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Kansas City Chapter

KANSAS CITY'S COMMERCIAL REAL ESTATE DEALMAKERS 2024

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CCIM Kansas City President's message for 2024



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ANDREW VAN ZANTE,
CCIM, MBA
 Senior Vice President,
 Commercial Real Estate
Academy Bank

Advertising, and UES Consulting Services. These company sponsors as well as our chapter members empower our local chapter to provide all the top-notch programming, education, and networking events throughout the year. We are also extremely grateful to all the individual chapter members who pay their annual dues and attend our networking events to support our chapter.

If you would like more information on our chapter or its events, please visit our website at <https://ccimkansascity.com>, follow us on LinkedIn (<https://www.linkedin.com/company/kansas-city-ccim/mycompany>), or contact our chapter administrator Rosanne Saitta at 816-313-7474. We are proud to offer some of the best business networking events in the Kansas City metro. We look forward to welcoming you at an upcoming event!

dedicated to answering questions for candidates and are eager to assist them in achieving the designation so please don't hesitate to reach one of our board members so we can assist in getting you started.

Finally, our local chapter would not have that "special sauce" without the generous support of our individual chapter members, Annual Sponsors, Event Sponsors, and Member Sponsors. These top-tier Annual partners include First National Bank, First American Title, the Kansas City Business Journal, KC Real Estate Law, Miller Stauch, Q10 Triad Capital Advisors, Treasure

The Kansas City chapter of Certified Commercial Investment Members (CCIM) is thrilled to once again partner with the Kansas City Business Journal to publish our annual CCIM Real Estate Report. I am honored to be part of the local chapter working alongside our esteemed Board of Directors and serving our chapter members as the current sitting president. We are extremely fortunate to have one of the largest, highly regarded, and well respected CCIM chapters in the country and from my viewpoint our chapter continues to elevate and improve every year! In this insert, commercial real estate leaders share insights and discuss industry trends as they relate to the Kansas City market.

annual holiday party in December, and our post-SIOR development day social in September. Our chapter strives to create fun events that also provide members with opportunities to network and enhance their real estate business relationships. Historically, the breakfast meetings have featured guest speakers who discuss interesting topics relevant to our commercial real estate profession. These meetings frequently draw groups in excess of 100 people, including the real estate brokers, lenders, construction, title company, developers, and legal professionals involved in the majority of the relevant commercial real estate transactions in Kansas City. Everyone is invited to attend these meetings, even those who don't hold the CCIM designation.

You might be asking, what is a CCIM? The CCIM designation denotes a level of education and expertise held by only 6 percent of commercial real estate practitioners in the United States. The designation is often described as the equivalent to an MBA in commercial real estate. Customers and clients understand that if a CCIM represents them in a transaction, they have the best and often the most accomplished professional in the industry working on their side and advocating on their behalf.

One of our former chapter presidents coined it best when explaining how the KC CCIM Chapter has organically blended a "special sauce" as the local chapter has paired the best-in-class commercial real estate networking opportunities in the city with relevant and interesting local speakers in a welcoming atmosphere. We welcome you to sample that "special sauce" with us!

Our Kansas City CCIM chapter holds regular breakfast networking meetings at Mission Hills Country Club along with other social events around Kansas City including regular happy hours, an

Professionals who are interested in pursuing the CCIM designation can do so locally here in Kansas City because our chapter hosts several local classes, saving candidates the time and expense of travel. Members of the CCIM Board of Directors are

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Kansas City Multifamily: Durable Performance Creates an Attractive Investment Market

We no longer have to “sell” investors and developers on the region’s fundamentals as these factors are finally pushing the market toward the top of national rankings. In fact, among the top 30 markets tracked by Yardi, five Midwest markets are in the top 10, including Kansas City at #4. Yardi promotes Kansas City’s 3.4% year-over-year rent growth, leading renewal growth (9.5%) and retention (71.2%), along with being the most affordable of the top 30 markets (25.7% rent-to-income) within these rankings. In 2024 Kansas City is positioned to see increased appetite from outside investors seeking operational stability, predictable growth, and durable performance across the eleven submarkets.

