

4Q23

Kansas City Office Market Overview



Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. November’s 3.0% unemployment rate was significantly lower than the 4.1% 10-year historical average.
- Year-over-year, job gains have been most pronounced in the financial activities and government industries while job losses have been most pronounced in the information and manufacturing sectors.
- Technology firms are continuing to adjust labor needs. Locally, two out of three office-occupying sectors experienced employment retraction compared with the prior 12 months. The financial activities sector led all office-occupying sectors, displaying an increase of 4.0%.

Major Transactions

- Sano Orthopedics has relocated from Leawood to a new state-of-the-art facility in Overland Park at 11340 Nall Ave. The firm will occupy the entire 40,000-SF medical office facility.
- The parent company of Sporting Kansas City, OnGoal, LLC, announced in late December it subleased 28,480 SF of Class A space within the 94,850-SF 3Y building located at 300 Wyandotte Street.
- Celebrating its 100-year anniversary in 2024, Bank of Labor subleased 19,320 SF of Class A space at Four Pine Ridge Plaza in Lenexa.
- OakStar Bank signed a lease within the recently completed 26,480-SF building located at 5841 W 137th St. in Overland Park. OakStar Bank will lease 17,650 SF.

Leasing Market Fundamentals

- Absorption in the fourth quarter of 2023 totaled negative 129,831 SF. Total net absorption has averaged negative 256,375 SF per quarter during the past three years, demonstrating a contractionary environment. Net absorption during the past four quarters totaled negative 761,727 SF.
- The 429,370-SF construction pipeline has fluctuated between 300,000 SF and 700,000 SF during the past four years with a limited number of major projects.
- Vacancy and rent both increased year-over-year. Vacancy increased to 17.0% as negative net absorption continued across multiple submarkets. Expansive amenity renovations, combined with solid demand for prime Class A space, drove slow but positive 12-month rent growth of 2.4%.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Vacancy is expected to increase as the market continues to recalibrate. Tenants remain in the power position with considerable leverage in most metro submarkets and will carry on evaluating space needs.
- It is expected that asking rates should reset in the coming quarters as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents.

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1. Economy
 2. Leasing Market Fundamentals
 3. Submarket Statistics

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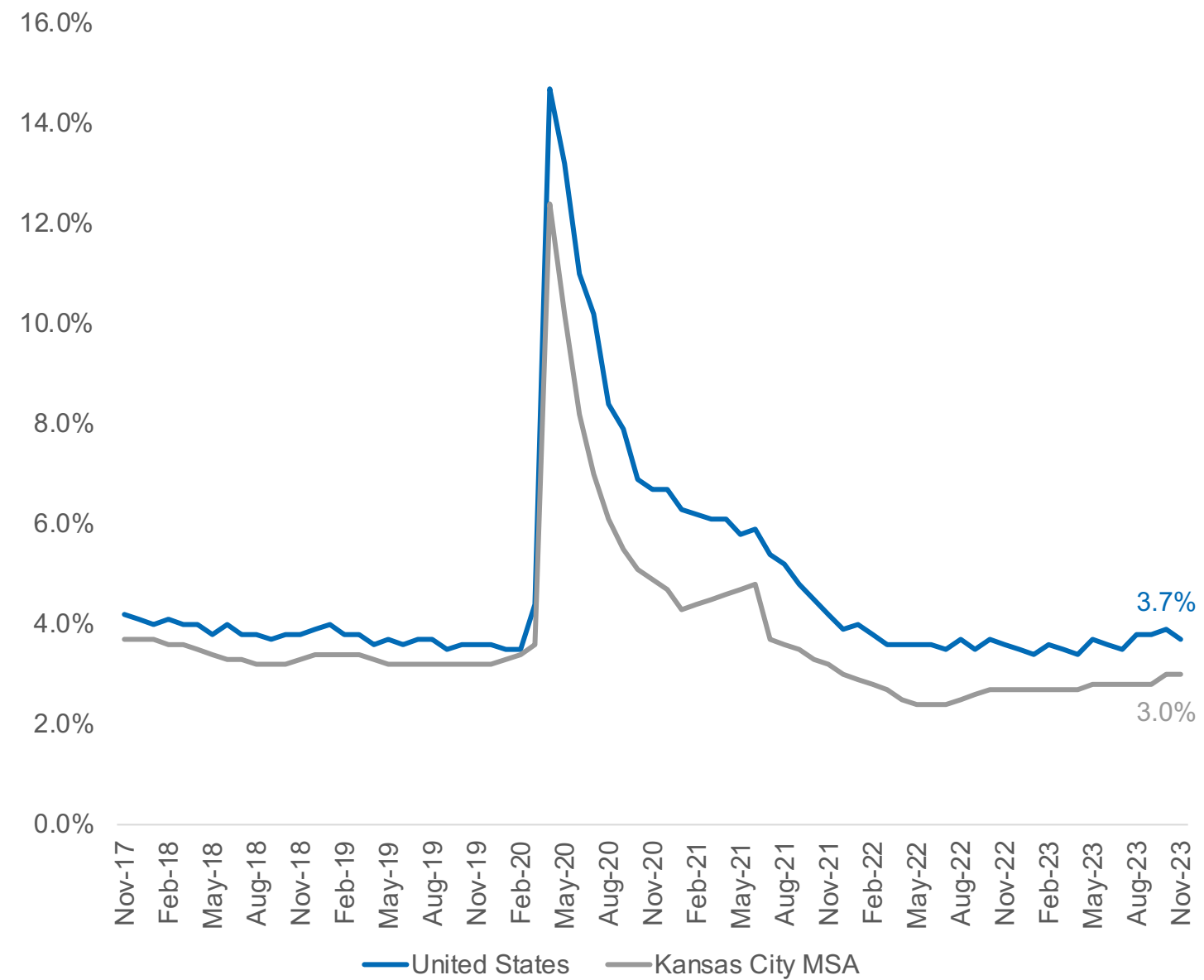
Economy



