

Negative net absorption in the quarter led by the Class B market

◀ 17.7%

Vacancy Rate

▼ (184,359)

SF Net Absorption

◀ 326,727

SF M.T. Construction

▼ \$20.81

FSG / Lease Rate

Note: Arrows indicate change from previous quarter.

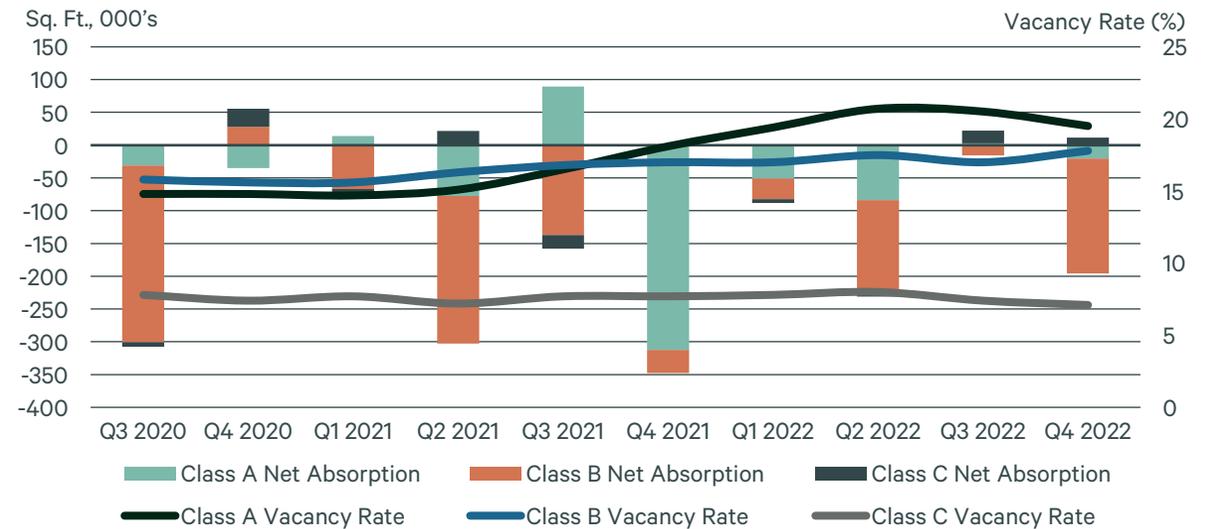
SUMMARY

- Next Move, Inc. announced a new lease at Grand Place in the Crossroads district. The rapidly expanding travel nursing agency grew from two employees at its founding in 2019 to 65 employees as of 2022. Next Move is expanding from a 9,000 sq. ft. space at 1800 Baltimore Ave into 24,000 sq. ft. which will allow the company to expand its headcount up to 145 employees.
- Hunt Midwest opened a new 13,173 sq. ft. satellite office at Corrigan Station II in the Crossroads district. The building offers the company a Prime Class A office environment with direct access to the streetcar and numerous nearby amenities.

Overall vacancy rates remained flat quarter-over-quarter and increased 90 bps (16.8% to 17.7%) year-over-year. Class A vacancy rates decreased 100 bps (20.5% to 19.5%) quarter-over-quarter and increased 140 bps (18.1% to 19.5%) year-over-year. The Blue KC lease of 263,000 sq. ft. at 1400KC was the primary driver lowering the amount of Class A space available in the market.

A total of 184,359 sq. ft. of negative net absorption was posted in Q4 2022. Net absorption in the Class B market posted negative 175,565 sq. ft., while the Class A market posted negative 20,331 sq. ft. Overall net absorption for 2022 was negative 496,901 sq. ft., with negative 362,321 sq. ft. in the Class B market and negative 152,683 sq. ft. in the Class A market.

FIGURE 1: Net Absorption and Vacancy Rates



Source: CBRE Research, Q4 2022.

Market Fundamentals & Leasing Activity

Seven out of the metro’s nine submarkets posted negative net absorption for the quarter. The Plaza was the only submarket to post positive net absorption with 62,679 sq. ft., and Kansas City, KS had 0 sq. ft. net absorption for the quarter. Negative net absorption was led by Downtown with negative 94,242 sq. ft. and East Kansas City with negative 52,623 sq. ft. Overall the market posted a negative net absorption total of 184,359 sq. ft.

