
2Q24

Kansas City Office Market Overview

Market Observations

Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 3.3% unemployment rate was 40 basis points lower than the 3.7% 10-year historical average.
- Year over year, job gains have been most pronounced in the Education & Health and Leisure/Hospitality industries, while job losses have been most pronounced in the Information and Business & Professional sectors.
- Professional business and 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 1.3%.

Major Transactions

- HNTB will relocate its headquarters from its current 131,000-SF space at 715 Kirk Dr. in Quality Hill into 185,160 SF at the Eleven Eleven Main building in the CBD. The engineering services firm expects to complete the move by the end of 2025.
- State Street Bank announced it signed a 30,250-SF lease on the fifth floor of the 320,980-SF 2323 Grand building. State Street is expected to move in by August 2024.
- EnterpriseKC, the local nonprofit focused on enterprise development, innovation, and job growth, announced it signed a 17,480-SF, 42-month sublease on the second and third floors of One Hallbrook Pl. in Leawood, KS.

Leasing Market Fundamentals

- Net absorption in the second quarter of 2024 totaled 229,041 SF. Net absorption during the past four quarters totaled negative 548,799 SF, demonstrating a contractionary environment. The 273,950-SF non-owner-occupied construction pipeline has trended downward since the third quarter of 2023 due to recent deliveries and sharply decelerating new starts.
- Vacancy decreased 30 basis points to 17.5% during the quarter. Landlords are motivated to provide lease concessions in the form of free rent or tenant improvements, rather than reducing quoted rates. In the current financial environment, multiple landlords may now be forced by liquidity constraints to trade elevated concession packages for lower rents. Expect asking rents to begin to reset in the second half of the year. The market rental rate grew 0.9%, year over year.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, impacting leasing and investment activity.
- Vacancy is expected to increase while the market recalibrates. Tenants will maintain substantial leverage in lease negotiations and benefit from numerous available space options. Conversions of office space to other uses will remove obsolete vacant space from the market, tempering rising vacancy.
- Asking rental rates are expected to decrease during the remainder of the year as a lack of liquidity forces landlords to lower rents, rather than provide elevated concession packages.

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

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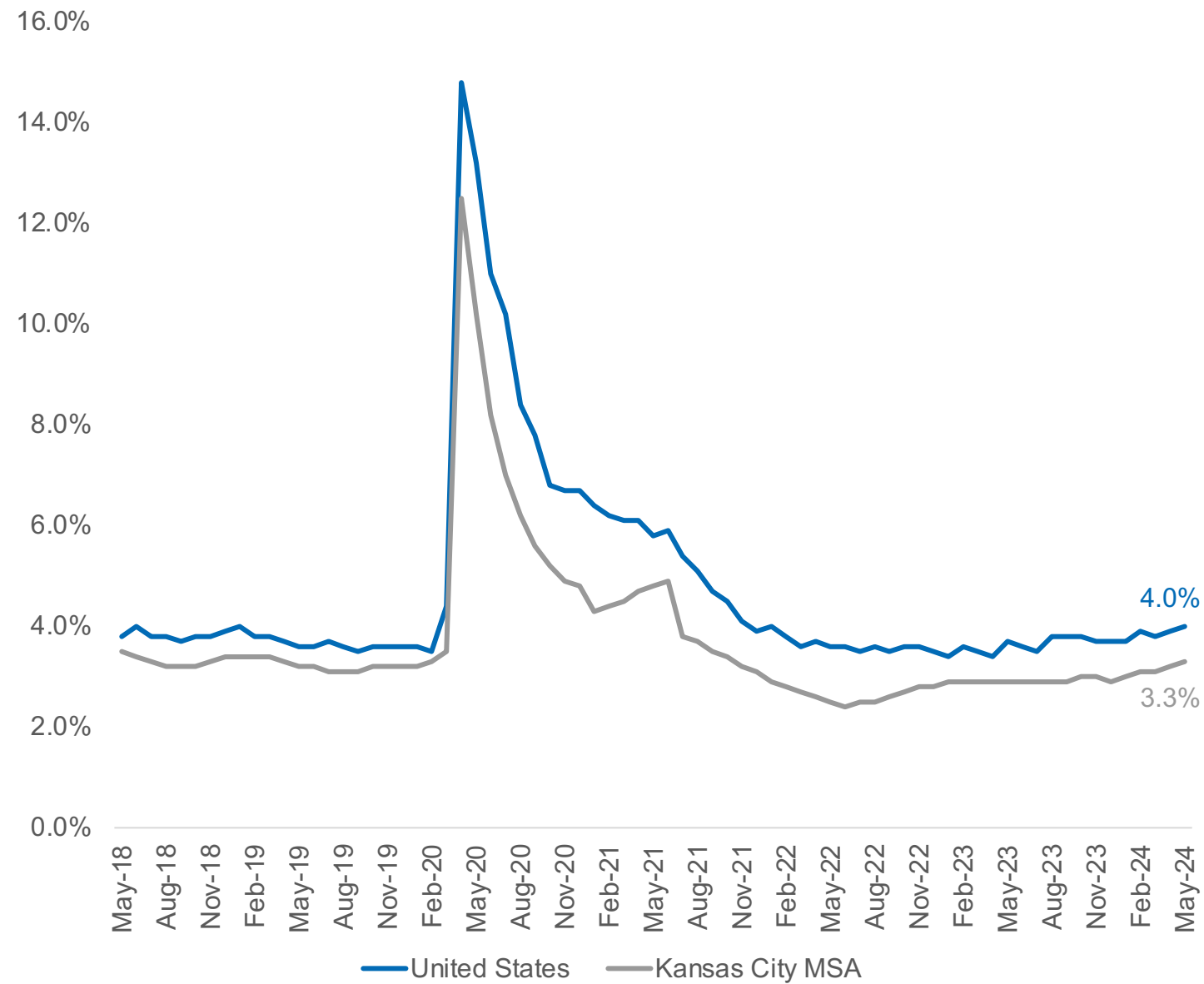
Economy



