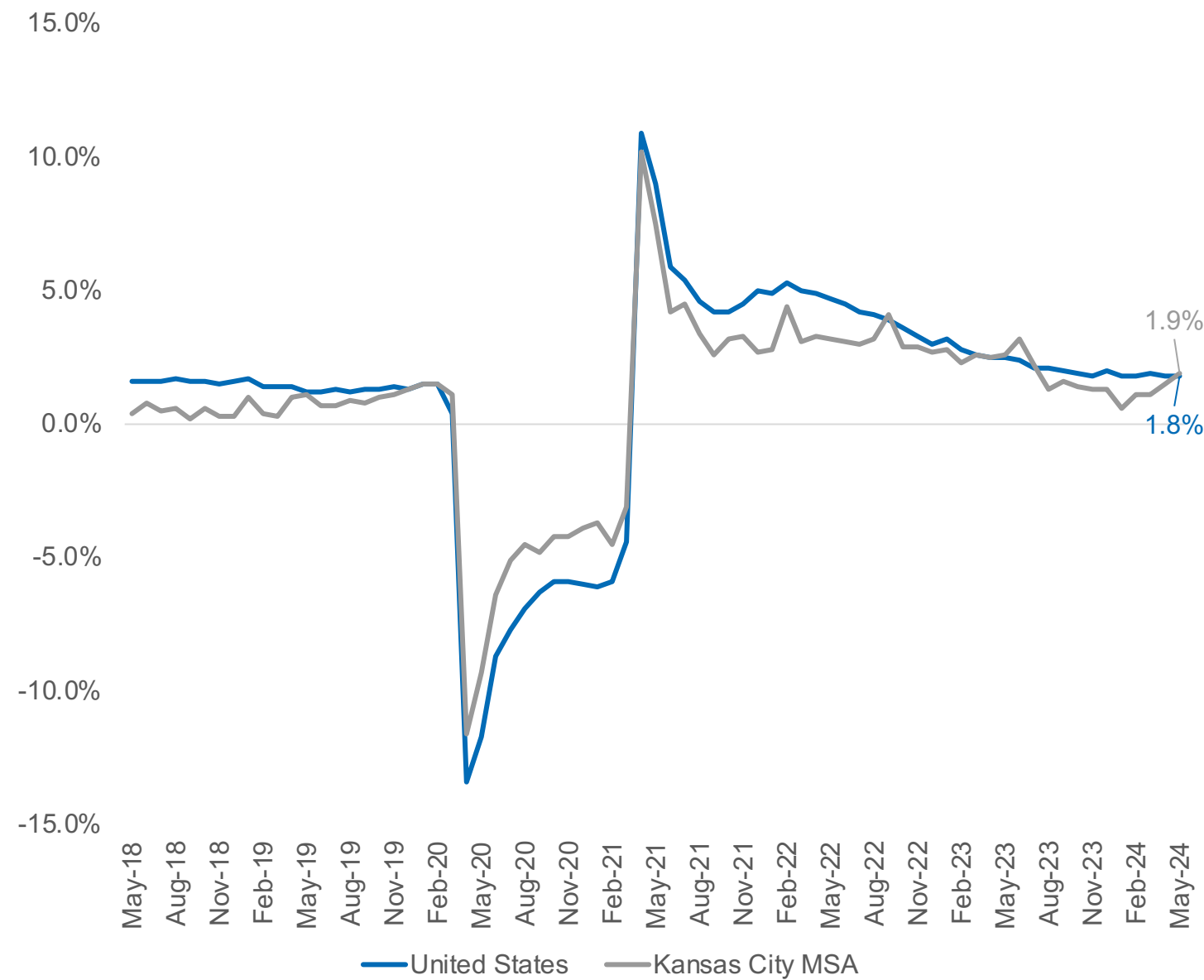
Metro Employment Trends Signal a Stable Economy

The region’s labor market remains on relatively solid footing amid elevated interest rates. Unemployment in the region recovered from the pandemic and remains 70 bps below the national average. The Kansas City Fed Labor Market Conditions Indicators (LMCI) both displayed positive values for the months of April 2024 and May 2024, indicating that labor market conditions are above the long-run average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

