2018 TRENDS IN KANSAS CITY'S

INDUSTRIAL MARKET

KANSAS CITY HAS BECOME A TOP STRATEGIC INDUSTRIAL MARKET

Kansas City is in an ideal location for the evolving industrial climate. With a central location and exceptional transportation network featuring 30% more interstate miles per capita than any other city in the nation. Kansas City is home to four railroad intermodals and handles more rail traffic (in terms of tonnage) than any other city in the U.S. With the rise in industrial development and demand across the nation over the last 8 years, Kansas City has grown from a secondary market into a strategic market with fundamentals that rival some of the top markets in the nation. CBRE is pleased to release the **2018 Trends in Kansas City's Industrial Market Report**. This report was created to provide comprehensive data to evaluate developing industrial trends, and provide expert insights.

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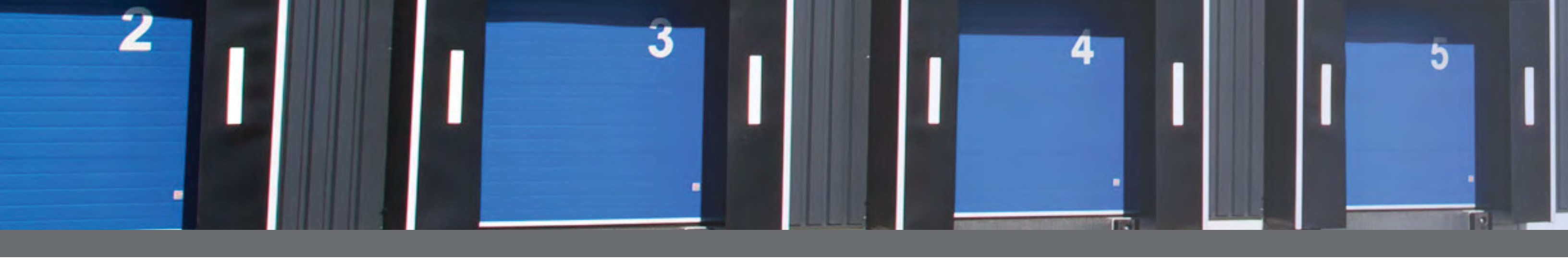

EXECUTIVE SUMMARY

- 2017 was a record breaking year with 7.7 million sq. ft. of net absorption. Net absorption has been escalating over the last 5 years, posting 26.7 million sq. ft. over that time period. Activity from tenants in the market tracked by CBRE Research remains strong moving into Q2 2018 and net absorption is once again expected to be well above the long-term average, although falling below the extraordinary 2017 total.

- Industrial development in Kansas City has trailed only Chicago in the Midwest over the last several years, posting 7.1 million sq. ft. in 2017, a record year if not for the astonishing 8.8 million sq. ft. completed in 2016. Over the last 5 years Kansas City has delivered 28.0 million sq. ft., with 19.8 million sq. ft. completed on a speculative basis.

- E-commerce retail sales increased nationally by 16% to $453.5 billion in 2017, accounting for 8.9% of total retail sales for the year. U.S. e-commerce sales are predicted to rise by 10% annually over the next five years, to $500 billion in 2020. Growth in the e-commerce sector will be especially beneficial to the Kansas City industrial market as users look to take advantage of the market's central location and exceptional transportation network featuring 30% more interstate miles per capita than any other city in the nation.

- 2017 investment transactions totaled over $500 million in the Kansas City industrial market, more than quadruple the 2016 total. This was led by the recapitalization at Logistics Park Kansas City (LPKC), involving 10 fully leased buildings, one of the largest commercial real estate deals in Kansas City history. Nationally, industrial has become institutional investors' favorite asset type, and the flood of investment capital into the sector is reflected in record-level asset pricing and widespread low cap rates.

