FALL 2022

# STATE OF SPACE REPORT

## Kansas City Office Market

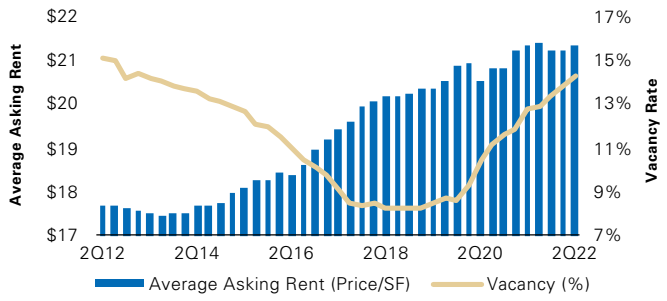
NEWMARK ZIMMER

# STATE OF SPACE REPORT

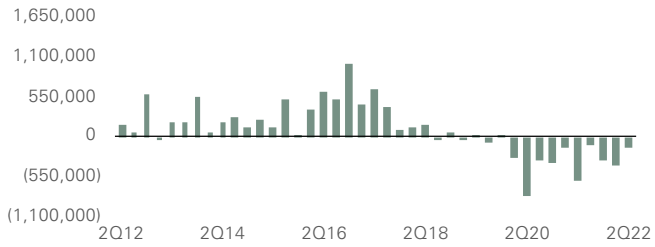
The Q3 2022 State of Space Report is a snapshot of the current Kansas City office market and provides detailed information that is useful for both owners and occupiers of office space throughout the Kansas City metropolitan area.

## MARKET ANALYSIS

### Asking Rent And Vacancy Rate




### Net Absorption (SF)




## MARKET SUMMARY

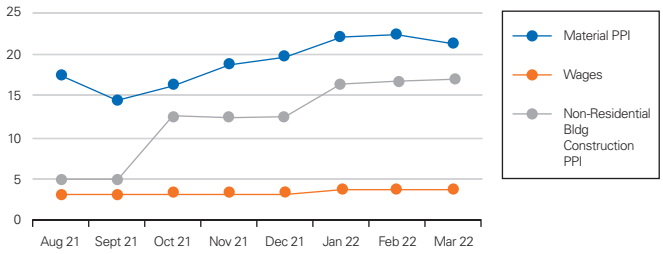
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|---|---|---|---|---|
| **Total Inventory** | 74 MSF | 74 MSF | 74 MSF | ← → |
| **Vacancy Rate** | 14.4% | 13.9% | 12.8% | ↑ |
| **Qtr. Net Absorption** | -137,877 | -407,981 | -618,918 | ↓ |
| **Avg. Asking Rent** | $21.36 | $21.25 | $21.37 | ← → |
| **Under Construction** | 319,492 | 260,000 | 389,396 | ← → |
| **Deliveries** | 260,000 | 0 | 0 | ↑ |

# MARKET TRENDS

## RISING CONSTRUCTION COSTS

Among all the challenges being faced in the office market today, construction costs continue to be a stumbling block for landlords and tenants. The obstacles of increased pricing and lead times for materials, availability of labor, and often prolonged processes for permits and approvals from municipalities have all become issues as it relates to completing new construction and tenant improvements across all asset classes in Kansas City. According to the Bureau of Labor Statistics' Material Producer Price Index (PPI), total material inputs to construction increased 7.5% in Q1 2022 and 21.3% since Q1 2021. While some deals have been lost due to the steep costs of construction, many others have still been made with landlords and tenants often agreeing to longer lease terms in return for the landlord spending more money.

## MATERIAL, LABOR, & CONSTRUCTION PRICING




**MATERIAL -** Total Inputs to Construction Material PPI
**LABOR -** Construction Employment Cost Index
**CONSTRUCTION PRICE -** Final Demand Construction PPI

Overall the 12-month period from March 2021- March 2022, the Total Inputs to Construction Material PPI increased 21.3%, the Employment Cost Index increased 3.8%, and the Final Demand Constuction PPI increased 17.0%.

