

The Real Estate Report  
For Metropolitan Kansas City

2015

# BLOCK REAL ESTATE SERVICES, LLC (BRES) HIGHLIGHTS OF 2014

## Transactions

BRES completed the year with total sales and leasing transactions in excess of \$832 million.

## Property Management

BRES commercial management portfolio reached 33.75 million square feet by year-end.

## Construction

Block Construction Services (BCS) completed renovation and development projects exceeding \$174 million in Kansas City. Additionally, BCS managed projects in the St. Louis and Atlanta offices, expanding to a regional services company.

## Investment Syndication

BRES completed over \$225 million in investment sales and raised over \$74 million in equity funds for syndication of new acquisitions and development projects.

## Affiliates

Block Hawley Commercial Real Estate, LLC ranks as the most active industrial brokerage firm in St. Louis, with over 10.75 million square feet of listed property and nearly 6.75 million square feet under management.

BRES Atlanta manages nearly 1.85 million square feet of commercial office and industrial space in the Atlanta market.

Block Multifamily Group, (BMG) now manages more than 3,606 units, an increase of over 27% in one year. Projections point toward 5,000 units by year-end 2015.

# TABLE OF CONTENTS

POSITIONED FOR MORE GROWTH IN 2015	1
GLOBAL, U.S., KANSAS CITY OVERVIEW	7
DOWNTOWN DEVELOPMENT	20
OFFICE MARKET	22
INDUSTRIAL MARKET	31
RETAIL MARKET	43
INVESTMENT MARKET	49
INVESTORS CHART AND SALES RECORDS	57
MULTIFAMILY MARKET	58
BLOCK INCOME FUNDS	62
BLOCK CONSTRUCTION SERVICES	63
BLOCK HEALTHCARE DEVELOPMENT	65
BLOCK MULTIFAMILY GROUP	67
ECONOMIC INDICATORS	68



# POSITIONED FOR MORE GROWTH IN 2015



BRES Principal Michael R. Block, CPM (left) and BRES Managing Principal Kenneth G. Block, SIOR, CCIM (right), are shown with Brian Sandy, the 2014 Allen J. Block Scholarship Award recipient.

*The excitement created by the Kansas City Royals this past season was a real boost for all Kansas Citians and our economy. And just as the Royals were knocking it out of the park ... our local real estate industry was experiencing a banner year of growth and expansion.*

For the fifteenth consecutive year, we bring to you what has become known as the most comprehensive report on the status and activity of the commercial real estate market in the Kansas City Metropolitan Area. With the pace of activity continuing to accelerate in the Kansas City area, our exceptionally talented teams of knowledgeable real estate investment, sales, marketing, operations, and construction professionals are excited to again share how we have leveraged our development and investment activity into enhanced financial outcomes for our clients.

Come join me for a peek into what has been an exciting year for Block Real Estate Services (BRES) and the real estate industry in Kansas City.

As BRES continued to expand its local and national reach in 2014, we consistently ranked at the top of the following listings:

#### **Kansas City Business Journal:**

- #1 Commercial real estate property manager—managing the largest portfolio of industrial, office

- and retail space in the Kansas City Metropolitan area
- #1 Most active commercial real estate firm with 715 transactions
- #2 Commercial real estate company with 64 real estate agents
- #19 Top area general contractors with \$7.3 million in local billings (Block Construction Services)
- #18 Top area construction project: Teva Pharmaceuticals (\$29,505,810)

#### **St. Louis Business Journal:**

- #16 Largest commercial real estate firm, based on number of local active licensed agents (Block Hawley)

#### **National Real Estate Investor:**

- Ranked 23rd for total office space developed or under construction of 600,000 square feet

#### **Commercial Property Executive:**

- Ranked 34th nationally for top property manager
- Ranked 27th in the most powerful owners listing

#### **Midwest Real Estate News:**

- Ranked 8th in top owners in the midwest
- Ranked 13th in top property management in the midwest
- Ranked 17th in top brokers in the midwest

### Ingram's:

- #1 Top area commercial real estate company with \$748 million gross sales
- #1 Top area commercial real estate company for square footage managed/sold/leased

In addition, we are proud of our agents and employees who continue to enhance their education and qualifications through professional designations such as the Society of Industrial and Office Realtors (SIOR) and Certified Commercial Investment Members (CCIM). Our relationships with these professional organizations allow us to leverage a wealth of knowledge and professional experience which, in turn, enhances our business relationships and the service we provide to our clients. We currently have five CCIM members on staff, three SIOR members and three Certified Property Manager (CPM) members, with several more associates working toward these professional designations.

We have many employees and agents who serve as board members and committee members in association with the following organizations:

- Lenexa Chamber of Commerce
- Leawood Chamber of Commerce
- Urban Land Institute
- Kansas City Regional Association of Realtors
- Broadway Westport Council
- Northeast Johnson County Chamber of Commerce
- International Council of Shopping Centers
- Wyandotte Economic Development Council
- Main Street Corridor Development Corporation
- Kansas City Area Development Council
- Greater Kansas City Chamber of Commerce
- KC SmartPort
- Heartland MLS
- Kansas City Direct Marketing Association
- Northeast Industrial Association
- Corporate Volunteer Council

### REAL ESTATE SERVICES TEAM

The BRES Property Management and Maintenance Departments continued to experience portfolio growth with a total of approximately 25.3 million square feet of office, retail and industrial real estate under management locally in the Kansas City Metropolitan area and nearly 34 million square feet nationally.

During the past year, the Property Management Department, along with Block Maintenance Solutions, reorganized by creating a tiered leadership structure with a newly appointed vice president of property management and a director of maintenance. Solid, experienced staff has allowed these individuals to delegate leadership responsibilities into teams, each led by senior staff members who work closely to train, supervise and ensure quality control for their individual teams. This reorganization helped enhance the one-on-one tenant experience with management, while ensuring the department functioned cohesively and the

properties operated efficiently and sustainably. Leadership has continually prepared their teams to take on expanded responsibilities by focusing on developing well-rounded managers with solid tenant relations, accounting, finance and business skills. This team is passionate about the industry and not afraid to engage in new strategies to be successful.

The year ahead will bring continued efforts to integrate energy-efficient, energy-saving projects at the properties, such as: LED light installations, HVAC upgrades, high speed fiber installations and elevator efficiency modifications. This process has been enhanced through the use of Missouri's Clean Energy Funding Program, which enables property owners to leverage bond funding for energy efficient projects. With several exciting new properties being developed in 2015, this team looks forward to more challenges, growth and successes in the year to come.

Many of our property managers hold Real Property Administrator (RPA) and Certified Property Manager (CPM) designations as well as Kansas and Missouri real estate licenses.

BRES is an Accredited Management Organization through the Institute of Real Estate Management with an experienced team of qualified managers, brokers, operating engineers and utility staff. These individuals possess industry qualifications, such as:

- Class A Operating Engineers License – State of Missouri
- Building Operator Certified – KCP&L
- Systems Maintenance Administrator (SMA), Systems Maintenance Technician (SMT) – BOMI
- Master Electrician
- Certified welder
- Certified bridge crane, straddle crane and forklift operator. Also certified in industrial rigging
- EPA Certification
- Certified locksmith – Associated Locksmiths of America
- Certified enterprise based access control systems

The uptick in activity has significantly impacted our brokerage business. Not only has the volume of activity increased, but the significance of the value of the transactions we are experiencing has also increased. In 2014, we added five new brokers to our team and with the level of activity continuing to accelerate, we anticipate additional brokerage staff expansion in 2015.

### BLOCK CONSTRUCTION SERVICES

After another year of record revenues, Block Construction Services (BCS) is celebrating its twelfth anniversary. BCS is becoming well known for its expertise as a construction management and owners representation firm. In 2014 our construction and development team managed over \$174 million in total projects which equated to over \$65 million in construction contracts in all areas of real estate development and construction. With the return of office development, BCS is currently leading the construction of Pinnacle Corporate Centre V, a 71,327 sq. foot Class A



*BRES continued its charitable support of local organizations such as The Children's TLC, The University of Kansas Cancer Center, and the Multiple Sclerosis Society, to name a few.*

office building in Leawood, Kansas scheduled for completion in September 2015.

A few of the more notable projects BCS is working on for 2015 include: Nall Corporate Centre II, a five-story, 150,000 sq. foot office building adjacent to the Teva Pharmaceuticals building which BCS completed last year; CityPlace, a 90-acre mixed-use development that will feature over 600,000 square feet of office space in Overland Park, Kansas and Corporate Medical Plaza IV and V, located at 110th Street and Roe Avenue in Overland Park, Kansas. In addition, with incentives now in place, BCS anticipates groundbreaking in 2015 on 46 Penn Centre, a 195,000 sq. foot office building with 6,500 square feet of restaurant space along with 725 parking spaces on six levels, to be located in the heart of the Country Club Plaza.

With the industrial market as hot as ever, BCS is active in several submarkets in the Kansas City Metropolitan area. Notable projects in Lenexa, Kansas include: three light industrial buildings totaling over 290,000 square feet at College Crossing Business Park; the completion of the first building at Lenexa Logistics Centre south, a 260,700 sq. foot cross-dock distribution facility which is fully occupied by Amazon; and construction has begun on Lenexa Logistics Centre building 5, a 354,055 sq. foot cross-dock distribution facility scheduled for completion in spring of 2015.

BCS was also involved in the acquisition of an additional 82.59 acres of ground located on the north side of College Boulevard, just west of Renner Boulevard, which will be called Lenexa Logistics Centre North. BCS has four buildings planned at this location which total approximately 1,362,836 square feet with work scheduled to commence

in 2015. We also received our final development plan for our first building at 175th Street Commerce Centre located at 175th Street and Hedge Lane in Olathe, Kansas. The first building will be a 499,735 sq. foot, cross-dock, Class-A distribution facility with work scheduled to commence in 2015.

Rounding out the other more notable multifamily/mixed-use activity, BCS delivered the first phase of the \$38 million WaterCrest at City Center, a 306-unit, Class A multifamily luxury apartment community in Lenexa, Kansas. BCS has also broken ground on its \$350 million CityPlace project and started all infrastructure work. We anticipate construction of the first multifamily project, along with a senior housing project, in early 2015. This project will also see the development of retail components and perhaps the first office building all starting in 2015.

## **BLOCK MULTIFAMILY GROUP**

When we launched Block Multifamily Group (BMG) two years ago, we had a goal of growing the management portfolio at the pace of about 750 to 1,000 units annually. As we close out 2014, we find ourselves exceeding our goal with 3,600 units currently under management. With another 375 units coming on line in early 2015, we are confident that we will again eclipse our goal in the coming year and reach our five-year goal of 10,000 multifamily units.

We also expect additional growth in the BMG portfolio will come through our first joint venture project with Balfour Beatty, a 392-unit project which should close on or around January 31, 2015. In addition, BMG and Balfour continue to work closely on a teaming arrangement where BMG will provide "back house" service supporting Balfour with HUD



*This year, BRES employees sponsored Chiefs Red Friday benefiting the Ronald McDonald House Charities of Kansas City. Since the inception of Red Friday, Chiefs flags, newspaper and magazine sales have raised hundreds of thousands of dollars for local charities, with an emphasis on assisting youth in need.*

and LIHTC compliance reporting on large housing authority portfolios. Another new third-party relationship, which will contribute to our success in 2015, is the Roaster's Block Apartments in downtown Kansas City, Missouri. This property, located at 8th Street and Broadway, was the former Folgers Coffee building. Sticking to our strategy of growing the management portfolio through syndicated acquisitions of multifamily investments, developing new multifamily projects, and actively pursuing third-party business, we expect to continue to exceed our growth expectations in the years ahead.

## **BLOCK TECHNOLOGY SOLUTIONS**

Block Technology Solutions (BTS) has taken the one-stop solution to a new level in 2014. With close coordination with ownership, tenants, and contracting entities, BTS has doubled its volume for 2014 and will see many opportunities to assist current and future tenants' voice/ data infrastructure needs at a reasonable cost with quick turnaround times.

BTS is working closely with Google Fiber to bring even faster, less expensive, high speed fiber internet connections to a majority of the 25.3 million square feet of BRES owned and managed properties in the Kansas City Metropolitan area in 2015. This option will allow small- and mid-sized businesses to have gigabit speeds for their day-to-day IT operations; once again setting BRES apart from its competition.

From a corporate standpoint, BTS has upgraded BRES' email servers to increase capacity and overall ease of use which enables our personnel to be connected to our clients, customers and investors "anywhere, anytime." Additionally, our new fiber backbone for high speed remote office

connectivity is in place and has greatly improved the speed and performance of data retrieval.

Our disaster recovery solution will be rolled out in early 2015 and that will allow us to physically be connected anywhere at any time and allow the main functions of the BRES corporate office to continue business as usual under any circumstances.

In 2015, BTS will continue to provide low cost data/ voice solutions to new and existing clients as well as offer our services to pre-qualify a location for potential client data and voice connectivity capacity.

## **BLOCK HAWLEY COMMERCIAL REAL ESTATE**

With the continued stabilization of the commercial real estate market in 2014, Block Hawley Commercial Real Estate Services completed its most productive year since its inception in 2008. Completing nearly 50 sales and lease transactions, consisting of approximately 1,843,233 square feet, transactions totaled approximately \$102 million. Block Hawley continued to prove itself to be one of the most active and productive commercial real estate firms in St. Louis; with growth from syndicated investment and additional third-party relationships, their management portfolio reached seven million square feet.

## **BRES ATLANTA**

In 2014, the asset management team at BRES Atlanta achieved a 12% increase in office building occupancy across its portfolio. This superior performance has been highlighted by achieving 100% occupancy in our Two Sun Court building, a 98,040 sq. foot multi-story office building located in the

Peachtree Corners submarket. With the continued push by decision-makers to locate their businesses closer to their homes in Roswell and Alpharetta, we expect 2015 to bring a flourish of activity that will push occupancies in managed properties in these areas to over 93%. With consistently high marks in tenant satisfaction, BRES Atlanta has been a key asset in assisting its clients in achieving a tenant retention rate across its managed portfolio of over 80%.

Our industrial holdings located in the Atlanta Metro area continue to maintain steady occupancy. Our Eastview Parkway property in Conyers, Georgia and our Westview property in Lithia Springs, Georgia have maintained 100% occupancy through the recent recession. We have also achieved 100% occupancy at the Wilson Way multi-tenant, industrial building in Smyrna, Georgia. Our office/showroom/industrial property located in Roswell, Georgia achieved 90% occupancy in 2014.

With the commercial real estate recovery taking hold in most all Atlanta Metropolitan markets, we believe 2015 should begin to provide opportunity for strategic management portfolio growth driven by internal acquisition as well as allow our group to pursue new third-party relationship assets.

## BLOCK HEALTHCARE DEVELOPMENT

Block Healthcare Development (BHD) saw a growth of approximately 23% in volume in 2014. Key goals were to focus on acquisition and development opportunities that yield steadily increasing cash flows, accelerated amortization, and targeted dispositions of existing assets where we can take advantage of capital appreciation. With striking success, BHD uncovered many opportunities to meet these goals.

Now in our fourth year of operation, we have established a reputation with national brokerage firms as active, aggressive buyers of net-leased medical office properties. Our track record of quick closings on deals has allowed BHD to be on the short list of preferred buyers with these firms, enhancing our ability to bring strong medical syndications to our investors.

In addition, our development expertise has afforded BHD preferred developer status with several national healthcare providers. These development relationships have yielded multiple projects, two of which are currently in construction, and have allowed us the opportunity to bring new construction syndications with long-term leases to our investors.

A few success stories included a seven-building portfolio acquisition of medical properties in three geographic markets. In association with O'Reilly Development, BHD assisted in an equity raise to kick off a 150-bed senior living center in Blue Springs, Missouri and will be developing a 10,000 sq. foot medical office building adjacent to the senior living development. With medical office opportunities fetching low cap rates, BHD facilitated a trade of a recently developed medical office building owned by BRES investors in Kansas City, Kansas to take advantage of significant appreciation,

thereby delivering its clients a significantly enhanced cash flow through an exchange property in the Cincinnati Metropolitan market.

With little change in the underlying fundamentals of the medical office market, 2015 should prove to be another record year for BHD.

## THE BLOCK REAL ESTATE INVESTMENT TEAM

The BRES team of investment specialists was spot on with their 2014 assessment of the investment market and the opportunities it would avail. Our investment team raised in excess of \$74 million for equity syndication in 2014. The team syndicated a large number of transactions locally and regionally, including seven investment transactions in multiple states throughout the Midwest and southern regions. Assets included medical office, multifamily and industrial properties, which were well positioned to leverage fundamentals specific to each property in their unique markets.

The more notable disposition transactions for our investors in 2014 included sales of:

- 4400 Corporate Centre in Overland Park, Kansas; an \$11 million, 106,768 sq. foot office building transaction
- 2020 West 89th Street in Leawood, Kansas; a \$5.8 million, 87,080 sq. foot office building transaction
- Building 22 in Pine Ridge Business Park in Lenexa, Kansas; a \$3.1 million, 31,776 sq. foot industrial building transaction
- University Place Shopping Center in Lincoln, Nebraska; a \$7.6 million, transaction consisting of 120,132 square feet

As the market and product fundamentals continue to evolve in 2015, the investment team at BRES is well positioned to leverage enhanced brokerage relationships in the mid-central and southern states and uncover additional opportunities that meet or exceed the return parameters our investors demand, as well as dispose of assets positioned for a profitable sale.

## THE BRES MARKETING SERVICES GROUP

The BRES marketing team continues to work tirelessly to enhance the team spirit and culture within our organization. By continuing to showcase all department and division activity within our bi-monthly company newsletter filled with exciting news from all areas of the company, the BRES associates have come to realize and appreciate how interconnected our service delivery really is. Some of the projects completed in 2014 include the Pine Ridge Business Park monthly newsletter, a revamped electronic communication available on the Pine Ridge website. This newsletter highlights new tenants, park enhancements, and shares with tenants the discounts available from local businesses. Additionally, the marketing team has incorporated updated Search Engine Optimization (SEO) campaigns for our ColonyRealty Partners industrial portfolio, which has led to a variety of qualified



*BRES employees joined in the holiday spirit of giving this year by adopting five families from The Children's Place. The Children's Place identifies child clients and families who need holiday assistance.*

leads and elevated click-through rates.

In 2014 the marketing team hired two new talents, bringing our social media, blogging, and Google analytics execution and reporting in-house – making our communications and content more robust and knowledgeable with execution to market much quicker.

CityPlace, our newest mixed-use 90-acre development, recently broke ground, which provided our marketing team the opportunity to showcase their expertise by organizing this major project's groundbreaking ceremony. The event included dignitaries from both state and local governments, Chamber of Commerce representatives, economic development teams from across the metropolitan area, and many local business owners.

## PHILANTHROPY

Philanthropy continues to be a strong pillar of the BRES organization as we sponsored over 25 events in 2014 such as: The Groundhog Run, supporting The Children's TLC; Make a Wish Foundation; Red Hot Night for Children's Mercy Hospital; Boys and Girls Hope of KC – Trivia night; March Madness Activities for employees to support the MS Society; Pawtini for the SPCA; Operation Breakthrough; Harvesters food drive; Newhouse Shelter; Hope House-Birdees Fore Hope charity golf tournament; KC Royals Diamond of Dreams; and many more. We wrapped up the year with our annual holiday adopt-a-family through The Children's Place in Brookside delivering gifts to five families.

We continued our program of supporting employees' charitable endeavors by matching donations to these worthwhile organizations. We believe it is essential to give back to our community and share our good fortune with those in need.

We are excited about the prospects and opportunities that exist in the current economic and market climate as we move into what we believe will be the most productive year of business in our firm's history. Please refer to the Highlights shown inside the front cover of this report for a summary of our 2014 activity.

We hope you find this report valuable and are able to use the information to assist you in making sound strategic decisions. We will continue to work hard to assist each of you and wish our clients and investors a successful year in 2015.

Kenneth G. Block, SIOR, CCIM  
Managing Principal

# GLOBAL, U.S., KANSAS CITY

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## OVERVIEW



*Immigration reform was a politically divisive topic in 2014. President Obama went against House Republicans and signed an Executive Order granting temporary legal status to more than five million undocumented immigrants.*

*In 2014, both the global and U.S. economies showed signs of strengthening with increased trade, higher economic and industrial production, and a slightly improved global job market. However, as in years past, the U.S. had to deal with multiple global and national challenges to the economy. The most recent social and economic challenges included the following:*

- **Islamic State of Iraq and the Levant (ISIL).** This Sunni, extremist, jihadist rebel group expanded its control of territory in Iraq, Syria, eastern Libya, and the Sinai Peninsula of Egypt. Their actions continued to be widely criticized around the world by not only Islamic communities, who describe the group as not representative of Islam, but also by the United Nations, Amnesty International, and western nations, led by the United States and Great Britain. ISIL has been designated as a terrorist organization by the United States, the European Union, the United Kingdom, the United Nations, Israel, Canada, and a host of other nations. Its leader, Abu Bakr al-Baghdadi, stated the group's aim was to establish an Islamic state. On June 29, 2014, the group proclaimed a worldwide caliphate. This caliphate is now claiming religious

authority over all Muslims worldwide and is known for its beheadings and grave human rights abuses. The group's power continues to grow and is a major threat to the civilized world. And with Defense Secretary Chuck Hagel resigning at year-end, the U.S. needs to quickly fill this post to lead the charge against ISIL.

- **Under President Vladimir Putin, aggressive, power-hungry Russia expanded its territorial control in the region.** With its expansion into Crimea, and its current battles in the Ukraine, Putin has made it clear he does not feel Russia has committed any violations of international law as these territories openly expressed a desire to join Russia. He further stated that while he would like to have normal relations with the United States and Europe, they would not tolerate distant great powers deploying military forces anywhere in the western hemisphere, like the United States is doing in Europe. While the U.S. and other nations have imposed sanctions against Russia which are pushing it to the brink of recession, Putin plans to continue his expansion efforts nevertheless.
- **The deadline for nuclear talks between the P5+1 powers in Iran had to be extended** due to the lack of an agreement. Israel warns it will use military power against Iran if a deal doesn't meet with its

approval. The current proposal would restrict Iran's nuclear program for 10 years, cap its ability to produce weapons grade material, and would require Iran to give its material to Russia to be converted to peaceful use. However, Israel noted that if you do not dismantle Iran's nuclear infrastructure, you have simply allowed them to restart their nuclear weapons process when inspections cease. Iran is also working on an intercontinental ballistic missile which would have the capacity to hit not only portions of Europe, but also the United States.

- **The Israeli-Palestine conflict continues.** While the two parties continued to negotiate a long-term peace proposal that would control building by Israel in the Gaza strip, as well as other serious issues, a recent assault by two Palestinians that killed five Israeli's worshipping at an Israeli synagogue, caused Benjamin Netanyahu to vow a strong retaliation against the murderers and those behind the horrific attack.
- **Ebola.** The epidemic that began in Guinea in 2013 and thereafter spread to Liberia, Syria Leon, Nigeria, and Senegal, has become the largest and most complex outbreak in the history of the disease. Human-to-human transmission spread the disease throughout West Africa and has caused worldwide panic with the movement of infected persons through various forms of transportation, thereby putting the entire world at risk of an out of control epidemic. However, a new experimental Ebola vaccine has already been through its first human trial, and it is hopeful that mass production of this and other vaccines can keep the Ebola outbreak under control during the latter part of 2015.
- **Racial unrest in the United States.** Racial unrest continues to be front and center with the most recent incident in Ferguson, Missouri ripping the nation apart. After months of deliberation, a grand jury voted not to indict Ferguson police officer Darren Wilson in the August 9th shooting death of Michael Brown, stating that Officer Wilson responded in self-defense.
- **Midterm elections.** Midterm elections turned the Senate over to Republicans and increased Republican numbers in the House, thereby giving the majority in both houses to Republicans for the next two years. Expect Republicans to move forward quickly in 2015 with bills on Obamacare, immigration, corporate income taxes and many more issues.
- **President Obama continues to sign Executive Orders** in order to pass issues important to him but which have not been passed through Congress. Those include one to eliminate wage disparities among federal contract workers, and perhaps the most divisive issue ever taken by Executive Order – his action on granting temporary legal status to more than five million undocumented immigrants.

## GLOBAL ECONOMY

The global economy strengthened in 2014 and it is expected to improve further in 2015. However, the unifying theme is that the global economy will take longer than expected to recuperate from the bursting of the debt bubble during the last decade. While the International Monetary Fund (IMF) projected the world economy would be back on track in 2015 growing at an expected 4.8% rate, the BRIC nations (Brazil, Russia, India, and China) have had substantially lower growth rates. Therefore, the IMF reduced its forecast of 2015 global growth to 3.2%, citing a big concern about China's growth.

China's 7.1% growth rate, while high compared to other nations, would be the country's lowest in 15 years. A slow down of this magnitude would cause a major financial crisis in China as indebted investors, such as property developers, could default on a large scale. It is also important to note that the U.S., China, Japan, and the Eurozone all must be growing for the global economy to move forward and if any one country doesn't meet expectations, it could send the global economy into a tailspin.

Approximately 40% of the public companies that make up the S&P 500 derive sales from Europe. A Eurozone economic slowdown could cause the corporate earnings of American companies to suffer and as a result, cause an economic slowdown in the U.S. Again, the linkage of global economies has a direct effect on our U.S. economy.

The U.S. is the largest economy by size at \$17.5 trillion dollars followed by China at \$10 trillion and Japan at \$4.8 trillion. However, in November of 2014, China overtook the U.S. as the world's largest economy according to the International Monetary Fund. The method used by the IMF adjusts for purchasing power parity and now shows that China makes up 16.48% of the world's purchasing power adjusted gross domestic product (GDP), or \$17.63 trillion, followed by the U.S. at just 16.28%, or \$17.416 trillion. While the U.S. economy continues to be \$6.5 trillion dollars larger than China, when not adjusted for purchasing power, it is clear that China's global influence will more visibly affect not only the U.S. economy but also the entire global economy going forward.

The global economy strengthened in 2014 and it is expected to improve further in 2015.

In the Eurozone, the straightjacket of a single currency, while working as the gold standard did in the past, is preventing weaker economies, such as Greece and Portugal, from depreciating their currencies, which is a quick way for a nation with high labor costs to boost its exports and speed up its economy. Japan, which self-imposed a sharp increase in consumption taxes in 2014, is considering a second round in 2015 as it tries to ward off deflation.

The volume of world trade in goods and services among the top nations is key to the World Trade Organization (WTO), the Transatlantic Trade and Investor Partnership (TTIP) and the Trans Pacific Partnership (TPP) which all noted that it is essential that overall trade exports be increased globally. These international trade agreements have been a successful tool in not only reducing barriers to global commerce, but also as an engine of economic growth, which can lift people from poverty to prosperity.

One of the most significant benefits to the global economy in 2014 was the huge decline in the price of oil from a high of near \$120 per barrel to the current level of around \$83 per barrel. However, the Organization of Petroleum Exporting Countries (OPEC) economies have seen economic declines as global demand weakens for oil. With prices so low, countries like Iran struggle as their cost of production exceeds the market price. Add to this higher production in the United States, which is now a net exporter versus a net importer of oil, as well as stepped-up production in Russia, has made it clear that OPEC has lost some influence in the global economy.

## GLOBAL RISKS

A global risk is defined as an occurrence that causes significant negative impact for several countries and industries over a time frame of up to ten years. The ten highest risks include the following:

1. Fiscal crises in key economies
2. High unemployment/underemployment

3. Water crisis
4. Several income disparities
5. Failure of climate change mitigation and adaptation
6. Greater incidence of extreme weather events
7. Global governance failure
8. Food crisis
9. Failure of a major financial mechanism/institution
10. Profound political and social instability

Perhaps the most dangerous of all of these in terms of immediate shock to the global financial system, is fiscal crisis. Given that the U.S. official public debt is now 101.53% of the GDP, Japan's is more than 230%, and China's is in excess of 176%, investors at some point may conclude that these levels are unsustainable. Once a determination like this has been made, a flight to safety by investors' dollars could immediately weaken or cause a default among many of the global economies thereby affecting the entire global economic system.

