

Kansas City Office Market

Recent Leasing Activity Leading to Positive Absorption

Market vacancy in Kansas City decreased to 14.3%, down 10 basis points from the prior quarter but 130 basis points higher compared to the year prior. The market realized an increase in asking rental rates in the third quarter of 2022, as rents slightly climbed to \$21.30/SF, up \$0.02/SF from the second quarter of 2022 and near the record high of \$21.46/SF reached in the third quarter of 2021. Net absorption totaled 63,376 square feet during the third quarter of 2022, equating to negative 781,608 square feet during the past four quarters. Construction projects currently underway total 839,887 square feet, with 69.6% of construction occurring in the Northland and South Johnson County submarkets. No projects delivered to the market this quarter.

Due to interest rate hikes and inflation affecting landlords in the form of higher construction costs, repair costs and CAM charges, rental rates are projected to rise for the near future. 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. To offset the higher rental rates, 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.

Market fundamentals for the next two quarters are expected to remain contractionary as tenants continue to evaluate ever-changing space needs. Macroeconomic uncertainty, financial volatility and the increasing risk of recession will likely impact the near-term outlook for office space as firms may decide to enact the “wait-and-see” approach.

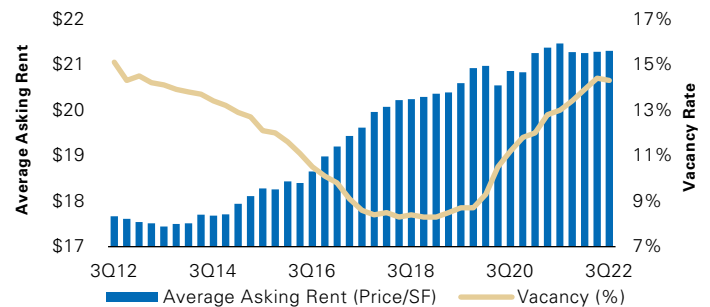
New or newly renovated Class A office space in marquee submarkets which combine easy accessibility and a prime amenities package will remain in demand, even as rental rates increase, evidenced by the recent Blue KC announcement that it will occupy the entire 1400KC building and HNTB and Sethmar Transportation relocating to the Aspiria campus. 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 and into 2023 in most Metro submarkets.

Current Conditions

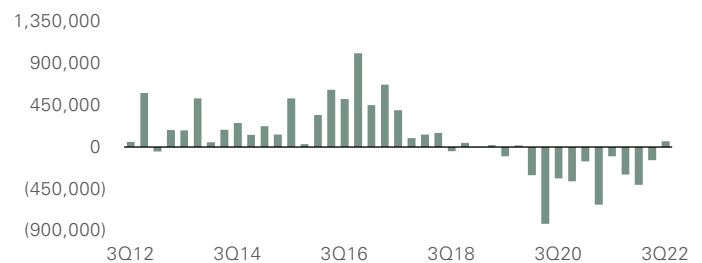
- Market fundamentals for the next two quarters are expected to remain contractionary.
- Macroeconomic headwinds, rising interest rates, inflation and work-from-home-hybrid work policies to affect demand growth.
- BlueKC to relocate headquarters to 1400KC, leasing 260,000 square feet.
- HNTB signs 25,650-SF lease and Sethmar Transportation signs 20,000-SF lease at the Aspiria campus.

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	14.3%	14.4%	13.0%	↑
Qtr. Net Absorp.	63,376	-141,328	-101,199	↓
Avg. Asking Rent	\$21.30	\$21.28	\$21.46	↔
Under Con.	839,887	319,492	369,196	↑
Deliveries	0	260,000	108,000	↑

Blue KC to Relocate its Headquarters and Occupy the Entire 1400KC Building in Downtown

Blue Cross and Blue Shield of Kansas City announced in September it will relocate its corporate headquarters from One Pershing Square at 2301 Main St. to the 1400KC building located at 1400 Baltimore Ave. The firm will occupy the entire 18-story, 260,000-square-foot property, filling a significant vacancy in Downtown for what was originally planned as Waddell & Reed Financial's new \$140.0-million headquarters. The transaction is one of the largest new leases signed in the last decade and will allow Blue KC to consolidate its workers into one location. The firm signed a 15-year lease agreement and expects to conclude its relocation by early 2025. Blue KC employs approximately 1,400 workers in the Metro and is the largest nonprofit health insurer in Missouri.