## MATERIAL

**Material Producer Price Index*.** The selling price in processed goods used or bought for construction.

In March 2022, total material inputs to constuction increased 7.5% since December 2021 and 21.3% since March 2021.

| Material PPI - 12/21 | Qtr | Yr |
|---|---|---|
| **Inputs to Construction** | **+7.5%** | **+21.3%** |
| Ready Mix Concrete | +2.3% | +7.1% |
| Steel Mill Products | -15.3% | +42.9% |
| Flat Glass | +1.8% | +9.5% |
| Aluminum Mill Shapes | +17.9% | +43.7% |
| Sheet Metal Products | +4.7% | +33.0% |
| Gypsum Products | +5.1% | +20.8% |
| Diseal Fuel | +43.8% | 63.8% |
| Construction Machinery | +1.1% | +9.1% |

## INVESTMENT UPDATE

Headwinds in the capital markets have caused a disconnect between Buyers and Sellers of general office investments. Medical office remains a bright spot as capital allocations for healthcare related real estate remains at all-time highs. We expect a rebound of general office investment as investors priced out of other asset classes seek yield and data points to support pricing. We are monitoring the impact of recent and future interest rate hikes on leveraged buyers return expectations and property valuations.

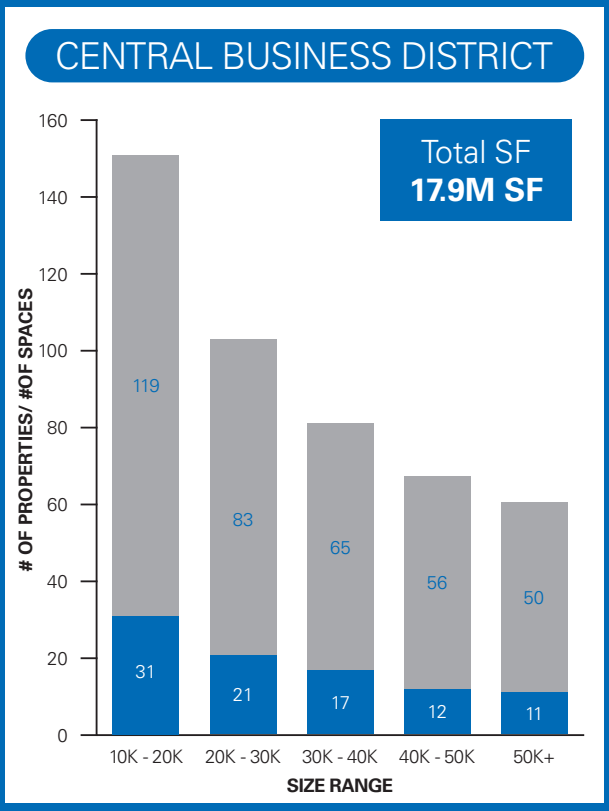
## FLIGHT TO QUALITY

As employers continue to compete for talent in a tight labor market, many companies that are relocating have elected to move to buildings that are the most well located and those that offer the most modern amenities in order enhance the employee experience. Not only is this flight to quality a global trend right now, but it also a trend that is evident in Kansas City. From the recent success of buildings like Park Place Village in Leawood, Kansas to the new 46 Penn office tower on the Country Club Plaza, the buildings that are offering the most amenities a best tenant experiences, regardless of price, are having the most success.

