

# AREA Market Update

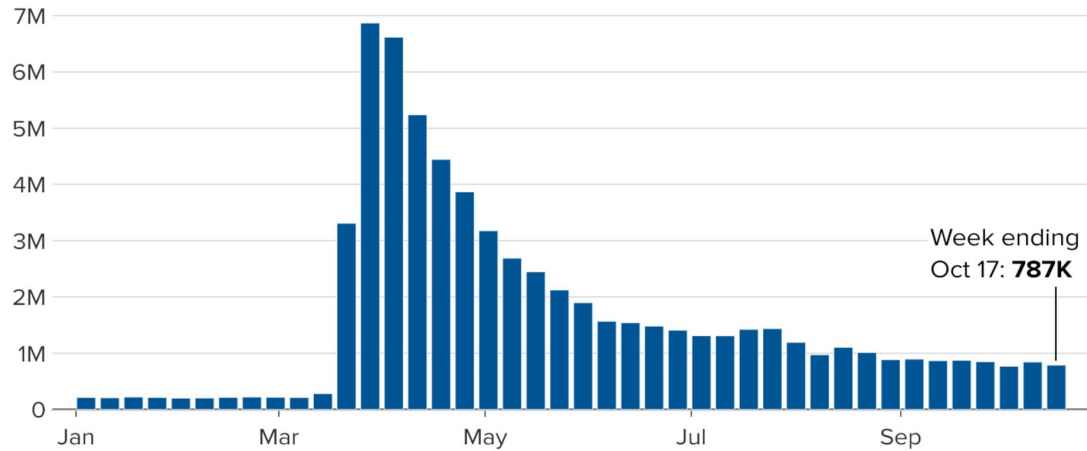
October 2020

Brett Benjamin

# ECONOMIC UPDATE - LABOR MARKETS

## Initial claims for unemployment insurance

Weekly in 2020, seasonally adjusted

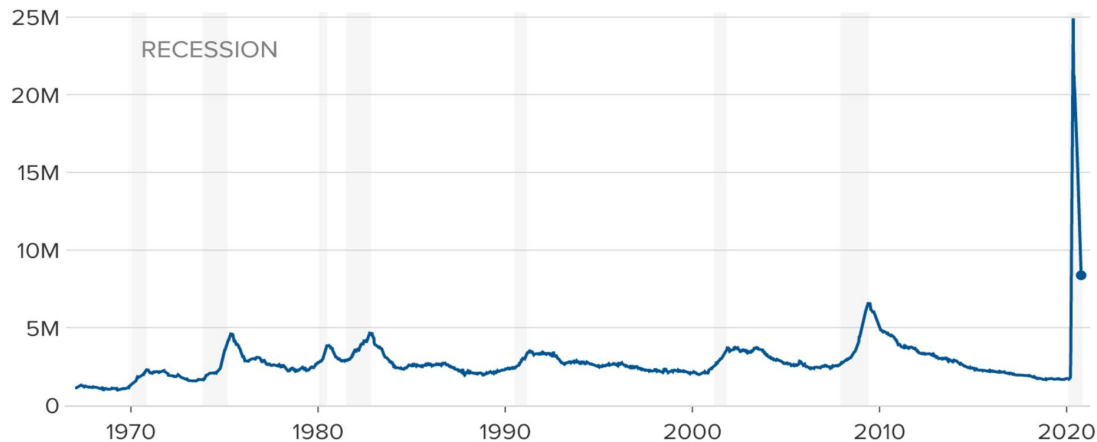


SOURCE: Dept. of Labor. Data is seasonally adjusted and through Oct 17, 2020. The DOL began using a new seasonal adjustment methodology the week of August 29.



## Continuing claims for unemployment insurance

Weekly since 1967, seasonally adjusted



SOURCE: Dept. of Labor. Data seasonally adjusted and as of Oct 10, 2020. Data based on week of unemployment, not week claim was filed. DOL began using new seasonal adjustment methodology week of 8/22.

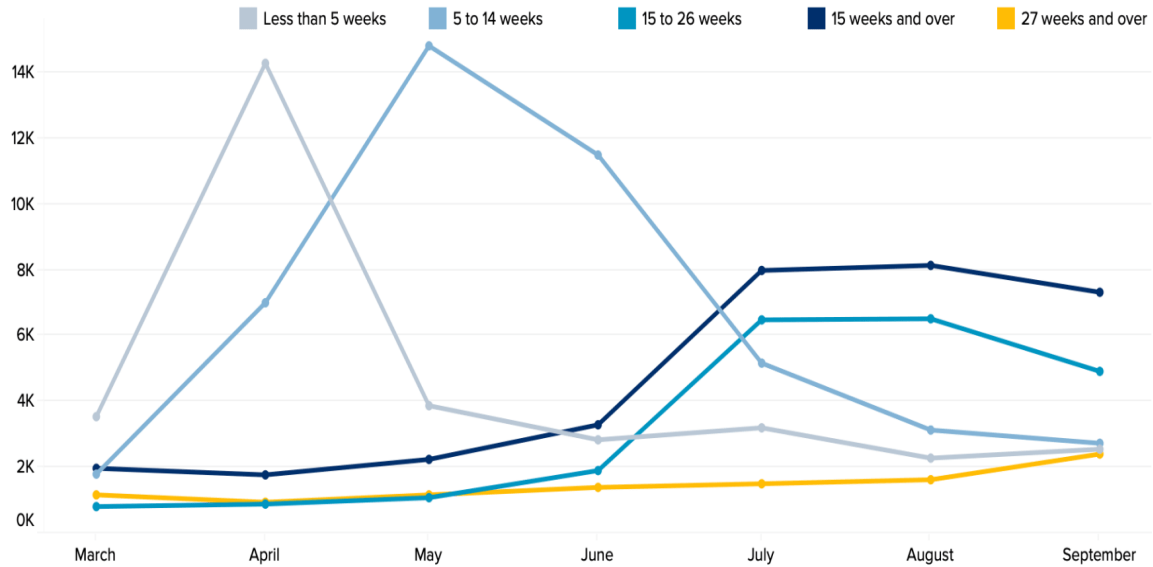


- Labor markets have improved since lockdown ended in May, but significant stress remains as unemployment claims stay elevated.
- Weekly new Jobless claims continue to decline with print last Thursday showing jobless claims totaled 787,000 last week, nearly the lowest total since beginning of the pandemic.
- One reason for the decline in new weekly jobless claims has been the migration of workers who have exhausted their regular benefits and have moved to the Pandemic Unemployment Assistance emergency compensation program.
- In addition to the substantial drop in the headline number, continuing claims also showed another decline. The level of those getting benefits for at least two weeks dropped to 8.37 million.
- Despite these improvement, unemployment is high by any measure and significant stress remains in labor markets. As pandemic lingers so does the high level of weekly unemployment claims.
- The unemployment rate has come down to 7.9% as of Q3 but is still more than double its pre-pandemic level.

