Kansas City CCIM Chapter

CCIM

CERTIFIED COMMERCIAL INVESTMENT MEMBERS

KANSAS CITY'S COMMERCIAL REAL ESTATE DEALMAKERS 2021

GETTY IMAGES

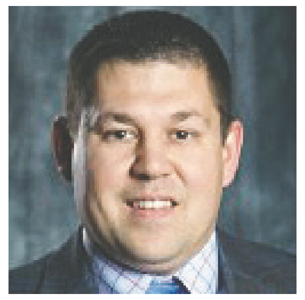
CCIM President's message for 2021

Wow, what an interesting and ever evolving last 12 months it has been for many facets of our commercial real estate industry. With the ups and downs of the real estate industry, never has it been more important to find new ways to stay informed, connected and educated to keep up with the changing times.

Welcome to the Kansas City Chapter of Certified Commercial Investment Member (CCIM) annual Real Estate Report in partnership with our longtime sponsor, the Kansas City Business Journal. CCIM stands for Certified Commercial Investment Member and consists of members from across the country.

The CCIM Institute was formed in 1954 to give commercial real estate professionals the tools and expertise needed to set us apart in our profession through a focus on education, networking and building local and national relationships through the CCIM network.

Today, the CCIM designation represents a level of education and expertise in our commercial real estate field that is held by less than 10 percent of the commercial real estate practitioners in the country, making them the go-to experts in their respective markets. The designation is often described as the equiv-



CHRIS WILLIAMS, CCIM, is Managing Member of Highlands Development, a full service commercial real estate development and investment firm focused on all commercial asset classes throughout the midwest region.

alent to an MBA in commercial real estate and highly regarded amongst industry experts.

The Kansas City chapter of CCIM is one of the largest and most active in the country, providing personal, professional and business development as well as regular monthly meetings, social networking events, quality real estate education and candidate guidance. You do not need to be a CCIM designee or even pursuing the designation to be a member of the Kansas City chapter and enjoy the many membership benefits.

I encourage those who may be interested in learning more about CCIM and the membership benefits to reach out to me directly and I will be happy to answer your questions and explain the yearly benefits that our members enjoy. Our local CCIM chapter is guided by some of the top commercial real estate professionals locally and strive to provide long term value to our members and sponsors.

Lastly, I would like to thank all of our individual chapter members and partners for your continued support especially over the last 12 months. Many of these partners have been supportive of our local CCIM Chapter for many years. These partners include First National Bank, the Kansas City Business Journal, Q10 Triad Capital Advisors, First American Title, UES Consulting Services, and Farha Roofing. We are also grateful to all the individual chapter members who pay their annual dues to support our chapter and enjoy the member benefits. If you would like more information on our chapter or our events, please visit our website at http://www.ccimkansascity.com or you can reach out to me at Chris@highlandskc.com or contact our CCIM chapter administrator Rosanne at 816-358-2089.

CCIM Kansas City 2021 Leadership Staff

Chris Williams, CCIM CHAPTER PRESIDENT	**Joe Orscheln, CCIM** VICE PRESIDENT/SPONSORS
Adam Abrams, CCIM TREASURER/SECRETARY	**Douglas Bates, CCIM** CANDIDATE GUIDANCE
Ferd Niemann, CCIM SPECIAL PROGRAMS	**Ben Boyd, CCIM** EDUCATION
Chris Robertson, CCIM PROGRAMS	**Andrew Van Zante, CCIM** MEMBERSHIP
Jason Nooteboom, CCIM PUBLIC RELATIONS/TECHNOLOGY	**Frank Sciara, CCIM** PAST PRESIDENT
Rosanne Saitta EXECUTIVE DIRECTOR	

With the streetcar expansion, is Midtown the next development hot spot in KC?

The streetcar is coming to Midtown.

The $350 million extension will run 3.6 miles from Union Station through the Plaza and all the way to UMKC, where it will terminate at 51st & Brookside. Utility work has already begun along Main Street and the extension is scheduled to be fully operational by 2025.

The intent of the streetcar is to encourage higher density development and economic activity. The original starter line through downtown has already led to over $4 billion worth of development and a surge in the downtown population. Will the streetcar extension have a similar impact on Midtown?

According to my Magic 8 Ball, "Signs point to Yes."

In fact, several recent parcels in Midtown have recently sold or been listed for sale as development opportunities. The land rush is on. With investors spending millions of dollars acquiring sites and paying attorneys and architects, Midtown's revitalization is no longer just an abstract notion. It has become reality before our eyes.

The economic impact of the streetcar is expected to radiate outward from Main Street. A major goal of the new transit line is to repopulate the urban core, reversing a trend that began after World War II when suburban sprawl drew thousands of people to suburbia.

In fact, according to Midtown KC Now, Midtown's population peaked at 73,000 in the early 1950s. By 2017, the population had plummeted by about 60% to roughly 29,000. This depopulation led to closed schools and churches, failed businesses and many abandoned properties.

But every mess is an opportunity, and Midtown now stands out for its outstanding potential. Unlike with "green field" developments, the major infrastructure is already in place in Midtown – streets, bridges, sewer, water, schools, fire stations, etc. The building stock is impressive, too. And of course, its central location with proximity to downtown and the Plaza is invaluable.

