

KANSAS CITY OFFICE MARKET

RENTAL RATES RISE TO RECORD HIGHS; VACANCY DROPS TO RECORD LOWS

The Kansas City office market realized its 20th consecutive quarter of increased asking rental rates in the third quarter of 2018, while vacancy decreased 20 basis points over the past year, from 9.2% to 9.0%. Total net absorption in the third quarter measured 1,530 square feet, bringing the total for the past four quarters to 195,666 square feet. Construction projects currently underway totaled 60,000 square feet. No projects delivered to the market during the quarter.

2345 GRAND SELLS TO AN EAST COAST JOINT VENTURE INVESTMENT GROUP

Overall vacancy dropped to a 17-year record low in the Downtown/Crown Center submarket, as out-of-town investors expanded their office portfolios by acquiring value-add investment properties situated in Kansas City's key business district.

One of Kansas City's largest multi-tenant office buildings traded in July to a joint venture formed by Richmond, Virginia-based real estate investment firm Lingerfelt Commonwealth Partners, LLC and Boston-based real estate investment firm CrossHarbor Capital Partners, LLC. Wakefield, Massachusetts-based Franklin Street Properties sold 2345 Grand, a 535,810-square-foot, 28-story tower and accompanying 94,190-square-foot annex building located at 2380 McGee Street. The Class A 2345 Grand and the annex building are located on a 2.5-acre site in Crown Center. They both delivered to the market in 1978, with the most recent major renovations occurring in 2005. 2345 Grand was 73.0% occupied at the time of sale with anchor tenants that included multi-service law firms Lathrop Gage LLP and Armstrong Teasdale LLC. Franklin Street Properties last purchased the property in 2007 for \$75.0 million, or \$119/SF.

The new ownership group included strengthening market fundamentals, steady leasing demand, positive net absorption and upward pressure on rental rates in the metro as key factors for its first purchase in the Kansas City market. As a value-add investment, the property may see increased cash flows following significant improvements the joint venture plans on making within the next year. Renovations are expected to include a new lobby, lower-level community common areas, the ground-floor retail portion of the annex building, and upgrades to the fitness and locker room facilities, conference center and tenant lounge areas.

CURRENT CONDITIONS

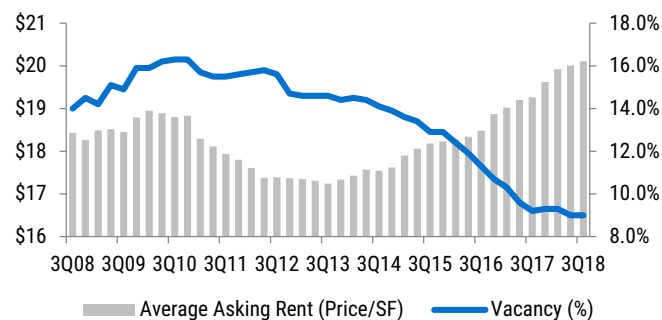
Positive net absorption combined with limited deliveries is keeping overall vacancy at record lows. Asking rental rates increased to record highs in the third quarter of 2018.

2345 Grand sells to the joint venture group of Lingerfelt Commonwealth Partners, LLC and CrossHarbor Capital Partners, LLC.

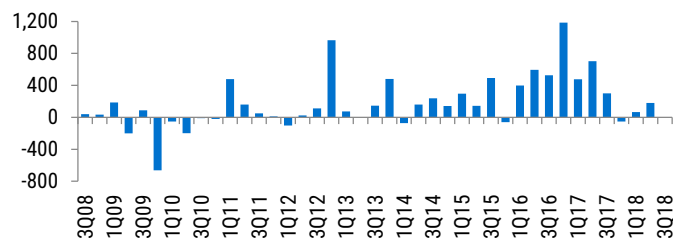
TrialCard to create 225 jobs at its new contact center in the northland. New Directions Behavioral Health to lease 78,060 SF at the Sprint Campus.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	74 MSF	74 MSF	74 MSF	↔
Vacancy Rate	9.0%	9.0%	9.2%	↓
Quarterly Net Absorption	1,530	180,142	299,454	↑
Average Asking Rent	\$20.11	\$20.01	\$19.26	↑
Under Construction	60,000	60,000	77,985	↑
Deliveries	0	0	0	↔

TRIALCARD TO HIRE 225 POSITIONS AT ITS NEW CONTACT CENTER IN THE NORTHLAND

A technology-enabled pharmaceutical solutions company, TrialCard, Inc., announced in July it will create 225 new jobs at a new contact center in Kansas City, Missouri. The North Carolina-based company will occupy a 23,000-square-foot space in the Kansas City Business Center, located at 2001 Northeast 46th Street. The 320,000-square-foot, one-story building was selected in part for its large floorplates, which can accommodate future growth requirements for TrialCard. The Kansas City location will provide patient support services.