# ECONOMIC UPDATE - LABOR MARKETS



## Long-term unemployment is rising

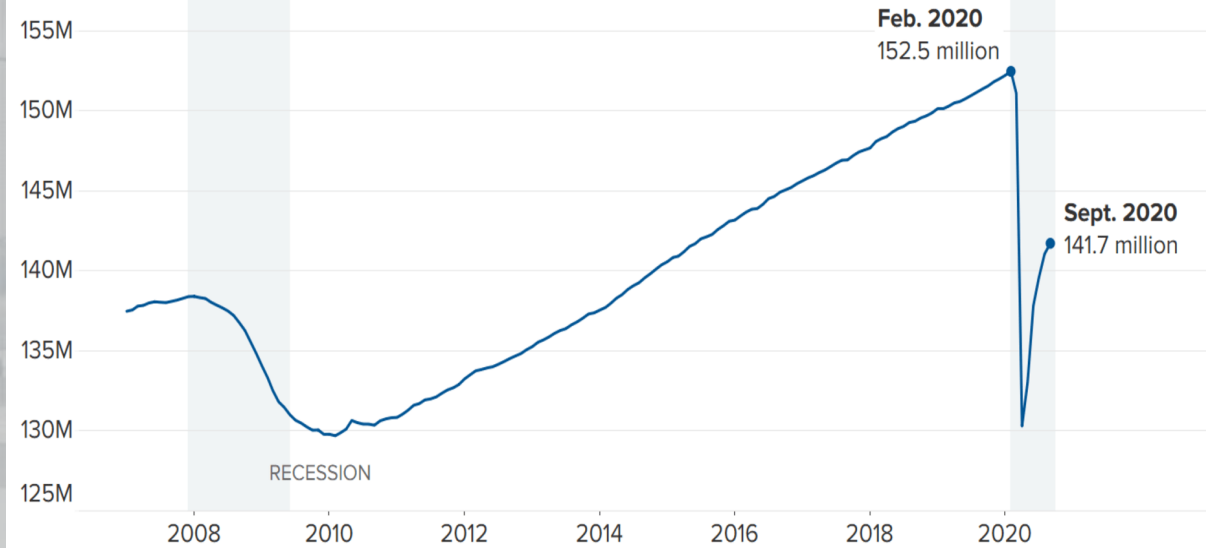


Source: BLS



## Total U.S. employment

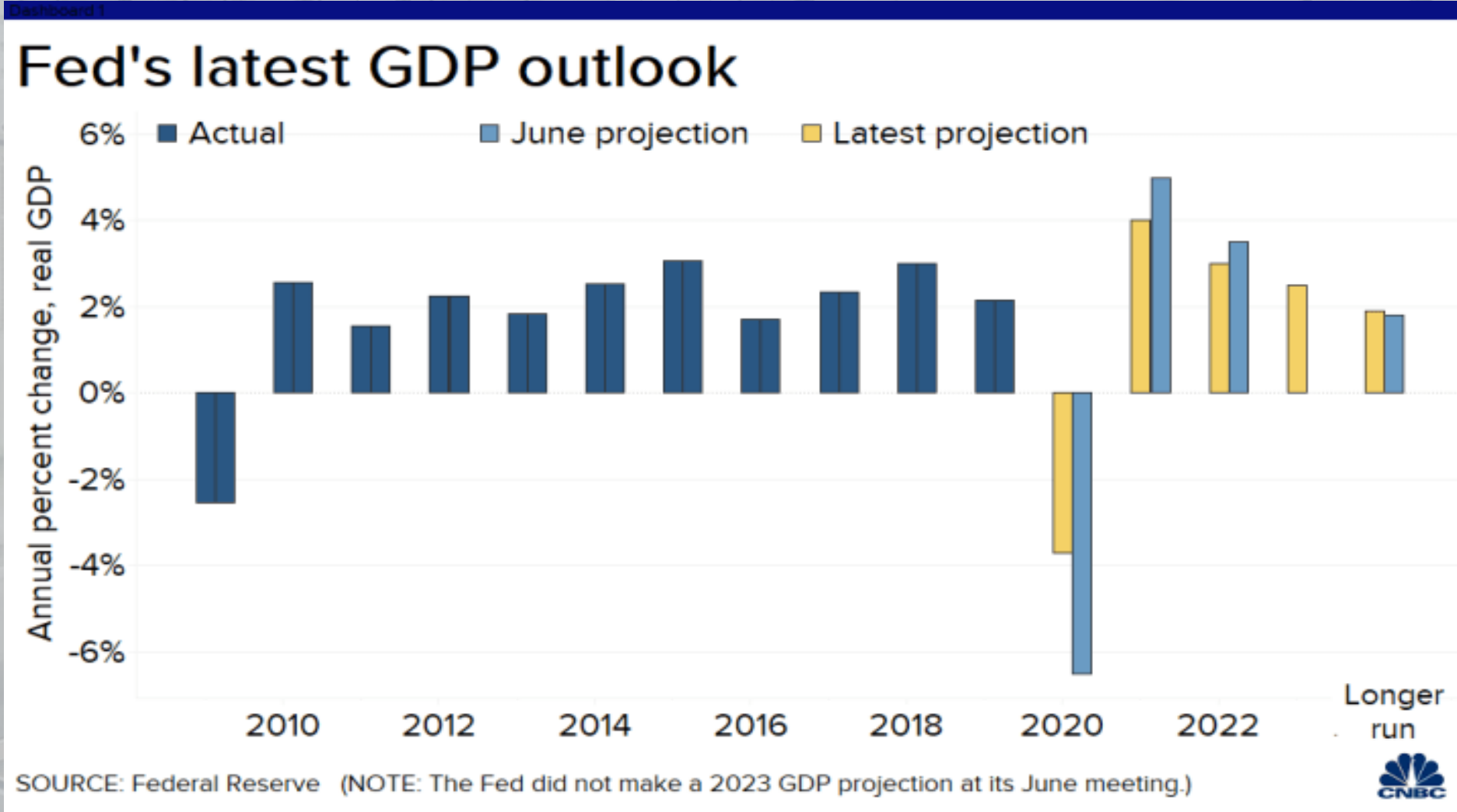
Cumulative nonfarm payrolls, seasonally adjusted



SOURCE: Bureau of Labor Statistics. Data is seasonally adjusted.



# ECONOMIC UPDATE - FED GDP OUTLOOK, SEPT. 2020



# COSTAR BASE CASE SCENARIO ASSUMPTIONS

## CoStar Base Case Scenario Forecast Assumptions from June 2020

### Assumptions:

- *CoStar's scenario anticipates a "V-shaped recovery," consistent with a positive outcome in the search for a vaccine that leads to a return to normal economic activity in 2021.*
- After losing over 20 million jobs in the second quarter of 2020, 10 million jobs are added in the second half of the year, and another 5.9 million in 2021.
- Employment returns to the pre-Covid peak in late 2022, but this is followed by 8.7 million jobs gained in 2021, and by mid-2022 the economy will have recovered all jobs lost in the wake of the lockdown.
- Thereafter, job gains slow to less than 1 million per year. Capital market conditions also normalize after spreads widen to nearly 300 basis points in Q2 2020.

# RETAIL MARKET UPDATE

# RETAIL MARKET STATS

- **Market Rent Growth (YOY): Rent growth continues to gradually decline.**

- 3.4% - Q4 2019
- 3.1% - Q1 2020
- 1.9% - Q2 2020
- 0.5% - Q3 2020
- 0.7% - Q4 2020 QTD
- 0.4% - Full Q4 2020 Estimate (Base case scenario)
- -1.0% - Q1 2021 Estimate (Base case scenario)
  
- Year-over-year asking rent growth has declined from last year's 3.4% increase. Further declines expected into 2021. Costar expects negative rent growth by Q1 2021.

- **Vacancy Rates: 40 bps increase from beginning of year. Slowly Trending up.**

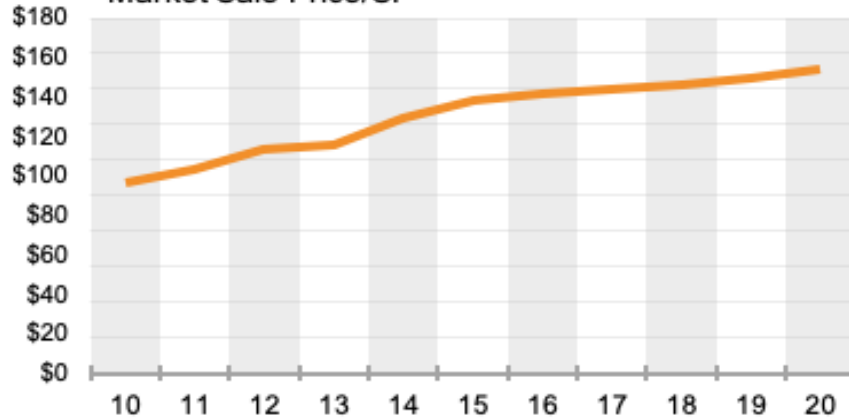
- 5.2% - Q4 2019
- 5.2% - Q1 2020
- 5.3% - Q2 2020
- 5.6% - Q3 2020
- 5.6% - Q4 2020 QTD
- 5.9% - Full Q4 2020 Estimate (Base case scenario)
- 6.2% - Q1 2021 Estimate (Base case scenario)

- Market Rent Per SF: Stable, up slightly to \$16.02 from \$15.91 year ago.
- Vacant Per SF: Up 8.55% YOY (From 6.68 million SF to 7.25 million SF)
- Sublease Space SF: Up 34% YOY (From 152K SF to 204K SF)
- 12-Mo Sales Volume: Down 48.7% YOY (From 401.26 MM to \$208.37 MM)
- 2020 Sales Volume: YTD \$154,508
  - Investment has slowed with approx. \$154 MM in sales volume YTD, approx. half of the volume transacted in 2019 and the lowest volume since the end of the financial crisis. Deals are still taking place, albeit at a much lower frequency and value than has been typical in recent years.

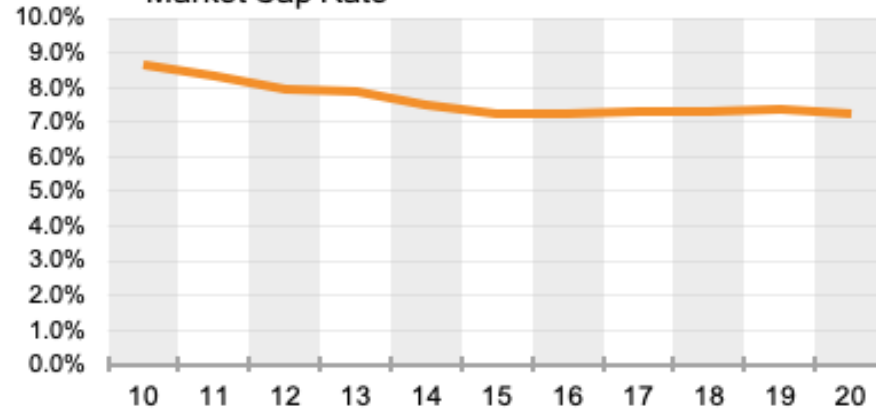
# RETAIL MARKET CAPITAL MARKETS OVERVIEW - 2020 YTD DATA

