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1Q24

# Kansas City Office Market Overview

# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. February’s 3.2% unemployment rate was significantly lower than the 4.0% 10-year historical average.
- Year over year, job gains have been most pronounced in the Education & Health and Government industries, while job losses have been most pronounced in the Information and Business & Professional sectors.
- Professional business and technology firms are continuing to adjust labor needs. Locally, two out of three office-occupying sectors experienced employment retraction compared with the prior 12 months. The Financial Activities sector led all office-occupying sectors, displaying an increase of 0.8%.

## Major Transactions

- Google announced it will occupy a \$1.0-billion new data center in the Northland.
- Rally House leased 29,170 SF at 8345 Lenexa Dr. in Lenexa, KS.
- Sano Orthopedics leased 21,160 SF at 6301 N. Lucerne Ave. in Parkville, MO.
- Greater KC LINC signed a three-year lease for 17,260 SF in Crown Center.
- First Federal Bank renewed its lease for 14,800 SF at Park Renaissance I.
- New York Life Insurance Company leased 13,500 SF at BOK Financial Tower.
- USI Insurance Services leased 9,300 SF in Building I of Apex 435.

## Leasing Market Fundamentals

- Absorption in the first quarter of 2024 totaled negative 594,182 SF. Total net absorption has averaged negative 287,131 SF per quarter during the past three years, demonstrating a contractionary environment. The 347,320-SF construction pipeline has fluctuated between 300,000 SF and 700,000 SF during the past four years, with a limited number of major projects.
- Vacancy increased from 16.2% to 17.9% during the past year as negative net absorption continued across multiple submarkets. Landlords are motivated to provide lease concessions in the form of free rent or tenant improvements rather than reducing quoted rates. In addition, expansive landlord investment in property upgrades, driven by solid demand for highly-amenitized Class A space, drove slow but positive 12-month rent growth of 2.9%.

## Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Vacancy is expected to increase while the market recalibrates as tenants continue to take less space due to hybrid work strategies. Tenant's will maintain substantial leverage in lease negotiations and benefit from numerous available space options. Conversions of office space to other uses will remove obsolete vacant space from the market, tempering rising vacancy.
- Asking rental rates are expected to decrease during the year as a lack of liquidity forces landlords to lower rents rather than provide elevated concession packages.

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1. Economy
  2. Leasing Market Fundamentals
  3. Submarket Statistics