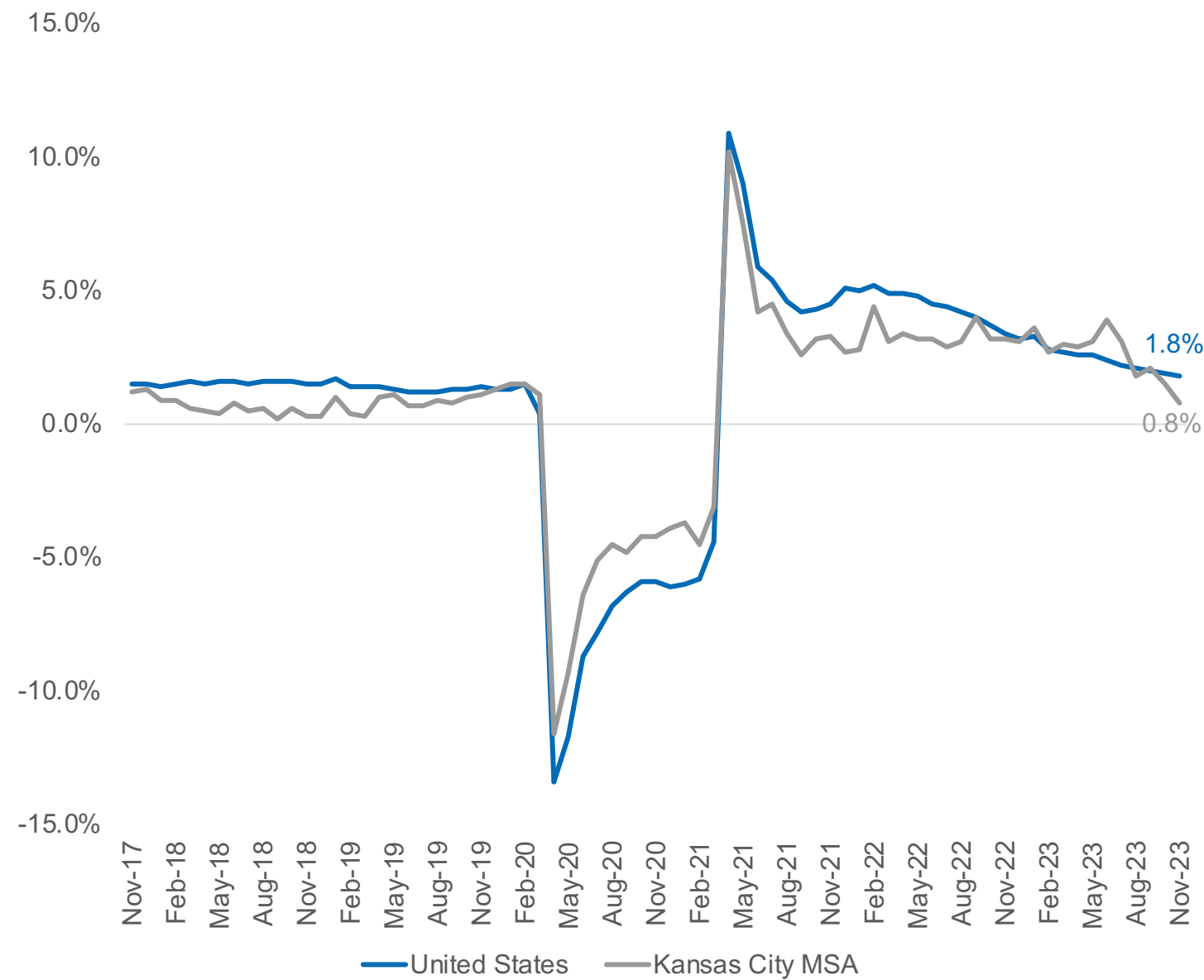
Metro Employment Trends Signal a Slowing Economy

While the region’s labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in the region recovered from the pandemic and remains 70 bps below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



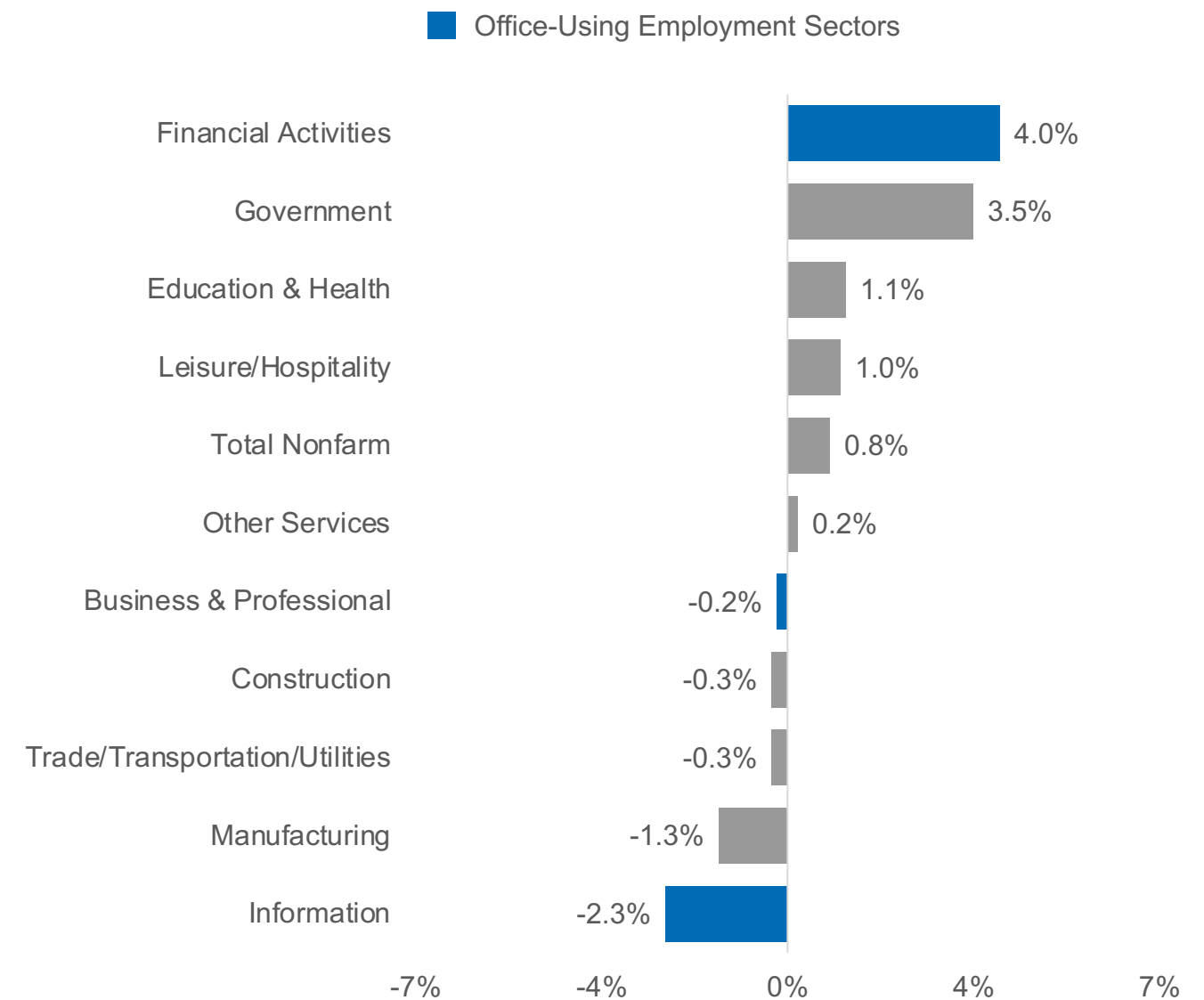
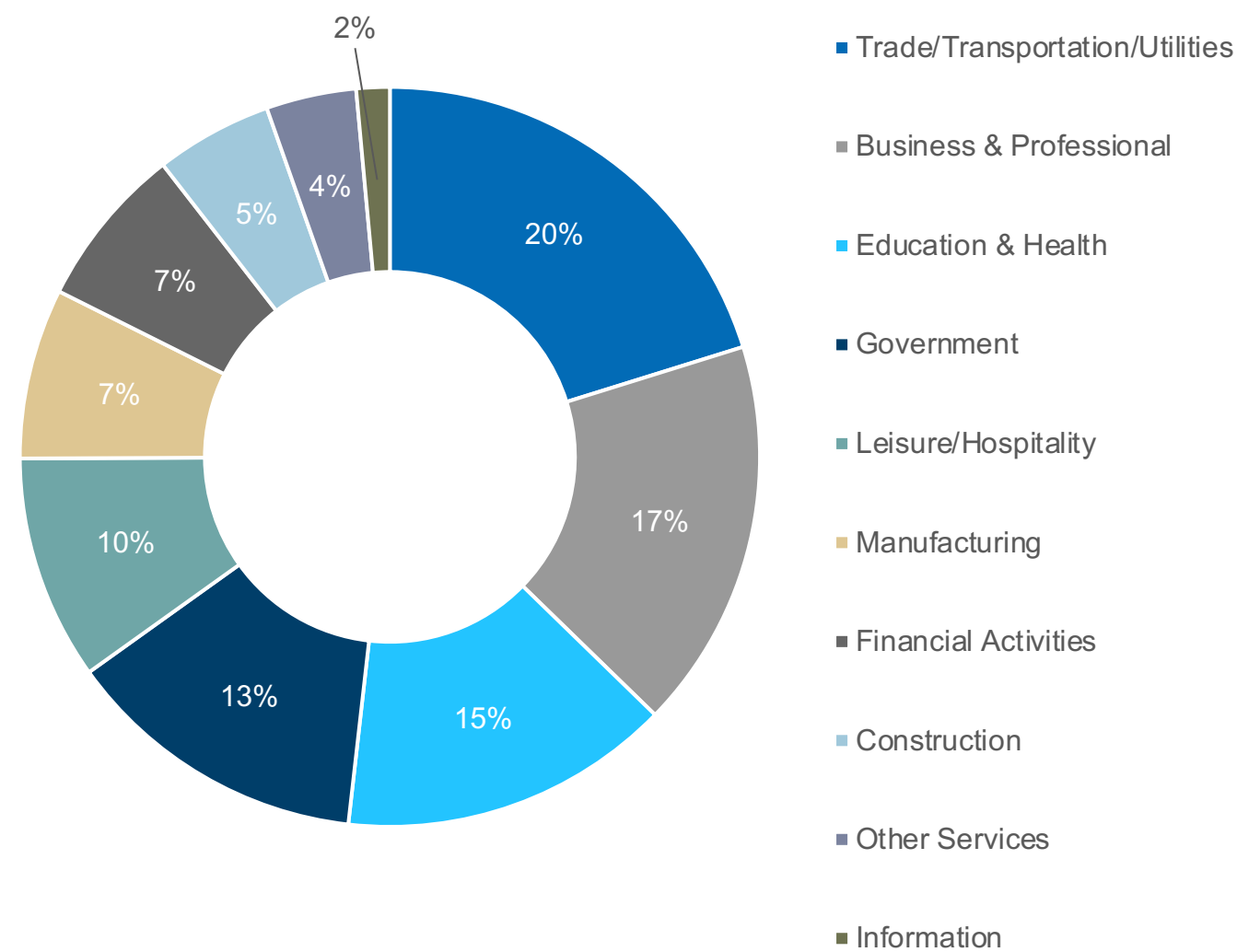
Source: U.S. Bureau of Labor Statistics, Kansas City MSA

