

Kansas City Office Market

Leasing Concessions Continue as Firms Explore Hybrid Work Model Options

Market vacancy in Kansas City increased to 13.8%, up 50 basis points from the prior quarter. The market realized an increase in asking rental rates in the fourth quarter of 2021, as rents decreased to \$21.30/SF, down \$0.16/SF from the third quarter of 2021. 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. Total net absorption in the quarter measured negative 327,398 square feet, bringing the total for the past four quarters to negative 1.4 million square feet. Construction projects currently underway total 631,852 square feet. No projects delivered to the market during the quarter.

NetPMD Solutions to Relocate its Corporate Headquarters to the Kansas City Metro, Create More Than 100 New Jobs

The Kansas City region will benefit from a significant corporate relocation, as NetPMD Solutions, an Arizona-based, independent professional services and fiber network design company for both residents and businesses, announced during the fourth quarter of 2021 its intention to create more than 100 corporate and technical jobs in the area.

The firm will relocate to the Kansas side of the metro in Johnson County to an undisclosed final site, employing a hybrid work model. Key factors taken into consideration by NetPMD during its site selection process included Kansas City's central U.S. location, affordable utility costs, taxing structure and costs, available workforce and telecommunications infrastructure, including 5.5 million miles of fiber.

EML Payments Signs 11,770-Square-Foot Lease; Will Relocate Its North American Corporate Headquarters to Aspiria

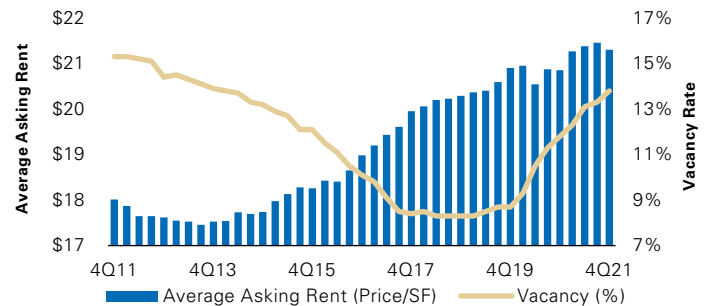
Occidental Management announced in November that EML Payments, a global payment solutions company, signed a lease for 11,770 square feet at 6100 Sprint Parkway on the Aspiria

Current Conditions

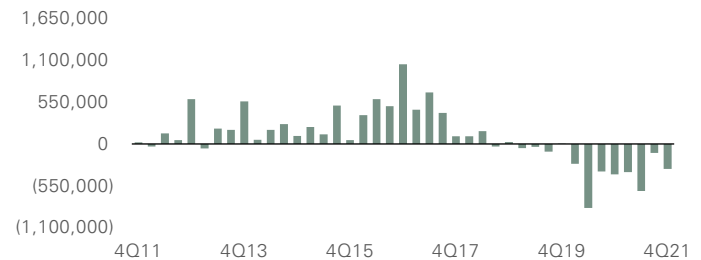
- Asking rental rates have been trending upwards during the past six quarters due to free rent and tenant improvement allowance concessions in exchange for longer lease terms.
- NetPMD Solutions to relocate its corporate headquarters from Arizona to Johnson County, Kansas.
- EML Payments to relocate its corporate headquarters to the Aspiria campus.
- Users in the financial, technology and healthcare sectors led leasing activity during the quarter.

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	13.8%	13.3%	11.8%	↑
Qtr. Net Absorp.	-327,398	-118,447	-400,120	↓
Avg. Asking Rent	\$21.30	\$21.46	\$20.85	↔
Under Con.	631,852	369,196	368,000	↔
Deliveries	0	108,000	0	↔

RESEARCH Q4 2021

campus. The Australian-based firm will relocate its North American headquarters, employing approximately 100 workers, from Kansas City, Missouri to the new space on the fourth floor. The firm is expected to move in by April 2022. The 6100 building is a five-story, 321,510-square-foot, Class A property currently offering a 38,000-square-foot sublease opportunity on the second floor, along with 31,000 square feet of available space for lease.

The Aspiria campus has benefited from other recent lease commitments, including an 84,690-square-foot lease by Yellow Corp., a 73,000-square-foot lease by TreviPay, a 25,000-square-foot lease by CreativeOne, a 19,300-square-foot lease by TTEC Holdings, Inc. and a 16,350-square-foot lease by GE.

