

3Q23

# Kansas City Office Market Overview

# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. August’s 2.8% unemployment rate was significantly lower than the 4.2% 10-year historical average.
- Year-over-year, job gains have been most pronounced in the construction, education and health industries, which are still making up for lost ground during the pandemic.
- Technology firms are continuing to adjust labor needs. Locally, all three office-occupying sectors experienced employment growth compared with the prior 12 months. The financial activities sector led all office-occupying sectors, displaying an increase of 2.7%.

## Major Transactions

- The Federal Aviation Administration announced it will establish a new regional headquarters by leasing 82,270 SF across four floors within the Lightwell office building in Downtown Kansas City. The FAA signed a 10-year lease, which will start in 2025 and is expected to house more than 200 employees.
- TruHome Solutions will move its headquarters from Lenexa to the Aspiria Campus in Overland Park and lease 36,500 SF. The firm is expected to open its new space for more than 220 employees by the first quarter of 2024. Aspiria continues to attract office tenants, signing leases with Hill’s Pet Nutrition, Black & Veatch, Airshare and CareCentrix, during 2023.

## Leasing Market Fundamentals

- Absorption in the third quarter of 2023 totaled negative 99,958 SF. Total net absorption has averaged negative 286,439 SF per quarter during the past three years, demonstrating a contractionary environment. Net absorption during the past four quarters totaled negative 1.0 million SF.
- The 497,210-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 and rent both increased year-over-year. Vacancy increased to 16.7% as negative net absorption continued across multiple submarkets. Expansive amenity renovations, combined with solid demand for prime Class A space, drove slow but positive 12-month rent growth of 2.4%.

## 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 as the market continues to recalibrate. Tenants remain in the power position with considerable leverage in most metro submarkets and will carry on evaluating space needs.
- It is expected that asking rates should reset in the coming quarters as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents.

