

Kansas City Office Market

Class A Attracting Majority of Market Activity

Market vacancy in Kansas City increased to 14.4%, up 50 basis points from the prior quarter. The market realized an increase in asking rental rates in the second quarter of 2022, as rents slightly increased to \$21.36/SF, up \$0.11/SF from the first quarter of 2022. While the overall trend in asking rental rates since the second quarter of 2020 continues to increase, tenants are often seeing more concessions in the form of free rent and tenant improvement allowances to offset the increase, as well as longer lease terms to accommodate the ever-increasing construction costs. As trailing 12-month inflation continues at 40-year record levels, real asking rental rate growth is stagnant across many metro markets in the U.S. Total market net absorption in the quarter measured negative 137,877 square feet, bringing the total for the past four quarters to negative 972,582 square feet. Construction projects currently underway total 319,492 square feet. The former Waddell & Reed office headquarters, located at 1400 Baltimore Ave. in Downtown, delivered 260,000 square feet of Class A space to the market during the quarter. Market fundamentals for the second half of 2022 will remain contractionary as tenants continue to evaluate ever-changing space needs. New or newly renovated Class A office space in marquee submarkets which combine easy accessibility, and a prime amenities package will remain in demand, even as rental rates increase. Class B space owners with dated space will face an uphill battle attracting prospects and retaining current tenants during the next four quarters. Tenants will continue to maintain considerable leverage for the remainder of the year in most Metro submarkets.

Price Brothers Purchase Lighton Plaza, a Three-Building Office Portfolio for \$61.8 Million

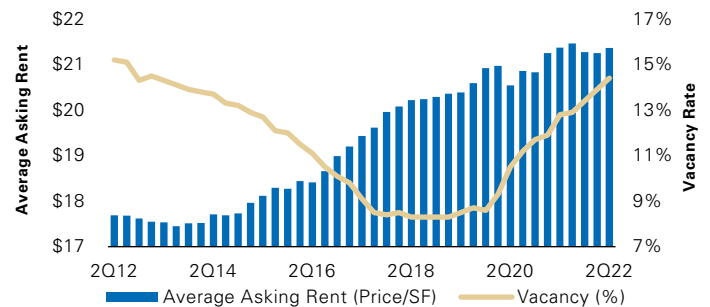
South Johnson County continues to lead the market in sales activity as BentallGreenOak divested a three-building portfolio to Price Brothers for \$61.8 million, or \$130/SF. The transaction is the largest in the market by sales price dating back to the start of the pandemic. Totalling 475,800 square feet, the Class A portfolio included the six-story, Lighton Plaza I located at 7300 College Blvd., the six-story, Lighton Plaza II at 7400 College Blvd. and the 14-story, Lighton Plaza III at 7500 College Blvd.

Current Conditions

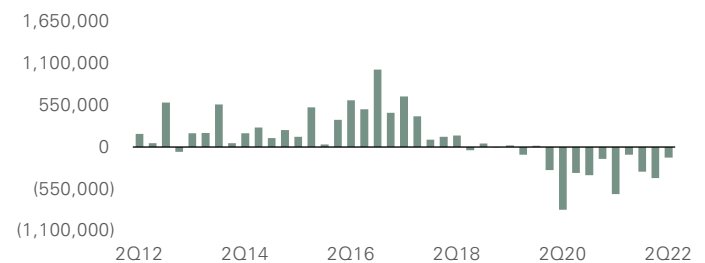
- Market fundamentals for the second half of 2022 will remain contractionary. Declining utility of dated Class B office space during the pandemic is negatively pressuring select properties across the Metro.
- Price Brothers purchased Lighton Plaza, a three-building portfolio for \$61.8 million.
- Academy Bank to relocate headquarters to 1201 Walnut, leasing 49,790 square feet.

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	14.4%	13.9%	12.8%	↑
Qtr. Net Absorp.	-137,877	-407,981	-618,918	↓
Avg. Asking Rent	\$21.36	\$21.25	\$21.37	↔
Under Con.	319,492	260,000	389,396	↔
Deliveries	260,000	0	0	↑

The portfolio was approximately 81% leased at the time of sale and includes tenants such as Wells Fargo, Foulston Siefkin LLP, Regus, Burns & Wilcox and New York Life Insurance Co.

Academy Bank Moves Corporate Headquarters from Town Pavilion to 1201 Walnut

Academy Bank announced in June it will relocate its corporate headquarters from Town Pavilion to 1201 Walnut, occupying a total of 49,790 square feet. With corporate offices located on the 10th, 11th and 12th floors, Academy Bank's new space will feature a first-floor banking branch in the lobby, which is expected to open by the fourth quarter of 2022. The relocation will reduce the firm's footprint by 31.3%, following a trend of recent office space downsizing. Academy Bank is a subsidiary of Dickinson Financial Corporation, a family-owned and locally headquartered financial services holding company.

