KANSAS CITY Year-End 2022

KANSAS CITY ANNOUNCEMENTS

Many companies have and continue to consolidate operations under smaller footprints. Cerner, now Oracle, one of the larger tenants in Kansas City, has closed several campuses and is consolidating its operations causing a significant impact on the amount of office space across the city.

As can be seen on the "Direct Rent vs. Vacancy Rates" chart on the following page, vacancy has steadily increased from 9.7% at year-end 2019 to 14.7% at year-end 2022. Rental rates have held steady, on average, in the $21.00-$21.86 psf range, but the cost of finishing space is up by as much as 30% on "shell condition" space and is affecting most transactions.

Country Club Plaza continues to be the highest priced submarket based as the average asking rate in the $28.00/sf range for second generation space, depending on the residual value of the space being considered, almost $4.00/sf more than the two closest submarkets, Brookside and College Boulevard.

BlueKC's 260,000-sf lease at 1400 Baltimore in Downtown (once slated for Waddell & Reed's new headquarters) was one of the largest office leases in the Midwest during 2022. BlueKC will relocate from 2301 Main and will not occupy the entire building until 2025.

WellSky, a healthcare technology firm, has leased 132,000 sf and expanding at the new CityPlace Corporate Centre IV in Overland Park, Kansas. WellSky already has its corporate HQ at CityPlace III in an adjacent building and will occupy Building IV in 3Q 2023. IMA has committed for 44,000 sf on the 2nd floor, a portion of the 1st floor taking the U/C building to nearly 100% occupancy.

NationsBenefits leased just over 100,000 sf on two floors at the Aspiria Campus, 6050 Sprint Parkway.

Hill's Pet Nutrition will relocate its HQ from Topeka, Kansas to the Aspiria Campus in Overland Park occupying 100,000 sf.

KBP Foods will occupy approximately 60,000 sf in their new BTS-to-own building at Three Hallbrook leaving 60,000 sf available to third-party tenants in the 120,000-sf, 4-story building finished at year-end. Rates of $40.00/rsf are being offered, which is a record for suburban space. An additional 10,000 sf is being leased to First Business Bank who will occupy the 1st floor space near the end of the 1Q of 2023.

CONSTRUCTION ACTIVITY

Shamrock Trading kicked off the second phase of its east campus with a 392,000-sf office building during the summer of 2022. It is the largest office project under construction in Kansas City as of this date. The first building on the campus was finished in 2020.

A build-to-suit project is underway for the FBI Building in the I-29 Corridor submarket near the airport. The 137,000-sf project is scheduled to deliver in the second half of 2023 with occupancy more likely in early 2024.

RECENT SALE ACTIVITY

The office market price in Kansas City hovered at $144/sf during 1Q of 2023. That figure hasn't changed much in the past year. The office market price in Kansas City is more than 50% below the average for the entire United States. The 8.1% market cap rate is structurally higher here than those across the country. The current market cap rate in Kansas City matches the 5-year average and with all-time interest rates for capital at its height, virtually all investment sales, especially in the B-grade type buildings, outside some medical, has been illuminated for the time being.

Price Brothers acquired the high-profile Lighton Plaza consisting of three buildings located at 7300, 7400, and 7500 College Boulevard totaling 474,519 Class "A" sf. The seller was an affiliate of NewTower Trust Co. of Bethesda, Maryland and closed the middle of June. Price Brothers also purchased 10 Main Center, a 355,241-sf former office building and will convert to apartments and condominiums.

Blue Cross and Blue Shield of Kansas City acquired from Union Station, 5 acres of surface parking and air rights, located northeast of its current headquarters at 2301 Main Street for an undisclosed price.

Sunlighten acquired the 73,198-sf property at 10975 El Monte Street in Overland Park, Kansas for an undisclosed sum. Their current 40,542-sf building has been listed for lease or sale 7373 W. 107th St. for $6.9 million.

LARGE BLOCKS OF SPACE ON THE MARKET

- 10990 Roe Avenue – YRC Worldwide (185,560 sf Available)*
- 600 New Century Parkway (former CenturyLink), Gardner, KS (443,747 sf Available)
- Waddell & Reed Campus (400,000 RBA / 361,683 sf Available 3Q 2022)*
- 1200 Main, KCMO (822,391 RBA / 100,000 sf Available*
- 6800 W. 115th St., OP, KS (733,400 RBA / 200,000 sf Available)*
- 1100 Main, KCMO (663,656 RBA / 380,132 sf Available)
- 5200 Metcalf, OPKS (295,631 RBA / 164,224 sf Available)
- 2400-2480 Pershing Road, KCMO (596,011 RBA / 207,591 sf Available)
- 2001 NE 46th Street, KCMO (218,662 RBA / 52% Available)
- 2555 Grand Blvd., KCMO (183,555 sf Available)*
- 9401 Renner Blvd., Lenexa, KS (158,000 RBA / 100% Available)
- 333 W 11th Street, KCMO (87,488 RBA / 100% Available)
- Former Sprint Campus / Third-Party (1,461,921 RBA / 319,590 sf Available in 7 buildings) *Total Campus 3.9 million sf
- 4802 Mitchell Ave., St. Joe, MO (former Am. Family Campus) (363,961 sf Available)