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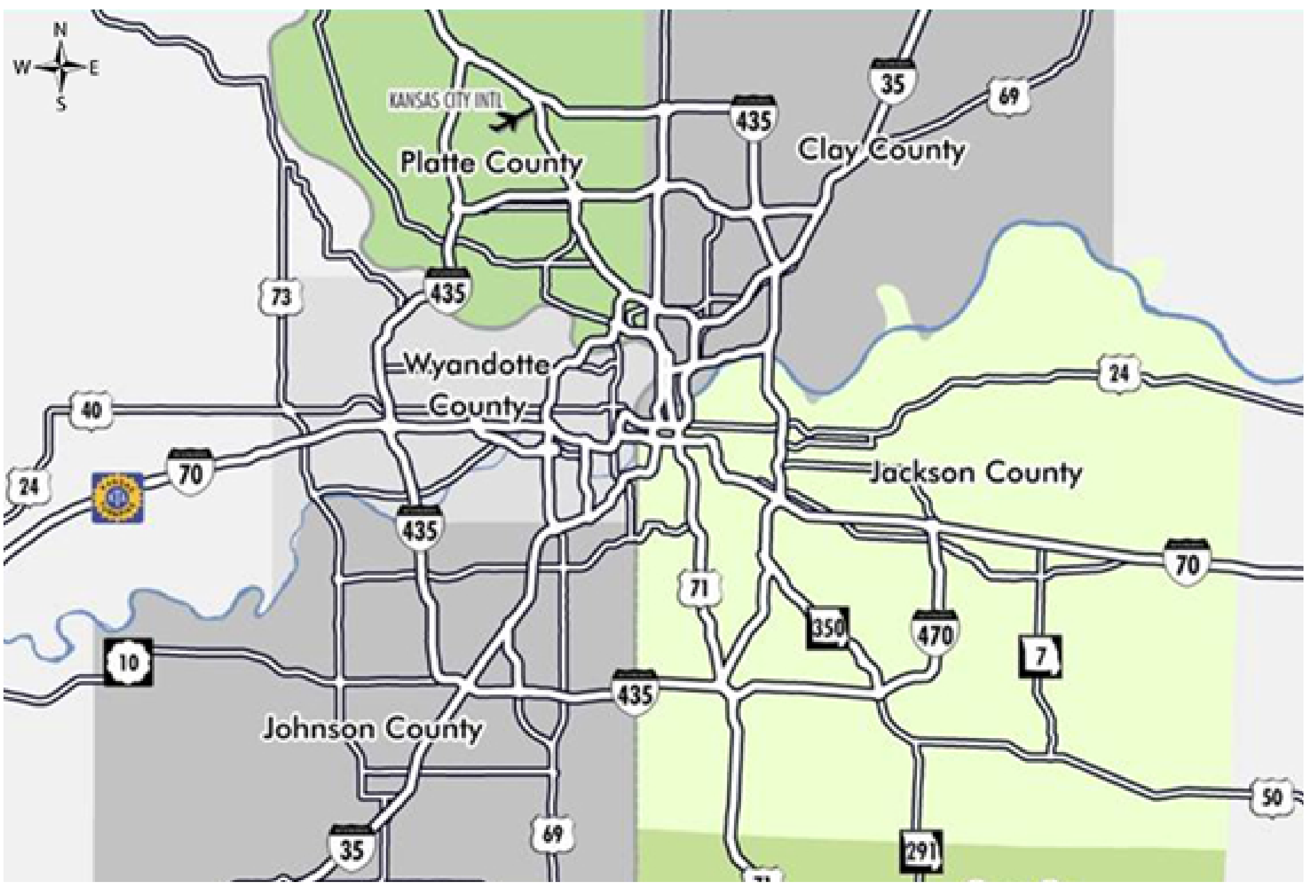
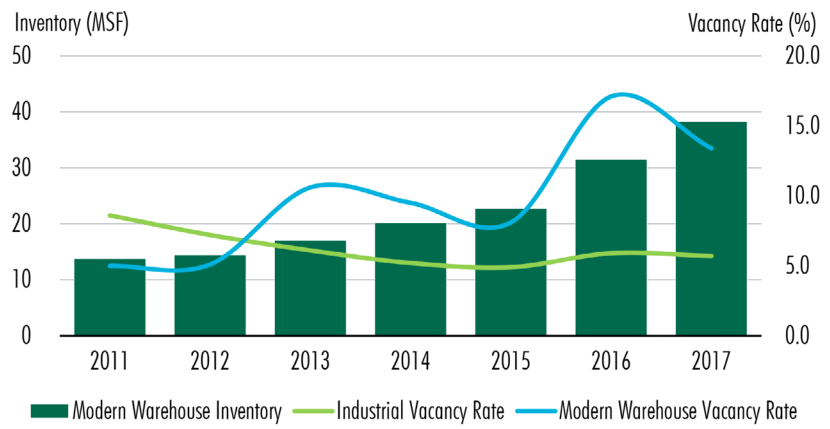


