
4Q24

Kansas City Office Market Overview

Market Observations

Economy

- The region’s labor market remains historically strong despite evolving macroeconomic conditions. November’s unemployment rate of 3.6% was 30 basis points below the 10-year historical average of 3.9%.
- Year-over-year, job growth has been most pronounced in the services sector, which continues its recovery from the pandemic. Leisure and Hospitality led all industries in job gains over the past 12 months, followed by Education and Health and Construction.
- Professional business and technology firms are recalibrating their labor needs, with two of the three office-occupying sectors reporting year-over-year employment growth.

Major Transactions

- Stinson LLP renewed its lease for 120,480 SF at 1201 Walnut Street, reducing its footprint by approximately 5,950 SF.
- TREKK Design Group will relocate its headquarters, along with 120 employees, to 1310 E 104th St. in Executive Hills East by June 2025. The new space will more than double the size of the firm’s existing 16,500-SF headquarters.
- Jedson Engineering has committed to a 10-year lease for 15,010 SF at 2300 Main in Crown Center, with a move-in anticipated by February 2025.
- POAH has committed to an eight-year lease for 11,700 SF at 2300 Main in Crown Center, with a move-in anticipated by February 2025.

Leasing Market Fundamentals

- The market recorded 41,729 SF of net absorption during the quarter, reducing the year-to-date total to negative 323,575 SF. This marks the second consecutive quarter of positive absorption, driven by tenants taking advantage of favorable leasing conditions.
- The non-owner-occupied construction pipeline has remained inactive since the fourth quarter of 2018, with just 60,100 SF currently under construction.
- Vacancy rates decreased by 10 basis points to 16.7% and are projected to decline further toward 16.0% as the market continues to stabilize. Asking rental rates are anticipated to ease in the coming quarters. Year-over-year, asking rental rates increased by 2.1% in 2024.

Outlook

- Uncertainty in the macroeconomic outlook persists, leading occupiers and investors to approach transactions with greater caution, which is likely to impact leasing and investment activity.
- Tenants are expected to maintain significant leverage in lease negotiations due to the high volume of available space. The conversion of office properties to alternative uses will help reduce obsolete inventory, tempering further vacancy increases.
- While landlords typically offer lease concessions, such as free rent or tenant improvement allowances, instead of lowering quoted rates, some landlords facing liquidity pressures may now opt to provide more substantial concessions in exchange for reduced rents.

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

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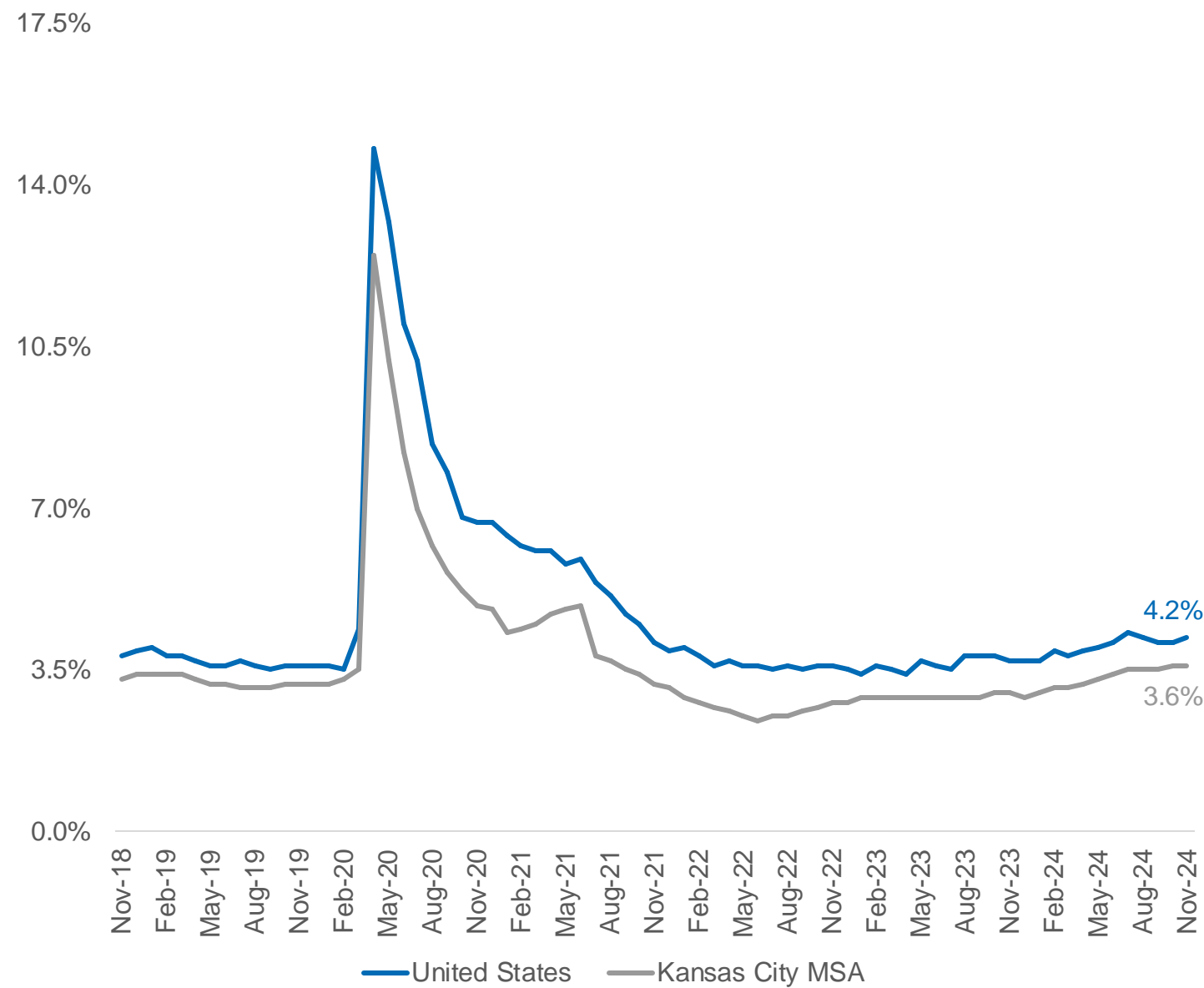
Economy



