

Kansas City Industrial, Q4 2015

2015 delivers nearly 4.0 million sq. ft. of new industrial space

 **Vacancy Rate**
4.9%

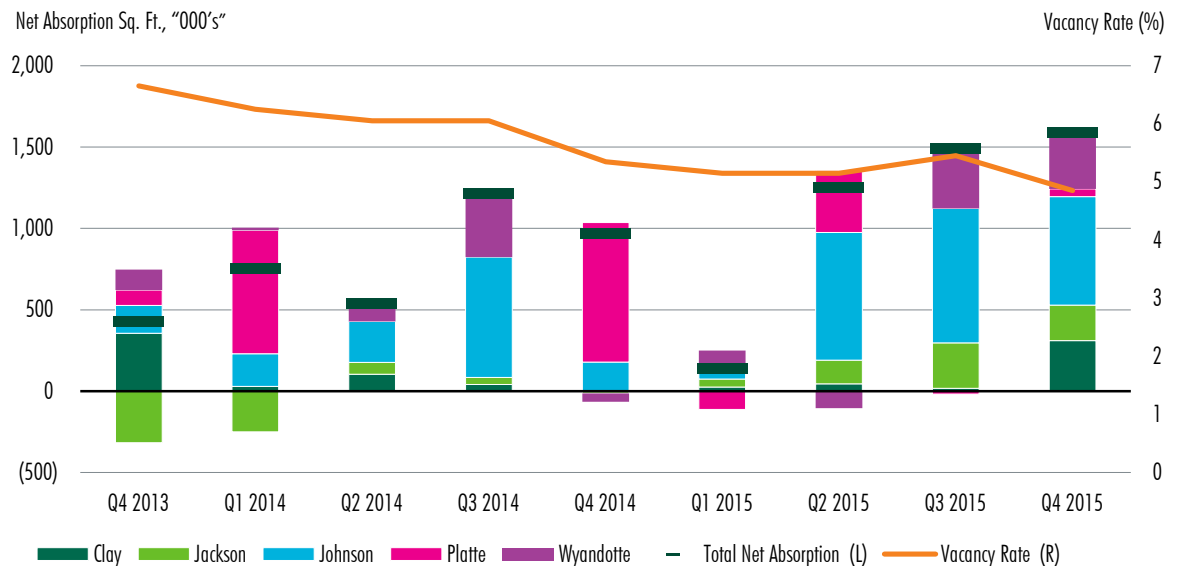
 **Lease Rate**
\$4.37 PSF

 **Net Absorption**
1,587,155 SF

 **Completions**
529,901 SF

*Arrows indicate change from previous year.

Figure 1: Net Absorption by Quarter



Source: CBRE Research, Q4 2015.

- S&S Activewear leased 473,974 sq. ft. of speculative space at I-35 Logistics Park B in Olathe, KS. The company will become the second tenant in the building, raising its occupancy to 80.7%. The majority of the building had been vacant since its completion in August 2013.
- A 635,800 sq. ft. speculative building broke ground at Lenexa Logistics Centre North. The building is the first in the park to break ground on the north side of College Boulevard with three buildings already completed or under construction to the south.

The overall vacancy rate has fallen 370-basis-points (bps) since Q4 2011, ending at 4.9% for Q4 2015. Lease rates rose to \$4.37 per sq. ft. in Q4 2015, compared to \$4.26 per sq. ft. in Q4 2014. Net absorption was over 1.5 million sq. ft. in Q4 2015, and totaled over 4.4 million sq. ft. for 2015. The Kansas City industrial market has posted 17 consecutive quarters of positive net absorption. The industrial market delivered 699,901 sq. ft. of new industrial space in Q4 2015; 449,284 sq. ft. was on a speculative basis. A total of over 8.1 million sq. ft. of speculative space broke ground or reached completion in 2015; approximately 2.2 million sq. ft. of this space was leased at the end of 2015.

MARKET ACTIVITY

Net absorption totalled over 4.4 million sq. ft. in 2015; nearly one million sq. ft. greater than the 2014 total of 3.5 million sq. ft. Since the recovery began in late 2011, net absorption has totalled over 13.8 million sq. ft. in the Kansas City industrial market. Growth in the market is being driven largely by the e-commerce and automotive/equipment manufacturing industries. Several deals over 200,000 sq. ft. were signed in 2015 in these industries including S&S Activewear; Excel Industries; Kubota Tractor; Jet.com; and Harley-Davidson.