Job Growth Driven Primarily by Shift in Spending

The financial activities and government sectors led all industries in regional annual job growth at 4.0% and 3.5%, respectively. Along with education and health and leisure/hospitality, the top four sectors underline industries which are still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services and healthcare-related expenses. Two out of three office-occupying industries saw annual job losses.

Employment by Industry, November 2023

Employment Growth by Industry, 12-Month % Change, November 2023

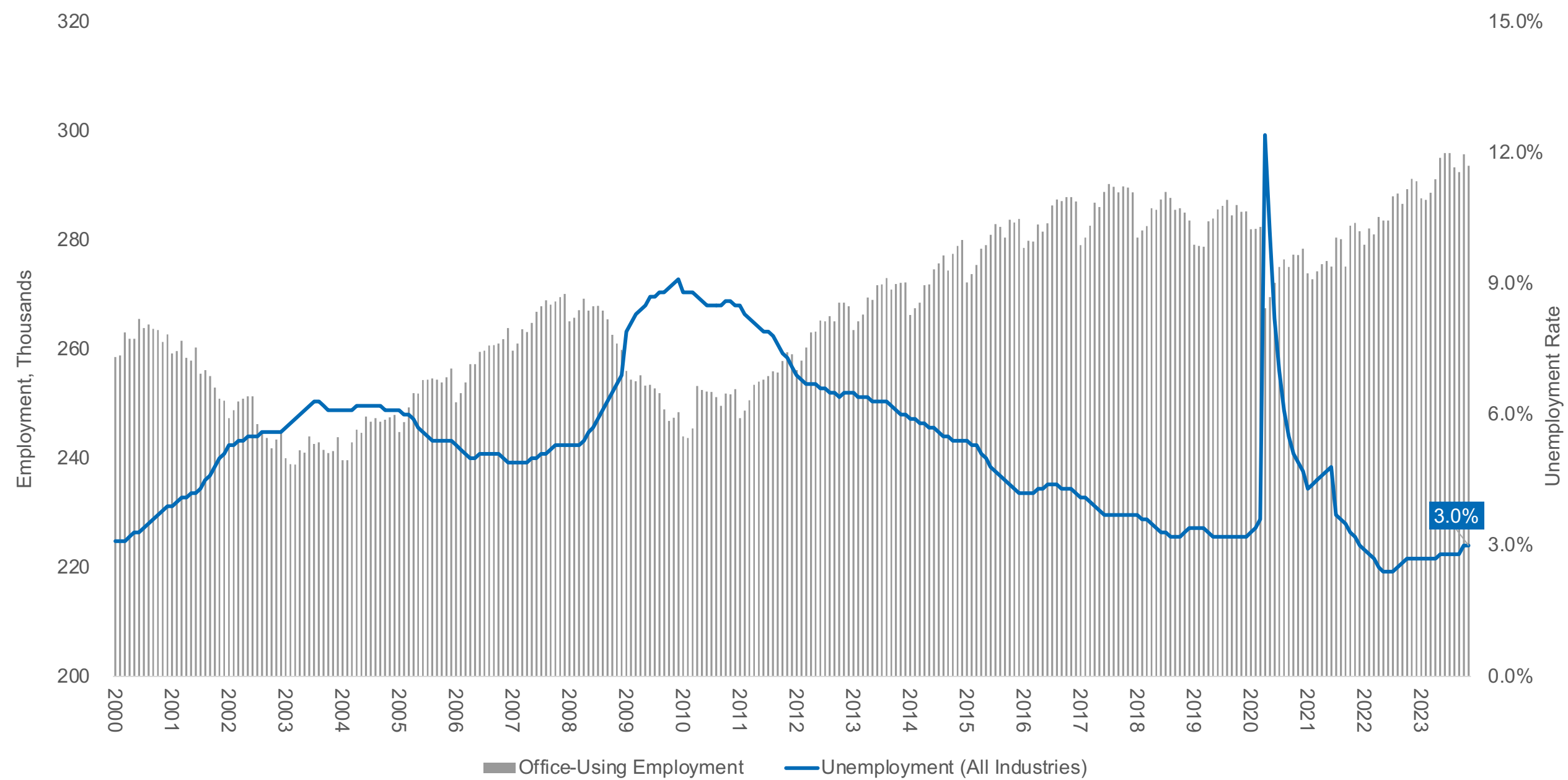


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to pre-pandemic levels. While there is seasonally a small dip in employment rates at the beginning of each year, the region has already stabilized and is expected to increase.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Kansas City MSA
Note: November 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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Leasing Market Fundamentals