Major tenants taking space for the quarter included Krucial Rapid Response with 29,136 sq. ft. at APEX 435 in the South Johnson County submarket; Next Move, Inc. took 24,000 sq. ft. at Grand Place in the Downtown submarket; Sethmar Transportation took 19,805 sq. ft. at the Aspiria campus in the South Johnson County submarket; Visiting Nurses Association (VNA) took 14,210 sq. ft. at Executive Hills 1300 in the South Kansas City submarket; RBC Development took a 11,815 sq. ft. sublease space at Waterside III in the South Johnson County submarket; Easter Seals Midwest took 11,540 sq. ft. at 1600 Baltimore in the Downtown submarket; MGP Ingredients took 10,707 sq. ft. at the Park Place campus in the South Johnson County submarket; and Smarhome Ventures took a 10,590 sq. ft. sublease space at 10955 Lowell Ave. in the South Johnson County submarket.

Overall asking lease rates decreased 1.1% year-over-year (\$21.03 to \$20.81 per sq. ft.). The highest asking lease rates in the market were in the Plaza submarket with an average asking rate of \$27.47 per sq. ft. Class A asking lease rates in the Plaza submarket averaged \$29.82 per sq. ft., 30.7% higher than the overall markets average Class A asking lease rate of \$22.81 per sq. ft.

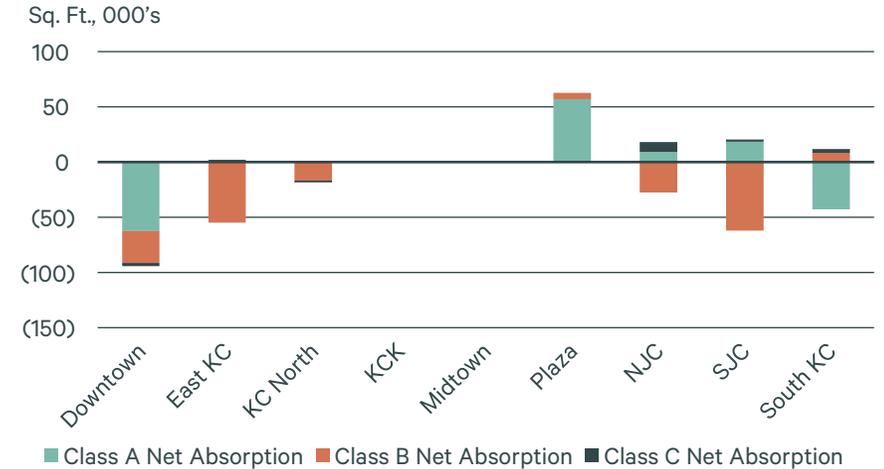
Several large tenants committed to new space in the quarter, as shown in Figure 2.

FIGURE 2: Top Lease Transactions for the Quarter

Tenant	Size (SF)	Property	City	Type	Submarket
AIG	29,234	11250 Corporate Ave	Lenexa, KS	New Lease	South Johnson County
Krucial Rapid Response	29,136	APEX 435 Bldg 2	Overland Park, KS	New Lease	South Johnson County
Next Move, Inc.	24,000	Grand Place	Kansas City, MO	New Lease	Downtown
Google Fiber, Inc.	23,535	908 Broadway	Kansas City, MO	Renewal	Downtown
Krigel & Krigel PC	17,098	American Century Tower II	Kansas City, MO	Renewal	Plaza
Visiting Nurses Association	14,210	1300 E 104 th St	Kansas City, MO	New Lease	South Kansas City

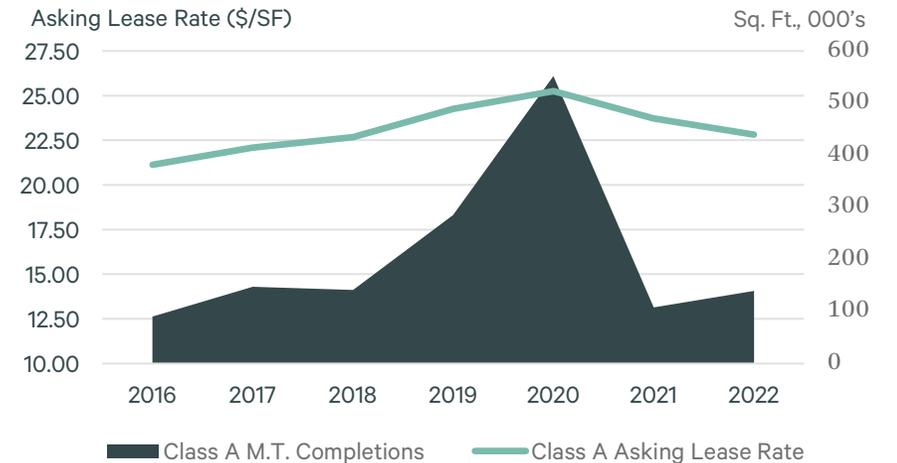
Source: CBRE Research, Q4 2022.

