

# KANSAS CITY | OFFICE

## Q2 2020

## Market Fundamentals Affected by COVID-19 and Uncertainty

Martin Maguire **CPRC** Senior Research Director | Kansas City

### A NOTE REGARDING COVID-19

As we publish this report, the U.S. and the world at large are facing a tremendous challenge, the scale of which is unprecedented in recent history. The spread of the novel coronavirus (COVID-19) is significantly altering day-to-day life, impacting society, the economy and, by extension, commercial real estate.

The extent, length and severity of this pandemic is unknown and continues to evolve at a rapid pace. The scale of the impact and its timing varies between locations. To better understand trends and emerging adjustments, please subscribe to [Colliers' COVID-19 Knowledge Leader page](#) for resources and recent updates.

### Kansas City Office Overview

The Q2 2020 reported figures are the first peak into the weakening market fundamentals as a result of the COVID-19 pandemic, shutdown orders and office occupiers shifting to remote workplace solutions. The real impact of the COVID-19 pandemic is expected to be realized in the last half of 2020 and early 2021, however, the effects were felt as early as this past quarter.

The overall vacancy rate adjusted upwards to 8.7%, a 50 basis point increase from the previous quarter. Through the second quarter, the office market had 292,746 SF of negative absorption. In total, Q2 reported 414,665 SF of negative absorption, offsetting the gains made during the first quarter. The bulk of negative absorption is largely a result of sizable sublease vacancies hitting the market in the second quarter. Overall asking rents within the Kansas City metro slightly increased to \$19.72/SF across all product classes. At this point, landlords have been largely unwilling to lower rates within their buildings, however, owners are beginning to concede more in terms of free rent and terms. Class A rates have risen to an average of \$22.83/SF, while Class B rates have increased to \$18.70/SF. Typically asking rates are a lagging indicator and it is assumed that rents have neared their peak in the cycle as it is expected that demand for space will continue to be less prevalent throughout the market. Additional sublease space is anticipated to be placed into the market, creating the potential for rents to drop as landlords seek to compete with additional available inventory.

### COVID-19 CREATES NEW CHALLENGES FOR THE OFFICE MARKET

With several businesses taking a wait-and-see approach to how the re-entry into the office plays out, the impact on office sector metrics will take some time to fully emerge. While absorption was negative in the second quarter of 2020, the true test will be the second half of the year. It may take several quarters, and multiple phases of reopening, before firms can fully assess their true space needs going forward.

#### Market Indicators

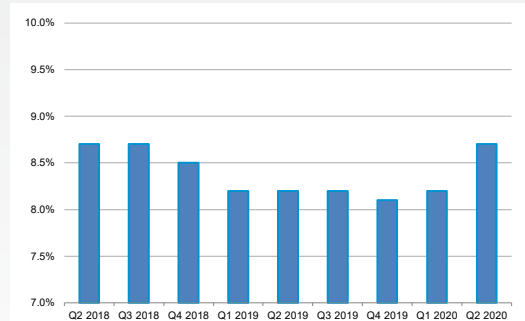
	Market Q2 2020*	Market Q3 2020 (P)
VACANCY	↑	↑
NET ABSORPTION	↓	↓
CONSTRUCTION	↓	↔
RENTAL RATE	↑	↔

\*Relative to prior period

#### Summary Statistics

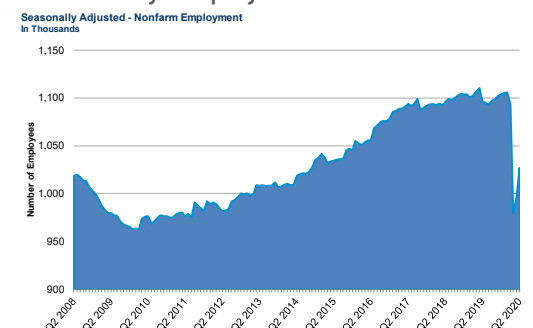
Kansas City Office Market	Q2 2020	Q2 2019
VACANCY RATE	8.7%	8.2%
ABSORPTION YTD	(292,746)	444,233
DELIVERIES YTD	431,369	188,596
UNDER CONSTRUCTION	1,701,239	1,777,833
ASKING RENTS/SF	\$19.72	\$18.87

