

INVESTMENT FORECAST

Office
Kansas City

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

South Johnson County Powers Local Office Gains; Investors Respond to Suburban Leasing Trends

Absorption outside the CBD reflects growing demand for higher-end space. Kansas City's office sector entered 2022 following a recent stint of encouraging performance. Across suburban submarkets, traditional office-using firms absorbed 1.2 million square feet during the third quarter of last year, for the strongest three-month total since 2007. Rising demand was preceded by the number of office-using positions surpassing the pre-pandemic peak. While the job count retreated in subsequent months, another round of gains is anticipated, led by growth in South Johnson County. Here, tech-related expansions and relocations are fueling demand for newer or renovated space. Last year, TreviPay and Industrial Accessories each inked midsize leases in Overland Park, with Optiv subleasing nearly 50,000 square feet in adjacent Leawood. Heightened demand for space in South Johnson County has the potential to spur a wave of project starts this year, as nearly 3 million square feet of space is proposed here. As the metro's largest submarket by inventory, the area will significantly impact metrowide fundamentals with its positive performance this year, allowing overall absorption to exceed delivery volume.

Mid-tier trading dictates deal flow. Investors that focused on Midwest markets with proportionally high numbers of traditional office-using positions are pursuing listings in Kansas City. The metro's ability to attract tech firms is expanding the local buyer pool, which largely consists of private investors that target sub-\$5 million transactions. Smaller Class B properties in South Johnson and East Jackson counties account for the largest percentage of deal flow, with these buildings trading at high-4 to mid-5 percent minimum returns. In both locales, pricing below \$200 per square foot is available for 1960s-to-1990s-vintage assets. Home to one of the lowest vacancy rates among major submarkets, Midtown also attracts investors seeking Class B assets. Future Kansas City Streetcar stops in the area have the potential to bolster the attractiveness of nearby offices.

2022 Market Forecast

- Employment** up 2.7%

Traditional office-using firms grow staffs by 1,500 positions this year, contributing to the 30,000 jobs added metrowide.
- Construction** 425,000 sq. ft.

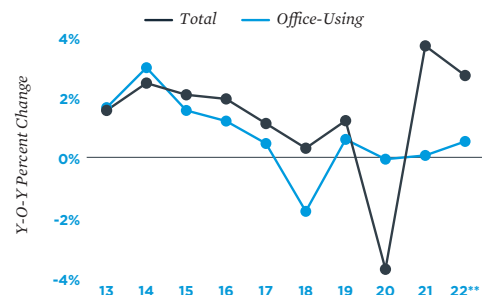
Office inventory expands by just 0.3 percent in 2022, with 1400KC, a high-rise in Downtown Kansas City, accounting for more than half of the space slated for completion.
- Vacancy** down 20 bps

Corporate expansions support positive absorption this year, compressing vacancy to 11.1 percent. The reduction in availability negates the 20-basis-point increase registered in 2021.
- Rent** up 1.5%

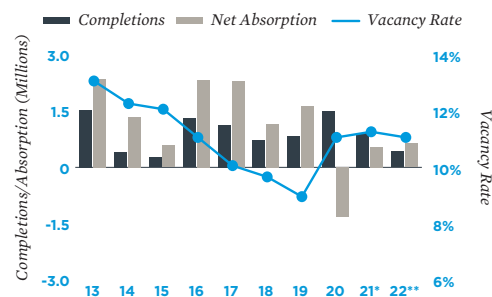
Positive leasing provides owners the impetus to push asking rents at an improved pace this year, elevating the metro's average marketed rate to \$19.80 per square foot.
- Investment**

In-migration lifts demand for health services, supporting investors' appetite for medical office buildings at a time when subsector vacancy is in the 7 percent range.

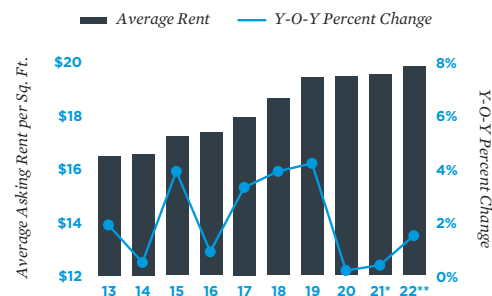
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.