

Kansas City Office Market

Flight to Quality and Medical Office Users Driving Leasing Activity

Market vacancy in Kansas City increased to 16.1%, up 100 basis points from the prior quarter and 200 basis points higher compared with the prior year. The increase in vacancy during the quarter was primarily due to three Class B structures within the Central Business District. Both the Centennial Building, located at 210 W. 10th St., and the Poindexter Building, located at 333 W. 9th St., realized total net absorption of negative 492,690 square feet as the former SS&C Technologies, Inc. Buildings officially converted to vacant space. Total net absorption of negative 340,270 square feet was realized at the former AT&T Building, located at 500 E. 8th St. The market realized an increase in asking rental rates in the first quarter of 2023, as rents climbed to a record high of \$21.68/SF, up \$0.09/SF from the fourth quarter of 2022. Net absorption totaled negative 720,695 square feet during the first quarter of the year, equating to negative 1.2 million square feet during the past four quarters. Construction projects currently underway total 522,350 square feet, with 72.8% of construction occurring in the East Jackson County and South Johnson County submarkets. There were no projects delivered to the market this quarter.

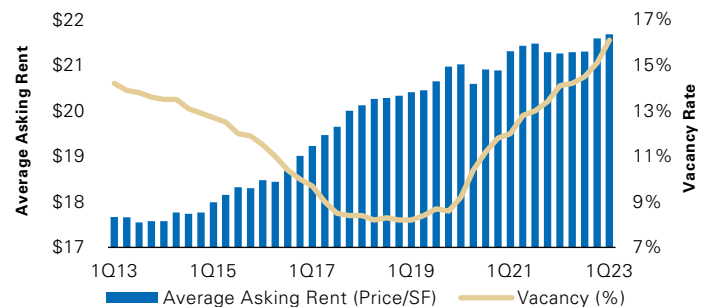
Due to interest rate hikes and inflation affecting landlords in the form of higher construction costs, repair costs and CAM charges, rental rates are projected to rise in 2023; however, as trailing 12-month inflation continues at above-average levels, real asking rental rate growth is somewhat stagnant across many metro markets in the U.S. To offset the higher rental rates, tenants are often seeing more concessions in the form of free rent and tenant improvement allowances, as well as longer lease terms. Market fundamentals for 2023 are expected to remain contractionary as tenants continue to evaluate ever-changing space needs. Due to the current economic climate, companies are opting for less square footage but are investing in prime office space and high-quality buildouts. This flight to quality will remain a key factor to driving office leasing activity. Macroeconomic uncertainty, financial volatility, limited debt financing, additional scrutiny of commercial real estate loans at regional banks and the increasing risk of a recession will likely impact the near-term outlook for office space as firms may decide to enact the wait-and-see approach. New or newly renovated Class A office space in marquee submarkets with a prime amenities package will remain in demand, even as rental rates increase.

Current Conditions

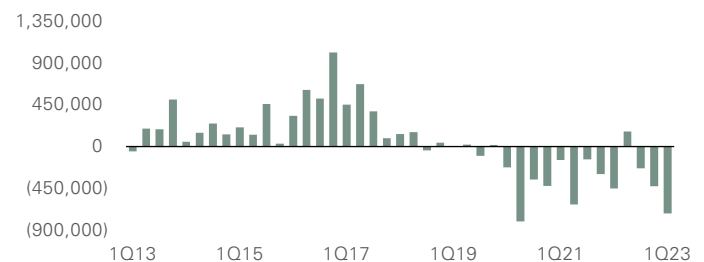
- Flight to quality Class A space, along with the medical office space niche is driving leasing activity across the metro.
- Macroeconomic headwinds, limited debt financing, high interest rates, and work-from-home/hybrid work policies to affect demand growth.
- Hill's Pet Nutrition to relocate its headquarters to the Aspiria Campus and lease 100,000 SF; Lucet to sublease 77,790 SF on Aspiria Campus.
- Tenants will continue to maintain considerable leverage in 2023.

