

KANSAS CITY OFFICE MARKET

VACANCY REMAINED AT RECORD LOWS; RENTAL RATES CLIMBED 3.0% IN 2018

The Kansas City office market realized its 21st consecutive quarter of increased asking rental rates in the fourth quarter of 2018, while vacancy remained flat over the past year at 9.0%. Total net absorption in the fourth quarter measured 151,258 square feet, bringing the total for the past four quarters to 282,190 square feet. Construction projects currently underway total 280,000 square feet. No projects delivered to the market during the quarter.

REFLECTIONS AT CITY CENTER IN LENEXA TO INCLUDE 315,000 SQUARE FEET OF OFFICE SPACE

The development pipeline remains strong in Lenexa, as developers of a 32-acre plot of land northwest of Renner Boulevard and 93rd Street plan to construct Reflections at City Center, an upscale office park, near Lenexa City Center.

Current plans for Reflections at City Center include three Class A structures totaling approximately 315,000 square feet as well as three restaurants totaling 19,500 square feet. Hoping to create an aesthetically pleasing environment, the complex will include walkable paths, sculptures, modern exterior lighting and reflection pools. Walking paths will be created so workers can easily access Lenexa City Center.

The Lenexa City Council approved tax increment financing for the project in November. The 20-year TIF plan would reimburse the developer up to \$26.7 million for expenses. Reflections at City Center will break ground pending an anchor tenant.

FORMER DAIRY FARMERS OF AMERICA BUILDING SELLS TO LOCAL INVESTMENT GROUP

One of the Northland's largest multi-tenant office buildings traded during the quarter to a local investor group. Newmark Grubb Zimmer successfully brokered the sale of Northpointe Tower, a 109,190-square-foot multi-tenant suburban office building located at 10220 North Ambassador Drive in Kansas City, Missouri.

The property was 25.0% occupied at the time of the sale after the anchor tenant, Dairy Farmers of America, moved to its new headquarters in Kansas City, Kansas, in 2017. The seller was BACM 2006-5 North Ambassador Drive, LLC.

CURRENT CONDITIONS

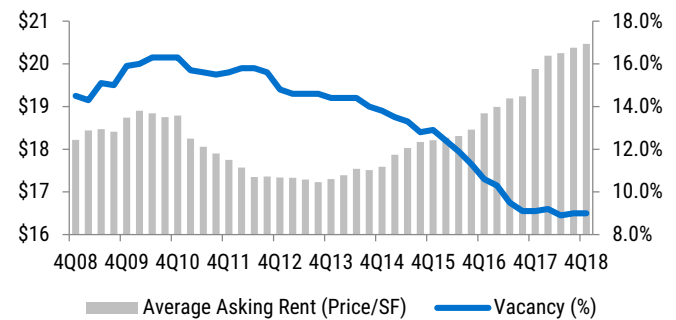
282,190 SF of positive net absorption combined with limited deliveries kept overall vacancy at record lows in 2018. Asking rental rates increased from \$19.88/SF to \$20.47/SF over the past year.

Reflections at City Center to bring 315,000 SF of upscale Class A office space to Lenexa.

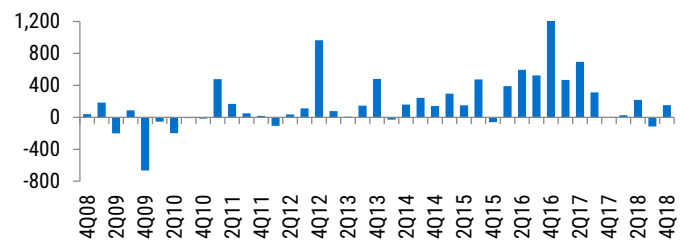
Former Dairy Farmers of America building, Northpointe Tower sells to local investor group.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	75 MSF	75 MSF	74 MSF	↔
Vacancy Rate	9.0%	9.0%	9.1%	↓
Quarterly Net Absorption	151,258	-113,658	-1,232	↑
Average Asking Rent	\$20.47	\$20.38	\$19.88	↑
Under Construction	280,000	280,000	297,985	↑
Deliveries	0	0	0	↔

SHS TO BACKFILL GOULD EVANS' SPACE AT MANOR SQUARE OFFICE

Sullivan Higdon & Sink (SHS), a top local marketing communications agency, will move its headquarters from its current location in the Crossroads Arts District to Westport. SHS will backfill Gould Evans' 42,000-square-foot space located at 4041 Mill Street, as the architecture design and planning firm announced in October its intention to relocate down the block into 100 Westport Square.

