



**KANSAS CITY
4Q17 OFFICE MARKET**

**YEAR-TO-DATE NET
ABSORPTION SURPASSES 1.3
MILLION SQUARE FEET**

The Kansas City office market realized its 17th consecutive quarter of increased asking rental rates in the fourth quarter of 2017, while vacancy decreased 120 basis points over the past year, from 11.2% to 10.0%. Total net absorption in the fourth quarter measured negative 129,039 square feet, bringing year-to-date absorption to 1.3 million square feet. Current projects under construction remained flat at 145,745 square feet during the quarter, as no project delivered to the market.

Swiss Re Will Relocate from Overland Park to Downtown

Switzerland-based reinsurance firm Swiss Re announced it will relocate its local operations from its current location at 5200 Metcalf Avenue in Overland Park to One Kansas City Place, located at 1200 Main Street in Downtown Kansas City, Missouri. As Swiss Re's second-largest office in the United States, the move is expected to bring 400 jobs across the state line to occupy 120,180 square feet of the 42-story high-rise. The firm could receive up to \$19.8 million in public incentives over the next five years through the Missouri Works program. The move is expected to be completed by the end of 2018. The news follows last quarter's announcement that Spring Venture Group would relocate and expand its headquarters from a 60,000-square-foot space at 2301 McGee Street in Crown Center to a 130,000-square-foot space at 12 Wyandotte Plaza in the Downtown Central Business District.

College Oaks Office Portfolio Sale Highlights Demand from Out-of-Town REITs

A three-building office portfolio traded in South Johnson County. Farmers Group, Inc., a California-based multiline insurance firm, sold the portfolio to North Dakota-based real estate investment trust Sterling Office and Industrial Trust. College Oaks, a three-building office complex located at 11880 and 11600 College Boulevard and 10985 Cody Avenue in Overland Park, traded for an undisclosed amount. Recently appraised by the county at \$19.9 million, the Class B office complex, totaling 227,000 square feet, consists of College Oaks A, a 160,000-square-foot, five-story building built in 1980; College Oaks C, a 31,000-square-foot, two-story building built in 1985; and College Oaks D, a 36,000-square-foot, two-story building built in 1987.

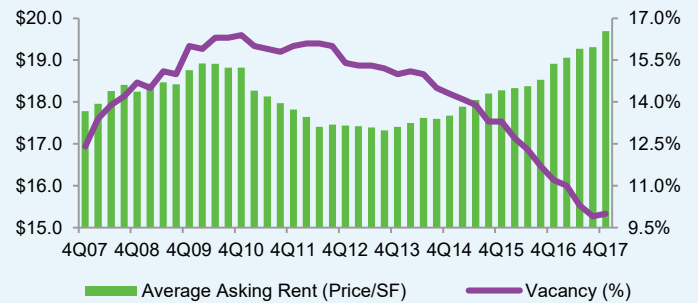
The office park contains over 25 tenants, including Preferred Physicians Medical, Meadowbrook Insurance Group, New Horizons Computer Learning Centers, Rasmussen College and Nations Default Services. A total of 48,890 square feet is currently available in the complex, with quoted rental rates between \$19.50/SF and \$21.00/SF. This was the first disposition of the College Oaks portfolio since it was originally developed for Farmers Insurance.

Current Conditions

- Rental rates rise for the 17th consecutive quarter.
- Swiss Re will relocate from Overland Park to Downtown.
- Farmers Group, Inc. sells College Oaks office portfolio.
- Sprint makes 284,000 SF of space available for lease at its HQ campus.
- \$93.0 million, 46 Penn Centre tower officially breaks ground.
- Highwoods sells its last fully-owned office property in KC.

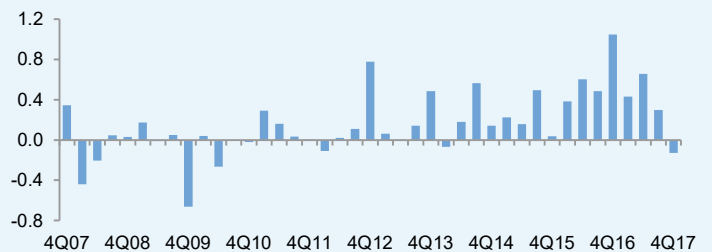
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	73MSF	73MSF	72MSF	↔
Vacancy Rate	10.0%	9.9%	11.2%	↓
Quarterly Net Absorption	-129,039	297,267	1,046,759	↑
Average Asking Rent	\$19.69	\$19.31	\$18.91	↑
Under Construction	145,745	77,985	410,066	↔
Deliveries	0	0	805,000	↑



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Net Absorption Will Decrease as 284,000 Square Feet of Class A Space Becomes Available for Lease at the Sprint Campus

The Sprint effect will continue into the new year, as the firm announced it would make 284,000 square feet of Class A space available for lease at its corporate campus in Overland Park. Located in two separate buildings at 6300 and 6330 Sprint Parkway, the space was made available from consolidating vacancies and employee relocations. Space is currently for rent at \$19.50/SF plus electric.