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



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# Economy

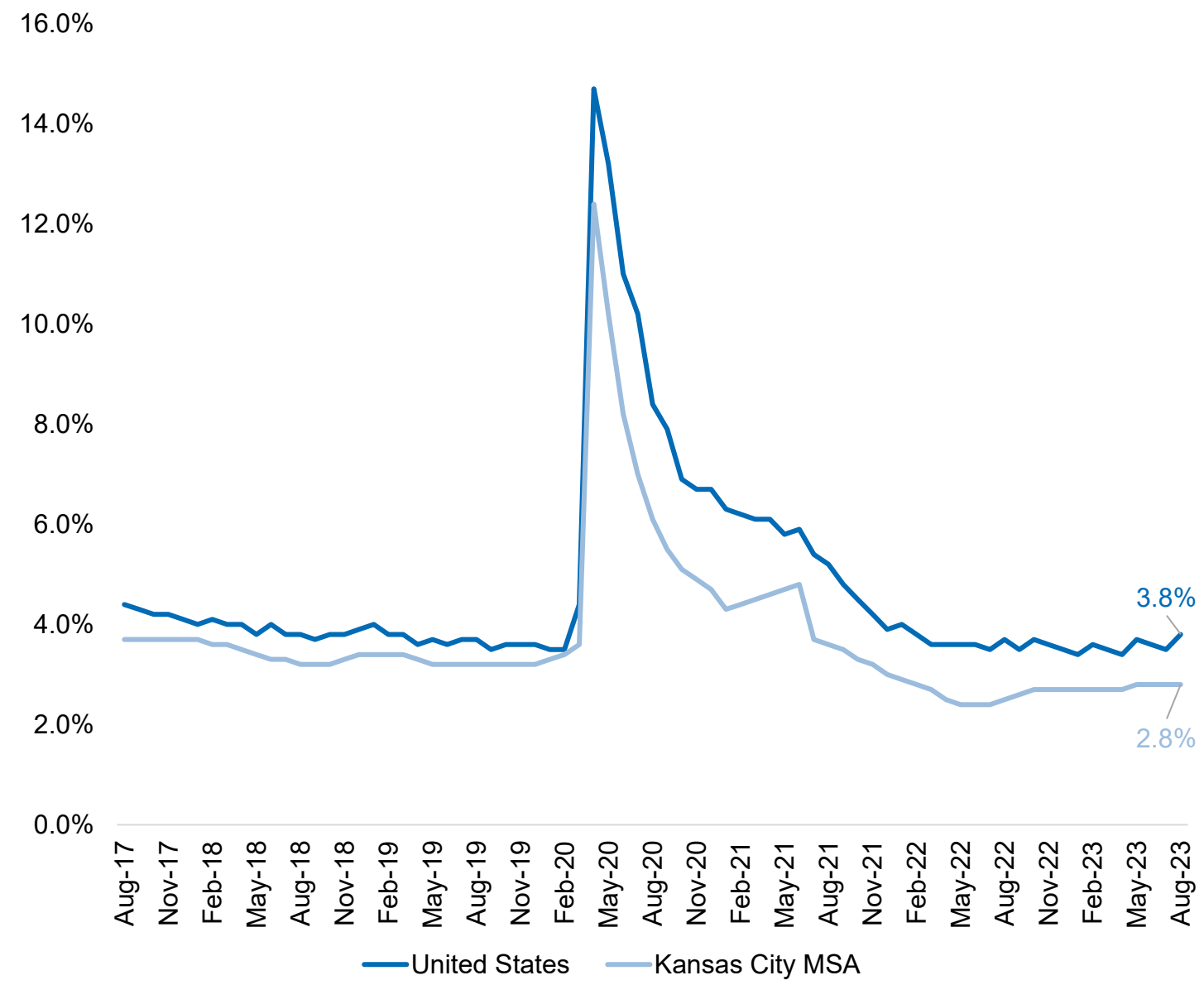




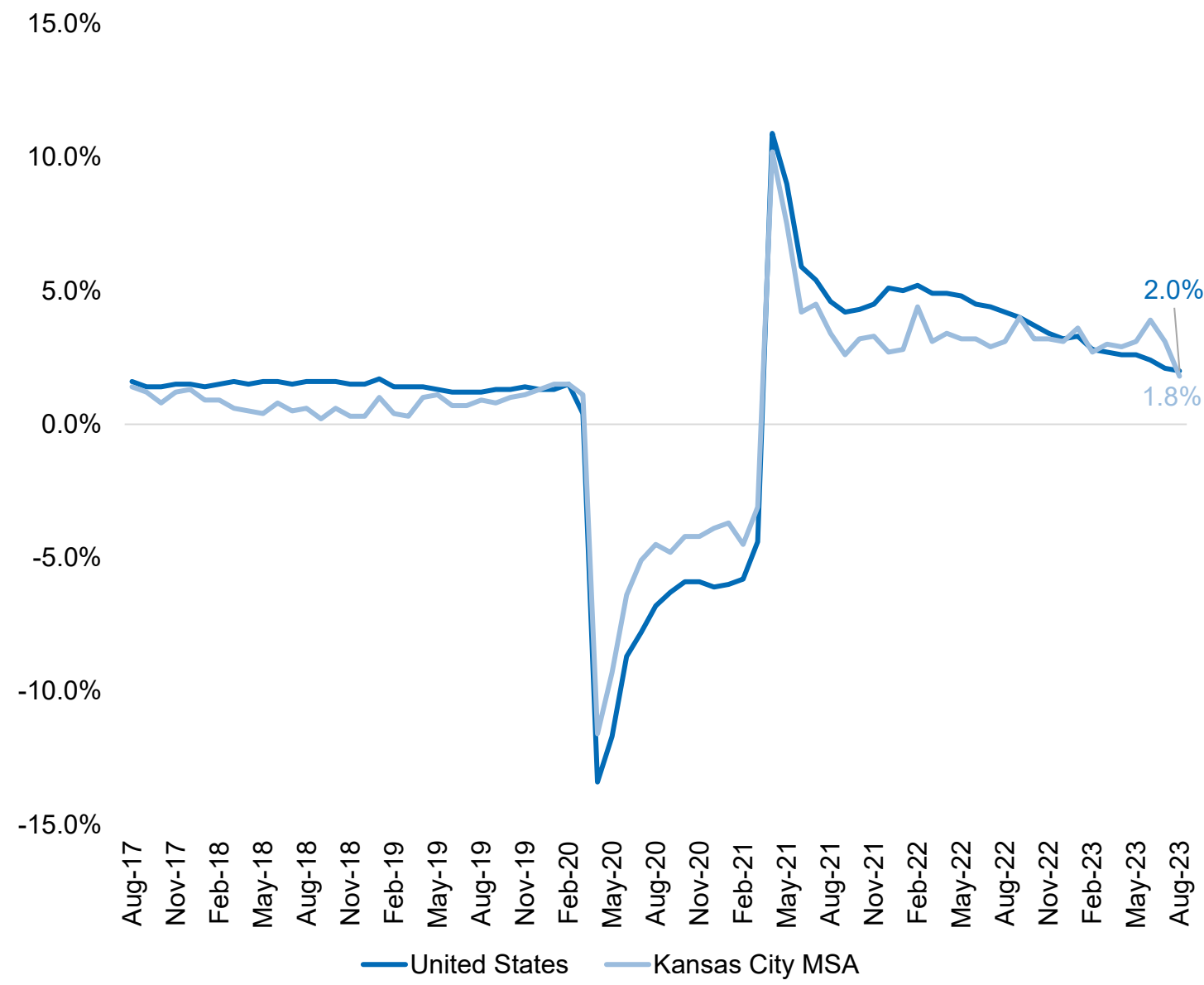
# Metro Employment Trends Signal a Slowing Economy

While the region’s labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in the region recovered from the pandemic and remains 100 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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



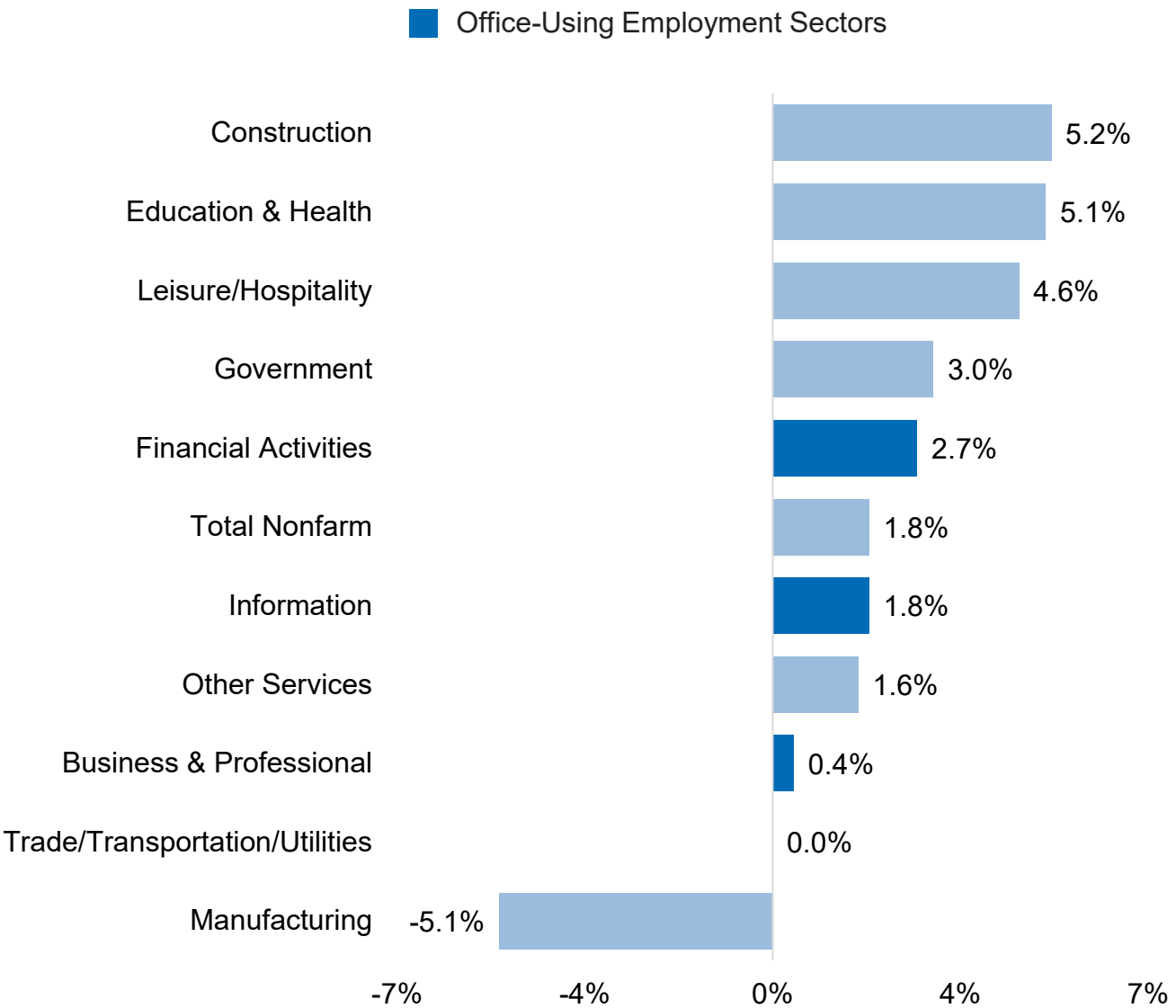
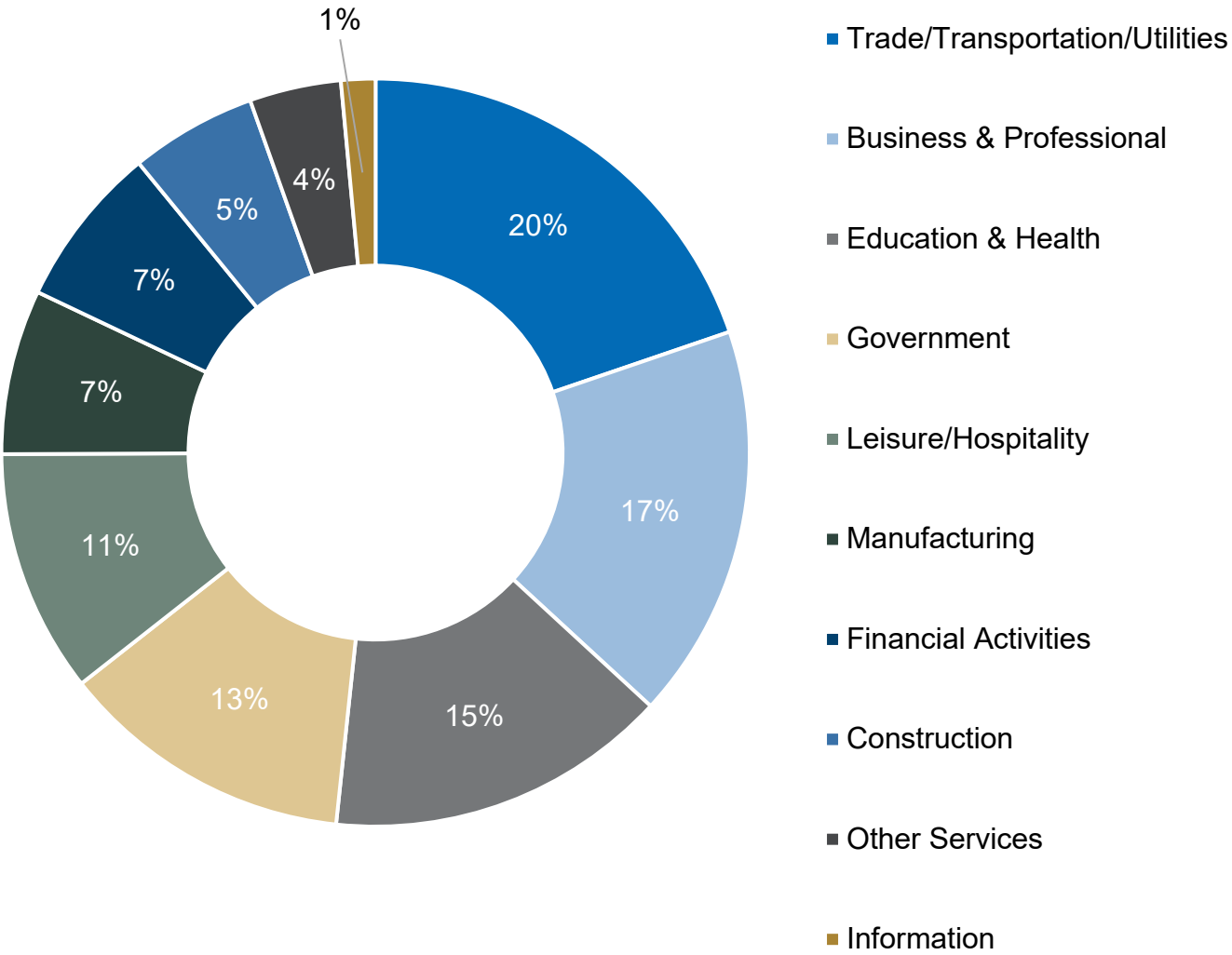
Source: U.S. Bureau of Labor Statistics, Kansas City MSA

