

MARKETBEAT

Industrial Q4 2018

Kansas City



KANSAS CITY INDUSTRIAL

Economic Indicators

| | Q4 17 | Q4 18 | 12-Month Forecast |
|--------------------------|----------|----------|-------------------|
| Kansas City Employment | 1,091.8k | 1,109.2k | ▲ |
| Kansas City Unemployment | 3.8% | 3.2% | ■ |
| U.S. Unemployment | 4.1% | 3.7% | ▼ |

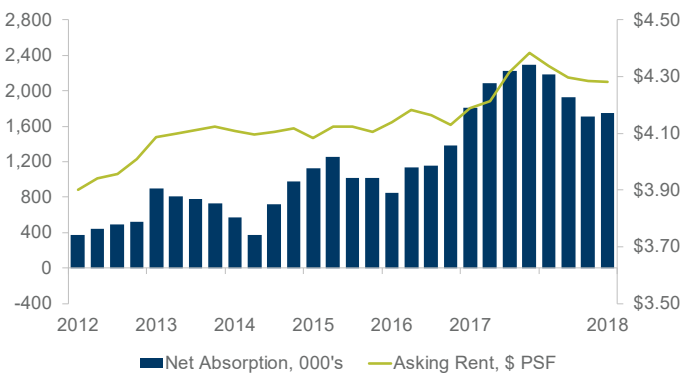
Numbers above are quarterly averages

Market Indicators (Overall, All Classes)

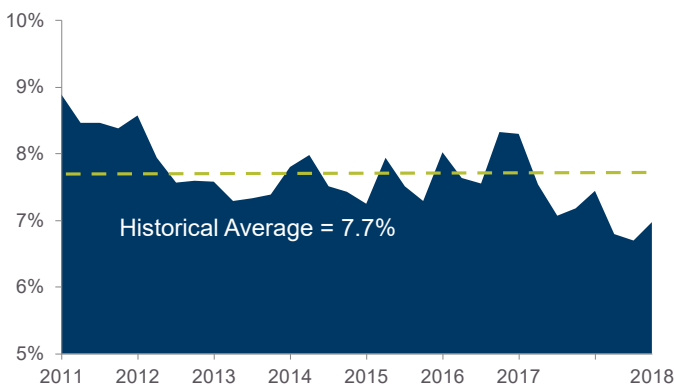
| | Q4 17 | Q4 18 | 12-Month Forecast |
|-------------------------|--------|--------|-------------------|
| Vacancy | 7.2% | 7.0% | ▼ |
| Net Absorption (sf) | 2.1M | 2.3M | ▼ |
| Under Construction (sf) | 5.4M | 3.1M | ■ |
| Average Asking Rent* | \$4.27 | \$4.26 | ■ |

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

2018 was a strong year for the Kansas City commercial real estate market. The office market saw over 800,000 square feet (sf) of absorption along with continued interest from national investors. The industrial sector had 7.0 million square feet (msf) of absorption, making it the second strongest year on record following only the record-shattering 2017. Leasing activity, development, and investment were healthy throughout the year and vacancy rates for both office and industrial product are noticeably below historical averages.

While the past year benefited from the ongoing economic expansion, 2019 will present challenges. The final six weeks of 2018 saw volatility and retreats throughout investment markets, but the underlying fundamentals of the global economy in general and the US economy in particular remained healthy. The economy will face some highly visible headwinds in the early portions of 2019, most notably the uncertainty surrounding tariffs between the US and China along with the impact of Brexit negotiations. These are significant issues that will have broad influence. However, economists have stressed that the overall global economy is strong enough to withstand these difficulties. The general consensus is economic growth in 2019 will not match the robust pace of 2018 but we are likely headed for an economic slowdown, not a contraction or recession.

Market Overview

The years of 2017 and 2018 may long be remembered as the biggest boom in Kansas City industrial history. Over the combined 24 months, 14.4 million square feet (msf) of space was added to inventory and net absorption totaled 16.2 msf. The size of the market increased by 6.9% in just two years, and over that period of time the vacancy rate fell from 8.3% to 7.0%. It has been an unprecedented period of success.

2018's net absorption of 7.0 msf did not match the outrageous year-end figure of 9.2 msf in 2017, but it still is the second highest absorption total on record. There are some signs that the rate of acceleration has slowed, but it is worth remembering that the Kansas City market could see a 15% drop in net absorption in the coming year and that total would still be the third-highest on record, surpassing the current number three total by almost half-a-million square feet (sf). The Kansas City industrial market has repositioned itself and now must be viewed through the lens of pre-2014 (when the speculative construction boom really kicked off) and from 2014 on.