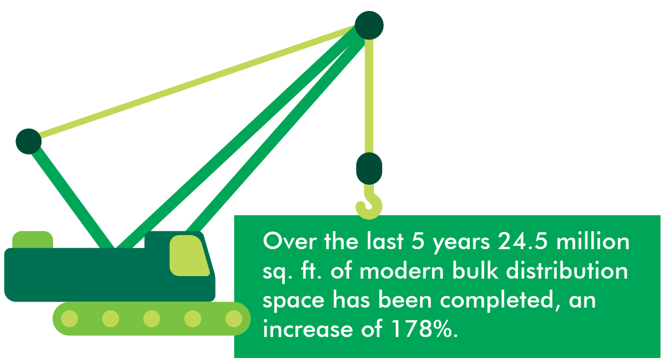
INCREASING DEMAND

Figure 1: Modern Bulk Distribution Inventory and Vacancy Rates



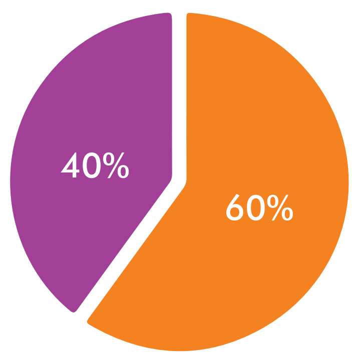
Source: CBRE Research, Q1 2018.

Demand in the Kansas City industrial market has increased each year since the end of the great recession, reaching its peak in 2017 with a record 7.7 million sq. ft. of net absorption. In order to meet this demand, development and particularly speculative development was required at levels never before experienced in the Kansas City market. Warehouse users are requiring modern bulk distribution space with greater clear heights of 28' or greater, with ample trailer parking and docks. This type of modern bulk distribution space made up only 13.8 million sq. ft. or 5.9% of the market at the beginning of 2012. Over the last 5 years 24.5 million sq. ft. of modern bulk distribution space has been completed, an increase of 178%, increasing the modern bulk percentage of the market to 14.0%.



Source: CBRE Research, Q1 2018.

Figure 2: Speculative Completions

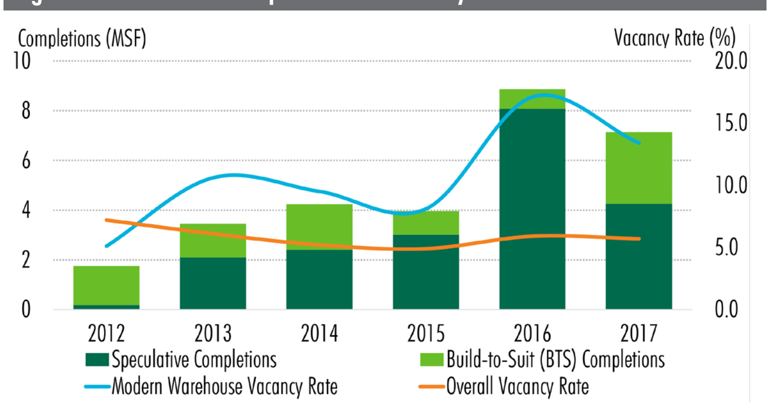


Speculative Construction made up 60% of overall completions from 2012-2017.

Source: CBRE Research, Q1 2018.

The majority of new development has been built on a speculative-basis to meet the strict timetable of companies who are rapidly expanding. Speculative construction made up 60% of overall completions from 2012-2017, reaching its peak with 8.0 million sq. ft. or 91% of completions in 2016. Speculative development returned to a sustainable market average with 59% of completions in 2017.

Figure 3: Construction Completions and Vacancy Rates



Source: CBRE Research, Q1 2018.

