
3Q24

Kansas City Office Market Overview

Market Observations

Economy

- The region’s labor market remains historically strong despite evolving macroeconomic conditions. In August, the unemployment rate was 3.5%, 40 basis points below the 10-year historical average of 3.9%.
- Year-over-year, the strongest job growth has occurred in the Manufacturing and Leisure and Hospitality sectors, while job reductions have been most notable in the Business and Professional and Information sectors. Professional business and technology firms are adjusting their workforce needs. Locally, employment has declined in two of the three office-occupying sectors compared to the previous year.

Major Transactions

- Populous will relocate its headquarters and expand into 108,530 SF by subleasing three floors at 1400KC in Downtown. Originally slated to house Waddell & Reed's headquarters, Populous is expected to move in by January 2025 and join Blue Cross and Blue Shield of Kansas City in the building.
- Fidelity Security Life Insurance Company will move its headquarters from 3130 Broadway Blvd. to 2600 Grand Blvd. in Crown Center by January 2026, occupying 75,000 SF of the 250,000-SF building.
- Cboe Global Markets, Inc. signed a lease for 60,000 SF at the Overland Park Xchange building.

Leasing Market Fundamentals

- The market tightened with 267,827 SF of net absorption this quarter, bringing the total to negative 24,163 SF over the past year. This marks the second consecutive quarter of positive absorption as tenants capitalize on favorable leasing conditions.
- Since the fourth quarter of 2018, the non-owner-occupied construction pipeline has been inactive, with just 60,100 SF currently under construction.
- Vacancy decreased by 30 basis points to 17.0% and is projected to decline further toward 16.0% as the market continues to adjust. Asking rental rates are expected to ease over the coming quarters, with the market rental rate increasing 2.3% year-over-year.

Outlook

- Uncertainty in the macroeconomic outlook continues, prompting both occupiers and investors to approach transactions with heightened caution, likely affecting leasing and investment activity.
- Tenants will retain considerable leverage in lease negotiations due to the abundance of available space. Additionally, the conversion of office space to alternative uses will help reduce obsolete inventory, slowing the increase in vacancy.
- Landlords generally offer lease concessions, such as free rent or tenant improvements, rather than lowering quoted rates. However, some landlords, pressured by liquidity constraints, may now exchange more substantial concession packages for lower rents.

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 2. Leasing Market Fundamentals
 3. Submarket Statistics

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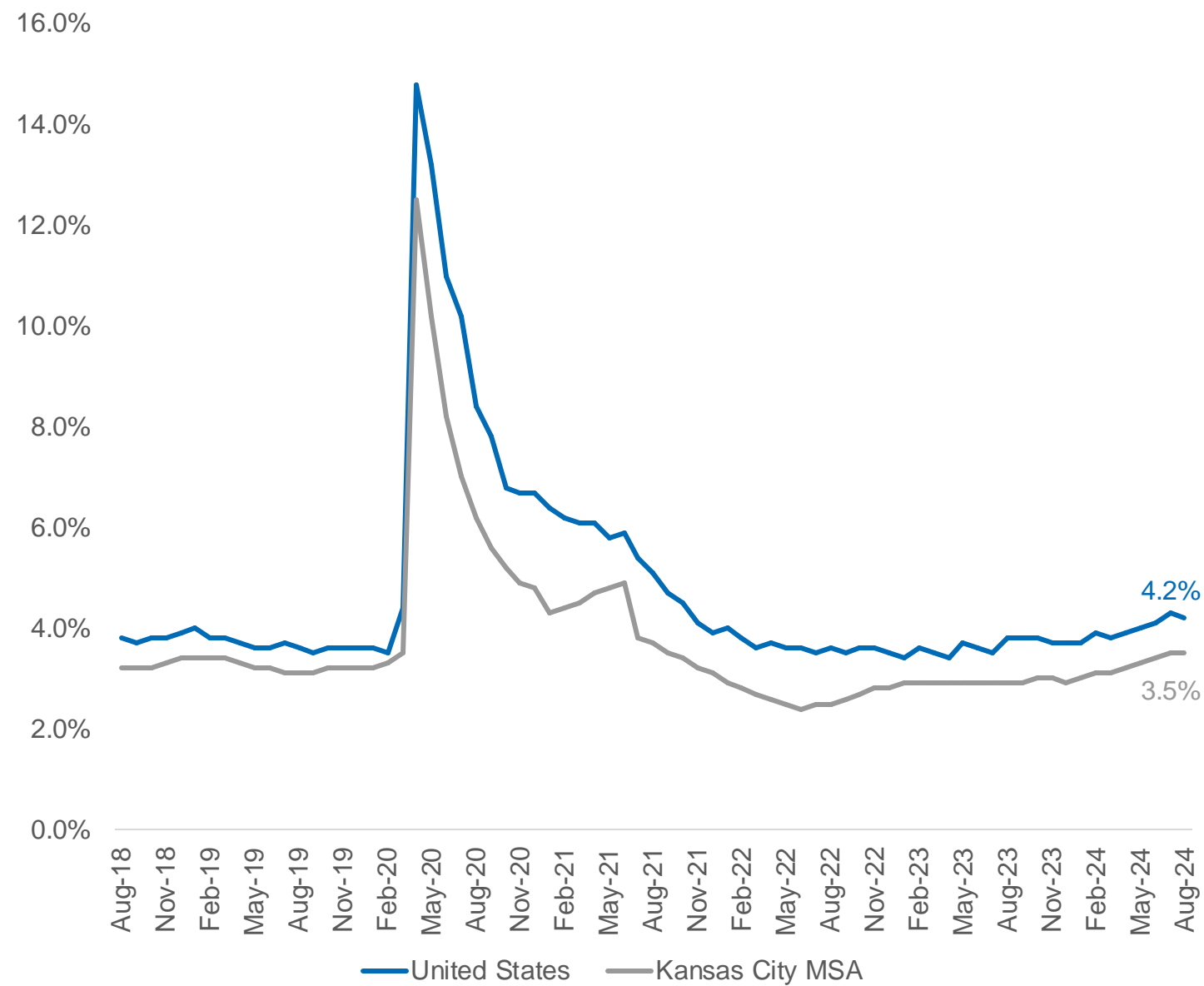
Economy



