

Kansas City Industrial, Q1 2018

1.9 million sq. ft. of new industrial space delivered

▲ Vacancy Rate
5.8%

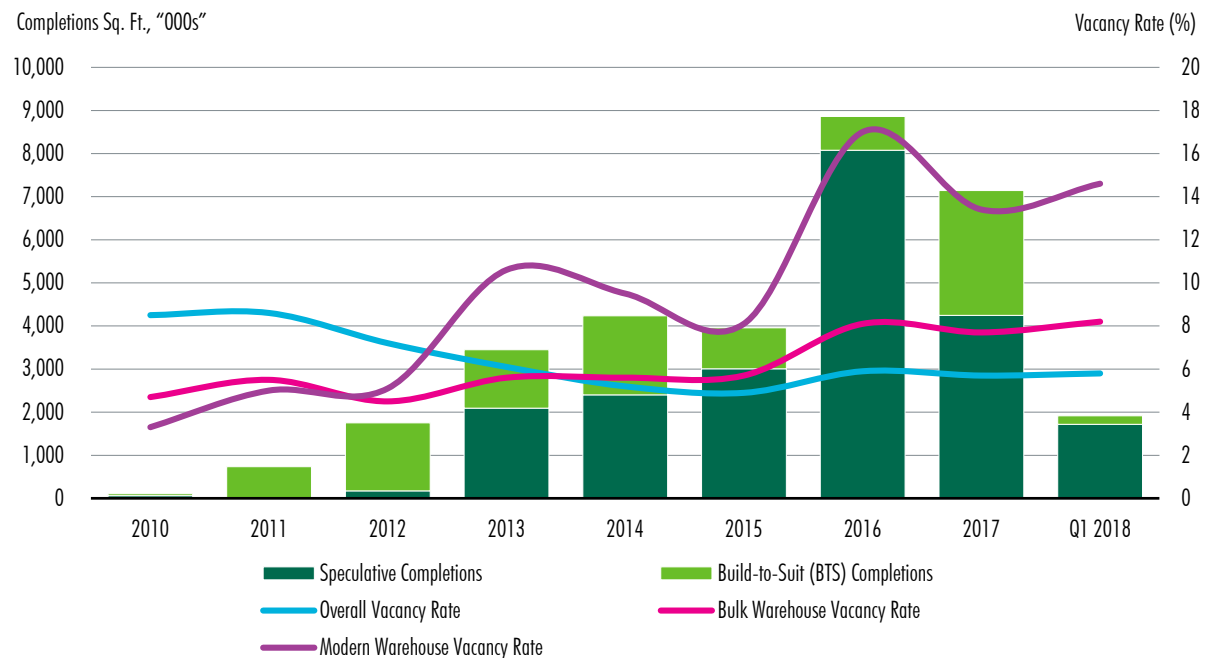
▼ Lease Rate
\$4.50 PSF

▲ Net Absorption
1.2 MSF

▲ Completions
1.9 MSF

*Arrows indicate change from previous quarter.

Figure 1: Construction Completions and Vacancy Rates

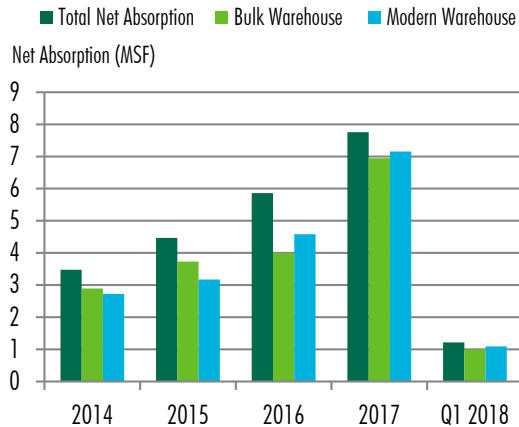


Source: CBRE Research, Q1 2018.