FIGURE 3: Q4 2022 Net Absorption by Submarket



Source: CBRE Research, Q4 2022.

FIGURE 4: Asking Lease Rates and Class A Multi-Tenant Completions



Source: CBRE Research, Q4 2022.

U.S. Economy

Everybody from Jerome Powell to single parents and Wall Street banks have been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Despite this good news inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market.

Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

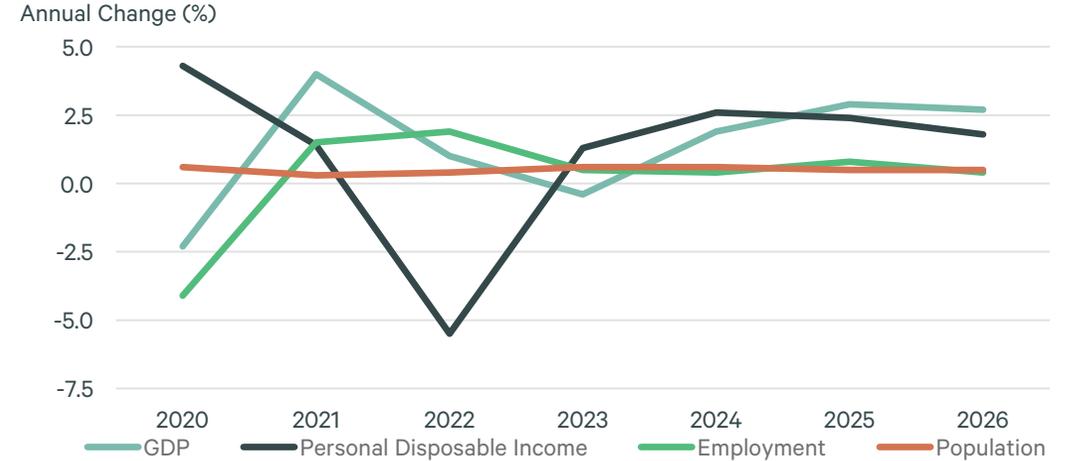
Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so sanguine. Data from Challenger, Gray & Christmas shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in 1H 2023.

Kansas City Economy

According to Oxford Economics, Kansas City is forecast to have a GDP decline of 0.4% in 2023 which is comparable to many major metro areas. The GDP decline is a result of rising interest rates which weigh on investment and lending. GDP is expected to recover in 2024 as interest rates subside with a return to lower inflation. Kansas City’s five-year average GDP growth rate is forecast at 1.6% for 2022-2026, growth is expected to be led by the manufacturing and tech sectors.

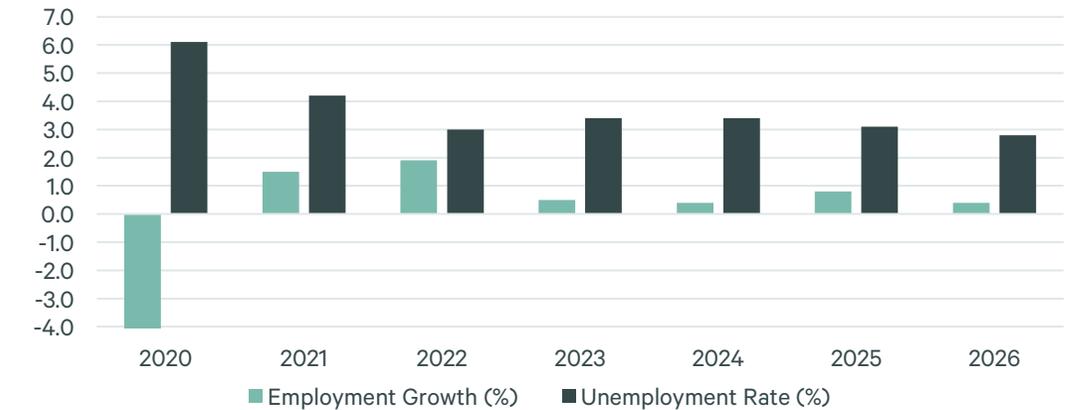
The Kansas City office sector is expected to recover its lost pandemic jobs by Q3 2024 according to Oxford Economics. Office jobs are projected to grow by 1% in 2023 with a projected five-year average growth rate of 0.9% for 2022-2026. The Kansas City office sector GDP is forecast to have an average annual growth of 2.0% from 2022-2026 according to Oxford Economics.