#### Kansas City Office Vacancies



Source: CoStar and Colliers Research

#### Kansas City Employment



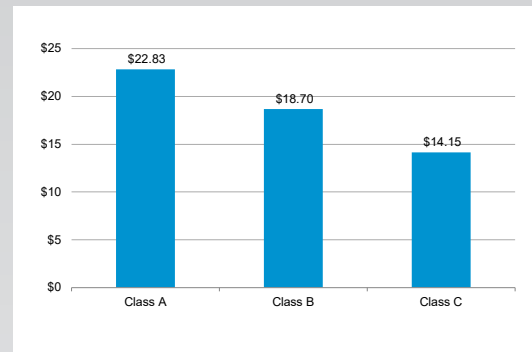
Source: CoStar and Colliers Research

As firms begin to return to the office, look for them to reevaluate their space and premises strategy. This could involve a thorough overhaul of all aspects of their real estate needs including the volume of space needed, where it is located and at what cost. In addition, firms will also explore ways to increase the flexibility of lease terms. The COVID-driven work-from-home experience has shown that remote work is here to stay in some capacity as both employees and employers see the benefits. Businesses are turning to remote working, flex spaces and exploring concepts such as a hub-and-spoke model where the tenant retains their previous office perhaps with a reduced footprint, while adding smaller satellite offices elsewhere to alleviate density concerns.

## MOVES AND GROWTH AROUND THE METRO

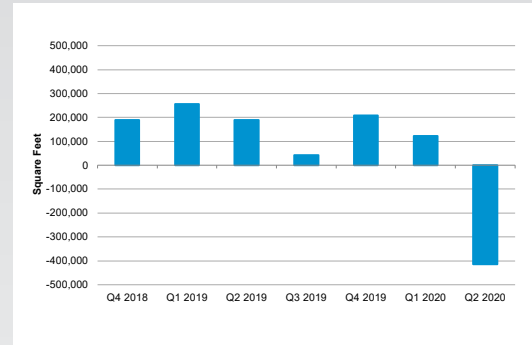
While activity has slowed relative to last year or even Q1 2020, there were still many office transactions throughout the second quarter. Insider Response elected to lease 42,000 SF at The Campus (formerly Sprint Campus). HOK signed a 35,000 SF lease renewal at their Crossroads space, while SSB Realty also signed a sizable renewal at the Lee's Summit Integration Campus. A trio of lease deals were completed in Johnson County with Euronet leasing 30,000 SF at 11400 Tomahawk Parkway, Education Dynamics leasing 25,000 SF at Waterside III and Digital Ally leasing more than 16,000 SF at College West Business Center. On the transactional side, several Johnson County deals closed throughout Q2. Excelsior Capital acquired Corporate Ridge II from The Opus Group for \$19.73 million. The 118,056 SF building has long-term leases in place to Cargill and Garmin. In North Johnson County the 20/20 Building just west of State Line sold for \$7.4 million, while 9800 Metcalf was acquired for \$7.38 million. Construction development remains mostly limited to build-to-suit projects with the lone completion in Q2 being CityPlace Building 1 that totaled 120,000 SF.

## Rates



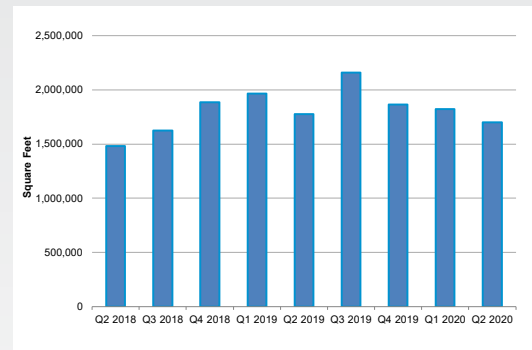
Source: CoStar and Colliers Research

## Absorption



Source: CoStar and Colliers Research

## Construction



Source: CoStar and Colliers Research

## Recent Transactions & Major Developments

### Sales Activity

PROPERTY	SUBMARKET	SALE PRICE	SIZE SF	PRICE / SF	BUYER	SELLER
Corporate Ridge II	South Johnson County	\$19,737,000	118,056	\$167.18	Excelsior Capital	The Opus Group
2020 W 89th Street	North Johnson County	\$7,400,000	68,376	\$108.23	SJ Ram	Rollins 20/20 LLC
9800 Metcalf Avenue	North Johnson County	\$7,380,000	85,650	\$86.16	Odyssey 9800	9800 Metcalf Holding
8000 W 110th Street	South Johnson County	\$5,700,000	54,336	\$104.90	Watco Companies	Archer Daniels Midland Company
401 W. Frontier Lane	South Johnson County	\$2,200,000	41,161	\$53.45	AuBurn Pharmacy	Kanterra Holdings
3751 NE Ralph Powell Rd	East Jackson County	\$1,785,000	14,188	\$125.81	OPES Commercial Real Estate	PPG Properties

