

HVS Market Intelligence Report: Kansas City

January 27, 2008 / By Daniel P. McCoy, MAI



A lot is happening in and around Kansas City these days, as an unprecedented stream of new developments channels through the residential, office, retail, and entertainment sectors. Local officials estimate project investments throughout the metro area totaling \$7 billion—a massive monetary dose that has reinvigorated the local economy and contributed to the strength of the area’s lodging market, which has made significant strides over the last three years.

New Developments in Downtown and Beyond

The majority of this activity is taking place downtown, with formerly empty lots and ageing structures benefiting from approximately \$4.5 billion in redevelopment investment. The centerpiece of this activity is the Power and Light District, an \$8.5-million project by the Cordish Company that is transforming nine square blocks into an entertainment, retail, and dining hotspot.¹ The district, expected to hold its grand opening in the spring of 2008, will also include a significant amount of Class A office space, with the new H&R Block world headquarters building already seated at the helm. The 500,000-square-foot, \$140-million building, which features a distinctive elliptical design with transparent glazing, opened in October of 2006.²

The new H&R Block headquarters and the Federal Reserve Bank of Kansas City (whose new building is undergoing construction) shoulder the city’s claim as the financial center of the western plains. In addition, Kansas City is home to the operations of such venerable financial institutions as American Century Investments, Citigroup, Deloitte & Touche, and KPMG. The proximity of these institutions, the richness of the area’s retail, dining, and entertainment options, and the ongoing development of new office space have made Kansas City an attractive location for expanding and relocating corporate operations. The area’s lodging market is experiencing significant commercial demand growth as a result. The following table illustrates recent trends in office space construction and vacancy. The growing level of construction activity indicates a continuation of commercial demand growth for the foreseeable future. We note that fourth-quarter 2006 information was not available and have therefore inserted 2006 third-quarter data.

| Office Space Statistics | | | |
|--------------------------------------|-------------------|--------------------|--------------|
| Quarter & Year | Net Rentable Area | Under Construction | Vacancy Rate |
| 4Q 2005 | 67,723,162 | 271,798 | 13.66% |
| 3Q 2006 | 50,933,776 | 740,000 | 15.40% |
| 4Q 2007 | 53,439,471 | 1,862,639 | 16.55% |
| *Source: CB Richard Ellis MarketView | | | |



Kansas City Convention Center and Skyline

Summary

Development activity and increased visitation converge to quicken the pulse of this heartland city.

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The Power and Light District is flanked by two major draws for convention and leisure business: the recently expanded Kansas City Convention Center and the new Sprint Center, both of which are furthering the downtown revival. A \$135-million renovation and expansion of the convention center concluded in April of 2007, and the 135,000 square feet of additional space has resulted in a dramatic increase in the number and size of event bookings, as shown in the table below.

| Event Bookings | | | | | | |
|----------------------------------|--------------------|-----------------|-----------------|-----------------|--------------------|-----------------|
| Year to Date Through June | Conventions | % Change | Meetings | % Change | Room Nights | % Change |
| 2006 | 11 | - | 129 | - | 125,990 | - |
| 2007 | 14 | 27% | 169 | 31% | 225,243 | 79% |

*Source: Kansas City Convention and Visitors Association

The Sprint Center, which opened in October of 2007, is a state-of-the-art arena that hosts a variety of sporting and performing arts events. The 18,500-seat, \$275-million arena is expected to host approximately 90 events and draw over one million visitors in its first year of operation. Confirmed bookings at the Convention Center and the Sprint Center already herald over 91,000 room nights for area hotels through 2012, with the promise of more to come as the new downtown convention package brings additional business to Kansas City.³ Just south of the convention center, the \$405-million Kauffman Center for the Performing Arts, designed by renowned architect Moshe Safdie, is currently under construction. The 316,000-square-foot facility, which is expected to open in December of 2009, will host 300 to 500 events per year with the potential to draw up to 400,000 guests.⁴

The centrifuge of construction activity in the downtown district spins out into the surrounding areas of the city as well. Developments at Country Club Plaza, an upscale, outdoor shopping and entertainment district, include the West Edge, a \$100-million mixed-use development, as well as the 165,000-square-foot, \$200-million expansion of the Nelson-Atkins Museum of Art.⁵ Briarcliff, a 600-acre master-planned community in North Kansas City, will eventually contain over one million square feet of office space and 150,000 square feet of retail and restaurant space, as well as significant residential prospects.⁶ On the Kansas side of the metro area, the 300-acre Schlitterbahn Vacation Village is currently under construction. This water-themed destination will feature shopping, dining, and entertainment options, as well as an interactive marine park, all connected by a state-of-the-art Transportainment River System.⁷