DEVELOPMENT

Sixteen projects reached completion in 2015, totaling nearly 4.0 million sq. ft. Ten of these projects were completed on a speculative basis, totaling over 3.0 million sq. ft. As of the end of 2015, 62.2% or 1.9 million sq. ft. of the completed speculative space was leased. Significant tenants filling these spaces include Kubota Tractor which leased the entire building or 765,160 sq. ft. at Inland Port XI in LPKC; Excel Industries leased 348,705 sq. ft., and Jet.com leased 220,548 sq. ft. at Inland Port XII in LPKC; Plastic Packaging Technologies leased 113,668 sq. ft., Vitex Inc. leased 56,000 sq. ft., and OHL leased 53,000 sq. ft. at 1601 Fairfax Tfwy; Regal Distributing Co. leased 94,343 sq. ft. at Lenexa Logistics Centre Bldg 5; US Venture leased 96,939 sq. ft., and Burlington

Mattress leased 72,639 sq. ft. at 500 Osage; and WEG leased 78,300 sq. ft. at Woodend Industrial Park Bldg 2. Substantial speculative development continues with over 5.0 million sq. ft. under construction. Including speculative space left vacant from previous years, 2.8 million sq. ft. of speculative space was absorbed in 2015, which exceeds the total from 2014 of 2.5 million sq. ft. We expect 2016 to compare favorably in terms of speculative absorption. Kansas City's central location and top rate transportation network will continue to drive new tenants to the market. Supply is abundant with over 6.1 million sq. ft. of speculative space available in buildings under construction or already completed, and multiple new speculative projects are expected to break ground in 2016. Developers are beginning to change their projects to attract users from an expected e-commerce boom. New projects are also expanding from traditional 32' clear heights to 36' or greater clear heights, which allows e-commerce shippers to store more of their products vertically rather than on the footprint square footage. Additionally more land is being allocated for employee parking and trailer storage.

Figure 2: Lone Elm 716, Under Construction



Figure 3: Top Lease/User Sale Transactions

Tenant	Size (SF)	Type	Property	City	Submarket
S&S Activewear	473,974	Lease	I-35 Logistics Park B	Olathe, KS	Johnson County
Hallmark	452,700	Lease	Carefree Industrial Park	Independence, MO	Jackson County
Kansas City Steak	110,000	Lease	5100-5250 Kansas Ave	Kansas City, KS	Wyandotte County
Hallmark	108,747	Lease	Carefree Industrial Park	Independence, MO	Jackson County
Regal Distribution Co.	93,343	Lease	Lenexa Logistics Centre 5	Lenexa, KS	Johnson County

Source: CBRE Research, Q4 2015.

Figure 4: Market Statistics

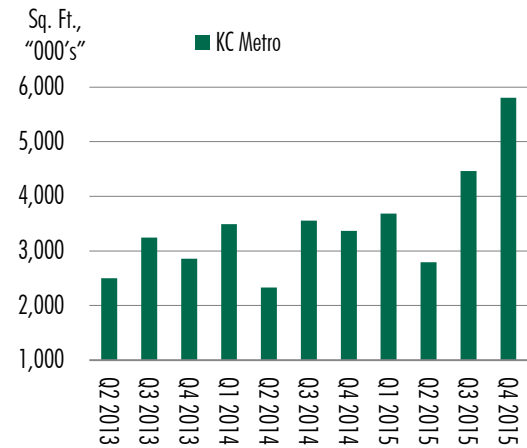
Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Avail. Rate (%)	Q4 2015 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/Yr)
Clay	43,437,494	1,186,535	2.7	5.7	309,964	397,997	90,000	\$3.88
Jackson	99,341,605	6,038,583	6.1	7.1	218,400	693,042	1,266,205	\$3.66
Johnson	58,501,577	3,037,791	5.2	7.6	667,091	2,327,137	3,251,805	\$5.54
Platte	8,693,106	673,967	7.8	12.4	47,476	297,257	1,169,056	\$5.59
Wyandotte	39,420,237	1,353,384	3.4	5.1	344,224	753,179	30,483	\$4.03
Metro	249,394,019	12,290,260	4.9	6.8	1,587,155	4,468,612	5,807,549	\$4.37

Source: CBRE Research, Q4 2015.

