

16.2%
Vacancy Rate

-935K
YTD Net Absorption, SF

\$21.87
Asking Rent, PSF

(Overall, All Property Classes)

**ECONOMIC INDICATORS
Q3 2020**

1,050.8K
Kansas City
Employment

7.1%
Kansas City
Unemployment Rate

8.8%
U.S.
Unemployment Rate

*Source: BLS, Moody's Analytics
2020Q3 data are based on
latest available data*

ECONOMY

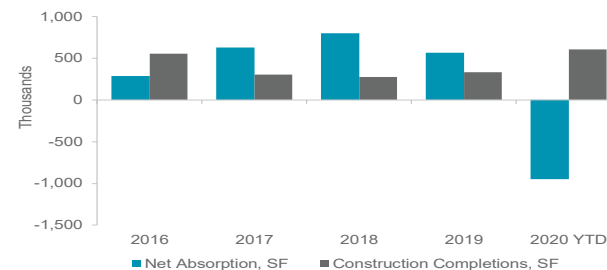
The first nine months of 2020 will stand out for generations. From an overall economic standpoint, the US economy endured perhaps the greatest shock any industrialized nation has seen. Gross Domestic Product contracted at a rate that most economists never would have thought possible, unemployment rose faster than any time on record, and day-to-day life was disrupted more than ever in peace-time America. Unprecedented challenges impacted people on an economic, educational, and personal level, and those impacts will be felt throughout Kansas City, the United States, and the entire world for years to come.

Much of the economic data describing 2020 ranges from disappointing to dreadful. Yet Kansas City's overall economy and the commercial real estate sector have remained resilient in the areas most stressed while the areas that could potentially benefit during the disruption have enjoyed great success. The office market has seen vacancy rise substantially due in part to the COVID-19 pandemic but also due at least in part to the arrival of new, Class A space that has attracted tenants. In the industrial sector, Kansas City has strengthened its position as one of the most important secondary markets in the nation. The most encouraging sign of all has been the continued commitment of investors to develop, improve, and expand commercial real estate assets throughout the area. Large numbers of people in the Kansas City community are dealing with terrible hardships and those will most likely continue into the immediate future—but Kansas City is recognized for its strength and even in the most challenging of times the foundation for future success is being built and reinforced.

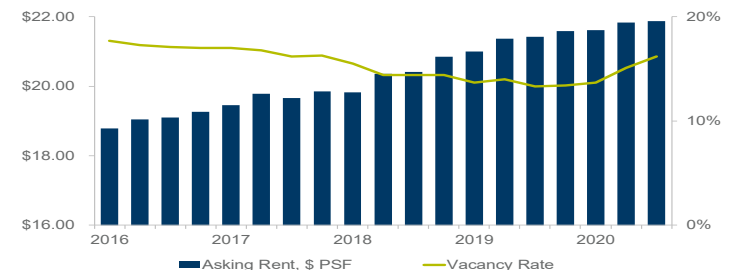
MARKET OVERVIEW

The Kansas City office market suffered statistically during the first three quarters of 2020. Leasing activity has dropped from 2.5 million square feet (msf) through the first nine months of 2019 to 1.7 msf so far this year, and total net absorption for the year through September 30 was negative 935,00 square feet (sf). Over the past year, the vacancy rate rose from 13.3% to 16.2%. It is worth mentioning that the 13.3% vacancy rate was a 20-year low and the quarter-end rate of 16.2% is still noticeably below the 2015 third quarter vacancy rate of 18.1%, but there is no denying that the office market has struggled.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



There has been concern about a rise in the amount of vacant sublease space on the market. In the first three quarters of 2020, vacant sublease space in Kansas City more than doubled, rising from 372,000 sf at the end of 2019 to 829,000 sf. Almost half (48.9%) of the negative net absorption total for the year can be traced to sublease space. Listings in three buildings, one each in Crown Center, North Johnson County, and the Northland, total 276,000 sf of the 478,000 sf of new net sublease space that has hit the market this year. Having just a handful of new subleases account for a over one-quarter of the negative absorption makes the statistical performance of the market somewhat less dramatic, but it doesn't change the reality that sublease space has become widely available. In the third quarter of 2019, there were 38 available sublease listings—in the third quarter of this year, that number was up to 56.

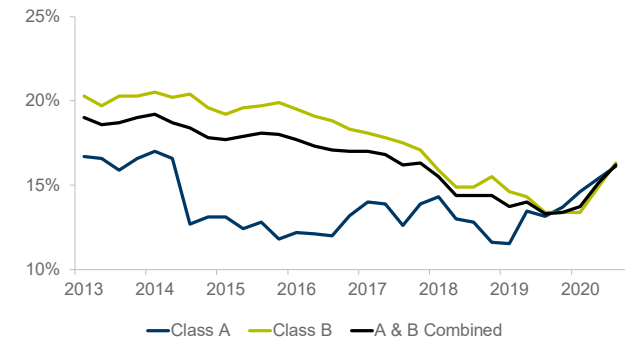
Where a much more positive story can be found is the topic of Class A space, new construction, and future development. Net absorption in Class A buildings stood at 362,000 sf at the end of the third quarter, driven substantially by the delivery of new buildings. 46 Penn Centre was completed late in the summer, and the 194,000-sf building on the Plaza was over 50.0% preleased. Looking to the future, work has started on the 108,000-sf third building at the Creative Campus in South Johnson County, where the first two buildings are a combined 199,000 sf and 97.4% occupied.

Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

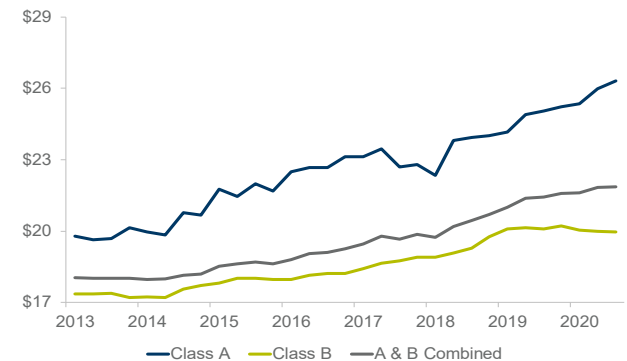
Outlook

- Occidental Management announced long-term development plans to add up to 1.4 msf of new office space at the former Sprint Campus, with work slated to begin in late 2021.
- There are anecdotal stories of companies that made space available for sublease now deciding to retain control of those spaces and quietly removing the listings, which could lead to confusion regarding the exact amount of vacant space and absorption.
- While average asking rates have remained high due to the delivery of new buildings, landlords may be accommodating when negotiating lease terms over the next three to six months.

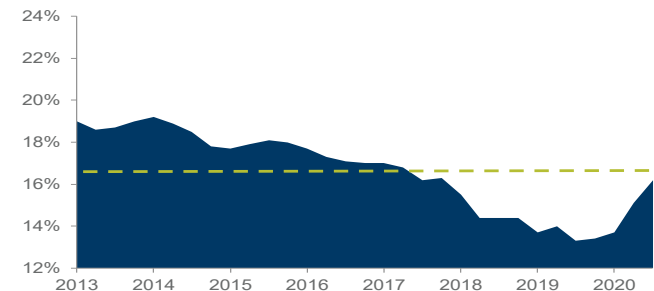
VACANCY TREND



CLASS A & B ASKING RENT



OVERALL VACANCY



MARKET STATISTICS

| Submarket | Inventory (SF) | Sublet Vacant (SF) | Direct Vacant (SF) | Overall Vacancy Rate | Current QTR Overall Net Absorption (SF) | YTD Overall Net Absorption (SF) | YTD Leasing Activity (SF) | Under CNSTR (SF) | Overall Average Asking Rent (All Classes)* | Overall Average Asking Rent (Class A)* |
|--------------------------|-------------------|--------------------|--------------------|----------------------|---|---------------------------------|---------------------------|------------------|--|--|
| Downtown | 7,018,653 | 40,418 | 875,561 | 13.1% | -9,809 | -25,360 | 419,889 | 360,000 | \$22.14 | \$23.41 |
| Crown Center/Crossroads | 4,609,414 | 9,000 | 923,011 | 24.2% | -60,510 | -177,228 | 109,822 | 0 | \$22.45 | \$24.88 |
| CBD | 11,628,067 | 232,973 | 1,798,572 | 17.5% | -70,319 | -202,588 | 529,711 | 360,000 | \$22.30 | \$24.07 |
| Plaza | 3,256,169 | 53,054 | 469,005 | 16.0% | 44,597 | 20,977 | 71,597 | 0 | \$28.59 | \$30.03 |
| South Kansas City | 3,466,180 | 8,282 | 336,311 | 9.9% | -13,834 | 118,307 | 47,058 | 0 | \$19.74 | N/A |
| Northland | 3,739,838 | 118,130 | 1,130,987 | 33.4% | -94,816 | -197,670 | 47,509 | 0 | \$17.72 | \$24.99 |
| East / SE Jackson County | 2,995,794 | 0 | 487,944 | 16.3% | -2,699 | -30,116 | 34,280 | 0 | \$19.63 | N/A |
| North Johnson County | 7,230,485 | 232,754 | 1,185,532 | 19.6% | -162,585 | -150,982 | 320,517 | 96,885 | \$21.99 | \$30.29 |
| South Johnson County | 19,865,954 | 184,219 | 2,234,045 | 12.2% | -230,613 | -453,935 | 589,968 | 108,000 | \$23.41 | \$27.49 |
| Other Suburban Markets | 1,443,601 | 0 | 242,070 | 16.8% | -9,362 | -38,571 | 30,551 | 0 | \$17.84 | N/A |
| Suburbs | 41,998,021 | 596,439 | 6,085,894 | 15.9% | -469,312 | -731,990 | 1,141,480 | 204,885 | \$21.73 | \$28.47 |
| Class A | 15,721,008 | 294,403 | 2,231,805 | 16.1% | 59,314 | 362,443 | 732,118 | 564,885 | \$26.32 | |
| Class B | 37,905,080 | 535,009 | 5,652,661 | 16.3% | -598,945 | -1,297,021 | 939,073 | 0 | \$19.95 | |
| TOTAL | 53,626,088 | 829,412 | 7,884,466 | 16.2% | -539,631 | -934,578 | 1,671,191 | 564,885 | \$21.87 | |