MARKETBEAT

Industrial Q4 2018

Kansas City



Speculative construction was the catalyst for the current expansion and there are signs that the current cycle is evolving. At year-end 2018, there were 2.9 msf of speculative space under construction, compared to 3.9 msf of speculative space under construction at the end of the previous two years. Despite a decrease in total space under construction, there are signs that the demand for speculative space remains strong. The Riverside submarket, which has expanded by 55.0% since the start of 2015, continues to see new speculative space absorbed. The recent round of construction in the Northland Park

LEASING ACIVITY THROUGHOUT THE MARKET SHOWS THAT THERE IS STILL AMPLE DEMAND FOR HIGH-QUALITY, NEW SPECULATIVE SPACE

submarket has been a complete success, with six buildings totaling 1.9 msf delivering since the fourth quarter of 2016 and only a single 83,000-sf availability at the end of 2018. It is not surprising that another three buidlings totaling 1.2 msf are now underway in Northland Park.

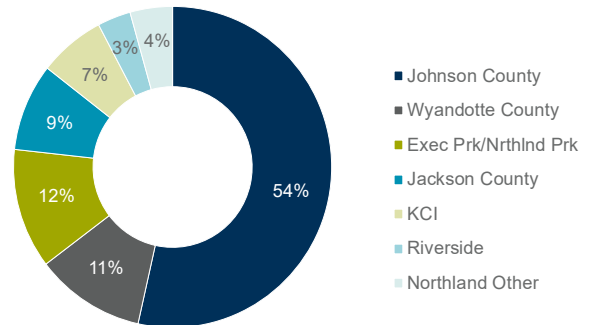
Work has also started on the first 454,000-sf building at Southview Commerce Center in Belton. The project is located on a former golf course that could eventually hold as many as five buildings totaling just over 2.0 msf. The common theme of development at Southview, Riverside, and Northland Park is buildings 500,000 sf and under that can accommodate tenants looking for 50,000 sf to 250,000 sf. Much of the success in 2016 and 2017 was dependent on single tenants taking 400,000-sf to 927,000-sf buildings. Developers are currently hesitant to pursue projects of that scale on a speculative basis, but leasing acitivity throughout the market shows that there is still ample demand for high-quality, new speculative space.

Outlook

- Build-to-suit projects will likely increase the under construction totals in 2019, with Kubota Tractor expected to start at least one 1.0 msf building at Logistics Park Kansas City.
- As tenants relocate to newer speculative spaces, older Class B warehouses will struggle to backfill space.
- Although Southview Commerce Center is technically located in Cass County, it will be included in the Jackson County submarket for statistical purposes.

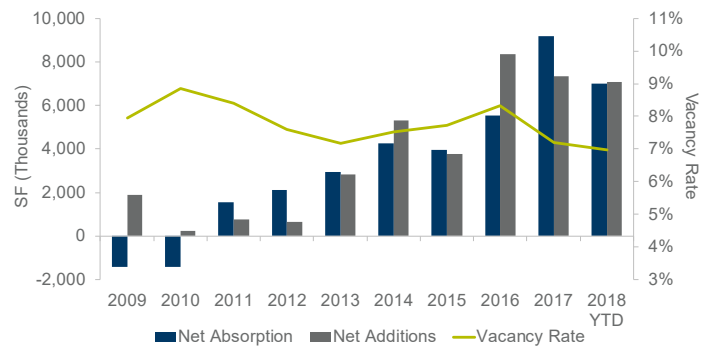
Bulk & Modern Distribution by Submarket

DESPITE DEVELOPMENT TAKING PLACE THROUGHOUT THE METRO AREA, OVER HALF OF THE INVENTORY OF BULK DISTRIBUTION SPACE REMAINS IN JOHNSON COUNTY



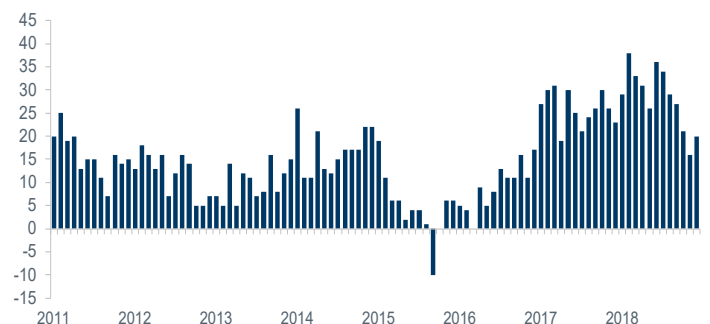
Net Addition, Absorption & Vacancy

THE RAPID DELIVERY OF NEW SPACE HAD CAUSED AN INCREASE IN VACANCY RATE, BUT ABSORPTION REMAINS STRONG



Federal Reserve 10th District Manufacturing Survey

DURING THE SECOND HALF OF THE YEAR, THE FUTURE COMPOSITE INDEX OF MANUFACTURERS' EXPECTATIONS BEGAN TO SHOW SIGNS OF CONCERN REGARDING INTERNATIONAL TRADE



