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OFFICE TENANTS SEEK LESS SPACE, NICER PRODUCT

Shift has led Kansas City-area landlords with new Class A properties to busily ink deals.

By Kristin Hiller

A flight to quality is occurring in the office market. The hybrid work model that has become the emerging trend during the COVID-19 pandemic has enabled tenants to downsize their footprints and relocate to higher-quality spaces.

"Tenants don't need as much space as they did before, and that frees them up to pay for something that's better quality, a better location and equipped with better amenities," says Max Wasserstrom, senior vice president with Kansas City-based Block Real Estate Services LLC.

In the Kansas City market, there are several office owners eager to capitalize on this relocation trend. For instance, Block completed development of a Class A office building known as 46 Penn Centre last fall. The property rises 14 stories and spans 214,000 square feet within the Country Club Plaza.

Block recently inked leases with Parris Communications Inc., Triad Capital Advisors and law firm Fisher Phillips. Ocean Prime is opening a sitdown restaurant and its Prime Social rooftop bar. With this recent leasing activity and other deals in the works, Block expects the building to approach lease-up in the near future.

Marketing the property for lease

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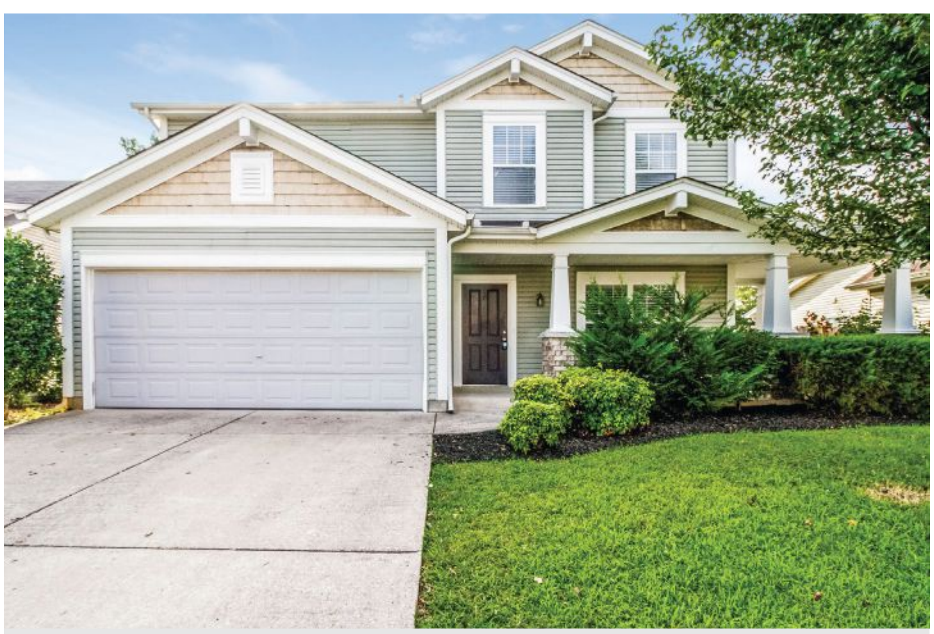
This rendering shows plans for future buildout of Aspiria, the redevelopment of the former Sprint campus in Overland Park, Kansas.



Pictured is a single-family rental home owned by Progress Residential in Nashville, Tennessee. (Photo courtesy of Progress Residential)

SINGLE-FAMILY RENTAL MARKET EXPECTED TO DRAW MORE PLAYERS

Americans are increasingly renting their homes, and investors have taken note.

By Kristin Hiller

The single-family rental (SFR) market continues to draw increased interest from both tenants and investors alike. Several major investments from big-name companies occurred this summer. For example, in August, JLL Income Property Trust acquired a 47 percent interest in a SFR portfolio assembled and managed by Amherst Residential for $560 million. The 4,000-home portfolio was valued at $1.2 billion.

