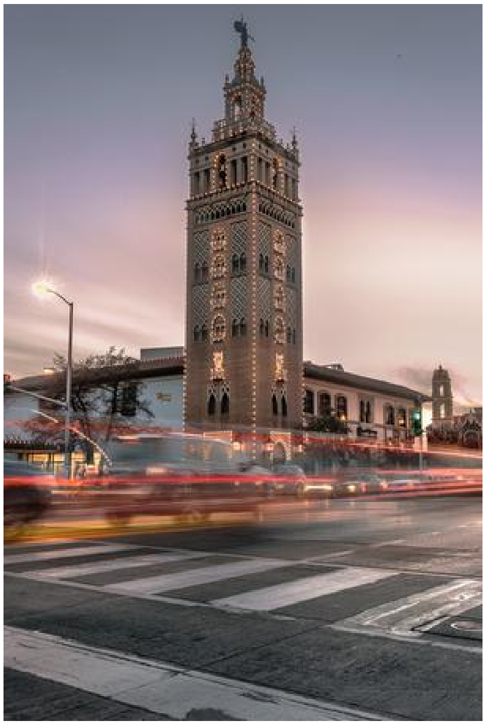
Top Real Estate Deals 2016: Out-of-town buyers shop big in KC

One of the stories behind this boom year for Kansas City-area commercial real estate transactions can be summed up in two words: outside investment.



ANDREW GRUMKE

Two big-name real estate investment trusts bought the Country Club Plaza for $660 million, kicking off a shopping spree by out-of-town investors.

Headlines involving out-of-town firms grabbing up local investment properties began just four days into 2016, when Highwoods Properties Inc. said it would sell Kansas City's crown retail jewel, the Country Club Plaza, for $660 million. The buyer was a partnership involving two real estate investment trusts, The Macerich Co. of Santa Monica, Calif., and Taubman Centers Inc., based in suburban Detroit.

Similar stories, involving deals throughout all commercial real estate sectors, continued throughout the year. In September, New York-based Group RMC Corp. closed on its $94 million purchase of a three-property, seven-building office portfolio in Overland Park. The seller, Colony Realty Partners, announced a month later that it had sold its local industrial portfolio, including 24 buildings totaling 1.2 million square feet, to a partnership led by Dallas-based L&B Realty Advisors. That deal was worth north of $50 million.

A month after that, CBRE Group Inc.'s Kansas City multifamily team said it had sold a total of 1,368 local apartment units for $113 million in the previous 30 days — all to out-of-town buyers.

Ken Block, managing principal of Block Real Estate Services LLC, which was involved in the marketing of both Colony portfolios, said out-of-town firms now view Kansas City as an excellent long-term investment market due to its increased visibility.

"This visibility comes from many different angles, including the last few years of success with the Kansas City Royals and Sporting KC, as well as the increased industrial activity in the intermodal, automobile and e-commerce industries," Block said. "The Country Club Plaza has also been seen nationally and internationally as a one-of-a-kind location and was able to capture the lowest cap rates and highest prices of any property sale in Kansas City history."

A project's cap, or capitalization, rate is derived by dividing its annual net operating income by its sale price. The lower the cap rate, the higher the sale price.

The Plaza assets — 804,000 square feet of retail and 468,000 square feet of office — attracted a blended 4.7 percent cap rate — amazingly low for Kansas City.

But generally speaking, out-of-town investors still find Kansas City's cap rates favorable to those of larger markets, said Mike Mayer, managing principal of Cushman & Wakefield's Kansas City office.

"The obvious answer to why people from outside the market are now looking to Kansas City for investments is easy: cap-rate compression," Mayer said. "Cap rates in the major markets have reached a point where investors can realize a much stronger return (in Kansas City) while maintaining a very low risk profile."

The only problem, he said, is that Kansas City typically does not offer the transaction volumes large-scale outside investors prefer: properties valued at $50 million-plus and portfolios that run $250 million and up.

"Kansas City, as a second-tier market, has unfortunately been second in line while most of the institutional capital has chased high-end, trophy-property types along the coasts and in major 24-hour cities," said Greg Swetnam, director of office brokerage for Kessinger/Hunter & Co. LC. "But the competition for property in those markets has gotten very competitive, to the point that buyers are beginning to reach out and consider secondary markets like Kansas City to achieve their appetite for returns."

Jeff Kembel, a senior vice president in JLL's Kansas City office, said he's been involved in local investment sales brokerage for 25 years and "can't remember a more active year."

Although many large out-of-town buyers continue to focus on the gateway cities, Kembel said, "smaller investment buyers are focusing on secondary markets like Kansas City to buy good-quality assets with significant upside appreciation. When these investors visit Kansas City, they are always intrigued with the community — once they get over how antiquated our airport is — and the momentum we have in place. We have a great story to tell."

That story includes low vacancy rates that promise to continue driving lease rates, returns and outside investment.

"This outside investor interest," Block said, "will continue in 2017 and will increase further over the next several years as more out-of-state investors understand the economic desirability of our market."

Look for more foreign investment, as well, Mayer said. From 2009 through 2015, he said, real estate deals that sent capital from one country to another increased from $56.7 billion to $313.6 billion, with the share ending up in the United States increasing from $4.5 billion to $90.1 billion.

"All signs indicate that international money is continuing to flow into the U.S.," Mayer said. "To find the right home in Kansas City, it needs to be broken out a bit, which takes time. But we believe investors are ready to take the time and deal with breaking up their investments, if necessary, to find returns that no longer exist in major markets."

Rob Roberts
Reporter
Kansas City Business Journal