NEW DIRECTIONS BEHAVIORAL HEALTH TO LEASE 78,060 SQUARE FEET ON THE SPRINT CAMPUS

New Directions Behavioral Health, LLC, a locally based behavioral healthcare company, will move its headquarters from Kansas City, Missouri, to Overland Park, Kansas, in April 2019. The new, 78,060-square-foot operation, located at 6100 Sprint Parkway at the 191-acre Sprint campus, will offer the firm a modern facility with room to expand in the 343,000-square-foot building. The firm will eventually exit its current space at 8140 Ward Parkway, a Class A, 220,000-square-foot property in the South Kansas City submarket.

OVERALL MARKET VACANCY SHOULD RANGE FROM 8.5% TO 9.5% FOR THE NEXT FOUR QUARTERS

Demonstrating the strength of the Kansas City market, various firms decided to enter the market or expand current operations during the quarter. In addition to Lingerfelt CommonWealth Partners, LLC and CrossHarbor Capital Partners, LLC's purchase of 2345 Grand, there was TrialCard's new, 225-employee contact center, Burns and McDonnell's \$42.0 million expansion of its local headquarters and Aetna's 27,950-square-foot lease in 40 Corporate Woods.

Leasing opportunities for Class A space in the East Jackson County, Midtown/Plaza, South Kansas City and Southeast Jackson County submarkets will remain tight, as vacancy currently ranges from 1.3% to 8.0%, with vacancy in Wyandotte County at 0.0% because the only building in the submarket is fully occupied. Overall market vacancy should range from 8.5% to 9.5% for the next four quarters.

Build-to-suit and speculative construction projects are slowly starting to occur after being nonexistent for years, but they are still not substantial enough in size to alter vacancy rates. Asking rental rates have trended upward for the past 20 quarters and are expected to range from \$19.95/SF to \$20.40/SF for the next four quarters.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
New Directions Behavioral Health	6100 Sprint Pkwy	South Johnson County	New	78,060
Concorde Career College	5800 Foxridge Dr	North Johnson County	Renewal	24,450
TrialCard, Inc.	2001 NE 46th St	Northland	New	23,000
Alliance Shippers, Inc.	5700 Broadmoor St	North Johnson County	Renewal	11,880

SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
15405 College Blvd	South Johnson County	\$6,600,000	\$110	60,000
6299 Nall Ave	North Johnson County	\$3,188,000	\$112	28,580
10510 N Ambassador Dr	Northland	\$3,910,000	\$186	21,000
1601 Iron St	Northland	\$2,250,000	\$132	17,000
11251 Nall Ave	South Johnson County	\$1,960,000	\$166	11,830
108 W 19th St	Downtown/Crown Center	\$1,320,000	\$73	18,000

