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CERTIFIED COMMERCIAL INVESTMENT MEMBER

KANSAS CITY'S REAL ESTATE DEALMAKERS

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The president's message

Bruce Johnson, CCIM
Vice President,
Block Real Estate Services, LLC

The Kansas City Chapter of CCIM (Certified Commercial Investment Member) is once again pleased to partner with the Kansas City Business Journal to publish this annual insert. This supplement features timely articles written by local CCIM designees about the many different areas of commercial real estate and our market, and it reflects the array of disciplines of our chapter membership. We hope you find the articles interesting and useful in your day-to-day business.

CCIM designees are recognized internationally as experts in commercial and investment real estate. They have completed a rigorous academic curriculum, demonstrated a strong and consistent transactional history, and successfully passed a national comprehensive exam. Only about 6 percent of commercial real estate practitioners nationally have earned this designation.

The Kansas City chapter is an extension of the greater CCIM Institute. A list of our chapter members who have earned and hold the CCIM designation can be found on the back page of this insert. It is no coincidence that this list contains many of the top producers in their respective specialties.

With about 250 active members, the Kansas City chapter has consistently been one of the strongest chapters in the CCIM Institute. Membership is open to anyone regardless of designation and offers an excellent opportunity to network with top real estate professionals in our market. More than 100 area professionals regularly attend our monthly breakfast meetings and numerous other networking events throughout the year.

Another way in which the Kansas City chapter serves its members is by hosting two of the required CCIM core courses each year in the Kansas City area. The 2018 local offerings, CI 102 and CI 104, will be held at Dentons law firm, our education partner. This allows local professionals to attend these courses without incurring travel costs and time away from home. We offer financial assistance in the form of three endowed scholarships to further offset the cost of these courses.

In May, I will be traveling to Washington, D.C. to meet with Missouri and Kansas representatives to discuss issues critical to the commercial real estate industry. This is done each year in conjunction with the National Association of Realtors. If you think Washington does not listen, I would point out that last year's main issue was the 1031 tax-deferred exchange provision, which is critical to our industry. This provision survived in the new tax code thanks, in no small part, to the effort CCIM members spearheaded.

Our chapter is fortunate to have a long list of dedicated sponsors and partners. I would like to especially acknowledge our annual partners: First American Title, the Kansas City Business Journal, First National Bank, UES Consulting Services, Inc., Burns & McDonnell, Lewis Rice and Q10 Triad Capital Advisors, Inc. A complete list of all of our valued sponsors can be found in this insert.

I would also like to thank our dedicated board of directors and volunteers who work tirelessly to make all this happen. And, of course, I want to thank all of our members for their support of this chapter. If you are not a member, please visit our website and consider joining to take advantage of all we have to offer.

Finally, I would like to direct your attention to the back page of this insert. There you will find a list of the Kansas City chapter's CCIM designees. If you are seeking a real estate service provider, I can think of no better resource than this list of distinguished professionals.

Please enjoy this insert, and we look forward to seeing you at our next event.

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Industrial: KC meets the challenge

Nick Pickard, CCIM
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Can the good times last? Industrial real estate advisors, investors and developers have been asking themselves this question for the past five years, and Kansas City's industrial real estate market continues to answer the call.

The glow of the industrial real estate sector shines bright across the country's commercial real estate landscape with investors clamoring to find deals and developers looking for sites. The National Council of Real Estate Investment Fiduciaries (NCREIF) reports that industrial real estate has been either the best or second-best performing major asset class nationwide in each quarter for more than three years.

Kansas City has mostly benefited from this demand. According to research from Costar Group, Inc., the Kansas City industrial market in 2012 was 299,500,942 square feet with a vacancy rate of 6.0 percent. Since that time, it has grown 8.6 percent by adding more than 25 million square feet of space to the marketplace, which stood at 325,323,287 square feet at the end of 2017.

Much of the delivered space brought to the market during the last five years has been speculative in nature, meaning that a developer is constructing a building at risk, with no tenant in place at the time of the announced construction. Even with the abundance of speculative construction, the industrial market has met or outpaced the new deliveries with positive absorption in 25 of the last 27 quarters, and the vacancy rate stands today at 5.8 percent, according to Newmark Grubb Zimmer research.

Building new inventory

A great deal of the square footage growth during the past five years can be attributed to big-box speculative development catering to users needing at least 200,000 square feet. With its centralized geography, excellent highway systems and robust rail infrastructure, Kansas City continues to demonstrate that it is a desirable destination for industrial users. More than half a dozen 200,000-square-foot leases were completed in the metro area last year. The biggest deal of 2017 was a 927,112-square-foot lease signed by Spectrum Brands at Logistics Park Kansas City in Edgerton, Kan. Another top-five deal — a 432,000-square-foot lease signed by BMS Logistics — was done on the other pole at KCI Intermodal BusinessCentre, proving Kansas City is no one-trick pony.

Large, cross-dock facilities designed for big space users have been the headline-grabbers in most U.S. markets for the past several years. But another prevalent story of the day is the addition of Class A, multitenant buildings being built with smaller users in mind. Because of the limited options for users of less than 100,000 square feet demanding Class A space, there are buildings popping up all over the metro that can be demised down to as small as 20,000 square feet in some cases. Prime examples of these front-park, rear-loaded buildings are Opus Group's 56 Commerce Center in Olathe, Hunt Midwest's HMBC Logistics I and II buildings in the Claycomo submarket and Jones Development Company's announcement of a 100,000-square-foot building in Shawnee.