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# Economy

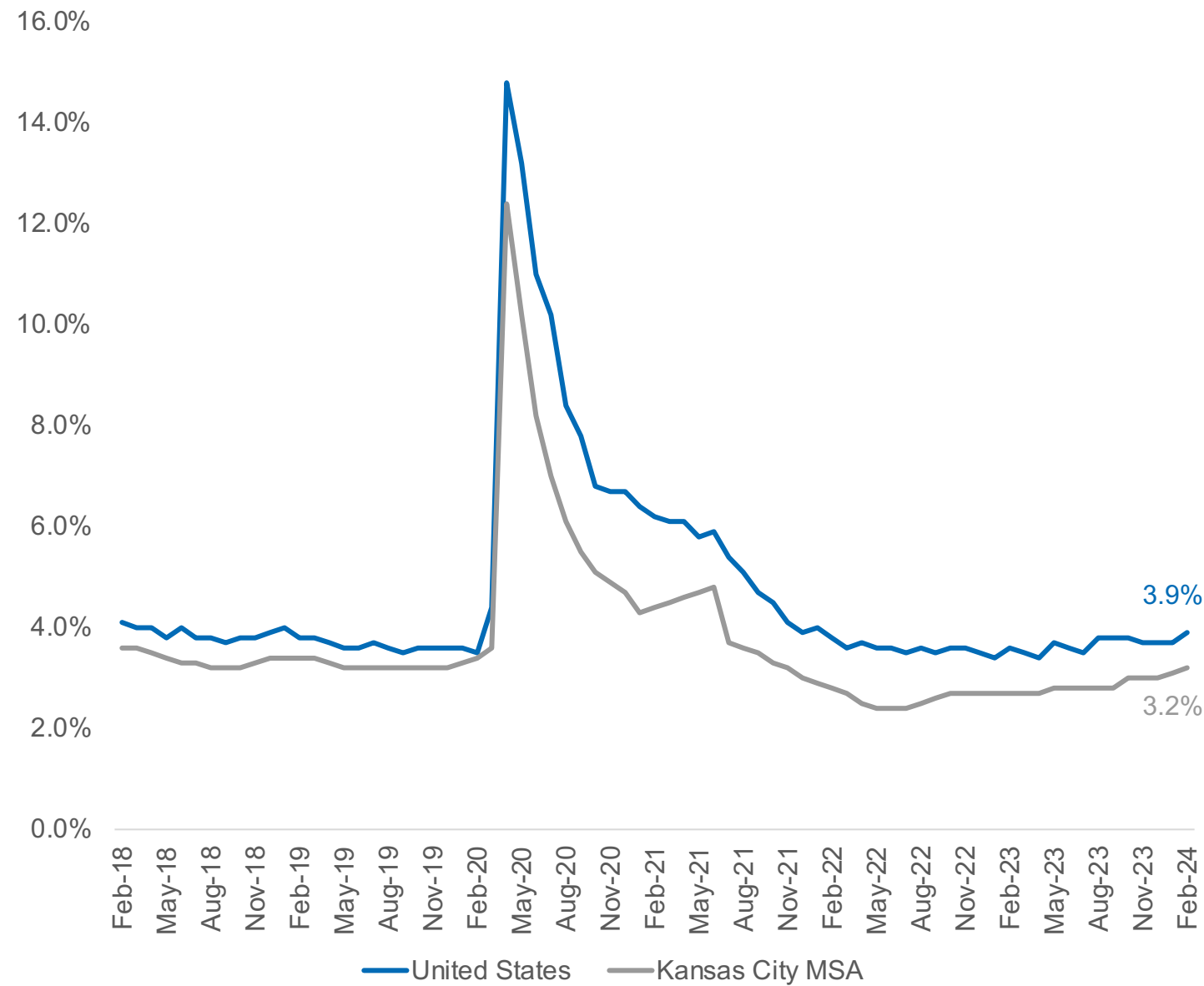




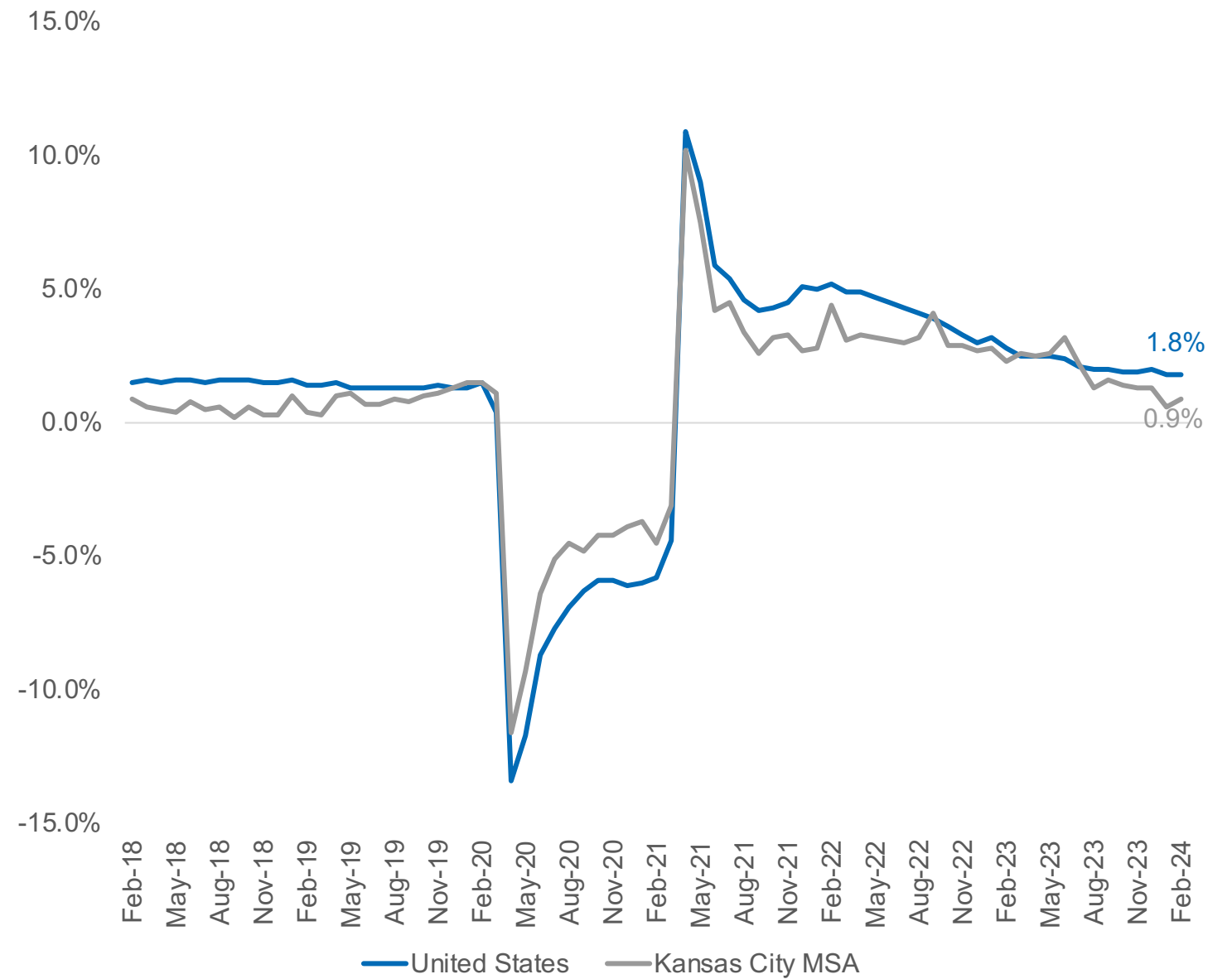
# Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and elevated interest rates. Unemployment in the region recovered from the pandemic and remains 70 bps below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