Macroeconomic Headwinds, Rising Interest Rates, Inflation and WFH-Hybrid Work Policies to Affect Demand Growth

With net absorption during the past four quarters totaling negative 781,608 square feet, average quarterly net absorption has significantly decreased, measuring negative 277,541 square

feet during the past 10 quarters. Macroeconomic headwinds, rising interest rates and inflation are expected to affect demand growth across multiple sectors. The market will also continue to adjust to work-from-home and hybrid workplace strategies, which are expected to converge to push total net absorption in a downward trend during the remainder of 2022 and into 2023. However, limited speculative build-to-suit office construction, along with conversions of dated office buildings into multi-housing offerings, bodes well for office market fundamentals in Kansas City. 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 14.4% to 17.9%. Overall market vacancy should range from 14.4% to 15.7%, while asking rental rates are expected to range from \$21.30/SF to \$22.00/SF during the next four quarters.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Internal Revenue Services (GSA)	333 W Pershing Rd	Downtown/Crown Center	Renewal	1,140,000
Blue KC	1400 Baltimore Ave	Downtown/Crown Center	New	260,000
HNTB	6300 Sprint Pkwy	South Johnson County	New	25,650
Next Move, Inc.	1729 Grand Blvd	Downtown/Crown Center	New	24,000
Mercury Broadband	6329 Glenwood St	North Johnson County	New	21,500
Sethmar Transportation	Aspiria Campus	South Johnson County	New	20,000
Amwins, Inc.	4520 Main St	Midtown/Plaza	New	16,810
Pryor Learning, Inc.	5700 Broadmoor St	North Johnson County	Renewal	10,250
Transport Funding, LLC	8717 W 110th St	South Johnson County	Renewal	9,430

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
10551 S Ridgeview Rd	South Johnson County	\$14,084,000	\$138	102,040
4240 Blue Ridge Blvd	East Jackson County	\$5,720,000	\$56	101,470
802 Broadway St	Downtown/Crown Center	\$2,575,000	\$64	40,500
6300 W 143rd St	South Johnson County	\$4,090,000	\$153	26,790
171 English Landing Dr	Northland	\$2,660,000	\$148	18,000
2150 NW South Outer Rd	East Jackson County	\$2,328,000	\$274	8,500

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	19,763,328	0	14.50%	-38,901	40,688	\$23.13
	Class A	28	8,157,105	0	23.50%	-32,108	-76,421	\$24.74
	Class B	108	9,626,156	0	8.80%	-60,753	35,603	\$20.12
	Class C	36	1,980,067	0	4.50%	53,960	81,506	\$17.42
East Jackson Co.	ALL	76	4,038,203	0	6.10%	-4,872	77,843	\$16.58
	Class A	2	166,010	0	14.40%	-5,152	4,675	\$22.23
	Class B	45	2,573,057	0	6.90%	-1,593	77,021	\$17.32
	Class C	29	1,299,136	0	3.70%	1,873	-3,853	\$13.80
Midtown/Plaza	ALL	76	6,069,267	20,000	9.40%	-11,460	48,631	\$26.54
	Class A	18	2,800,913	0	15.50%	-7,933	-44,111	\$29.33
	Class B	42	2,494,262	20,000	5.20%	-3,527	93,438	\$21.44
	Class C	16	774,092	0	1.10%	0	-696	\$17.99
North Johnson Co.	ALL	132	7,211,550	125,000	22.20%	-234,036	-337,708	\$20.22
	Class A	17	1,645,229	0	43.80%	-130,491	-222,060	\$21.57
	Class B	100	5,110,398	125,000	16.40%	-114,767	-115,383	\$19.52
	Class C	15	455,923	0	8.90%	11,222	-265	\$14.22
Northland	ALL	94	5,610,544	394,492	17.30%	-16,245	79,239	\$17.03
	Class A	8	1,152,257	0	11.80%	15,637	48,367	\$22.95
	Class B	70	3,896,947	394,492	20.50%	-31,882	27,855	\$15.92
	Class C	16	561,340	0	5.80%	0	3,017	\$14.76
South Johnson Co.	ALL	284	22,465,492	190,380	15.30%	400,975	-175,452	\$21.27
	Class A	84	11,775,521	190,380	11.30%	440,654	36,246	\$22.44
	Class B	187	10,311,295	0	20.30%	-39,679	-213,133	\$20.20
	Class C	13	378,676	0	3.20%	0	1,435	\$18.35
South Kansas City	ALL	55	5,211,269	110,015	10.40%	-27,813	-117,070	\$19.35
	Class A	12	2,559,438	110,015	2.50%	-42,640	-64,848	\$20.00
	Class B	41	2,579,929	0	18.50%	14,827	-52,222	\$19.37
	Class C	2	71,902	0	0.00%	0	0	\$15.00
Southeast Jackson Co.	ALL	18	1,617,132	0	15.70%	-13,867	-53,981	\$19.30
	Class A	2	103,442	0	0.00%	0	0	\$23.50
	Class B	12	931,598	0	25.30%	3,262	-40,232	\$19.40
	Class C	4	582,092	0	2.90%	-17,129	-13,749	\$18.50
Wyandotte Co.	ALL	41	2,287,422	0	7.40%	9,595	-48,123	\$18.71
	Class A	2	111,995	0	17.90%	0	0	\$27.91
	Class B	24	1,449,205	0	9.40%	-8,300	-68,373	\$18.11
	Class C	15	726,222	0	1.80%	17,895	20,250	\$15.03
Kansas City Market	ALL	948	74,274,207	839,887	14.30%	63,376	-485,933	\$21.30
	Class A	173	28,471,910	300,395	16.40%	237,967	-318,152	\$23.73
	Class B	629	38,972,847	539,492	14.60%	-242,412	-255,426	\$19.33
	Class C	146	6,829,450	0	3.80%	67,821	87,645	\$15.64