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	16.1%	15.1%	14.1%	↑
Qtr. Net Absorp.	-720,695	-427,991	-450,758	↓
Avg. Asking Rent	\$21.68	\$21.59	\$21.26	↔
Under Con.	522,350	430,380	260,000	↔
Deliveries	0	0	0	↑

Hill's Pet Nutrition and Lucet Fill Significant Spaces in the Aspiria Campus

Hill's Pet Nutrition announced in January it will relocate its global headquarters from Topeka to Overland Park. The firm signed a 100,000-square-foot lease in the Class A property located at 6180 Sprint Pkwy. within the Aspiria Campus. Hill's will continue to operate its Pet Nutrition Center and Small Paws Innovation in Topeka. Hill's Pet Nutrition expects to move into the new headquarters by the fourth quarter of 2023. Lucet, formerly known as "New Directions Behavioral Health," offering managed behavioral healthcare, employee assistance programs, organizational consulting and health coaching programs, announced in February it signed a three-year sublease for 77,790 square feet at 6100 Sprint Pkwy., also located within the Aspiria Campus. The space was quoted at \$19.50/SF on a full gross basis prior to being leased.

Tenants Will Continue to Maintain Considerable Leverage in Negotiations

With net absorption during the past four quarters totaling negative 1.2 million square feet, average quarterly net absorption has significantly decreased, measuring negative 360,845 square

feet during the past 13 quarters. Expect favorable conditions and opportunities for prospective tenants to upgrade from Class B to Class A space during 2023, as two submarkets in the Metro display vacancy rates for Class A space exceeding 26.0% and four additional submarkets display vacancy ranging from 12.0% to 17.9%.

Oracle Cerner announced in the fourth quarter of 2022 its intention to exit its World Headquarters Campus in North Kansas City, along with its Realization Campus in South Kansas City. The announcement will have a significant impact on local vacancy rates in 2023 and beyond, as a combined total of approximately 3 million gross square feet, with most space being classified as office product, is projected to hit the market.

For 2023, tenants will continue to maintain considerable leverage in most metro submarkets. Overall market vacancy should range from 16.4% to 17.8% during the next four quarters but could increase up to an additional 400 basis points should the Oracle Cerner space begin to officially convert from "owner" to "third party." Asking rental rates are expected to range from \$21.70/SF to \$22.25/SF during the next four quarters.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Hill's Pet Nutrition	6180 Sprint Pkwy	South Johnson County	New	100,000
Lucet	6100 Sprint Pkwy	South Johnson County	Sublease	77,790
CareCentrix	6180 Sprint Pkwy	South Johnson County	New	15,820
KC Care	4435 Main St	Midtown/Plaza	New	15,040
Veeva Systems	1100 Main St	Downtown/Crown Center	New	10,000
Avek IP	7285 W 132nd St	South Johnson County	New	9,160
Truman Medical Center	19000 E Eastland Center Ct	East Jackson County	Renewal	9,100

Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
1200 E 104th St	South Kansas City	\$5,780,000	\$85	68,220
10301 Hickman Mills Dr	South Kansas City	\$3,950,000	\$114	34,650
4721 S Cliff Ave	East Jackson County	\$1,969,000	\$71	27,750
5601 NE Antioch Rd	Northland	\$2,000,000	\$106	18,860
215-217 W 19th Ter	Downtown/Crown Center	\$1,800,000	\$110	16,440
719-723, 801 Main St Portfolio (2)	South Kansas City	\$1,790,000	\$121	14,750
2041-2045 W 141st Ter	South Johnson County	\$1,734,000	\$169	10,270
200-216 NW Executive Way	Southeast Jackson County	\$950,000	\$100	9,500