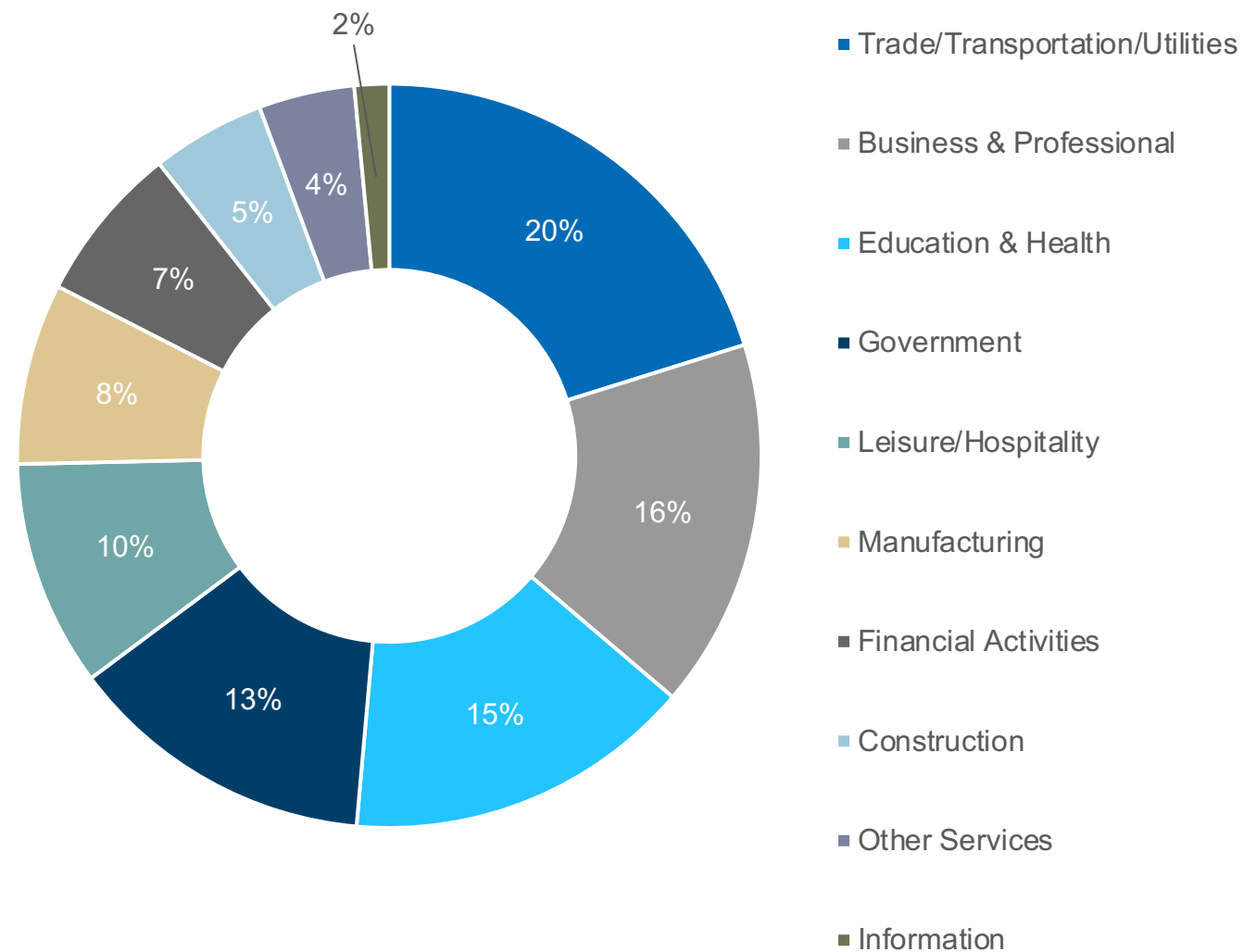


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

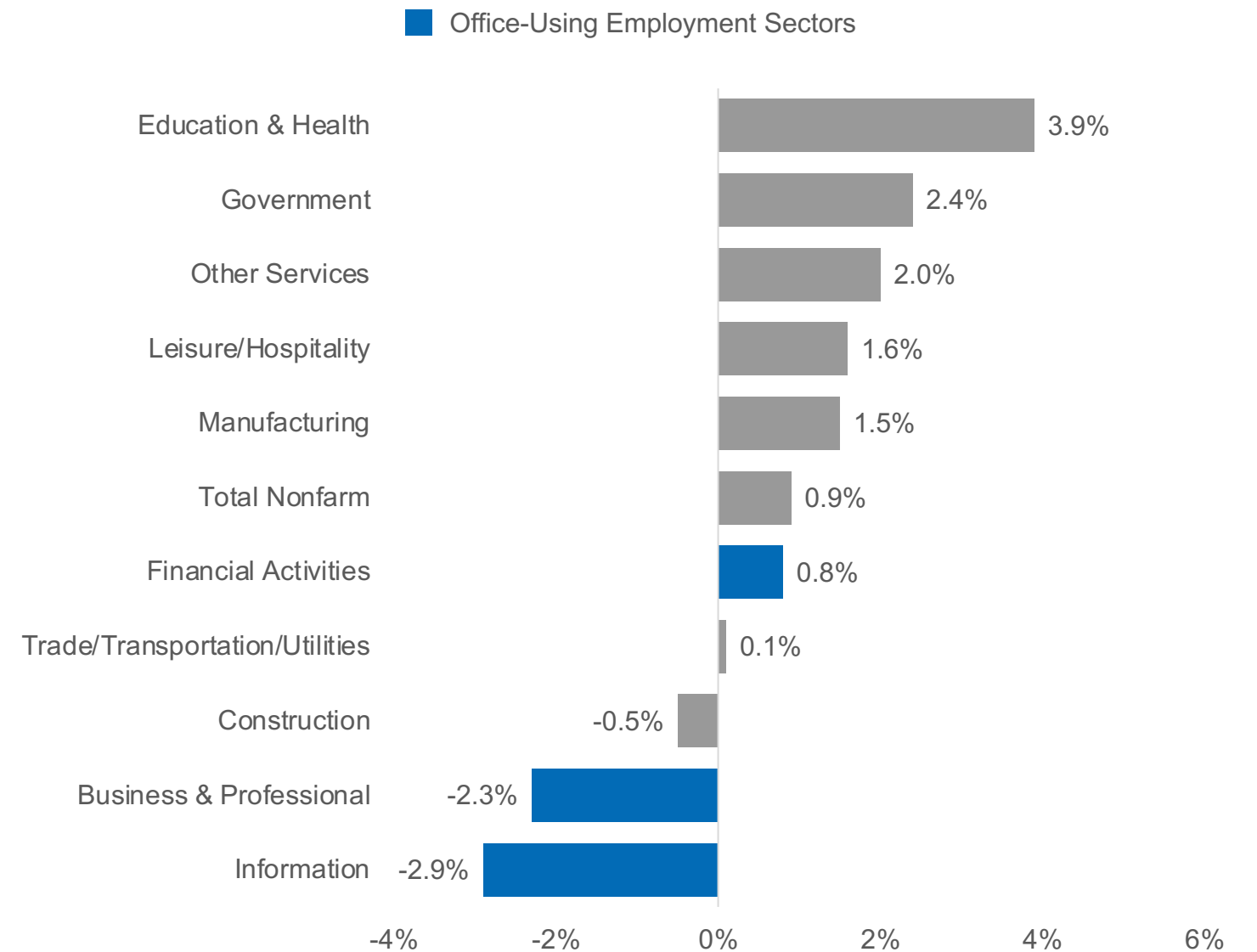
# Job Growth Driven Primarily by Shift in Spending

The Education & Health and Government sectors led all industries in regional annual job growth at 3.9% and 2.4%, respectively. Along with Other Services and Leisure/Hospitality, the top four sectors are benefitting from a post-pandemic shift in spending from goods to services, travel and healthcare expenses. Two out of three office-occupying industries saw annual job losses.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

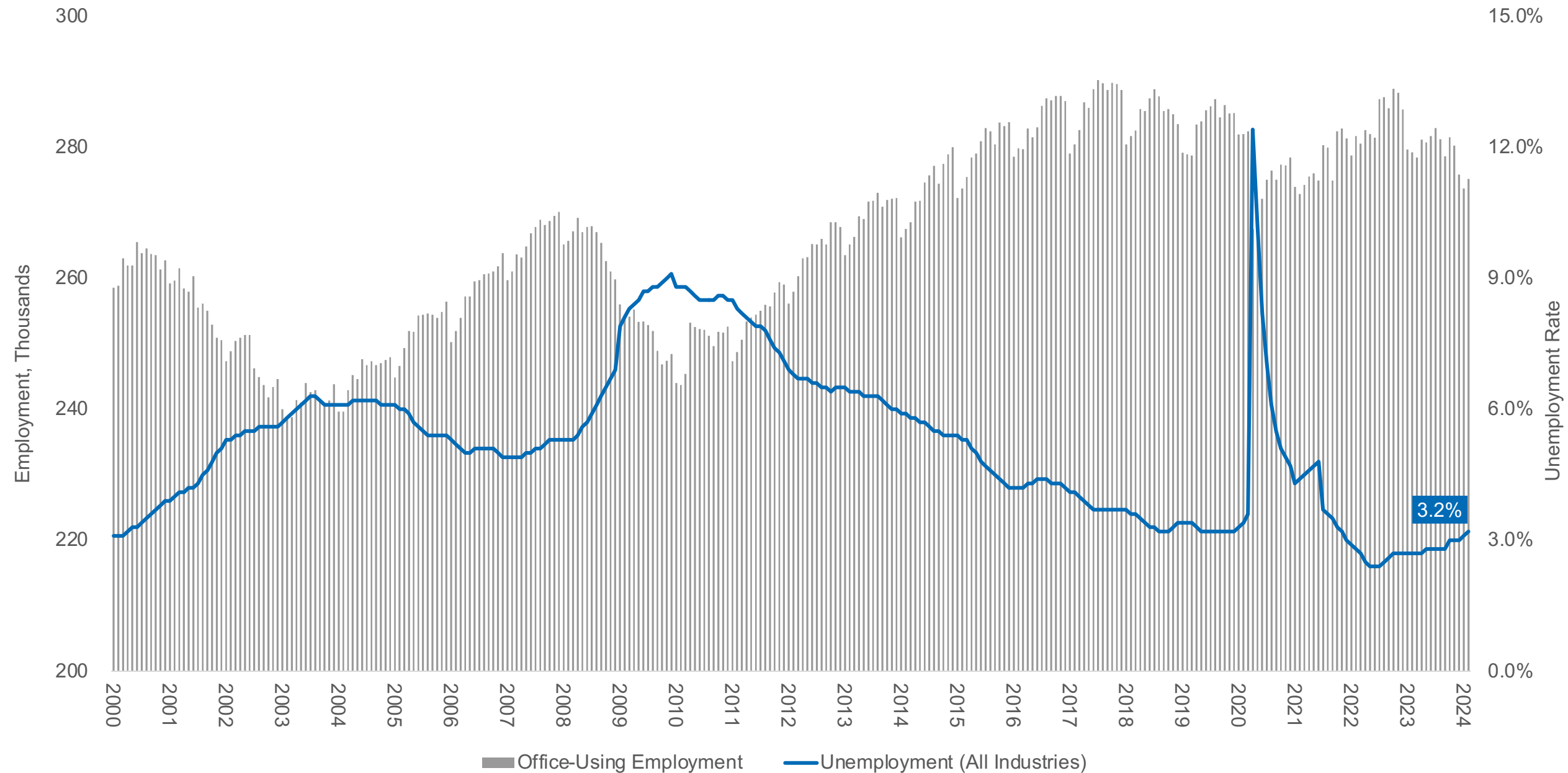


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

# Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to pre-pandemic levels. While there is seasonally a small dip in employment rates at the beginning of each year, the region has already stabilized and is expected to increase.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Kansas City MSA

Note: February 2024 data is preliminary.