# Job Growth Driven Primarily by Shift in Spending

The construction and education and health sectors led all industries in regional annual job growth at 5.2% and 5.1%, respectively. Along with leisure/hospitality, the top three sectors underline industries which are still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services and healthcare-related expenses. All three office-occupying industries saw annual job gains.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

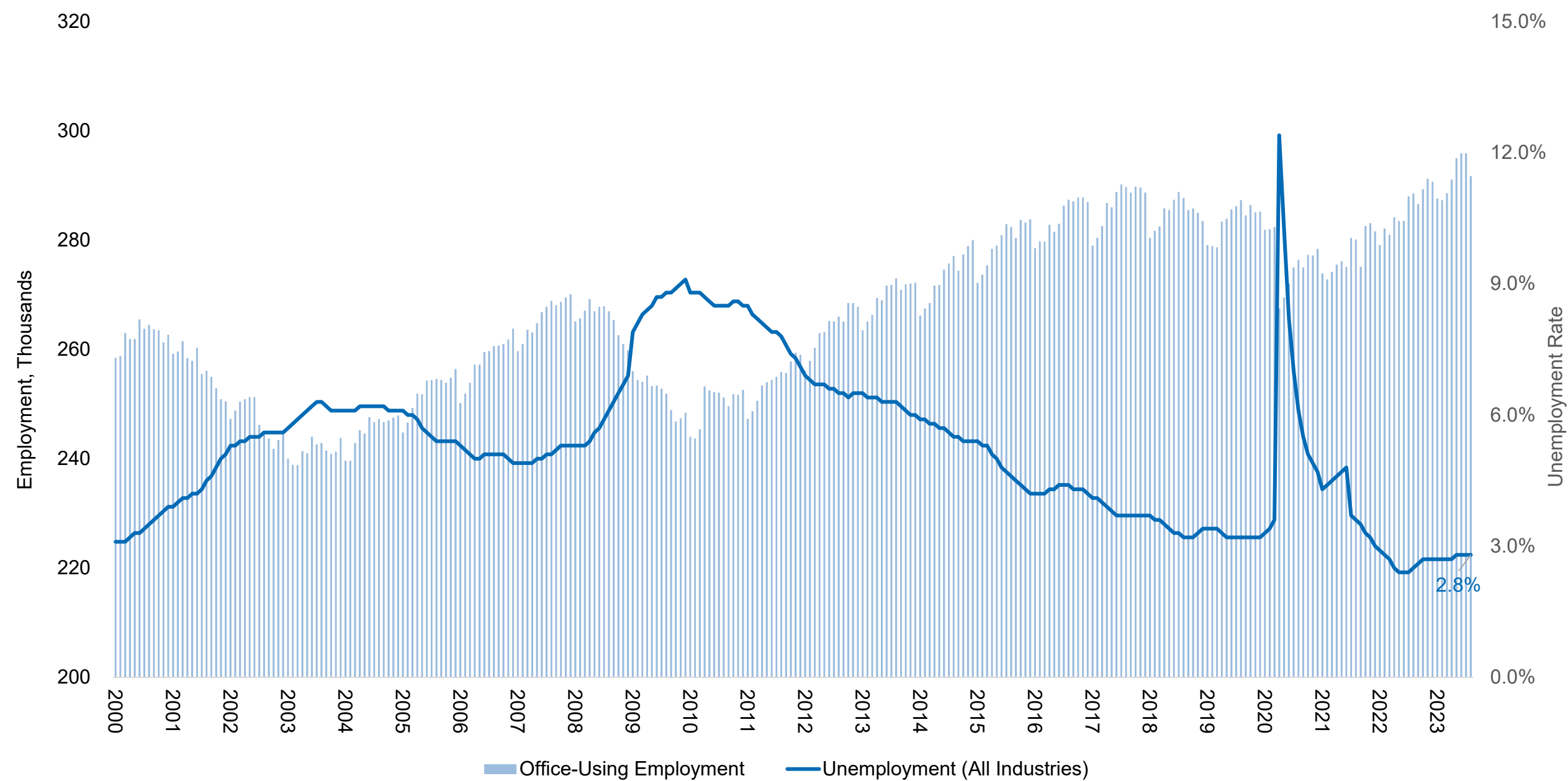


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

# 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: August 2023 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 Summary

