

Kansas City Office Market

Concessions and Longer Lease Terms Push Asking Rental Rates Upwards

Market vacancy in Kansas City rose to 12.9%, an increase of 60 basis points from the prior quarter and an increase of 190 basis points from one year ago. The market realized an increase in asking rental rates in the second quarter of 2021, as rents climbed to a record high of \$21.62/SF, up \$0.31/SF from first-quarter 2021. While the office market realized an increase in asking rental rates during the quarter, tenants are often seeing more concessions in the form of free rent and tenant improvement allowances as well as longer lease terms to accommodate the ever-increasing construction costs. Total net absorption in the quarter measured negative 398,333 square feet, bringing the total for the past four quarters to negative 1.2 million square feet. Construction projects currently underway total 389,396 square feet, with no deliveries during the quarter.

TTEC Holdings, Inc. Signs New Lease for 19,300 Square Feet at Aspiria Campus Creating 450 Jobs

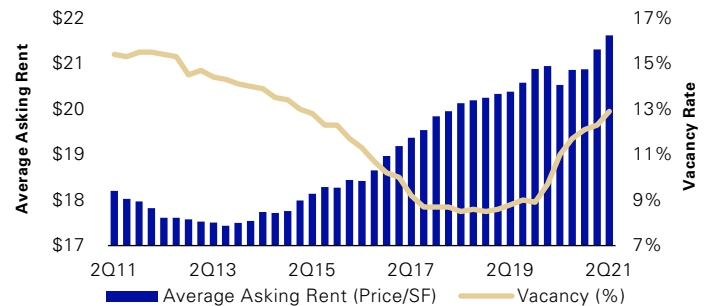
Occidental Management signed TTEC Holdings, Inc., an Englewood, Colorado-based leader in global digital customer experience technology and services firm, to a 19,300-square-foot lease at 6330 Sprint Parkway within the Aspiria Campus in Overland Park. The firm has already begun the hiring process to staff the new location and expects to fill 450 new sales and customer service positions within the next six months. Employees will start by exclusively working remotely while the space is being finalized, eventually using a hybrid workplace strategy. TTEC Holdings will receive an incentive package from the State of Kansas. As a hub for technology-driven firms similar to TTEC Holdings, the campus is focusing its efforts to provide tenants with environmentally conscious energy policies. Occidental Management has partnered with Evergy to provide 100% renewable energy at Aspiria for the next 20 years. The Renewables Direct program from Evergy will allow the campus to offset a portion of its usage with renewable energy from the Ponderosa and Soldier Creek Wind Farms in Oklahoma and Kansas. Since purchasing the campus in 2019, Occidental

Current Conditions

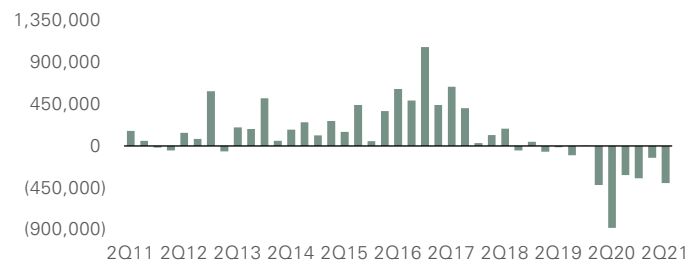
- Asking rental rates rise to new highs due to more free rent and tenant improvement allowances combined with longer lease terms.
- TTEC Holdings signs 19,300-SF lease at the Aspiria Campus.
- Development pipeline picks up momentum with 105,290-SF project in South Kansas City.
- Expect increased demand for co-working spaces in the fall as workers are fully vaccinated and employers start to define various workplace options.

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	12.9%	12.3%	11.0%	↑
Qtr. Net Absorp.	-398,333	-127,051	-881,895	↓
Avg. Asking Rent	\$21.62	\$21.31	\$20.53	↔
Under Con.	389,396	389,396	489,020	↔
Deliveries	0	0	52,000	↑

Management has reduced energy costs by nearly \$1.0 million, cutting utility bills for tenants. Aspira could become the nation's second-largest corporate campus with 1.1 million square feet of new office space, in addition to the former Sprint Campus offerings, 375,000 square feet of retail space, 600 multi-family units, a 120-room hotel with restaurants, community parks and an amphitheater.