Asking Rental Rates Are Expected to Range from \$21.20/SF to \$21.80/SF During Next Four Quarters

The Kansas City office market loosened in the second quarter of 2022 as negative 137,877 square feet were absorbed. With net absorption during the past four quarters totaling negative 971,582

square feet, average quarterly net absorption has significantly decreased, measuring negative 358,201 square feet during the past 10 quarters. 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 during the second half of 2022. Leasing commitments during the quarter were active, especially in the Downtown/Crown Center and South Johnson County submarkets, as tenants locked in favorable terms for new direct and subleased spaces.

Expect favorable conditions and opportunities for prospective tenants to upgrade from Class B to Class A space during the next four quarters, as two submarkets in the Metro display vacancy rates for Class A space exceeding 23% and three additional submarkets display vacancy from 14.3% to 17.9%. Concessions in the form of abated rent and additional tenant improvement allowances, plus inflationary pressures offset by longer lease terms, continue to assist in driving asking rental rates upwards. Overall market vacancy should range from 14.4% to 16.1%, while asking rental rates are expected to range from \$21.20/SF to \$21.80/SF during the next four quarters.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Dynamic Logistix	6800 W 115th St	South Johnson County	Sublease	44,480
Artio Medical, Inc.	11150 Overbrook Rd	South Johnson County	New	17,480
Mythical, Inc.	1321 Baltimore Ave	Downtown/Crown Center	New	16,000
Keller Williams Realty, Inc.	7070 Renner Rd	North Johnson County	New	12,000
The Great Plains Laboratory, LLC	8400 W 110th St	South Johnson County	New	11,260
Encompass Medical Group	101 NW Englewood Rd	Northland	Renewal	10,200
Waltz Tetrack Advertising	5201 Johnson Dr	North Johnson County	New	6,370
Wine Down	5201 Johnson Dr	North Johnson County	New	5,250

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Lighton Plaza Portfolio (3)	South Johnson County	\$61,813,000	\$130	475,800
1300 Washington St	Downtown/Crown Center	\$9,000,000	\$109	82,660
10975 El Monte St	South Johnson County	\$15,000,000	\$210	71,510
11200 Outlook St	South Johnson County	\$2,585,000	\$120	21,540
3340-3350 NE Ralph Powell Rd	East Jackson County	\$3,050,000	\$165	18,500
3550-3554 NE Ralph Powell Rd	East Jackson County	\$3,500,000	\$203	17,230
2940 Main St	Midtown/Plaza	\$2,000,000	\$141	14,190
5950 Roe Ave	North Johnson County	\$1,000,000	\$192	5,200