Submarket Statistics								
Submarket	Class	Total Number of Buildings	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	Past 4 Qtrs Absorption (SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	ALL	166	19,886,847	0	20.30%	-889,588	-1,161,065	\$23.02
	Class A	27	8,158,617	0	26.10%	-20,964	-303,165	\$24.65
	Class B	104	9,774,823	0	18.80%	-869,666	-940,152	\$19.20
	Class C	35	1,953,407	0	3.40%	1,042	82,252	\$16.47
East Jackson Co.	ALL	76	4,122,452	190,000	9.80%	-12,874	-49,485	\$17.89
	Class A	2	166,010	190,000	12.00%	1,726	5,752	\$25.00
	Class B	45	2,597,506	0	13.10%	-15,686	-54,002	\$18.05
	Class C	29	1,358,936	0	3.20%	1,086	-1,235	\$17.47
Midtown/Plaza	ALL	77	6,101,828	20,000	8.90%	-30,083	63,164	\$27.46
	Class A	18	2,800,913	0	14.80%	-27,645	31,707	\$28.45
	Class B	42	2,494,260	20,000	4.90%	-1,596	31,806	\$23.88
	Class C	17	806,655	0	0.60%	-842	-349	\$17.43
North Johnson Co.	ALL	132	7,058,718	38,970	21.10%	8,318	-127,002	\$20.76
	Class A	18	1,701,271	38,970	32.40%	67,648	61,349	\$23.05
	Class B	99	4,883,859	0	18.50%	-97,158	-213,936	\$19.64
	Class C	15	473,588	0	7.20%	37,828	25,585	\$14.22
Northland	ALL	93	5,547,772	83,000	14.50%	112,870	280,194	\$17.17
	Class A	10	1,239,565	0	5.10%	16,880	172,634	\$22.77
	Class B	69	3,872,491	83,000	18.50%	90,232	99,716	\$16.66
	Class C	14	435,716	0	5.70%	5,758	7,844	\$15.97
South Johnson Co.	ALL	283	22,361,465	190,380	16.70%	52,533	-77,656	\$21.92
	Class A	84	11,783,958	190,380	13.80%	26,769	15,881	\$23.57
	Class B	186	10,204,930	0	20.10%	47,308	-76,030	\$20.34
	Class C	13	372,577	0	9.60%	-21,544	-17,507	\$18.35
South Kansas City	ALL	56	5,237,996	0	7.60%	80,835	79,879	\$20.16
	Class A	12	2,559,438	0	3.30%	-20,535	-63,175	\$22.50
	Class B	42	2,606,656	0	11.90%	101,370	143,054	\$20.57
	Class C	2	71,902	0	0.00%	0	0	\$15.25
Southeast Jackson Co.	ALL	18	1,622,265	0	21.80%	-47,528	-154,951	\$19.10
	Class A	2	103,442	0	0.00%	0	0	\$23.50
	Class B	12	931,598	0	26.00%	1,301	-43,360	\$19.55
	Class C	4	587,225	0	19.00%	-48,829	-111,591	\$18.50
Wyandotte Co.	ALL	41	2,285,422	0	7.20%	4,822	-75,711	\$19.32
	Class A	2	111,995	0	17.90%	0	0	\$27.91
	Class B	24	1,447,205	0	9.10%	4,822	-93,606	\$19.18
	Class C	15	726,222	0	1.80%	0	17,895	\$15.03
Kansas City Market	ALL	942	74,224,765	522,350	16.10%	-720,695	-1,222,633	\$21.68
	Class A	175	28,625,209	419,350	17.20%	43,879	-79,017	\$24.22
	Class B	623	38,813,328	103,000	17.10%	-739,073	-1,146,510	\$19.43
	Class C	144	6,786,228	0	4.90%	-25,501	2,894	\$17.13