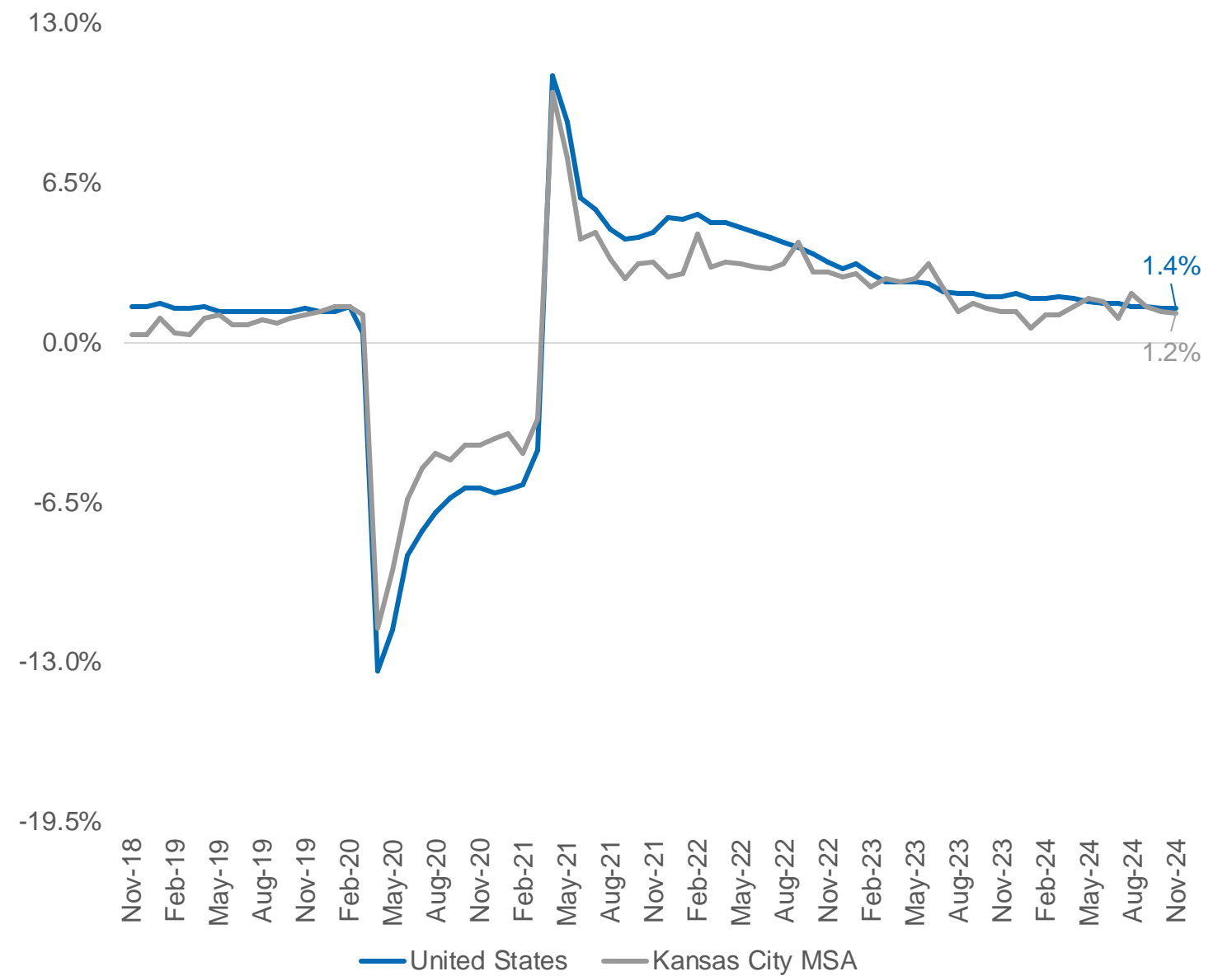
Metro Employment Signals Stable Economy

The region's labor market remains stable following a recent 25-basis-point cut to the Federal Reserve's benchmark interest rate. Unemployment in the area has recovered from the pandemic and is 60 basis points below the national average. According to the Kansas City Fed Labor Market Conditions Indicators, activity held steady at 0.42, while momentum increased to 0.25 in November 2024.

