

Kansas City Industrial Market Overview



Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. August’s 2.8% unemployment rate was significantly lower than the 4.2% 10-year historical average.
- Year-over-year, job gains have been most pronounced in the services industry, which is still making up for lost ground during the pandemic. Construction led all sectors in job gains during the past 12 months.
- Industrial firms are continuing to adjust labor needs. Locally, one out of the three industrial sectors experienced growth during the past year. Construction experienced growth of 5.2%, trade/transportation/utilities remained flat at 0.0% and manufacturing registered negative 5.1%.

Major Transactions

- Build-to-suits, inclusive of megaprojects, will continue as the pace of market-wide speculative development slows in response to the high cost of construction financing.
- The largest transaction during the quarter occurred in De Soto, Kansas as Flint Development broke ground on Building C of the Flint Commerce Center, following Panasonic’s 509,760-SF commitment to lease half of the 1.0-million-SF building. In addition, Cnano Technology USA will invest nearly \$94.7 million to own and occupy a 333,000-SF facility at New Century Commerce Center in South Johnson County. Lastly, Community Wholesale Tire will fully occupy the 203,900-SF HMBC Logistics V Building being developed by Hunt Midwest as a BTS in the Northland.

Leasing Market Fundamentals

- Absorption in the third quarter of 2023 totaled 1.5 million SF, down from 1.9 million SF of absorption last quarter but rebounding to a normal level after a slow first quarter. Total net absorption during the past four quarters totaled 11.5 million SF, equating to an increase of 12.3% compared with the average annual absorption during the pandemic period.
- The 8.6-million-SF construction pipeline decreased significantly as 4.2 million SF delivered to the market during the quarter. As delivered speculative inventory becomes leased, the next construction cycle will offer very few alternatives, leading to a tightening of vacancy. Vacancy increased 70 basis points to 4.9% during the quarter as unleased space across 13 buildings delivered to the market. The increase in vacancy is not due to a weakness in leasing fundamentals, as seen in other markets.

Outlook

- As the 15th largest industrial market in the United States, totaling 330.4 million SF, Kansas City will continue to prosper in the current environment as it is geographically centered, benefits from a skilled labor force and extensive transportation network and offers reasonable real estate and energy costs. Rampant over supply has not occurred during or after the pandemic. Vacancy is projected to remain under 5.2% in the near-term with steady demand and slowing supply.
- Rent growth, aggressive from 2019 through 2022, has decelerated and will continue to reduce its pace of growth throughout the next four quarters but will maintain levels which exceed pre-pandemic highs as demand fundamentals persist and developers compensate for the rising cost of construction.

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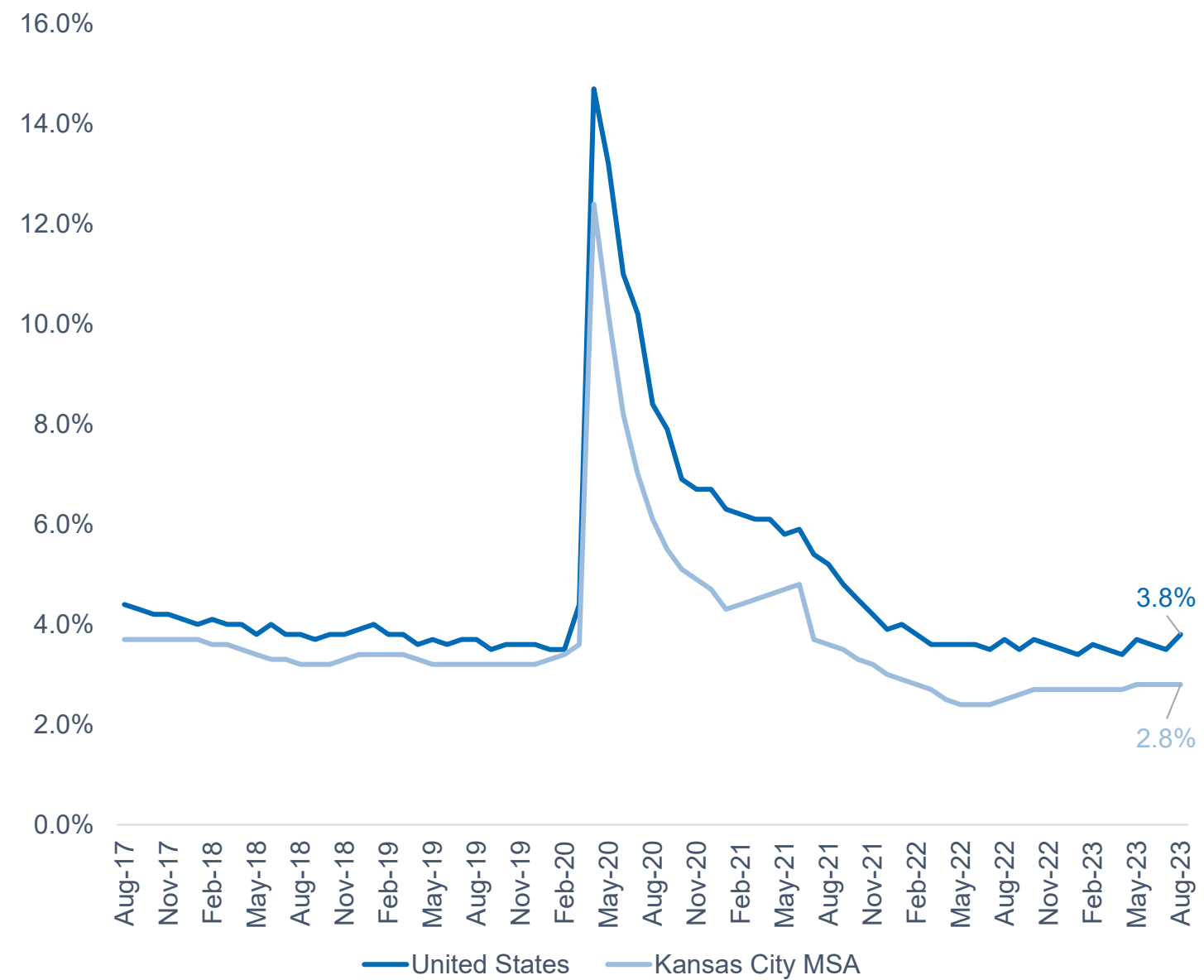
Economy



