KANSAS CITY'S

REAL ESTATE DEALMAKERS

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AN ADVERTISING SUPPLEMENT TO THE KANSAS CITY BUSINESS JOURNAL

The President's Message

2020. What a year it's been. And it's only July! The world has changed seemingly overnight and our industry faces numerous challenges to adjust to the abrupt economic downturn caused by the worldwide pandemic shutdown.

Welcome to the Kansas City Chapter of Certified Commercial Investment Member (CCIM) annual Real Estate Report in partnership with our long-time sponsor, Kansas City Business Journal. This insert features timely articles written by local CCIM designees who are experts in their field about a variety of topics and challenges facing our industry today.

For many of us, what we love about commercial real estate is the relationships. But in the current Covid-19 environment, it's easy to feel disconnected. While we wait for a return to normal, it is more important than ever to find new ways to stay educated, informed and connected. I strongly encourage you to join our regular virtual presentations with leading industry experts. More than 250 people joined our April call with Armada Corporate Intelligence economist Dr. Chris Kuehl who gave us a market update amid the pandemic. We look forward to once again resuming our in-person speaker presentation events as soon as it is safe to do so. The CCIM designation denotes a level of education and expertise held by less than 10 percent of commercial real estate professionals. It is frequently described as the equivalent to an MBA in commercial real estate. Clients know when they work with a CCIM, they are working with a highly skilled professional.

FRANK SCIARA, CCIM, is a Vice President with Grandbridge Real Estate Capital, a full-service mortgage banking firm that provides clients with a wide range of debt and equity solutions on a variety of commercial real estate and multifamily properties. Grandbridge is a Fannie Mae DUS, Freddie Mac seller/servicer, HUD-approved and proprietary balance sheet lender.

"Now in our 43rd year and with over 270 local members, our chapter is comprised of disciplines that span the entire spectrum of the commercial real estate industry."

If you want to learn more about earning the CCIM designation, I urge you to attend one of our future events and to visit our website. You can receive most of this training locally—the Kansas City CCIM chapter offers all four of the core curriculum courses annually on a two-year cycle. Earning the designation will enhance your commercial real estate acumen, allow you to provide even better service to your clients and give you access to tools offered through the national institute that help with the decision making process. If you are already a designee, the institute offers free core classes online. This is a great way to refresh your skillset.

Our award-winning Kansas City Chapter of CCIM is one of the strongest chapters in the country. Now in our 43rd year and with over 270 local members, our chapter is comprised of disciplines that span the entire spectrum of the commercial real estate industry.

I invite you to become a member of The Kansas City CCIM Chapter to take advantage of the many opportunities to broaden your network and expand your knowledge of commercial real estate with classes, events and much more. You don't need to be a CCIM designee or pursue CCIM designation to become a member. For more information please visit our website, www.ccimkansascity.com, or contact me directly at fsciara@grandbridge.com or 913-748-4453.

Our local chapter would not be what it is today without the generous support of our individual chapter members and partners: First National Bank of Omaha, Lewis Rice, First American Title Company, Q10 Triad Capital Advisors, UES Consulting Services, Prime Capital Investment Advisors, Kansas City Business Journal and Dentons. Finally, thank you to our event partners who underwrite our various special events throughout the year. See a complete list of our partners on our website. We encourage doing business with them!

Capital Markets Update

When the new decade began in January, the series of events that followed could not have been predicted: the Coronavirus pandemic, ensuing 'stay-home' restrictions, and mandated business, school, and entertainment closings that altered the commercial real estate industry. To understand how the capital markets have been affected by these challenges, and for comparison purposes, it helps to first put into perspective how the marketplace performed in 2019.

In 2019, more than $600 billion of commercial real estate (CRE) debt was originated, a nearly 20% increase over 2018. According to our industry's governing body, the Mortgage Bankers Association (MBA), commercial banks were the leading capital source, responsible for $180 billion of new loans. Government-Sponsored Enterprises (GSEs) Freddie Mac and Fannie Mae originated $140 billion of multifamily mortgages; commercial mortgage-backed securities issuers (CMBS) originated $96.7 billion; life insurance companies originated $67.1 billion; with the balance of originations coming from pension funds, REITs and investment funds. In 2019, the 10-year US Treasury rate (the standard index utilized for permanent, long-term mortgages) fell to a low of 1.47% after climbing above 3.00% in the fourth quarter of 2018. To compare, the current 10-year US Treasury rate is below 0.70%!

The combination of rental rate increases and cap rate compression have led to considerable increases in property values; with loan origination volumes also increasing for both acquisitions and refinances. With CRE fundamentals remaining strong, our industry was enjoying a solid start to 2020. The first quarter of 2020 originations were consistent with 2019, then markedly dropped off due to the challenges resulting from COVID-19. Lenders, landlords and tenants continue to face uncertainty and volatility. The following is our mid-year 2020 summary of the most significant capital providers for commercial real estate:

DOUG BATES, CCIM, is a Vice President, and **KATE SULLINGER, CCIM,** is an Assistant Vice President with Grandbridge Real Estate Capital, a full-service mortgage banking firm and proprietary balance sheet lender. Grandbridge provides clients with comprehensive and diverse access to a wide range of debt and equity capital sources. Grandbridge provides debt and equity capital for their clients on a variety of commercial real estate and multifamily properties including office, retail, industrial, multifamily, hospitality and self-storage properties.