Unemployment Rate, Non-Seasonally Adjusted



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

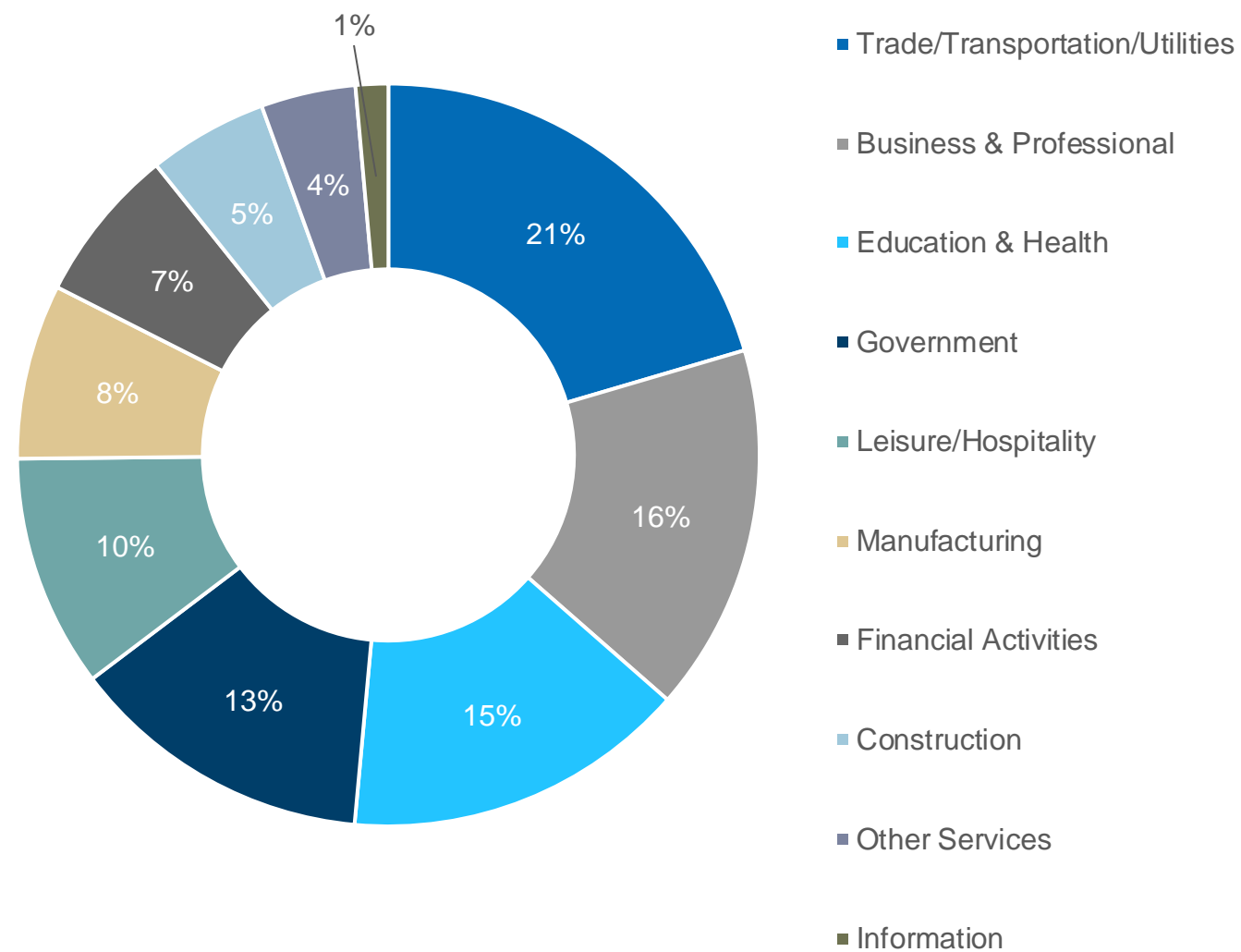


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

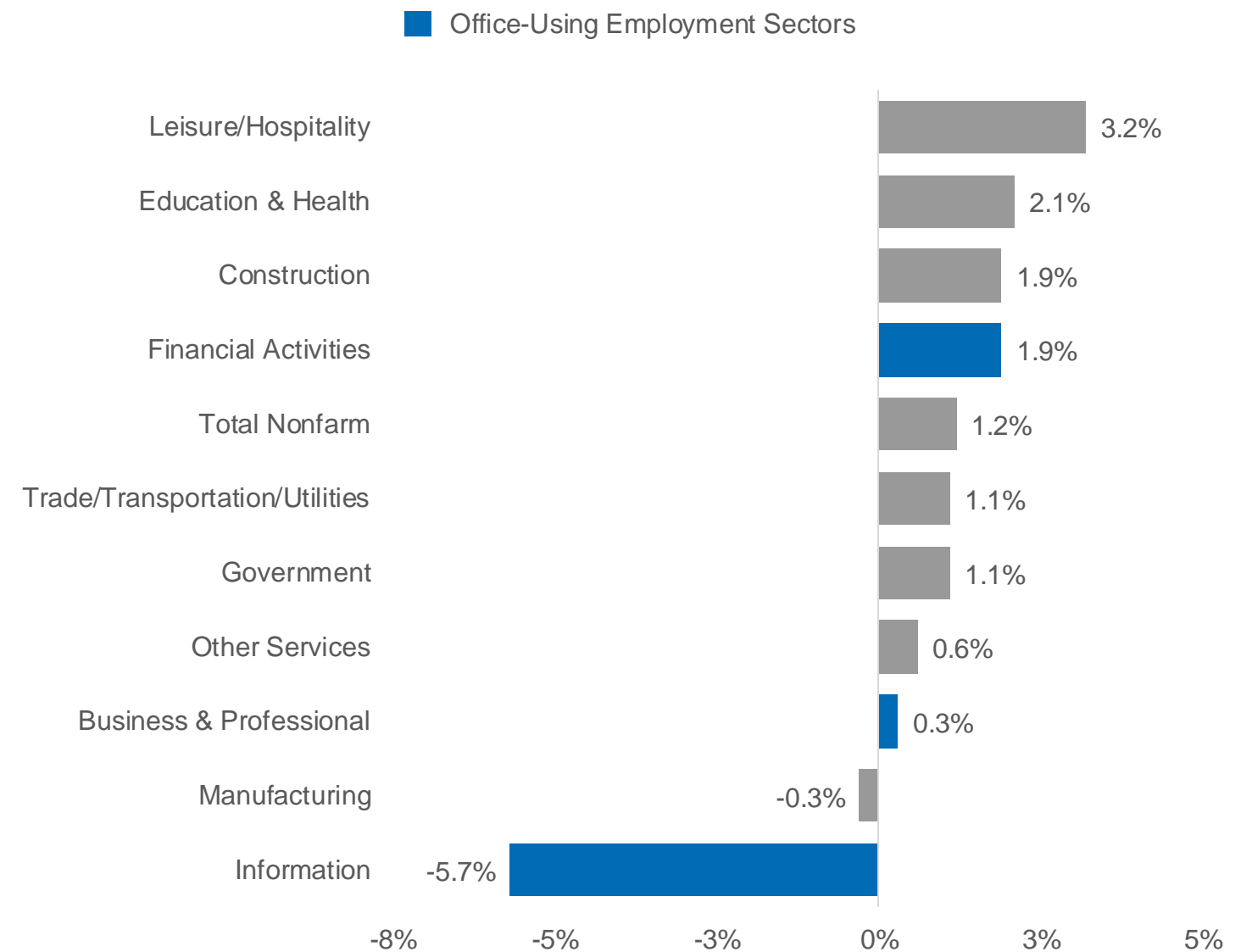
Industrial Activity, Shift in Spending Fuel Job Growth

The Leisure/Hospitality and Education & Health sectors led regional annual job growth at 3.2% and 2.1%, respectively, driven by a post-pandemic shift in spending toward services, travel, and healthcare. Kansas City's strategic location, competitive real estate costs, and skilled labor force continue to bolster industrial activity, supporting positive employment growth in two of three industrial sectors. Additionally, two of three office-occupying industries reported annual job gains.

Employment by Industry, November 2024



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

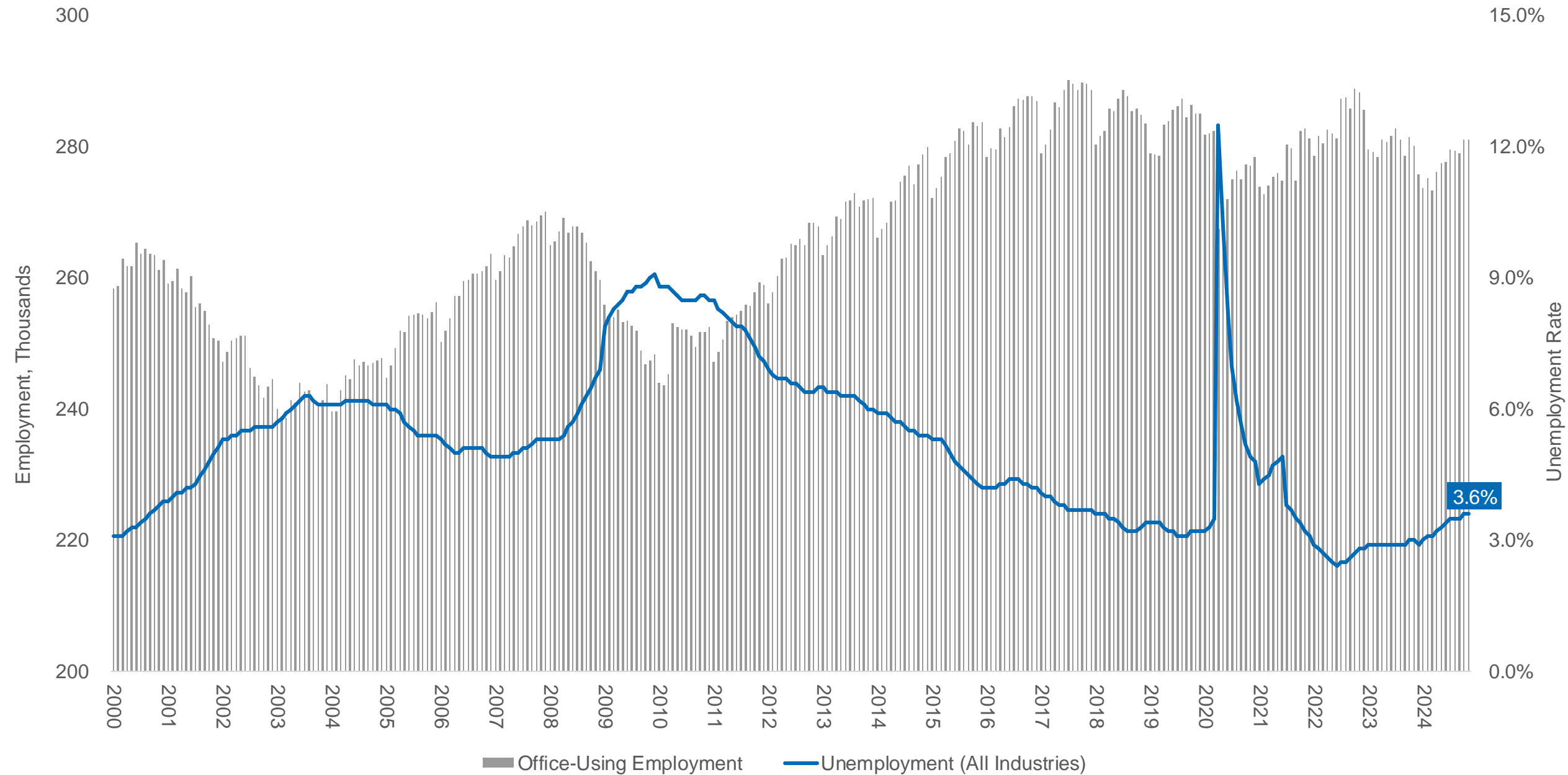


Source: U.S. Bureau of Labor Statistics, Kansas City MSA

Overall Office Employment Increases in 2024

The number of office jobs has rebounded to near pre-pandemic levels. While a slight seasonal dip in employment is typical at the start of each year, the region has stabilized and is projected to experience growth through 2025.