Expect a Decrease in Total Net Absorption to Continue to Take Place in 2022

The Kansas City office market loosened in the fourth quarter of 2021 as negative 327,398 square feet were absorbed. With net absorption during the past four quarters totaling negative 1.4 million square feet, average quarterly net absorption has significantly decreased, measuring negative 412,183 square feet

during the past two years. 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 in 2022.

Leasing commitments during the quarter were active in various submarkets as tenants locked in favorable terms for new direct and subleased spaces. Users in the financial, technology and healthcare sectors led the quarter.

Expect favorable conditions and opportunities for prospective tenants to upgrade from Class B to Class A space during 2022, as three submarkets in the metro display vacancy rates for Class A space ranging from 15.0% to 18.5% and an additional three submarkets with vacancy exceeding 20.0%. Concessions, in the form of abated rent and additional tenant improvement allowances, offset by longer lease terms, continue to assist in driving asking rental rates upwards. Overall market vacancy should range from 14.4% to 16.2%, while asking rental rates are expected to range from \$21.15/SF to \$21.85/SF during the next four quarters.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Tria Health	1729 Grand Blvd	Downtown/Crown Center	New	17,590
EML Payments	6100 Sprint Pkwy	South Johnson County	New	11,770
Kustom Signals, Inc.	10901 W 84th Ter	North Johnson County	New	7,270
Lula	7285 W 132nd St	South Johnson County	New	7,050
Legalfit	12980 Foster St	South Johnson County	Sublease	6,670
Providence Hospital	7255 Renner Rd	North Johnson County	New	5,240

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
8325 Lenexa Dr	North Johnson County	\$9,500,000	\$138	68,920
9140 Ward Pkwy	South Kansas City	\$3,400,000	\$81	42,090
9225 Ward Pkwy	South Kansas City	\$3,250,000	\$101	32,250
1105 S Ridgeview Rd	South Johnson County	\$1,075,000	\$115	9,360
14700 Metcalf Ave	South Johnson County	\$1,168,750	\$129	9,090
201 NE 91st St	Northland	\$2,200,000	\$244	9,000
8301-8303 N Congress Ave	Northland	\$860,000	\$179	4,800

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	19,468,678	522,656	13.90%	-143,059	-218,055	\$22.93
	Class A	28	8,046,230	522,656	20.80%	-120,953	-329,042	\$24.61
	Class B	109	9,489,528	0	9.30%	-33,397	119,091	\$19.21
	Class C	35	1,932,920	0	8.20%	11,291	-8,104	\$18.04
East Jackson Co.	ALL	76	4,048,215	21,396	8.10%	-10,668	-65,828	\$17.79
	Class A	2	166,010	0	18.50%	0	-3,998	\$22.09
	Class B	46	2,623,604	21,396	9.90%	10,580	-68,919	\$17.52
	Class C	28	1,258,601	0	2.80%	-21,248	7,089	\$16.73
Midtown/Plaza	ALL	79	6,234,179	0	11.50%	8,300	-21,519	\$25.71
	Class A	18	2,843,670	0	15.00%	-9,456	-27,120	\$28.93
	Class B	44	2,589,944	0	8.70%	17,756	5,530	\$23.00
	Class C	17	800,565	0	8.30%	0	71	\$17.99
North Johnson Co.	ALL	131	7,140,148	0	17.30%	-25,599	-272,516	\$19.99
	Class A	16	1,586,573	0	30.00%	-18,499	-4,635	\$22.01
	Class B	99	5,049,050	0	14.20%	-7,100	-230,114	\$18.94
	Class C	16	504,525	0	8.00%	0	-37,767	\$14.34
Northland	ALL	94	5,707,397	0	23.10%	7,336	-290,991	\$18.17
	Class A	8	1,152,257	0	38.80%	-50	-256,302	\$20.83
	Class B	71	4,068,025	0	20.50%	14,989	-27,086	\$17.16
	Class C	15	487,115	0	7.30%	-7,603	-7,603	\$16.51
South Johnson Co.	ALL	284	22,542,026	0	14.20%	-24,939	-433,005	\$21.27
	Class A	83	11,092,617	0	11.20%	-32,280	-104,987	\$22.83
	Class B	188	11,070,733	0	17.10%	7,341	-328,716	\$19.89
	Class C	13	378,676	0	3.50%	0	698	\$17.50
South Kansas City	ALL	57	5,285,221	0	8.10%	17,387	-35,900	\$19.46
	Class A	12	2,562,454	0	0.00%	0	0	\$21.00
	Class B	43	2,650,865	0	16.20%	17,387	-35,900	\$19.46
	Class C	2	71,902	0	0.00%	0	0	\$15.00
Southeast Jackson Co.	ALL	18	1,713,862	87,800	11.60%	-156,156	-87,099	\$21.05
	Class A	2	103,442	35,000	0.00%	0	0	\$23.50
	Class B	13	1,517,644	52,800	12.90%	-156,156	-91,580	\$21.15
	Class C	3	92,776	0	3.60%	0	4,481	\$17.50
Wyandotte Co.	ALL	40	2,250,125	0	5.30%	0	-8,685	\$18.84
	Class A	2	111,995	0	17.90%	0	-20,000	\$27.91
	Class B	24	1,441,908	0	4.60%	0	8,900	\$19.16
	Class C	14	696,222	0	4.80%	0	2,415	\$15.01
Kansas City Market	ALL	951	74,389,851	631,852	13.80%	-327,398	-1,433,598	\$21.30
	Class A	171	27,665,248	557,656	15.90%	-181,238	-746,084	\$23.69
	Class B	637	40,501,301	74,196	13.60%	-128,600	-648,794	\$19.28
	Class C	143	6,223,302	0	6.20%	-17,560	-38,720	\$16.03

