

MARKET REPORT

Office
Kansas City Metro Area

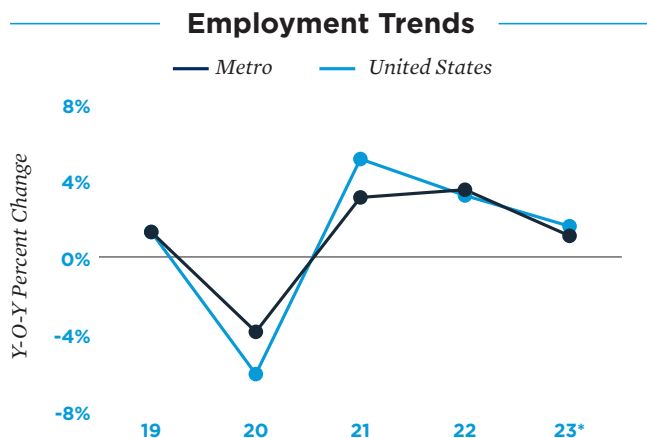
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4Q/23

Pockets of Demand Stand Out as Changing Work Habits, Corporate Consolidations Add Hurdles

Key office zones see demand uptick. Kansas City offices continue to contend with challenges imposed by remote work habits, with the amount of occupied square feet down about 3.9 million between the end of 2019 and midyear 2023. While more office space is being relinquished than absorbed at a market level, select areas nevertheless reported increasing demand over the past year ended in June. Properties on the Missouri side of South Kansas City, as well as in St. Joseph and along the I-29 and I-35 Corridors, recorded positive net absorption, reflecting a general preference among tenants for suburban floor plans. Major leases signed so far this year include a 104,000-square-foot commitment by Hill's Pet Nutrition in Aspiria, where Black & Veatch also took up 77,000 square feet. These and other leases in the Overland Park area will help offset the local impact of trucking firm Yellow's bankruptcy and local office closure.

Cerner merger highlights challenge for metro. Corporate restructuring is impacting the market. Cerner's consolidation has increased availability in the Kansas City, KS submarket. Here, vacancy jumped from 6.4 to 20.5 percent in the first quarter of 2023 as the healthcare software firm exited a 648,000-square-foot Kansas Speedway-adjacent office. While this particular space is being considered for a senior housing redevelopment, conversions will not be viable for all properties impaired by consolidation. New business formation will bring demand, but the process will take time.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**13,000
JOBS**
will be created

EMPLOYMENT:

The loss of roughly 3,000 jobs in typically office-using fields in August interrupted local hiring momentum. Kansas City employers are nevertheless set to expand the total headcount by 1.1 percent this year.



**450,000
SQ. FT.**
will be completed

CONSTRUCTION:

While about 123,000 more square feet will be delivered this year than in 2022, the 0.3 percent total expansion to inventory marks the second slowest pace since 2012. Upcoming openings are focused in Johnson County.



**180
BASIS POINT**
increase in vacancy

VACANCY:

Surpassing 14 percent in both the suburbs and CBD by June, metro vacancy is on track to hit 14.8 percent by year-end. While a 13-year high for the market, the rate ranks below more than half of the nation's major metros.

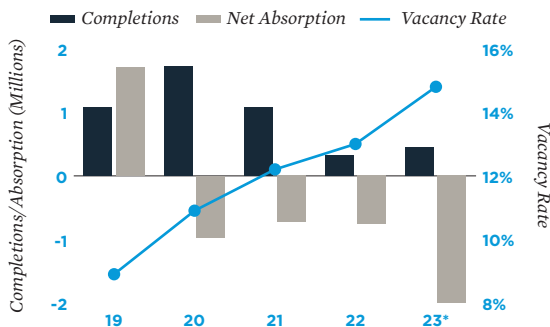


**1.6%
INCREASE**
in asking rent

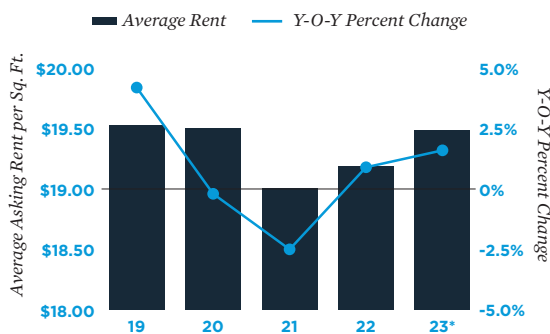
RENT:

The average asking rent will end the year at \$19.49 per square foot. Pockets of demand in certain neighborhoods, paired with some higher-quality space coming back to market, is behind the uptick in marketed rents.

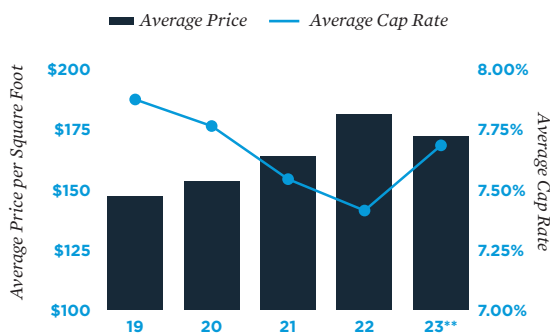
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

162,000 sq. ft. completed

- A 120,500-square-foot office in Leawood that opened in the first quarter was the standout delivery for the 12-month period ended in June.
- The pipeline for the second half of the year is more substantial, with four separate medical office properties on the way in Johnson County, totaling more than 100,000 square feet.



VACANCY

120 basis point increase in vacancy Y-O-Y

- Three consecutive quarters of negative net absorption brought the metro-wide vacancy rate up to 14.2 percent in June, an 11-year high.
- Increasing demand in South Kansas City, St. Joseph, the I-29 Corridor and the I-35 Corridor led to declining vacancy year-over-year in these spots. Availability remains under 10 percent in South Kansas City as well.



RENT

2.4% increase in the average asking rent Y-O-Y

- The average marketed rent at the end of June across Kansas City was \$19.46 per square foot, which was 2.5 percent above the same point in 2019.
- Among submarkets with more than 2 million square feet of inventory, South Johnson County – which includes the College Boulevard area – recorded the most robust rent growth at 6.6 percent year-over-year.

Investment Highlights

- Investment sales activity over the 12-month period ended in June, while down roughly 50 percent from the previous yearlong stretch, was not far off from historical standards. The number of assets that changed hands between July 2022 and June 2023 exceeded any annual span prior to 2015. Yet, the higher cost of capital and a cloudy performance outlook are having a compounding effect, with quarterly transaction velocity on the decline.
- So far this year, buyers have been most active Downtown, as well as in East Jackson County and South Johnson County. Investment Downtown has been split between sub-15,000-square-foot, mixed-use Class C buildings and larger Class A or B buildings. Among smaller offices, buyers have favored those with loft/creative space components. In South Johnson County, investors have mostly looked toward low rises in Overland Park, where recent leasing velocity has been relatively strong.
- Investment has continued for medical office assets as a series of small to mid-sized medical offices changed hands earlier this year in East Jackson County, among other locations. In the county, buyers were often looking for properties near Interstate 70 or Interstate 470.

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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