Transactions & Asset Valuations

In 2023, there were 31 sale transactions, down from 59 in the prior year, of which 4 were acquired by local sponsors and only 3 were new(er) construction. Notably, private capital was the equity source in all of these transactions and a record 87% of the trades were acquired by out-of-state sponsors. The volume of trades in new(er) construction was down by 75% year-over-year, primarily due to the large swings in the bond markets and the need for buyers to underwrite wide rate sensitivity which has diluted pricing. We believe the holding pattern for merchant developers will disband in 2024 as constructions loans reach maturity and as new projects in the pipeline require recycling of capital.

Cap rates on most transactions are in



GABE TOVAR, CCIM
Senior Vice President
Northmarq

the 5’s, and we expect more of the same this year. That said, 89% of sponsors in our meetings at the National Multifamily Housing Conference stated they will be net buyers for 2024, with some not selling any assets in Kansas City. Without a reduction in Treasury yields to improve asset values and increase sale motivations, these intentions are likely to keep inventory low and drive competition for well-located assets.

We believe sponsors with fee-driven business models will return to the market in 2024 and yield requirements will compress as the capital markets stabilize. The majority of active bidders today are searching for neutral leverage going in, but those with high conviction around long-term locations, and willingness to underwrite negative leverage in the near-term, will be the winning bidders.

While top-line revenue growth is notable and evident, expense-side pressures from rising insurance and competition for property-level talent are continuing to persist. Combined with volatile Treasury yields, it’s easy to see why sellers are mulling or foregoing sales unless a capital deadline requires a sale, especially developers who have secured a loan extension and have time to

“As the stability spotlight on Kansas City inevitably shifts, we anticipate the market’s fundamentals to continue attracting new investment.”

GABE TOVAR
Northmarq



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season their lease-up. These forces are not unique to Kansas City; they are impacting business plans throughout the country.

Consistent Development Pipeline

While many markets are recording a surge in new development, the pace of construction in Kansas City is consistent with prior years and in line with economic growth patterns. We are forecasting about 5,100 units to deliver in 2024, which is a 2.3% increase to existing inventory.

Looking ahead, construction starts will slow, but will not stall completely, as developers continue navigating tight credit markets and increased yield requirements from equity providers. In the face of these capital challenges, there are currently 32 projects under construction in the market, with 53% led by local developers. The majority of those projects are funded with private LP equity, though institutional partners are present in a number of developments and there is a glimmer of common equity in the market today.

One development segment we remain bullish on is build-to-rent (“BTR”). Nationally, Northmarq is advising developers in the capitalization, sale, and refinancing of BTR communities, and while there are only a total of

about 1,700 homes in Kansas City’s BTR pipeline, we expect at least one national builder and several national developers to announce new projects here within the next 24 months. Aside from townhomes, we believe the horizontal/cottage product type presents one of the most compelling opportunities within BTR as it serves a transitional step from traditional apartment living.

More Volume, Minimal Distress

As the stability spotlight on Kansas City inevitably shifts, we anticipate the market’s fundamentals to continue attracting new investment. As for bridge/CLO debt, don’t expect many note sales or foreclosures as there are fewer than ten Kansas City assets in these loan pools and the majority are performing. Aside from any macroeconomic shifts, near-term loan maturities and equity fatigue from previously stalled sales should drive transaction volume in Kansas City.

Gabe advises investors and developers in the disposition of multifamily and build-to-rent assets throughout the Midwest. He serves as Co-Head of Northmarq’s Build-To-Rent Advisory Group and partners with the firm’s Capital Markets and National Development Services teams to help clients source land sites, capitalize projects, and sell, recapitalize, or refinance upon stabilization.

Downtown KC: The Dawn of a Golden Era

Downtown is on the cusp of a golden era.

My optimistic outlook is shaped not only by several major catalytic projects like the proposed Royals ballpark, the KC Current stadium, the South Loop Project, and the streetcar extensions (although those are all huge contributors in their own right). My optimism is due more to the overall livability and attractiveness of downtown, from the revitalized Missouri River waterfront to 31st Street. "Downtown" consists of several unique neighborhoods and districts, each with its own strengths and draws. The West

Bottoms, the River Market, the Garment District and Library District, Quality Hill, the Crossroads, the West Side, Crown Center, 18th & Vine—these are all great places to live, work, and play.