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	8,157,105	0	23.50%	-32,108	-76,421	\$26.16	\$16.95	\$24.74
East Jackson County	166,010	0	14.40%	-5,152	4,675	\$22.23	-	\$22.23
Midtown/Plaza	2,800,913	0	15.50%	-7,933	-44,111	\$29.40	\$22.25	\$29.33
North Johnson County	1,645,229	0	43.80%	-130,491	-222,060	\$22.75	\$16.62	\$21.57
Northland	1,152,257	0	11.80%	15,637	48,367	\$22.95	-	\$22.95
South Johnson County	11,775,521	190,380	11.30%	440,654	36,246	\$23.41	\$17.78	\$22.44
South Kansas City	2,559,438	110,015	2.50%	-42,640	-64,848	\$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	28,471,910	300,395	16.40%	237,967	-318,152	\$24.84	\$17.43	\$23.73

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	9,626,156	0	8.80%	-60,753	35,603	\$20.87	\$12.45	\$20.12
East Jackson County	2,573,057	0	6.90%	-1,593	77,021	\$17.32	-	\$17.32
Midtown/Plaza	2,494,262	20,000	5.20%	-3,527	93,438	\$21.44	-	\$21.44
North Johnson County	5,110,398	125,000	16.40%	-114,767	-115,383	\$20.53	\$15.83	\$19.52
Northland	3,896,947	394,492	20.50%	-31,882	27,855	\$16.33	\$14.14	\$15.92
South Johnson County	10,311,295	0	20.30%	-39,679	-213,133	\$21.20	\$14.66	\$20.20
South Kansas City	2,579,929	0	18.50%	14,827	-52,222	\$19.83	\$15.63	\$19.37
Southeast Jackson County	931,598	0	25.30%	3,262	-40,232	\$22.33	\$13.00	\$19.40
Wyandotte County	1,449,205	0	9.40%	-8,300	-68,373	\$18.11	-	\$18.11
Kansas City Market	38,972,847	539,492	14.60%	-242,412	-255,426	\$20.15	\$14.47	\$19.33

Economic Conditions

The local economy continued to improve in August, with total employment growth of 0.9% and growth occurring in eight out of ten industries, calculated on a 12-month percent change basis.

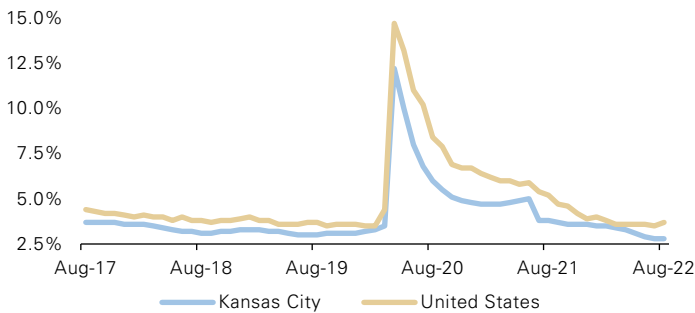
Payroll employment in Kansas City decreased to 0.9% in August 2022, compared with 3.2% in August 2021. The national average also decreased, down from 4.4% in August 2021 to 4.0% in August 2022.

The Consumer Price Index for the U.S. increased 300 basis points compared to the prior year, registering 8.3% in August 2022, while the Midwest Urban CPI increased 240 basis points to 8.1%, both near record highs during the past four decades.