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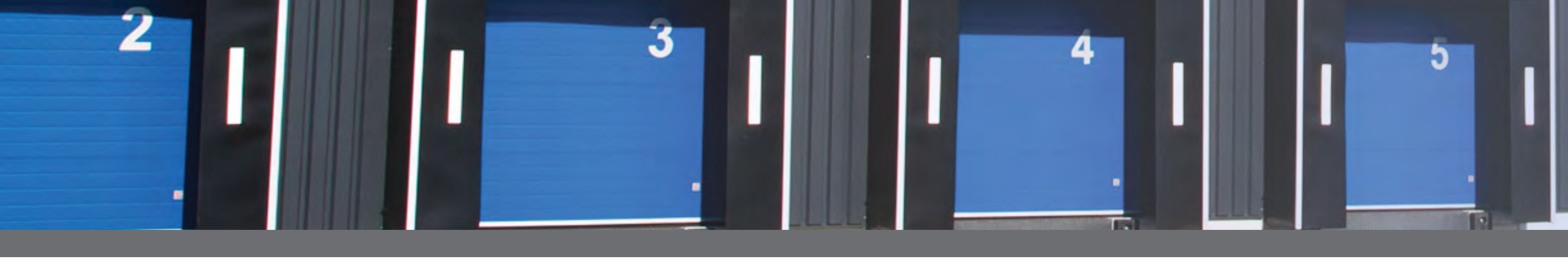
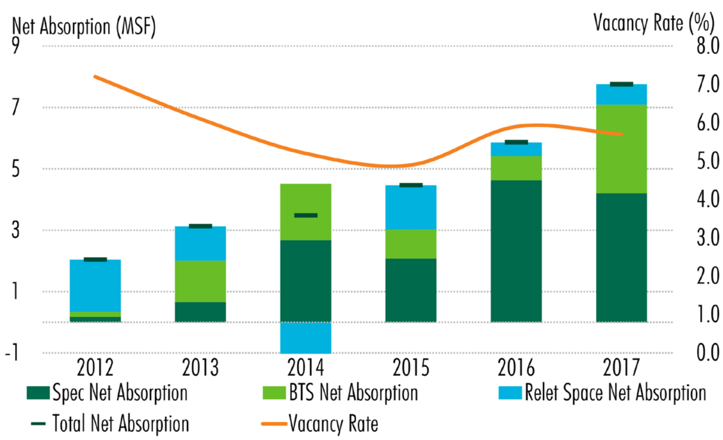


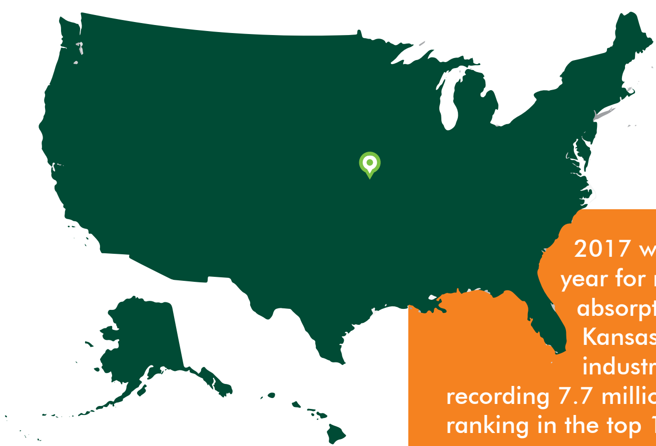
INCREASING DEMAND

Overall vacancy rates increased 100 basis-points (bps) in 2016, however vacancy maintained a healthy level staying below 6.0%. An increase in vacancy was inevitable, and even necessary as speculative product was brought onto the market and made available to attract users considering multiple markets. 2017 was a record year for net absorption in the Kansas City industrial market, recording 7.7 million sq. ranking in the top 10 nationally.

Figure 4: Net Absorption and Vacancy Rates

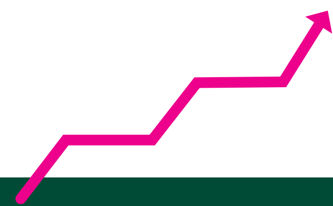


Source: CBRE Research, Q1 2018.



2017 was a record year for net absorption in the Kansas City industrial market, recording 7.7 million sq. ft. ranking in the top 10 nationally.

Source: CBRE Research, Q1 2018.

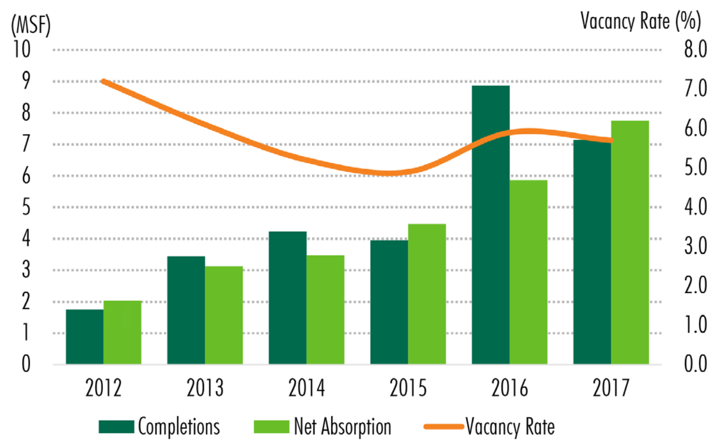


Net absorption increased each year from 2012-2017, with an average annual increase of 31%.