China overtook the United States as the world's largest economy according to the International Monetary Fund.

Around the world, the next generation will be most affected by this legacy of a financial crisis and slow growth. In many countries, dramatically high unemployment is



*The midterm elections in November turned the Senate over to Republicans and strengthened Republican numbers in the House. This gives the majority in both houses to Republicans for the next two years and could create potential conflicts with Obama's policies going forward.*

frustrating young people's efforts to earn, generate savings, gain professional experience and build careers. Additionally, higher education has become more expensive than ever and its payoff is more doubtful. Youth unemployment rates have soared and are especially dire in the Middle East and some European countries, such as Spain and Greece. About 300 million young people, over 25% of the world's youth population, have no productive work according to World Bank estimates. Also, an unprecedented demographic "youth bulge" is bringing more than 120 million new young people into the job market each year where many cannot find viable employment. This is not only a waste of human capital, but it threatens to halt economic progress. It creates a vicious cycle of declining economic activity, further under employment, and the risk of social unrest by creating a disaffected "lost generation" that remains vulnerable to being sucked into criminal or extremist movements. This is exactly why the group ISIL has been successful in recruiting young militants as many see this as their only option.

A new risk, which is of grave concern to all major economies, is the risk of cyber attack. The Internet was built for resilience rather than security and since an attacker needs only to find a single way through the defenses at a single point in time, the Internet has become increasingly vulnerable. Anything that is connected to the Internet can be hacked. This increasing hyper-connectivity raises the prospect of disruptions having a systemic impact which could affect national grids, satellites, avionics, signals from Global Navigation Satellite Systems (GNSS), and other critical systems. It has already been acknowledged that the United States has faced nearly daily attacks from China, Russia, and other Middle East nations whose goal is to bring down our systems and systematically affect our economy. A recent attack against Sony concerning an upcoming film about North Korea President, Kim Jong-un, is perhaps the first of many to affect our economy.

A new risk, which is of grave concern to all major economies, is the risk of cyber attack.

## U.S. ECONOMY

The federal budget deficit has fallen sharply over the last few years and in the fiscal year 2014, will total \$506 billion. This was roughly \$170 billion lower than the shortfall recorded in 2013 and is slightly below the average of federal deficits during the last 40 years. However, federal debt held by the public will reach 74% of GDP at the end of this fiscal year, which is more than twice what it was at the end of 2007, and higher than any year since 1950.

The Congressional Budget Office (CBO) projects that there will be continued deficits through 2024. Annual deficits are expected to remain less than 3% of GDP through 2018, but would grow thereafter, reaching nearly 4% from 2022

to 2024, which is far higher than the 3.1% of GDP average for the last 40 years. However, debt held by the public is expected to rise from 74% to 77% of GDP by 2024. This large and increasing amount of federal debt will have serious negative consequences including: increasing federal spending for interest payments; restraining economic growth in the long-term; giving policy makers less flexibility to respond to unexpected challenges; and eventually increasing the risk of fiscal crisis.

The U.S. GDP is expected to end the year at a growth rate of 2.15%, followed by an increase to 2.7% in 2015, and 3.1% in 2016. These levels compare unfavorably with real global GDP which is projected at 3.2% in 2014 and 3.7% in 2015. However, these levels were lowered by the Fed based on more recent data on the slowing global economy.

One of the biggest reasons the deficit is increasing is the expansion of federal subsidies, including health insurance, mounting interest costs on federal debt, and other entitlements given to a growing sector of our society.

## U.S. DEBT NEWS

The private sector continues to strengthen due to efficiencies in operations, lower borrowing costs and a reduction in corporate expenses. The total U.S. national debt as of December 2014 stood at just over \$18 trillion with the U.S. GDP standing at \$17.5 trillion. However, all forms of U.S. debt at the end of year 2014 totaled over \$60 trillion dollars, compared that to \$2.2 trillion dollars just 40 years ago. Because of this increasing debt, the CBO predicts that the economy will stall again by 2017. Economists have not agreed on how to stave off the impending crisis because Americans are addicted to spending on credit, to borrowing for what they can't afford, and getting a host of entitlements for which they can't pay. Eventually, the negative effect of the debt load becomes stronger than the positive effect of the added spending and this triggers a recession.

## INTEREST RATES

The U.S. Federal Reserve announced at the end of October that it would end its Quantitative Easing (QE) program of mortgage-backed securities and U.S. government bond purchases. This program, which began in 2008, was an attempt to stimulate the economy by lowering long-term interest rates. The low interest rate environment was supposed to encourage banks to lend more money to businesses and people.

However, due to many of the provisions of the Dodd-Frank Act, America's big banks instead tightened their lending rules, taking the opportunity to strategically invest the money themselves. These big banks, controlled by shareholders, decided higher profits made more sense than making loans to risky, smaller borrowers. So, while the announcement of the end of Quantitative Easing came as no surprise, it remains to be seen what affect it will have on the U.S. economy in 2015.

While it is expected that interest rates will rise in the latter part of 2015, we do expect several factors to mitigate the likelihood of a material increase in interest rates. The most notable factor is the recent weakening of the global economy, particularly in China and in the European Union. QE has been recently implemented in the European Union and there's an expectation that additional stimulus measures will be likely. China's deterioration in growth and Germany's economic slowdown are dampening global expectations, thereby making a flight to safety in the U.S. dollar more likely. Also, the recent rise in the value of the U.S. dollar, together with falling oil prices, will help suppress domestic inflation, thereby allowing the Fed to keep interest rate increases at a slow pace.

The Federal Reserve believes that as long as the U.S. economy continues to make progress toward the Fed's dual mandate goals of maximum sustainable employment and 2% inflation, that it will need to raise its federal funds rate target off of zero during 2015. Expectations are that this will occur at the beginning of the third quarter, but the Federal Reserve is expected to do its best to minimize any potential disruptions to the markets by making any increase slow and predictable. Federal Reserve Chair Janet Yellen's strong, pro-growth stance, and her desire to see a full recovery in the labor market, also suggests the move will be gradual. However, longer-term rates will continue to move upward, perhaps as much as 50 basis points during 2015 as the short-term rates increase.

The economy finished 2014 as the best year since 1999 for both total and private sector job growth.

At the end of 2015, the federal funds rate could increase to somewhere between 50 and 75 basis points, thereby putting 10-year Treasuries in the neighborhood of 2.9% to 3.1%, up from about 2.5% at year-end 2014. Even so, by historical standards, these rates are quite low.

## THE JOB MARKET

Job gains in 2014 continued to top the critical 200,000 per month benchmark and are expected to increase slightly in 2015. The number of job gains needed to keep incomes and consumption fueling a healthy economic growth is roughly 200,000 per month. Gains are particularly prevalent in retail, health services, professional and business services.

The economy finished 2014 as the best year since 1999 for both total and private sector job growth. The unemployment rate dropped to 5.8%, the lowest level since July 2008. The tech and energy sectors, however, will continue to be the primary economic drivers for the foreseeable future job growth.

Another reason for slower job growth is the government's continuing implementation of thousands of new regulations.

Many of these new regulations decrease worker productivity and increase costs for about everything we buy. But perhaps the bigger problem is the fact that the U.S. corporate tax rate is the highest among developing nations at 35% at the federal level. Tack on state and local taxes and U.S. corporations are paying between 40% and 42% income tax burden. What's even worse is that Uncle Sam demands that American companies with offshore operations pay U.S. taxes on all income earned abroad, if those profits are repatriated to the U.S., which makes little or no sense since taxes have already been paid to the countries where the income was actually generated, leading to double taxation on profits. Therefore, U.S. corporations are not likely to return that money to the United States to increase jobs and employment here. It is estimated that \$2 trillion in foreign profits are parked outside the U.S. So, a change in the corporate income tax, and repatriation of those profits to the United States tax free would immediately boost U.S. economic growth and improve the job market.

Still, a big concern to the economy is the U.S. unemployment rate, which continues to be 13% to 14%. This rate includes those unemployed, and those underemployed and is the true measure of unemployment. And, the civilian labor force participation rate is also down to 62.8%, which is lower than the historical average of 66%. This decline in the labor participation rate is caused by both structural factors (population aging or delayed retirement) as well as the availability of entitlements to those unemployed.

The continued rise in the entitlement phenomenon has allowed unemployed people to earn an average of \$40,000 in a rising number of states in the U.S., with the highest being Hawaii, providing as much as \$60,000 a year in benefits to the unemployed. It is clear that an overhaul to the U.S. entitlement program is necessary in order to cause more people to enter the labor market, thereby increasing the labor participation right. However, with 15% of Americans (50 million) now living below the poverty level, and 47 million Americans on SNAP (Supplemental Nutrition Assistance Program a.k.a food stamps), there are now over 151 million Americans who receive a check from the government rather than an income tax refund. In essence, without more people working, U.S. economic growth will continue below historical norms over the next several years. And by 2018, nearly 66% to 68% of Americans will be receiving some form of government assistance.

According to The Brookings Institution, the number of jobs needed to return employment to its pre-recession levels and absorb new entrants in the workforce is approximately 9.9 million. However, the number of temporary jobs has increased 50% since the recession ended nearly four years ago. In fact, the number of part-time jobs rose by three million since 2008 while the number of full-time jobs decreased by a similar amount. Seventy percent of the current workforce has inflation-adjusted hourly wages that are still lower than they were in 2007, at the same time as inflation (CPI has raised over 15%). Americans had the highest median household



*Different environmental groups, citizens, and politicians have raised concerns about the potential negative impacts of the Keystone XL project. Though the issue appears to have public support, there has yet to be a decision made that will determine the fate of the pipeline.*

income adjusted for inflation in 1999 and it has declined ever since. According to the UCLA Anderson forecast, the U.S. is not yet in a recovery, and the economy must grow at a 4% growth rate for 15 years or a 5% rate for eight years in order to create enough jobs and overall economic activity to return to the normal trend line.

Another issue that could affect the U.S. economy is the increasingly large outstanding student loan debt which topped \$1.3 trillion at the end of 2014. Loans that are delinquent 90 days increased to 12.1% according to the Federal Reserve Bank of New York. Since the federal government is the source and backer of most of these loans, this could end up being a substantial deterrent to a strengthening of the U.S. economy until this potential debt crisis is solved.

Finally, the housing market needs to continue to grow in order for the economy to expand further. For this to occur, interest rates must remain low and job creation must occur so that consumer spending can improve. Without a strong and resilient housing market, the U.S. economy will continue to sputter along since the housing sector remains one of the most significant influences on the overall health of the U.S. economy.

While the housing market continues to improve, it still should be noted that the Standard & Poor's Case-Shiller Home Price Index, while up 25% since the beginning of 2012, still needs to climb an additional 20% simply to break even with its pre-recession levels. As a result, the number of first-time home buyers accounted for just 28% of all purchases, while the 30-year average is 40%, a number that economists consider necessary for a healthy housing market.

## IMMIGRATION AND THE 2014 MIDTERM ELECTIONS

In a rare primetime, nationally televised address in late November, President Obama unveiled the most sweeping Executive action on immigration in decades. His plan is to circumvent Congress and extend legal status to 4.1 million undocumented parents and families of U.S. citizens who have been in the country more than five years with no criminal record. Additionally, 300,000 undocumented immigrants who came to the U.S. illegally as children would also get relief, and 400,000 highly-skilled workers will be eligible for Visas. In total, over five million people will receive temporary, legal status and protection from deportation.

While President Obama's plan for immigration was leaked to the press prior to the elections, it was clear from the election outcome that many people did not agree with his plans. The Republicans took control of the Senate with a gain of eight Senators while in the U.S. House of Representatives, the Republicans extended their majority by 11. There was a huge increase in Republican governors with Republicans now leading 31 states. These gains in Republican governors could foreshadow a significant shift in two years as governors frequently have a greater impact on voters' daily lives. This may give the Republicans the ability to demonstrate a difference in governing to the majority of Americans.

The midterm elections also provided an opportunity for voters across the nation to express significant discontent with the government. Over 34% of voters expressed that they voted in opposition of President Obama and 65% said the country was seriously headed down the wrong track.

The most important issue continued to be the economy and over half of the voters expect life for the next generation of Americans to be worse. There is still a majority of Americans who have an unfavorable view of both the Democratic Party and the Republican Party, and a majority of Americans believe the government is doing too many things that should be better left to businesses and individuals.

In 2015, expect the Republican-controlled Congress to make major changes to The Affordable Care Act (ACA) commonly known as Obamacare. The ACA is expected to add \$6.3 trillion in debt to the U.S. economy over the next 10 years and there are multiple issues in this legislation that are not only bad for the U.S. job market, but are causing an increase in the cost of insurance for most Americans. Over five million Americans had their insurance cancelled due to the ACA in 2013, but expect 60 to 80 million more Americans to lose their healthcare insurance and be forced to look at alternative forms of insurance or be forced into the federal exchange.

Another alternative, paying the penalty for not getting insurance, could have a larger negative effect on younger Americans over the next few years. We can expect the Republican-controlled Congress to suggest changes to Obamacare, as well as pass other bills that would provide a more acceptable immigration policy, lower corporate income taxes for U.S. corporations, a simplified income tax code, and a host of other regulations designed to improve job growth and to speed up the economy. The question remains whether President Obama will work to compromise with the Republican-controlled Congress in 2015 and 2016. The hope is that the White House and Congress can reach equitable compromises so that the economy can move forward in a sustained and predictable manner.

## OBAMACARE

In fiscal year 2014, the first year of the federal Obamacare exchange, the federal government spent nearly \$17 billion on subsidies for people who buy their insurance there. By 2023, the tenth year of the federal exchange, the federal government will be spending \$134 billion on subsidies for people buying their insurance there. This \$134 billion that the federal government will dole out in Obamacare subsidies is 7.9% as much as the \$7 billion in the first year. In essence, the combined \$707 billion that the federal government will spend on Medicaid and Obamacare subsidies in 2024, will be roughly equal to the \$716 billion that CBO estimates the government will spend on national defense. Clearly, the U.S. economy cannot afford this continued increase in entitlements with no comparable increase in revenues.

## U.S. PROPERTY SECTORS AND MARKETS

For the fifth consecutive year, the Urban Land Institute (ULI) and Price Waterhouse Cooper, LLC in their joint publication *Emerging Trends in Real Estate 2015*, have indicated U.S. Property Sectors and Markets will improve in the coming year. The substantial availability of capital

from both U.S. and foreign sources is expected to drive cap rates lower in 2015 as real estate investment continues to be a highly desired investment class. However, most of the enhancements in property valuations will be provided through improvement in total returns and expense reductions.

While short- and long-term interest rates are projected to increase in the latter part of 2015, this is expected to have a minimal impact on real estate investment. Growth will continue in all property sectors, and while multifamily has led all investment categories in 2014, expect the industrial sector to grow more quickly in 2015.

A rare confluence  
of positive trends favoring industrial  
properties and developers  
will align.

Capital is expected to flow heavily into the office sector, which currently has higher capitalization rates than the industrial and multifamily sectors. Also, an increase in retail investment will be seen, although it will still be muted compared to previous historical investments. Again, expect the energy, technology, healthcare, and financial services to lead job growth. If a Republican-controlled Congress can pass legislation to reduce U.S. corporate taxes, and to allow for foreign corporation profits to be non-taxed and brought back to the United States, this would have a significant impact on job growth, and could dramatically increase the investments in real estate and, in particular, the office sector.

In 2015, real estate assets again will command an attractive spread over fixed income investments and be competitive with the highly erratic equities market. While the equities market continues to provide substantial returns due to the accommodative fiscal policy of the Fed, a projected rise in interest rates in the latter part of 2015, and the elimination of QE as of November 2014, is expected to slow gains in the equities markets while increasing the attractiveness of the bond market.

The top trends in real estate for 2015, according to *Emerging Trends*, include the following:

1. **The 18-hour city comes of age.** The increase in downtown transformations combining the key ingredients of housing, retail, dining, and walk-to-work offices will cause increased investment and development in the next level of cities outside of 24-hour markets. These re-emerging downtowns will be “18-hour” markets and will include places like Raleigh-Durham, Charlotte, Denver, and perhaps in the future, Kansas City. The key to 18-hour markets is each city’s ambition to strengthen its urban centers as live/work/play environments.
2. **The changing age game.** Millennials prefer renter by choice multifamily housing versus home ownership. Expect this to be at least a seven-year trend before

millennials will have to make a decision about whether to stay urban or move to the suburbs. Expect the over \$1 trillion in student debt to further slow home ownership for this group. With 77 million baby boomers on the leading edge of retirement age, expect an increase in resort and retirement communities as well as more movement from home ownership to rental living. Also, anticipate medical office as a strengthening trend to serve the aging baby boomer market.

3. **Labor force growth rate continues to slow** as millions of long-term unemployed are now permanently out of the labor market. Job growth will become the most important focus of our economy as it is a key factor in filling office buildings, promoting new housing, and improving sales in the retail sector.
4. **Real estate's love/hate relationship with technology intensifies.** STEM workers (Science Technology Engineering and Math) will continue to be the focus of job growth in the years ahead. Technology will change the retail sector with more online consumption, the warehousing sector with same-day fulfillment, and the office sector with the downsizing of per worker space needs.
5. **Event risk is here to stay.** Political risks have intensified in 2014 and they are expected to be even a bigger factor in the years ahead. A flight to safety in global capital will continue. Sovereign wealth funds, old family money, and high net worth individuals continue to converge on the United States for investment opportunities. Real estate in all forms will appeal as a durable asset class in a risky world. Investment returns for the NCREIF and NAREIT will increase 60 to 90 basis points by 2020.
6. **A Darwinian market keeps a squeeze on companies.** Specialization in all sectors will become the trend. Low-performing investment managers will be eliminated and the larger investors will seek more control over their investments.
7. **A new 900-pound gorilla swings into view.** U.S. retirement assets will hit \$23 trillion in 2014 and will continue to grow in the future. A more institutional-like allocation of 5% of these assets to real estate would represent a \$1.2 trillion increase in real estate investing. However, liquidity will be especially important, which may favor REITS as a vehicle over direct investments.
8. **Infrastructure: Time for the United States to get serious?** The millennial generation is intolerant of congestion and delay. Real estate depends upon ease of commuting. Infrastructure improvements will be improved across the United States and access to transportation hubs, downtowns, and multiple services will continue to be the trend.

9. **Housing steps off the roller coaster.** Housing should anticipate moderate price increases, but should be more predictable in the future. Due to the shortfall in supply of new for sale units, expect new housing to continue at a reasonable level over the next several years.
10. **Keeping an eye on the bubble – emerging concerns.** Equity underwriting will be less rigorous in 2015 than in 2014. Easing of standards on the debt side will continue and mortgage spreads will tighten. Beware of boom/bust cycles and not having a deep market knowledge. Ask the question, “If the local guys won’t buy, why should you?”

## 2015 TRENDS

Active management will continue to bring success and profits to those with real estate operating and management skills. Value-add propositions will continue to be attractive to institutional and private investors. An increase in investment in secondary and tertiary markets will be seen due to attractive cap rates compared to primary markets.

Real estate companies that can harness the power of social media to manage and market properties will gain an enormous advantage over those who do not. Social networking markets are also the physical markets for real estate. CEO’s who are promoting “reverse mentoring” using millennial savvy to educate top managers will be the most successful.

Financing with low historical interest rates will continue to be high. Commercial mortgage-backed securities (CMBS) issuances will increase to nearly \$100 billion in 2015. The yield curve will still be relatively flat, so seven to 10 year maturities should be the most desirable for commercial properties. The sense of urgency to accomplish this in 2015 will gain momentum for long-term investors.

A rare confluence of positive trends favoring industrial properties and developers will align. With the reshoring of manufacturing, a renewal of home building, and the alteration of retailing business models, expect the development of industrial space to gain momentum. Existing industrial properties will be a solid buy in 2015 and looks to be the case through 2017. Mixed-use or multiple-use developments will continue to be the most desirable for large investors. Real estate that falls into the “commodity bucket” will be cheap but will continue to be less desirable as millennials require a connected community.

In 2015, expect cap rates to decline slightly or to stay stable in 24-hour cities, while in secondary and tertiary cities we will see a decline in cap rates and a rise in values. Well located, highly functional, and institutional quality real estate will continue to be the most desirable investments in 2015.

## KANSAS CITY ECONOMY

In 2014, the Kansas City economy began to gain steam. Industry leaders included the automobile industry, IT, and

the health sectors as they have in the past, but the addition of e-commerce and the intermodal have also become major influences.

For the third year in a row, Cerner made the biggest headlines when they broke ground on their innovation campus on the Three Trails Crossing campus. This project, which will span 10 years and will add nearly 4.5 million square feet of office space, will now hold over 16,000 new Cerner employees, which increased by 1,000 employees over prior projections. The campus is now expected to cost \$4.45 billion and has again brought to the forefront the 350-acre, \$1.1 billion Oxford on the Blue research park and a 90-acre industrial park planned by NorthPoint Development.

Also, Sporting Club CEO, Robb Heineman, announced in November that officials with the organization would build a 190-acre soccer village that will include a \$75 million national training and coaching development center for the U.S. Soccer Federation and its national teams. The plan will also call for 16 soccer fields, eight youth fields and eight lighted professional fields, as well as a state-of-the-art indoor complex with a practice field.

Other major projects announced include over 4,000 units of multifamily underway or planned in Kansas City and the \$139.5 million headquarters expansion by Burns & McDonnell which will add eventually up to 2,100 new employees in 700,000 square feet. The year 2015 will also bring the start of the BluHawk 100-acre mixed-use project in Overland Park; the 90-acre mixed-use CityPlace project at College Boulevard and Highway 69 in Overland Park led by BRES; and 46 Penn Centre, a \$78 million Country Club Plaza office tower proposed by BRES, which finally gained full city approvals in late November 2014.

Another major story was the battle for the future development on the Kemper Arena site. American Royal advocates have made an aggressive pitch to the city to demolish Kemper Arena and rebuild it as a \$60 million event center for the American Royal complex. A competing plan, promoted by Foutch Brothers, for a \$22 million repurposing of Kemper as a youth and amateur sports hub was recently withdrawn after concerns about legal ramifications concerning interference with the American Royal Association's lease of Kemper Arena. While Kansas City leaders have supported the plan to raze and replace Kemper Arena, at year-end 2014, the City Council of Kansas City, Missouri was uncertain what course of action it would take and decided it should consider including more proposals for the redevelopment of Kemper Arena.

### KANSAS CITY REGION

The region's gross regional product (GRP) grew at an annual rate of approximately 2.9% compared to 1.9% in 2013. Again, the regional GRP exceeded the U.S. GDP of 2.2%. The area's GRP is expected to decline slightly in 2015 to 2.73% which would more closely mirror the expected U.S. GDP growth.

Kansas City's recovery continues to accelerate as employment growth, particularly led by Cerner and the healthcare sector, exceeds expectations. More contributors to job growth include finance, insurance, healthcare, and service sector job growth, together with an improvement in manufacturing.

Kansas City's total employment is projected to now reach its historical average with 1.5% growth in 2015 and nearly 1.4% in 2016. The Kansas City Metropolitan economy has



*The U.S. Soccer National Training Center, a \$75 million-plus complex, will be built in Kansas City, Kansas. It will house a National Training and Coaching Development Center, athlete training and performance analysis facilities, youth and professional soccer fields and development programs.*

added an average of 10,100 jobs year-over-year since job growth turned positive in July 2010, but this is still 2,200 fewer jobs per year on average than during the mid 2000's. However, we do expect this growth in jobs to escalate over the next two to three years as our economy begins to see the benefits of explosive growth in the automobile, e-commerce and healthcare industries in particular.

In order for the region to truly expand job growth to a level seen by larger cities, regional leaders must continue to focus on the drivers of regional economic prosperity, which include clusters of firms that trade with the rest of the world, high-quality human capital, and increased innovation and entrepreneurship.

Finally, the industrial market continues to further accelerate with over 3.2 million square feet of new Class A space under construction as compared to just over two million in 2013. Leading this surge is activity at the intermodal centers, the automobile industry and related businesses, and e-commerce. Expect Kansas City to be a highly sought-after industrial location for these three sectors over the coming years, as the intermodal alone will spur industrial development of nearly 120 million square feet over the next 20 years.

The Kansas City Metropolitan area continues to look more like a primary city versus a secondary city with its acceleration in multifamily activity in the downtown core. While there has been an emphasis on the growth of residential in the downtown core for many years, with 14 projects and over 2,200 units now underway or planned, we are seeing the biggest surge in downtown housing in years. The ultimate goal of increasing to 40,000 units, or more, to

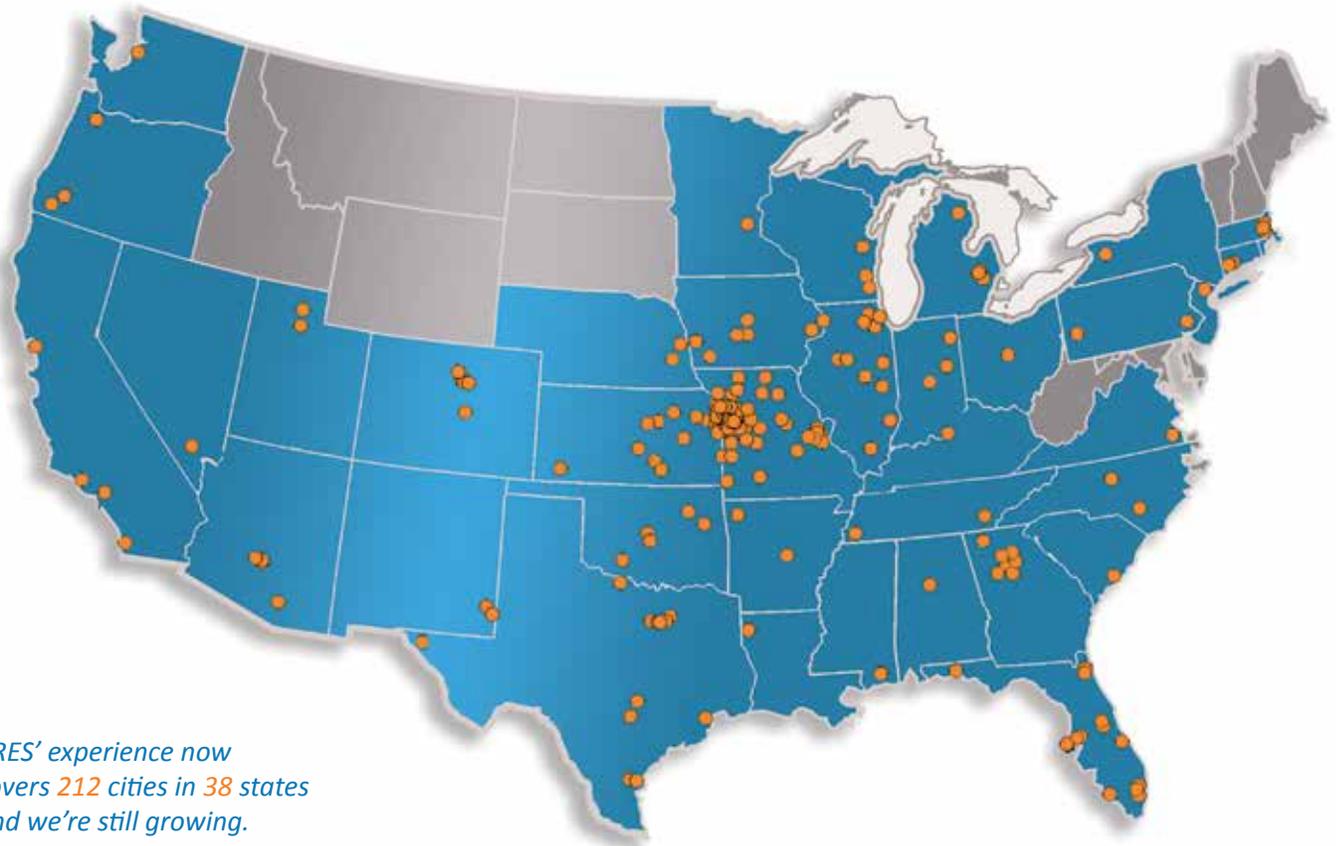
create a true 18-hour city and a vibrant community is now in sight.