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	173	19,830,844	0	14.70%	-72,782	17,348	\$23.10
	Class A	29	8,213,753	0	23.10%	-105,031	-58,925	\$24.72
	Class B	111	9,749,473	0	9.00%	27,249	48,727	\$19.68
	Class C	33	1,867,618	0	7.00%	5,000	27,546	\$18.18
East Jackson Co.	ALL	75	4,018,274	0	6.10%	110,352	81,068	\$17.29
	Class A	2	166,010	0	11.30%	6,989	9,827	\$22.23
	Class B	45	2,578,197	0	6.80%	112,310	78,614	\$18.44
	Class C	28	1,274,067	0	4.00%	-8,947	-7,373	\$13.66
Midtown/Plaza	ALL	76	6,069,033	20,000	9.10%	51,837	64,950	\$25.97
	Class A	18	2,800,679	0	15.00%	27,228	-31,038	\$28.99
	Class B	42	2,494,262	20,000	5.00%	28,479	96,684	\$21.21
	Class C	16	774,092	0	1.10%	-3,870	-696	\$17.99
North Johnson Co.	ALL	132	7,185,051	125,000	19.00%	-25,803	-105,191	\$20.14
	Class A	17	1,645,373	0	35.90%	12,760	-91,569	\$21.50
	Class B	100	5,088,217	125,000	14.30%	-27,341	-2,135	\$19.55
	Class C	15	451,461	0	11.50%	-11,222	-11,487	\$14.22
Northland	ALL	94	5,610,544	174,492	15.70%	146,913	167,394	\$17.76
	Class A	8	1,152,257	0	13.10%	27,580	32,730	\$21.09
	Class B	70	3,896,947	174,492	17.90%	119,333	131,647	\$16.23
	Class C	16	561,340	0	5.80%	0	3,017	\$14.76
South Johnson Co.	ALL	286	22,607,840	0	17.40%	-266,983	-672,462	\$21.31
	Class A	84	11,118,674	0	14.30%	8,041	-296,509	\$22.38
	Class B	189	11,110,490	0	20.90%	-281,381	-377,388	\$20.39
	Class C	13	378,676	0	3.20%	6,357	1,435	\$18.09
South Kansas City	ALL	55	5,208,705	0	9.40%	-12,083	-62,353	\$19.43
	Class A	12	2,559,438	0	0.90%	0	-22,208	\$20.00
	Class B	41	2,577,365	0	18.10%	-12,083	-40,145	\$19.39
	Class C	2	71,902	0	0.00%	0	0	\$15.00
Southeast Jackson Co.	ALL	18	1,617,132	0	12.10%	3,800	4,106	\$21.76
	Class A	2	103,442	0	0.00%	0	0	\$23.50
	Class B	12	931,598	0	21.00%	3,800	726	\$22.33
	Class C	4	582,092	0	0.00%	0	3,380	\$18.50
Wyandotte Co.	ALL	41	2,285,422	0	7.10%	-73,128	-40,718	\$19.37
	Class A	2	111,995	0	17.90%	0	0	\$27.91
	Class B	24	1,447,205	0	7.70%	-73,128	-43,073	\$19.24
	Class C	15	726,222	0	4.30%	0	2,355	\$15.03
Kansas City Market	ALL	950	74,432,845	319,492	14.40%	-137,877	-545,858	\$21.36
	Class A	174	27,871,621	0	17.10%	-22,433	-457,692	\$23.48
	Class B	634	39,873,754	319,492	14.20%	-102,762	-106,343	\$19.59
	Class C	142	6,687,470	0	4.80%	-12,682	18,177	\$15.60

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	8,213,753	0	23.10%	-105,031	-58,925	\$26.11	\$16.95	\$24.72
East Jackson County	166,010	0	11.30%	6,989	9,827	\$22.23	-	\$22.23
Midtown/Plaza	2,800,679	0	15.00%	27,228	-31,038	\$29.23	\$20.84	\$28.99
North Johnson County	1,645,373	0	35.90%	12,760	-91,569	\$22.03	\$16.00	\$21.50
Northland	1,152,257	0	13.10%	27,580	32,730	\$21.09	-	\$21.09
South Johnson County	11,118,674	0	14.30%	8,041	-296,509	\$23.46	\$17.61	\$22.38
South Kansas City	2,559,438	0	0.90%	0	-22,208	\$20.00	-	\$20.00
Southeast Jackson County	103,442	0	0.00%	0	0	\$23.50	-	\$23.50
Wyandotte County	111,995	0	17.90%	0	0	\$27.91	-	\$27.91
Kansas City Market	27,871,621	0	17.10%	-22,433	-457,692	\$24.53	\$17.42	\$23.48

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	9,749,473	0	9.00%	27,249	48,727	\$20.45	\$12.45	\$19.68
East Jackson County	2,578,197	0	6.80%	112,310	78,614	\$18.44	-	\$18.44
Midtown/Plaza	2,494,262	20,000	5.00%	28,479	96,684	\$21.21	-	\$21.21
North Johnson County	5,088,217	125,000	14.30%	-27,341	-2,135	\$20.32	\$17.11	\$19.55
Northland	3,896,947	174,492	17.90%	119,333	131,647	\$16.86	\$14.40	\$16.23
South Johnson County	11,110,490	0	20.90%	-281,381	-377,388	\$21.20	\$16.35	\$20.39
South Kansas City	2,577,365	0	18.10%	-12,083	-40,145	\$19.73	\$16.04	\$19.39
Southeast Jackson County	931,598	0	21.00%	3,800	726	\$22.33	-	\$22.33
Wyandotte County	1,447,205	0	7.70%	-73,128	-43,073	\$19.24	-	\$19.24
Kansas City Market	39,873,754	319,492	14.20%	-102,762	-106,343	\$20.09	\$16.19	\$19.59

Economic Conditions

The local economy continued to improve in May, with total employment growth of 1.4% and growth occurring in six out of ten industries, calculated on a 12-month percent change basis.

