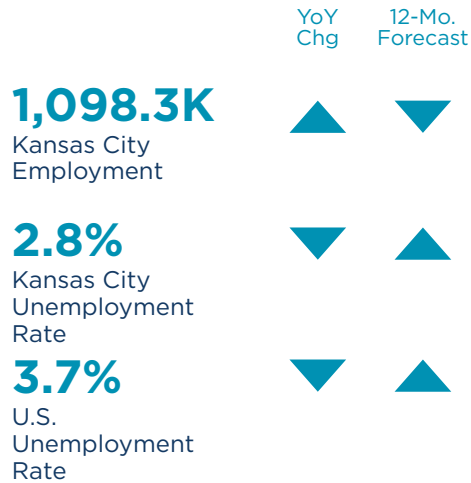


Overall, All Property Classes

ECONOMIC INDICATORS Q4 2022



Source: BLS, Moody's Analytics
2022Q4 data are based on latest available data

ECONOMY

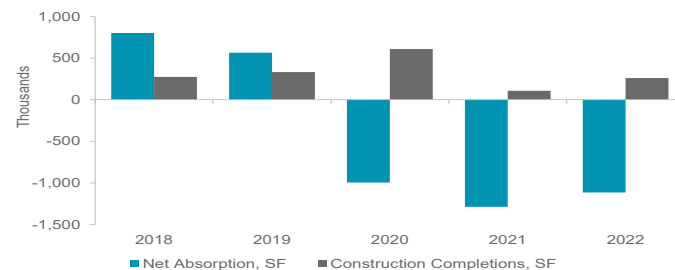
Looking back over 2022, the standout story for the Kansas City commercial real estate market was major announcements that bode very well for the future but will not come to fruition until at least 2024. On the office side, the entire 260,000-square-foot (sf) Class A 1400KC tower in Downtown, which only delivered in the second quarter of the year, was fully leased by a single tenant. On the industrial side it was confirmed that the Kansas City area will be the site of a state-of-the-art, multi-billion dollar and multi-million square-foot battery manufacturing facility to support the electric vehicle industry. Most years are about what has happened over the past 12 months, but for Kansas City in 2022 it was more about where the city is going.

On the macroeconomic side of things, inflation and interest rate hikes were the key topics. The Federal Reserve began raising interest rates in the first quarter of the year, but it was not enough to keep inflation from reaching its highest level in roughly four decades over the summer. While there were signs late in the year that inflation may be retreating, the Federal Reserve has clearly indicated its main priority over the short term will be getting key inflation metrics back near the 2.0% target. Uncertainty and instability are the greatest threats to any investment market and rising interest rates were the major reason investment transactions in the commercial real estate sector dramatically slowed in the second half of 2022.

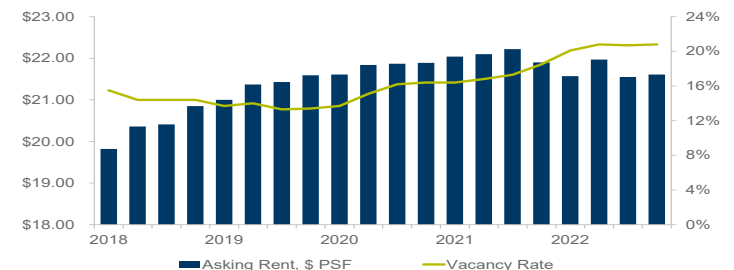
MARKET OVERVIEW

The fourth quarter of the year reported negative 129,000 sf of absorption, bringing the year-end total to negative 1.1 million square feet (msf). Over the past three years, Kansas City has averaged 1.1 msf of negative absorption and seen the vacancy rate jump from a generational low of 13.7% at the end of 2019 to 20.8% at the end of 2022, the highest level in more than a decade. While the Kansas City office market entered the pandemic in a position of strength, three challenging years proved to be too much and the progress that was made between 2010 and 2020 has been surrendered. There have been success stories in the Kansas City office market and there is a basis for optimism going forward. However, there is also a clear image emerging of the assets that can succeed and those that will struggle.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



On both a local and national level, it has become clear that a flight-to-quality trend is underway amongst office users and it is only getting faster. At the end of 2022, there were two Class A office buildings under construction—the 190,000-sf Office at CityPlace IV and the 120,000-sf Three Hallbrook Place. Those buildings were 80.4% preleased. Since the start of 2020, Kansas City has seen the delivery of six Class A office properties totaling 835,000 sf (not including the 142,000-sf build-to-suit expansion at the Burns & McDonnell headquarters), and 93.4% of the space in those buildings had been leased by year end. The largest single availability in any of those buildings at the end of 2022 was just under 15,000 sf, while eight different tenants had signed leases in excess of 25,000 sf in those same buildings. There is a demand for office product, but it is a very specific type of office product.

