

# Office Sector Growth Propels KC Office Market

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## Kansas City Office Overview

The Kansas City office market continues to display strong market fundamentals as overall vacancy continues to decline to historical lows. The overall vacancy rate has declined to 8.2%, down from 8.8% this time one year ago. In Q1 2019, the office market totaled 255,614 SF of positive absorption, which remains in line with recent quarterly absorption figures. The lack of recent speculative construction deliveries continues to fuel pent-up demand within the office market, resulting in a compression of the vacancy rate downwards as tenants vie for limited opportunities.

Overall asking rents within the Kansas City metro have increased to \$18.69/SF across all product classes. Rates have continued an upward trajectory as a result of current demand levels within the metro. Class A rates have risen to an average of \$21.77/SF, while Class B rates have increased to \$17.81/SF. Overall, the average asking rents rose by nearly \$0.13/SF across the metro from the previous quarter.

## MOVES AND GROWTH AROUND THE METRO

Solid job growth continues to generate elevated levels of demand for office space. Job growth, robust throughout 2018, remained strong in the first quarter of 2019. Based on these strong office market fundamentals several office users within the Kansas City market continue to grow and expand their operations as the national and local business climate remains healthy. Many tenants recently executed leases to accommodate for their growth.

Home Advisors, a homeowner resource company currently located in Lenexa will occupy 60,000 SF at the I-35/119th Street Tech Park in Olathe. Touchnet will relocate from their current Lenexa building to a larger footprint of 52,000 SF within One Renner Ridge. The law firm of Spencer Fane will relocate their current Overland Park office from Corporate Woods to 6201 College Boulevard. They will lease 25,000 SF within the building.

RSM McGladrey signed a 45,000 SF lease at 46 Penn, which is currently under construction on the Country Club Plaza. The accounting firm, which currently leases space at 4801 Main on the Plaza will relocate after completion. MidCounty Bank, another tenant within the Country Club Plaza submarket, will relocate to their local office to Crown Center. The Minnesota-based bank will lease nearly 29,000 SF of office space.

### Market Indicators

Relative to prior period

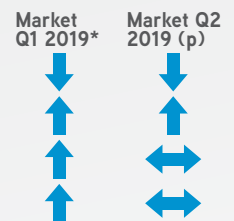
VACANCY

NET ABSORPTION

CONSTRUCTION

RENTAL RATE

\*Relative to prior period

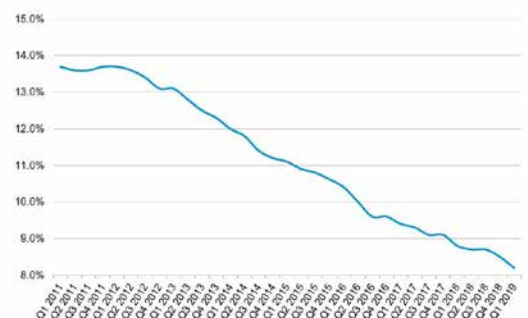


### Summary Statistics

Kansas City Office Market

	Q1 2019	Q1 2018
VACANCY RATE	8.2%	8.8%
ABSORPTION YTD	255,614	251,472
DELIVERIES YTD	0	105,000
UNDER CONSTRUCTION	1,966,429	1,395,160
ASKING RENTS/SF	\$18.69	\$18.40