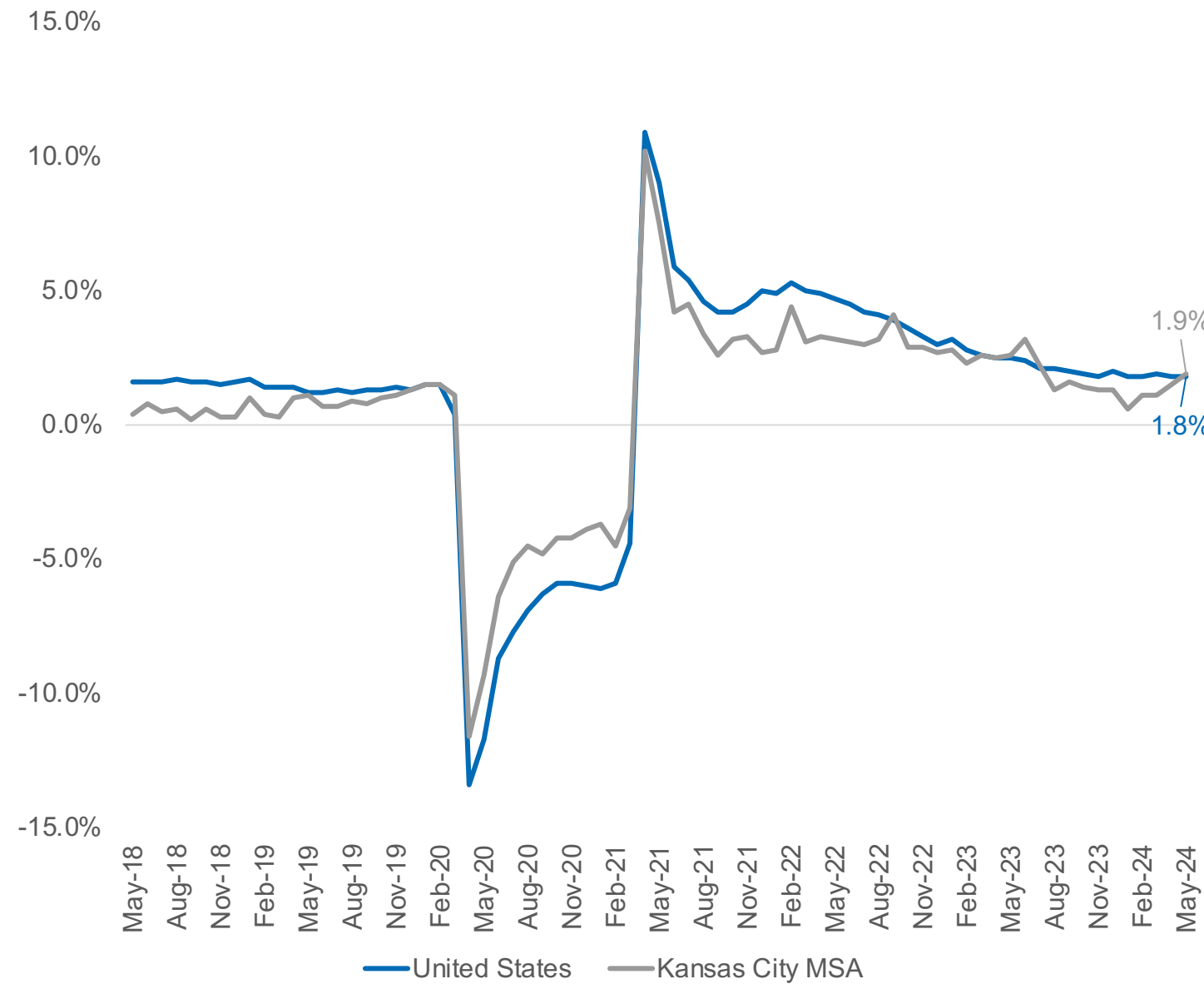
Metro Employment Trends Signal a Stable Economy

The region's labor market remains on relatively solid footing, amid elevated interest rates. Unemployment in the region recovered from the pandemic and remains 70 bps below the national average. The Kansas City Fed Labor Market Conditions Indicators both displayed positive values for the months of April 2024 and May 2024, indicating that labor market conditions are above their long run average.