Development Pipeline Picks up Momentum with 105,290-Square-Foot Project in South Kansas City

With speculative projects and overdevelopment kept in check during the past four years, the Kansas City office sector is gathering momentum in the development pipeline. VanTrust Real Estate announced plans in May for a Class A, 105,290-square-foot office development near the St. Joseph Medical Center in the South Kansas City submarket. UMB Bank and VanTrust submitted a development plan and rezoning request for a 4.3-acre land parcel owned by UMB. The plan calls for a new 4,500-square-foot, four-story UMB branch building on a portion of the land, with the remaining 3.3-acre area to be sold to VanTrust for its proposed four-story office property and parking garage. The building is estimated to begin construction in October 2021 and deliver by first-quarter 2024. This is the third recent office project proposed by VanTrust in the past few months, indicating a shift in market fundamentals as the market readjusts from the pandemic.

Overall Market Vacancy Should Range from 12.2% to 13.5% During the Next Four Quarters

The Kansas City office sector slowed in the past four quarters, as negative 1.2 million square feet was absorbed. Although the market has already begun to adjust to work-from-home and hybrid workplace strategies, 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 940,377 square feet, an increase of 26.3% from the prior quarter, increasing by 68.0% compared to second-quarter 2019. Expect the quantity of available sublease space in the market to range between 950,000 to 1.1 million square feet by the end of 2021.

Although the pandemic forced approximately 700 co-working spaces across 30 major U.S. metros to permanently shut their doors, expect increased demand in the fall, when a higher percentage of workers are fully vaccinated and employers start to define various workplace options. Overall market vacancy in Kansas City should range from 12.2% to 13.5%, while asking rental rates are expected to range from \$21.05/SF to \$21.85/SF during the next four quarters.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
First Federal Bank of Kansas City	11550 Ash St	South Johnson County	New	24,150
Parker-Hannifin Corporation	11501 Outlook St	South Johnson County	Renewal	21,540
TTEC Holdings, Inc.	6330 Sprint Pkwy	South Johnson County	New	19,300
OneDigital	11101 Switzer Rd	South Johnson County	New	16,930
Massman-Clarkson	600 Broadway Blvd	Downtown/Crown Center	New	15,550
Prime Cap. Investment Advisors	6201 College Blvd	South Johnson County	New	9,220

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
3500 College Blvd	South Johnson County	\$5,700,000	\$195	29,220
1650 NE Grand Ave	Southeast Jackson County	\$3,729,000	\$193	19,340
5350 College Blvd	South Johnson County	\$1,475,000	\$149	9,910
6080 N Oak Tfwy	Northland	\$1,000,000	\$103	9,760
7815 Floyd St	North Johnson County	\$815,000	\$100	8,120
322 Southwest Blvd	Downtown/Crown Center	\$1,500,000	\$185	8,100
15421 W 87th St	North Johnson County	\$3,857,000	\$691	5,580

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	175	19,569,459	260,000	12.00%	-101,212	163,534	\$22.84
	Class A	28	8,070,028	260,000	18.10%	-57,058	-113,723	\$24.52
	Class B	110	9,457,987	0	7.70%	-28,817	285,344	\$19.25
	Class C	37	2,041,444	0	8.20%	-15,337	-8,087	\$16.01
East Jackson Co.	ALL	76	4,074,783	21,396	7.70%	-111,170	-55,133	\$17.61
	Class A	2	166,010	0	14.80%	2,159	2,159	\$22.09
	Class B	46	2,669,710	21,396	10.30%	-118,579	-83,711	\$17.65
	Class C	28	1,239,063	0	1.30%	5,250	26,419	\$14.59
Midtown/Plaza	ALL	78	6,167,371	0	11.00%	14,649	21,867	\$26.93
	Class A	18	2,855,786	0	13.70%	12,951	9,384	\$29.52
	Class B	42	2,557,385	0	8.60%	286	11,371	\$23.73
	Class C	18	754,200	0	8.60%	1,412	1,112	\$18.79
North Johnson Co.	ALL	131	7,138,011	0	14.20%	13,151	-47,151	\$20.63
	Class A	16	1,583,856	0	28.20%	6,409	24,204	\$22.66
	Class B	100	5,069,630	0	11.00%	6,742	-65,988	\$19.12
	Class C	15	484,525	0	1.70%	0	-5,367	\$15.58
Northland	ALL	92	5,425,718	0	23.90%	-172,944	-310,145	\$17.95
	Class A	8	1,152,257	0	38.70%	-131,920	-254,765	\$20.80
	Class B	68	3,732,419	0	21.90%	-41,024	-55,380	\$16.75
	Class C	16	541,042	0	5.90%	0	0	\$16.51
South Johnson Co.	ALL	289	22,775,297	108,000	14.30%	-42,434	-289,096	\$22.05
	Class A	85	11,430,251	108,000	10.90%	-55,250	-91,223	\$24.92
	Class B	191	10,966,370	0	18.20%	12,255	-201,034	\$20.40
	Class C	13	378,676	0	2.90%	561	3,161	\$17.19
South Kansas City	ALL	56	5,249,658	0	7.80%	15,687	-15,006	\$19.15
	Class A	12	2,562,454	0	0.00%	0	0	\$21.00
	Class B	42	2,615,302	0	15.60%	15,687	-15,006	\$19.15
	Class C	2	71,902	0	0.00%	0	0	\$15.00
Southeast Jackson Co.	ALL	18	1,622,265	0	5.10%	6,140	29,984	\$20.54
	Class A	2	103,442	0	0.00%	0	0	\$24.50
	Class B	13	1,426,047	0	5.50%	1,659	25,503	\$20.54
	Class C	3	92,776	0	3.60%	4,481	4,481	\$17.50
Wyandotte Co.	ALL	40	2,250,125	0	6.10%	-20,200	-24,238	\$18.74
	Class A	2	111,995	0	17.90%	-19,000	-19,000	\$27.91
	Class B	24	1,441,908	0	5.60%	-1,200	-5,238	\$18.88
	Class C	14	696,222	0	5.20%	0	0	\$15.01
Kansas City Market	ALL	955	74,272,687	389,396	12.90%	-398,333	-525,384	\$21.62
	Class A	173	28,036,079	368,000	14.50%	-241,709	-442,964	\$24.54
	Class B	636	39,936,758	21,396	12.90%	-152,991	-104,139	\$19.52
	Class C	146	6,299,850	0	5.40%	-3,633	21,719	\$15.67