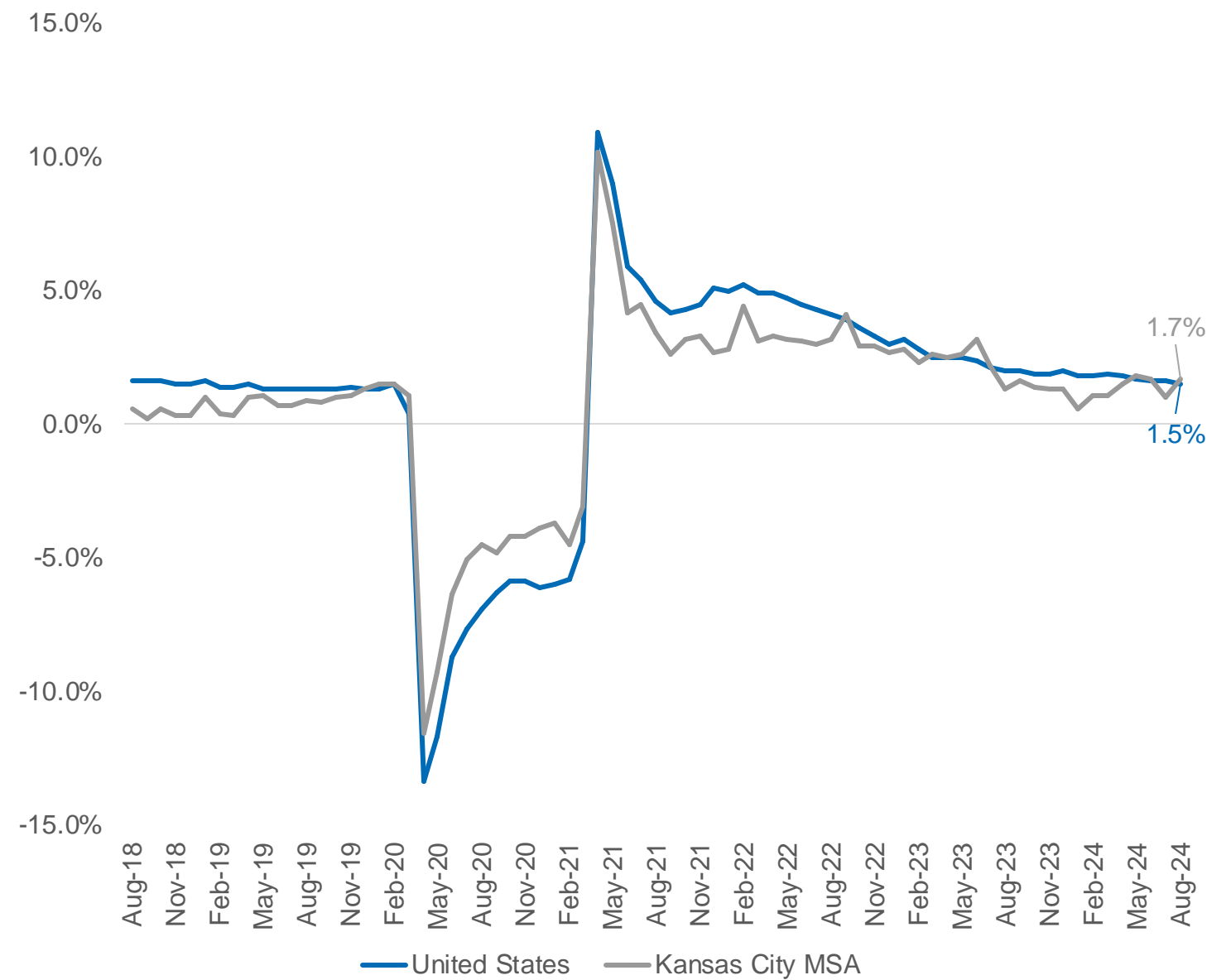
Metro Employment Trends Signal Stable Economy

The region's labor market remains robust despite elevated interest rates. Unemployment in the area has rebounded from the pandemic and remains 70 basis points below the national average. According to the Kansas City Fed Labor Market Conditions Indicators, activity held steady at 0.53, while momentum slowed slightly to negative 0.15 in August 2024.

