

Kansas City Office, Q4 2015

Vacancy rates have fallen 210-basis-points (bps) over the last two years in Kansas City

 **Vacancy Rate**
14.7%

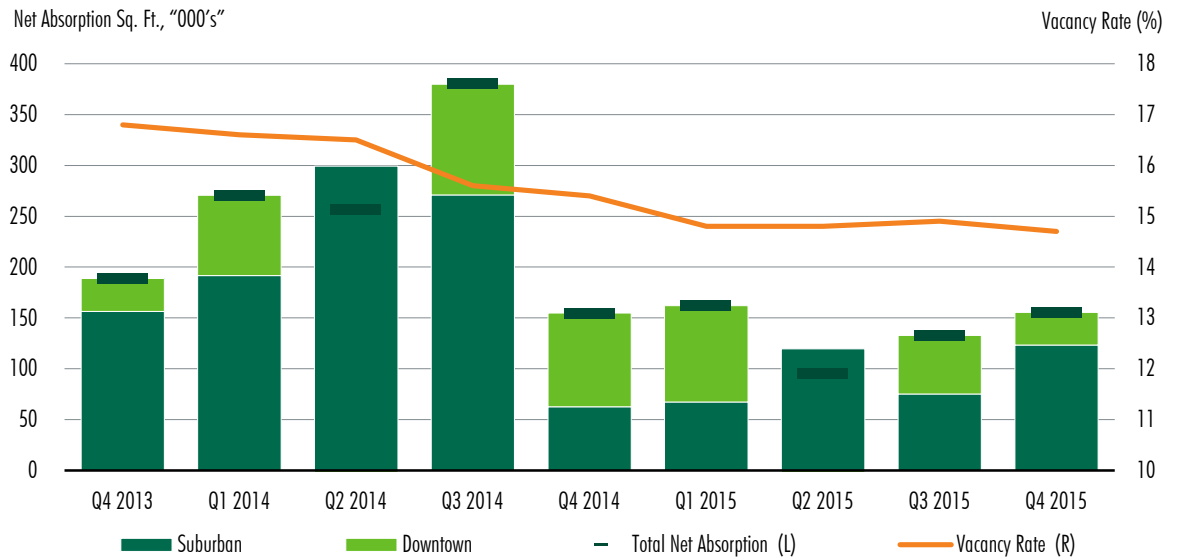
 **Gross Lease Rate**
\$17.57 PSF

 **Net Absorption**
155,526 SF

 **Completions**
0 SF

*Arrows indicate change from previous year.

Figure 1: Net Absorption by Quarter



Source: CBRE Research, Q4 2015.

- The new headquarters for Dairy Farmers of America broke ground in Kansas City, KS. The company announced early in 2015 they would cross the state line for a new 100,000 sq. ft. build-to-suit office to the Village West area. The company will bring approximately 325 employees.
- Construction began on Plexpod Westport Commons which is being marketed as the “World’s largest co-working facility”, offering short term leases for desk, small office, and suites. Phase 1 of the development will include 166,650 sq. ft. with completion expected by the end of 2016. The facility is redeveloping the historic Westport Middle School building which has been vacant since 2010.

Kansas City’s office market continues to improve. Overall vacancy rates have fallen from 18.4% to 14.7% in only three years. At the end of Q4 2015, the Class A office vacancy stood at 13.5% for the overall metro area, and 11.1% in the Class A suburban market. Average lease rates increased in the overall market to \$17.57 per sq. ft., and \$21.18 per sq. ft. for Class A space. Lowering vacancy rates are creating a scarcity of quality space, particularly in the top submarkets. Net absorption was positive 155,526 sq. ft. in Q4 2015, and totaled positive 545,709 sq. ft. for 2015. The Kansas City office market has posted 15 consecutive quarters of positive net absorption.

OFFICE MARKET STRENGTHENING

Since the beginning of 2013, the Kansas City office market has absorbed over 2.7 million sq. ft. In that same time frame, overall vacancy rates have decreased 370 bps, and suburban vacancy rates have decreased 380 bps. Large blocks of Class A space in the metro’s top submarkets have become scarce as occupancy rates have increased. The need for Class A space was the major factor for the development of the 147,463 sq. ft. Nall Corporate Center II which broke ground in Q4 2014. This new office building is located in South Johnson County and signed Mariner Holdings Inc. to a 60,000 sq. ft. lease prior to the start of construction. Asking rates began to significantly increase for the first time in approximately 10 years. Q4 2015 asking rates ended at \$17.57 gross per sq. ft., an increase of \$1.27 since the beginning of 2013.

