

KANSAS CITY

Office Q2 2022

	YoY Chg	12-Mo. Forecast
20.8% Vacancy Rate	▲	▼
-1,088K YTD Net Absorption	▼	▲
\$21.97 Asking Rent, PSF	▼	▬

Overall, All Property Classes

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
1,081.1K Kansas City Employment	▲	▲
2.9% Kansas City Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics
2022Q2 data are based on latest available data

ECONOMY

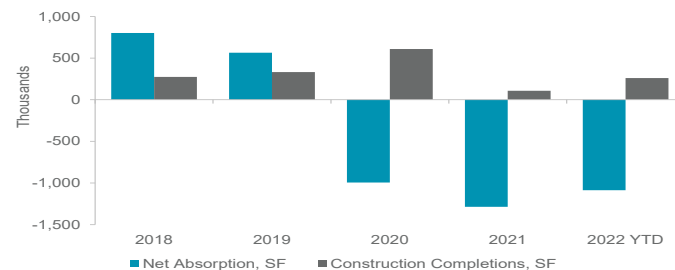
The second quarter of 2022 saw a bit of a switch from recent trends as it was a large office lease that grabbed the biggest headlines, so much so that another exceptional quarter in the industrial sector wasn't the top attention grabber. To be clear, the Kansas City Industrial market remains one of the strongest anywhere in the country and there are no signs of it slowing down anytime at all. Office space continues to see negative absorption and rising vacancy rates, but the flight-to-quality trend has been gathering momentum. In fact, an interesting parallel is beginning to emerge: the ongoing boom in Kansas City Industrial space was started by developers delivering high-quality, modern distribution space on a speculative basis and they quickly learned there was a previously unimaginable demand. Right now, demand for premium Class A and Class A+ office space in Kansas City is outpacing supply.

In terms of macro-economic news, the biggest development of the second quarter was the Federal Reserve's aggressive interest rate hikes in an attempt to bring inflation under control. Key inflation metrics remain at or near 40-year highs, which led the Federal Reserve to raise its Target Federal Funds range by 75 basis points (bps) in June, bringing it to 1.75%. Another 75-bps increase is considered a possibility in July, which would bring the target rate to 2.5%, the highest it has been since 2008 and 225 bps above where it was at the start of the year. That would still be very low by historical standards—the monthly average of the Federal Funds Effective rate from 1955 through 2021 was 4.6%.

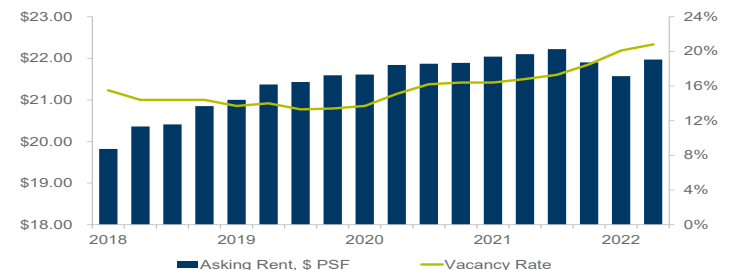
MARKET OVERVIEW

For the Kansas City office market, two events dominated the headlines during the second quarter. The first was a healthcare-focused technology firm leasing a 132,000-square-foot (sf) space at CityPlace in Overland Park. A third building is now under construction at the development to go along with a pair of 120,000-sf Class A buildings that were delivered in 2019 and 2020 and are a combined 93.9% occupied. The tenant that signed the new lease already completely occupies one of the existing CityPlace buildings and signed an extension on that as well.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



In the Central Business District (CBD), the 260,000-sf 1400KC tower in Downtown was delivered. The project was originally started as a build-to-suit for a financial services firm, but after that company was acquired by an international group the plans to relocate from an existing suburban headquarters were scrapped. However, developers continued construction and while it is technically a sublease, the building is the first time in at least 20 years that high-rise, Class A+, new construction is available for tenants to lease in the CBD. While the drawn-out return-to-office process has certainly hindered leasing at 1400KC from building any real momentum, now that the building is complete and tenant activity is picking up around the market there is optimism tenants will start making commitments to the building soon.

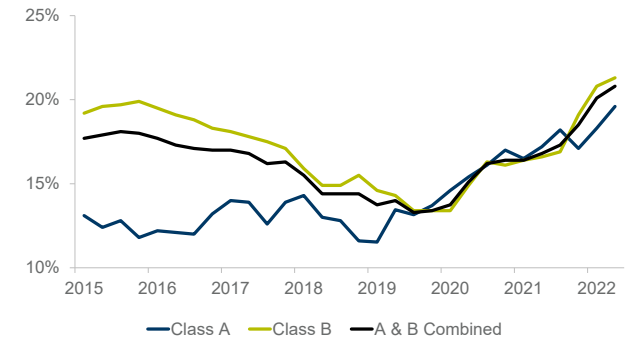
Although the headline statistics for the office market are negative, more focus shows a trend emerging that will demand the market adjust. Negative absorption for the first half of the year reached 1.1 million square feet (msf) and the vacancy rate is up to 20.8%, its highest level in a decade. However, a disproportionate amount of the negative absorption is coming from Class B space, which makes up 70.0% of the inventory in the Kansas City but it has accounted for 77.6% of the negative absorption. Additionally, Class A space, which accounts for 30.0% of the market, has generated 41.3% of new leasing activity and 32.8% of that leased Class A space is in buildings that are under construction.