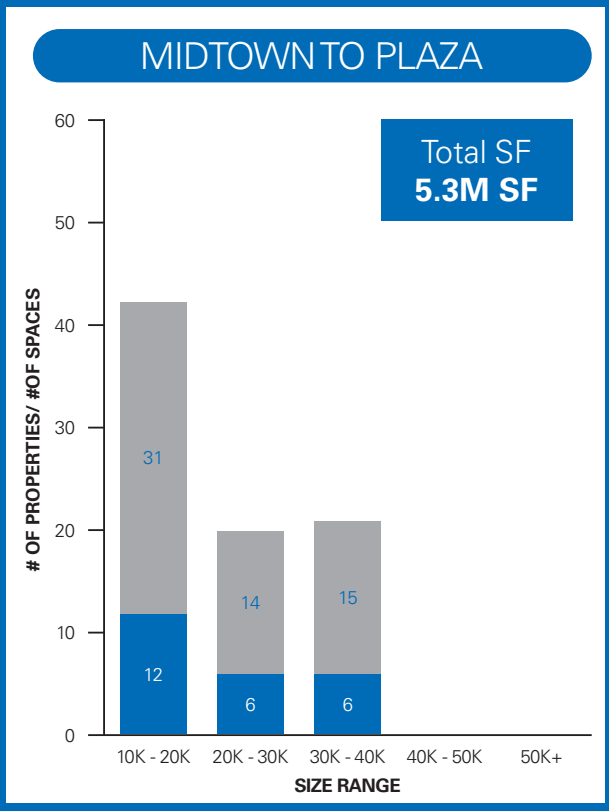
# AVAILABLE SPACE REPORT

The charts included in this Available Space Report describe the number of available spaces within buildings that are designated Class A & B in each submarket. The charts then identify the number of available spaces within certain size ranges.

