


Kansas City Retail, Q4 2015

# 2015 was a stellar year for retail investment sales in Kansas City

 Vacancy Rate  
7.7%

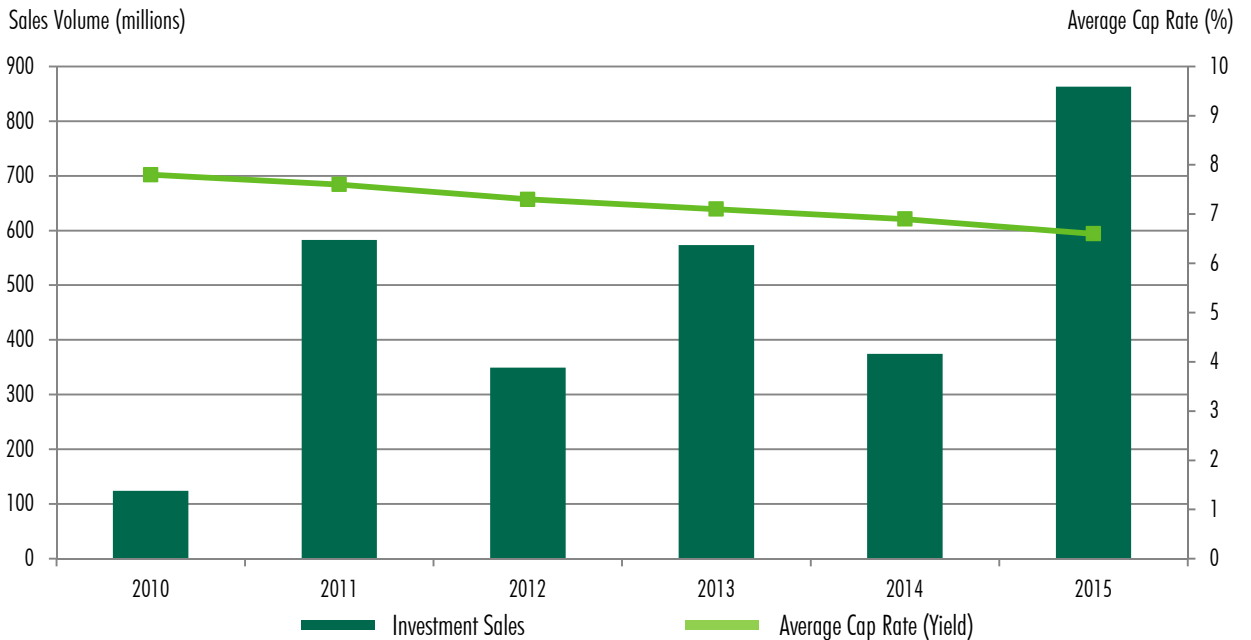
 Lease Rate  
\$12.55 PSF

 Net Absorption  
339,386 SF

 Completions  
263,074 SF

Figure 1: Historical Sales Volume

\*Arrows indicate change from previous quarter.



Source: Real Capital Analytics, 2015.

- Kansas City’s most prominent entertainment district, the Power & Light District, will welcome a new tenant in 2016. Jacob Leinenkugel Brewing Co. signed a lease for 6,000 sq. ft. in Q4 2015 and plans to be open early this year. The brewery and restaurant will be a part of the Kanas City Live! Block, a one-block area known for its retail and live entertainment attractions.
- Dallas-based Main Event Entertainment completed their move-in during Q4 2015 into their new 50,000 sq. ft. building adjacent to The Falls at Crackerneck Creek in Independence, MO. The project received a boost of \$1.65 million in financing through a TIF plan to be diverted over 20 years. The venue will include a laser tag arena, video games, and 20 bowling lanes.