- General Motors announced plans to invest \$265 million to build the first-ever Cadillac XT4 crossover SUV in its Fairfax Assembly & Stamping Plant. The investment insures the company's commitment to the area and their approximately 2,235 jobs.
- Faurecia Interior Systems announced construction of a new 250,000 sq. ft. plant in Blue Springs, MO. The French auto supplier has a contract to supply Ford Motor Company at the Kansas City Plant in Claycomo. Approximately 300 jobs will be created by the new plant which is expected to be completed in late 2018, and reach full capacity by the end of 2020.

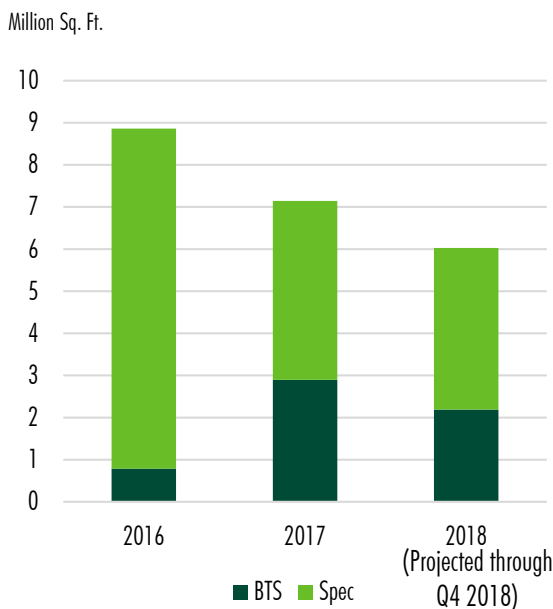
1.9 million sq. ft. of industrial space reached completion in Q1 2018, with 1.7 million sq. ft. built on a speculative basis. A total of 21.9 million sq. ft. of industrial space reached completion since the beginning of 2015, the highest total in the Midwest outside of Chicago. Net absorption posted 1.2 million sq. ft. in Q1 2018. Net absorption has been escalating over the last 5 years, posting 26.7 million sq. ft. over that time period. Vacancy rates increased 10 basis-points (bps) quarter-over-quarter, finishing Q1 2018 at 5.8%. The slight increase in vacancy quarter-over-quarter is the result of 1.7 million sq. ft. of speculative completions, which remained 85% vacant at the end of Q1 2018. Over the long term the market is maintaining a healthy vacancy rate, evidenced by year-over-year vacancy rates declining by 10 bps.

Figure 2: Net Absorption



Source: CBRE Research, Q1 2018.

Figure 3: Construction Completions



Source: CBRE Research, Q1 2018.

NET ABSORPTION

Demand in the Kansas City industrial market has increased each year since the end of the great recession, with net absorption increasing by an annual average of 31%. Net absorption reached its peak in 2017 with a record 7.7 million sq. ft. Activity from tenants in the market tracked by CBRE Research remains strong moving into Q2 2018, with approximately 7.2 million sq. ft. of active users in the market. Net absorption is expected to be well above the long-term average in 2018, although likely falling below the extraordinary 2017 total.

INDUSTRIAL DELIVERIES

Overall construction has shifted closer to a balance between build-to-suit and speculative projects. In 2017, 59% of completions were speculative which roughly matches the 60% average from 2012-2017 or since the resurgence of development began after the end of the great recession. At the end of Q1 2018, 51% of the 4.1 million sq. ft. under construction was being built on a speculative basis. Construction completion totals are also steadily declining from a record 8.8 million sq. ft. in 2016, with the 2018 total expected to be close to 6.0 million sq. ft. The record level completion totals over the previous two years were necessary in order for the Kansas City market to catch up with demand and provide the kind of readily available modern bulk distribution space users require.