Source: Federal Reserve Bank Tenth District

MARKETBEAT

Industrial Q4 2018

Kansas City



| SUBMARKET | TOTAL BLDGS | INVENTORY (SF) | YTD USER SALES ACTIVITY (SF) | OVERALL VACANCY RATE | YTD OVERALL NET ABSORPTION (SF) | UNDER CNSTR (SF) | DIRECT WEIGHTED AVG. RENT (MF)* | DIRECT WEIGHTED AVG. RENT (OS)* | DIRECT WEIGHTED AVG. RENT (WD)* |
|---------------------------------|--------------|--------------------|------------------------------|----------------------|---------------------------------|------------------|---------------------------------|---------------------------------|---------------------------------|
| Johnson County | 970 | 70,077,897 | 797,130 | 9.4% | 3,877,534 | 1,085,088 | \$6.43 | \$6.93 | \$4.24 |
| Wyandotte County | 391 | 32,367,387 | 143,833 | 5.6% | 409,853 | - | \$4.00 | n/a | \$3.88 |
| Executive Park / Northland Park | 182 | 17,547,193 | 291,643 | 4.5% | 1,351,301 | 1,217,783 | n/a | \$5.48 | \$4.24 |
| Jackson County | 822 | 57,191,458 | 2,212,084 | 5.5% | 611,414 | 704,489 | \$4.15 | \$7.65 | \$3.25 |
| North Kansas City | 251 | 15,016,397 | - | 8.3% | -339,408 | - | n/a | \$4.57 | \$3.11 |
| KCI | 65 | 6,716,813 | - | 6.3% | 649,370 | - | n/a | \$6.40 | \$4.63 |
| Riverside | 55 | 5,415,276 | - | 11.1% | 351,737 | 134,000 | \$3.99 | \$5.18 | \$4.68 |
| Other Northland | 86 | 17,254,996 | - | 5.3% | 98,736 | - | n/a | n/a | \$3.26 |
| Cass County | 12 | 752,515 | - | 0.0% | - | - | n/a | n/a | n/a |
| KANSAS CITY TOTALS | 2,834 | 222,339,932 | 3,444,690 | 7.0% | 7,010,537 | 3,141,360 | \$4.72 | \$6.72 | \$3.94 |

*Rental rates reflect net asking \$psf/year

MF = Manufacturing

OS = Office Service/Flex

W/D = Warehouse/Distribution

| | TOTAL BLDGS | INVENTORY (SF) | YTD USER SALES ACTIVITY (SF) | OVERALL VACANCY RATE | YTD OVERALL NET ABSORPTION (SF) | UNDER CNSTR (SF) | YTD CNSTR COMPLETIONS (SF) | YTD LEASING ACTIVITY (SF) | OVERALL WEIGHTED AVG NET RENT |
|-------------------------------|-------------|----------------|------------------------------|----------------------|---------------------------------|------------------|----------------------------|---------------------------|-------------------------------|
| Bulk Distribution & Warehouse | 740 | 101,845,871 | 3,017,629 | 9.8% | 5,088,303 | 2,840,740 | 6,238,115 | 10,925,163 | \$4.13 |
| Office/Warehouse | 741 | 19,641,844 | 162,194 | 7.4% | 520,009 | 50,620 | 84,096 | 2,351,490 | \$6.58 |
| Flex/R&D | 154 | 5,232,128 | - | 3.5% | 207,140 | - | 51,106 | 507,992 | \$9.53 |
| Manufacturing | 1,187 | 67,856,658 | 264,867 | 2.1% | 1,370,968 | 250,000 | 712,842 | 3,508,410 | \$4.72 |
| Underground | 12 | 27,763,431 | - | 8.8% | -175,883 | - | - | 397,215 | \$3.21 |

Key Lease Transactions Q4 2018

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|------------------------------------|---------|------------------------------|------------------|-------------------|
| 9700 Lackman Road | 304,840 | Gear for Sports | Leased | Johnson County |
| Northland Park #4 | 303,622 | Ford Motor Company | Leased | Northland Park |
| Lenexa Logistics Centre North | 160,000 | Sportsman Cap | Leased | Johnson County |
| Platte Valley Industrial Center #5 | 85,360 | Marcon | Leased | Riverside |
| Northland Park #2 | 69,382 | Symbia Fullfillment Services | Leased | Northland Park |
| Northland Park #3 | 55,974 | National Fleet Systems | Leased | Northland Park |
| 3011 E Geospace Drive | 49,400 | Red Carpet Services | Leased | Jackson County |
| 1821 Bedford | 37,858 | Liberty Exposition Services | Leased | North Kansas City |