## KANSAS CITY LOCATION

Perhaps Kansas City's strongest attribute is its location in the middle of the country and in the central time zone, which allows it to attract a constant influx of visitors from a multitude of small communities in the surrounding seven states. Kansas City is within a four-hour drive of over 8.65 million people in Kansas, Missouri, Iowa, Illinois, Nebraska, Arkansas, and Oklahoma and is a true tourist destination for these communities.

The Kansas City Metropolitan area is home to over 2.31 million people and is home to the corporate headquarters of AMC Entertainment, American Century, BATS Trading, Black & Veatch, Burns & McDonnell, Cerner Corporation, Commerce Bank, DeBruce Grain, DST Systems, Garmin International, Great Plains Energy, H&R Block, Hallmark Cards, JE Dunn Construction Company, Seaboard Corporation, Sprint/SoftBank, UMB Financial, Westar Energy, YRC Worldwide, and many others.

Kansas City residents are very well educated with over 39% having a college degree and over 92% having a high school education. There are a large number of major universities located in or near Kansas City and over 15 institutions within the metro area offering graduate degrees in numerous disciplines. The University of Kansas and the University of Missouri offer professional degrees in law, medicine, dentistry and pharmacy. Kansas State University offers opportunities in bioscience and biotechnology and degrees in osteopathic medicine are offered by Kansas



*BRES' experience now covers 212 cities in 38 states and we're still growing.*



*Due in part to venues such as the Bloch Building, Kansas City ranks number one in the country based upon the number of cultural venues per capita and is ranked in the top seven in the country in terms of cultural art destinations.*

University of Medicine and Biosciences. Colleges and universities in and around Kansas City include Avila University, Cleveland Chiropractic College, DeVry University-Missouri, Kansas City Art Institute, Kansas City University of Medicine and Biosciences, MidAmerica Nazarene University, Missouri Western State University, Ottawa University, Park University, Rockhurst University, University of Kansas, University of Missouri-Kansas City, University of Phoenix, Webster University, William Jewell College, and many more.

## A CULTURAL ARTS COMMUNITY

Kansas City is well known nationally and internationally for its art and culture and has a multitude of amazing venues to enjoy arts and cultural events. Some of these venues include the Nelson Atkins Museum of Art and the Bloch building, the American Royal Museum and Visitor's Center, the Kansas City Symphony, Starlight Theater, Copaken Stage for Repertory Theatre, National World War I Museum at the Liberty Memorial, the American Jazz Museum, the Airline History Museum, Negro League Baseball Museum, the Nerman Museum of Contemporary Art, Science City, and a host of others. The world renowned Kauffman Center for the Performing Arts is ranked in the top four performance halls in the world. In fact, Kansas City ranks number one in the country based upon the number of cultural venues compared to population of our community and is ranked in the top seven in the country in terms of cultural art destinations.

## SPORTS AND ENTERTAINMENT

Kansas City continues to be one of the top sports and entertainment cities in the country. A number of professional

teams call Kansas City home, including: the Kansas City Chiefs; the Kansas City Royals; Sporting Kansas City; Kansas City Storm; Missouri Mavericks hockey team; the Missouri Comets; the Kansas City T-Bones; and the Kansas City Renegades indoor football club. Also, high ranking college teams from the University of Kansas, University of Missouri, and the University of Missouri-Kansas City are located within our community. And, in 2014, the Kansas City Royals nearly won its first World Series since 1985 after they took the American League pennant and lost in the seventh and final game of the World Series by a score of 3-2 to the San Francisco Giants.

Kansas City continues to be one of the top sports and entertainment cities in the country.

Because of Kansas City's location in the center of the country, it is home to a wide variety of entertainment venues, including: Worlds of Fun; the Kansas City Zoo; Oceans of Fun; the Woodlands; Union Station; Community America Ballpark; Schlitterbahn Vacation Village; the Kansas Speedway; and the Independence Events Center. Legoland Discovery Center and the Sea Life Aquarium in the Crown Center District have also brought national attention to our community and been well received by Kansas City and the surrounding communities. Add to this group, Snow Creek Ski Resort, the Overland Park Arboretum and Botanical

Gardens, Powell Gardens, the 18th & Vine cultural district, and the Renaissance Festival, and you truly have an impressive variety of things to do in Kansas City.

## EDUCATION

Kansas City is a strong education-minded city due to an excellent network of school districts, community colleges, universities, workforce development boards and organizations like the KC STEM Alliance and PREP-KC, which are committed to working together to ensure that all secondary students have the opportunity to be part of the skilled workforce for the new economy. An increasingly educated and skilled workforce continues to draw new businesses to our community that need quality workers.

Recently announced is KC Rising, a new effort that will provide existing businesses the ability to greater scale, synchronize and optimize initiatives. It should help fully realize the Kansas City region's potential through business growth and is expected to solidify a longer term and more global vision to the region's job growth focus.

## UNPARALLELED TRANSPORTATION PRESENCE

The Kansas City Metropolitan area is served by nine major commercial airlines and their connection partners. These carriers offer over 260 daily departures with non-stop service to over 68 destinations.

Kansas City's new air modal center, adjacent to Kansas City International airport, is continuing to strengthen cargo shipment capabilities and distribution opportunities together with several intermodal locations located in our community. This has allowed Kansas City to be recognized as a top five city in the nation for cargo distribution.

Kansas City also continues to rank as one of the strongest distribution centers in the country. It has the number one ranking by rail freight volume and the number two ranking of largest rail centers in the U.S. behind Chicago. Kansas City's new rail intermodal hubs, one by Burlington Northern Santa Fe Railroad and one by Kansas City Southern Railway, join existing hubs run by Union Pacific and Norfolk-Southern and have further strengthened Kansas City's reputation as a top five distribution town. Kansas City also has eight, Class one rail carriers, three regional lines, and a local switching carrier (KC Terminal) serving the area. Amtrak passenger trains also serve the city four times per day.

Kansas City continues to have enviable barge traffic enjoying the Missouri River Corps of Engineers managed shipping channel running from St. Louis, Missouri to Sioux City, Iowa, with seven barge lines operating along the Kansas City strip of the Missouri River. In fact, Kansas City is considered an inland port, one of only 12 in the entire country. The metropolitan area is served by four interstates including I-70, I-35, I-29, and I-49. There are four additional interstate linkages around the metropolitan area including I-435, I-635, I-470, and I-670. Kansas City is further served by 10 federal highways, thereby providing a superior traffic system throughout the region. And, I-35, known as the

North American Free Trade Agreement (NAFTA Highway), stretching from Mexico to Canada, continues to enhance and expedite the flow of distribution not only throughout the metropolitan area but also throughout the U.S.

## KANSAS CITY RANKINGS

At its 2014 annual luncheon, the Kansas City Area Development Council announced it had been ranked the number one "Best In Class" regional economic development acquisition in the U.S. according to the 2014 Winning Strategies report. But that is just the start of the rankings. Kansas City was also ranked third overall on the list of America's favorite cities by *Travel & Leisure*. *Huffington Post* ranked Kansas City the number one city to keep on your radar due to its affordability, cultural venues, and desirable lifestyle.

Kansas City ranks high in a host of other categories including 17th on *Travel & Leisure* magazine's America's best cities for hipsters; ranked ninth by *Entrepreneur.com* as a top city for tech start-ups; eighth best place to retire; a top five city for young entrepreneurs; a top 10 ranking for America's best downtowns; ninth ranking for travel destination; and increased its ranking to 27th in the country for young brain power. Kansas City continues to be one of 15 global cities to watch including Barcelona, Seattle, Beijing, and Abu Dhabi. Kansas City continues to rank number one in the country for barbeque and has the ninth strongest metropolitan economy in the country.

Kansas City also ranked number one in affordability by *Travel & Leisure*.

Additional rankings for Kansas City include 11th for best parks systems in the nation; 14th for best city in America; 11th for female entrepreneurs; and ranked as a top 10 coolest city in the Midwest. Kansas City also has high rankings in other categories including a top three ranking for the nation's philanthropic communities, in the top seven for America's smartest cities by *USA Today*, a top 10 romantic city by *liveability.com*, and the ninth best city in America to raise a family by *Parenting Magazine*. Our Sprint Center, in downtown Kansas City, ranks as the second busiest venue in the United States and the seventh busiest in the world. Kansas City also ranked number one in affordability by *Travel & Leisure*.

This year, the University Of Kansas Hospital made the ranks of the top 50 grossing non-profit hospitals and was ranked as the best hospital in Kansas and nationally ranked in all 12 medical and surgical specialties. This ranking was by *US News and World Report*, which evaluated nearly 5,000 hospitals in the 2014-2015 Best Hospital list.

Additionally, other area hospital systems such as St. Luke's Hospital, which ranks second in Missouri and second

in the Kansas City Metro area, together with several other healthcare systems are spending hundreds of millions of dollars to improve their area hospital and care centers. These high ranking hospital systems make Kansas City a destination of choice for high-quality medical and cancer care.

Kansas City was the first location in America to get Google Fiber, which offers symmetric gigabit internet access. Google recently announced it will roll out its new service, Google Fiber, for small business, and has already begun hooking up small businesses in the community. Expect this expansion by Google Fiber to increase the value of those buildings that provide this service to their tenants, as well as make Kansas City more attractive to the multitude of high level tech talent looking for new headquarter locations.

## ANIMAL HEALTH CORRIDOR

The Kansas City animal health corridor, which stretches from Manhattan, Kansas to Columbia, Missouri, continues to see more growth while representing nearly 34% of the sales in the global animal health market, now totaling in excess of \$22 billion. There are more than 300 animal health-related companies operating in the region, including three new companies CK9, TVAX animal health, and FitBark, which join some of the most influential health companies in the world such as Bayer Animal Health, Boehringer Ingelheim Vet Medica, Nestle Purina PetCare, Zoetis, Hills Pet Nutrition, Ceva, MRI Global, Agri Laboratories, Cereal Food Processors, Pfizer Animal Health, Zupreem, MWI Veterinary Supply, Argenta, Magna Starter Biotech, Pet Screen, and the United States Animal Health Association.

Over the last 10 years, the animal health corridor has created nearly 1,800 jobs with over \$1.55 billion of capital investment.

In addition, the Kansas City Area Life Sciences Institute (KCALSI) together with major life science partners, such as the Kansas Bioscience Authority, Kansas City Animal Health Corridor, Midwest Research Institute, national bio- and agri-defense, and the Stowers Institute for Medical Research, continue to push Kansas City forward as one of the leading national life sciences cities. The life sciences industry has now made over \$1.4 billion in research expenditures over the last 11 years and ranks as one of the top three areas in the country for life sciences research academia.

## KANSAS CITY METRO RECAP

In 2014, Kansas City saw an increase in major real estate project announcements. With the now under-construction, 16,000-employee Cerner headquarters at their Three Trails Crossing campus, the new U.S. soccer national training facility at The Village West Complex, speculative office projects like one on Tomahawk Creek Parkway in Leawood, Kansas, major multifamily projects underway throughout the community, two new intermodal centers, a multitude of e-commerce facilities, and automobile-related business expansions, 2015 should be another exciting year for real estate in Kansas City.

The multifamily sector in 2014 added 2,670 multifamily units and over 4,000 more units are under construction or planned for 2015. On the industrial side, speculative development is in full swing and by year-end 2014 over five million square feet of speculative mid-bulk or bulk industrial projects were either under construction or ready to commence. In 2015, expect over four million square feet of development in the industrial sector representing an investment of over \$450 million of new activity and making Kansas City one of the top industrial centers posed by site consultants.

Over the last 10 years, the animal health corridor has created nearly 1,800 jobs with over \$1.55 billion of capital investment.

Communitywide, including development activity in all property sectors, the commercial and industrial construction planned or underway in late 2014 and into 2015 far surpasses previous years. As long as interest rates remain stable with only gradual increases, we expect this activity to increase further in 2015 as the Kansas City Metropolitan area sees a variety of improvements through all real estate sectors.

Many new companies are now considering relocating to the metropolitan area from outside our community. They will look for better quality, newer facilities with the most up-to-date technological features. The Kansas Area Development Council (KADC), as well as local economic development groups, have seen more activity in 2014 than in years past thanks to a robust and skilled workforce, economic incentives, and an eager development community.

As always, economic incentive packages continue to be integral to attracting new investment by those businesses looking at our community and comparing it to other communities throughout the country. It should be the goal of our business and government leaders to work together and consistently promote the Kansas City Metropolitan area as a united community that desires new business from both inside and outside our community. While our metropolitan area crosses state lines and includes over 50 separate communities, all of our government leaders need to work together to encourage increased investment and development activity to more readily attract new business and new investment in Kansas City.

Kansas City continues to be “a great place to live, work and play” and with the expansion of Google Fiber in our town, a great place to be connected!

*Contributor: Kenneth G. Block, SIOR, CCIM, Managing Principal.*

# KANSAS CITY

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# DOWNTOWN DEVELOPMENT

*The downtown core continues to be a center of activity for the Kansas City Metropolitan area in 2014 with more to come in 2015.*

Downtown Kansas City includes the Central Business District (CBD) and neighboring submarkets as far south as Crown Center. The area is defined geographically from the Missouri River to 31st Street and from the Kansas/Missouri state line to Troost Avenue.

Within the downtown submarket are the CBD, River Market, Crown Center, Freight House/Crossroads and



*Northpoint Development Company recently started the \$63 million, 258-unit luxury apartment renovation project in the historic Kansas City Power & Light Building in downtown Kansas City.*

West Bottoms, and portions of midtown. Data for each of these divisions for office space are more specifically detailed within the Kansas City office market section of this report. The overall downtown submarket includes data for office, industrial, retail, residential and specialty real estate.

Occupancy for all real estate categories has improved steadily since 2010. Current downtown vacancy has dropped to 7.6%, continuing a trend of stability and market health. Asking rents have increased by approximately 5% over last year following steady incremental increases since 2012. Construction has doubled over the last 12 months, and absorption is positive by approximately 125,000 square feet.

The saying, “you have to mess up to cleanup” is definitely applicable as construction for the new streetcar line gets under way. The \$100 million, two-mile starter line will run from the City Market to Union Station along Main Street. Kansas City is one of 15 major metropolitan cities to tackle light rail including Phoenix, Minneapolis, St. Paul, Los Angeles, St. Louis, and Salt Lake City. These communities are known to be just as infatuated with their automobiles as Kansas City. The concept is less about transportation and more about building a strong residential population base, bringing street-level business back to downtown and attracting the convention traffic necessary to support the investment in the Kansas City Convention Center.

Occupancy for all real estate categories has improved steadily since 2010.

Kansas City lost the 2016 Republican National Convention bid to Cleveland, Ohio based upon a number of factors. Improved transportation is perhaps a step in the right direction for future conventions of this size. Our lack of hotel space has always been considered as a real detriment to the downtown core. Unfortunately, a large downtown hotel development is yet to materialize, due to lack of funding options. But other hotel options continue forward. The Interstate Building, located at 417 E. 13th and the Gumbel Building at 801 Walnut were purchased by a developer with the intent to convert both historic former office buildings into a 76-room Holiday Inn Express and a 70-room Hampton Inn. The developer recognized that Kansas City has strong demand for hospitality in the downtown submarket. Perhaps the demand can be met through facilities of a smaller scale like these versus a single, large venue.

## RESIDENTIAL NEWS

Residential interest remains strong in the downtown submarket. Three major residential projects are currently underway. One Light and the residential conversions of Commerce Tower and the Kansas City Power & Light Building are all under construction and receiving positive interest. One Light, located at 13th and Walnut, is nearly \$80 million and 25 stories. The project will hold 315 units and boasts a waiting list of 1,000. The project is 343,000 square feet with an anticipated completion date of 2015 and discussions of another tower are already circulating. Plans for Commerce Tower are to reduce the 439,000 sq. foot office property to 82,000 square feet of office and converting the balance to residential units. The Kansas City Power & Light Building at 106 W. 14th Street has been an iconoclastic element in the Kansas City skyline since 1931. At 36 stories and 231,000 square feet, the \$63 million dollar project will bring 218 luxury apartments and a new parking structure to downtown. Renovations for both the KCPL Building and Commerce Tower are assisted by entitlements that include Historic Preservation Tax Credits. Developers for both projects insist the financial feasibility would not exist without the tax credits. While the KCPL Building is an obvious candidate for preservation tax credits, the Commerce Tower does not officially meet the 50-year age requirement. Because it is one of Kansas City's few examples of International Style architecture makes it an excellent choice for acceptance by the National Register of Historic Places.

In addition to conversion projects, there are several notable new residential developments under construction. In September, construction began on 56 high-end units called Centropolis on Grand at 5th Street and Grand Boulevard in the River Market. The five-story, 82,000 sq. foot project is expected to be completed in 2015. Also, in the River Market area are another 137 units on the 300 block of Wyandotte. This five-story complex of units, called RMWest Apartments, is expected to open in the first quarter of 2015 at a construction cost of \$16 million. A second phase adding 148 more units is already planned for spring. Both projects received tax assistance through the city of Kansas City.

Residential interest remains strong in the downtown submarket with over 2,200 units planned or under construction at year end 2014.

## CLASS A AND B OFFICE USE

Although the downtown submarket is quite strong, the weakest element in real estate is in Class A and B office use. Vacancy, specific to office space within the downtown loop, is over 27%. The conversion of Commerce Tower and the

Kansas City Power & Light Building from office space to residential use, though, has statistically improved downtown office vacancy. These exceptional buildings have become obsolete for their intended use. Adaptively repurposing them to housing is an appropriate and responsible use of the public/private partnerships formed during the entitlement process. Entitlements were also granted for the 80,000 sq. foot Boss Building and the 138,000 sq. foot Swofford Building. Together they are converting to 151 units known as The Roasters Block located at 70410 Broadway and 330 W. 8th in the Garment District.

While the announcement came in 2013, the General Services Administration (GSA) relocation of 900 employees from the Bannister Federal Complex to the Two Pershing Square office building at 2300 Main Street only began in December of 2014. Both that 140,000 sq. foot transaction and the 82,000 sq. foot lease to Sungevity, Inc. within City Center Square are getting 2015 off to a strong start.

Kansas City's tallest office building, One Kansas City Place, located at 1200 Main Street, has new primary owners in the American subsidiary of GAW Capital Partners out of Hong Kong. The new ownership plans improvements to the 822,000 sq. foot building that will bring it up from 40% vacancy.

## WEST BOTTOMS CHALLENGES

Many agree the West Bottoms area is long overdue for more sophisticated development. Haunted houses, open only in the month of October, and antique stores open only one weekend a month, are current draws to the area. Kemper Arena will surely factor into the equation. Yet to be resolved is just how? As a destination for families seeking a recreational athletic venue? Or will it be razed, and become the site of a smaller events center for the American Royal? Or will the City Council's request for development proposals bring even more ideas and uses for the city-owned venue?

The West Bottoms has some of Kansas City's oldest warehouse properties. Conversion to residential use would bring strong community and economic viability to the area. However, the high expense associated with compliance with modern life safety standards, coupled with environmental issues created by former use, have kept developers from attempting residential conversions.

Additional issues over the downtown core include an aged and crumbling infrastructure; we have a populous with a long memory of floods past; and the area has unusual access over steep bluffs. Still, the scale and intrinsic architectural quality of the buildings, the rapidly reducing number of conversion possibilities in other parts of downtown, and a strong trend supporting urban community living make the West Bottoms another area in the downtown submarket ripe for development.

*Contributor: Matthew L. Levi, CCIM, Vice President.*



*Perceptive Software moved into their new 237,900 sq. foot two-building corporate headquarters at 8900 Renner Road in the Lenexa City Center project in September, 2014. The site allows for the future development of two additional buildings totaling 380,000 square feet as the company continues to expand.*

***As office markets saw positive strides in 2014, the Kansas City Metropolitan area real estate border war continued to impact many of the cities' key submarkets.***

Following the national trend of an overall lower unemployment rate, the United States office market vacancy rate closed at 11.2%, down from 12.1% at the close of 2013. The decline in vacancy was helped by the overall positive absorption over the past year of 92 million square feet of space. This positive impact was helped by the United States adding more than two million jobs since the beginning of the year, which our country has not seen since 1999.

On a national basis, the office market landscape has seen an increase to more open, creative workspace options. This has been driven by technology, as well as the increase in millennials entering the workforce. The millennial footprint will continue to rise, and is expected to be 50% of the workforce by 2020. Locally, we are seeing this equate to more residential/multi-family development in our inner core, Central Business District (CBD), by converting prior office space into creative residential space.

Nationally, the office market saw the average rental rate elevate, closely corresponding with improved absorption

rates. National rates increased from \$21.75 per square foot just a year ago to \$22.38 per square foot to end 2014. Naturally, the Kansas City office market lagged behind the national rate in price, but jointly followed the same trend.

Continued office building construction lends positive perspective of an improved market. The United States office market delivered 55 million square feet of new space, much of which is preleased, showing the demand for new Class A office space.

Overall, the Kansas City market saw positives both in rental rate increases as well as year-to-date (YTD) absorption. Many landlords were able to take a deep breath as leasing activity was on the rise, and in return rental rates increased from \$16.39 to \$17.03 per square foot. Additionally, the market saw a positive absorption of nearly 2.3 million square feet across all classes.

Class A just outpaced Class B year-to-date absorption. Although down from 2013, Class A properties still saw a net absorption of 969,010 square feet. This positive absorption was lead by the delivery of phase II of Cerner's Kansas City, Kansas campus of 330,000, Perceptive Software's new headquarters of 240,000 square feet, and 102,304 square feet of the 111,200 square foot 39 Rainbow Development, adjacent to The University of Kansas Hospital. Although the

positive absorption is a sign of progress, the better sign is the average rental rate increase to \$21.40 per square foot, up from the 2013 average rental rate of \$20.06 per square foot.

The CBD and South Johnson County led Class B in 2014 net absorption, with 286,068 square feet, and 233,047 square feet respectively. The total of 943,145 year-to-date net absorption is a positive swing of 33.2% over 2013 net absorption of 630,000 square feet.

Following in the footsteps of Class A properties climbing average rental rate, Class B saw a slight increase from \$16.41 per square foot in 2013, to \$16.66 in 2014.

Overall, the Kansas City market saw positives both in rental rate increases as well as year-to-date (YTD) absorption.

Class C office space may be the smallest footprint in the Kansas City Metropolitan office market, but it closed 2014 with an enormous positive year-to-date absorption of 59% to 362,389 square feet, up from 148,400 square feet in 2013.

Following the trend of both Class A and Class B properties, Class C saw an increase in average rental rate, rising from \$12.70 per square foot, to \$13.52 per square foot.

Due to a combination of large scale deliveries and companies taking advantage of jumping the state line for state tax incentives, the Kansas City office market only saw

a 0.7% decrease in its vacancy rate compared to 2013.

In our 2013 report, we posed the question, “Will the office market continue on a path of recovery and when and to what end will these realized positive fundamentals influence an increase in local rental rates?” Looking at the overall above statistics, our path of recovery is still in progress, but moving in a positive direction. As for the rental rates, the market was able to see steady growth across the board, showing the ability for area landlords to garner a higher rate, and the market has seen rock bottom, and moving back up.

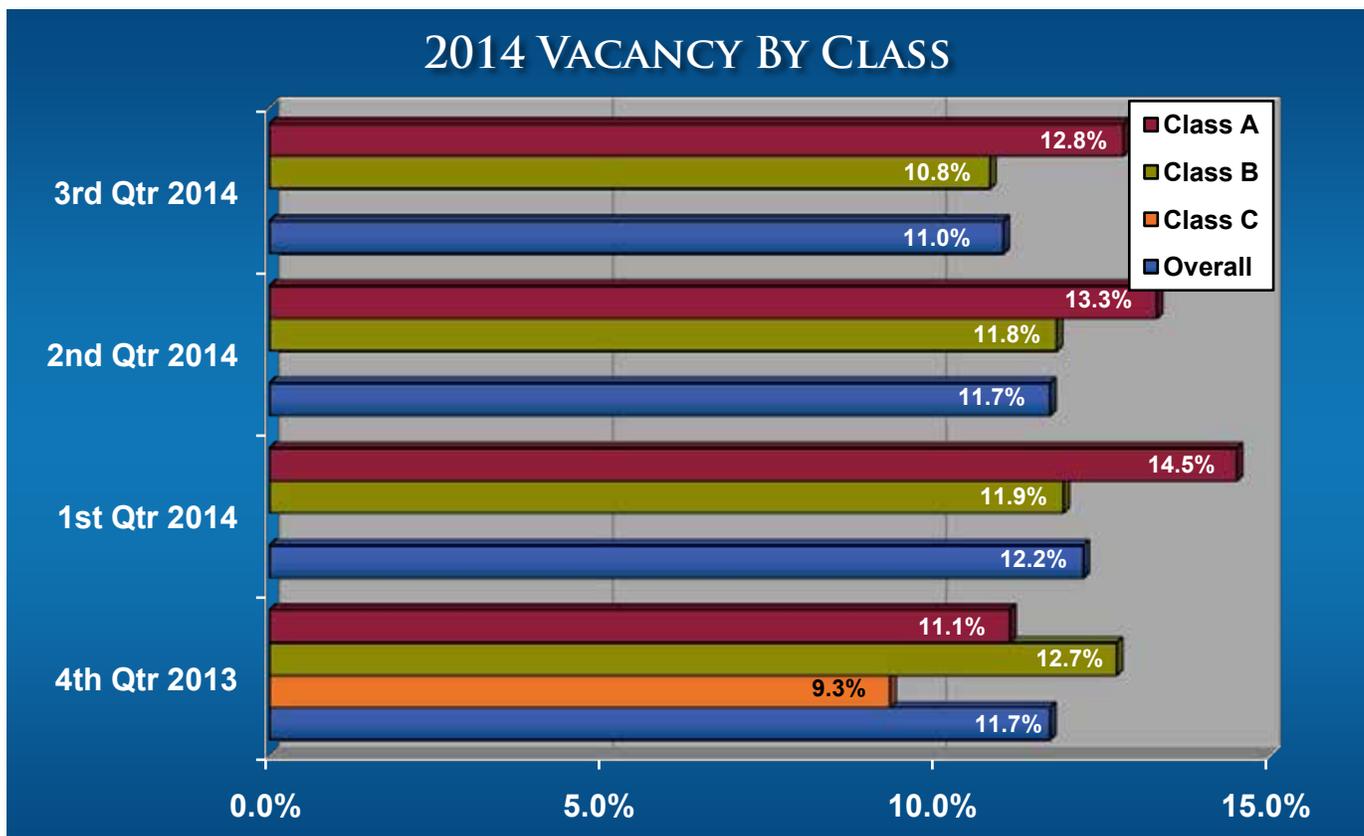
### SOUTH JOHNSON COUNTY

At the close of 2014, the South Johnson County submarket consisted of:

- Approximately 28.512 million square feet of all building classes
- 2.38 million square feet available, including sublease space, equates to an overall vacancy of 8.3%, a level slightly down from 9.6% for the same period in 2013

Significant office leases completed in 2014 included:

- AxelaCare Health Solutions, LLC 45,000 square feet
- Multi Service Corporation 38,000 square feet
- Intouch Solutions 30,000 square feet
- Quality Technology Services 27,000 square feet
- Cargill 25,000 square feet
- Arrowhead Insurance 24,000 square feet
- Merrill Lynch 23,000 square feet
- BHC Rhodes 20,500 square feet
- Building Classes A, B, and C reported a total of





*Alliance Data Systems Corporation expanded their current facility at 8035 Quivira Road, Lenexa, Kansas by 31,467 square feet. The 96,467 sq. foot facility now holds over 500 employees as the firm grows to 10,000 employees nationally.*

approximately 270,000 square feet of net absorption during 2014, with approximately 142,000 square feet of properties currently under construction.