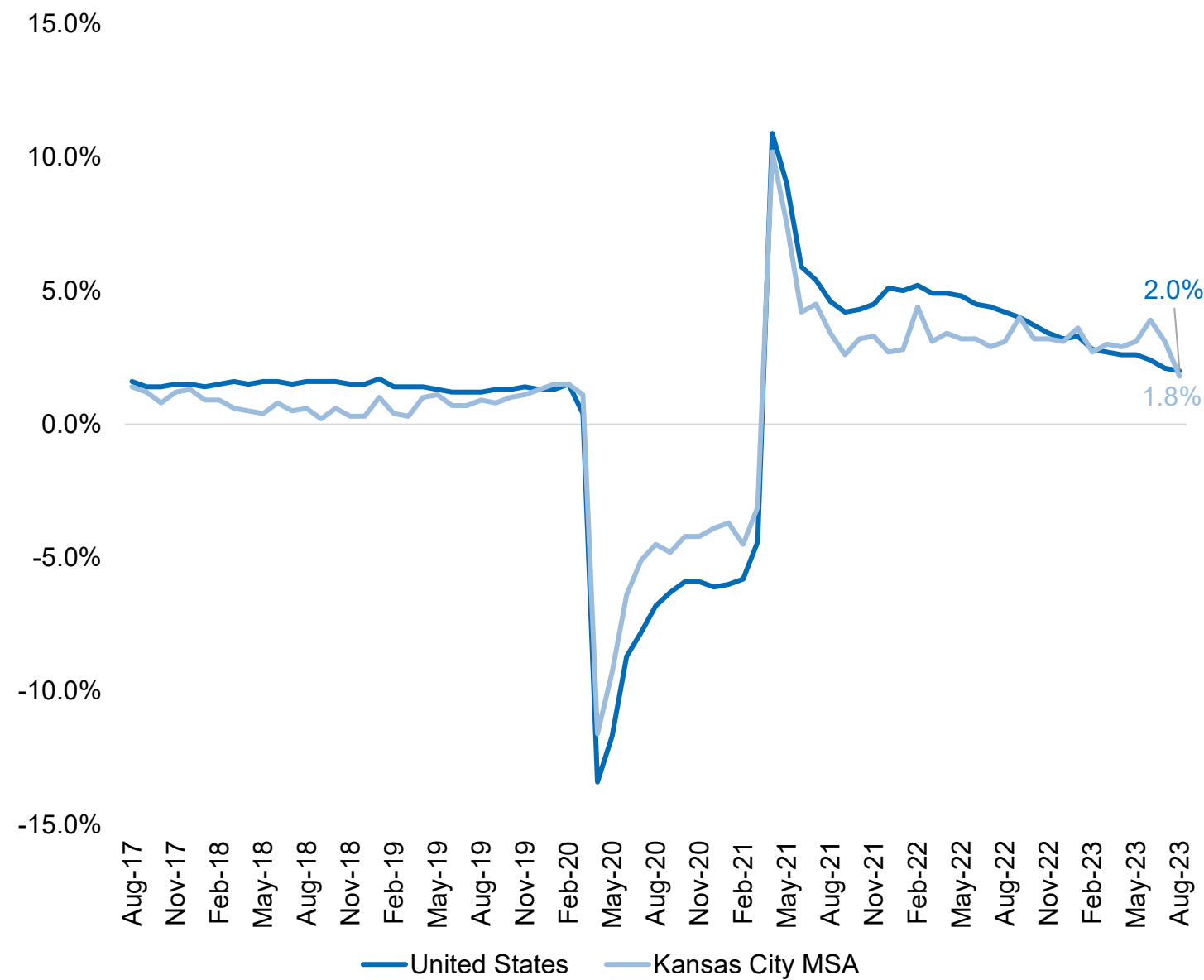
Metro Employment Trends Signal a Slowing Economy

Unemployment in the region recovered from the pandemic and remains 100 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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



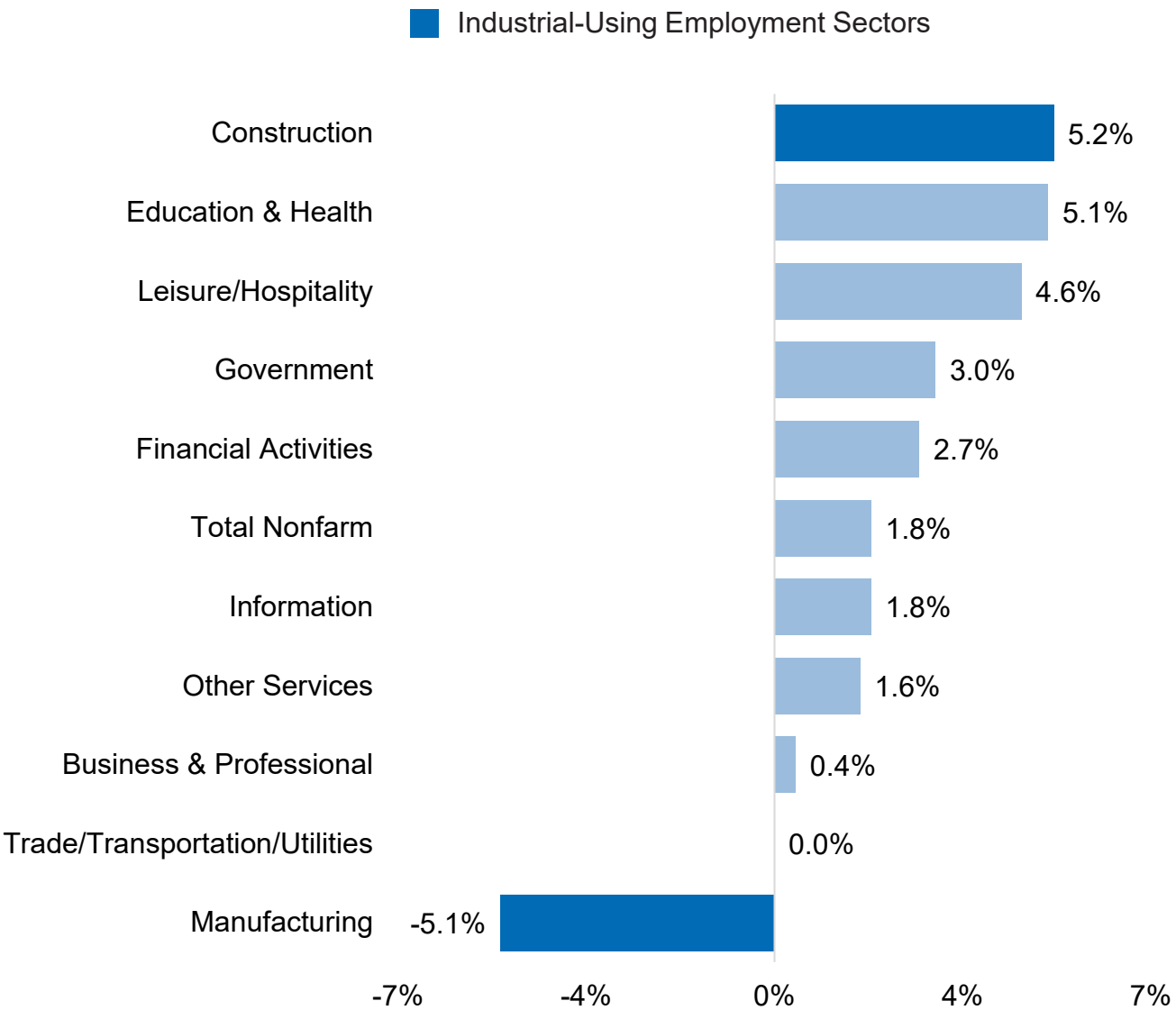
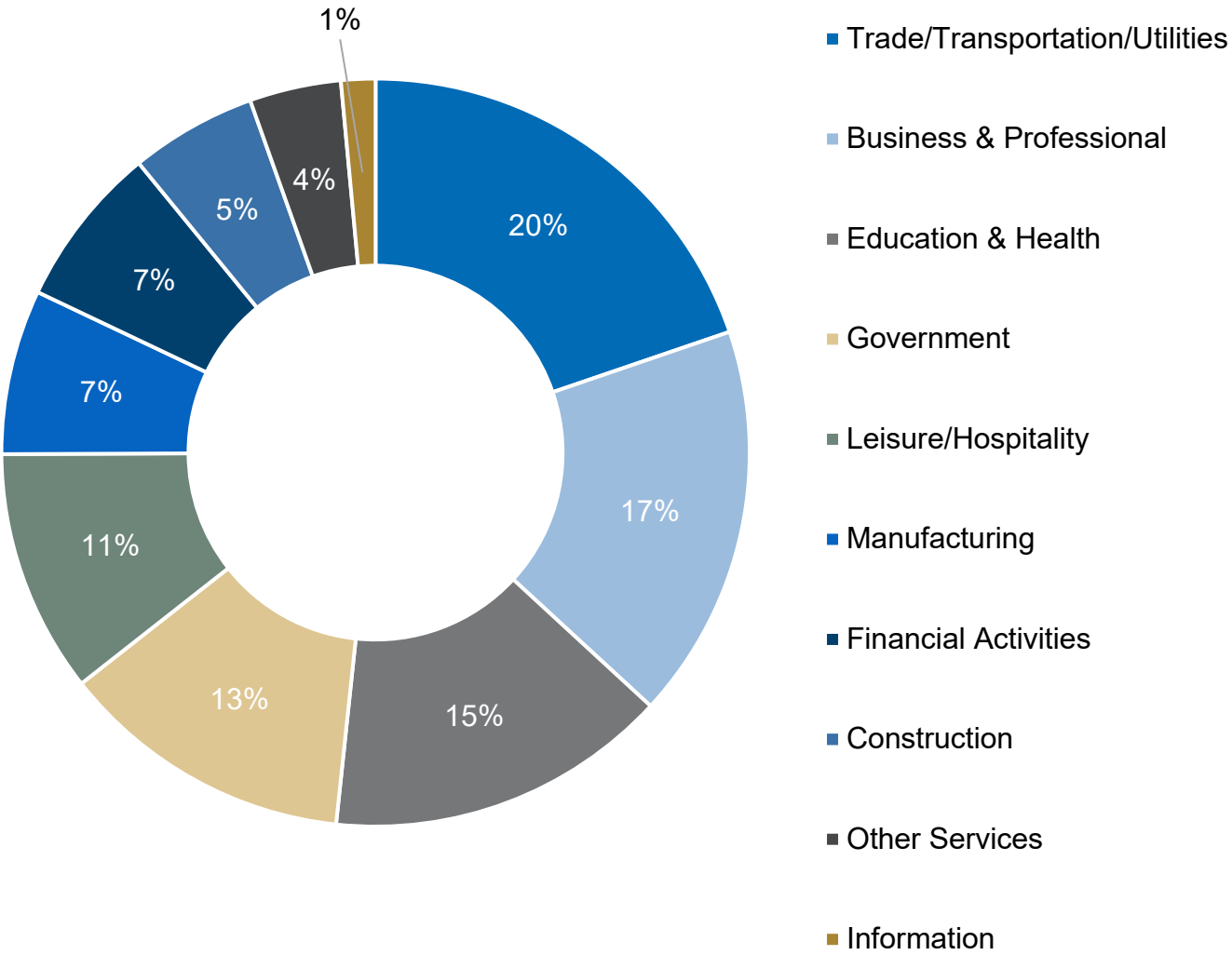
Source: U.S. Bureau of Labor Statistics, Kansas City MSA