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	8,070,028	260,000	18.10%	-57,058	-113,723	\$26.09	\$16.97	\$24.52
East Jackson County	166,010	0	14.80%	2,159	2,159	\$22.09	-	\$22.09
Midtown/Plaza	2,855,786	0	13.70%	12,951	9,384	\$29.90	\$22.04	\$29.52
North Johnson County	1,583,856	0	28.20%	6,409	24,204	\$22.66	-	\$22.66
Northland	1,152,257	0	38.70%	-131,920	-254,765	\$20.80	-	\$20.80
South Johnson County	11,430,251	108,000	10.90%	-55,250	-91,223	\$26.06	\$18.19	\$24.92
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	17.90%	-19,000	-19,000	\$27.91	-	\$27.91
Kansas City Market	28,036,079	368,000	14.50%	-241,709	-442,964	\$25.42	\$17.62	\$24.54

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	9,457,987	0	7.70%	-28,817	285,344	\$19.25	\$18.40	\$19.25
East Jackson County	2,669,710	21,396	10.30%	-118,579	-83,711	\$17.65	-	\$17.65
Midtown/Plaza	2,557,385	0	8.60%	286	11,371	\$23.73	-	\$23.73
North Johnson County	5,069,630	0	11.00%	6,742	-65,988	\$19.86	\$17.09	\$19.12
Northland	3,732,419	0	21.90%	-41,024	-55,380	\$16.75	-	\$16.75
South Johnson County	10,966,370	0	18.20%	12,255	-201,034	\$20.44	\$19.03	\$20.40
South Kansas City	2,615,302	0	15.60%	15,687	-15,006	\$19.23	\$17.66	\$19.15
Southeast Jackson County	1,426,047	0	5.50%	1,659	25,503	\$20.54	-	\$20.54
Wyandotte County	1,441,908	0	5.60%	-1,200	-5,238	\$18.88	-	\$18.88
Kansas City Market	39,936,758	21,396	12.90%	-152,991	-104,139	\$19.62	\$17.62	\$19.52

Economic Conditions

The local economy continued to improve in May, with total employment growth of 8.1% and positive growth in eight out of 10 industries, calculated on a 12-month percent change basis.

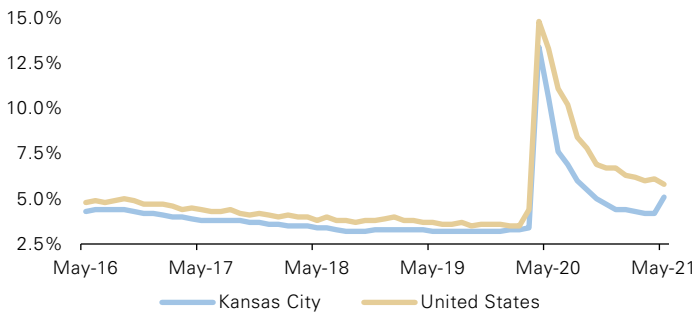
Payroll employment in Kansas City increased significantly in April and May 2021 compared to the prior year, increasing to a record high of 10.4%. The national average also increased substantially, rising from negative 5.9% in February 2021 to 9.0% in May 2021.