Overall, vacancy decreased from 9.6% at the end of 2013 to 8.3% at the end of 2014. However, the overall average asking rate remained flat at \$19.16 per square foot for the period. This reflects landlords' success in maintaining existing tenants and filling vacancy. This submarket continues to be one of the strongest markets in the metropolitan area.

#### **CLASS A PROPERTIES REPORTED:**

- Vacancy stood at 5.6% inclusive of sublease opportunities
- Average asking rates for direct deals and subleases were \$21.70 per square foot at the end of 2014
- Net absorption for 2014 was approximately 34,000 square feet

#### **CLASS B PROPERTIES REPORTED:**

- Vacancy stood at 8.7%
- Average asking rates for direct deals and subleases was \$18.52 per square foot at the end of 2014
- Net absorption for 2014 was approximately 233,000 square feet

#### **CLASS C PROPERTIES REPORTED:**

- Vacancy stood at 17.17%
- Average asking rates for direct deals and subleases were \$16.91 per square foot at the end of 2014

- Net absorption for 2014 was approximately 30,000 square feet

#### **NORTH JOHNSON COUNTY**

The North Johnson County submarket includes approximately 12.32 million square feet of office space in 657 properties.

At the close of 2014, the North Johnson County submarket consisted of:

- Approximately 12.32 million square feet of all building classes
- 1.562 million square feet available, including sublease space, which equates to an overall vacancy of 12.7%

Significant office leases completed in 2014 included Perceptive Software for 240,000 square feet and Kiewit for 40,000 square feet.

Building Classes A, B, and C reported a total of approximately 577,000 square feet of net absorption during 2014. Overall vacancy increased from 10.34% at the end of 2013 to 12.7% at the end of 2014. The overall average asking rate, including subleases, rose slightly from \$16.78 per square foot to \$17.21 per square foot for the same period. Again, this reflected property owners' struggles to maintain existing tenants and fill vacancy.

#### **CLASS A PROPERTIES REPORTED:**

- Vacancy increased to 14.9%
- Effective asking rates for direct deals and subleases were \$21.20 per square foot at the end of 2014
- Net absorption for 2014 was approximately 445,000

square feet

- New Class A office properties accounted for 240,000 square feet

### CLASS B PROPERTIES REPORTED:

- Vacancy increased slightly from 11.8% to approximately 12.2%
- Effective asking rates for direct deals and subleases were \$16.68 per square foot at the end of 2014
- Net absorption for 2014 was approximately 74,000 square feet

### CLASS C PROPERTIES REPORTED:

- Vacancy stood at 11.9% inclusive of sublease opportunities
- Average asking rates for direct deals and subleases were \$13.65 per square foot at the end of 2014
- Net absorption for 2014 was approximately 58,000 square feet

### CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads and West Bottoms areas make up the overall Downtown submarket. These areas combine for a total of 27.9 million square feet and an overall vacancy which dropped from 15.2% in 2013 to 14.6% for the end of 2014. The total available space for the Downtown submarket was 4.07 million square feet which includes 123,898 of sublease space.

Overall, Class A properties saw the highest vacancy rate of 22.1% or 1.76 million square feet. Class A properties reported positive absorption of 40,027 square feet. Class B properties vacancy rate decreased to 12.5% with a positive absorption of 268,068 square feet, due in large part to the GSA occupancy at Pershing Square. The Class B market is made up of 193 buildings and 15.19 million square feet. Class C properties had absorption of 67,461 and a vacancy rate of 8.7%.

Consisting of 18.1 million square feet, the CBD reported an overall vacancy rate of 15.4%, which was down from 16.2% at the end of 2013, and enjoyed a positive absorption of 301,219 square feet. The Class A buildings saw the highest vacancy rate for the end of 2014 at 23.2%, higher than the 20.6% vacancy rate reported at the end of 2013.

At an average quoted gross rent of \$22.24 per rentable square foot, the Country Club Plaza continues to achieve the highest lease rates of any Kansas City submarket.

Class B properties in the CBD consist of 109 buildings and 10.4 million square feet and experienced a reduced vacancy rate of 13.8% and positive absorption of 248,928 square feet. The Class C submarket consists of 68 buildings and 2.5 million square feet. Class C properties reported a vacancy rate of 6.1% and absorption of 34,600

## KANSAS CITY METRO AREA VACANCY - ALL CLASSES



square feet. Overall rental rates in the CBD ended the year slightly up from 2013 at \$16.54 per rentable square foot.

The Crown Center submarket consists of 69 buildings totaling 6.21 million square feet. The vacancy rate at the end of 2014 was 13.5% which is higher than the 12.8% vacancy rate reported at the end of 2013. The eight Class A buildings in this submarket experienced a vacancy rate of 22.9% or 542,790 square feet with positive absorption of 22,847 square feet. Within the 25 Class B buildings, vacancy rates were down to 5.2% with absorption of 30,026 square feet at the close of 2014.

### PLAZA/MIDTOWN

At an average quoted gross rent of \$22.24 per rentable square foot, the Country Club Plaza continues to achieve the highest lease rates of any Kansas City submarket. When combined with the Midtown and Brookside submarkets, the combination includes 10 million square feet and still boasts one of the highest quoted rents in the metro. There are only three buildings on the Country Club Plaza that have contiguous vacancies of at least 20,000 square feet making the market very tight for large users.

The Country Club Plaza market consists of 118 Class A, B, and C buildings. These buildings had a 10.1% overall vacancy, down from 12% a year ago.

One year after Polsinelli moved its headquarters into Plaza Vista at 900 W. 48th Place, the building and

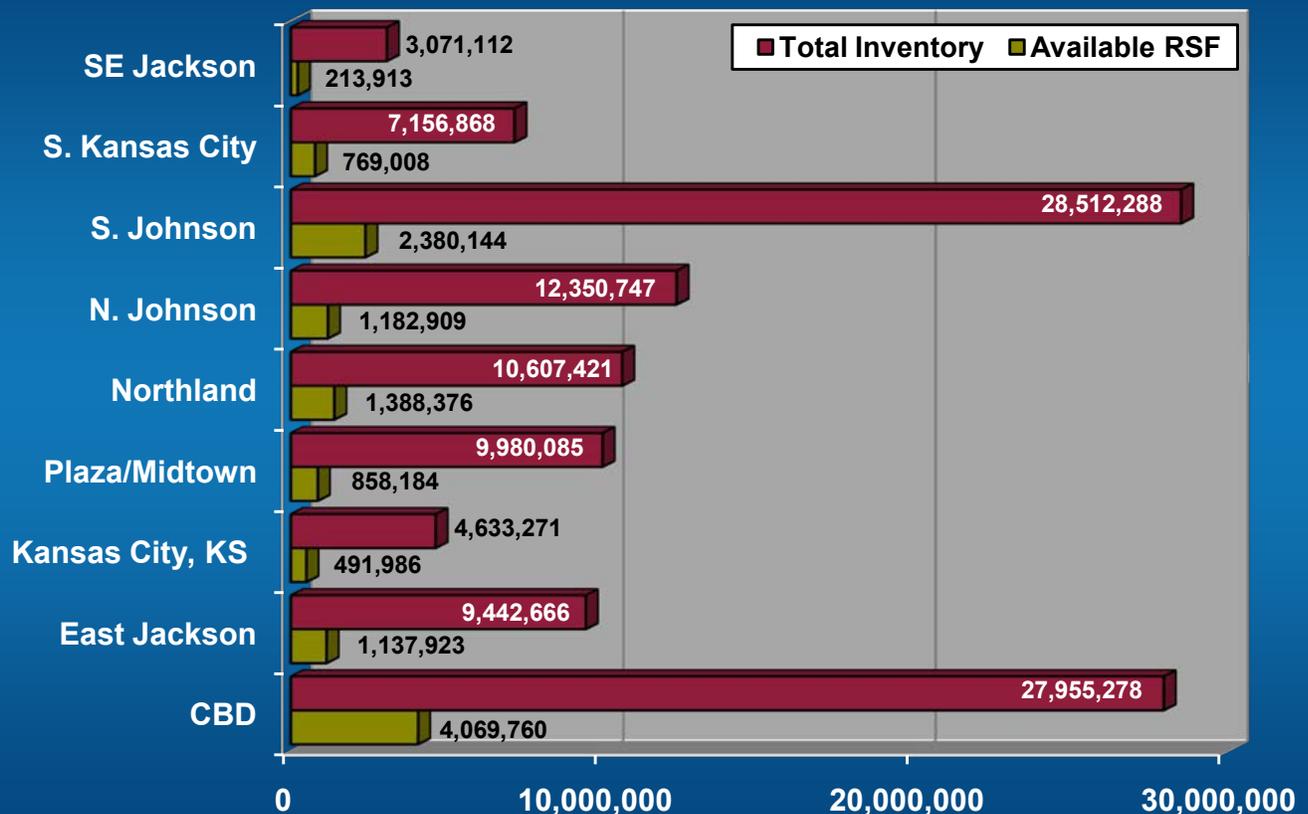
underground parking garage went under contract to be sold by its developer, VanTrust Real Estate, to a partnership formed by EverWest Real Estate Partners out of Denver, Colorado and Chilean-based Independencia Asset Management, LLC. Other tenants in the buildings include Jax Fish House, JJ's, and Waddell & Reed. The purchase price for the 250,000 sq. foot office building is said to be just over \$406 per square feet.

Prior to this, VanTrust Real Estate added several assets to its Plaza portfolio when it closed on DST's 12-story UMB building at 4900 Main Street, their four-story office building at 4901 Main Street, and their 14,768 sq. foot retail strip center between 4928 and 4980 Main Street, which includes a Spin Pizza, Planet Sub, and Accurso's Italian Restaurant.

The iconic Kansas City Board of Trade Building at 4800 Main Street was sold by Highwoods Properties to Mariner Real Estate Management at the beginning of the year for \$8.25 million. Quickly thereafter, they secured a commitment from Populous to move its headquarters from the River Market into approximately 65,000 square feet at the South Plaza office building.

After nearly 50 years, Hall's, the upscale department store owned by the Hall family, vacated their 29,000 sq. foot building at 211 Nichols Road to move into its new space at Crown Center. Highwoods Properties plans to backfill the vacancy with six to eight upscale retail tenants and one to two restaurants as well as expand the existing

## TOTAL INVENTORY VS AVAILABLE SPACE





*With shrinking Class A office, vacancy rates along the College Boulevard corridor and the success of Pinnacle Corporate Centre I, II, III and IV in Leawood, Kansas, BRES broke ground on Pinnacle Corporate Centre V, a three-story, 67,924 sq. foot speculative office building. Three months into construction, the building already has signed leases for over 40,000 square feet.*

parking garage. The project will cost \$17 million and is expected to be open in fall 2015.

The Brookside and Midtown portions of the submarket offer 306 total Class B and C buildings with a combined total of 4.9 million square feet. Midtown accounts for 4.3 million square feet of that total. Midtown's 5% vacancy attests to the desirability of its central location.

## SOUTH KANSAS CITY

Consisting of 7.1 million square feet in 251 office buildings, the South Kansas City market includes buildings located along Ward Parkway from Wornall Road north to 75th Street, the buildings surrounding Holmes and I-435, as well as the Cerner complex at I-49 and I-435.

Compared to the 12% vacancy rate at the end 2013, the overall vacancy rate for the South Kansas City Market, decreased to 10.7% at the end of 2014. Class A properties experienced the lowest vacancy rate of 8.2%. The Class A market is spread over 2.6 million square feet and 14 buildings. As with 2013, Class B properties, consisting of 3.6 million square feet in 97 buildings, reported the highest vacancy rate at 13.2%. Class C properties, which consist of 843,000 square feet and 140 buildings, ended 2014 with a vacancy rate of 8.3%. Positive absorption of 38,917 square feet was reported at the end of 2014.

The big announcements for 2014 came from Cerner and Burns & McDonnell. Cerner broke ground on their

new Three Trails Campus on the former Banister Mall and Benjamin Plaza shopping center sites in the South Kansas City Market. Over the next decade, Cerner will bring 16,000 new jobs to the \$4.45 billion, 290-acre Trails Campus. Burns & McDonnell began construction on their \$139.5 million headquarters expansion just west of their headquarters along Ward Parkway. Phase I of the expansion will include a 315,000 sq. foot building and Phase II calls for a 150,000 sq. foot building. Burns & McDonnell also plans to hire an additional 2,100 employees over the next 10 years.

One of the main attractions for the South Kansas City Market is its great accessibility and proximity to I-435 and the Kansas state line. Rental rates for the South Kansas City Market ranged from \$18.63 per square foot in the Class A buildings to \$12.65 per square foot in Class C buildings. The average rental rate for the entire market was \$16.66 per square foot compared to \$16.91 per square foot at the end of 2013.

## NORTH OF THE RIVER

Defined as that portion Metropolitan Statistical Area (MSA) north of the Missouri River, this submarket includes both Platte and Clay Counties in Missouri and is geographically one of the largest submarkets in the metropolitan area and the fourth largest submarket in terms of total square footage exceeding 10.5 million across

all classes. Despite its size, proximity to the Kansas City International Airport, well-developed interstate system and price value, the submarket has historically underperformed most other submarkets in the MSA. The North submarket has, however, experienced positive net absorption in 2014 of nearly 175,000 square feet after ending 2013 slightly on the negative side.

The 507 buildings (A, B and C) that comprised the inventory in this submarket in 2014:

- Total over 10.5 million square feet
- Experienced 13.1% vacancy as third quarter in 2014 compared to 16.0% in third quarter of 2013
- Reported positive absorption for three out of the last five years

Average quoted lease-rates in the submarket were \$15.94 per square foot, full-service, compared to \$15.28 in the third quarter of 2013. Average quoted rents for Class A buildings are \$18.71 and Class B rates average \$15.73. Actual effective rents in Class B buildings are significantly less than quoted rates, especially in the I-29 corridor near the Kansas City International Airport which has long suffered from substantial oversupply in the Northland.

The relative age of the product in this submarket is a factor in the high vacancy and low rents, with essentially all buildings in the submarket being Class B and C buildings. The limited number of Class A properties in this submarket, report a disappointing overall vacancy rate of 29.3%. This is due almost exclusively to the former Citi Bank Center with a vacancy of over 260,000 square feet. Excluding this property, the Class A sector is performing well with a vacancy rate less than 3%.

Looking forward into 2015, we expect additional space to be absorbed by value-seeking users either through purchases or landlord incentivized leases.

There were several significant new office lease transactions in 2014 including Target Metrics and the GSA, which were positives for the submarket. This helped counter several losses including Grantham University's decision to vacate 40,000 square feet and relocate 350 employees from Zona Rosa to South Johnson County Kansas.

Looking forward into 2015, we expect additional space to be absorbed by value-seeking users either through purchases or landlord incentivized leases. The availability of large blocks of space including a number of full buildings should start to attract the attention of large users in an otherwise tight market in the Kansas City MSA. There are currently seven blocks of available space that are 50,000 contiguous square feet or larger in the submarket and some of this space, including the former Citi Bank location, is high quality space that offers users a tremendous value.

## EASTERN JACKSON COUNTY

The Eastern Jackson County office market appears to be on the slow path of recovery and statistics for 2014 continue to support this. This submarket consists of Blue Springs, Independence, and Eastern Kansas City. The eastern spread of Kansas City suburbs will continue to help drive demand.

At the end of 2014, this submarket consists of 734 office buildings totaling 9,442,666 square feet. The vacancy rate dropped this year 1.0%, from 13.1% at the end of 2013 down to 12.1% at the end of 2014. The square foot vacancy was approximately 1.1 million at the end of 2014.

Eastern Jackson County saw a net absorption of 98,021 square feet this year, a positive step from the absorption for 2013 of 38,214 square feet. Average quoted rates rose from \$14.61 in 2013 to a surprising \$15.01 in 2014. This submarket is vastly Class B and Class C properties.

Class A office properties in Eastern Jackson County account for 360,068 square feet of the submarket. There are only five buildings with a vacancy of 5.1%.

Class B consists of 255 buildings totaling 5,001,989 square feet of the submarket. This class reported 15.7% vacancy and a positive net absorption of 56,762 square feet.

Class C properties in Eastern Jackson County consist of 474 buildings totaling 4,080,609 square feet of the submarket. This class saw ending year vacancy rate of 8.2% or 333,733 square feet, improving upon 2013 by 2%. It also produced a positive net absorption of 42,362 square feet.

These statistics show that the Eastern Jackson County submarket is slowly absorbing office space. Additionally, these statistics conclude that there is a small demand for Class A office space in Eastern Jackson County as it saw no new construction and produced a net absorption of 30,109 square feet.

## SOUTHEAST JACKSON COUNTY

Coming in at one of the smallest markets in Kansas City, the Southeastern Jackson County market spreads across three million square feet and 233 buildings.

The overall vacancy rate at the end of 2014 was 7% which represents a decrease from 8.2% at the end of 2013. Class A properties, made up of two buildings and approximately 103,000 square feet, saw a vacancy rate of 4.3% at the end of 2014 and an average rental rate of \$24.50 per square foot. With 2.2 million square feet and 104 buildings, the Class B properties reported a vacancy rate of 6.5% and \$16.82 per square foot for the average rental rate to close out 2014. Class C properties reported the highest vacancy rate for the market at 9%. For 2014, the average rental rate for the Southeast Jackson County market was \$15.55 per square foot with positive absorption of 38,917 square feet.

## KANSAS CITY, KANSAS

While the Kansas City, Kansas submarket has been quite successful as new development continues along the I-435 corridor, its inner core continues to hamper the overall image of the city. With the continued development of The Legends, the University of Kansas Medical Center and the completion of Cerner Corporation's campus, Kansas City, Kansas has seen an increase from 4.4 million square feet to 4.6 million square feet of inventory.

We, however, saw an overall rise of vacancy in the Kansas City, Kansas submarket from 10.1% in 2013 to 10.6% at 2014 year-end, with 491,986 square feet available.

- Class A office properties, with 934,574 total rentable square feet of space, continue to be the largest void within the submarket, with 203,574 square feet of vacancy, or 21.8%.
- Class B properties, the largest square foot holder in the submarket with 1,994,238 total rentable square feet, took a step back this year with an increased vacancy of 195,146 square feet, or 9.8%.
- Class C properties, the second largest square foot holder with 1,704,459 total rentable square feet, had a positive absorption to lower its vacancy to 93,266 square feet, or 5.5%.

The bright spot of the Kansas City, Kansas submarket for 2013, and continuing into 2014, is the major investment made by Cerner Corporation. Cerner Corporation is a healthcare information technology company that has continued to grow and impact various Kansas City Metro submarkets. We saw them complete Phase II of II of their

new campus totaling 660,000 square feet of Class A office space to the market.

Additionally, the 39 Rainbow Phase II was completed in late 2014 and has further enhanced the commercial landscape in and around the The University of Kansas Medical Center. The office portion will be predominately medical use in conjunction with KU Medical Center.

## NEW DELIVERIES

Cerner Corporation's continued investment in their Kansas City operations helped the Kansas City, Kansas submarket provide the most square feet this year. Cerner's delivery of their second 330,000 sq. foot building, combined with the 39 Rainbow Developments second phase of 111,200 square feet, led the way for Kansas City, Kansas's large office delivery in 2014.

North Johnson County also saw a large delivery of office product in 2014. Perceptive Software's new headquarters led the way with 240,000 square feet, followed by Shawnee Mission Medical's delivery of 75,000 square feet, and the Renner 89 project of 20,000 square feet.

## NEW DEVELOPMENT

New construction of Class A space leads the office sector. Mazuma Credit Union is planning to deliver their 60,000 sq. foot building north of the river project, while Burlington Creek will be delivering a 27,000 sq. foot building as well.

BRES will continue to increase its footprint in Leawood, Kansas with Pinnacle Corporate Centre V, a 67,924 sq. foot Class A building. VanTrust Real Estate will look to provide roughly 100,000 square feet of Class A office product to the

## AVERAGE RENTAL RATES PER CLASS



South Johnson County on its land off near I 10th and Lamar. BRES plans to move forward in 2015 with the 150,000 sq. foot Nall Corporate Centre II complex, a 75,000 sq.foot medical building at I-435 and Roe and perhaps the first office building at CityPlace at College Boulevard and 69 Highway.

## RENTAL RATES

Real estate trends can be developed by looking to the past in order to help predict the future. After a four-year decline in Kansas City office market rates, the pendulum has swung and the market is now seeing increased positive absorption and increased rental rates.

- Class A quotes rates increased from \$20.06 per square foot in 2013, to \$21.40 per square foot in 2014.
- Class B properties quoted rates in 2013 were \$16.41, and increased in 2014 to \$16.66 per square foot.

## SUMMARY AND OUTLOOK

While the market in 2014 kept moving forward, the market in 2015 will continue to improve upon overall absorption, as landlords across the board take control.

The overall United States economy has been a major player in helping improve the office market. The national unemployment rate settled at 5.8% in November adding 321,000 jobs. Job creation was pushed by manufacturing, healthcare, professional and business services and the retail trade. Kansas City lies just outside the U.S. national rate at 5.6% unemployment.

As we point to many positives in the marketplace, many companies continue to be cautious, as uncertainty about the recession is still in the forefront. The Kansas versus Missouri tax incentive border war still has also affected many tenant decisions. These companies must look at the attractive incentives being offered both locally and outside our region, in most circumstances, these same incentives will allow them to hire more employees, occupy more space, and upgrade their ability to attract today's employees.

*Contributors include: Matthew Spachman, Vice President; Hunter Johnson, Vice President; Bruce Johnson, Vice President; Don Maddux, Senior Vice President; Josh Gabriel, Vice President; Mike Comiskey, Sales Associate and Max Wasserstrom, Sales Associate.*



CME Group purchased the 165,714 sq. foot Kansas City Board of Trade building at 4800 Main Street. A total renovation of the building is planned which attracted a new lease for 65,000 square feet with Populous, the national sports architectural firm.

# KANSAS CITY

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# INDUSTRIAL MARKET



*The 260,707 sq. foot Lenexa Logistics Centre 4 building developed by BRES, was leased to Amazon.com, which opened a sortation center at the site.*

*The Kansas City Metro area is the place to be for e-commerce businesses to locate, according to a recent United Parcel Service (UPS) study.*

The number one hub in the United States for UPS is in Lenexa, Kansas. Zumiez.com, a national distribution and publicly traded company, hired FedEx, UPS and an arbitrary third-party logistics company to perform a study to tell them where to put one distribution center for all of their .com distribution; and, the answer was Kansas City! FedEx has all but said that based upon their traffic and their expansion, they believe Kansas City is the right place for e-commerce companies to locate their distribution centers as well. In fact, it is also their number one location for ground-delivery operations in the country. For e-commerce, one to two-day delivery is available to nearly all of the continental U.S. population. Consumers are looking to receive merchandise as quickly as possible and locating a distribution center in Kansas City offers this strategic advantage to customers.

## **RAIL AND INTERMODAL UPDATES**

Kansas City has the good fortune of being the number one rail-freight location in the country, and number two in

terms of rail-car traffic, due to more tons of cargo moving through Kansas City by rail every year than anywhere else. Chicago has long been the leader in number of cars moving through and over a century ago, Chicago became the central railroad distribution point for the U.S., but a considerable amount of additional development and congestion in and around that city has badly degraded its rail efficiency.

For those shipping from the West, some have product shipped to Kansas City and unloaded and trucked to Chicago because it can reach its delivery point there faster than it could by entering the Chicago rail hub. This should bode well for Kansas City rail and intermodal operations going forward. Kansas City boasts six Class I railroads with five intermodal locations including significant operations by:

1. Kansas City Southern at the CenterPoint Intermodal Center in Southern Kansas City
2. Norfolk Southern's Northland Industrial operations just north of the Missouri River
3. Burlington Northern's (BNSF) Logistics Park Kansas City (LPKC), located in Edgerton, Kansas in Southwest Johnson County.

The railroads are driving customers to their intermodal

operations and want them to be within a 250-mile radius of Kansas City. In addition, and of particular importance to intermodal operations, since they move containers from rail to truck, Kansas City has the third largest truck traffic of any city in the country. The intermodal and rail traffic growth will continue to grow Kansas City's trucking operations.

Kansas City has the good fortune of being the number one rail-freight location in the country, and number two in terms of rail-car traffic

With shipping and handling charges representing 10% or more of the value of goods, it's no surprise online retailers are struggling to generate profits. As other industries have learned, once customers get used to something for free, it's hard to wean them off. Everywhere you turn, people are bullish on the future of online retailers and it's reflected in Amazon as well as other's stock prices. Amazon has grown rapidly thanks to free shipping. Demand for high-speed efficient logistics space is growing faster than for any other types of uses of space because online retail sales are outperforming bricks-and-mortar in so many product categories. Proximity to the customer and speed of delivery are big parts of the competitive equation for online retailers. This continuing rise in e-commerce retailing is transforming the landscape

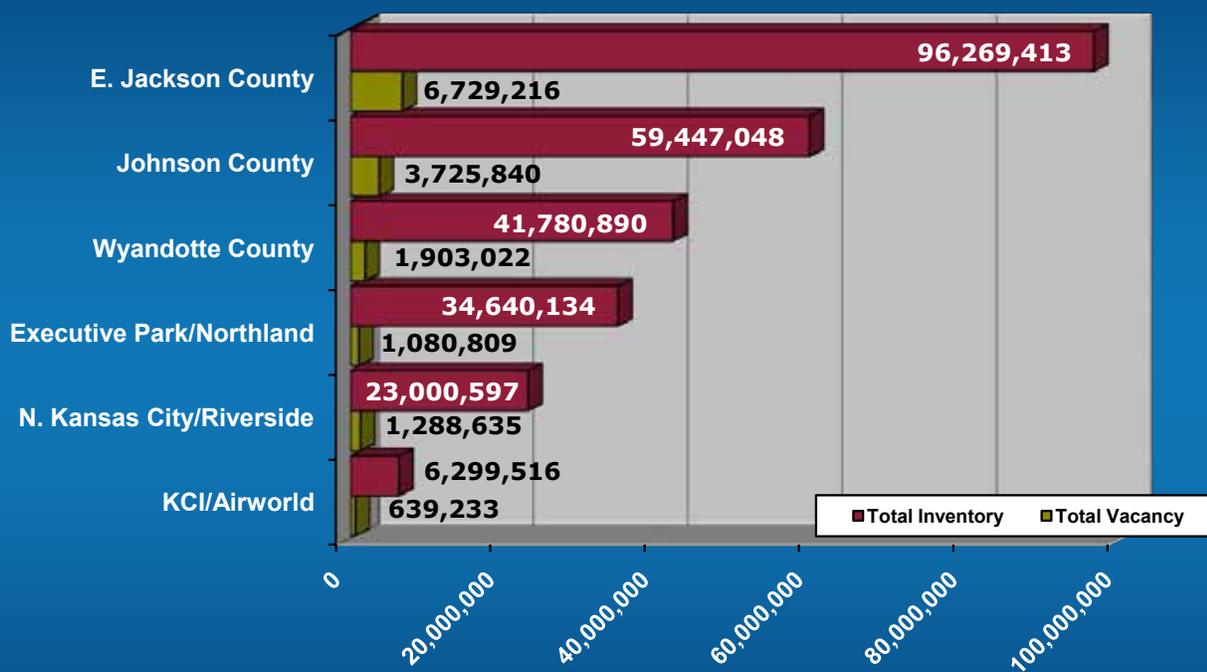
of industrial real estate development, as distribution center trends increasingly cater to the e-commerce sector. Today, 12% of the U.S. industrial construction, on a square footage basis, is e-commerce related – while roughly one-third of all industrial big box demand is correlated to e-commerce.