Job Growth Driven Primarily by Shift in Spending

The construction sector led all industries in regional annual job growth at 5.2%. The top three sectors underline industries which are still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services and healthcare-related expenses.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

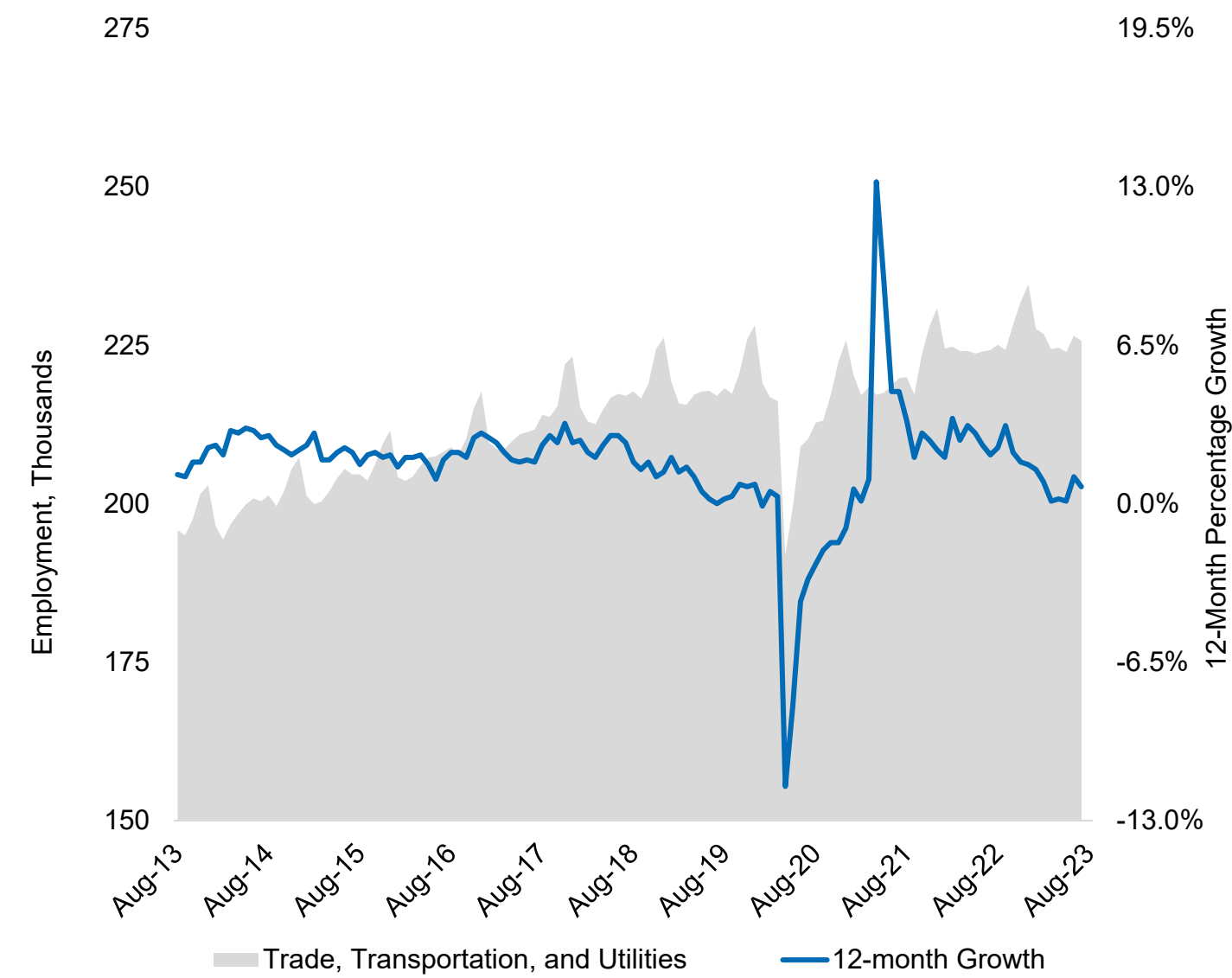


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