> *"Although the recent effects of COVID-19 have impacted capital markets, the majority of capital sources are active and rates are expected to remain low … "*

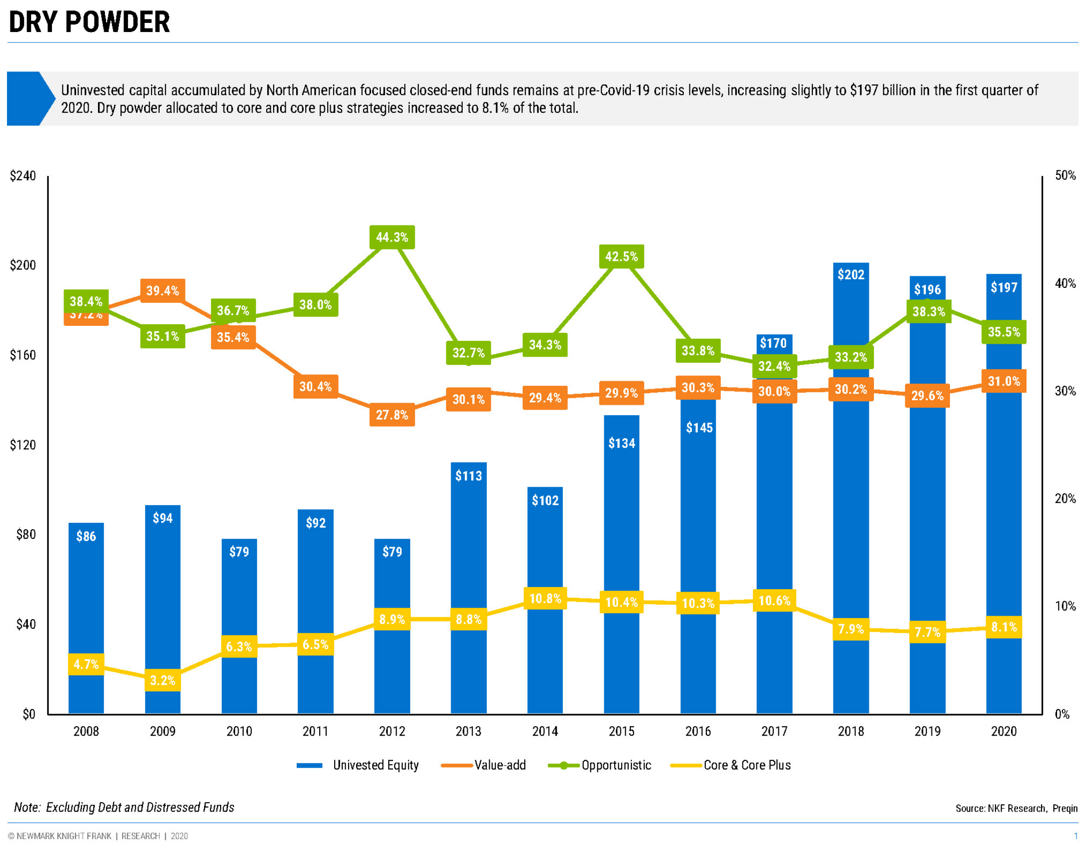
• Commercial banks continue to actively pursue new CRE business, although they are being more selective on asset classes and generally more conservative on underwriting. Compared to pre-COVID-19, loan-to-value and loan-to-cost ratios are now more conservative. While loan officers were busy processing PPP (Payroll Protection Program) loans and handling loan modification requests on existing loans, most banks remain open for new business and will be competitive for loans with their repeat borrower clients.

• Fannie Mae and Freddie Mac (GSEs) have been extremely active lending to the multifamily marketplace, providing much-needed liquidity to the housing market. In the first quarter of 2020, the GSE's provided in excess of $24 billion in multifamily financing. Fannie Mae and Freddie Mac have been able to continue their originations during the pandemic, often times without completing their full standard due diligence, such as property and third party inspections. The GSEs are closely monitoring recent rent collections to gauge the impact of COVID-19 on residents and their ability to pay rent prior to loan commitment to ensure property performance supports their underwriting. In lieu of full due diligence, the GSEs are requiring debt service reserves on all new loans, that will be released to the borrower after the 'stay-home' restrictions have lifted, all standard due diligence has been completed, and the property maintains their pre-closing collections for at least 90 days. GSEs also advised in March that their existing loans and borrowers could qualify for up to 90 days of forbearance on any current Fannie Mae or Freddie Mac loan that demonstrated a material impact to operations due to the COVID-19 pandemic, as long as the borrower agrees to, among other things, no evictions during the forbearance period.

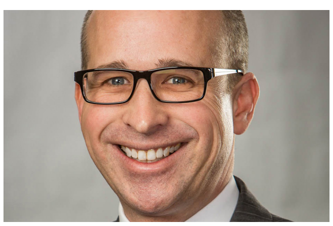
• Life insurance company lenders continue to originate new loans for their portfolios, albeit with more conservative underwriting standards as compared to pre-COVID-19. Life company lenders are struggling to find yield in the alternative fixed-income investment market, which should bode well for the commercial mortgage market. Current life company fixed interest rates in the 3.0% - 4.0% range for commercial mortgages continue to offer attractive risk-adjusted returns over a loan term of 10+ years as compared to the public and corporate bond markets. Life companies offer a competitive advantage with the ability to lock the interest rate at the application stage, and generally, prior to a property fully stabilizing – which allows borrowers to take advantage of locking rate prior to full lease-up.