2016 DEVELOPMENT

A new 193,732 sq. ft. office building is expected to break ground in Q1 2016. The building called 46 Penn Centre will be located in the Plaza, Kansas City’s premier submarket. In Q4 2015 the Plaza submarket had a Class A vacancy of 3.3% and no availability for Class A spaces with 20,000 sq. ft. contiguous. Another 142,000 sq. ft. Class A office building is proposed at the historic Corrigan building downtown, which has received a 25,000 sq. ft. commitment from Hollis & Miller. These projects are evidence of the growing demand

in the Kansas City office market.

INVESTMENT MARKET

2555 Grand led the office investment sales market in 2015 at \$153.5 million or \$257.72 per sq. ft. The 595,607 sq. ft. Class A office building is fully leased by Shook Hardy & Bacon LLP. In the South Johnson County submarket the most significant sale was the Park Place mixed-use development. The sale included a total of 483,119 sq. ft., with 372,201 sq. ft. of Class A office, and 110,918 sq. ft. of retail. The total sale amount was \$126.5 million or \$261.84 per sq. ft. Another significant sale was the Renaissance III building which sold for \$42 million or \$179.63 per sq. ft. The 233,820 sq. ft. Class A office building is fully occupied by two companies, Zurich American Insurance Co. and Intouch Solutions Inc. These sales show the strength of the Kansas City market, and we expect 2016 to have an even stronger performance including the potential sale of Kansas City’s largest office park Corporate Woods.

Figure 2: 46 Penn Centre



Source: Kansas City Business Journal.

Figure 3: Top Lease Transactions for the Quarter

Tenant	Size (SF)	Property	City	Submarket
State Street	33,840	801 Pennsylvania Ave	Kansas City, MO	Downtown
Datafile Technologies	23,187	Briarcliff I	Kansas City, MO	North Kansas City
Fairway Personnel Services	21,195	4025 NE Lakewood Way	Lee’s Summit, MO	East Kansas City
American Public Works	20,000	One Kansas City Place	Kansas City, MO	Downtown
Aratana Therapeutics, Inc.	17,639	11400 Tomahawk Pkwy	Leawood, KS	South Johnson County

Source: CBRE Research, Q4 2015.

Figure 4: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Avail. Rate (%)	Q4 2015 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Gross Avg. Asking Lease Rate (\$/SF/Yr)
Metro Overall	53,190,005	7,791,904	14.7	18.6	155,526	545,709	1,620,113	17.57
Class A	17,728,565	2,397,253	13.5	17.6	39,066	176,641	1,453,463	21.18
Class B	30,520,268	4,618,002	15.1	19.1	132,114	414,591	166,650	16.81
Class C	4,941,172	776,649	15.7	18.7	(15,654)	(45,613)	-	11.79
Suburban	38,906,903	5,121,984	13.2	17.3	123,291	385,202	1,620,113	17.79
Class A	11,452,961	1,274,010	11.1	15.1	30,854	66,291	1,453,463	22.53
Class B	23,025,053	3,179,350	13.8	18.3	108,091	359,366	166,650	17.20
Class C	4,428,889	668,624	15.1	18.0	(15,654)	(40,455)	-	11.71
Downtown	14,283,102	2,669,920	18.7	22.0	32,235	160,507	-	17.11
Class A	6,275,604	1,123,243	17.9	22.2	8,212	110,350	-	19.61
Class B	7,495,215	1,438,652	19.2	21.6	24,023	55,315	-	15.83
Class C	512,283	108,025	21.1	24.9	0	(5,158)	-	12.16
East Kansas City	3,667,265	613,855	16.7	19.8	(37,445)	2,417	-	13.48
Class A	126,307	13,341	10.6	10.6	0	(232)	-	22.00
Class B	2,656,571	380,495	14.3	17.7	(25,213)	45,458	-	14.69
Class C	884,387	220,019	24.9	27.3	(12,232)	(42,809)	-	10.77
Kansas City North	4,034,151	986,094	24.4	26.5	(10,530)	43,723	-	15.11
Class A	822,042	109,034	13.3	13.3	8,378	12,902	-	17.78
Class B	2,650,311	810,659	30.6	33.2	(19,289)	25,651	-	15.04
Class C	561,798	66,401	11.8	14.3	381	5,170	-	12.19
Kansas City, KS	1,073,531	117,488	10.9	12.6	9,006	11,904	100,000	13.13
Class A	-	-	-	-	-	-	100,000	-
Class B	469,504	82,652	17.6	18.2	12,000	11,994	-	14.61
Class C	604,027	34,836	5.8	8.3	(2,994)	(90)	-	11.42

Source: CBRE Research, Q4 2015.

