Vacancy rates increase, a result of negative net absorption

▲ 18.9%
Vacancy Rate

▲ (175,034)
SF Net Absorption

◀ 0
SF M.T. Construction

▼ $22.86
FSG / Lease Rate

Note: Arrows indicate change from previous quarter.

SUMMARY

– Populous, a global leader in sports and entertainment architecture and design, announced it will move its company headquarters from 4800 Main St in the Plaza submarket to 1400KC in the Downtown submarket. The new lease will nearly double the company's footprint to approximately 100,000 sq. ft.

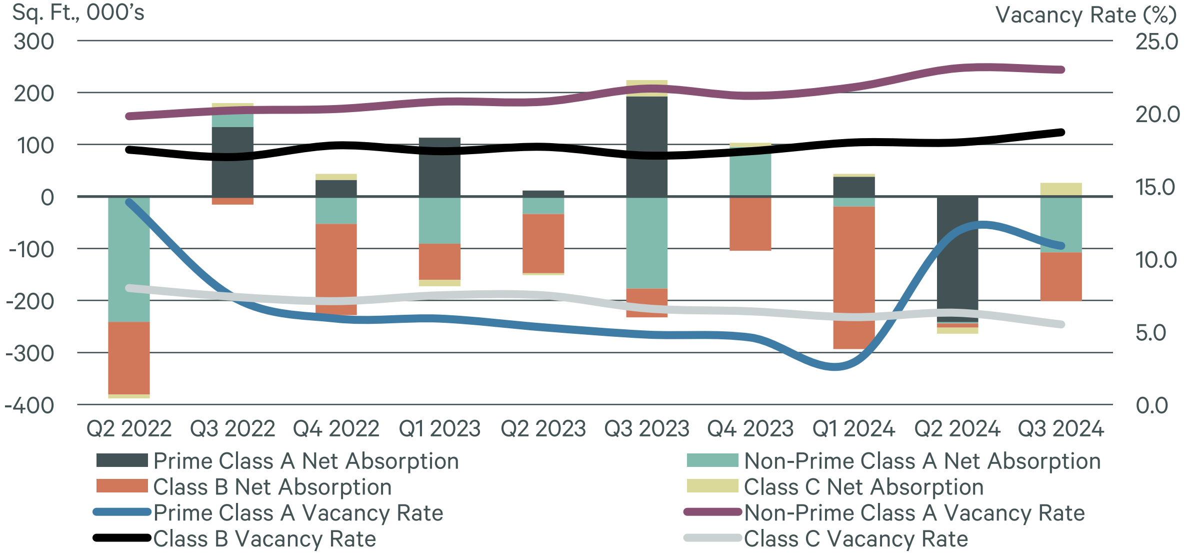
– Fidelity Security Life Insurance Co. signed a new lease to occupy approximately 75,000 sq. ft. at 2600 Grand in the Crown Center submarket. The company will relocate from within the greater downtown area at 3130 Broadway.

Overall net absorption posted negative 175,034 sq. ft. for Q3 2024, with the primary driver coming from 183,555 sq. ft. of direct vacant space added to the market at 2555 Grand in the Crown Center submarket.

Overall vacancy rates increased from 18.8% to 18.9% quarter-over-quarter, a result of negative net absorption. Looking longer term vacancy rates increased from 17.6% to 18.9% year-over-year.

Asking lease rates in the overall market increased 1.7% year-over-year ($22.47 per sq. ft. to $22.86 per sq. ft.). Class A asking lease rates increased 1.0% year-over-year ($25.32 to $25.57 per sq. ft.).

FIGURE 1: Net Absorption and Vacancy Rates



Source: CBRE Research, Q3 2024.

Market Fundamentals & Leasing Activity

Four out of the metro's nine submarkets posted positive net absorption for the quarter. South Johnson County led the overall market for positive net absorption with 123,818 sq. ft., followed by East Kansas City with 30,055 sq. ft. of positive net absorption for the quarter. Negative net absorption was led by Downtown with negative 250,157 sq. ft. and the Plaza submarket with 50,303 sq. ft. of negative net absorption. Overall, the market posted a negative net absorption total of 175,034 sq. ft.