Betting on Kansas City

Ultimately, developers and investors must continually evaluate whether demand and opportunity will persist. The answer is determined by a market's ability to sustain momentum, deliver strong rental rates and provide viable options to attract users to our market. 2017 saw some familiar groups in our area make the bet that Kansas City will remain a great place to do business. NorthPoint Development, Colony NorthStar, Odyssey Real Estate Capital and others made major commitments through development and investment.

The sustained success of our market has also buoyed new interest from the likes of Exeter Property Group and Brennan Investment Group who have identified Kansas City as an important city to place money and gain a foothold. Both made significant investments in Kansas City within the past year. Increased competition from the supply side throughout the nation has caused users to take a closer look at "deals" available in Kansas City, and we have become better at delivering institutional quality buildings with terms advantageous to tenants.

Will Kansas City's industrial market continue at the current rate of success? Rising interest rates and limited rental rate growth are a concern going forward, but industrial real estate has become the preferred asset class for commercial real estate investors. Macro issues like e-commerce, U.S. manufacturing, homes sales and the auto industry give reason to believe the future is bright for industrial properties for many years to come. Locally, the fundamentals of our market make it a safe bet that Kansas City will see another strong year in 2018.

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NKC: 'The perfect place to do business'

Richard M. Lanning, Jr. SIOR, CPM, CCIM
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NT Realty, Inc.

A new generation of entrepreneurs and real estate investors are discovering the unique opportunities North Kansas City offers. The 4.2-square-mile municipality sits just north of the Missouri River, connected to Downtown Kansas City by the Heart of America Bridge, and is strategically located for industrial, office, entertainment and residential purposes.

Those who have worked in North Kansas City's industrial district for years are eager to share a laundry list of reasons why the city is a great place to do business.

"Its central location and easy access to all parts of the metro area allow us to attract a greater pool of talent, both employees and vendors," said Joe Roetheli, a well-known entrepreneur and longtime owner of businesses based in North Kansas City. "That combined with the affordability of no earnings tax and a pro-business, friendly, small-town environment make North Kansas City the perfect location to do business."

Redevelopment spurs growth

The city's abundant supply of industrial facilities includes 338 properties totaling 17,513,795 square feet. A variety of small- to medium-sized local businesses are featured alongside regional and national distribution and manufacturing companies. Vacancy for the industrial product is exceptionally low, only 3.9 percent at the end of 2017, according to CoStar Group Inc.

Property owners are taking an active "value add" approach by making improvements to increase overall return on investment. Older properties are seeing new life as adaptive reuse becomes increasingly popular. Uses for older building stock include light manufacturing, entertainment, retail and office and co-working spaces for creative services and technology-based businesses.

Investors and developers continue to fuel growth in North Kansas City by investing in all types of commercial real estate. New row houses, patio and single-family homes and multifamily and senior apartments have contributed to the growth in the residential market. Additional multifamily and mixed-use retail projects are under construction and being planned along Armour Road, thanks to private investments and economic development incentives.

New entertainment developments also add to the area's appeal. North Kansas City offers unique walkability to brew pubs, restaurants, an historical movie theater, outdoor and indoor fitness facilities, warm and inviting bakeries and coffee shops, carefully curated boutique retail stores and a host of service businesses. The city is transforming into a pedestrian-friendly, live-work-play community, with access to bike trails

See **NKC**, Page 5

Richard M. Lanning, Jr., SIOR, CPM, CCIM, is president of NT Realty, Inc., the largest service provider of commercial real estate in North Kansas City. NT Realty, Inc., manages and leases 60 buildings comprised of more than 3.1 million square feet of industrial, office and retail properties with over 250 tenants. He also serves as president of the North Kansas City Levee District. Richard can be reached at 816-221-2300 or rmlanning@ntrealty.com.

Recruiting and retaining the best talent

Mike Klamm, CCIM
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CBRE – Kansas City

Success for a commercial real estate firm is driven by talent. With it, your potential is limitless, and without it, you aren't likely to last long. That's why identifying and developing new brokers is critical to sustained success in this industry.

There are obvious traits to look for, sure, but when you go beyond grades or degrees, you can get to the heart of what will carry a young broker through the ups and downs of the real estate market. Here are three traits that can help identify who has what it takes to produce for years to come:

• **Client-focused enthusiasm:** Interpersonal skills have become harder and harder to come by, so when you see confident, well-spoken candidates, don't think another one is right around the corner. Building new relationships is a foundational element of our work, and it is not an easy thing to teach. Young brokers who genuinely want to fight to deliver quality outcomes for their clients and have the confidence to put themselves out there will stand out from the pack every time.

• **Entrepreneurial spirit:** Brokers are expected to make things happen for themselves and their clients without a real blueprint for every situation. When interviewing candidates, ask them to provide examples of when they thought on their feet and found innovative solutions to complex problems even outside of a professional environment. LinkedIn founder Reid Hoffman has very famously pontificated that an entrepreneur is someone who jumps off a cliff and builds a plane on the way down. It is that same spirit and mentality that carry brokers to deliver results in good times and bad.

