

Kansas City Office Market

Office Rents Resume Quarterly Increases From Covid-19 Pause

The Kansas City office market loosened in the first quarter of 2021 as total net absorption measured negative 154,476 square feet. Total net absorption during the past four quarters totaled negative 1.4 million square feet. Vacancy increased 230 basis points over the past year, from 9.6% to 11.9%, while asking rental rates also increased by \$0.08/SF to \$21.02/SF. Construction projects currently underway total 410,396 square feet, with no deliveries during the quarter.

Hoefel Welker Signs the First New Office Lease at the Aspiria Campus

The Aspiria campus officially signed its first new office tenant in first-quarter 2021 as locally based Hoefel Welker will commit to between 25,000 to 35,000 square feet based upon future space needs. With a current workforce of 120 employees, the firm is forecasting a 20.0% growth rate over the next two years. The multi-disciplinary architecture, interior design, consultancy and engineering firm will move its headquarters from 11460 Tomahawk Creek Parkway in Leawood and will design the future office buildings as the architect for Aspiria at large.

Construction on the Class A, 268,000-square-foot office building is expected to commence by the end of the year. The firm is scheduled to occupy the new space by first-quarter 2023. Aspiria could become the nation's second-largest corporate campus with 1.4 million square feet of new office space, in addition to the former Sprint Campus offerings, 375,000 square feet of retail, 600 multi-family units, a 120-room hotel with restaurants, community parks and an amphitheater.

Medical Office Buildings Attract Solid Investor and Tenant Interest Across the Metro

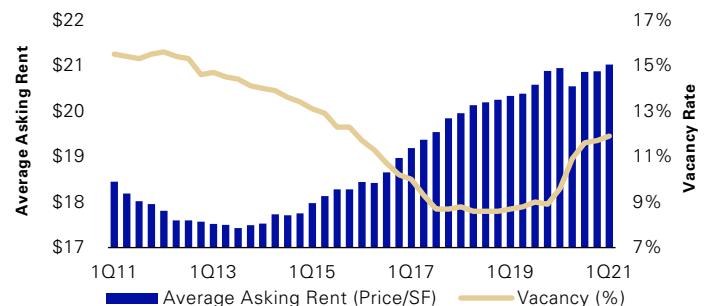
Both leasing and sales activity display sustained levels of market interest for medical office buildings in the Kansas City Metro area. Expect the trend to continue for the remainder of 2021 as private and institutional investors view the MOB niche as a safe haven for office investments with long-term lease commitments from

Current Conditions

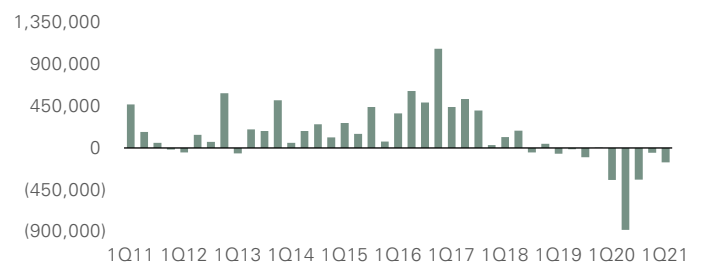
- Asking rental rates resume their quarterly increases from the Covid-19 pause registering \$21.02/SF in Q1.
- Hoefel Welker signs the first new office lease at Aspiria.
- Medical office buildings continue to attract a high level of interest from both investors and tenants.
- Waddell & Reed exit plans to relocate to Downtown.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	74 MSF	74 MSF	74 MSF	↔
Vacancy Rate	11.9%	11.7%	9.6%	↑
Qtr. Net Absorp.	-154,476	-51,072	-342,028	↓
Avg. Asking Rent	\$21.02	\$20.87	\$20.94	↔
Under Con.	410,396	410,396	537,028	↔
Deliveries	0	0	187,000	↑

medical providers. A combination of high demand, low-interest rates, resilience during market shifts and capital availability will continue to support values in the MOB sector. Sale-leaseback scenarios may increase during 2021 as multiple healthcare systems could be active sellers of assets from pandemic headwinds.