Major tenants taking space for the quarter included Netsmart with 111,000 sq. ft. at 11500 Outlook St in the South Johnson County submarket; Patterson Family Foundation with 23,848 sq. ft. at 300 Wyandotte St in the Downtown submarket; Marsh & McLennan with 21,309 sq. ft. at 6240 Sprint Pkwy in the South Johnson County submarket; New York Life with 20,000 sq. ft. at 6130 Sprint Pkwy in the South Johnson County submarket; Adams Brown with 17,000 sq. ft. at 6450 Sprint Pkwy in the South Johnson County submarket; and HCA with 13,599 sq. ft. at 10401 Holmes in the South Kansas City submarket.

Overall asking lease rates increased 1.7% year-over-year ($22.47 per sq. ft. to $22.86 per sq. ft.). The highest asking lease rates in the market were in the Plaza submarket with an average asking rate of $26.91 per sq. ft. Class A asking lease rates in the Plaza submarket averaged $29.15 per sq. ft., 14.0% higher than the overall markets average Class A asking lease rate of $25.57 per sq. ft.

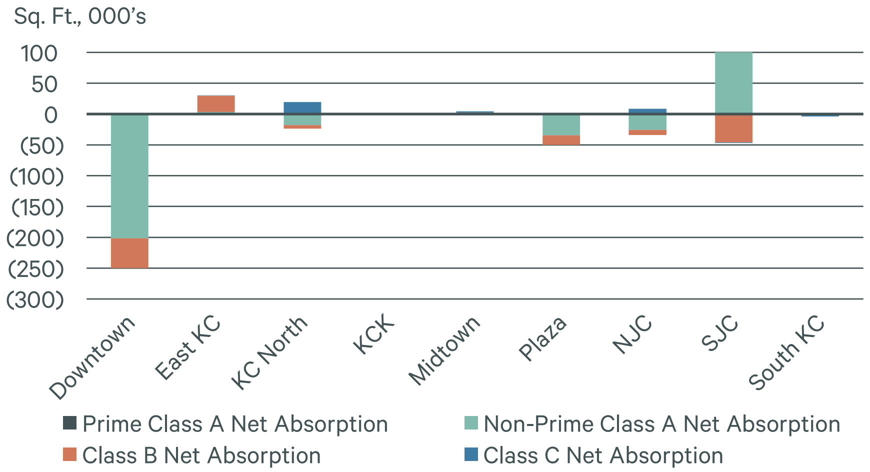
No multi-tenant office buildings were under construction at the end of Q3 2024, after completing 310,527 sq. ft. in 2023.

FIGURE 2: Top Lease Transactions for the Quarter

Tenant	Size (SF)	Property	City	Type	Submarket
Netsmart	111,000	Aspiria: 11500 Outlook St	Overland Park, KS	New Lease	South Johnson County
Fidelity Security Life Insurance	75,000	2600 Grand Blvd	Kansas City, MO	New Lease	Downtown
CBOE	60,000	Overland Park Xchange	Overland Park, KS	New Lease	South Johnson County
NCM Associates	30,000	Brush Creek Place I	Kansas City, MO	Renewal	Plaza
Ottawa University	28,000	6450 Sprint Pkwy	Overland Park, KS	New Lease	South Johnson County
BHC	23,983	BOK Tower	Overland Park, KS	Renewal	South Johnson County
Patterson Family Foundation	23,848	3Y	Kansas City, MO	New Lease	Downtown

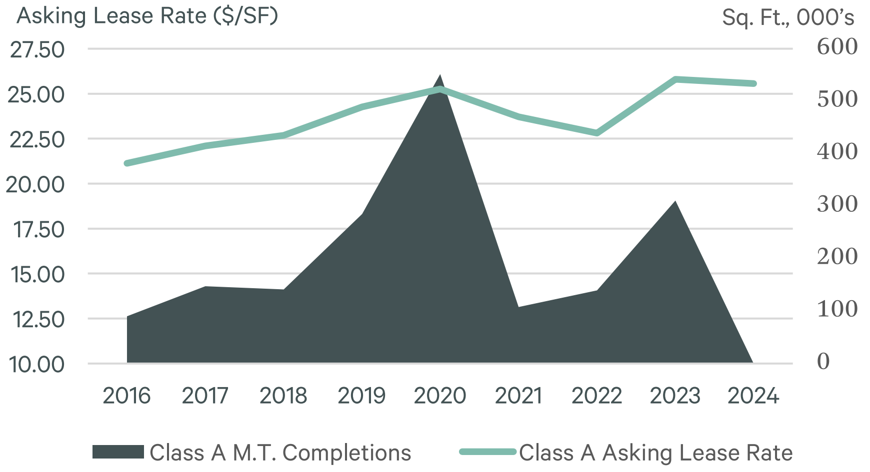
Source: CBRE Research, Q3 2024.