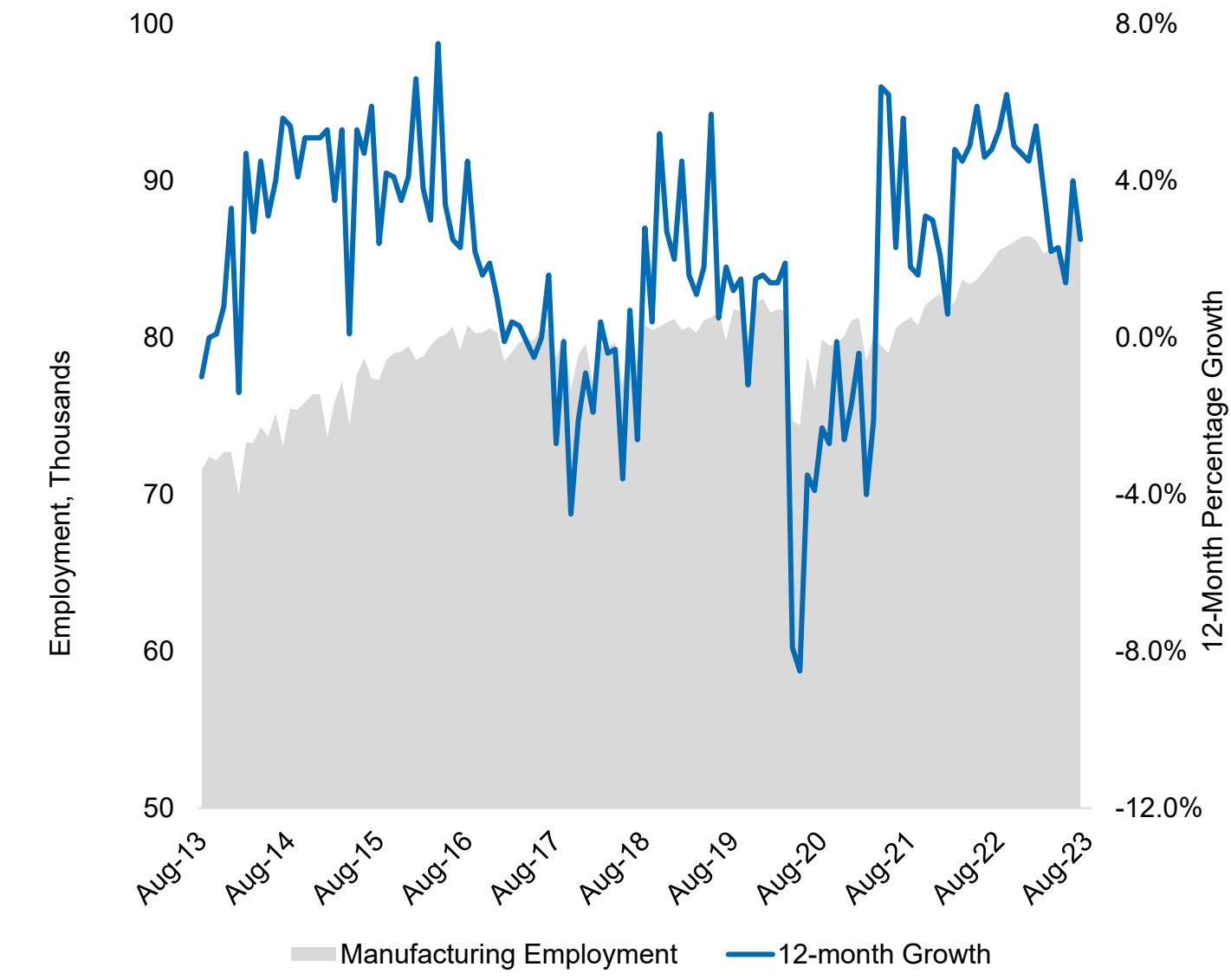
Overall Industrial-Using Employment Has Rebounded

The number of industrial jobs has rebounded to pre-pandemic levels. While there is seasonally a small 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 Summary

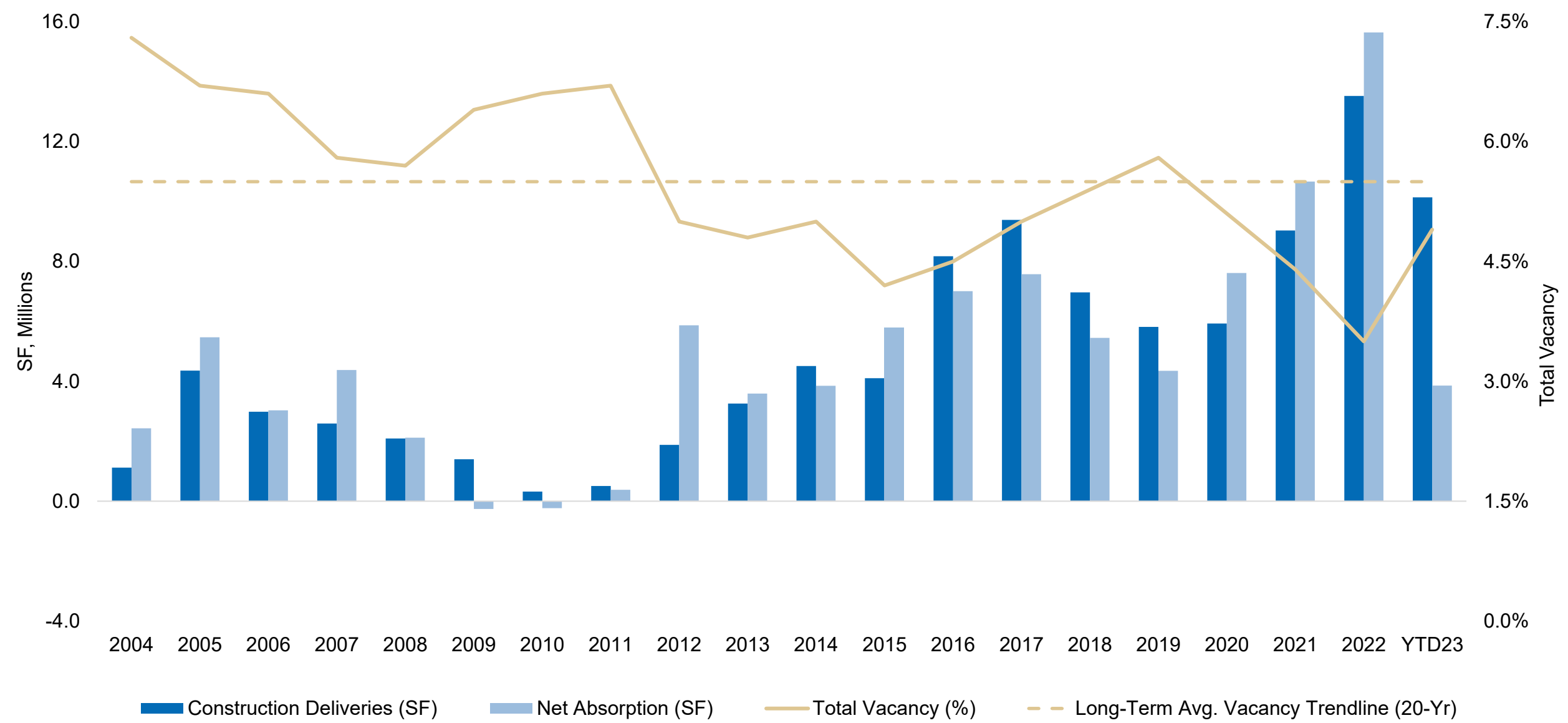


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Vacancy Rises as Construction Deliveries Outpace Net Absorption in 2023