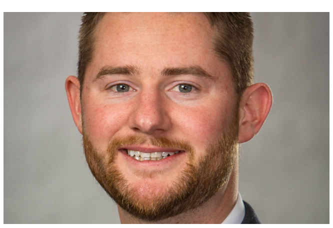
• The commercial mortgage-backed securities (CMBS) market was effectively grounded in mid-March due to the uncertainty and inability to securitize these loans in the secondary market. Fortunately, the CMBS market recently began to show signs of life and some lenders are originating new loans. In addition, the secondary market recently reopened, as evidenced by the issuance of five new securitizations in May totaling $3.8 billion.

Although the recent effects of COVID-19 have impacted capital markets, the majority of capital sources are active and rates are expected to remain low for the foreseeable future. The Federal Reserve recently announced that they do not intend to raise interest rates at least through 2022, sending a clear message to financial markets that they will continue to support the economy. Like all other investment asset classes, lenders and investors are in a "flight to quality" mode. The good news is that nearly all lending institutions have an abundance of capital to invest for the balance of 2020 as they are currently behind on their allocation goals for this calendar year. This should translate to good news for borrowers as they position themselves to take advantage of competitive financing terms and the low interest rate environment.



Midwest Investment Sales and Capital Markets — What to Expect





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The world of commercial real estate investment sales has changed significantly over the last few months. In the first quarter of 2020 we continued to see strong sale volumes due to the low interest rate environment combined with the record amounts of funds raised for real estate allocations. As shelter-in-place orders were put into effect the week of March 9th, investment sales transaction volume began to taper off. Many deals that were under contract were re-traded or fell out of contract. Many sellers delayed or abandoned plans all together to take properties to market. In addition, buyers generally hit the pause button on new acquisitions and debt markets tightened for most property types.

This has resulted in a 35% decline in the number of Kansas City investment sale transactions in the second quarter of 2020. Several of the sales that recently fell out of contract were heavy value-add opportunities that have become increasingly difficult to underwrite with uncertainty of lease-up time for vacancies, market rents, rent growth assumptions and length of leases. These challenges are primarily evident in office and retail properties as tenants begin to potentially right size their space needs. On the bright side, demand for industrial properties remains strong as investors recognize continued future demand from e-commerce and increased just in time inventories. Multifamily investor demand also remains healthy due to its diversified income stream and strong rent collections that are even more apparent in the current environment.

Going into 2020 yields were compressing and most investors struggled to meet their return requirements at current pricing levels. Due to the current economic conditions we have already seen well capitalized investors re-enter the market seeking distressed opportunities. Billions of dollars have already been raised in new funds targeted to distressed properties. However due to the strong market fundamentals going into the crisis we are seeing a substantial bid-ask gap as buyers seek discounts and sellers seek pricing at pre-COVID levels.

With the continued historically low interest rates, we expect that well capitalized owners will be able to ride out the anticipated short-term downturn specifically in office and retail properties. But for those owners that were already overleveraged pre-COVID and now have exposure due to tenant vacancies, we anticipate increased levels of lender real estate owned (REO) properties over the next 12 months. For companies that own their industrial properties, there will be opportunities to complete sale-leaseback transactions to free up capital to invest in their core business while still keeping operational control of their property through a long-term triple-net lease.

Real estate as an asset class remains a safe investment that historically outperforms other investment alternatives over the long term. Investors will flock to stability and cash flowing assets in desirable infill locations with high barriers to entry. Look for increased scrutiny on tenant credit and strength of borrower from lenders. Kansas City and the Midwest continues to offer attractive returns and a stable environment for real estate investment compared to larger markets. This applies to all asset types but specifically is strong in industrial, multifamily, and medical office. The long-term impact on the general office market is still to be determined as we all better understand the new normal for office tenants. With a few exceptions, hospitality and retail will be hit hardest by the current public health crisis further exasperating the challenge of adapting to rapidly changing consumer patterns.

Having access to current market information by utilizing a commercial real estate consultant such as a CCIM is crucial to the proper evaluation of your options in this stage of the real estate cycle.

Modern Day Land Rush

Given the audience of the typical CCIM publication I am going to guess that you own at least one building, whether that is a personal residence, a vacation home, an investment property, or perhaps all the above. Also going to guess you believe these buildings are increasing in value. I have bad news for you: they are not. Everything you will ever own will one day crumble into dust and return to the earth, and the materials that make up these building(s) started decaying long before they were ever used to assemble a structure.

But no reason for alarm; there are silver linings here!

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> *"Much of the real estate in our city is incorrectly appraised and likely has a much higher land value than you have been led to believe; a stance that is NOT popular with county appraisers due to how taxes are calculated."*

The IRS came up with some handy rules of thumb to account for building decay. Owners of single-family properties are allowed to claim a depreciation tax expense by dividing the value of improvements (excluding land) over 27.5 years and commercial buildings over 39 years. The implication of this is that the improvements you install will only last a finite period of time before they are fully 'used up' and need to be repaired or replaced. Said another way, tax policy implies commercial buildings lose approximately 2.56% of their value each year on average and homes lose 3.64% per year. Pretty sobering thought.