FIGURE 3: Q3 2024 Net Absorption by Submarket



Source: CBRE Research, Q3 2024.

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



Source: CBRE Research, Q3 2024.

U.S. Economy

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is steady and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a downturn in the labor market, although the recent bump in unemployment appears mainly driven by an increase in participation.

One reason for concern is the decline in the share of private industries that are creating jobs. The labor market has slowed but it is not slumping, and companies are not letting workers go at a particularly high rate.

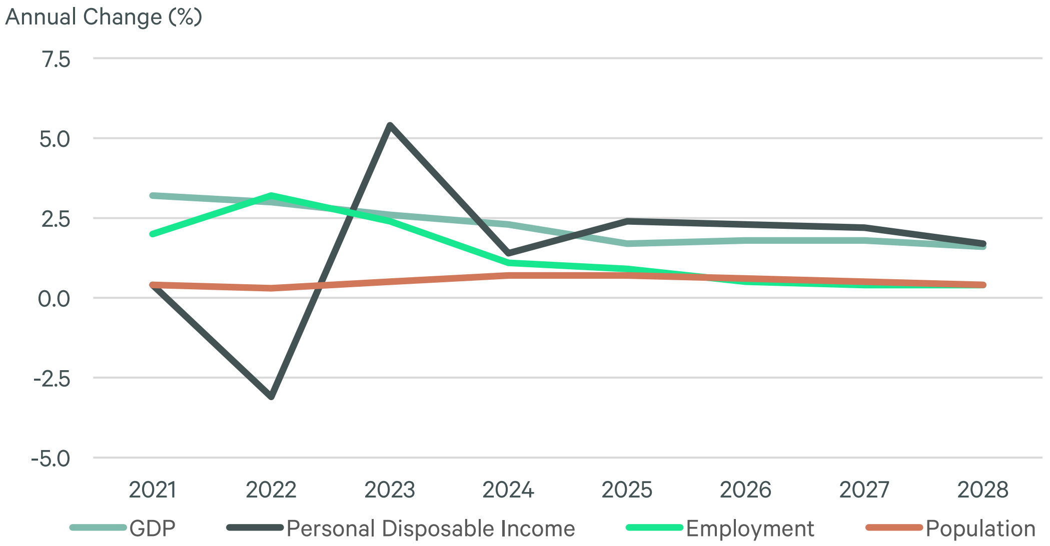
While many are focused on November's election, the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

Kansas City Economy

According to Oxford Economics, Kansas City is forecast to finish 2024 with a GDP growth of 2.3%, followed by average annual GDP growth of 1.7% in 2025 through 2028. Growth in GDP is expected to be led by manufacturing, computer systems design, and real estate.