• **Willingness to embrace new technology:** There is a wave coming through our industry in the form of new technology platforms, and before too long, if firms don't catch up or catch on, they will be bested by competition in every pitch meeting they go to. Understanding how to apply these tools as a means to deliver desired outcomes will become more sophisticated and more necessary each passing year. New brokers who have demonstrated willingness to embrace technology and see the vast potential it offers will be far better off than their counterparts who do not.

"Leadership should be equipped to add to the broker's professional development from day one."

After you find candidates you feel have real potential, take the process to the next level by matching those recruits to senior professionals as mentors. A broker's first few years are never easy but pairing new brokers with someone who has been in their shoes can set a young associate up for much more success down the line. Paying attention to both parties' personalities as well as their strengths and weaknesses can create a team that elevates both brokers' careers.

Leadership should be equipped to add to the broker's professional development from day one. A simple orientation is not enough and should be supplemented with foundational coursework and training. Allowing new brokers to take extra time to learn the firm's platforms and business practices will make them more comfortable speaking to the firm's strengths with future clients.

CBRE is fortunate to have dedicated coaches running each of our local market areas. Managing directors can devote 100 percent of their time and energy to growing the business, and the development of young professionals is a key component to our growth.

Adding new professionals requires large investments of time and resources if you want to do it right and keep them producing on your team for the long haul. It takes more than just a passing commitment to the process. But if you put in the work, it will pay dividends for you and your business.

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***NKC**, from Page 4*

and public green spaces. Businesses are excited to offer these amenities to their employees.

Improvements abound

Technology investments play a key role in fueling business growth. The city's complete underground fiber network, KCFiber/liNKCity, offers businesses dark fiber options and speeds from 2 megabits per second up to 100 gigabits per second. Residents receive 1 gigabit per second service for no monthly cost with a one-time connection fee.

City government continues to maintain a pro-business atmosphere. Staff is friendly, knowledgeable and always willing to assist businesses and residents alike. The police and fire departments proactively address public safety for businesses using a Community Oriented Policing and Problem Solving Unit, the Crime Free Business Program and the Community Risk Reduction Program. Residents and businesses enjoy quick response times from both departments.

The city has recently adopted many new initiatives designed to foster economic development, including a new master plan, zoning ordinance updates, the Burlington Corridor Complete Street Plan, the Armour Road Complete Street Plan, the Gateway Signage Master Plan and a 58-acre Armour Road Redevelopment Area.

Keeping a watchful eye over the progress is Sara Copeland, community development director for North Kansas City.

"We are definitely in the midst of a major growth spurt," Copeland said. "During 2017, the city issued permits for $118.7 million in total development, compared to $45.1 million in 2016, and 2018 appears to be continuing this trend."

The founding fathers positioned North Kansas City for success in 1903 when industrial development began, and the location has proven itself valuable for generations. Investors in North Kansas City real estate are now experiencing higher occupancy, increased rents and appreciation in value. There is no better time than today to look to North Kansas City to maximize your return on investment.

Life after Amazon — Is ever

Ferdinand Niemann, Esq., MBA, CCIM
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Is retail dead? Or at least drowning? If you ask the average citizen or read the headlines, you may be inclined to believe this to be the case. Sure, the traditional department and big-box stores have taken on water or completely gone under due to, among other things, Amazon. But, the pain felt by struggling retailers can be attributed to much more, including the following: overbuilding, a shift in consumer spending habits from material goods to experiences, retailers' lack of adaptation and continuous improvement and, of course, the transformational transparency, selection and convenience of e-commerce.

Despite these challenges, the last few years have proven that brick-and-mortar stores are not going away. On the contrary, e-commerce retailers are now focusing on an omnichannel retail strategy, with the most obvious example being Amazon's acquisition of Whole Foods — undoubtedly an investment play focused on longer-term physical Amazon locations and not just selling overpriced groceries to soccer moms.

The rhetoric and conventional wisdom push a narrative that retail is dying when, in fact, retailers opened over 4,000 more stores nationwide than they closed in 2017, according to a report of the IHL Group. In the Kansas City metro area, vacancy rates fell from 7.2 percent in 2016 to 5.9 percent in 2017, and average rental rates increased from $12.63 per square foot to $12.99 per square foot, according to the Block Real Estate Services 2018 Real Estate Report for Metropolitan Kansas City. These numbers tell the story of growing retailers, although in different segments than the struggling retailers making the front page, the reuse of existing space and the changing landscape to experiential retail.

If I were omniscient, I probably would not be spending my time writing pro bono articles and instead be doing whatever Jeff Bezos is doing right now. Nonetheless, below is a humble attempt at a synopsis of problems facing retail, coupled with some practical solutions.

NIMBYs

Obstacle: The not-in-my-backyard (NIMBY)

***SINK**, from above*

Elected city leadership

Problem: The biggest problem I have found with elected leadership is ... they want to be re-elected. Therefore, many "leaders" bow to NIMBYs or special interests even at the expense of a project they should support. I have had elected representatives tell me they want to support the project, but they can't because of unions, school districts, Minority Business Enterprises, etc.