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals





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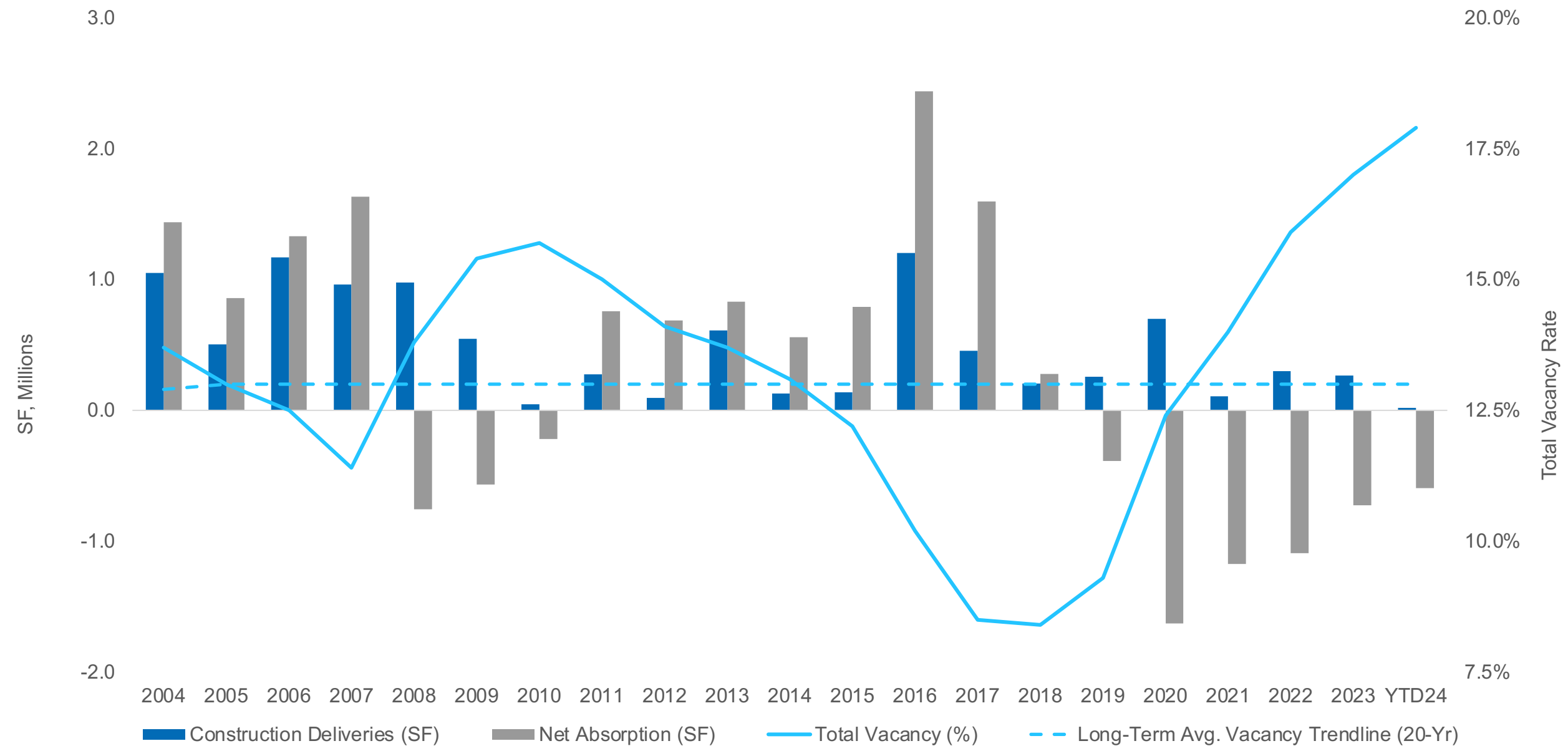
# Market Overview

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# Vacancy Rises as Net Absorption Remains Negative

The vacancy rate increased 1.7% (170 bps) to 17.9% year over year as tenants continue to embrace hybrid work strategies and evaluate ever-changing space needs. Office space conversions to multifamily uses, including the 372,450-SF former AT&T Building and the 220,000-SF former Mark Twain Tower in Downtown Kansas City, among others, will assist to press vacancy rates downwards. Tenants will maintain considerable leverage in most metro submarkets and push landlords to complete aggressive deals.

