

	YoY Chg	12-Mo. Forecast
20.1% Vacancy Rate	▲	▼
-847K YTD Net Absorption	▲	▼
\$21.57 Asking Rent, PSF	▼	▬

Overall, All Property Classes

ECONOMY

For two straight years, the primary concern for all aspects of commercial real estate was a global pandemic but in the first quarter of 2022 that began to fade into the past and a new challenge emerged. Inflation—which had more or less been dormant for two decades—became the primary economic focus along with questions regarding how the Federal Reserve would respond. However, these are long-term issues and they had no obvious impact on the Kansas City commercial real estate market during the first quarter.

The local industrial market remained one of the strongest in the country with solid first quarter numbers in both absorption and leasing while the office market saw another large total of negative absorption, with one tenant in particular accounting for a substantial portion of it. Yet despite the negative statistics related to office space there are a number of encouraging signs that the Kansas City office market is beginning to push through into the new, post-pandemic world and there is no indication that demand for industrial space in and around Kansas City will slow anytime soon. The local unemployment rate for the first quarter was just 3.5% and while low unemployment has historically been viewed as a positive, one of the primary challenges facing businesses right now is securing workers.

ECONOMIC INDICATORS Q1 2022

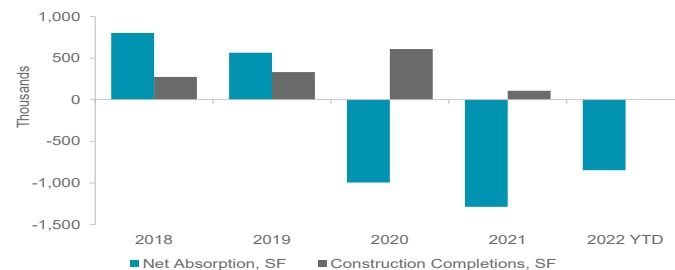
	YoY Chg	12-Mo. Forecast
1,081.7K Kansas City Employment	▲	▲
3.5% Kansas City Unemployment Rate	▼	▬
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2022Q1 data are based on latest available data

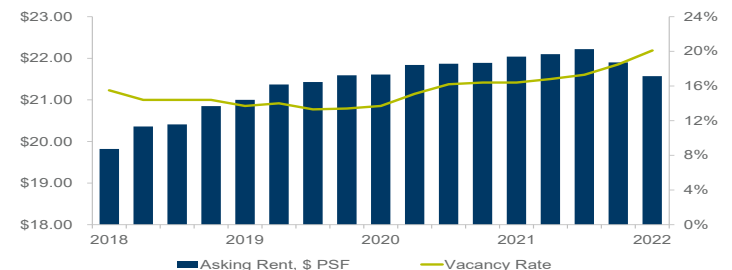
MARKET OVERVIEW

Office space reported negative 847,000 square feet (sf) of absorption in the first quarter of 2022, the second consecutive quarter with a total of negative 825,000 sf or less. For most of 2020 and 2021, Kansas City was resilient relative to national trends in terms of absorption and vacancy, but that has changed drastically over the past six months. For the six-quarter period between the second quarter of 2020 and the third quarter of 2021, Kansas City averaged negative 255,000 sf of absorption per-quarter for a total of 1.5 million square feet (msf) of negative absorption and in the third quarter of 2021 the figure was only negative 46,000 sf. In the two quarters since, the market has seen negative 1.7 msf of absorption. In the first quarter of 2022, four buildings in South Johnson County accounted for negative 496,000 sf of that amount, well over half of the total. Additionally, all four of the spaces were listed as sublease availabilities.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



One of the tenants in question relocated to a building just over one mile away and its former building will likely become a direct availability with the potential for redevelopment soon. The other three buildings—all of which were single-tenant occupied by the same company—are the result of the employer moving to a permanent remote-work situation. Those three buildings, which range in size from 63,000 sf to 145,000 sf, are west of I-35, and outside the I-435 loop, face an uncertain future. For two years, the question of how many office jobs would become permanent work-from-home positions has been hanging over the office market but this was certainly the biggest local shock.

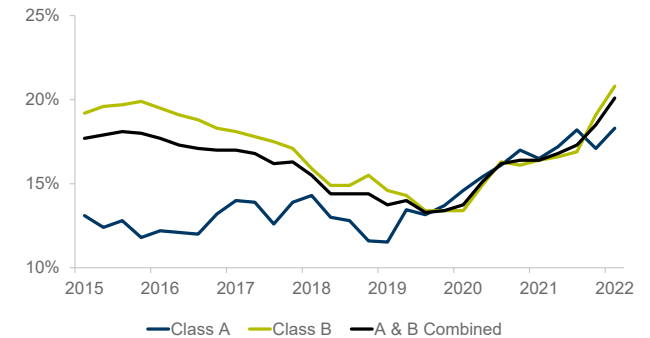
Significant positives do exist in the Kansas City office market though, and most of them relate to the construction of new space. A trend that is already emerging in major markets and is quickly gathering momentum around the country is a flight-to-quality movement where tenants demand better spaces with more amenities and modern features. Evidence of this can be seen in the vacancy rate for office buildings delivered since 2017 in Kansas City, where the vacancy rate is just 9.3% and roughly one-third of all vacant space at the end of the first quarter was located in 46 Penn on the Plaza, which reported over 20,000 sf of absorption during the first three months of the year and will almost certainly continue to lease up as the year continues. At the end of 2019, the vacancy rate for Class B space was slightly lower than the Class A vacancy rate, but in the first quarter of 2022 it was the Class A vacancy rate that was 250 basis points below the Class B number.

