REAL ESTATE RESURGENCE IN KANSAS CITY

LANE4 PROPERTY GROUP

Genuine Rays of Sunny Optimism are Coming from Realty Executives in Various Development Segments

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A new dawn—one with some actual sunshine—is finally rising over local real estate markets. And it's warming up demand for development and sales. Interest rates are lower than they've been in two generations. And with prices still down and rates of roughly 3.9 percent for a 30-year-loan, brokers say consumers are starting to act. Given the cascading effect of new rooftops on commercial and retail construction and development, there is a growing optimism about what the rest of 2012 and 2013 will mean for the Kansas City market and economy. Some of the development, by realty segment:

Residential Real Estate

With low interest rates and more relaxed lending, residential real estate companies are becoming much more optimistic. Sara Corless, executive vice president for the Home Builders Association of Greater Kansas City, explained the recent positive outlook as a result of low interest rates and a drop in home prices across the country.

Consumer interest in buying a home depends on factors such as quality of schools, job locations, consumer demand and gas prices. "Where you live, what schools your kids go to and how much green space you're surrounded by all make a difference at the end of the day," she said.

Because of the high number of recent foreclosures, mortgage standards have been stricter than before the recession. Though that limits purchasing, says Corless, there is a lot of pent-up demand and people want to buy again. She points out that "once you remove the distress of some of the foreclosure, you can't help but look at stabilized values."

The challenge for residential realty right now is the job market. Unemployment rates are dropping, but Corless says what's really needed is more healthy job creation. "There are issues that will always compete with a lot of different areas and create setbacks, but generally speaking, things look a lot better today than they did a year ago," she said. Residential real estate has picked up momentum in the past year, as single-family home construction in March was up 49 percent from March 2011, and seems to be on track to continue improving.

Retail Properties

The east and west coast markets are improving, says Owen Buckley, president of Lane4 Property Group, and that is bound to make its way to the Midwest. The business models of retail property groups are surging because retailers are starting to loosen up, says Buckley, "and for the right projects, they're financing." Tenent activity has also increased, leading to less vacancy on properties and a greater interest in leasing compared to what it was three years ago.

Looking a little bit into the future, we'll be seeing a lot of the same opportunities that we've been looking at over the past few years, he said. Three main categories of growth—redevelopment, renovation and new development in infill areas—will support the retail industry and create new opportunities for property management groups. Development in infill areas, locations that are already developed, has proved to be one of the best things for the retail market. Though it is more difficult to go through the process of redevelopment, when compared to building something in an old corn field, there is good news, says Buckley: "There are residents that are already there. You aren't planning on and counting on 500 homes being built right next to you; you already have the market in place." Urban and other infill areas are benefiting from changing trends in consumer interest, he said. These areas have recently become more attractive to the community, so retail realtors are investing in houses and projects that they wouldn't have dropped a nickel into in the late '90s and early 2000s.

Commercial Real Estate

Even with better times, there are still challenges. The real estate market heavily depends on consumers' confidence. "Until the consumer and the mass markets start feeling really good about their job security and incomes," explains Buckley, "they're not going to look for a new house." Historically, the housing market has been a good indicator of how the commercial sector is going to do, but it hasn't been as accurate as it once was.

The real challenge is "planning on a specific community to continue growing in a certain direction," says Buckley. For example, there really isn't any sure way to know that Johnson County, Kan. will keep growing in the southwest part of the area or Independence will keep moving eastward. It's a risky prediction for a healing market that not many realtors are willing to bank on. However, Buckley says, hanging back stifles the market. It's a difficult choice to build or buy on speculation, but not moving forward won't help the market, either.

Real estate firms have been fortunate to be in an economy with historically low interest rates for loans, and although there isn't a great amount of new development going on in Kansas City, low interest rates are good news for the development that actually is happening. In addition, the sluggish economy makes it easier for buyers to make purchases. "When we do pursue an opportunity, we don't have a lot of challenges," Buckley said. There isn't a lot of competition for buying; firms are able to purchase properties without racking up the bidding price.

Investment Real Estate

"If you have a good site, it's a good opportunity," advises Brian Beggs, director of acquisitions for Block Real Estate Services. Investing in real estate is as much about location as it is price. Now that there aren't any new speculative office buildings, investment real estate is finally seeing a distant light at the end of the tunnel.

Speculative office buildings have notoriously damaged the investment market, but the real challenge, says Beggs, is controlled local development. Sprint Corp., in particular, took several potential clients off the market in 2009 when it started subleasing portions of its sprawling Overland Park headquarters. Spaces in Sprint came with full amenities and were offered at rates lower than competitors could match. "Luckily, they are done leasing bigger spaces," says Beggs. "So that allows the private Realtors to get back in the market."

But it's a long tunnel: "The market has been depressed, building values are high and loans are going to come due that can't be refinanced because they're so underwater," warns Beggs. "There is going to be a lot of bridge-type financing emerge to make up for these loans." Because of those, it could be another three years before rents become more affordable. There is a lot of equity in the market right now, which is going to help values rise and stay steady, hopefully cooling off the investment real estate sector, he said.

Industrial Real Estate

One way to find your footing in a changing economic climate is to look at what the large companies are doing. In an encouraging show of optimism, Kessinger/Hunter & Co. plans to invest in an 821,256-square-foot warehouse, without any official tenants. It's the largest building to be constructed in Kansas City on a speculative basis. It is the first of three speculative buildings that Kessinger/Hunter plans on building in Olathe's Logistics Park, and it is the company's largest spec building since 2008.

Additionally, the Kansas City region has the low truckload shipment costs and is the best central location for shipping. As one of only a few cities in which four interstates intersect, Kansas City serves as the prime location for industrial development. "Kansas City could be in the top six or seven cities in the industrial market simply because of its location," explains Beggs. "Shipping times from here are much more efficient, whereas if you're trying to ship from coast to coast, it takes longer and is a lot more expensive."

Kessinger/Hunter & Co.'s bold move proves that Kansas City-area realty executives are regaining their confidence in the market and that they are willing to invest in the market again. The job market continues to grow and the unemployment number is starting to drop, raising the comfort levels for investing in the work force.