FIGURE 5: Kansas City Economic Forecast



Source: BLS, US Census Bureau, Oxford Economics, October 2022.

FIGURE 6: Kansas City Employment Forecast



Source: BLS, US Census Bureau, Oxford Economics, October 2022.

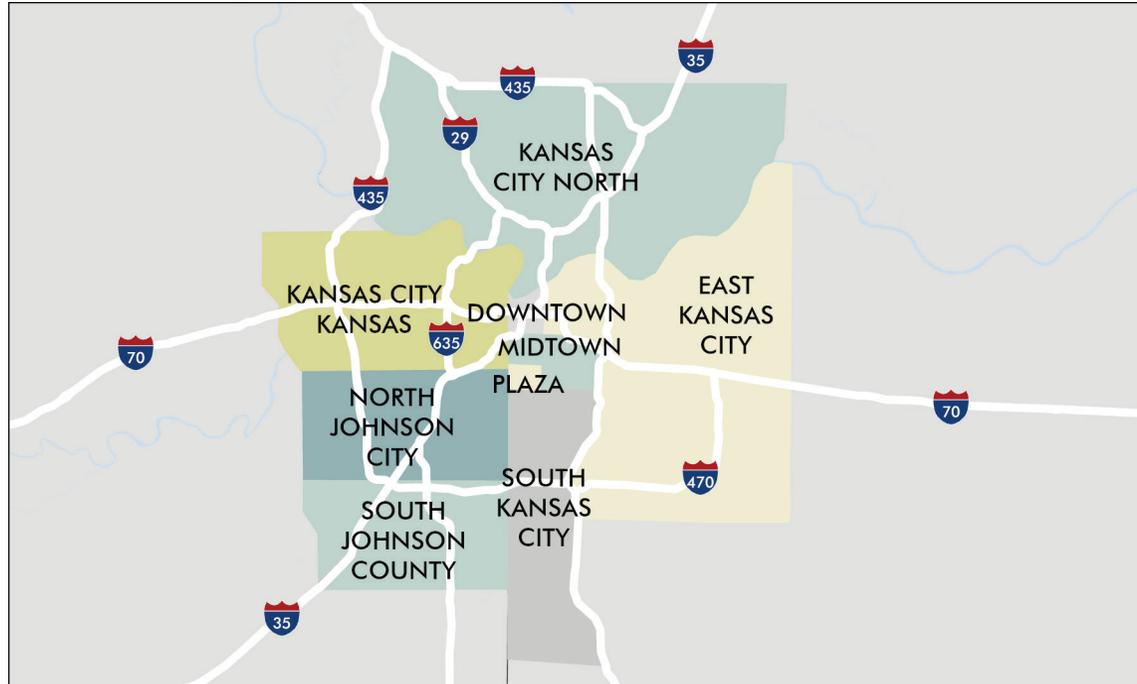
FIGURE 7: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Direct Vac. Rate (%)	Avail. Rate (%)	Q4 2022 Net Absorp. (SF)	YTD Net Absorp. (SF)	M.T. Bldgs Under Const. (SF)	Gross Avg. Asking Lease Rate (\$/SF/Yr)
Metro Overall	54,187,802	9,583,549	17.7	15.1	20.3	(184,359)	(496,803)	326,727	20.81
Class A	22,080,544	4,305,006	19.5	15.5	21.8	(20,331)	(152,683)	310,527	22.81
Class B	28,099,209	4,992,741	17.8	15.9	21.0	(175,565)	(362,321)	16,200	19.53
Class C	4,008,049	285,802	7.1	7.0	7.4	11,537	18,201	-	14.95
Suburban	41,363,547	7,003,330	16.9	14.4	20.0	(90,117)	(329,287)	-	20.57
Class A	14,844,915	2,720,508	18.3	14.6	21.5	41,968	(34,481)	-	22.48
Class B	23,225,072	4,109,606	17.7	15.7	21.1	(146,622)	(312,496)	-	19.46
Class C	3,293,560	173,216	5.3	5.2	5.6	14,537	17,690	-	16.21
Downtown	12,824,255	2,580,219	20.1	17.0	21.4	(94,242)	(167,516)	-	21.56
Class A	7,235,629	1,584,498	21.9	17.4	22.5	(62,299)	(118,202)	-	23.52
Class B	4,874,137	883,135	18.1	16.7	20.7	(28,943)	(49,825)	-	19.87
Class C	714,489	112,586	15.8	15.8	15.8	(3,000)	511	-	13.14
East Kansas City	2,897,686	435,708	15.0	13.5	15.9	(52,623)	(118,458)	-	17.51
Class A	126,307	20,696	16.4	16.4	16.4	0	(3,803)	-	-
Class B	2,235,411	358,637	16.0	14.1	17.0	(54,714)	(103,467)	-	18.02
Class C	535,968	56,375	10.5	10.5	11.1	2,091	(11,188)	-	15.12
Kansas City North	4,418,726	954,531	21.6	19.2	30.9	(18,222)	64,829	-	18.05
Class A	837,184	87,295	10.4	10.4	41.9	184	(2,746)	-	23.58
Class B	3,007,479	827,895	27.5	24.1	32.4	(16,622)	77,131	-	15.74
Class C	574,063	39,341	6.9	6.9	6.9	(1,784)	(9,556)	-	16.79
Kansas City, KS	942,433	28,390	3.0	3.0	3.0	0	20,310	-	15.97
Class A	-	-	-	-	-	-	-	-	-
Class B	423,911	8,505	2.0	2.0	2.0	0	11,589	-	-
Class C	518,522	19,885	3.8	3.8	3.8	0	8,721	-	15.97