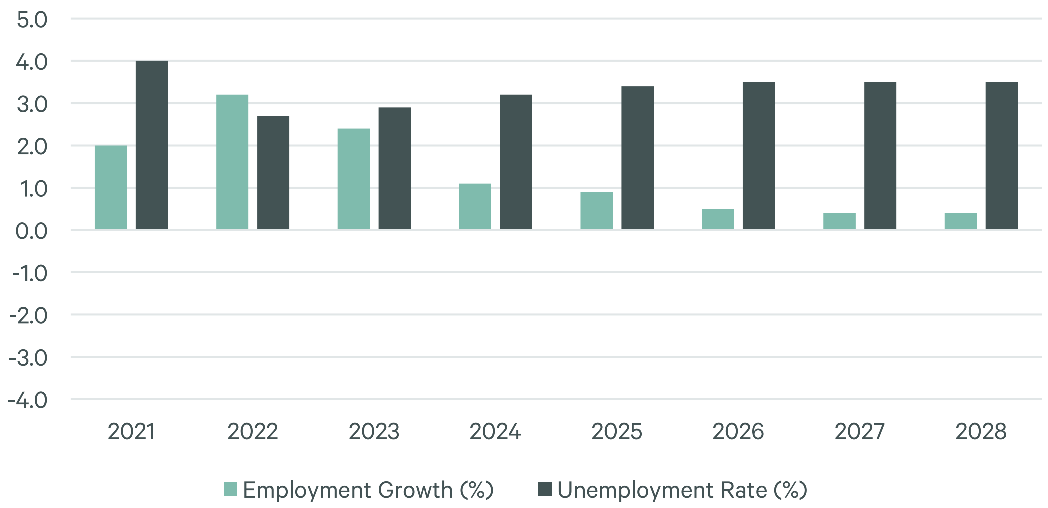
Kansas City's home prices are forecast to increase 3.3% annually in 2025 through 2028. Kansas City's median disposable income per capita was approximately $50,300 as of July 2024, with a forecasted average annual growth rate of 2.2% from 2025 to 2028.

FIGURE 5: Kansas City Economic Forecast



Source: BLS, US Census Bureau, Oxford Economics, July 2024.

FIGURE 6: Kansas City Employment Forecast



Source: BLS, US Census Bureau, Oxford Economics, July 2024.

Prime Class A Office Market

In recent years, best-in-class office space has been in high demand as employers aim to attract new talent and retain current employees. This small percentage of trophy assets in a market's total inventory are referred to as "prime" and remain the most sought-after office properties in the Kansas City metro. On average, prime properties command higher rents and see more positive absorption than non-prime buildings.

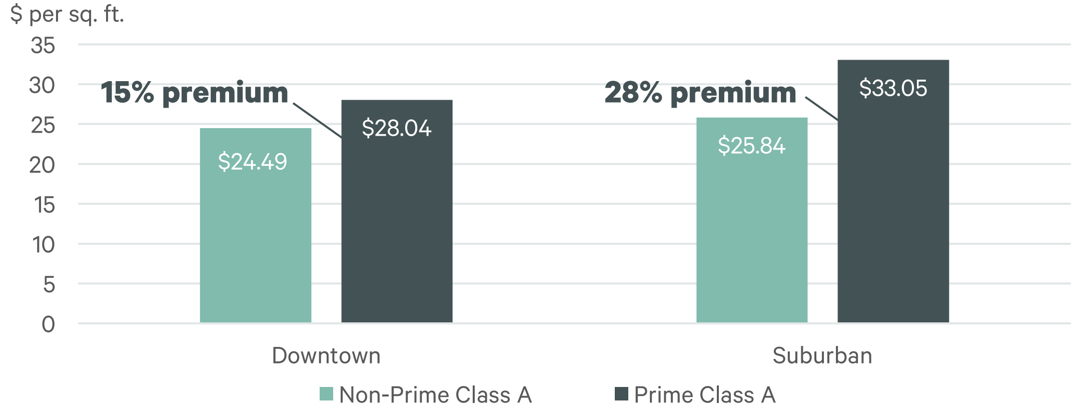
Vacant space in the prime market increased dramatically in Q2 2024 due to the addition of 243,498 sq. ft. of space across 8 floors at the H&R Block headquarters building downtown. Even with this significant addition of vacant space, the prime vacancy percentage of 10.9% as of Q3 2024 is considerably lower than the overall markets average vacancy of 18.9%. The H&R Block building consists of 64% of the prime space downtown, resulting in a high vacancy percentage of 31.2%. In the suburban market, prime vacancy remains at a record low level of 3.3% after 38,327 sq. ft. of positive net absorption year-to-date.