Kevin Klinkenberg, the executive director of Midtown KC Now, envisions a new era of growth and prosperity for not only the Main Street Corridor, but for the adjacent neighborhoods such as Valentine, Hyde Park, Roanoke and Old Westport. In addition to several larger mixed-use projects, Klinkenberg is advocating for City Hall to facilitate more "Accessory Dwelling Units" (or ADUs) that

KCSTREETCAR.ORG/ABOUT-STREETCAR/MAINSTREET-EXTENSION

could significantly boost the population and provide affordable housing at no cost to the City.

Meanwhile, the City's recently approved Main Corridor Overlay District designates several areas along the extension line as potential commercial and mixed-use development sites.

A number of high-profile devel-

GIB KERR, CCIM, Managing Director for Cushman & Wakefield in Kansas City, specializing in the sale of investment real estate. He can be reached at 816-412-0212 or gib.kerr@cushwake.com.

opment sites are actively in play, including:

- Crown Center / 27th & Main
- Park Reserve (former Trinity Lutheran Hospital) / NWC of 31st & Main
- NEC 31st & Main (Price Brothers)
- Martini Corner / 31st Street Corridor between Main & Gillham
- Main Street GMC (former Conklin Fangman dealership)
- 1 W. Armour (US Bank building on SWC of Armour and Main)
- Westport High School /315 E. 39th St.
- Katz Drug / 40th & Main
- 43rd & Main / American Century sites
- 45th & Main / Main & Main LLC

I predict that most – if not all – of these properties will be redeveloped by the end of this decade.

In addition to these future development projects, three major apartment projects have recently been completed: Westley on Broadway (254-unit luxury apartment complex by The Opus Group on the southeast corner of Broadway and Westport Road), The Netherland and The Monarch apartments (134-unit historic redevelopment by Exact Partners near the intersection of 39th & Main) and ARC on Armour (62 units in the former American Red Cross building on Armour redeveloped by MAC Properties).

Midtown's turnaround extends beyond multi-family activity. Clemons Real Estate – who has been at the forefront of the urban core's resurgence – is relocating its offices to the former Hostess building at Armour & Main. And a new urban grocer recently opened at 40th & Main. Expect to see more businesses – both retail and office – opening along the streetcar line over the next 3-5 years.

The reversal of urban sprawl is an ongoing national trend, as people rediscover the benefits of living and working in a walkable environment. Midtown stands to be a huge beneficiary of this trend, particularly when the streetcar rolls to its doorstep.

Healthcare real estate diagnosis: future full recovery is expected

No matter what economic challenges there may be, healthcare will always be a necessity, and given the demographics of our aging U.S. population, demand for healthcare services, and healthcare real estate in which to deliver them, is expected to continue to grow. These factors make medical office buildings and ambulatory facilities highly desirable to real estate investors. Add to those factors the significant outlay of capital required to build and equip medical space, which encourages occupants to commit to long-term leases.

When the pandemic hit, the shock to the modern healthcare system was unprecedented, and providers had to quickly adapt. Medical groups scrambled to find enough supplies of Personal Protection Equipment (PPE) and ways to safely test and treat patients for the virus. When the lockdowns were put in place, the U.S. Department of Health and Human Services required healthcare systems and physician practices to suspend all elective procedures and surgeries for a period of eight weeks, resulting in significant financial pressure for the sector.

MARTY GILCHRIST, CCIM, SIOR, is a Senior Associate at Cushman & Wakefield specializing in the leasing and sales of office and medical properties. She can be reached at 816-216-5655 or marty.gilchrist@cushwake.com

SUZANNE DIMMEL, CCIM, and director at Cushman & Wakefield leads a team of three office brokersspecializing in corporate consulting, landlord/tenant representation, site selection and healthcare brokerage in Kansas City. She can be reached at 816-412-0271 or suzanne.dimmel@cushwake.com

Many organizations limited capital outlay to essential plans only, to address the immediate requirements of the pandemic. Throughout the past year, healthcare providers have adapted to addressing the pandemic and have developed protocols to ensure that patients can continue to receive safe, effective healthcare services for non-emergency conditions.

Many of the trends that we were seeing pre-COVID have accelerated:

• Independent physician practices are consolidating with larger groups, are becoming employed by health systems, and some larger ones are being acquired by private equity investors. With the challenges of navigating the complex healthcare insurance system and financial strains, leads some practices to join larger groups and consolidate.

• Telemedicine capabilities were deployed more broadly during the pandemic, thanks in larger measure to temporary changes in regulations governing their use as well as changes in the reimbursement model for this service. Whether those regulatory and reimbursement changes become permanent remains to be seen. But most healthcare providers and patients expect telemedicine to remain a modality by which some health assessments can be made and treatment provided.

• The shift of procedures and care delivery outside of the hospital. For more than two decades, healthcare services have been moving to more ambulatory settings, and the pandemic reinforced the efficacy of service delivery in these settings.

• Many healthcare industry experts expect that we could see strong demand for healthcare services, as patients who delayed or deferred care during the pandemic return to their doctors. It's unclear at this juncture what the healthcare implications of deferred care will be—whether or not patients will require more extensive, intensive healthcare.

So how does this all affect the real estate?

From an immediate perspective, we are seeing a high demand for vaccination sites. These locations are typically 10,000 to 20,000 square feet and need to provide the infrastructure to support large groups and a substantial parking requirement. To date, these leases have been short-term and are ranging in most cases from two to six months.