## Retail

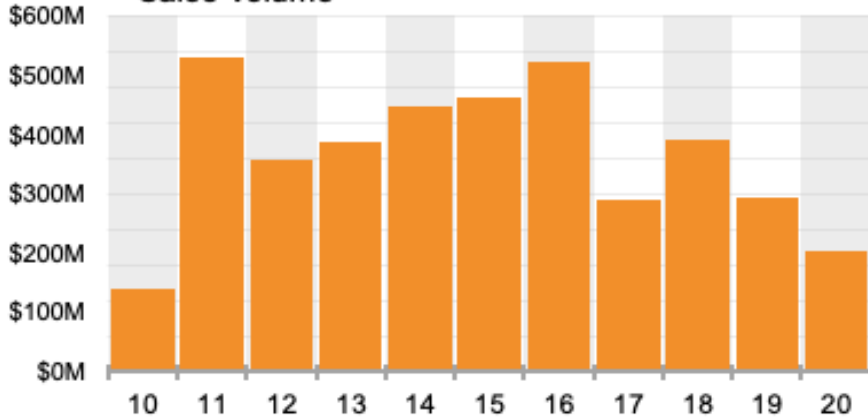
### Market Sale Price/SF



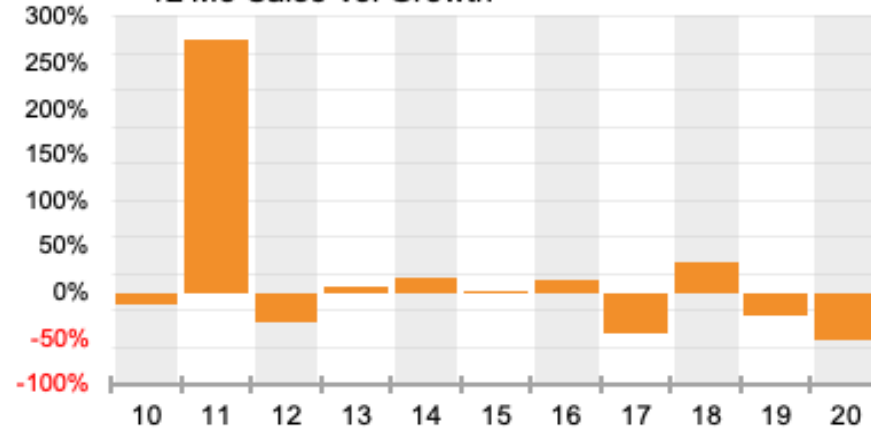
### Market Cap Rate



### Sales Volume

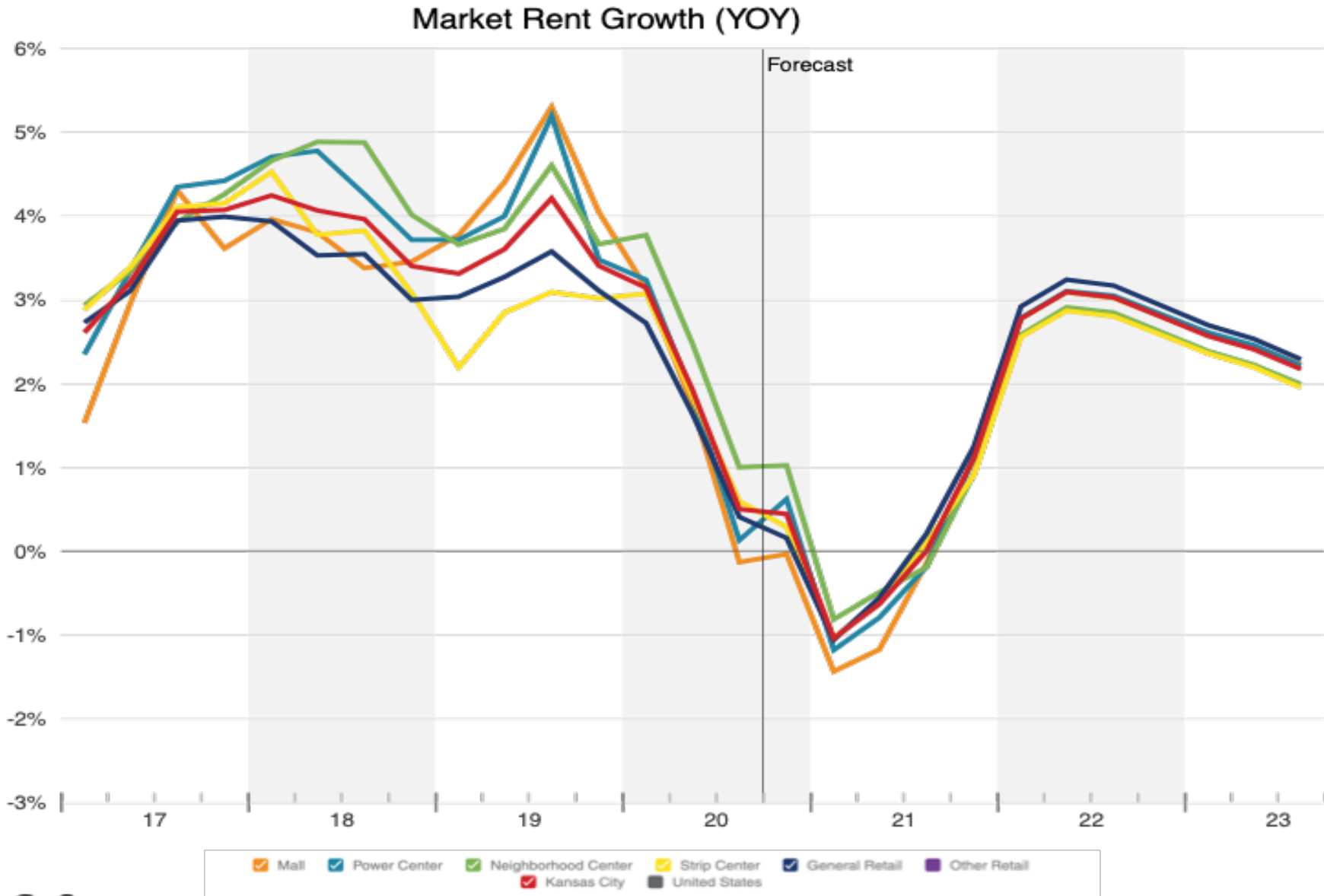


### 12 Mo Sales Vol Growth

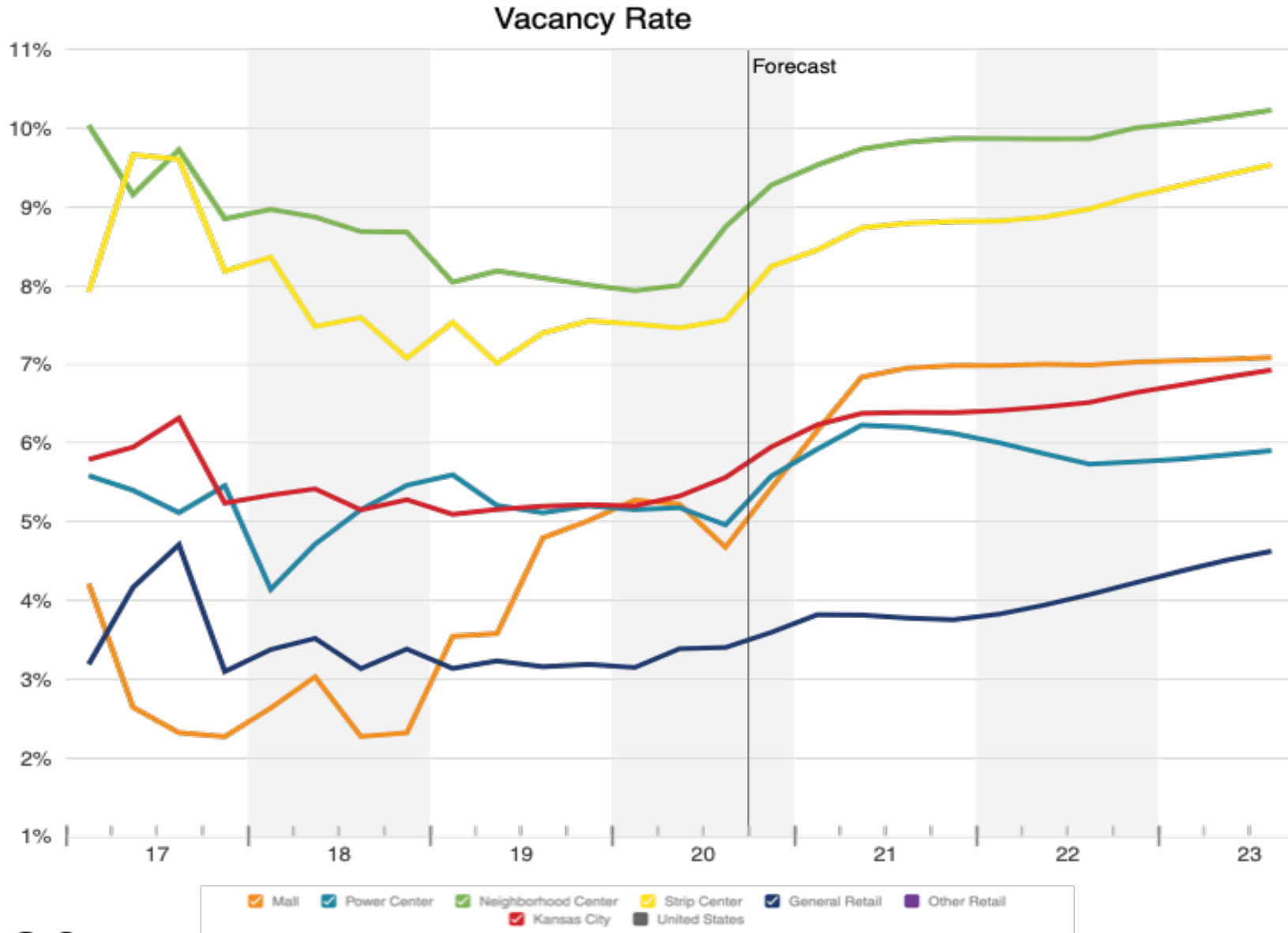




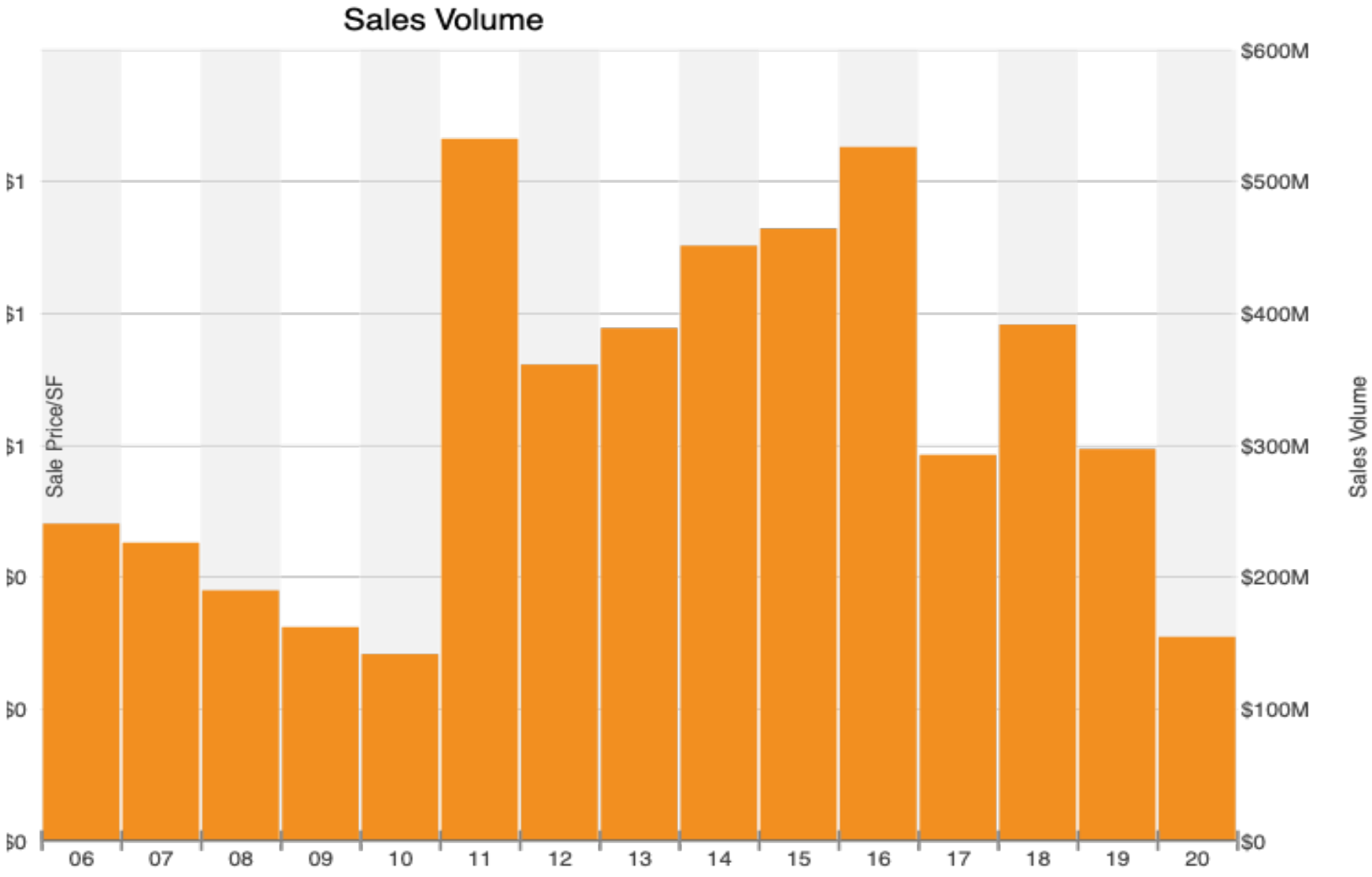
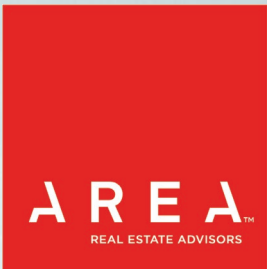
# RETAIL MARKET - RENT GROWTH



# RETAIL MARKET - VACANCY RATES



# RETAIL MARKET - SALES VOLUME



Legend:  Sales Volume  Price/SF  United States Price/SF



# MULTIFAMILY MARKET UPDAT

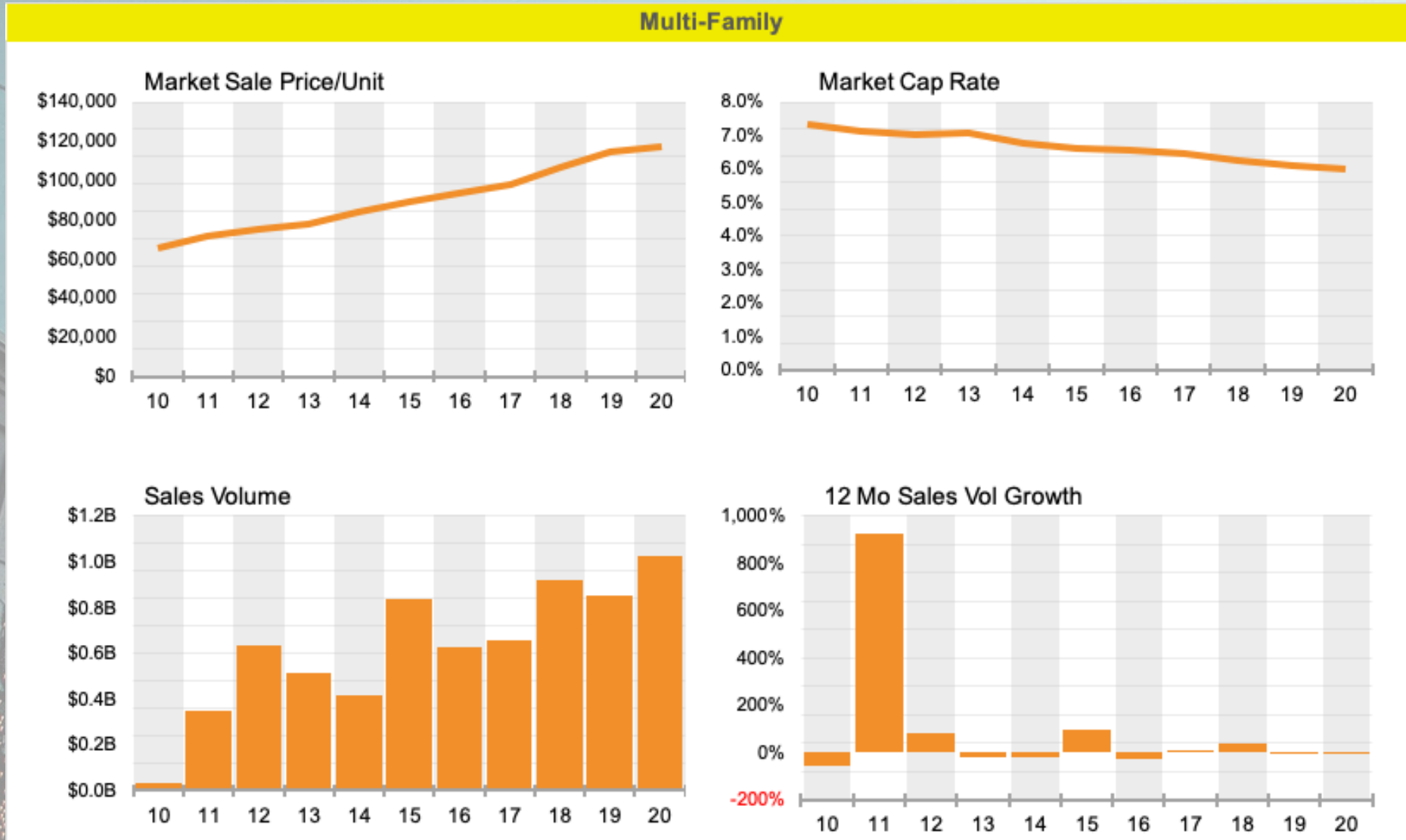