Vacancy increased 0.7% (70 bps) to 4.9% due to 4.2 million SF delivering to the market during the third quarter of 2023. Net absorption totaled 1.5 million SF during the quarter, down slightly from 1.9 million SF of absorption last quarter but rebounding back to a normal level after a slow first quarter of 2023. The Kansas City industrial market is expected to draw above-average interest and leasing activity compared to other U.S. markets. Net absorption is expected to outpace deliveries during the next two quarters.

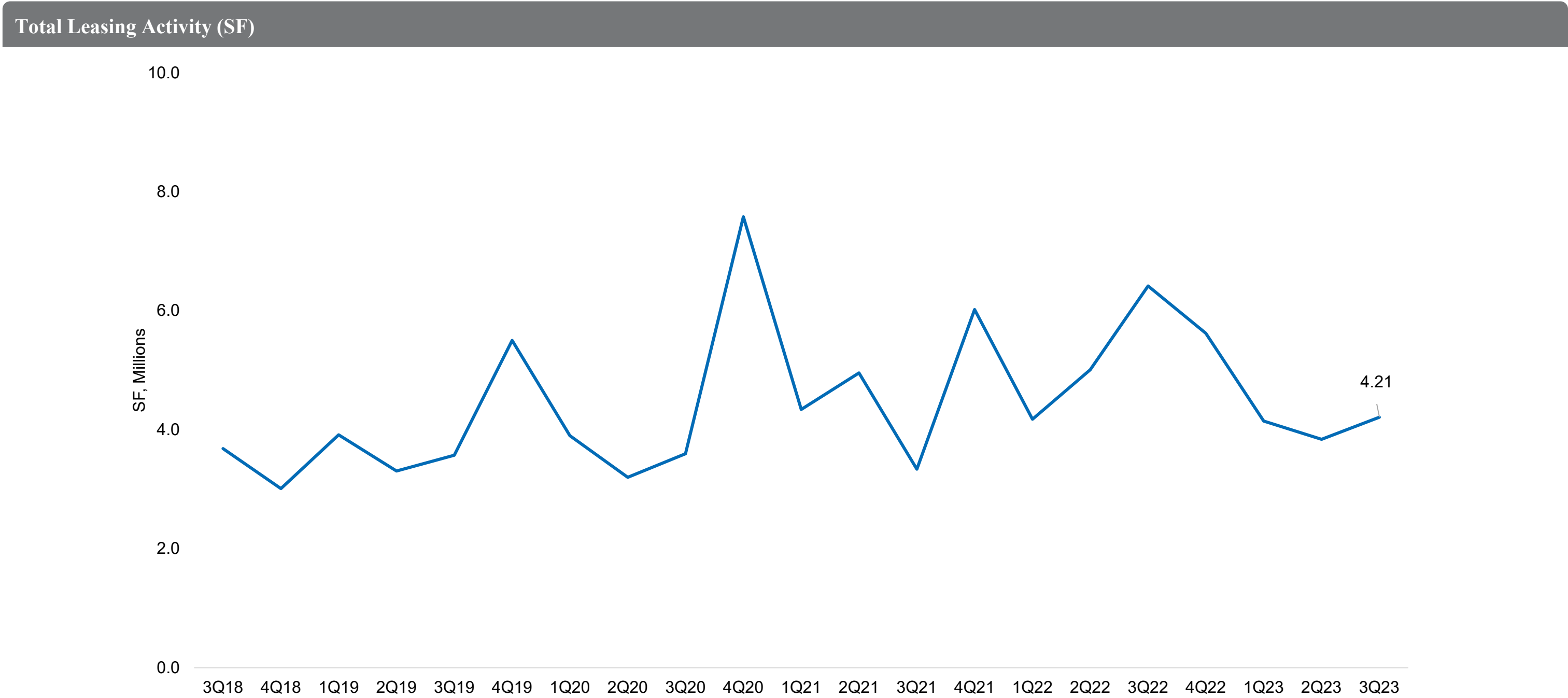
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Accelerates During the Quarter

In the third quarter of 2023, demand for industrial space accelerated to 4.2 million SF. Leasing volume is down a minimal 2.0% for the first three quarters of 2023 compared to the historical average over the past five years. Activity is expected to increase in the fourth quarter of 2023 as the Kansas City market historically experiences above-average growth during the last quarter of the year.

