



KANSAS CITY OFFICE MARKET

STATE OF SPACE REPORT

FALL 2024

STATE OF SPACE REPORT

The Fall 2024 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.

WHAT YOU WILL FIND

● **Market Analysis and Summary**

● **Market Trends**

● **Available Space Report**

● **Recent Transactions**

● **Underwriting Report**

● **Average Tenant Expenses**

● **Newmark Zimmer Office Team**



KANSAS CITY OFFICE MARKET SUMMARY

	Current Quarter	Prior Quarter	Prior Year	12-Month Forecast
Total Inventory	74.2M	74.1M	73.9M	↔
Vacancy Rate	17.0%	17.3%	16.6%	↓
Quarter Net Absorption	267,872	187,723	4,270	↓
Average Asking Rent	\$22.44	\$22.39	\$21.93	↔
Under Construction	60,100	95,950	272,791	↔
Deliveries	35,850	138,970	15,530	↑



2.3%
12 MONTH
RENT GROWTH



17.0%
VACANCY
RATE

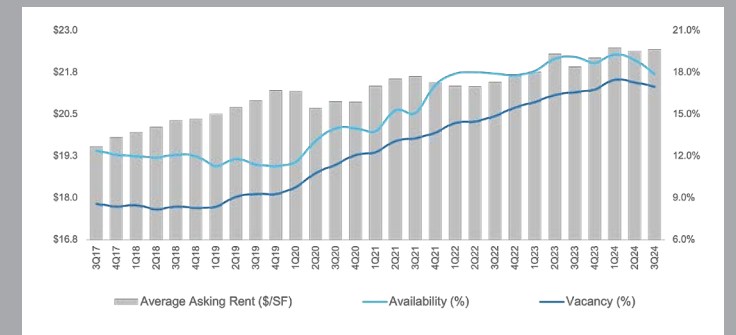
KANSAS CITY OFFICE MARKET ANALYSIS

CURRENT MARKET TRENDS

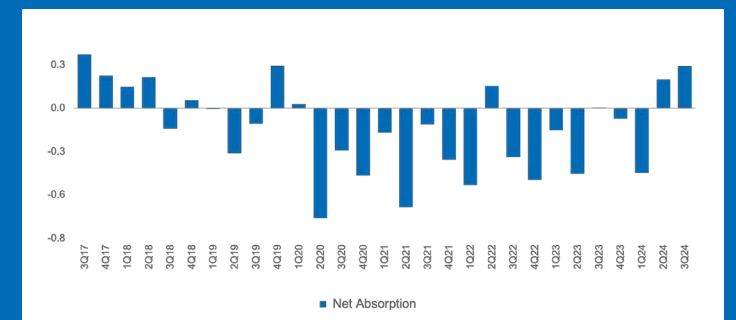


Expansive amenity renovations, alongside solid demand for prime Class A space, are anticipated to continue over the next four quarters

ASKING RENT & VACANCY RATE



NET ABSORPTION (SF)





MARKET TRENDS

OFFICE CONSTRUCTION COSTS & OUTLOOK

Written by: Chad Brungardt, Senior Director at McGownGordon Construction

With the halt of the office construction work from the onset of the pandemic in 2020, the focus shifted to other markets including publicly funded work, manufacturing, and data centers. Office related construction work was primarily smaller scale tenant renovation projects to accommodate square footage reductions of leased space due to the shift in working from home employment. Over the past four years, construction costs have increased almost 40% with long-term projections of costs continuing to rise at a slower pace but remain at historically high levels. Despite inflationary pressure and uncertainty, the construction sector of the economy has witnessed historic spending figures and continued growth projections creating further strains on labor and material procurement demands. Current Kansas City MSA average construction costs in 2024 dollars are dependent on municipality, gross square footage (GSF), and configuration, but generally fall in these ranges:

Core & Shell **Fit-Out**
\$230 to \$285/GSF **\$145 to \$185/GSF**

Material prices in general have stabilized with note of some recent reductions in structural steel inputs and oil commodities that are working their way through the manufacturing cycle for some much-needed relief. Labor challenges remain with low unemployment rates; craft wage increases have hopefully levelled off with yearly settlement increases averaging around 5%. Schedules for new projects including offices spaces