Every day, over 180,000 people can be found downtown. By every definition, it is the population center—and the most densely populated location—in the metropolitan area.

Downtown's residential population is now approximately 33,000 people, and actually grew by roughly 4,000 residents during the COVID-19 pandemic.



GIB KERR, CCIM
Managing Director
Cushman & Wakefield

Downtown residents, by the way, are younger, more affluent, and more educated than their average suburban peers. This makes the downtown trade area an increasingly attractive location for retailers.

If downtown were its own separate

municipality, it would be the 11th largest municipality and the fastest-growing municipality in the entire metro area.

Even prior to the announcements recently of several major capital projects, downtown had emerged as the destination of choice for Kansas City residents, workers, and visitors. New apartment projects such as Three Light command the highest rents in the city. Most of KC's James Beard Award-winning restaurants can be found in the Crossroads. The highest concentration of distilleries and breweries is in the East Crossroads. Downtown hotels now



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“Downtown is going to kick into overdrive and will be more vibrant than at any time since the Pendergast glory days of the 1920s and ‘30s.”

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enjoy their highest ADRs (average daily rates) ever.

By 2028, we will have added two new stadiums, the South Loop park, and streetcar extensions to both the River and the Plaza/UMKC. Downtown is going to kick into overdrive and will be more vibrant than at any time since the Pendergast glory days of the 1920s and '30s.

HERE'S WHAT TO EXPECT OVER THE NEXT FOUR YEARS:

2024: KC Current and Berkley Riverfront Kick Off

By the time you read this, the KC Current will have played their opening games in the new CPKC Stadium on the riverfront. Season tickets are already sold out, and the teal-themed venue promises to host a full slate of events

from women's soccer to other sporting events and concerts.

The Origin Hotel and its affiliated Two Birds beer garden will also open in 2024 and, together with the bar and restaurants in the CPKC Stadium, will provide visitors with KC's first riverfront hospitality options in over a century.

2025: The Streetcar Extensions Open

In 2025, the 3.5-mile extension of the KC Streetcar to the Plaza and UMKC will open for operation. Additionally, the 0.7-mile extension from 3rd and Grand to Berkley Riverfront will open in late 2025, providing a vital transit link to the growing attractions there.

The new track through Midtown is already spurring development interest, including NorthPoint Development's

new 373-unit ArriveKC apartment project at 31st and Baltimore, which will also open in 2025.

2026 South Loop Project, West Bottoms Revitalization, and FIFA World Cup

The four-block, \$217 million South Loop Project over I-670—connecting the CBD to the Crossroads and creating a highly programmed park with much-needed green space—is expected to be completed in 2026. That's just in time for Kansas City to host six World Cup games in June and July, when we'll welcome thousands of fans from across the world and enjoy several weeks in the international spotlight.

By 2026, Somera Road is scheduled to have completed Phase I of their \$500 million West Bottoms redevelopment.

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The first phase will be a mix of historic renovations and new construction, with over 411 residential units, a 40-unit boutique hotel, and over 150,000 square feet of office and retail space.

2027-2028: The Ballpark Village

In the spring of 2028 (if all goes according to plan), Major League Baseball will return to KC's urban core for the first time in over fifty-five years. The Royals' new stadium in the Crossroads promises to be not only a major attraction for 81 regular-season games, but a driver of adjacent development and economic activity.

With all of this excitement to look forward to, how can you not be optimistic about downtown Kansas City?



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The Northland is Growing in All Directions

When's the last time you ventured north of the river when you weren't going to the airport? If it hasn't been recently, you might be surprised at what you find! With great schools and affordable housing, Platte and Clay counties are the two fastest growing counties in the state of Missouri. Commercial real estate has expanded across the submarket to keep up with the growing population.

West

Brian Mertz's Creekside Development has transformed the farmland at 435 and 45 Highway into a bustling place to be. The Creekside Baseball Park features six high school baseball

diamonds with synthetic infields that welcomed close to a million visitors from 19 states last year. That was enough traffic to support a new hotel. Park Hill just broke ground on their 12th elementary school. Around 2,000 residents now call the area home. Those residents can choose between KC favorites Char Bar or Johnnys or newcomers Whisky River, Boho Brewing, or Plaza Mariachi. A unique feature of Creekside is the green space! Two mixed used buildings share a green space which provides a great space for kids to run around while the adults are enjoying their coffee. With a 40-foot tall LED tree, the green space offers programming and gathering space year round.



