

Kansas City Industrial Market

Robust Market Activity as Vacancy Drops to a Record Low of 4.4%

The Kansas City industrial sector ended the third quarter of 2022 with robust leasing activity, achieving new records for both asking rental rates and current development activity. Although the market displayed the first signs of a reduction in the pace of total net absorption during the second quarter of 2022, the market readjusted upwards to 2.5 million square feet of net absorption in the third quarter of 2022. Net absorption during the past four quarters totaled 10.4 million square feet, with projections indicating 16.2 million square feet of total net absorption could occur during the next six quarters. Increases in land pricing, construction pricing and general demand have pressed rental rates upward in the Metro. While asking rental rates for new, bulk industrial buildings have increased by 10.0 percent year-to-date, market wide rental rates have been reigned in as a result of all the large buildings delivered in the market. Rental rates decreased slightly \$0.05/SF during the past quarter but increased \$0.74/SF during the past year, equating to a 15.7% increase.

Projects under construction have accelerated, increasing 19.3% compared to 12 months ago. During the past two years, under-construction activity increased a total of 6.8 million square feet, to 13.0 million square feet. Historically, during the past 15 years, under-construction projects have averaged only 4.9 million square feet. The market realized 10.1 million square feet of deliveries during the past four quarters, an increase of 58.4% when compared to the average prior three-year time period. Although vacancy has remained relatively flat during the past seven quarters, only fluctuating 10 to 20 basis points per quarter and ranging between 4.4% and 4.7%, approaching record lows, substantial levels of new product delivering to the market may push vacancy upwards between 270 bps and 320 bps. Record levels of net absorption during the past two years, totaling 20.0 million square feet, counterbalanced new deliveries, totaling 17.3 million square feet, during the same time period.

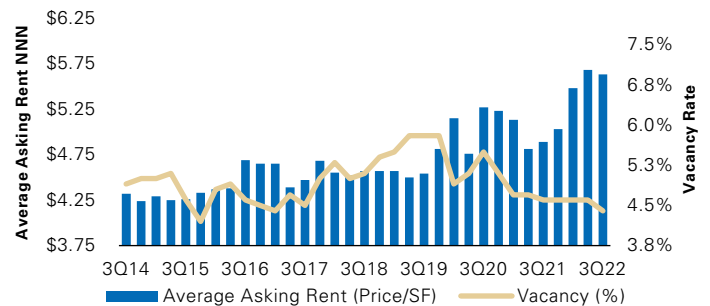
Kansas City is the 31st largest metropolitan statistical area by population in the U.S. but ranked an impressive 16th in overall industrial market size in the third quarter of 2022. Further, the market ranked 10th in percentage of net absorption to market size, demonstrating above average and resilient leasing activity.

Current Conditions

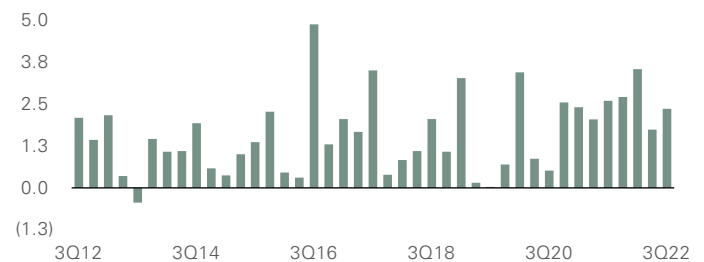
- Kansas City is one of the most active markets in the U.S., ranking 10th in % of net absorption to market size, 7th in % of total deliveries to market size and 8th in % of under-construction square footage to market size.
- Asking rent (NNN) remains near record high registering \$5.63/SF, an increase of 15.7% from 3Q21 to 3Q22.
- Panasonic to bring \$4.0 billion EV battery megaproject to De Soto, KS.
- Amazon officially opens 517,000-SF sortation facility at Liberty Commerce Center.

Market Analysis

ASKING RENT (NNN) AND VACANCY RATE



NET ABSORPTION (SF, Millions)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	314 MSF	310 MSF	302 MSF	↑
Vacancy Rate	4.40%	4.60%	4.60%	↓
Qtr. Net Absorp.	2,359,060	1,738,471	2,601,025	↑
Asking Rent NNN	\$5.63	\$5.68	\$4.89	↑
Under Construct.	12,953,390	12,414,345	10,860,381	↔
Deliveries	1,826,081	1,671,781	2,345,885	↑

RESEARCH Q3 2022

Development and future projects in the pipeline were also solid, with Kansas City ranked seventh overall in percentage of total deliveries to market size and eighth in percentage of under-construction square footage to market size during the past four quarters.