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2020

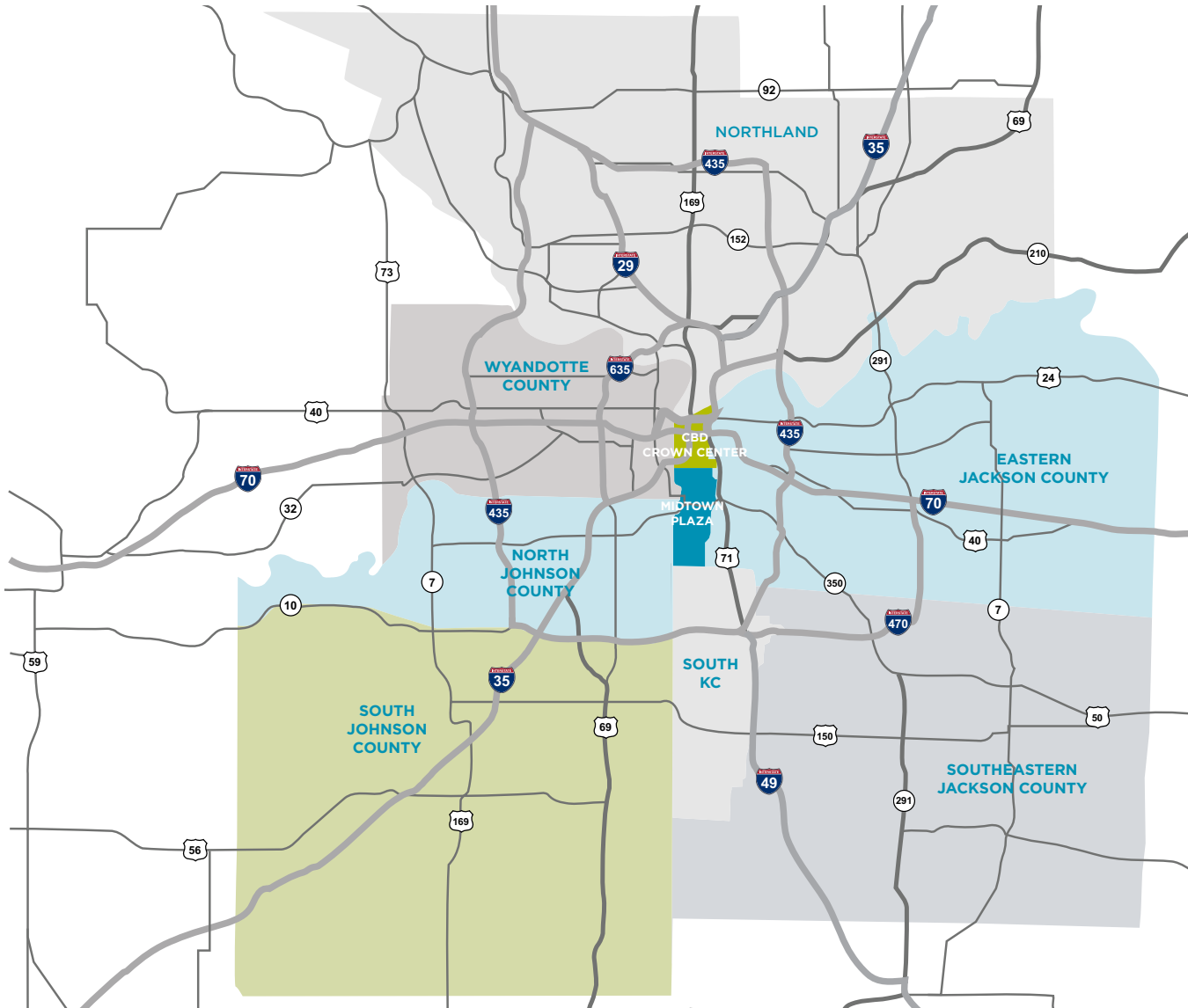
| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|---------------------|----------------------|---|--------|-----------|
| 7101 Tower | South Johnson County | BOK | 34,404 | New Lease |
| One Main Plaza | Plaza | Baty Holm and Numerich | 14,832 | New Lease |
| 2600 Grand | Crown Center | US Commodity Futures Trading Commission | 14,154 | New Lease |
| Corporate Woods #40 | South Johnson County | Guggenheim Investments | 9,545 | Renewal |

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2020

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/ \$ PSF |
|----------------------|----------------------|---|---------|---------------|
| 9300 Ward Parkway | South Kansas City | James Campbell Estate/US Realty Advisors | 486,000 | n/a |
| 5200 Metcalf | North Johnson County | Lexington Realty Trust/Somera Road | 313,385 | n/a |
| 18001 W 106th Street | South Johnson County | Opus/Excelsior Capital | 120,000 | n/a |
| 9601 Renner | North Johnson County | Lexington Realty Trust/US Realty Advisors | 77,484 | n/a |

OFFICE SUBMARKETS



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