Office-Using Employment* and Unemployment Across All Industries



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

Note: November 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



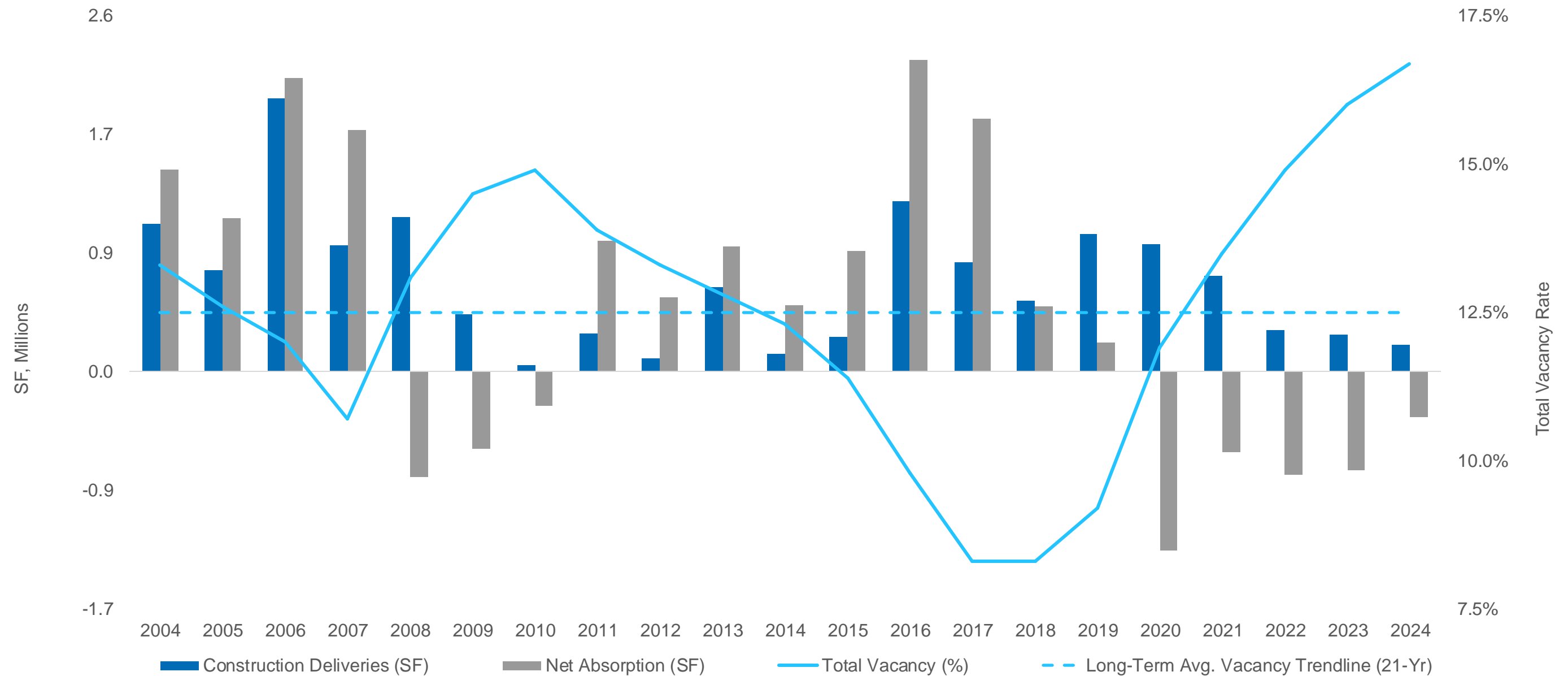
Market Overview

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Vacancy Stabilizing As Market Recalibrates

The vacancy rate rose by 0.7 percentage points year over year to 16.7% as tenants adapt to hybrid work strategies and reassess evolving 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, are expected to help reduce vacancy rates. Tenants will continue to hold significant leverage across most Metro submarkets, prompting landlords to adopt more competitive deal structures.