SUBMARKET STATISTICS

Submarket	Class	Total Number of Buildings	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	ALL	178	20,443,867	0	8.70%	-9,662	76,416	\$19.26
	Class A	24	7,739,201	0	14.50%	34,711	110,800	\$20.65
	Class B	117	10,325,457	0	5.60%	-26,894	-16,905	\$17.67
	Class C	37	2,379,209	0	3.20%	-17,479	-17,479	\$17.84
East Jackson Co.	ALL	79	4,118,700	0	4.90%	16,032	32,622	\$19.61
	Class A	3	250,292	0	8.00%	0	-4,574	\$25.37
	Class B	49	2,676,610	0	5.50%	11,450	8,963	\$16.93
	Class C	27	1,191,798	0	2.80%	4,582	28,233	\$15.77
Midtown/Plaza	ALL	84	6,401,492	0	4.40%	18,651	41,324	\$23.39
	Class A	14	2,543,098	0	6.20%	-30,276	-5,484	\$23.75
	Class B	48	2,999,622	0	3.10%	12,667	16,407	\$21.65
	Class C	22	858,772	0	4.10%	36,260	30,401	\$19.31
North Johnson Co.	ALL	131	6,761,691	60,000	9.10%	-14,892	1,916	\$21.33
	Class A	13	1,288,532	60,000	11.40%	0	4,124	\$26.35
	Class B	97	4,773,652	0	8.20%	-14,242	-768	\$18.88
	Class C	21	699,507	0	10.50%	-650	-1,440	\$13.60
Northland	ALL	93	6,526,517	0	20.40%	-110,308	-198,210	\$17.19
	Class A	7	880,662	0	37.70%	-83,817	-103,625	\$20.99
	Class B	71	5,127,563	0	18.70%	-26,491	-93,250	\$16.08
	Class C	15	518,292	0	7.60%	0	-1,335	\$13.99
South Johnson Co.	ALL	275	19,743,669	0	9.10%	112,308	228,158	\$22.34
	Class A	65	8,109,735	0	10.80%	17,643	-67,000	\$23.71
	Class B	195	10,489,148	0	8.80%	92,986	221,207	\$21.25
	Class C	15	1,144,786	0	0.90%	1,679	73,951	\$17.07
South Kansas City	ALL	56	6,396,028	0	8.30%	333	7,380	\$19.10
	Class A	15	3,466,643	0	1.30%	0	42,355	\$19.98
	Class B	38	2,834,483	0	16.40%	333	-34,975	\$19.19
	Class C	3	94,902	0	24.20%	0	0	\$15.00
Southeast Jackson Co.	ALL	16	1,542,739	0	3.30%	-13,240	43,510	\$18.90
	Class A	2	103,442	0	2.10%	0	36	\$24.50
	Class B	12	1,366,668	0	3.30%	-13,240	43,474	\$18.92
	Class C	2	72,629	0	4.90%	0	0	\$17.50
Wyandotte Co.	ALL	40	2,390,263	0	5.10%	2,308	14,875	\$16.05
	Class A	1	71,979	0	0.00%	0	0	\$20.00
	Class B	25	1,625,053	0	3.00%	-959	10,723	\$16.89
	Class C	14	693,231	0	10.30%	3,267	4,152	\$14.86
Kansas City Market	ALL	952	74,324,966	60,000	9.00%	1,530	247,991	\$20.11
	Class A	144	24,453,584	60,000	11.00%	-61,739	-23,368	\$22.52
	Class B	652	42,218,256	0	8.60%	35,610	154,876	\$18.68
	Class C	156	7,653,126	0	4.80%	27,659	116,483	\$17.96

SUBMARKET STATISTICS – CLASS A

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	7,739,201	0	14.50%	34,711	110,800	\$21.07	\$17.88	\$20.65
East Jackson County	250,292	0	8.00%	0	-4,574	\$22.83	\$26.09	\$25.37
Midtown/Plaza	2,543,098	0	6.20%	-30,276	-5,484	\$24.45	\$21.82	\$23.75
North Johnson County	1,288,532	60,000	11.40%	0	4,124	\$26.38	\$24.41	\$26.35
Northland	880,662	0	37.70%	-83,817	-103,625	\$20.96	\$28.00	\$20.99
South Johnson County	8,109,735	0	10.80%	17,643	-67,000	\$24.25	\$18.65	\$23.71
South Kansas City	3,466,643	0	1.30%	0	42,355	\$19.98	-	\$19.98
Southeast Jackson County	103,442	0	2.10%	0	36	\$24.50	-	\$24.50
Wyandotte County	71,979	0	0.00%	0	0	\$20.00	-	\$20.00
Kansas City Market	24,453,584	60,000	11.00%	-61,739	-23,368	\$22.79	\$20.22	\$22.52

SUBMARKET STATISTICS – CLASS B

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown/Crown Center	10,325,457	0	5.60%	-26,894	-16,905	\$17.66	\$19.00	\$17.67
East Jackson County	2,676,610	0	5.50%	11,450	8,963	\$16.93	-	\$16.93
Midtown/Plaza	2,999,622	0	3.10%	12,667	16,407	\$21.65	\$19.50	\$21.65
North Johnson County	4,773,652	0	8.20%	-14,242	-768	\$18.90	\$17.23	\$18.88
Northland	5,127,563	0	18.70%	-26,491	-93,250	\$16.27	\$12.79	\$16.08
South Johnson County	10,489,148	0	8.80%	92,986	221,207	\$21.28	\$16.83	\$21.25
South Kansas City	2,834,483	0	16.40%	333	-34,975	\$19.22	\$18.27	\$19.19
Southeast Jackson County	1,366,668	0	3.30%	-13,240	43,474	\$18.92	-	\$18.92
Wyandotte County	1,625,053	0	3.00%	-959	10,723	\$16.89	-	\$16.89
Kansas City Market	42,218,256	0	8.60%	35,610	154,876	\$18.76	\$15.23	\$18.68

ECONOMIC CONDITIONS

The local economy continued to improve through August, with total employment growth of 1.8% and positive growth occurring in eight out of ten industries, calculated on a 12-month percent change basis.