In July, Tricon Residential Inc. entered into a $5 billion joint venture arrangement with three institutional investors to acquire more than 18,000 SFR homes across the Sun Belt states. In June, Blackstone acquired Home Partners of America, which owns more than 17,000 houses across the

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OFFICE TENANTS SEEK LESS SPACE, BUT NICER PRODUCT

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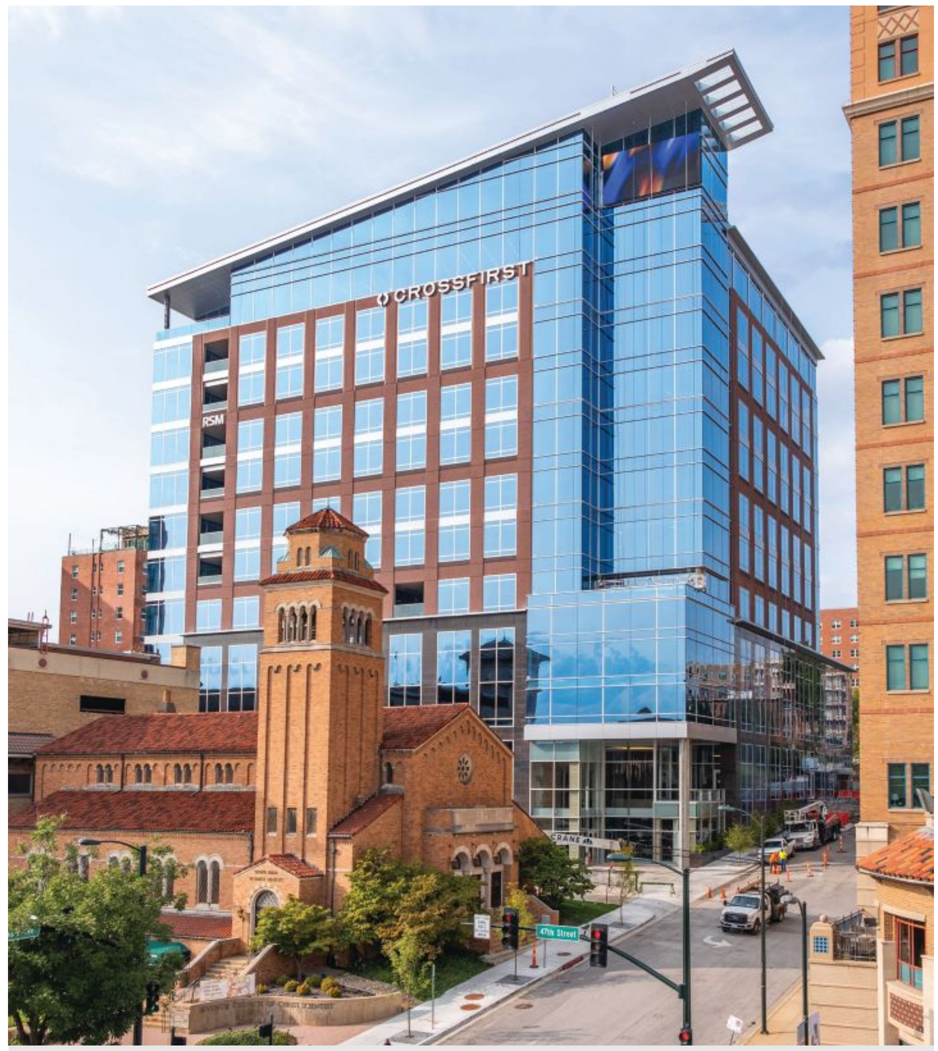


Block Real Estate Services LLC completed development of 46 Penn Centre last fall. The property rises 14 stories within Kansas City's Country Club Plaza.

during a pandemic was no small task. All marketing efforts were done virtually, including building walkthroughs that were emailed to users and brokers.

"We've just been out there street-brokering it and doing literally anything we can to generate activity," says Andrew Block, vice president.

At 46 Penn Centre, tenants have access to a fitness facility with locker rooms and showers, private tenant balconies, a company kitchen facility, car care center, dry cleaning service and onsite security. But the office building's greatest amenity is its location within Country Club Plaza, emphasizes Wasserstrom. The massive shopping center is home to numerous retailers and restaurants.

"Today, you have to have the amenities to attract the tenants so that they can attract their workforce," says Wasserstrom. "Given the hybrid work model, tenants are gravitating toward Class A+ product in order to give their employees a reason to come to the office when they do come in."

In other words, employees are more likely to want to work in the office if it offers a modern workplace and is equipped with amenities.