Consider the value curve for a vehicle. According to UsedFirst.com an F-150 loses almost 18% of its value in the first year; after which it declines steadily at about 5% per year. But no matter how old they get trucks tend to have a value floor around 15-20% of the original cost due to the utility purpose they serve. This value curve is similar with real estate improvements except protracted over a longer period and slowed during times when the cost of new construction is increasing at a high rate.

It is important to remember that the value of any given piece of real estate is made up of two components: land and improvements. You probably understand that arranging materials in a specific or unique way is a common strategy to create value. But a brand-new iPhone does not have the same value if I have to go overseas to pick it up, and tenants are not going to pay as much to rent your office building (regardless of how pretty it is) if you don't build it near highways, population centers, and amenities. The location of objects and how we access them has a tremendous impact on property value.

So how can real estate increase in value when the improvements are worth less each year? You guessed it – land.

Land value dynamics are very different than improvements and far more volatile. Land is scarce; therefore, it tends to go steadily up in value as surrounding raw land is removed from circulation due to area growth, but it can also swing wildly up or down depending on several factors. If land becomes scarce enough values in an area can rise to a point where tear-down and redevelopment starts to occur – in which case it means the improvements actually have negative value. In the United States it is generally assumed that the amount of land is fixed, however it's not just the surface - landowners own the air above their property to infinity and 3900 miles below to the theoretical center of earth. By comparison, a building can be torn down and/or relocated, so the theory is that any overall property value increase over time is caused by the land appreciating faster than the improvements are losing value.

This means much of the real estate in our city is incorrectly appraised and likely has a much higher land value than you have been led to believe; a stance that is NOT popular with county appraisers due to how taxes are calculated. [If you are successful in convincing a board of equalization of this concept and achieving a beneficial tax appeal, I would very much like to hear from you!]

If the land component of real property determines its location, location drives user demand, and demand drives pricing, then land becomes the single most important variable determining the success of a given real estate investment. Those who figure out how to accurately forecast user demand and manage to acquire the most desirable properties will consistently out-perform their peers.

If you want to get more technical I would suggest the CI 102 Market Analysis class offered through the CCIM institute where you will learn to quickly compare sites, determine user demand, and plot demographic trends; but at the end of the day there is no substitute to intuition and gut feel when purchasing your very own slice of liquid hot magma.

Downtown Update

Like tornado survivors emerging from a storm shelter, Kansas Citians are stepping back into the daylight, a little dazed as we take stock of the damage all around us.

Many restaurants and small retailers will not be reopening. The convention business remains shut down. People are returning to their offices, but very slowly.

Downtown felt the shock pretty dramatically, as we went from hosting the Super Bowl parade in February to cancelling the Big XII basketball tournament in March. No more jam-packed streetcars and crowded sidewalks teeming with festive visitors. As the stay-at-home orders went into effect, downtown became an overnight ghost-town.

Hotels were hit the hardest, with occupancy rates dipping below 10% at the nadir. The new 800-room Loew's convention hotel, which was scheduled to open in March, delayed their opening to June. Other hotels, including award-winning the 21C (Savoy) and the Crossroads Hotel, were temporarily closed and are expected to reopen this summer.

Although travelers are returning, several large conventions were cancelled this spring and summer, costing the local economy millions of out-of-town dollars.

Most economists are predicting a "V-shaped" recovery, which bodes well for pending hotel developments. Several new hotels are at various stages of planning or construction, including the 310-room Embassy Suites in the former Federal Reserve Building, a Hilton Canopy in the former Palace Building, the ultra-luxury Hotel Bravo adjacent to the Kauffman Center, a 144-room Hyatt "Hotel Kansas City" in the old Kansas City Club (scheduled to open in August), the 153-room Hyatt Place at 9th & Broadway and a 220-room Marriott AC slated for 906 Grand.

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Altogether, more than 1,000 new hotel rooms are expected to be delivered in the next 24-36 months. In recent years, Kansas City has lost countless conventions due to a lack of hotel rooms. With the new inventory, though, we will be much more competitive vis a vis our peer cities. Assuming the convention industry comes back to life, that is.

Downtown residents will also have a plethora of new apartment projects to choose from as over 1,900 new units come online in 2020. This is the largest number of apartments ever delivered in one year in downtown's history.

The long-delayed 225-unit Second and Delaware project is almost finished, along with 283 units at City Club at 20th and Main, 132 units in the 10-story Reverb development at 18th & Walnut, 184 units in the Flashcube and 148 units at River Market West 2. Additionally, Milhaus recently completed over 400 units at the Gallerie south of Crown Center and is under construction with 341 units at Artistry KC at 19th & Oak.

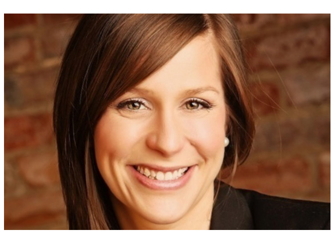
The anxiously awaited revival of the West Bottoms is in full swing with the completion of 225 units at The Yards and 265 units at the West Bottom Flats, which is already planning an expansion. And on the riverfront, North-Point Development will soon break ground on a 325-unit project adjacent to the popular Bar K dog park/bar & restaurant.