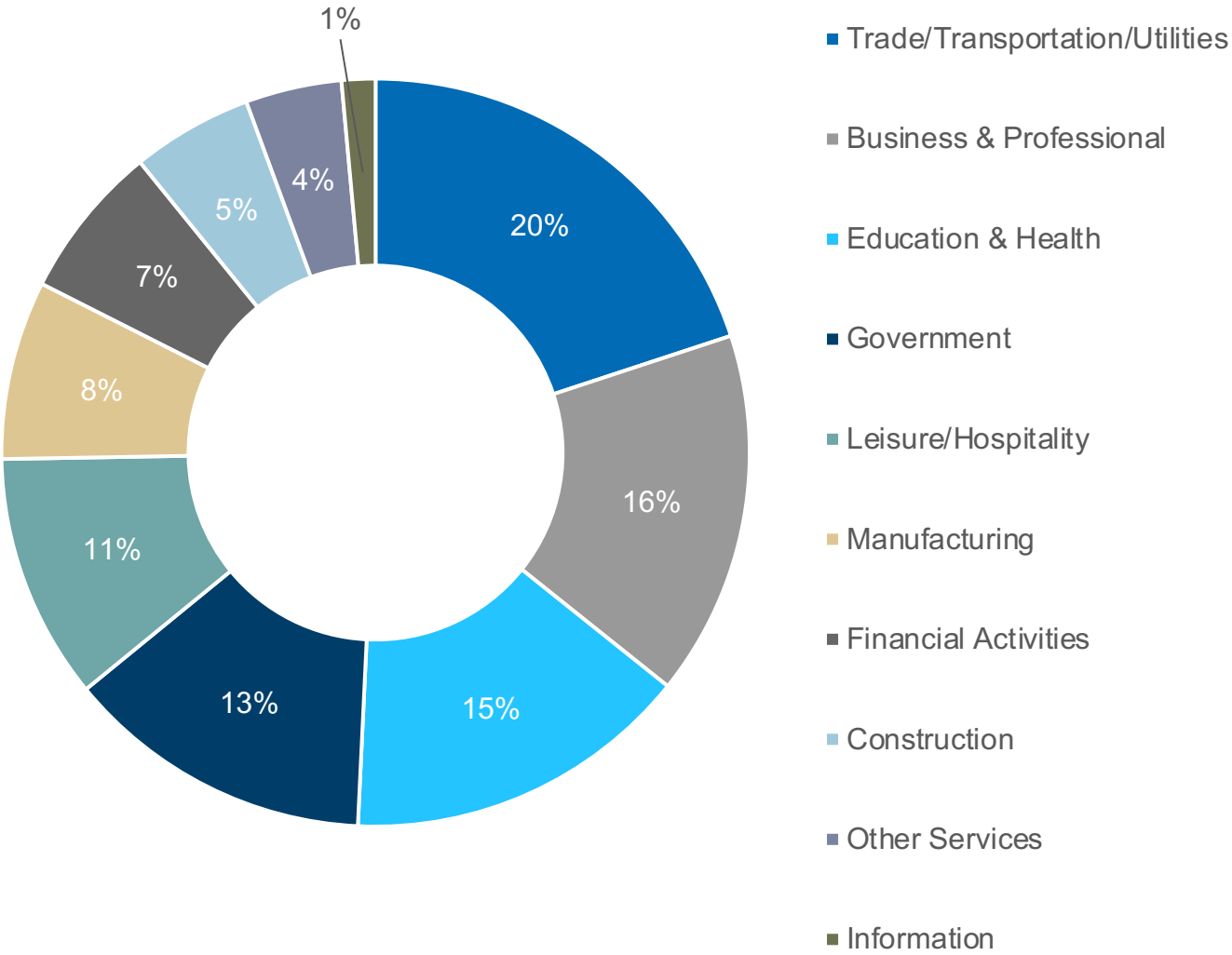


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

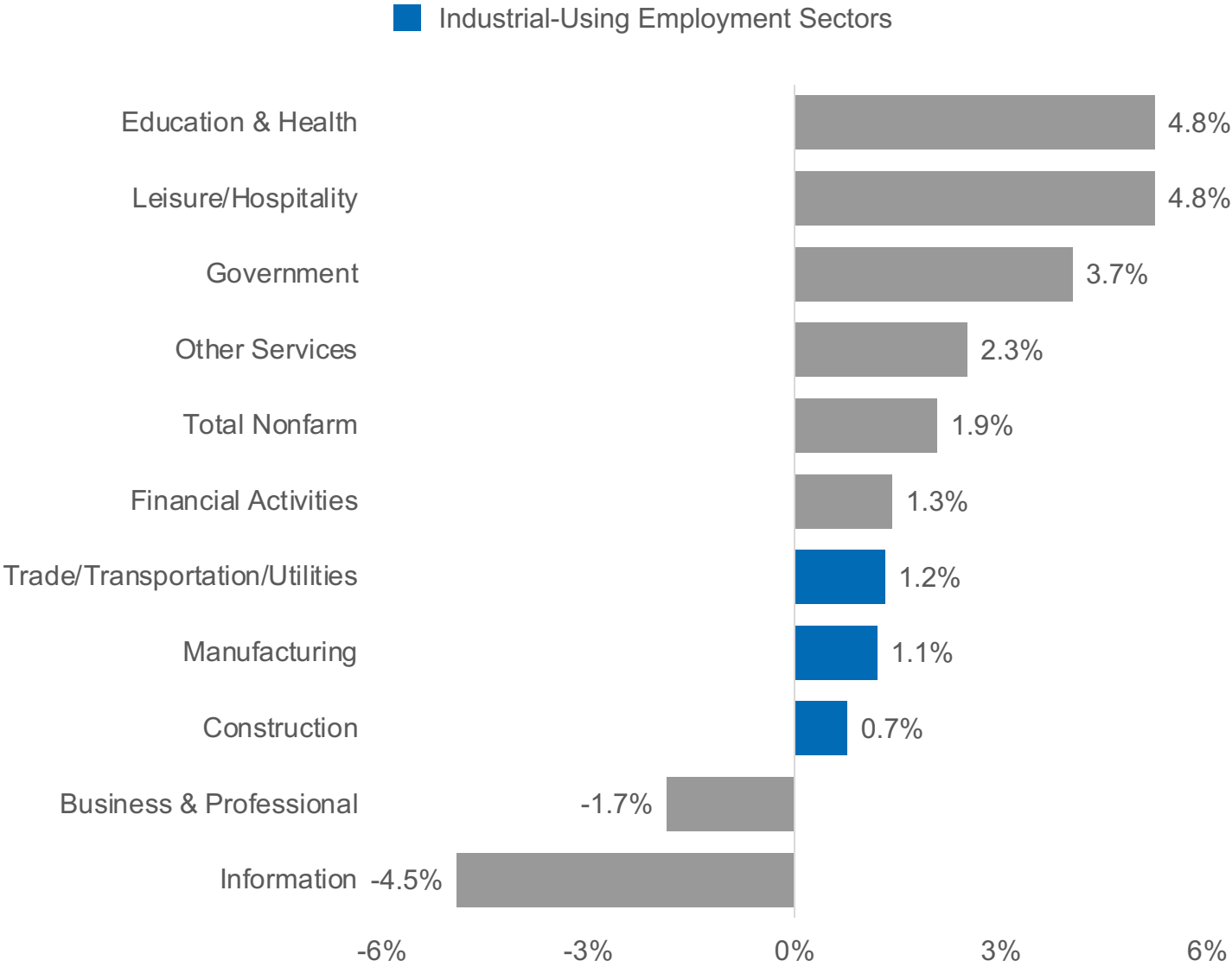
Job Growth Driven Primarily by Shift in Spending

The Education & Health and Leisure/Hospitality sectors led all industries in regional annual job growth at 4.8% each. Along with Other Services and Government, the top four sectors are benefitting from a post-pandemic shift in spending from goods to services, travel and healthcare expenses. All three industrial-occupying industries saw annual job gains year over year.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