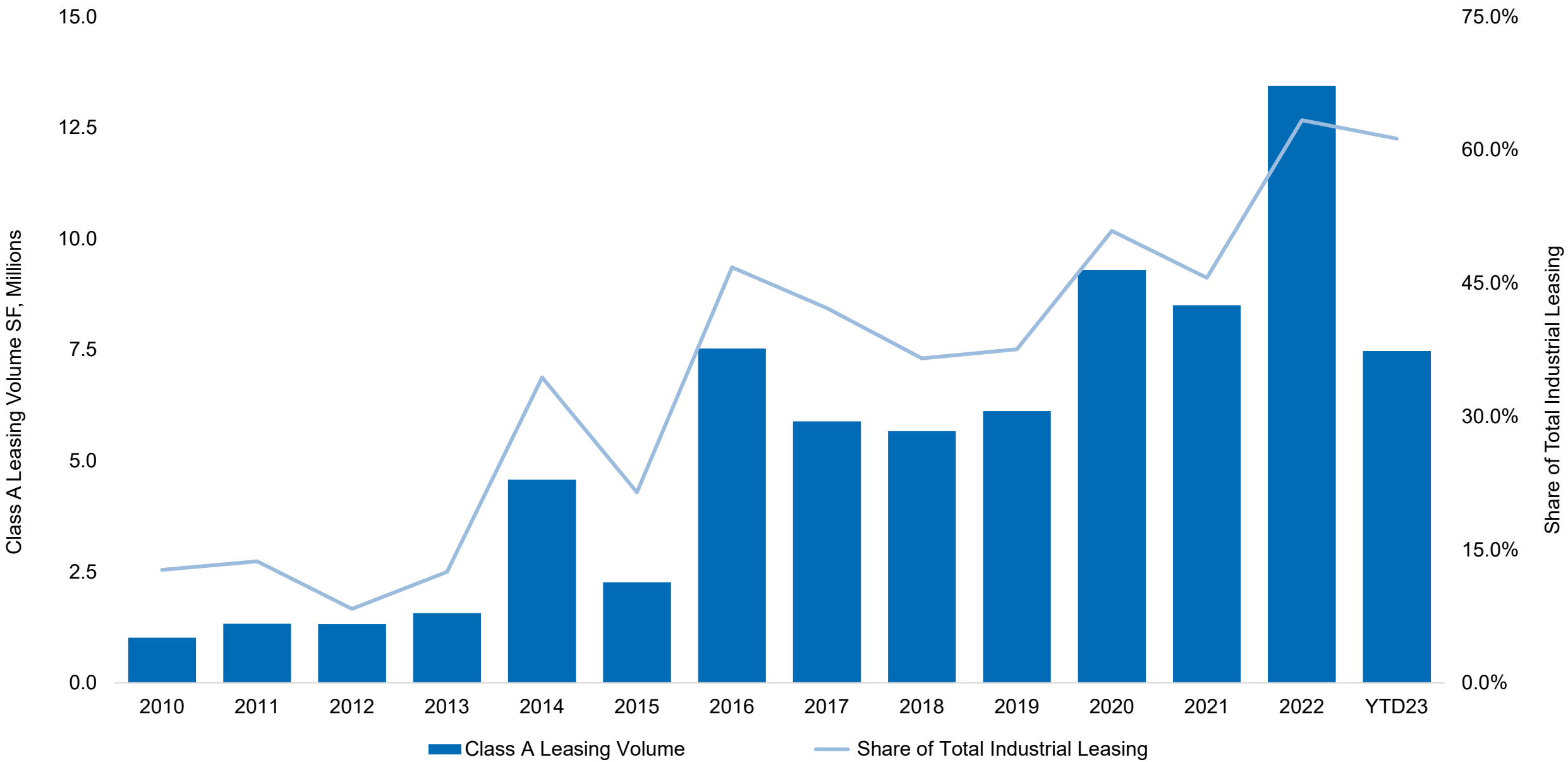


Source: Newmark Research, CoStar

Class A Warehouse Leasing Activity at 61.3% 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 61.3% of overall activity in the third quarter of 2023, slightly down from the record high of 63.3% in 2022 but above the five-year average from 2015 to 2019 of 36.9%.

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



Source: Newmark Research, CoStar

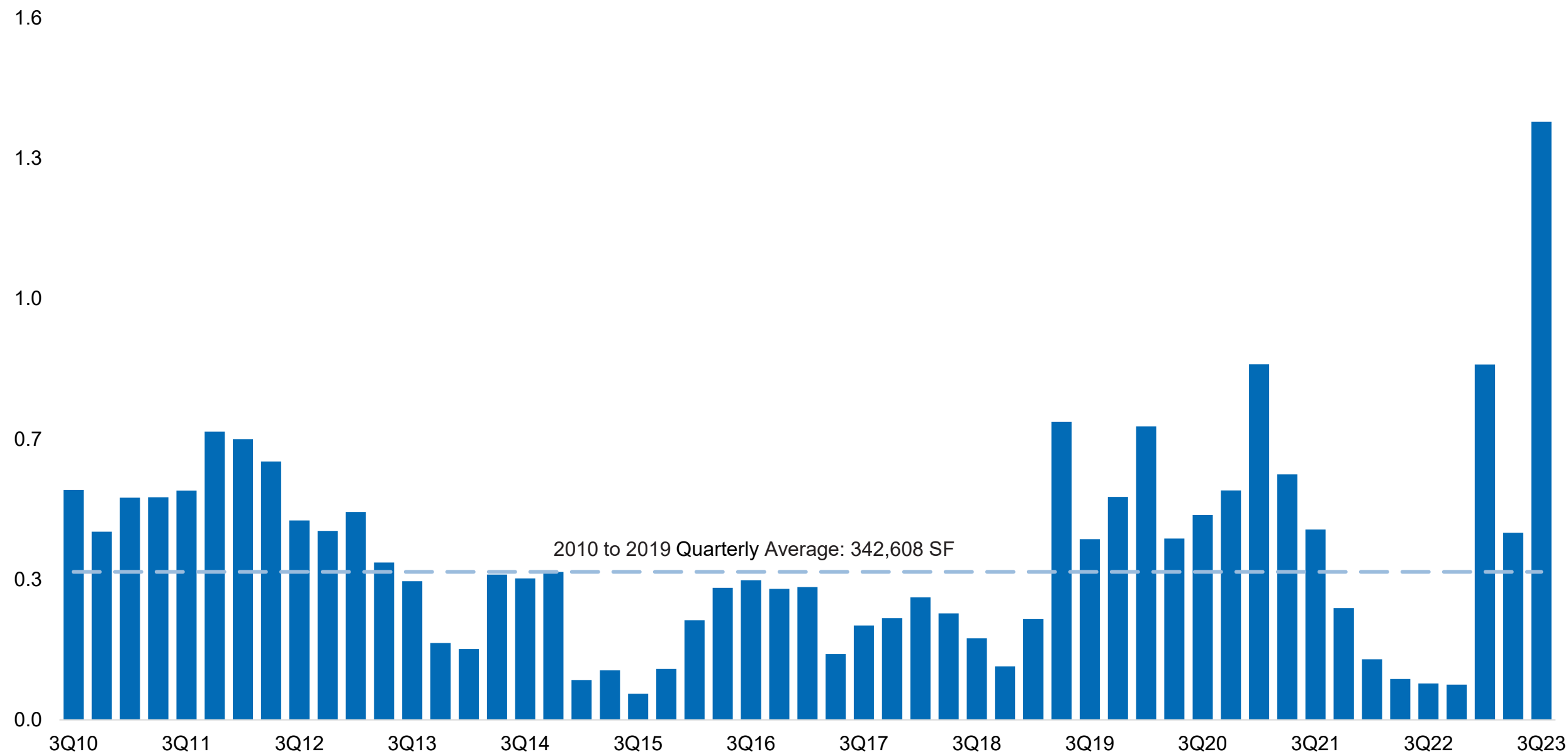
Vacancy Rises Across Marquee Submarkets

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Industrial Vacant Sublease Availability Above Pre-Pandemic Levels

A record high was registered for vacant available sublease space during the quarter as an additional 1.1 million SF came on the market from the Coleman Distribution Center. Additional active offerings are expected to be absorbed during the next two quarters, resulting in a moderate decrease of available sublease space. Compared to other markets in the U.S., total available vacant sublet space is minimal and only totals 0.4% of the total market.