JAYME MILLER, CCIM
Commercial Broker
Northpoint Development - Beyond Brokerage

Just a few minutes from Creekside is historic downtown Parkville. With all the charm of a small city square, Main Street has transformed over the last few years. Many of the buildings have been renovated and are home to great local tenants. With several locally owned restaurants and boutiques, and a great riverfront park nearby, it's a great place to stay at one of the bed and breakfasts for a weekend staycation.

North

The airport is celebrating its one-year anniversary and new industrial developments are on the way! Hunt Midwest has announced Ace Hardware as the first tenant at their 3,300 acre master planned industrial park to the east of the airport. Not to be outdone, Block Real Estate is proceeding with their 287 acre industrial complex. Both will provide some relief for a tight submarket that sees only 2.6% vacancy on industrial product.

Opportunity lies with office product in this part of the submarket. The sleepy

» *Continued on next page*

airport corridor features several older office buildings with full-service rental rates of <\$16/SF- some of the least expensive in the city.

This part of the Northland is also primed for future residential growth. With sewers and some street infrastructure in place, the Twin Creeks area between 169 and 129 east to west, and 435 and 152 north to south is primed to welcome upwards of 70,000 new residents over the next few decades.

East

The Liberty area has been a shining star of the Northland. With the high incomes of the Shoal Creek area, retailers are paying top dollar for well-located sites.

Star Development owns a large footprint in this area, and favorites such as Fareway Meat Market and Meshuggah Bagels have recently opened in their developments. With retail vacancy rates at just 2.2% and rent growth at 4.3%, smaller retailers are finding it difficult to enter the Liberty market.

South

With the river as a border, it's impossible to truly expand to the south, but the North Kansas City submarket is growing in popularity! Historically an industrial town, many of the older buildings have been transformed into new uses. Rock climbing gym RoKC, Chicken and Pickle, and even Greenies- the treats your dog likes- got their starts here. McClain's will

be opening their newest location soon. Box Development is building new office, retail, and townhome space featuring European architecture. The new Rabbit Hole Museum features interactive displays spotlighting children's literature and will attract visitors from the regional area.

The former Cerner world headquarters campus offers future opportunity here. Featuring 11 office buildings across 100 acres, it has not been listed yet and no plans have been announced.

Riverside is another community in the southern part of the Northland that has had some exciting announcements! The KC Current are currently using the new practice facility here- much like the sta-

dium, it's the first professional practice facility built in the US for a women's team. In addition, Live Nation is under construction on a new amphitheater that will seat 15,000 people.

From Liberty to Parkville, Gladstone to Riverside, and all the great communities in between, there's a lot to be excited about north of the river!

Jayne Miller is a commercial realtor at Beyond Brokerage. She has brokered \$150M worth of sales and leasing transactions over her 9-year real estate career, most of which involve small-medium businesses in the Northland.

Agency Lending in the Multifamily Space

As we head into 2024, the 10-Year U.S. Treasury seems range bound, inflation has moderated, and lenders are getting back to new norms. We are seeing banks be more selective, focusing primarily on repeat clients with quoted rates about 100 basis points over agency rates. This is also true for CMBS, who are putting more attention on commercial deals rather than multifamily. National bridge lenders are still active, but with rates over approximately eight percent and the requirement to purchase an interest rate cap, they are not nearly as prevalent of an option as in years past. As for life companies, they are still active but for lower leverage deals.

That being said, multifamily lending continues to be dominated by agency lenders—Fannie Mae, Freddie Mac, and FHA/HUD, with combined loan volume exceeding \$110 billion in 2023. The Federal Housing Finance Agency (FHFA) announced 2024 multifamily loan purchase caps for Fannie Mae and Freddie Mac will be at \$70 billion each, for a total of \$140 billion; a modest reduction from the \$150 billion last year.

The Agencies offer a myriad of programs for borrowers that include loan terms from five to 30 years, tiered leverage with rate reduction as leverage goes down and DSCR goes up, flexible prepayment programs, generous interest-only, and in some cases, the ability to provide 35-year amortizations. Another competitive aspect of Fannie Mae and



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Berkadia – Agency Lending

Freddie Mac is their ability to early rate lock. Both have programs that may allow rate lock within days of a signed application to eliminate interest rate risk in today's volatile rate environment.