In the short term, we are not anticipating a lot of movement within the market due to financial uncertainty and recovery. New, planned medical developments for the most part are on hold. Those who are in the market for medical space are looking for second-generation suites that they can lease on a short-term basis, which is typically two to three years. Renovating non-medical space is cost- prohibitive for many groups and would likely require a minimum of a 10-year commitment that's not feasible for many organizations, given current uncertainties. Over the last year, we have seen some closures of a handful of micro-hospitals and urgent care clinics. These locations may see some demand from other healthcare tenancies due to existing medical infrastructure already in place.

As of the fourth quarter of 2020, the Kansas City metro vacancy rate for medical office space was only 5.9%. While we will likely see this rate increase in the near future due to COVID, we do not anticipate this lasting long term. Ultimately, we expect to see medical development resume due to the sheer increase in need once groups are stabilized financially.

Most existing medical offices already have made some modifications to their spaces to allow for social distancing and to minimize the amount of contact patients have while in the space. Additional modifications will likely be made to accommodate telemedicine communications, though precisely how telemedicine will affect the future size and design of medical office remains unclear, given the regulatory uncertainty. Some procedures, such at home dialysis and telemedicine care for some expecting mothers, are two such areas where delivery of care may be very different in the future, versus pre-pandemic.

As other real estate sectors, such as retail and office, may see demand softening, healthcare tenants may see opportunity. Healthcare providers such as dentists, optometrists and physical therapy offices have found retail locations to offer great convenience and visibility. In these instances, economics and asset infrastructure will be critical to a successful repurposing to a medical use.

While the full effects and changes caused by the COVID-19 global pandemic may not be fully analyzed and understood for some time to come, healthcare providers nevertheless have taken many of the lessons and unexpected opportunities of the pandemic to begin planning for healthcare delivery for the future. We expect that ambulatory care delivery will continue to be a priority. Telemedicine will remain part of the care delivery channel. Patient convenience, comfort and safety will continue to be top of mind as well. Healthcare real estate has evolved alongside these changes throughout the past year, and it will continue to adapt alongside its tenants and owners.

Retailers and restaurants respond to an extraordinarily dynamic market

The year 2020 was defined by unprecedented shifts in nearly every aspect of life; it took a mere 90 days for COVID-19 to find its way to Kansas City following the initial outbreak. Seemingly overnight, the pandemic's magnitude was felt in every sector of our economy. The extent of the economy's interconnectedness has rarely been on display this prominently in recent memory. The impact on real estate alone was visible in nearly every asset class, and its legacy, especially in the retail sector, has been defined in large part by acceleration and adaptation.

As lockdown policies and stay-at-home orders rolled out across the country, our homes instantly transformed into a workplace, school, gym, and daycare. With millions of consumers becoming captive members of their residencies, the decline of traditional brick and mortar retail greatly accelerated. A customer that once had the choice of the physical shopping experience is now forced deeper into online engagement out of necessity. The weight of many retailer's brick and mortar obligations obscures a viable path to customers and highlights just how critical online infrastructure is as a supplement or in some cases direct replacement of their physical spaces. As a result, 2020 online spending increased an astounding 44% year-over-year, topping 8.6 billion dollars, tripling 2019's figures. To put that into perspective, I personally made 257 separate transactions with Amazon this past year, meaning a package was being delivered almost every day of 2020. Experts predicted this volume likely would not have been achieved until 2022 – e-commerce is multiple years ahead of schedule due to the pandemic disruption.

It's unsurprising that e-commerce is doing well at the expense of brick-and-mortar retailers, as this has been a long-standing trend for many years. What is surprising is just how quickly restaurants, retailers and service-based businesses were thrust into a fight for survival. To overcome the convenience and highly price-conscious nature of e-commerce, retailers have been forced to revisit the foundations of their business models, and this has made for some very interesting solutions that we have seen both locally and across the US.

The bar to lure consumers out of their home has been raised significantly. Consumers are increasingly seeking unique, authentic experiences that cannot possibly be had at home, or fit into a box. A custom fitting at Nordstrom's with one other person – the style consultant. A thirty-dollar craft cocktail on a socially distanced rooftop bar that enjoys a newfound exclusivity via reduced occupancies. If you aren't any of these things, plan on meeting customers where they are by joining

WES GRAMMER, CCIM, is president of Sky Real Estate in Kansas City, a real estate development and investment firm. He can be reached at 816.412.0044 or wgrammer@skyre.com

e-commerce, at least in part.

Many national and regional restaurant chains have chosen a two-pronged approach. Reduce their expenses associated with their physical location, when possible, and increase their digital real estate through virtual brands. Ghost kitchens, loosely defined as food preparation and cooking facilities for delivery-only meals, have become an extremely popular low-cost alternative for restaurant brands looking to consolidate their now less productive physical footprint into a more economical arrangement. Similarly, the proliferation of virtual restaurants has helped their more traditional parent operators achieve greater consumer penetration among like-kind menu items by centering various brands around these groups of items. Consumers can see examples of this across our metro, including Pasqually's Pizza & Wings (Chuck E. Cheese), Neighborhood Wings (Applebee's), Buca di Beppo's Wing Squad, Chili's It's Just Wings, etc.

