

INVESTMENT FORECAST

OFFICE

Kansas City Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2020

Employer Expansions Bolster Office Outlook; Suburban Employment Hubs Attract Mix of Buyers

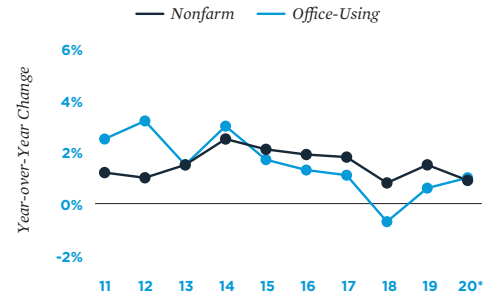
Space availability shifts nominally for a third consecutive year. Vacancy in Kansas City reached a cycle-low rate during the latter portion of last year, placing the market on solid footing entering 2020. While overall job creation will moderate during the next 12 months, the number of office positions will rise, accounting for 30 percent of total employment growth. Cerner highlights the list of expanding organizations as the healthcare software company opens the third and fourth phases of its new \$4.5 billion campus this year. These two completions, located off Interstate 435 in South Kansas City, account for more than half of the 1.4 million square feet of space slated for finalization during 2020. In Downtown Kansas City, the recent arrival of two USDA departments and a possible new headquarters for investment firm Waddell & Reed signal future employment gains in the core. Staff expansion by some of the metro's largest tenants suggest smaller firms that support these companies will also grow staffs, requiring some firms to seek larger footprints in the market. Solid demand for available space coupled with strong pre-leasing allow the metro's vacancy to compress for a 10th straight year, dropping the rate 380 basis points below the national year-end average.

Investors seek higher-quality assets at nationally discounted pricing. Entering this year, Class A vacancy was at a historically low level, a condition that should attract more out-of-market buyers to the metro. Those seeking concentrations of upper-tier assets target listings along College Boulevard in Johnson County, where larger Class A buildings routinely trade for \$10 million to \$20 million. These properties, typically located in Overland Park and Lenexa, provide buyers with low-6 percent minimum returns. Investors seeking assets with upside potential focus on Downtown Kansas City and Midtown while tight vacancy in the core persists. Here, Class B and C buildings, some with high availability or expiring leases, can net investors 8 percent to 9 percent-plus first-year yields.

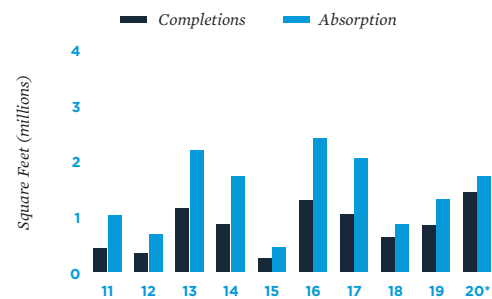
2020 Market Forecast

Employment up 0.9%	Organizations will add 10,000 positions in 2020 as job growth moderates following the creation of 16,100 slots last year.
Construction 1.4 million sq. ft.	Annual delivery volume exceeds 1 million square feet for the first time in three years, driven by the completion of five projects that each comprise more than 100,000 square feet of space.
Vacancy down 30 bps	Demand surpasses construction this year, lowering vacancy to 9.2 percent on net absorption of more than 1.7 million square feet. In 2019, a decrease of 50 basis points was noted.
Rent up 3.4%	After rising 3.4 percent last year, the average asking rent climbs at a steady pace in 2020, reaching \$20.88 per square foot.
Investment	Investors targeting suburban assets in Missouri maintain a focus on southern Jackson County, namely Lee's Summit, where smaller properties near Highway 50 have recently traded for less than \$2 million.

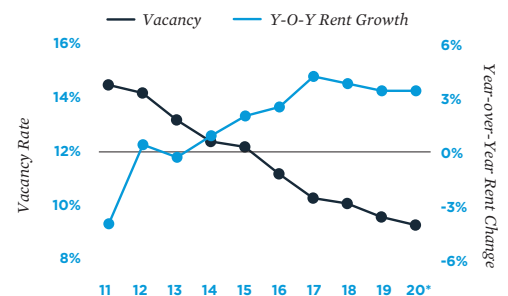
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Alan Pontius

Senior Vice President | Director
Office and Industrial Properties Division
(415) 963-3000
apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.