One of the primary objectives for the agencies is to provide financing for Affordable, Mission Driven Business (“mission”), and Workforce Housing (“workforce”) across the country. In essence, with mission business, they compare the asset's rents to the Average Median Income (AMI) in the area. The agencies will look at the percentage of units affordable to residents at 80 percent AMI in standard markets and higher AMI levels in higher cost markets. They will also track the percentage of units at 50 percent AMI. Generally, the higher the percentage of mission units at those levels, the more advantageous the pricing and structuring. For mission deals, there are no title or lender restrictions on rents. The agencies will simply look at the rent role at origination and run their internal calculation on percentage of mission.

Within the last year, Fannie Mae and Freddie Mac have both launched Workforce Housing products,

“One of the primary objectives for the agencies is to provide financing for Affordable, Mission Driven Business (“mission”), and Workforce Housing (“workforce”) across the country.”

JOHN J. SCHORGL
Berkadia – Agency Lending

which are ideal for borrowers who want to provide a private sector approach to help solve the Affordable Housing Crisis through voluntary rent restrictions. In exchange for pricing and structuring benefits, borrowers agree to restrict rents on at least 20 percent of units to make them affordable to residents at 80 percent AMI in standard markets and higher AMI levels in higher cost markets for the life of the loan. These rent restrictions just run with the loan and expire at maturity or payoff.

In general, look for Fannie Mae and Freddie Mac to get very competitive on pricing when it comes to stabilized or nearly stabilized, affordable, or highly mission-driven housing.

In addition, the GSEs have been very active for multifamily loans in the \$1-9

million range. We continue to see a steady pipeline in terms of both new loan requests and signed applications. In today's environment, Fannie Mae's Small Loan program and Freddie Mac's Small Balance Loan program offer a distinct advantage, such as rate lock at application in the Freddie SBL program. Both programs offer competitive interest-only, five to 20-year loan terms with 30-year amortizations.

Following an uptick in 2021 and 2022, FHA/HUD financing has seen a bit of a slowdown, primarily in the 221(d)(4) construction/perm program as a direct result of fewer construction starts. That being said, the 223(f) program is still very active due to

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the U.S. Department of Housing and Urban Development revising its policy that previously required three years of post-construction occupancy for multifamily properties when applying for a refinance under the National Housing Act Section 223(f). Now, HUD is accepting applications for refinancing newly built or substantially rehabilitated properties as soon as properties achieve the applicable programmatic Debt Service Coverage Ratio (DSCR) of 1.17x for a minimum of one full month. Lifting the three-year requirement, the new policy will make FHA-insured mortgage financing available to borrowers sooner after construction completion and lease-up. The 35-year term with a 35-year amortization makes the 223(f) a

very attractive option for cash-out refinances. Additionally, HUD recently announced a revised policy that allows borrowers to have distributions monthly, which were previously capped at twice per year.

In 2023, Berkadia was recognized as the #1 Freddie Mac Lender by Volume in 2023, making it Freddie Mac's top partner for the third consecutive year, and the #2 Fannie Mae DUS Lender by Volume in 2023. On a combined basis, with both Freddie Mac and Fannie Mae ("the multifamily GSEs"), Berkadia delivered \$11.89 billion in loans, making it the largest GSE lender in the country. Berkadia was also the #1 HUD Lender by Volume in 2023. This is the first time any firm has captured both