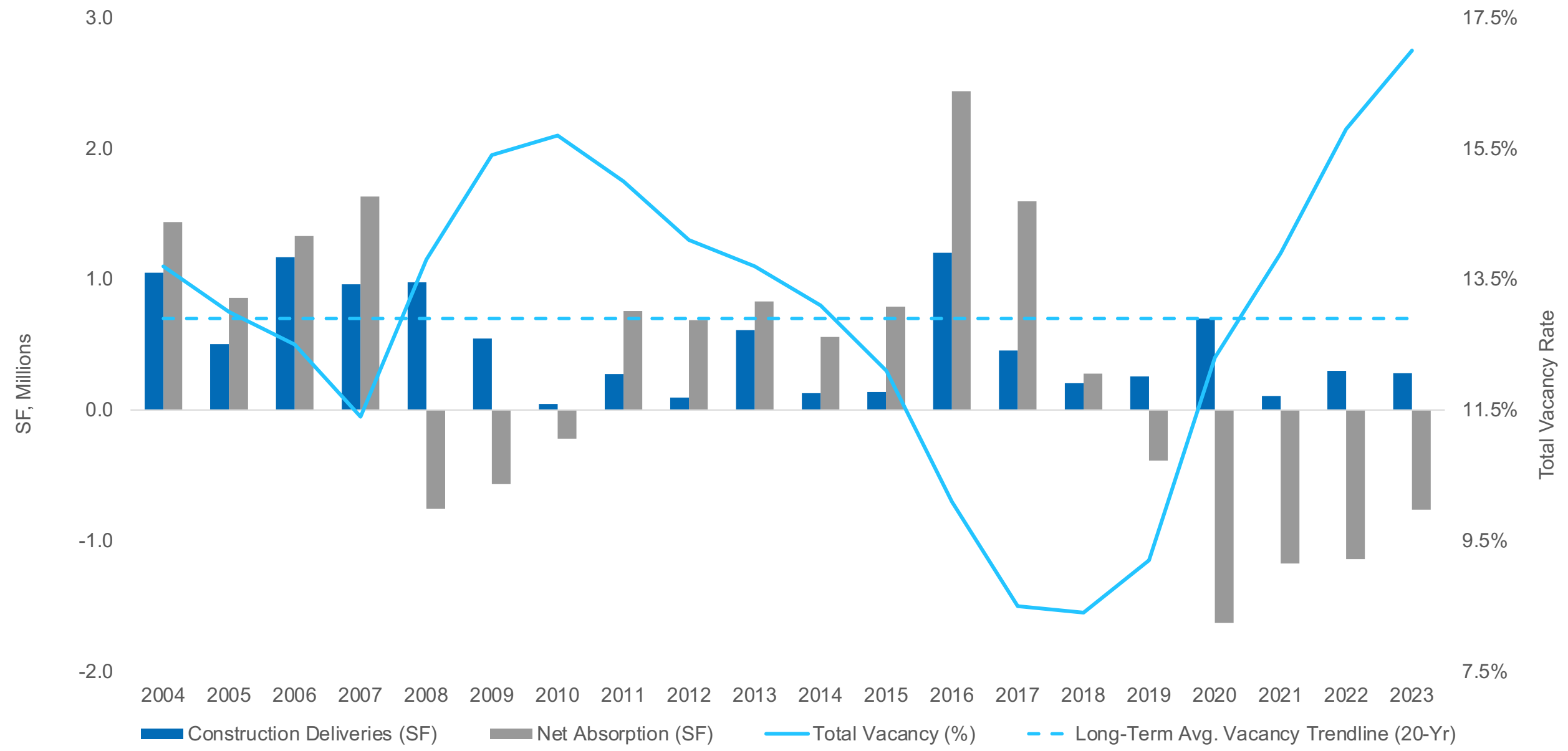


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Vacancy Rises as Net Absorption Remains Negative

The vacancy rate increased 1.2% (120 bps) to 17.0% year over year as tenants continue to evaluate ever-changing space needs and the market recalibrates. Office space conversions to multifamily uses, including the 372,450-SF former AT&T Building and the 220,000-SF former Mark Twain Tower in Downtown Kansas City, among others, will assist to press vacancy rates downwards. Tenants will maintain considerable leverage in most metro submarkets and push landlords to complete aggressive deals.

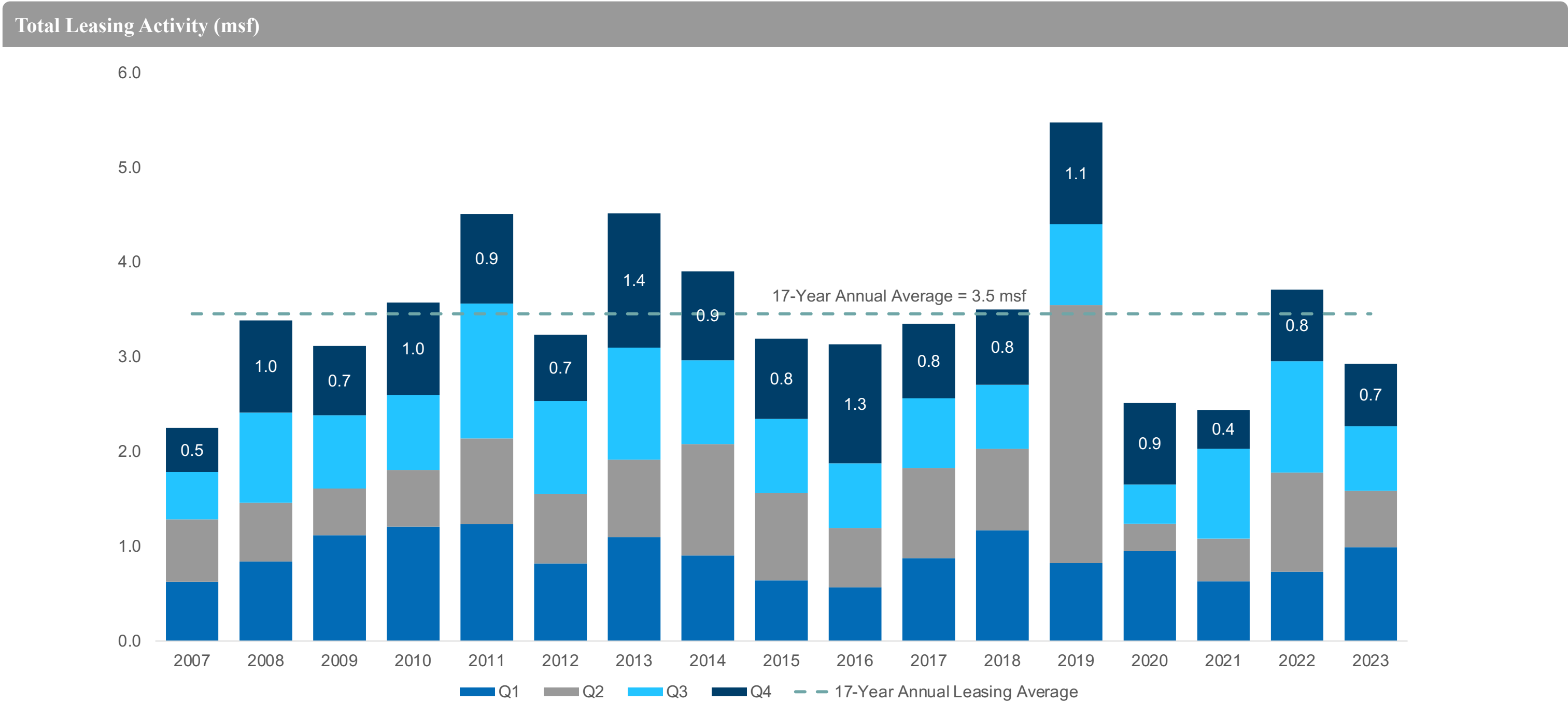
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Slowed

