

MARKET WATCH: KANSAS CITY, MISSOURI

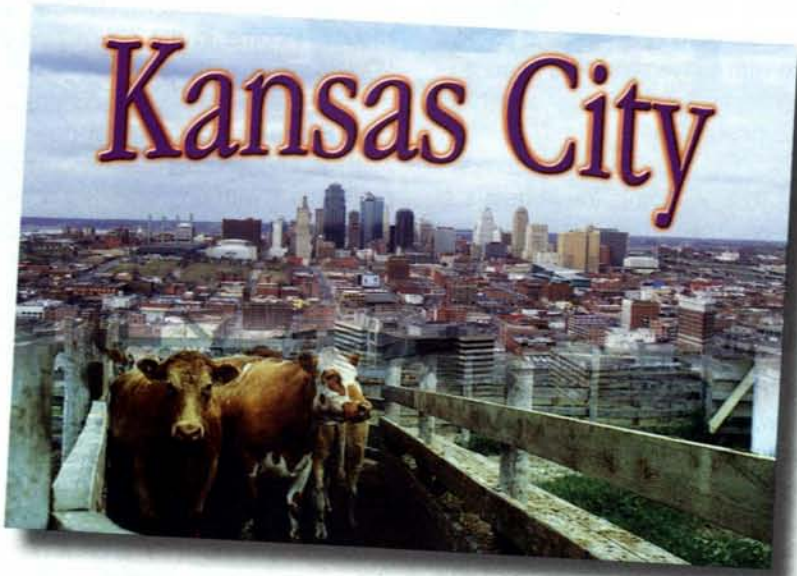
Self-Storage In The City Of Fountains

By Larry Goldman, CCIM and Holly Larrison Mills

A city of fountains, barbecue, jazz, and the blues, Kansas City spans the Missouri and Kansas state lines with a central business district flanked on all sides by cities and suburban areas. The country's most central major city, Kansas City is often referred to as the "Heart of America." It is situated within 500 miles of over 40 percent of the U.S. population. Kansas City's highway infrastructure ranks at the top of the nation with 27.9 percent more freeway lane miles per capita than the second ranked city. This translates into a metro that was expanding in all directions until the recent economic downturn slowed the galloping growth to a tentative trot.

Regional Economy

Kansas City's residential housing market has not experienced the precipitous plunge that continues to plague the nation's larger metro areas. As such, the market is poised for a relatively rapid recovery. Flagship employer Sprint® continues layoffs that imperil the job security of its 14,000 employees. Historically, the below average cost of doing business has attracted investors from other regions, and in the years prior to the downturn, over three billion dollars have been infused into projects revitalizing the central business district. Like the broader economy, Kansas City's economy has been slipping deeper into recession in the last 12 months as job losses spread across most industries. The construction sector has declined by 6.9 percent. In spite of the host of negatives in the very recent past, Kansas



City remains one of the stronger metro areas in the Midwest. Further, the geographically advantageous location promises to fuel the area as a distribution center, currently second only to Chicago in terms of railcars served per day and with several expansive intermodal facilities under construction.

Kansas City Demographics

The Census Bureau ranks Kansas City's MSA 29th out of the 363 metropolitan areas in terms of population. Over the past decade, Kansas City's population surpassed the two million mark and experienced an annual growth rate slightly above that of the U.S., according to Claritas, Inc. A Salary.com survey placed Kansas City at 21 out of 69 cities ranked according to average pay in relation to cost of living. Though the \$68,554 average household income of Kansas City is on par with the U.S. \$67,918, the median household income is over \$3,000 higher than the national level at \$54,601. Steady growth in Kansas City's Gross Metro Product (GMP) decreased to a negative level in 2008. The coming five years should see the GMP return to positive growth, although it is still expected to trail the nation's growth. Employment growth increased a mere 0.5 percent per year over the past decade, and unemployment is currently elevated above national

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Kansas CBSA Market Conditions (SF/Person)

Market	Existing Supply	Forecast Demand	Variance	Condition
Kansas	9.11	7.03	-2.08	Over-Supplied*
Kansas City, MO-KS	6.72	6.52	-0.20	Equilibrium
Wichita, KS	3.32	7.24	3.92	Under-Supplied

Source: Cushman & Wakefield's Self Storage Industry Group and the 2009 Self-Storage Almanac

*Compared to National Average

levels at 8.4 percent. Overall, Kansas City has favorable demographics and an infrastructure with a diverse industry structure, positive climate for business, and highly educated population.

Of the 15 counties that comprise Kansas City's economy, the largest submarkets are the Urban Core (including close-in suburbs); the Northland (Platte County and Clay County of Missouri); Eastern Jackson County, Mo.; Johnson County, Kan.; and the Southeastern suburbs (including south Kansas City, Grandview, and Belton). Of the most populous submarkets, both Johnson County and the Northland outpaced the nation's annual growth rate over the past decade, while Jackson County lagged well behind. The trends for Johnson County and Clay County are expected to continue in the coming years, but at a more moderate rate. Jackson County's annual growth is likely to dip into the negative. Johnson County is the most affluent of Kansas

City's suburban areas with the 19th largest median income in the country as of the 2000 census.

Self-Storage Market Trends

National and regional chains dominate the metro area, with only a limited number of facilities owned by local entrepreneurs. Typical facilities are comprised of conventional drive-up spaces with computerized access and surveillance systems. The *2009 Self-Storage Almanac* states that the Kansas City MSA has a supply of 6.72 rentable square feet per person as compared to a demand of 6.52 feet per person. The equilibrium suggested by the metro-area does not adequately tell the whole story as even a glance at submarket trends will affirm.