In addition to an array of amenities, a lot of today's new office product is outfitted with high-quality air filtration in effort to reduce the spread of viruses. At 46 Penn Centre, the property features MERV-13 filtration. MERV refers to minimum efficiency reporting value, which measures how effectively a filter stops dust and other contaminants from passing through the filter and into the air. The higher the MERV rating, the more effective the filtration system is considered to be.

Undoubtedly, the office market recovery has been disrupted by the Delta variant of the coronavirus, but there is still demand for office space, asserts Wasserstrom. "We've been extremely busy and active in our office, and I've heard the same from other office brokers in town," he says. "The Class A portfolio has benefitted from a flight to quality."

Through the first half of 2021, new leasing activity averaged 522,000 square feet per quarter in the Kansas City market, according to Cushman & Wakefield. In comparison, over the last three quarters of 2020, new leasing activity averaged 383,000 square feet per quarter and never surpassed 455,000 square feet in any single quarter. The activity should help stabilize the overall vacancy rate in the market, which stood at 16.8 percent as of the second quarter, according to the brokerage. The rate has risen from 13.7 percent at the end of first-quarter 2020.

The storyline for the foreseeable future is a tenant's market. Cushman & Wakefield states that tenants negotiating renewals remain in a strong position, as landlords will focus on securing future revenue.

Mixed-use draw

Ryan Biery, senior vice president of brokerage for Kansas City-based Copaken Brooks, says that his firm has still experienced strong activity despite COVID-19, signing leases for both office and retail tenants. Copaken Brooks completed development of The District at City Center Lenexa in Lenexa, about 15 miles southwest of Kansas City, in June 2019. The office portion of the three-building project is currently 75 percent occupied, and the retail space is 80 percent leased.

Earlier this year, Centralized Supply Chain Services signed a lease for the second and third floors of the building known as Penn II, leasing roughly 6,500 square feet of office space. The restaurant supply chain company is headquartered in Kansas City with an office in Glendale, Calif.

Biery says that the activity surrounding The District is a strong endorsement of the property itself and the mixed-use environment that companies desire. When fully developed, City Center Lenexa will consist of more than 2 million square feet, including civic space for the City of Lenexa, nearly 1 million square feet of office and retail space, and 375 apartment units.

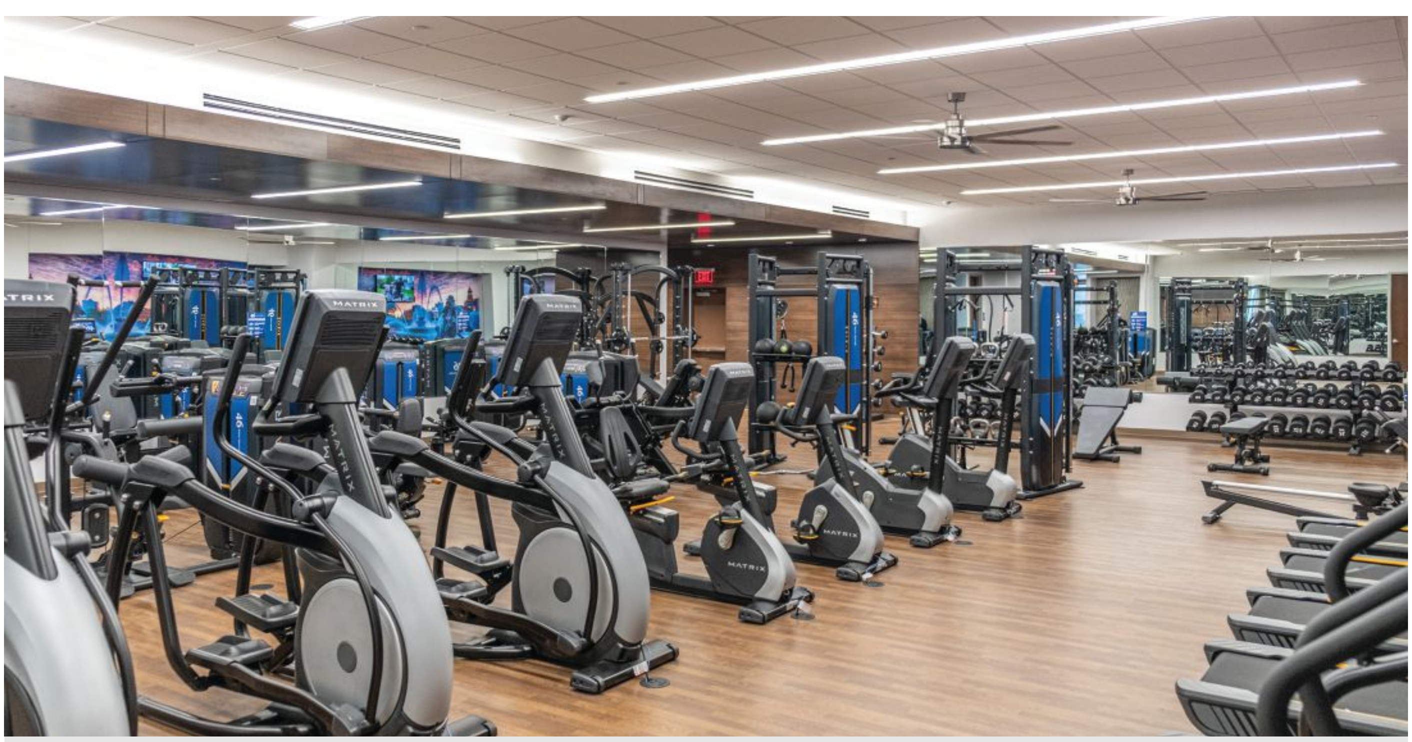
"Thankfully, due to the quality of the development and desire from tenants to be there, we have not had to make any dramatic adjustments to drive leasing," says Biery.