Submarket Statistics – Class A

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	Past 4 Qtrs Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	8,158,617	0	26.10%	-20,964	-303,165	\$25.98	\$18.16	\$24.65
East Jackson County	166,010	190,000	12.00%	1,726	5,752	\$25.00	-	\$25.00
Midtown/Plaza	2,800,913	0	14.80%	-27,645	31,707	\$28.53	\$22.53	\$28.45
North Johnson County	1,701,271	38,970	32.40%	67,648	61,349	\$23.71	\$17.00	\$23.05
Northland	1,239,565	0	5.10%	16,880	172,634	\$22.83	\$20.84	\$22.77
South Johnson County	11,783,958	190,380	13.80%	26,769	15,881	\$23.96	\$20.19	\$23.57
South Kansas City	2,559,438	0	3.30%	-20,535	-63,175	\$22.75	\$19.00	\$22.50
Southeast Jackson County	103,442	0	0.00%	0	0	\$23.50	-	\$23.50
Wyandotte County	111,995	0	17.90%	0	0	\$27.91	-	\$27.91
Kansas City Market	28,625,209	419,350	17.20%	43,879	-79,017	\$25.02	\$18.78	\$24.22

Submarket Statistics – Class B

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	Past 4 Qtrs Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	9,774,823	0	18.80%	-869,666	-940,152	\$20.47	\$13.43	\$19.20
East Jackson County	2,597,506	0	13.10%	-15,686	-54,002	\$18.05	-	\$18.05
Midtown/Plaza	2,494,260	20,000	4.90%	-1,596	31,806	\$23.88	-	\$23.88
North Johnson County	4,883,859	0	18.50%	-97,158	-213,936	\$20.92	\$16.61	\$19.64
Northland	3,872,491	83,000	18.50%	90,232	99,716	\$16.89	\$14.32	\$16.66
South Johnson County	10,204,930	0	20.10%	47,308	-76,030	\$21.27	\$14.76	\$20.34
South Kansas City	2,606,656	0	11.90%	101,370	143,054	\$20.76	\$15.18	\$20.57
Southeast Jackson County	931,598	0	26.00%	1,301	-43,360	\$22.34	\$13.83	\$19.55
Wyandotte County	1,447,205	0	9.10%	4,822	-93,606	\$19.18	-	\$19.18
Kansas City Market	38,813,328	103,000	17.10%	-739,073	-1,146,510	\$20.34	\$14.91	\$19.43

Economic Conditions

The local economy continued to improve in February, with total employment growth of 2.6% and growth occurring in all ten industries, calculated on a 12-month percent change basis.

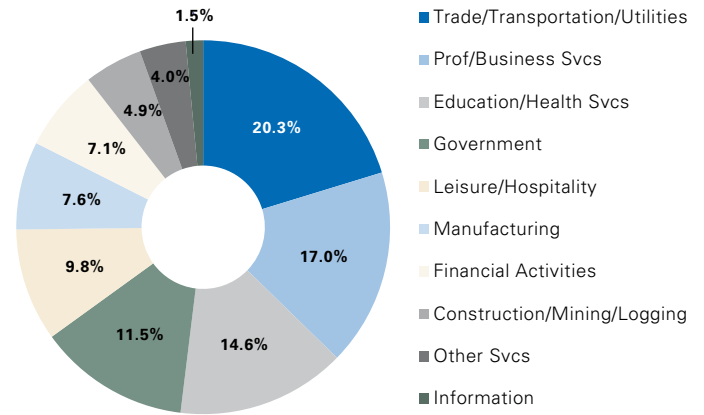
Payroll employment in Kansas City decreased to 2.6% in February 2023, compared with 4.4% in February 2022. The national average decreased, down from 5.3% in February 2022 to 2.9% in February 2023.

The Consumer Price Index for the U.S. decreased 190 basis points compared to the prior year, registering 6.0% in February 2023, while the Midwest Urban CPI decreased 240 basis points to 5.6%.

Unemployment in the U.S. remained flat at 3.6%, as unemployment in Kansas City also remained flat at 2.7% compared with the past quarter. Unemployment in Kansas City decreased 80 basis points from a year prior.