Solution: Write bigger campaign checks! Better yet, put in the effort to listen to project stakeholders. Show elected leaders everything you have done and articulate what you just cannot do. More bushes and a better façade — sure. Limited signage and structured parking for your anchor retailer — sorry, but you're going to have to tell planning staff that this just ain't the Country Club Plaza, and it won't work for your project. Lastly, support the real leaders in your community (especially if they are pro-business, considering you are reading the KCBJ).

Retailers — the real boss!

Problem: Retailers who are expanding know developers need them to do deals, and they are demanding lower rents and tenant-friendly terms, such as exclusivity and co-tenancy provisions that include steep penalties against the landlord. Often, the rental rate is too low to allow for a modest return on investment, resulting in either:

- The deal falling through
- A skinny deal going through, but susceptible to risk/failure
- The need for economic development incentives, not to enrich the developer but to essentially "buy the tenant" by allowing the developer to effectively provide the tenant with a lower/subsidized rental rate

Solution: Be flexible where possible, perhaps creating a restaurant- and experience-driven development. Active retailers will want to be in vibrant centers (with co-tenants). Plus, the developer can sell portions of the development to a key anchor or pad users, reducing the cost basis and risk and thereby allowing otherwise untenable deals with the other retailers to move forward.

Another alternative to deliver cheaper rents is to avoid new construction costs by buying a tired center and renovating it. This approach should be less expensive than new construction and provide developers with modest returns

ybody going to sink?

crowd regularly makes development more challenging. While retail development is typically not as loathed by NIMBYs as low-income housing, this obstacle arises in many instances. As my wife reminds me, it is nice to live close to the grocery store, gas station and Target or Walmart — just not too close.

Solution: Work with homeowners (and avoid referring to them as NIMBYs). Listen to their concerns, get their input, and try to appease them. Neighborhood support can be the lynchpin to project approval, especially when elected leadership is weak and refuses to vote in opposition of a neighborhood for a transformational project (for example, 10 neighbors disapprove of a project that greatly benefits the community at large, with the loudest voices drowning out the rest).

City staff

Obstacle: While NIMBYs can add aggravation (and costs) to your project, city planners can transform your project from a renovation of a strip center to a utopian mixed-use project — with second-story retail/office space, structured parking, walkability and free candy to boot! Similar to Margaret Thatcher's wisdom that "the problem with socialism is that you eventually run out of other people's money," letting city staff plan your project will cause you to run out of money.

Undoubtedly well-intentioned and more community-minded than a project-centric developer, city staff should advocate for the best project they can get. But, rigid rules in a one-size-fits-all code make some staff comments unreasonable (for example, the Northland Costco was being pressured to put in voluminous bicycle racks!). Moreover, scope creep and design criteria often push the development into the untenable position of being financially infeasible. (The rising costs of construction materials and labor make projects hard enough to pencil, which makes unnecessary costs put on the project by staff or special interests harder to shoulder.)

Solution: Work with staff similar to how you would work with NIMBYs. But sometimes, going around or over staff (to elected leadership) is the only way to get a project over the finish line. You will still have to work with staff to implement the project (and on subsequent projects), so proceed respectfully, cautiously and sparingly when moving forward in opposition to staff's recommendation. (You should also support leaders who fight for fewer regulations, lower impact fees and less development add-on costs.

See ***SINK****, below*

while delivering the space at acceptable rental rates for retailers.

Anti-incentive crowd

Problem: The anti-incentive crowd is pretty fired up — no incentives, no way, no exceptions!

Solution: The border war as well as the sales-tax chasing among municipalities are partly to blame for the bad reputation given to incentives. This narrow view ignores the reality that incentives are needed on some projects.

I worked for Jackson County for five years and analyzed dozens of projects as a TIF commissioner in more than a half dozen municipalities, and I worked for three years at White Goss as an incentives attorney. So I have seen the good, the bad and the ugly. And certainly some fat deals resulted in an overly subsidized developer and a swift fleecing of the other stakeholders.

But, incentives are like money — amoral not moral or immoral by nature — and in some cases, incentives are necessary to get the deal done. Policymakers and stakeholders need to do a comprehensive cost-benefit analysis when evaluating incentives.

I have seen cities take opposite actions. For example, officials in one city admitted they were giving away a large portion of the farm but recognized it was necessary to get the/any development — basically deciding a piece of a bigger/real pie was better than no pie at all. In contrast, leadership of a town of 5,000 people said they would only give away a 50 percent TIF if a developer brought a Costco ... to a town of 5,000 people!

It doesn't take a CCIM to tell you which city has seen vast amounts of commercial growth while the other has a population struggling to reach 5,001.

A mentor once stated it best: Capital goes where it is welcome and stays where it is appreciated.

Love them or hate them, incentives move the needle, and we can expect them to be a factor in development for years to come, at least as long as local government has the autonomy to take action irrespective of the ancillary effects on competing or impacted municipalities.

Where do we go from here?

As retail trends evolve and change, as they always do, real estate professionals must adapt and charter a course towards survival and success. The waters remain choppy, and there will certainly be challenges along the way. But the journey is worth it for those who make it across. For those who do not have the strategies — or the stomach — for the journey ahead, there is always safe harbor ... with AMZN stock available for a cool $1,579 per share.