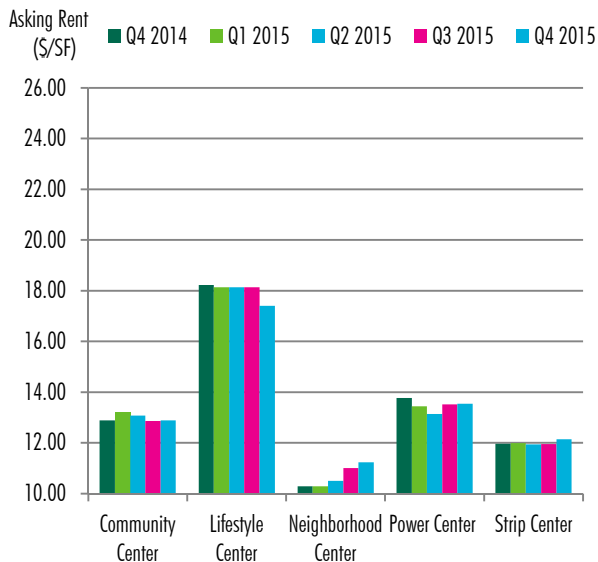
Investment activity in Kansas City for the year 2015 was strong with 863,010,004 million in total transactions. Vacancy fell to 7.7% in Q4 2015. This represents a new eight year low for Kansas City, trumping Q3’s low of 7.8%. The average gross asking lease rate metro-wide reached \$12.55 per sq. ft., representing an increase of 9 bps from the previous quarter. Net absorption for the quarter totaled a positive 339,386 sq. ft. compared to 60,086 sq. ft. in Q3 2015 bringing the total net absorption for 2015 to 1.32 million sq. ft. With an expanding economy, Kansas City’s retail market is poised for continued improvement. Solid economic fundamentals will help consumers hold onto their buying power, a bright spot for the retail market.

Figure 2: Market Statistics

Submarket	Market Rentable Area (SF)	Total Vacant (SF)	Vacancy Rate (%)	Q4 2015 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	NNN Average Asking Lease Rate (\$/SF/Yr)
<b>Metro Overall</b>	<b>113,298,846</b>	<b>8,701,827</b>	<b>7.7</b>	<b>339,386</b>	<b>1,285,485</b>	<b>260,349</b>	<b>12.55</b>
Downtown	3,177,928	123,029	3.9	11,528	(3,884)	-	14.13
East Kansas City	22,809,337	1,427,800	6.3	106,991	303,554	6,160	10.04
Kansas City North	18,821,297	1,535,341	8.2	113,398	1,861	44,313	12.57
Kansas City, KS	10,113,964	923,713	9.1	(54,099)	31,413	-	11.81
Midtown	3,517,198	268,428	7.6	(38,558)	(32,137)	-	10.98
Plaza	2,061,501	65,318	3.1	(4,500)	(11,003)	45,000	25.13
North Johnson County	19,278,661	1,764,452	9.2	5,586	128,998	25,332	12.11
South Johnson County	19,490,975	1,310,321	6.7	81,937	635,734	105,544	17.71
South Kansas City	14,027,985	1,283,425	9.1	117,103	230,949	34,000	12.29

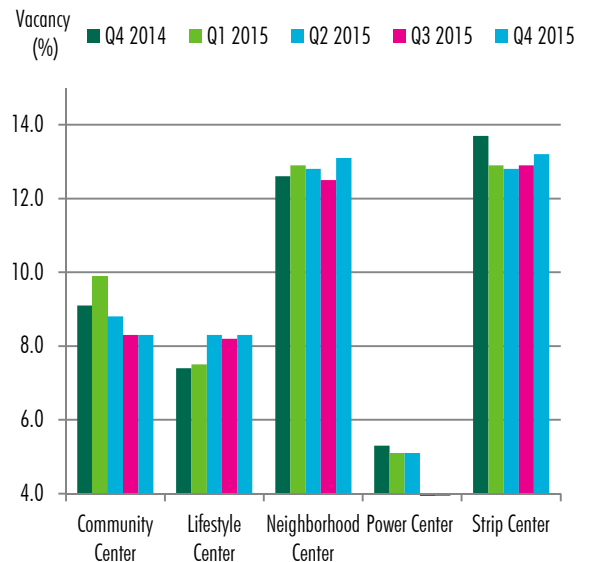
Source: CoStar Realty, Q4 2015.