# MULTIFAMILY MARKET STATS

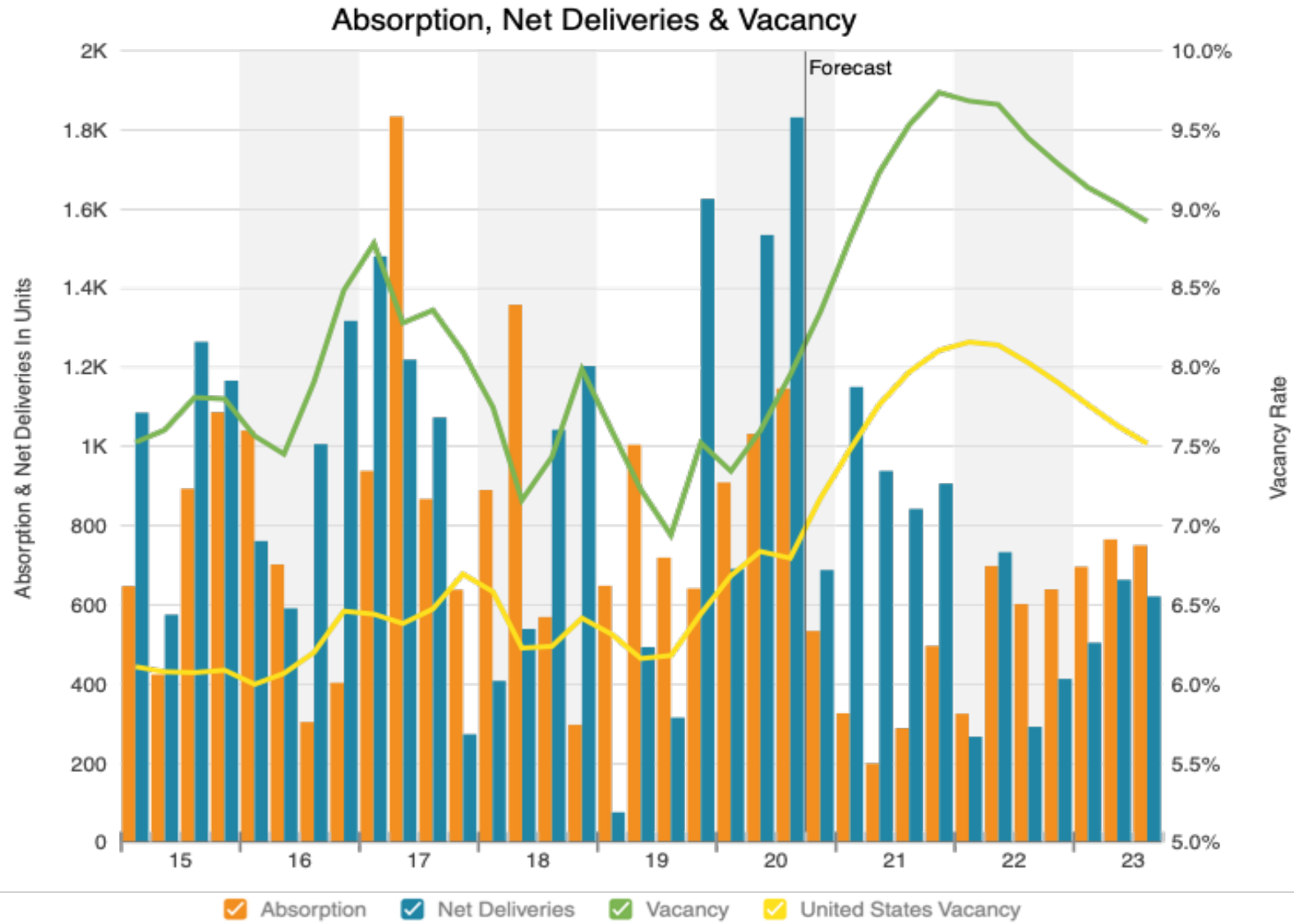
- Sales volume down from pre-pandemic levels. 2020 volume still above 2019 due to strong Q1 2020.
- 12-M Sales Volume down 20.5% from \$971 million to \$772 million
- Quarterly Sales Volume:
  - \$210.17 Million - Q4 2019
  - \$459.10 Million - Q1 2020
  - \$88.45 Million - Q2 2020
  - \$17.95 Million - Q3 2020
  - \$972K- Q4 2020 QTD
- Market Cap Rate is approx. 6% (Minimal change in cap rates YOY)
- Vacancy Rates: Overall market vacancy rates showing 95 bps increase YOY. High-end properties showing steady increase in vacancy rates with lower-end properties remaining range bound.