## Historical Construction Deliveries, Net Absorption, and Vacancy

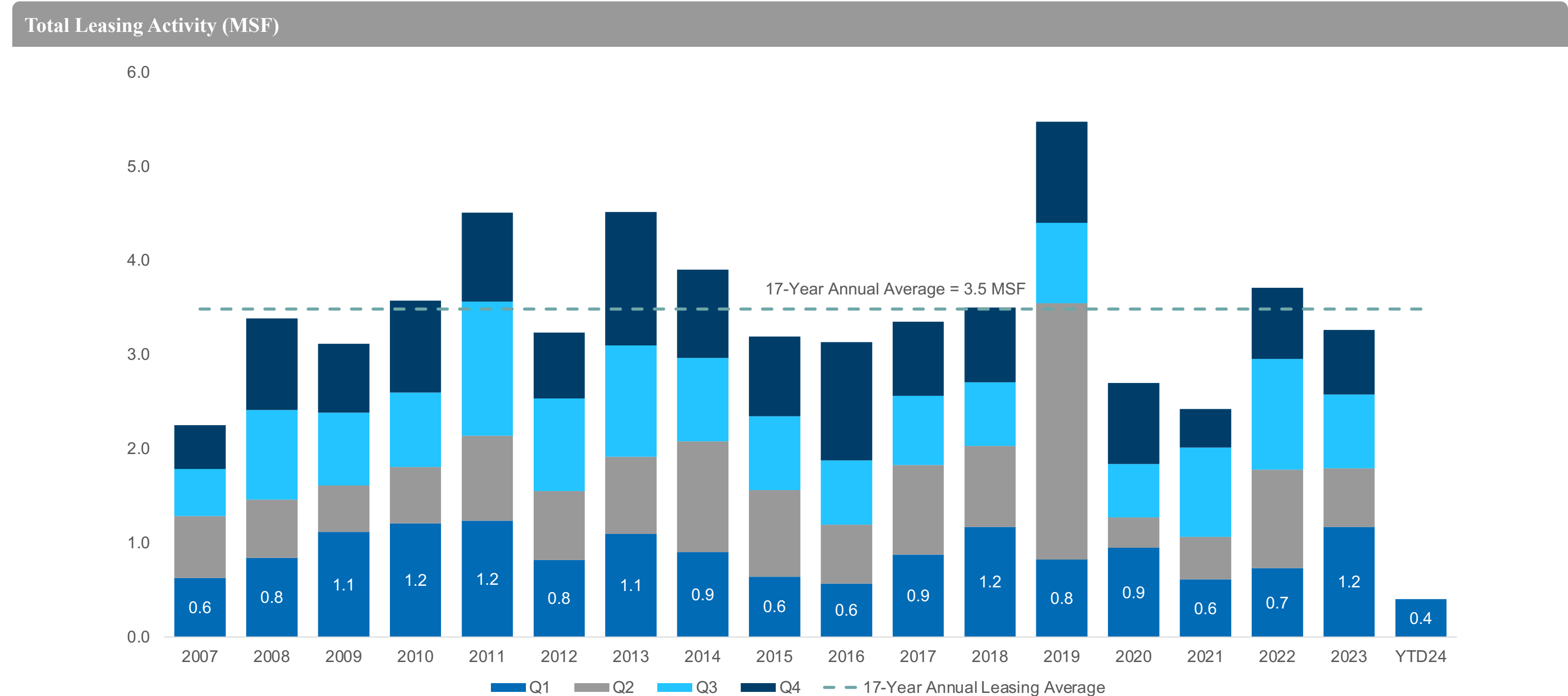


Source: Newmark Research



# Leasing Activity Pace Has Slowed

Total leasing activity during the past four quarters is down 28.4% compared with the 17-year average. In addition to reduced demand for office space as firms consolidate and downsize, macroeconomic uncertainty and limited debt financing due to increased scrutiny by regional and national banks will impact the near and mid-term outlook.



Source: Newmark Research, CoStar

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# Pandemic Consequences and Financing Issues Lead to Fewer Leases Being Signed

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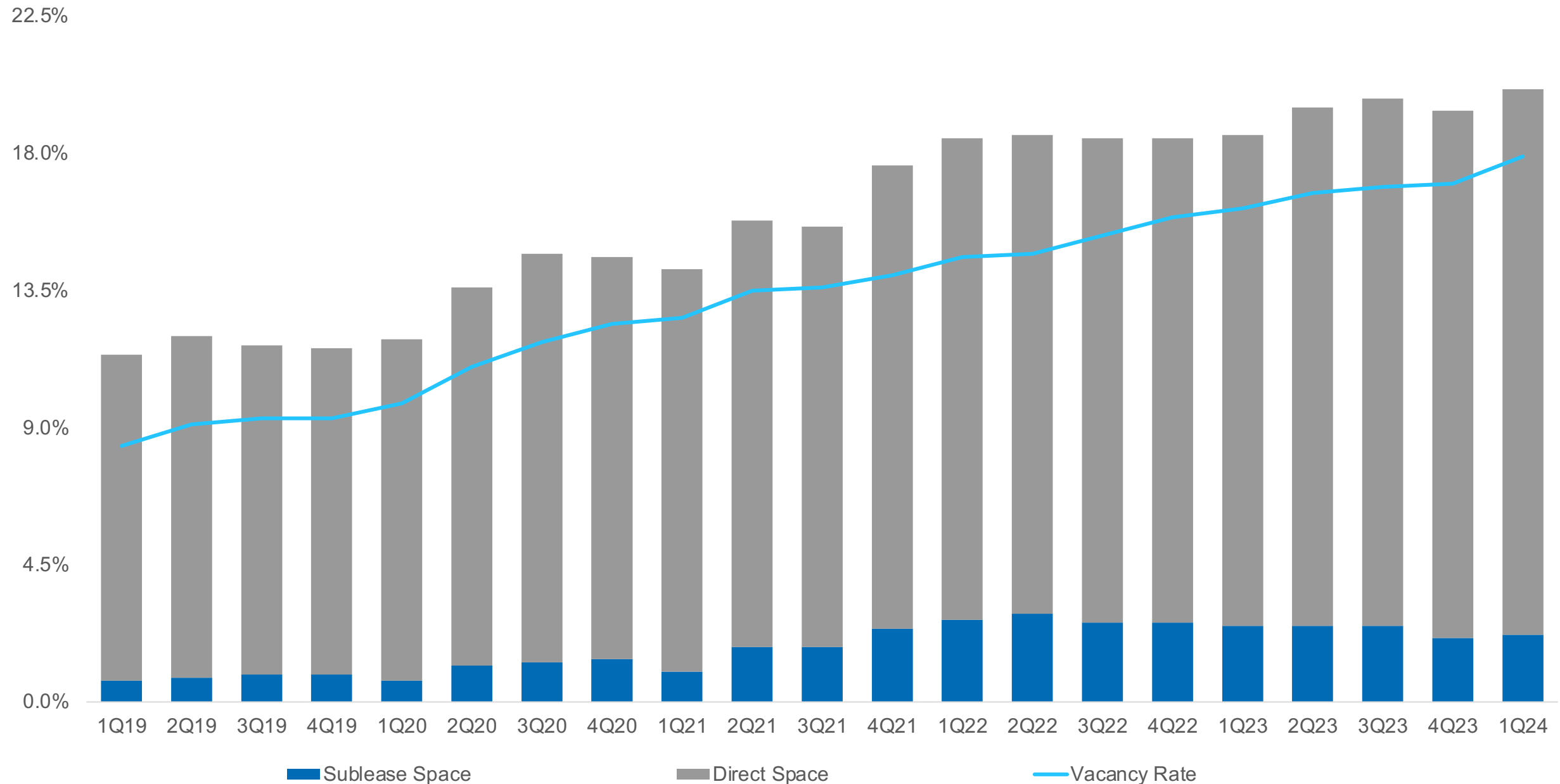
# Reduced Leasing Activity in Most Submarkets Compared with Pre-Pandemic Average

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# Availability Continues to Increase as Overall Tenant Demand Drops

In the years leading to the pandemic, many tech companies, including Cerner and T-Mobile, leased space based on future employment growth as a hedge against diminishing supply and increasing rents. Combined with job cuts in the sector, a significant amount of available sublease space is attributed to technology companies. Sublease space is anticipated to remain elevated in 2024.