How Kansas City handles the demand for higher quality space will be vital. Even outside of the new construction projects, most of the key success stories in 2022 involved assets that have recently received notable investment and improvements. The 313,000-sf building at 5200 Metcalf went from completely vacant at the start of the fourth quarter of 2021 to roughly half full by the end of 2022. Aspira (and the neighboring OpX) saw more than 210,000 sf of new leases signed in 2022 and the three-building Lighton Portfolio at College and Metcalf reported over 75,000 sf of new leasing activity.

The Kansas City office market ended 2022 at a crossroads, and the path ahead is not completely clear. Quantitative data indicates tenants want—and are willing to pay for—a higher quality product than what has traditionally been offered. As noted above, demand is outpacing supply on new construction and the existing buildings that are seeing demand are ones that tend to be of higher quality, have made recent improvements, and are adding amenities. The flip side to this is the real possibility that older assets where upgrades may not be practical or feasible may face great challenges in finding and retaining tenants.

Outlook

- High demand for Class A space and limited new construction will allow some landlords to push rates in renovated or upgraded buildings.
- Sublease vacancy in 2023 will drop as many of the original leases expire and/or buyouts are reached for the remaining term, meaning overall vacancy will be the key statistic to watch.
- Construction costs and the labor costs for tenant improvement projects will remain elevated for at least the first six months of the year.

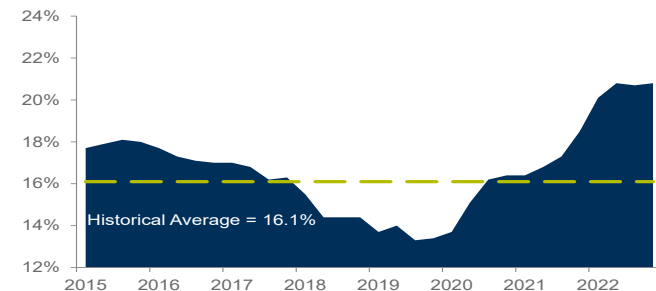
VACANCY TREND



CLASS A & B ASKING RENT



OVERALL VACANCY



Office Q4 2022

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	510,200	1,191,610	23.4%	-115,108	-260,259	362,231	0	\$21.78	\$23.06
Crown Center/Crossroads	4,609,414	72,359	1,065,476	24.7%	-8,275	81,217	166,305	0	\$21.62	\$22.46
CBD	11,888,067	582,559	2,257,086	23.9%	-123,383	-179,042	528,536	0	\$21.71	\$22.90
Plaza	3,256,169	8,423	521,046	16.3%	45,036	-2,692	160,177	0	\$29.05	\$30.87
South Kansas City	3,674,180	98,657	309,863	11.1%	-17,508	-86,779	62,364	0	\$20.57	N/A
Northland	3,604,549	126,315	957,437	30.1%	94,369	74,489	110,405	0	\$18.90	\$25.33
East / SE Jackson County	2,982,368	44,220	571,347	20.6%	-87,252	-201,876	61,117	0	\$20.18	N/A
North Johnson County	6,998,084	215,543	941,678	16.5%	9,799	179,189	510,260	12,000	\$20.17	\$24.78
South Johnson County	19,973,954	869,311	3,541,808	22.1%	-62,419	-933,538	1,448,648	310,907	\$22.42	\$26.60
Other Suburban Markets	1,443,601	0	145,652	10.1%	12,003	35,781	44,237	0	\$16.96	N/A
Suburbs	41,932,905	1,362,469	6,988,831	19.9%	-5,972	-935,426	2,397,208	322,907	\$21.57	\$27.06
Class A	16,210,961	611,440	2,573,527	19.6%	-55,413	-290,496	1,160,612	310,907	\$24.87	
Class B	37,610,011	1,333,588	6,672,390	21.3%	-73,942	-823,972	1,765,132	12,000	\$20.28	
TOTAL	53,820,972	1,945,028	9,245,917	20.8%	-129,355	-1,114,468	2,925,744	322,907	\$21.61	\$24.87