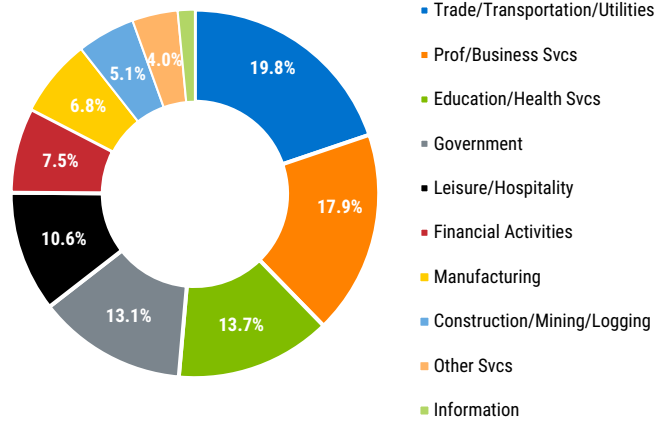
Payroll employment in Kansas City increased 40 basis points compared to the prior year registering 1.8% in August 2018. The national average increased 10 basis points to 1.7%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States increased 80 basis points to 2.7% over the past year. The Midwest Urban CPI increased 60 basis points to 2.1% in August 2018.

Unemployment in the United States increased 10 basis points to 3.9% in August, while unemployment in Kansas City decreased 50 basis points to 3.2% over the past quarter. Unemployment in Kansas City decreased 60 basis points from a year prior.

EMPLOYMENT BY INDUSTRY

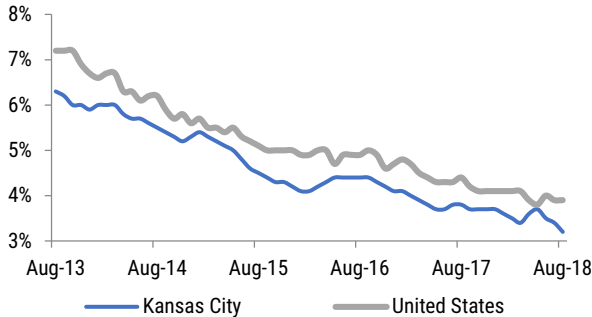
Kansas City, August 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

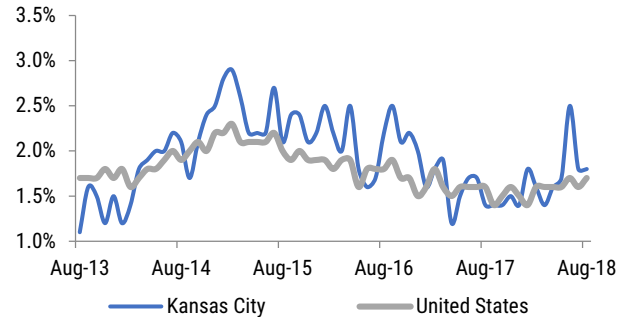
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

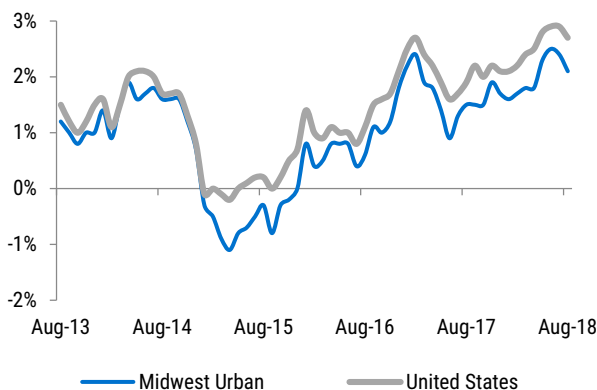
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