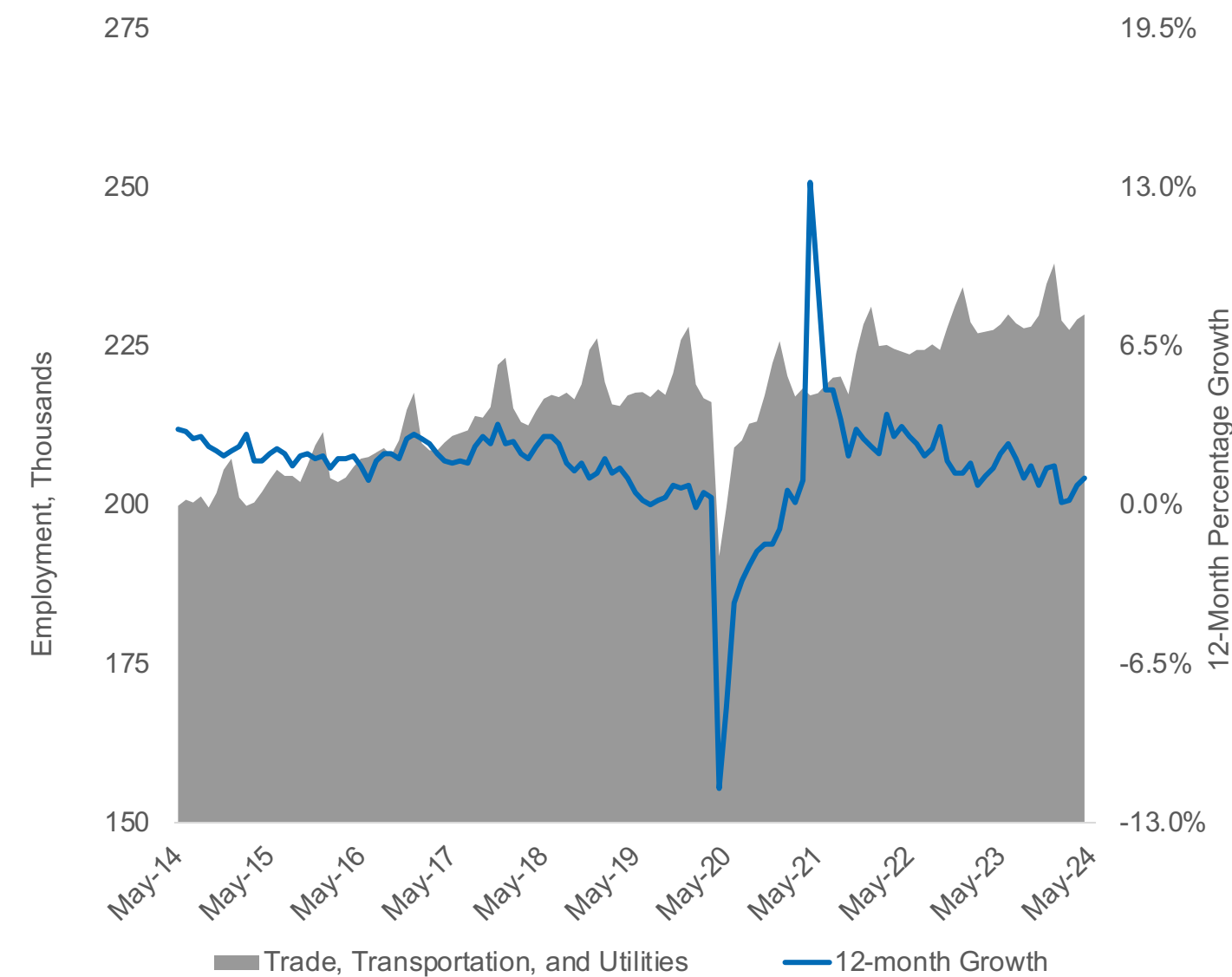


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

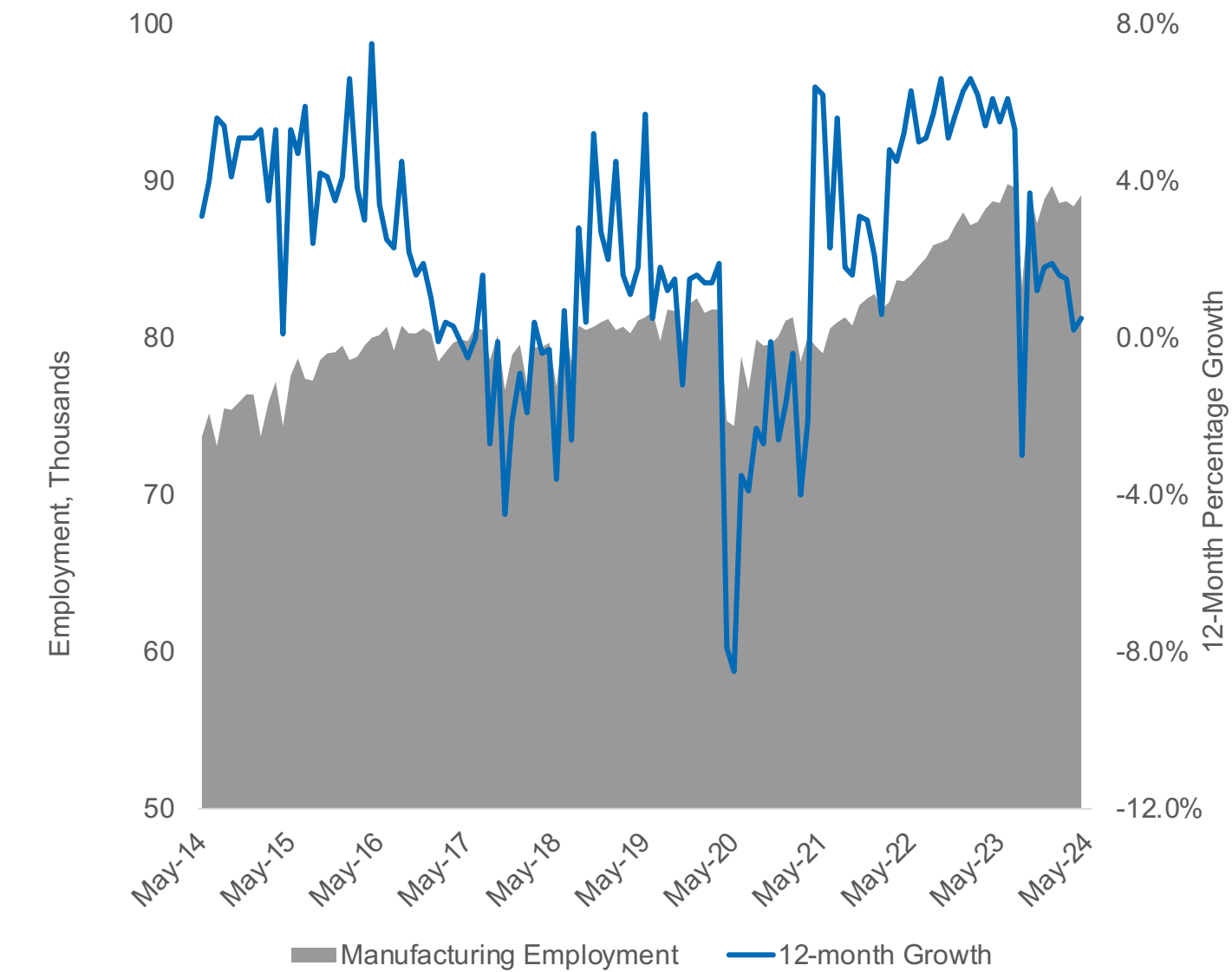
Overall Industrial-Using Employment Has Rebounded