Unemployment Rate, Seasonally Adjusted



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

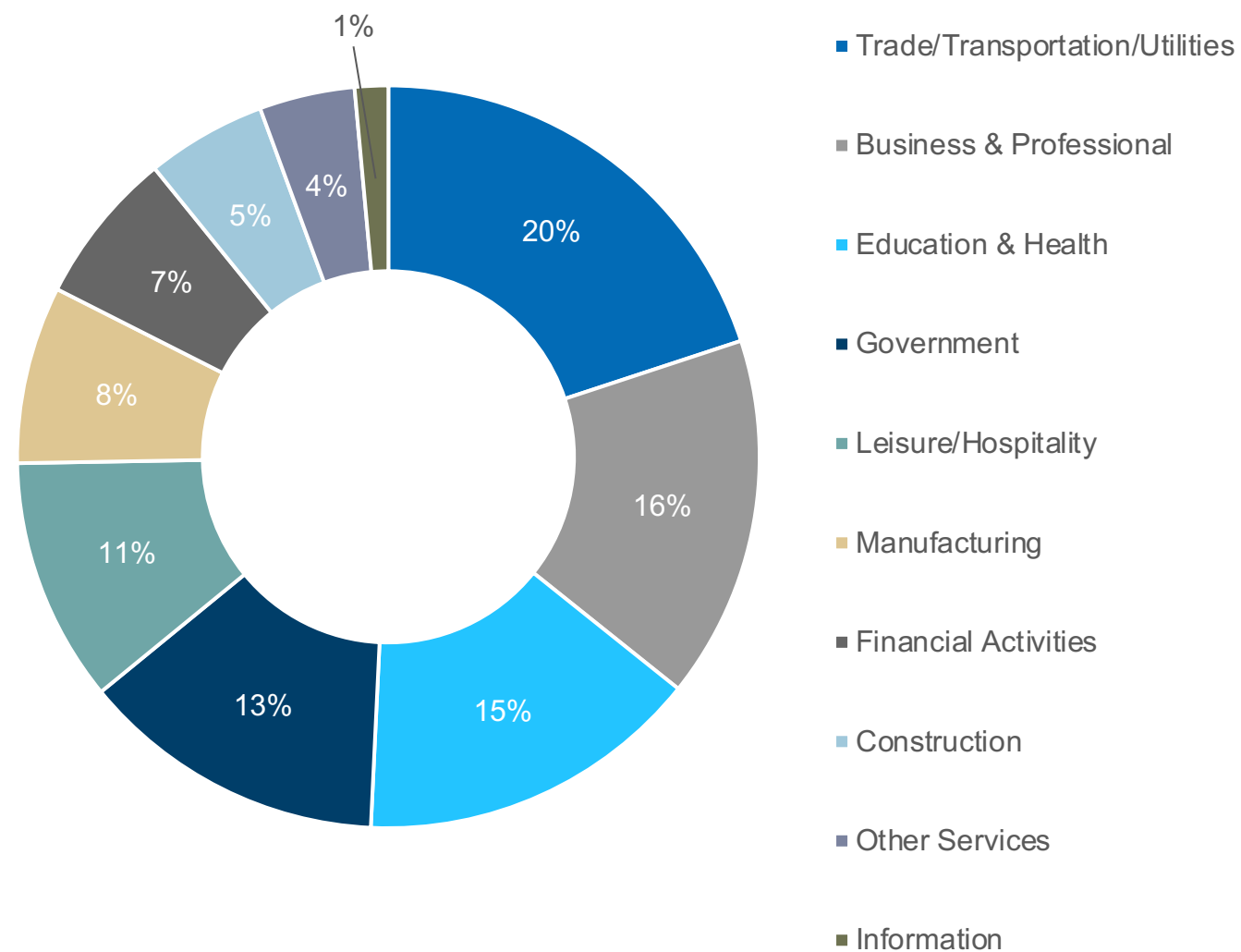


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

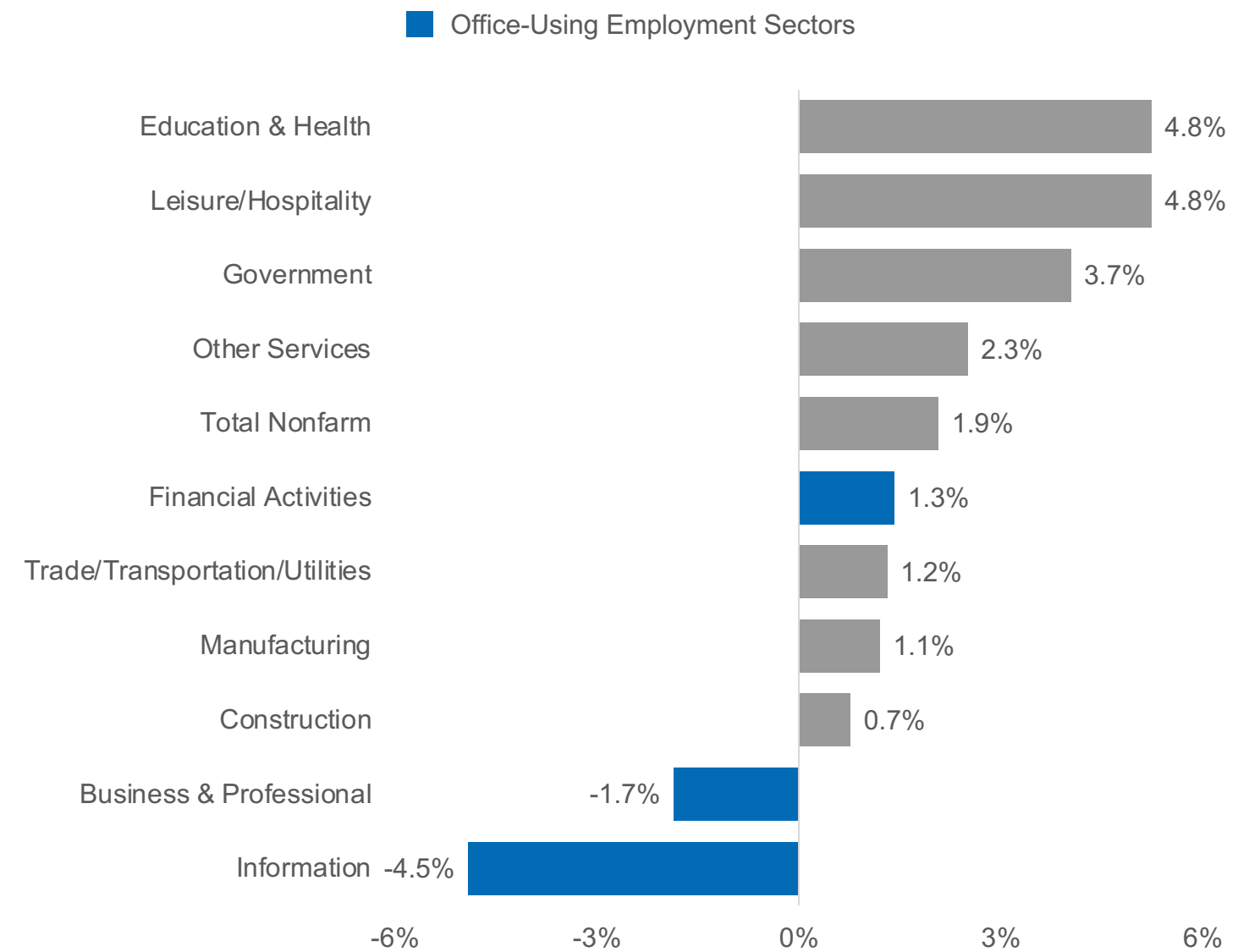
Job Growth Driven Primarily by Shift in Spending

The Education & Health and Leisure/Hospitality sectors led all industries in regional annual job growth at 4.8% each. Along with Other Services and Government, the top four sectors are benefitting from a post-pandemic shift in spending from goods to services, travel and healthcare expenses. Two out of three office-occupying industries saw annual job losses.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

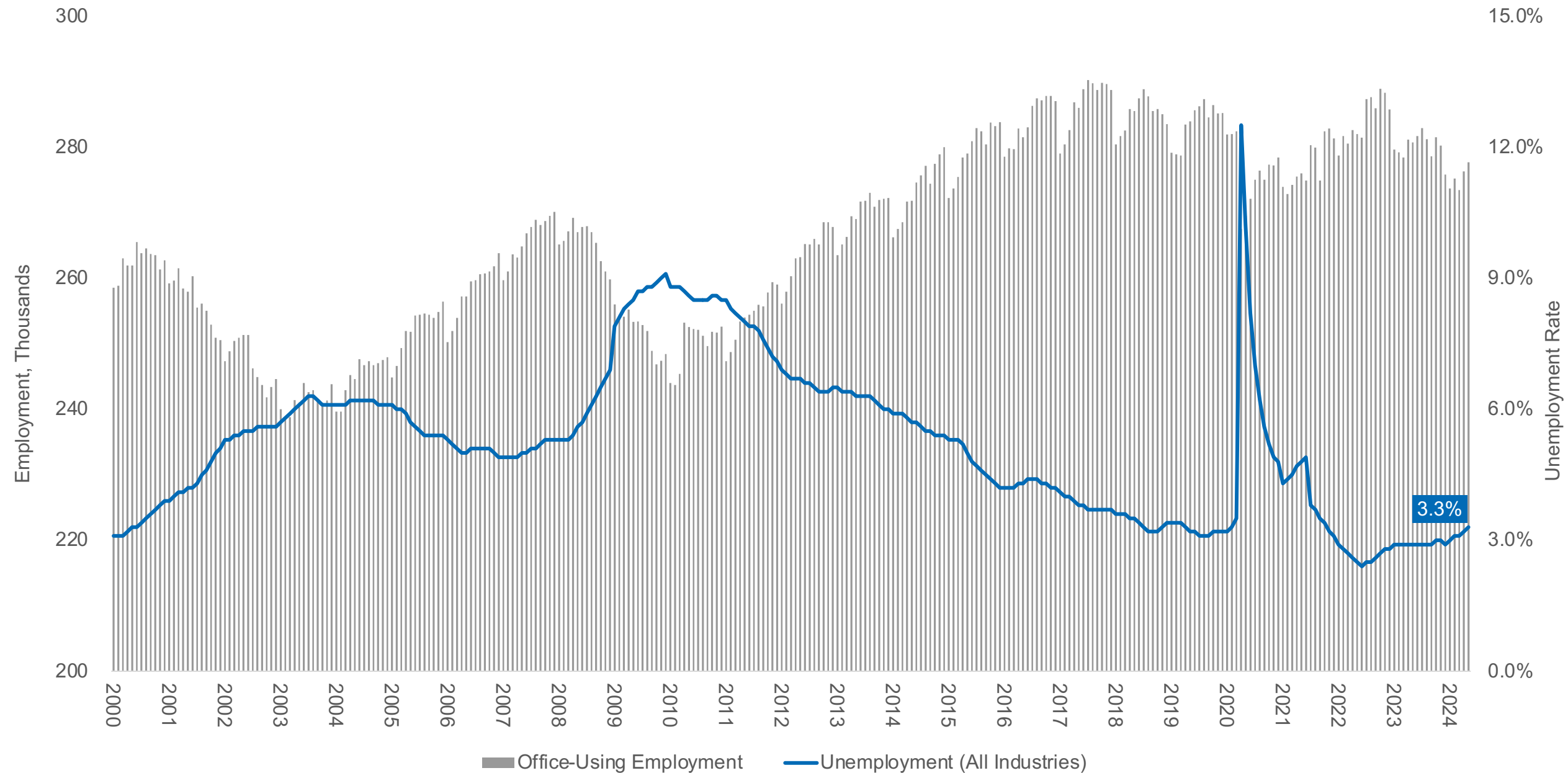


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

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 during the remainder of 2024.

