WHAT JUST HAPPENED?

AND WHAT DOES IT ALL MEAN?

AREA INSIGHT
2020 MID-YEAR REPORT

AREA looks back over the first half of 2020 as we breakdown the impact of the pandemic and the economic shutdown on the economy and the commercial real estate markets.

With input from our senior leadership, our brokers and our analysts, we aim to provide you with the most relevant and recent info including notable deals and important trends in the economy and in the commercial real estate markets.

ECONOMIC REVIEW: *Shutdown forces U.S. economy into recession, path to recovery remains uneven and unclear.*

INDUSTRIAL MARKET: *Continues to churn, poised for growth as economy re-opens.*

MULTIFAMILY MARKET: *Deal flow slows amid pandemic as investors and lenders pause. We are monitoring occupancy rates and concessions closely as indicators of market health.*

RETAIL MARKET: *Hard hit in almost every sector, but each category will continue to evolve through innovation and adaptation.*

OFFICE MARKET: *Lags behind all other sectors. Office tenants are delaying making decisions on space needs. Anticipate sublease supply to increase next quarter.*

ECONOMIC REVIEW

Unprecedented Health Crisis Takes U.S. Economy into Recession

The abrupt shutdown of many businesses caused devastating economic effects throughout all sectors of the economy with retail, leisure, travel and hospitality being the hardest hit. Millions of workers were quickly laid off or furloughed and risk assets sold off dramatically, ending an 11-year bull market for stocks. The abrupt halt in economic activity quickly took the U.S. economy into a recession for first time since the financial crisis.

The shutdown forced millions of Americans into unemployment, with over 48 million cumulative weekly jobless claims filed since early March. Continuing jobless claims remain extremely elevated, highlighting the significant stress in the labor markets.

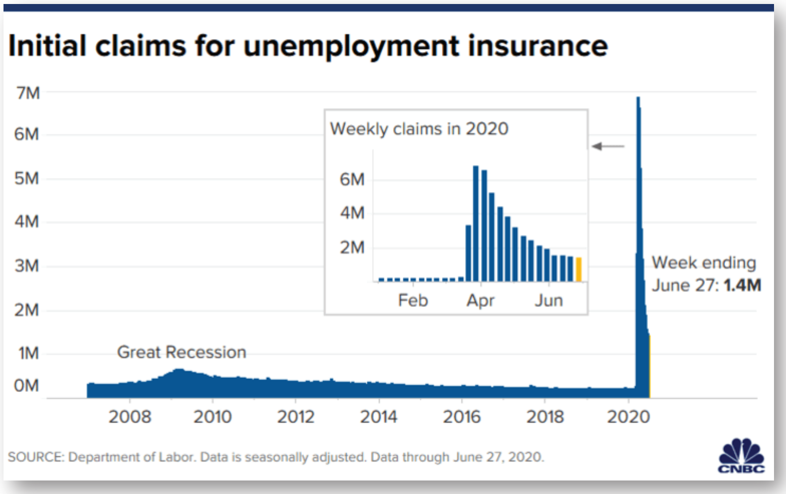
As the economy reopens, the U.S. unemployment rate continues to decline from a peak level of 14.7% in April down to 11.1% in June. However, unemployment remains extremely high compared to pre-pandemic levels and if sustained will be a drag on economic activity, especially consumer spending.

The May unemployment rates for Missouri and Kansas sit at 10.1% and 10.0%, respectively. For May, the KC Metro area unemployment rate declined to 10.8% from 11.2% in April. We expect these rates to decline further as economy reopens but remain elevated for some time. Sustained high unemployment in our region will eventually take a hit to our economy and hamper the ability for a quick economic recovery. The path of the virus in our region will ultimately dictate the pace of recovery.

We expect the U.S. unemployment rate to decline further in the near-term but anticipate some businesses might start to permanently lay off some workers once their Paycheck Protection Program funds are depleted. We see an unemployment rate remaining elevated for some time resulting in sustained economic hardship.

WEEKLY JOBLESS CLAIMS

New jobless claims slow, unemployment remains at staggering levels



- Over the last 15 weeks a record 48.6 million total new weekly jobless claims have been filed, eclipsing the 8.7 million jobs lost during 2008 recession and erasing all jobs gained since then.

- While the record setting pace of new weekly jobless claims continues to slow, 19.29 million Americans filed continuing claims for the week ending June 20th. Highlighting the massive number of workers still unemployed and resulting in continued economic stress.