Figure 4: Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vac. Rate (%)	Avail. Rate (%)	Q4 2015 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Gross Avg. Asking Lease Rate (\$/SF/Yr)
Midtown	1,342,414	121,202	9.0	9.0	30,500	(11,879)	166,650	16.24
Class A	-	-	-	-	-	-	-	-
Class B	1,056,466	112,241	10.6	10.6	27,804	(17,652)	166,650	16.40
Class C	285,948	8,961	3.1	3.1	2,696	5,773	-	12.00
Plaza	3,327,765	250,465	7.5	9.4	6,394	161,767	-	23.66
Class A	1,699,459	55,294	3.3	5.1	3,227	157,286	-	25.02
Class B	1,592,958	192,523	12.1	14.0	5,815	7,129	-	23.26
Class C	35,348	2,648	7.5	7.5	(2,648)	(2,648)	-	-
North Johnson County	5,242,705	632,522	12.1	15.9	(37,092)	9,553	-	19.01
Class A	860,269	184,542	21.5	21.5	(55,688)	(54,436)	-	27.22
Class B	3,728,370	365,357	9.8	14.4	17,953	73,670	-	16.60
Class C	654,066	82,623	12.6	17.2	643	(9,681)	-	14.22
South Johnson County	16,156,572	1,686,764	10.4	15.5	116,894	176,042	147,463	20.26
Class A	6,304,126	672,564	10.7	14.0	56,320	(63,206)	147,463	22.73
Class B	8,986,952	851,325	9.5	16.2	60,574	232,038	-	19.1
Class C	865,494	162,875	18.8	19.6	0	7,210	-	12.89
South Kansas City	4,062,500	713,594	17.6	25.4	45,564	(8,325)	1,206,000	16.47
Class A	1,640,758	239,235	14.6	27.5	18,617	18,617	1,206,000	19.48
Class B	1,883,921	384,098	20.4	23.8	28,447	(18,922)	-	16.46
Class C	537,821	90,261	16.8	24.7	(1,500)	(8,020)	-	11.81

Source: CBRE Research, Q4 2015.

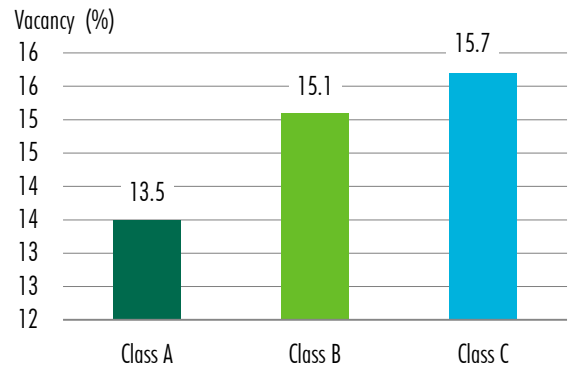
VACANCY RATES DROPPING

Overall vacancy rates averaged 14.7% for the metro area in Q4 2015, with Class A rates averaging 13.5%. Suburban Class A rates averaged 11.1% in Q4 2015, and Downtown Class A rates averaged 17.9% in Q4 2015. Significant move-ins assisting in raising occupancy rates include Datafile Technologies which took 23,187 sq. ft. at 4100 N Mulberry; Fairway Personnel Services which took 21,195 sq. ft. at 4025 NE Lakewood Way; Aratana Therapeutics which took 17,639 sq. ft. at 11400 Tomahawk Pkwy; United Private Networks which took 16,905 sq. ft. at 7200 NW 88th St; Regus which took 14,140 sq. ft. at 800 E 101st Ter; and BHC Rhodes which took 13,500 sq. ft. at 712 State Ave. Overall vacancy rates in the Plaza submarket fell from 12.8% in Q4 2014 to 7.5% in Q4 2015, the largest decrease of any submarket in the Kansas City metro area in that time span. Net absorption in the Plaza submarket totaled 315,941 sq. ft. since Q1 2014. The Plaza Class A vacancy was 3.3%, which is significantly lower than the metro Class A average of 13.5%. A lack of quality space in the market will continue to drive the market by lowering vacancy rates, especially in the metro's top submarkets such as the Plaza and South Johnson County.

