

Kansas City's Flourishing Demand Generators Bolster Hotel Interest

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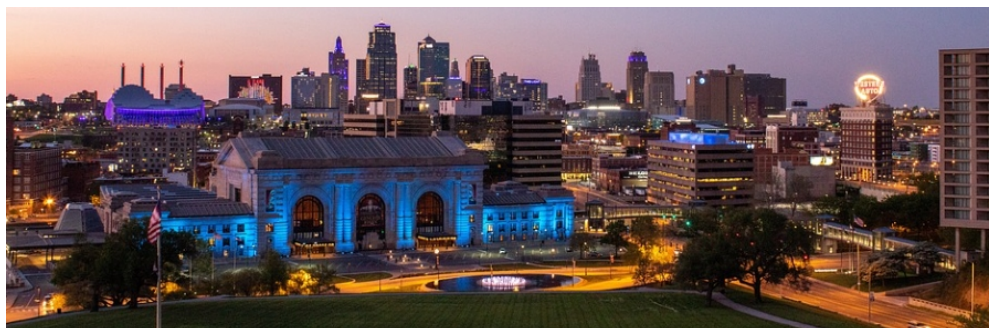


The Kansas City hotel market has rebounded following the impacts of the COVID-19 pandemic, and high levels of leisure demand and the return of convention activity have driven the recovery. Despite rising construction costs, a number of hotel developments are proposed in Kansas City, signaling an optimistic outlook for the market.

Events and Developments in Kansas City

A number of major events and development projects across Kansas City should boost hotel demand and bolster pricing power in the coming years, as outlined below.

- In March 2019, construction began on a \$1.5-billion project to convert the **Kansas City International Airport** to a single-terminal facility. The new 40-gate terminal opened in February 2023, along with an adjacent 6,200-space parking garage. The old terminals will be demolished, leaving room for potential future expansion of the new facility.
- The **NFL Draft** took place in front of **Union Station** in April 2023. This is the first time that Kansas City has hosted the event, and it was expected to draw hundreds of thousands of visitors, likely the largest event in Kansas City's history.
- In 2022, **Meta Platforms Inc.** began construction on a one-million-square-foot data center in northern Kansas City, which will cost over \$800 million and is expected to be operational in 2024.
- **Hunt Midwest** acquired 3,300 acres of land northeast of the airport and plans to begin construction on the **KCI 29 Logistics Park** in 2023. The project includes the construction of 27 Class A industrial buildings, which will total more than 20 million square feet of manufacturing and warehouse facilities.
- On the western edge of the KC metro area in De Soto, Kansas, **Panasonic** has broken ground on a \$4-billion electric-vehicle battery plant. The project is expected to create 20,000 jobs and will begin mass production of lithium-ion batteries in March 2025.
- Kansas City will be one of the host cities for the **2026 FIFA World Cup**; select matches will be played at **GEHA Field at Arrowhead Stadium**. City officials are estimating that the event will generate roughly \$700 million in positive economic impact from visitor spending, largely benefiting the hospitality, restaurant, and entertainment industries.



Convention Center Demand Outlook

Summary

The Kansas City hotel market has rebounded following the impacts of the COVID-19 pandemic, and high levels of leisure demand and the return of convention activity have driven the recovery. Despite rising construction costs, a number of hotel developments are proposed in Kansas City, signaling an optimistic outlook for the market.

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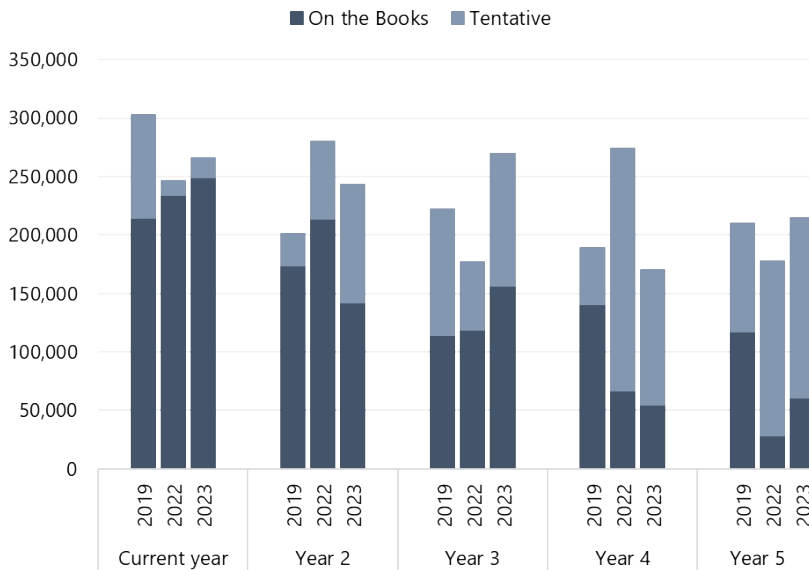
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In an effort to attract large convention groups to the city, public officials sought the development of a new flagship hotel for the **Kansas City Convention Center** prior to the COVID-19 pandemic, and the 800-room **Loews Kansas City** was completed in 2020. Although the pandemic delayed the anticipated benefits of the new hotel, such as more conventions and attendees, the number of events and room nights generated by the convention center rebounded rapidly, reaching pre-pandemic levels in 2022.