Panasonic to Bring \$4.0-Billion Megaproject to De Soto, Kansas

Panasonic Energy and the State of Kansas officially announced in July that the firm selected De Soto, Kansas as the next site for its EV battery plant. The deal is expected to bring \$4.0 billion in investments, along with 4,000 manufacturing jobs to suburban Kansas City. As the automotive industry shifts to more sustainable electric technologies, Panasonic will primarily use the site to manufacture lithium-ion batteries for Tesla but has stated that production is not exclusive to the electric vehicle maker. Although an official plant size has not been released, the De Soto, Kansas megaproject is expected to be larger than Panasonic and Tesla's joint factory located in Sparks, Nevada. Gigafactory 1 currently totals 2.0 million square feet, housing 5.3 million square feet of usable operational area across multiple floors. The State of Kansas will reimburse Panasonic with approximately \$829.2 million in subsidies once the firm has completed the investment and hiring process. The state

estimates the development to generate \$2.5 billion in annual economic activity, offsetting Kansas's largest development subsidy package. Panasonic announced in August plans for a second \$4.0-billion EV battery project this year in Oklahoma.

Amazon Officially Opens 517,000-Square-Foot Sortation Facility at Liberty Commerce Center

Amazon.com, Inc. officially opened a new 517,000-square-foot "middle mile" sortation facility, the first within the Metro, in late August. Located at 2299 South Withers Rd. within the Liberty Commerce Center development, the center will act as a Midwestern hub and assist in routing packages throughout the U.S. The location currently employs 200 but is expected to expand to approximately 750 positions at full capacity. The new sortation center is the 11th Amazon facility within the Kansas City Metropolitan area.

NorthPoint Development plans to deliver a total of seven buildings at Liberty Commerce Center, which will bring a total of 3.6 million square feet to the Northland. Five structures are currently under construction at the development, including a 1.0-million-square foot facility for Project Luna, a 520,000-square-foot building, two additional 517,000-square-foot buildings and a 251,000-square-foot structure.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Panasonic Energy	TBD (EV Battery Plant)	North Johnson County	New	2,000,000+ (Est.)
KCI, Inc.	4134 E Front St	East Jackson County	New	78,160
ASMI Stone and Tile, LLC	16500-16690 W 116th St	North Johnson County	New	63,590
Recovery Management Corporation	7460 Stadium Dr	East Jackson County	New	52,500
Truman Medical	1340 Taney St	Northland	New	40,900
Key Granite	5301 E Front St	East Jackson County	New	39,900

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
MDH Partners Sunbelt Portfolio (6)	Multiple Submarkets	\$189,980,000	\$104	1,831,150
1225 Ozark St	Northland	\$1,865,000	\$45	41,770
5035 Raytown Rd	East Jackson County	\$1,750,000	\$42	41,400
120 S 56th Ter	Wyandotte County	\$5,500,000	\$157	35,000
12425 W 92nd St	North Johnson County	\$3,192,000	\$95	33,790
10900-10910 Pflumm Rd	South Johnson County	\$2,025,000	\$113	17,990
10321-10333 W 84th Ter	North Johnson County	\$1,467,000	\$100	14,670
6447 Vista Dr	North Johnson County	\$1,300,000	\$113	11,520