Office-Using Employment* and Unemployment Across All Industries



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

Note: May 2024 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



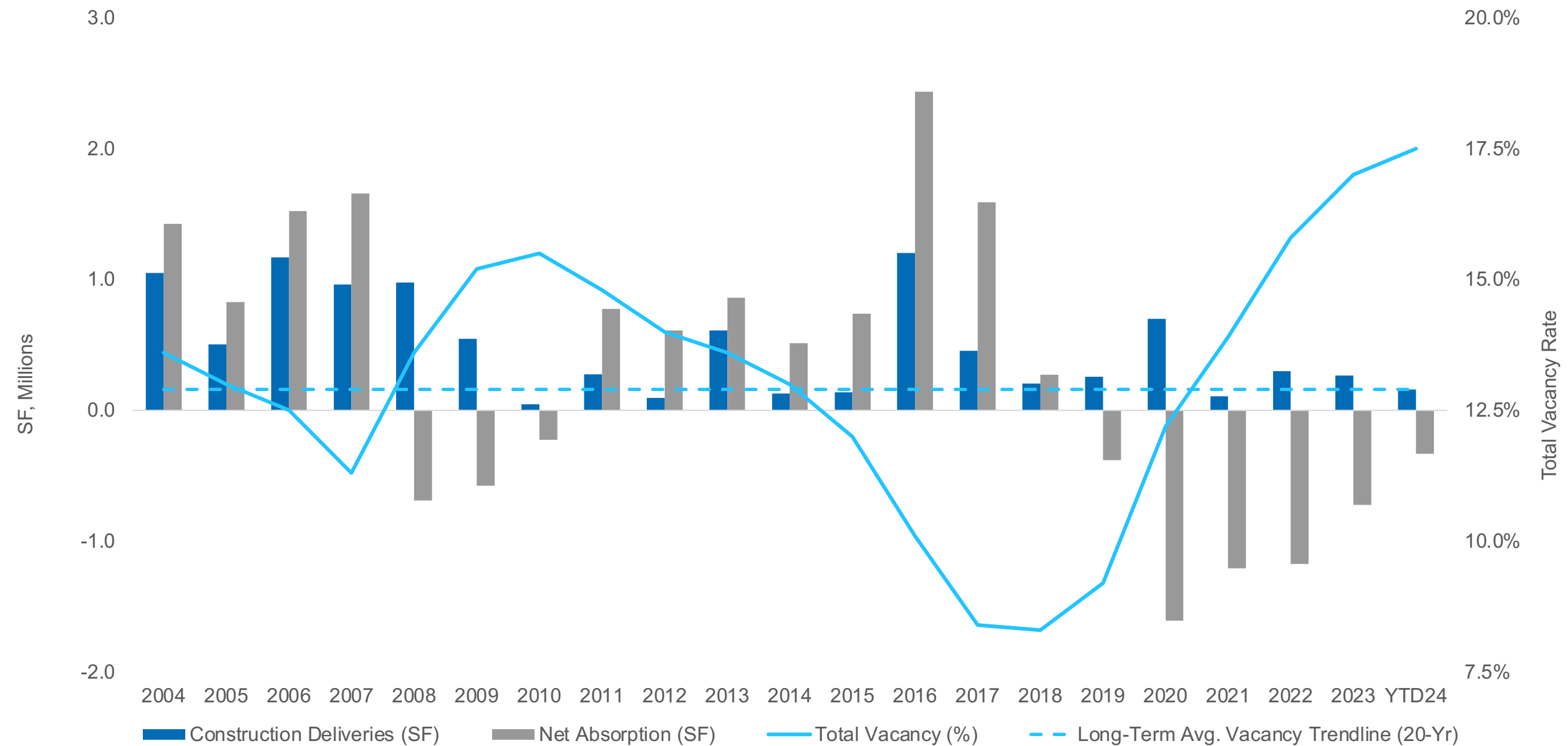
Market Overview

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Vacancy Stabilizing as Market Recalibrates

The vacancy rate increased 0.9% (90 bps) to 17.5% year over year as tenants continue to embrace hybrid work strategies and evaluate ever-changing space needs. 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