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2022

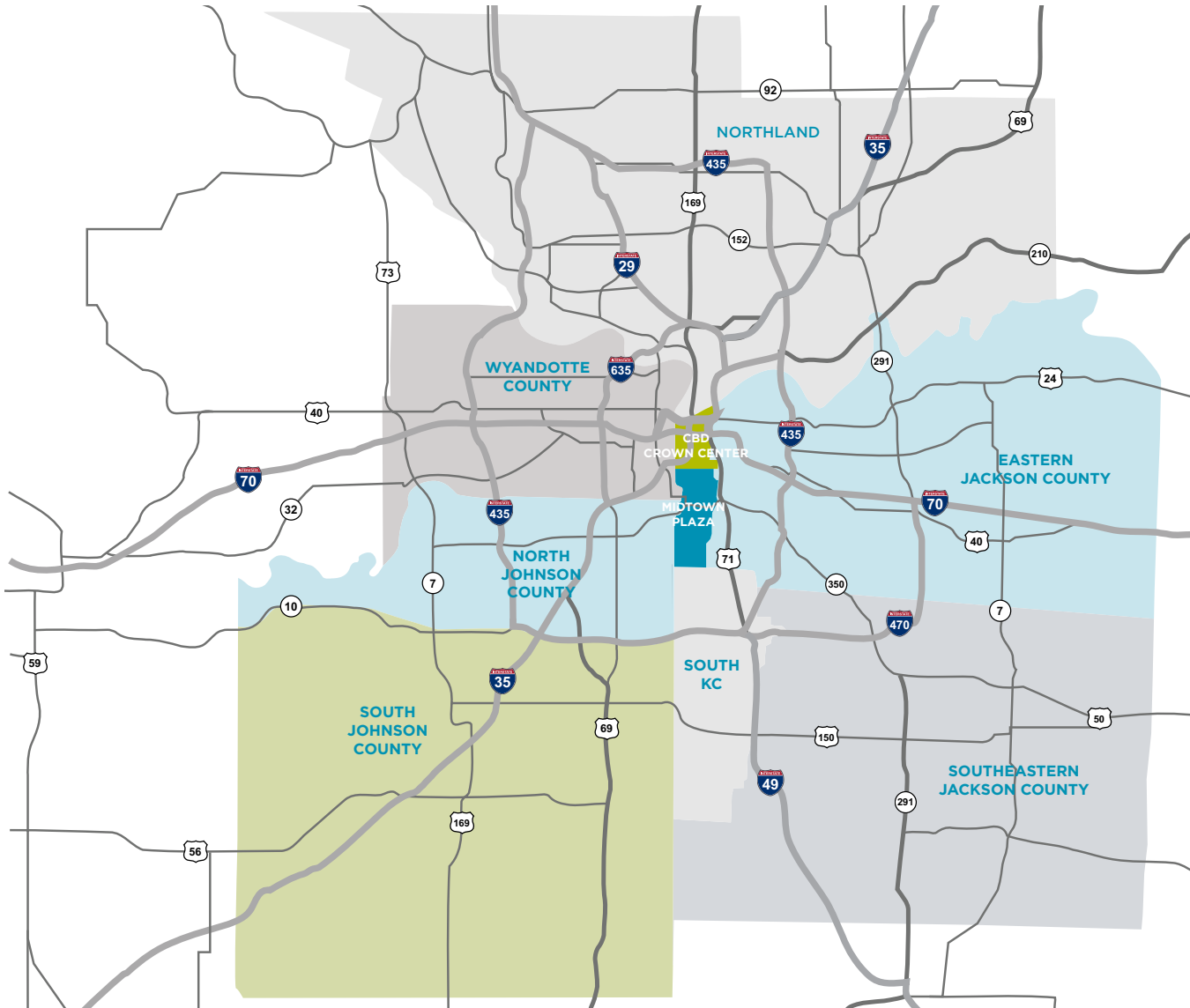
PROPERTY	SUBMARKET	TENANT	SF	TYPE
11250 Corporate Ave	South Johnson County	AIG	24,432	New Lease
7280 NW 87th Terrace	Northland	The Scarborough Group	22,000	New Lease
6329 Glenwood	North Johnson County	Mercury Broadband	21,378	New Lease
1321 Baltimore	Downtown	Mythical	16,000	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/ \$ PSF
Johnson County Office Portfolio	North & South Johnson County	The Denzer Group / AMG	263,006	n/a
10551 S Ridgeview Road	South Johnson County	Griffin Capital / GIC	101,977	n/a
Kirkwood Building	Crossroads	Fromm Real Estate / EPC	47,800	n/a
1701 Walnut	Crossroads	Nilsen / Big Brothers & Big Sisters	24,900	n/a

OFFICE SUBMARKETS



MATTHEW NEVINGER

Research Director, Kansas City

Tel: +1 816 221 2200

matt.nevinger@cushwake.com

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