Source: CBRE Research, Q1 2018.

Development topped net absorption by 33% in 2016, with 91% of space completed on a speculative basis. The unprecedented completion total was necessary for the market to catch up by supplying speculative product in the market to meet the continually increasing demand of users. In 2017, net absorption over took development, and vacancy rates declined 20 basis-points year-over-year. Moving into 2018, speculative space under construction is back to the long-term average between 50-60%, and net absorption is expected to meet or succeed completions.

Figure 5: Construction Completions, Net Absorption, and Vacancy Rates



Source: CBRE Research, Q1 2018.

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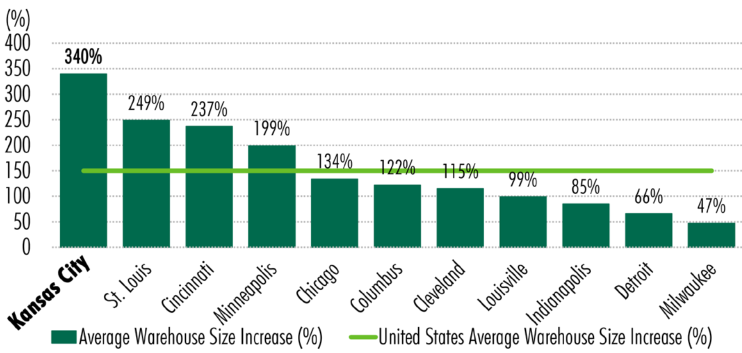
MARKET DRIVERS

Figure 6: Midwest Percent Growth in Warehouse Size Over the Last 10 Years



Source: CBRE Research, Q1 2018.

The explosive growth of modern bulk warehouse space in Kansas City largely driven by the rise in e-commerce/logistics demand has resulted in the average warehouse size increasing 340% over the last 10 years. This growth percentage was the highest among all Midwest markets

Third-party logistics (3PL) operators are benefiting from a rapidly rising rate of product returns, as many retailers outsource their reverse logistics operations to cut costs and gain maximum efficiencies.

Source: CBRE Research, Q1 2018.

In Kansas City, e-commerce/logistics represents approximately 40% of leasing since the start of 2016.

Source: CBRE Research, Q1 2018.

Kansas City is the second largest hub for automotive manufacturing in the nation, featuring plants for both Ford and General Motors. Recently General Motors announced plans to invest $265 million to build the first-ever Cadillac XT4 crossover SUV in its Fairfax Assembly & Stamping Plant. Prior to this announcement GM invested $600 million in retooling the plant in 2013. Ford invested $1.1 billion to retool and expand its plant between 2011 and 2015. After completion of the retooling, production began on the newly designed F-150 pickup. According to Ford, its Kansas City assembly plant is now one of its most advanced in the world. These major investments insure the company's future commitment to the area, and reciprocate with the continued expansion of third party suppliers throughout the metro.

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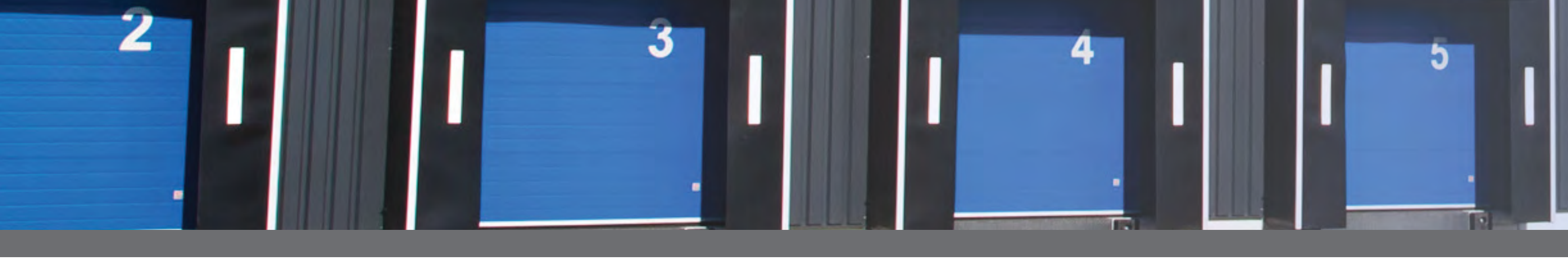
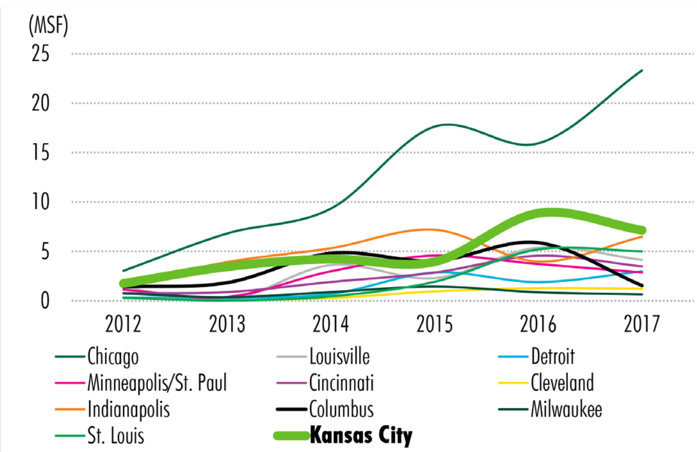