As a result of SHS' growth over the past three years, the firm's current 26,000-square-foot space can no longer accommodate its workforce, which has grown 43.0% to 124 employees. The new space at Manor Square Office will also offer ample covered parking, an issue that continues to impede various potential tenants in the Crossroads Arts District. SHS is expected to move its headquarters by November 2019.

Gould Evans will exit its current 42,000-square-foot space for a smaller footprint, relocating from Manor Square Office into the entire 22,130-square-foot space at 100 Westport Square. Located at 4200 Pennsylvania Avenue in Westport, the two-story building was originally constructed in 1910, allowing the firm to potentially capture historic tax credits. The new space will include modern features such as a dedicated makerspace with digital and physical modeling tools, a social zone for meetings and events, a loft quiet space, four-directional natural lighting and an outdoor patio. Gould Evans is expected to move in the first quarter of 2019.

AVERAGE ASKING RENTAL RATES ARE EXPECTED TO RANGE FROM \$20.30/SF TO \$20.85/SF

Demonstrating the strength of the Kansas City market, various firms decided to enter the market, expand current operations there or stay within the metro during the quarter. In addition to Gould Evans and Sullivan Higdon & Sink, BRR Architecture announced its intention to relocate by early 2020 from Merriam, Kansas, to a 35,000-square-foot space at Avenue 82 in Overland Park. Knight Nicastro LLC doubled its footprint in Kansas City by moving into a 7,960-square-foot space in the CBD. Superior Bowen also doubled in size, by consolidating operations into a 30,000-square-foot space within the McQueeny Lock building. Lastly, Nabholz Construction moved into its new, 20,000-square-foot headquarters located at 173000 West 116th Street in Olathe.

Leasing opportunities for Class A space will remain tight in the East Jackson County, Midtown/Plaza, South Kansas City, Southeast Jackson County and Wyandotte County submarkets, where vacancy currently ranges from 0.0% to 8.0%. Overall market vacancy should range from 8.5% to 9.5% in 2019, while average asking rental rates should keep trending upward and are expected to range from \$20.30/SF to \$20.85/SF.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Sullivan Higdon & Sink	4041 Mill St	Midtown	New	42,000
Gould Evans	4200 Pennsylvania Ave	Midtown	New	22,130
MetLife Financial Services	10801 Mastin St	South Johnson County	New	12,800
FSC, Inc.	9225 Indian Creek Pkwy	South Johnson County	Renewal	10,420

SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
7070 Renner Rd	North Johnson County	\$3,800,000	\$161	23,540
3171 NE Carnegie Dr	East Jackson County	\$1,750,000	\$117	15,000
19403 E 37th Ct S	East Jackson County	\$4,000,000	\$318	12,590
7221 W 79th St	North Johnson County	\$775,000	\$76	10,140
1105 S Ridgeview Rd	South Johnson County	\$900,000	\$96	9,360
8685 W 96th St	North Johnson County	\$700,000	\$103	6,820