\$93.0 Million 46 Penn Centre Project Officially Breaks Ground

46 Penn Centre, a \$93.0 million office tower project, will provide Class A office space in a tight Plaza submarket area. Officially breaking ground in October, the 14-story 46 Penn Centre will contain 209,500 square feet of office space, 10,500 square feet of street-level restaurant and bank space and a 600-space parking garage. Located at 4622 Pennsylvania Avenue, the project will be the first multi-tenant office building completed in the area in 13 years. CrossFirst Bank has already signed a lease for 30,000 square feet of space across the entire top floor, a portion of the 13th floor and a retail banking space on the ground floor. 46 Penn Centre is scheduled to deliver to the market in late 2019.

Highwoods Sells Remaining Office Property in Kansas City

Once a key stakeholder in local real estate, Highwoods Properties, Inc. has disposed of its last fully owned property in the Kansas City market. The former owner of the Country Club Plaza portfolio and various surrounding office properties, Highwoods sold Two Brush Creek to local developer NorthPoint Development. Located east of the Plaza at 2 Emanuel Cleaver II Boulevard, the 67,420-square-foot, five-story property sold for \$10.3 million, equating to \$153/SF. Originally built in

1983, the building will be redeveloped into a high-end senior-living community, scheduled to open in the first quarter of 2019.

EXPECT THE OVERALL MARKET VACANCY TO FALL TOWARD 9.5% AND ASKING RENTAL RATES TO SLOWLY RISE TO \$19.85/SF IN 2018

The Kansas City office sector finished the year strong, as out-of-town institutional investors and local development entities continued to invest in the market. Sales transaction volume in 2018 is expected to stay on pace with 2017, with sales interest expected to continue from major out-of-town investors. Outside the Downtown submarket, leasing opportunities for Class A space in East Jackson County, Midtown/Plaza, South Kansas City and Southeast Jackson County submarkets will remain tight, as vacancy currently ranges from 2.2% to 5.7%. Asking rental rates have increased for the past 17 quarters, with an impressive 120-basis-point decrease in vacancy over the past four quarters. Expect the overall market vacancy to fall toward 9.5% and asking rental rates to slowly rise to \$19.85/SF in 2018.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Swiss Re	1200 Main St	Downtown/Crown Center	New	120,180
Lockton Affinity, LLC	10895 Lowell Ave	South Johnson County	New	50,210
CrossFirst Bank	46 Penn Centre	Midtown/Plaza	New Construction	30,000
Sunderland	5700 W 112 th St	South Johnson County	New	14,210
Card Connect	1828 Walnut St	Downtown/Crown Center	New	11,150

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
2323 Grand Blvd	Downtown/Crown Center	\$32,000,000	\$100	320,980
201 E Armour Blvd	Midtown/Plaza	\$4,500,000	\$50	90,330
2 Emanuel Cleaver II Blvd ¹	Midtown/Plaza	\$10,300,000	\$153	67,420
5200 W 110 th St	South Johnson County	\$6,300,000	\$123	51,180
908 Broadway	Downtown/Crown Center	\$5,108,000	\$160	32,000
11030 Oakmont Dr	South Johnson County	\$1,050,000	\$140	7,500

¹Redevelopment conversion from office to senior housing. High vacancy at time of sale.