### Kansas City Office Vacancies



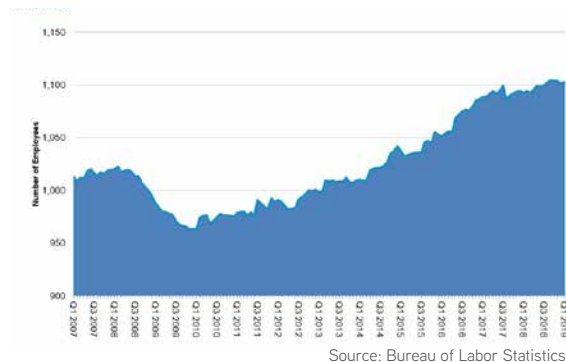
Source: CoStar and Colliers Research

## TRANSACTION ACTIVITY IN KANSAS CITY

Office Investment activity within Kansas City remains solid as investors continue to chase yields in fundamentally sound secondary markets. During the first quarter 2019, two significant office transactions closed. City Ventures purchased the Southlake Office Portfolio from Hines for \$88 Million. The Southlake portfolio contains 11 office buildings and encompasses a total of 784,557 SF. The Southlake portfolio was approximately 80% occupied at the time of sale. This was the first acquisition in the Kansas City market for City Ventures, an Omaha-based real estate investment company. The company also has plans to acquire a 2-building portfolio located on the Country Club Plaza. Park Central Plaza I & II, totaling 158,108 SF, which is expected to close in Q2 2019.

### Kansas City MSA Employment

Seasonally Adjusted - Nonfarm Employment in Thousands



Source: Bureau of Labor Statistics

In Downtown Kansas City, Somera Road acquired City Center Square from Nightingale Properties for \$37.4 Million. Somera Road plans to rebrand and significantly renovate the 30-story, 663,000 SF building. Renovations on the building could exceed \$60 Million. The New York-based firm who also owns the 3Y office building in the River Market, recently stabilized that asset after they acquired, rebranded and renovated the building in 2016.

## Recent Transactions & Major Developments

### Sales Activity

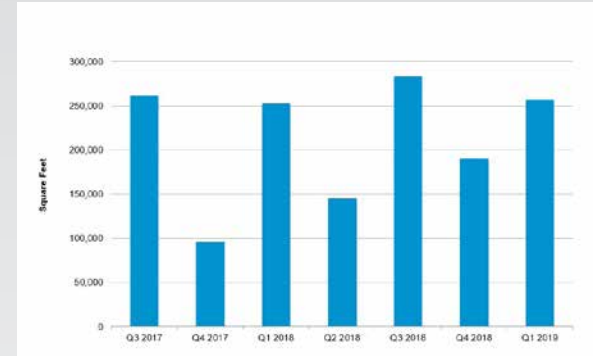
PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	PRICE / SF	BUYER	SELLER
Southlake Portfolio	South Johnson County	\$88,000,000	786,427	\$111.90	City Ventures	Hines
City Center Square	Downtown	\$37,400,000	663,600	\$56.36	Somera Road	Nightingale Properties
10100 W. 87th	North Johnson County	\$2,488,000	40,734	\$61.08	AMG Commercial Realty	Suhor Industries
9140 Ward Parkway	South Kansas City	\$2,140,000	33,687	\$63.53	Dormie Capital Holdings	9140 Partners LLC
211 W. Armour Blvd	Midtown/Plaza	\$1,190,000	55,874	\$21.30	Antheus Capital	American Red Cross

### Leasing Activity

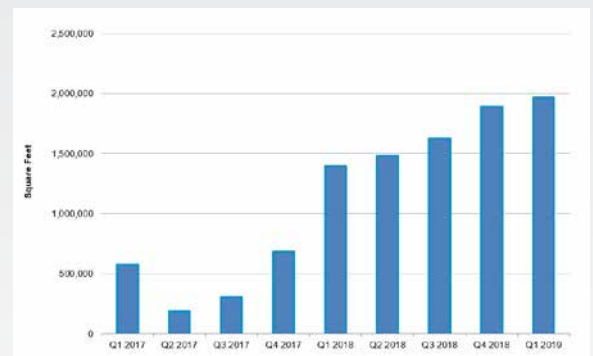
PROPERTY	SUBMARKET	LEASED SF	BUILDING CLASS	COMPANY
I-35/119th Street Tech Park	South Johnson County	60,000	B	Home Advisors
One Renner Ridge	North Johnson County	52,000	A	Touchnet
46 Penn	Midtown/Plaza	45,000	A	RSM McGladrey
Crown Center	Midtown/Plaza	28,855	A	Midcountry Bank
6201 College	South Johnson County	25,000	B	Spencer Fane