Figure 3: Lease Rates by Shopping Center Type



Source: CoStar Realty, Q4 2015.

Figure 4: Vacancy Rates by Shopping Center Type

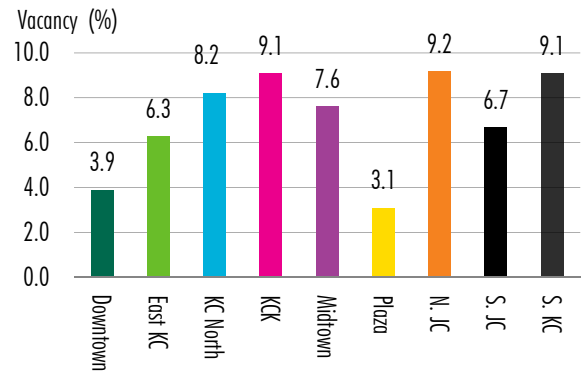


Source: CoStar Realty, Q4 2015.

**VACANCY RATES REMAIN STEADY**

Overall vacancy rates averaged 7.7% for the metro area in Q4 2015. As expected, the Plaza posted the lowest rate at 3.1%. Vacancy rates in South Johnson County stayed put at 6.7%, alluding to the successful balancing act between completions and absorption in the metros most active retail submarket. Rates in Midtown increased for the first time since Q4 2013 to 7.6%. Positive absorption in Downtown brought rates from 4.2% in Q3 2015 to 3.9% in Q4 2015.

Figure 5: Vacancy Rates by Submarket

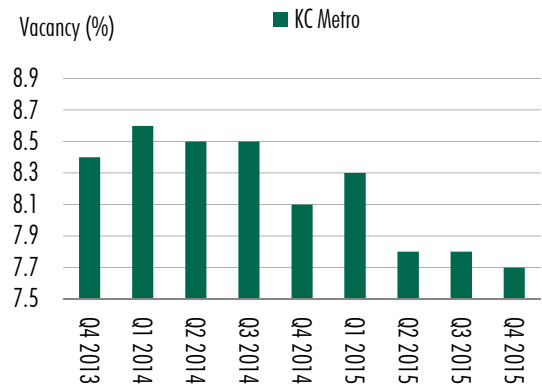


Source: CoStar Realty, Q4 2015.

**HISTORICAL VACANCY RATES**

While retail submarket vacancy rates remain in a constant flux, the prevailing pattern for the market as a whole has been a downwards trend. While this is just one of several market indicators, it anchors a strong case for the health of the retail market in Kansas City. At 7.7%, overall vacancy is at it's lowest point since 2007 before the recession occurred. With a well balanced economic base in place for retail success, vacancy rates should hover around these lows for quite some time.

Figure 6: Historical Vacancy Rates

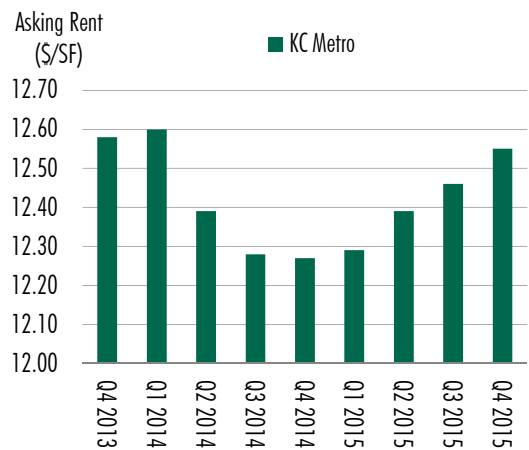


Source: CoStar Realty, Q4 2015.