Figure 4: Top New Lease/User Sale Transactions

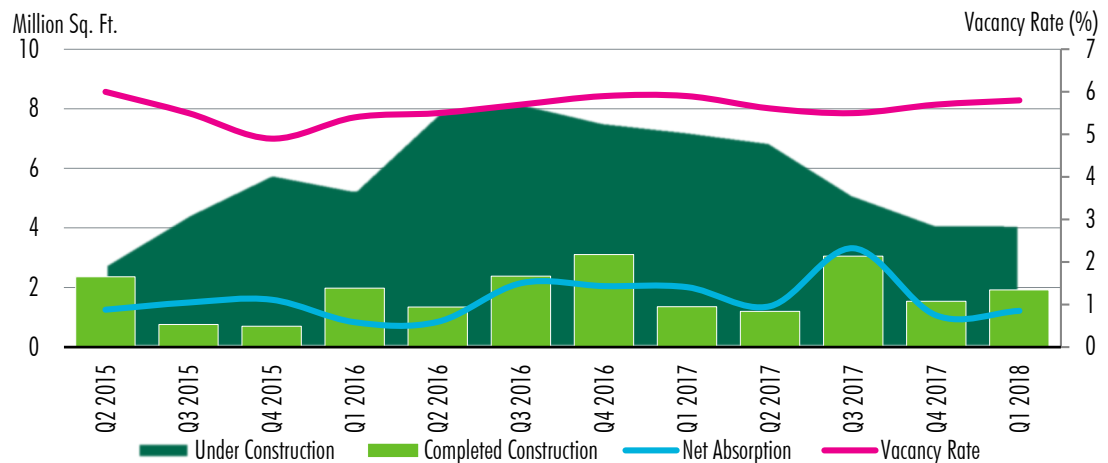
Tenant	Occupied Size (SF)	Type	Property	City	Submarket
Hopkins Manufacturing	406,426	Lease	LPKC VIII	Edgerton	Johnson
KGPCo	251,873	Lease	I-35 Logistics Park Bldg C	Olathe	Johnson
Faurecia Interior Systems	250,000	Own	20 th & I-70	Blue Springs	Jackson
Professional Packaging Systems	247,589	Lease	Lone Elm Logistics Centre	Olathe	Johnson
Ply Gem	206,900	Lease	Northland Park Bldg III	Kansas City	Clay

Source: CBRE Research, Q1 2018.

UNDER CONSTRUCTION

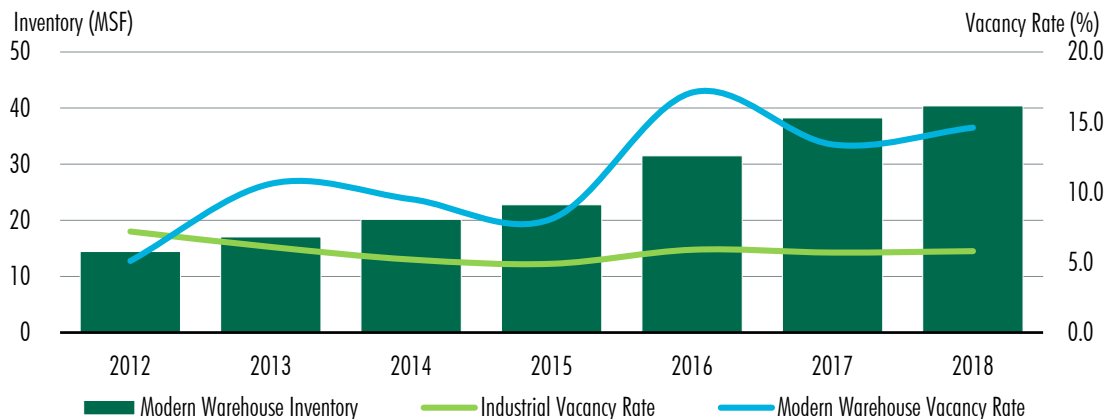
- A 762,000 sq. ft. build-to-suit-to-own warehouse is under construction for CVS Health in Platte County.
- Garmin is building a 712,842 sq. ft. build-to-suit-to-own warehouse expansion at its Olathe, KS campus.
- I-35 Logistics Park C broke ground, a 567,115 sq. ft. speculative warehouse which is 44% pre-leased.
- Northland Park has two buildings under construction, a 413,332 sq. ft. and 303,000 sq. ft. speculative warehouse.
- Faurecia Interior Systems began construction on a 250,000 build-to-suit-to-own manufacturing facility in Blue Springs.
- The second building at 56 Commerce Center in Olathe, KS is under construction, a 230,122 sq. ft. speculative warehouse.
- The fourth building at KCI Intermodal BusinessCentre is under construction, a 202,800 sq. ft. speculative warehouse.
- UPS is building a 200,000 sq. ft. expansion at its Lenexa facility.
- Riverside Horizons VII broke ground, a 198,424 sq. ft. speculative warehouse.
- A 40% pre-leased, 100,000 sq. ft. speculative warehouse is under construction in Riverside, MO.
- A 40% pre-leased, 100,000 sq. ft. speculative warehouse is under construction in Perimeter Park.