Unemployment Rate, Non-Seasonally Adjusted



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

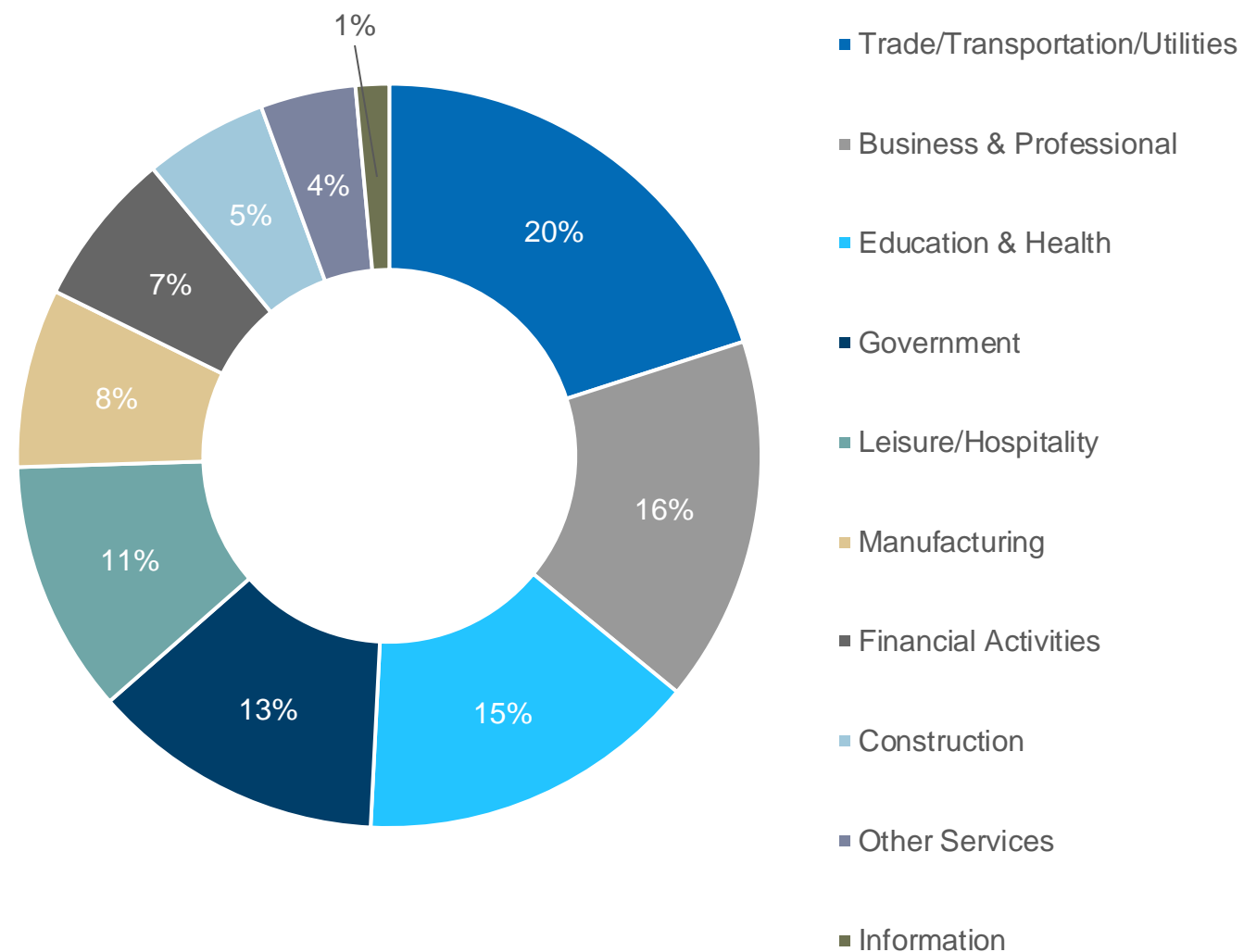


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

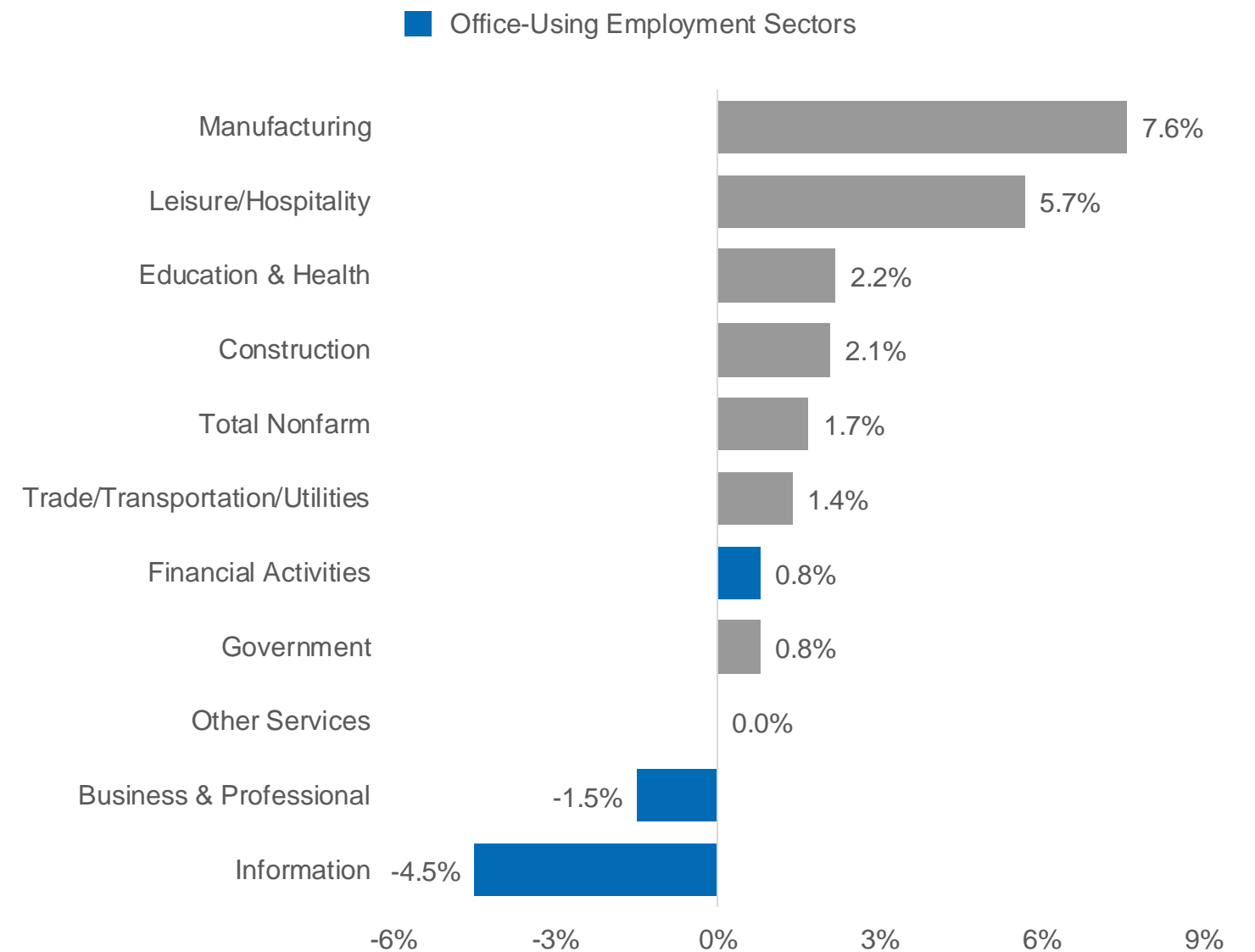
Industrial Activity and Shift in Spending Fuel Job Growth

The Manufacturing and Leisure/Hospitality sectors led regional annual job growth at 7.6% and 5.7%, respectively. Both the Leisure/Hospitality and Education & Health sectors are benefiting from a post-pandemic shift in spending from goods to services, travel, and healthcare. Kansas City's strategic location, competitive real estate costs, and skilled labor force continue to fuel industrial activity, driving positive employment growth in all three sectors. In contrast, two out of three office-occupying industries experienced annual job losses.

Employment by Industry, August 2024



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

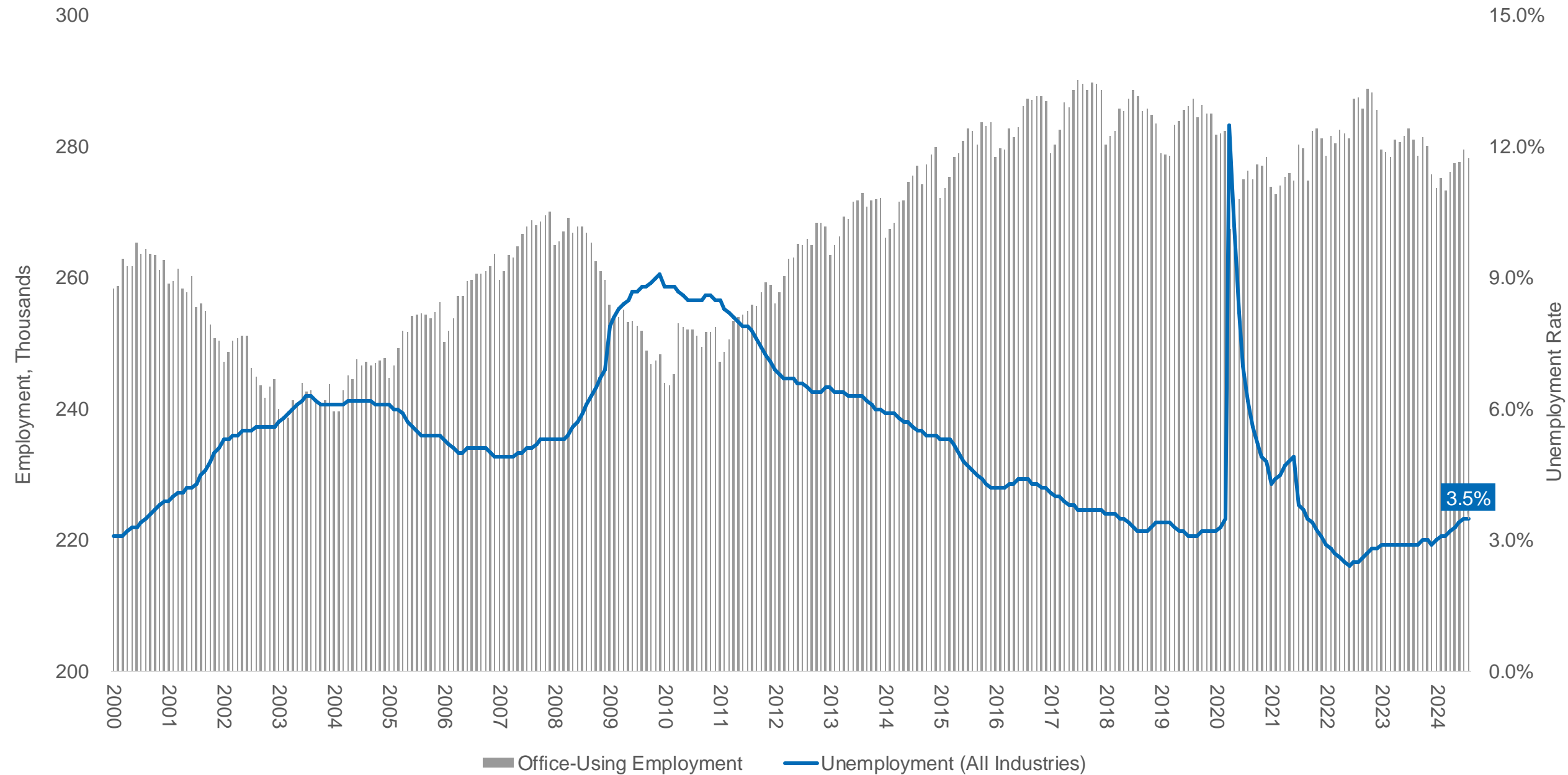


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to near pre-pandemic levels. Although there is typically a slight seasonal dip in employment at the start of each year, the region has stabilized and is projected to see growth through the remainder of 2024.