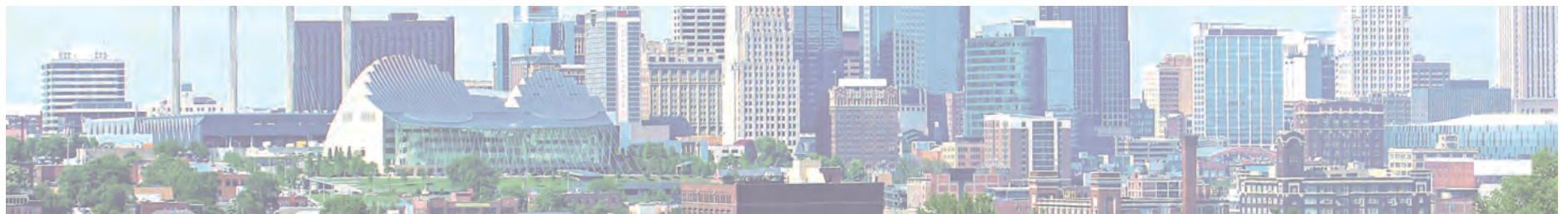
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Both Fannie Mae and Freddie Mac only utilized about 66 percent of their \$75 billion caps in 2023, lending \$52 billion and \$49 billion, respectively. In 2024, they are focused on meeting their new mission-driven goals, each with \$70 billion caps. New business activity in the early weeks of 2024 shows that the GSEs are competing very aggressively. Mission-driven business or naturally occurring affordable housing remains the most desirable product for the GSEs, and we have seen broad pricing spread reductions targeting this business, which helps mitigate a rising UST. The GSEs continue to price opportunistically for all quality business and will continue to make

pricing adjustments assessing the competition and deal flow.

The liquidity that the GSEs and HUD provide to the multifamily housing market is most critical in challenging times, and when market demand spiked for GSE capital in 2023, Berkadia was the market's number one choice. As we head into 2024, we look forward to continuing to provide competitive financing solutions to our clients.

John J. Schorgl is a Managing Director at Berkadia based in the Kansas City office. He has over 25 years' experience in commercial real estate mortgage banking and has closed well over \$1 billion in loans since joining Berkadia in 2016.



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Key Issues Facing Commercial Real Estate Today

The commercial real estate industry stands at a critical crossroads, facing an array of challenges that promise to reshape its future. This article covers some pressing issues, highlighting the need for stakeholders to steer through a complicated terrain characterized by shifting interest rates, an upcoming wave of loan maturities, an influx of multi-family developments, budgetary constraints on public finances, tightening regulations, and changing consumer behaviors. Here, we explore the implications of these factors on the CRE market.

Interest Rate Environment

In response to inflationary pressures, the Federal Reserve embarked on an unprecedented monetary tightening course between March 2022 and May 2023, raising interest rates 10 consecutive times—the fastest pace of increase in decades. This aggressive policy shift has dramatically reshaped the borrowing landscape for commercial real estate. The escalation in borrowing costs has directly impacted investors' capacity to finance new acquisitions or refinance existing obligations, adding pressure to asset values and recalibrating investment attractiveness amidst rising expenses. The bid-ask spread (the difference between the asking price of sellers and the offer price of buyers) continues to be wider than in years past, and it has brought much of the CRE market to a halt, or at least a significant reduction in transaction volume.

Loan Maturities

The ripple effects of the Federal Reserve's rapid interest rate hikes have reverberated through the CRE lending landscape, causing a marked contraction in both fixed and floating-rate lending activity. This tightening credit environment, coupled with the anticipation of rate stabilization, has prompted many borrowers to defer transactions, facing the dual challenge of refinancing loans maturing in the near term under less favorable conditions. This 'maturity wall' poses a significant risk, particularly as borrowers grapple with the realities of a higher interest rate environment, potentially leading to increased defaults



FERD NIEMANN, CCIM
Partner
KC Real Estate Law
KC CCIM Vice President

or forced sales if properties have not appreciated as expected or if rental incomes have waned. Borrowers that bought at low cap rates, in particular those with short term and high leverage debt, are facing significant challenges in paying off their existing loans. This has led to many instances of "extend and pretend", essentially kicking the can down the road.

Multi-Family Supply Surge

The multifamily sector, which thrived during the pandemic, is now facing headwinds with the national vacancy rate for multifamily properties reported at 4.5% at the end of 2022. With a national vacancy rate anticipated to rise in 2024, the influx of new supply coming online could exert downward pressure on rents and occupancy levels. This glut is primarily attributed to the aggressive development pipeline initiated in response to strong demand during the pandemic. As these projects reach completion, the market must absorb this additional capacity, potentially leading to increased competition among landlords and a recalibration of investment strategies.