The new Burlington Northern Santa Fe (BNSF) intermodal facility in Edgerton is located along BNSF's transcontinental mainline between Chicago and the ports of Los Angeles and Long Beach. Within the next 10 to 20 years, container lifts at this facility are projected to triple from the current 500,000 a year and compared to the previous year of 300,000 lifts. This automatically makes Kansas City a logistics hub for an area that expands from Minneapolis to St. Louis and Oklahoma City. That 1.5 million-lift capacity is expected to support 100 million square feet of new industrial space within a 350-mile radius, including 60 million square feet within the Kansas City area.

So what is driving Kansas City's industrial growth?

- The railroads are dedicated to growth here and are investing money in Kansas City
- Little to no congestion – Kansas City has many alternative routes within the city
- The labor force – even with unions on the Missouri side, the right-to-work in Kansas keeps a healthy balance of labor costs throughout the metro area
- Area colleges and universities provide training, resulting in a wealth of highly skilled and intelligent workforce
- Kansas City's distribution hub – if a company is going

## TOTAL INVENTORY AND VACANCY (SQUARE FEET)



to have one, three or five distribution centers, Kansas City is almost always in the mix

- Pro-development – Kansas City Metro offers many tax abatements and other incentives
- The Kansas City Metro area has plenty of available land served by utilities with other infrastructure and amenities in place which provide the excellent opportunity for long-term growth
- If a company has an exponential number of movements of freight from rail-to-truck and truck-to-rail, Kansas City intermodal locations offer the opportunity for significant drayage cost savings
- The revival of U.S. manufacturing, the re-shoring trend, a demand for “big-box” space, and the growth of e-commerce

### Industrial Real Estate Trends

The industrial real estate sector currently benefits from stable, healthy demand and an increasingly constrained supply of high-quality space. In addition, growing labor costs in Asia, particularly China, coupled with volatile fuel costs and exchange rates, have forced companies to re-evaluate their supply chain networks. The United States is a huge consumer market and companies want to be in close proximity to their customers to improve speed-to-market, reduce inventory carry and freight costs, as well as reduce risk and improve customer service. These critical supply/chain considerations make the U.S. more attractive from a manufacturing or sourcing perspective.

This continuing rise in e-commerce retailing is transforming the landscape of industrial real estate development, as distribution center trends increasingly cater to the e-commerce sector.

The primary industries heading the demand for warehouse and distribution space are food-can-beverage, e-commerce, and traditional retail. In fact, one third of all demand “big-box” space is tied to multi-channel retailers or “e-tailers.” Influx of e-commerce and n-commerce (mobile) has revolutionized the retail sector. Retailers tapping multiple channels to sell their merchandise are finding it more cost-effective to increase online logistics operations rather than open more traditional stores, necessitating an entirely different distribution model. Therefore, retailers are evolving their regional distribution networks to include e-commerce distribution centers in places like Kansas City.

### Auto Industry Growth

There has also been resurgent growth in the automotive industry—Kansas City is now the second largest auto-manufacturing center in the country. In the last 12 months,

nearly 1.5 million square feet of Tier one automotive suppliers have placed facilities in the Kansas City region. Tier one suppliers typically have to be within 15 to 20 miles of either the General Motors – Fairfax or the Ford Claycomo Assembly Plants. Ford is adding 1,200 new jobs at their plant for a second shift for the Transit Van which joins the F-150, and this is in addition to the 2,800 jobs added in 2012 – 2013. Now we are starting to see activity from the Tier two and 3PL suppliers which can locate further away from those plants, as well as the Harley Davidson Motorcycle Assembly and Smith Electric Vehicle Plants also located in Kansas City.

### Economy Accelerates Growth

This is a rising tide market with the global and U.S. economies helping to grow the Kansas City area. From the third quarter of 2013, to present, there has been nearly 3.3 million square feet of new bulk industrial construction, of which nearly 75% was built on a speculative basis (no pre-leasing). Right now there is early-on lease activity when buildings start construction and activity is growing. It seems that every building has multiple potential tenants in play. These larger bulk distribution centers require large tracts of land and those are primarily available along the I-35 Corridor in Johnson County. Over the past 18 months, developers have recognized the markets’ need for Class A industrial product and responded. In fact, at one point, Kansas City was leading the U.S. market in terms of speculative industrial development. Some worried whether the market would be able to absorb the space, but much of that space has already been completely leased, and developers are looking to build additional speculative buildings. In the third quarter alone, 1.83 million square feet of this space was absorbed. The last time the absorption exceeded 1.5 million square feet was in the third quarter of 2008 when 2.36 million square feet was absorbed.

Northland Park, with the Norfolk Southern Rail and hundreds of acres owned by the Mormon Church, is not engaged in true growth and development of that park. The Kansas City Southern (KCS) operation at CenterPoint is at I-49 which leads all the way to New Orleans, yet it is only about 5% of the size of the BNSF intermodal.

While many of the large leases made in Johnson County located near the intermodal, only one of the large leases in the Johnson County submarket was truly intermodal related; we have only scratched the surface of a great driver of future industrial development growth. These intermodal operations help trucking by balancing loads between the intermodal rail and the point of delivery which helps competition and keeps costs down. This is extremely important since transportation costs are about 50% of the cost of products. The BNSF intermodal is the newest, cleanest and greenest in the world. What is unique about this intermodal is that it’s handling international, domestic and rail served containers. With the BNSF “forcing” its customers to locate on or near the new intermodal facility, the developer is aggressively obtaining



*Industrial Park Realty Company Inc. recently completed a speculative 100,791 sq. foot Class A warehouse at 5208 Stilwell Avenue in Kansas City, Missouri. The firm continues to add to their portfolio in Executive Park where they own 2.3 million square feet.*

more ground around the intermodal and is being very aggressive and proactive in speculative construction.

There is also a large agricultural commodity transload facility which is making this a market-wide amenity for the Kansas City area. In fact, DeLong Grain Company, which has a facility at the BNSF intermodal, is now one of the top 10 exporters in the U.S.

The real revelation is that the vast majority of future industrial development will occur in just a few places in Kansas City, with the BNSF intermodal/LPKC leading the charge in Southwest Johnson County, Kansas. The development seems to gravitate north along I-35 to 175th Street Commerce Centre, Lenexa Logistics Centre, Lenexa Logistics Centre North, College Crossing then followed by Riverside and KCI BusinessCentre.

Along I-49 south, the KC Southern CenterPoint Logistics Park draws development. Also, along the I-635 corridor you have Fairfax Industrial Park where modern Class A industrial buildings will be built on the site of the former public levee property and some smaller development sites like the former General Motors RACER Trust site in Fairfax Industrial Park in Kansas City, Kansas.

## JOHNSON COUNTY

The trend in 2013 for bulk industrial developments with strong demand continued for this submarket in 2014 and all signs point to this remaining as the hallmark of the submarket in 2015. For years, the primary growth in the metropolitan area, in terms of population, and both economic and industrial development, has been to the southwest portion, along the I-35 corridor and has been further fueled by economic incentives by the state and local municipalities. Bigger is better in Johnson County with large scale, multi-

building projects, the BNSF intermodal, and logistics parks. BRES is handling leasing and sales for the 118-acre Lenexa Logistics Centre at 113th Street and Renner Blvd, which can support 1.7 million square feet, as well as the sites for development, at the Lenexa Logistics Centre North, located just north of College Boulevard and west of Renner, which entails another 83 acres, that can support another 1.36 million square feet of space.

Municipalities throughout the submarket want a piece of the industrial development pie and are offering businesses multiple incentives to bring growth into this submarket. The Edgerton City Council issued \$1 billion in industrial revenue bonds for Logistics Park Kansas City (LPKC) since the developers doubled the size of the park from 560 to 1,120 acres with land acquisitions in late 2013 and early 2014. This will increase the development capacity from seven million to more than 15 million square feet.

The real revelation is that the vast majority of future industrial development will occur in just a few places in Kansas City, with the BNSF intermodal/LPKC leading the charge in southwest Johnson County, Kansas.

Meanwhile, Edgerton is starting to attract rail container storage yards, trucking and logistics companies that can locate near LPKC. New sewers and improvements to a key stretch of 159th Street will open 1,700 acres in Olathe for development. This project includes reconstructing 159th

between I-35 and Old U.S. Highway 56. This should speed industrial development of several large tracts while providing east-west access to the I-35 and Lone Elm Road interchange. Existing projects that will also benefit will include New Century AirCenter, Midwest Commerce Center, and I-35 Logistics Park.

### The Numbers

This submarket has a total inventory of 59,447,048 square feet as of the end of the third quarter of 2014 which includes over three million square feet of new product delivered to the market over 18 months. Overall occupancy is 93.7% compared to 94.6% at this time in 2013. For a second year in a row, the total occupancy has dipped over the previous year; however, this is somewhat attributable to the large increase in the market supply and not necessarily a sign of lack of demand.

Representing 22.7% of the overall Kansas City industrial market, Johnson County continues to be the second largest and most dynamic of the submarkets. Johnson County continues to lead the way with the lowest vacancy rate and highest overall rents on a per square foot basis.

### Notable Leasing Activity:

Significant new leases and renewals during the year include:

- IA Auto's 189,157 square feet lease at I-35 Logistics Park in Olathe, Kansas
- Amazon's 260,707 square feet lease at Lenexa Logistics Centre, Building four in Lenexa, Kansas
- American Box & Tape leased 90,000 square feet at the Westlink development in Shawnee, Kansas

- Central Packaging 50,000 square feet lease at Meritex, in Lenexa, Kansas
- Coca-Cola Refreshments' 55,000 square feet lease in Lenexa, Kansas
- Demdaco's lease of 326,000 square feet at the new Inland Park III at LPKC
- FedEx new lease for 305,000 square feet at 167th and Lone Elm Road in Olathe, Kansas
- Smart Warehousing's lease at LPKC in a brand new building of 574,000 square feet
- Select Brands' expansion of 70,000 square feet in Renner Commerce Center
- R & M Sales & Equipment's 37,555 square feet lease in Olathe, Kansas
- O'Connor Companies long-term lease on 89,115 square feet in Lenexa, Kansas
- Vertex leased 195,000 square feet at 9806 Lackman Road in Lenexa, Kansas
- Kubota Tractor Corp., the U.S. marketer and distributor of Kubota-engineered and manufactured machinery and equipment, will open a nearly 450,000 square foot parts distribution center at Logistics Park Kansas City in Edgerton, Kansas.

As in previous years, sales transactions continue to lag behind leasing volume and new development. Some believe the potential buyers are still under the impression that the market is still depressed, from the recession, but actual conditions demonstrate otherwise. However, there were several notable owner-occupant purchase transactions in the year, including:

## AVERAGE GROSS RENT - WAREHOUSE/BULK INDUSTRIAL



- DS Flooring's 23,500 square feet at 10645 Lackman in Lenexa, Kansas
- Express Scale Parts purchase of 14500 W 99th in Lenexa, Kansas
- Flexsteel Industries' \$24.1 million purchase of Inland Port I of 500,150 square feet at LPKC
- Himoina Power Systems purchase of the 31,840 sq. foot building at 15815 W 110th in Lenexa, Kansas
- Jayhawk Fire Sprinklers 80,801 sq. foot building purchase in Olathe, Kansas
- P1 Group's 60,000 sq. feet build-to-suit in Lenexa, Kansas
- SHAR Construction & Real Estate's purchase of 16,000 sq. foot Cookbook Publishers, Inc. building in Lenexa, Kansas
- Sign Source Flooring's 23,500 sq. foot building purchase in Lenexa, Kansas
- Universal Manufacturing Company's 20,000 sq. foot building purchase at 5030 Mackey in Overland Park, Kansas
- Williams Foods' purchase of two operating plants of 110,000 and 180,000 square feet in Lenexa, Kansas
- Benchmark complex sale of two buildings, in total 400,000 square feet located in Olathe, Kansas
- HairUWear, a distributor of wigs and hair pieces, relocated from Executive Park in Kansas City, Missouri and purchased a 140,936 sq. foot building in Lenexa, Kansas
- STAG Industrial purchased the 276,219 sq. foot Westlake True Value Hardware located property in Lenexa, Kansas

## EXECUTIVE PARK/NORTHLAND PARK

Executive Park and Northland Park are major industrial parks in Kansas City, both lying adjacent to the Missouri River, on the south and north side. Both offer a sought-after mix of flex and warehouse space along with modern bulk space.

Executive Park began development in the 1970s on 1,200 acres and is now about 95% developed. It is the premier industrial park in Kansas City, Missouri and is situated between I-35 on the west and I-435 on the east and along Front Street. Located just northeast of Executive Park, Northland Park has versatile buildings that offer reasonable lease rates along with excellent highway access. As a newer development, Northland Park is often sought by many of the larger big-box users who have either outgrown their space in Executive Park or can't find other suitable space on the Missouri side of the metro, especially within close proximity to the Ford Claycomo Assembly Plant which many of the users are tied to.

This submarket consists of 34,640,134 square feet in a total of 393 buildings. Of the total, over 34 million square

feet is distribution oriented warehouse or bulk industrial space. This does not include the five million square feet of distribution space situated in the unique underground developments. The underground provides constant temperature and humidity, though offering much lower stacking heights, making it desirable for assembly, light manufacturing, storage, and food uses. This causes lower height buildings in the submarket, and even throughout the Kansas City market to have a "governor" effect on their lease rates, by keeping them lower than they would be in a market without such competition. Lease rates for bulk industrial warehouse space for 2014 averages \$3.92 per square foot while flex spaces average \$5.82 per square foot, the lowest in the Kansas City market. The combined average equaled \$3.99 per square foot.

## Traffic Improvements

The Diverging Diamond Interchange (DDI) that was constructed in 2012 at Front Street and I-435 has continued to provide a positive impact for distribution users in Executive Park by allowing traffic to flow more smoothly while limiting congestion. Front Street is the only east-west connector through Executive Park and links the two Interstates, I-35 and I-435. The city is now focused on further reconstruction of Front Street, which is long overdue for repair and improvements. These improvements include repaving and widening of Front between Chouteau Trafficway and I-35, a two mile corridor consisting of just two lanes in each direction. Because tenants in the area have grown accustomed to the congestion caused by poor roads and then subsequent road improvements whichacerbate the bottlenecks and headaches, most have been willing to work through the improvements since they will drastically improve the area's logistics and appearance.

## New Construction

Industrial Park Realty completed a 100,791 square feet distribution facility at 5208 Stilwell Avenue. The building has 32' clear height and dock-high loading on only one side of the building which is contrary to most of its competition in the "Big-Box" distribution space. This is the first bulk distribution/warehouse building to be constructed in Executive Park in eight years. As of late November 2014, the entire building remains available for lease.

## Notable Activity

Activity in larger spaces during 2014 was strong and should carry over into 2015. Overall, the vacancy rate decreased in 2014 to 3.1% from 4.0% at year-end 2013.

Notable activity included:

- CMC Foods, a wholesale egg distributor, leased 40,000 square feet at 1843 N. Topping
- Grupo Antolin, a Spanish Auto Supplier, opened its new plant which is 148,800 square feet at 1601 Southern Road

- Leggett & Platt, a manufacturer of domestic goods, leased 36,000 square feet at 8250 NE Underground Drive in Hunt Midwest Underground
- Ozburn-Hessey Logistics, a third-party logistics provider, leased 100,879 square feet at 4900 Deramus
- Russo Properties d/b/a Wayne Industries, a transporter in the metals industry, leased 66,121 square feet at 6100 Stilwell Avenue
- Pitney Bowes Pre-Sort Services, a technology solutions provider, leased 39,556 square feet at 6301 Equitable Drive
- LMV Automotive Systems, an automotive parts supplier, announced a \$49.7 million investment to expand their existing facility from 213,000 square feet to 256,600 square feet
- Sika Sarnafil, an automotive parts supplier, leased 53,326 square feet at 6130 Equitable Drive
- FoodServiceWarehouse.com, a restaurant supply and equipment distributor, leased 475,200 square feet in Hunt Great Midwest Subtropolis
- McKesson, a medical-surgical supply and pharmaceutical distributor expanded their operations in Executive Park by 104,968 square feet
- Forward Air, a provider of time-definite surface transportation and related air freight logistics, leased 76,019 square feet in Northland Park

## NORTH KANSAS CITY/RIVERSIDE

The cities of North Kansas City and Riverside are Missouri municipalities in close proximity to each other and practically bordered on all sides by the much larger cities of Kansas City, Kansas and Kansas City, Missouri. Each community benefits from adjacent interstate access immediately north of the inner-city loop that connects all cross-country interstates serving the metropolitan market, including I-35, I-29, I-49, and I-70. While the Kansas and Missouri Rivers create physical barriers that separate these communities from the passenger car traffic, and some of the issues that come with that, from the bigger adjacent cities, their municipal borders separate them from the larger bureaucracies that sometimes impede development and delay services.

With respective gaming revenue from the Harrah's and Argosy Riverboat Casinos, each community has invested in city services and infrastructure, including law enforcement. Thus, they are not relying on the unpopular Earnings Tax levied on individuals and businesses in competing Kansas City, Missouri, or the higher real estate property taxes of the Unified Government of Wyandotte County/Kansas City, Kansas. The typical age of each city's building stock differentiates the two municipalities more than any other factor.

North Kansas City was founded as a rail-served industrial town at the end of the 19th century, but built most of its current stock in the 1950s and 1960s. It is now essentially fully developed with a few remaining infill, reuse, and redevelopment opportunities.

## AVERAGE GROSS RENT - LIGHT INDUSTRIAL/FLEX





*CDC Development recently completed a 157,000 sq. foot distribution center for Bunzl, a grocery and retail supplier company, at 7503 N.W. 106th Terrace near Kansas City International Airport.*

Riverside experienced nearly full industrial development from the late 1970s up to the very early 2000s, until construction of the U.S. Army Corps of Engineers' L-385 Levee opened up an additional 900 acres for levee-protected development. Considered together, the two communities combine to offer an inventory of functional industrial buildings constructed from the late 1940s through today, served by reliable and affordable city services with immediate interstate access and are central to the metro in one industrial submarket.

The North Kansas City/Riverside submarket consists of over 23 million square feet of industrial space in 519 buildings. In 2014, the submarket leased over 1.7 million square feet with nearly 315,000 square feet of total net absorption, reducing total vacancy to 5.8%. That was a drop of over 1.5% from year-end 2013. Average rents dropped to \$3.81 per square foot in 2014 from \$4.12 in 2013. The drop can largely be attributed to absorption of bulk spaces and the rental economies of that product segment. This trend should continue as the overall market improves.

#### **Notable Activity - Riverside**

- Martinrea International, a just-in-time supplier of automotive chassis parts, leased 275,560 square feet in a build-to-suit project west of Horizons Parkway
- NorthPoint Development, a local developer, completed Riverside Horizons Building IV, a 341,000 square feet

speculative distribution building of which M&M Quality Solutions, a third-party logistics provider, leased 118,944 square feet and in so doing, consolidated multiple spaces in the Horizons and Riverside Distribution Center industrial parks

- Nitto Denko extended their lease of 75,000 square feet in the Platte Valley Industrial Center

#### **Notable Activity – North Kansas City**

- American Midwest Distributors, a farm and feed supplier, leased 128,000 square feet at 110 W. 26th Avenue. They relocated from 820 Atlantic, an 85,000 sq. foot building also located in North Kansas City, Missouri
- American Feed & Farm Supply leased 85,000 square feet at 820 Atlantic, back-filling the loss of American Midwest Distributors
- Datashack leased 344,000 square feet at 1520 Swift to provide dedicated servers and collation services. This is an adaptive reuse of a manufacturing building long used for dead storage
- CEVA Logistics, another third-party logistics supplier, leased 80,000 square feet of the Paseo Industrial Center
- Comprehensive Logistics, which supplies engineering logistics services, leased 46,000 square feet at 1240 Quebec

- Mizkan Americas, a manufacturer of condiments for food service and consumer use, leased 70,477 square feet at 1841 Vernon in this newly redeveloped and repositioned Paseo Industrial District building
- Synetic Technologies, an IT asset management/disposal company relocated into 63,900 square feet
- Affordable Home Products, a kitchen cabinetry and granite counter wholesaler, leased 157,500 square feet
- Crane Logistics, a third-party logistics company, leased 75,000 square feet in the Paseo Industrial District

## KCI/AIRWORLD

The KCI/Airworld industrial submarket is the smallest industrial submarket in the Kansas City area at 6,288,516 square feet in just 78 buildings. Of the total square footage in this submarket, over 5.5 million square feet is bulk industrial with the balance of nearly 800,000 square feet in flex space. KCI/Airworld is important due to its close proximity to Kansas City International Airport (KCI), which is the preferred location for regional air-cargo transporters. It is also one of the submarkets that will likely see significant future growth, due to its availability of large tracts of industrially-zoned or appropriate sites. The location also provides excellent highway access, with I-29 bisecting and I-435 looping through the submarket.

The combined industrial and flex occupancy for 2014 was 89.9%. Average rental rates were at \$5.15 per square feet as of year-end 2014 and the submarket is fairly stable.

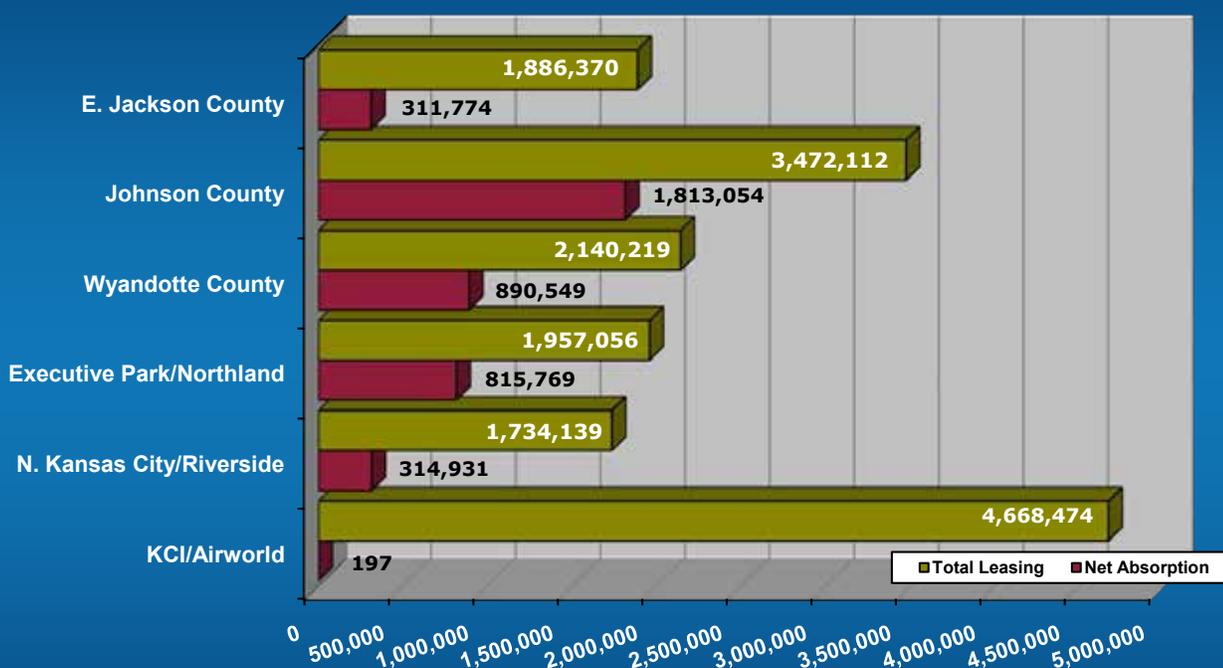
As in past years, the flex portion, which mostly consists of smaller spaces, is the main drag on occupancy, with nearly 17.8% of it vacant. Part of the reason the flex portion remains at such a high vacancy rate is due to these smaller spaces having low ceiling heights and high percentages of office space, making it difficult to utilize the space as most users would prefer, for distribution. Thus, the market for these spaces is aimed more towards smaller/local users, who typically prefer to be closer to the heart of the city and/or the southern suburbs. The bulk industrial portion of the submarket traditionally maintains higher occupancies due to the proximity to KCI and had a vacancy rate of 9.1% in 2014. Though this was a significant increase from 2013, it was mostly due to Ceva Logistics relocating to the North Kansas City submarket. Air-transit-minded and logistics tenants, who lease space in this submarket, are typically there for the access to the KCI and many are suppliers and logistics related operations for the General Motors and Ford automotive assembly plants as well as the Harley-Davidson motorcycle assembly plant.

### Notable Activity

The most notable transaction that occurred in 2014 was at the KCI Intermodal BusinessCentre, a 690-acre, 5.4 million square foot planned development of Trammel Crow.

Challenge Manufacturing Co., a Michigan based automotive assembly company, leased 351,250 square feet at the Logistics Centre II and is the second tenant at the park, joining Blount International. The developer already has plans to expand the building for Challenge Manufacturing to

## 2014 TOTAL LEASING VS NET ABSORPTION





*The Logistics Center II building, totaling 351,520 square feet, was completed in 2014 and leased to Michigan-based Challenge Manufacturing Co. at KCI Intermodal BusinessCentre near Kansas City International Airport.*

a total of 430,000 square feet in the very near future. The developers hope to continue to attract larger users who can take advantage of KCI and the park's Foreign Trade Zone status which can greatly reduce costs on imported goods.

- A new 157,000 square foot facility located at 7503 N.W. 106th Terrace in the SkyPort Business Park has been completed as a warehouse and distribution center for St. Louis-based Bunzl Distribution USA, Inc., a grocery and retail supplier for supermarkets, convenience stores, and other retailers. The property was subsequently sold, with a long-term lease in place, to Monmouth REIT.
- Aviation Technical Services, which provides maintenance, repair and overall services on aircraft, leased 607,000 square feet at the KCI overhaul base.
- R&L Global Carriers, a domestic and international freight shipping company purchased a 30,878 sq. foot building on NW 106th St.

## WYANDOTTE COUNTY

Last year, all bets were on Wyandotte County as it posted approximately one billion dollars in economic development projects. General Motors kicked off the year with a 450,000 square foot expansion of its Fairfax Assembly Plant, now totaling 3.7 million square feet. Indirectly, at least \$1 billion of new construction in the Kansas City Metro during 2014

was attributed to the automotive industry.

Wyandotte County saw its share of speculative industrial development in 2014. Edwardsville, Armourdale and the long-established Fairfax Industrial Park have all been blessed with new projects.

Fairfax, the long-established rail-served industrial park experienced new development for the first time in many years. Central Industrial Park was created when 74 acres of the Revitalizing Auto Communities Environmental Response Trust (RACER), which was created as part of the General Motors bankruptcy proceedings, was sold to a local developer. This 74-acre development is adjacent to the Fairfax Assembly Plant. The park master plan calls for approximately 1,000,000 square feet of new development in eight to 10 new industrial buildings. It is expected that most of the manufacturers or suppliers electing to locate here will do so because of business related (just-in-time) contracts with the plant. Inergy Automotive Systems, a global supplier of plastic fuel tank systems, completed the construction of their new 75,000 sq. foot building in the park this year.

