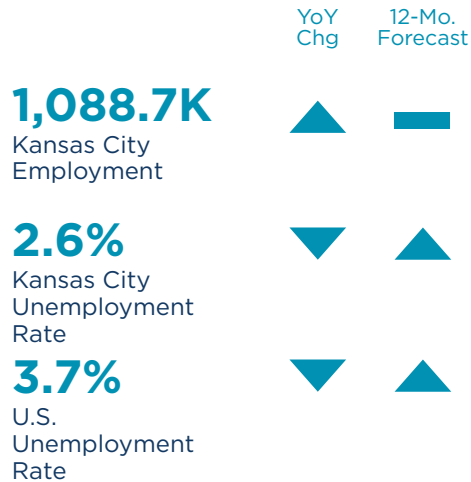


Overall, All Property Classes

ECONOMIC INDICATORS Q3 2022



Source: BLS, Moody's Analytics
2022Q3 data are based on latest available data

ECONOMY

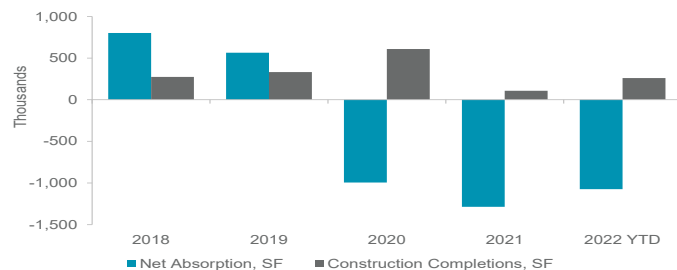
The third quarter of 2022 was all about big announcements in the Kansas City commercial real estate market. On the office side, the lease of the entire 260,000-square-foot (sf) 1400KC building by a single tenant would be the most significant local deal in years even if it hadn't taken place in a brand new, Class A tower in the Central Business District (CBD). On the industrial side, a 309-acre development site in western Johnson County was selected for the construction of a 2.5-million-square-foot (msf) manufacturing plant for batteries to be used in electric vehicles. While these two announcements dominated the headlines, neither will have an immediate impact on the commercial real estate statistics, as the office tenant has announced they will not move in until 2025 while realistically the battery plant will not be operational until the end of 2024 at the very earliest.

From a macro-economic perspective, a pair of 75-basis point (bps) rate hikes in the third quarter reinforced that the Federal Reserve Bank will make combating inflation its primary goal for the foreseeable future. The Federal Funds Effective Rate has risen from just 8 bps to 308 bps during the first nine months of the year, with three consecutive 75 bps increases and all indications that the Fed will continue to push rates higher in the fourth quarter of 2022 and the early part of 2023. While some key economic indicators from the third quarter showed inflation beginning to slow, unemployment remained historically low at 3.7% and to date the US economy has added 4.1 million jobs this year.

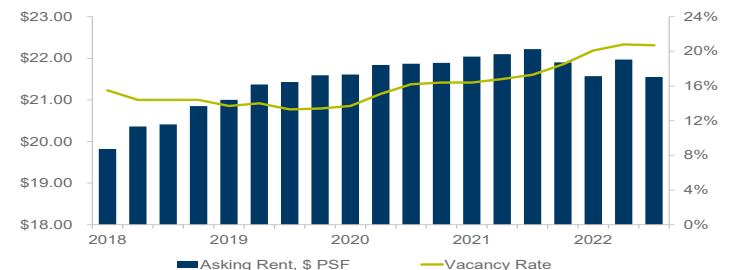
MARKET OVERVIEW

Kansas City's office market received a massive boost in the third quarter when a locally based insurance firm committed to leasing all of 1400KC, a 260,000-sf Class A tower in Downtown that was started as a build-to-suit for a financial advisory service but was listed for sublease prior to completion after the original tenant was acquired by an international firm. The project was the largest non-owner-user construction project the CBD had seen a generation, and the listing of the space for sublease created a paradox: on one hand, it was the first time new, ground up, Class A construction in the CBD would be available to tenants in decades but there were also some concerns that the high asking price and large amount of vacancy would scare people off. In a re-affirmation that there is a future for office

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



space, this deal will not only demonstrate the demand for modern, Class A+ space but hopefully encourage other developers to move forward with proposed projects.

Even with high levels of vacancy in the market, new construction is likely required for the market to move forward. While there has been anecdotal evidence of a flight-to-quality and the topic has been widely discussed amongst industry experts on a national level, there is now quantitative data to support the trend in the Kansas City market. Of the 2.4 msf of new leases signed so far in 2022, space in buildings that have delivered since 2018 or are currently under construction accounts for 25.4% of that total. There is strong demand for office space, but that demand is heavily weighted towards new construction, modern, Class A+ product. So far, the local market has failed to keep up with that demand.

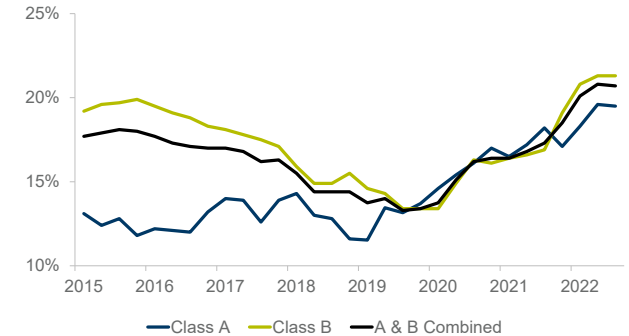
Another encouraging sign for the Kansas City market was several large sublease transactions. Along with the above-mentioned deal at 1400KC, between June and September there were five subleases of more than 20,000 sf completed totaling 217,000 sf. The amount of sublease space on the market remains elevated, but it is very encouraging for both the short-term and long-term future of the market for tenants to begin taking advantage of the wide variety of opportunities currently available.