While sit-down restaurants have had their reckoning, quick-serve restaurants have been reporting some of their all-time strongest sales, such as Chick-fil-A, McDonalds and Popeyes. The ability to serve customers via drive through or dining area has enabled QSR's to meet changing consumer needs without much in the way of adaptation, limiting disruptions to their operations and sales and, in many cases, positioning them to cannibalize sales of nearby full-service restaurants. The adaptability built into the very design of QSR's has made this segment one of the more pronounced winners of 2020 and quite possibly for the foreseeable future.

The trends we have seen in 2020 unfolded almost on a day-by-day basis rather than year by year. In 2021 we expect heightened scrutiny among restaurants and retailers when considering their next commitments as they evaluate their value propositions in this new climate. It's difficult to speculate on the staying power behind these trends as vaccination campaigns swing into full gear and safety gives way to preference, but if we are to draw anything from this past year it's that we are all playing in a faster world that can change on a dime.

GETTY IMAGES

The industrial market after COVID: Where are we? The show must go on

If there's one thing I've learned working in commercial real estate, it's that life continues to go on. While many businesses have been hit hard by the pandemic, I would say just as many are doing well – or even thriving – in our post-COVID reality.

Don't misunderstand, my heart aches for many of the local businesses in our town. Small businesses – whether they be local restaurants, bars, shops, studios or salons – have undoubtedly been hit the hardest. I teach at a local dance studio in my free time, and I've watched its owner work at least twice as hard just to make the same (or less) revenue as before 2020.

Yet, with the boom of e-commerce during the pandemic, short- and long-term demand for industrial real estate properties has escalated as vendors and producers of staple goods seek out additional warehouse capacity. During the first quarter of 2020 alone, in fact, industrial leasing hit a three-year high.

JEREMIAH DEAN, CCIM, is vice president of leasing at Copaken Brooks, a full-service commercial real estate firm headquartered in Kansas City and serving the Midwest. The company's full suite of services includes: leasing (office, medical, retail, industrial and underground), construction management, investment acquisition and sales, tenant representation and HQ relocations, condo management, property management, asset management, and development. Share your thoughts on our Facebook page or on Twitter @ CopakenBrooks.

The continued volume of digital sales has also had a substantial effect on several other industries, including distribution and logistics, construction, and food and home services.

Distribution and logistics

Most people can agree that online purchases have been crucial during the past year. Online sales skyrocketed after March 2020, as much as 44 percent for the remainder of the year, quadrupling the year-over-year rate.

As such, the logistics industry has kept busy: Online vendors require significant logistics to get products from A to B and then to your door. Often, these products make their way back to a distribution or fulfillment center. This 44-percent uptick in e-commerce sales has necessitated the widespread use and development of new distribution centers, warehouses and storage spaces, which in turn have contributed to a boom in the industrial development sector.

As a central logistics hub in the U.S., industrial development in Kansas City has particularly flourished as major tenants and retailers look to the heartland for their storage and delivery needs. Nestled at the intersection of several important cross-country interstates – and the largest rail transit center in the U.S. – Kansas City offers unique advantages in the transportation and logistics space other Midwestern cities cannot.

All of these aspects have contributed to significant industrial development within the KC metro area.

Construction

This past year has fundamentally – and permanently – changed construction as the industry continues to evolve its practices around COVID restrictions.

Contactless technological innovation has been key for builders and developers and the ways in which they conduct business. Some of these new developments include smart contracts and blockchain technology, drone usage, remote worksites, augmented reality (AR) and Building Information Modeling (BIM) to conceptualize spaces, and the overall automation of labor. Enhanced health, cleanliness and safety protocols have also been more strictly enforced, both on work sites and off.

As the pandemic continues into 2021, we can anticipate a more widespread adoption of these new technologies. While 2020 was an anomaly in statistics for the construction industry, the outlook is hopeful: An upswing in construction is expected throughout 2021 as the U.S. economy recovers from the pandemic.

Food services

While we all understand COVID-19 restrictions have hurt local restaurants and bars, they haven't hindered people (at least me) from finding great food and drinks in Kansas City. Food delivery services like DoorDash, Grubhub and Uber Eats have become a weekly staple in homes across the country. Online grocery pickup or delivery services are now available at most grocery stores (if they weren't available already).

As the predominance of online grocery orders is expected to continue even post-pandemic, expansion in cold storage space will be a necessity to keep up with this service. Demand has also increased for industrial real estate properties that enable companies to deliver orders faster by being closer to their customer bases.

This heightened need for industrial space has affected other sectors that may surprise you, including nonprofit organizations. The nonprofit Kanbe's Markets, a tenant of Copaken Brooks, delivers fresh local produce to those who are food-insecure within USDA-designated food deserts. After witnessing massive growth during the pandemic due to community need, the organization expanded its warehouse space by 12,000 square feet earlier this year.

Home services

An increasing number of people have chosen to stay home over the last year, and as a result, many have self-identified the project needs in their homes. What were once viewed as "luxury" services have now become standard in today's homes, requiring many home services to meet increasing demand.

Overall, research shows that 57% of homeowners found time in 2020 for home improvement projects. A study done by Porch.com also reported a 275% increase in deck construction from March to July 2020, as well as an uptick of 238% in hiring landscapers and a 144% increase in fence construction installation. Home Depot's sales, for example, in the same time period surged 23.4% from the previous year, while Lowe's reported a similar 30% increase.