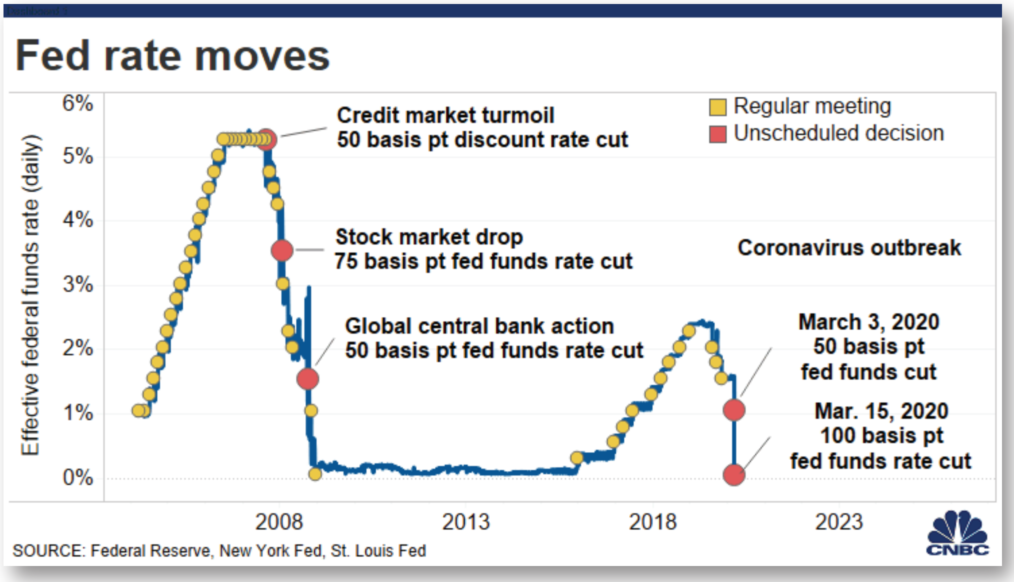
Federal Reserve & Congress Respond

The Federal Reserve took aggressive monetary action to calm the financial markets and shore up the banking system. The Fed lowered interest rates to the zero-bound, injected trillions of cash into the funding markets and purchased record amounts of debt and other securities. The Fed effectively injected over $1.5 trillion into the banking system and the capital markets. If needed, the Fed has the ability to deploy another $2.5-3.0 trillion.

The Fed, which recently released its first economic forecast for 2020, sees GDP falling by 6.5% this year with a rebound in 2021. The Fed has committed to keeping rates at or near zero into 2022, while also signaling that more monetary levers can be pulled.

Concurrently, Congress passed multiple pieces of legislation with the CARES Act, Payroll Protection Program and other legislation totaling over $3.6 trillion to help unemployed workers, families, and small businesses.

Fed Cuts Rates to Zero to Support Economy



U.S. Economy Is Bouncing Back, But Any Recovery Is Inevitably Linked To The Virus

The U.S. economy continues to slowly come back online in phases, but it has been a very bumpy restart. We believe it is too early to tell where the economic recovery stands and what the recovery looks like. The number of unemployed is expected to remain elevated and the future path of this public health crisis is impossible to predict.

Due to the unprecedented nature of this crisis, consensus forecasts have been mostly wrong. Some see a slowdown for the remainder of the year with a sharp rebound in 2021, a V-shaped recovery. In contrast, others prognosticate that the economic impact of the pandemic will linger, and we enter a prolonged period of lower economic activity and fall deeper into recession.

As the economy reopens, the key will be to follow the data and trends over the next several months and into 2021. Economic data for May showed a nice rebound as the economy re-opened, however, as daily infections hit record levels in June, the economic recovery may have stalled. This fall we hope to have a much clearer picture of where the economy stands and where economic indicators sit versus prior to the pandemic.

KC INDUSTRIAL MARKET

AREA
REAL ESTATE ADVISORS

Continued Growth Potential and Demand Amidst Pandemic

NOTABLE INDUSTRIAL DEALS- LEASES

KC Bulk Distribution Warehouse Leasing Continues Growth

Location	Submarket	Company	SF Leased	Estimated Rate (NNN)	Lease Date
Building 6 Hwy 210 & N. Kimball Dr., Kansas City, MO	Claycomo	Fed Ex Ground	548,560	$4.25	March 2020
Lenexa Logistics Centre North 1 17700-17790 College Blvd., Lenexa, KS	Olathe	Propak	124,743	$4.05	January 2020
Lone Elm Logistics Center 16231 S. Lone Elm Rd., Olathe, KS	Olathe	Regal Art & Gift	118,187	$3.50	January 2020

NOTABLE INDUSTRIAL DEALS- SALES

Larger Industrial Deals Show Positive Deal Flow

Location	Submarket	Buyer	Seller	Size SF	Estimated Sale Price	Estimated Sale Price/SF	Sale Date
(Portfolio, 9 Bldgs) Rivergate Business Center, 1530-1556 N. Topping Ave., Kansas City, MO	Executive Park	Sealy & Company	Brennan Investment Group	559,367	Undisclosed	$35.00	April 2020
Lenexa Tech Center 14600-14614 W. 106th St., Lenexa, KS	Olathe	Brandon Becker	Michael Feller	125,262	$3,757,860	$30.00	February 2020
Midwest Gateway 2 32180 W. 191st St., Edgerton, KS	Olathe	Kelsey Olson	OakBridge Real Estate LLC	186,107	$11,900,000	$63.94	March 2020

Industrial Market Overview

The market and investors remain bullish on the industrial sector and the KC Metro market has advantages we believe will drive future growth.

KC metro is geographically positioned to attract higher demand in the future as we are within a 2-day drive time to roughly 90% of the continental U.S. Distribution companies recognize and appreciate that.

Bulk warehouse distribution, food storage & prep, and last mile logistics will be the major drivers of new construction in the near future.

The growth of food storage and distribution needs will require more efficient warehouses to service the need.