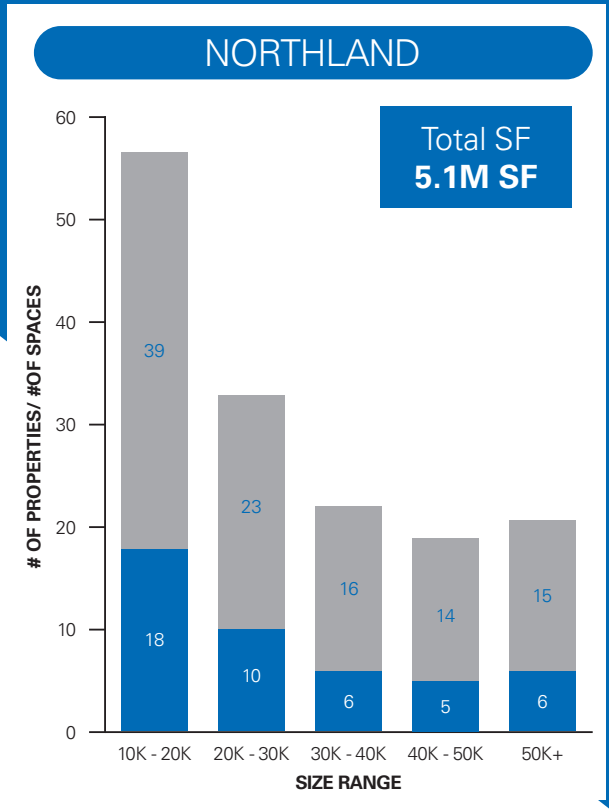
## CENTRAL BUSINESS DISTRICT



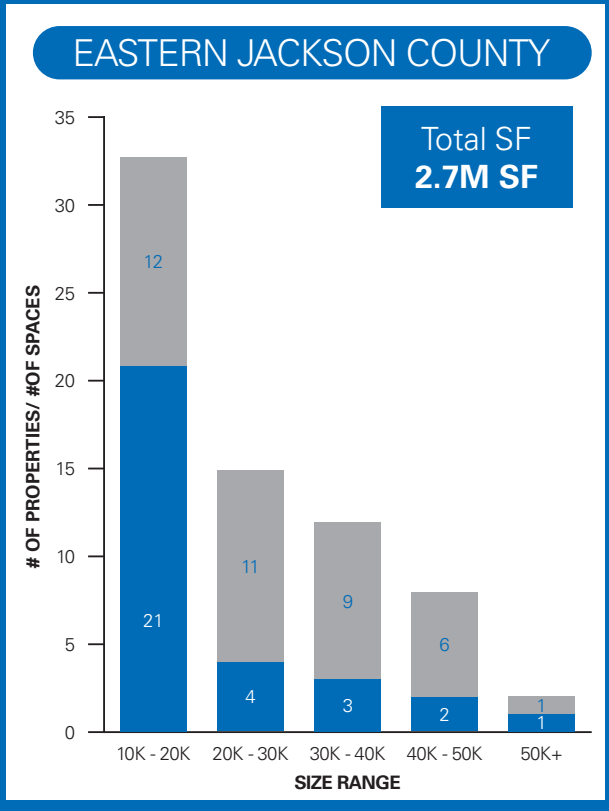

## MIDTOWN TO PLAZA



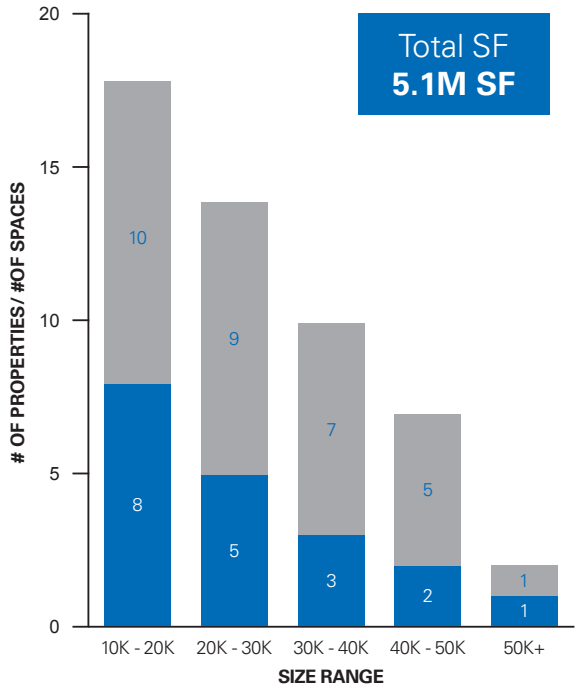

## NORTHLAND



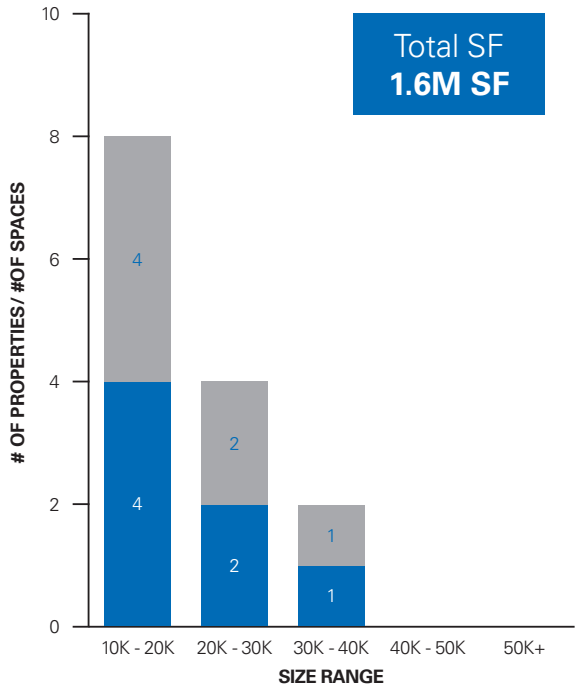