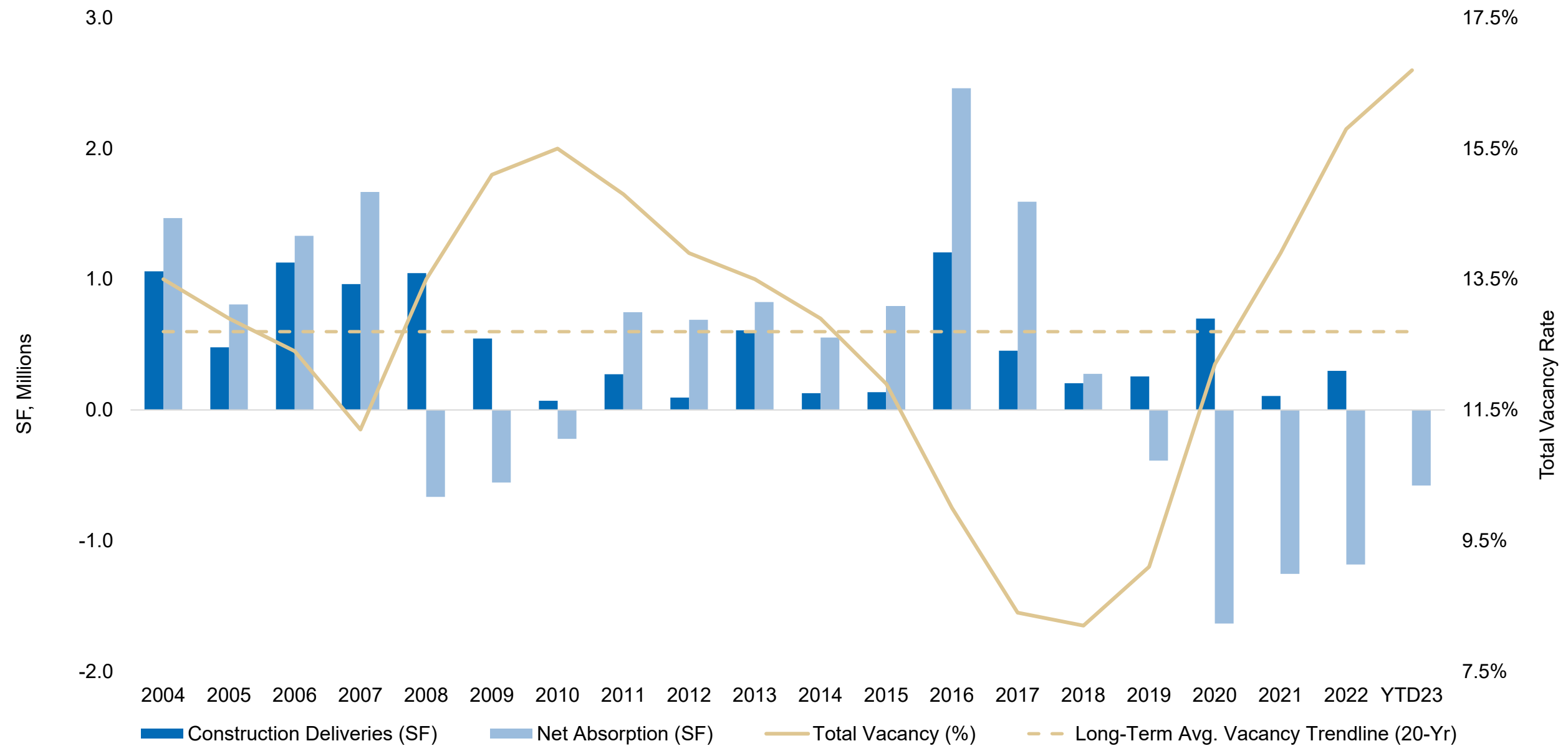


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# Vacancy Rises as Net Absorption Remains Negative

The vacancy rate increased 1.5% (150 bps) to 16.7% year-over-year as tenants continue to evaluate ever-changing space needs and the market recalibrates. 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