FIGURE 7: Prime Class A Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Direct Vac. Rate (%)	Avail. Rate (%)	Q3 2024 Net Absorp. (SF)	YTD Net Absorp. (SF)	M.T. Bldgs Under Const. (SF)	Gross Avg. Asking Lease Rate ($/SF/Yr)
Metro Overall	**2,868,272**	**312,590**	**10.9**	**10.9**	**11.1**	**(1,680)**	**(205,171)**	**-**	**29.20**
Suburban	**2,082,316**	**67,729**	**3.3**	**3.3**	**3.5**	**(1,680)**	**38,327**	**-**	**33.05**
Downtown	785,956	244,861	31.2	31.2	31.2	0	(243,498)	-	28.04
East Kansas City	-	-	-	-	-	-	-	-	-
Kansas City North	-	-	-	-	-	-	-	-	-
Kansas City, KS	-	-	-	-	-	-	-	-	-
Midtown	-	-	-	-	-	-		-	-
Plaza	422,000	24,947	5.9	5.9	5.9	0	(10,371)	-	30.71
North Johnson Co.	432,361	17,983	4.2	4.2	4.2	0	1,808	-	33.31
South Johnson Co.	1,227,955	24,799	2.0	2.0	2.5	(1,680)	46,890	-	34.82
S. Kansas City	-	-	-	-	-	-	-	-	-

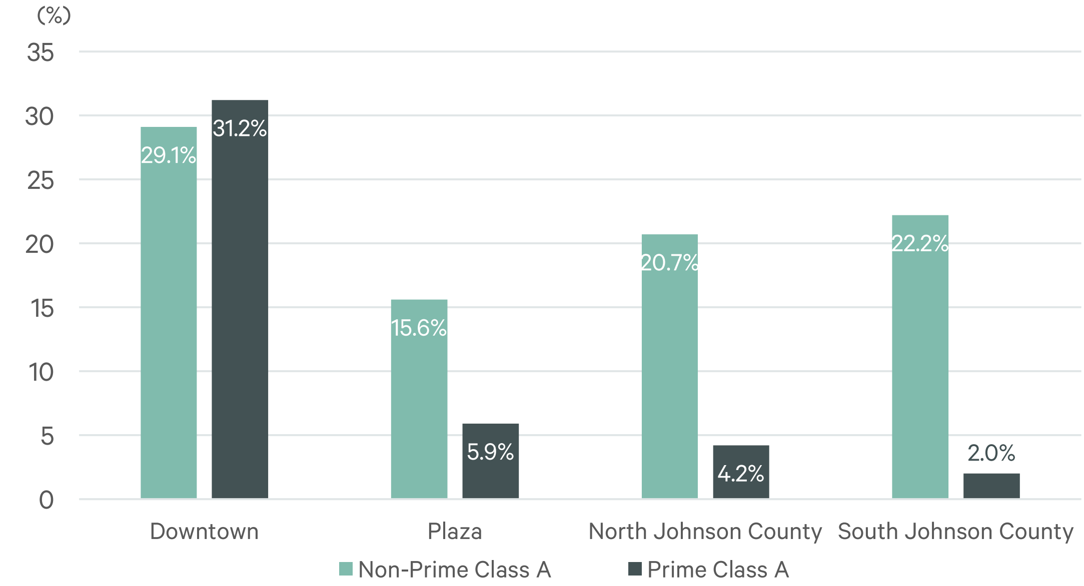
Source: CBRE Research, Q3 2024.

FIGURE 8: Asking Rents Downtown vs Suburban



Source: CBRE Research, Q3 2024.

FIGURE 9: Vacancy Rate by Submarket



Source: CBRE Research, Q3 2024.