The second quarter of the year will see the delivery of the 260,000-sf Class A tower 1400KC in Downtown, the first time in a generation new construction, speculative office space will be available in the Kansas City Central Business District. Work was also underway on a third building at Hallbrook in South Johnson County, and just over half of the 121,000 sf in that Class A project has been leased. Older offices, especially mid-sized Class B suburban buildings, are likely to continue to struggle but there is strong tenant interest in top-of-the-line, Class A product.

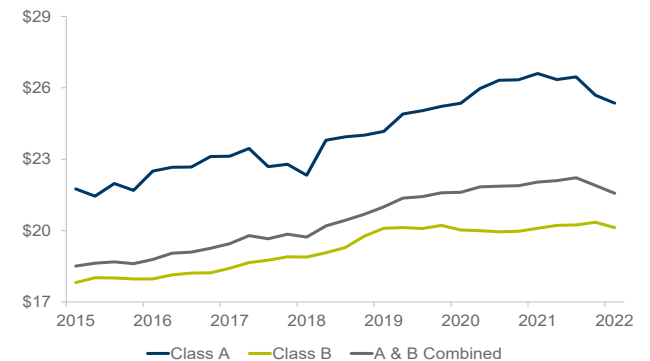
Outlook

- Additional Class A office construction is expected to get underway in 2022, with at least one of the projects likely to be significantly pre-leased.
- The flight-to-quality trend will mean more attention should be directed toward leasing activity in new construction than traditional measures such as absorption and vacancy.
- Negotiations on tenant improvement allowances have become increasingly significant in all leases, so posted asking rates may not necessarily be indicative of final terms.

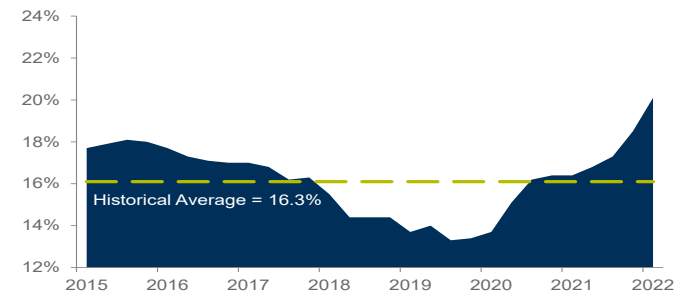
VACANCY TREND



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	162,770	1,022,728	16.9%	-3,947	-3,947	65,266	260,000	\$21.15	\$23.08
Crown Center/Crossroads	4,609,414	72,359	1,138,842	26.3%	7,851	7,851	28,420	0	\$21.78	\$22.71
CBD	11,628,067	235,129	2,161,570	20.6%	3,904	3,904	93,686	260,000	\$21.45	\$22.98
Plaza	3,256,169	18,359	545,698	17.3%	-37,280	-37,280	46,668	0	\$28.70	\$30.56
South Kansas City	3,466,180	59,806	301,734	10.4%	-39,799	-39,799	8,673	0	\$20.10	N/A
Northland	3,604,549	163,745	1,006,365	32.5%	-11,869	-11,869	37,678	0	\$18.06	\$23.47
East / SE Jackson County	2,995,794	59,642	379,092	14.6%	-11,617	-11,617	44,822	0	\$20.47	N/A
North Johnson County	7,077,651	227,750	1,153,920	19.5%	6,527	6,527	128,241	16,200	\$20.02	\$25.92
South Johnson County	19,973,954	972,511	3,260,031	21.2%	-752,956	-752,956	347,423	120,527	\$22.31	\$27.32
Other Suburban Markets	1,443,601	0	184,951	12.8%	-3,518	-3,518	2,179	0	\$16.98	N/A
Suburbs	41,817,898	1,501,813	6,831,791	19.9%	-850,512	-850,512	615,684	136,727	\$21.61	\$27.39
Class A	15,792,832	254,918	2,637,704	18.3%	-208,280	-208,280	318,429	380,527	\$25.36	
Class B	37,653,133	1,482,024	6,355,657	20.8%	-638,328	-638,328	390,941	16,200	\$20.13	
TOTAL	53,445,965	1,736,942	8,993,361	20.1%	-846,608	-846,608	709,370	396,727	\$21.57	\$25.36

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
10909 Overbrook Road	College Boulevard	KPB Investments	62,572	New Lease
1201 Walnut	Downtown	Academy Bank	49,789	New Lease
7400 College	College Boulevard	Menufy	21,000	New Lease
6363 College	College Boulevard	Tortoise Capital Advisors	17,000	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$ PSF
9201 State Line Road	South Kansas City	Real Capital Solutions / Nazareth Enterprises	166,641	n/a
4551 W 107th Street	North Johnson County	LANE4 / Allied Realty	83,289	n/a
11111 W 95th Street	North Johnson County	Block & Co / KC Property Group	29,696	n/a
20101 E Jackson Drive	East & Southeastern Jackson County	Parkway Properties / TDC	16,000	n/a