Demand for office space still exists and Kansas City is seeing a trend that is gathering pace around the country. The flight-to-quality movement of tenants looking for newer buildings with improved efficiencies, amenities, and layouts is very real. As leasing activity at CityPlace, Hallbrook, 46Penn, and the Creative Campus has shown, tenants are looking for a very specific product. The biggest question in the Kansas City market is will the overall supply of those kind of Class A buildings match the growing demand.

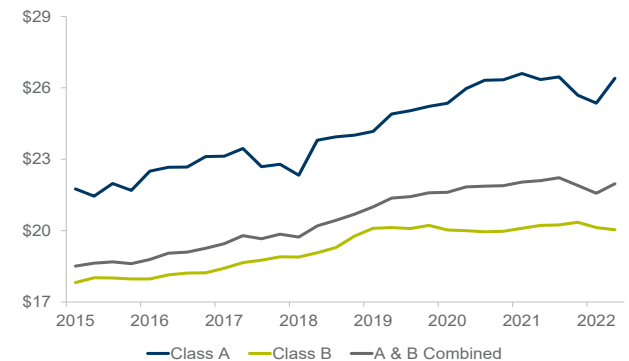
Outlook

- Asking rates will remain volatile as landlords of older, legacy properties work to find the price tenants are willing to pay for those spaces and Class A landlords look to raise rents.
- The remaining space in Class A buildings under construction is likely to attract significant interest, and CityPlace in particular could be 100% pre-leased prior to delivery.
- Tenant improvement allowances and the associated work schedules will present challenges for both tenants and landlords as inflation, rising labor costs, and supply shortages create multiple problems.

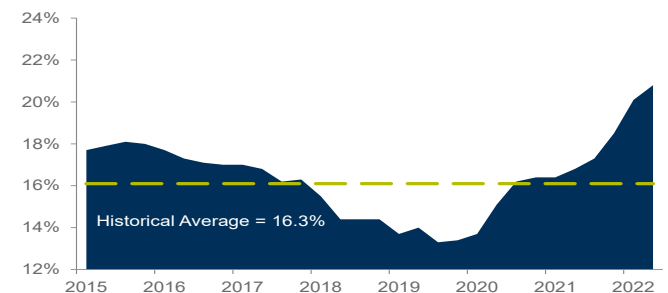
VACANCY TREND



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	7,278,653	422,770	1,084,889	20.7%	-91,831	-66,108	71,311	0	\$24.45	\$26.58
Crown Center/Crossroads	4,609,414	72,359	1,081,997	25.0%	46,845	64,696	107,984	0	\$21.78	\$22.69
CBD	11,888,067	495,129	2,166,886	22.4%	-44,986	-1,412	179,295	0	\$23.37	\$25.71
Plaza	3,256,169	11,944	573,267	18.0%	-21,154	-58,434	53,083	0	\$29.03	\$30.48
South Kansas City	3,466,180	59,806	303,535	10.5%	-1,801	-41,600	17,226	0	\$20.23	N/A
Northland	3,604,549	163,745	993,936	32.1%	12,429	560	52,602	0	\$18.69	\$25.05
East / SE Jackson County	2,982,368	0	402,541	13.5%	-23,449	11,150	38,272	0	\$20.74	N/A
North Johnson County	6,998,084	210,850	1,072,366	18.3%	14,361	53,194	273,877	28,200	\$20.71	\$24.89
South Johnson County	19,973,954	1,066,386	3,481,020	22.8%	-357,025	-1,067,820	796,367	310,907	\$21.86	\$26.94
Other Suburban Markets	1,443,601	0	165,065	11.4%	19,886	16,368	24,824	0	\$17.35	N/A
Suburbs	41,724,905	1,512,731	6,991,730	20.4%	-356,753	-1,086,582	1,256,251	339,107	\$21.47	\$27.15
Class A	16,002,961	561,131	2,576,170	19.6%	-76,711	-242,830	593,509	310,907	\$26.40	
Class B	37,610,011	1,446,729	6,582,446	21.3%	-325,028	-845,164	842,037	28,000	\$20.04	
TOTAL	53,612,972	2,007,860	9,158,616	20.8%	-401,739	-1,087,994	1,435,546	339,107	\$21.97	\$26.40

