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May you live in interesting times - by Kevin Tubbesing, SIOR

“**M**ay you live in interesting times”. While often used in the western world as a compliment, its Chinese origins were intended as more of a curse. We have seen amazing acts of self-sacrifice and honor since March, but few positives have come from our experiences with COVID-19 and the permanent scars it will leave.



Since the start of the pandemic lending to commercial real estate projects has dropped in half. Experiential retail was the last bastion of a protected class in that sector but now it joins restaurants and bars as places people fear to be around each other. The glut of available space caused by the virus may have started with retail-type users but is quickly overcoming the office sector as professionals work from home and companies abandon or reduce their spaces to reflect current need.

This leaves land and the development community searching for less obvious paths to profit. Construction costs have stayed steady or have risen as rents in many sectors have flattened or been reduced by excess supply. This is reflected in the lower volume of bank loans as proformas can't hit their numbers at presently available revenues.

Even in the worst of times like these there are bright spots for the Kansas City region. We are geographically blessed with being in the center of the country with efficient rail systems. The interstate highway system began here and after watching a Chiefs or Royals game a trucker can get a good night's rest and reach 85% of the U.S. population within two days or less. This - and our insatiable desire for more goods from Amazon - have kept our industrial and distribution sector humming.

There is also a less obvious opportunity in KC that hides from most eyes because it crosses sectors that don't normally play together. In the multi-family sector over the last 10 years our region has predominately built Class-A, high-density, multifamily complexes. At that same time home builders steadily moved up-market leaving the sub-\$300k market behind. This time last year the average building permit being pulled in Overland Park was for a \$625,000 home.



As \$1.70+/sf rental units where being built, and \$500,000+ new homes were becoming average, the inventory of single-family homes has fallen to its historical low point and vacancy across the multifamily sector is typically less than 3% when not accounting for move in/out absence. There is enormous pressure for adequate and appropriate housing for our fellow citizens. NIMBY attitudes towards multifamily development, coupled with governing bodies not willing to push against the tide and follow their own land-use guides and staff recommendations, have exasperated what was a concern into a full-blown housing crisis in Kansas City.

Nowhere in real estate does the confluence of capital financing, architecture, engineering, governmental pleasantries, utility services, storm water runoff, tax incentives, and grandma's third-cousin-once-removed-co-trustee-still-on-the-deed, come into play more than in land realty and development. The art of navigating these complexities has become even more complicated by the pandemic. To the victor belongs the spoils! Let's just hope in this year's version of our blood sport - we all wear a mask.

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