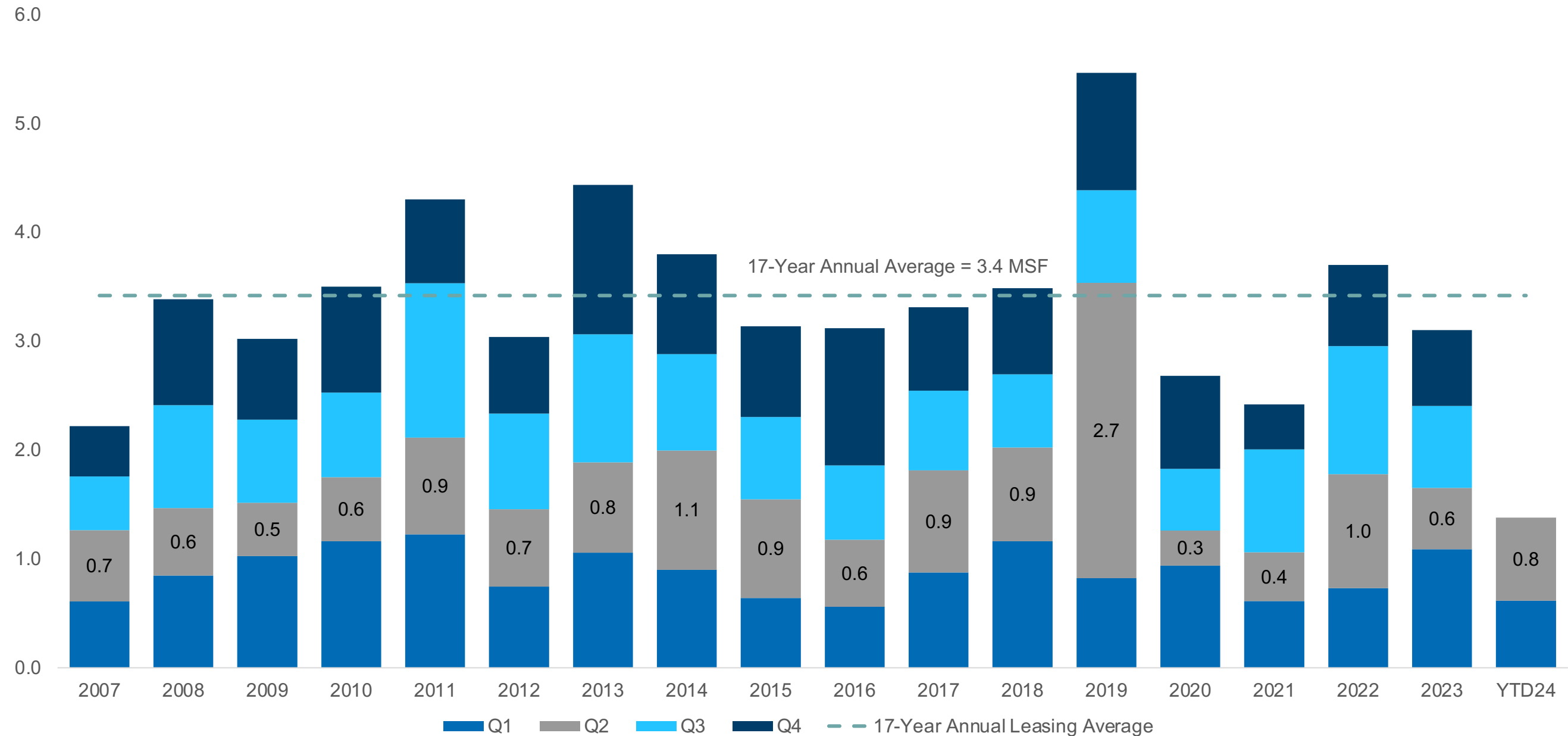


Source: Newmark Research

Total Leasing Activity Off Historical Average but Quarterly Pace Is Increasing

Total leasing activity during the past four quarters is down 17.2% compared with the 17-year average as firms consolidate and downsize. Expect higher than normal leasing activity during the remainder of 2024 as tenants begin to lock in favorable, long-term leasing strategies, ending the year closer to the historical annual average of 3.4 million SF of annual leasing activity.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Pandemic Consequences, Financing Issues Lead to Fewer Leases Being Signed

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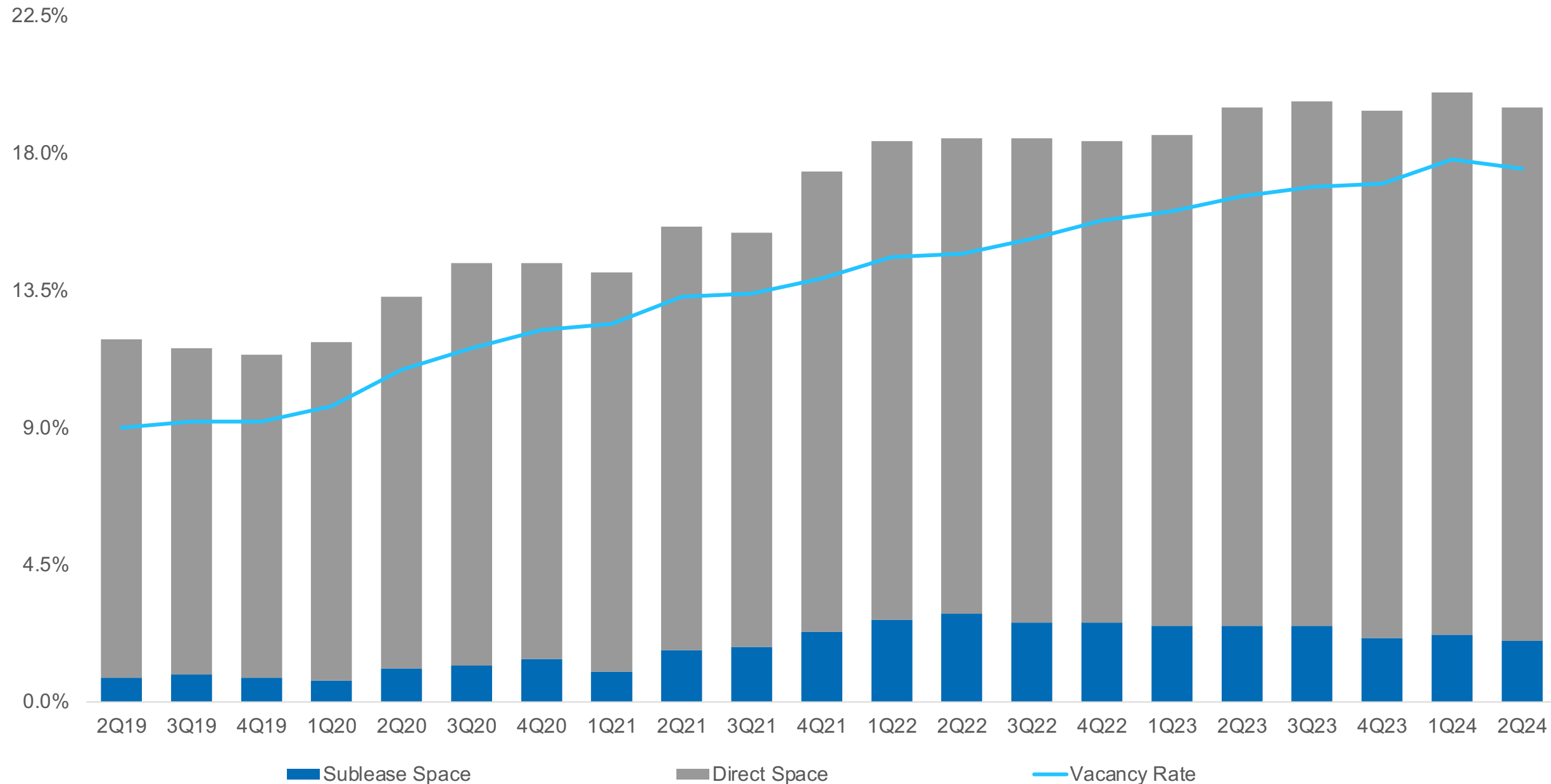
Reduced Leasing Activity in Johnson County Compared with Pre-Pandemic Average

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Direct Availability Continues to Climb, While Sublease Availability Decreases to 2.0%

In the years leading to the pandemic, many tech companies, including Oracle Cerner and T-Mobile, leased space based on future employment growth as a hedge against diminishing supply and increasing rents. Combined with job cuts in the sector, a significant amount of available sublease space is attributed to technology companies. Sublease space is anticipated to remain elevated in 2024.