The show must go on

We're not in a buyers' market or a sellers' market right now. We're occupying a time and place in this world where the needs of consumers, tenants and landlords are rapidly shifting as we adapt to an unprecedented environment.

Those that adapt successfully will continue to grow and thrive, and those who can't will quickly be replaced by those who are.

The end of office space? Not so fast

As I enter my 32nd year in the office brokerage business, I reflect on past cyclical economic downturns that have impacted the office sector. The Savings and Loan Crisis of the early 1990s, the Dot-Com bubble in the early 2000's and the Great Recession all hit the office sector unusually hard. During the height of these events, pundits declared the office business dead as we know it. Fortunately, the predictors of permanent doom were wrong, office space was far from dead.

Today as we face a totally different issue in COVID-19, office space is poised for yet another comeback. That is not to say that the office market is healthy and unaffected by what we have all experienced. To the contrary, it has been a very difficult year for landlords, brokers, investors and especially tenants.

As we entered 2020, the economy was firing on all cylinders; office leasing was strong, vacancy was low, rental rates were increasing and there were cranes in the air where new offices were being developed. In mid-

BRUCE JOHNSON, CCIM, is Vice President for Block Real Estate Services, LLC in Kansas City, specializing in office leasing and sales and investment advisory services. He can be reached at 816-412-8442 or bjohnson@blockllc.com

March, with no notice, office users and landlords were blindsided and forced to react to a public health crisis that no one understood. There were government mandates, including lockdowns, that changed by the day and differed by jurisdiction. Office space went dark as employees were sent to work at home, something few were prepared to handle. Landlords began preparing for the inevitable rent concession requests from tenants, and lenders likewise were preparing for loan modification requests from landlords. Now a full year into this new world where do we find ourselves and what does the future look like?

I recently spoke with Chief Economist of the CCIM Institute KC Conway, CCIM, CRE, MAI, with respect to the national office market. KC cited a recent report by Colliers International that nationally 44.2 million square feet has gone on the market for sublease in the last 6 months. That number is 30 million square feet higher than at the peak of the great recession. The Central Business District (CBD) submarkets in large metropolitan markets are feeling the brunt of this trend. Recently, Salesforce, San Francisco's largest private employer, announced that they were converting to a permanent remote/flex work for their 9,000 employees.

This announcement comes just a few years after consolidating their employees into nearly 900,000 square feet of class A office space in the San Francisco CBD. The announcement was in line with the plans of many other leading tech and financial service companies.

Based on these national statistics and news reports, one would be inclined to take a very pessimistic view of the future of office space in our market. While there is no doubt that office space utilization will change going forward, Kansas City is not San Francisco and our employer profile and workforce are substantially different. Decisions regarding permanent remote work have more to do with the stratospheric lease rates and cost of living in these mostly coastal locations versus the concerns about the health of their employees. Secondarily, many of these companies were already well positioned for remote work. This was not, and still is not, the case for the bulk of the Kansas City work force.

So, what does the post COVID-19 future look like for the Kansas City office market? KC Conway has a saying. "You don't know what you don't know" which is about as true of a statement as I have heard over the last year. The fact is that no one really knows, but based on countless conversations over the last year with landlords, tenants, and employees that have been working remotely, I can give you an educated guess. First, I believe that most employers and employees alike want a return to normalcy, and this means back to the office in some capacity. While Zoom and virtual networking have become common place, they are no substitution for face to face collaboration. Young workers especially have been negatively affected by the lack of mentorship and interaction with experienced coworkers.

GETTY IMAGES

There is no disagreement that future office utilization will be different. Prior to COVID-19, the trend was increasing density with an emphasis on open and collaborative workspaces. Going forward the demand will be for more socially distanced workstations and private offices. This will offset to some extent, the pressure to reduce square footage because of reduced on-site work force. Features such as touchless restrooms, state of the art ventilation systems, and sanitation stations will become key amenities. This likely means a flight to quality buildings at the expense of older buildings that cannot or will not provide these features.

Again, "you don't know what you don't know" but rest assured that office space is alive and well. Whether you are a landlord or tenant, the decisions you make today regarding office space will impact your business and employees well into the future. Now more than ever, it is important to consult with highly trained experts to help guide your decisions. Your local CCIM is well positioned to be that expert.

Capital markets update for CRE in 2021

One year, one very long year, since the Coronavirus pandemic abruptly entered our lives, and it is fair to assume no one could have predicted how the capital markets would respond as commercial real estate reacted to the challenges our economy faced. Despite this unprecedented period in history, the industry adapted relatively quickly and delivered a solid year of mortgage origination volume. To understand the 2020 industry results, we will first review how the marketplace performed in 2020 in comparison to 2019.

According to preliminary data from the Mortgage Bankers Association (MBA), approximately $420 billion of commercial real estate (CRE) mortgages were originated in 2020, a 30% decrease over 2019. This is not surprising, as after a bullish start in first quarter 2020, originations slowed considerably in the second quarter of 2020 as lenders focused on managing their existing portfolios, assisting borrowers with temporary relief, and pulling back on new lending to gauge the impacts of the pandemic on all property sectors.