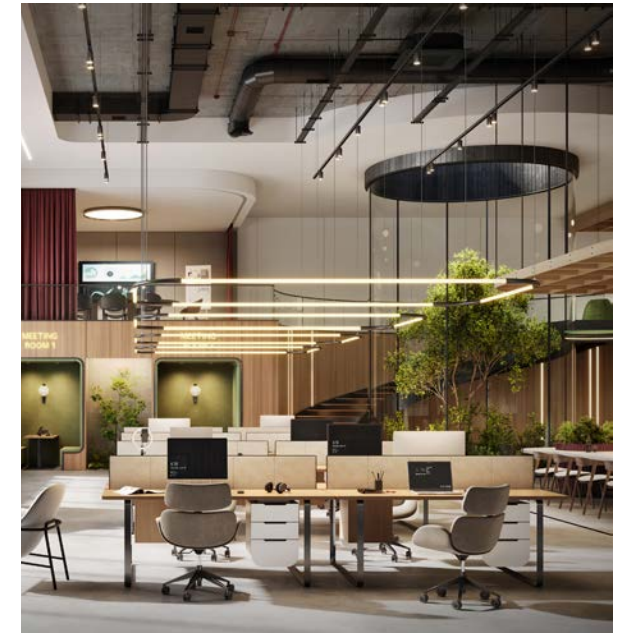
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Despite inflationary pressure and uncertainty, the construction sector of the economy has witnessed historic spending figures and continued growth projections...

are being driven by high demand and availability of electrical transformers and main switch gear. These can take up to 12 months to obtain after approvals, early procurement during the design phase is recommended.

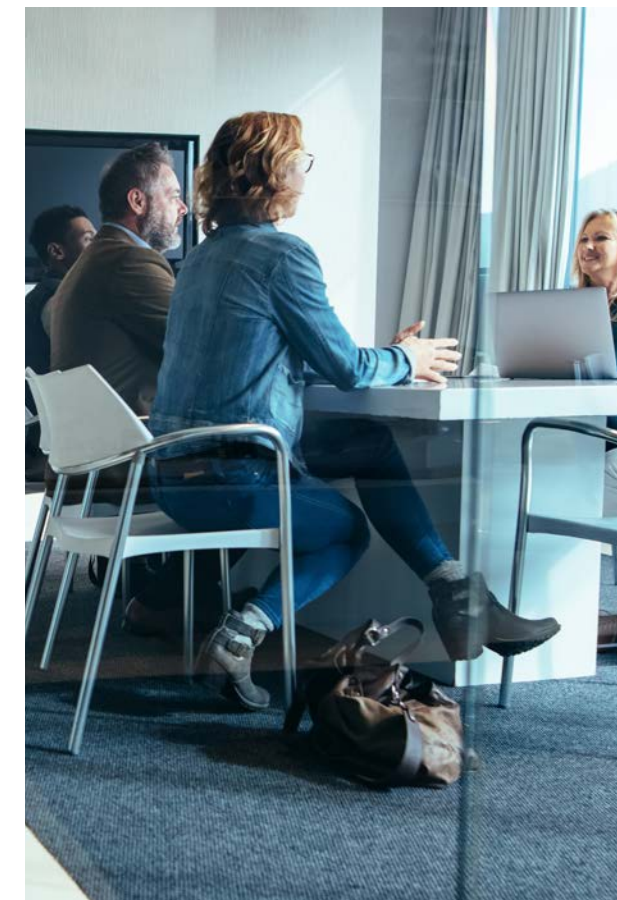
As interest rates continue to fall coupled with the end of the four-year election cycle, optimism remains that the construction sector pipeline of projects will remain plentiful. With the continued back to work trend, McGownGordon is witnessing an increase in tenant improvement opportunities both in Kansas City and throughout the region. Construction escalation, which is the industry's short term inflation rate carried on current pricing until project mobilization, remains at 1.25% per quarter. Projections are for eventual return to 0.75% to 1.0% per quarter historical averages by the end of 2025.

POSITIVE SIGNS FOR OFFICE MARKET

As we move into the 4th Quarter of 2024 positive signs are identifiable throughout the office market in Kansas City and across the United States. In Kansas City, positive net absorption has occurred in each of the past two quarters totaling almost 500,000 square feet and the vacancy rate has decreased 30 basis points to 17%. Return to office mandates continue to pick up steam as some of the largest companies in the world are instituting stricter in-office policies. Amazon has announced that they are requiring staff to be in the office five days per week. One of the largest law firms in the US, Skadden, Arps, Slate, Meagher & Flom, announced earlier this year that their employees must work in the office four days per week. More recently, international law firm giant Latham & Watkins announced that starting January 1, 2025, their attorneys will be required in the office four days per week. Companies large and small that have resisted in-office policies appear to be implementing stricter mandates which should lead to continued positive momentum in the office market.