Vacant Available Industrial Sublease Volume (MSF)

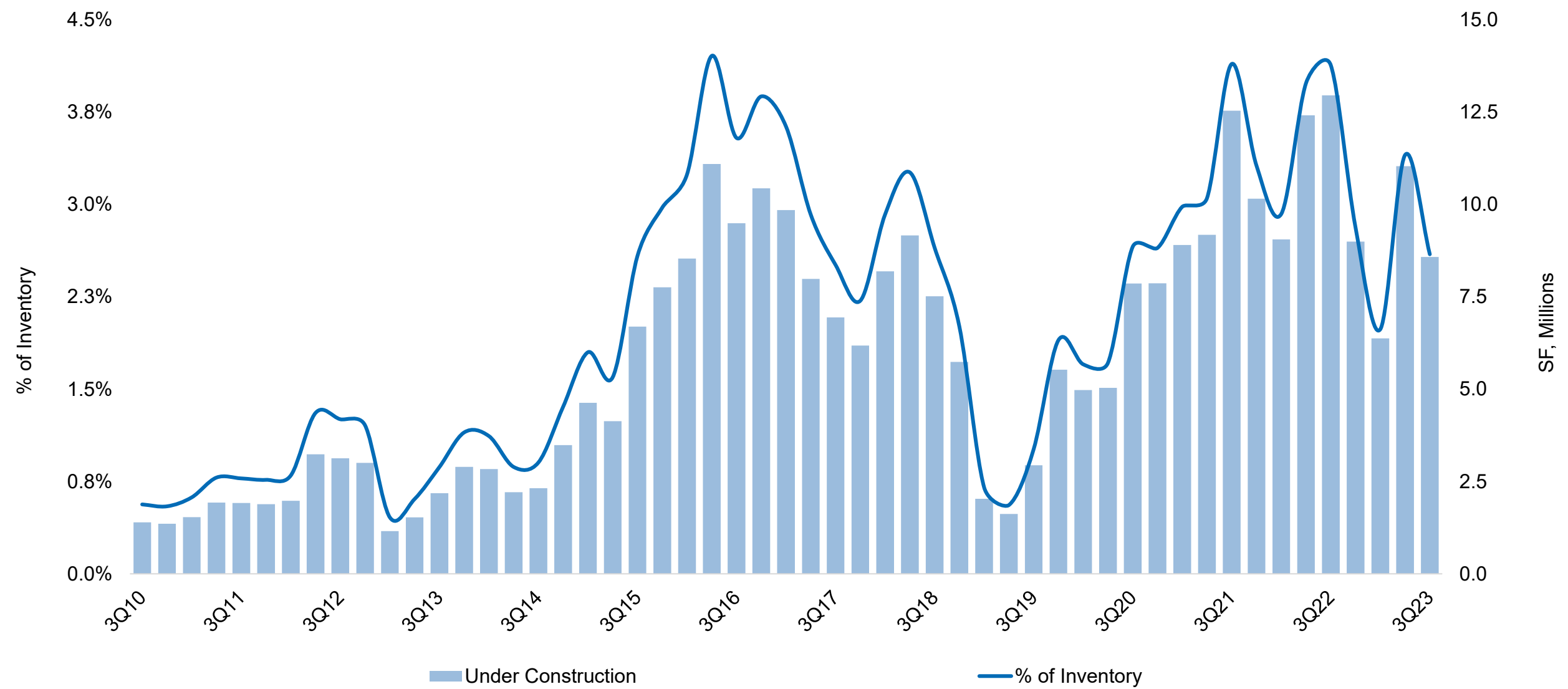


Source: Newmark Research, CoStar

Speculative Construction Pipeline Projected to Decline

The combined build-to-suit and speculative construction pipeline trended downward after reaching a record 13.0 million SF in the third quarter of 2022. Although under-construction projects currently total 8.6 million SF, the Panasonic BTS megaproject, which began construction last quarter, accounts for 3.5 million SF and pushed the aggregate level upwards. With recent announcements including Ace Hardware Corp.’s BTS at KCI 29 Logistics Park and Community Wholesale Tire’s BTS at HMBC Logistics Park, BTS projects are increasing, while spec activity is decreasing with less than 3.5 million SF of year-to-date starts; the major spec announcement being the 1.0-million-SF Building C at Flint Commerce Center. Expect spec activity to significantly decline from last year’s record high of 13.0 million SF as existing projects are absorbed, with limited new supply being introduced to the market in this construction cycle.