## Available Space as Percent of Overall Market



Source: Newmark Research



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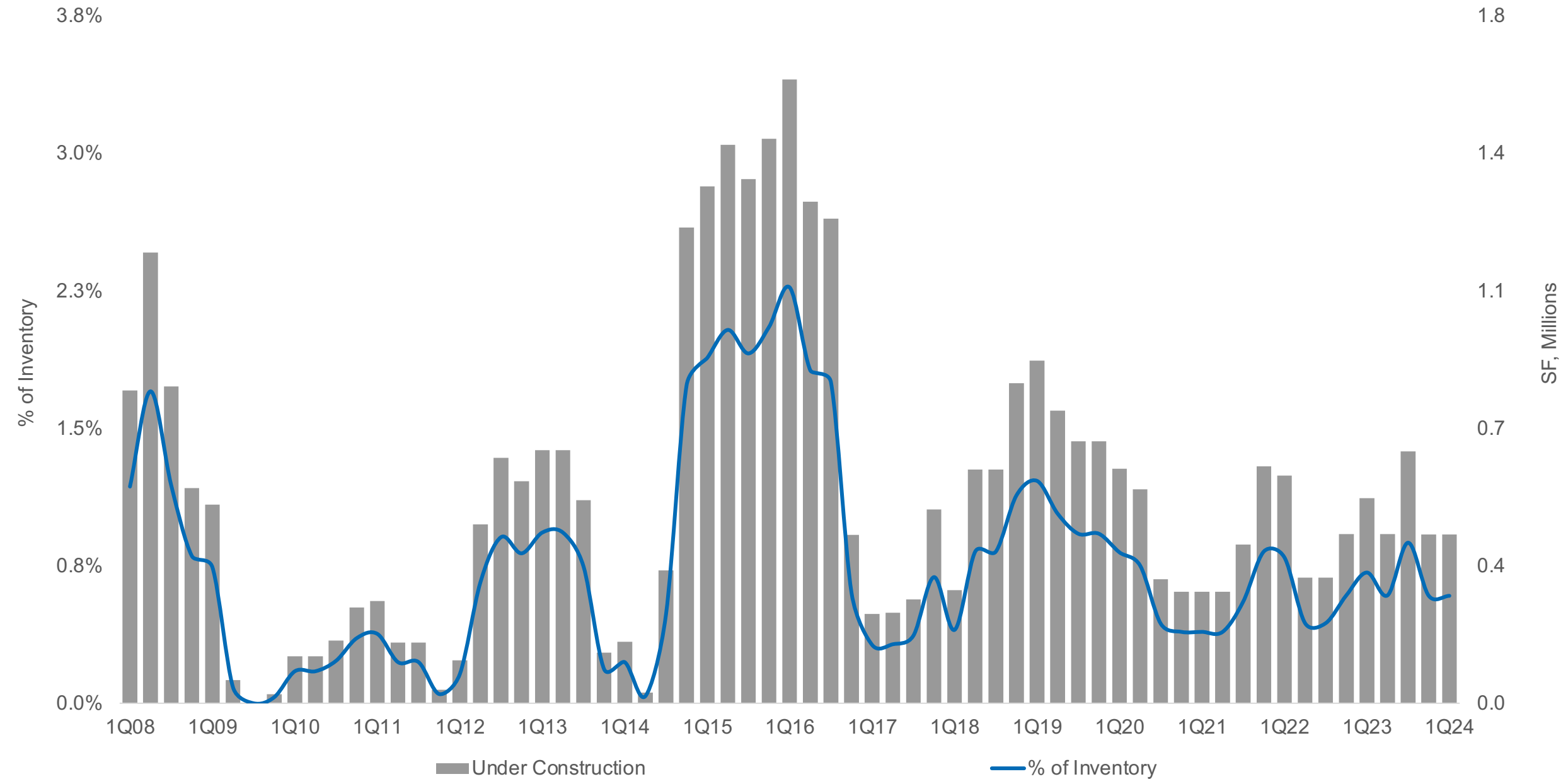
## Availability Rates Increase in All Submarkets Except the Northland

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# New Construction Activity Limited as Vacancy Remains Elevated at 17.9%

With the delivery of 1400KC at 1400 Baltimore Ave. during the second quarter of 2022, now fully leased by Blue Cross & Blue Shield of Kansas City, and the 190,380-SF CityPlace Corporate Center IV delivering in the fourth quarter of 2023, the largest office development currently under construction is the Offices at Overlook I, II and III totaling 160,000 SF on Swope Parkway in Kansas City, Missouri.

## Office Under Construction and % of Inventory



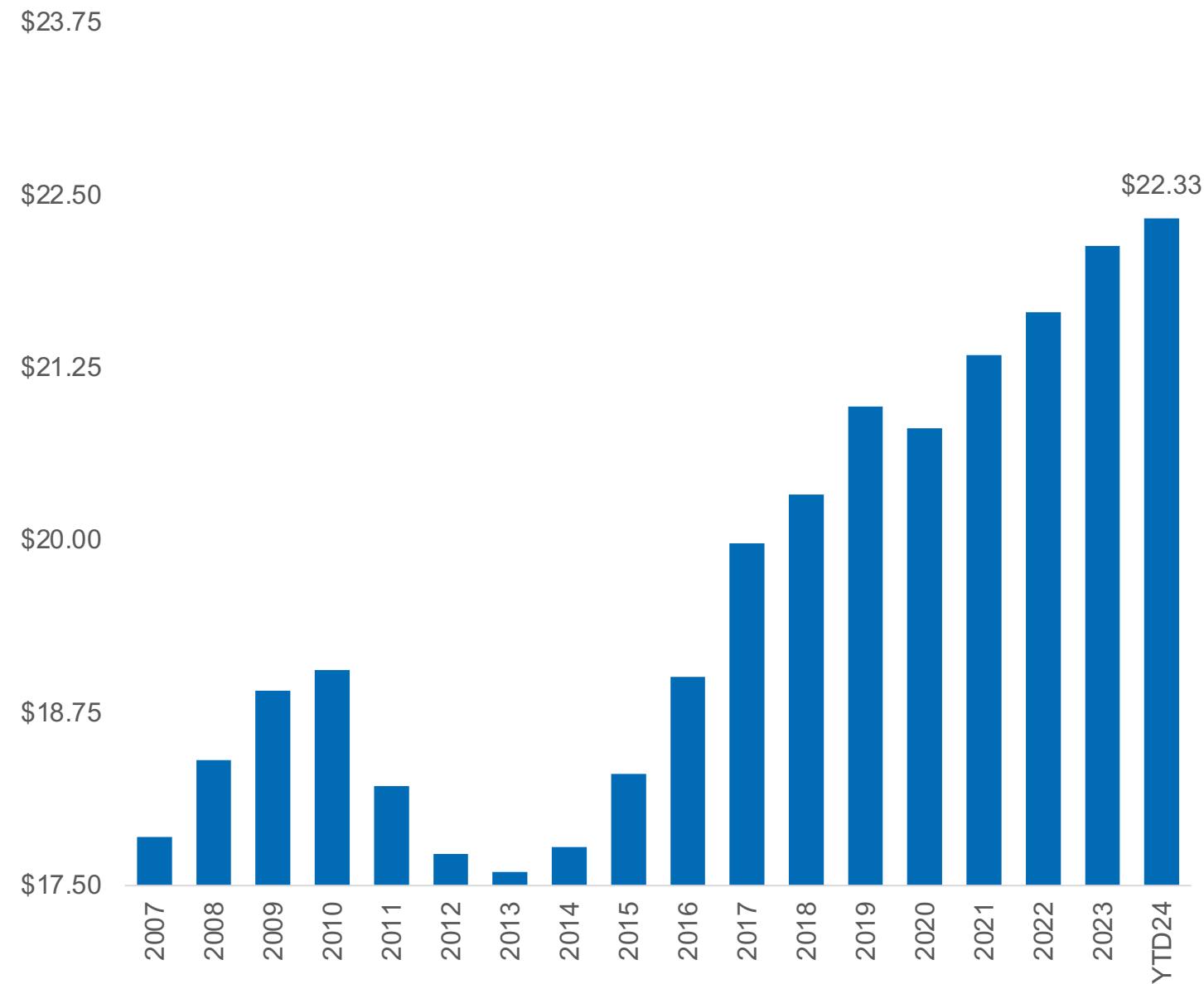
Source: Newmark Research, CoStar, Kansas City Market