However, activity rebounded strongly in third and fourth quarter 2020. Government-Sponsored Enterprises (GSEs) Freddie Mac and Fannie Mae were the leading capital source in 2020, responsible for $165 billion of new multifamily loans with over $60 billion in the fourth quarter alone. Commercial banks originated $100 billion of new loans; commercial mortgage-backed securities issuers (CMBS) and life insurance companies both originated $41 billion; with the balance of originations coming from pension funds, REITs and investment funds. In 2020, the 10-year US Treasury rate (the standard index utilized for permanent, long-term mortgages) sharply fell nearly 100 basis points at the end of the first quarter before bottoming out in August at just 0.55% as investors sought safety and security in long-term bonds. As investor confidence in the economic recovery has grown over the last several months, the current 10-year US Treasury rate has reversed its downward course and is now back above 1.60%. The combination of historically low interest rates and cap rate compression have led to considerable increases in property values which has driven loan origination volumes for both acquisitions and refinances. With a plentiful supply of capital, our industry has steadily gained momentum from the end of 2020, which has led to a solid start to 2021. The following is our first quarter 2021 summary of the most significant capital providers for commercial real estate:

DOUG BATES, CCIM, is a Vice President, and **JAKE PRITCHARD,** 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.

- 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 lower, but so are interest rates. Commercial loan officers have returned to business-as-usual after diverting a significant amount of resources in 2020 to processing PPP (Payroll Protection Program) loans and handling loan modification requests on existing loans. Nearly all 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 in the multifamily marketplace, providing much-needed liquidity to the housing market. GSE's have carried over the momentum from the fourth quarter of 2020 and are on track for a strong first quarter of 2021. 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 standard property and third party inspections. The GSEs are still closely monitoring 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 have been requiring debt service reserves (typically 6-12 months of debt service) on all new loans that will be released to the borrower after all federal, state, and local restrictions have lifted, all standard due diligence has been completed, and the property maintains their pre-closing collections for at least 90 days. The debt service reserve has been and remains to be the primary mechanism that allow the GSE's to continue lending throughout the pandemic.
- 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 longer loan terms of 10 to 30 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 the second quarter of 2020 due to the uncertainty and inability to securitize these loans in the secondary market. Fortunately, the CMBS market has resumed and has been steadily increasing volume since Q2 2020 as lenders continue to originate new loans.

GETTY IMAGES

Although the effects of COVID-19 have impacted capital markets, the majority of capital sources have adapted and are active with rates expected to remain low for the foreseeable future. The Federal Reserve has remained consistent that they do not intend to raise interest rates through at least 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. New construction projects that were already planned or in process prior to the pandemic proceeded without interruption. Conversely, new projects seeking construction financing during the pandemic slowed, however we have seen that trend reverse with construction financing gaining momentum in 2021. As we look ahead, nearly all lending institutions have an abundance of capital to invest and remain focused to satisfy their increased allocation goals for the year. This should provide positive news for borrowers as they position themselves to take advantage of competitive financing terms in the low interest rate environment.

It's time to pump the brakes on self storage development in the Kansas City Metro

Has anyone else noticed that self storage facilities are popping up everywhere in the Kansas City Metro? Why? For starters people need the extra space. Anyone who has moved, renovated or sold a house or gone through the unfortunate experience of divorce or death of a loved one has probably rented a storage unit. Then there are thousands of commercial customers who utilize self storage as part of their day to day business operation.

According to the Self Storage Association 10.6% of households currently rent a storage facility. This is up from 9.4% in 2017. That may not seem like a high increase, but when you consider there are 122.8 million households in the United States that equals almost 1.350 million more households renting a storage unit today that were not doing so a few years ago.

During the pandemic the self storage industry has been one of the few real estate sectors that has thrived. For the most part storage facilities have maintained occupancy while managing to keep their past due receivables at basically a normal level. When storage managers asked new customers why they were moving stuff into a storage unit during a pandemic, the customer's response (if it wasn't one of the already mentioned reasons) was that they were clearing out part a basement or a spare bedroom in order to create space for a home office. Today, many of these people are still working from home and still renting their storage unit.

JON ENGLAND, CCIM, is a past President of the Kansas City CCIM Chapter. He is a Partner with NAI Heartland and focuses on Investment Property sales which includes the Self Storage asset class. He can be reached at 913-890-2002 or jon@nai-heartland.com

The storage industry was perfectly positioned to handle the pandemic before it happened. Many operators had already invested in remote management software and were already using kiosks and call centers at their properties. They were already offering its customers electronic leases, credit card autopay and contactless rentals before that was even a thing. This ground work allowed storage facilities to remain open for business when others industries were told to close or scale back in this new environment.

What does this mean? It means a lot of new capital being is being invested into the storage space and developers are eager to expand into new markets to make opportunities happen. The storage industry booming and has been for years. Just how big of a boom? Here are some relevant statistics for context.

From 2010 to 2017 the Kansas City Metro had 9 storage facilities delivered totaling 821,000 sq. ft of space. That was basically 1 large property being delivered per year. Area occupancies were pushing all time highs and the new facilities absorbed fairly easily without impacting existing properties in the area. These developers were ahead of the hockey puck. Good for them. Timing is everything.

Then from 2018 through 2021 there was 32 facilities delivered totaling 2.1 million square feet of space. Insanity. It was during this time you started noticing storage facilities popping up everywhere – because they have been. Developers and operators from ten different States have entered the Kansas City market during this time and it is not over yet.