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Multifamily: KC's evolution continues

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With consistent population growth, a favorable Midwestern location and a developing transportation system, Kansas City continues to attract large employers and consolidate its status as a destination for both travel and investment. As we enter into the 10th year of the current market cycle, Kansas City is beginning to stake its claim as a business-oriented metro with a significant supply of new multifamily stock in core submarkets.

The big question heading into 2018 is whether the market has peaked and is possibly headed for a correction or whether the sector's bull run will continue. Regardless, the fact remains that we are reaching the last phase of this cycle, and this market is near, if not already at, its peak.

The good news is that Kansas City's market fundamentals are sufficiently sound to support the current market for the foreseeable future, and we generally don't expect to see any significant market corrections for at least 18 months.

Market rundown

After several years of sizzling improvements to market fundamentals, 2017 saw retrenchment in the multifamily market. Rent growth cooled amid robust development, and occupancy levels — although solid — began to decline in some metros, including Kansas City.

That said, the Kansas City market remains in a solid position thanks to a strong recovery at the beginning of this latest cycle as well as continued job and wage growth. Kansas City employment is forecast to expand by 18,500 jobs (1.7 percent) during the next year, up from 13,300 in 2017. Additional market highlights:

• **Occupancy —** Despite a year-over-year jump of 20 basis points, vacancy numbers across the metro remain slightly above 5 percent, which is still well under the market peak of 11.3 percent in 2003. Apartment occupancy is expected to remain elevated as employers accelerate hiring across Kansas City during the next year.

• **Rent growth —** Effective rents increased 1.5 percent to end 2017 at $939 per month as apartment operators capitalized on the rising payrolls and healthy occupancy rates across the metro. This trend is set to continue, as annual effective rent growth is forecast to be 2.3 percent in 2018 and average 2.5 percent from 2019 to 2021. This is a great sign since Kansas City had averaged 1.3 percent since 1996.

• **Development pipeline —** Metrowide, 3,955 units were added to the inventory in 2017, up more than 15 percent from 2016. Apartment absorption heightened 14 percent year over year. With 3,220 absorbed units, we've more than doubled the market's historical average. We're confident that the fourth quarter of 2017 will mark the peak in multifamily deliveries, although we expect inventory growth to remain between 1.5 percent and 2.5 percent annually.

Investment sales environment

During the past few years, the multifamily sector has been the darling of the commercial real estate world, bringing in record levels of investment from both private and public groups seeking higher levels of returns for their capital. Today, investor confidence in the stability of the multifamily sector remains strong, despite robust new supply levels and concerns about rising inflation and aggressive interest rate hikes.

As the cycle continues to mature, investor groups fall into two primary groups: value-add buyers who are looking to infuse syndicated capital into a project to generate the returns required by their equity sources and groups focused on quality and seeking stable assets that will generate steady cash flow.

Despite the attention paid to the development of new Class A assets, Class B assets continue to be the most sought-after product type, regardless of the acquisition strategy. Stable cash-flow groups pursue them because they offer high-enough quality product and are built in solid-enough submarkets. Value-add groups pursue them because by purchasing these properties and giving them a facelift, investors can pay less upfront, add a few amenities, boost rents and reap the profits — which tend to far outweigh their initial capital injection.

A look at lending

On the debt side, the outlook remains optimistic because life insurance companies, banks, commercial mortgage-backed securities (CMBS) and government-sponsored enterprises (GSE), such as Fannie Mae, Freddie Mac and FHA/HUD, are all vying to put debt out in the market. In addition to floaters, the most popular fixed-rate products of 5 to 20 years offered by GSEs remain the most desirable debt product for multifamily properties because of their ease of assumption, higher leverage levels and the ability to lever up during the loan term through supplemental loan opportunities. Owners who were doing 7- to 10-year terms are opting for longer-term fixed rates primarily due to the 10-year U.S. Treasury note going up 50 basis points in the last four months.

Life insurance companies also play a large role in financing all types of commercial and multifamily properties. Although this financing is mostly lower leverage, investors can lock rates at application, which is very attractive if treasuries are volatile. Banks are also very active in providing bridge and construction financing, while CMBS shops have taken the opportunity to insert themselves into the remaining gaps in the market.

The overbuilding 'boogeyman'

Before Kansas City's most recent period of increased product delivery, the market needed a huge number of units to make up for the lack of delivery over the prior decade. The overbuilding "boogeyman" arises because developers continue to deliver highly amenitized, luxury product to a handful of the most dynamic areas in town rather than varying the product type and delivering more modest housing across a wider swath of the city.

Here's the rub: It is extremely difficult to deliver even marginally profitable workforce-type housing without substantial incentives, especially in the areas that need it most. The commercial real estate industry has been notoriously slow to adopt new technology, but that tide seems finally to be turning. Going forward, our industry needs innovative companies that are working to develop products that help us overcome the rising labor, wage and material costs and find a way to deliver workforce housing without using local, state or federal aid.

Looking forward, the demand for multifamily product is showing no signs of a slowdown. The pent-up demand from millennials, who are putting off major life events longer than earlier generations, along with the explosion of downsizing baby boomers and those in search of affordable, workforce housing are expected to drive absorption and overall rent growth for years.