Office-Using Employment* and Unemployment Across All Industries



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

Note: August 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



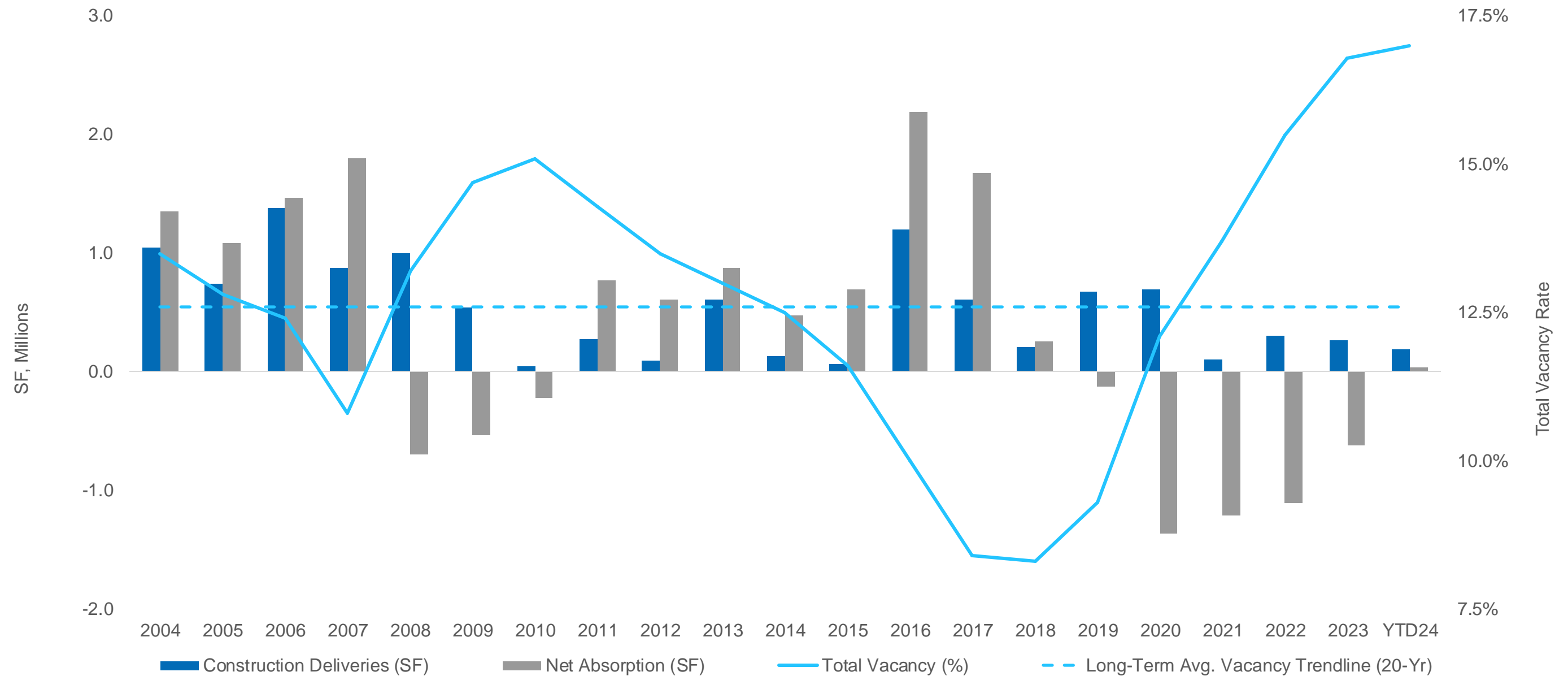
Market Overview

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Vacancy Stabilizing As Market Recalibrates

The vacancy rate increased by 0.4% to 17.0% year over year as tenants continue to adapt hybrid work strategies and reassess evolving space requirements. Office space conversions to multifamily uses, such as the 372,450-SF former AT&T Building and the 220,000-SF former Mark Twain Tower in Downtown Kansas City, will contribute to reducing vacancy rates. Tenants will retain significant leverage across most Metro submarkets, driving landlords to pursue more aggressive deal structures.