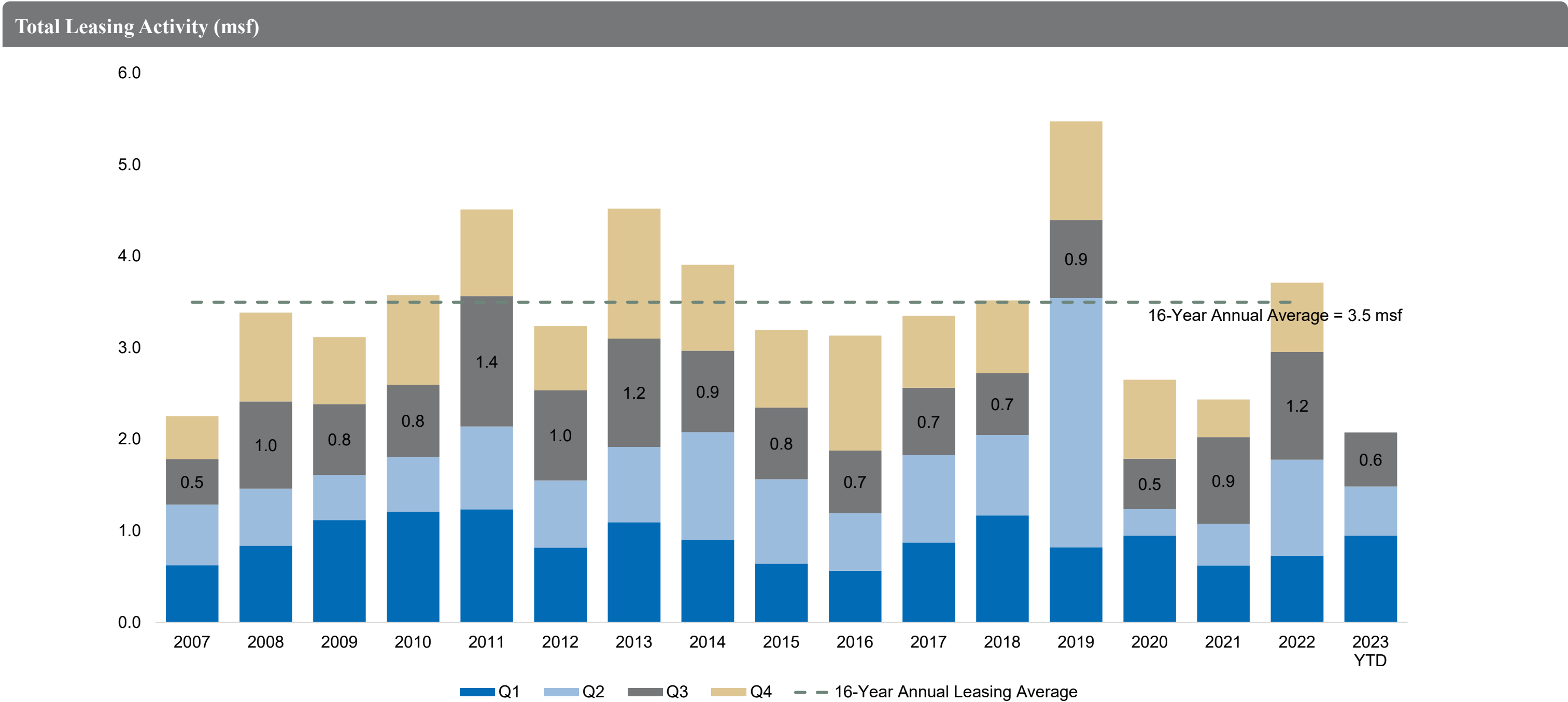


Source: Newmark Research



# Leasing Activity Pace Has Slowed

Macroeconomic uncertainty, financial volatility, limited debt financing and additional scrutiny of commercial real estate loans at regional banks will likely impact the near-term outlook for office space as firms decide to enact the wait-and-see approach. Total leasing activity year to date in 2023 is down 21.0% compared with the 16-year historical average for the first three quarters of the year.



Source: Newmark Research, CoStar

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## Pandemic Consequences Lead to Fewer Leases Being Signed

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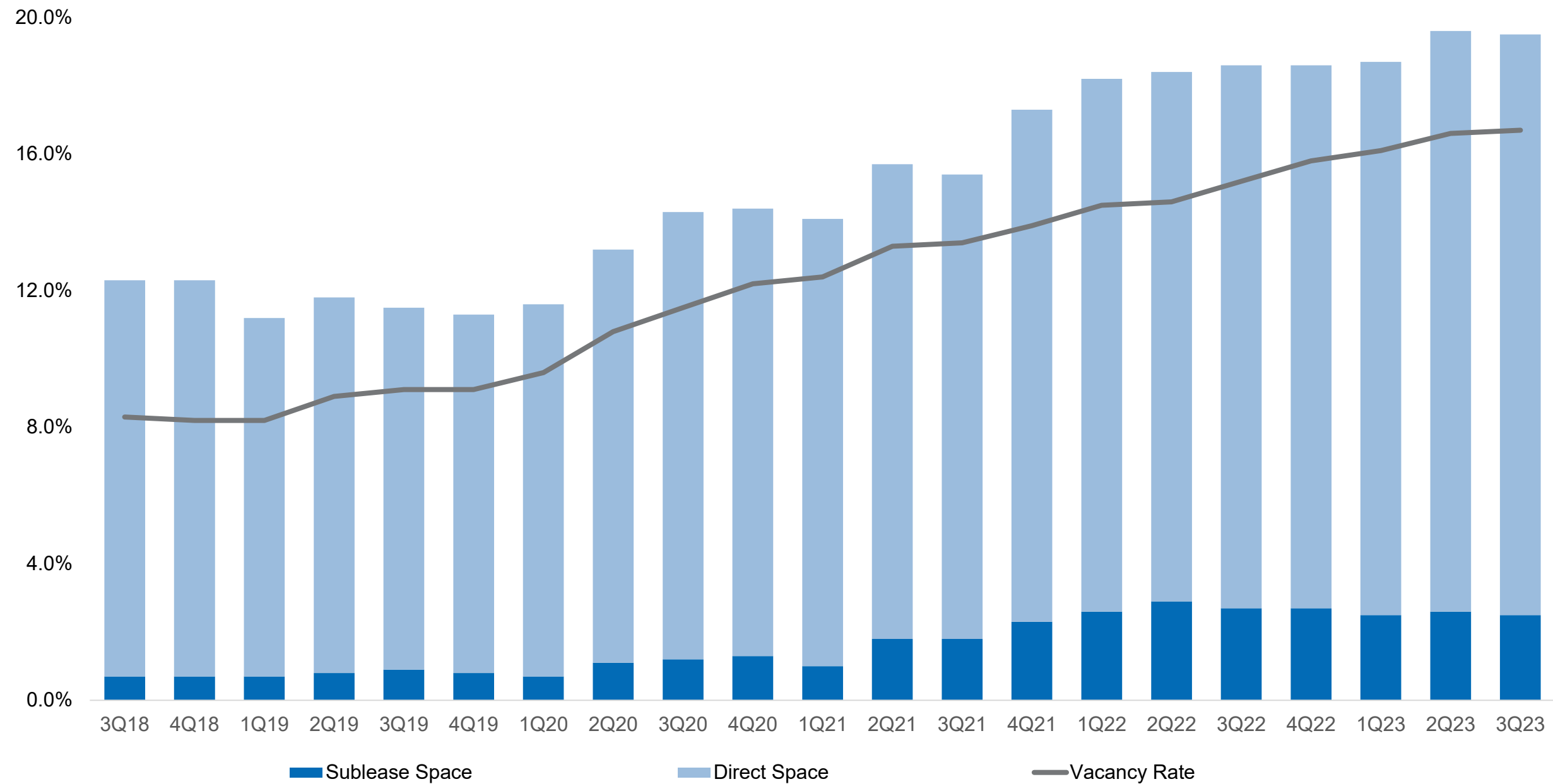
# Decline in Leasing Activity in Johnson County, KS Compared to Pre-Pandemic Average

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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. Sublease space is anticipated to remain elevated for the remainder of 2023 and all of 2024.

Available Space as Percent of Overall Market



Source: Newmark Research



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## Availability Rates Continue to Climb