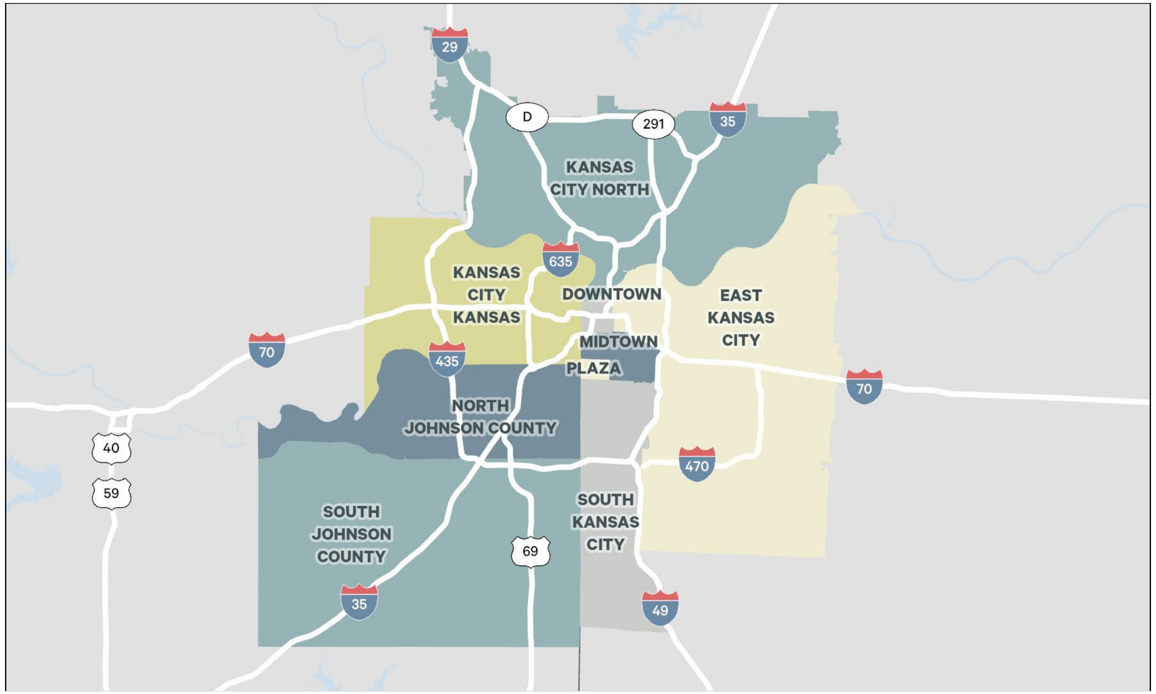
FIGURE 10: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Direct Vac. Rate (%)	Avail. Rate (%)	Q3 2024 Net Absorp. (SF)	YTD Absorp. (SF)	M.T. Bldgs Under Const. (SF)	Gross Avg. Asking Lease Rate ($/SF/Yr)
Metro Overall	**54,851,952**	**10,388,646**	**18.9**	**17.1**	**19.9**	**(175,034)**	**(652,786)**	**-**	**22.86**
Prime Class A	2,868,272	312,590	10.9	10.9	11.1	(1,680)	(205,171)	-	29.20
Total Class A	23,105,525	4,969,462	21.5	18.7	21.4	(107,440)	(337,867)	-	25.57
Class B	27,901,579	5,207,806	18.7	17.3	20.5	(93,755)	(338,037)	-	21.05
Class C	3,844,848	211,378	5.5	5.5	6.4	26,161	23,118	-	15.58
Suburban	**41,501,445**	**6,956,609**	**16.8**	**14.8**	**18.3**	**75,123**	**(136,758)**	**-**	**22.61**
Prime Class A	2,082,316	67,729	3.3	3.3	3.5	(1,680)	38,327	-	33.05
Total Class A	15,106,850	2,623,018	17.4	14.2	18.6	94,041	137,144	-	26.08
Class B	23,264,236	4,243,602	18.2	16.7	20.1	(45,079)	(297,020)	-	20.92
Class C	3,130,359	89,989	2.9	2.9	4.0	26,161	23,118	-	17.23
Downtown	**13,350,507**	**3,432,037**	**25.7**	**24.3**	**24.8**	**(250,157)**	**(516,028)**	**-**	**23.43**
Prime Class A	785,956	244,861	31.2	31.2	31.2	0	(243,498)	-	28.04
Total Class A	7,998,675	2,346,444	29.3	27.2	26.8	(201,481)	(475,011)	-	24.96
Class B	4,637,343	964,204	20.8	20.5	22.7	(48,676)	(41,017)	-	21.63
Class C	714,489	121,389	17.0	17.0	17.0	0	0	-	13.74
East Kansas City	**2,897,686**	**492,740**	**17.0**	**15.5**	**18.3**	**30,055**	**(2,396)**	**-**	**19.60**
Prime Class A	-	-	-	-	-	-	-	-	-
Total Class A	126,307	1,107	0.9	0.9	0.9	3,230	2,123	-	24.50
Class B	2,235,411	460,121	20.6	18.6	21.4	26,611	2,308	-	19.95
Class C	535,968	31,512	5.9	5.9	9.4	214	(6,827)	-	16.59
Kansas City North	**4,288,591**	**735,606**	**17.2**	**16.8**	**18.8**	**(4,283)**	**34,291**	**-**	**17.80**
Prime Class A	-	-	-	-	-	-	-	-	-
Total Class A	837,184	113,979	13.6	12.3	12.9	(17,682)	(30,013)	-	27.47
Class B	2,936,760	610,276	20.8	20.7	23.2	(5,864)	47,364	-	16.38
Class C	514,647	11,351	2.2	2.2	3.4	19,263	16,940	-	-
Kansas City, KS	**942,433**	**33,276**	**3.5**	**3.5**	**3.5**	**526**	**3,750**	**-**	**18.19**
Prime Class A	-	-	-	-	-	-	-	-	-
Total Class A	-	-	-	-	-	-	-	-	-
Class B	423,911	19,141	4.5	4.5	4.5	0	0	-	20.00
Class C	518,522	14,135	2.7	2.7	2.7	526	3,750	-	15.75