Historical Construction Deliveries, Net Absorption, and Vacancy

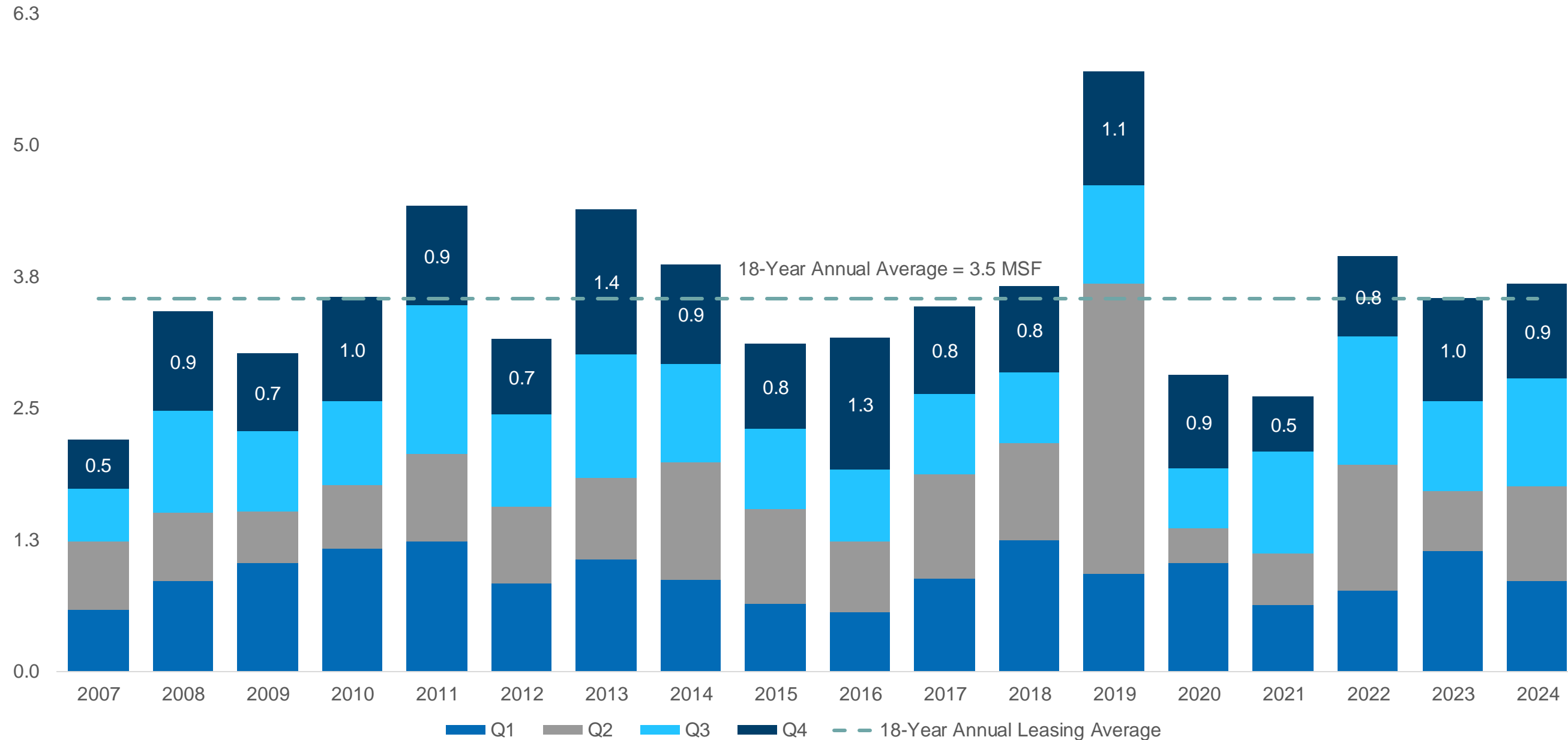


Source: Newmark Research

Leasing Activity Accelerates Above 18-Year Historical Average

Leasing activity is expected to remain above average over the next four quarters as tenants pursue favorable long-term lease agreements. Momentum persists, with fourth-quarter 2024 achieving the second-highest leasing volume for the period in the past five years. Kansas City's 2025 leasing activity is projected to total between 3.7 million and 4.1 million SF.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Pandemic Consequences, Financing Issues Mean Fewer Leases Signed

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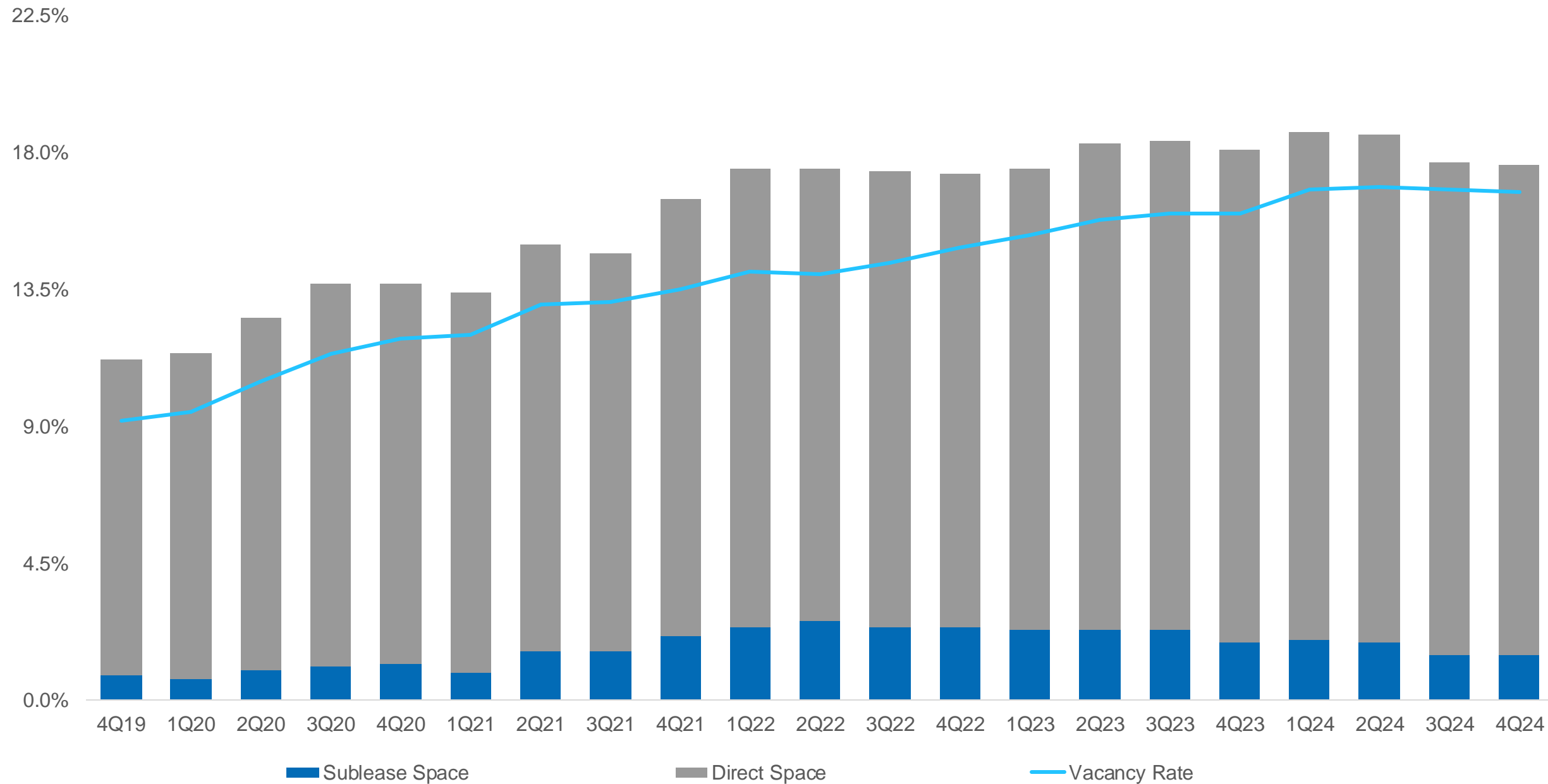
Downtown/Crown Center Recent Leasing Activity Above Pre-Pandemic Average

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Direct & Sublease Availability Trending Down In 4Q24

In the years preceding the pandemic, many tech companies, including Oracle Cerner and T-Mobile, leased space in anticipation of future employment growth, mitigating risks of tightening supply and rising rents. However, recent job cuts in the sector have led technology firms to contribute significantly to the available sublease inventory. Sublease availability is projected to decline gradually over the next four quarters.