## EASTERN JACKSON COUNTY



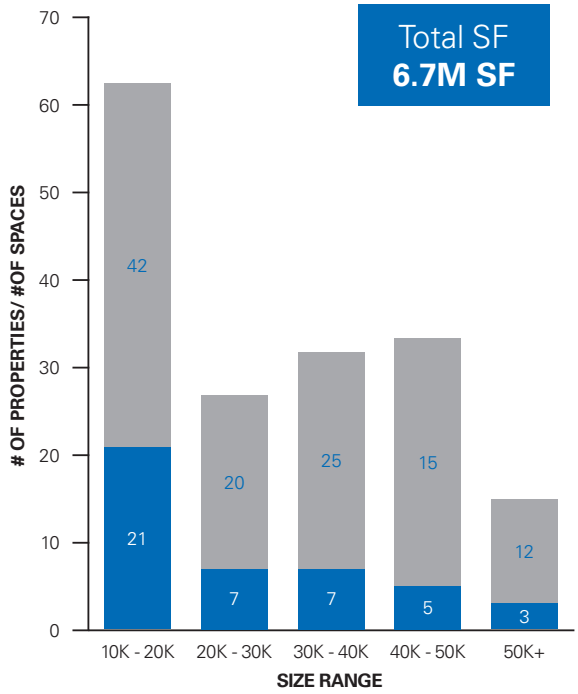
## SOUTH KANSAS CITY




## WYANDOTTE COUNTY




## NORTH JOHNSON COUNTY

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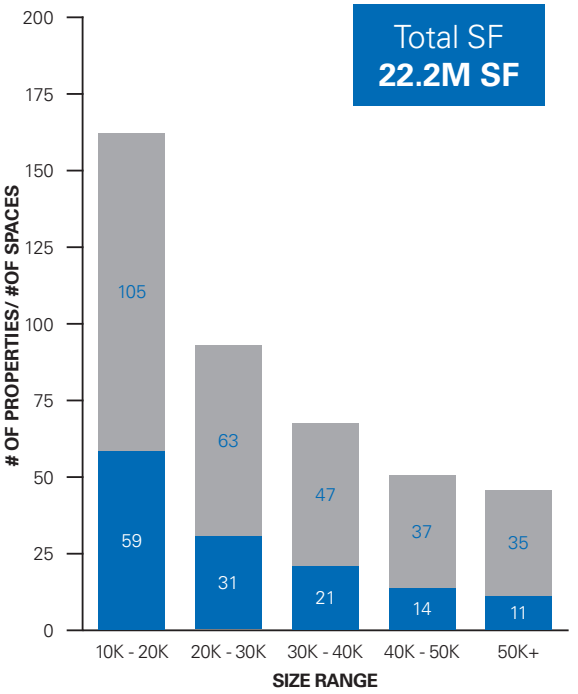