The year 2014 also marked the end of an era in Wyandotte County. The Public Levee, which was located at the southern entrance to Fairfax, was akin to the industrial incubator property for Wyandotte County. The underlying land is owned by the Unified Government of Wyandotte County/Kansas City, Kansas. The eclectic mix of eight industrial buildings totaling 320,000 square feet became

functionally obsolete and more of a burden than a benefit to the community. After a couple of false starts, Kaw Point Industrial Park has become a reality on the site of the former Public Levee. A local development group completed an agreement with the Unified Government to develop the 25-acre site with a new speculative industrial building that will contain 396,000 square feet of 32' clear distribution space. This site is adjacent to Kaw Point Park where Lewis and Clark landed in 1804, at the confluence of the Missouri and Kansas Rivers.

Armourdale has long been a strong-hold of Prime Investments that has acquired or developed over three million square feet of industrial space there. Prime has mastered taking functionally obsolescent properties, and by using public/private partnership incentives, redevelop the sites into new, modern, and functional distribution space. In the spring of 2014, Prime purchased the former Graham Trucking facility at 500 Osage and is under construction of a 32' clear, 170,000 sq. foot, and cross-dock, speculative distribution building that is currently marketed for lease.

Indirectly, at least \$1 billion of new construction in the Kansas City Metro during 2014 was attributed to the automotive industry.

Woodend Industrial Park in Edwardsville started construction on their second speculative building this year, a single loaded 270,000 sq. foot modern distribution building. This comes after completing construction of their first building, a 369,000 sq. foot cross-dock distribution building, leased entirely to alphabroder, which acquired Ash City USA, and is now one of the largest promotional clothing manufacturers.

Wyandotte County's location in the Kansas City Metro area, along with its immediate access to I-35, I-70, I-635 and the I-435 loop, provides tremendous benefits for companies that need to be centrally located for in-city distribution. Wyandotte County experienced a stable year with the vacancy rate holding steady at 4.5%. As in years past, the warehouse/bulk industrial product type accounted for nearly all of the leasing volume and comprises the vast majority of Wyandotte County's 40,051,435 square feet of industrial inventory.

### Retooling For The Future

The real story of Wyandotte County in 2014, which will continue in 2015, is not just about new construction, but about re-investment of capital and resources into the existing buildings and companies in the community. In 2014, 20 companies made investments of over \$320 million in existing properties. Wyandotte County is retooling for the future. With many new developments in the works, a viable economic outlook, a great employment base, strong

geographic location, and a manufacturing base, this stable, centrally located submarket is poised for another good run.

### Other Notable Activity

- J.E. Dunn purchased 22 acres to build a 60,000 sq. foot national logistics facility
- Tritz Pallet doubled their space to 148,500 square feet in Fairfax
- Steel Manufacturing & Warehouse, one of the oldest carbon steel service centers in the Midwest, leased 92,400 square feet on Fairfax Trafficway

## EAST JACKSON COUNTY

This submarket covers an expansive area that includes Independence, Lee's Summit, Blue Springs, Grandview, and eastern Kansas City, Missouri, which makes it the largest submarket with 96,269,413 square feet in 2,809 buildings. Warehouse and bulk industrial make up the vast majority of the submarket with 91,405,190 square feet in 2,624 buildings. Most of the product is older; with lower ceiling heights, tight and/or limited truck loading and maneuvering, and limited parking in manufacturing and distribution buildings. Most of these building are considered obsolete by logistics users. There are very few of the high in-demand modern bulk-industrial buildings with extensive dock loading and high ceilings that logistics companies are demanding these days. However, with excellent highway access being a mark of the submarket with I-35, I-49, and I-70, as well as loops I-435, I-470, I-670, and Missouri Highway 291 running through the county, this could lead to growth; particularly along I-49 in and near the CenterPoint-KCS Intermodal center located in South Jackson County.

With overall occupancy of 93.15%, it is quite impressive given the overall quality of the product base. The overall vacancy rate has remained relatively stable from the year-end 2013 rate of 6.5% to the year-end 2014 rate of 6.85%, both which are substantially better than the 2012 year-end rate of 8%. Year-to-date total net absorption has been 544,452 square feet. Warehouse and bulk industrial has enjoyed net absorption of 566,305 square feet, with flex space dragging down the submarket with negative net absorption of 21,853 square feet. One of the key benefits that this submarket has over the other submarkets is that it boasts a strong and affordable workforce.

The submarket has the lowest average rental rate for warehouse/bulk industrial buildings at \$3.47 per square foot. Light industrial/flex buildings actually have a slightly higher average rate of \$8.89 per square foot than the overall average rate for all of the submarkets, which is \$8.42 per square foot. Rates tend to fluctuate from building to building within the submarket due to the mix of older and obsolete buildings which carry low rental rates.

### Notable Activity

- Onyx purchased a 41,000 sq. foot building in Kansas City, Missouri

- The National Oceanic and Atmospheric Administration, a scientific research agency, leased 222,500 square feet in a new building to be built for them at 14200 Merritt Road in Grandview, Missouri. This is relocation from the Bannister Federal Complex
- 20 MM LAP, an ammunition manufacturing company, leased 74,000 square feet at Lake City Business Center building in Independence, Missouri
- Boise Cascade, an American pulp and paper company that is the 13th largest forest products company in the world, leased 26,960 square feet at 221 NW Chipman Road in Lee's Summit, Missouri for their regional office
- U.S. Closeouts, a liquidation wholesale company, leased 14,000 square feet at 1210 NW Valley Ridge Drive, Blue Springs, Missouri
- A.B. May, a heating and cooling service company, purchased a 83,076 sq. foot building at I-435 and 51st St. in Kansas City, Missouri
- Carthage Stone, a commercial and residential fabricator and installer of natural stone and countertops, purchased a 29,500 sq. foot building at 3125 Roanoke in Kansas City, Missouri
- ETL Leasing, a third-party logistics provider, leased 114,877 square feet on Clary Boulevard in Kansas City, Missouri
- Indigo Wild, an aromatic soap maker purchased a 29,680 sq. foot building at 2800 Mercier in Kansas City, Missouri
- Superior Moving & Storage leased 41,514 square feet at the downtown industrial park in Kansas City, Missouri
- The USDA Plant Health Inspection Service leased 100,000 square feet in the new CenterPoint building at the CenterPoint Intermodal in Kansas City, Missouri
- Custom Bottling Solutions leased 252,558 square feet in the GeoSpace building in Kansas City, Missouri

### Future Growth

CenterPoint Intermodal Building 1A is a 300,000 sq. foot modern, bulk-warehouse building in which there is a lease commitment for 104,000 square feet from the USDA Plant Health Inspection Service, leaving 196,000 square feet currently available. Cerner has also broken ground on a \$4.5 billion dollar office project at I-435 and Bannister Road on the site of the old Bannister Mall in South Kansas City. Though this project will not include any industrial space, it is expected to house 16,000 Cerner workers within the next decade. Due perhaps in part to Cerner's announcement, NorthPoint Development recently announced their proposed development of up to 1,500,000 square feet on land just north of the Cerner campus.

*Contributors include: Michael R. Block, Principal; Lou Serrone, Sr. Vice President; Zach Hubbard, Vice President; Brian Bock, Sales Associate; Chris Cargill, Sales Associate and Andy Taylor, Sales Associate.*



*Alphabroder, the nation's leading distributor of imprintable sportswear and accessories, leased all of the 369,000 square feet of space at 9525 Woodend Road in Edwardsville, Kansas.*



Phase I of the \$580 million, mixed-use project at Prairiefire opened in the spring with retail venues such as Pinstripes, Cinetopia and the Prairiefire museum. The 58-acre development is in Overland Park, Kansas at 135th Street and Nall Avenue.

*While the Kansas City retail market is well on the road to a full recovery, the area is not likely to see the pre-recession pace for new developments and national retailer expansion for years to come.*

There is very promising news however. Rental rates and retail sales are all on the rise and, according to the County Economic Research Institute (CERI), consumer confidence is trending upward as well at 89.9% as of September compared to 75.6% at the same time last year. Gasoline prices are down to the lowest rates seen in four years allowing for increased consumer spending and, according to the U.S. Energy Information Administration, gas prices are expected to stay low throughout 2015. Sales of luxury items, travel and services are up by large margins while standard retail spending is up 2%. Fast casual restaurants, children's apparel, beauty, pet supplies, sporting goods, off-price apparel, drug stores, thrift stores, discounters, dollar stores, and automotive are categories that are expanding. Bookstores, video stores, mid-priced apparel, office supplies, consumer electronics and DIY home stores are categories that are contracting.

Grocery stores have long led to new construction and

that trend continues. While some offer a smaller format or cater to customers seeking discount, ethnic, or organic, the grocery categories are expanding. The organic and natural stores are catering to a relatively new consumer: the young, educated, millennial seeking a higher quality, healthier product. Walmart Neighborhood Market, Aldi, Save-A-Lot, HyVee, Sprouts, Whole Foods, and Natural Grocers have all been on an expansion mode, and now, Lucky's, is looking at Kansas City for expansion.

Plans for new development projects are gaining momentum and while Johnson County leads the metro with new construction, every submarket (as we have defined them) has new construction activity. Also experiencing more activity in 2014, are investment sales of retail projects. Many retail centers changed hands this year satisfying some pent-up demand and proving that the market has returned to a healthy status.

Urban, redevelopment and infill sites remain a focus for developers, largely in part due to the slowed expansion of new housing. Over the past few years, housing starts, while still lower than what is considered as normal for the area, are stabilizing. According to the Home Builders Association of Greater Kansas City, the September year-to-date total

number of single-family housing permits for the metro is the highest number seen in seven years, 3,126 compared 3,093 in 2013. New home construction is expected to continue to improve over the next three to five years. While permits issued for multifamily units are also above last year's totals with 3,168 pulled for the same period compared to 2,493 in 2013.

Developers and retailers are staying focused on the shopper's experience while the consumer is focused on value, which is weighed by experience over price. Internet purchasing offers no such experience and while e-commerce sales are up, they only account for 9% of all retail sales. As such, it is safe to believe that online sales will not kill brick and mortar stores. We can also count on the expectation that big box retailers will continue to work to downsize their store footprints.

There were some retailer fatalities in 2014. Coldwater Creek, filed Chapter 11 bankruptcy causing three area stores to close. Alco Stores, a 113-year-old retailer, also filed for Chapter 11 bankruptcy causing the only store in the metro (Paola, Kansas) to close. Archiver's, Blockbuster and Sbarro also declared bankruptcy while Radio Shack remains on the watch list.

Other middle class consumer-driven brands (i.e. Aeropostale, American Eagle, Abercrombie & Fitch, Children's Place, Express and Wet Seal) have announced they will be shuttering many underperforming locations as leases expire. Dollar General and Dollar Tree have both been working to buy Family Dollar and if one were successful, closures would be eminent. Closures are also still anticipated from the Office Max/Office Depot merger.

Overall, vacancies remained stable moving from 8.3% the end of 2013 to 8.9% at the end of 2014. Citywide, average rental rates raised slightly from \$12.09 per square foot at the end of 2013 to \$12.33 per square foot at the end of 2014.

## JOHNSON COUNTY, KANSAS

Leading the metro in new development projects, Johnson County has a great deal going on.

Prairiefire saw a number of new retailers open in its first phase including Cinetopia, Pinstripes, Bridal Extraordinaire, Toner Jewelers, Primp and Blow, Threshing Bee, Fat Brain Toys, Varney's CocoBolo's, Paradise Diner, Newport Grill, Rock N Brews, Wasabi, and Cocoa Dolce. Its second phase is slated to begin in the second quarter of 2015 and is due to include 150,000 square feet of retail space on the ground level of new office and apartment buildings. Shade Hotel will develop a 75-room hotel.

Topgolf is under construction at 107th Street and Nall and is expected to be open spring of 2015. The 65,000 sq. foot, three-level entertainment complex is expected to see 450,000 visitors in its first year of business. Offering golf games for all ages, and lessons, leagues and tournaments, it also features bays to entertain, eat and drink, catch sporting events on the HDTVs, listen to live bands and DJs, and

private event space to host events.

Woodside Village, a mixed-use project at the northeast corner of 47th Street and Rainbow, is under construction. The first phase will include 20,000 square feet of retail space with 90 apartment homes. An expansion and renovation of the Woodside Health and Tennis Club along with a 6,500 square foot Bread & Butter Concepts restaurant will be included in the first phase. When complete, the development will house 36,000 square feet of retail space and 333 luxury apartments. GreenAcres Market has committed to the second phase of the development.

While dirt moved last year, nothing has come out of the ground at the Mission Gateway site. The original mixed-use plan included 300,000 square feet of retail space on two levels, a two million gallon aquarium, 300 upscale apartments, and a 2,220-space parking garage. Walmart replaced the aquarium as the anchor tenant and was due to take 150,000 square feet with additional retail on a second story. The developer has been unable to secure enough additional retailers to finance the project however, and Walmart now hopes to occupy a single story 175,000 sq. ft store at the site. The city, having never really wanted a big box use on the site unless it were tied to other aspects of a dense mixed-use project, is now faced with accepting the thing they aimed to avoid, together with delays in reimbursements on the \$12 million in funds spent on storm-water improvements for the project.

Plans for new development projects are gaining momentum and every submarket has new construction activity.

The development that had been slated for 159th Street and 69 Highway prior to the recession is back with a new name, BluHawk. The mixed-use development planned for the 300-acre site will be anchored by Price Chopper. The interchange at 159th Street is expected to open in October 2015 and allows opportunity for development along this corridor. Construction on 187 new single-family homes has begun and sewers are being extended to open additional residential development to the south. While many retail brokers in the city believe that 159th Street will be the next prominent retail corridor in South Johnson County, time will tell if the county can support yet another full retail corridor so close to 119th, 135th and 151st Streets.

Retail investment sales in 2014 included Metcalf South and 95 West at 95th Street and Metcalf in anticipation of redevelopment. Macy's closed at Metcalf South and Hancock Fabrics and China Star closed at 95 West. Plans for the 62-acre project are being developed, but are sure to call for a mix of uses. Glenwood Arts Theater currently remains open, but all other mall tenants were asked to vacate over the summer. Sears also remains open and will be part of

the new development. Overland Crossing, a 175,000 sq. foot shopping center at 119th Street and Metcalf also sold. Home Decorator's Collection and Elephant Bar closed in the development this year. Other retail properties with new ownerships include: Prairie Village Shops, Corinth Square, 10 Quivira, and Edgewater Crossing.

Lenexa is now home to a new Sprouts Farmers Market at I-435 and 87th Street where Freddy's is also under construction. Across the highway at City Center Lenexa, Grand Street Café has opened while Hyatt Place, Saints Pub + Patio and Subway are all under construction. Parker Payne opened in the newly renovated Greystone South Shopping Center and Arris Pizza is expected to open there early in 2015.

Olathe has a new Hy-Vee at 151st Street and Blackbob while the store at 135th Street and Brougham has closed. Embassy Suites hotel and conference center is under construction at K-10 and Ridgeview. Garozzo's closed their Olathe location and Jose Pepper's took over the spot. Freddy's opened at 151st Street and Ridgeview while Tractor Supply is planning to close at 119th Street and Strang Line. Zoomin Market, a drive-through grocery pick-up business, opened in the former Gambucci's location. Whole Foods and Five Below will open in 2015. The former Benchmark building at Renner Boulevard and Kansas City Road will soon house the Furniture Mall of Kansas which also has locations in Topeka and Lawrence.

Overland Park saw Party City close at Orchard Corners and Mimi's Café closed both of its locations. Stroud's took the building at 135th Street and Antioch. Ross Dress for

Less and Verizon opened in new construction at Quivira 95. Hobby Lobby is planning to take the former Hy-Vee spot there while McDonald's took the pad site that had been home to Houlihan's. Pie Five opened in Oak Park Commons. In Oak Park Mall, Wet Seal+ Plus opened in the spot vacated by a sister company Arden B and L'Occitane En Provence opened. Panera and Freddy's built new restaurants at College and King. Hancock Fabrics moved to Regency Park. Storage Mart is under construction in the location of the former Hy-Vee at 91st Street and Metcalf. Johnson County Community College signed a lease for 29,000 square feet at Library Shops. Mattress Hub closed at 119th Street and Metcalf and Stanford and Sons opened at Rosana Square.

Corbin Park will soon be home to Ted's Café Escondido, Fusion Fitness, Spin Pizza and Christopher & Banks who are all expected to open in 2015. In the meantime, Take Five Coffee Bar, Ya Ya's Eurobistro, Crowley Furniture, Off Broadway, DressBarn, Zales, Kirkland, Ulta, Corner Bakery Café, Firehouse Subs, Stein Mart, MODE and Sharkey's Cuts for Kids are already open. Chuy's is also reported to be looking there. Nearby Sugo's Spaghetteria closed its doors in Deer Creek Woods and Fuzzy's Taco Shop moved in. Mazuma is under construction and plans to open in January 2015. Marco's Pizza and Will Jenny's closed at Deer Creek Marketplace and Tilted Kilt moved in.

Shawnee will not see Westbrook Village redeveloped for a Menards' store. Menards backed out of its contract to purchase a portion of the shopping center at 75th Street and Quivira. Old Navy plans to close at Shawnee Station and Shawnee Plaza completed its redevelopment and is now

## SELECTED NEW RETAIL CONSTRUCTION

<i>New Construction</i>	<i>Square Feet</i>	<i>Project Status</i>	<i>Tenants Announced</i>
Metcalf South	TBD	Planning Phase	Sears (will remain)
Village East	TBD	Planning Phase	National Soccer Training Facility
BluHawk	1,000,000	In Development	Price Chopper
Metro North Mall Redevelopment	950,000	Planning Phase	Macy's (will remain)
Antioch Crossing	440,000	Under Construction	WalMart Neighborhood Market (open)
The Falls at Prairie Star	500,000	Stalled	N/A
Mill Creek Village	494,766	Planning Phase	N/A
City Center Lenexa	400,000	Phase I, Under Construction	Grand Street Café (open), Hyatt
Summit Place	350,000	In Development	N/A
Merriam Village Redevelopment	349,000	Complete	IKEA
Liberty Commons	332,315	In Development	BB Theaters
Crystal Springs	330,000	Stalled	Menards
The Gateway	300,000	In Development	Walmart, Sprouts Farmers Market
Shops at 151	238,000	Phase I, Complete	Hy-Vee (open)
Whitehall Station	236,000	Planning Phase	N/A
Prairiefire at Lionsgate	150,000	Phase II, Under Construction	Cinetopia, Pinstripes Bowling Bocce Bistro (open)
Shawnee Development	185,000	Planning Phase	N/A
Shoal Creek Town Center	175,000	Phase I, Under Construction	Sam's Club (Open), Sprouts
Shoal Creek Village	114,500	Planning Phase	N/A
Todd George Retail Center	98,000	Under Construction	Price Chopper
The Promontory	88,644	Planning Phase	N/A
39Rainbow	30,560	Phase II, Complete	Topp'd Pizza

**Total Square Feet: 6,761,785**

home to Kolache, PepperJax Grill, Johnny's and Natural Grocers. Nuts and Bolts had been announced, but now appears to be out of play.

Merriam is proud to have IKEA in its backyard bringing visitors from around the region. Hobby Lobby will neighbor IKEA and intends to close its locations on Johnson Drive and Shawnee Mission Parkway. McDonald's has also built on a pad site near IKEA that had once been home to Papa John's.

Leawood's Park Place said goodbye to Marv's Original Delicatessen and hello to Pickleman's, BurgerFi, Mackech Jewels, Etiquette Boutique, Altar Bridal, and Dog Pawz. Arhaus Furniture is under construction at Town Center Plaza, as is space for Sephora, while Parlor, Body Lab and Hanna Andersson have all opened. Space is being prepared for Mitchell Gold + Bob Williams Furniture at Town Center Crossing. Hawthorne Plaza is nearly complete with their renovations and the Container Store is under construction. Iviva opened and The Mixx is slated to open soon. Camelot Court won the first ever CID in Leawood. An additional 1% sales tax over 22 years will help cover \$8 million or 80% of the exterior project costs including lighting, landscaping, and signage. The incentives push the tax rate at the center to 9.5% which is consistent with other centers with TDD and/or CIDs in place.

Johnson County's vacancy rate slipped significantly from 7.4% at the end of 2013 to 9.8% at the end of 2014 due in large part to the closing of Metcalf South. Rental rates decreased from \$13.62 to \$13.43 per square foot.

## EAST JACKSON COUNTY, MISSOURI

New development in this area includes the redevelopment of White Oak Shopping Plaza. The city of Blue Springs approved both a CID and tax increment financing (TIF) district for the \$46 million project. The center will be razed to make way for an 85,000 sq. foot Consentino's Price Chopper and 19,250 square feet of retail space.

Slim Chickens opened and Menards may be resurrecting their plans for a location near Bass Pro Shops. Natural Grocers acquired Nature's Pantry at I-470 and 40 Highway and has rebranded the store. Hartman Heritage saw Hawkeye Hotels buy the 201-room Hilton Garden Inn hotel out of receivership in February. Twin Peaks opened in the former Macaroni Grill location and Saints Pub + Patio bought the former O'Charley's at the neighboring development, The Pavilion at Hartman Heritage. Drive Time, a used car dealership, opened on Noland Road and Jimmy John's signed a lease nearby and will open in 2015.

Blue Springs witnessed The Boot Barn, Supercuts, and CareSpot open at Adams Dairy Landing while Staples closed there.

Rental rates in East Jackson County have increased rising from an average of \$10.53 per square foot at the end of 2013 to a current average of \$10.83 per square foot. Vacancy has remained stable going from 8.6% to 8.8%.

## DOWNTOWN/MIDTOWN/PLAZA AREA/ SOUTH KANSAS CITY, MISSOURI

New developments in this area include Summit Place,



Academy Sports + Outdoors opened a 58,000 sq. foot store at 510 E. Markey Parkway in Belton, Missouri. The store is the third location in the Kansas City area and employs approximately 125 people.



*Developer, Block Real Estate Services, LLC, made use of a Community Improvement District (CID) to bring new life to Greystone South Shopping Center on 87th Street Parkway in Lenexa, Kansas.*

which won \$18.5 million in TIF incentives from the city of Lee's Summit. The \$73 million development will be located southeast of I-470 and 350 Highway. Downtown Kansas City is experiencing booming hotel growth with Holiday Inn Express planning 76 rooms at 13th Street and Oak, Hampton Inn planning 70 rooms at 8th Street and Walnut, a 120-room boutique hotel planned for The Savoy Hotel and Grill at 9th Street and Central, 115-room Home 2 by Hilton at 20th Street and Main and 261-room Courtyard by Marriott and Residence Inn under construction on 16th Street between Main and Baltimore. Smaller developments include retail space at Union Hill, Whole Foods at 51st Street and Brookside, 51 Main, and the 47th Street Shops at 47th Street and Troost.

The Country Club Plaza always has something to announce and this year is no different. West Elm, who had once occupied space in Town Center Crossing, but closed in 2010, is back in the market, having opened in the space formerly occupied by Pottery Barn, a sister company of common owner Williams Sonoma. Meanwhile, another sister company of the Landry's brand, Morton's Grille, opened in the former MS Grill location. And, Byron opened in the space vacated by Jack Henry. Ruth's Chris, Blanc Burgers, Valentino's, Kaplan's and Halls all closed their stores this year. Highwoods intends to divide the 29,000 square foot former Halls space into six to eight spaces for multiple new retailers and restaurants. Other newcomers to the Plaza this year include: Nani Nalu, Paolini Garment Co., Jax Fish House & Oyster Bar, and JJ's. Roth Living is slated to open soon.

Truman's Marketplace, the new name for the redevelopment of Truman Corners at Blue Ridge Boulevard and I-49 will comprise 580,000 square feet of retail space once it gets off the ground. The current delays are related to the financial transaction between the current owner and new developer. Tenant announcements include: Ross Dress for

Less, T.J. Maxx, Burlington Coat Factory, Petco, and Shoe Carnival. Demolition is planned for the Oil Plus and Aaron's Rentals outparcels. The city is providing \$39.5 million in public financing for the redevelopment. Walmart Supercenter is expected to rebuild on the site of the former Sam's Club.

Crown Center is now home to the only Halls department store in the city. It consolidated its two department stores into one after closing the store on the Plaza in August. Many tenants moved or closed to make room. Closings included Victoria's Secret, Sportibles, and Vivone's while openings will include Spin Pizza.

Other retailers opening in this area of the city are Onelife Fitness in the Power and Light District, The Sundry opened in the Crossroads, Aldi opened at 39th Street and Prospect, Domino's Pizza and Rainbow Shops at the Shops at Blue Parkway, Rue 21 at Ward Parkway and Summit Fair, and Academy Sports and Planet Fitness in Belton. Jack's Stack is under construction at Summit Woods with an opening planned for spring of 2015 while Dickey's Barbecue Pit plans to open as well. The Egg and I opened in the former Guadalajara Café spot on 291 Highway and Sprouts is anticipated to open in a portion of the former Sears building nearby.

Brookside Shops, State Line Road Shops and Westport Landing all have new owners and Westport Landing is undergoing renovations. Another property in Westport under renovations is the former Q Hotel which was purchased by AC Hotels by Marriott. It is in the process of an extensive multi-million dollar renovation. The 123-room European-style boutique hotel with contemporary feel is slated to open in January 2015.

Waldo and Brookside neighborhoods both saw some turnover. In Brookside, Charlie Hooper's and The Brooksider both got new owners; Jimmy John's, Season + Square Spices and Fine Goods opened; and Topsy's closed. In Waldo, Summit Grill and Bar took over the Remedy spot and Smokehouse Pub will open in former Swagger location. Mike's Liquors expanded and Bier Station came into being. Berbiglia closed its 75th Street store and Gomer's is taking over.

Other comings and goings include Transformed Barber & Cosmetology Academy opening at the Landing, Artego Pizza and Q39 opened along 39th Street. Nick & Jake's opened in the former Beacon space at 50th Street and Main. GenX signed on at Longview and Blue Ridge and Shoe Carnival announced its closing at State Line Station. HyVee closed at 122nd Street and State Line, the result of its failure to procure city assistance with a remodeling effort, but it opened a pharmacy to continue to serve its former customers.

Rental rates in this area of the metro increased from \$12.81 per square foot at the end of 2013 to a current average of \$12.95 per square foot. The area's vacancy fell from 9.2% at the end of 2013 to 8.0% at the end of 2014.

## KANSAS CITY/WYANDOTTE COUNTY, KANSAS

The area surrounding Village West continues to drive development. Schlitterbahn's plans for its Vacation Village stalled during the recession but a revised plan to activate the STAR bonds, approved but never issued, is now being considered. Village East would expand the 365-acre district by adding 126 acres to the northeast of State Avenue and 94th Street and overlaying Village West, so that taxes from increased sales in that area could be used to help pay back the STAR bonds for Village East. Schlitterbahn donated land at 98th Street and Parallel for the purpose of a National Soccer Training and Coaching Development Center to be developed by the owners of Sporting Kansas City. The \$75 million project would be eligible for \$62 million in STAR bonds. Schlitterbahn will continue to work to develop the balance of the project to include a regional autoplex, shopping center, offices, hotel, and apartments.

After having opened the first new grocery store in Kansas City, Kansas in thirty years, Sunfresh at Prescott Plaza, whose ownership also changed hands this year, is getting competition. Walmart Neighborhood Market opened at La Plaza Argentine, a 13-acre development just west of U.S. Hwy 69 and Metropolitan this year and a new Charles Ball Sunfresh Market is planned for 10th Street and Minnesota.