The outlook for activity at the convention center in 2023 is relatively strong, as the number of room nights on the books already exceeds those recorded for 2022. Furthermore, a significant number of booked and tentative room nights are in the pipeline for 2024 and beyond.

Convention Activity Forecast as of March 15, 2023



Source: Visit KC

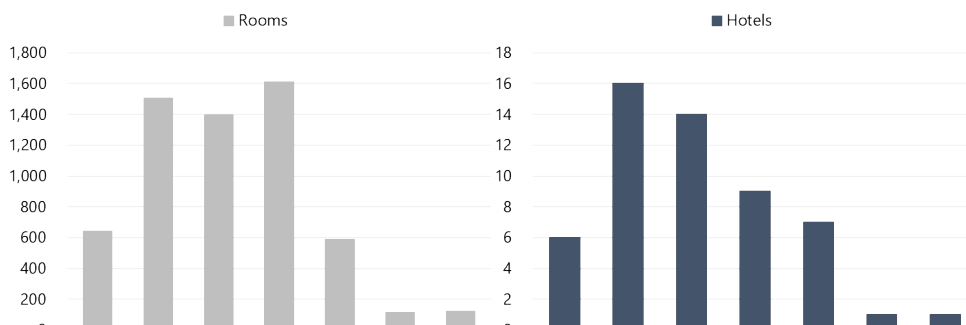
Supply Growth

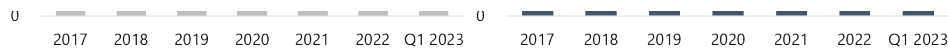
The Kansas City market experienced an influx of hotel supply over the past decade, largely attributed to the revitalization of downtown and the continuing development of Johnson County, Kansas. Furthermore, developers had a strong incentive to build given the relatively cheap debt and only moderate increases in construction costs prior to the COVID-19 pandemic.

However, these market conditions have changed since 2020. The pandemic dramatically slowed the hotel construction pipeline, and the subsequent increases in development and capital costs have limited the number of new hotel projects. Despite these headwinds, Kansas City continues to attract development interest due to the optimistic outlook for this market.

The following charts show the number of hotels and rooms that have opened in the Kansas City metro area since 2017.

Historical Supply Growth in Kansas City

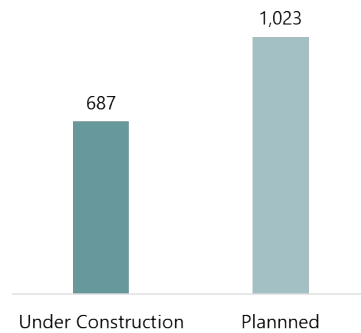




Source: STR

Furthermore, the breakdown of new hotel projects we are currently tracking is illustrated below.

Hotel Rooms in Development within the Kansas City Metro Area as of Q2 2023



Source: HVS

Historical Performance and Outlook

Occupancy was negatively affected by the introduction of new supply prior to the COVID-19 pandemic and continued to decline in 2020 as the pandemic affected the market. Since then, increases in leisure travel, the return of major events, and a high volume of construction activity have supported the recovery of hotel demand levels in Kansas City. As of year-end 2022, occupancy remained somewhat below pre-pandemic levels as new supply had not been fully absorbed by the market; however, the ongoing return of many employees to offices, an increase in group gatherings, and several scheduled major events are expected to drive enough demand to outpace new supply and push occupancy back to a normal level.

Average rates for this market are anticipated to continue the strong growth trend that was realized in 2021 and 2022 through the first half of 2023 given the number of special events slated for the market. Thereafter, the pace of ADR growth is expected to moderate somewhat, particularly during 2024, which is expected to have a weaker convention calendar. However, Kansas City will host a series of World Cup matches in 2026, which should positively affect pricing power that year.

Conclusion

A strong recovery of demand since the COVID-19 pandemic, several large developments, and a number of scheduled events all contribute to an optimistic forecast of demand in the Kansas City market. Given these factors, hotel development interest in Kansas City is strong, despite rising construction costs.

For detailed forecasts or to inquire about a specific hotel project, contact **Benjamin Giebler** or **Dan McCoy** of the **HVS St. Louis office**.

About **Benjamin Giebler**



Benjamin Giebler is a Senior Manager with the St. Louis HVS consulting and valuation practice. Benjamin obtained his Missouri Real Estate License in 2018 and Kansas Real Estate License in 2020 and worked as a commercial real estate agent in Kansas City. His experience in the hospitality industry includes working as a valet and bell supervisor at the Marriott Downtown Kansas City, and he was part of the opening team at Hotel Kansas City as a front office and bell supervisor. He graduated from the University of Missouri-Kansas City with a Bachelor of Science in Business Administration with an emphasis in Real Estate and Finance. Additionally, he earned a certificate in Hospitality Real Estate Investments and Asset Management from Cornell University. Contact Benjamin at (816) 589-0922 or [\[email protected\]](#).

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 [\[email protected\]](#).