The number of industrial jobs has rebounded to pre-pandemic levels. While there is a small seasonal dip in employment rates at the beginning of each year, the region has already stabilized and rates are expected to increase. Firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Kansas City MSA

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Leasing Market Fundamentals



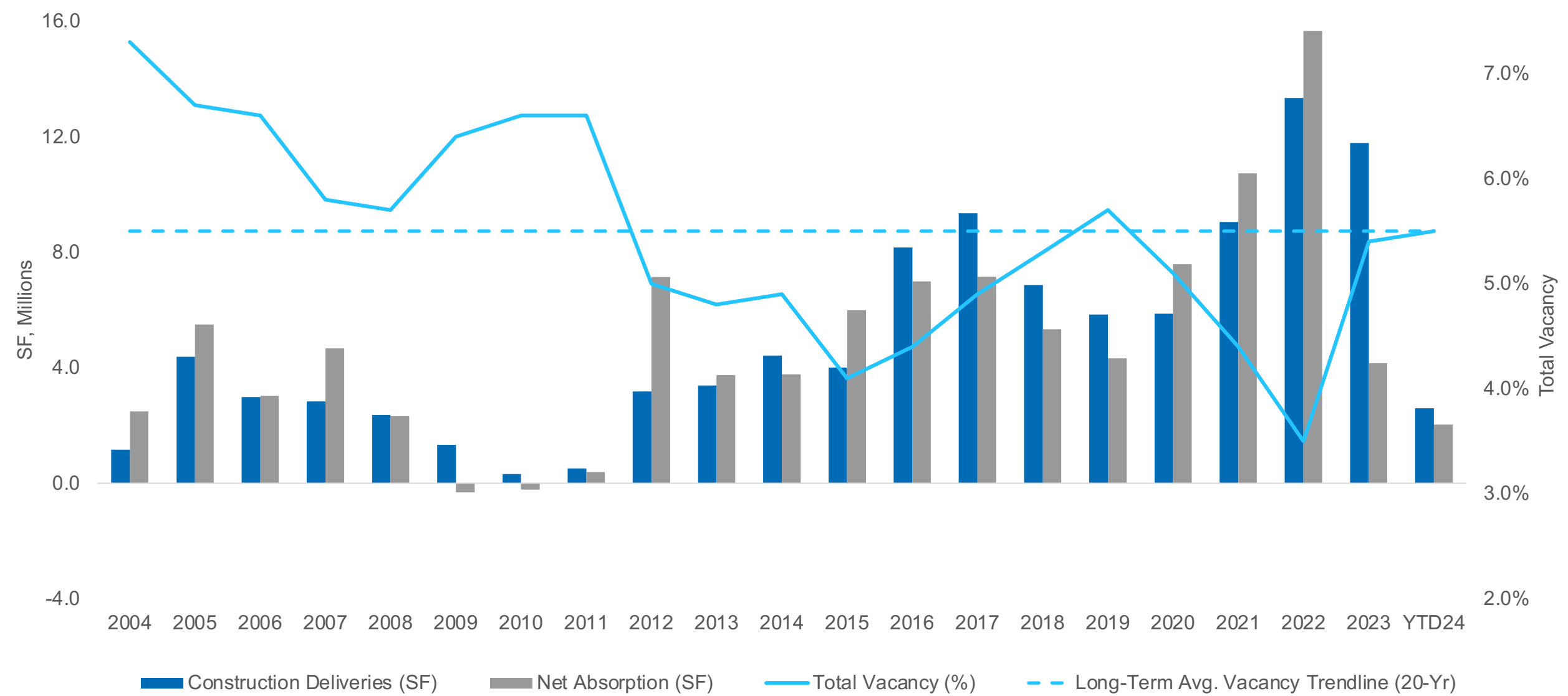
Market Overview

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Vacancy Rises as Construction Deliveries Outpace Net Absorption

Vacancy increased 1.4% (140 bps) to 5.5% year over year due to 8.6 million SF of space delivering to the market during the past four quarters. Net absorption totaled 3.9 million SF during the same time period. Leasing velocity and rent growth will remain active in mid-sized and small bay industrial spaces. The Kansas City industrial market is expected to draw above-average interest and leasing activity compared with other U.S. markets. Steady demand coupled with decreasing speculative construction supply will lower the vacancy rate by the end of 2024.