As of this writing there are four facilities actively under construction totaling another 400,000 square feet and there are another 21 prospective facilities totaling 1.35 million square feet currently going through planning and entitlement.

Will all of them make it through to a fully realized project? Thankfully no. I am aware of several projects that reached a point where the developer actually acquired and entitled the land but ultimately decided not to move forward building new multimillion dollar facility; likely because they are seeing this same data I am presenting here.

But the reality is these sites will be sold to different developers (especially if the sites are good ones) and the other prospective sites that stall out will be replaced with new ones.

This is especially true as retailers continue to shed their large and underperforming brick and mortar locations. We will be seeing self storage operators step up as one of the alternative uses for these vacant boxes. In Kansas City, self storage operators have filled up several vacant office buildings, former Wal-Mart, K-Mart, HyVee buildings, a former indoor Go-Kart business and even a former 10 story hotel up by the airport. All of this adds more inventory to an already bloated supply. This glut of supply will lead to prolonged absorption periods and possibly even produce a few distressed assets becoming available for sale. It will also mean cheaper storage units for the consumer as these new facilities all offer concessions to lure customers to their new properties.

In the meantime if you see a site or building that you think could be a perfect location for a storage facility, call the city and ask about their storage development pipeline. You might be surprised to learn there are half a dozen similar projects working their way through planning and zoning – including several within a two mile radius of your 'perfect' site. Its going to be very competitive and there will be winners and losers when this development boom reaches its conclusion.

GETTY IMAGES

Why mobile home parks are the best real estate investment?!

Key Takeaways

- The Mobile Home Park (MHP) business model
- Steady cash flow
- Recession resilience
- Booming demand and shrinking supply
- Value-add opportunities
- Why investing in MHPs make sense

The Business Model

With mobile home parks (MHPs), also known as manufactured home communities (MHCs), the park owner owns the land and infrastructure (i.e., common areas, streets, utilities, etc.) while tenants (residents) pay the owner rent for the right to plant their mobile home on a "pad" within the park. Some parks own homes that they rent to tenants as well.

Because of this split ownership structure, MHPs fill a unique niche in that it provides consumers an affordable housing option - in contrast to multi-family dwellings - with the privilege and pride of homeownership without shared walls.

Steady Cash Flow

Because of pride of ownership, mobile home residents typically pay on time with very low unpaid receivables experienced by park owners. And despite their name, mobile homes are not particularly mobile. According to moving.com, the cost to move a single-wide mobile home within 50 miles, customers can expect to pay a moving service $5,000 to $8,000. Moving a double-wide mobile home this distance will likely cost between $10,000 to $13,000. And when compared to apartment living, MHP residents have an easy decision to make (more below).

The average price of a new manufactured home in the U.S. was $86,900, but in MHPs it is often closer to $50,000 (as the MHP owner is less concerned about the sale price of the home vs. the occupied lot and the new consistent stream of income). On a 20-year mortgage with 10% down and with an interest rate of 7.5%, that would put the monthly payment at around $362! Combined with the average monthly lot rent of $300, the total cost of $762 ($662 plus +/- $100 for taxes and insurance) blows away the cost of most apartments (with average apartments typically costing $1,000+!). (A 16*76 mobile home has 1,216 square feet, making the cost per s.f. about 63 cents a square foot - comparable three bedroom apartments are regularly double the cost in most markets.

Need I mention that this mobile

FERD NIEMANN is a mobile home park owner, operator, and lawyer based out of Kansas City. He also provides educational content through his nationally-recognized podcast and website, www.themhplawyer.com

home is brand new, has nobody above/below you, and offers a parking space by your door, a patio/grill/yard, and the path to home ownership - as my wife says "you can't afford not to buy it!)

Recession Resilience

Commercial real estate is cyclical, with some sectors more correlated to the broader economy than others. Retail and office properties tend to get hit the worst during economic downturns. During the last Financial Crisis and its aftermath, while single-family housing values plummeted, the affordable housing sector such as apartments and mobile homes thrived.

As the Financial Crisis and the latest COVID-induced downturn proved, MHPs benefit from economic downturns as people downgrade to more affordable housing. In 2020, while most commercial real estate sectors, including multifamily, experienced rent declines, MHPs saw increased occupancy and increased rents.

Booming Demand and Shrinking Supply

Demand for mobile homes has been increasing since the Great Recession and is only expected to grow in the future with strong demand from Baby Boomers that is expected to last for the long term. Frankly, there is a massive demand for affordable housing in every city in America.

But, due to the stigma of "trailer parks", new inventory is constrained by the "Not in My Backyard" (NIMBY) syndrome where local planning commissions attach the "trailer park" stigma to proposed MHP developments that might devalue their housing.

This stigma, along with strict local zoning laws, often prevents the development of new parks. Many zoning codes prevent low-cost MHP developments as municipalities prioritize higher tax-generating properties like office, industrial, retail, etc. Only a couple dozen of these are built nationwide each year, thereby creating an artificial gap between supply and demand (and, thus, increasing the value for existing MHPs).