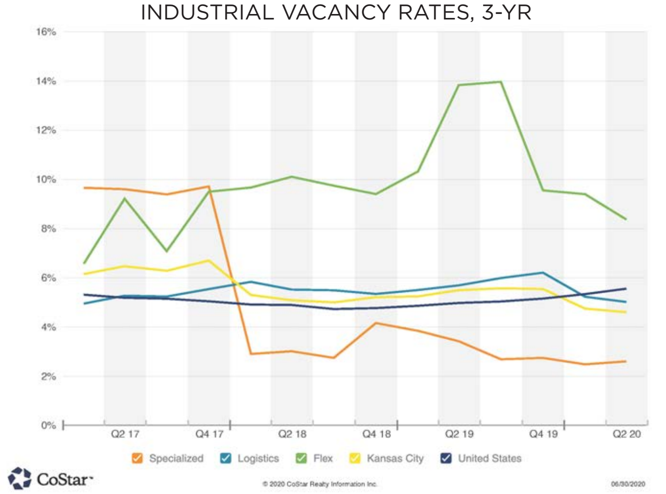
Look for more manufacturers to "reshore" to the U.S. from overseas in the coming years, a positive for industrial demand.

We are closely following new construction and will continue to monitor that against absorption in the market.

KC INDUSTRIAL MARKET

AREA
REAL ESTATE ADVISORS

INDUSTRIAL VACANCY RATES, 3-YR



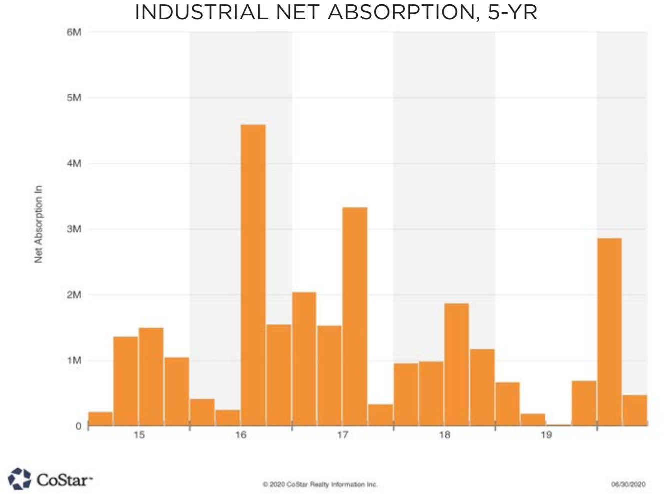
Vacancy Rates Show Resilience During Pandemic

- Even with continued construction and deliveries, KC Metro vacancy rates remain low and steady.

- Industrial properties show strength both in KC Metro and nationally during the pandemic, a positive sign for the market over the next few years.

- We anticipate vacancy rates should remain stable in 2020 with room for improvements, as the economy rebounds in 2021.

INDUSTRIAL NET ABSORPTION, 5-YR

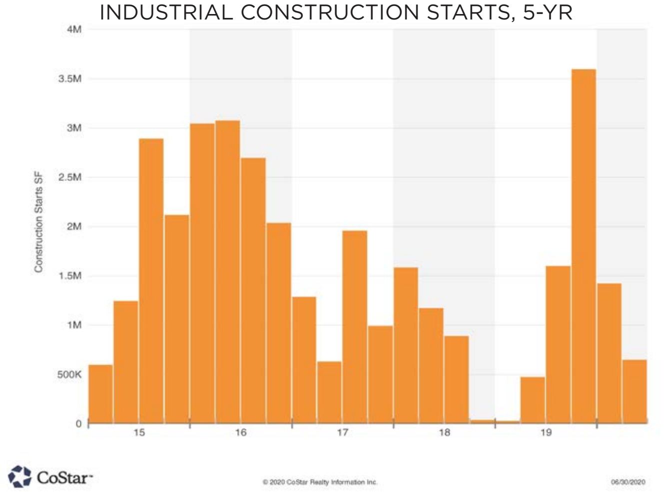


Positive Net Absorption Rate Continues

- Long history of positive net absorption continues in KC Metro.

- We predict absorption rate may slow or remain neutral in near-term but long-term will show positive increase.

INDUSTRIAL CONSTRUCTION STARTS, 5-YR



Intermodal Driving Bulk Warehouse Construction Starts

- Large speculative buildings built near intermodals, have increased KC market size and presence.

- Inventory growth is pushing KC Metro into national spotlight as larger players look to area for new hubs.

- We see a pause for new construction in near-term but believe KC's geographic advantages, strong employee base and reasonable constructions costs will drive future investment.