KANSAS CITY OFFICE MARKET – SUBLEASE SPACE & MARKET VACANCY



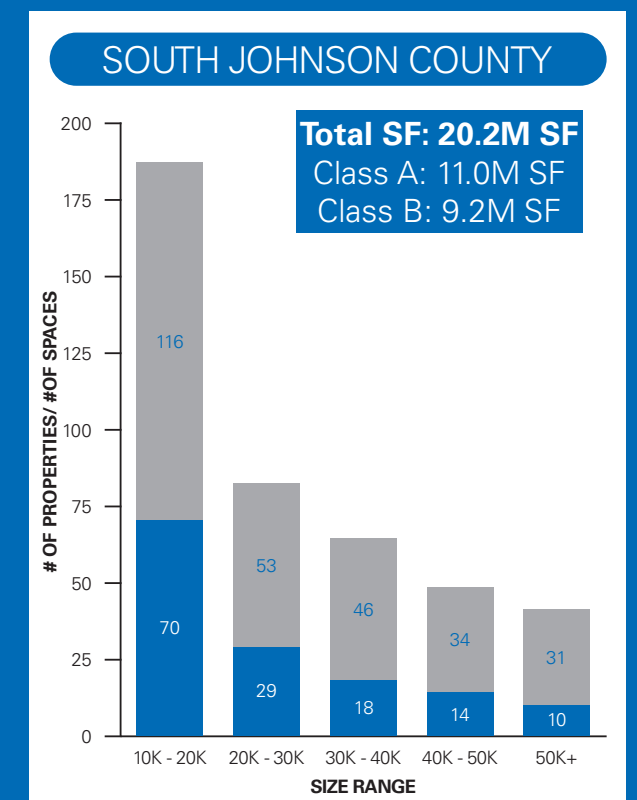
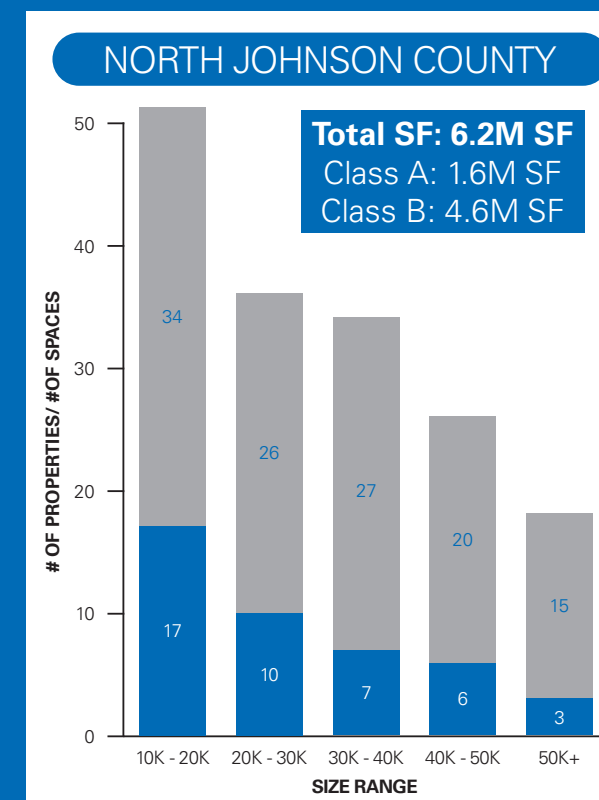
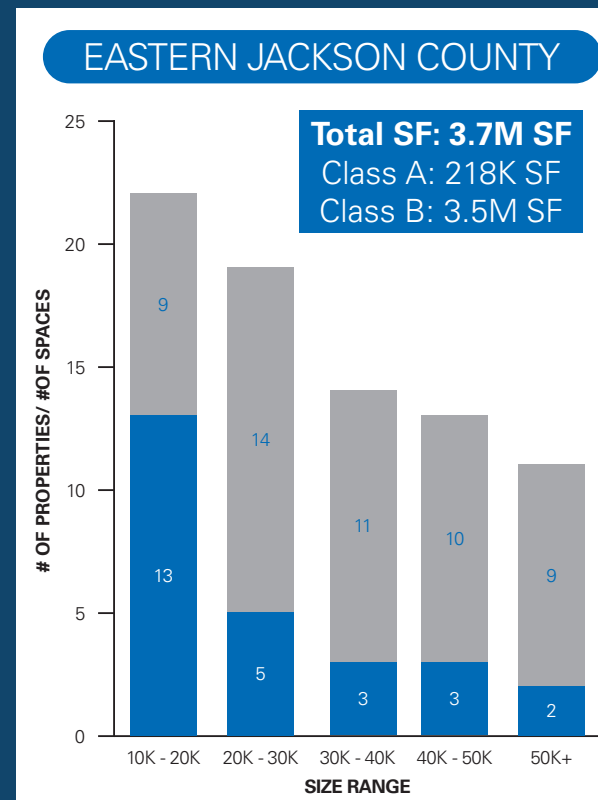
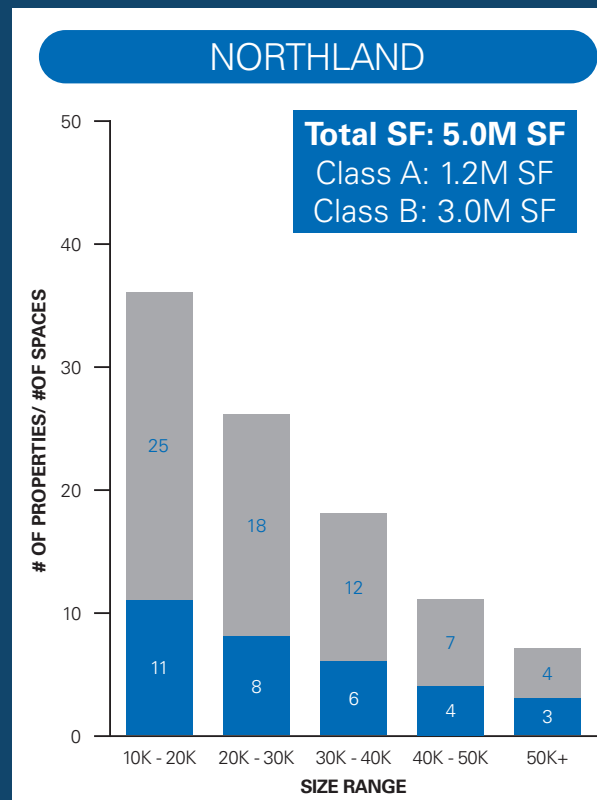
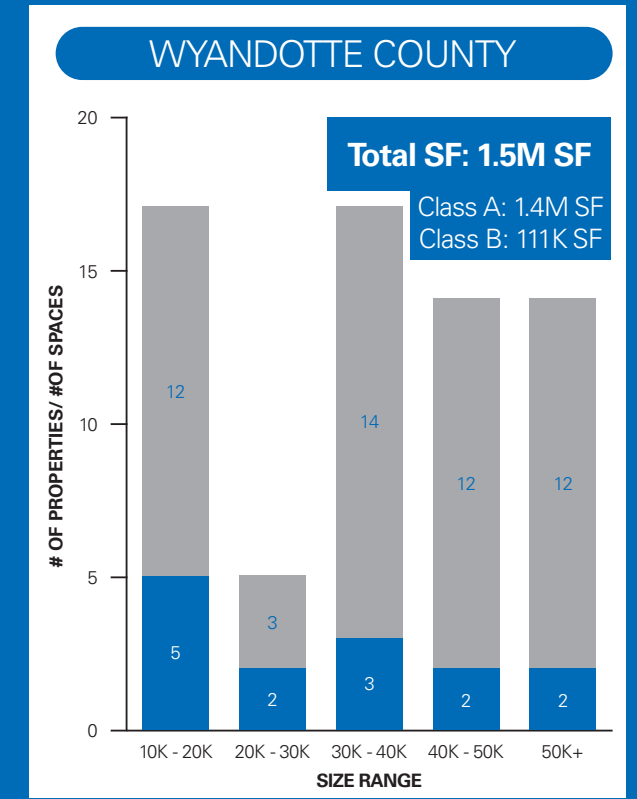
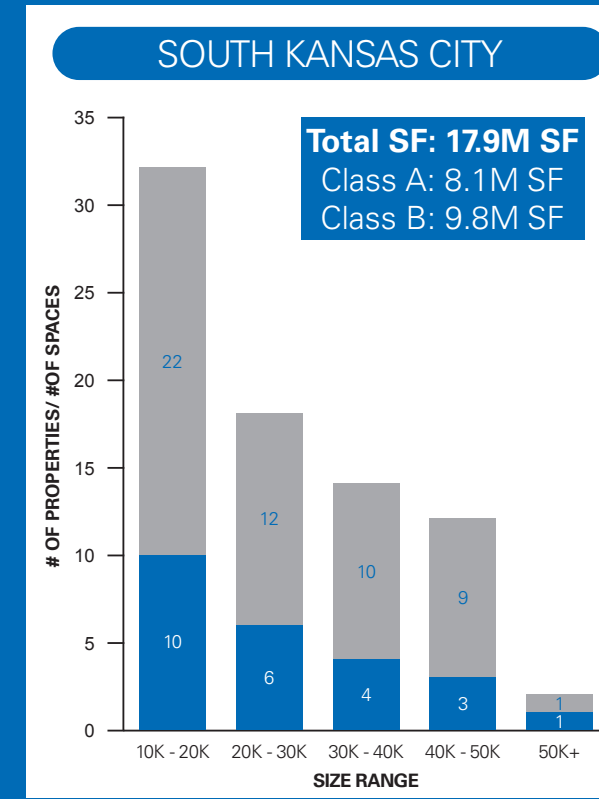
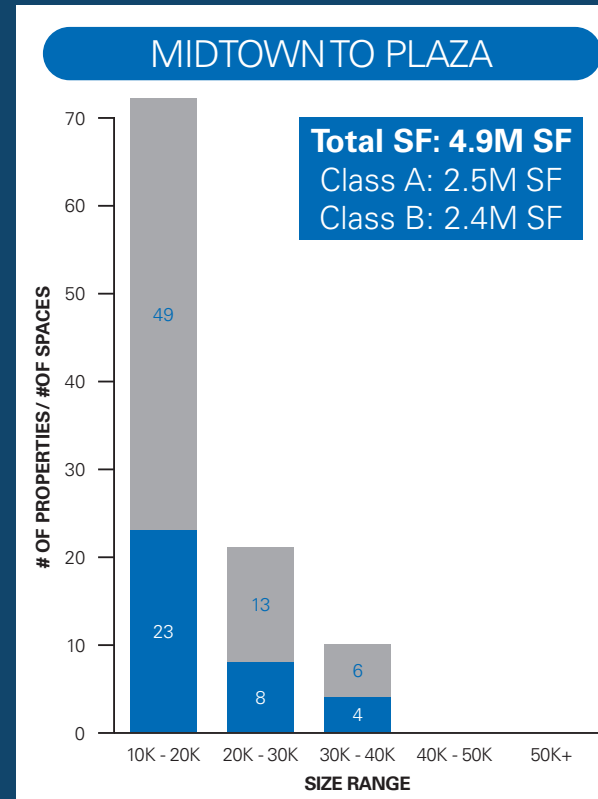
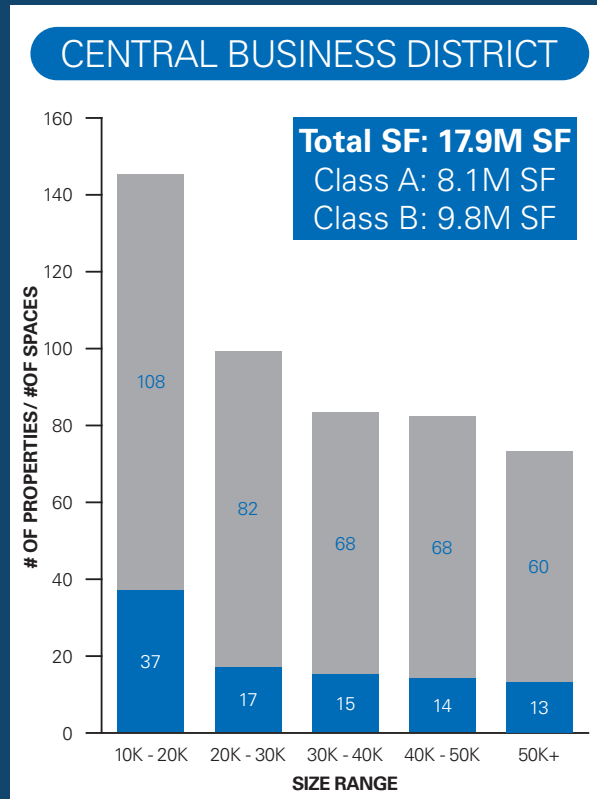
The sublease market in Kansas City, and across the country, has rapidly changed since the pandemic struck in early 2020. According to data from Costar, the total sublease space available at the end of 2019 was 681,831 SF and averaged 670,820 SF in the three years prior to the pandemic, which represented 5.46% of total available inventory on average. There was 1,419,331 SF of available sublease space as of Q3, 2024, holding at over 211% the average sublease space available in years prior. While the current inventory of sublease product is more than twice the amount we have seen in years pre-Covid, the sublease availability has shrunk to represent 8.45% of the available space in the market. The sublease availability peaked in Q2 of 2022 at 2,212,402 SF, which represented 14.07% of the available space in the market. While there has been about a 40% reduction of sublease availability as it relates to total market availability, the lingering side effects of the pandemic remain.