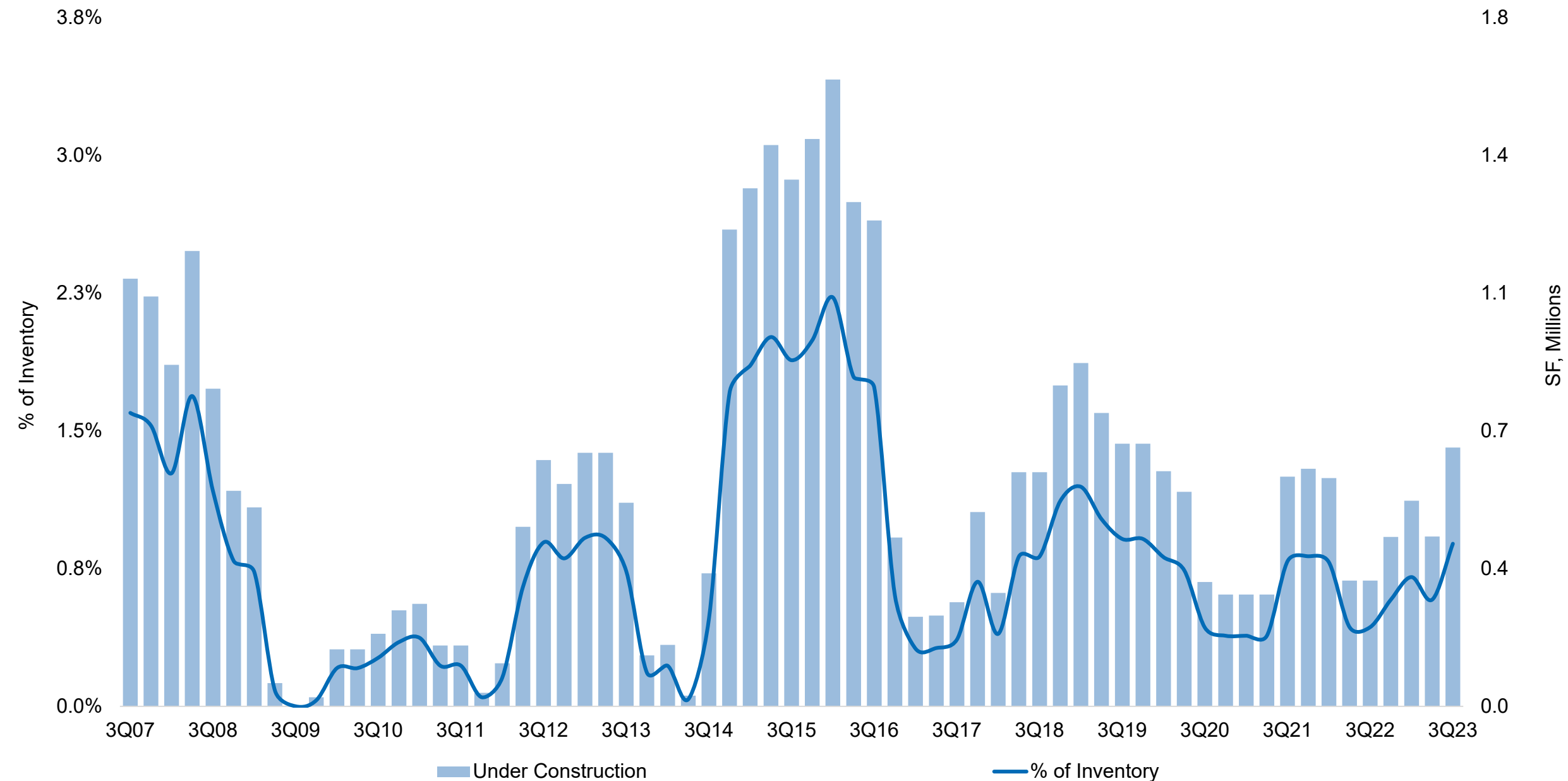


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# New Construction Activity Limited as Vacancy Remains Elevated at 16.7%

With the delivery of 1400KC at 1400 Baltimore Ave., now fully leased by Blue Cross & Blue Shield of Kansas City during the second quarter of 2022, the largest office development currently under construction is the 190,380-SF CityPlace Corporate Center IV in Overland Park, Kansas. The Offices at Overlook project by the Community Builders of Kansas City officially started construction during the quarter, adding a total of 160,000 SF of product across three properties.

Office Under Construction and % of Inventory



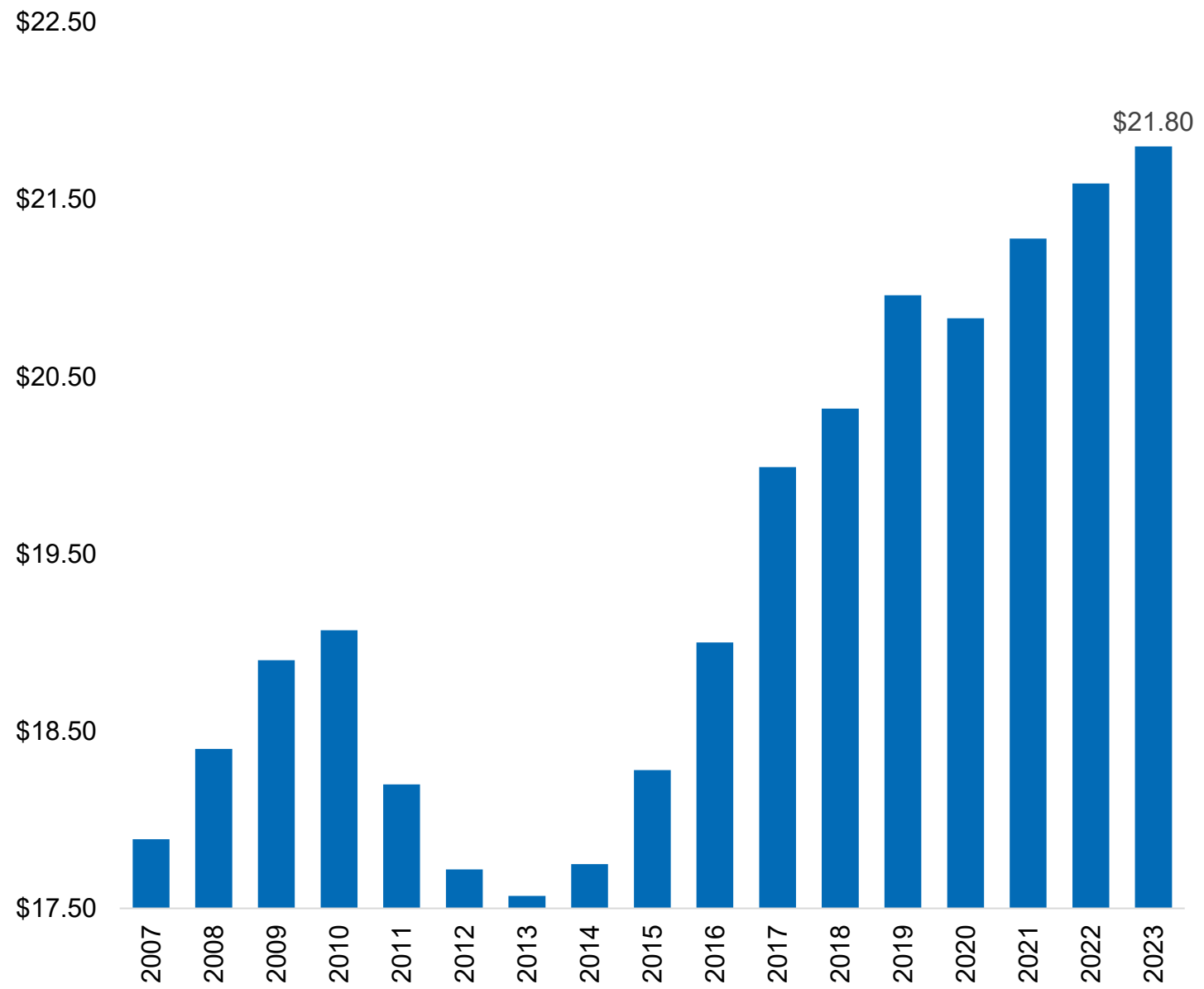
Source: Newmark Research, CoStar, Kansas City Market