Waddell & Reed Will No Longer Relocate Its Headquarters to Downtown

Speculative projects and overdevelopment have been largely kept in check during the past four years, thus allowing for a smoother COVID-19 recovery compared to other U.S. office markets. One project totaling 260,000 square feet, initially destined for Waddell & Reed in Downtown, has converted to being constructed on a mixed-speculative basis. The asset management and financial planning company announced in March that it would no longer relocate its headquarters to the \$140.0-million, 18-story tower at West 14th Street and Baltimore Avenue after merging with the Australian-based, Macquarie Group. Macquarie Group plans to divest Waddell & Reed's wealth management platform to Boston-based, LPL Financial Holdings. As part of the merger, the firm will lay off more than 200 employees. Waddell & Reed previously signed a 15-year lease at the location with incentives linked to future job creation. With the projected lay offs, the firm would forfeit the job-related incentives tied to the lease and is

currently bound to the terms of the lease, leaving the possibility of a buy out of the lease or subleasing a substantial block of prime Class A space to the market at the completion of construction.

Overall Market Vacancy Should Range From 11.6% to 12.9% During the Next Four Quarters

The Kansas City office sector slowed in the past four quarters, as negative 1.4 million square feet was absorbed, with 1.2 million square feet of the negative net absorption occurring in second-quarter 2020 and third-quarter 2020. Although the market has already begun to adjust, expect a decrease in total net absorption to continue to take place over the next three to four quarters. Available space officially on the market for sublease totals 923,140 square feet, a decrease of 8.7% from the prior quarter but an increase of 71.6% compared to the prior year. Expect the quantity of available sublease space in the market to range between 900,000 to 1.01 million square feet by the end of 2021.

As realized in the past two quarters, businesses continue to cut expenses, renegotiate lease terms and adjust work-from-home strategies. Overall market vacancy should range from 11.6% to 12.9%, while asking rental rates are expected to range from \$20.65/SF to \$21.15/SF during the next four quarters.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Concorde Career Colleges, Inc.	930 Carondelet Dr	South Kansas City	New	50,470
Hoefer Welker	Aspiria Campus	South Johnson County	New	25,000 to 35,000
Azurity Pharmaceuticals	13160 Foster St	South Johnson County	New	14,200
Platform Ventures	1511 Baltimore Ave	Downtown/Crown Center	New	7,500
Barton Law Firm	5201 Johnson Dr	North Johnson County	New	5,500
Epcor	2345 Grand Blvd	Downtown/Crown Center	New	5,130

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Creekwood Med. II & III - Port. (2)	Northland	\$17,477,000	\$362	48,280
7500 W 95th St	North Johnson County	\$1,025,000	\$57	18,000
237 NW Executive Way	Southeast Jackson County	\$1,350,000	\$95	14,140
10955 Granada Ln	South Johnson County	\$2,000,000	\$162	12,340
6401 E Front St	East Jackson County	\$1,250,000	\$164	7,640
602 Westport Rd	Midtown/Plaza	\$1,250,000	\$208	6,000
815 SW 7 Hwy	East Jackson County	\$1,000,000	\$333	3,000

Submarket Statistics

Submarket	Class	Total Number of Buildings	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	ALL	172	19,439,680	260,000	10.70%	62,023	62,023	\$20.68
	Class A	28	8,237,328	260,000	15.90%	38,957	38,957	\$21.86
	Class B	108	9,239,968	0	7.60%	14,066	14,066	\$18.97
	Class C	36	1,962,384	0	3.60%	9,000	9,000	\$16.05
East Jackson Co.	ALL	76	3,983,489	21,396	5.10%	55,735	55,735	\$18.21
	Class A	2	166,010	0	16.10%	0	0	\$22.86
	Class B	46	2,588,016	21,396	5.90%	37,342	37,342	\$17.49
	Class C	28	1,229,463	0	1.90%	18,393	18,393	\$14.58
Midtown/Plaza	ALL	79	6,313,454	0	10.30%	48,036	48,036	\$26.88
	Class A	17	2,813,494	0	13.20%	30,201	30,201	\$28.68
	Class B	43	2,703,080	0	7.60%	24,739	24,739	\$23.98
	Class C	19	796,880	0	9.20%	-6,904	-6,904	\$20.54
North Johnson Co.	ALL	130	7,111,178	0	14.40%	-56,654	-56,654	\$20.90
	Class A	16	1,583,856	0	28.60%	17,795	17,795	\$23.26
	Class B	97	4,986,397	0	11.20%	-72,174	-72,174	\$19.05
	Class C	17	540,925	0	2.40%	-2,275	-2,275	\$15.72
Northland	ALL	92	5,423,243	0	20.80%	-144,022	-144,022	\$17.66
	Class A	8	1,152,257	0	27.20%	-122,845	-122,845	\$20.80
	Class B	68	3,729,944	0	21.00%	-21,177	-21,177	\$16.36
	Class C	16	541,042	0	5.90%	0	0	\$16.65
South Johnson Co.	ALL	288	22,704,144	129,000	13.80%	-124,638	-124,638	\$21.88
	Class A	85	11,430,251	108,000	10.10%	36	36	\$24.79
	Class B	190	10,895,217	21,000	17.90%	-127,274	-127,274	\$20.22
	Class C	13	378,676	0	3.00%	2,600	2,600	\$19.45
South Kansas City	ALL	56	5,241,344	0	7.50%	349	349	\$19.19
	Class A	12	2,562,454	0	0.00%	0	0	\$21.00
	Class B	42	2,606,988	0	15.10%	349	349	\$19.19
	Class C	2	71,902	0	0.00%	0	0	\$15.00
Southeast Jackson Co.	ALL	18	1,622,265	0	6.50%	6,719	6,719	\$20.28
	Class A	2	103,442	0	0.00%	0	0	\$24.50
	Class B	13	1,426,047	0	6.80%	6,719	6,719	\$20.28
	Class C	3	92,776	0	8.50%	0	0	\$17.50
Wyandotte Co.	ALL	40	2,260,534	0	5.00%	-2,024	-2,024	\$18.69
	Class A	2	111,995	0	0.00%	0	0	\$27.41
	Class B	24	1,452,317	0	5.40%	-2,024	-2,024	\$18.90
	Class C	14	696,222	0	5.20%	0	0	\$15.01
Kansas City Market	ALL	951	74,099,331	410,396	11.90%	-154,476	-154,476	\$21.02
	Class A	172	28,161,087	368,000	12.60%	-35,856	-35,856	\$23.70
	Class B	631	39,627,974	42,396	12.40%	-139,434	-139,434	\$19.28
	Class C	148	6,310,270	0	4.20%	20,814	20,814	\$15.99