- Market Vacancy Rates:
  - 7.5% - Q4 2019
  - 7.3% - Q1 2020
  - 7.6% - Q2 2020
  - 8.0% - Q3 2020
  - 7.9% - Q4 2020 QTD
  - 8.3% - Full Q4 2020 Estimate (Base case scenario)
  - 8.8% - Q1 2021 Estimate (Base case scenario)
- 4-5 Star Vacancy Rates:
  - 9.6% - Q4 2019
  - 10.1% - Q1 2020
  - 11.5% - Q2 2020
  - 12.4% - Q3 2020
  - 12.2% - Q4 2020 QTD
  - 13.4% - Full Q4 2020 Estimate (Base case scenario)
  - 14.2% - Q1 2021 Estimate (Base case scenario)
- 3- Star Vacancy Rates:
  - 6.4% - Q4 2019
  - 5.9% - Q1 2020
  - 5.7% - Q2 2020
  - 5.6% - Q3 2020
  - 5.6% - Q4 2020 QTD
  - 5.6% - Full Q4 2020 Estimate (Base case scenario)
  - 6.0% - Q1 2021 Estimate (Base case scenario)

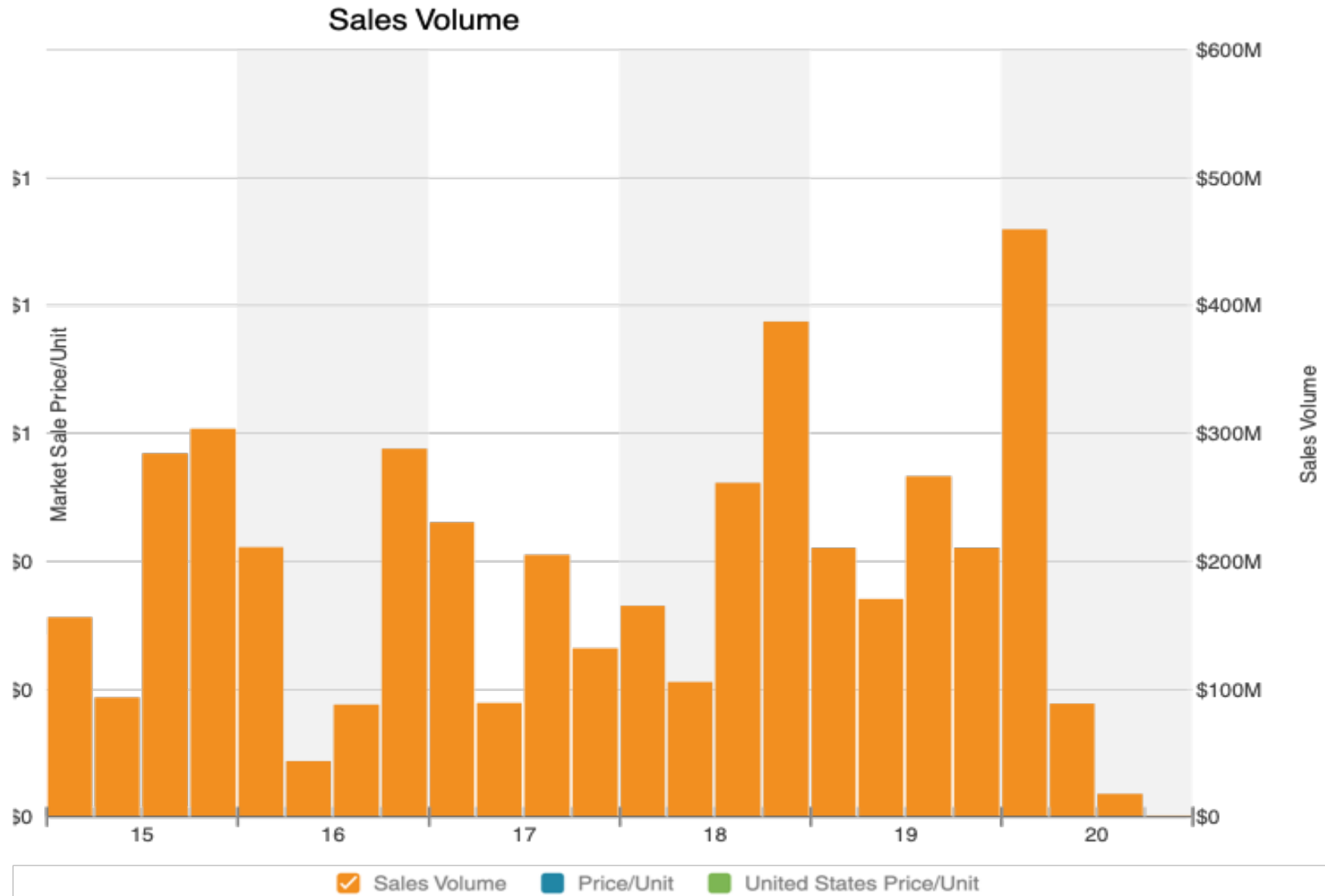
# MULTIFAMILY MARKET CAPITAL MARKETS OVERVIEW - 2020 YTD DATA



# MULTIFAMILY MARKET - SDV CHART

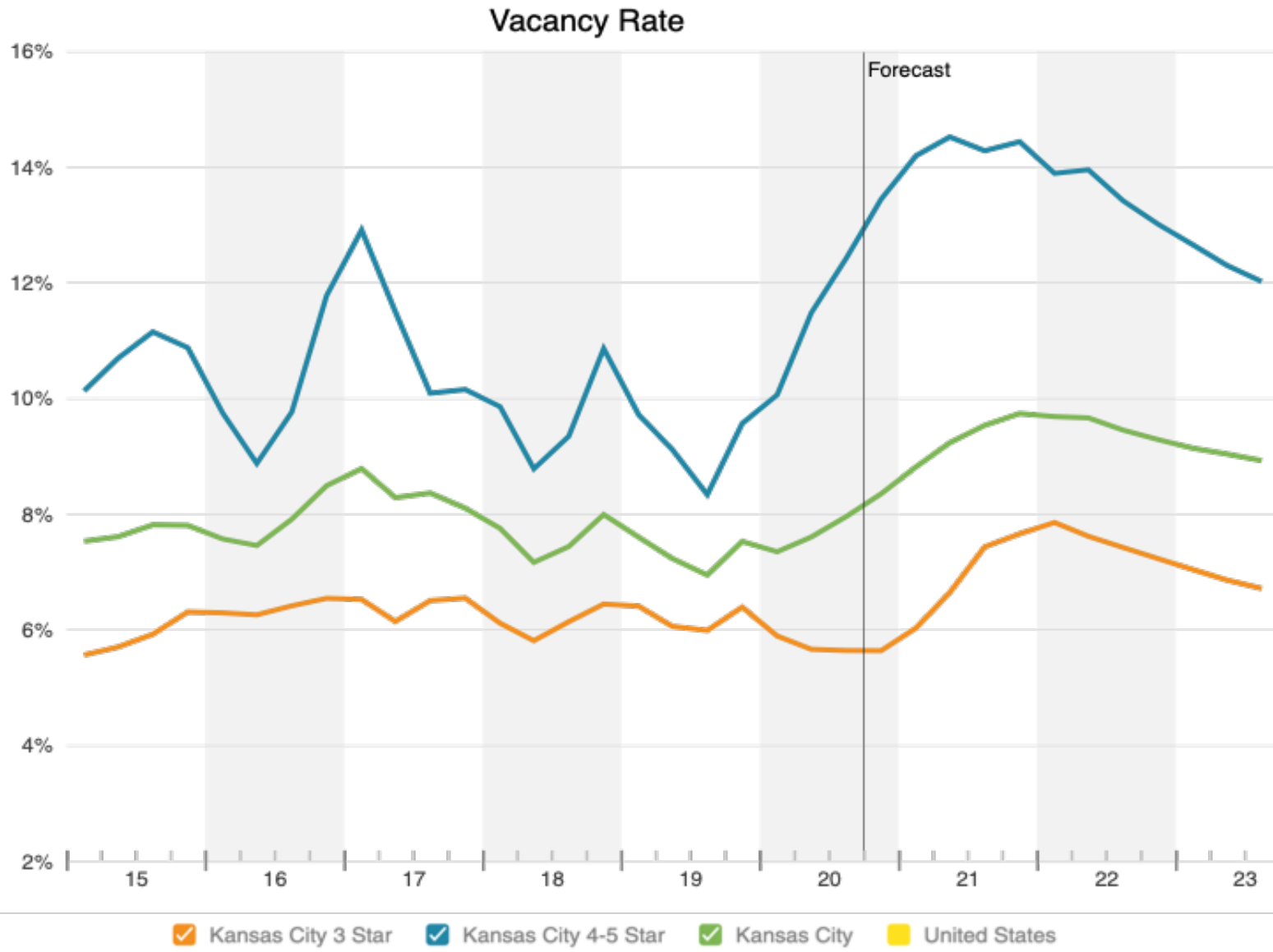