Available Space as Percent of Overall Market



Source: Newmark Research

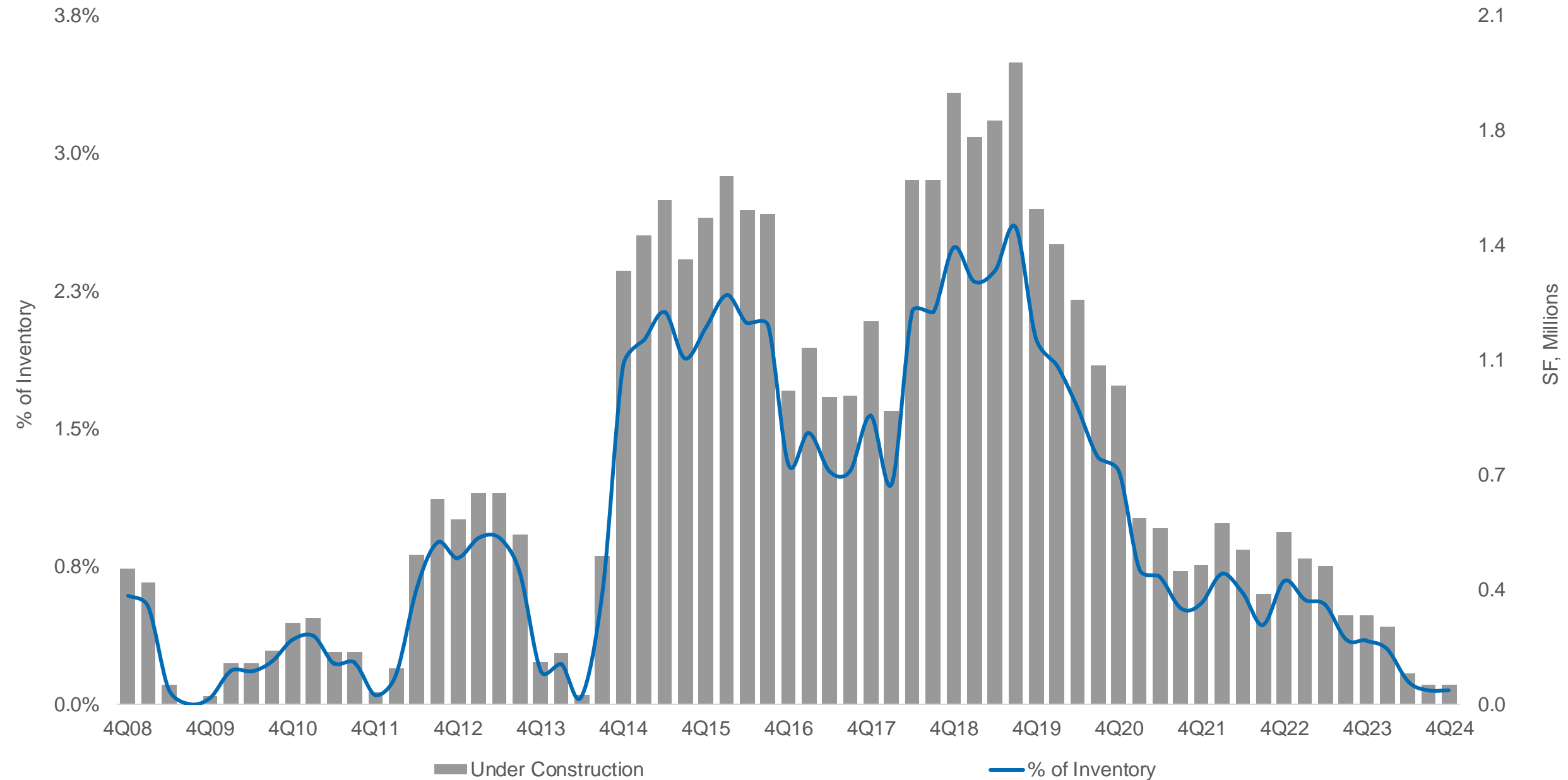
Northland Sees Largest Drop In Availability Rate

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New Construction Activity Limited As Vacancy Remains Elevated At 16.7%

Following the delivery of 1400KC at 1400 Baltimore Ave. in the second quarter of 2022 and the 190,380-SF CityPlace Corporate Center IV in the fourth quarter of 2023, non-owner-occupied construction projects have been nearly absent.