### Leasing Activity

PROPERTY	SUBMARKET	LEASED SF	BUILDING CLASS	COMPANY
Sprint Campus	South Johnson County	42,000	A	Insider Response
D.A. Morr Transfer Building*	Downtown	35,000	B	HOK
Lee's Summit Integration Campus*	East Jackson County	32,000	B	SSB Realty
11400 Tomahawk Parkway	South Johnson County	30,000	A	Euronet
Waterside III	North Johnson County	25,000	A	Education Dynamics
College West Business Center	South Johnson County	16,500	B	Digital Ally

\*Lease Renewal

## 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	924,022	10.7%	-68,742	-86,321	0	0	260,000	\$21.48
B	163	13,411,679	829,610	6.2%	-38,609	-28,143	0	0	0	\$18.49
C	102	4,416,178	144,949	3.3%	-40,783	-46,935	0	0	0	\$16.30
<b>Total</b>	<b>292</b>	<b>26,500,345</b>	<b>1,898,581</b>	<b>7.2%</b>	<b>-148,134</b>	<b>-161,399</b>	<b>0</b>	<b>0</b>	<b>260,000</b>	<b>\$19.78</b>
<b>PLAZA / MIDTOWN</b>										
A	15	2,865,214	234,921	8.2%	-19,899	-542	0	0	220,000	\$24.33
B	84	4,132,573	256,121	6.2%	-4,325	-22,194	0	0	0	\$22.31
C	58	1,549,711	40,604	2.6%	1,000	23,610	0	0	0	\$17.70
<b>Total</b>	<b>157</b>	<b>8,547,498</b>	<b>531,646</b>	<b>6.2%</b>	<b>-23,224</b>	<b>874</b>	<b>0</b>	<b>0</b>	<b>220,000</b>	<b>\$22.85</b>
<b>URBAN TOTAL</b>										
A	42	11,537,702	1,158,943	10.0%	-88,641	-86,863	0	0	480,000	\$22.06
B	247	17,544,252	1,085,731	6.2%	-42,934	-50,337	0	0	0	\$19.39
C	160	5,965,889	185,553	3.1%	-39,783	-23,325	0	0	0	\$16.61
<b>Total</b>	<b>449</b>	<b>35,047,843</b>	<b>2,430,227</b>	<b>6.9%</b>	<b>-171,358</b>	<b>-160,525</b>	<b>0</b>	<b>0</b>	<b>480,000</b>	<b>\$20.45</b>
<b>SUBURBAN</b>										
<b>EAST KANSAS CITY</b>										
A	7	506,476	21,236	4.2%	0	2,215	0	0	0	\$20.23
B	169	6,544,506	738,672	11.3%	-6,873	3,771	0	0	0	\$16.82
C	132	2,786,426	178,432	6.4%	30,439	25,872	0	0	0	\$14.15
<b>Total</b>	<b>308</b>	<b>9,837,408</b>	<b>938,340</b>	<b>9.5%</b>	<b>23,566</b>	<b>31,858</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$16.39</b>
<b>KANSAS CITY NORTH</b>										
A	8	1,269,892	222,882	17.6%	-24,911	-93,328	0	56,840	0	\$21.07
B	153	6,245,030	974,368	15.6%	-10,235	-3,200	0	0	0	\$16.49
C	68	1,331,928	55,453	4.2%	4,183	22,078	0	0	0	\$14.39
<b>Total</b>	<b>229</b>	<b>8,846,850</b>	<b>1,252,703</b>	<b>14.2%</b>	<b>-30,963</b>	<b>-74,450</b>	<b>0</b>	<b>56,840</b>	<b>0</b>	<b>\$17.21</b>
<b>NORTH JOHNSON COUNTY</b>										
A	26	2,707,886	473,458	17.5%	54,118	179,013	0	254,529	302,239	\$23.87
B	176	7,077,732	612,546	8.7%	1,061	-7,597	0	0	0	\$19.90
C	79	1,506,178	52,604	3.5%	-793	-9,083	0	0	0	\$16.03
<b>Total</b>	<b>281</b>	<b>11,291,796</b>	<b>1,138,608</b>	<b>10.1%</b>	<b>54,386</b>	<b>162,333</b>	<b>0</b>	<b>254,529</b>	<b>302,239</b>	<b>\$21.37</b>
<b>SOUTH JOHNSON COUNTY</b>										
A	85	11,974,434	930,605	7.8%	40,249	91,454	120,000	120,000	0	\$24.19
B	337	14,362,682	1,600,862	11.1%	-323,881	-334,614	0	0	0	\$20.26
C	55	1,099,005	22,743	2.1%	-560	5,790	0	0	0	\$17.10
<b>Total</b>	<b>477</b>	<b>27,436,121</b>	<b>2,554,210</b>	<b>9.3%</b>	<b>-284,192</b>	<b>-237,370</b>	<b>120,000</b>	<b>120,000</b>	<b>0</b>	<b>\$21.66</b>
<b>SOUTH KANSAS CITY</b>										