In other news for the area, Wyandotte Plaza completed its renovations. Marshall's and PetsMart opened there along with an expanded Price Chopper. MeMa's Old-Fashioned Bakery moved in, too, after closing its shop in the Legends Outlets due to lack of space. Outback Steakhouse closed at the Legends in October, while Lids, Haggar Clothing, Bath & Body Works, Woody's Automotive, Nail Envy Spa, Pizza Studio, Jose Pepper's and Eddie Bauer Outlet all opened new stores there. Nearby, Goodwill signed a 12,500 sq. foot lease in Bonner Springs. Closer to the State Line, McDonald's closed its restaurant at 43rd Street and Rainbow in order to build new with a double drive-through expected to open early 2015 and Topp'd Pizza will open at 39 Rainbow.

Retail rental rates for Wyandotte County were \$11.09 per square foot at the end of last year. They have increased to \$11.42 per square foot at year's end. The area is presently experiencing 10.9% vacancy, compared to 10.4% vacancy at the end of 2013.

## NORTHLAND KANSAS CITY, MISSOURI, PLATTE AND CLAY COUNTIES

In development news, the Antioch Crossing, redevelopment of the former Antioch Center Mall got underway after having been stalled for years. Walmart Neighborhood Market opened while Firehouse Subs, GNC, PepperJax Grill, Five Guys Burgers and Fries, Vintage Stock and Gerry Optical have committed to the location. Sears and Burlington Coat Factory will remain part of the redevelopment. The other enclosed mall in the northland, Metro North, continues to brace for redevelopment. It officially closed its doors in April, although Macy's remains

open. The developer is hoping to find a second anchor for the project.

The area around 152 Highway and I-35 continues to add retailers. Sam's Club opened a 137,428 sq. foot store in The Village of Shoal Creek as did Sprouts and Cheddars. Ted's Café Escondido is under construction and La-Z-Boy and Ross opened nearby. Liberty Commons, at the northeast corner of I-35 and 152 Highway, is slated for redevelopment. The 332,315 sq. foot project expects to get underway in the spring of 2015 with completion in summer, 2016. The developer is seeking a 14-year TIF plan from the city who would anticipate receiving \$900,000 in new annual tax revenue. The developer is putting \$48 million of its own money into the \$80 million development.

Snow & Company opened in Gladstone's newest development project, Gladstone 18 and Linden Square. Gladstone 18 is the site of the former post office while Linden Square, just next door, will feature a community center, outdoor summer concerts and winter ice skating, and 222-unit luxury apartments. Elsewhere in the northland, Meierotto Jewelers has announced that it will build a 25,000 sq. foot headquarters building with a retail store at I-35 and Armour Road.

Rue 21 leased space at Boardwalk Square, Planet Fitness opened at North Oak and Barry Road, and Cascone's Grill opened at Picture Hills Shopping Center. Scooters opened at Antioch Annex and Sprouts is under construction at the Village at Burlington Creek. Zona Rosa picked up Simply Mac and an Avon Mega store. Office Depot closed at North Oak Village while Freddy's is under construction on a pad site in front of Sam's Club across the way. News on the future Sam's Club across from Tiffany Springs Marketplace and Menards at 152 Highway and Green Hills Road appears silent.

Rental rates in the northland presently average \$11.87 compared to \$11.02 per square foot at the end of 2013. Vacancy is currently at 8.3% up from the 2013 year-end 7.3% vacancy.

## RETAIL OUTLOOK

What does 2015 hold for Kansas City's retail market? We predict Menards will open at least one new location, new construction with tenant commitments will continue to climb at a conservative pace, and fast casual restaurants will continue to lead retailer expansion. Class A and B centers will continue to lead the pack with decreasing vacancies and increasing rents. Class C retail properties will continue to fight increasing vacancy and decreasing rents.

*Contributors include: Kim Bartalos, SCLS, Vice President; Stephen J. Block, Principal and Nathan Vanice, Vice President.*

# KANSAS CITY & NATIONAL INVESTMENT MARKET



*Block Funds sold 4400 Corporate Centre to Dixon Lumber in August 2014. This transaction satisfied Dixon Lumber's 1031 exchange from an office building it sold to the user in North Johnson County.*

Looking back to the 2014 Kansas City and National Investment Market section, our predictions and summary going forward were as follows:

*“As pricing continues to increase in Gateway cities, secondary and tertiary markets will receive increased attention from debt and equity looking for suitable risk adjusted returns. Foreign investors’ interest will continue to grow in U.S. commercial real estate as the preferred market for safety of investments and prospects of capital appreciation. Underwriting standards from a debt and equity perspective should continue to loosen, but do not expect standards to return to the pre-recession frenzy.”*

The above commentary regarding our predictions for 2014 were spot on! With the continued lack of suitable cash flowing investment products, equity and debt have continually crept away from Gateway cities chasing higher yields in secondary and tertiary markets.

As we look back over the last twelve months to more fully understand the commercial real estate investment market, we must examine two components: property fundamentals

and real estate capital markets. The fundamentals of commercial real estate improved across all property types (office, industrial, retail and multifamily). Rents trended upward and vacancy rates continued to decline. Two years ago in this same report, we cited assets that were selling to investors “betting on the future,” would see improved property fundamentals and higher investment returns.

The biggest indicator that property fundamentals have bounced back is the significant increase in development, in particular speculative development. In the current cycle, the Gateway cities are one year ahead of secondary markets like Kansas City. The multifamily and speculative office and industrial development timeline shows the progression over the past few years.

## 2010

- Development on a whole was non-existent

## 2011

- Development limited to build-to-suit projects nationwide

## 2012

- Multifamily development begins in Gateway cities

## 2013

- Multifamily development is in full swing in Gateway and secondary markets
- Speculative office and industrial development begins in Gateway cities

## 2014

- Multifamily development is prevalent nationwide
- Speculative office and industrial development extends to secondary markets

To this point, speculative industrial and office development is back again in Kansas City, which was not the case just one year ago.

The relationship between development and property fundamentals needs to continually be monitored. Rising construction costs will put pressure on improving property fundamentals to keep pace. Raw materials and labor pricing continue to escalate. Now, as more and more development projects are started, subcontractors have the ability to raise prices as the construction labor pool is still shallow. Subcontractors have been hesitant to ramp back up to pre-recession staffing levels. This problem was magnified in Dallas in early 2014 when national multifamily developers could only secure framing crews to work two days per week. The number of projects under construction had absorbed all of the framing subcontractors, thus extending development schedules and adding cost. Similar problems occurred in Kansas City over the last 12 months.

While we anticipated improvement over the last year in the real estate capital markets, even our projections were low. Investments and debt funding transactions were up across the board. On the equity side, Real Estate Investment Trusts (REITs), foreign investors and private equity firms led the way. National Transaction volumes have reached pre-recession levels as commercial real estate (CRE) transaction volumes reached \$400 billion in 2014, an 11.4% increase over 2013.

The increase in CRE transaction volume was led by better-than-expected foreign capital investment into the United States commercial real estate market.

When evaluating the commercial real estate capital flows, there are three areas of focus: Debt, Equity and Commercial Real Estate Transaction Volumes. Each of these areas play an integral part in the movement of the Real Estate Capital Market. In theory, there will always be one of the three categories that will be easier to secure than the others. For example, in 2009 after the market crashed, there was an abundance of Property Investment options (transactions were way down) but Debt and Equity were non-existent. Currently, Debt and Equity are readily available, and transaction volume is reaching an all time high and is getting close to the 2007 totals. We feel the fundamentals are on solid footing compared to 2007.

The pre-recession run up in values in large part was fueled by cheap money from CMBS lenders that were racing to get capital in the market without the proper checks and balances. The current market is mainly being driven on the debt side by Fannie Mae and Freddie Mac in the Multifamily sector, and life insurance companies in the Industrial, Office and Retail sectors. CMBS has been held at bay as the maturities are coming in 2016 and 2017 from the 10-year loans placed in 2006 and 2007. The chart below is a look back at the Capital Flows in 2007.

In 2014, there was an abundance of debt and equity in the market, thus putting upward pricing pressure on property investment options. Banks that have reported lending standards are being eased across the board as it relates to loan-to-value, debt coverage ratio and loan sizes. For example, this increased pressure was evident in the Kansas City multifamily offerings. Last year and currently, when a well-located property comes to market, investor interest has and will continue to be immense. Quality offerings will generate between ten and twenty offers from qualified investors. These investment groups will range from publicly traded REITs, pension fund advisors, private equity

	2007	2008	2009	2010	2011	2012	2013	2014	2015 (Forecast)
Transaction Volume (\$ Billions)	571	171	65	156	244	298	359	400	
Seller Offerings	AB	AB	L	L	L	AVG	AB	AB	AB
Equity Buyer Interest	F	AVG	L	L	AVG	AVG	AB	F	F
Debt Financing Availability	F	AVG	U	U	L	AVG	AB	F	F



## Single-Tenant Kansas City Sales Comparison

Office Properties	Sale Year	Size (SF)	Sales Price / Per SF	Cap Rate
<b>Plaza Vista</b> 900 W. 48th Place, Kansas City, MO	2014	253,552	\$104,000,000/ \$410.17	7.25%
<b>Corporate Ridge III</b> (Farmers Insurance) 10551 S Ridgeview Road, Olathe, KS	2013	102,000	\$19,100,000/ \$187.25	7.60%
<b>US Bank Building</b> 12800 Foster, Overland Park, KS	2011	192,636	\$38,200,000/ \$198.30	7.52%

groups, family offices, syndicators pooling high net worth investors' dollars, and foreign investment groups looking to place capital in the relatively safe economy of the United States.

Pricing of multifamily, industrial, and retail properties have reached pre-recession levels. Office properties are closing the gap quickly and a recent data point supports this thesis. In Kansas City during the fourth quarter, the Plaza Vista office building sold for \$104 million. This asset replaced the failed West Edge development located on the west end of the landmark Country Club Plaza. VanTrust Real Estate purchased the half completed office tower and was forced to demolish the existing structure in order to start over and build a new office tower to house the Polsinelli law firm. Once completed, VanTrust hired a national broker to sell the asset and succeeded with a 7.25% capitalization rate to EverWest Real Estate Partners, LLC and Chilean-based Independencia Asset Management, LLC a foreign investor out of South America. South American capital being placed in Kansas City speaks to one of the themes of this report.

When a group like Independencia Asset Management, LLC sets out to place capital in the United States, a certain set of criteria is outlined which includes property type, anticipated returns, preferred investment amount and locations. For large groups like pension fund advisors and REITs, it takes just as much work to invest \$5 million dollars as it does to place \$25 or \$50 million dollars. When Independencia Asset Management, LLC was formulating its investment strategy, Kansas City was not on the radar and most likely the group would not have even been able to pick Kansas City out on a map. As buyers start to evaluate opportunities in New York, Chicago, Dallas and San Francisco, they quickly come to the conclusion that their risk adjusted returns could not be achieved in those Gateway cities, thus their criteria needed to be tweaked in some manner to accomplish its objectives.



The 2011 and 2013 assets listed above had national credit that Polsinelli cannot boast. The location of the Country Club Plaza outweighed any credit concerns the Plaza Vista buyer might have had. Comparing these sales would be a true reflection of the increased delta in market capitalization rates over the last three years. Multi-tenant office capitalization rates for similar locations and quality of buildings would be 75 basis points higher. Asserting that the Plaza Vista capitalization rate would have been even lower and maybe sub 7% if the deal size would have been similar to our other two data points as the universe of buyers would be increased tenfold.

### 2014 Transaction Volume Increases Again, Kansas City Volume Doubles!

With market fundamentals continually improving and the vast availability of equity and debt, Kansas City and national investment transaction volume increased significantly. CRE transaction volume ended the year at \$400 million, a 11.4% increase over 2013, and more dramatically, a 156% increase over 2010 showing the market is back and is as strong as ever.

Along with increased sales volume, there has been a recovery of values as well. According to Moody's/RCA Commercial Property Index (CPI), the national all-property composite index has seen 68.5% appreciation since the trough of December 2009. The pricing index shows that values have recovered approximately 100% of the peak to trough losses with significant appreciation occurring in the last 24 months of 30.9%.

Like the movement we saw in 2013, investor interest increased significantly in secondary markets such as Kansas City and tertiary markets (Omaha, Des Moines, Oklahoma City, Tulsa and Wichita). Investors are being forced to take on more risk to achieve higher yields, either by assuming more leasing risk or buying "trophy" assets in secondary and tertiary markets.

In 2014, Class A industrial investments are considered to be as desirable as multifamily. Quality retail is in high demand and there are plenty of dollars chasing high-end stabilized office or value-add assets in the right locations.

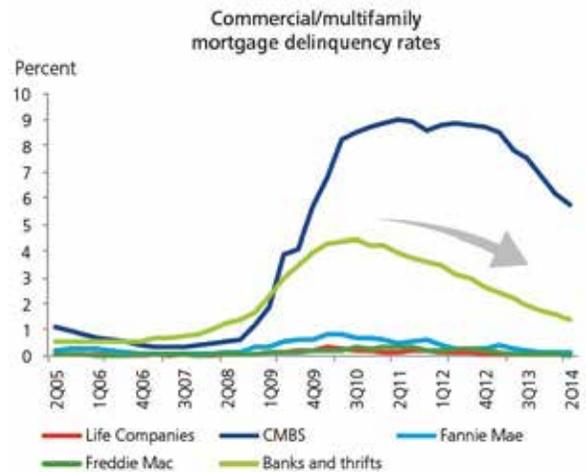
## CAPITALIZATION RATES & REAL ESTATE RETURNS

Cap rates again dropped year over year again, with the biggest change occurring in the office sector dropping from 7.51% in 2013 to 6.72% in 2014. These are gateway market cap rates, Kansas City office cap rates were 8.5% in 2013 and were 8.0% in 2014, a decrease of 5.88% in one year. We thought in 2013 that cap rates did not have room to compress further, but they did. Across all commercial real estate investment sectors cap rates decreased by 3.56%. Last year our report commented that “It is hard to imagine cap rates can compress much further” yet they dropped again, so judgment will be held and the market will speak for itself. In 2013, we quoted a cap rate of 6.0% for Kansas City multifamily, the only true class A multifamily asset that traded came in just below at 5.91%. We project Kansas City cap rates moving forward to further drop to 5.75%. Brookside Shops posted a huge sale at \$27,650,000 which equates to 5.88%. A better barometer of the retail market is the Creekwood Commons Shopping Center and Ten Quivira Plaza that sold at 7.31% and 7.22% respectively.

Looking at market indicators in the industrial sector, the Lenexa Portfolio of 23 class B assets traded hands at 7.5%. This is a market sell that is a great data point for pegging the multi-tenant industrial cap rate in Kansas City. In office, the multi-tenant deals that sold all had value-add component that makes comparing cap rates challenging. The Plaza Vista sale at 7.25% is 50 basis points lower than our multi-tenant cap rate assumption due to the long term lease in place.

## DEBT MARKETS

If the debt market was considered strong in 2013, then frothy would be needed to describe 2014. Commercial mortgage issuance improved based on the improving property fundamentals noted in this report. Like investors that are going to secondary and tertiary markets to find returns, lenders are doing the same to place debt. Construction financing is also showing increased strength and competition amongst lenders. Lenders were eager to place new debt issuance in 2013 and did so, but the competition has increased significantly so lenders are easing loan-to-values, debt coverage ratios and are tightening spreads to win business. As a result, commercial mortgages have increased 19% year-over-year as of the second quarter 2014. The regional and community banks that are enjoying healthier balance sheets and that are less risk averse have been back in play. These lenders are focused on the minimal 1.4% delinquency rate in real estate financing, which is 50% less than one year ago.



A Copaken-led ownership group sold the 303,107 sq. foot, two-office building complex to CA Ventures for \$83.55 per square foot. The buildings were 85% leased and sold at a 7.59% cap rate on in-place income.

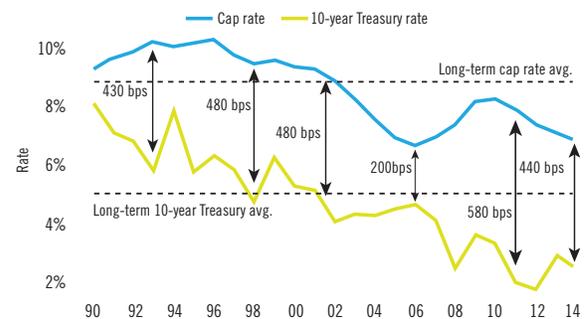
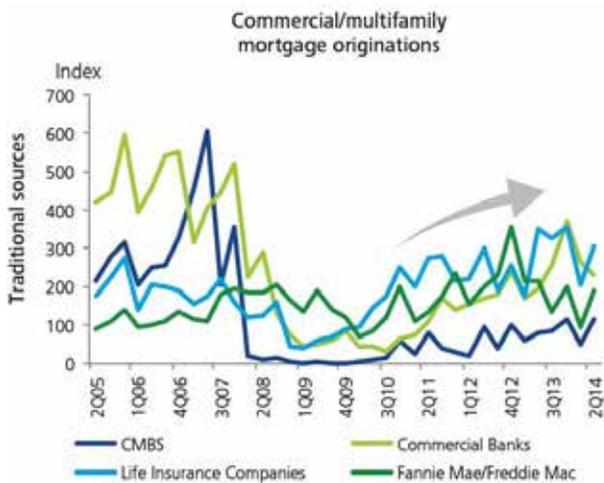


Corinth Square, Prairie Village Shops and Fairway shopping centers sold as a portfolio for \$55.3 million in 2009. First Washington Realty currently has the assets under contract for \$122.5 million. The transaction is expected to close in January 2015 at a 5.33% cap rate.

The one segment of the debt market that has retrenched is the commercial mortgage-backed securities (CMBS) lenders. After making a big push in 2013, the CMBS issuances saw a 13% decrease through the first half of 2014. A likely cause was the remaining \$346 billion of CMBS loans that are maturing over the next three years; loans that were originated in 2005 through 2007.

point spread could be split in half and still be 20 basis points higher than the historic low of a 200 basis point spread in 2007.

### Commercial Real Estate Cap Rate vs. 10-Year Treasury



\* Through August  
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics, Federal Reserve Board

Although capitalization rates are near historical lows, the 440 basis points spread over the 10-year treasury provides some elasticity to interest rate movement. If treasury yields move due to positive factors such as strong economic growth, investors will be willing to absorb some of the rate increase and lower their required risk premium. When examining the below chart, the current 440 basis

### CROWDFUNDING

A new source of commercial real estate financing both on the debt and equity fronts is “crowdfunding.” This source of capital has been utilized over the last year to raise funds directly from accredited investors via websites designed to swiftly approve investors and give them instant access to an array of debt and equity offerings. BRES has used these new sources with two different sponsors for several investment offerings, as these sponsors try to forge relationships with

strong real estate developers and syndicators.

This financing alternative got a significant kick-start with the 2012 Jumpstart Our Business Startups Act. Within the past two years, numerous crowdfunding firms have started targeting real estate. The major players include Realty Mogul (mentioned previously), RealtyShares, RealCrowd and CrowdStreet. This new sector has raised over \$135 million of debt and equity through June 2014, with horizons set significantly higher.

## COMMERCIAL REAL ESTATE: WHO'S BUYING?

The most active buyer across all four major categories was Blackstone at \$17.50 Billion followed by ARCP at \$12.5 Billion. Here is a list of the major buyers in each category: Multi-Family - Essex Property Trust (\$4.9 Billion), Retail - ARCP, Multi-Family - Blackstone (\$3.34 Billion), Office - Norges Bank Investment Management (\$7.8 Billion).

- American Realty Capital
- Aragon Holdings
- ArciTerra Group, LLC
- Artemis Real Estate Partners
- Barnett Capital
- Blackstone
- Bridge Investment Group
- CA Ventures
- CBL & Associates Properties, Inc.
- Cobalt Capital Partners
- Cole Real Estate Investments
- ColonyRealty Partners
- Crow Holdings
- CW Capital
- DCT Industrial Trust, Inc.
- Developers Diversified Realty
- Duke Realty
- EverWest Real Estate
- GE Capital
- Glimcher Realty Trust
- GoldOller Real Estate
- Great Point Investors
- Grubb & Ellis Healthcare REIT
- Hines Investments
- Independencia Asset Management, LLC
- ING Clarion
- Inland Real Estate Corporation
- Invesco
- JVM Realty Corporation
- KKR
- LaSalle Investment
- Lincoln Property Company
- Monmouth Real Estate Investments
- Multi-Employer Property Trust
- Odyssey Real Estate Capital
- One Liberty Properties
- Orix Real Estate Capital, Inc.
- Passco Real Estate Enterprises, Inc.
- Phillips Edison
- RREEF
- Sentinel Real Estate
- Sun Life Assurance
- SVN Equities, LLC
- Town Management
- Welsh
- Whiterock Acquisition Corporation

New entrants in the Kansas City market in 2014 included EverWest Real Estate/Independencia Asset Management with the acquisition of Plaza Vista in Kansas City, Missouri, and CA Ventures with their purchase of the Renaissance Buildings on College Boulevard. Also, Odyssey Real Estate Capital and Artemis Real Estate Partners teamed up to buy the 23-building industrial and flex portfolio from Hines. Kansas City will continue to be an attractive investment market when product is available as institutions and private equity firms see more stable investment returns and at rates which are 50 to 100 basis points higher than the Gateway cities.

Crowdfunding has been utilized over the last year to raise funds directly from accredited investors and give them instant access to an array of debt and equity offerings.

## COMMERCIAL REAL ESTATE PROPERTY TYPE PERSPECTIVES

Like in years past, multifamily continues to post the highest investment sales volume for two reasons: it is a preferred asset class, and it is the product type that trades with the most frequency. Industrial product is a close second, and is gaining ground on multifamily. Retail and office remain the least favorable categories. At the end of each product type summary, the "Buy/Hold/Sell" recommendations of the *Emerging Trends in Real Estate 2014* survey will be reported. This survey is taken from more than 1,000 real estate professionals in varying roles within the industry.

### Multifamily

Continued job growth has helped support multifamily performance. Currently the U.S. vacancy rate of 4.4% is 20 basis points below last year's average of 4.6%, and net absorption was up 21% over last year. The robust net absorption numbers might help explain the slight decrease on rent growth, from 3.1% in 2013 to 2.6% in 2014. When operators have units to rent, rental increases are sacrificed to fill a unit. The development pipeline remains strong and should continue as younger generations prefer to lease and be mobile rather than lock into a 30-year mortgage.

### Industrial

Several areas continue to have positive impacts on industrial real estate including online shopping, international trade and manufacturing. Rent growth over the last year remains strong coming in at 4.5% versus 1.6% in 2013. Net absorption was over four million square feet stronger in 2014 than in 2013. Continuing to build on 2013's theme, the vast development of e-commerce distribution networks have significantly impacted industrial space requirements in a positive way. Online retailers are building new fulfillment centers in or near major cities all over the country with



*First Washington Realty Trust, in a joint venture with Calpers, purchased the Brookside Shops from a local partnership for \$27.7 million, which equates to a 5.88% cap rate. The asset was sold previously by Highwood's to the current seller in 2004 for \$15.3, a 10.1% cap rate.*

the goal of same-day delivery via trucks, thereby greatly reducing delivery cost and increasing customer satisfaction.

### Retail

Retail has seen great strides over the last year. Vacancies are down, rents are higher, and consumer confidence has led to an increase in spending nationwide. Retailers are further embracing technology like never before to create brand and consumer loyalty. They have moved to a model that still focuses on the physical store location, but blends the physical inventory and online access. The retail real estate sector is experiencing redevelopment of existing stores as compared to new construction. The redevelopment is focused on assets in good locations and converting them to these new hybrid stores, which are set up to blend the shopping experience.

### Office

Employment prospects and improved business sentiments have fueled the recovery in the office sector. Vacancy rates have declined and rent rates have grown at higher clips in 2014 over 2013. Space absorption is 50% higher over the last year than in 2013. The issue facing the office real estate sector is not economically driven, but is due to the changing space needs of tenants. More and more tenants are focused on flexible work spaces and not the traditional corner office scenarios. Not only are more employees working with greater mobility, the spaces that companies are creating in

the office environment are far from the cube farms of the 1990's and 2000's. To attract top young talent, companies are taking great strides to be hip and creative. This will continue and where it takes our traditional office space is yet to be determined.

### OFFICE MARKET SALES ACTIVITY

As reported previously, the major transaction occurred late in the fourth quarter with the sale of the Plaza Vista Office Building on the Country Club Plaza. This is the most recent data point in the Kansas City office market and speaks to where the market has moved over the last three years. The summary of investment sales speaks to and supports the thesis that capital is moving to the secondary and tertiary markets.

Several assets that were reported on the market during the beginning of 2014 did in fact transact; the Renaissance Building at College Boulevard and Metcalf, and the 2020 Building at 2020 W. 89th Street in Leawood, Kansas which sold in the first half of 2014. These were both purchased with price per square foot being a key metric for the buyers. The Renaissance Building attracted new capital to Kansas City from CA Ventures out of Chicago.

An East Coast trade buyer sold an asset in Johnson County and wanted to remain in the office sector in Kansas City. They bought 4400 Corporate Centre, located at 4400 College Boulevard in Overland Park, Kansas, off-market from another BRES controlled investment group. This is

another good data point for a multi-tenant office building in the market. The asset was 79% occupied at the time of the sale and traded for a 6.45% capitalization rate on in-place income, which equates to about a 9% capitalization rate when stabilized; a fair return for the buyer taking the leasing risk.

## INDUSTRIAL SALES ACTIVITY

As mentioned last year, both local and institutional investors continue to actively seek quality assets in Kansas City to purchase. The office and industrial portfolio that Commonwealth REIT sold to Hines traded again in 2014. Hines elected to split the office and industrial assets and flipped the industrial components to a local buyer backed with institutional capital. The strategy paid off. Hines was one of few groups willing to purchase both asset classes late in 2013, thus getting attractive pricing when blending the portfolio. Hines was able to net over a \$10 million profit on the sale of the industrial assets.

Value-add buyers will remain active, trying to push yields for the additional risk.

Three single-tenant sales led the way in Kansas City in 2014: STAG Industrial purchased the Westlake Distribution Center in Lenexa, Kansas, at an 8% cap rate. The cap rate is a touch inflated as Westlake has nine years left on the lease but is trying to sub-lease the building. STAG, an exclusive single-tenant buyer, was able to get comfortable with the credit worthiness of the tenant as they will be on the hook for the duration of the lease. Also, the Bunzel Distribution Center, located north of the river, was sold to another single-tenant buyer, Monmouth Real Estate Investment Company at a 7.3% cap rate. In addition, the new development for Flexsteel Industries, a 500,000 sq. foot distribution center built in Edgerton, Kansas, was sold directly to the tenant upon completion.

## RETAIL PROPERTY SALES ACTIVITY

The market is back with a bang. The Brookside Shops traded at an amazing cap rate to First Washington Realty with Calpers as a joint venture partner. A local partnership bought the asset from Highwoods in 2004 for a 10.0% cap rate and sold it for a 5.88% cap rate. Another monster deal under contract currently is the Prairie Village, Fairway, and Corinth Square shops to First Washington Realty as well. This deal is reported to be north of \$122.5 million and a 5.33% cap rate. The buyer has waived its due diligence and is expected to close mid-January. These assets, even in a primary market, would not trade much lower showing the delta between secondary and primary markets continue to narrow.

## MULTIFAMILY SALES ACTIVITY

When looking at the multifamily investment sales for 2014, it should be noted that The Sovereign at Overland Park is the only true Class A sale of the bunch. The remaining sales were Class B deals and the reason the capitalization rates are above 6.0%. These other deals were value-add purchases that were built in the 1980's (3), 1999 and 2005. The value-add properties take on additional risk and trade higher to compensate for the risk associated.

## WHAT IS AHEAD FOR 2015?

Transactions will continue to strengthen in secondary and tertiary markets and pricing will reflect the increased number of buyers bidding on quality assets. Value-add buyers will remain active, trying to push yields for the additional risk. Development will continue in earnest, and anticipate more speculative construction in the office and industrial sectors.