Submarket Specifics

Operating expenses vary widely across the metro; most notably, the Kansas suburbs and the suburban Missouri

community of Lee's Summit often run over \$1 more per square foot than those in competing Missouri suburbs. Occupancy ratios run a broad spectrum with rates in the Northland quite often exceeding 90 percent. Johnson County frequently sees rates from 70 percent to 85 percent. Of all the submarkets, the Urban Core saw a significant drop in occupancy in late 2008. The Southeast submarket continues to see growth in occupancy rates.

Storage Mart of Columbia, Mo., is probably the most aggressive player in the area, having opened two conversions in the Urban Core in 2008. Both are well located, enjoy excellent curb appeal, and draw on the revitalization of the Urban Core that draws thousands of users to the area daily. Moreover, the addition of an estimated 500 residential housing units per year for the past decade has transformed the character into one of the most heavily populated urban core areas as compared to peer cities. Given the unparalleled highway access, getting to and from downtown is easy, and facilities should be able to compete well with facilities in comparably located suburbs.

The Northland has seen stable to growing occupancy rates for years possibly due to the barriers of entry for new development in the area, most notably zoning restrictions and land prices. Local operator, Safety Storage, opened their 17th storage facility in the area.

Rental rates tend to be lower and occupancies slightly higher in Eastern Jackson County, even with some new development in the area. Robust commercial and residential development through 2007 has driven the demand for storage from both residential and business consumers.

Storage Mart developed an approximately 80,000 square foot facility in Johnson County, and early absorption figures are about 15 units per month. Sustained excellent demographics and growth rates have supported increasing storage inventory for years. Recently, the area suffered from white-collar job loss with downsizing by major employers in the area. Some stagnation in

occupancy rates has taken place, but not the weakness that other areas are seeing.

The Southeast sub-market is seeing enhanced performance through rate increases and higher occupancies. There are hopes that the 1,350 acre Centerpoint/Kansas City Southern Intermodal Industrial Park will drive job growth in the short term if industrial users step up to utilize over 5,000,000 square feet of industrial space. In early 2009, the General Services Administration authorized a \$500 million nuclear weapons parts plant, adjacent to the Intermodal Center. The jobs created or relocated to the area will continue to drive demand for the residential and industrial storage sectors.

In keeping with investment trends nationwide, the Kansas City self-storage market saw a decline in transaction volume over the past 12 to 18 months and capitalization rates are on the rise. The slowdown in transaction velocity makes specific changes difficult to pinpoint. Unstabilized, newer facilities may see price wars through 2009 as facilities resort to short-term concessions in the battle for tenants. Although some submarkets have seen a recent decline in occupancy rates, most of the Kansas City metro facilities are seeing stability, and in some cases growth, in overall performance. In the long run, Kansas City will continue to benefit from its low cost of living and below average business costs, and the area is expected to return to average growth levels.

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KANSAS CITY Demand In The City Of Fountains

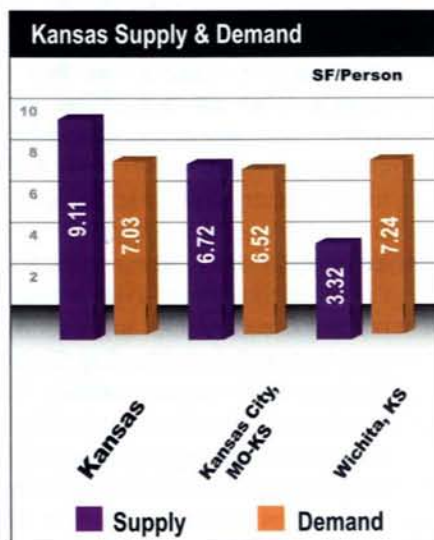
Kansas covers it all. The Kansas data demonstrates examples of each of the three types of market conditions: oversupplied, equilibrium, and undersupplied. It is a prime example that self-storage market conditions can vary significantly as data analysis drills down to the local level.

While the state indicates oversupply, one CBSA (core based statistical area) of Kansas City, Mo.-Kan., indicates equilibrium and a second CBSA, Wichita, Kan., indicates undersupplied market conditions. The data is based on peer group analysis for all 50 states and top 100 CBSAs in the country pub-

lished in the *2009 Self-Storage Almanac*. The data is compiled through survey research and is useful for trend analysis. The Kansas data is summarized in the Kansas Supply & Demand graph below.

Ultimately, selecting the right location for self-storage is a function of the local trade area. Demand is a function of local demographics, generally within a three-mile radius. Key metrics are population, percentage of renters, average household income, and average household size. These metrics suggest that density of population and higher household incomes correspond with strong demand for self-storage property. As demographics vary and are unique to each trade area, demand characteristics vary and are unique to each trade area.

The Kansas data is represented graphically in table on page 53. It demonstrates the variance in market conditions in the state, from underserved to oversupplied. It underscores the importance of drilling down market research to understand the dynamics of demand within the local trade area. Simple benchmarking, to state or national averages, is not as meaningful because it does not account for demographic characteristics that vary by state, CBSA, and the local trade area. In an uncertain economic environment, such analysis is critical to the success of a self-storage project.



Source: Cushman & Wakefield's Self Storage Industry Group and the *2009 Self-Storage Almanac*

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