Submarket Statistics – Class A

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	8,237,328	260,000	15.90%	38,957	38,957	\$23.00	\$17.28	\$21.86
East Jackson County	166,010	0	16.10%	0	0	\$22.86	-	\$22.86
Midtown/Plaza	2,813,494	0	13.20%	30,201	30,201	\$29.32	\$21.10	\$28.68
North Johnson County	1,583,856	0	28.60%	17,795	17,795	\$23.36	\$20.50	\$23.26
Northland	1,152,257	0	27.20%	-122,845	-122,845	\$20.80	-	\$20.80
South Johnson County	11,430,251	108,000	10.10%	36	36	\$25.79	\$20.51	\$24.79
South Kansas City	2,562,454	0	0.00%	0	0	\$21.00	-	\$21.00
Southeast Jackson County	103,442	0	0.00%	0	0	\$24.50	-	\$24.50
Wyandotte County	111,995	0	0.00%	0	0	\$27.41	-	\$27.41
Kansas City Market	28,161,087	368,000	12.60%	-35,856	-35,856	\$24.41	\$19.10	\$23.70

Submarket Statistics – Class B

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	9,239,968	0	7.60%	14,066	14,066	\$18.98	\$18.38	\$18.97
East Jackson County	2,588,016	21,396	5.90%	37,342	37,342	\$17.49	-	\$17.49
Midtown/Plaza	2,703,080	0	7.60%	24,739	24,739	\$23.98	-	\$23.98
North Johnson County	4,986,397	0	11.20%	-72,174	-72,174	\$19.69	\$17.38	\$19.05
Northland	3,729,944	0	21.00%	-21,177	-21,177	\$16.86	\$12.97	\$16.36
South Johnson County	10,895,217	21,000	17.90%	-127,274	-127,274	\$20.29	\$17.84	\$20.22
South Kansas City	2,606,988	0	15.10%	349	349	\$19.20	\$16.75	\$19.19
Southeast Jackson County	1,426,047	0	6.80%	6,719	6,719	\$20.28	-	\$20.28
Wyandotte County	1,452,317	0	5.40%	-2,024	-2,024	\$18.90	-	\$18.90
Kansas City Market	39,627,974	42,396	12.40%	-139,434	-139,434	\$19.51	\$16.17	\$19.28

Economic Conditions

The local economy retracted in February due to COVID-19, with total employment growth of negative 4.3% and negative growth occurring in eight out of 10 industries, calculated on a 12-month percent change basis.