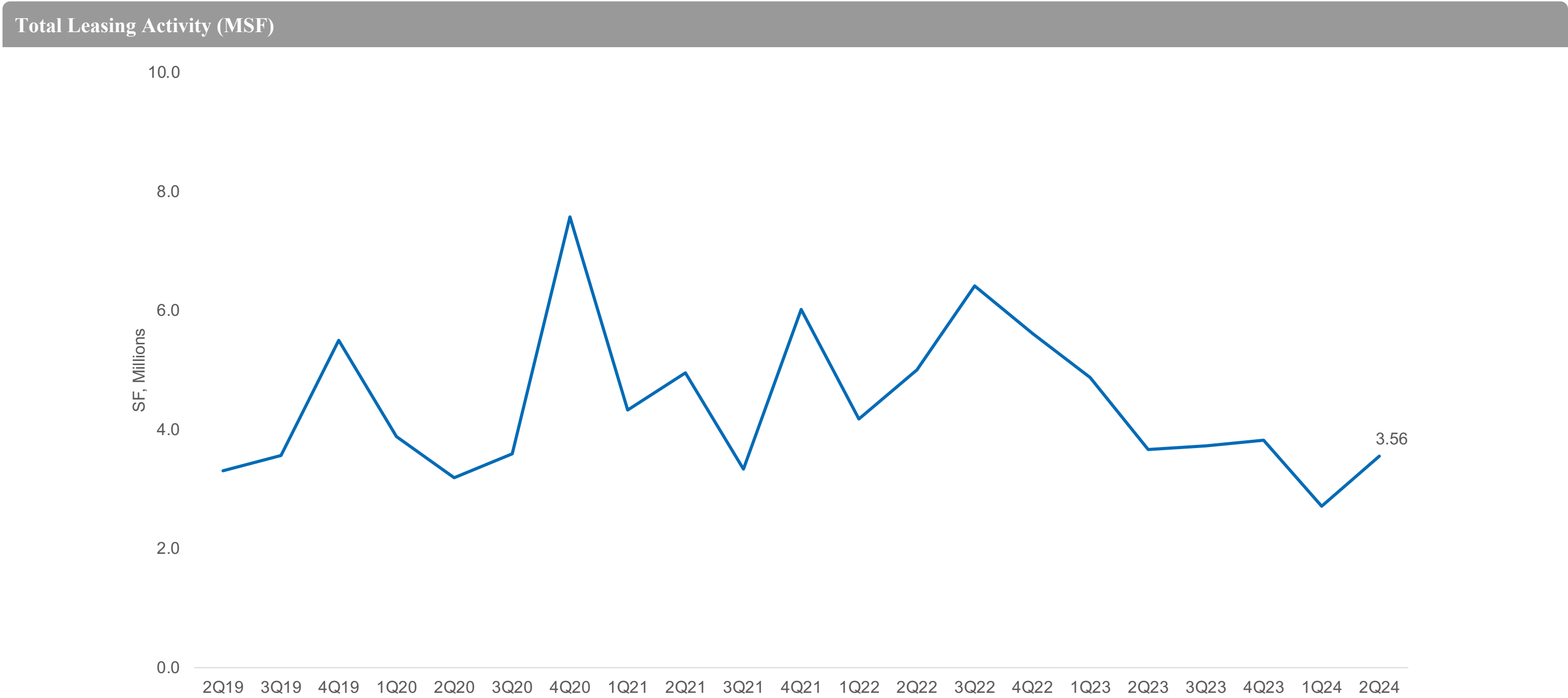
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Accelerates in 2Q24

Demand for industrial space registered 3.6 million SF in the second quarter of 2024. This equates to a 13.1% decrease compared to the quarterly average of 4.0 million SF during 2023. Factors contributing to the slight slowdown include lower international trade volume, an uncertain economic climate, the upcoming election and short-term space needs being recently solved exiting the pandemic environment.

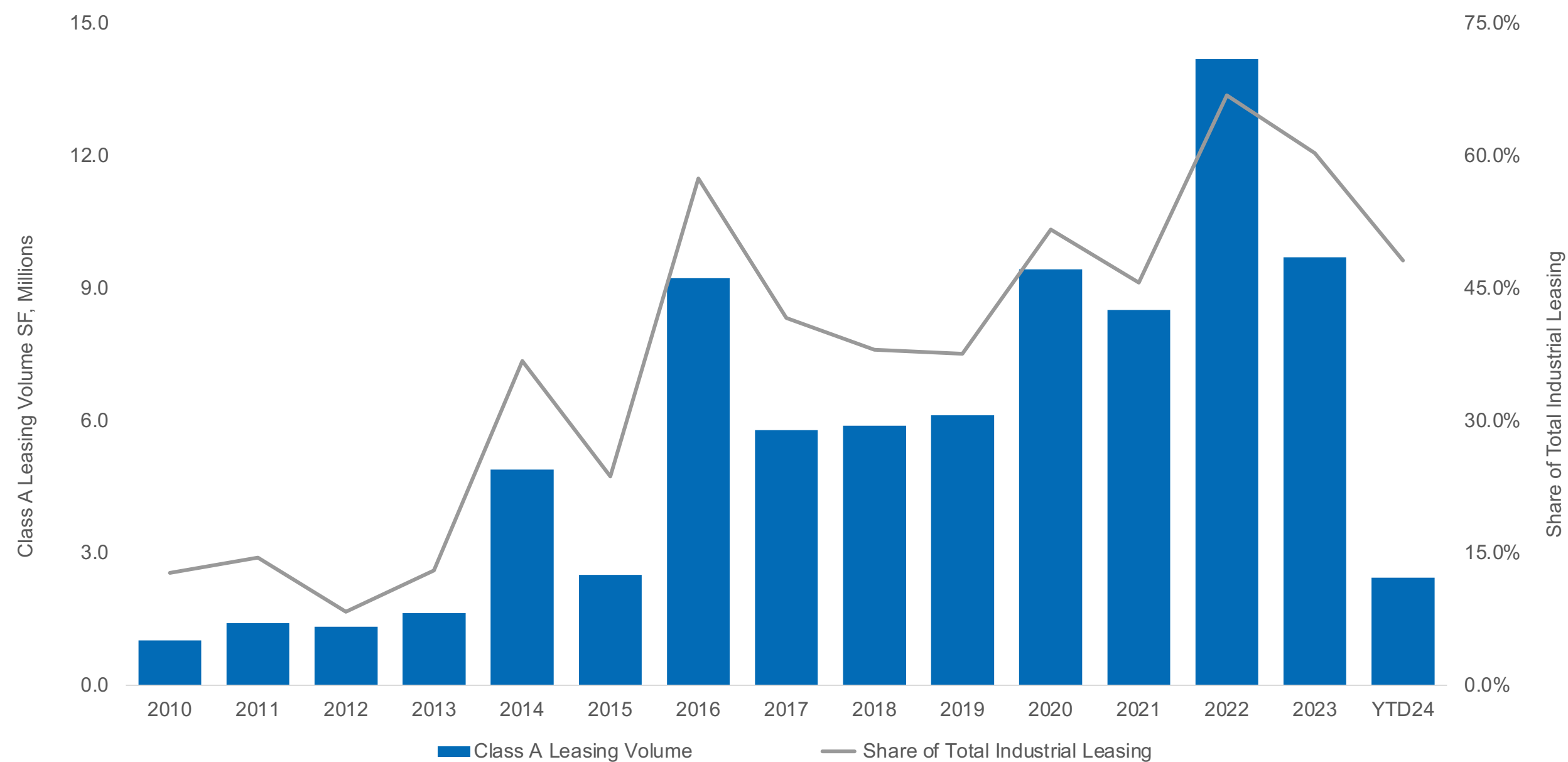


Source: Newmark Research, CoStar

Class A Bulk Warehouse Leasing Activity Declines to 48.1% of All Volume

Non-gateway markets like Kansas City have historically seen slower developer response to occupier needs for modern Class A warehouse space, but as development accelerated over the past five years, Class A leasing increased in turn. Class A warehouse leasing represented 48.1% of overall activity in the second quarter of 2024, down from the record high of 66.9% in 2022, but above the five-year pre-pandemic average from 2015 to 2019 of 39.7%.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