# MULTIFAMILY MARKET - SALES VOLUME





# MULTIFAMILY MARKET - VACANCY RATES



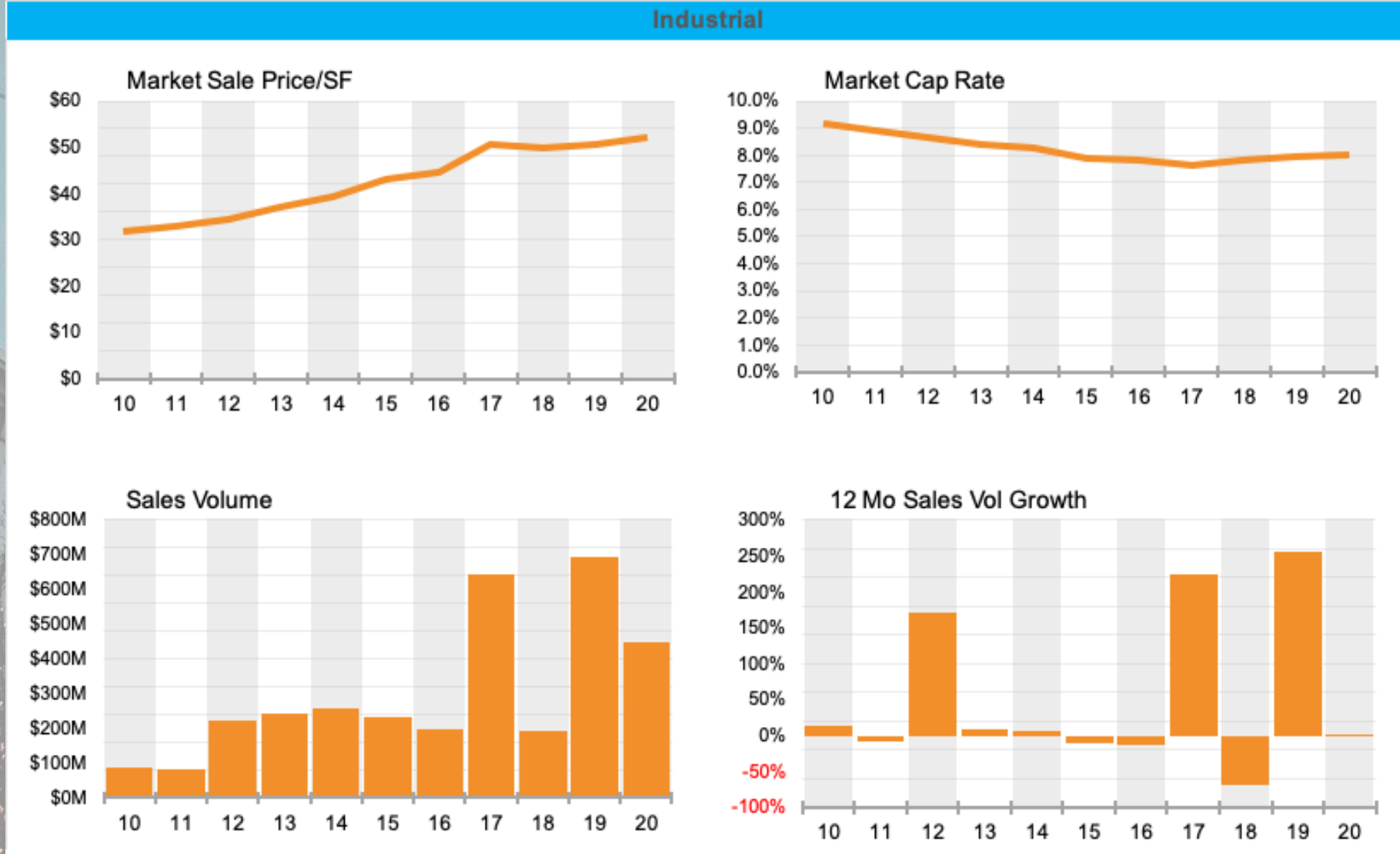
# INDUSTRIAL MARKET UPDATE

# INDUSTRIAL MARKET STATS

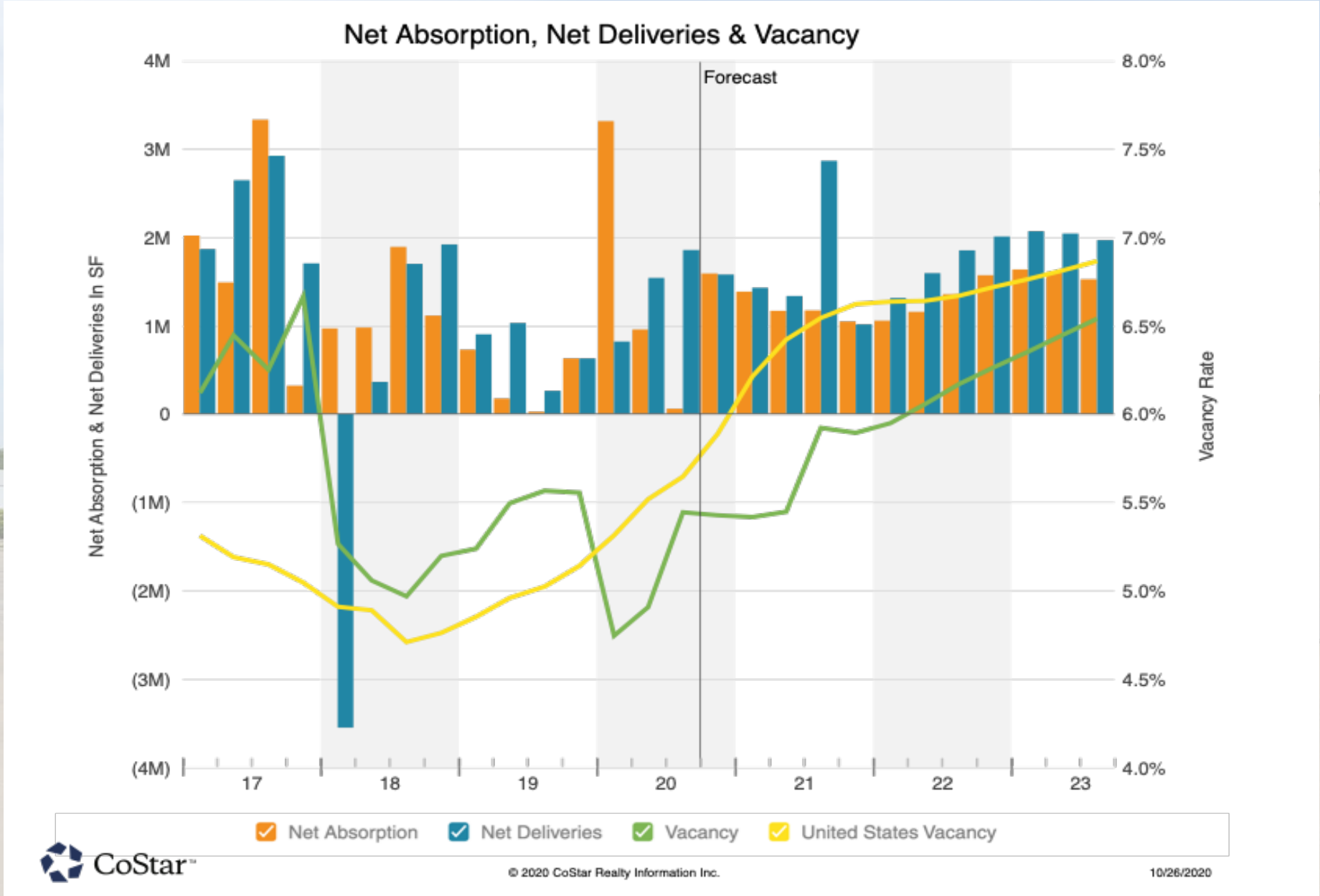
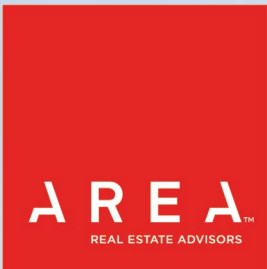
- **KC Market Vacancy Rates: Remain stable post-pandemic (Down 20 bps YOY)**
  - 5.5% - Q4 2019
  - 4.7% - Q1 2020
  - 4.6% - Q2 2020
  - 4.9% - Q3 2020
  - 5.4% - Q4 2020 QTD
  - 5.4% - Full Q4 2020 Estimate (Base case scenario)
  - 5.4% - Q1 2021 Estimate (Base case scenario)
- **Construction Starts: Remain stable and strong post pandemic (2.096 MM SF in Q3 2020)**
- **SF Under Construction: Up 153% YOY (6.9 MM SF from 2.7 MM SF)**
- **12-Mo Sales Volume: Down 55 bps YOY (From \$470.96 MM to \$468.35 MM)**