**AVERAGE ASKING LEASE RATES**

Lease rates rose to \$12.55 per sq. ft. in Q4 2015, compared to \$12.46 per sq. ft. in Q3 2015. South Johnson County continues to flex its muscles with average rates increasing 5.7% to \$17.71 per sq. ft. Midtown experienced the biggest downturn in rental rate with the average rate falling 13.8% to \$11.84 per sq. ft. This is compared to \$13.74 in Q3 2015. The remainder of the submarkets in Kansas City experienced only marginal fluctuations in rental rate. While average lease rates began to plunge in Q2 2014, rates have now been trending upwards and approaching numbers not seen since 2010 when rates were at \$12.59 per sq. ft. At the beginning of the recession in 2008 average rates were \$13.18 per sq. ft., a number that could be attainable over the next several quarters.

Figure 7: Average Asking Lease Rates



Source: CoStar Realty, Q4 2015.

**ECONOMIC/UNEMPLOYMENT**

While sentiments on our national economy vary, there's no denying 2015 was a volatile year globally. Quantitative easing was successfully implemented by the Federal Reserve and as a result, borrowing costs remained low which attracted equity into the market and spurred investment. Additionally, the U.S. dollar is stronger than it's been in over a decade. These, among other factors, will play into future interest rate hike decisions which could have vast ripple effects on several industries. Kansas City's economy has remained in expansion mode with unemployment dropping to 3.9% in Q4 2015.

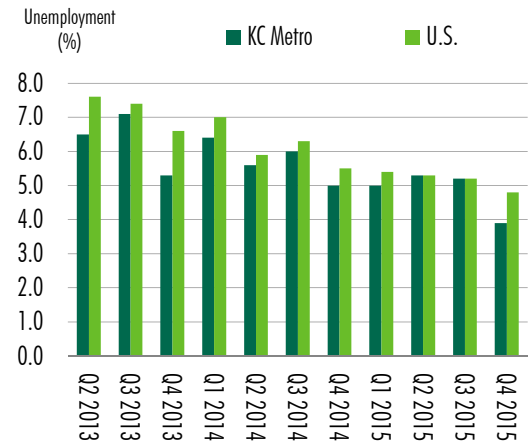
**CONSTRUCTION**

Construction numbers increased slightly into Q4 2015 with 263,074 sq. ft. under construction at the end of the quarter. Of the 19 total buildings under construction, a new Restoration Hardware in South Johnson County will have the largest footprint at 46,796 sq. ft. The second largest is a 45,000 sq. ft. Whole Foods that will be apart of a mixed-use project adjacent to the University of Missouri-Kansas City. Year-over-year deliveries came out to 42 buildings totaling 890,454 sq. ft. in 2015 signifying a strong, but not stellar year for retail construction in Kansas City. However, with several projects in the pipeline for 2016, we should expect to see even more activity in the year ahead.

**INVESTMENT SALES**

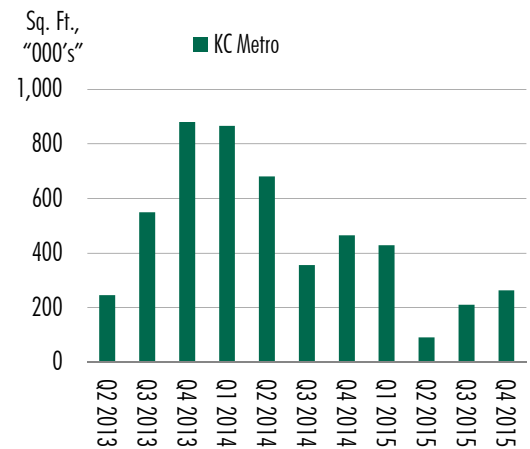
Kansas City exited 2015 with a moderate amount of retail investment sales in Q4. Sales totaled \$82,900,000 with an average per sq. ft. value of \$197. These figures helped bring the retail market in 2015 to a photo finish with over \$863,000,000 in total investment sales, its highest level in several years. These near record highs were enabled by the sale of highly sought after assets like Park Place, Town Center Plaza, and Town Center Crossing. Cap rates of been on a steady decline as well with rates dropping into the mid sixes compared to over 9% in Q2 2011.