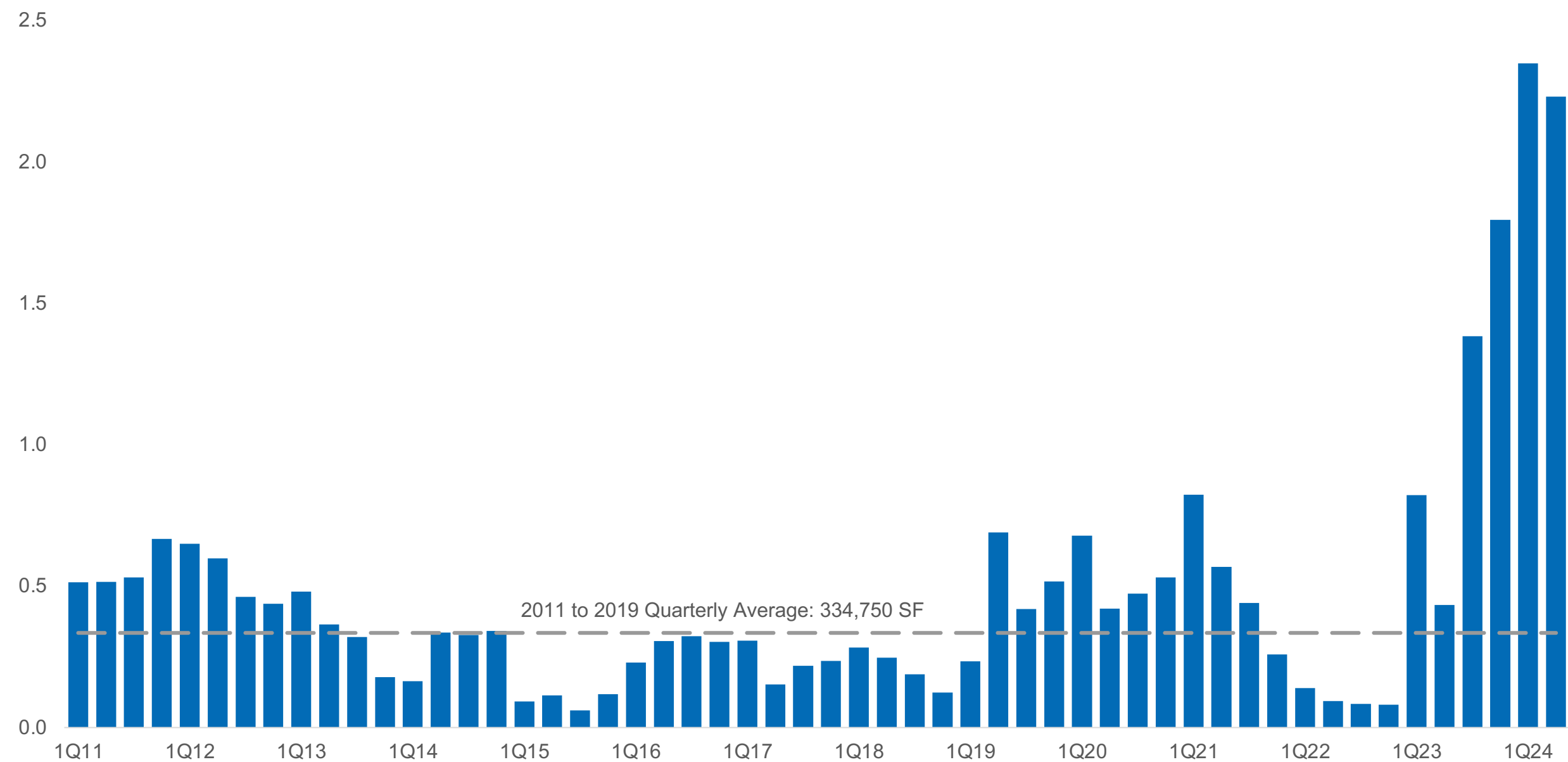
Vacancy Increases Significantly in S. Johnson Co. and S. Jackson Co. Since 4Q22

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Vacant Sublease Availability at Record High but Only Totals 0.7% of the Market

Vacant available sublease space decreased slightly during the quarter. Additional active offerings are expected to be absorbed during the next four quarters, resulting in a counterbalance and decrease in available sublease space. Compared to other markets in the U.S., total available vacant sublet space is minimal and only totals 0.7% of the total Kansas City market.

Vacant Available Industrial Sublease Volume (MSF)