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Submarket Statistics

Submarket Cluster	Class	# of Buildings	Total Inventory (SF)	Total Vacancy Rate	Qtr. Absorption (SF)	YTD Absorption (SF)	Under Construction (SF)	Total Asking Rent (FSG)
Downtown/Crown Center		170	19,607,374	9.60%	17,974	636,669	0	\$18.97
	Class A	23	7,464,940	14.70%	16,207	161,899	0	\$20.30
	Class B	108	9,715,677	6.30%	-11,160	469,297	0	\$17.63
	Class C	39	2,426,757	7.00%	12,927	5,473	0	\$15.48
East Jackson County		79	4,115,380	5.70%	-4,719	194,019	67,760	\$17.57
	Class A	3	250,292	6.20%	0	-11,723	0	\$25.10
	Class B	48	2,649,290	6.10%	1,761	198,372	67,760	\$15.60
	Class C	28	1,215,798	4.60%	-6,480	7,370	0	\$14.38
Midtown/Plaza		84	6,451,502	5.00%	31,834	230,533	0	\$20.91
	Class A	14	2,542,906	5.30%	-20,237	6,546	0	\$24.16
	Class B	48	3,061,698	3.90%	24,071	157,134	0	\$22.45
	Class C	22	846,898	7.80%	28,000	66,853	0	\$14.45
North Johnson County		135	7,206,580	10.60%	-29,395	-61,912	0	\$20.81
	Class A	15	1,636,991	14.20%	0	-22,964	0	\$24.65
	Class B	99	4,875,482	9.40%	-11,139	-16,498	0	\$19.53
	Class C	21	694,107	10.20%	-18,256	-22,450	0	\$14.66
Northland		88	6,312,029	18.00%	87,574	37,573	0	\$16.75
	Class A	7	880,662	26.00%	3,688	1,635	0	\$20.98
	Class B	67	4,939,293	17.60%	82,118	31,187	0	\$15.75
	Class C	14	492,074	8.00%	1,768	4,751	0	\$13.69
South Johnson County		271	19,187,602	10.10%	-149,005	73,544	77,985	\$22.28
	Class A	62	7,656,860	9.80%	-107,609	175,085	77,985	\$24.55
	Class B	193	10,415,615	10.60%	-42,466	-178,385	0	\$20.13
	Class C	16	1,115,127	7.50%	1,070	76,844	0	\$17.81
South Kansas City		54	6,138,599	9.70%	-27,925	187,209	0	\$18.42
	Class A	14	3,306,781	2.70%	0	257,940	0	\$20.30
	Class B	37	2,736,916	17.70%	-27,925	-70,731	0	\$17.90
	Class C	3	94,902	24.20%	0	0	0	\$15.00
Southeast Jackson County		17	1,582,826	8.10%	-57,138	-45,628	0	\$18.43
	Class A	2	103,442	2.20%	0	2,167	0	\$24.50
	Class B	13	1,406,755	8.70%	-57,138	-47,795	0	\$18.49
	Class C	2	72,629	4.90%	0	0	0	\$17.50
Wyandotte County		39	2,523,263	13.60%	1,761	3,506	0	\$16.34
	Class A	2	301,979	69.40%	0	-17,005	0	\$20.00
	Class B	24	1,550,053	3.90%	1,761	10,382	0	\$17.56
	Class C	13	671,231	10.90%	0	10,129	0	\$14.71
Kansas City Market		937	73,125,155	10.00%	-129,039	1,255,513	145,745	\$19.69
	Class A	142	24,144,853	11.40%	-107,951	553,580	77,985	\$22.44
	Class B	637	41,350,779	9.60%	-40,117	552,963	67,760	\$18.22
	Class C	158	7,629,523	7.70%	19,029	148,970	0	\$14.97



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Submarket Statistics – Class A

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (FSG)	Sublet Asking Rent (FSG)	Total Asking Rent (FSG)
Downtown/Crown Center	7,464,940	0	14.70%	16,207	161,899	\$20.59	\$17.70	\$20.30
East Jackson County	250,292	0	6.20%	0	-11,723	\$22.03	\$26.09	\$25.10
Midtown/Plaza	2,542,906	0	5.30%	-20,237	6,546	\$24.19	\$22.90	\$24.16
North Johnson County	1,636,991	0	14.20%	0	-22,964	\$24.65	-	\$24.65
Northland	880,662	0	26.00%	3,688	1,635	\$20.94	\$28.00	\$20.98
South Johnson County	7,656,860	77,985	9.80%	-107,609	175,085	\$23.90	\$27.67	\$24.55
South Kansas City	3,306,781	0	2.70%	0	257,940	\$20.30	-	\$20.30
Southeast Jackson County	103,442	0	2.20%	0	2,167	\$24.50	-	\$24.50
Wyandotte County	301,979	0	69.40%	0	-17,005	\$20.00	-	\$20.00
Kansas City Market	24,144,853	77,985	11.40%	-107,951	553,580	\$22.21	\$24.11	\$22.44