Office leases negotiated at The District this year have been long-term, according to Biery. Tenant improvement allowances are commensurate with the long-term leases to build out spaces. While not all tenants are downsizing their footprints, the users that are doing so are typically cutting square footage by about 15 to 25 percent, he notes.

There are minimal office spaces remaining available for lease within the development, according to Biery. Penn I has a 1,695-square-foot suite, Penn II has a 2,477-square-foot suite and Penn III has 7,171 square feet available across two floors.

A priority at The District was the creation of a tenant amenity lounge on the top floor of Penn II. The space is equipped with a large conference room; indoor and outdoor seating areas; and an outdoor terrace with TVs, firepits and grilling stations.

"Office tenants are craving ameni-



At 46 Penn Centre, tenants have access to a fitness facility with locker rooms and showers, along with numerous other amenities.

ties like a tenant lounge and fitness center, along with additional walkable amenities for their employees to enjoy," says Biery.

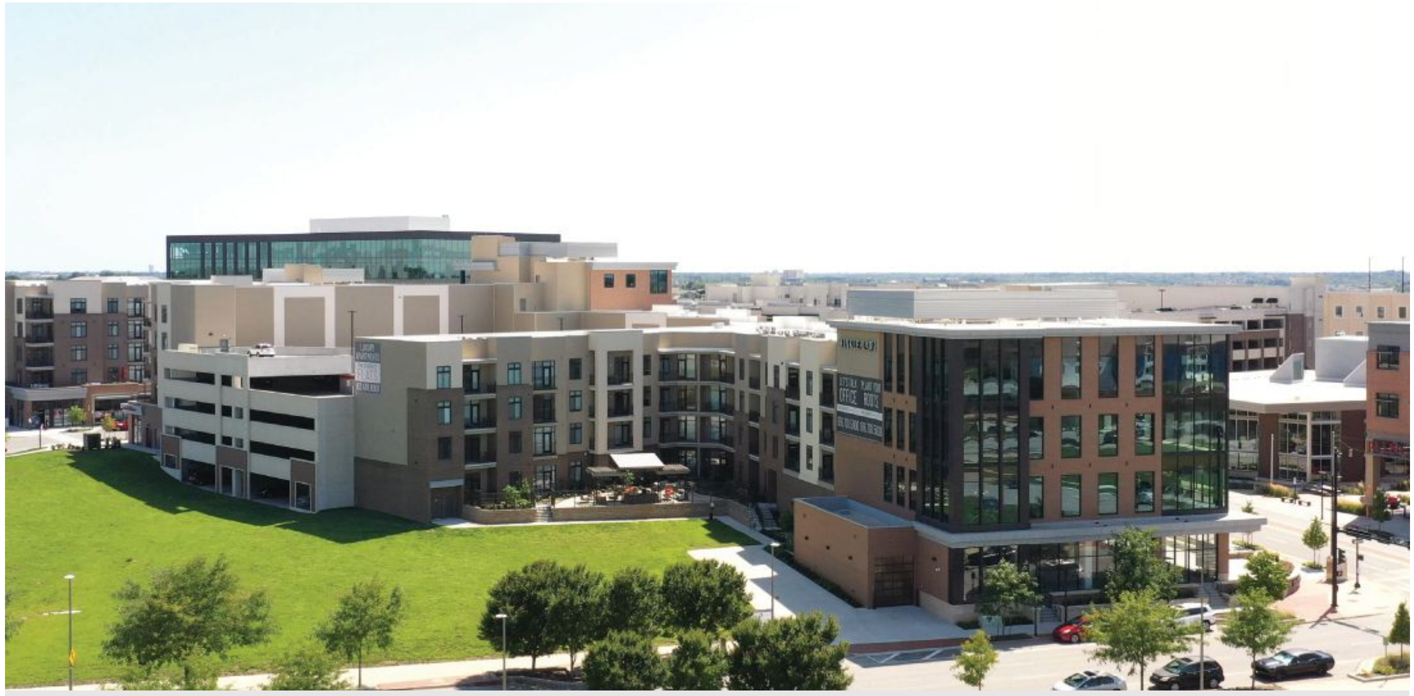
Flexibility is key

The topic of health and wellness is a much bigger conversation for companies today than in the past, says Chad Stafford, president of Wichita, Kansas-based Occidental Management. Stafford's firm owns the former Sprint campus in Overland Park, an affluent suburb just south of Kansas City, and has since renamed it Aspiria.

"I've never talked so much about HVAC and air filtration in my life," says Stafford. "At Aspiria, there is MERV-13 level filtration, which is the highest level you can have before it is hospital grade. Companies want to provide the healthiest environment they can so that employees feel comfortable."