ASKING LEASE RATES STEADILY INCREASING

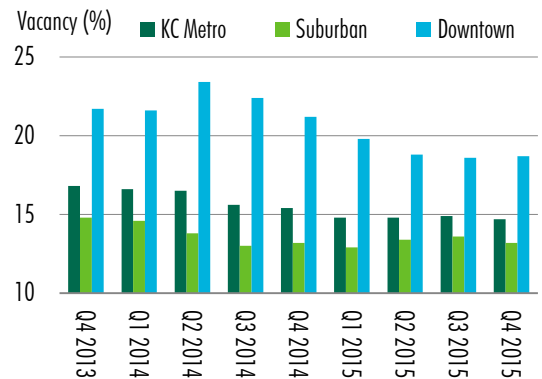
Lease rates rose to \$17.57 gross per sq. ft. in Q4 2015, compared to \$17.49 gross per sq. ft. in Q3 2015. Average asking lease rates have increased \$1.27 gross per sq. ft. since the beginning of 2013. The suburban market average lease rate of \$17.79 gross per sq. ft. outperforms the Downtown average of \$17.11 gross per sq. ft. Class A rates average \$21.18 gross per sq. ft. for the overall metro, with suburban Class A rates averaging \$22.53 gross per sq. ft. and Downtown Class A rates averaging \$19.61 gross per sq. ft. The highest overall rates in the metro are in the Plaza submarket at \$23.66 gross per sq. ft.

Figure 5: Vacancy Rates by Class



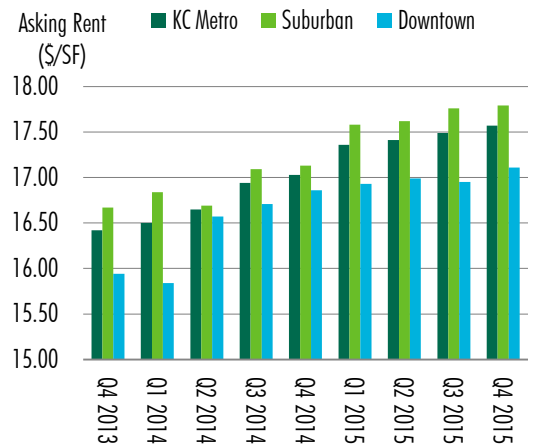
Source: CBRE Research, Q4 2015.

Figure 6: Historical Vacancy Rates



Source: CBRE Research, Q4 2015.

Figure 7: Average Gross Asking Lease Rates



Source: CBRE Research, Q4 2015.

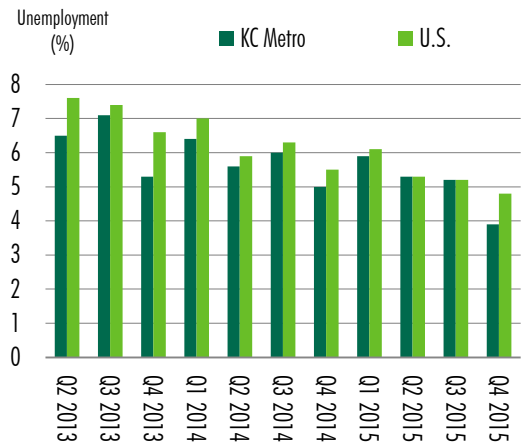
ECONOMY

The economy is expected to strengthen in 2016 driven by healthcare and professional/business services. Four of the five largest employers in the Kansas City metro are involved in the healthcare sector which continues to increase hiring. According to Moody’s Analytics, wage growth will begin to accelerate in the near term leading to increases in consumer spending and single-family housing starts. Kansas City’s gross metro product is projected to grow by approximately 10.0% over the next 10 years, according to Moody’s Analytics.

CONSTRUCTION

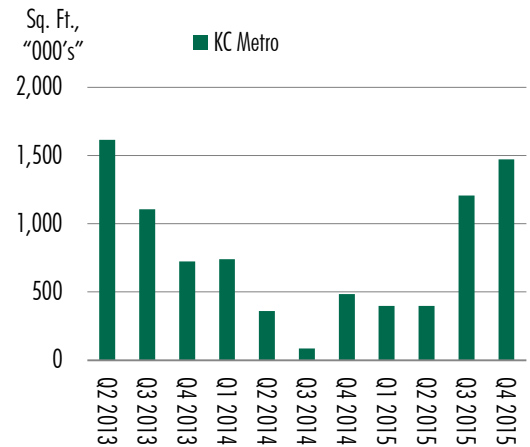
Construction activity in Q4 2015 totaled 1,472,650 sq. ft. under construction. Six buildings were currently underway, including the 311,000 sq. ft. expansion of the Burns & McDonnell headquarters in the South Kansas City, MO submarket; a new 100,000 sq. ft. headquarters building for Dairy Farmers of America which will move across the state line from Kansas City, MO to Kansas City, KS; a 166,650 sq. ft. co-working office facility called Plexpod Westport Commons; and three buildings totaling 895,000 sq. ft. which are the first to break ground at the new Cerner Trails Campus in the South Kansas City, MO submarket. Cerner’s Trails Campus is a \$4.45 billion project and will feature 4.3 million sq. ft. of office space, making it the “largest economic development project in Missouri history”, according to governor Jay Nixon, and will be the largest office development in the Kansas City metro, surpassing the Sprint Campus in Overland Park, KS which has 3.9 million sq. ft. Development will take place in several phases over the next 10 years and will eventually result in 16,000 new Cerner employees. The site is located at the former Bannister Mall, which was demolished in 2009 and includes approximately \$1.75 billion in public tax subsidies.