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Direct Vac. Rate (%)	Avail. Rate (%)	Q3 2024 Net Absorp. (SF)	YTD Absorp. (SF)	M.T. Bldgs Under Const. (SF)	Gross Avg. Asking Lease Rate ($/SF/Yr)
Midtown	**1,560,661**	**134,027**	**8.6**	**8.6**	**10.0**	**4,382**	**2,322**	**-**	**17.66**
Prime Class A	-	-	-	-	-	-	-	-	-
Total Class A	84,282	0	0.0	0.0	0.0	0	0	-	-
Class B	1,214,918	134,027	11.0	11.0	12.8	2,234	(2,349)	-	17.66
Class C	261,461	0	0.0	0.0	0.0	2,148	4,671	-	-
Plaza	**3,383,945**	**491,672**	**14.5**	**14.5**	**15.4**	**(50,303)**	**(82,721)**	**-**	**26.91**
Prime Class A	422,000	24,947	5.9	5.9	5.9	0	(10,371)	-	30.71
Total Class A	2,017,074	274,534	13.6	13.6	13.7	(34,781)	(37,391)	-	29.15
Class B	1,329,523	217,138	16.3	16.3	18.3	(15,522)	(45,330)	-	24.38
Class C	37,348	0	0.0	0.0	0.0	0	0	-	-
North Johnson Co.	**6,393,668**	**825,873**	**12.9**	**10.5**	**16.4**	**(25,589)**	**(13,137)**	**-**	**20.17**
Prime Class A	432,361	17,983	4.2	4.2	4.2	0	1,808	-	33.31
Total Class A	1,598,228	259,827	16.3	16.3	19.5	(25,780)	(14,535)	-	21.71
Class B	4,147,664	551,682	13.3	9.6	17.2	(8,349)	(9,093)	-	19.43
Class C	647,776	14.364	2.2	2.2	3.3	8,540	10,491	-	18.81
South Johnson Co.	**18,336,147**	**3,761,831**	**20.5**	**17.7**	**21.8**	**123,818**	**(22,848)**	**-**	**24.38**
Prime Class A	1,227,955	24,799	2.0	2.0	2.5	(1,680)	46,890	-	34.82
Total Class A	8,856,575	1,721,508	19.4	15.1	20.9	169,054	215,686	-	26.52
Class B	9,290,012	2,029,989	21.9	20.5	23.0	(44,429)	(237,050)	-	22.84
Class C	189,560	10,334	5.5	5.5	6.9	(807)	(1,484)	-	17.71
South Kansas City	**3,698,314**	**481,584**	**13.0**	**10.0**	**13.5**	**(3,483)**	**(56,019)**	**-**	**21.58**
Prime Class A	-	-	-	-	-	-	-	-	-
Total Class A	1,587,200	252,063	15.9	10.7	15.9	0	1,274	-	22.90
Class B	1,686,037	221,228	13.1	11.4	14.0	240	(52,870)	-	21.16
Class C	425,077	8,293	2.0	2.0	2.4	(3,723)	(4,423)	-	13.78

Source: CBRE Research, Q3 2024.

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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