Another selling point for Aspiria is its technology infrastructure. Occidental can provide Wi-Fi throughout the entire campus, including outdoor spaces or eating areas. This way, employees can work outside the confines of their desks. "That flexibility is something that employers want to have in order to create a vibrant culture and workforce," says Stafford. "Offering those types of services to tenants really makes a difference."

One example is TreviPay, a business-to-business payments company that recently inked a lease for 73,000 square feet to relocate its corporate headquarters to Aspiria. Stafford says that the company wanted to create an exciting and experiential space to bring employees back to after working from home during COVID-19. TreviPay's more than 400 Kansas City-area employees are slated to begin occupying the new space in October.



Copaken Brooks completed development of The District at City Center Lenexa in Lenexa, about 15 miles southwest of Kansas City, in June 2019. When fully developed, City Center Lenexa will consist of more than 2 million square feet of mixed-use space.

Aspiria currently features walking and biking trails, green spaces, three conference centers, a cafeteria and a 68,000-square-foot fitness center equipped with an indoor track, basketball court, pickleball court, yoga room and locker rooms.

Occidental plans to develop an additional 60 acres surrounding the campus with 1 million square feet of Class A office space, 380,000 square feet of retail and restaurant space, a 120-room hotel and 600 multifamily units. The multifamily portion and the first new office tower are likely to open in 2023, according to Stafford.