Available Space as Percent of Overall Market



Source: Newmark Research

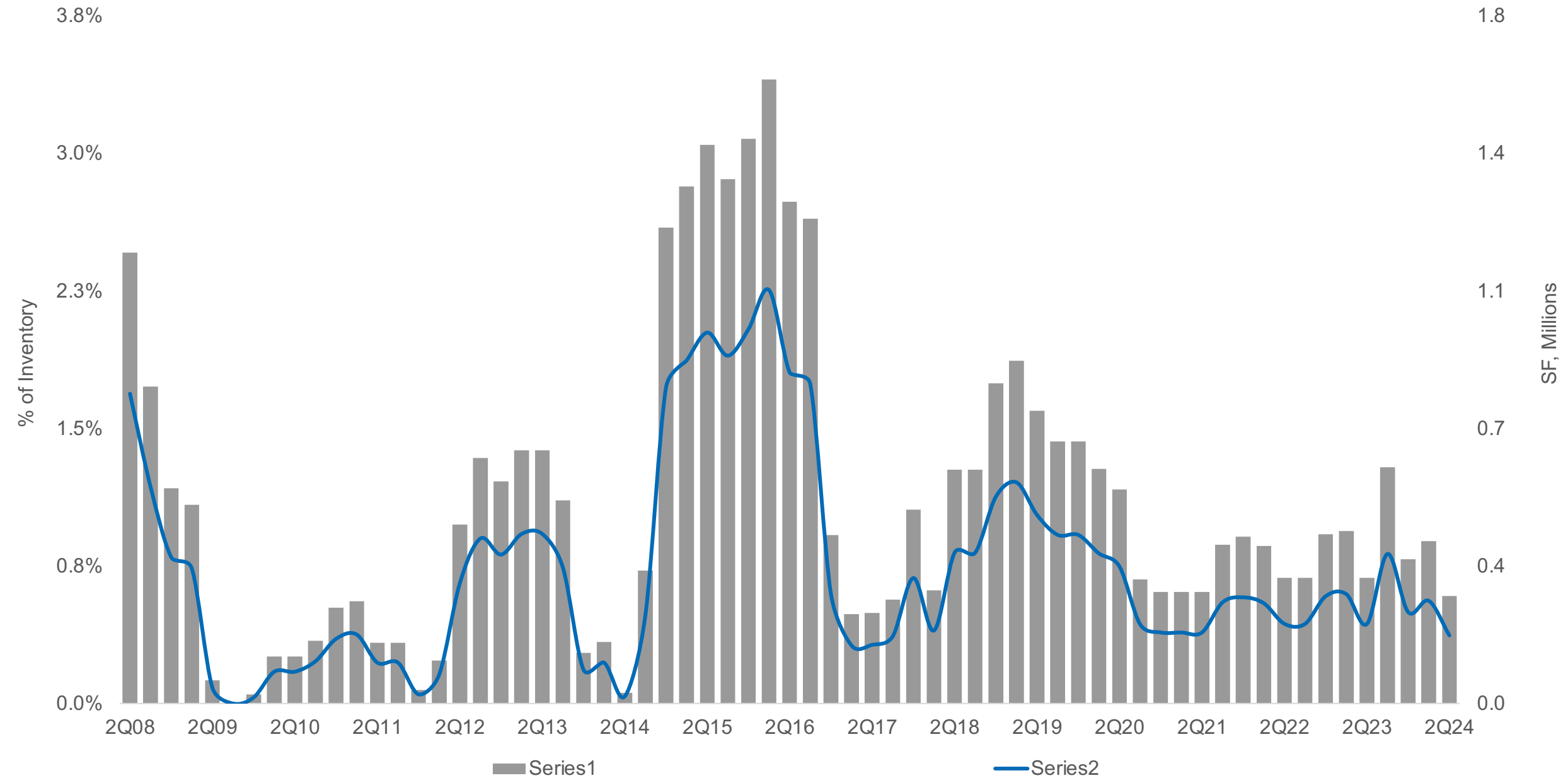
East Jackson County Experiences Highest Availability Rate Increase Year Over Year

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New Construction Activity Limited as Vacancy Remains Elevated at 17.5%

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 Offices at Overlook I, II and III, totaling 160,000 SF, on Swope Parkway in Kansas City, Missouri.