Figure 8: Unemployment Rate



Source: U.S. Bureau of Labor Statistics, November 2015.

Figure 9: Construction Activity

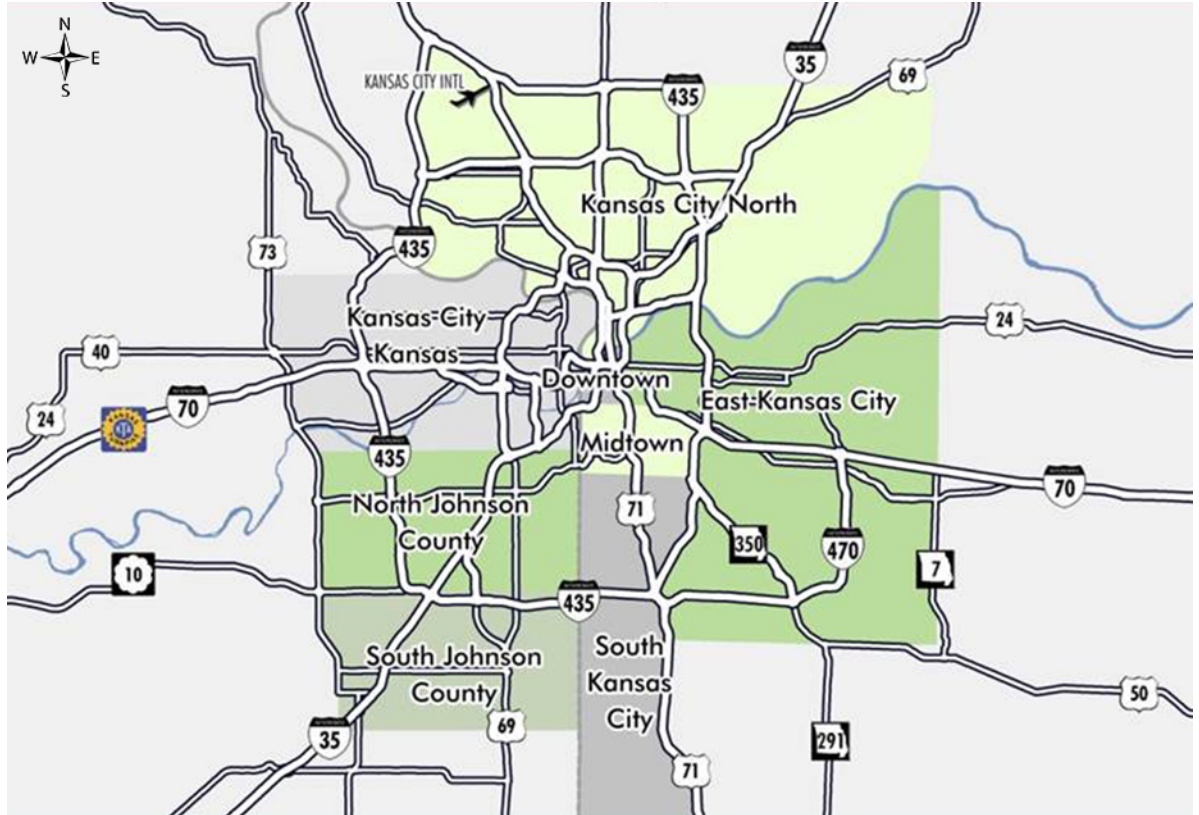


Source: CBRE Research, Q4 2015.

Figure 10: Dairy Farmers of America headquarters



Source: Kansas City Business Journal, February 2015.


CONTACTS

David Ronsick
Research Analyst
 816 968 5879
 david.ronsick@cbre.com

Eric Franz
Research Coordinator
 816 968 5889
 eric.franz@cbre.com

CBRE OFFICES

Kansas City Office
 4520 Main St., Suite 600
 Kansas City, MO 64111

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.com/researchgateway.