

Kansas City Office Market

2023 Preview: Competitive Leasing Environment and Corporate Campus Exits

Market vacancy in Kansas City increased to 15.1%, up 70 basis points from the prior quarter and 170 basis points higher compared with the prior year. Oracle Cerner announced during the quarter its intention to exit its World Headquarters Campus in North Kansas City, along with its Realization Campus in South Kansas City. The announcement will have a significant impact on local vacancy rates in 2023, especially once the space converts from being categorized as owner-user to third-party product. A combined total of approximately 3 million gross square feet, with most space being classified as office product, is projected to hit the market unless interested users backfill a portion or creatively repurpose the space for a different use.

The market realized an increase in asking rental rates in the fourth quarter of 2022, as rents climbed to a record high of \$21.52/SF, up \$0.22/SF from the third quarter of 2022. Net absorption totaled negative 536,561 square feet during the fourth quarter of 2022, equating to negative 965,693 square feet during the past four quarters. Construction projects currently underway total 800,592 square feet, with 73.1% 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 in 2023; however, 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 first half of 2023 are expected to remain contractionary as tenants continue to evaluate ever-changing space needs.

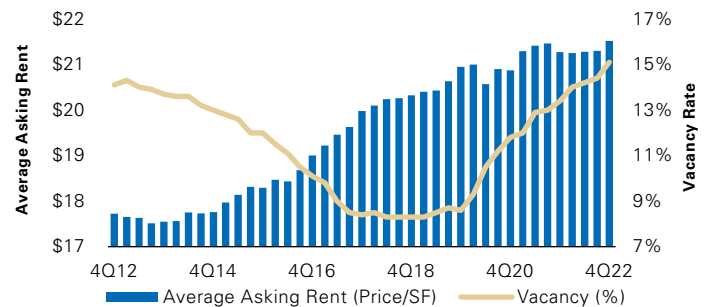
Flight to quality will remain a key factor to driving office leasing activity as tenants upgrade space, thereby forcing various owners of lower-quality assets to reconsider their competitive positions. This has accelerated multiple office conversions and demolitions, particularly in the River Market, Central Business, Crossroads and

Current Conditions

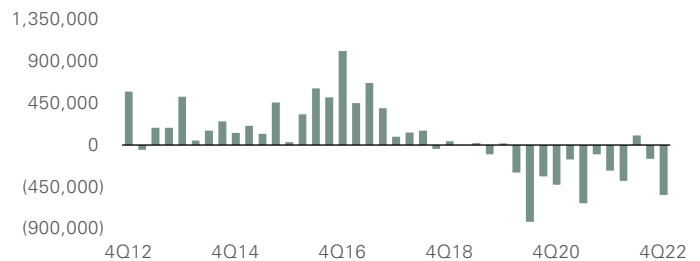
- Favorable conditions will continue in 2023 for prospective tenants to upgrade space. Owners of lower quality assets will reconsider their competitive positions.
- Macroeconomic headwinds, limited debt financing, high interest rates, and work-from-home/hybrid work policies to affect demand growth.
- AIG leases 16,000 SF at Southlake. Hunt Midwest acquires 50% equity of Corrigan Station II and will occupy 13,170 SF.

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	73 MSF	↔
Vacancy Rate	15.1%	14.4%	13.4%	↑
Qtr. Net Absorp.	-536,561	-147,614	-274,426	↓
Avg. Asking Rent	\$21.52	\$21.30	\$21.27	↔
Under Con.	800,592	770,592	631,852	↑
Deliveries	0	0	0	↑

RESEARCH Q4 2022

Freight House districts, leading to inventory contraction as underutilized office structures are removed from the market. Macroeconomic uncertainty, financial volatility, limited debt financing 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 prime amenities packages will remain in demand, even as rental rates increase.

AIG and Hunt Midwest Announce New Leases

AIG announced in October it signed a seven-year lease totaling 16,000 square feet at 112500 Corporate Ave. in Southlake. Available space for rent is currently being offered for \$15.95/SF on a triple net basis.

In December, Hunt Midwest announced they will add an office in the Crossroads District and lease 13,170 square feet at 1881 Main St. The locally based real estate developer acquired a 50.0% interest in Corrigan Station II.