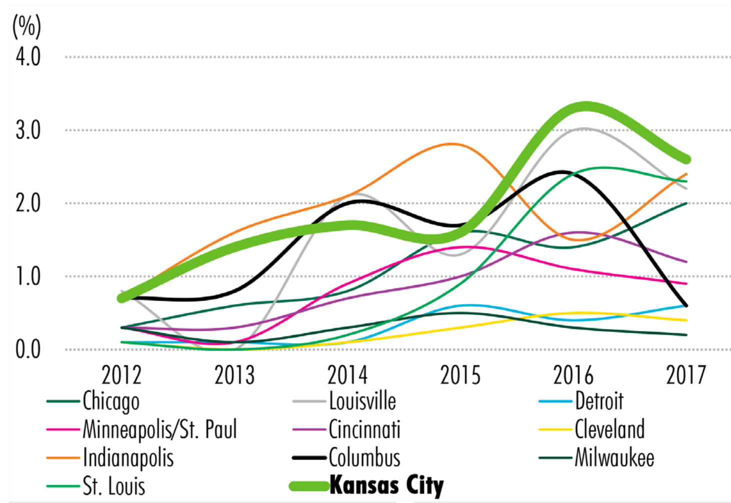
WHERE DOES KANSAS CITY RANK

Figure 7: Midwest Markets Construction Completions



Source: CBRE Research, Q1 2018.

Figure 8: Midwest Markets Construction Completions as % of Stock



Source: CBRE Research, Q1 2018.

Since the end of the great recession, Kansas City has transitioned from a secondary market to a strategic market. Users now view Kansas City as an important and even necessary location for their distribution operations. Among speculative occupiers since the start of 2017, 68% were new to the market. As a result of this growth in demand, Kansas City development surpassed all Midwest Markets other than Chicago in 2016 and 2017. In terms of percentage of stock, or development based on the size of the market, Kansas City led the entire Midwest in 2016 and 2017.

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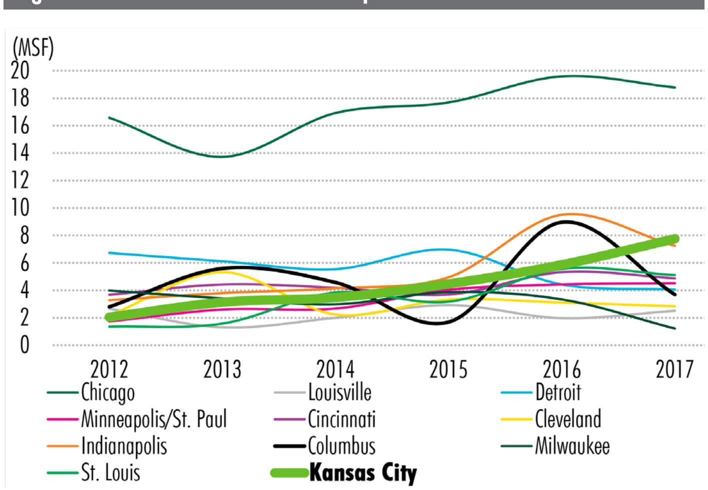
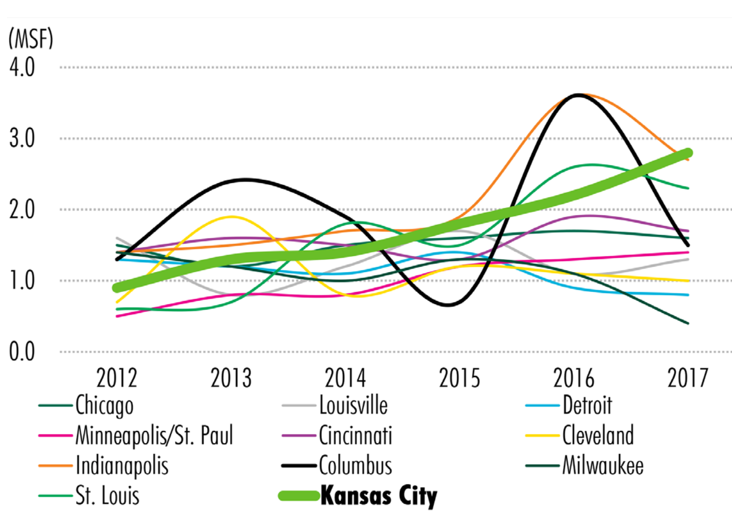
Figure 9: Midwest Markets Net Absorption