Figure 5: Under Construction, Completed Construction, Net Absorption, and Vacancy Rates



Source: CBRE Research, Q1 2018.

Figure 6: Modern Bulk Distribution Inventory and Vacancy Rates



Source: CBRE Research, Q1 2018.

VACANCY RATES

Overall vacancy rates in the metro increased 10 bps quarter-over-quarter. Q1 2018 recorded 1.2 million sq. ft. of positive net absorption, however the affect on vacancy was negated by the addition of 1.4 million sq. ft. of vacancy from speculative completions, and the completion of 197,000 sq. ft. of build-to-suit space which did not affect existing vacant space.

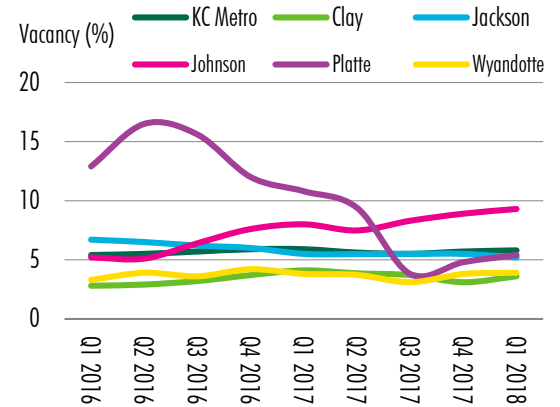
ASKING LEASE RATES

Lease rates decreased slightly quarter-over-quarter ending at \$4.50 per sq. ft. in Q1 2018, compared to \$4.53 per sq. ft. in Q4 2017. Johnson County average lease rates were the highest in the metro at \$5.26 per sq. ft. Average lease rates in the Johnson County submarket are influenced by the relatively high amount of flex buildings available in the market which average over \$10.00 per sq. ft. The lowest rates were in Clay County at \$3.84 per sq. ft. Clay County has a large percentage of older buildings with lower lease rates.

LABOR MARKET AND EMPLOYMENT

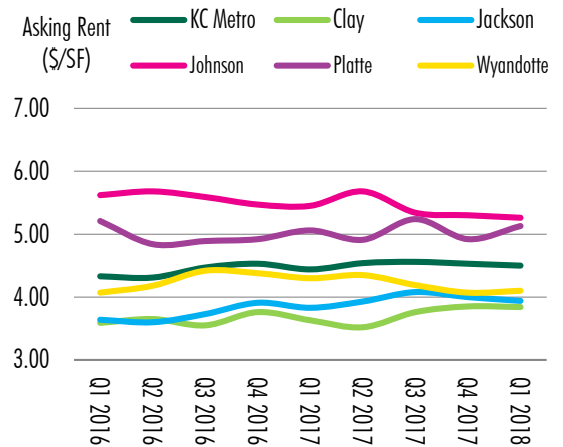
The unemployment rate was 4.0% as of January 2017, well below the national average of 4.5%. Between 2012 and 2015, job growth averaged between 10,000 and 15,000 per year. Since 2015, the metro has been adding jobs at a rate averaging 22,000 jobs a year. Looking forward, although job growth is projected to steadily decline, growth will continue to outpace numbers prior to 2015 with a projected 20,000 jobs added in 2018 according to the forecast from the Kansas City Chamber of Commerce in partnership with the Mid-America Regional Council.

