

Investment Market Trends Kansas City

Grubb & Ellis Research

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Commercial Real Estate Values Declining

Core assets, once the targeted asset of choice, are now being discounted as buyers are attracted to value-add opportunities with higher yield and upside.

Commercial investment real estate has been turned upside down over the past 18 to 24 months. Prior to this, the appetite for commercial real estate was high, and debt was cheap and easy. We had low interest rates and low cap rates. That market evaporated as of July 2007. Today, we have high interest rates with high cap rates increasing as much as 300 basis points, creating a steep decline in values. For real estate deals to close today, it requires a motivated seller willing to accept these increased cap rates, a buyer with the ability to put in 50 percent equity or assume existing debt, or seller financing.

The recession has had a tremendous impact on employment in Kansas City with unemployment rates increasing 3.0 percent, up from 5.3 percent a year ago this March. This has had a negative effect on all product types; thus creating higher vacancies, declining rents, tenant downsizings and tenant rent reductions.

Core assets, once the targeted asset of choice, are now being discounted as buyers are attracted to distressed assets/value-add opportunities with higher yield and upside. To date, very few of these distressed assets are located in the Kansas City market. This situation has created a current stalemate in the Kansas City investment market. As a result, our market has seen very few investment sales transactions. As an example, in 2008, the 280,932-square-foot Commerce Plaza I & II complex and the 116,578-square-foot MGE building were the only notable office sales for that year. Buyers today are being patient, waiting for sellers to accept lower values or bidding on distressed or value-add opportunities. Kansas City, being a market that traditionally does not overbuild, will not see the quantity of distressed assets that other parts of the country will experience. Local opportunities of distressed assets have been development ground and smaller properties of all product types.

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The uncertainty in the market today has left buyers unable to determine how to price assets. Given the fact that the commercial real estate market lags the general economy nine to twelve months, it is expected that this market will be very quiet throughout the remainder of 2009. The hope is that the economic environment will strengthen in the third and fourth quarters of this year, increasing consumer confidence and renewing life in the commercial real estate market for 2010 and beyond.