A	18	3,732,127	138,963	3.7%	5,000	12,950	0	0	919,000	\$19.90
B	65	3,589,034	408,378	11.4%	6,121	-18,202	0	0	0	\$18.28
C	37	892,592	75,415	8.4%	-9,800	-11,415	0	0	0	\$15.03
<b>Total</b>	<b>120</b>	<b>8,213,753</b>	<b>622,756</b>	<b>7.6%</b>	<b>1,321</b>	<b>-16,667</b>	<b>0</b>	<b>0</b>	<b>919,000</b>	<b>\$18.25</b>
<b>WYANDOTTE COUNTY</b>										
A	6	1,064,574	20,000	1.9%	0	0	0	0	0	\$22.50
B	37	1,950,537	141,020	7.2%	-13,146	-15,806	0	0	0	\$16.80
C	44	1,252,238	72,555	5.8%	5,721	17,881	0	0	0	\$13.49
<b>Total</b>	<b>87</b>	<b>4,267,349</b>	<b>233,575</b>	<b>5.5%</b>	<b>-7,425</b>	<b>2,075</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$16.26</b>
<b>SUBURBAN TOTAL</b>										
A	150	21,255,389	1,807,144	8.5%	74,456	192,304	120,000	431,369	1,221,239	\$23.33
B	937	39,769,521	4,475,846	11.3%	-346,953	-375,648	0	0	0	\$18.53
C	415	8,868,367	457,202	5.2%	29,190	51,123	0	0	0	\$13.16
<b>Total</b>	<b>1,502</b>	<b>69,893,277</b>	<b>6,740,192</b>	<b>9.6%</b>	<b>-243,307</b>	<b>-132,221</b>	<b>120,000</b>	<b>431,369</b>	<b>1,221,239</b>	<b>\$19.45</b>
<b>ALL KANSAS CITY TOTAL</b>										
A	192	32,793,091	2,966,087	9.0%	-14,185	105,441	120,000	431,369	1,701,239	\$22.83
B	1,184	57,313,773	5,561,577	9.7%	-389,887	-425,985	0	0	0	\$18.70
C	575	14,834,256	642,755	4.3%	-10,593	27,798	0	0	0	\$14.15
<b>TOTAL</b>	<b>1,951</b>	<b>104,941,120</b>	<b>9,170,419</b>	<b>8.7%</b>	<b>-414,665</b>	<b>-292,746</b>	<b>120,000</b>	<b>431,369</b>	<b>1,701,239</b>	<b>\$19.72</b>
<b>QUARTERLY COMPARISON AND TOTALS</b>										
Q1 2020	1,950	104,821,120	8,635,754	8.2%	121,919	121,919	311,369	311,369	1,821,239	\$19.61
Q4 2019	1,948	104,509,751	8,446,304	8.1%	208,221	693,697	125,000	313,596	1,866,239	\$19.44
Q3 2019	1,947	104,384,751	8,529,525	8.2%	41,243	485,476	0	188,596	2,157,833	\$19.31
Q2 2019	1,947	104,384,751	8,570,768	8.2%	188,619	444,233	188,596	188,596	1,777,833	\$18.87

Note: Inventory includes office properties 10,000 SF and up. It excludes office properties that were built with the intent to house only medical users and those properties where the government is both 100% owner and occupier.



**FOR MORE INFORMATION**

**Martin Maguire CPRC**  
 Senior Research Director | Kansas City  
 +1 816 556 1102  
 martin.maguire@colliers.com

**CONTRIBUTORS**

**Pat Coppinger**  
 Senior Vice President | Kansas City

**Phil James**  
 Senior Vice President | Kansas City

**RC Jensen**  
 Vice President | Kansas City

**Bryan Johnson**  
 Principal | Kansas City

**Reagan O’Toole**  
 Associate | Kansas City

**Ross Simpson**  
 Senior Vice President | Kansas City

**Matt Stover**  
 Senior Vice President | Kansas City

**Sven Sykes**  
 Executive Vice President | Kansas City

**Tom Volini**  
 Executive Vice President | Kansas City

**Evan Warwick**  
 Senior Vice President | Kansas City



Copyright © 2020 Colliers International. In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Colliers International | Kansas City  
 4520 Main Street, Suite 1000  
 Kansas City, MO 64111  
 +1 816 531 5303  
 colliers.com/kansascity



Accelerating success.