Source: CoStar, data as of 6.30.2020

KC MULTIFAMILY MARKET

AREA
REAL ESTATE ADVISORS

Deal Flow Slows During Pandemic

NOTABLE MULTIFAMILY DEALS- SALES

Pandemic Slows Strong KC Multifamily Deal Flow

Name/ Location	Submarket	Buyer	Seller	Size (Units)	Estimated Sale Price	Estimated Sale Price/Unit	Class	Sale Date
Knollwood Apartments 4700 N. Highland Ave., Kansas City, MO	North Kansas City	Brookhaven Management Group	Monarch Investment and Management Group	315	$31,070,000	$97,870	C	March 2020
Pin Oak Acres Apartments 925 Brookside St., Leavenworth, KS	Leavenworth County	Think Multifamily	JFD Properties	152	$6,600,000	$43,421	C	February 2020
Harbor Group KC Portfolio	KC Metro	Harbor Group International	Aragon Holdings	807	$93,730,000	$116,152	B/C	January 2020
Copper Ridge Apartments 341 N. Forest Ave., Liberty, MO	North Kansas City	The Justus Companies	GFI Capital Resources Group	292	$33,030,000	$115,200	A	January 2020
The Fringe 1575 Birdie Way, Lawrence, KS	South Lawrence	Bridge Partners	Bliss Management	168	$31,070,000	$97,870	B	January 2020

Multifamily Market Overview

Transaction volumes have slowed as buyers and lenders pause to see how pandemic plays out and the longer-term effects it may have on the economy and the Multifamily market, especially as it relates to asking rents and future rental rate growth. Investment could slow further as lenders and investors move to protect assets and hold on to cash in uncertain times.

Nationally, transaction volumes in April and May were down roughly 50% from typical levels and both months represent lowest transaction volumes in a decade. Transaction volume in KC Metro likely peaked in Q1 2020 and we see a slowdown until at least Q1-Q2 of 2021.

Transactions close to completion prior to pandemic where executed, but many new deals remain on pause as volume is down significantly in both KC Metro and across U.S.

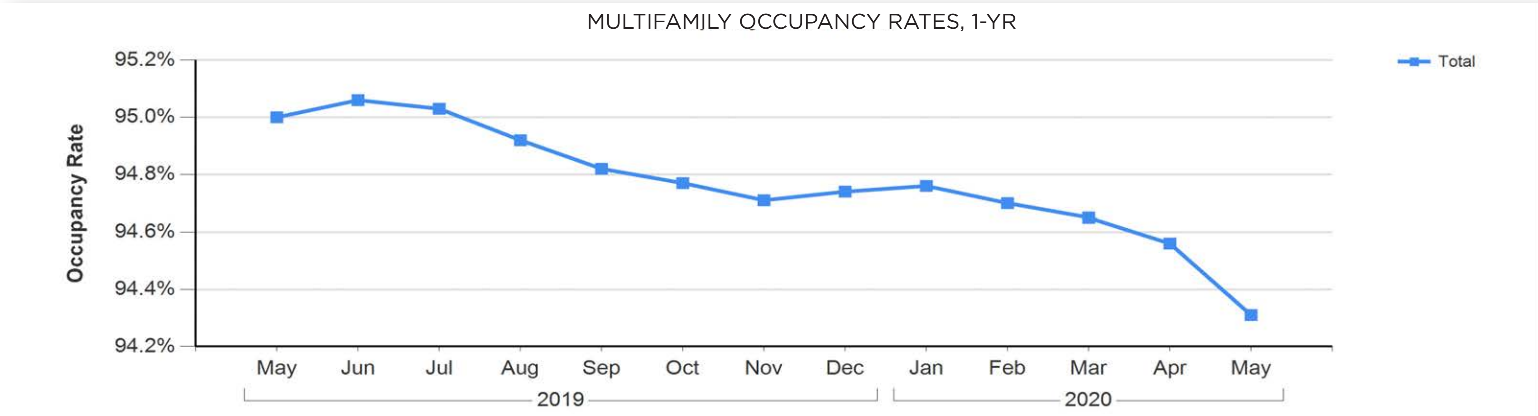
Most properties already under construction continue towards completion and delivery, but many new projects have slowed if not stopped all together.

Stable monthly rent collections for larger properties remain a positive sign for the market. According to the National Multifamily Housing Council, rent collections nationally in April, May and June MTD, were 94.6%, 95.1% and 92.2%, respectively. This data is in line with 2019 collections over the same time periods.

We are watching rent concessions closely as they are early indicator of potential future rental rates. An uptick in concessions indicates landlords are not getting asking rents and points to future weakness in the market.