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	8,046,230	522,656	20.80%	-120,953	-329,042	\$26.13	\$16.97	\$24.61
East Jackson County	166,010	0	18.50%	0	-3,998	\$22.09	-	\$22.09
Midtown/Plaza	2,843,670	0	15.00%	-9,456	-27,120	\$29.30	\$22.04	\$28.93
North Johnson County	1,586,573	0	30.00%	-18,499	-4,635	\$22.01	-	\$22.01
Northland	1,152,257	0	38.80%	-50	-256,302	\$20.83	-	\$20.83
South Johnson County	11,092,617	0	11.20%	-32,280	-104,987	\$23.40	\$17.64	\$22.83
South Kansas City	2,562,454	0	0.00%	0	0	\$21.00	-	\$21.00
Southeast Jackson County	103,442	35,000	0.00%	0	0	\$23.50	-	\$23.50
Wyandotte County	111,995	0	17.90%	0	-20,000	\$27.91	-	\$27.91
Kansas City Market	27,665,248	557,656	15.90%	-181,238	-746,084	\$24.39	\$17.44	\$23.69

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	9,489,528	0	9.30%	-33,397	119,091	\$19.96	\$17.91	\$19.21
East Jackson County	2,623,604	21,396	9.90%	10,580	-68,919	\$17.52	-	\$17.52
Midtown/Plaza	2,589,944	0	8.70%	17,756	5,530	\$23.00	\$21.30	\$23.00
North Johnson County	5,049,050	0	14.20%	-7,100	-230,114	\$19.57	\$17.09	\$18.94
Northland	4,068,025	0	20.50%	14,989	-27,086	\$17.21	\$16.89	\$17.16
South Johnson County	11,070,733	0	17.10%	7,341	-328,716	\$20.46	\$16.88	\$19.89
South Kansas City	2,650,865	0	16.20%	17,387	-35,900	\$19.59	\$17.58	\$19.46
Southeast Jackson County	1,517,644	52,800	12.90%	-156,156	-91,580	\$21.15	-	\$21.15
Wyandotte County	1,441,908	0	4.60%	0	8,900	\$19.16	-	\$19.16
Kansas City Market	40,501,301	74,196	13.60%	-128,600	-648,794	\$19.66	\$16.62	\$19.28

Economic Conditions

The local economy continued to improve in November, with total employment growth of 4.0% and growth occurring in eight out of 10 industries, calculated on a 12-month percent change basis.

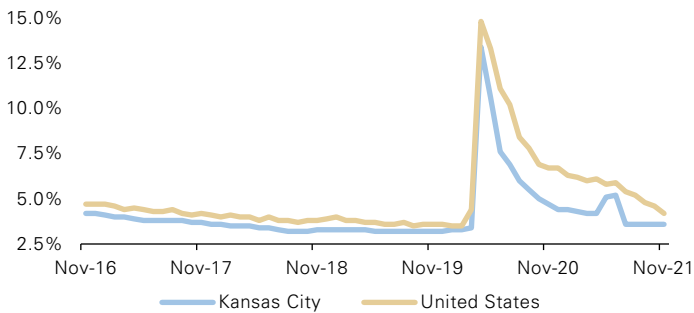
Payroll employment in Kansas City increased significantly in November 2021 compared to the prior year, increasing to 4.0%. The national average also increased substantially, up from negative 5.9% in February 2021 to 4.1% in November 2021.