Submarket Statistics – Class B

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (FSG)	Sublet Asking Rent (FSG)	Total Asking Rent (FSG)
Downtown/Crown Center	9,715,677	0	6.30%	-11,160	469,297	\$17.56	\$19.85	\$17.63
East Jackson County	2,649,290	67,760	6.10%	1,761	198,372	\$15.60	-	\$15.60
Midtown/Plaza	3,061,698	0	3.90%	24,071	157,134	\$22.45	-	\$22.45
North Johnson County	4,875,482	0	9.40%	-11,139	-16,498	\$19.51	\$18.58	\$19.53
Northland	4,939,293	0	17.60%	82,118	31,187	\$15.83	\$13.02	\$15.75
South Johnson County	10,415,615	0	10.60%	-42,466	-178,385	\$20.14	\$18.18	\$20.13
South Kansas City	2,736,916	0	17.70%	-27,925	-70,731	\$18.53	\$14.49	\$17.90
Southeast Jackson County	1,406,755	0	8.70%	-57,138	-47,795	\$18.49	-	\$18.49
Wyandotte County	1,550,053	0	3.90%	1,761	10,382	\$17.56	-	\$17.56
Kansas City Market	41,350,779	67,760	9.60%	-40,117	552,963	\$18.29	\$16.37	\$18.22



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4Q17 OFFICE MARKET**

ECONOMIC CONDITIONS

The local economy continued to improve through November, with total employment growth of 1.2% and positive growth occurring in six out of ten industries, calculated on a 12-month percent change basis.

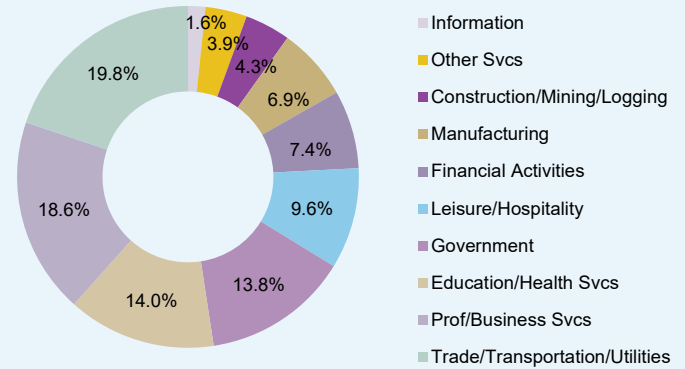
Payroll employment in Kansas City decreased 90 basis points compared to the prior year registering 1.2% in November 2017. The national average decreased 20 basis points to 1.4%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States increased 50 basis points to 2.2% over the past year. The Midwest Urban CPI increased 70 basis points to 1.9% in November 2017.

Unemployment in the United States decreased 30 basis points to 4.1% in November, while unemployment in Kansas City decreased 20 basis points to 3.7% over the past quarter. Unemployment in Kansas City decreased 60 basis points from a year prior.

Employment By Industry

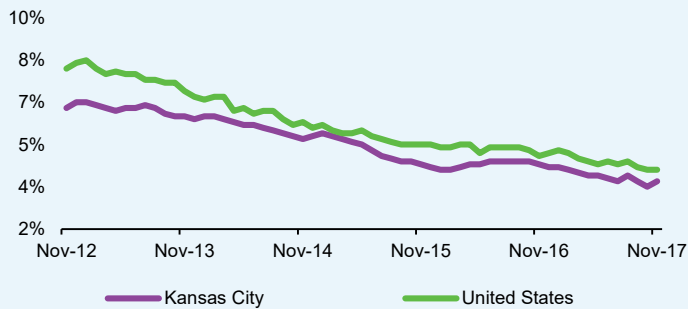
Kansas City, November 2017



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

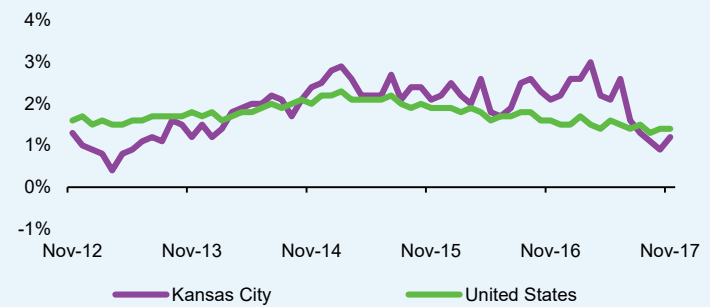
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Payroll Employment