KC MULTIFAMILY MARKET

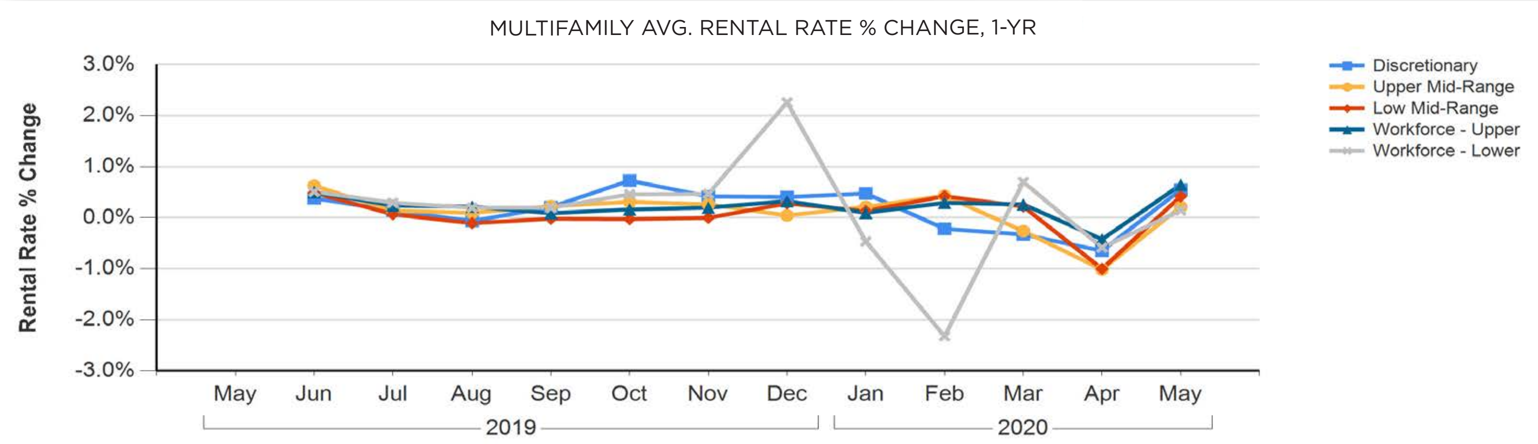
Occupancy Rates Decline During Pandemic



Occupancy rates remained relatively stable during March and April with nominal declines as economy shutdown, but occupancy dropped faster in May to 94.3%. A level the KC Metro has not seen since mid 2015.

We are monitoring closely and look to the next few months to see if occupancy rates stabilize, which would be a positive sign for the market. Based on recent conversations with landlords, we expect occupancy rates will continue to tick down slightly throughout remainder of year.

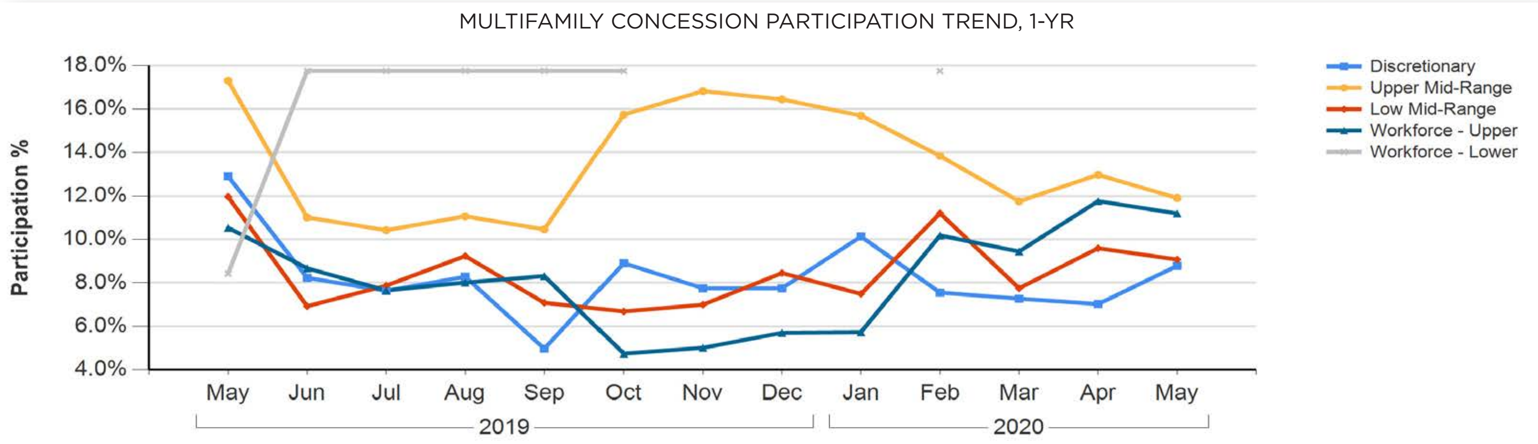
Rental Rates React in April with May Bounce Back



Prior to the pandemic, rental rates had remained stable in KC Metro but ticked down as the pandemic took hold and the economy shutdown.

Rental rates in KC market showed an immediate response to the pandemic with a decrease in March and April, rebounding in May as economy reopened. We see asking rates and rental rate growth being highly dependent on the economic recovery, employment trends and the public health response to the pandemic. We look to the fall for a clearer view of the market.

Properties Offering Concessions Tick Up Slightly During Pandemic



- Number of properties in KC Metro area offering rent concessions do not show a significant uptick during past few months but we are monitoring closely as an increase in concessions is an early indicator of potential weakness in future asking rents and rent growth.

- The average concession rate for KC Metro Multifamily properties, with 50 or more units, was 3.5% at the end of May, up slightly over the past few months.

Source: Yardi Matrix, data as of 5.31.2020

KC RETAIL MARKET

AREA
REAL ESTATE ADVISORS

Deal Flow Has Felt The Pandemic, But Still Some Active Categories

NOTABLE RETAIL DEALS- LEASES

"Value" Retailers Still Signing New Deals

Location	Submarket	Company	SF Leased	Estimated Rate	Lease Date
BluHawk Shopping Center 15901-15933 Antioch Rd., Overland Park, KS	South Johnson County	T.J.Maxx	25,000	Undisclosed	December 2019
Twin Creeks Shopping Center 8560 N. Madison, Kansas City, MO	North Kansas City	Five Below	8,500	Undisclosed	March 2020
City Club Apartments 1979 Main St., Kansas City, MO	Crossroads	DGX	5,040	Undisclosed	January 2020
Duck & Roll 4800 Main St., Kansas City, MO	Country Club Plaza	Duck & Roll	2,553	Undisclosed	January 2020