Michael Sullivan, a senior director of investment sales with Berkadia, focuses on the acquisition and disposition of multifamily assets throughout the Midwest. He has been involved in more than 100 investment real estate transactions valued at more than $700 million. He can be reached at michael.sullivan@berkadia.com or 816-759-0369.

John J. Schorgl, MBA, CCIM, managing director of mortgage banking at Berkadia, specializes in the placement of debt for commercial and multifamily real estate projects nationwide. Throughout his 20-year career in mortgage banking, John has provided clients with permanent, bridge and construction debt financing on all types of income-producing properties. He is an expert in placing loans with life insurance companies, conduit lenders, banks and each of the agency lenders. He can be reached at john.schorgl@berkadia.com or 816-759-0367.

Demand surges for office space

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The Kansas City central business district (CBD) is in the midst of a major revival as tenants from the suburban submarkets consider relocating to the urban core and out-of-market companies entering the area focus on Downtown. At the end of 2017, the CBD's office vacancy rate was at its lowest level in a decade, and more major tenants will be moving into the area in 2018. The current momentum in the office market and the ongoing residential boom will push the vacancy rate lower and put upward pressure on lease rates throughout the CBD.

Office space in the CBD is becoming tight, which means tenants are facing an increasingly difficult challenge of finding affordable space. No one is pretending there is a shortage of office space in Downtown, but the days of finding a bargain appear to be gone. From the end of 2015 through the end of 2017, asking rates for CBD office space increased 11.6 percent.

Increased demand has been particularly evident in the Crossroads, where the weighted-average asking rate at the end of 2017 was $22.23 per square foot. To put that in context, the weighted-average asking rate for the entire Kansas City market was just $19.85 per square foot.

At the end of 2015, the weighted-average asking rate in the Crossroads was $19.20 per square foot, and a combined total of 85,000 square feet was available for $18.50 or less. At the end of 2017, only one Crossroads office space of more than 6,500 square feet was available with an asking rate of less than $18.50 per square foot, while three separate buildings had availabilities of at least 30,000 square feet and asking rates of $22.50 per square foot or higher.

A few years ago, the Crossroads was an affordable alternative for tenants who wanted to be near Downtown. Today, the Crossroads is the most desirable area for many tenants, especially as the area's reputation as a destination for tech companies has grown. The most significant speculative investment in the CBD in more than 20 years was the redevelopment of Corrigan Station, the first phase of which is now 100 percent occupied at rents that would have been unimaginable in the CBD only five years ago, and construction is underway on the second phase.

Attractive alternatives arise

The renaissance in the CBD should be celebrated, but as it continues, new questions will arise, particularly for tenants who are looking to locate close to Downtown but are not in a position to pay the premiums the Crossroads area now demands. New speculative construction will not help resolve the issue, as the costs will necessitate premium rents. A more likely alternative for tenants is office space in nearby areas.

One potential option is Midtown, the corridor that runs between Main Street and Broadway Boulevard from 31st Street to Westport Road. Office buildings in that area offer easy and direct access to the Crossroads using city streets and the River Market using I-35 to loop around Downtown. People in Midtown office buildings can quickly reach Crown Center and the southern end of the Kansas City streetcar line. Another alternative is the entertainment district of Westport, which borders the southern edge of the Midtown corridor and is only a few minutes from the Plaza.

The areas immediately to the east of Downtown don't have office space. Although the downtown Kansas City, Kan. area does have some options for users looking for larger spaces (100,000+ square feet), the overall area will probably need a major redevelopment project to attract a sizeable number of mid-sized tenants.

With the exception of the impressive repurposing that has taken place at Charles B. Wheeler Downtown Airport, North Kansas City does not have any real office space. However, just past Charles B. Wheeler Downtown Airport is the Briarcliff area and a selection of existing office buildings and potential build-to-suit sites.

Briarcliff has maintained a high level of occupancy and provides a unique combination of immediate access to the CBD via the Broadway Extension, connections to areas throughout the Northland and surprisingly easy access to Johnson County using I-635. As the CBD continues to draw new tenants and prices in the Crossroads continue to escalate, current options within Downtown may not be able to fill the increased demand for space. As the market evolves, more companies may find attractive alternatives in the Midtown and

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CRE remains a preferred asset type

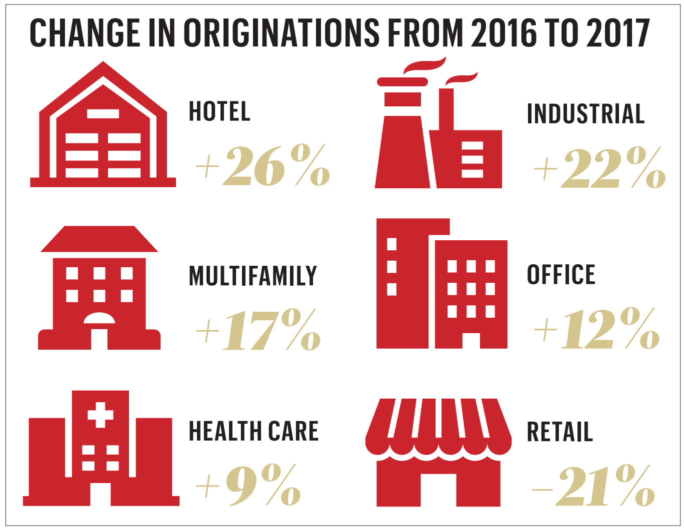
Doug Bates, CCIM
Vice President,
Grandbridge Real Estate Capital's Kansas City office

All capital providers maintain a strong appetite for commercial real estate in 2018. The Mortgage Bankers Association (MBA) reports that commercial and multifamily originations for 2017 increased by 15 percent over 2016, resulting in another record year for the industry.