On the office front, the crane is up and Waddell & Reed's new HQ is under construction at 14th & Baltimore with an 18-story, 250,000 SF office building

Tenant Rent Relief During the Pandemic

Since COVID-19 reached the United States earlier this year, nearly every aspect of life looks different in some regard. The office real estate market is no different. The pandemic has had a substantial impact on office leasing as companies try to align new short-term challenges with their long-term strategies while simultaneously putting the health of their workforce front and center.

In the early stages, landlords were flooded with requests for rent relief. According to research from JLL, rent collection from office tenants generally was in the high eighty to low ninety percent range nationwide. Not surprisingly, landlords are showing an increased willingness to acquiesce on small points in lease negotiations and potentially offering elevated concession packages to close transactions.



ANNÉ ERICKSON, CCIM, is an associate at JLL commercial real estate. She is an office broker, tenant representative and workplace strategy specialist.

Several mechanisms are being leveraged to help tenants achieve relief, each with their own use based on the situation:

• Forbearance is the act of refraining from exercising a legal right, which in this case often takes the form of non-enforcement of delayed rent payment.

• A "blend and extend" lease negotiation occurs when a company has remaining term on their lease and they look to restructure their current lease obligation in exchange for extending the lease term. This can offer up front savings or benefits to the tenant in exchange for giving the landlord the security of a long-term lease.

• Rent relief requests are being evaluated on a case by case basis. Landlords seem to be opting for 30, 60, or 90 day rent abatements with deferred payments amorthat will be home to 1,000 new downtown employees.

The downtown office market is reaching a major milestone as plans for two new speculative office buildings move forward – the first spec office buildings to be constructed downtown in thirty years. Platform Ventures will soon break ground on a 14-story, 152,000 SF office building on the corner of 13th & Wyandotte across from Barney Allis Plaza. And a partnership between Copaken Brooks and Jury & Associates will soon begin construction on the 16-story, 262,000 SF Strata office building at 13th & Main.

CoWorking continues to grow downtown. WeWork recently opened their 100,000 SF space in Lightwell, Plexpod is opening a 39,000 SF space in the Flashcube and Spark KC is opening in two floors of Two Light.

In the ever-popular Crossroads, Menlo is relocating 55 employees to 22,000 SF in 1901 McGee and Native Digital is moving into the renovated 1612 Grand.

All in all, downtown's future is very promising. We survived the storm. Now it's time for a Patrick Mahomes-style comeback!

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tized on varying schedules throughout the remainder of the lease term.

• A sale leaseback comes into play when a company owns their office building and opts to sell the property to an investor in exchange for leasing the building back from the investor as a tenant. This strategy is particularly useful for companies looking to access an alternative source of capital.

JLL research also shows an increase of tenant improvement allowances by 4%, with overall base rent reductions by 2%. This also includes 2.5 additional months of free rent (normalized for a ten-year lease term). One dramatic shift is the rise of short-term renewals as companies delay decision making in an era of uncertainty.

While predictions about the future of the office market run the gamut, one thing we can be sure of is that companies are placing more focus on employee health and also overall business continuity planning. This will be reflected in their approach to future leasing decisions and will likely also be apparent in how landlords manage and market their properties moving forward.

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What's Next for KC Development?

If we were looking for a repeat of the Roaring Twenties, the first six months of this decade came in like a Lion, just maybe not the kind we were hoping for. As we approach the midway point of 2020, it feels to many like we've experienced enough major events to last the rest of the decade. Early global events such as the Trump impeachment acquittal, Australian wildfires and Brexit were quickly eclipsed in the news cycle by nonstop coverage of the Coronavirus pandemic. Several months later, cities, states, private business and financial markets are now asking how to move forward and what constitutes a new normal in a post-COVID world.

Prior to the pandemic, new public and private developments, including a new airport and convention hotel, were helping fuel Kansas City's robust economy. In light of current circumstances, how do we continue to shape the skyline of Kansas City and its suburbs?

As we examine the pipeline of new potential projects, it is important to study the effects of current market conditions on projects already in motion. Kansas City was fortunate that policymakers allowed construction to continue unimpeded for the most part on projects already underway as compared to many markets that were completely shut down. However, those who did not close on financing arrangements or break ground prior to the COVID shutdowns were largely less fortunate. Lenders and institutional equity partners hit pause or stop on nearly all projects from March to May, causing most deals to halt in their tracks. In a business built on daisy-chained timelines – land contracts, construction contracts, loan commitments, etc – some developers were able to obtain the necessary extensions while others were not as fortunate.

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As banks and equity sources emerge slowly from hibernation, several key elements are necessary to get development projects back to the starting line. As in all recessions and times of uncertainty, cash is king among them. Strong sponsors with a history of completed projects, larger balance sheets, and access to capital are starting to gain traction while others are relegated to the sidelines. With fewer deals to evaluate, lenders and equity partners are being more selective and focused on the best projects with Class A locations. This will slow the pipeline of projects to be delivered over the next several years, with emerging areas seeing the greatest impact.

The call to reduce or eliminate development incentives has been a topic of much policy debate in Kansas City as well as at the state level in Kansas and Missouri over recent years. This includes recent legislation in Missouri that would eliminate the use of Community Improvement Districts (CIDs) without a citywide vote of approval, effectively making the CID impractical. As development slows, leaving buildings unable to be redeveloped and more lots vacant, communities with a business-friendly process and more favorable development tools will have an advantage in obtaining new projects.