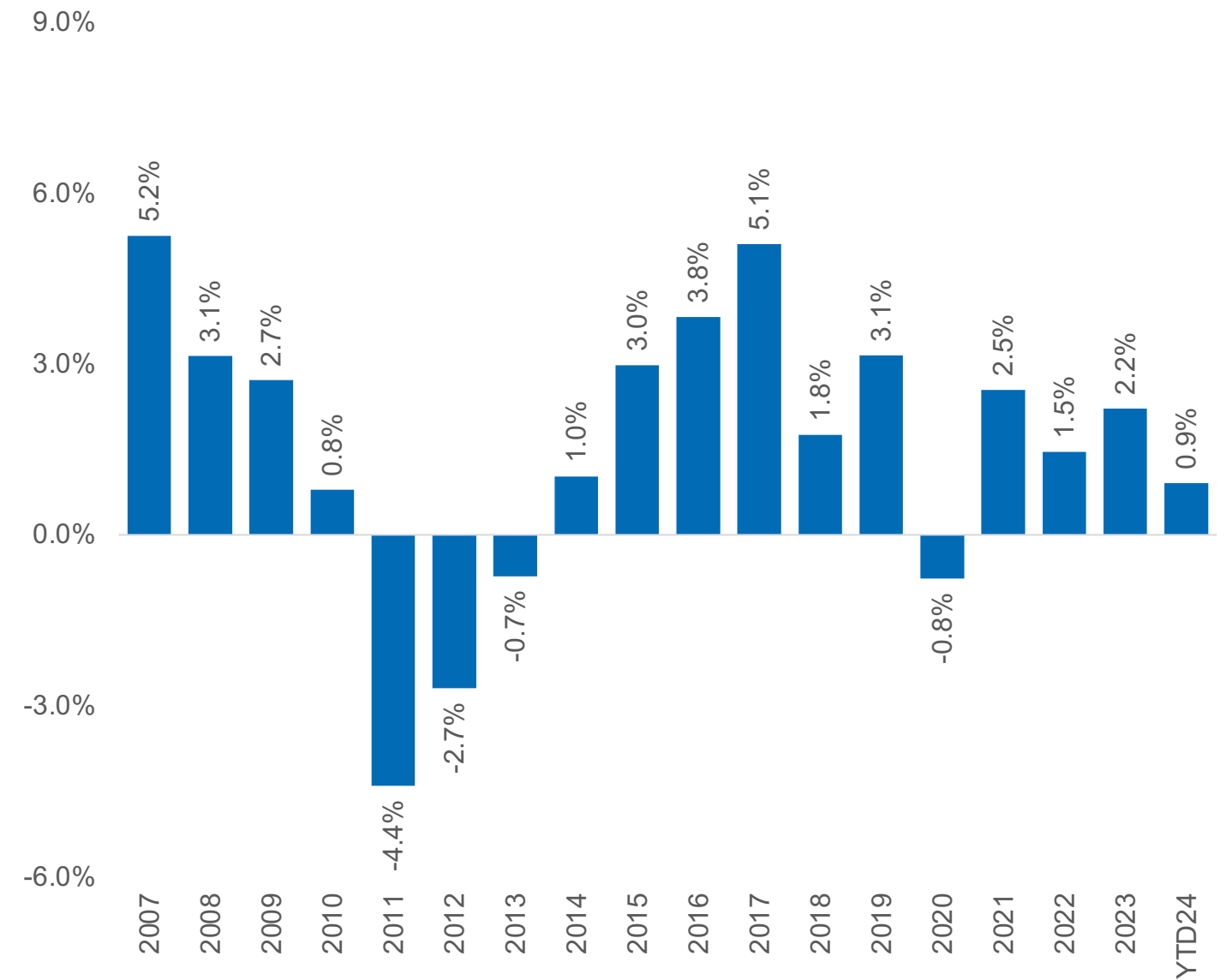
# Rents Continue to Climb but Are Moderating

Overall asking rates increased year over year, rising from \$21.71/SF to \$22.33/SF. This trend is expected to reverse as a lack of liquidity forces landlords to lower rents rather than provide elevated concession packages. As trailing 12-month inflation continues at above-average levels, real asking rental rate growth remains stagnant.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