Office Under Construction and % of Inventory

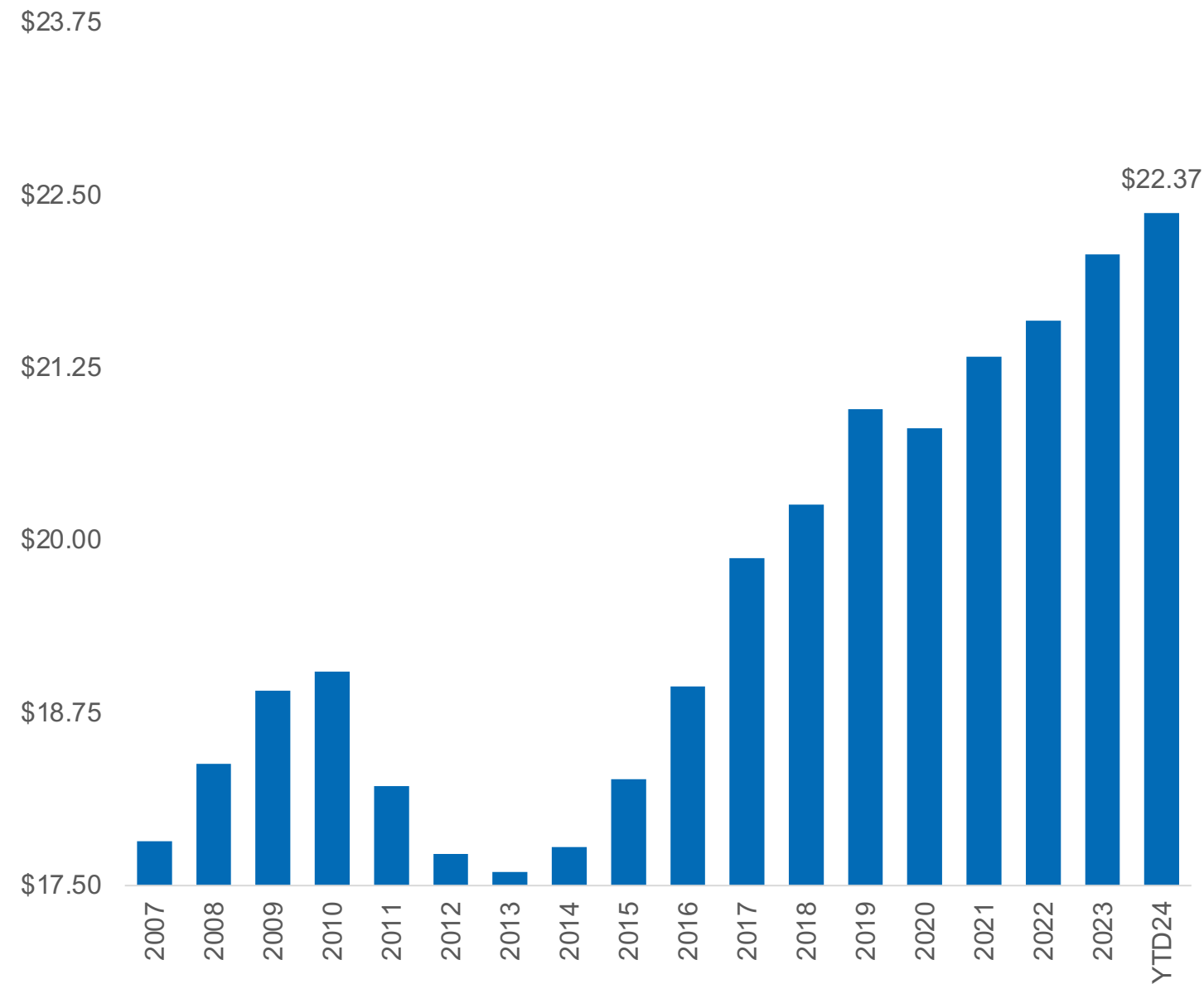


Source: Newmark Research, CoStar, Kansas City Market

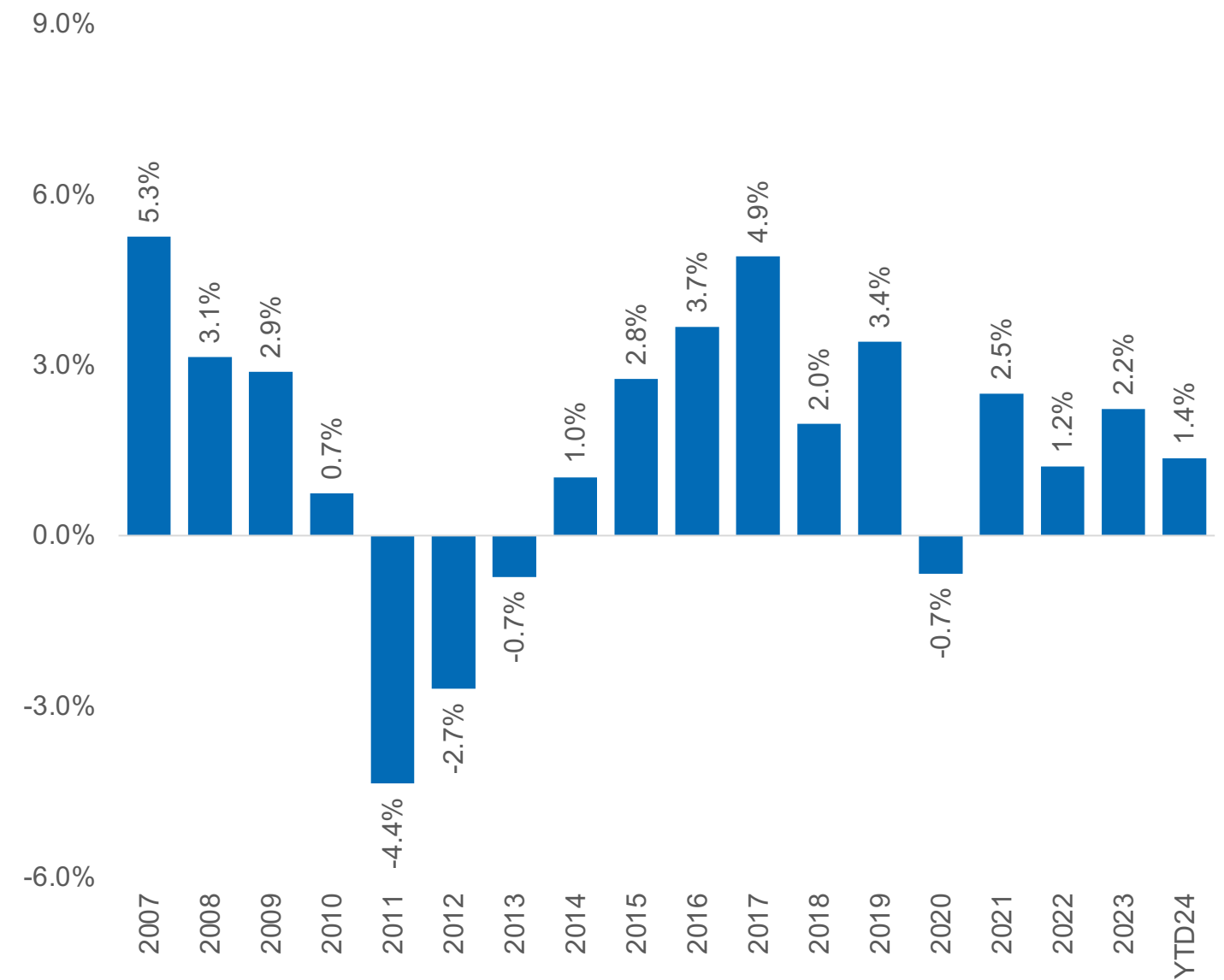
Rents Continue to Climb but Are Moderating

Overall asking rates increased year over year, rising from \$22.18/SF to \$22.37/SF. This trend is expected to slowly reverse as a lack of liquidity forces landlords to lower rents, rather than provide elevated concession packages. 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