Within each product type, developers will also be responding to new market demands. Office users are trying to find the right balance to meet their space needs. On one hand, telecommuting and an economic incentive to take less space may drive the ratio of square foot per employee lower. On the other hand, there remains a need to create centers of excellence and many employees are ready to return to a dedicated work environment, as opposed to a sometimes crowded kitchen table.

The ever-changing retail scene is once again on a new course to determine the right mix of uses. Ecommerce was already a growing portion of retail sales, with the lockdown further accelerating the trend. The Experience Retail category, including restaurants and entertainment, was previously hailed as the savior of retail, but the pandemic has exposed a previously unimaginable threat to these business models.

Apartment developers are closely monitoring national trends, including the possibility of remote workers moving from crowded metropolitan areas to more affordable markets. Designers are also re-examining community amenities and unit floor plans to incorporate workspaces, as well as exploring a different mix of units and layouts.

Industrial properties, the clear winner among property types, will continue to benefit from the trend to ecommerce. Developers will continue to focus on supply chain logistics and how to provide efficient, just-in-time deliveries. Watch for infill industrial developments or conversions as supply chains continue to solve for the most efficient last mile delivery.

Before COVID-19, there was a lot of talk about "what inning are we in" in the investment and development cycle. As macroeconomic expansion comes to a close and the retrenching begins, a new game has begun for each of us. As we learn the rules for 2020 and beyond, owners, developers, tenants and policy makers will need to balance updated use needs, safety and potential liability as development in Kansas City moves ahead. With uncertainty being the only certainty, its time to play ball. Batter up!

The Bright Light in CRE Financing

Over the last several months COVID-19's impact on both our health and the economy has become everyone's collective focus. As a result, I know I can speak for all of us when I say that we have felt the effects of this pandemic, both personally and professionally. Our local Kansas City area has been no different in this regard—as we face the same economic stress and health concerns as the rest of the country.

From my perspective, the world of commercial real estate lending, itself, has seen great shifts during COVID-19. Everyday lenders changed their strategies and platforms, but the bright light we found has been in agency lenders like Fannie Mae, Freddie Mac and The U.S. Department of Housing and Urban Development (HUD). These government sponsored agency programs continue to provide a much-needed source of liquidity in an otherwise scarce market. While other groups of lenders are still active, we have seen them doing so on a more selective basis. Thus, opening the door for these agency lenders to play an outsized role in the current multifamily lending landscape.

In terms of their performance, Fannie Mae and Freddie Mac both reported strong loan financings in May. At the same time, Fannie Mae and Freddie Mac have both continued to show flexibility in reducing debt service reserves, as related to COVID-19, with Freddie Mac giving more consideration to cash-out refinances. The agencies' small loan programs have also been very active in the lending market, given some of their distinct advantages, including such as holding the rate at application and longer-term loans. Berkadia is one of the largest direct agency lenders and also has many correspondent relationships altogether averaging over $20 billion in annual production.

Similarly, HUD has also seen an uptick in activities and has revised policies to accommodate additional loans. For example, in March, they removed the requirement for newly built or substantially rehabilitated properties to wait three years before applying for HUD's

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223(f) financing program. Changes like this, along with historically low interest rates, have continued to drive refinancing activity to HUD.

While loan activity has been impacted overall, we must also recognize that multifamily performance is better than we had anticipated it might be at the onset of COVID-19. Collections have been stronger than expected, with nowhere near the level of delinquencies the industry had worried might come—a reality that is largely thanks to government-sponsored stimulus initiatives and the expansion of unemployment benefits to aid the astonishing number of Americans who now find themselves unemployed. On the other hand, according to RealPage, rent actually lowered 0.5 percent year-over-year in May 2020. The Midwest was the only U.S. region to diverge from this trend, as prices actually rose 0.8 percent year-over-year.

While the nation as a whole has undoubtedly felt the effects of COVID-19, the collaboration we at Berkadia have felt amongst our teams, lenders and clients has allowed commercial real estate financing to succeed despite the current economic adversity we face. While government-sponsored agency programs have been our bright light in this challenging time, we know that no matter what, we are all committed to collaborating towards a solution.

Industrial – COVID-19: For Better or Worse?

As I sit in my home office on the 90th day of this Pandemic, I am reflecting on work life during this grueling period of time. When we first started stay-at-home orders, it seemed though as if the world was coming to a complete halt and that all industrial real estate transactions would be put on hold until there was a vaccine. The first two weeks were very confusing and filled with constant conference calls with clients who were looking for market direction. At the time, it seemed like landlords were going to have to give every concession to ensure the success of tenants to not ultimately end up with vacant buildings. But then it seemed that the following Monday, everyone in the industrial world unanimously decided to just start fully working again. Here is what has occurred and where we are going:

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Landlord Concessions

Right out of the gate, landlords and tenants had a great deal of questions for each other. This provided an excellent opportunity to strengthen communications between all parties. Landlords needed to request updated financials from tenants to get a better understanding and help landlords evaluate the overall strength of their portfolios, while tenants needed to understand options and flexibility as they navigated the uncertainty. What we found is that most Industrial tenants were financially strong and could weather the storm and if they needed help, it was in exchange for more term. The only way to get to those solutions was through open and honest communication which will also benefit both parties in the long run regardless of market conditions.