UNDER CONSTRUCTION

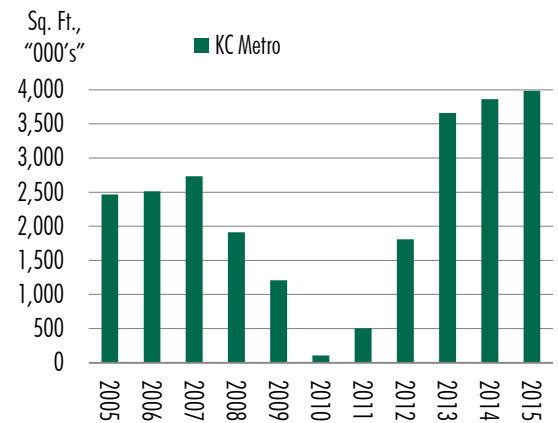
Current construction activity for Q4 2015 totaled 5,807,549 sq. ft. Seventeen projects are currently under construction including the 822,117 sq. ft. warehouse in Logistics Park Kansas City, called Inland Port XIV; a 716,040 sq. ft. speculative warehouse in Olathe, KS; a 604,998 sq. ft. speculative warehouse that is part of the Logistics Centre in Lenexa, KS; a 496,150 sq. ft. speculative warehouse in Olathe, KS; a 491,448 sq. ft. speculative warehouse in the Riverside Horizons park in Riverside, MO; a 450,660 sq. ft. speculative warehouse in the CenterPoint Intermodal Center in Kansas City, MO; a 432,640 sq. ft. speculative warehouse in KCI Intermodal BusinessCentre; a 364,000 sq. ft. speculative warehouse in Kansas City, MO; a 331,280 sq. ft. speculative warehouse which is the second phase of the Three Trails Commerce Center in Kansas City, MO; a 244,968 sq. ft. speculative warehouse in Riverside, MO; a 220,000 sq. ft. data hosting facility in Olathe, KS; a 332,500 sq. ft. build-to-suit building for FedEx in Olathe, KS; a 96,800 sq. ft. speculative warehouse in Grain Valley, MO; a 90,000 sq. ft. research and development building in Gladstone, MO; a 60,000 sq. ft. build-to-suit for Composites One in Lenexa, KS; a 30,483 sq. ft. warehouse in Kansas City, KS; and a 23,465 sq. ft. warehouse in Grain Valley, MO.

Figure 5: Construction Activity



Source: CBRE Research, Q4 2015.

Figure 6: Construction Completions



Source: CBRE Research, Q4 2015.

VACANCY RATES FALLING

Overall vacancy rates in the metro fell 60 bps since Q3 2015. In Q4 2015 the highest vacancy rate average was in Platte County at 7.8%; the lowest rate was in Clay County at 2.7%. Significant moves assisting in raising occupancy include the S&S Activewear lease of 473,974 sq. ft. at I-35 Logistics Park B; Kansas City Steak which took 110,000 sq. ft. at 5100-5250 Kansas Ave in Kansas City, KS; Pratt Industries which took 109,188 sq. ft. at 45 Osage Ave in Kansas City, KS; and Regal Distribution Company which took 93,343 sq. ft. at recently completed Lenexa Logistics Centre Building 5 in Lenexa, KS.

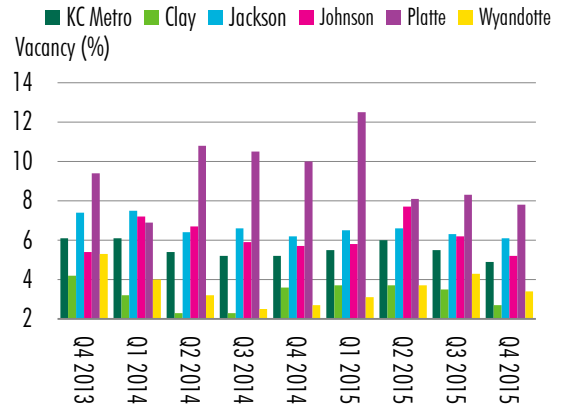
ASKING LEASE RATES

Lease rates rose to \$4.37 per sq. ft. in Q4 2015, compared to \$4.35 per sq. ft. in Q3 2015. Platte County average lease rates were the highest in the metro at \$5.59 per sq. ft. The next highest lease rates were in Johnson County at \$5.54 per sq. ft. The lowest rates were in Jackson County at \$3.66 per sq. ft.

ECONOMY

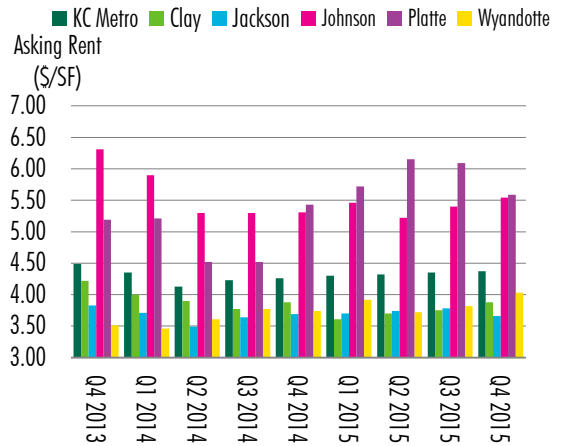
The economy is expected to strengthen in 2016 driven by healthcare and professional/business services. Four of the five largest employers in the Kansas City metro are involved in the healthcare sector which continues to increase hiring. According to Moody's Analytics, wage growth will begin to accelerate in the near term leading to increases in consumer spending and single-family housing starts. Kansas City's gross metro product is projected to grow by approximately 10.0% over the next 10 years, according to Moody's Analytics.