Employment By Industry

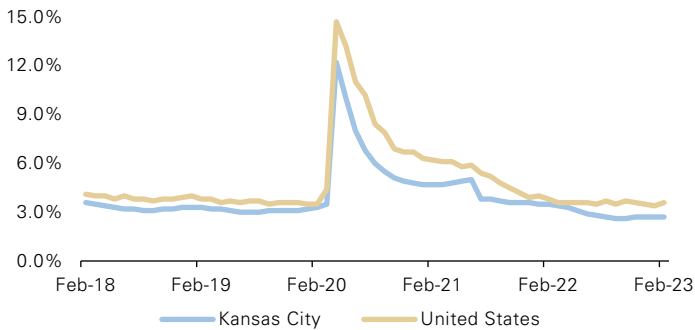
Kansas City, February 2023



Source: U.S. Bureau of Labor Statistics, March 2023

Unemployment Rate

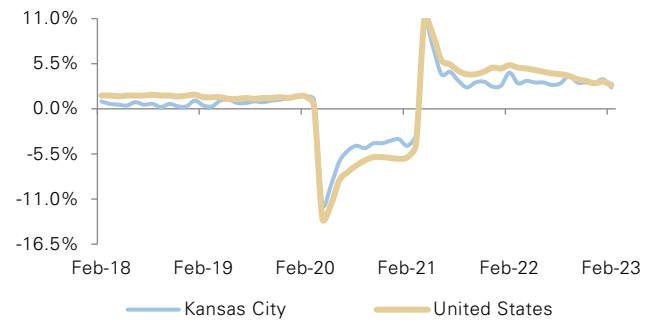
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2023

Payroll Employment

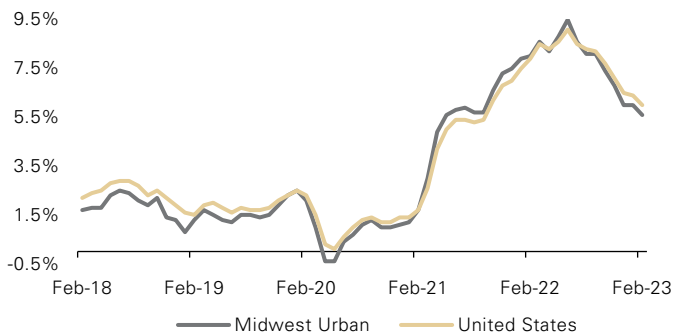
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, March 2023

Consumer Price Index (CPI)

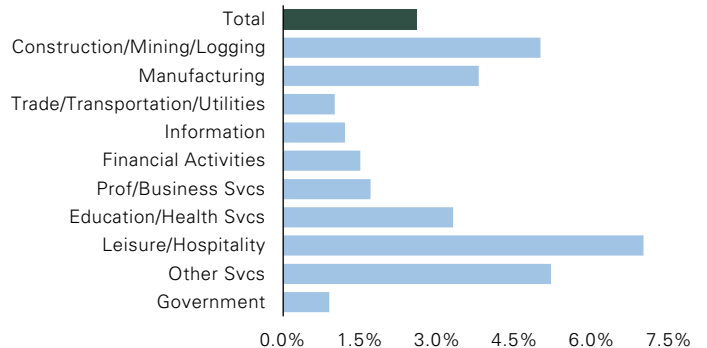
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2023

Employment Growth By Industry

KC, Feb. 2023, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2023

RESEARCH Q1 2023

For more information:

KANSAS CITY

1220 Washington Street, Suite 300
Kansas City, MO 64105
816-474-2000

ST. LOUIS

8235 Forsyth Boulevard, Suite 200
Clayton, MO 63105
314-254-4600

LEE'S SUMMIT

1485 SW Market Street
Lee's Summit, MO 64081
816-474-2000

Mark Long, CRE, SIOR, CCIM, LEED AP

President & CEO – Newmark Zimmer
816-512-1011
mlong@nzimmer.com

Andrew Garten

Director, Research
816-474-2000
agarten@nzimmer.com

nmrkzimmer.com

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Birmingham

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