- **Net Absorption: Spike in Q1 2020 with slower net absorption in Q2 and Q3 2020.**
- **Market Rent Per SF: Stable, Up 3.2% YOY to \$5.52 SF**
- **Market Rent Growth: 3.3% in Q3 2020, CoStar forecasts decline in 1<sup>st</sup> half of 2021 with rebound in 2<sup>nd</sup> half of 2021**
- **Vacant SF: Down 2% YOY (From 17.3 MM SF to 17.0 MM SF)**
- **Sublease Space SF: Up 12.4% YOY (From 734K SF to 826K SF)**

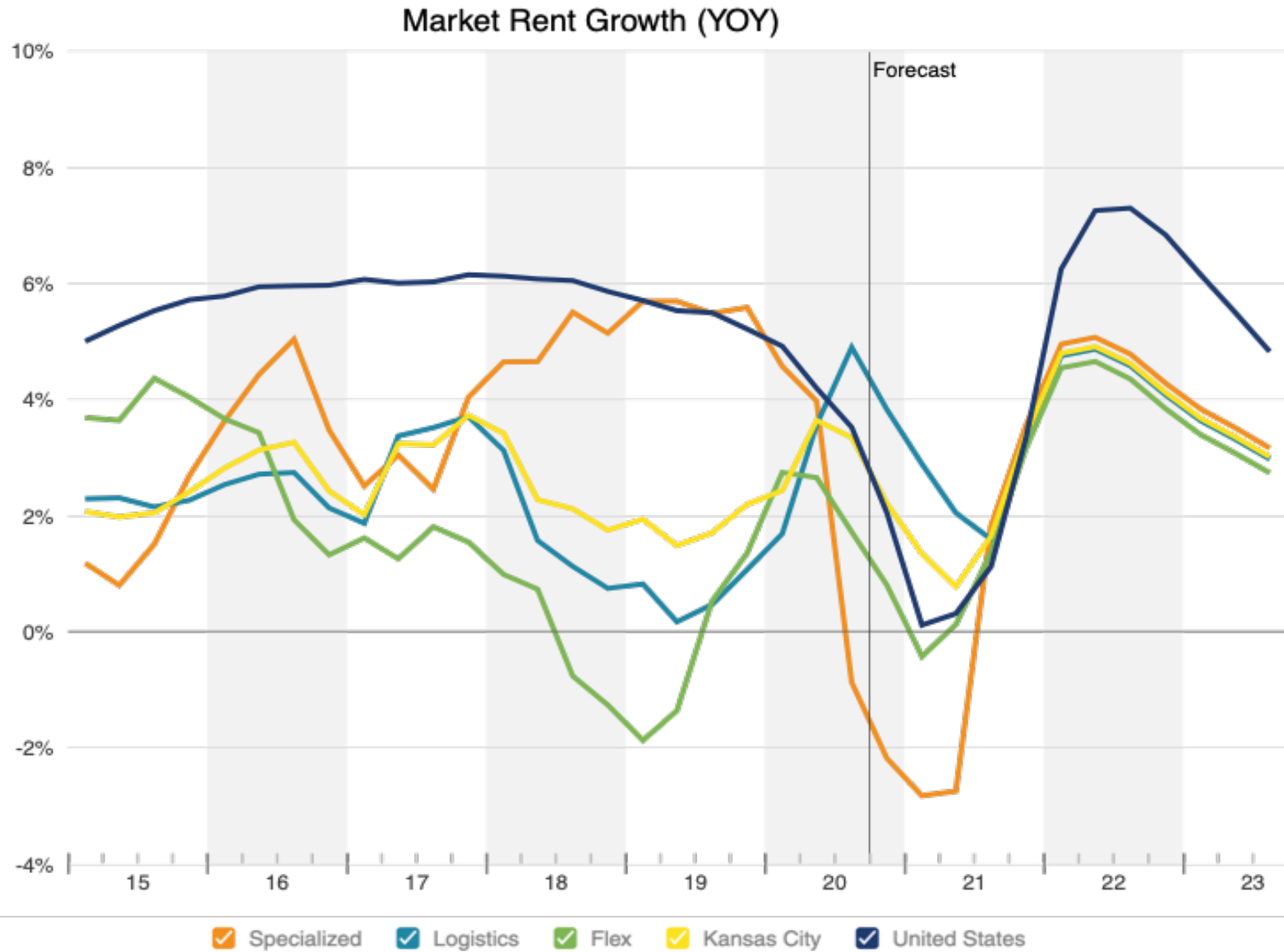
# INDUSTRIAL MARKET CAPITAL MARKETS OVERVIEW - 2020 YTD DATA



# INDUSTRIAL MARKET - SDV CHART



# INDUSTRIAL MARKET - MARKET RENT GROWTH (YOY)



# INDUSTRIAL MARKET - CONSTRUCTION STARTS



An architectural rendering of a modern office building. The building features a mix of dark grey and light grey concrete panels with large glass windows. The word "lightwell" is prominently displayed in white, lowercase letters on the upper left corner of the building's facade. In the foreground, a city street is shown with several cars, a bus, and a few pedestrians. The sky is clear and blue. A semi-transparent dark blue banner with rounded corners is overlaid across the middle of the image, containing the text "OFFICE MARKET UPDATE" in white, bold, uppercase letters.

# OFFICE MARKET UPDATE

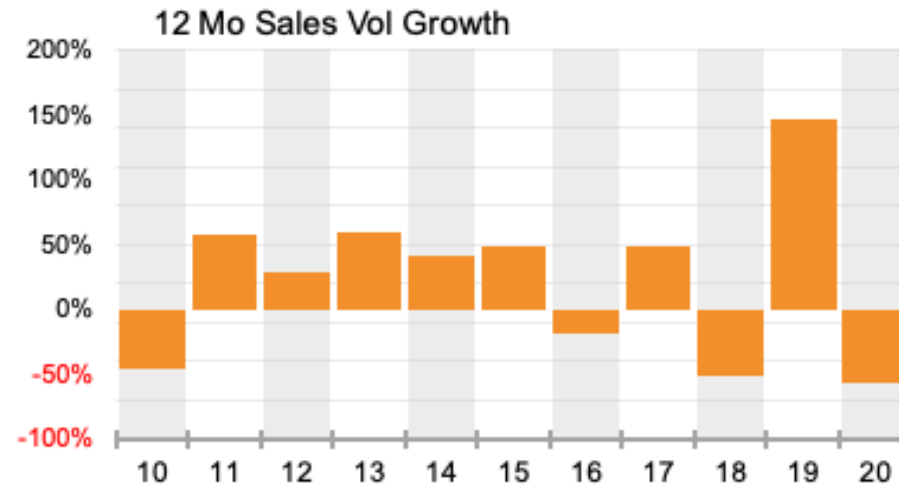
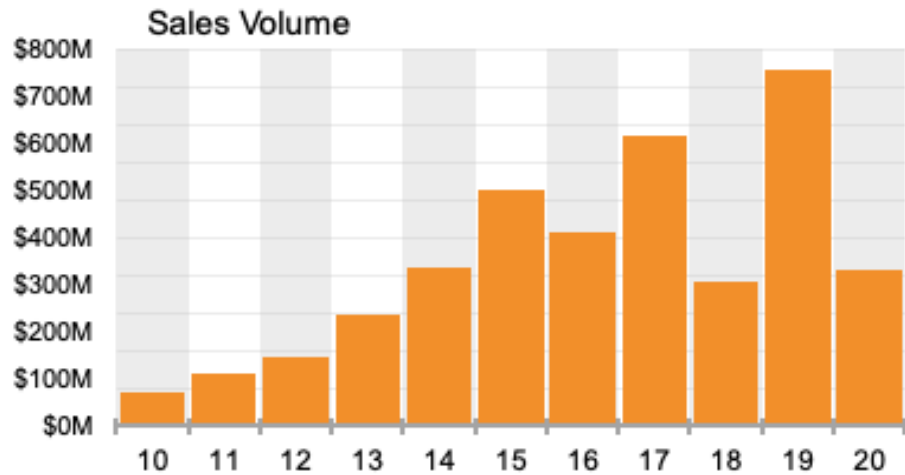
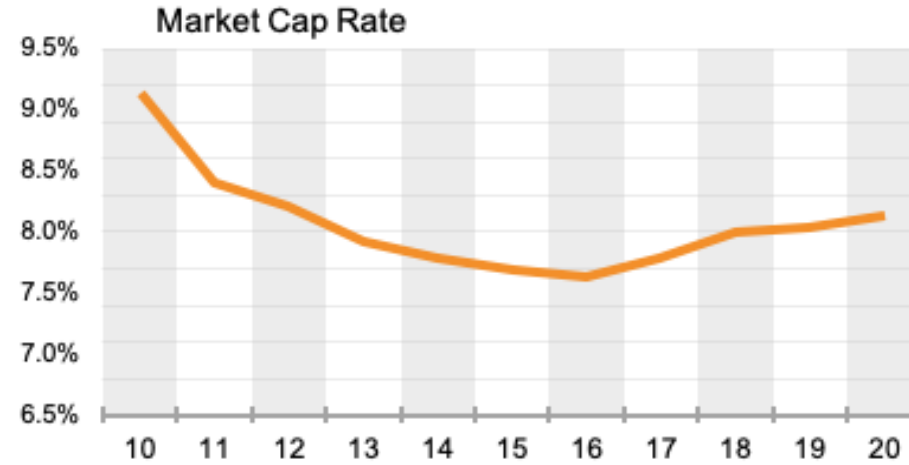