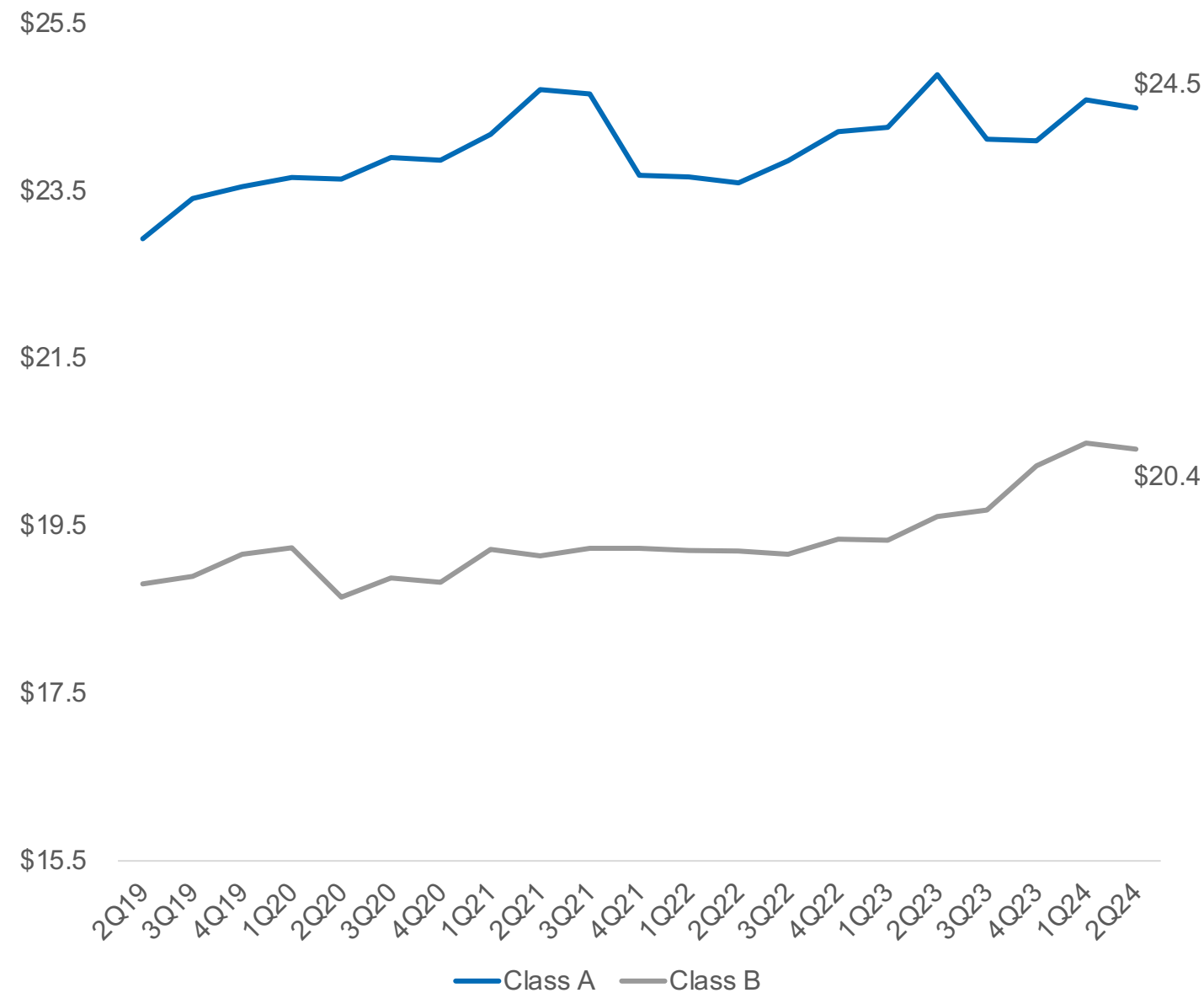


Source: Newmark Research, CoStar

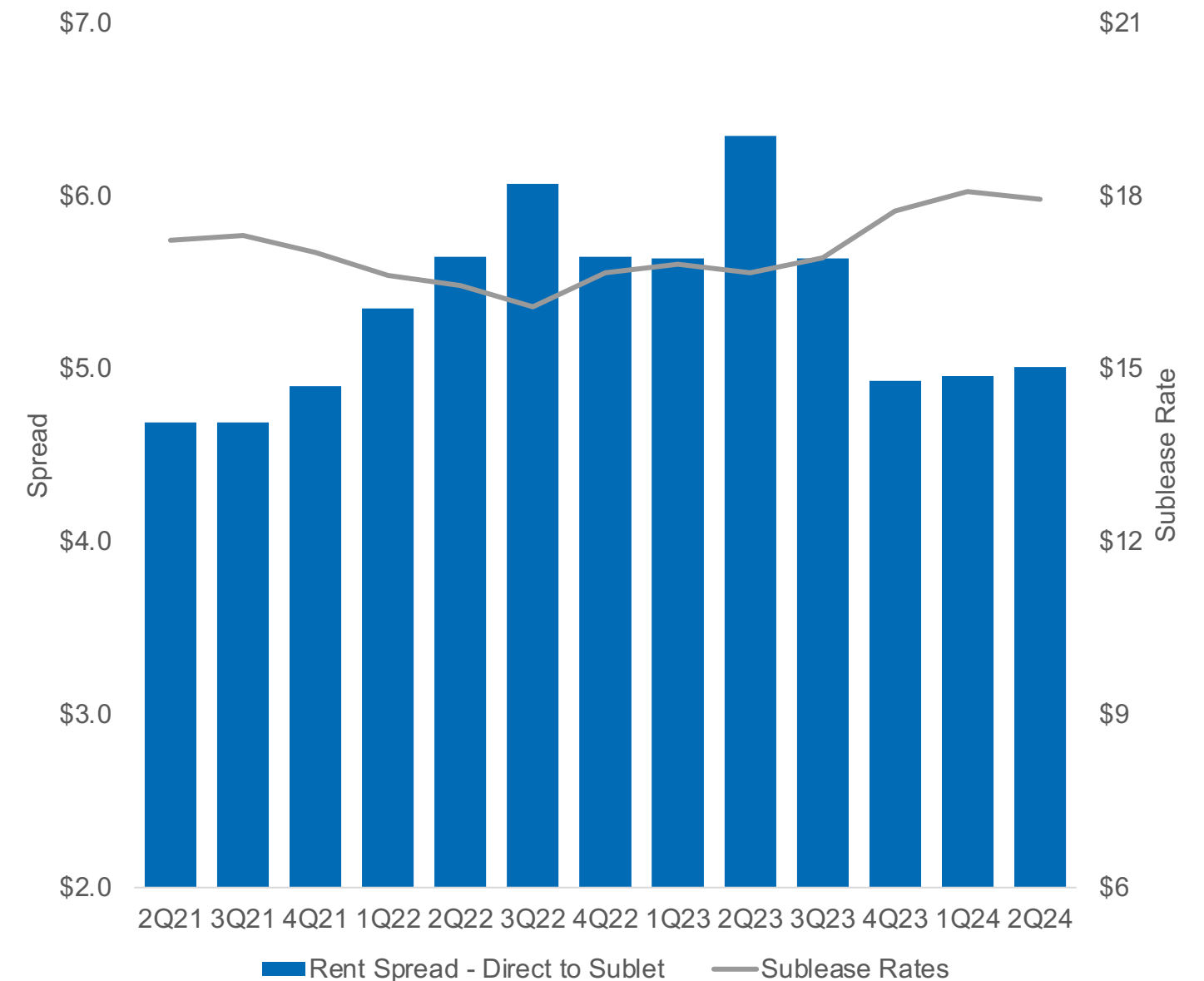
Class B Rents Increased 6.4% in the Aggregate Since 2Q22

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 \$17.04/SF, which more visibly exhibits the impact of low demand.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Select Submarkets Push the Overall Market Rental Rate Upwards

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2Q24 Notable Leasing Activity

New or newly renovated Class A office space with a prime amenities package will remain in demand during the next four quarters. Large-sized multitenant Class B office buildings will face headwinds in the current environment as small- and mid-sized tenants evaluate reducing footprints for higher quality space options. Expect increasing leasing activity during the second half of 2024 as tenants begin to lock in favorable, long-term leasing strategies within Class A and recently upgraded Class B+ buildings.

Select Lease Transactions

| Tenant | Building(s) | Submarket | Type | Square Feet |
|--|----------------------|----------------------|--------------|-------------|
| HNTB | 1111 Main Street | Downtown | Direct Lease | 185,160 |
| <i>HNTB will relocate its headquarters from its current 131,000-SF space at 715 Kirk Dr. in Quality Hill into 185,160 SF at the Eleven Eleven Main building in the CBD. The engineering services firm expects to complete the move by the end of 2025.</i> | | | | |
| State Street Bank | 2323 Grand Boulevard | Crown Center | Direct Lease | 30,250 |
| <i>State Street Bank announced it signed a 30,250-SF lease on the fifth floor of the 320,980-SF 2323 Grand building. State Street is expected to move in by August 2024.</i> | | | | |
| EnterpriseKC | 11150 Overbrook Road | South Johnson County | Sublease | 17,480 |
| <i>The local nonprofit focused on enterprise development, innovation, and job growth within high value, high opportunity industry clusters announced it signed a 42-month sublease on the second and third floors of One Hallbrook Place in Leawood, KS.</i> | | | | |
| BlueBird Network | 9201 Ward Parkway | South Kansas City | Direct Lease | 15,800 |
| <i>BlueBird Network signed a lease for 15,800 SF on the second floor of the 43,320-SF building. Newmark Zimmer provided tenant representation services in the transaction.</i> | | | | |
| Training Umbrella | 10551 Barkley Street | South Johnson County | Renewal | 12,030 |
| <i>Training Umbrella, an event space that offers room rentals, technology labs, and computer and software training classes, renewed its lease for 12,030 SF on the first floor of the 99,610-SF building at 10551 Barkley St. in Overland Park, KS. Newmark Zimmer provided landlord representation services in the transaction.</i> | | | | |

Source: Newmark Research

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Submarket Statistics



Submarket Statistics: All Classes, Class A, Class B

Please reach out to your
Newmark 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, Research

agarten@nzimmer.com

Kansas City

1220 Washington Street, Suite 300

Kansas City, MO 64105

t 816-474-2000

Lee's Summit

1485 SW Market Street

Lee's Summit, MO 64081

t 816-474-2000

nmrkzimmer.com

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