NOTABLE RETAIL DEALS- SALES

Continued Focus on Single Tenant Investment Deals

Location	Submarket	Buyer	Seller	Size SF	Estimated Sale Price	Estimated Sale Price/SF	Sale Date
Price Chopper 1191 NE Mcquerry Rd., Grain Valley, MO	East Jackson County	Mildred Williamson	Star Development	60,000	$9,250,000	$154.17	March 2020
Bauer Farm, Walmart Pad NE 6th St. at Wakarusa, Lawrence, KS	Lawrence	TM5 Properties	First Management	10,850	$5,100,000	$469.68	March 2020
Hobby Lobby 14475 W. 135th St., Olathe, KS	Olathe	JRW Investments	RH Johnson Company	55,084	$7,130,000	$129.35	February 2020

Retail Market Overview

KC Retail Market is experiencing the same unprecedented issues that directly derive from the pandemic and severe economic disruption.

Although there are still some categories that are experiencing consistent sales and even in some cases, an increase in volumes, **most retailers are battling to weather this storm.**

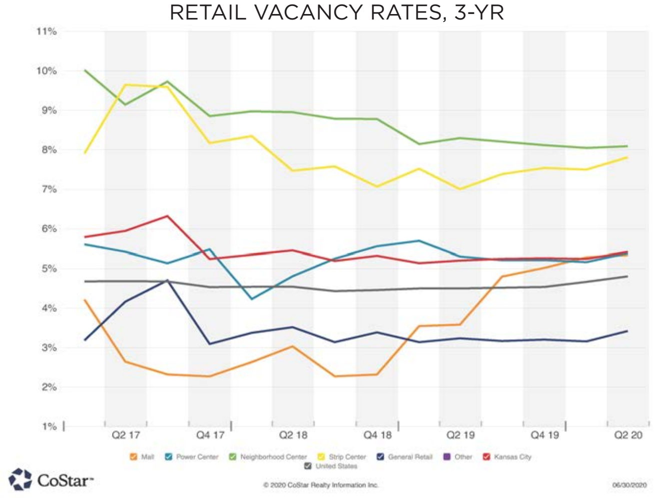
Across the board, landlords and tenants are working together to **develop focused strategies to solve for the loss of sales and rent.** Lenders and government stimulus participation are also integral parts of these conversations as well.

Most tenants are beginning to focus on how they can and will **adjust to the new customer demands, as well as compliance with all government recommendations and mandates.** This will affect the size of the stores, layout of isles and product placement, checkout distancing and payment protocols.

We are continuing to monitor all sectors, with a keen eye on the active categories in the service retail arena. These deals are slowly starting to pick back up, where the majority of soft goods concepts are generally more "wait and see" on any relocations and expansion.

KC RETAIL MARKET

RETAIL VACANCY RATES, 3-YR

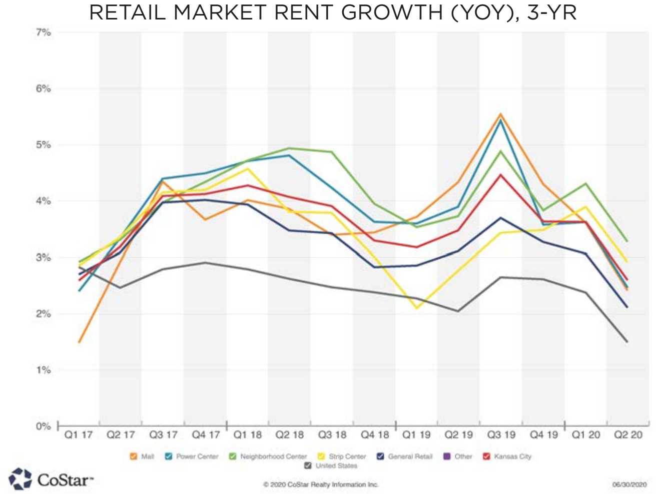


Vacancy Rates Trending Upwards as Effects of Pandemic Set In

- After flattening in Q2 2019, vacancy rates are slowly trending upwards after economic disruption caused by the pandemic. We expect to see vacancy rates increase at a faster pace by Q3 2020.

- Given the current shutdowns and distancing restrictions, the restaurant and entertainment sectors will experience a more significant increase in vacancy rates that will most likely take years to fully recover.

RETAIL MARKET RENT GROWTH (YOY), 3-YR

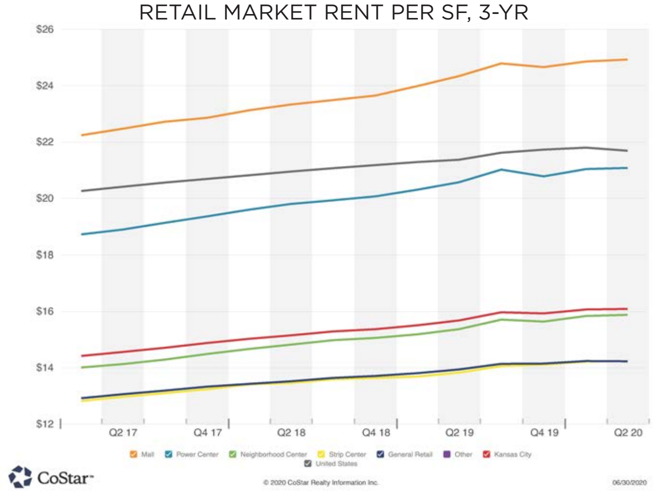


Market Rent Growth Turns Negative, Reversal Depends on Path of Recovery

- Market Rent Growth will be negative in the short-term, and recovery will be directly reflective of the path of the pandemic and its effects on brick and mortar stores.