Employers' Return To Office Was Less Dynamic Than Expected in 2022

With net absorption during the past four quarters totaling negative 965,693 square feet, average quarterly net absorption has significantly decreased, measuring negative 334,039 square feet during the past 12 quarters. Expect favorable conditions and opportunities for prospective tenants to upgrade from Class B to Class A space during 2023, as two submarkets in the Metro display vacancy rates for Class A space exceeding 25% and four additional submarkets display vacancy from 13.1% to 17.9%.

Employers' return-to-office demands in 2022 were less dynamic than expected as hybrid work arrangements continued to normalize. With a tight labor market, firms are relaxing workplace strategies in exchange to prioritize retaining and attracting quality workers. For 2023, tenants will continue to maintain considerable leverage in most metro submarkets. Overall market vacancy should range from 15.5% to 17.4%, while asking rental rates are expected to range from \$21.40/SF to \$22.10/SF during the next four quarters.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Truman Medical Center	300 W 19th Ter	Downtown/Crown Center	Renewal	57,000
Environmental Protection Agency	300 Minnesota Ave	Wyandotte County	Renewal	47,000
AIG	11250 Corporate Ave	South Johnson County	New	16,000
Hunt Midwest	1881 Main St	Downtown/Crown Center	New	13,170
International Brotherhood of Boilermakers	12200 N Ambassador Dr	Northland	New	9,330
Keyence Corporation	2300 Main St	Downtown/Crown Center	New	7,150
PEC Kansas City	1100 Main St	Downtown/Crown Center	New	5,200

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
AMG JoCo Office Portfolio (4)	North and South Johnson County	\$28,302,000	\$105	269,690
7171, 7133, 7223, 7245 W 95th St Portfolio (4)	North Johnson County	\$7,800,000	\$61	128,500
4911 S Arrowhead Dr	East Jackson County	\$9,500,000	\$190	50,010
4031 NE Lakewood Way	East Jackson County	\$2,500,000	\$159	15,750
304 SE 3rd St	Southeast Jackson County	\$1,772,000	\$123	14,360
19351 E Eastland Center Ct	East Jackson County	\$6,050,000	\$577	10,480
820-832 W Frontier Ln	South Johnson County	\$1,500,000	\$178	8,400
12101 W 110th St	South Johnson County	\$2,875,000	\$369	7,780

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	165	19,416,357	165,720	15.90%	-211,299	-158,068	\$22.93
	Class A	28	8,183,517	0	25.40%	-169,458	-197,407	\$24.65
	Class B	102	9,282,133	165,720	10.20%	-64,841	-65,167	\$19.71
	Class C	35	1,950,707	0	3.40%	23,000	104,506	\$17.42
East Jackson Co.	ALL	77	4,150,344	30,000	8.40%	-129,517	-21,474	\$17.41
	Class A	2	166,010	30,000	13.10%	2,189	6,864	\$22.00
	Class B	45	2,597,198	0	10.70%	-128,634	-24,401	\$17.78
	Class C	30	1,387,136	0	3.50%	-3,072	-3,937	\$16.78
Midtown/Plaza	ALL	77	6,101,830	20,000	8.70%	35,281	90,060	\$27.96
	Class A	18	2,800,913	0	14.50%	17,869	-17,054	\$29.37
	Class B	42	2,494,262	20,000	4.70%	13,900	104,298	\$24.16
	Class C	17	806,655	0	0.60%	3,512	2,816	\$17.43
North Johnson Co.	ALL	132	7,162,870	0	21.50%	74,072	-275,696	\$20.75
	Class A	17	1,645,229	0	42.40%	22,860	-199,200	\$22.14
	Class B	100	5,044,053	0	15.20%	63,177	-45,213	\$20.12
	Class C	15	473,588	0	15.20%	-11,965	-31,283	\$14.22
Northland	ALL	92	5,458,917	394,492	16.80%	-9,535	128,477	\$16.96
	Class A	8	1,152,257	0	5.80%	-7,440	116,721	\$22.78
	Class B	69	3,847,320	394,492	21.40%	-4,181	6,653	\$16.66
	Class C	15	459,340	0	6.70%	2,086	5,103	\$14.85
South Johnson Co.	ALL	283	22,387,096	190,380	16.70%	-231,889	-501,242	\$21.68
	Class A	84	11,775,521	190,380	13.80%	-214,169	-305,587	\$23.18
	Class B	186	10,238,998	0	20.40%	-15,400	-216,314	\$20.31
	Class C	13	372,577	0	3.80%	-2,320	20,659	\$18.35
South Kansas City	ALL	56	5,249,352	0	9.50%	-6,538	-72,510	\$19.82
	Class A	12	2,559,438	0	2.50%	0	-64,848	\$20.25
	Class B	42	2,618,012	0	16.50%	-6,538	-7,662	\$19.74
	Class C	2	71,902	0	0.00%	0	0	\$15.00
Southeast Jackson Co.	ALL	18	1,622,265	0	18.90%	-57,136	-107,117	\$19.10
	Class A	2	103,442	0	0.00%	0	0	\$23.50
	Class B	12	931,598	0	26.20%	-11,503	-47,735	\$19.44
	Class C	4	587,225	0	10.70%	-45,633	-59,382	\$18.50
Wyandotte Co.	ALL	41	2,285,422	0	7.40%	0	-48,123	\$19.11
	Class A	2	111,995	0	17.90%	0	0	\$27.91
	Class B	24	1,447,205	0	9.40%	0	-68,373	\$18.75
	Class C	15	726,222	0	1.80%	0	20,250	\$15.03
Kansas City Market	ALL	941	73,834,453	800,592	15.10%	-536,561	-965,693	\$21.52
	Class A	173	28,498,322	220,380	17.60%	-348,149	-660,511	\$24.08
	Class B	622	38,500,779	580,212	15.10%	-154,020	-363,914	\$19.47
	Class C	146	6,835,352	0	4.60%	-34,392	58,732	\$16.91