Government Fiscal Pressures

Fiscal pressures on government budgets are another critical concern for the CRE sector. In the face of deficits and funding shortfalls, local and state governments may resort to increasing property taxes or imposing new fees on real estate transactions. Such measures could directly impact the operating costs and profitability of commercial properties, making it imperative for investors to stay abreast of local tax policies and engage in proactive planning to mitigate these financial burdens.

Regulatory Hurdles and Community Opposition

The regulatory landscape is becoming increasingly complex, with heightened



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“The regulatory landscape is becoming increasingly complex, with heightened government intervention in the form of zoning laws, building codes, and environmental regulations.”

FERD NIEMANN
KC Real Estate Law

government intervention in the form of zoning laws, building codes, and environmental regulations. Additionally, the phenomenon of 'Not In My Back Yard' (NIMBY-ism) further complicates development efforts, as community opposition can delay or derail projects. These regulatory hurdles can significantly increase the cost and timeline of development projects, impacting the feasibility and return on investment. Navigating this environment requires a

strategic approach, with an emphasis on community engagement and compliance.

Evolving Consumer Desires

Lastly, the CRE market is contending with shifting consumer preferences, particularly in the wake of the COVID-19 pandemic. The rise of remote work has altered the demand landscape for office spaces, with a growing preference for flexibility and hybrid work arrangements. Similarly, there is a noticeable shift in retail, with consumers increasingly favoring online shopping over traditional brick-and-mortar stores. These trends necessitate a reevaluation of investment strategies, with a focus on adaptability and innovation to meet changing demands. The repurposing of office buildings and other alternative uses for prime locations will be part of the evolution in response to changing consumer desires.

Conclusion

In conclusion, the commercial real estate sector faces a multifaceted array of challenges that demand careful consideration and strategic planning. As the CRE landscape continues to evolve, stakeholders must remain vigilant, adaptable, and informed to navigate the challenges ahead successfully.

The Office Market Offers More Opportunity than Ever.

Are Tenants Recognizing What's Available?

Since at least the later part of 2020, office-using employers have struggled with how to handle bringing employees back into the workplace. Over the past three-plus years, the commercial real estate industry has recognized that understanding what office occupiers want and need is a more important question than ever before. Prior to 2020, the office workplace wasn't given nearly as much attention as it deserved based on the amount of money companies spent on it.

Five years ago, the image of an office fit within narrow parameters and while there were different quality tiers the general idea of office space was fairly standardized. Now—for maybe the first time ever—those ideas are being challenged. Companies are taking the time to evaluate and understand what is best for them given their unique requirements. More than ever landlords are willing to work with tenants to create the right space and atmosphere. Lost in the argument over how to get people back in the office is the fact that tenants have more opportunities than ever before.

One great example of the range of options tenants can explore is the current state of the sublease market. While statistics on sublease space are noisy, the amount of sublease space in the Kansas City market has been more than



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Senior Associate
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twice as high as historical norms. Over the past year or so and at times it has approached one-fifth of all available vacancy in the market. What that number fails to capture is how diverse the options are. Tenants can secure plug-and-play space on a short-term basis and can find discounts if they are willing to take space that has been neglected or unused for some time. At the other end of the spectrum, there is office space with long-term leases in place and built out with high-quality finishes and then barely used before the pandemic hit. Tenants have the chance to walk immediately into a beautiful and functional space that would normally take months of tenant improvement work and in some cases sublease at well below market rates.

When it comes to working on new leases, tenants can discuss and negotiate details, features, and terms more than ever before and landlords are ready to listen. There is a misperception that landlords are so desperate to fill buildings that tenants can name their price, but that is

“Statistics around the country and in Kansas City show the flight-to-quality trend is real. In our market, the vacancy rate for buildings delivered since 2020 is 7.1%, in buildings delivered from 2015 through 2019 it is 4.7%, and buildings delivered between 2010 and 2014 have a vacancy rate of just 2.6%.”

MARTY GILCHRIST, CCIM
Cushman & Wakefield

not true. The space that is being drastically discounted is typically low-quality and tenants should be wary of pursuing those options. Solid, professional landlords are working to find good tenants to provide them with the cashflow necessary to keep their buildings well-maintained and attractive to more tenants. The best landlords make responsible, long-term investments in properties, which in turn makes it easier to secure additional tenants, and more tenants provide more cashflow, which benefits existing tenants. This dynamic—landlord and tenants forming real partnerships to benefit both sides—has existed forever, although it is more appreciated now than it was before the pandemic.