Macroeconomic uncertainty, financial volatility, limited debt financing and additional scrutiny of commercial real estate loans at regional and national banks will likely impact the near-term outlook for office space as firms decide to enact the wait-and-see approach. Total leasing activity in 2023 is down 15.3% compared with the 17-year historical average.



Source: Newmark Research, CoStar



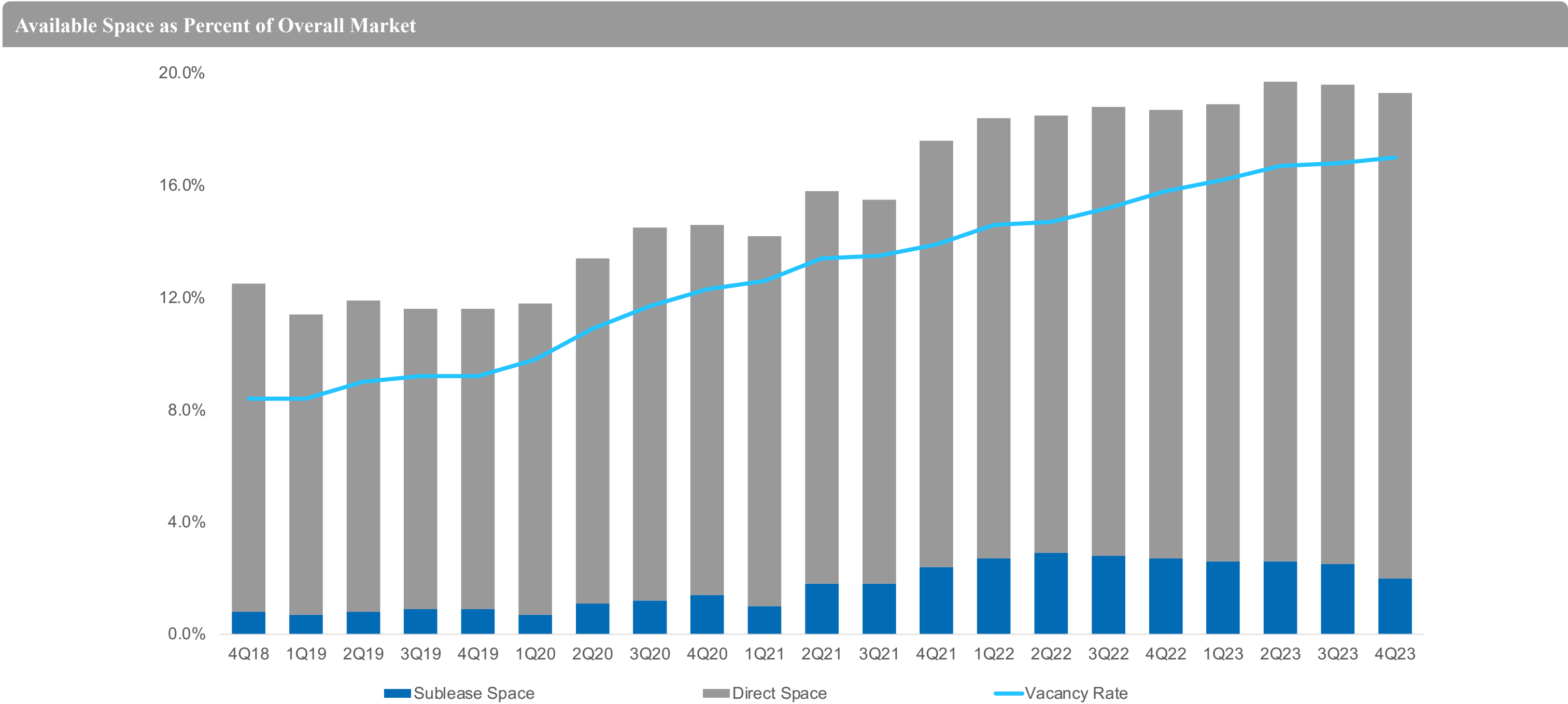
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Availability Continues to Increase as Overall Tenant Demand Drops

In the years leading to the pandemic, many tech companies, including Cerner and T-Mobile, leased space based on future employment growth as a hedge against diminishing supply and increasing rents. Sublease space is anticipated to remain elevated for 2024.