Source: CBRE Research, Q1 2018.

Figure10: Midwest Markets Net Absorption as % of Stock

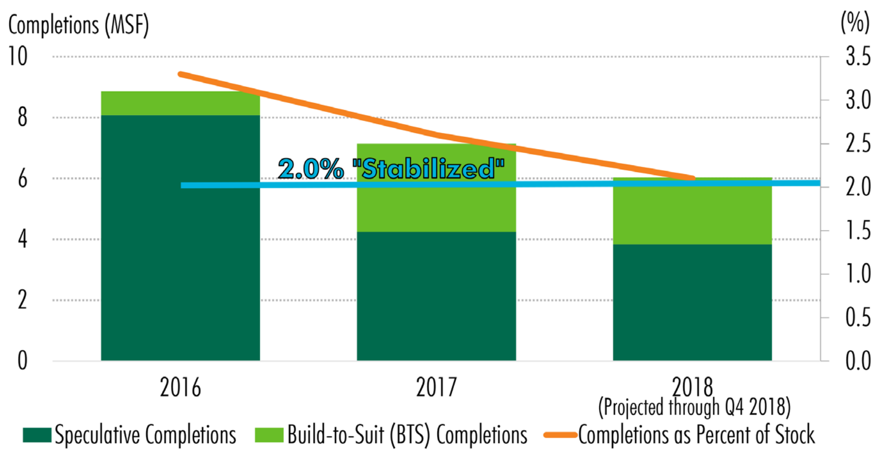


Source: CBRE Research, Q1 2018.

Net absorption has been escalating over the last 5 years, posting 26.7 million sq. ft. over that time period. In 2017, net absorption reached historic levels posting 7.7 million sq. ft. which led all markets outside Chicago, and was the most in the Midwest in terms of percentage of stock.

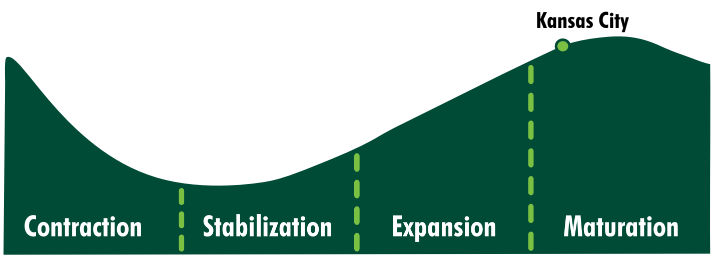
MARKET OUTLOOK

Figure 11: Construction Completions, Net Absorption, and Vacancy Rates



Source: CBRE Research, Q1 2018.

Construction completion totals are 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. Construction totals in Kansas City over the past two years have surpassed the 2.0% threshold of development compared to existing stock. Traditionally on a national scale surpassing the 2.0% threshold has been a signal for over supply and an impending downturn. Kansas City is in a unique position in the evolving industrial distribution market. The CBRE Kansas City industrial team believes the short-term surge in development was natural as the Kansas City market jumped on the scene nationally as a strategic market. Development has begun to ramp down to below the 2.0 percent of stock threshold, and it should be noted that overall vacancy has remained below 6.0%. Over the next several years development is expected to continue at or below the markets stabilized level, however at a pace above the markets long term average.