Source: CoStar and Colliers Research



Source: CoStar and Colliers Research



Source: CoStar and Colliers Research

## Office Overview

Existing Properties			Vacancy		Absorption		Construction			Rents
		Total	Vacancy	Vacancy	Net Absorp			Deliveries	Under Const.	Ave Rent
Class	Bldgs	SF	SF	%	Curr SF	YTD SF	Curr SF	YTD SF	SF	Rate \$
<b>URBAN</b>										
<b>DOWNTOWN</b>										
A	27	8,672,488	995,941	11.5%	12,130	12,130	0	0	0	\$20.74
B	162	13,388,083	967,486	7.2%	30,462	30,462	0	0	47,060	\$17.84
C	102	4,416,178	87,348	2.0%	15,630	15,630	0	0	0	\$16.03
<b>Total</b>	<b>291</b>	<b>26,476,749</b>	<b>2,050,775</b>	<b>7.7%</b>	<b>58,222</b>	<b>58,222</b>	<b>0</b>	<b>0</b>	<b>47,060</b>	<b>\$19.17</b>
<b>PLAZA / MIDTOWN</b>										
A	15	2,865,214	185,061	6.5%	-28,405	-28,405	0	0	225,000	\$23.58
B	84	4,132,573	154,737	3.7%	-12,159	-12,159	0	0	0	\$21.18
C	58	1,549,711	70,479	4.5%	-9,222	-9,222	0	0	0	\$16.04
<b>Total</b>	<b>157</b>	<b>8,547,498</b>	<b>410,277</b>	<b>4.8%</b>	<b>-49,786</b>	<b>-49,786</b>	<b>0</b>	<b>0</b>	<b>225,000</b>	<b>\$21.38</b>
<b>URBAN TOTAL</b>										
A	42	11,537,702	1,181,002	10.2%	-16,275	-16,275	0	0	225,000	\$21.19
B	246	17,520,656	1,122,223	6.4%	18,303	18,303	0	0	47,060	\$18.30
C	160	5,965,889	157,827	2.6%	6,408	6,408	0	0	0	\$16.03
<b>Total</b>	<b>448</b>	<b>35,024,247</b>	<b>2,461,052</b>	<b>7.0%</b>	<b>8,436</b>	<b>8,436</b>	<b>0</b>	<b>0</b>	<b>272,060</b>	<b>\$19.54</b>
<b>SUBURBAN</b>										
<b>EAST KANSAS CITY</b>										
A	7	506,476	22,021	4.3%	2,813	2,813	0	0	0	\$19.97
B	169	6,544,506	757,461	11.6%	-48,878	-48,878	0	0	0	\$15.57
C	132	2,786,426	242,699	8.7%	-32,386	-32,386	0	0	0	\$13.06
<b>Total</b>	<b>308</b>	<b>9,837,408</b>	<b>1,022,181</b>	<b>10.4%</b>	<b>-78,451</b>	<b>-78,451</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$15.07</b>
<b>KANSAS CITY NORTH</b>										
A	8	1,213,052	193,200	15.9%	130,987	130,987	0	0	56,840	\$20.94
B	153	6,245,030	965,999	15.5%	15,856	15,856	0	0	0	\$16.16
C	68	1,331,928	75,181	5.6%	4,960	4,960	0	0	0	\$14.34
<b>Total</b>	<b>229</b>	<b>8,790,010</b>	<b>1,234,380</b>	<b>14.0%</b>	<b>151,803</b>	<b>151,803</b>	<b>0</b>	<b>0</b>	<b>56,840</b>	<b>\$16.80</b>
<b>NORTH JOHNSON COUNTY</b>										
A	22	2,283,357	102,857	4.5%	27,981	27,981	0	0	433,529	\$22.94
B	176	7,077,732	478,974	6.8%	35,068	35,068	0	0	65,000	\$18.79
C	79	1,506,178	95,219	6.3%	-3,514	-3,514	0	0	0	\$15.34