Market Momentum

After the initial two week scare when we all decided collectively to get back to somewhat normal work, the market started to pick back up. The lack of being able to meet in person and have out of town prospects come to tour certainly made things difficult. However, the larger users that had transactions in the process, seemed to continue along the path that they set forth prior to pandemic. There have been some delays, but transactions continue to move forward. As we all know, Ecommerce is playing a large part in the industrial market. Prior to pandemic, ecommerce made up 12% of all retail transactions. The latest survey since the outbreak, has shown that ecommerce has seen a 48% increase with no signs of slowing down. Online grocery sales increased 110% during the first 30 days of the pandemic, likely accelerating the expected next great driver of warehouse/distribution growth in the "food on demand" sector.

Current KC Market Strength

With an overall vacancy of 4.9% and Class A vacancy at 5.7%, Kansas City remains fundamentally strong. We have had clients from other markets that need an additional DC in Kansas City recently that expected to come to KC and get an absolute steal of a deal structure with flexibility due to the current state of market and landlord's hunger for tenants. Unfortunately (or fortunately for KC) for tenants, we remain a strong market without a lot of vacancy and landlords don't seem to be struggling as they may be in other parts of the country. With our centrality, rail and highway infrastructure, we continue to be an attractive distribution hub. On another note, it is extremely sad that our unemployment rate has climbed by 12% lately. However, labor is a strong driver in bringing new projects to Kansas City. To put a positive spin on a negative situation, our available labor force should help drive momentum.

Looking Ahead

Because construction companies were seen as essential, the speculative buildings that were under construction continued to move forward and many planned projects seem to continue to move toward breaking ground. In fact, we have seen a couple of new developers enter our market "officially" since the Pandemic. These projects were most likely already in motion, but it shows confidence in the industrial market and particularly in Kansas City that these have not been put on hold.

It is a strange time that we are working in at the moment. Industrial real estate remains strong and will continue to grow. Ecommerce is paving the way for industrial to continue to flourish and will remain the asset class that most institutions should focus on moving forward. Distribution networks make our country run and provide essential goods to consumers whether they are out physically shopping or continuing to learn how to order online. Let's continue putting up spec buildings and looking forward to the future which will continue to put Kansas City on the national map!

Stay Safe.

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
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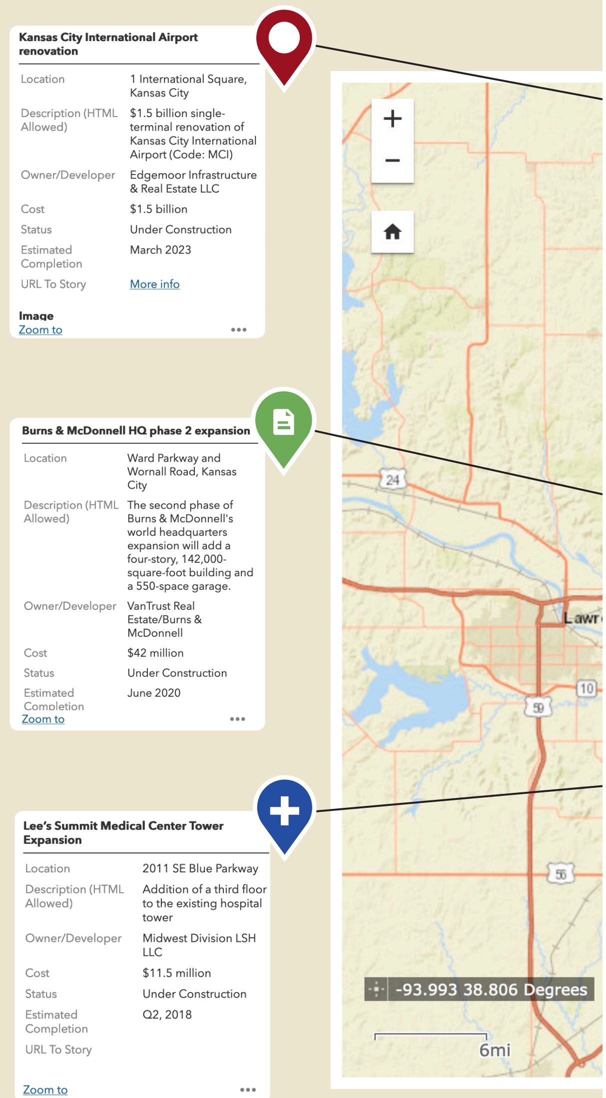