Submarket Statistics									
Submarket	Building Type	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Asking Rent Ind. Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
Downtown	ALL	11,110,215	0	4.80%	-98,200	302,580	\$7.33	\$8.88	\$8.11
	Warehouse	10,645,810	0	4.40%	-88,200	313,205	\$7.33	\$8.88	\$8.00
	Flex	464,405	0	14.30%	-10,000	-10,625	-	-	\$8.57
	Underground	0	0	-	0	0	-	-	-
East Jackson Co.	ALL	64,085,592	153,473	1.40%	46,334	1,369,843	\$4.36	\$7.10	\$5.23
	Warehouse	45,294,705	153,473	1.80%	7,834	1,253,702	\$4.10	\$7.06	\$5.13
	Flex	1,771,168	0	4.90%	0	51,807	\$10.92	\$8.11	\$8.09
	Underground	17,019,719	0	0.20%	38,500	64,334	-	-	\$4.20
Midtown	ALL	8,437,783	0	5.40%	-52,289	77,334	\$5.22	\$8.96	\$8.76
	Warehouse	5,505,312	0	3.40%	-6,543	138,327	\$5.22	\$7.50	\$7.67
	Flex	1,596,124	0	1.20%	35,400	35,400	-	\$14.00	\$10.00
	Underground	1,336,347	0	18.40%	-81,146	-96,393	-	-	\$8.12
North Cass Co.	ALL	4,295,379	498,599	11.90%	0	8,170	\$8.50	\$4.50	\$4.35
	Warehouse	4,199,454	498,599	12.20%	0	0	\$8.50	-	\$4.33
	Flex	95,925	0	0.00%	0	8,170	-	-	\$7.50
	Underground	0	0	-	0	0	-	-	-
North Johnson Co.	ALL	27,064,774	1,063,096	3.40%	237,514	598,428	\$6.61	\$6.26	\$6.55
	Warehouse	21,737,325	1,063,096	2.90%	290,012	555,671	\$6.11	\$5.98	\$6.32
	Flex	2,327,449	0	7.80%	25,502	42,757	\$11.28	\$8.88	\$8.66
	Underground	3,000,000	0	3.60%	-78,000	0	-	-	\$7.00
Northland	ALL	67,821,963	3,464,155	4.60%	801,369	1,541,265	\$7.37	\$5.67	\$5.17
	Warehouse	57,217,908	3,464,155	4.10%	808,481	1,393,212	\$7.38	\$5.64	\$5.15
	Flex	1,643,989	0	7.40%	-7,112	-51,947	\$6.95	\$6.75	\$7.80
	Underground	8,960,066	0	7.00%	0	200,000	-	-	\$3.00
South Jackson Co.	ALL	23,958,620	3,138,206	4.10%	376,650	679,136	\$9.07	\$5.43	\$5.33
	Warehouse	22,859,785	3,138,206	4.00%	387,593	701,346	\$8.95	\$5.33	\$5.25
	Flex	1,098,835	0	4.40%	-10,943	-22,210	\$11.50	\$7.50	\$8.86
	Underground	0	0	-	0	0	-	-	-
South Johnson Co.	ALL	60,069,025	4,038,961	7.80%	626,899	1,821,033	\$11.26	\$5.84	\$4.99
	Warehouse	55,918,696	3,968,961	7.70%	593,158	1,777,281	\$11.25	\$5.60	\$4.80
	Flex	4,150,329	70,000	7.80%	33,741	43,752	\$11.33	\$9.07	\$9.69
	Underground	0	0	-	0	0	-	-	-
Wyandotte Co.	ALL	46,625,906	596,900	3.40%	420,783	1,245,486	\$5.58	\$5.04	\$4.77
	Warehouse	45,884,317	596,900	3.30%	432,681	1,252,014	\$5.58	\$4.98	\$4.74
	Flex	741,589	0	9.90%	-11,898	-6,528	-	\$8.84	\$8.84
	Underground	0	0	-	0	0	-	-	-
Kansas City Market	ALL	313,469,257	12,953,390	4.40%	2,359,060	7,643,275	\$6.20	\$5.63	\$5.16
	Warehouse	269,263,312	12,883,390	4.40%	2,425,016	7,384,758	\$5.98	\$5.45	\$5.02
	Flex	13,889,813	70,000	6.70%	54,690	90,576	\$10.43	\$9.22	\$9.16
	Underground	30,316,132	0	3.50%	-120,646	167,941	-	-	\$4.85

Submarket Statistics - Warehouse

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Asking Rent Ind. Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
Downtown	10,645,810	0	4.40%	-88,200	313,205	\$7.33	\$8.88	\$8.00
East Jackson Co.	45,294,705	153,473	1.80%	7,834	1,253,702	\$4.10	\$7.06	\$5.13
Midtown	5,505,312	0	3.40%	-6,543	138,327	\$5.22	\$7.50	\$7.67
North Cass Co.	4,199,454	498,599	12.20%	0	0	\$8.50	-	\$4.33
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Submarket Statistics - Flex

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Asking Rent Ind. Gross (Price/SF)	Asking Rent Triple Net (Price/SF)	Total Asking Rent (Price/SF)
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Economic Conditions

The local economy continued to improve in the third quarter, with total employment growth of 0.9% and growth occurring in eight out of ten industries, calculated on a 12-month percent change basis.

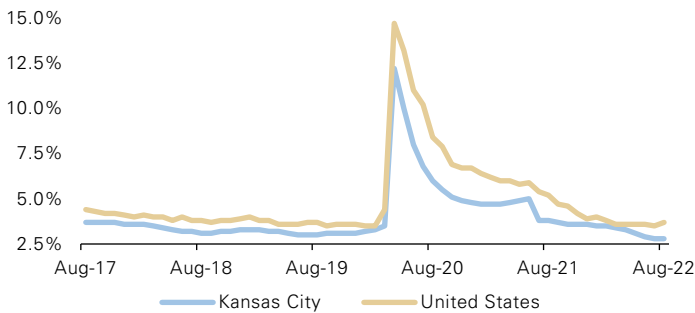
Payroll employment in Kansas City decreased to 0.9% in August 2022 compared with 3.2% in August 2021. The national average also decreased, down from 4.4% in August 2021 to 4.0% in August 2022.