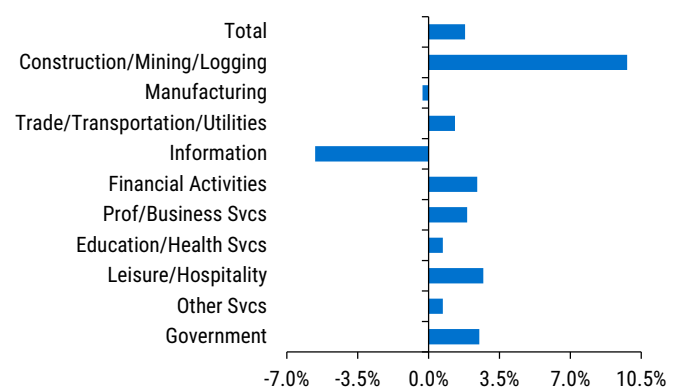
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

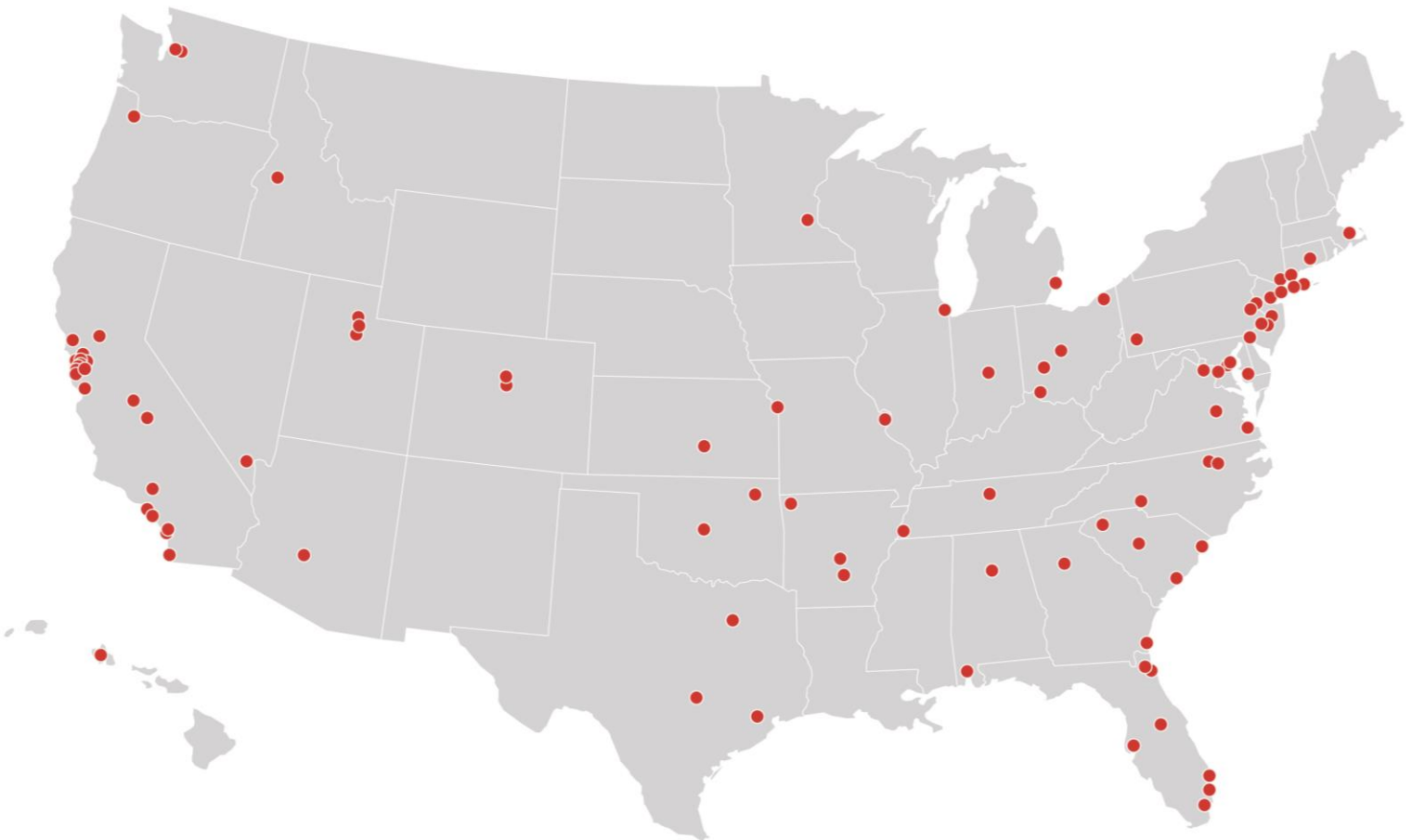
EMPLOYMENT GROWTH BY INDUSTRY

KC, August 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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