It is unclear how much sublease space has expired versus how much space was absorbed by new tenants, but we can see that the total amount of sublet space continues to shrink and contribute towards the increase of space available directly from landlords and add to the market vacancy. Moving forward, more of the sublease space will continue to expire and compress availability, while continuing to inversely affect market vacancy.

AVAILABLE SPACE REPORT

PROPERTIES SPACES

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.



RECENT TRANSACTIONS | SALES



AVERY CAPITAL

11180 NW Prairie View Road
Kansas City, MO

136,910 SF



EUROFINS

8035 Quivira Road
Lenexa, KS

96,282 SF



BEHAVIORAL HEALTH ALLIES

4400 Dr. MLK Jr. Boulevard
Kansas City, MO

84,282 SF



WALKER INVESTMENTS

1 & 2 Liberty Plaza
Liberty, MO

54,441 SF



MEINERS COMPANIES

1301 Oak Street
Kansas City, MO

42,810 SF



415 DELAWARE, LLC

415 Delaware Street
Kansas City, MO

37,372 SF



MONOPOLY ACQUISITIONS

9808 E 66th Terrace
Raymore, MO

35,000 SF



BLAQOUT, INC.

300 E 36th Street
Kansas City, MO

31,000 SF



DRAKE DEVELOPMENT

8101 W 135th Street
Overland Park, KS

24,700 SF



CJ REAL ESTATE INC.