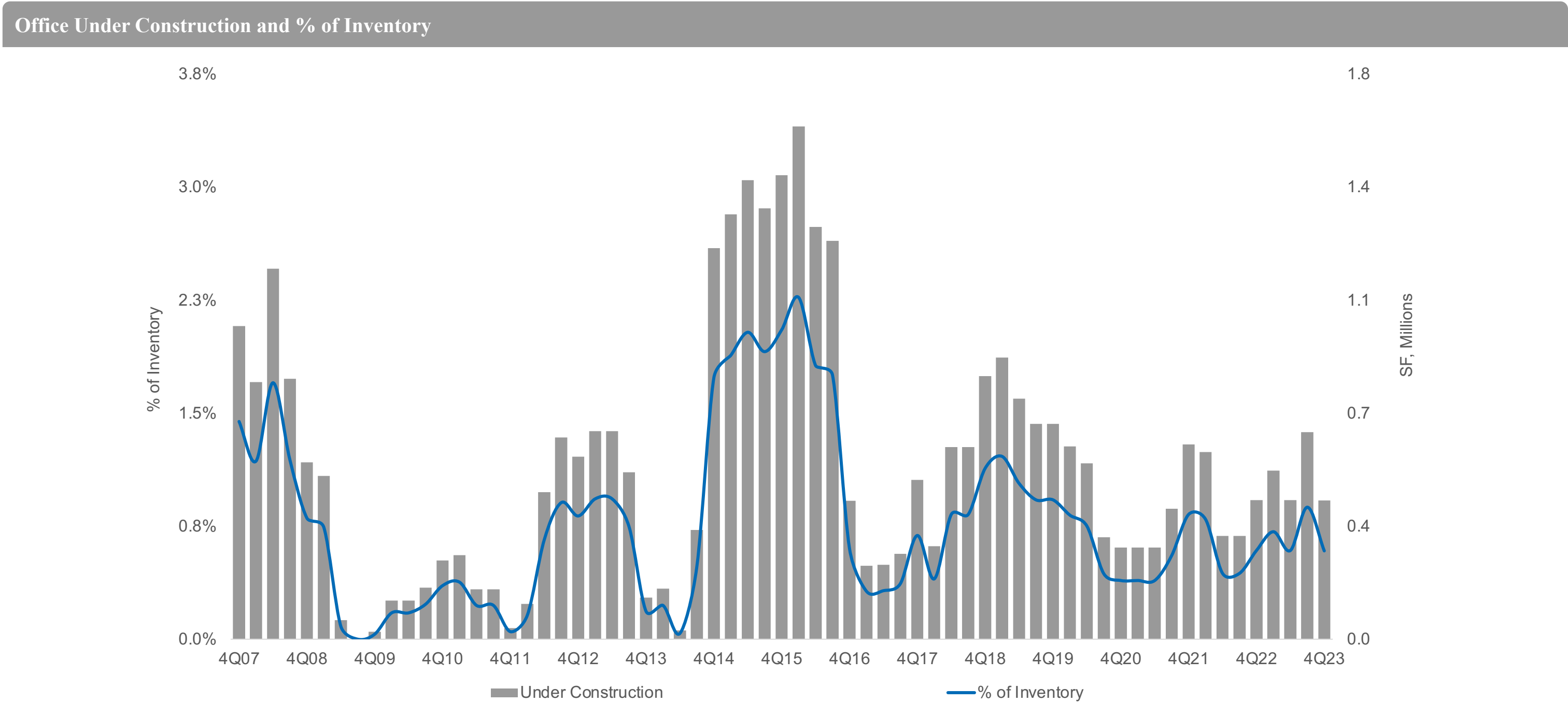
Source: Newmark Research



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New Construction Activity Limited as Vacancy Remains Elevated at 17.0%

With the delivery of 1400KC at 1400 Baltimore Ave. during the second quarter of 2022, now fully leased by Blue Cross & Blue Shield of Kansas City, and the 190,380-SF CityPlace Corporate Center IV delivering in the fourth quarter of 2023, the largest office development currently under construction is the 66,000-SF AdventHealth City Center in Lenexa, Kansas.