Industrial Under Construction and % of Inventory



Source: Newmark Research, CoStar

Speculative Construction is Concentrated in Structures Sized 500,000 RBA+

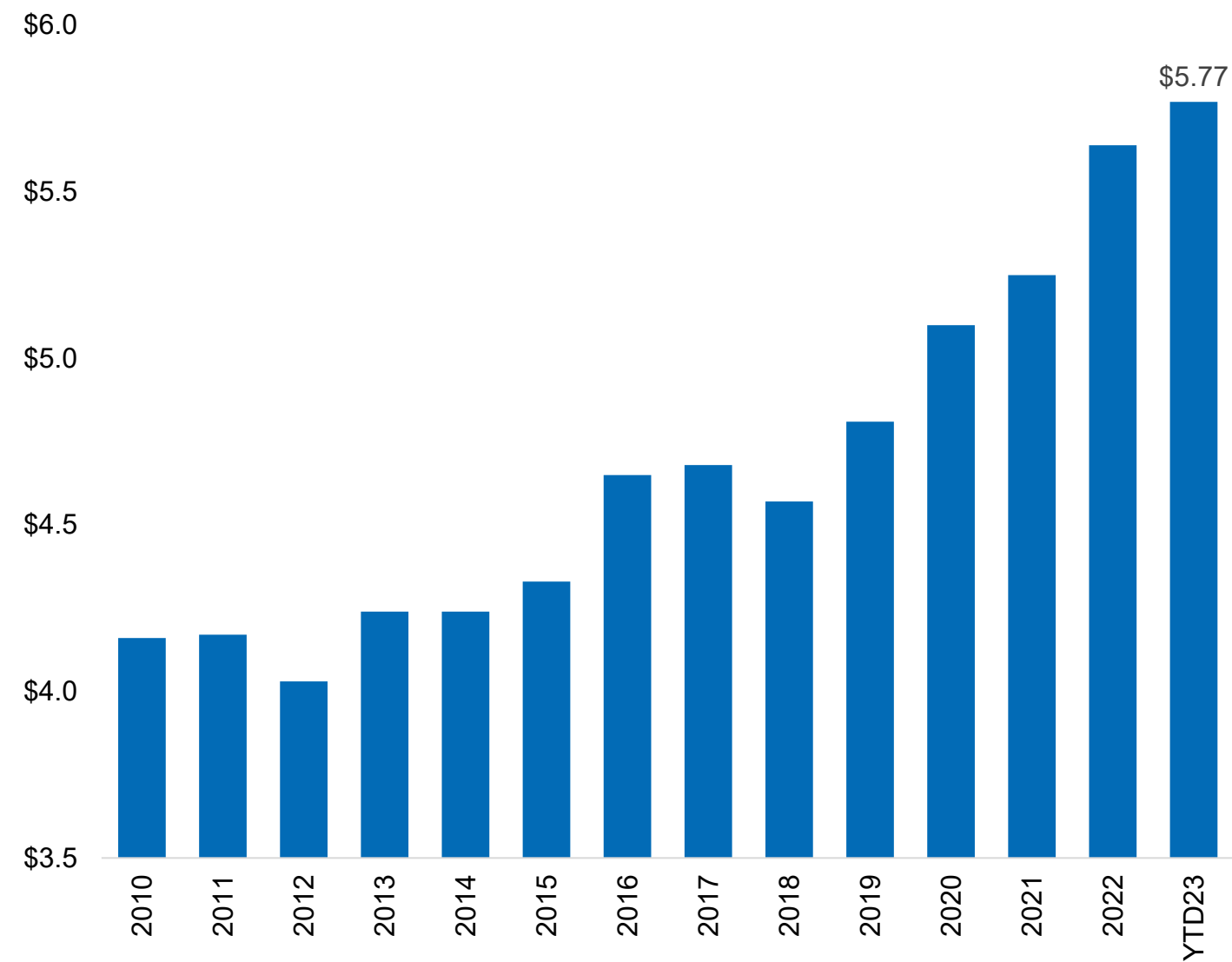


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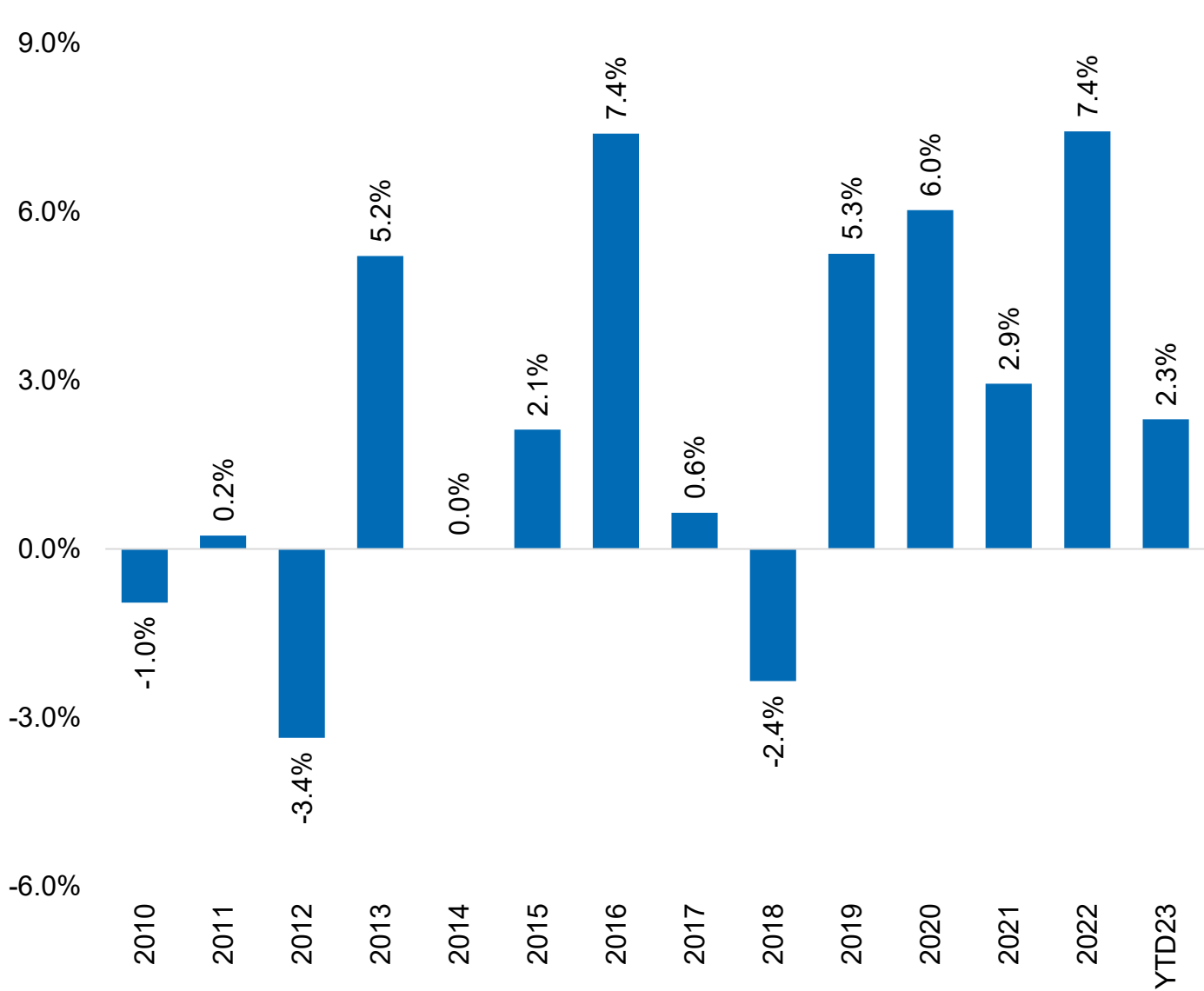
Record-Pace Industrial Asking Rent Growth Beginning to Moderate

Industrial average asking rents increased by a record 28.2% during the past 4.5 years. Rent growth is expected to moderate during the next two quarters and finish the first quarter of 2024 in the \$5.90/SF to \$5.95/SF range. Expect higher-priced quality space coming online to help maintain steady asking rent growth.

Industrial Average Asking Rent, \$/SF, NNN



Year-Over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Class A Warehouse Rents Continue to Climb



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Notable 3Q23 Lease Transactions

The market tightened with 1.5 million SF of net absorption during the quarter, but vacancy increased 70 bps due to unleased space within buildings delivering to the market in the third quarter of 2023. Megaprojects and new industrial park announcements will continue to incentivize market-wide industrial development and leasing activity. The largest transaction during the quarter occurred in De Soto, Kansas as Flint Development broke ground at Flint Commerce Center, following Panasonic’s 509,760-SF commitment to the project.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Panasonic Energy	Building C – Flint Commerce Center	South Johnson County	Direct New	509,760
In addition to the \$4.0 billion lithium-ion battery manufacturing factory under construction in De Soto, Kansas, Panasonic announced it will lease half of the 1.0 million-square-foot, Building C of the Flint Commerce Center. The multi-tenant property is expected to deliver to the market in Summer 2024. Newmark Zimmer acted as the listing representative in the transaction.				
Veritiv Corporation	2552 S 98th Street	Wyandotte County	Direct Renewal	280,000
The full-service packaging, printing and facility solutions provider will occupy the entire 280,000-SF facility located at 2552 S 98th Street in Edwardsville, Kansas. The Class A building delivered to the market in 2013 and includes 32 dock doors with 32-foot ceiling heights. Industrial Logistics Properties Trust purchased the building in 2022 via an acquisition of Monmouth Real Estate Investment Corporation.				
Community Wholesale Tire	4700 N Arlington Avenue	Northland	Direct New	203,900
Community Wholesale Tire will fully occupy the 203,900-SF HMBC Logistics V Building currently under construction as a BTS by Hunt Midwest in the Hunt Midwest Business Center. The new Class A distribution center will feature 32-foot minimum clear height and a 190-foot-deep truck court. The single-tenant property is expected to deliver to the market by the end of 2023.				
Origin Point Brands	5300 Kansas Avenue	Wyandotte County	Direct New	191,740
Origin Point Brands will move into 191,740 SF of space within the 517,390-SF infill logistics building. The Class B facility features 44 dock doors, 24-foot to 32-foot ceiling clearance and parking for 60 trailers and 120 vehicles. Newmark Zimmer acted as both the tenant representative and the listing representative in the transaction.				
Harmar Mobility	1200 S Dean Avenue	North Cass County	Direct New	146,660
Harmar Mobility will occupy 146,660 SF of space in Building II of the Dean Commerce Center in Raymore, Missouri. The 498,600-SF, Class A property recently delivered to the market in the second quarter of 2023. Newmark Zimmer acted as the tenant representative in the transaction.				

Source: Newmark Research

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Submarket Statistics



Submarket Statistics (Pages 1-5)

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