The Consumer Price Index for the U.S. increased 490 basis points compared to the prior year, registering 5.0% in May 2021, while the Midwest Urban CPI increased 600 basis points to 5.6%, both 13-year record highs.

Unemployment in the U.S. decreased 40 basis points to 5.8%, while unemployment in Kansas City increased 80 basis points to 5.1% compared with the past quarter. Unemployment in Kansas City decreased 550 basis points from a year prior.

Unemployment Rate

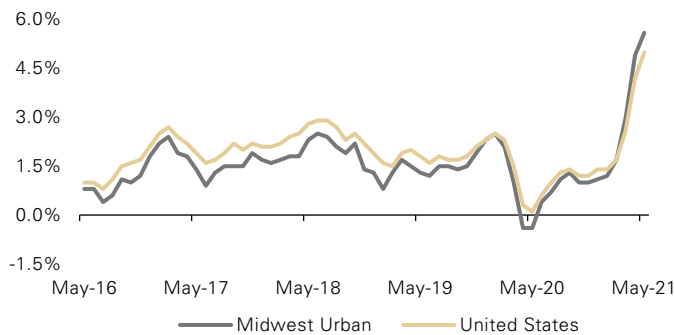
Seasonally Adjusted



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

Consumer Price Index (CPI)

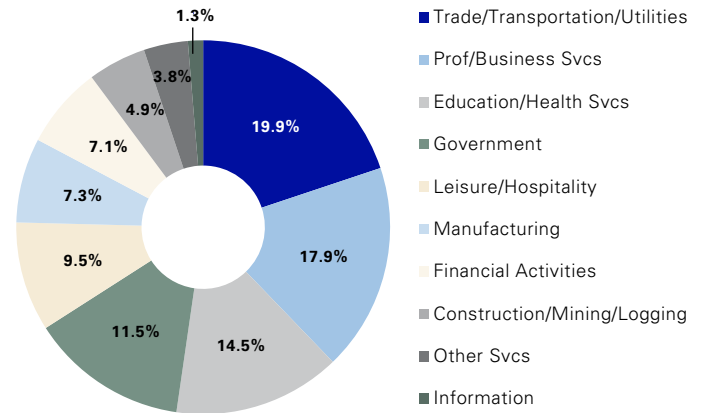
All Items, 12-Month % Change, Not Seasonally Adjusted



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

Employment By Industry

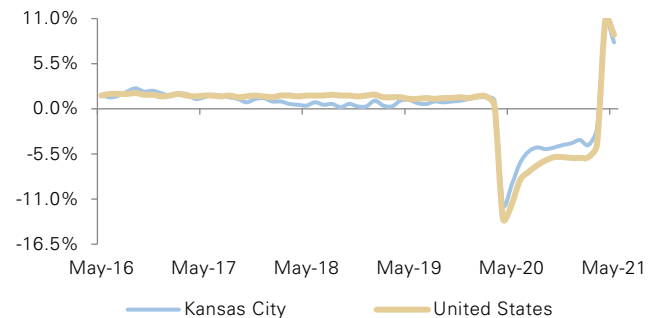
Kansas City, May 2021



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

Payroll Employment

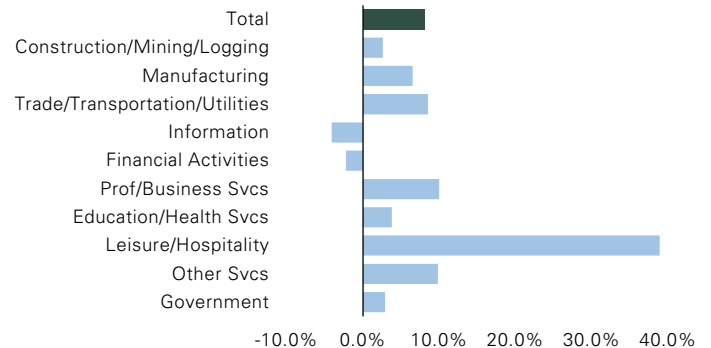
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



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

Employment Growth By Industry

KC, May 2021, 12-Month % Change, Not Seasonally Adjusted



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

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