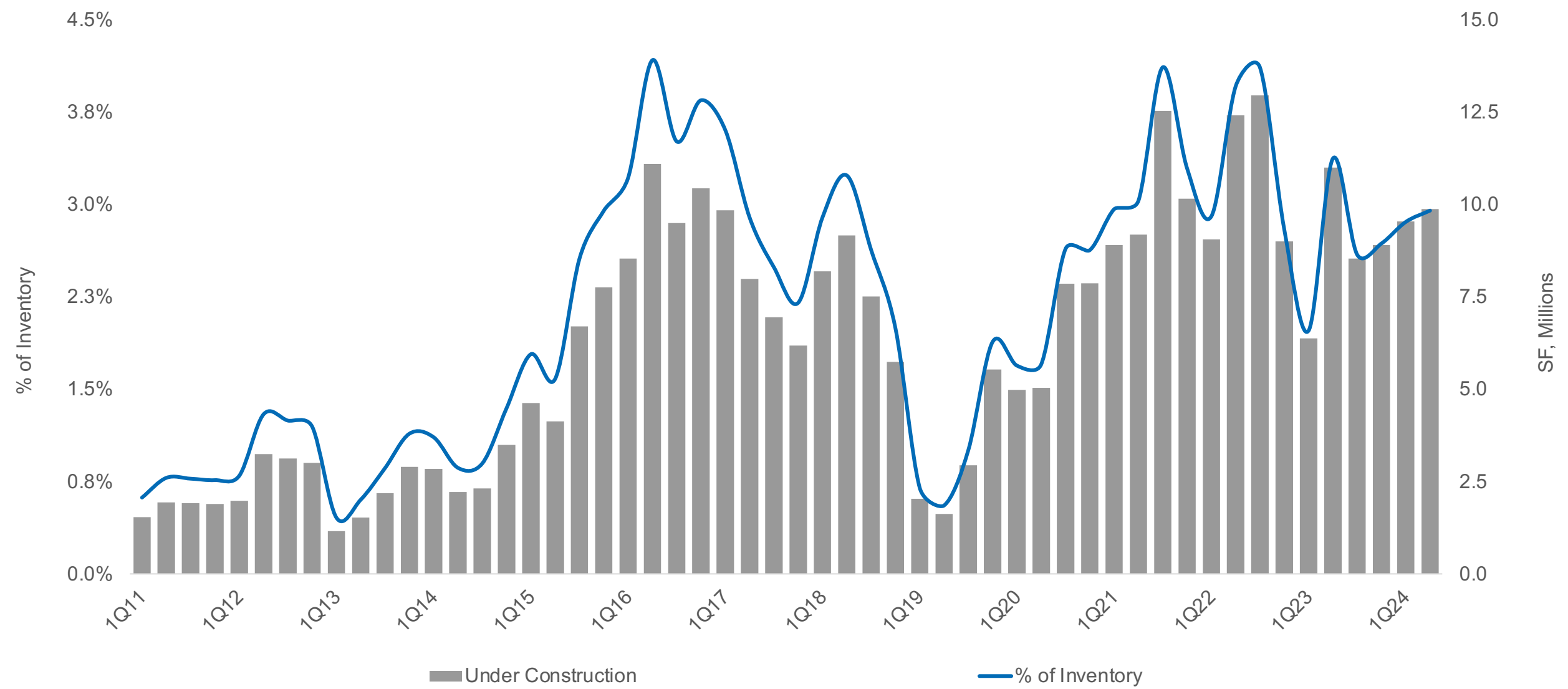


Source: Newmark Research, CoStar

Speculative Projects Account for Only 20% of Total Construction Activity

While the combined build-to-suit and speculative construction pipeline currently totals 9.9 million SF, over 80%, equating to 7.9 million SF, are in build-to-suit projects, including: Panasonic’s 5.5 million-SF EV battery center in DeSoto; Ace Hardware’s 1.5-million-SF retail support center in Hunt Midwest’s KCI 29 Logistics Park; Heartland Coca Cola’s 600,000-SF bottling distribution center in Olathe; and Walmart’s 330,000-SF meatpacking plant in Olathe. BTS project announcements are expected to continue to drive the overall under-construction activity during the next four quarters, while speculative project activity continues to trend downward with only 2.0 million SF currently under construction. Expect speculative activity to remain muted as existing projects are absorbed, with limited new supply introduced to the market in this construction cycle.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

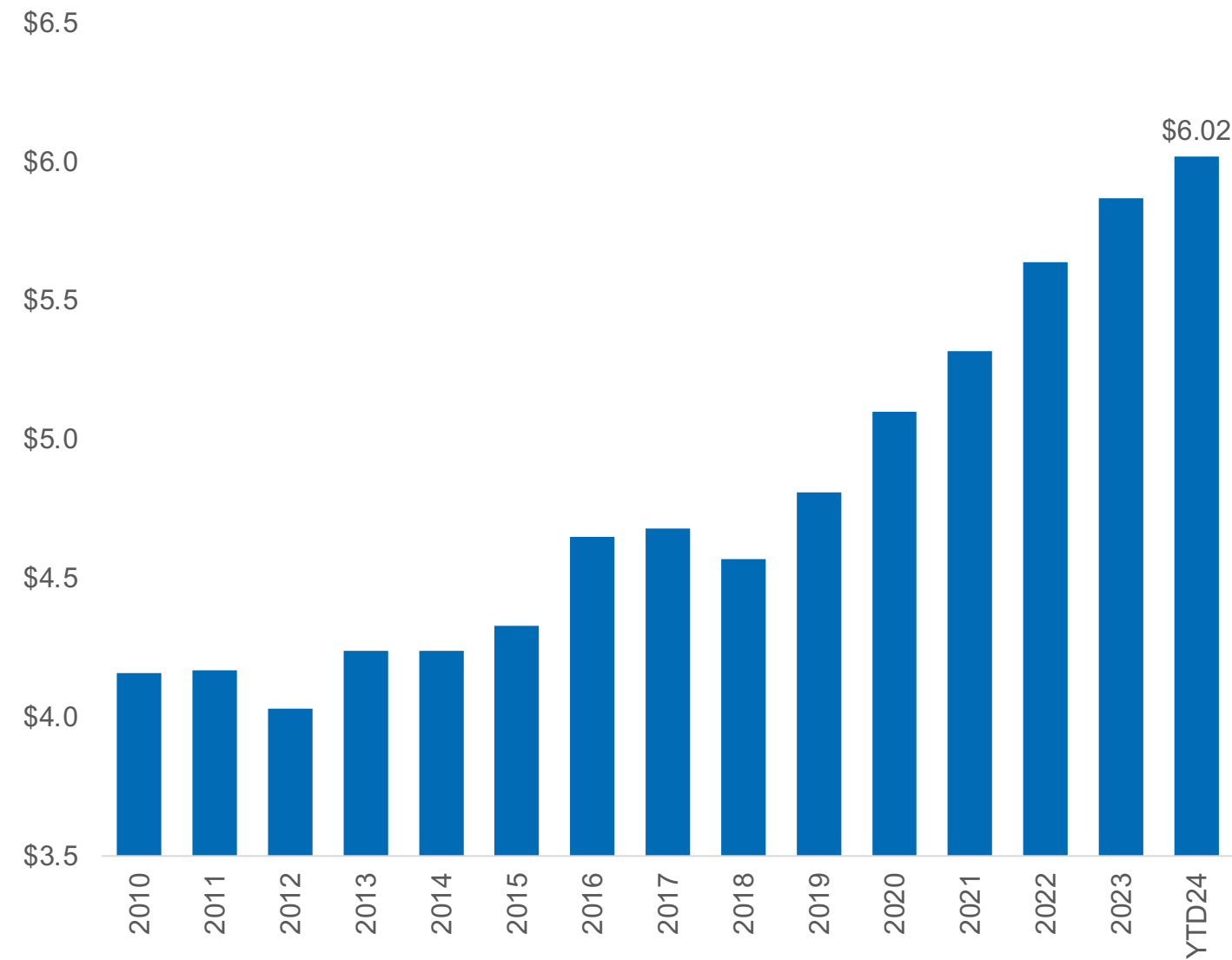
Speculative Construction Supply is Limited as Build-to-Suits Gain Momentum