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	20,438,053	0	8.20%	108,634	185,860	\$19.32
	Class A	24	7,739,201	0	13.20%	126,910	216,934	\$20.79
	Class B	117	10,319,643	0	5.70%	-26,934	-22,253	\$17.67
	Class C	37	2,379,209	0	2.80%	8,658	-8,821	\$17.81
East Jackson Co.	ALL	80	4,145,948	0	4.70%	6,147	39,378	\$19.60
	Class A	3	250,292	0	8.00%	0	-4,574	\$25.41
	Class B	49	2,676,610	0	5.20%	5,237	14,809	\$17.05
	Class C	28	1,219,046	0	2.70%	910	29,143	\$14.50
Midtown/Plaza	ALL	85	6,431,492	220,000	4.20%	-15,941	20,733	\$25.75
	Class A	14	2,543,098	0	5.50%	-7,251	11,807	\$22.81
	Class B	49	3,029,622	220,000	3.10%	-8,690	14,785	\$27.86
	Class C	22	858,772	0	4.10%	0	-5,859	\$24.72
North Johnson Co.	ALL	134	6,856,505	60,000	8.60%	23,154	40,717	\$21.83
	Class A	13	1,288,532	60,000	11.20%	-2,761	6,236	\$29.23
	Class B	100	4,868,466	0	8.50%	-17,535	-7,529	\$19.65
	Class C	21	699,507	0	4.30%	43,450	42,010	\$13.62
Northland	ALL	93	6,508,178	0	17.00%	183,337	24,494	\$17.35
	Class A	7	880,662	0	36.80%	8,175	-95,450	\$20.68
	Class B	71	5,109,224	0	15.00%	164,957	97,194	\$16.19
	Class C	15	518,292	0	2.90%	10,205	22,750	\$14.11
South Johnson Co.	ALL	275	19,747,541	0	10.10%	-114,031	-50,682	\$22.37
	Class A	65	8,109,735	0	10.80%	-24,461	-75,993	\$23.86
	Class B	196	11,226,420	0	9.80%	-89,570	31,260	\$21.07
	Class C	14	411,386	0	2.50%	0	-5,949	\$17.43
South Kansas City	ALL	57	6,443,373	0	8.20%	36,056	39,403	\$18.32
	Class A	15	3,466,643	0	1.30%	0	42,355	\$19.98
	Class B	39	2,881,828	0	15.90%	36,056	-2,952	\$18.32
	Class C	3	94,902	0	24.20%	0	0	\$15.00
Southeast Jackson Co.	ALL	16	1,542,739	0	8.70%	-82,557	-39,047	\$19.13
	Class A	2	103,442	0	2.10%	0	36	\$24.50
	Class B	12	1,366,668	0	9.40%	-82,557	-39,083	\$19.16
	Class C	2	72,629	0	4.90%	0	0	\$17.50
Wyandotte Co.	ALL	40	2,390,263	0	4.80%	6,459	21,334	\$15.97
	Class A	1	71,979	0	0.00%	0	0	\$20.00
	Class B	25	1,625,053	0	3.00%	643	11,366	\$16.72
	Class C	14	693,231	0	9.50%	5,816	9,968	\$14.86
Kansas City Market	ALL	958	74,504,092	280,000	9.00%	151,258	282,190	\$20.47
	Class A	144	24,453,584	60,000	10.50%	100,612	101,351	\$22.68
	Class B	658	43,103,534	220,000	9.00%	-18,393	97,597	\$19.25
	Class C	156	6,946,974	0	4.10%	69,039	83,242	\$17.87

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	13.20%	126,910	216,934	\$21.19	\$17.61	\$20.79
East Jackson County	250,292	0	8.00%	0	-4,574	\$23.00	\$26.09	\$25.41
Midtown/Plaza	2,543,098	0	5.50%	-7,251	11,807	\$23.70	\$20.97	\$22.81
North Johnson County	1,288,532	60,000	11.20%	-2,761	6,236	\$29.23	-	\$29.23
Northland	880,662	0	36.80%	8,175	-95,450	\$20.68	-	\$20.68
South Johnson County	8,109,735	0	10.80%	-24,461	-75,993	\$24.33	\$19.53	\$23.86
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	10.50%	100,612	101,351	\$23.00	\$20.15	\$22.68

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	10,319,643	0	5.70%	-26,934	-22,253	\$17.66	\$19.00	\$17.67
East Jackson County	2,676,610	0	5.20%	5,237	14,809	\$17.05	-	\$17.05
Midtown/Plaza	3,029,622	220,000	3.10%	-8,690	14,785	\$28.35	\$19.50	\$27.86
North Johnson County	4,868,466	0	8.50%	-17,535	-7,529	\$19.71	\$15.72	\$19.65
Northland	5,109,224	0	15.00%	164,957	97,194	\$16.43	\$12.98	\$16.19
South Johnson County	11,226,420	0	9.80%	-89,570	31,260	\$21.11	\$17.11	\$21.07
South Kansas City	2,881,828	0	15.90%	36,056	-2,952	\$18.33	\$17.23	\$18.32
Southeast Jackson County	1,366,668	0	9.40%	-82,557	-39,083	\$19.16	-	\$19.16
Wyandotte County	1,625,053	0	3.00%	643	11,366	\$16.72	-	\$16.72
Kansas City Market	43,103,534	220,000	9.00%	-18,393	97,597	\$19.34	\$15.19	\$19.25

ECONOMIC CONDITIONS

The local economy continued to improve through November, with total employment growth of 1.5% and positive growth occurring in eight out of ten industries, calculated on a 12-month percent change basis.