Multifamily originations were prolific, highlighted by Fannie Mae and Freddie Mac producing a record $140 billion in loans nationwide in 2017, and once again, their loan targets have increased for 2018. Life insurance companies' originations were in line with 2016, totaling $77 billion, and this industry has also increased its goals for 2018. The commercial mortgage-backed securities (CMBS) market enjoyed a 24 percent increase in originations over 2016 with $95 billion in securitized loans.

Loan originations increased for nearly all property types in 2017 (see table). Despite the positive momentum, lenders are cautiously optimistic, as the headwinds of strong market fundamentals and economic activity encounter tailwinds of a potential rising interest rate environment and inflationary pressures. The MBA forecasts commercial and multifamily mortgage originations to be $549 billion in 2018, a total similar to 2017.

Lenders are exercising disciplined underwriting with a strong focus on in-place cash flows to support sustainable debt service coverage ratios. For new development, banks are increasingly selective on construction lending, requiring more cash equity from developers, particularly for speculative development.



The three major lending sources for permanent, fixed-rate, non-recourse financing are government-sponsored enterprises (GSEs), such as Fannie Mae, Freddie Mac and FHA/HUD; portfolio lenders, such as life insurance companies; and CMBS/securitized lenders. Permanent lenders also offer bridge loans, which can facilitate an acquisition or recapitalization, to reposition the property through renovations, re-tenanting and/or implementing a new investment strategy.

Agency (GSE) lenders

The agencies make loans for multifamily properties, including market rate, student, mobile home and affordable senior housing communities. Both Fannie Mae and Freddie Mac continue to expand product offerings to increase originations. Each agency also has "green" initiatives that offer significant rate reductions for qualifying properties. Newer popular products include:

- Pre-stabilized/lease-up programs for new construction
- Modification/rehab programs for value-add opportunities
- Credit facilities for large and institutional borrowers

In addition to multifamily, FHA/HUD make loans for health care facilities. With the recent pullback by banks on multifamily construction lending, HUD has become a more attractive option for both new construction and major redevelopments. HUD also works particularly well for historical rehab projects.

HUD offers two main loan programs: construction/permanent — with leverage up to 85 percent, a 40-year fully amortizing loan structure and rates in the low 4-percent range — and acquisition/refinance — with leverage up to 85 percent, a 35-year, fully amortizing structure and a rate in the mid-3-percent range. Grandbridge has a proprietary bridge-to-HUD loan program that can help facilitate these opportunities.

Portfolio lenders

Life insurance company lenders continue to focus on core Class A and B assets in the four major property types. Their programs are generally more conservative than agency and CMBS lenders; however, life insurance companies offer competitive options for timing to lock rates and more diverse loan structures. Portfolio lenders can provide fixed-rate loan terms ranging from 5 to 40 years with the most competitive interest rates. Portfolio lenders are also expanding their offerings with more construction/permanent, bridge and joint-venture equity programs.