Historical Construction Deliveries, Net Absorption, and Vacancy

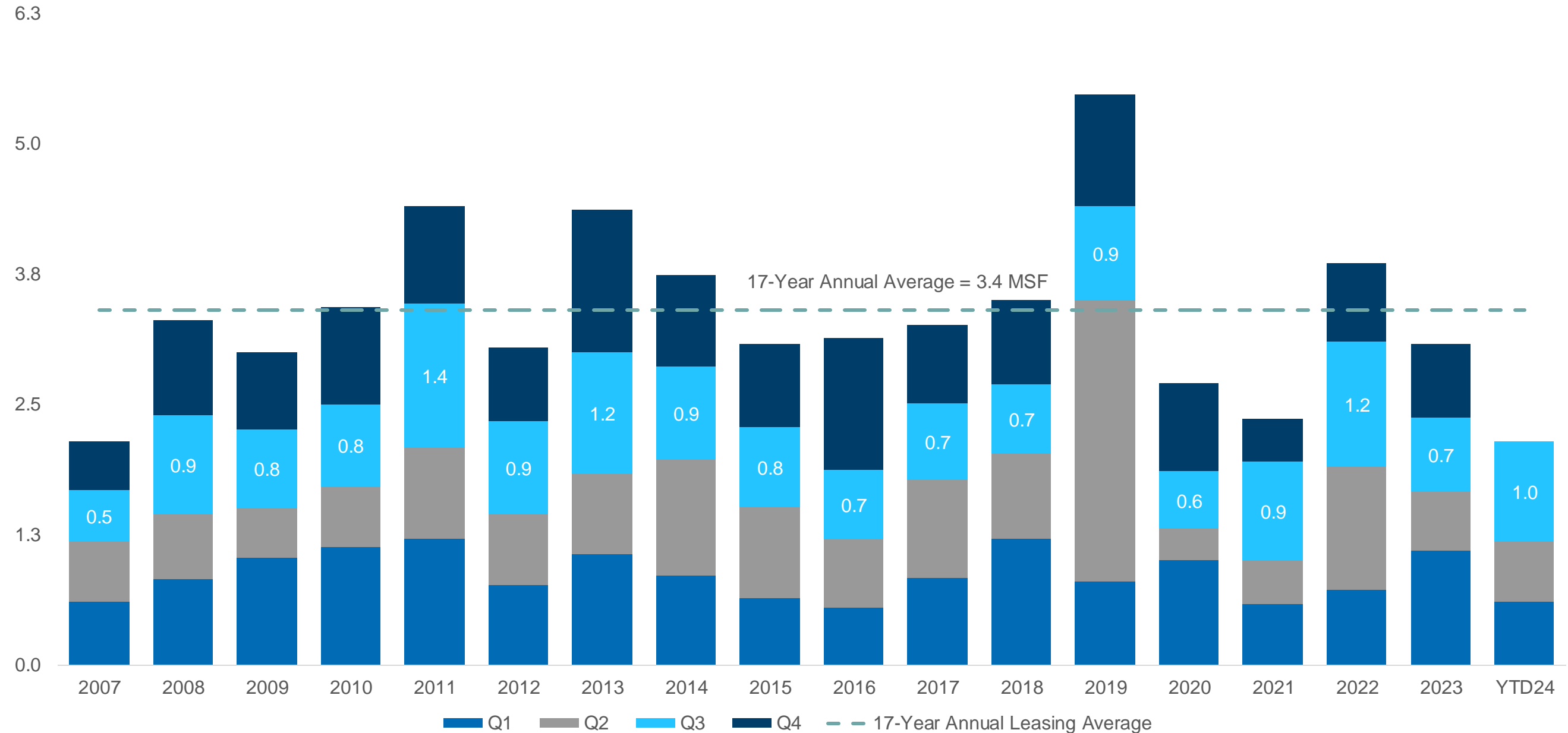


Source: Newmark Research

Leasing Activity Accelerates To Second-Highest 3Q In A Decade

Leasing activity is projected to remain above average over the next four quarters as tenants move to secure favorable, long-term lease agreements. The momentum continues, with 3Q24 marking the second-highest third-quarter leasing volume in the past decade. Kansas City's leasing activity is expected to finish 2024 near its historical annual average, in the range of 2.9 million to 3.2 million SF.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Pandemic Consequences, Financing Issues Mean Fewer Leases Signed

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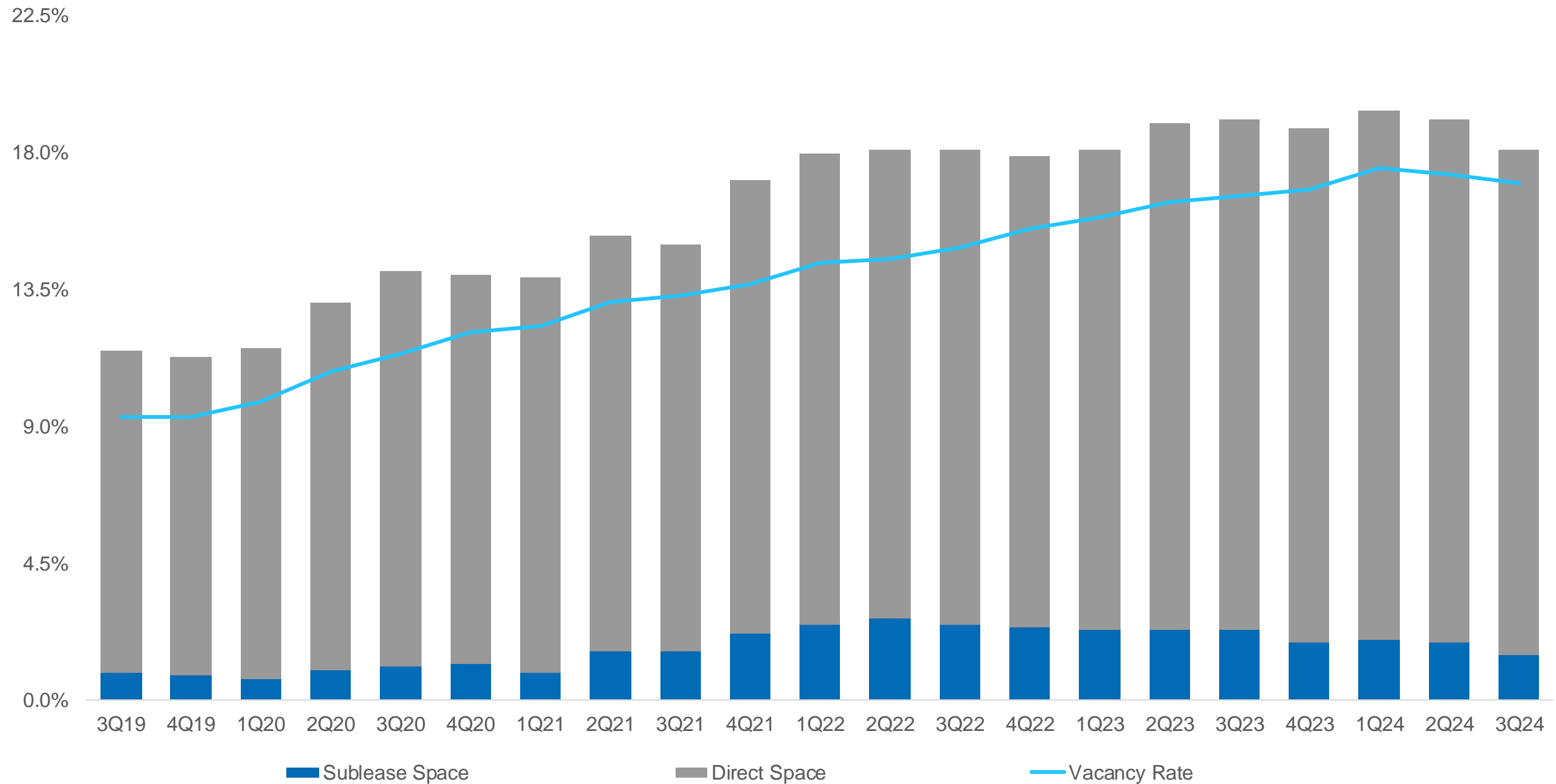
Downtown/Crown Center Recent Leasing Activity Above Pre-Pandemic Average

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Direct & Sublease Availability Trending Down In 3Q24

In the years leading up to the pandemic, many tech companies, including Oracle Cerner and T-Mobile, leased space in anticipation of future employment growth, hedging against shrinking supply and rising rents. However, with job cuts in the sector, a significant portion of available sublease space now originates from technology firms. Sublease availability is expected to gradually decline over the next four quarters.