# **RECENT** TRANSACTIONS

## SALES

**K.C. Residence**
1220 Washington Street
Kansas City, MO
40,743 SF

**Exact Partners**
802 Broadway Street
Kansas City, MO
40,500 SF

**Nueterra Capital**
11250 Tomahawk Creek Pkwy
Leawood, KS
13,816 SF

**Price Brothers**
920 Main Street
Kansas City, MO
355,241 SF

**Price Brothers**
7300-7500 College Blvd.
Overland Park, KS
476,000 SF

**KS Building Venture, LLC**
6740 Antioch
Mission, KS
26,626 SF

**KMC Dermatology**
5820 Lamar Ave
Mission, KS
18,688 SF

**Sunlight Saunas**
10975 El Monte Street
Overland Park, KS
71,513 SF

**Children's Protection Center**
2940 Main Street
Kansas City, MO
14,188 SF

**Jackson County, Missouri**
1300 Washington Street
Kansas City, MO
82,664 SF

**Block Real Estate Services**
11200 Outlook Street
Overland Park, KS
21,544 SF

**McKeever Enterprises**
3350-3554 NE Ralph Powell Rd.
Lee's Summit, MO
17,229 SF

# LEASES

**Mercury Broadband**
6329 Glenwood Street
Mission, KS
21,500 SF

**Mythical Games**
1321 Baltimore Avenue
Kansas City, MO
16,000 SF

**DPS Group**
11550 Ash Street
Leawood, KS
14,606 SF

**Artio Medical**
1115 Overbrook Road
Leawood, KS
17,478 SF

**Dynamic Logistix**
6800 W 115th Street
Overland Park, KS
44,483 SF

**Keller Williams**
7070 Renner Road
Shawnee, KS
12,000 SF

**Scarbrough Group**
7280 NW 87th Street
Kansas City, MO
22,000 SF

**Academy Bank**
1201 Walnut
Kansas City, MO
49,789 SF

**Great Plains Lab**
8400 W 110th Street
Overland Park, KS
11,259 SF

**Constangy, Brooks, Smith, & Prophete, LLP**
1201 Walnut
Kansas City, MO
6,656 SF

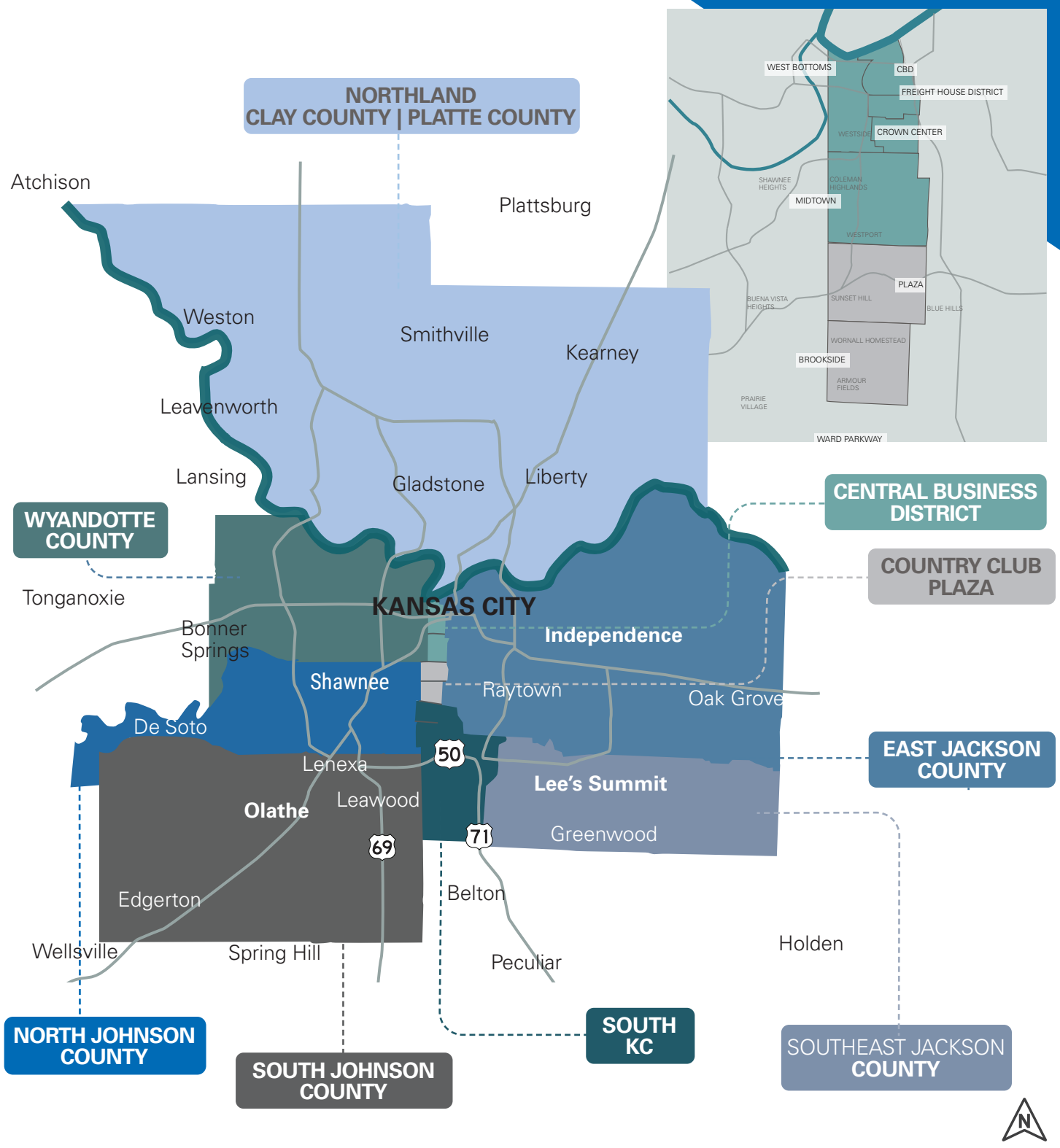
**Kansas City Star**
2405 Grand
Kansas City, MO
8,495 SF