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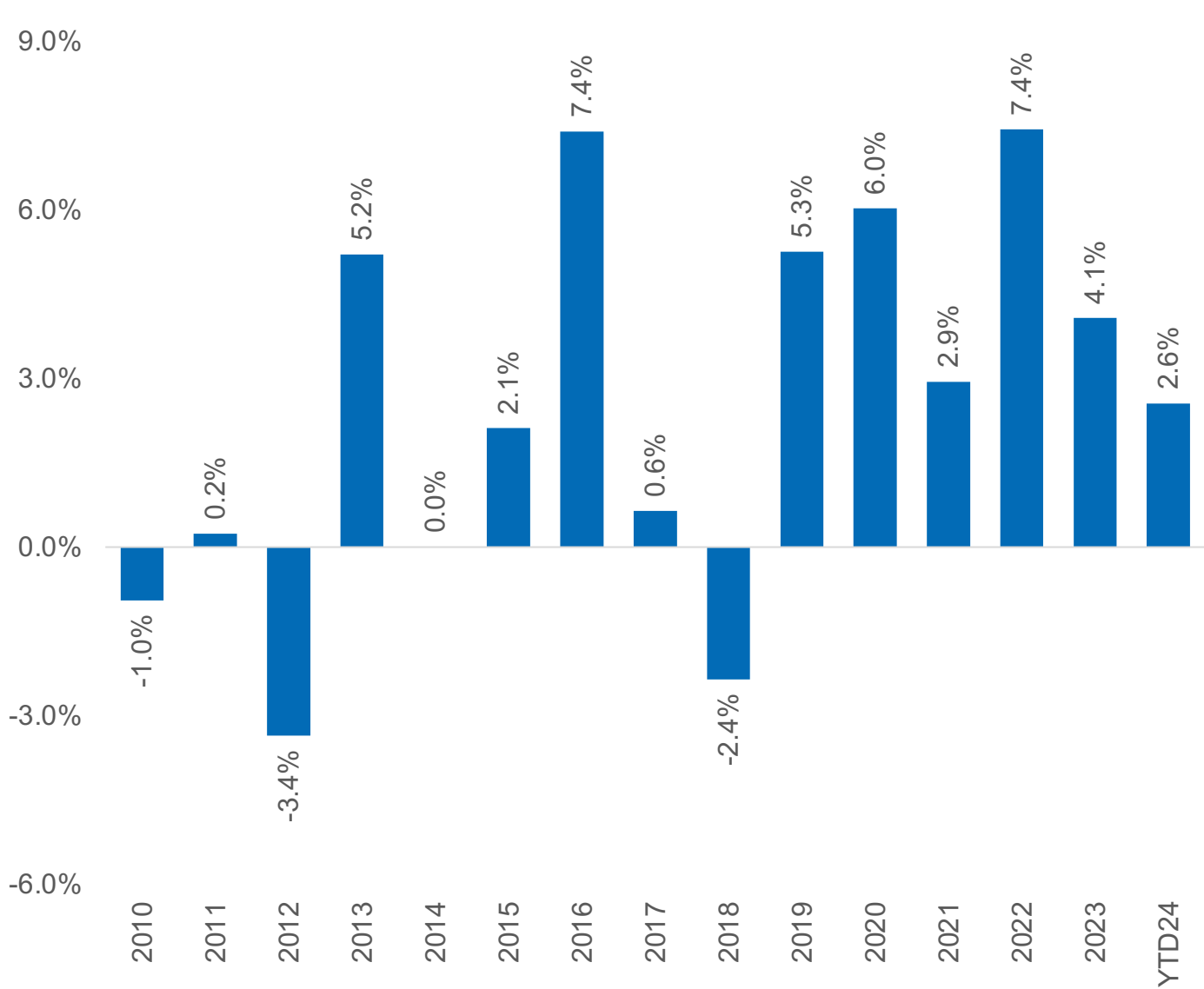
Record-Pace Industrial Asking Rent Growth Expected to Moderate

Record aggregate rental rate growth of 33.8% during the past five years, limited new product deliveries, and liquidity constraints for landlords to fund elevated concession packages will combine to temper the pace of rental rate growth over the next four quarters. Asking rental rates are expected to range from \$6.00/SF to \$6.10/SF by the end of 2024.

Industrial Average Asking Rent, \$/SF, NNN



Year-Over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Class A Small- and Mid-sized Warehouse Spaces are the Most In-Demand Segments

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Notable 2Q24 Announcements and Lease Transactions

Significant announcements in 2Q24: Plans for ‘Project Falcon’ were submitted to the city of Kansas City, Missouri for a 630,000-SF facility within KCI 29 Logistics Park - local news outlets have linked Amazon to the project; BlueScope Properties Group is seeking tax incentives for its third building at Great Plains CC; CJ Logistics America will open a new 291,000-SF cold storage warehouse in New Century, Kansas; the second phase of development by VanTrust at New Century CC will begin with mass grading on 300 acres.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Nuuly	1200 S Dean Avenue – Building II	North Cass County	Direct New	204,000
Nuuly announced in May it will occupy an additional 204,000 SF of space within Building II of Raymore Commerce Center. Nuuly most recently opened its new fulfillment and laundry facility in Building III of Raymore Commerce Center, occupying the entire 1.0 million-SF building.				
Keystone Technologies	1550 E 94th Street – Building III	South Jackson County	Direct New	163,160
Keystone Technologies signed a 163,160-SF lease within the 463,160-SF, multitenant Blue River Commerce Center III, which delivered to the market in 2023. A leading manufacturer of quality-driven lighting solutions, the firm expects to move in by December 2024.				
Olathe Millwork	16335 John Glenn Parkway – Building B2	South Johnson County	Direct New	132,500
Olathe Millwork signed a 132,500-SF lease within the 333,380-SF, multitenant New Century Commerce Center Building B2, which is expected to complete construction by August 2024.				
Sunlighten	501 Kindelberger Road	Wyandotte County	Direct New	84,000
Sunlighten signed an 84,000-SF lease for the entire building at 501 Kindelberger Road in Kansas City, KS. The space was marketed at an asking rate of \$4.85/SF.				
Mikuni-Color	22350 W 167th Street – Building III	South Johnson County	Direct New	53,610
Mikuni-Color occupied 53,610 SF of space within the 134,640-SF, multitenant Lone Elm Commerce Center III in June.				

Source: Newmark Research

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Submarket Statistics



Submarket Statistics: All Classes, Warehouse, Flex, Underground

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