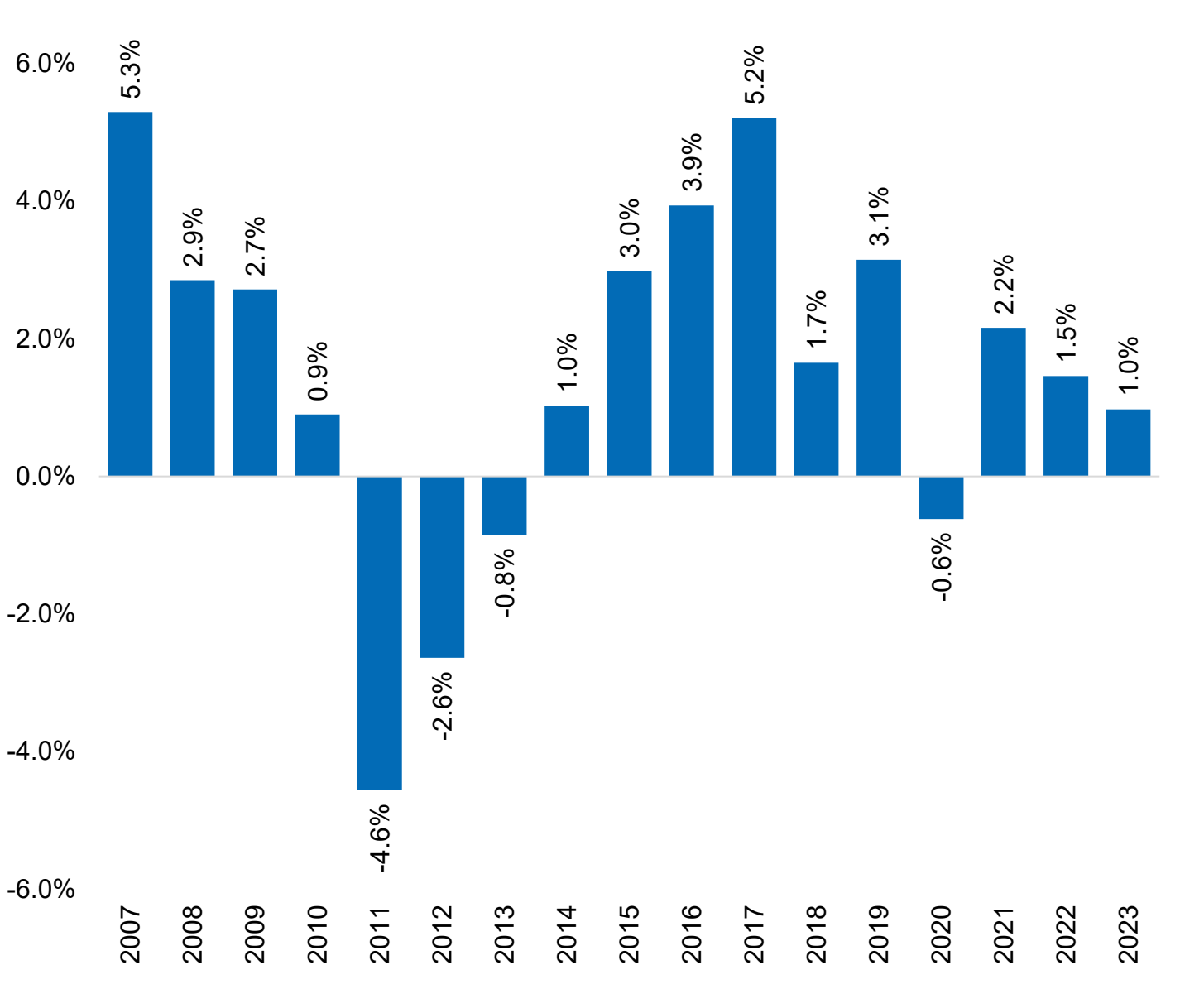
# Pace of Rental Rate Increases is Slowing

Overall asking rates decreased this quarter, falling from \$22.17/SF to \$21.80/SF. It is expected that asking rates should reset in the coming quarters as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents. 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