Available Space as Percent of Overall Market



Source: Newmark Research

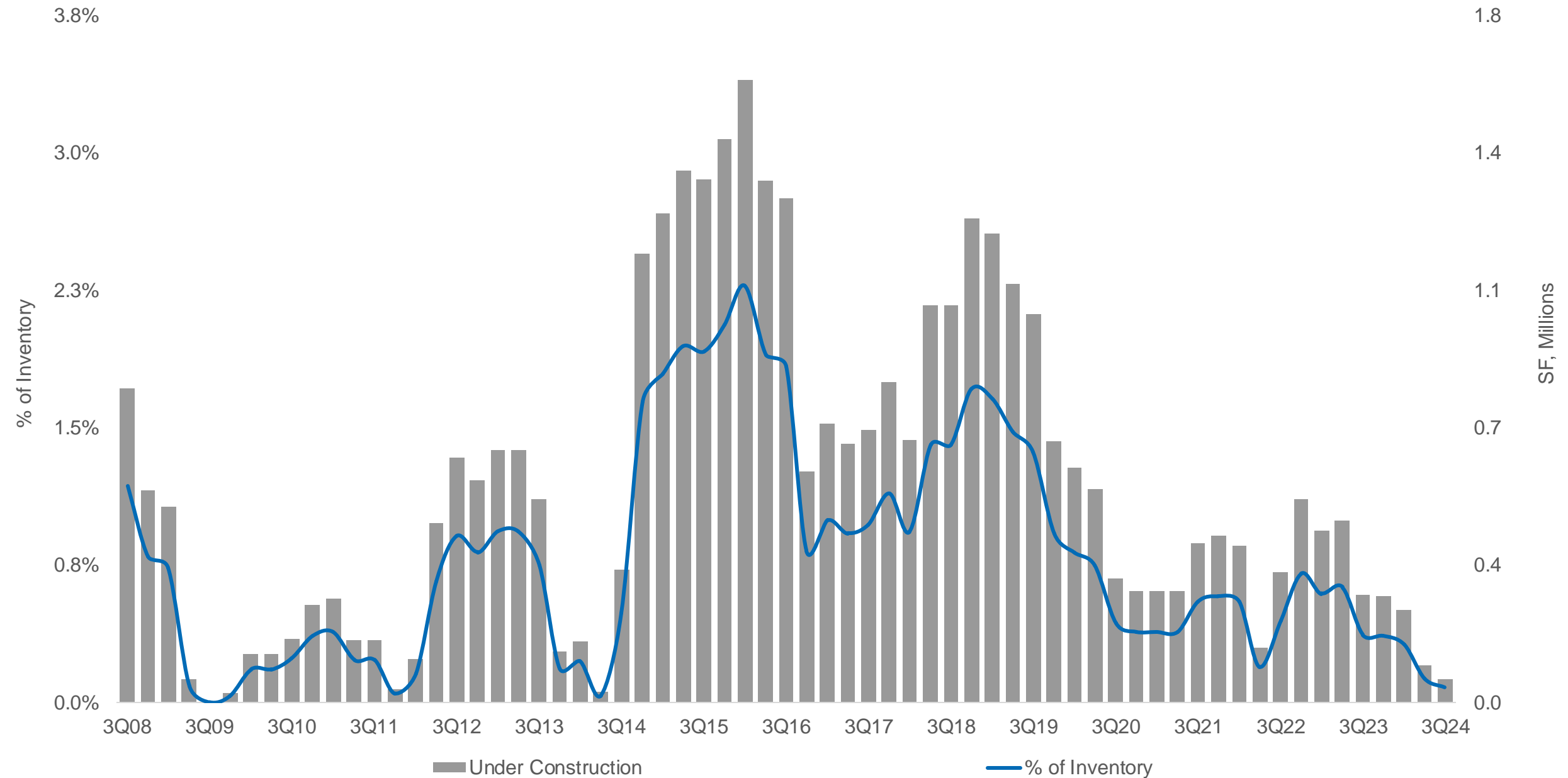
Northland Sees Largest Year-Over-Year Drop In Availability Rate

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New Construction Activity Limited As Vacancy Remains Elevated At 17.0%

Following the delivery of 1400KC at 1400 Baltimore Ave. in 2Q 2022, fully leased by Blue Cross & Blue Shield of Kansas City, and the 190,380-SF CityPlace Corporate Center IV in 4Q 2023, non-owner-occupied projects under construction have been nearly non-existent.