700 NE R D Mize Road
Blue Springs, MO

23,860 SF



MEHR, LLC

5001 College Boulevard
Leawood, KS

22,030 SF



BARRYVIEW HOLDINGS, LLC

7211 NW 83rd Street
Kansas City, MO

22,000 SF

RECENT TRANSACTIONS | LEASES



NETSMART TECHNOLOGIES

11500 Outlook
Overland Park, KS

111,000 SF



POPULOUS ARCHITECTS

1400 Baltimore
Kansas City, MO

108,528 SF



FIDELITY SECURITY LIFE

2600 Grand
Kansas City, MO

75,000 SF



CBOE GLOBAL MARKETS

6800 W. 115th Street
Overland Park, KS

60,000 SF



CITY OF OLATHE

17200 W. 119th Street
Olathe, KS

31,945 SF



BANK OF LABOR

6301 Glenwood Ave
Overland Park, KS

30,000 SF



SPORTING KANSAS CITY

300 Wyandotte
Kansas City, MO

28,484 SF



OTTAWA UNIVERSITY

6450 Sprint Parkway
Overland Park, KS

28,000 SF



PATTERSON FAMILY FOUNDATION

300 Wyandotte
Kansas City, MO

23,848 SF



VINCUE

1100 Main Street
Kansas City, MO

15,009 SF



REAL RESULTS HUB

10895 Lowell
Overland Park, KS

11,243 SF



HEALTHCARE IT LEADERS

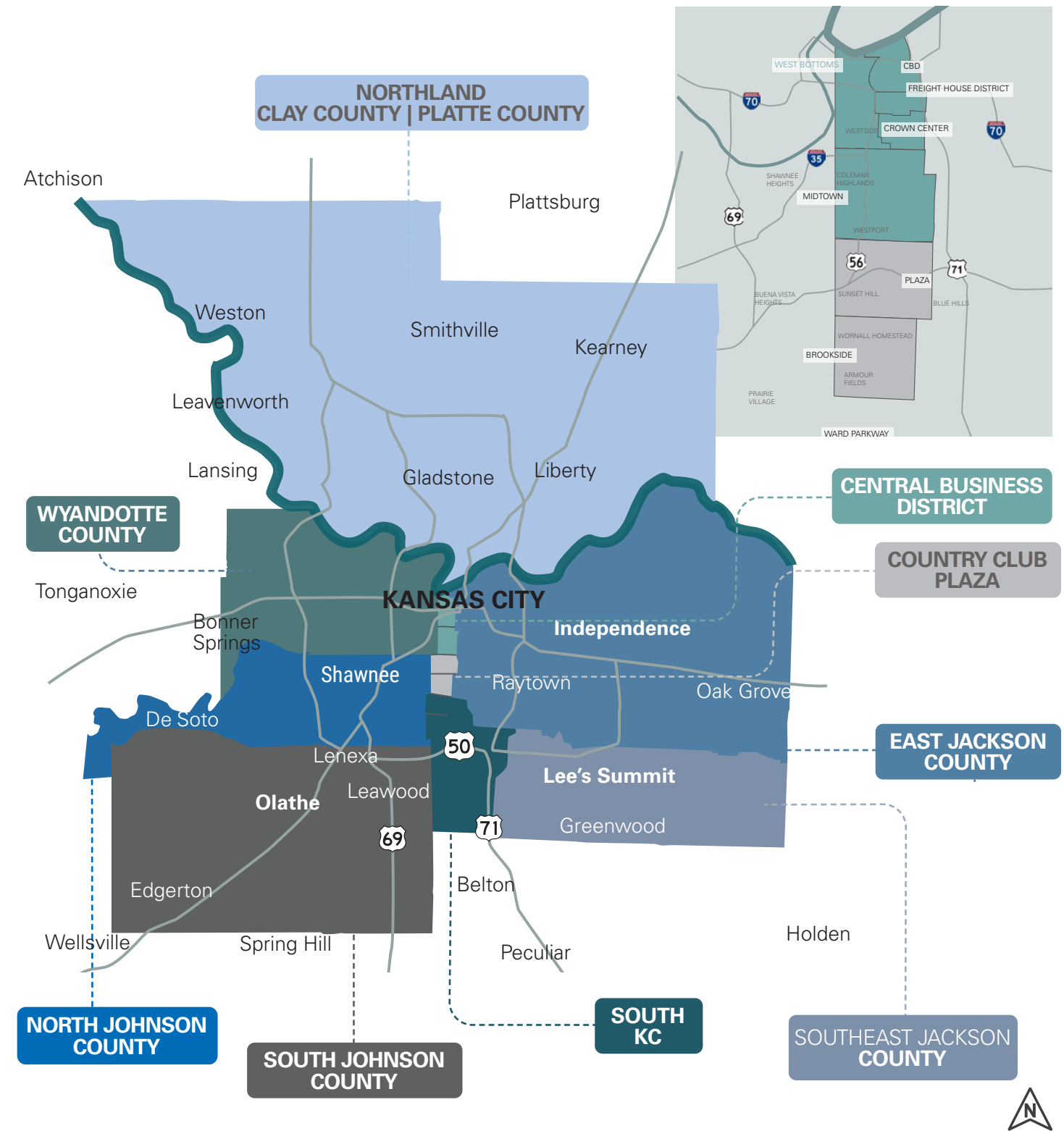
6180 Sprint Parkway
Overland Park, KS

10,520 SF

KANSAS CITY 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 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 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 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 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 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 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 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 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 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: \$5,000
Mid-Tier: \$3,000
Budget/Used-Tier: \$1,000



PRIVATE OFFICE FURNISHINGS:

High-End: \$7,500 plus
Mid-Tier: \$2,500 - \$4,000
Budget/Used-Tier: \$1,200 - \$1,900



CONFERENCE ROOM: (TABLE & CHAIRS)

High-End: \$1000 plus per seat
Mid-Tier: \$450 per seat
Budget/Used-Tier: \$325 per seat



SEATING:

High-End: \$900 plus per chair
Mid-Tier: \$350 - \$550 per chair
Budget/Used-Tier: \$300 per chair



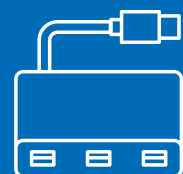
INSTALLATION COST:

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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