Figure 7: Vacancy Rates by Submarket



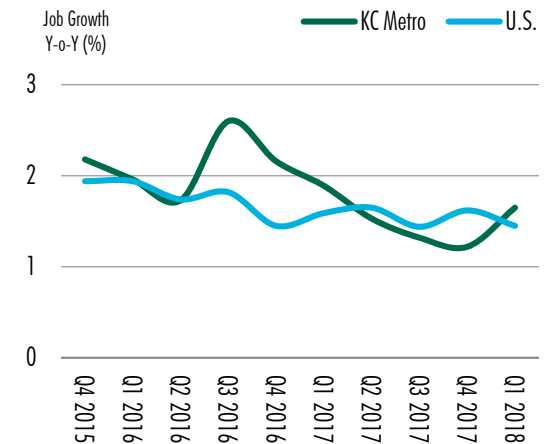
Source: CBRE Research, Q1 2018.

Figure 8: Average Asking Lease Rates by Submarket (NNN)



Source: CBRE Research, Q1 2018.

Figure 9: Kansas City Labor Market



Source: U.S. Bureau of Labor Statistics, January 2018.

Figure 10: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Avail. Rate (%)	Q1 2018 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/Yr)
Clay	45,317,343	1,638,374	3.6	5.2	166,427	166,427	303,000	3.84
Jackson	106,468,618	5,521,421	5.2	6.5	169,067	169,067	250,000	3.94
Johnson	71,193,072	6,616,787	9.3	11.2	1,071,768	1,071,768	2,293,411	5.26
Platte	11,265,547	610,583	5.4	6.3	(72,126)	(72,126)	1,263,224	5.13
Wyandotte	41,857,269	1,647,159	3.9	5.4	(121,116)	(121,116)	0	4.10
Metro	276,101,849	16,034,324	5.8	7.3	1,214,020	1,214,020	4,109,635	4.50
Bulk Distribution (Warehouse or Distribution facilities that are at least 100,000 sq. ft.)								
Clay	25,820,779	991,682	3.8	4.3	174,070	174,070	303,000	3.46
Jackson	46,580,107	3,061,561	6.6	7.8	217,989	217,989	0	2.92
Johnson	38,006,344	5,309,076	14.0	15.3	793,263	793,263	2,223,411	4.29
Platte	6,881,410	388,211	5.6	6.1	(68,729)	(68,729)	1,263,224	4.36
Wyandotte	14,013,013	1,016,799	7.3	8.4	(117,750)	(117,750)	0	3.70
Metro	131,301,653	10,767,329	8.2	9.3	998,843	998,843	3,789,635	3.71
Modern Bulk Distribution (Bulk Warehouses constructed in 1990 or later, and 28' clear or taller)								
Clay	2,869,770	331,160	11.5	11.5	261,096	261,096	303,000	4.50
Jackson	7,345,999	275,000	3.7	3.7	139,376	139,376	0	3.30
Johnson	21,156,016	4,898,678	23.2	24.1	757,469	757,469	2,223,411	4.25
Platte	4,547,653	299,751	6.6	6.6	(68,729)	(68,729)	1,263,224	4.55
Wyandotte	4,470,120	94,863	2.1	3.3	0	0	0	4.24
Metro	40,389,558	5,899,452	14.6	15.2	1,089,212	1,089,212	3,789,635	4.23

Source: CBRE Research, Q1 2018.



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