Office Under Construction and % of Inventory

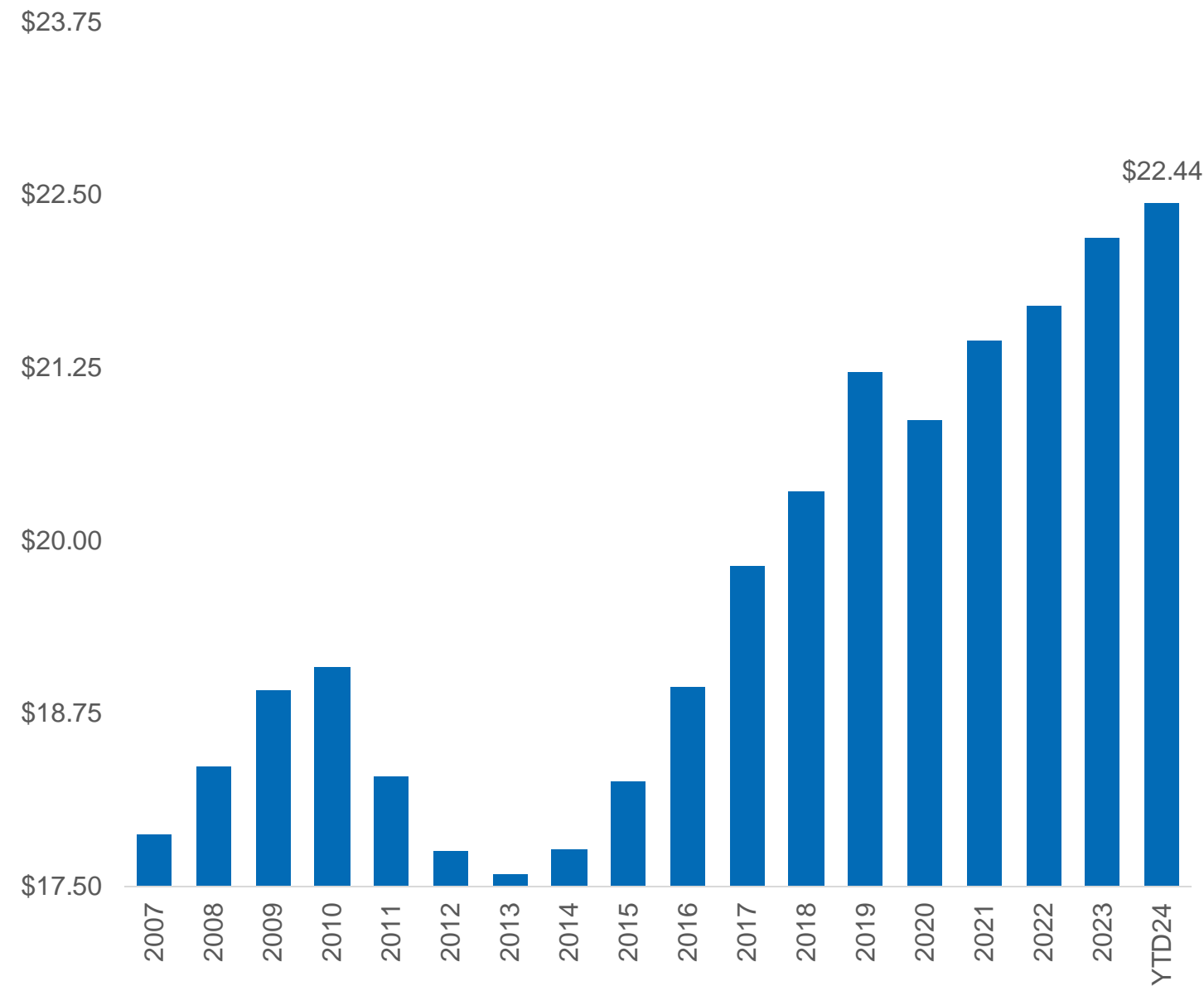


Source: Newmark Research, CoStar, Kansas City Market

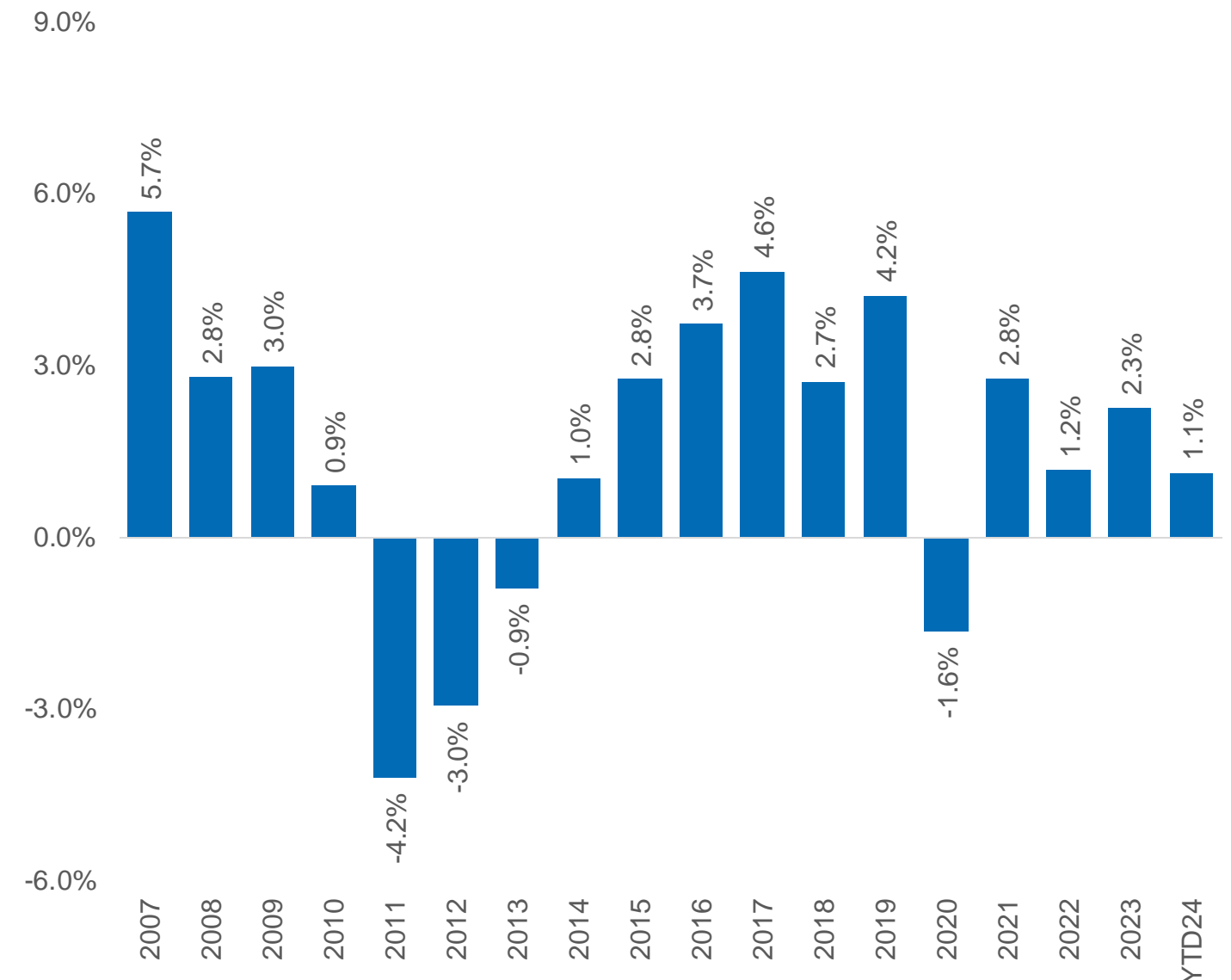
Rents Continue To Rise But Growth Slows

Overall asking rates increased year over year, climbing from \$21.93/SF to \$22.44/SF. However, this upward trend is expected to moderate as liquidity constraints push landlords to reduce rents instead of offering larger concession packages. With 12-month inflation still above average, real asking rental rate growth remains stagnant.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