**Axis Insurance**
4622 Pennsylvania Ave
Kansas City, MO
12,000 SF

# KC OFFICE
# UNDERWRITING REPORT

The table below describes certain statistics related to average lease terms across different submarkets in the Kansas City Metropolitan area.

| | Average Class A Rental Rate | Average TI Allowance per Year of Lease Term | Average Lease Size | Average Lease Term | Annual Rent Escalations | Absorption | Vacancy Rate | Commissions (New & Renewal) |
|---|---|---|---|---|---|---|---|---|
| NORTHLAND **CLAY & PLATTE COUNTY** | $21.09/SF | New Deal: $3-$5/SF<br>Renewal Term: $2/SF | 3,000 SF | 3-5 years | 1.5% | 12-18 months | 15.70% | 6% |
| CENTRAL **BUSINESS DISTRICT** | $24.72/SF | New Deal: $5/SF<br>Renewal Term: $2/SF | 6,000 SF | 5 years | 2% | 6-9 months | 14.70% | 6% |
| COUNTRY CLUB **PLAZA** | $28.99/SF | New Deal: $5/SF<br>Renewal Term: $2/SF | 4,000 SF | 5 years | 2% | 6-9 months | 9.10% | 6% |
| EAST JACKSON **COUNTY** | $22.23/SF* | New Lease: $4/SF<br>Renewal Term: $1.50/SF | 3,200 SF | 3-5 years | 1.5% | 12-18 months | 6.10% | 6% |
| SOUTHEAST **JACKSON COUNTY** | $23.50/SF* | New Lease: $5/SF<br>Renewal Term: $2/SF | 3,900 SF | 3-5 years | 1.5% | 9-12 months | 12.10% | 6% |
| SOUTH **KANSAS CITY** | $20.00/SF | New Lease: $5/SF<br>Renewal Term: $2/SF | 5,700 SF | 3-5 years | 1.5% | 9-12 months | 9.40% | 6% |
| NORTH **JOHNSON COUNTY** | $21.50/SF | New Lease: $5/SF<br>Renewal Term: $1.50/SF | 4,300 SF | 3-5 years | 2% | 6-9 months | 19.00% | 6% |
| SOUTH **JOHNSON COUNTY** | $22.38/SF | New Lease: $5/SF<br>Renewal Term: $2/SF | 8,000 SF | 5 years | 2.5% | 6-9 months | 17.40% | 6% |
| WYANDOTTE **COUNTY** | $21.00/SF* | New Lease: $4/SF<br>Renewal Term: $1.50/SF | 4,000 SF | 3-5 years | 1.5% | 12-18 months | 7.10% | 6% |

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# **AVERAGE** TENANT EXPENSES

### WORKSTATIONS BUDGET:

High end: $2,500- $3,500

Mid-Tier: $1,500- $2,500

Budget/Used-Tier: Under $1,000

### PRIVATE OFFICE FURNISHINGS:

High End: $5,500 plus

Mid-Tier: $3,000- $3,500

Budget/Used-Tier: $1,200- $1,700

### CONFERENCE ROOM:

(TABLE & CHAIRS)

High End: $500 plus per seat

Mid-Tier: $325 - $350 per seat

Budget/Used-Tier: $200 per seat

### SEATING:

High-End: $900 plus per chair

Mid-Tier: $350 - $550 per chair

Budget/Used-Tier: $300 per chair

### INSTALLATION COST:

Ranges from 10 - 20% of total furniture cost. The larger the project, typically the smaller the percentage.

### AVERAGE MOVING COST:

$2.50/SF (can vary based on tenants use)

### INTERNET/ PHONE CABLING INSTALLATION

$3.00 - $5.00+ /SF (Pricing may increase dependent on tenant's requirement)

### BASIC CONSTRUCTION COSTS:

Paint: $1.25 - $1.65/SF

Carpet: $4.00 - $8.00/SF

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