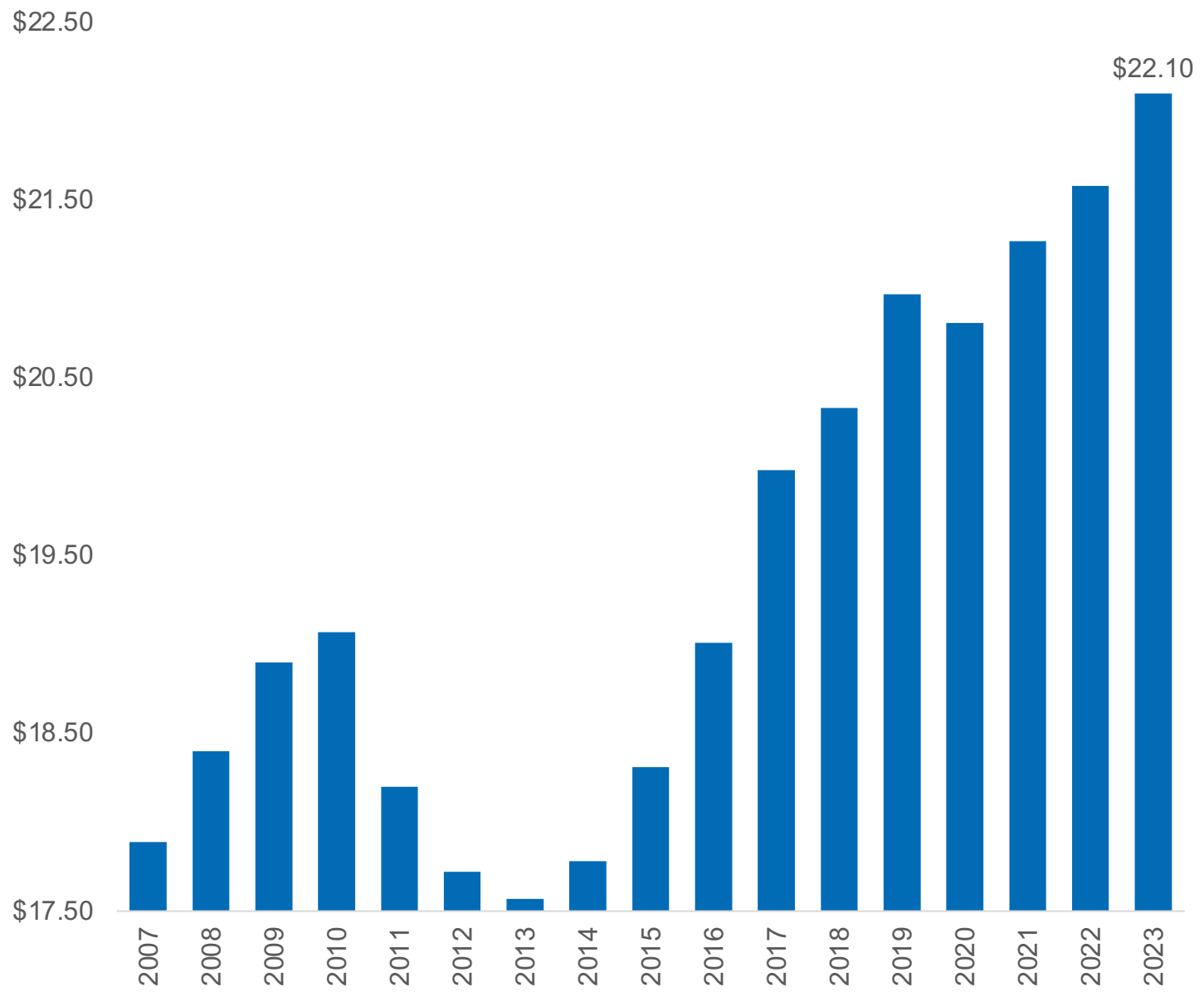


Source: Newmark Research, CoStar, Kansas City Market

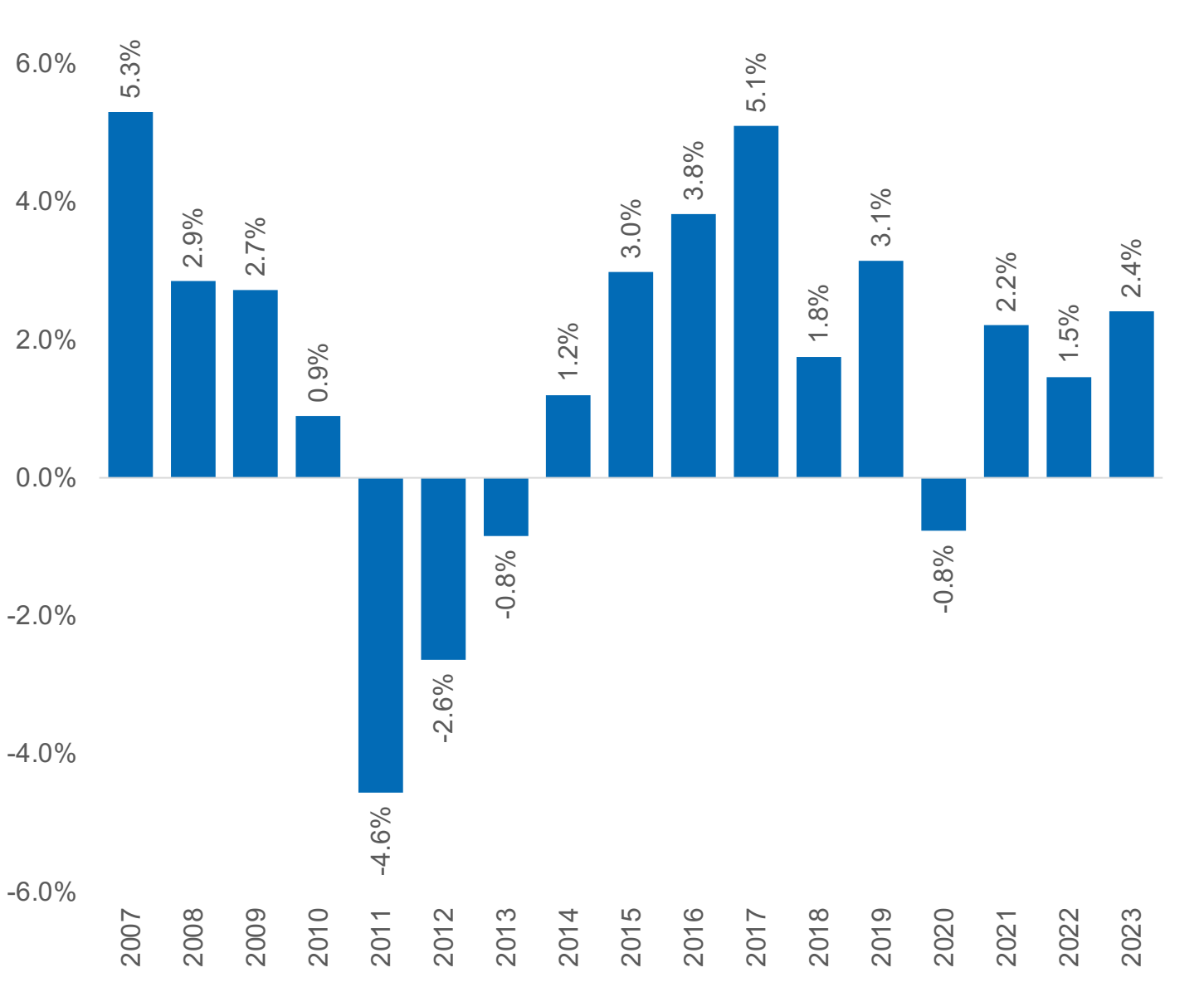
Rents Continue to Climb

Overall asking rates increased year-over-year, rising from \$21.58/SF to \$22.10/SF. It is expected that asking rates should reset in the coming quarters as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents. As trailing 12-month inflation continues at above-average levels, real asking rental rate growth remains stagnant.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