A powerful demonstration of that dynamic is misunderstood by many people. So much of the talk about return-to-office has started with the question of “what-will-landlords-do-to-attract-tenants,” when the landlords should be looking to tenants for direction. We went

through the era where investors and owners defined what an office “should” be, and the statistics—namely a rising vacancy rate—have shown a large amount of legacy or traditional office space is not attractive to tenants.

This should not be a surprise. One of the principles of a successful economy is the best innovations and products come when the demand side of the equation has input in the design. Letting the supply side create and control what is in the marketplace rarely ever leads to innovation and improved efficiencies for the users. Right now, tenants can learn what works best for them and ask for it. Never before have tenants been in a position to push the boundaries on what an office can be and create a space that is best for them.

Statistics around the country and in Kansas City show the flight-to-quality trend is real. In our market, the vacancy rate for buildings delivered since 2020 is 7.1%, in buildings delivered from 2015 through 2019 it is 4.7%, and buildings delivered between 2010 and 2014 have a vacancy rate of just 2.6%. For the rest of the market, the vacancy rate is 22.6%. We know people want good space, and it is unreasonable to expect new construction to keep up with that demand. Instead, tenants should be looking to work with landlords to develop unique and customized solutions that will increase the benefits and value of the commitment made in an office.

The end of the office is not upon us. We are in the early stages of the greatest adjustment the office market has ever seen, and that is a good thing. The opportunities for creativity and collaboration are more abundant than the office market has ever experienced. Office space going forward will look different and it will be a much better product (even if a smaller amount of it ends up being occupied). These are not changes to be feared...this is an evolution that should be celebrated and will likely lead to more vibrant and productive workspaces.



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The Importance of Engaging a Commercial Real Estate Professional

When I got into commercial real estate, I specifically chose the industrial sector because I knew it as an architect. For years I designed warehouse additions, remodels, and modifications to comply with what was then the newly enacted Americans with Disabilities Act as well as updated state and local codes. The industrial sector covers a wide swath from large warehouses that serve companies like Amazon and Chewy to more modest mom & pop businesses. I chose to focus on the latter.

Working with smaller properties means I have more potential inventory and work on more deals. Unlike the larger corporate properties, my deals do not always have attorneys handling the negotiations which means I do a lot more work not only helping clients identify the right property and/or buyer/tenant, but also negotiating the details of the transaction. The upside is that I'm often the

only broker in the deal. And even when there is another broker in the deal, the commercial real estate environment in Kansas City is collegial where we all respect one another and just want the best for our clients.

One of the biggest differences in working with smaller properties is that my clients are typically individuals who have a true financial interest in the transaction and often, some emotional attachment. Sometimes personalities don't mesh, or one side misinterprets the demands of the other side in a negotiation. I'm always surprised at how much emotion can come into these discussions, which demonstrates how much value we add as real estate professionals. I like to think I bring value to my clients by drawing on my training as an architect, but even more importantly, by providing insight and expertise to what is often the largest financial transaction of a client's life.



PAT MURFEY, CCIM
Vice President,
Industrial Properties
Evergreen Real Estate Services

There are a lot of different ownership structures in smaller deals. Representing a single owner simplifies matters, but often there are business partners and/or family members in an ownership group with differing motivations. Sometimes I'm dealing with a non-profit organization where every step requires the approval of the board of directors. Then there are issues outside of the buyer/seller relationship such as inspections, environmental and zoning issues. No two deals are alike.

Transactions are tricky enough but add to that escalating property taxes and

increasing interest rates which have slowed deal flow across the metro. Many of the properties I work on are often older properties situated in challenging corners of the city. Some are in flood plains, which are difficult to insure and finance. There are soil contamination issues from chemicals to oil tanks that often need remediation. I regularly encounter issues with utility and railroad easements, clouded titles, leaking or missing roofs, mold, and other contamination. And if a property is vacant, there is often an issue with loitering and crime.

All of these lead to uncertainty in buying or selling smaller industrial properties. A good broker knows how to identify and help people work through any difficulty a transaction presents. When it's time to expand, shrink, sell, buy, or lease, engage an experienced broker to insure you can overcome any challenge that comes your way.

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