Unemployment in the U.S. increased 10 basis points to 3.7%, while unemployment in Kansas City decreased 30 basis points to 2.8% compared with the past quarter. Unemployment in Kansas City decreased 100 basis points from a year prior.

Unemployment Rate

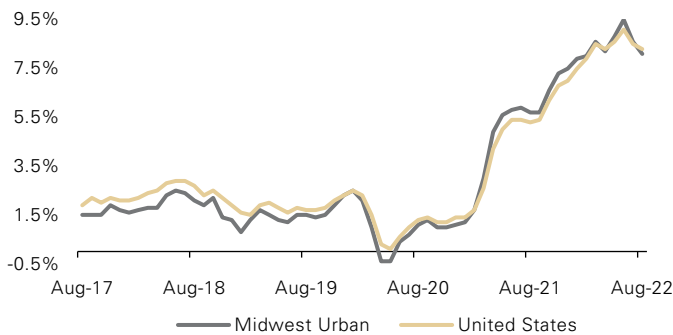
Seasonally Adjusted



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

Consumer Price Index (CPI)

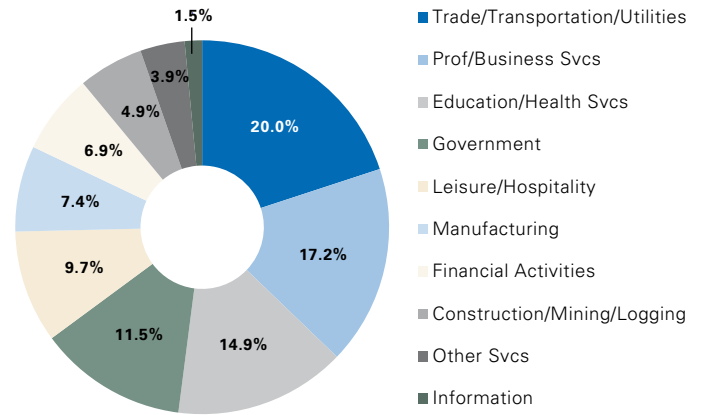
All Items, 12-Month % Change, Not Seasonally Adjusted



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

Employment By Industry

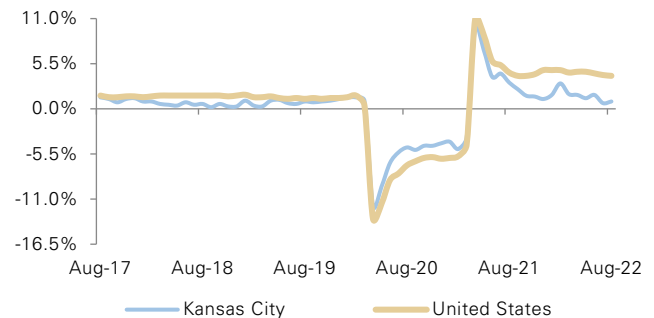
Kansas City, August 2022



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

Payroll Employment

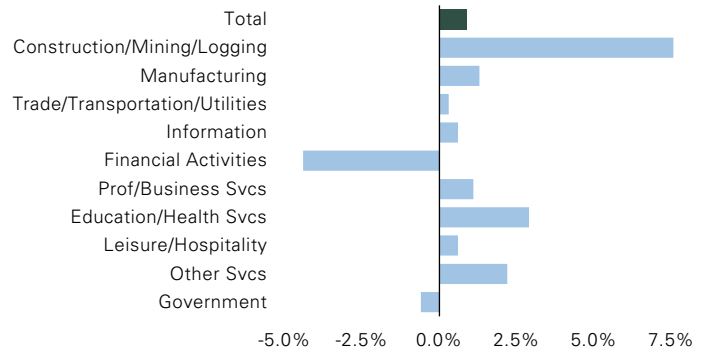
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



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

Employment Growth By Industry

KC, Aug. 2022, 12-Month % Change, Not Seasonally Adjusted



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

For more information:

KANSAS CITY

1220 Washington Street, Suite 300
Kansas City, MO 64105
816-474-2000

ST. LOUIS

8235 Forsyth Boulevard, Suite 200
Clayton, MO 63105
314-254-4600

LEE'S SUMMIT

1485 SW Market Street
Lee's Summit, MO 64081
816-474-2000

Mark Long, CRE, SIOR, CCIM, LEED AP

President & CEO – Newmark Zimmer
816-512-1011
mlong@nzimmer.com

Andrew Garten

Director, Research
816-474-2000
agarten@nzimmer.com

nmrkzimmer.com

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Birmingham

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