- Neighborhood markets and service retail is anticipated to be least affected by the shutdowns and therefore rent growth year over year will be fastest to recover.

RETAIL MARKET RENT PER SF, 3-YR



Rental Rates Remain Under Pressure in Short-Term

- KC Metro is no different from the rest of the U.S. with the majority of the marketplace seeing marked decrease in rental rates across all sectors in the short-term.

- Competition for deals will cause Landlords across most sectors to offer creative and aggressive deal structures going forward.

Source: CoStar, data as of 6.30.2020

KC OFFICE MARKET

Has Taken a "Wait and See" Approach

NOTABLE OFFICE DEALS- LEASES

Large Office Leases Generally Took Place in Q1 of 2020

Building Name	Submarket	Company	SF Leased	Estimated Rate (Full	Class	Lease Date
Waddell & Reed Corporate HQ 1400 Baltimore Ave., Kansas City, MO	CBD	Waddell & Reed	259,000	$38.00	A	January 2020
American Academy of Physicians 11400 Tomahawk Creek Pkwy, Leawood, KS	College Blvd	Euronet	30,111	$26.50	A	April 2020
Edison District 7321 W 80th St. Overland Park, KS	Northeast JOCO	MMGY	25,000	$35.00	A	January 2020
2345 Grand, Kansas City, MO	Crown Center	Jack Cooper Transport	24,548	$24.50	A	May 2020
Lightwell 1100 Main St., Kansas City, MO	CBD	PayIt	22,000	$25.00	A	January 2020
Edison District 7321 W 80th St. Overland Park, KS	Northeast JOCO	Wellington	14,000	$35.00	A	January 2020

NOTABLE OFFICE DEALS- SALES

Owner-Occupied Office Buildings Continue to See Movement in the Market

Location	Submarket	Buyer	Seller	Size SF	Estimated Sale Price	Estimated Sale Price/SF	Class	Sale Date
2020 W. 89th St., Leawood, KS	Northeast Johnson County	SJ RAM, LLC	Rollins 20/20 LLC	68,376	$7,400,000	$108.23	B	April 2020
8000 W. 110th St., Overland Park, KS	College Blvd	Watco Companies	Archer Daniels Midland Company	52,250	$5,700,000	$109.09	B	April 2020
9800 Metcalf, Overland Park, KS	Northeast Johnson County	9800 Metcalf Holding LLC	Odyssey 9800 LLC	85,903	$7,380,025	$85.91	B	March 2020

Office Market Overview

The office market generally lags the rest of the sectors when we see economic activity shift. Most large companies are still working remotely and many plan not to return until after Labor Day.

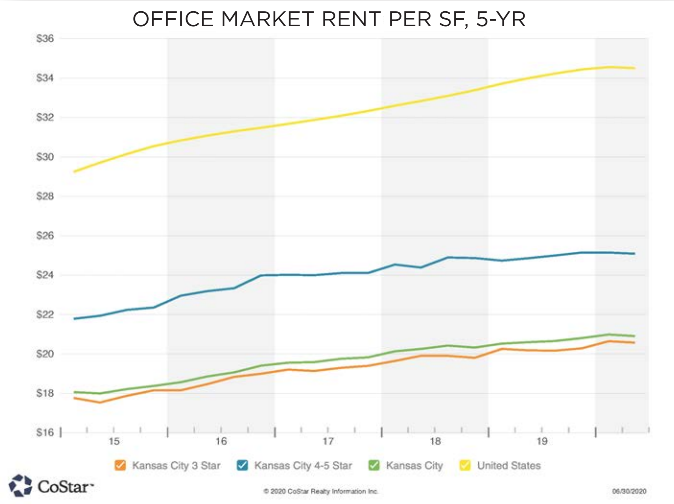
Office market has continued to see activity from small to medium sized companies based in Kansas City as their leases roll.

Over the remainder of 2020 and into 2021, we will have a better understanding of how the pandemic, economic disruptions and movement to a remote workforce have on the office market. We are starting to see trends emerge in how companies are **utilizing or re-designing their office space in this new normal.**

We continue to monitor the sublease market. The coasts have seen an increased supply in sublease office space. While Kansas City has seen only a 10 basis point increase in sublease space between Q1 and Q2, you have to go back to Q2 of 2017 to find a time when more sublease space was on the market.