<b>Total</b>	<b>277</b>	<b>10,867,267</b>	<b>677,050</b>	<b>6.2%</b>	<b>59,535</b>	<b>59,535</b>	<b>0</b>	<b>0</b>	<b>498,529</b>	<b>\$18.94</b>
<b>SOUTH JOHNSON COUNTY</b>										
A	83	11,734,434	851,822	7.3%	76,791	76,791	0	0	120,000	\$23.23
B	337	14,362,682	1,258,808	8.8%	39,561	39,561	0	0	57,000	\$19.64
C	55	1,099,005	27,875	2.5%	7,509	7,509	0	0	0	\$16.28
<b>Total</b>	<b>475</b>	<b>27,196,121</b>	<b>2,138,505</b>	<b>7.9%</b>	<b>123,861</b>	<b>123,861</b>	<b>0</b>	<b>0</b>	<b>177,000</b>	<b>\$21.03</b>
<b>SOUTH KANSAS CITY</b>										
A	18	3,732,127	136,787	3.7%	-1,135	-1,135	0	0	962,000	\$19.33
B	65	3,589,034	457,847	12.8%	-2,153	-2,153	0	0	0	\$18.03
C	37	892,592	36,766	4.1%	-9,750	-9,750	0	0	0	\$14.98
<b>Total</b>	<b>120</b>	<b>8,213,753</b>	<b>631,400</b>	<b>7.7%</b>	<b>-13,038</b>	<b>-13,038</b>	<b>0</b>	<b>0</b>	<b>962,000</b>	<b>\$18.13</b>
<b>WYANDOTTE COUNTY</b>										
A	6	1,064,574	189,600	17.8%	0	0	0	0	0	\$21.00
B	37	1,950,537	93,294	4.8%	3,468	3,468	0	0	0	\$16.28
C	44	1,252,238	123,329	9.8%	0	0	0	0	0	\$12.97
<b>Total</b>	<b>87</b>	<b>4,267,349</b>	<b>406,223</b>	<b>9.5%</b>	<b>3,468</b>	<b>3,468</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$17.48</b>
<b>SUBURBAN TOTAL</b>										
A	144	20,534,020	1,496,287	7.3%	237,437	237,437	0	0	1,572,369	\$22.23
B	937	39,769,521	4,012,383	10.1%	42,922	42,922	0	0	122,000	\$17.67
C	415	8,868,367	601,069	6.8%	-33,181	-33,181	0	0	0	\$13.16
<b>Total</b>	<b>1,496</b>	<b>69,171,908</b>	<b>6,109,739</b>	<b>8.8%</b>	<b>247,178</b>	<b>247,178</b>	<b>0</b>	<b>0</b>	<b>1,694,369</b>	<b>\$18.34</b>
<b>ALL KANSAS CITY TOTAL</b>										
A	186	32,071,722	2,677,289	8.3%	221,162	221,162	0	0	1,797,369	\$21.77
B	1,183	57,290,177	5,134,606	9.0%	61,225	61,225	0	0	169,060	\$17.81
C	575	14,834,256	758,896	5.1%	-26,773	-26,773	0	0	0	\$13.76
<b>TOTAL</b>	<b>1,944</b>	<b>104,196,155</b>	<b>8,570,791</b>	<b>8.2%</b>	<b>255,614</b>	<b>255,614</b>	<b>0</b>	<b>0</b>	<b>1,966,429</b>	<b>\$18.69</b>
<b>QUARTERLY COMPARISON AND TOTALS</b>										
Q4 2018	1,942	104,196,155	8,826,405	8.5%	189,068	866,749	0	456,813	1,887,489	\$18.56
Q3 2018	1,942	104,196,155	9,015,473	8.7%	282,230	677,681	228,291	456,813	1,624,413	\$18.56
Q2 2018	1,940	103,967,864	9,069,412	8.7%	143,979	395,451	123,522	228,522	1,480,668	\$18.47
Q1 2018	1,938	103,844,342	9,181,195	8.8%	251,472	251,472	105,000	105,000	1,395,160	\$18.40



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