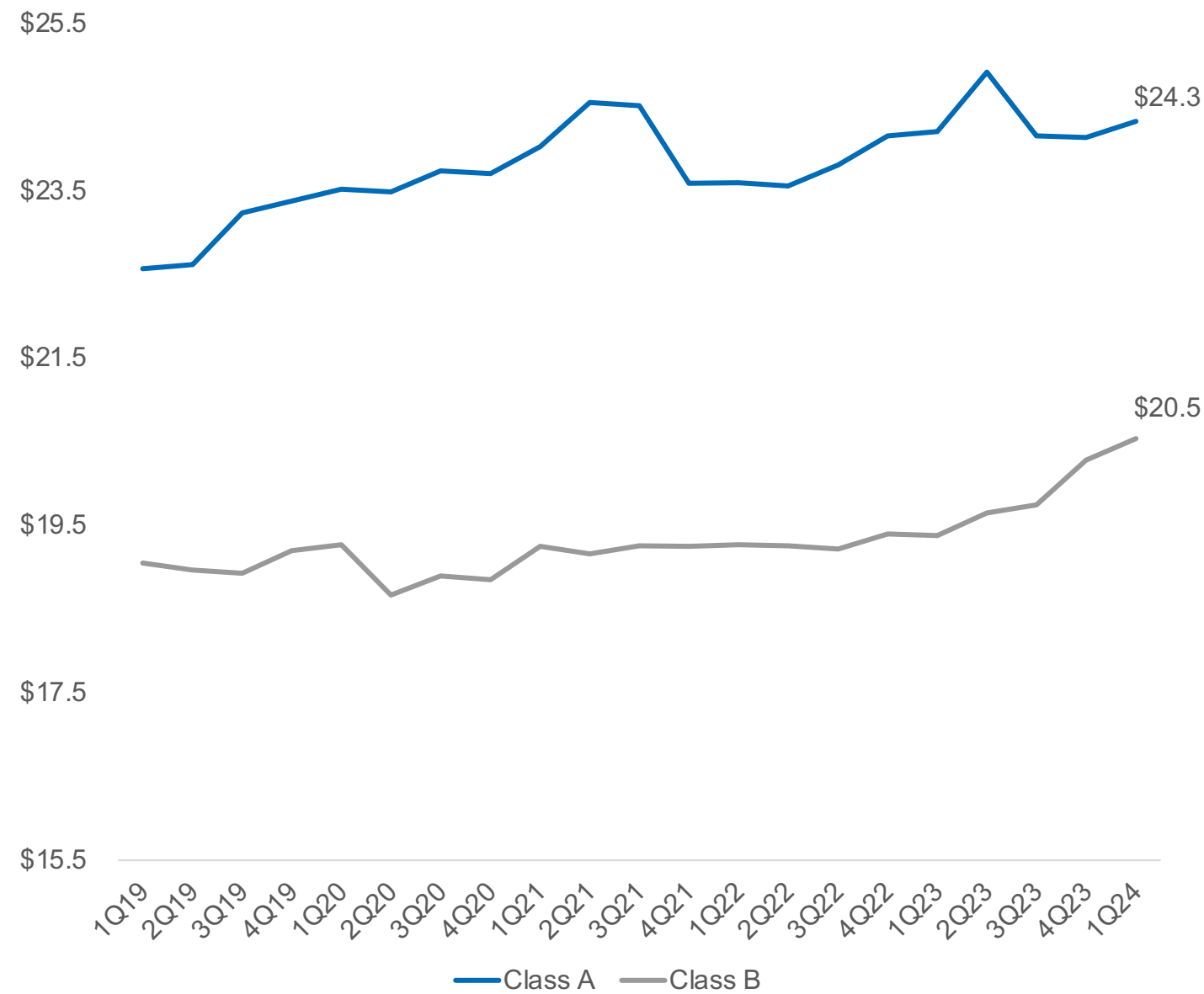


Source: Newmark Research, CoStar

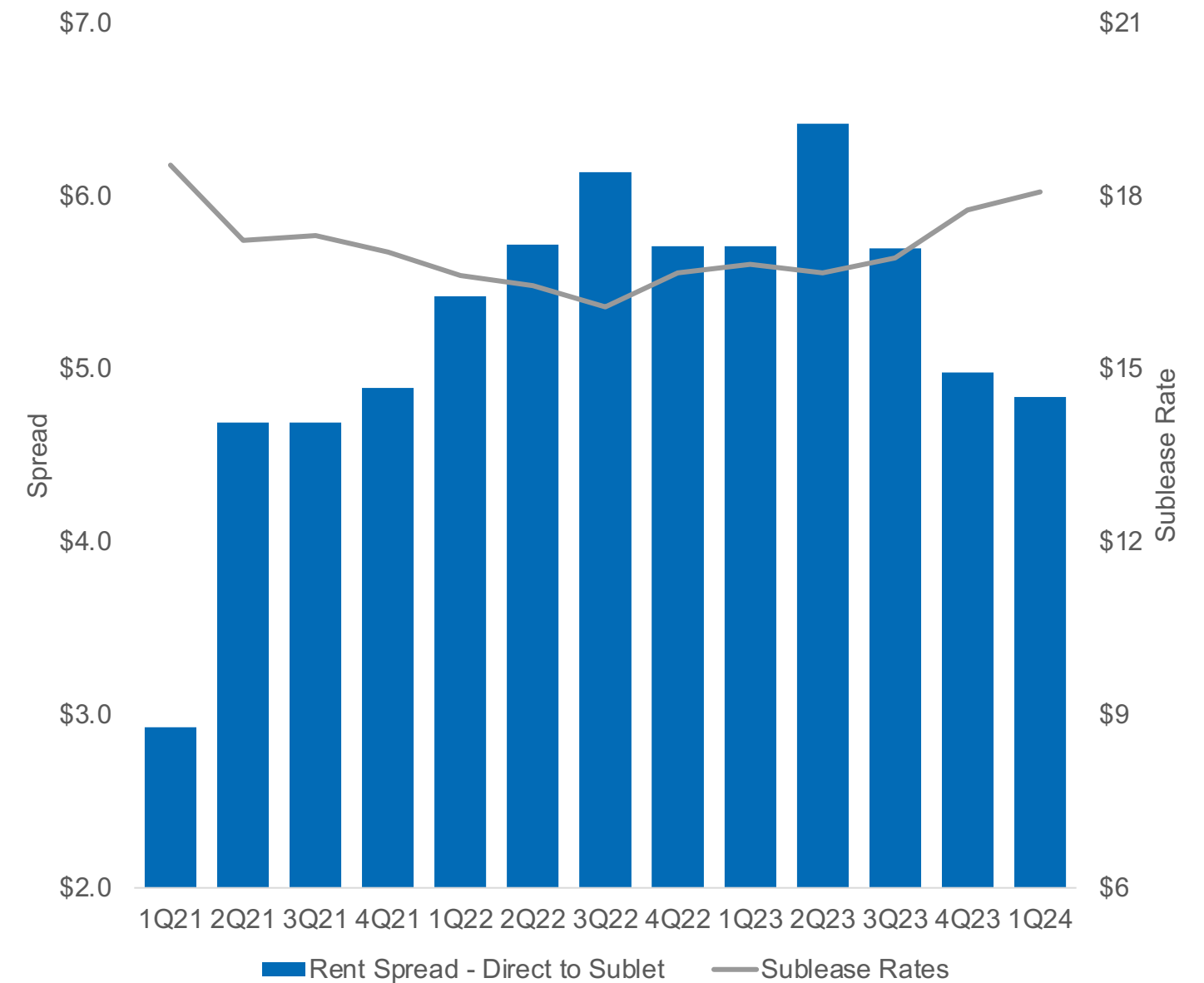
# Class B Rents Increased 6.9% in the Aggregate Since 3Q22

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic, with rents in secondary and tertiary markets like Kansas City continuing to appreciate. Sublease rents have been holding relatively flat for much of the last three years, averaging \$17.09/SF, which more visibly exhibits the impact of low demand.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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## Select Submarkets Push the Overall Market Rental Rate Upwards

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# 1Q24 Notable Leasing Activity

New or newly renovated Class A office space with a prime amenities package will remain in demand during the next four quarters. In addition to the below, notable news items during the quarter include: Google will invest \$1.0 billion in a new data center in the Northland; Hart, Inc. will relocate its headquarters to the Kansas City market; Sano Orthopedics leased 21,160 SF at N. 6301 Lucerne Ave.; Walnut Risk Management will move its headquarters to Aspiria; and Helix Architecture + Design will move its headquarters to 220 W. 18th St.

## Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Rally House	8345 Lenexa Drive	North Johnson County	Direct Lease	29,170
<i>The collegiate and professional sports retailer Rally House has signed a lease for 29,170 SF of space on the second floor of the 123,780-SF building at 8345 Lenexa Drive. The space was offered at an asking rental rate of \$21.75/SF. The lease is expected to start in June 2024.</i>				
Greater KC LINC	2301 McGee Street	Crown Center	Direct Lease	17,260
<i>The local nonprofit organization announced it signed a three-year lease on the sixth floor of 2301 McGee. The space was offered at an asking rental rate of \$22.50/SF. The lease is expected to start on November 2024.</i>				
First Federal Bank	7007 College Boulevard	South Johnson County	Renewal	14,800
<i>First Federal Bank renewed its lease for 14,800 SF on the sixth floor of the 150,890-SF Park Renaissance I.</i>				
New York Life Insurance Company	7101 College Boulevard	South Johnson County	Direct Lease	13,550
<i>New York Life Insurance Company signed a lease to occupy 13,550 SF on the 14th floor of the 228,040-SF BOK Financial Tower. The space was offered at an asking rental rate of \$27.00/SF. The lease is expected to start in April 2024.</i>				
USI Insurance Services	10881 Lowell Avenue	South Johnson County	Direct Lease	9,300
<i>USI Insurance Services signed a seven-year lease to occupy 9,300 SF on the second floor of the 96,720-SF Building I of APEX435. The space was offered at an asking rental rate of \$22.00/SF. The lease is expected to start in July 2024.</i>				

Source: Newmark Research



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# Submarket Statistics





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Submarket Statistics: All Classes (Pages 1-3), Class A (Page 4), Class B (Page 5)

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