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	8,183,517	0	25.40%	-169,458	-197,407	\$26.04	\$17.08	\$24.65
East Jackson County	166,010	30,000	13.10%	2,189	6,864	\$22.00	-	\$22.00
Midtown/Plaza	2,800,913	0	14.50%	17,869	-17,054	\$29.45	\$22.25	\$29.37
North Johnson County	1,645,229	0	42.40%	22,860	-199,200	\$22.95	\$17.00	\$22.14
Northland	1,152,257	0	5.80%	-7,440	116,721	\$22.78	-	\$22.78
South Johnson County	11,775,521	190,380	13.80%	-214,169	-305,587	\$23.59	\$19.93	\$23.18
South Kansas City	2,559,438	0	2.50%	0	-64,848	\$20.25	-	\$20.25
Southeast Jackson County	103,442	0	0.00%	0	0	\$23.25	-	\$23.50
Wyandotte County	111,995	0	17.90%	0	0	\$27.91	-	\$27.91
Kansas City Market	28,498,322	220,380	17.60%	-348,149	-660,511	\$24.86	\$18.36	\$24.08

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	9,282,133	165,720	10.20%	-64,841	-65,167	\$20.96	\$12.94	\$19.71
East Jackson County	2,597,198	0	10.70%	-128,634	-24,401	\$17.78	-	\$17.78
Midtown/Plaza	2,494,262	20,000	4.70%	13,900	104,298	\$24.16	-	\$24.16
North Johnson County	5,044,053	0	15.20%	63,177	-45,213	\$21.12	\$16.36	\$20.12
Northland	3,847,320	394,492	21.40%	-4,181	6,653	\$16.66	-	\$16.66
South Johnson County	10,238,998	0	20.40%	-15,400	-216,314	\$21.28	\$14.68	\$20.31
South Kansas City	2,618,012	0	16.50%	-6,538	-7,662	\$19.78	\$16.12	\$19.74
Southeast Jackson County	931,598	0	26.20%	-11,503	-47,735	\$22.14	\$13.00	\$19.44
Wyandotte County	1,447,205	0	9.40%	0	-68,373	\$18.75	-	\$18.75
Kansas City Market	38,500,779	580,212	15.10%	-154,020	-363,914	\$20.32	\$14.43	\$19.47

Economic Conditions

The local economy continued to improve in November, with total employment growth of 2.9% and growth occurring in eight out of ten industries, calculated on a 12-month percent change basis.