Hotel Development and Renovation

According to their respective web sites, several of the aforementioned projects include plans for lodging facilities. The West Edge is expected to contain a 103-room boutique hotel, and Briarcliff has announced plans for a 250-room Renaissance hotel. The Schlitterbahn Vacation Village is expected to contain 1,800 guestrooms in a variety of themed accommodations. Beyond these larger developments, our market research revealed that there are reportedly seven hotels currently under construction in the metro area, representing a 586-room addition to the local supply. These new properties include five extended-stay products and two mid-scale, limited-service hotels.

A number of the city's prominent full-service properties have recently undergone major renovations. The 983-room Marriott Downtown is undergoing a multi-million-dollar renovation of its two guestroom towers. Three historic properties are gaining new prominence: the 213-room Presidential Hotel was re-opened under the Hilton flag in 2006, following a \$45-million renovation; the 193-room Aladdin Hotel was renovated and re-opened under the Holiday Inn flag in 2007; and the 123-room Raphael Hotel is in the midst of remodeling. Additionally, the 731-room Hyatt Regency underwent an \$8-million renovation in 2006, and the 366-room InterContinental was renovated in 2007 at a cost of \$15 million.⁸

Conclusion

The Kansas City hotel market has benefited from a variety of factors that should positively influence trends going forward. The numerous development projects in the area have strengthened the local economy and increased room-night demand among leisure, group, and commercial travelers. Development projects still in the works are expected to result in further demand growth across the commercial, group, leisure, and extended-stay segments.

This demand growth should outpace the coming additions to supply, sourcing an abundant stream of business for the "City of Fountains."

¹ VisitKC.com, 2007 Kansas City Convention and Visitors Association. 15 Jan. 2008

http://www.visitkc.com/meeting_planner/whats_new/index.cfm?page=kc_live.htm

² Dornbrook, James. "Building block: H&R Block headquarters provides impetus, anchor for entertainment district." Kansas City Business Journal 6 April 2007. 15 Jan. 2008

<http://kansascity.bizjournals.com/kansascity/stories/2007/04/09/focus29.html>

³ VisitKC.com, 2007 Kansas City Convention and Visitors Association. 15 Jan. 2008

http://www.visitkc.com/mediaroom/news_release_detail.aspx?NewsID=90

http://www.visitkc.com/meeting_planner/whats_new/index.cfm?page=ballroom_expansion.htm

http://www.visitkc.com/meeting_planner/whats_new/index.cfm?page=sprint_center.htm

⁴ <http://www.kcperformingartscenter.org/projectfacts/>

⁵ ThinkKC.com, Kansas City Area Development Council. 15 Jan 2008

<http://www.thinkkc.com/NewsEvents/TopDevelopments/TopDevelopments.php>

⁶ Davis, Jim. "Briarcliff's \$50M plan includes hotel, office building." Kansas City Business Journal. 7 Dec. 2007. 15 Jan. 2008 <http://www.bizjournals.com/kansascity/stories/2007/12/10/story2.html>

⁷ VisitKC.com, 2007 Kansas City Convention and Visitors Association. 15 Jan. 2008

http://www.visitkc.com/meeting_planner/whats_new/index.cfm?page=schlitterbahn.html

⁸ VisitKC.com, 2007 Kansas City Convention and Visitors Association. 15 Jan. 2008

http://www.visitkc.com/meeting_planner/whats_new/index.cfm?page=hilton_president.htm

About **Daniel P. McCoy, MAI**



As the HVS Practice Leader for the Midwest, Dan McCoy, MAI, oversees the firm's seven offices in this region. A Senior Managing Director at HVS, Dan is a recognized thought-leader, collaborative advisor, and invaluable resource for the Midwest's lodging industry. He combines a deep understanding of regional hotel markets with strong analytical thinking to provide a wide variety of clients with up-to-date hospitality intelligence and tailor-made solutions. Dan is a Designated Member of the Appraisal Institute (MAI) and a certified general appraiser. Contact Dan at +1 (970) 215-0620 or [\[email protected\]](#).