# OFFICE MARKET STATS

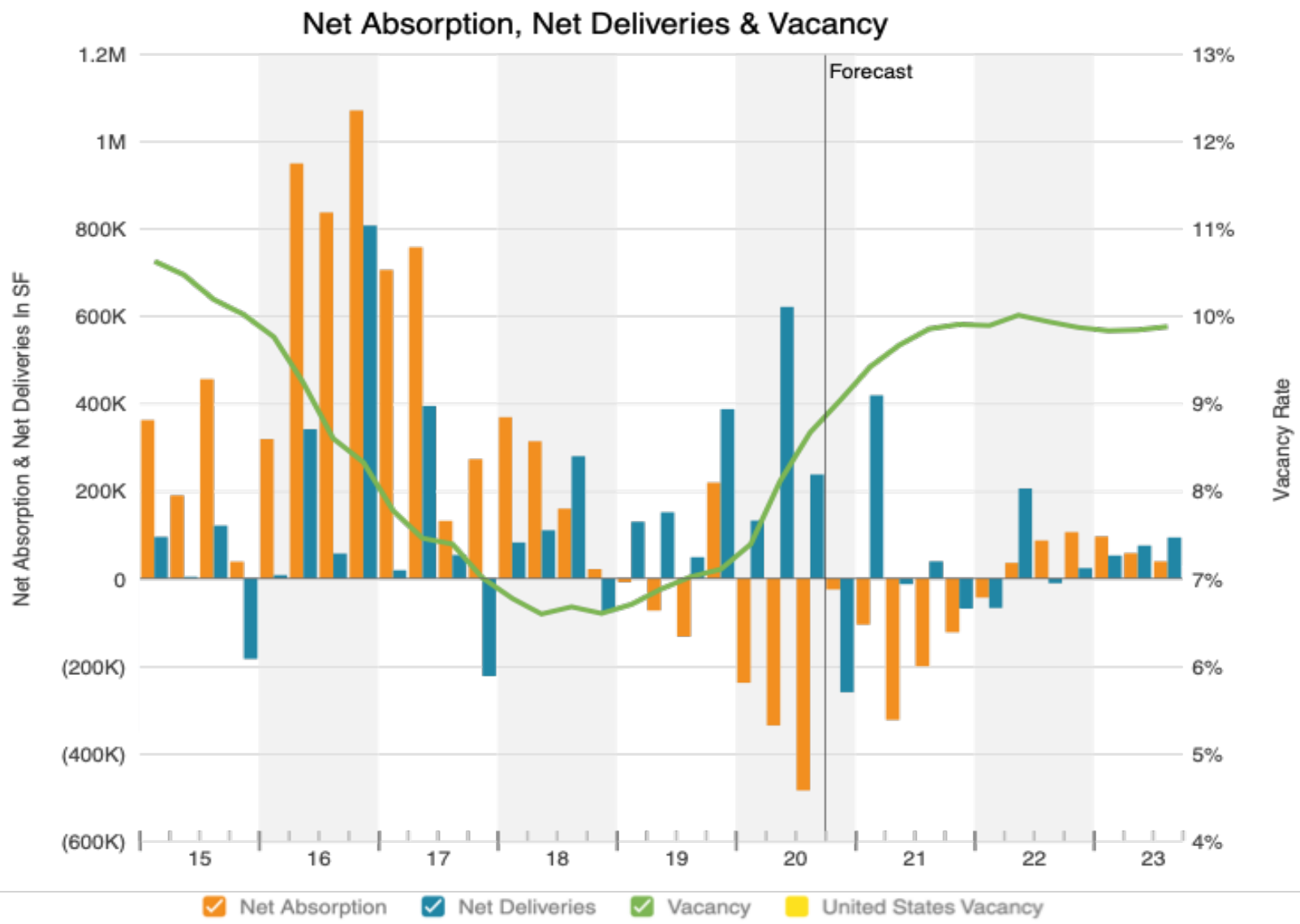
- **Market Rent Growth YOY**
  - 2.6% - Q4 2019
  - 1.9% - Q1 2020
  - 0.7% - Q2 2020
  - 0.3% - Q3 2020
  - 0.2% - Q4 2020 QTD
  - -1.1% - Full Q4 2020 Estimate (Base case scenario)
  - -2.9% - Q1 2021 Estimate (Base case scenario)
- Rent growth of 0.2% YTD for KC Metro Office shows slowdown as increases have decelerated in most metros, with KC experiencing a brisker pace of deceleration compared to St. Louis and Des Moines in 2<sup>nd</sup> half of 2020. CoStar forecasting rent growth turns negative into 2021.
- Net Absorption: Turned negative across all quarters YTD and forecasted to stay negative into 2022
- 12-Mo Sales Volume: Down 76% YOY (Down from \$808.9 million to \$191.9 MM)
- **Vacancy Rates: Slowly increasing. Vacancy up 140 bps to 8.5% YOY. Daily Vacancy Rate at 8.64%.**
  - 7.1% - Q4 2019
  - 7.4% - Q1 2020
  - 8.1% - Q2 2020
  - 8.7% - Q3 2020
  - 8.5% - Q4 2020 QTD
  - 9.0% - Full Q4 2020 Estimate (Base case scenario)
  - 9.4% - Q1 2021 Estimate (Base case scenario)
- CoStar forecasting slow upward trend in KC office market vacancy with rates moving above 9.0% into 2021. Highest level since early 2016.
- Vacant SF: Up 23% YOY (10.75 MM SF)
- Sublease Space SF: Up 53% YOY (Up from 734K to 1.12 MM)

# OFFICE MARKET CAPITAL MARKETS OVERVIEW - 2020 YTD DATA

## Office



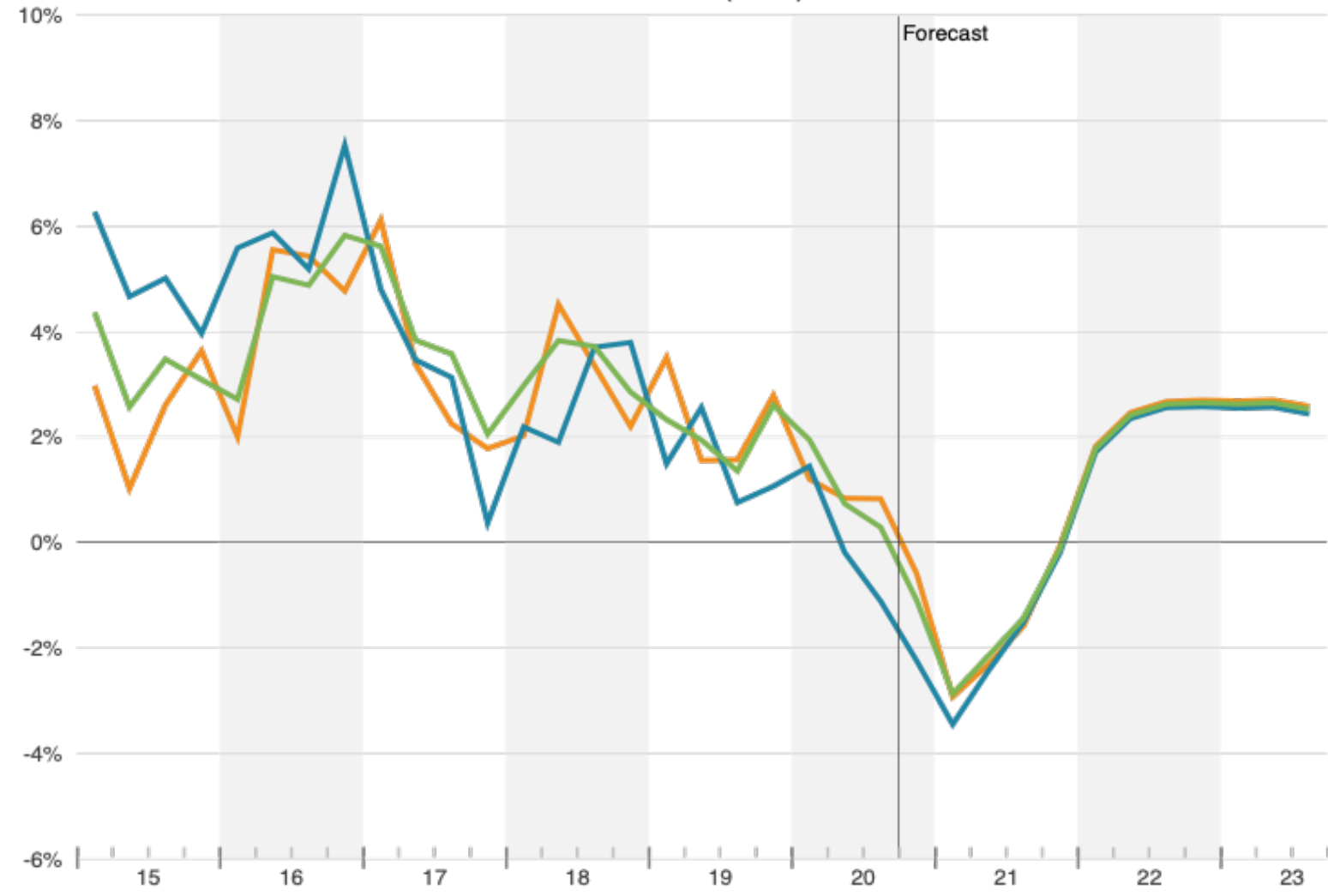
# OFFICE MARKET - SDV CHART



# OFFICE MARKET - RENT GROWTH YOY



### Market Rent Growth (YOY)



☑ Kansas City 3 Star    ☑ Kansas City 4-5 Star    ☑ Kansas City    ☑ United States



# OFFICE MARKET - VACANCY RATE