Office Under Construction and % of Inventory

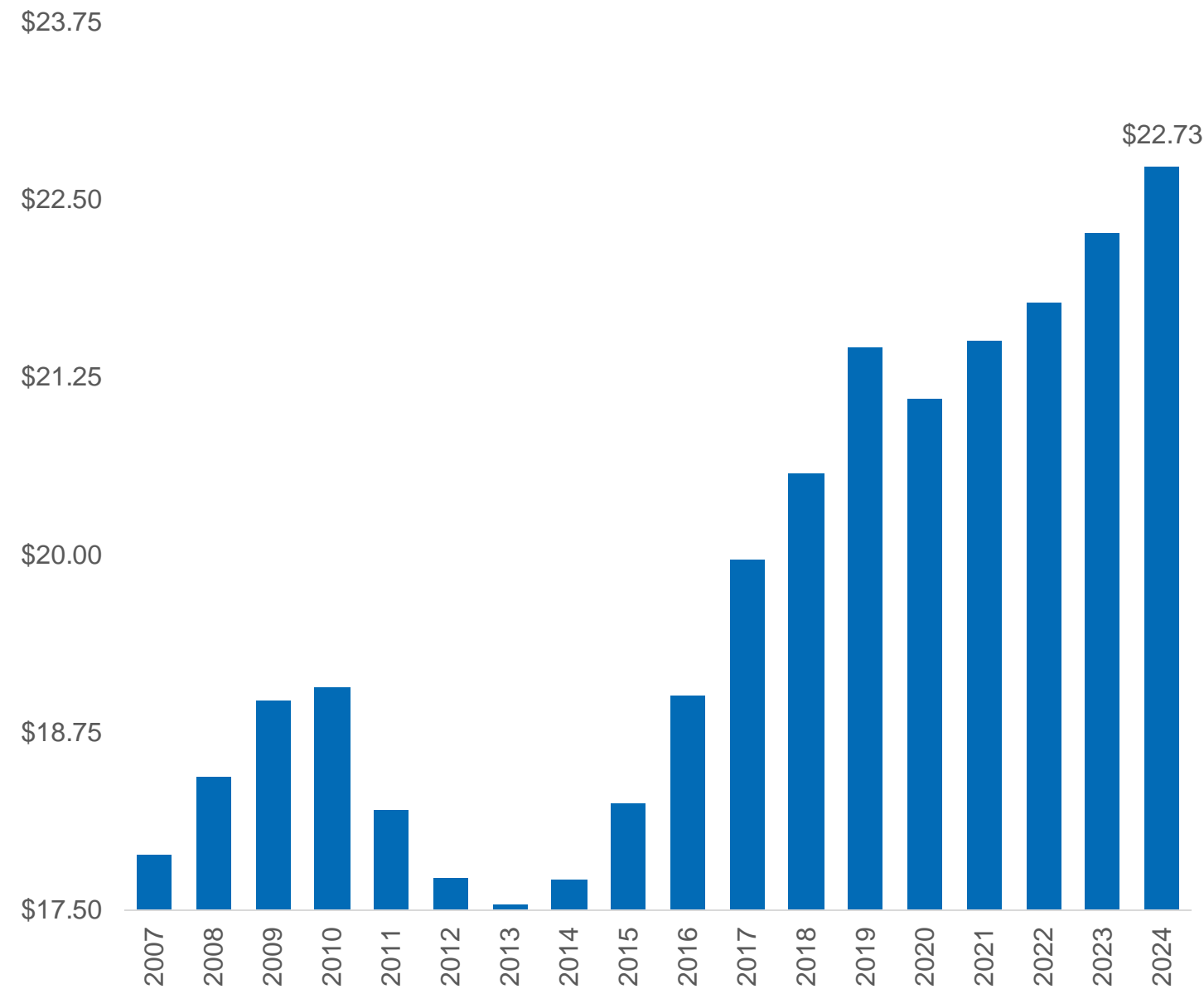


Source: Newmark Research, CoStar, Kansas City Market

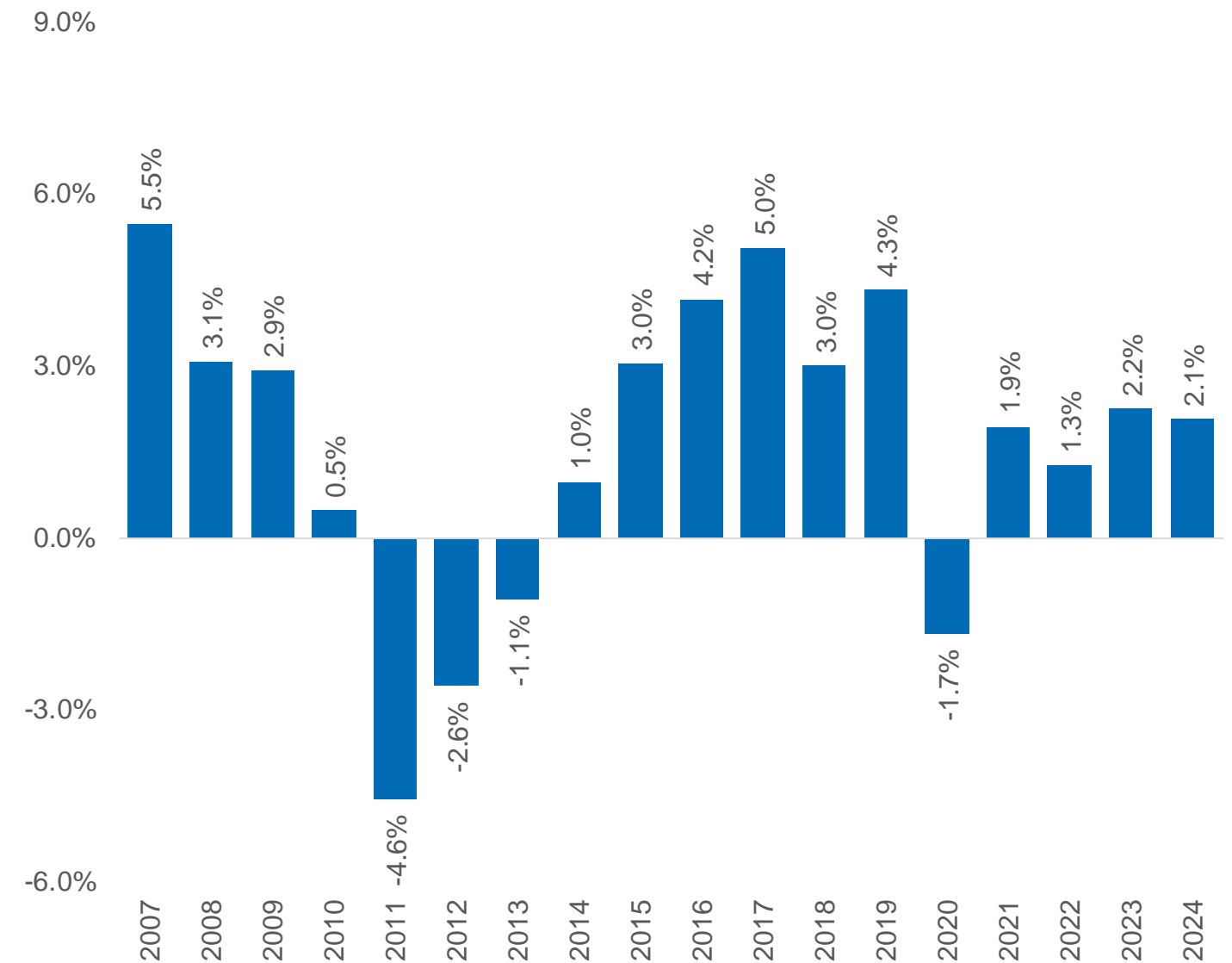
Rents Continue Upward Trajectory, Though Growth Expected To Slow In 2025

Overall asking rates rose year over year, increasing from \$22.27/SF to \$22.73/SF. However, this upward trend is expected to level off as liquidity constraints prompt landlords to lower rents rather than expand concession packages. With 12-month inflation remaining above average, real asking rental rate growth has stayed stagnant.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