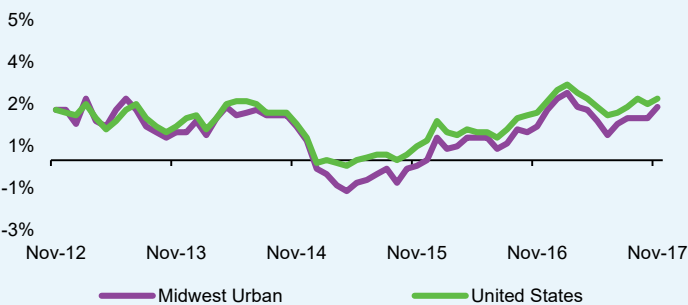
Total Nonfarm, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics,

Consumer Price Index (CPI)

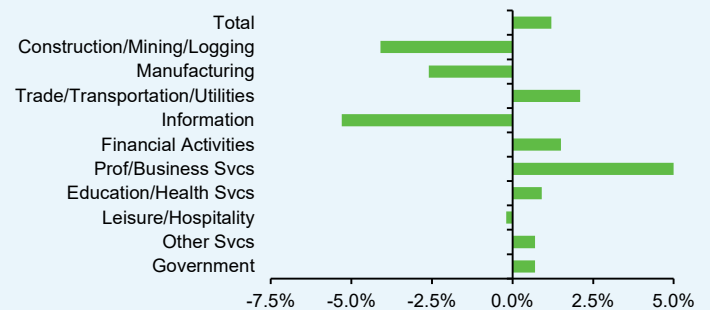
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

Kansas City, November 2017, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



Kansas City, MO

1220 Washington Street
Suite 300
Kansas City, MO 64105
816.474.2000

Lee's Summit, MO

1485 SW Market Street
Lee's Summit, MO 64081
816.474.2000

St. Louis, MO

8235 Forsyth Boulevard
Suite 310
Clayton, MO 63105
314.254.4600

Salina, KS

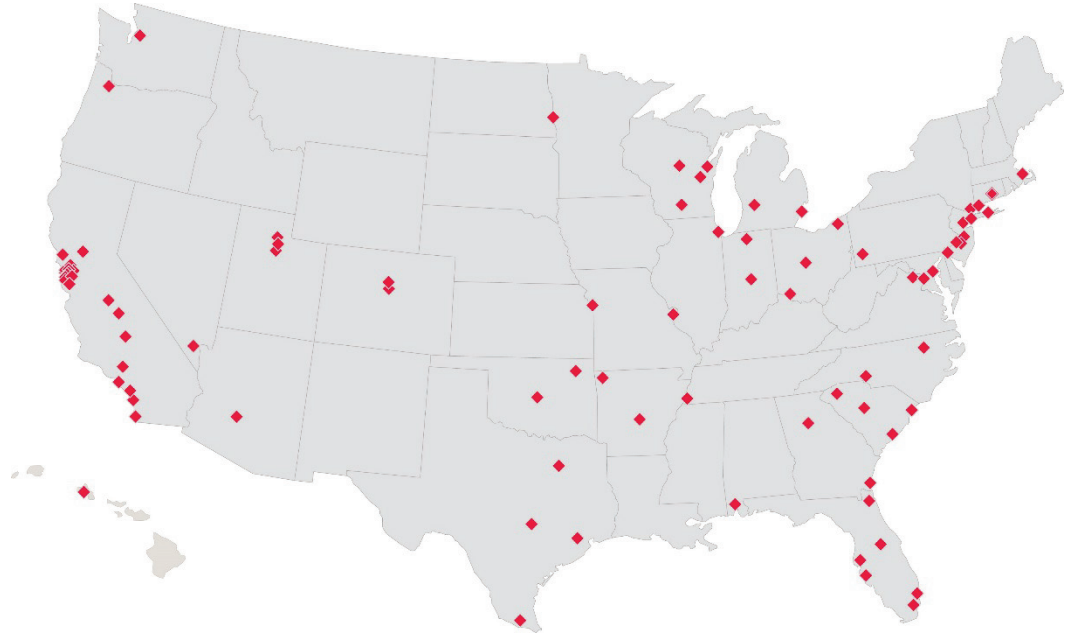
P.O. Box 3224
Salina, KS 67402
785.342.9106

Mark C. Long, SIOR, CCIM, LEED AP

Executive Managing Director, Principal
Kansas City
816.512.1011
mlong@ngzimmer.com

Andrew J. Garten

Director, Research
816.474.2000
agarten@ngzimmer.com

Newmark Knight Frank United States Office Locations


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