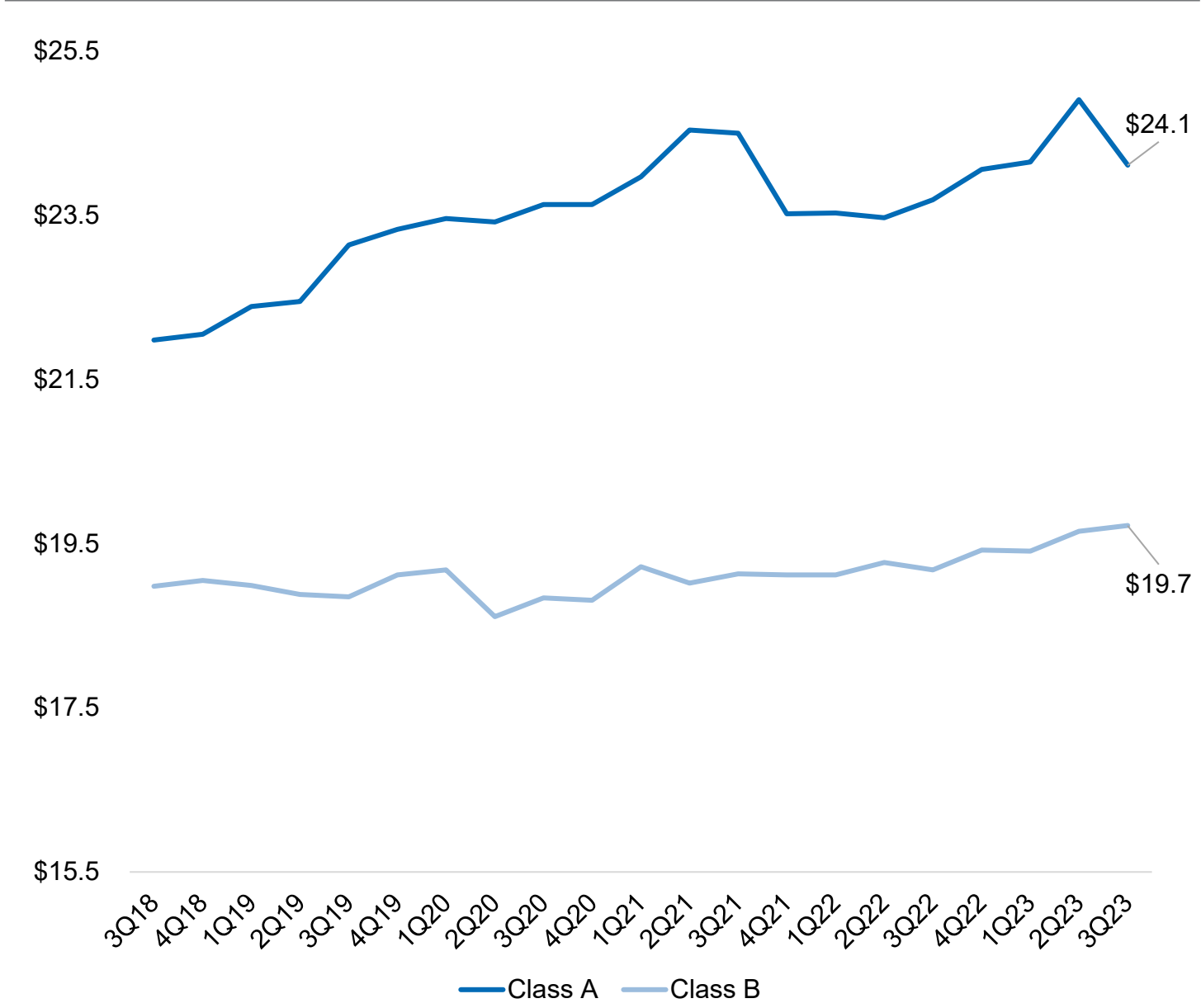


Source: Newmark Research, CoStar

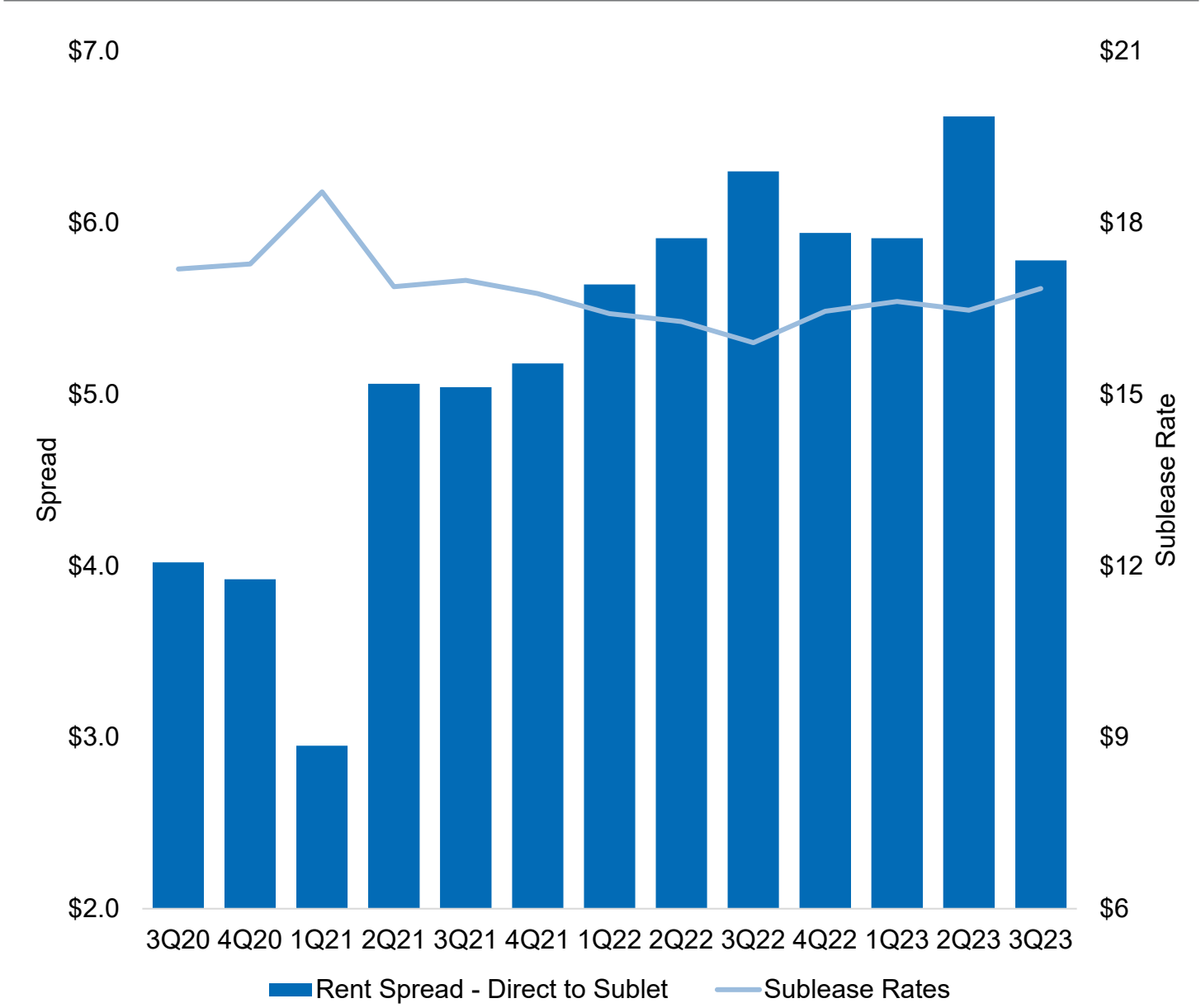
# Class A Rents Increasing at a Greater Pace Compared with Class B

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 \$16.82/SF, which more visibly exhibits the impact of low demand. As a result, the spread between sublease space and direct space has widened to near all-time highs.

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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# Significant Leasing Activity Across Various Submarkets

New or newly renovated Class A office space in marquee submarkets with a prime amenities package will remain in demand, even as rental rates increase. Due to the current economic climate, companies are opting for less square footage but are investing in prime office space and high-quality buildouts as evidenced by the FAA, TruHome Solutions, Health Forward Foundation and the Greater Kansas City Sports Commission & Foundation and Visit KC deals. This flight to quality will remain a key factor in driving office leasing activity.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Federal Aviation Administration	1100 Main Street	Downtown	Direct Lease	82,270
The FAA announced in September it will establish a new regional headquarters by leasing space across four floors within the Lightwell office building. The space is expected to house more than 200 employees. The FAA signed a 10-year lease which will start in 2025.				
TruHome Solutions	6330 Sprint Parkway	South Johnson County	Direct Lease	36,500
TruHome Solutions announced in September it will move its headquarters from Lenexa, Kansas to the Aspiria Campus in Overland Park, Kansas. The space is expected to house more than 220 employees and open by the first quarter of 2024.				
Health Forward Foundation	2800-3100 Dr. Martin Luther King Jr. Boulevard	East Jackson County	Direct Lease	20,000
Health Forward Foundation signed a lease for space within Building I of The Offices at Overlook. The organization will lease the entire third floor of the 60,000-SF building which is planned to deliver to the market by 2025.				
IQVIA	6900 College Boulevard	South Johnson County	Direct Lease	15,020
IQVIA, formerly known as Quintiles and IMS Health, Inc., will open a new space on the 10th floor of Financial Plaza III. The firm is expected to open its new space by January 2024.				
The Greater Kansas City Sports Commission & Foundation and Visit KC	1111 Main Street	Downtown	Direct Lease	14,830
The two nonprofits signed a 10-year lease for shared space that is expected to house a total of 50 full-time employees, with room for additional staff. The Sports Commission and Visit KC are expected to occupy the space in the first quarter of 2024.				

Source: Newmark Research



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# Submarket Statistics





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## Submarket Statistics (Pages 1-5)

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