The Consumer Price Index for the U.S. increased 560 basis points compared to the prior year, registering 6.8% in November 2021, while the Midwest Urban CPI increased 630 basis points to 7.3%, both at record highs during the past decade.

Unemployment in the U.S. decreased 100 basis points to 4.2%, while unemployment in Kansas City remained flat at 3.6% compared with the past quarter. Unemployment in Kansas City decreased 110 basis points from a year prior.

Unemployment Rate

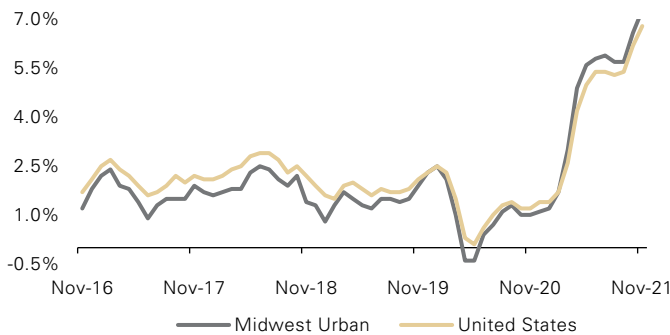
Seasonally Adjusted



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

Consumer Price Index (CPI)

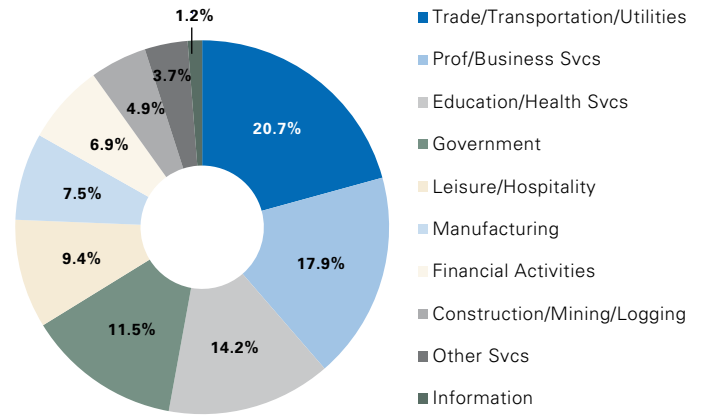
All Items, 12-Month % Change, Not Seasonally Adjusted



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

Employment By Industry

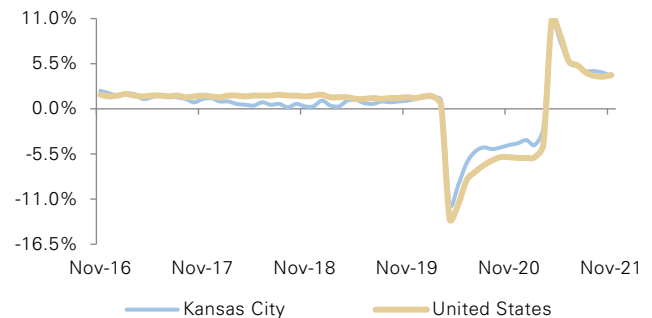
Kansas City, November 2021



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

Payroll Employment

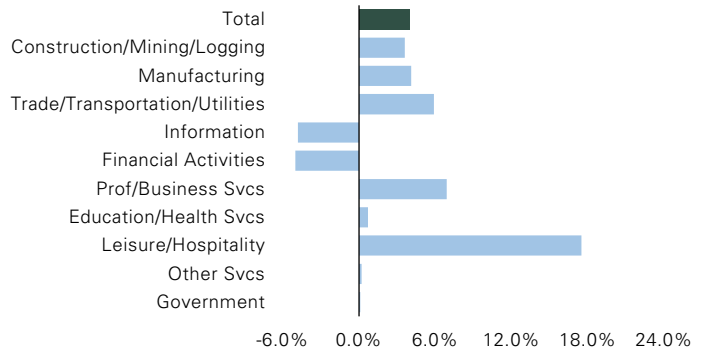
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



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

Employment Growth By Industry

KC, Nov. 2021, 12-Month % Change, Not Seasonally Adjusted



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

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