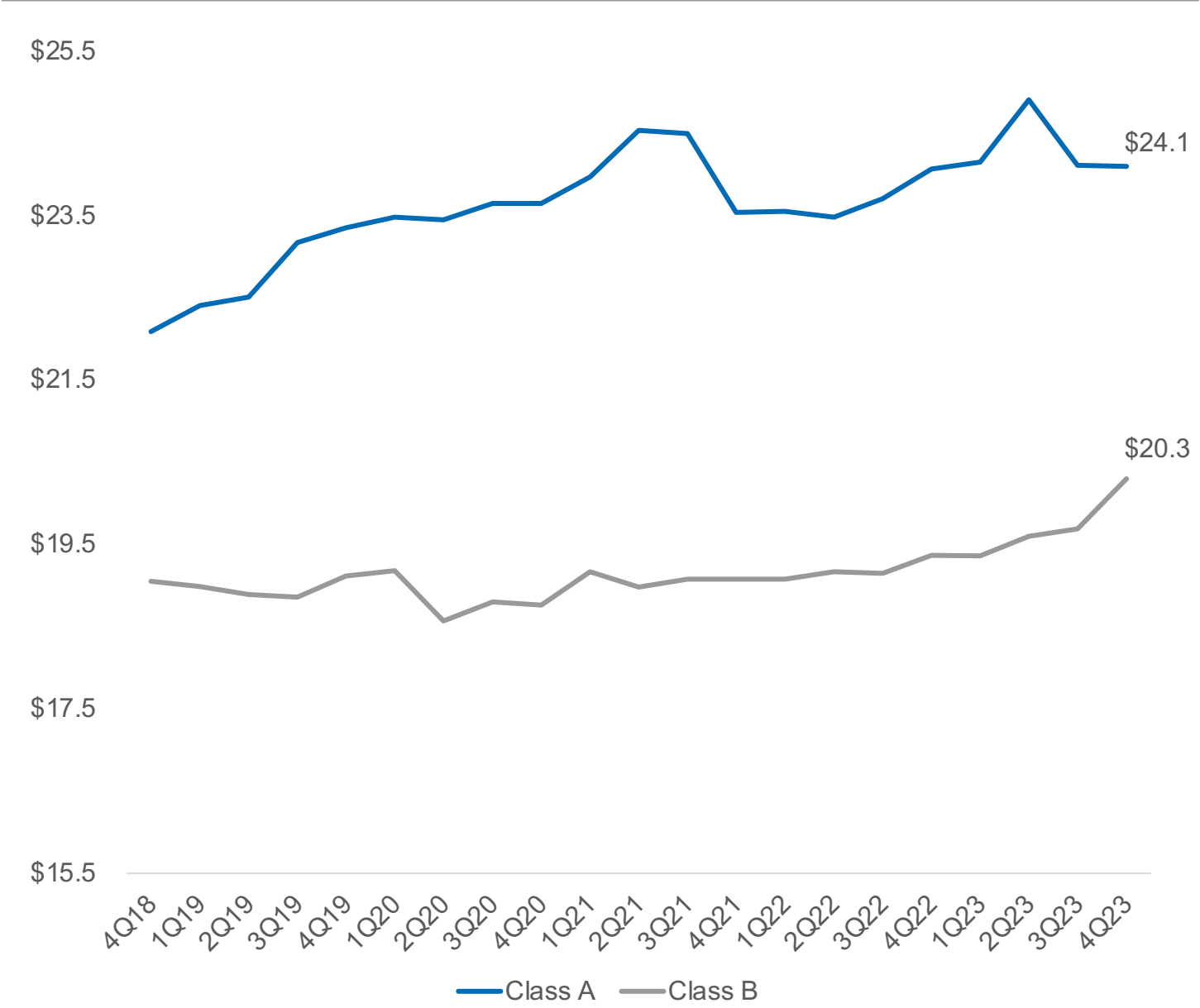


Source: Newmark Research, CoStar

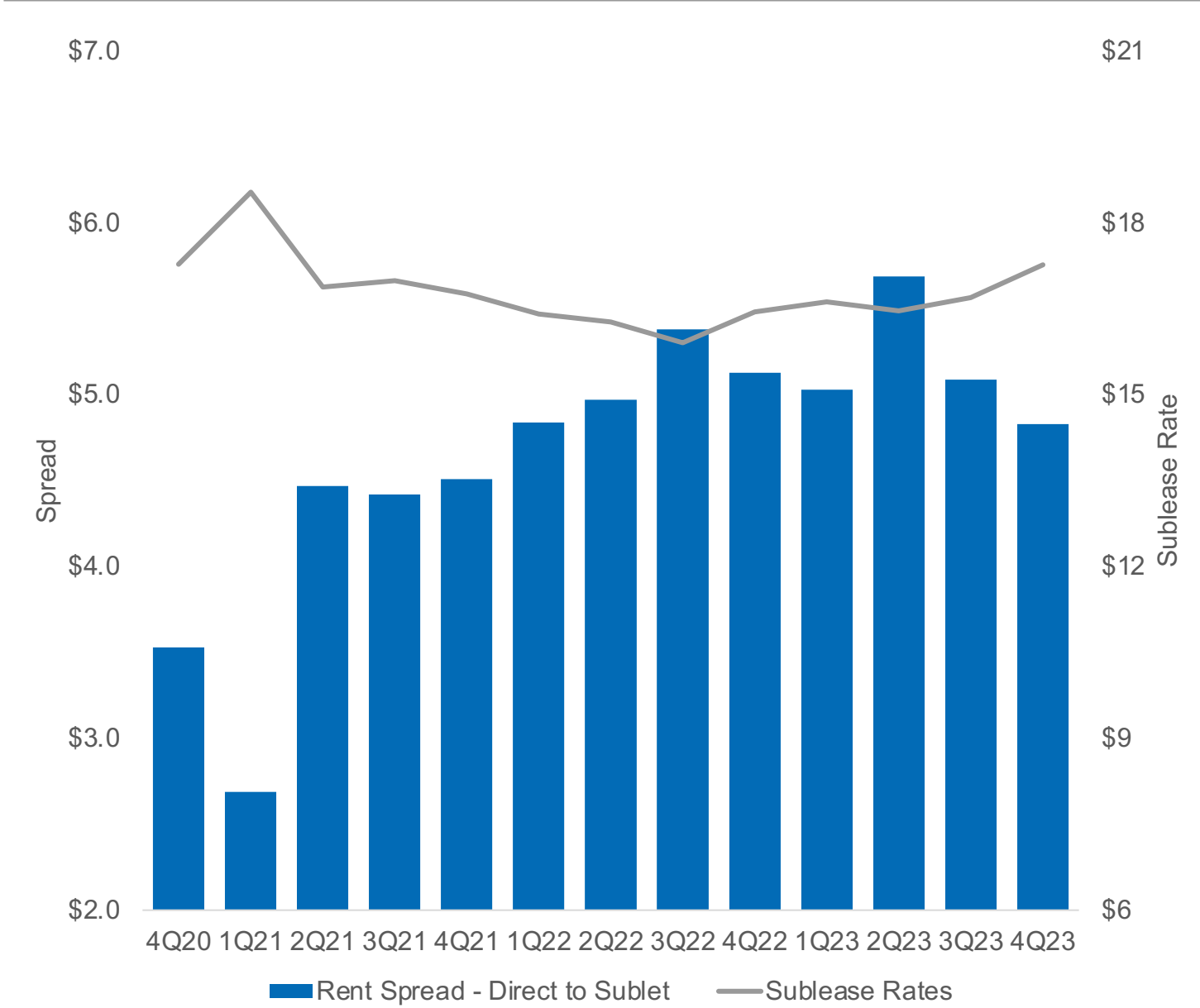
Class A Rents Increasing at a Greater Pace Compared with Class B

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic, with rents in secondary and tertiary markets like Kansas City continuing to appreciate. Sublease rents have been holding relatively flat for much of the last three years, averaging \$16.81/SF, which more visibly exhibits the impact of low demand.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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Significant Leasing Activity Across Various Submarkets

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. Due to the current economic climate, companies are opting for less square footage but are investing in prime office space and high-quality buildouts. The exception remains within the medical office sector as multiple expansions into larger spaces continue across the Metro. Flight to quality will remain a key factor in driving office leasing activity.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Sano Orthopedics	11340 Nall Avenue	South Johnson County	Direct Lease	40,000
Sano Orthopedics has relocated from Leawood to a new state-of-the-art facility in Overland Park. The firm will occupy the entire medical office facility which includes 30 exam rooms, on-site physical therapy and fitness partners and an ambulatory surgery center partner.				
Missouri Housing Development Commission	1201 Walnut Street	Downtown	Direct Lease	31,610
The Missouri Housing Development Commission announced it signed a lease in October at 1201 Walnut and will relocate from its current location at 920 Main Street. The MHDC is expected to move during the second quarter of 2024.				
OnGoal, LLC	300 Wyandotte Street	Downtown	Sublease	28,480
The parent company of Sporting Kansas City, OnGoal, LLC announced in late December it has subleased 28,480 SF of Class A space within the 94,850-SF 3Y building. The asking sublease rental rate was offered at \$28.00/SF prior to the transaction.				
Bank of Labor	8325 Lenexa Drive	North Johnson County	Sublease	19,320
Celebrating its 100-year anniversary in 2024, Bank of Labor announced it will sublease 19,320 SF of Class A space within the 68,770-SF Four Pine Ridge Plaza building.				
OakStar Bank	5841 W 137th Street	South Johnson County	Direct Lease	17,650
OakStar Bank signed a lease for retail banking and office space within the recently completed 26,480-SF building. The southwest Missouri-based bank will lease the entire first and third floors.				

Source: Newmark Research

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Submarket Statistics





Please reach out to your
Newmark Zimmer business contact for this information

For more information:

Mark Long, CRE, SIOR, CCIM, LEED AP
President & CEO
Newmark Zimmer
mlong@nzimmer.com

Andrew Garten
Director
Kansas City Research
agarten@nzimmer.com

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

St. Louis
1001 Highlands Plaza Drive W,
Suite 250
St. Louis, MO 63110
t 314-254-4600

Lee’s Summit
1485 SW Market Street
Lee’s Summit, MO 64081
t 816-474-2000

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