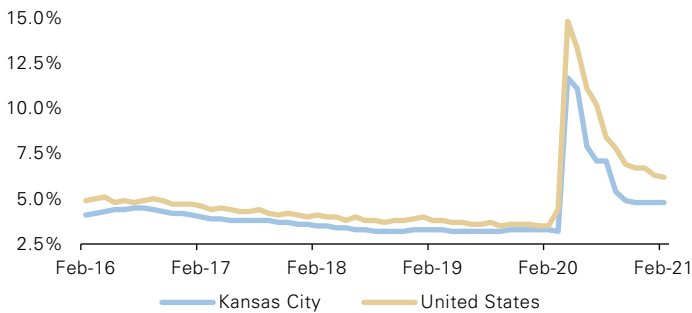
Payroll employment in Kansas City dropped significantly compared to the prior year; however, the local economy has fared favorably compared with the national average. The national average decreased 450 basis points to negative 6.1%.

The Consumer Price Index for the U.S. decreased 60 basis points compared to the prior year, registering 1.7% in February 2021, while the Midwest Urban CPI decreased 40 basis points to 1.7%.

Unemployment in the U.S. decreased 50 basis points to 6.2%, while unemployment in Kansas City remained flat at 4.8% compared with the past quarter. Unemployment in Kansas City increased 150 basis points from a year prior.

Unemployment Rate

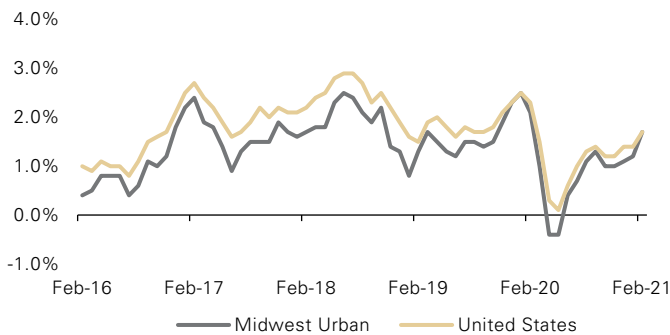
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2021

Consumer Price Index (CPI)

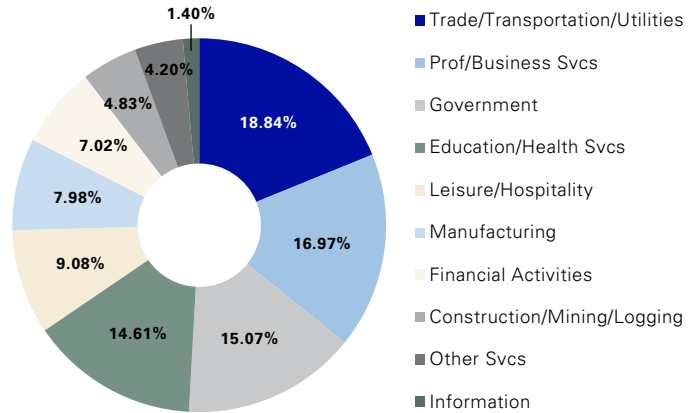
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2021

Employment By Industry

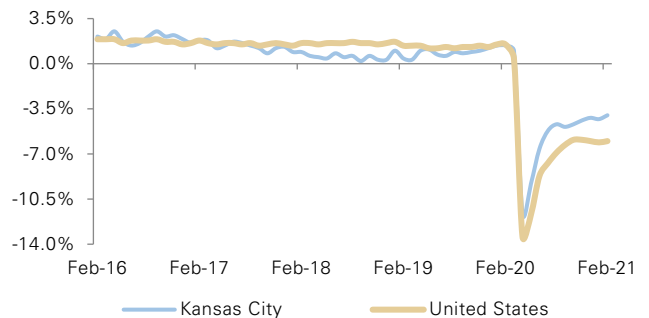
Kansas City, February 2021



Source: U.S. Bureau of Labor Statistics, March 2021

Payroll Employment

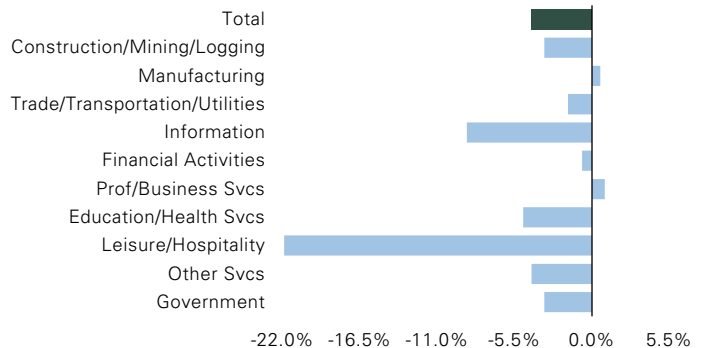
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, March 2021

Employment Growth By Industry

KC, Feb. 2021, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2021

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