Figure 8: Unemployment Rate



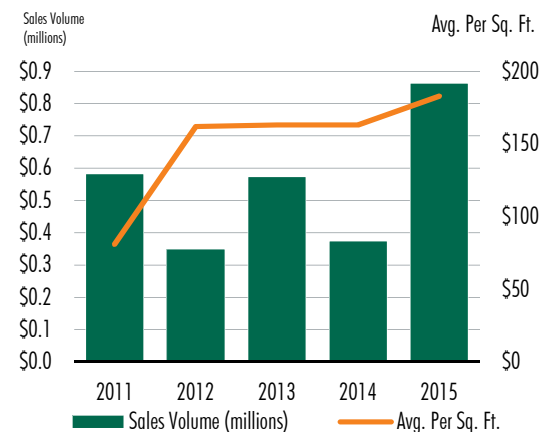
Source: U.S. Bureau of Labor Statistics, November 2015.

Figure 9: Construction Activity



Source: CoStar Realty, Q4 2015.

Figure 10: Investment Sales



Source: Real Capital Analytics 2016.

**KANSAS CITY RETAIL – WHAT TO EXPECT IN 2016**

While 2015 was a good year for retail in Kansas City, the year ahead could be shaping up to be an even better one. With key fundamentals improving across the board and the sale of the metro’s most prestigious asset looming into Q1 2016, the forecast is sunny in Kansas City for 2016. At \$660 million, the sale of the Country Club Plaza is almost finalized. While the majority of the terms were agreed to in Q4 2015, the parties involved are expected to officially close on the asset in Q1 2016. This means that by the end of Q1 2016 Kansas City will have already seen sales volume equal to 76% of 2015’s total investment sales volume. Although we’re set to start the year off with a bang, expect to see a less active investment market overall on the retail front. With the sale of a handful of the city’s best retail assets in 2015, we won’t see same number of retail centers sell for high premiums in 2016. But with the help of the Plaza sale, 2016 certainly still has the momentum to outdo 2015.

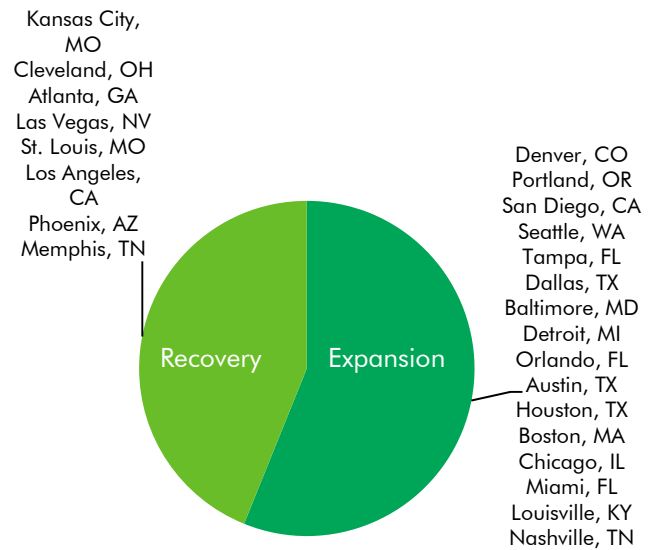
Retail performance in 2015 was exceptional on a national scale, too. Between Q4 2014 and Q3 2015, total retail transaction volume totaled \$90.4 billion. This is an increase of nearly \$20 billion from the previous year and is up from \$22.9 billion in total volume in 2010. Impressively enough, Kansas City stands near the top of the list in terms of markets that have seen sharp increases in transaction activity between the years of 2014 and 2015. Retail transactions experienced a 130% increase in activity, an envious figure for any market, primary or secondary. While some challenges still face Kansas City’s retail market, improving fundamentals and an already strong investment market bode well for the year ahead.