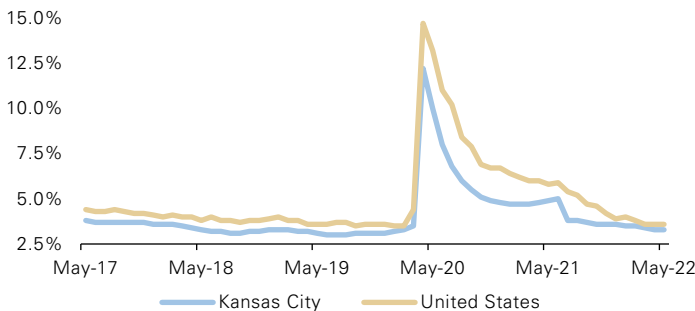
Payroll employment in Kansas City decreased to 1.4% in May 2022 compared to 7.2% in May 2021. The national average also decreased substantially, down from 9.0% in May 2021 to 4.5% in May 2022.

The Consumer Price Index for the U.S. increased 360 basis points compared to the prior year, registering 8.6% in May 2022, while the Midwest Urban CPI increased 320 basis points to 8.8%, both at record highs during the past four decades.

Unemployment in the U.S. decreased 20 basis points to 3.6%, while unemployment in Kansas City decreased 20 basis points to 3.3% compared to the past quarter. Unemployment in Kansas City decreased 160 basis points from a year prior.

Unemployment Rate

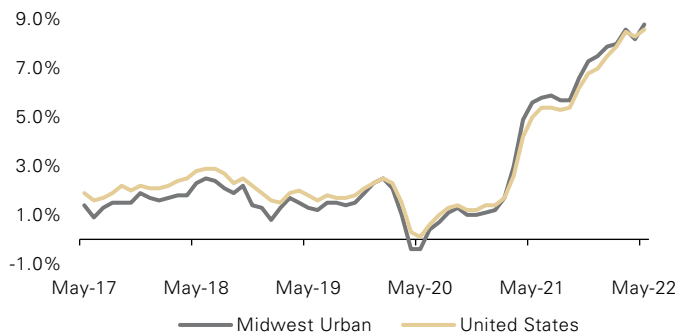
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, June 2022

Consumer Price Index (CPI)

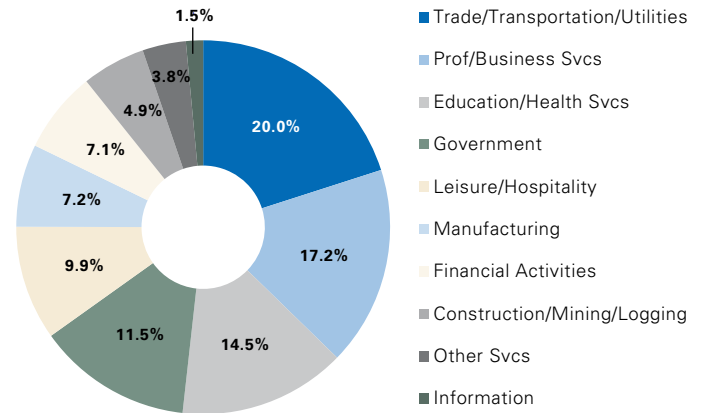
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, June 2022

Employment By Industry

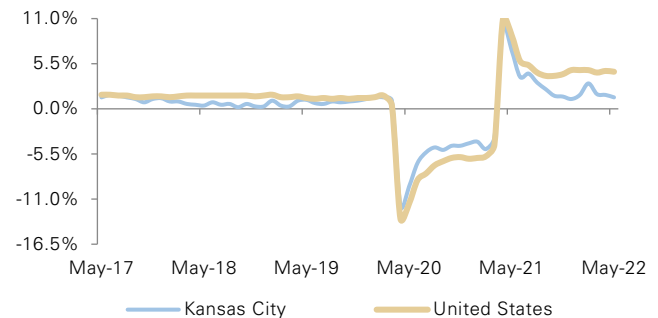
Kansas City, May 2022



Source: U.S. Bureau of Labor Statistics, June 2022

Payroll Employment

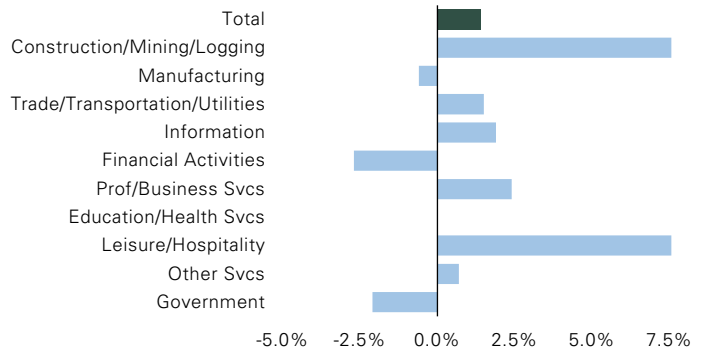
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, June 2022

Employment Growth By Industry

KC, May 2022, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, June 2022

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