**Available for Sublease*

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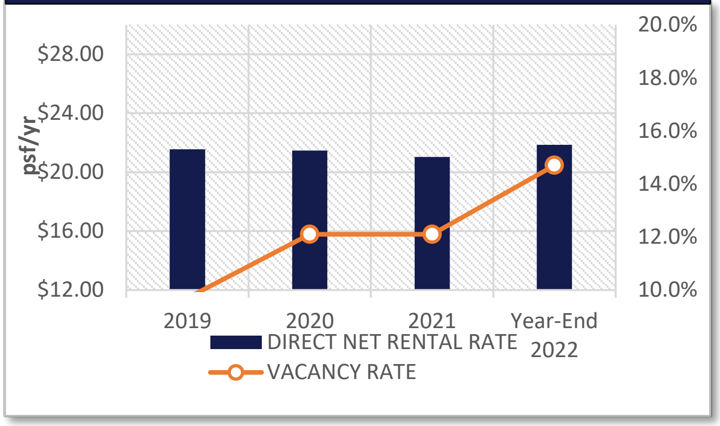
KANSAS CITY Year-End 2022

KESSINGER HUNTER OFFICE TRANSACTIONS Year-End 2022:

- Blue Cross and Blue Shield of KC (61,083 sf)
- Argus Consulting, Inc. (23,087 sf)
- IMA (44,363 sf) & (15,783 sf)
- Burns & McDonnell (22,820 sf)
- Burns & McDonnell (21,408 sf)
- Baker University (21,070 sf)
- National Center for Competency Training (16,093 sf)
- Saint Luke's South Hospital (12,648 sf)
- Social Security Administration (10,270 sf)
- Pryor Learning Solutions (10,245 sf)
- Lightedge Solutions (8,016 sf)
- SSC Advisors (6,741 sf)
- Saint Luke's South Hospital, Inc. (5,247 sf)

DIRECT RENT VS. VACANCY RATES



Market	Existing Inventory # Buildings	Total RBA	Vacancy Total SF Available	% Vacant	YTD Net Absorption	Average Rents
Downtown/CBD	86	14,061,104	2,225,954	15.8%	(90,304)	$23.18
East Jackson County	70	2,438,035	191,253	7.8%	250,745	$17.16
Kansas City, KS	15	1,043,299	10,519	1.0%	95,147	$19.00
Midtown	44	3,744,796	403,178	10.8%	62,445	$27.87
North Johnson County	135	5,621,654	854,600	15.2%	(75,695)	$20.50
North of the River	60	3,460,415	712,215	20.6%	186,525	$16.50
South Johnson County	207	17,006,249	2,341,845	13.6%	(360,686)	$22.38
South Kansas City	52	3,626,882	379,574	10.5%	(70,435)	$19.87
Southeast Jackson County	3	1,096,769	274,625	25.0%	(44,220)	$17.84
Subtotal of Non-CBD	586	38,038,099	5,167,809	13.7%	(116,375)	$21.29
Totals = CBD + Non-CBD	672	52,099,203	7,393,763	14.7%	(206,679)	$21.86

Kessinger Hunter's subset includes buildings 10,000 sf & greater, non-owner/user, non-medical, and non-government

'Trends'

After nearly three years of reading articles and experiencing employees (at primarily larger footprint companies in the greater Kansas City area) vacating office buildings, the tide is turning. Recent data shows that more people are, in many cases, begrudgingly coming back to the workplace.

According to a *Forbes Magazine* publication in September 2022, office usage in 10 major metro areas during the first week after Labor Day, neared 50% of 2020's pre-pandemic attendance, reports Kastler Systems, a keycard property management company that track entries into office buildings. The article indicated these numbers could be low as it did not include many of these city's biggest landlords, including large law firms, banks, financial services, and Wall Street firms.

Locally, while we have continued to see some large employers remain out of their traditional workplace, we are seeing signs of positive activity back to the workplace. In many cases, it has been gradual with some sort of hybrid policy put in place, all depending on the type of company and work being performed. Many decision makers indicate the pandemic and being out of the office, took away their culture, comradery, team concept, and overall social aspects that were a part of their business. The argument was that video conferencing just had a lot to be desired. Many companies with leases expiring during the early part of the pandemic renewed on a short-term (1 year) basis due to the uncertainty of the employee/employer work situation.

As the pandemic played out, many of the tenants continued this trend further by downsizing or relocating to better quality in an effort to give a reason to return. Generally, the costs are more, but given the downsize to smaller, more hybrid/designed space, the overall cost often was similar to the former situation.

Unfortunately, due to supply chain, material shortages, and the lack of labor, tenant finish costs continue to affect the success of leasing. With costs up as much as 30-35%, pressure on rents and length of term are at the forefront of every lease. While large blocks of space continuing to challenge the overall office market and the significant headquarters and regional office vacancies, we are optimistic about the upcoming year with the hope that the bread and butter (5-50,000 RSF lease transactions) will have a clearer picture of the "back to work" model and settle into a more normal pre-pandemic formula. As with many new challenges that continually cause change in how we use office space, only time will tell.

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