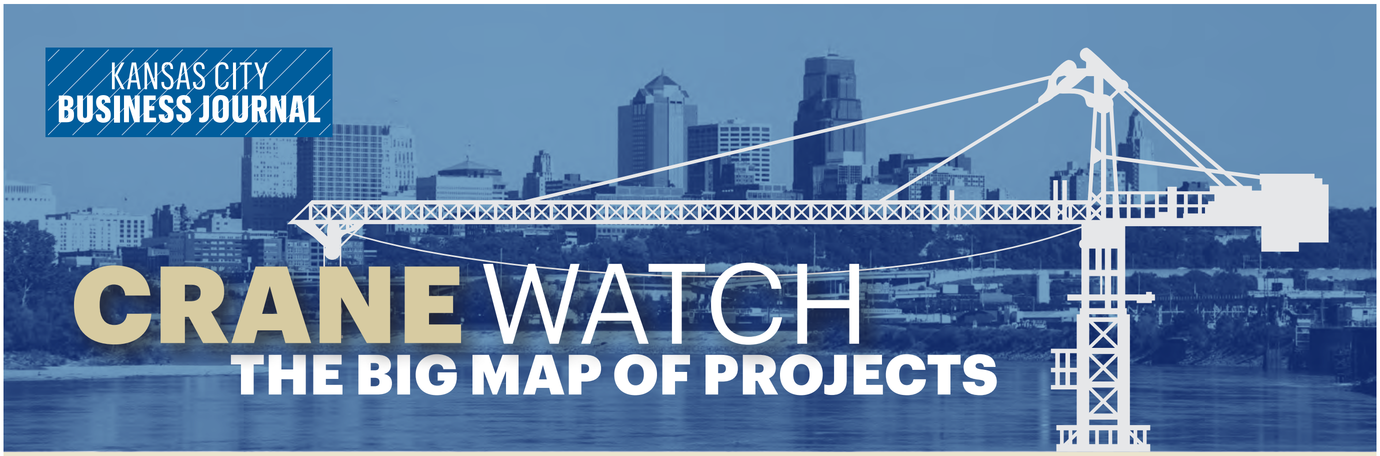
CMBS/securitized lenders

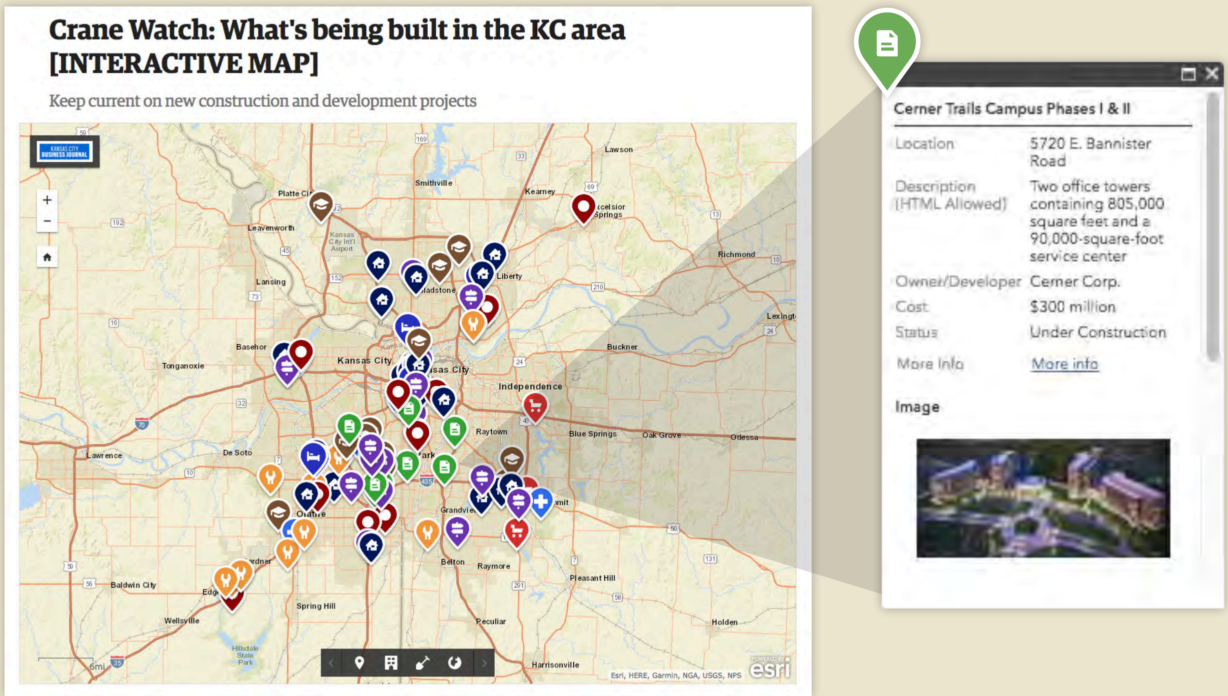
The CMBS market continues to be active after enjoying a considerable increase in origination volume in 2017. CMBS lenders have adjusted to new requirements that they hold a portion of each securitization throughout the term of the loan, which is intended to prevent the overly aggressive underwriting that occurred before the financial crisis.

CMBS lenders generally offer higher leverage than portfolio lenders; however, CMBS loans are generally less flexible and their rates are higher. CMBS lenders will lend against all property types, including unanchored retail centers and hotels.

In summary, the capital flow into commercial real estate remains strong. Lenders continue to expand product offerings in an effort to increase market share and meet their borrowers' needs. Rates have increased moderately since the end of 2017, however they remain historically low. With so many options and products available, Grandbridge can help you navigate the channels to identify and procure the best financing available for any given property.

Doug Bates, CCIM, is a vice president in Grandbridge Real Estate Capital's Kansas City office. Grandbridge is one of the largest commercial mortgage banking firms in the United States, with over $7.3 billion ($740 million in Kansas City) in transaction volume in 2017. Grandbridge's investor base includes agency lenders (Fannie, Freddie, FHA/HUD), life insurance companies, CMBS lenders, mezzanine and preferred equity providers as well as proprietary capital. Doug can be reached at 913-748-4446 or dbates@grandbridge.com.





CRANE WATCH INTERACTIVE MAP

The *Kansas City Business Journal*'s interactive development map Crane Watch is live. In a city that's constantly reinventing itself, Crane Watch provides you the latest information on local construction and development projects – we update it continuously. You're able to click on any point on the map to see a description of the project, who's doing it, when it should be completed, how much it'll cost and what it will look like. Projects feature a hyperlink taking you to a recent story KCBJ has written about the project. The tabs along the bottom allow you to view projects by category. Crane Watch is a vital tool for our readers, and one that will help you navigate the ever-changing face of the Kansas City area.

VIEW THE MAP NOW AT **KansasCityBusinessJournal.com**

For sponsorship opportunites, contact Ahmed Shalabi at ashalabi@bizjournals.com or 816-777-2206.

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