Value-Add Opportunities

It is estimated that as much as 90% of the 45,000 MHPs in the country are owned by mom and pop operators. MHPs owned by legacy owners who are not professional landlords offer tremendous value-add opportunities. Mom and pop operators regularly mismanage everything from income potential to operational standards. These mom and pop operations present opportunities to correct inefficiencies to improve occupancies and rents.

Distressed parks where, with property and operations improvements, rent can be increased without a decrease in occupancy because of the fixed nature of MHP residents who would rather deal with the rent increase than incur the costs of uprooting their homes. (By the way, residents often appreciate rent increases because professional management can then improve the property and increase the quality of life.)

Why Investing in MHPs Make Sense

By owning only the land and renting lots to tenants, MHP investments have a significantly lower cost per door compared to multifamily properties. The lower cost per door coupled with drastically reduced maintenance expenses compared to an apartment community and commercial property expenses results in above-average cap rates compared to other commercial real estate sectors. The locked-in tenant base is what enables park owners to enjoy stable recession-resistant cash flow. And with cap rates of 7-10%, few other sectors come close to matching MHP financial potential and performance. (Note: MHP cap rates in some markets have "figured it out" and are now lower than apartments, but it is possible to still find off-market deals at 12-15 cap rates!)

The above factors explain the reliable and consistent cash flow that MHP owners have come to expect.

CCIM THE DEALMAKERS

YOUR MOST VALUABLE PARTNER IN REAL ESTATE

CCIM Designees, Kansas City Chapter

Adam Abrams
AREA Real Estate Advisors, LLC

Henry Adamson
Adamson & Associates, Inc.

Nathan Anderson
NAI Heartland

Bruce Baker
Baker Realty Advisors, Inc.

Jill Bergthold
Fishman Commercial Real Estate

Anita Bates
Colliers International

Douglas Bates
Grandbridge Real Estate Capital, LLC

Ben Boyd
Colliers International

James Clark
Oxford Realty LLC

Walt Clements
Clements Realty Advisors

Charles Connely
Lewis White Real Estate Center-UMKC Bloch School

Pat Daniels, Jr.
The Land Source

Travis Doherty
IRR Corporate & Public Finance

Bill Early
HailSolve

Aaron Elyachar
Haven Senior Investments

Jon England
NAI Heartland

Mike Foster
Foster & Associates, Inc.

Jeff Franklin
J.W. Franklin Co.

Jerry W. Franklin
J.W. Franklin Co.

Don Gessen
Block Real Estate Services, LLC

Marty Gilchrist
Cushman & Wakefield

Larry Goldman
Goldman Investment Advisors

Puneet Gorawara
KDR Group

Jeremy Greenamyre
Greenamyre Rentals, Inc.

Kent Guinn
Kent Guinn Commercial Real Estate

Stephanie Harris
First Missouri Bank

Kelvin Heck
Heck Land Company

Richard (RC) Jensen
Colliers International

Bruce Johnson
Block Real Estate Services, LLC

Gib Kerr
Cushman & Wakefield

David A. Love
CBRE, Inc.

Bill Maas
Block & Company Inc Realtors

Patrick Meraz
Jones Lang LaSalle Americas, Inc.

Aaron Mesmer
Block Real Estate Services, LLC

Jayme Miller
NorthPoint Development

Pat Murfey
Evergreen Real Estate Services

Paul Neal
Grindstone Industrial Properties

Ferd Niemann
third IV Properties, LLC

David Noon
RealPac

Jason Nooteboom
Cushman & Wakefield

Joe Orscheln
CBRE, Inc.

Drew Quinn
Colliers International

Chris Robertson
Newmark Grubb Zimmer

T. David Rogers
RE/MAX Elite, REALTORS

Robert O. Schock
Yarco Company, Inc.

John Schorgl
Berkadia

Frank Sciara
Grandbridge Real Estate Capital, LLC

Steve Shearer
The Shearer Real Estate Co.

Bret Sheffield
VanTrust Real Estate, LLC

Dan Sight
Sight Commercial Realty

Brad Simma
Block Construction Services

Raymond Sisson
BHHS Stein and Summers Real Estate

Susan M. Smith
Susan M. Smith Advisory Services, LLC

James Stacy
Stacy Company LLC

Adam Stein
Berkshire Hathaway

Kate Sullinger
Enterprise Bank & Trust

Jim Tiehen
The Tiehen Group, Inc.

Ellen Todd
Curry Investment Company

Gabe Tovar
NorthMarq

Kevin Tubbesing
The Land Source/ Evergreen Real Estate Services

Andrew Van Zante
Academy Bank

Michael VanBuskirk
Newmark Grubb Zimmer

Ralph Varnum
Varnum Armstrong Deeter, Inc.

Brian Votava
Northpoint Development

Todd Welhoelter
Commercial Property Advisors

Janet Wilkerson
INVEST Commercial Real Estate

Christopher Williams
Highlands Development Group

Annual Partners

Farha Roofing
First American Title National Commercial Services
fnbo First National Bank of Omaha
Kansas City Business Journal
Q10
Triad Capital Advisors, Inc. A Q10 Capital LLC Partner
UES Consulting Services

Event Sponsors

A.L. Huber General Contractor
Berkadia
Citizens Bank & Trust
Enterprise Bank & Trust
Levy Craig Law Firm
MarksNelson
McCown Gordon Construction
Security 1st Title
stewart title Real partners. Real possibilities.™
Terracon
VanTrust Real Estate LLC