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Offices at CityPlace	South Johnson County	WellSky	252,142	New Lease**
Town Pavilion	Downtown	Bank Midwest	56,000	Renewal
2555 Grand	Crown Center	Promax	26,016	Sublease
Park Place Aubrey Building	South Johnson County	DPS Group	14,606	New Lease

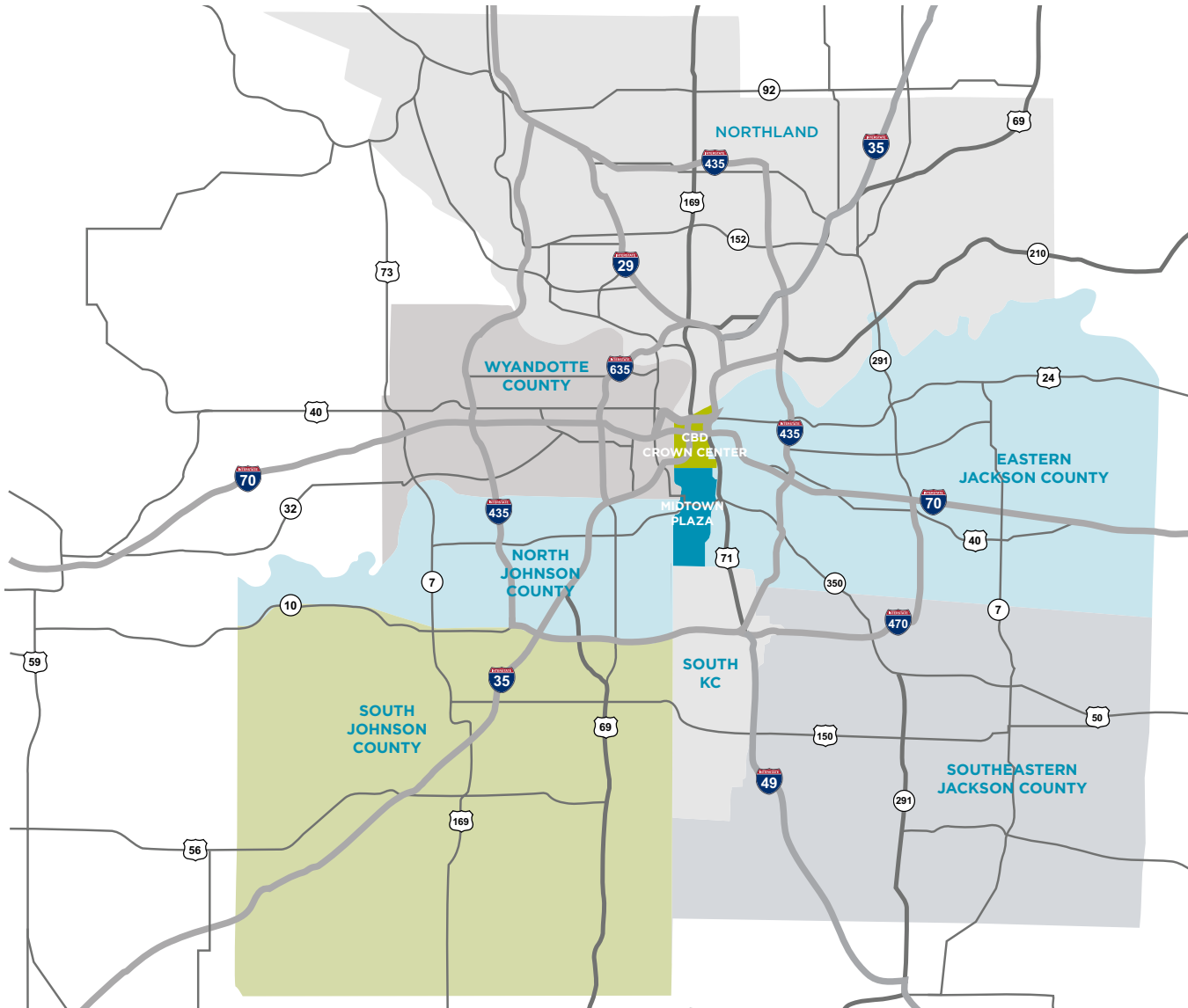
*Renewals not included in leasing statistics

**WellSky lease consisted of both new space and renewal

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$ PSF
Lighton Plaza Portfolio	South Johnson County	NewTower Trust / Price Brothers	475,714	n/a
920 Main	Downtown	Sovereign Group / Price Brothers	294,873	n/a
10975 El Monte	South Johnson County	Mortgage Lenders of America/ Sunlighten	70,573	n/a
6900 N Executive Drive	East & Southeastern Jackson County	First Federal Bank / Executive Drive Properties	37,908	n/a

OFFICE SUBMARKETS



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