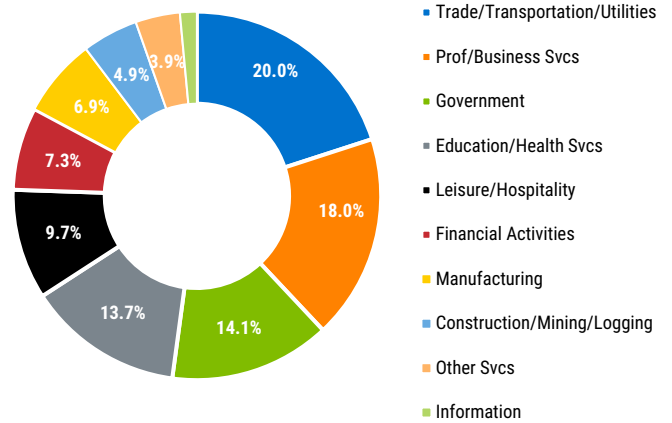
Payroll employment in Kansas City remained flat compared to the prior year registering 1.5% in November 2018. The national average also remained flat at 1.6%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States remained flat compared to the prior year registering 2.2% in November 2018. The Midwest Urban CPI decreased 50 basis points to 1.4% in November 2018.

Unemployment in the United States decreased 20 basis points to 3.7% in November, while unemployment in Kansas City remained flat at 3.2% compared to the past quarter. Unemployment in Kansas City decreased 50 basis points from a year prior.

EMPLOYMENT BY INDUSTRY

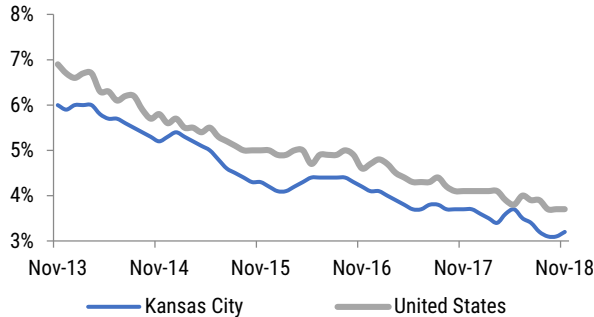
Kansas City, November 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

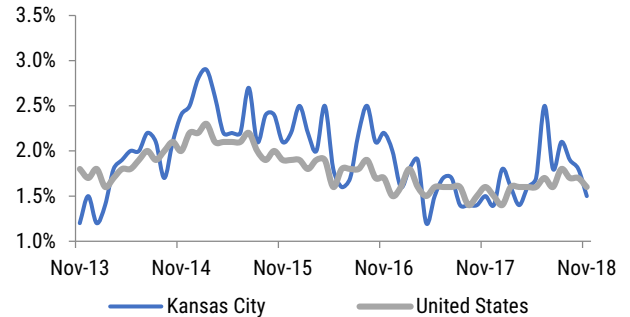
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

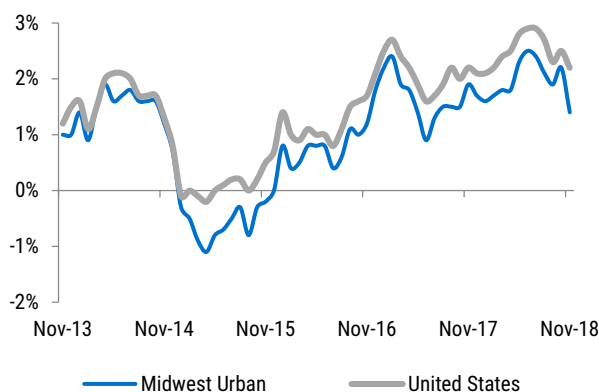
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

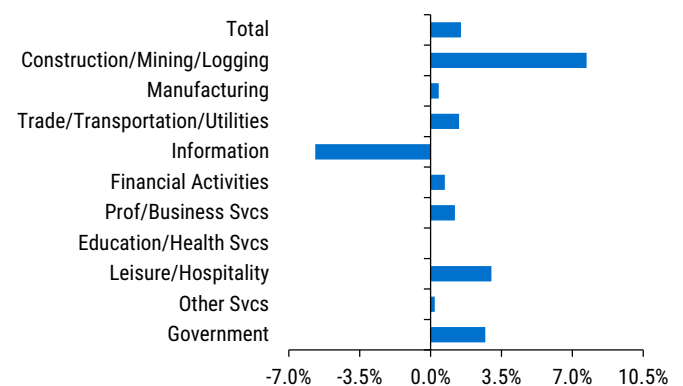
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