Key Sales Transactions Q4 2018

| PROPERTY | SF | SELLER/BUYER | INVESTOR/USER | SUBMARKET |
|----------------------------------|---------|--|---------------|----------------|
| Olathe Distribution Center | 601,829 | Sun Life Assurance/Sealy & Co | Investor | Johnson County |
| Executive Park Interstate Center | 173,000 | MSTB KC/SR Realty Trust | Investor | Executive Park |
| 11550 Renner Boulevard | 124,772 | Silpada Designs/Heart-to-Heart International | User | Johnson County |
| Executive Park Business Center | 87,292 | Colony/TAK | Investor | Executive Park |

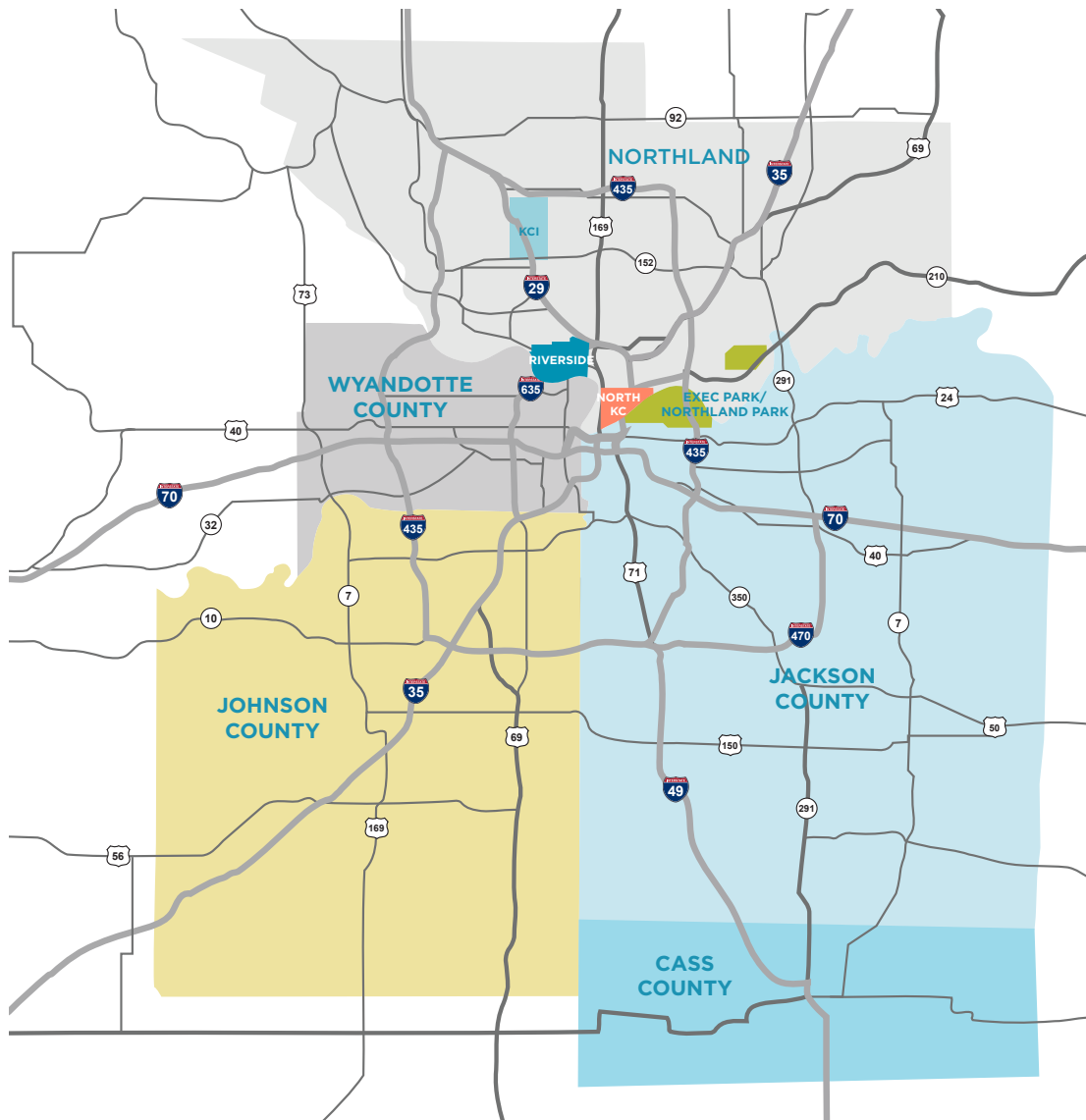
MARKETBEAT

Industrial Q4 2018

Kansas City



INDUSTRIAL SUBMARKETS KANSAS CITY



Cushman & Wakefield
4600 Madison Avenue
Suite 800
Kansas City, MO 64112
cushmanwakefield.com

For more information, contact:
Matt Nevinger
Associate Director, Research
Tel: +1 816 221 2200
matt.nevinger@cushwake.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of \$6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2019 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.