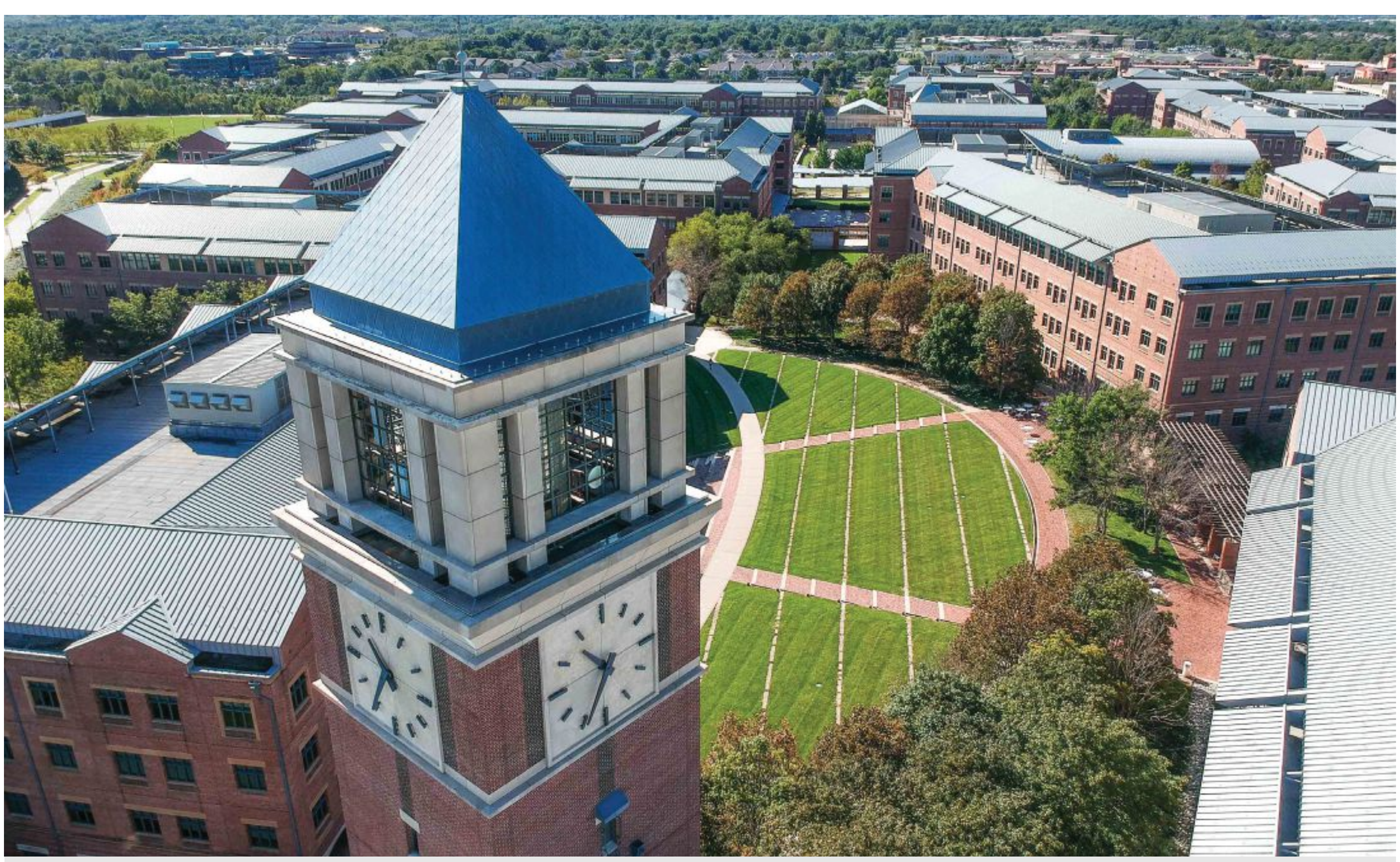
Other recent lease signings at Aspiria include CreativeOne, a financial services company that will begin occupying 25,000 square feet in January, and TTEC Holdings, a global technology company that inked a lease for nearly 20,000 square feet. Transportation company Yellow Corp. leased 84,674 square feet for its new Field Resource Center.

"There's activity in the market as evidenced by the leases we've recently signed," says Hunter Johnson, senior vice president of sales and leasing with Occidental. "Employees are wanting to come back to the office, and executives and C-suites want to see people heading back. The question is, what does that look like? Is it full-time or a couple days a week?"

Stafford says he is seeing increased occupancy on a weekly basis in terms of the number of employees that are physically using their office spaces. "Some of the feedback we're hearing is that even when hybrid schedules are being offered, employees are still coming into the office almost every day because they miss the collaboration and social aspect," says Stafford. "More and more, employees appreciate the flexibility, but they also like being in a good company culture and location."

Stafford says he's also seen a dramatic increase in the number of companies from gateway or coastal markets that are looking at Kansas City as a way of avoiding highly populated cities and cutting costs. Stafford cites an example of a company he worked with that was paying $70 per square foot for office space in Seattle. In comparison, the average asking rent for Class A space in the Kansas City market is $26.35, according to Cushman & Wakefield. The average asking rent for Class B product is $20.22.

"When people actually come to Kansas City, they see everything it has to offer from great schools to amenities and sports and recreation," says Stafford. "It's a very affordable place compared with other markets for both residents and office occupants." ■



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