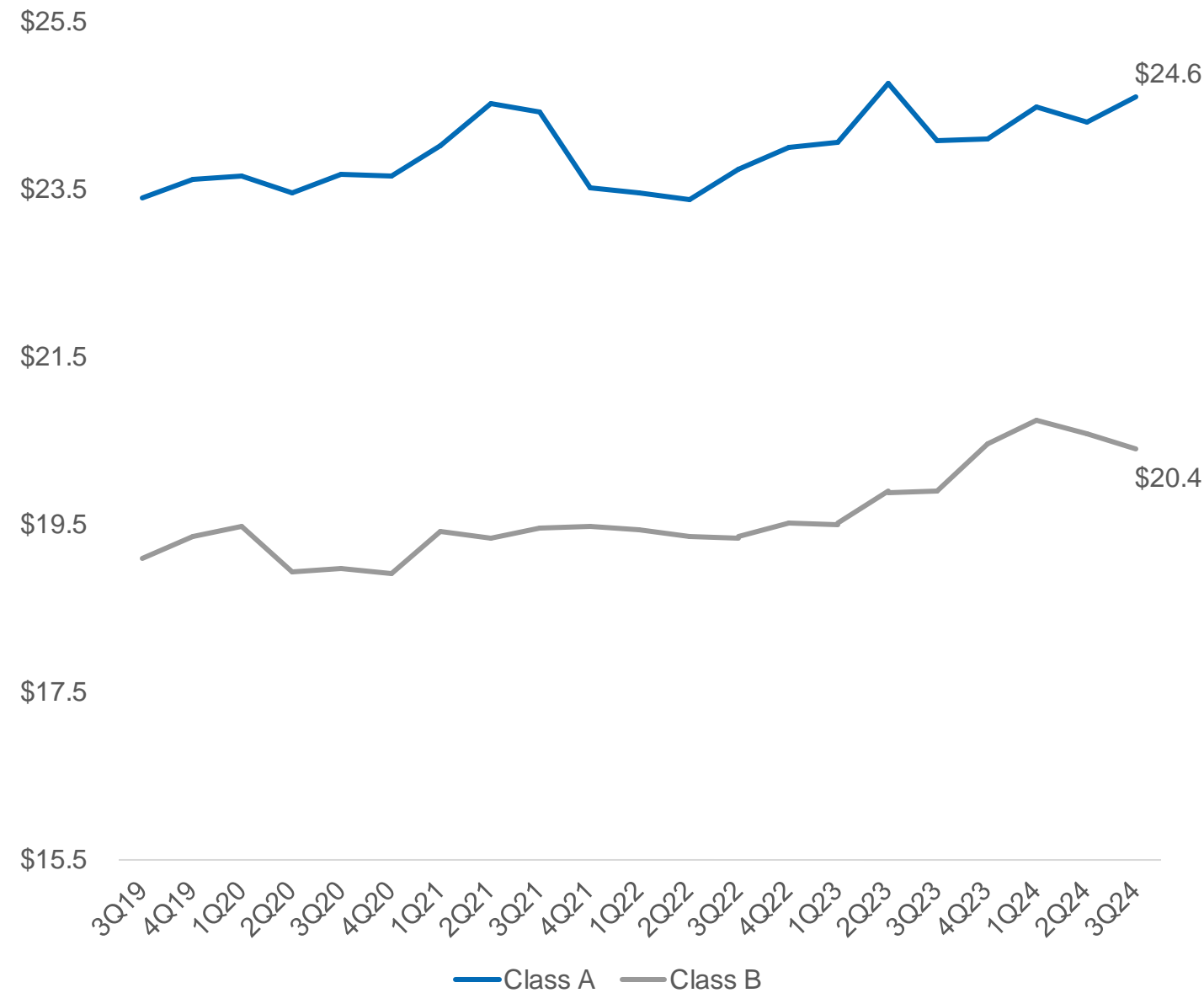


Source: Newmark Research, CoStar

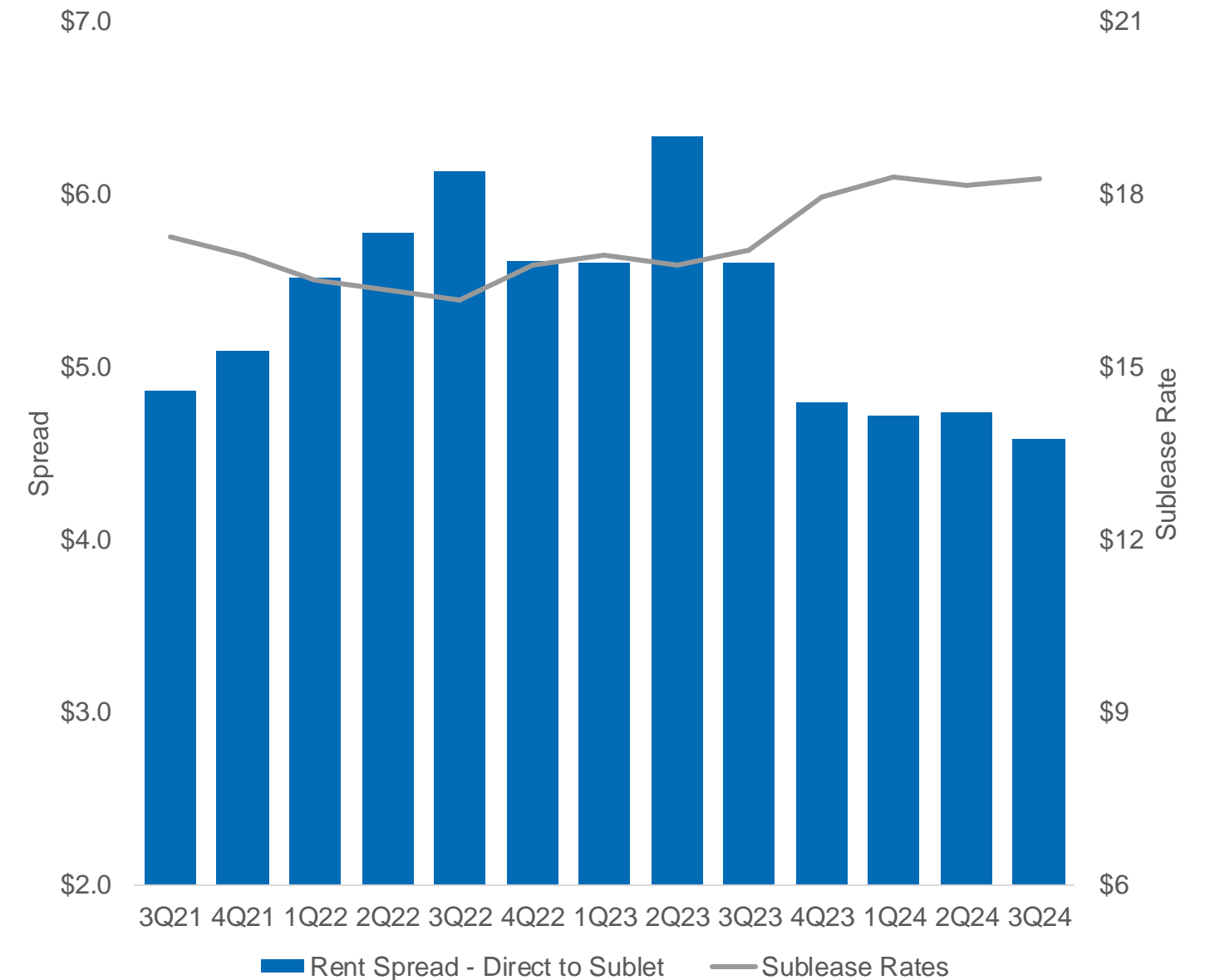
Class B Rents Up 5.4% Since 3Q22

In previous market cycles, asking rents typically adjusted downward in response to weakened demand. However, since the onset of the pandemic, rents have largely held their value, with markets like Kansas City continuing to see rent appreciation, even in secondary and tertiary areas. Sublease rents have also increased year over year, indicating rising demand as tenants move to secure favorable market conditions.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Select Submarkets Drive Overall Market Rental Rate Growth

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3Q24 Notable Leasing Activity

New or newly renovated Class A office space with premium amenities will continue to see strong demand over the next four quarters. In contrast, large multitenant Class B office buildings may face challenges as small- and mid-sized tenants consider downsizing in favor of higher-quality space options. Leasing activity is expected to increase during this period as tenants lock in favorable, long-term leasing strategies in Class A and recently upgraded Class B+ buildings.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Populous	1400 Baltimore Avenue	Downtown	Sublease	108,530
<p><i>Populous will relocate its headquarters and expand into 108,530 SF of space after announcing it will sublease three floors of the 1400KC office tower in Downtown. 1400KC was originally slated for the Waddell & Reed headquarters, then set for full occupancy by Blue Cross and Blue Shield of Kansas City. Populous is expected to move in by January 2025.</i></p>				
Fidelity Security Life Insurance Co.	2600 Grand Boulevard	Crown Center	Direct Lease	75,000
<p><i>Fidelity Security Life Insurance Company will move its headquarters, along with 340 employees, to 2600 Grand Blvd. in Crown Center by January 2026. Along with its affiliate, Forrest T. Jones & Company, FSL will relocate from its current office one mile away at 3130 Broadway Blvd. and occupy 75,000 SF across three and a half floors of the 250,000-SF building.</i></p>				
Cboe Global Markets, Inc.	6800 W 115th Street	South Johnson County	Direct Lease	60,000
<p><i>Cboe Global Markets, Inc. signed a lease for 60,000 SF on the ground floor of the 733,400-SF Overland Park Xchange building. The firm will leave its current space in the BATS building at 8050 Marshall Dr. in Lenexa and relocate to Overland Park by next summer.</i></p>				
Bank of Labor	6301 Glenwood Avenue	North Johnson County	Direct Lease	30,710
<p><i>Bank of Labor announced it signed subleased 30,710 SF of space on the third floor of the 107,730-SF multitenant building at 6301 Glenwood Ave. in Overland Park, KS. Newmark Zimmer provided tenant representation services in the transaction.</i></p>				
Patterson Family Foundation	300 Wyandotte Street	Downtown (River Market)	Sublease	23,850
<p><i>The locally-based foundation subleased 23,850 SF on the third floor of the 94,850-SF building at 300 Wyandotte St. in the River Market district. The sublease runs through the end of November 2029.</i></p>				

Source: Newmark Research

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Submarket Statistics



Submarket Statistics: All Classes, Class A, Class B

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