Figure 7: Historical Vacancy Rates



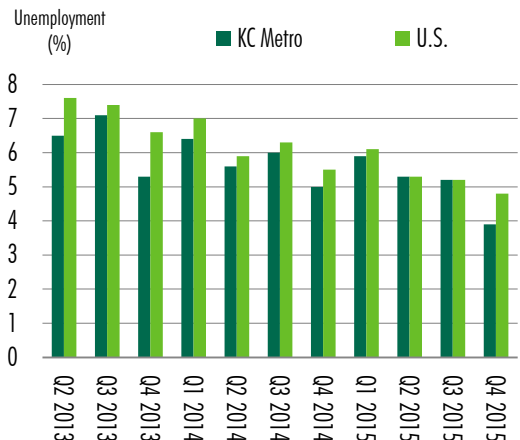
Source: CBRE Research, Q4 2015.

Figure 8: Average Asking Lease Rates

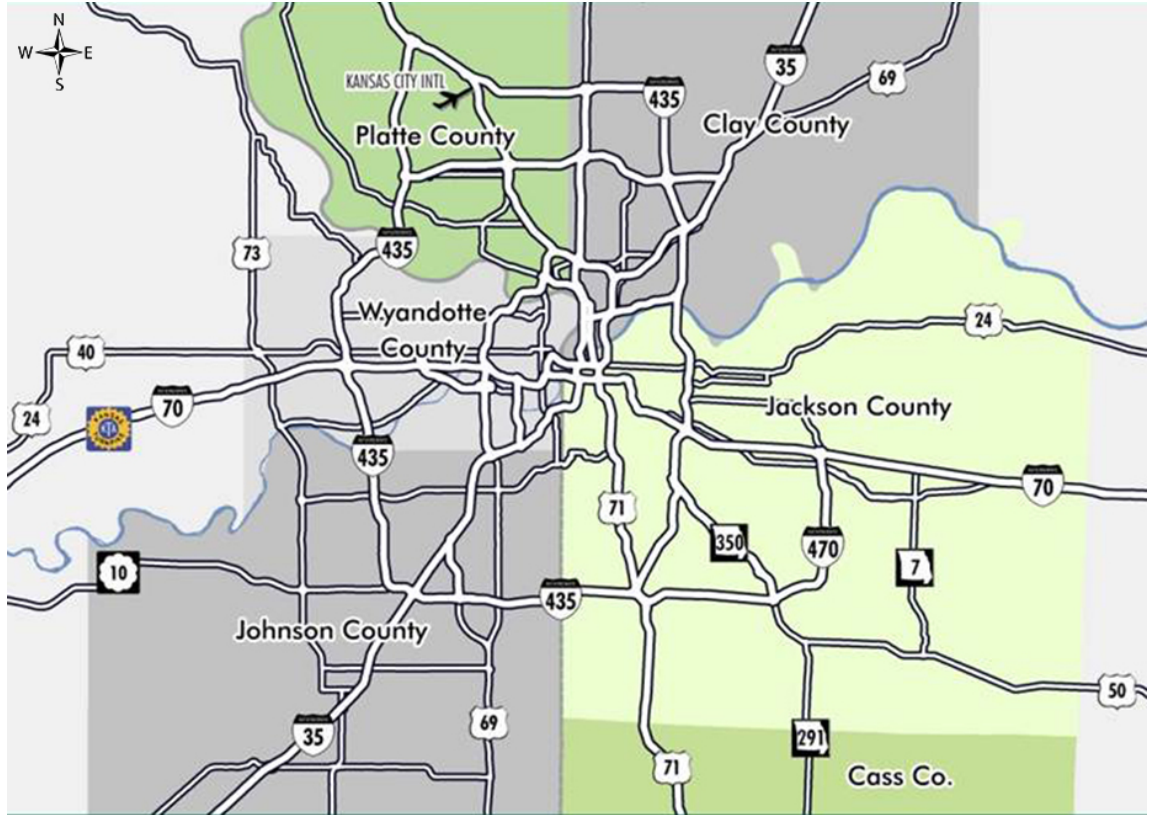


Source: CBRE Research, Q4 2015.

Figure 9: Unemployment Rate



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


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