Source: CBRE Research, Q4 2022.

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Direct Vac. Rate (%)	Avail. Rate (%)	Q4 2022 Net Absorp. (SF)	YTD Net Absorp. (SF)	M.T. Bldgs Under Const. (SF)	Gross Avg. Asking Lease Rate (\$/SF/Yr)
Midtown	1,560,661	123,813	7.9	7.9	8.1	(49)	(946)	-	17.45
Class A	84,282	0	0.0	0.0	0.0	0	0	-	-
Class B	1,182,628	121,830	10.3	10.3	10.5	0	(6,453)	-	17.45
Class C	293,751	1,983	0.7	0.7	0.7	(49)	5,458	-	-
Plaza	3,421,059	460,236	13.5	12.6	15.9	62,679	42,498	-	27.47
Class A	2,017,074	310,641	15.4	14.0	16.6	56,910	20,512	-	29.82
Class B	1,366,637	144,042	10.5	10.4	14.9	5,769	25,275	-	24.10
Class C	37,348	5,553	14.9	14.9	14.9	0	(3,289)	-	19.60
North Johnson Co.	6,234,776	830,506	13.3	11.4	15.3	(9,437)	74,312	16,200	19.50
Class A	1,549,228	238,095	15.4	14.1	16.6	9,249	92,404	-	21.07
Class B	4,040,344	562,426	13.9	11.5	16.4	(27,416)	(36,479)	16,200	18.90
Class C	645,204	29,985	4.6	4.6	5.3	8,730	18,387	-	15.68
South Johnson Co.	18,098,243	3,709,365	20.5	16.9	23.8	(41,666)	(288,394)	310,527	21.20
Class A	8,675,140	1,872,330	21.6	16.4	23.3	18,265	(65,952)	310,527	21.10
Class B	9,233,543	1,821,865	19.7	17.7	24.6	(61,968)	(228,453)	-	21.34
Class C	189,560	15,170	8.0	6.1	10.8	2,037	6,011	-	16.77
South Kansas City	3,789,963	460,781	12.2	9.7	12.2	(30,799)	(123,389)	-	20.41
Class A	1,555,700	191,451	12.3	8.1	12.3	(42,640)	(74,896)	-	20.55
Class B	1,735,119	264,406	15.2	13.6	15.2	8,329	(51,639)	-	20.31
Class C	499,144	4,924	1.0	1.0	1.0	3,512	3,146	-	18.00

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Office buildings 10,000 sq. ft. or greater. Excludes single-tenant, owner occupied buildings, government owned and occupied buildings, or medical buildings. Geographic area includes Johnson County (KS), Wyandotte County (KS), Platte County (MO), Clay County (MO), Jackson County (MO). Buildings under construction includes buildings which have begun development beyond initial site work.

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