The Consumer Price Index for the U.S. increased 300 basis points compared to the prior year, registering 8.3% in August 2022, while the Midwest Urban CPI increased 240 basis points to 8.1%, both near record highs during the past four decades.

Unemployment in the U.S. increased 10 basis points to 3.7%, while unemployment in Kansas City decreased 30 basis points to 2.8% compared with the past quarter. Unemployment in Kansas City decreased 100 basis points from a year prior.

Unemployment Rate

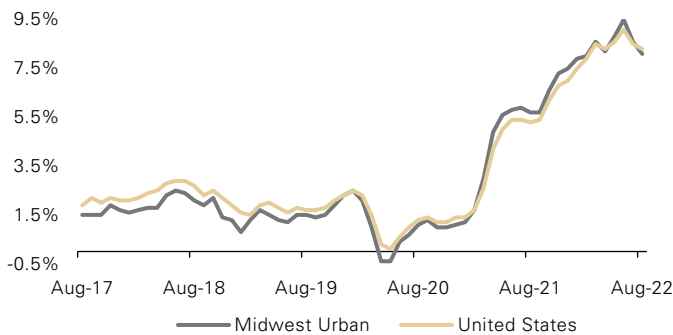
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, September 2022

Consumer Price Index (CPI)

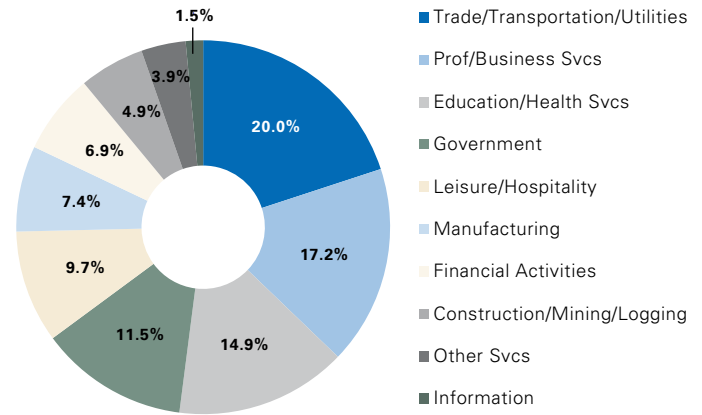
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, September 2022

Employment By Industry

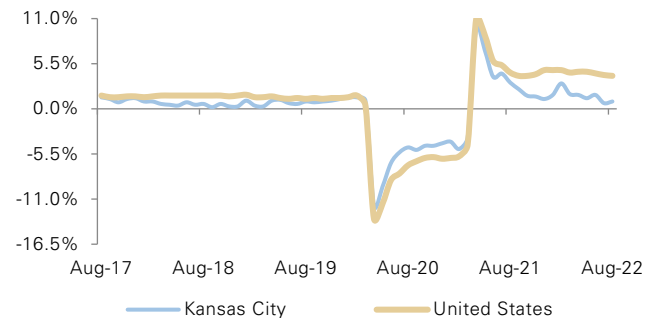
Kansas City, August 2022



Source: U.S. Bureau of Labor Statistics, September 2022

Payroll Employment

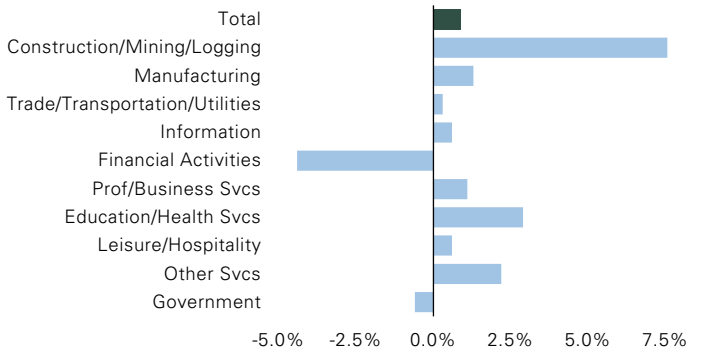
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, September 2022

Employment Growth By Industry

KC, Aug. 2022, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, September 2022

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