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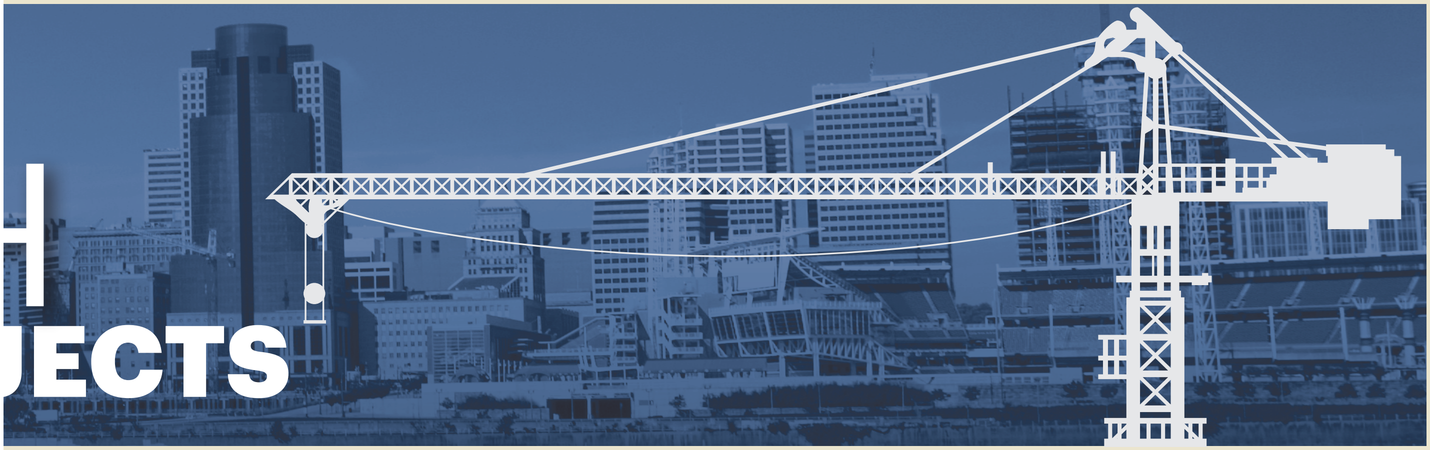

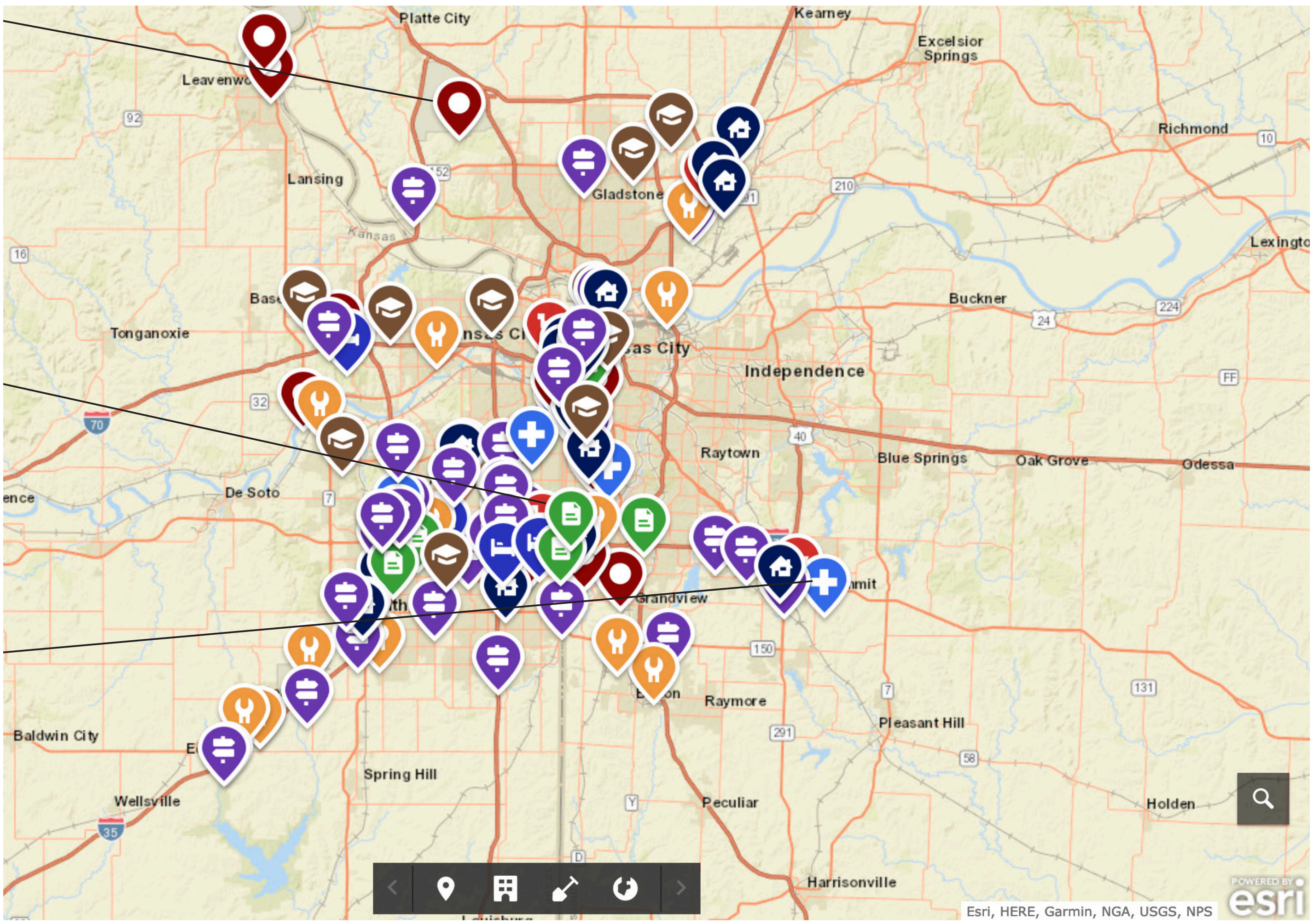

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