Source: CBRE Research, Q1 2018.

Demand is fundamentally different compared to past industrial market cycles, largely due to the growth in e-commerce. The current industrial market cycle is one of the longest in history and based on current market fundamentals has been extended through the end of 2022.

Kansas City is arguably the best positioned market for the long-term future of the industrial distribution market. Automated trucking is rapidly becoming a reality that will expand the reach of the one day shipping model. With the expanded radius created by automated trucking, Kansas City's central location will allow distribution to most of the country within a 24 hour period.

Investment totals in the Kansas City industrial market more than quadrupled 2016 totals. Led by the recapitalization at Logistics Park Kansas City (LPKC), involving 10 fully leased buildings, one of the largest commercial real estate deals in Kansas City history. Nationally industrial has become institutional investors' favorite asset type, and the flood of investment capital into the sector is reflected in record-level asset pricing and widespread low cap rates. Cap rates in Kansas City and across the Midwest are expected to decline 25-50 bps in the next year.

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FIGURE 12: INDUSTRIAL PARKS UNDER DEVELOPMENT

Industrial Park	Total Sq. Ft.	% Occupied in Q1 2018	Under Construction Q1 2018	2012-Q1 2018 Completions (SF)	2012-Q1 2018 Net Absorption	Developer
Logistics Park Kansas City	9,700,000	77.5%	0	9,700,000	7,507,070	NorthPoint
Riverside Horizons	1,767,139	93.9%	198,424	1,767,139	1,659,809	NorthPoint
Lenexa Logistics Centre	1,711,694	39.4%	0	1,711,694	674,762	Block Funds
KC Southern Centerpoint	1,400,030	80.4%	0	1,400,030	1,125,030	CenterPoint
Lone Elm	1,233,200	26.0%	0	1,233,200	320,932	Van Trust
KCI Intermodal Business-Centre	1,205,928	100.0%	202,000	1,205,928	1,205,928	Trammel Crow & Clarion
Three Trails Industrial Park	1,189,949	100.0%	0	1,189,949	1,189,949	NorthPoint
I-35 Logistics Park	823,000	100.0%	567,115	823,000	823,000	Kessinger Hunter
Northland Park	802,332	80.7%	716,332	802,332	647,096	NorthPoint
College Crossing	712,000	81.7%	0	291,200	143,954	Block Funds
Woodend Industrial Park	640,655	85.2%	0	640,655	545,792	Van Trust
Westlink Business Center	510,000	62.7%	0	510,000	320,000	Airtex
Midwest Gateway	487,000	0.0%	0	487,000	0	Copaken Brooks
Hunt Midwest Business Center	401,164	61.3%	0	401,164	245,853	Hunt Midwest
56 Commerce Center	205,114	100.0%	230,122	205,114	205,114	OPUS

Source: CBRE Research, Q1 2018.

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FIGURE 13: OTHER RECENTLY COMPLETED DEVELOPMENTS

Development	Completion	Type	Size (SF)	Q1 2018 Occupancy	Developer
General Motors Logistics Center	2017	BTS	840,000	100.0%	NorthPoint
Riverside Logistics Centre	2016	Spec	244,968	71.0%	Block
State Farm Data Center	2016	BTS	192,548	100.0%	JDM Partners
Kaw Industrial	2016	Spec	396,879	100.0%	NorthPoint
Lone Elm Logistics Centre	2016	Spec	496,373	50.0%	Odyssey Real Estate Capital
500 Osage	2015	Spec	169,498	100.0%	Wiheit Prime Investments
National Oceanic and Atmo-spheric Administration	2015	BTS	225,617	100.0%	Kessinger Hunter
Magna International	2013/2015	BTS	457,500	100.0%	Magna International
Bunzl Distribution	2014	BTS	158,417	100.0%	CBC
Martinerea	2014	BTS	275,560	100.0%	Mark One Electric
5208 Stilwell	2014	Spec	100,791	100.0%	Lamothe Development
International Paper/Xpedx	2013	BTS	280,000	100.0%	H&M Company
Webco	2013	BTS	201,000	100.0%	Webco
Premium Waters	2012	BTS	160,000	100.0%	Premium Waters
NNSA	2012	BTS	1,543,000	100.0%	CenterPoint
Johnson Controls	2011	BTS	170,000	100.0%	Johnson Controls

Source: CBRE Research, Q1 2018.

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