Looking ahead, there is reasonable optimism that the worst of the pandemic is now in the rearview mirror with regards to the Kansas City office market. This year will likely end with an absorption total slightly over negative 1.0 msf, but between the 1400KC deal and leases signed in buildings under construction at the end of the third quarter, there is 490,000 sf of Class A office space committed to in the future. Attention will now turn to additional development and the fate of older, legacy product that may need to be repurposed or redeveloped, so there are still challenges ahead. But it appears the headlines of substantial increases in vacancy and large negative absorption totals are in the past.

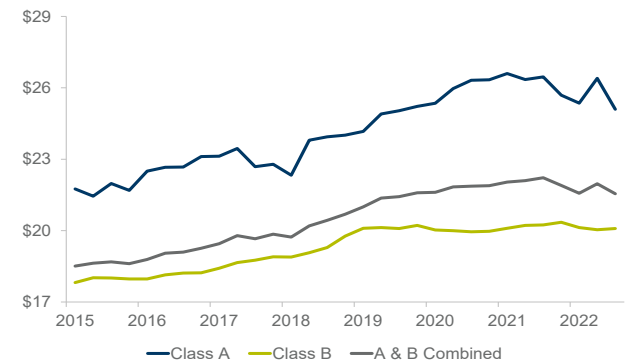
Outlook

- The lack of premium Class A space available in the market means weighted average asking rates fail to reflect the prices tenants are willing to pay for top-of-the line space.
- In 2023, several existing subleases will expire and the space will become available on a direct basis, meaning overall vacancy rate should be the primary statistic to focus on.
- Labor and supply costs will continue to be a key factor in negotiating lease terms and tenant improvement allowances.

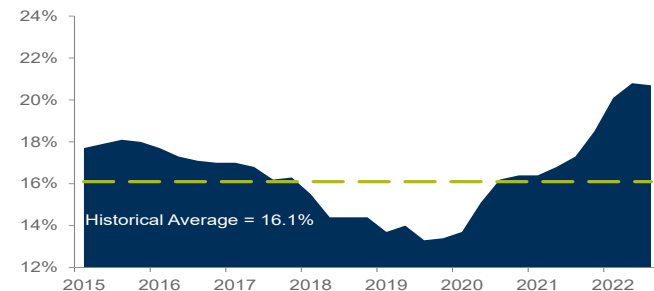
VACANCY TREND



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	463,546	1,123,156	21.8%	-79,043	-145,151	353,438	0	\$21.52	\$23.10
Crown Center/Crossroads	4,609,414	72,359	1,067,672	24.7%	2,052	79,021	141,399	0	\$21.82	\$22.68
CBD	11,888,067	535,905	2,190,828	22.9%	-76,991	-66,130	494,837	0	\$21.65	\$22.99
Plaza	3,256,169	8,423	566,082	17.6%	-26,922	-47,728	90,154	0	\$29.27	\$31.03
South Kansas City	3,674,180	94,546	311,664	11.1%	-42,869	-84,469	30,711	0	\$20.23	N/A
Northland	3,604,549	147,183	1,056,519	33.4%	-46,021	-45,461	67,363	0	\$18.82	\$24.99
East / SE Jackson County	2,982,368	44,220	484,095	17.7%	-147,620	-114,624	48,489	0	\$20.15	N/A
North Johnson County	6,998,084	222,437	968,517	17.0%	59,345	145,456	394,497	28,200	\$20.37	\$24.86
South Johnson County	19,973,954	879,145	3,485,356	21.9%	123,476	-884,915	1,194,694	310,907	\$22.22	\$26.53
Other Suburban Markets	1,443,601	0	157,655	10.9%	7,410	23,778	32,234	0	\$16.96	N/A
Suburbs	41,932,905	1,395,954	7,029,888	20.1%	-73,201	-1,007,963	1,858,142	339,107	\$21.51	\$27.11
Class A	16,210,961	566,362	2,590,884	19.5%	-98,989	-262,775	972,475	310,907	\$25.10	
Class B	37,610,011	1,365,497	6,629,832	21.3%	-51,203	-811,318	1,380,504	28,000	\$20.09	
TOTAL	53,820,972	1,931,859	9,220,716	20.7%	-150,192	-1,074,093	2,352,979	339,107	\$21.55	\$25.10

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1400KC	Downtown	Blue Cross & Blue Shield	260,000	Sublease
Aspiria	South Johnson County	Nations Benefit	104,714	Sublease
CityPlacelV	South Johnson County	IMA Financial	43,212	New Lease
Aspiria	South Johnson County	HNTB	27,897	New Lease

*Renewals not included in leasing statistics

**WellSky lease consisted of both new space and renewal

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$ PSF
901 W Carondelet	South Kansas City	C.H. Robinson / ET Kansas City	208,000	n/a
Blue Ridge Tower	East & Southeastern Jackson County	IAS Partners / Blue Ridge Tower LLC	101,774	n/a
1220 Washington	Downtown	Worcester Investments / KC Residence	40,743	n/a
802 Broadway	Downtown	Waltel Companies / Exact Architects	40,500	n/a