Figure 11: Top 5 Bull Markets

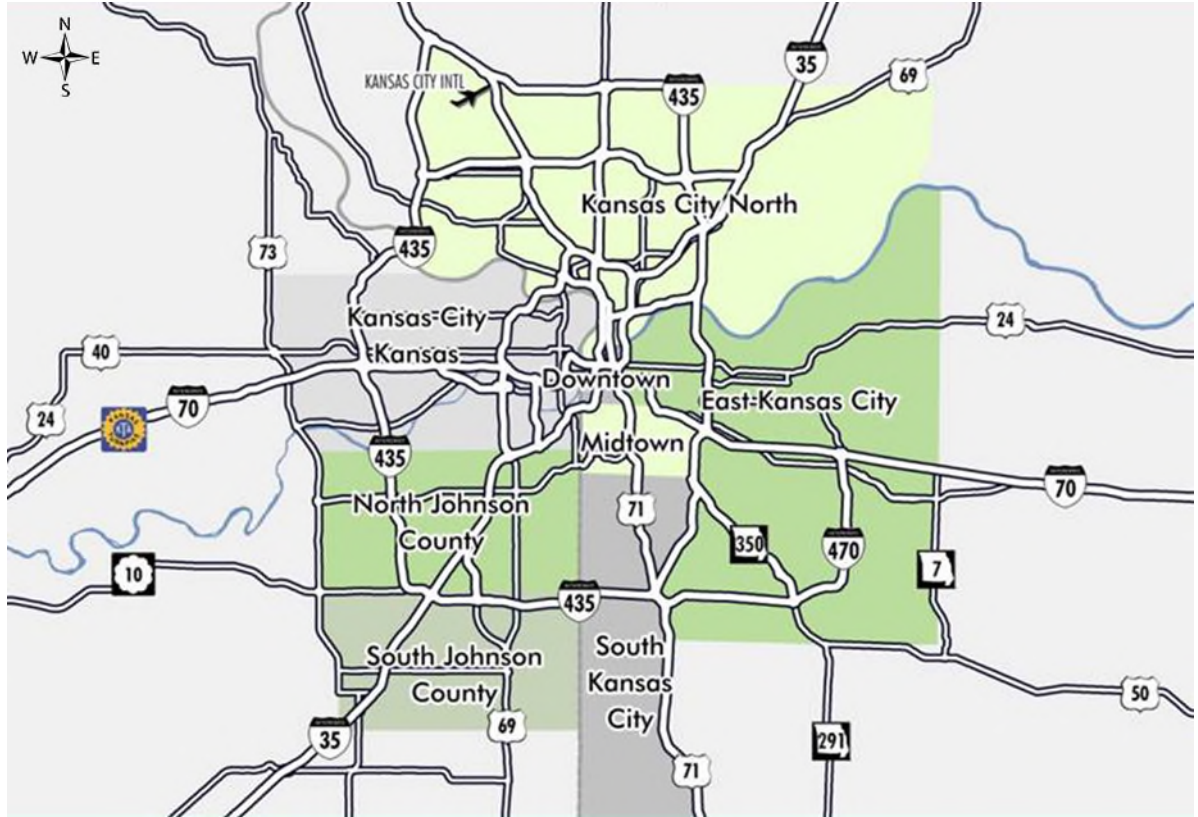
2016 Rank	City	YOY Change	Total Q414-Q315
1	Palm Beach	326.56%	\$1,830,885,053
2	San Jose	225.55%	\$1,178,194,535
3	Columbus	200.47%	\$967,894,061
4	N. New Jersey	133.28%	\$2,015,130,762
5	Kansas City	130.45%	\$863,010,004

Source: Real Capital Analytics 2016/Integra Realty Resources 2016.

Figure 12: Retail Market Cycle



Source: Integra Realty Resources 2016.



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