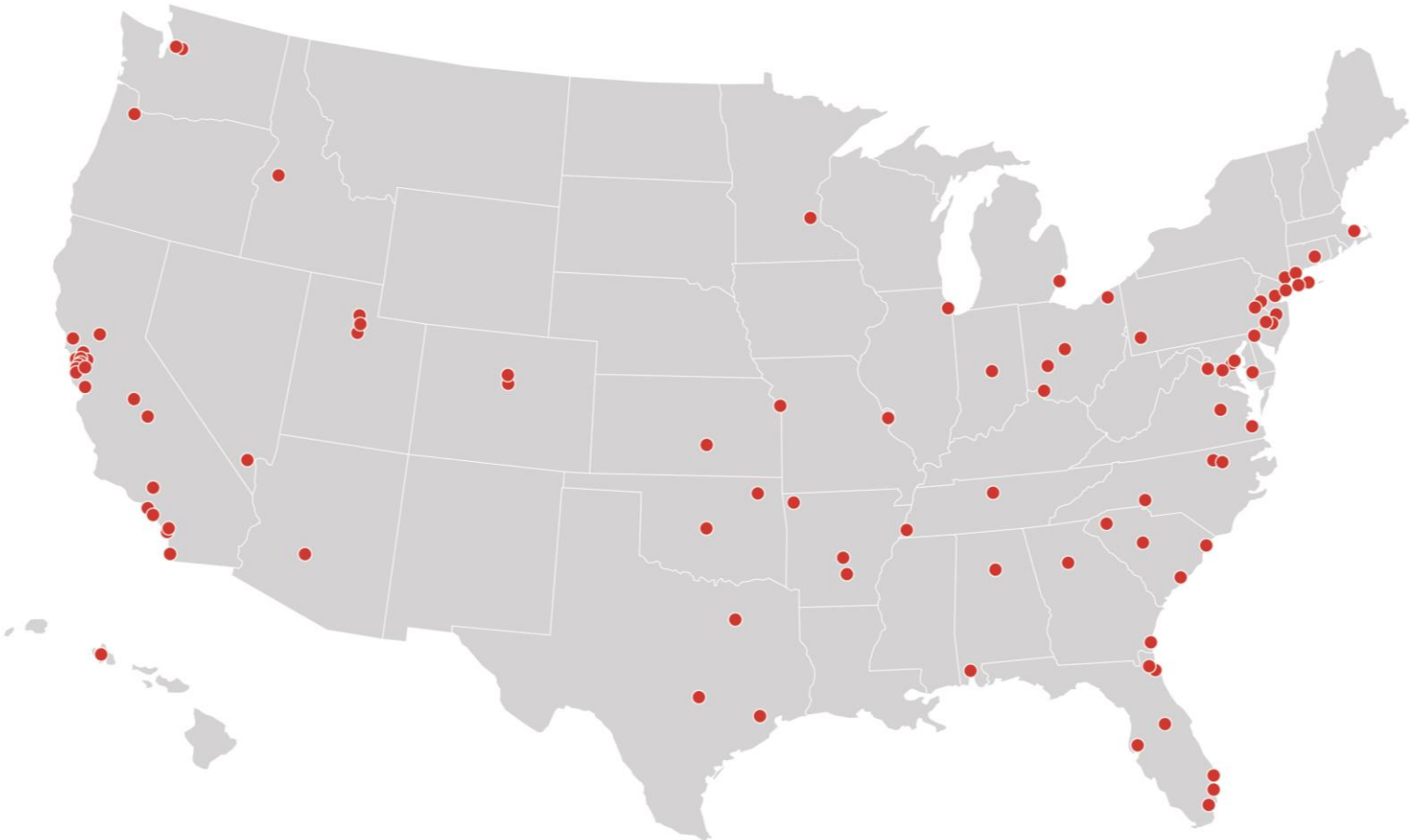
EMPLOYMENT GROWTH BY INDUSTRY

KC, Nov. 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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