

MARKET REPORT

Office
Kansas City Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

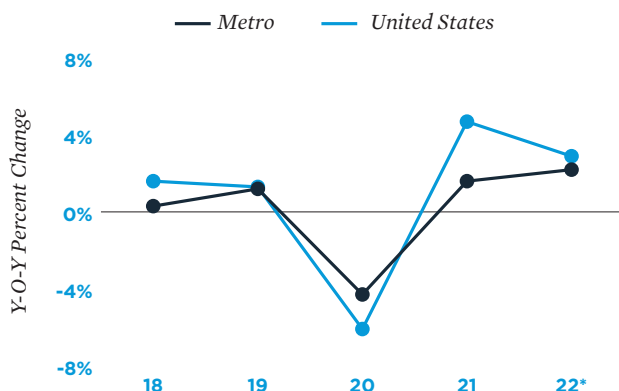
2Q/22

Downtown-Adjacent Areas Witness Renewed Interest from Firms Prioritizing Costs

Close-in suburbs record encouraging leasing. The number of leases signed in the first five months of 2022 has surpassed last year's leasing for the same period. Recent activity was highlighted by WellSky, a health IT company headquartered in Overland Park, which inked a 132,000-square-foot commitment. Among larger submarkets, North of the River has recorded the greatest drop in vacancy during the first three months of 2022, as locally discounted rents and a dearth of new inventory are supporting demand for existing space. The FBI's sizable lease execution in the submarket late last year may draw additional firms to the locale in the near term, namely those that support government operations. The promising performance of these areas signals a potential turning point for downtown-adjacent submarkets.

Declining rents entice tenants. Kansas City's inventory rose by 2.5 million square feet over the last two years. This stock expansion and falling demand during the health crisis lifted metro vacancy to its highest point since 2014. In response, developers are tentatively pulling back, with delivery volume slated to decline this year. Several properties coming online in 2022 are fully leased as of May, but available speculative space poses potential near-term headwinds. A supply overhang may force landlords to discount rents or offer concessions, decisions that will prevent a notable shift in annual rent growth from occurring. At year-end, the metro's mean asking rate will trail nearby markets, a potential attractant to cost-cutting firms.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**24,000
JOBS**

will be created

EMPLOYMENT:

Kansas City's year-end job count will land only 7,000 positions below the previous high in January 2020. Traditional office-using positions are expected to remain below the previous benchmark also, as 3,000 jobs are added this year.



**650,000
SQ. FT.**

will be completed

CONSTRUCTION:

Following six years of elevated construction, supply additions moderate in 2022, as inventory expands by 0.5 percent. Most of the space slated for delivery will come online in Downtown, North Johnson County and Midtown.



**20
BASIS POINT**

increase in vacancy

VACANCY:

After a 310-basis-point rise over the course of the prior two years, the metro will record positive absorption in 2022. Supply additions nevertheless continue to outpace demand, lifting vacancy to 12.2 percent.



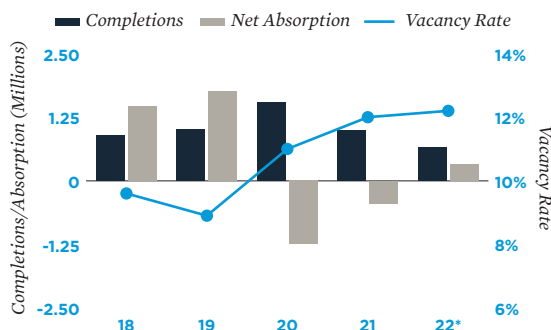
**0.2%
INCREASE**

in asking rent

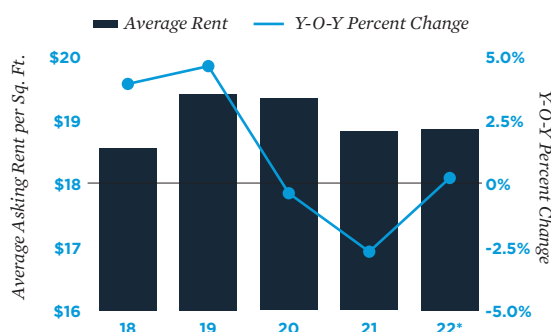
RENT:

The average asking rent is expected to reach \$18.85 per square foot by the end of 2022, only a slight increase from the end of 2021. Downward-trending downtown rents contribute to this slow advance.

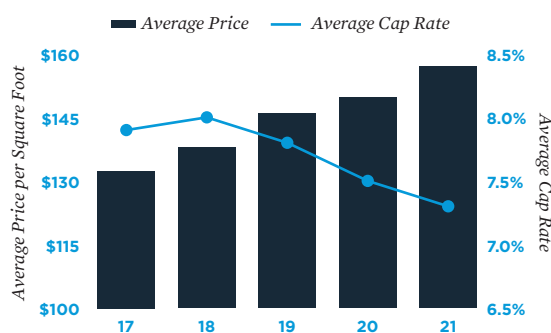
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

737,000 sq. ft. completed

- The trailing 12-month period ended in March saw a construction drop compared to the previous span when 1.6 million square feet was delivered, one of the largest four-quarter totals on record.
- North Johnson County welcomed 195,000 square feet in the first quarter, expanding local stock by 3.9 percent, the most of any submarket.



VACANCY

200 basis point increase in vacancy Y-O-Y

- Metro vacancy reached 12.6 percent in March of this year, the highest rate since 2014. Availability is more pronounced in Downtown and South Johnson County, which are the metro's two largest submarkets by stock.
- Class A vacancy rose 300 basis points to 17.1 percent, while availability in the Class B/C segment increased 150 basis points to 10.8 percent.



RENT

4.5% decrease in the average asking rent Y-O-Y

- Kansas City noted its largest year-over-year drop in asking rent since at least 2008, lowering the average marketed rate to \$18.78 per square foot.
- Despite an overall decrease, six of the metro's 13 major submarkets noted rent growth. East Jackson County reported the largest gain at 5.1 percent, elevating the local mean asking rate to \$15.44 per square foot.

Investment Highlights

- Transaction velocity grew over the last four quarters, supporting a 12 percent boost in pricing. At \$173 per square foot in March, the metro's average sales price is one of the highest among major Midwest markets. Kansas City's 7 percent mean cap rate is relatively low for the region but above the national average, which may entice yield-driven investors from the coasts.
- Deal flow improved across all property tiers during the past year, highlighted by Class B/C trading. The subsector's below market-rate vacancy suggests tenant demand for lower cost space is noteworthy, and that upside potential exists within the segment.
- Sales activity in the CBD notably improved last year, with buyers honing in on buildings priced in the low- to mid-\$100 per square foot range. Just outside of the core, the metro's largest submarket by inventory, South Johnson County, saw one of the highest numbers of documented trades, with pricing comparable to Downtown.
- Medical office trading stayed elevated last year, particularly in North of the River, North Johnson County and East Jackson County. Class B facilities were the most prevalent, with cap rates ranging from mid-6 percent to low-7 percent.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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