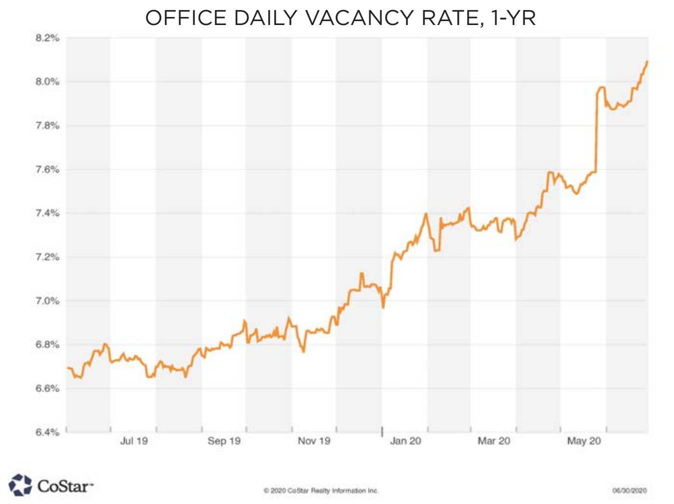
KC OFFICE MARKET

AREA REAL ESTATE ADVISORS



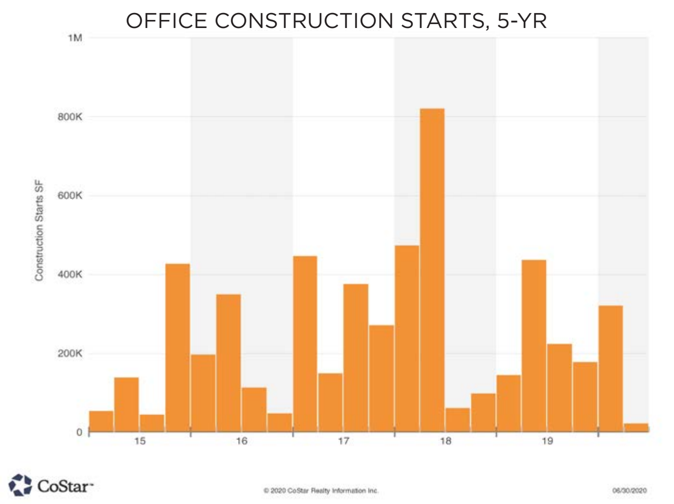
Rents Across the Market are Flat on Average, But Showing Divergence

- In the past quarter, 4 & 5 star properties have experienced a rent increase of approximately 1.4%. Over the same time period, 3 star properties and below have seen a slight decline.
- On average, combined market rents have leveled out for the 1st time in the past 5 years.
- We expect rent divergence to continue, but overall average to remain steady.
- Look for a combination of trends:
  - Tenants senants seeking best-in-class buildings in a flight to quality, including new construction, which will continue to push rents higher in 4 & 5 star assets.
  - Tenants shrinking their footprint in lower quality space that traditionally houses back-of-house business functions for employees that can now work remotely, leading to decreased demand for large block 3 star buildings and trailing decrease in rents.



Vacancy Rates in KC Metro Slowly Trending Upwards

- Daily vacancy rate crept up about 1.2% since beginning of the year.
- Despite recent increase, KC metro vacancy rates are still below 10-year average of 9.86%.
- We expect to see vacancy rates fluctuate as office users look for more clarity into the fall and beyond.



New Construction Slows With Uncertainty in Office Market

- Construction starts fell 90% from Q1 2020.
- Have to look back to Q4 of 2016 to find a time when construction starts fell to this level.
- The pandemic and economic disruption halted what had been a strong start to construction in Q1 2020.

Source: CoStar, data as of 6.30.2020

AREA EXPERTS

AREA REAL ESTATE ADVISORS

For more insights, or questions on the information in this report, please reach out to one of our AREA experts:

ECONOMIC REVIEW:

BRETT BENJAMIN- bbenjamin@openarea.com

KC MULTIFAMILY MARKET:

GRANT KOLLMAN- gkollman@openarea.com

CHARLIE LABARR- clabarr@openarea.com

TREVOR HANSEN- thansen@openarea.com

KC RETAIL MARKET:

MATT VAUPELL- mvaupell@openarea.com

RICH DUVALL- rduvall@openarea.com

ANDY EPSTEIN- aepstein@openarea.com

TOMMY MCNEESE- tmcneese@openarea.com

TIFFANY RUZICKA- truzicka@openarea.com

BILL SHACKELFORD- bshack@openarea.com

BEN SHORT- bshort@openarea.com

RACHEL WEST- rwest @openarea.com

KC INDUSTRIAL MARKET:

BRENT PETERSON- bpeterson@openarea.com

MATT CRAWFORD- mcrawford@openarea.com

CORY DELONG- cdelong@openarea.com

MICHAEL KEATING- mkeating@openarea.com

TOM KENNEDY- tkennedy@openarea.com

KC OFFICE MARKET:

TIM SCHAFFER- tschaffer@openarea.com

ADAM ABRAMS- aabrams@openarea.com

BRETT BENJAMIN- bbenjamin@openarea.com

SEAN CRAVEN- scraven@openarea.com

MARY CROWE- mcrowe@openarea.com

GREG FOOTE- gfoote@openarea.com

MIKE LEVITAN- mlevitan@openarea.com

VALERIE MCCRACKEN- vmccracken@openarea.com

HANK SIMPSON- hsimpson@openarea.com

A 4800 MAIN ST, SUITE 400, KANSAS CITY, MO 64112

P 816.895.4800 W OPENAREA.COM