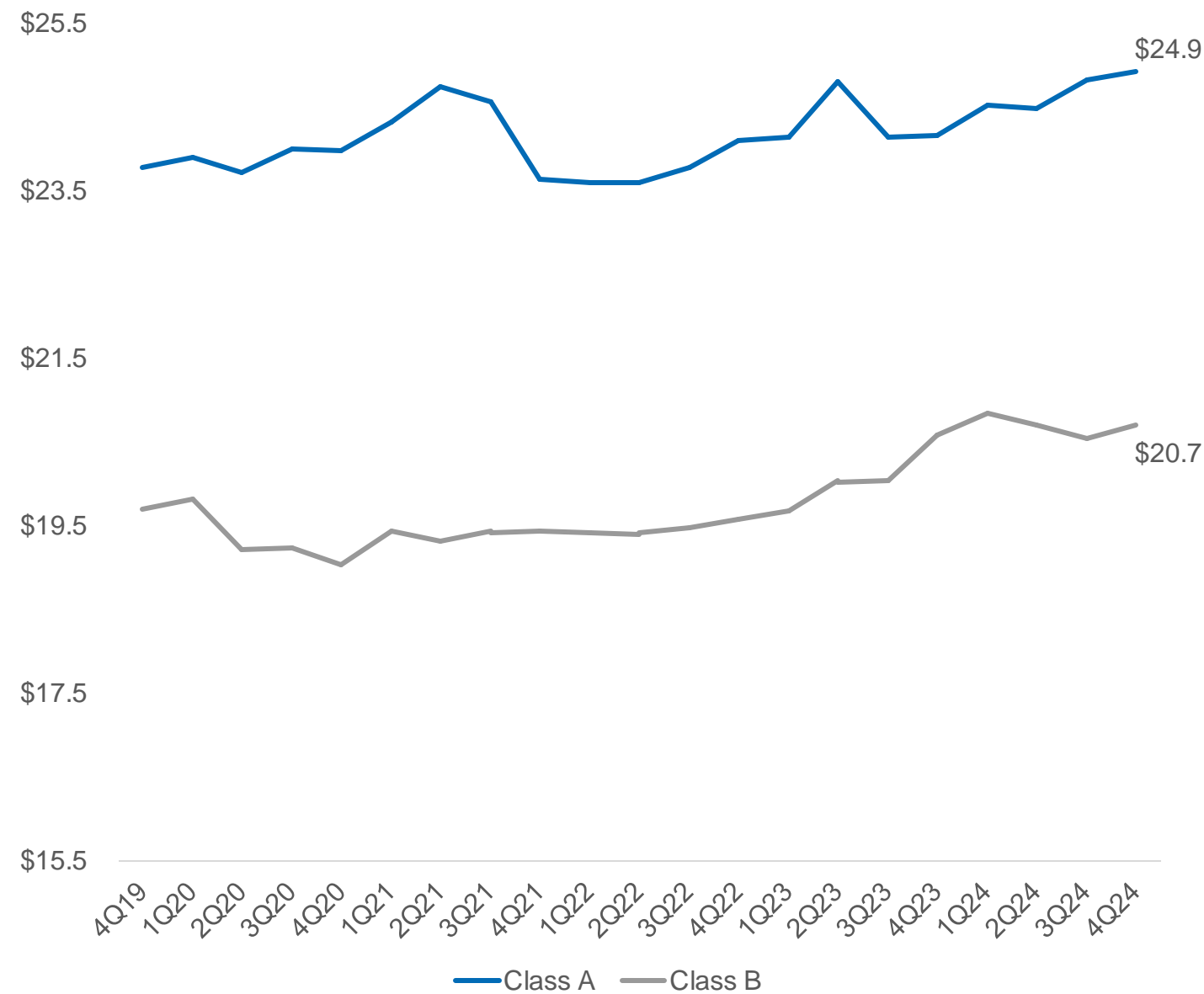


Source: Newmark Research, CoStar

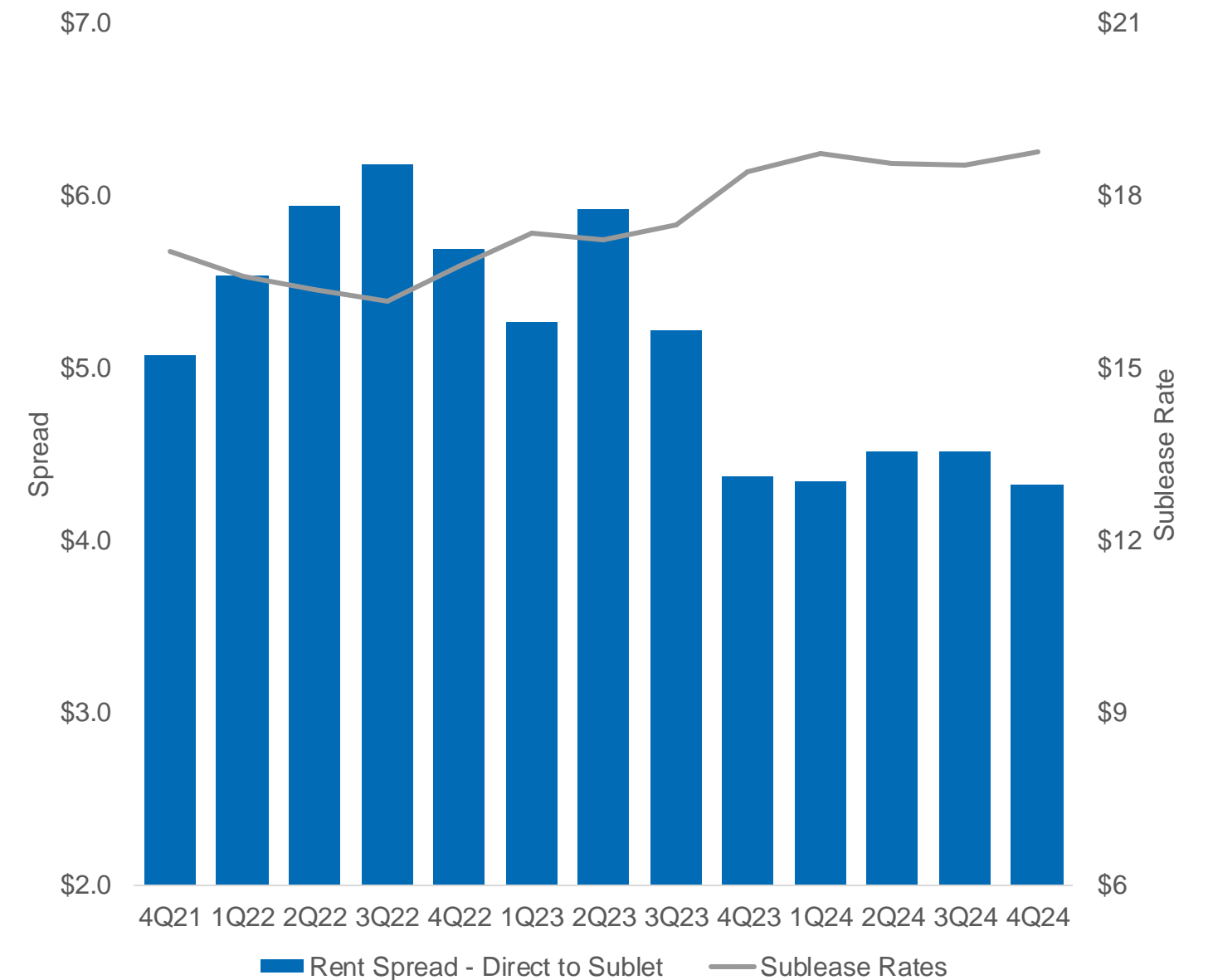
Class B Rents Up 5.8% Since 4Q22

In past market cycles, asking rents typically declined in response to weakened demand. Since the onset of the pandemic, however, rents have largely maintained their value, with secondary and tertiary markets like Kansas City experiencing continued rent appreciation. Sublease rents have also risen year over year, reflecting increased demand as tenants capitalize on favorable market conditions.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Specific Submarkets Drive Overall Market Rental Rate Growth

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4Q24 Notable Leasing Activity

New or newly renovated Class A office space with premium amenities is expected to maintain strong demand over the next four quarters. In contrast, large multitenant Class B office buildings may encounter challenges as small and mid-sized tenants downsize in favor of higher-quality options. Leasing activity is anticipated to grow during this period as tenants secure favorable long-term strategies in Class A and upgraded Class B+ buildings.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Stinson LLP	1201 Walnut Street	Downtown (CBD)	Renewal (Reduction)	120,480
<i>In October 2024, Stinson renewed its lease for 120,480 SF at 1201 Walnut Street, reducing its footprint by approximately 5,950 SF.</i>				
TREKK Design Group, LLC	1310 E 104th Street	South Kansas City	Direct Lease	40,800
<i>TREKK Design Group will relocate its headquarters and 120 employees to 1310 E 104th St. in Executive Hills East by June 2025. The new space will more than double the size of the firm's current 16,500-SF headquarters.</i>				
Jedson Engineering	2300 Main Street	Crown Center	Direct Lease	15,010
<i>Jedson Engineering has signed a 10-year lease for 15,010 SF on the fourth floor of 2300 Main in Crown Center, with a move-in anticipated by February 2025. The asking starting rent was listed at \$23.00/SF prior to leasing.</i>				
Preservation of Affordable Housing	2300 Main Street	Crown Center	Direct Lease	11,700
<i>Preservation of Affordable Housing (POAH) has signed an eight-year lease for 11,700 SF on the sixth floor of 2300 Main in Crown Center, with a move-in anticipated by February 2025. The asking starting rent was listed at \$23.00/SF prior to leasing.</i>				
Storage Solutions	2301 McGee Street	Crown Center	Direct Lease	10,230
<i>Storage Solutions signed a lease for 10,230 SF on the fifth floor of the 211,000-SF 2301 McGee building, with a move-in anticipated by May 2025. The asking starting rent was listed at \$22.50/SF prior to leasing.</i>				

Source: Newmark Research

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Submarket Statistics



Submarket Statistics: All Classes, Class A, Class B

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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