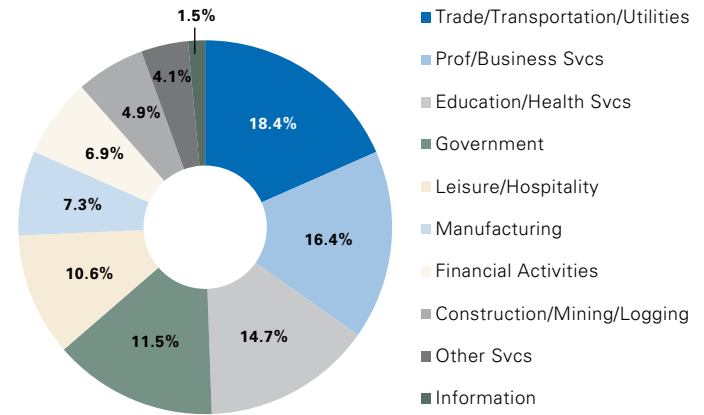
Payroll employment in Kansas City increased to 2.9% in November 2022, compared with 1.5% in November 2021. The national average decreased, down from 4.2% in November 2021 to 3.2% in November 2022.

The Consumer Price Index for the U.S. increased 30 basis points compared to the prior year, registering 7.1% in November 2022, while the Midwest Urban CPI decreased 50 basis points to 6.8%.

Unemployment in the U.S. increased 20 basis points to 3.7%, while unemployment in Kansas City decreased 10 basis points to 2.6% compared with the past quarter. Unemployment in Kansas City decreased 100 basis points from a year prior.

Employment By Industry

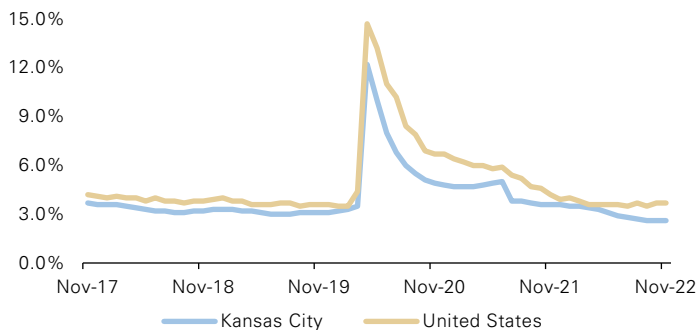
Kansas City, November 2022



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

Unemployment Rate

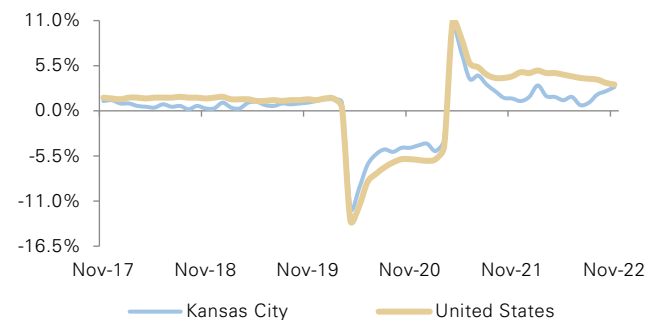
Seasonally Adjusted



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

Payroll Employment

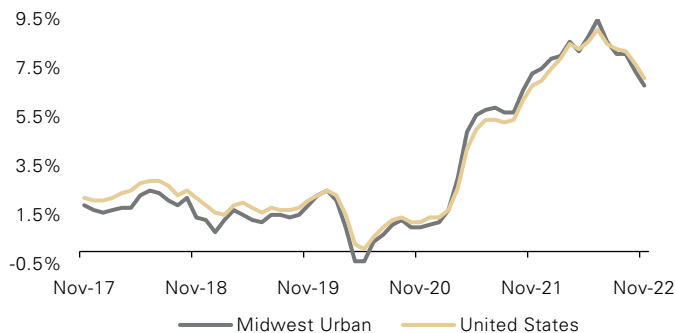
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



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

Consumer Price Index (CPI)

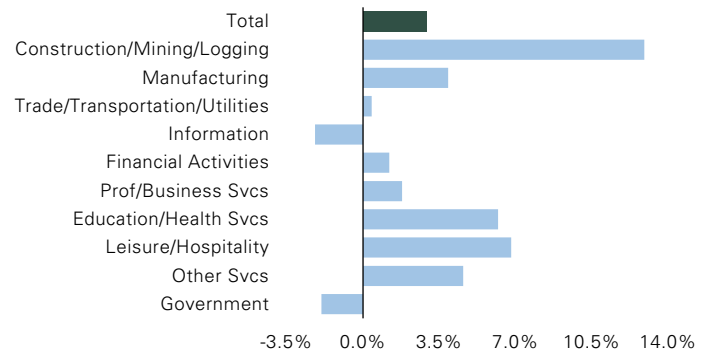
All Items, 12-Month % Change, Not Seasonally Adjusted



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

Employment Growth By Industry

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



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

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