The commercial real estate industry will be stronger again in 2015. The solid capital flows will continue to come from domestic and international sponsors, including non-traditional sources like crowdfunding and other creative ways to access capital. As mentioned previously, the availability of debt and equity is not the limiting factor to transact, but it is the ability of buyers to find product that meets their return hurdles. This will dictate the investment transaction volume in 2015.

*Contributors include: Grant O. Reves, MBA and Kenneth G. Block, SIOR, CCIM, Managing Principal.*

# INVESTORS CHART AND SALES RECORDS

OFFICE PROPERTIES	SIZE (SF)	SALES PRICE / PER SF	CAP RATE	BUYER/SELLER
<b>Dixon Lumber Company Bldg</b> 6310 & 6330 Lamar Ave, Overland Park, KS	100,000	\$7,000,000 \$70.00	User	Buyer: Waddell & Reed Corporate Seller: Dixon Lumber Company, Inc
<b>Renaissance Buildings</b> 7007 & 7015 College Blvd., Overland Park, KS	303,107	\$25,325,000 \$83.55	7.59%	Buyer: CA Ventures Seller: Copaken Brooks
<b>Plaza Vista</b> 900 W. 48th Place, Kansas City, MO	253,552	\$104,000,000 \$410.17	7.25%	Buyer: EverWest Real Estate/Independencia Asset Management Seller: Van Trust Real Estate
<b>4400 College - KVA</b> 4400 College Blvd, Overland Park, KS	106,768	\$11,000,000 \$103.03	6.45%	Buyer: Dixon Lumber Company, Inc Seller: Block Sponsored Partnership
<b>20/20 Building</b> 2020 W. 89th St., Leawood, KS	87,080	\$5,800,000 \$66.61	9.71%	Buyer: Local Partnership Seller: Piedmont Office Realty Trust
<b>Chapel Ridge Medical Office</b> 3600 Ralph Powel Road, Lees Summit, MO	18,756	\$2,713,000 \$144.65	8.44%	Buyer: Private Buyer Group Seller: Local Partnership
INDUSTRIAL PROPERTIES	SIZE (SF)	SALES PRICE / PER SF	CAP RATE	BUYER/SELLER
<b>Lenexa Portfolio - 23 Industrial/Flex Buildings</b> Pflumm Road & I-35, Lenexa, KS	721,883	\$32,480,000 \$44.99	7.50%	Buyer: Odyssey Real Estate Capital/Artemis Real Estate Partners Seller: Hines Interests
<b>Flexsteel Industries, Inc</b> 31940 W 191st St, Edgerton, KS	500,000	\$24,100,000 \$48.20	N/A	Buyer: Flexsteel Industries, Inc Seller: NorthPoint Development
<b>Westlake Ace Hardware</b> 14000 Marshall Dr., Lenexa, KS	276,219	\$13,000,000 \$47.06	8.00%	Buyer: STAG Industrial Management Seller: Realty Income Corp.
<b>Bunzl Distribution</b> 7503 NW 106th Terrace, Kansas City, MO	157,000	\$9,635,770 \$61.37	7.30%	Buyer: Monmouth Real Estate Investment Corp. Seller: Carr Baier Crandall Real Estate Group
<b>Pine Ridge Business Park - Building 22</b> 7943 Bond St., Lenexa, KS	31,776	\$3,100,000 \$97.56	7.68%	Buyer: 1031 Trade Buyer (West Coast) Seller: PERG Buildings
<b>Building 21 Pine Ridge Business Park</b> 11505-11529 W 79th St., Lenexa, KS	26,902	\$2,130,000 \$79.18	8.17%	Buyer: 1031 Trade Buyer (West Coast) Seller: Block Funds
RETAIL PROPERTIES	SIZE (SF)	SALES PRICE / PER SF	CAP RATE	BUYER/SELLER
<b>Creekwood Commons Shopping Center</b> 203-303 NE Englewood Rd., Kansas City, MO	205,655	\$24,600,000 \$119.62	7.31%	Buyer: Big Shopping Centers USA Seller: Copaken Brooks
<b>Ten Quivira Plaza</b> Shawnee Mission Pkwy & Quivira Rd., Shawnee, KS	181,161	\$24,480,000 \$135.13	7.22%	Buyer: ACF Property Management Seller: Tri-Land Properties, Inc.
<b>Nall Hills Shopping Center</b> 9502-9628 Nall Ave., Overland Park, KS	144,101	\$12,340,000 \$85.63	7.95%	Buyer: Price Brothers Management Company Seller: Walter Morris Companies
<b>Brookside Shops</b> 63rd St. and Brookside Blvd, Kansas City, MO	123,043	\$27,650,000 \$224.72	5.88%	Buyer: First Washington Realty/Calpers Seller: BKS Real Estate, LLC
<b>Prescott Plaza</b> 151 S. 18th Street, Kansas City, KS	74,186	\$8,106,250 \$109.27	8.68%	Buyer: Furst Commercial Real Estate, Inc. Seller: Coldwell Banker Investment Group
<b>Academy Sports and Outdoors</b> 14405 W 135th St., Olathe, KS	71,927	\$11,024,000 \$153.27	6.75%	Buyer: KC MSA Retail Venture DST Seller: StreetLevel Investmens
<b>Monticello Village</b> 22330-22370 W. 66th St., Shawnee, KS	51,889	\$8,000,000 \$154.18	8.72%	Buyer: Enterprises Monticello Seller: Varnum, Armstrong, Deeter
MULTIFAMILY PROPERTIES	UNITS	SALE PRICE/PER UNIT	CAP RATE	BUYER/SELLER
<b>The Briarcliff Apartments</b> 3880 North Mulberry Drive, Kansas City, MO	263	\$55,000,000 \$209,125	5.5%	Buyer: Town Management Seller: Crown Holdings
<b>The Reserve at Barry</b> 8504 North Cosby Avenue, Kansas City, MO	690	\$48,650,000 \$70,507	6.25%	Buyer: Somerset Partners Seller: Levin Realty Advisors
<b>Woods of Walnut Creek</b> 1300 NE Parvin Rd, Kansas City, MO	350	\$21,000,000 \$60,000	6.18%	Buyer: Monarch Investment and Management Group Seller: Equus Capital Partners
<b>Madison at Wood View</b> 3124 Wood View Ridge, Kansas City, KS	320	\$22,000,000 \$68,750	6.57%	Buyer: PRG Real Estate Management, Inc Seller: Equus Capital Partners
<b>Estancia at City Center</b> 9001 Renner Blvd, Lenexa, KS	304	\$30,300,000 \$99,671	6.61%	Buyer: NewStreet Seller: Abacus Capital Group
<b>Sovereign at Overland Park</b> 13310 Melrose Ln., Overland Park, KS	250	\$40,700,000 \$162,800	5.91%	Buyer: JVM Realty Corporation Seller: Davis Development

# KANSAS CITY

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# MULTIFAMILY MARKET



*The most significant multifamily transaction in 2014 was the sale of Briarcliff City Apartments, a 263-unit Class A apartment complex in Kansas City, Missouri, which sold for \$209,125 per unit, at a cap rate of 5.5%.*

***The multifamily market maintained the top spot in asset classes for commercial real estate investors in 2014. Investors continue to be attracted to the strong fundamentals that make this asset class stand out in comparison to the others.***

High resident demand, record low vacancies, continuously rising rental rates, minimal concessions and low interest rates have attracted capital from Wall Street to Main Street, with major institutions and local operators aggressively pursuing property acquisitions and development. This has driven up pricing across property classes and markets nationwide, a distinct differentiation from other commercial property types.

The Kansas City apartment market, consisting of 128,152 units, benefited from the same fundamental tailwinds, with vacancy rates improving to 4.9% compared to 6.1% in 2013. At 4.7%, Class B/C vacancy was better than the Class A vacancy rate of 5.1% for the first time in several years. Class A average asking rent was \$869 per month, up 3.9% from the previous year. Class B/C average asking rents improved 5.3% to \$637 per month. Overall, asking rents increased by 4.6% in 2014, slightly outpacing the 4.3% rent growth experienced in 2013.

Effective revenue growth further outpaced asking rent growth due to fewer concessions offered and the growth of additional charges such as parking fees, administrative fees, pet rent and other sources of income. Concessions peaked in 2009 when 80% of properties were offering move-in

incentives. That number improved to 40% in 2013 and 32% in 2014, greatly improving the bottom line for landlords.

## **WHO'S MAKING THIS POSSIBLE?**

There are two groups contributing heavily to the success of the multifamily market. The first is the Renter by Choice and the second is the Millennial's. While the two groups are dissimilar in demographic profile, both are playing important roles in the record setting multifamily fundamentals and shaping the location, size, look, feel and amenities offered by development projects in the pipeline.

The Renter by Choice consists of those individuals or couples who are choosing to rent an apartment as opposed to owning a traditional single family home. The Renter by Choice is seeking more freedom, higher amenities, first-class finishes and less maintenance headaches. Since many in this group have owned a home at one time or another, they tend to seek out apartment complexes that offer an abundance of amenities such as top-end fitness facilities, salt water infinity pools, movie theaters, concierge service, community Wi-Fi and other services that preserve the lifestyle afforded by the single family home, but in a shared environment. They are seeking a resort-style community that allows them the comforts they have grown accustomed to, but without the hassle of maintaining a larger home. Builders have recognized this trend and are currently developing apartments that offer more amenities than ever before.

The millennial generation consists of those born between the early 1980's and early 2000's. Despite the difference

in age and experience, Millennial's are largely seeking many of the same amenities as the Renter by Choice. However, their reasons for seeking these communities are less tied to their experience owning a single family home and more highly correlated to the desire for freedom and mobility. The ability to live in several different neighborhoods within one metropolitan area as well as the capacity to move to an entirely different city for jobs or relationships is attractive to Millennial's. Millennial's are also postponing marriage, paying off student debt, and traveling more, which makes apartment living ideal. Some of the top preferences for millennial residents include a location in an urban setting that creates some connectivity between companies, retailers, restaurants and entertainment options. Apartment developers who build near or create this type of environment are able to achieve rental rate premiums. The Millennia's also want to take advantage of technology in their multifamily communities in a way that apartment owners are only beginning to adapt, including not only online or ACH rental payments, but community Wi-Fi, the ability to submit maintenance requests by text message, environmental controls (lighting, heating, cooling, alarm) by smart phone and many other applications of mobile technology that are just starting to be recognized by managers and operators. In the future, these will be great tools to harness resident feedback and demographic information that will aid in leasing efforts and strengthen resident retention.

## JOHNSON COUNTY

Johnson County continues to maintain its spot as the most desirable apartment location in the Kansas City market

in terms of total units and rental rates. With an occupancy rate of 96.2% on more than 55,000 total units, it's easy to see why owners and developers perceive this as the top metro submarket. Class A units are 97% occupied with an average rent per square foot of \$1.01. Although other counties have similar Class A rents, Johnson County stands alone with rents of \$0.93 per square foot on Class B properties. Rental rates for newly constructed multifamily properties in Johnson County continue to push the envelope on rents with developers regularly achieving more than \$1.20 per square foot for new suburban style communities and more than \$1.60 per square foot for infill or mixed use communities. This has attracted a significant amount of attention to the area from local and national developers.

Notable developments that have been recently completed in Johnson County include Highlands Lodge (230 units), Residences at Prairiefire (300 units), Corbin Greens (228 units), Holly Ridge Townhomes (154 units), Mansions at Canyon Creek (150 units) and Prairie Creek Apartments (308).

Notable developments that are currently under construction in Johnson County include WaterCrest at City Center Phase I (306 units), a BRES development, Manor Homes at Prairie Trace (280 units), Mission Gateway (305 units), Residences at Prairiefire Phase 2 (135 units), Residences at Park Place (177 units), Villa Milano (282 units), Kelly Reserve Apartments (259 units), Mission 106 (139 units) and Harrington Park (260 units).

## JACKSON COUNTY

Key submarkets in Jackson County have outperformed the Kansas City metro area. This includes the Country Club



*The Dunes at Falcon Valley, a 208-unit Class A apartment complex in Lenexa, Kansas, sold to Tower Properties for \$23.4 million, at a cap rate of 5.5%.*

Plaza, with an average asking rate of \$1.38 per square foot across all unit classes, the highest average for any submarket in the Kansas City metro. Downtown has also been an excellent submarket for landlords with Class A rents averaging \$1.36 per square foot. Suburban Jackson County submarkets such as Lee's Summit and Blue Springs continue to attract residents as well, while South Kansas City and the Northland submarket have trailed the market, but are still seeing improvements in occupancy and rental rates.

The Jackson County apartment market has more than 45,000 units with a blended occupancy rate of 95.1%. The average rental rate per square foot is \$0.83, which is lower than Johnson County due, in part, to an older housing stock with fewer than 25% of inventory being Class A properties. Rental rates for Class A properties in Jackson County average \$1.10 per square foot, which is 8.9% higher than Class A units in Johnson County. With 17.0% of the Jackson County inventory, the new inventory being added to the Country Club Plaza and Downtown submarkets is expected to have a positive effect on overall leasing rates for the county. Many of these projects are forecasting rents between \$1.80 and \$2.00 per square foot, historically high watermarks for the Kansas City metro.

Notable developments currently under construction in Jackson County include Commerce Tower (265 units), River Market West (137 units), The Founders at Union Hill Phase III (181 units), The Residences at New Longview (309 units), One Light Luxury Apartments (315 units), Historic Power & Light Building (293 units), 46 Penn (169 units) and 51 Oak (150 units). Notable developments that were completed this year in Jackson County include the 51st and Main Luxury Apartments (176 units), Hospital Hill Student Housing (105 units), and Lucas Place Lofts (130 units). This is more development activity than Jackson County has experienced in nearly 15 years.

## RED HOT DOWNTOWN

Downtown occupancy rates lead the market at 97.7% in 2014, an increase from 94.5% in 2013. Residents enjoy the buzz of the central business district, which includes employment opportunities, trendy restaurants, and chic boutiques, the Sprint Center, the Power & Light Entertainment District and the Kauffman Center for the Performing Arts.

A handful of development groups are seeking to capture the momentum and have broken ground on projects expected to add more than 2,300 new units in the Downtown submarket, an increase of more than 45% to the current rental supply in the area.

The historic Power & Light Building, located at 106 W. 14th Street in the downtown area, was recently purchased by NorthPoint Development, which has begun work on its \$63 million plan to convert the 30-story, historic structure into 293 luxury apartments. One Light Luxury Apartments, a new 315-unit development currently under construction at 50 E. 13th Street, is the first high rise residential property to be constructed in downtown in nearly 30 years.

Those two projects, along with many others such as

the Commerce Tower (265 units), Roasters Block (151 units), Lucas Place (130 units in lease-up), Pershing Building (55 units) and the Ridenour Baker-Grocery buildings (251 units) will provide residents with more options in this supply constrained area. We anticipate that these units will be absorbed quickly, and that rental rates for the most luxurious units will achieve \$2.00 per square foot.

## THE NORTHLAND

With more than 17,000 units in Clay and Platte Counties, the Northland plays a major role in the Kansas City multifamily market. At 95.1% occupied, the Northland experienced rising rental rates and occupancy in 2014 consistent with the overall market. Class A properties are receiving an average of \$1.04 per square foot, Class B rents are \$0.84 per square foot and Class C rents are \$0.70 per square foot.

Notable developments that are under construction currently include Brighton Creek Commons (288 units), The Heights at Linden Square (222 units), Landing at Briarcliff Apartments (340 units) and Arbor Mist Phase II (168 units).

## WYANDOTTE COUNTY

With just over 9,000 units of inventory and thousands of undeveloped acres, Wyandotte County has capacity for multifamily growth. In the past, some developers have shied away from Wyandotte due to lack of other Class A comparables. However, the Legends trade area has become a retail and entertainment destination for Kansas City and surrounding communities. This has spurred several new developments, including Village West Apartments Phase I (306 units) and The Heights of Delaware Ridge (228 units), which are projecting average rents of \$1.15 and \$1.01 per square foot, respectively. Village West Apartments Phase II, which will add an additional 312 Class A units, is also currently under construction. The success of these developments may compel others to consider new development in the area.

## MULTIFAMILY SALES 2014

In 2014, Kansas City's investment sales of multifamily assets boasted a volume of more than \$600 million dollars, up from \$550 million in 2014. A healthy mix of class A, B and C properties sold to local, regional and national investors.

With nearly \$335 million in sales, Class A apartments accounted for 56% of the sales volume this year. Class A transactions featured an average capitalization rate of 5.95%, down from 6.00% in 2013. The average sale price of \$135,429 per unit represented an increase of 14.5%. However, many of these transactions included assumed financing, which impacted cap rates and restricted pricing. Class A transactions that allowed for new financing brought an average capitalization rate of 5.60% and an average unit price of \$159,998 per unit.

Of the Class A transactions, two occurred in Lenexa, Kansas. Estancia at City Center, formerly The Trails, sold for \$30.3 million or \$99,671 per unit. The Dunes at Falcon Valley, located off the Woodland Road exit on K-10, sold for \$23.4 million or \$112,500 per unit. Other notable Class A transactions that took place include the following:

The Sovereign at Overland Park sold for \$40.7 million or \$162,800 per unit; Quality Hill sold for \$44.2 million or \$133,535 per unit; Heights at Delaware Ridge sold for \$31.7 million or \$139,000 per unit; Sandstone Creek sold for \$49 million or \$135,000 per unit; Briarcliff Apartments sold for \$55 million or \$209,000 per unit. The Briarcliff Apartment sale, located in the Northland submarket but just across the Missouri River from Downtown, represented a new high for price per unit in the Kansas City metro area.

Similar to 2013, Class B sales accounted for 28% of the total sales volume for 2014. There were fifteen Class B sales with an average cap rate of 6.8% and an average sale price of \$62,906 per unit. The most notable Class B sales in 2014 include Retreat at Walnut Creek (\$21.0 million), Woodview (\$22.0 million), Roanoke West (\$17.8 million) and Moonlight Apartments (\$19.1 million).

Stabilized Class C multifamily sales represented 16% of the total sales volume. There were 23 Class C transactions with an average cap rate of 8.13% and an average sale price of \$34,685 per unit. The most notable stabilized Class C sales include Links of Parkville (\$10.7 million), Summerset Apartments (\$9.0 million), Kings Court (\$7.8 million), Kings Manor (\$7.2 million) and Malls Olde English Village (\$6.0 million).

Financing remains readily available for multifamily investments from banks, life insurance companies, CMBS lenders, and GSE entities Fannie Mae and Freddie Mac. Competitive rates and terms will continue to have a positive impact on multifamily investment transactions throughout 2015. Sales at the national level and in Kansas City are expected to remain strong, driven by institutional and private equity demand for multifamily assets as a source of current yield and a hedge to inflation risk.

## LOOKING FORWARD

Multifamily assets are likely to remain at the top of commercial real estate investor wish lists in 2015. However, a high level of success among industrial assets may attract some investors seeking less management intensive assets with similarly strong fundamentals.

In contrast, we expect to see some leveling off of multifamily fundamentals in 2015. This is partly due to the fact that, at 95.1% occupancy, the market has already reached a cyclical high. The other consideration for apartment investors is the new inventory that is being added to supply. Developers added nearly 1,700 units in 2013, and an additional 2,670 units in 2014. An additional 4,032 units are under construction or planned for 2015 delivery. These figures exceed Kansas City's historical average of about 2,500 new units per year. Even with strong absorption and the growth of the Renter by Choice/Millennial resident pool, it may be difficult for the market to continue its strong performance in the face of so much additional supply.

As the market continues to evolve, the real question will be identifying winners and losers. Will residents continue to pay a premium for mixed-use environments and ultra-high amenity packages? Or will economics play a role in residents migrating towards the more affordable, B Class properties. Modest job growth, improving consumer confidence, and the preferences of the Renters by Choice/Millennial residents have supported a higher-end play in the near term, but how deep is the market and at what point does stagnant wage growth play a role in the economies of rental housing, particularly for younger residents? While we may not have the answers today, we do know that residents in Kansas City have never had more of a variety of new, hip, exciting places to call home.

*Contributors include: Aaron M. Mesmer, Investment Sales & Acquisitions and Matt Ledom, Sales Associate.*



*The Heights at Delaware Ridge, a 228-unit Class A apartment complex located 2.5 miles west of the Kansas Speedway in Kansas City, Kansas, was completed in 2014, and sold for \$31.7 million at a 6% cap rate.*



*In 2014, Block Funds acquired the 100% occupied, 76,000 sq. foot Park 370 Business Center in St. Louis, Missouri, for \$5.6 million. Block Funds plans to add value to this investment by expanding parking and loading areas to meet the needs of current and future tenants.*

*2014 was a busy year across the Block Income Fund portfolio. With the economy continuing to improve and increasing job growth, we saw our overall occupancy increase in each one of the Block Funds. Major highlights for each specific Fund can be found below.*

## **BLOCK FUND I**

- 2014 was the 10th anniversary of Block Fund I and as such, a few of the Fund's holdings were sold with plans to have the entire portfolio sold over the next 18 to 24 months
- Millennium Business Center was sold
- 4400 Corporate Centre was sold
- Both 350 Technology Parkway in Atlanta and 9200 Ward Parkway in Kansas City were refinanced and are planned to be sold during 2015

## **BLOCK FUND II**

- Rubicon at Highlands in Atlanta is now 100% occupied, a significant improvement from 2013
- Lakeside at Spalding Triangle was sold
- 2 Sun Court in Atlanta is 100% occupied
- Pine Ridge Business Park building 21 was sold

- Valle Vista was refinanced with plans for sale during 2015

## **BLOCK FUND III**

- The majority of the Fund's portfolio is 100% occupied with cash flow increasing during 2014
- Rivergate Business Center, The Movius Building and The Staples Building were all refinanced. These refinances improved the Fund's cash flow by substantially lowering the debt service on the overall portfolio
- ADS signed a new 10-year lease and expanded by 31,467 square feet

## **BLOCK FUND IV**

- Fund IV acquired a 20% ownership interest in The Christ Hospital Building in Mason, Ohio. This is a new 10-year absolute lease that will provide the Fund with a secure cash flow for the next 10 years
- The Evermark Building Products building in Atlanta, Georgia is currently under contract to be sold

If you have any questions about any of the Block Income Funds, please don't hesitate to call Brian Beggs at 816-932-5568 or email him at [bbeggs@blockllc.com](mailto:bbeggs@blockllc.com).

*Contributor: Brian R. Beggs, CFA, Director of Acquisitions.*

# BLOCK CONSTRUCTION SERVICES

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# PROJECTS

*As 2014 comes to a close, Block Construction Services (BCS) is celebrating its twelfth anniversary. We have continued to experience extensive growth as an organization.*

Our success is a direct result of the people within the organization and the staff we continue to add to help bolster our management capabilities. We have seen another year of record revenues and look forward to continuing to build a strong construction management and owners' representation firm. Our expertise continues to expand and currently BCS is managing projects in all sectors of real estate in the Kansas City market.

We've seen construction pricing maintain a steady increase in 2014, however, prices have not increased to the point of impacting the ability to develop new projects. There is continued activity in all aspects of construction including office, medical, industrial, distribution, retail, and multifamily. The financing markets remain strong and lenders are readily available to provide very aggressive construction financing.

## OFFICE/MEDICAL

The office market in Kansas City has been stagnant in recent years when it comes to building speculative product, but we've seen changes occur in 2014. BCS is currently leading the construction of Pinnacle Corporate Centre V which is a new speculative, three-story, 67,924 sq. foot, Class A, office building in Leawood, Kansas. Construction commenced in the fall of 2014 and the building is scheduled to open in September of 2015.

BCS started the final development plan approval process for Nall Corporate Centre II, which is a five-story, 150,000 sq. foot, Class A, office building located at College Boulevard and Nall Avenue, adjacent to the Teva Pharmaceuticals building in Overland Park, Kansas (which BCS completed in 2013). We have also started the final planning process for two Class A medical office buildings (Corporate Medical Plaza IV and V) located at 110th Street and Roe, adjacent to the existing YRC Worldwide headquarters building. Both of these buildings will be approximately 75,000 square feet respectively. We anticipate construction commencing for Nall Corporate Centre II and Corporate Medical Plaza IV in the spring of 2015.

BCS is very excited to finally receive final approval for incentives from the city for our 46 Penn Centre located at 47th Street and Pennsylvania Avenue in Kansas City, Missouri. Planning is underway for this project with a goal of starting construction in 2015. This will be an eight-story, 200,465 sq. foot, Class A, office tower on the Country

Club Plaza with a 246,666 sq. foot parking structure and 6,728 sq. foot restaurant.

This past spring BCS also completed a 31,467 sq. foot expansion of an existing office/call center for Alliance Data Systems in Lenexa, Kansas.

## INDUSTRIAL/WAREHOUSE/DISTRIBUTION

The warehouse and distribution market in Kansas City has continued to see substantial growth in the development of new product. BCS has been involved in many new development projects in this sector. We completed the construction of College Crossing building K, which is a 66,916 sq. foot, Class A, light industrial building located at College Boulevard and Strang Line Road in Lenexa, Kansas. BCS started construction on two new buildings in the College Crossing Business Park in the fourth quarter of 2014. Building I is 77,038 square feet and building J is 147,246 square feet. Both are Class A, light industrial buildings and will be completed in the summer of 2015.

BCS completed its first building at Lenexa Logistics Centre South (LLC South), which now is fully occupied by Amazon. LLC South building 4 was a 260,707 sq. foot, cross-dock, Class A, distribution facility and was delivered late summer of 2014. The Amazon tenant improvements were completed in October of 2014. BCS started construction on LLC South building 5 in August, which is a 354,055 sq. foot, cross-dock, Class A, distribution facility with an anticipated delivery date of spring of 2015. We completed all of the Special Benefit District work in 2014 that included roadways, utilities, detention and improvements for a conservation easement.

BCS was involved in the acquisition of an additional 82.59 acres of ground located on the north side of College Boulevard just west of Renner Boulevard which will be called Lenexa Logistics Centre North (LLC North). BCS has four new buildings planned at this location and negotiated the approval of two Special Benefit District projects with the city of Lenexa. Work is scheduled to commence at this location in 2015.

BCS obtained approval from the city of Riverside to begin construction on a new speculative, 245,243 sq. foot, cross-dock, Class A, distribution facility located at 41st and Mattox Street. We are finalizing the financial aspects of the project and anticipate starting construction in early 2015.

We have been involved in assisting the Tintera Group on the construction of a 253,224 sq. foot manufacturing facility for Martinrea located at 41st and Horizon's Parkway in Riverside, Missouri. The project delivers at the end of 2014 with full occupancy by March of 2015. A Block Real Estate Services investment group will buy one completed

project from Tintera.

We received our final development plan approval for our first building at 175th Street Commerce Centre located at 175th Street and Hedge Lane in Olathe, Kansas. Our first building will be a 499,735 sq. foot, cross-dock, Class A, distribution facility and work is scheduled to commence in 2015. We will also be coordinating all infrastructure work, which includes a Special Benefit District project, utility extensions, internal street system, detention, and improvements for a conservation easement.

### MULTIFAMILY/MIXED-USE

BCS is very excited about its first multifamily development project, a 306-unit project named WaterCrest at City Center, located at 84th Street and Renner Boulevard in Lenexa, Kansas. Our 7,500 sq. foot club house was delivered in August and the first three buildings have delivered throughout the third and fourth quarters of 2014. We have a total of 93 units currently available as of December 2014 and leasing activity has been very strong. This highly dense, Class A, project is a first in the area to use a “Center Green” concept which focuses on an atmosphere of luxury, pampering, and a resort-type feel that is pet friendly. Our amenities include a pool, spa, fitness center, yoga studio, tanning, massage, campus-wide wifi, dog park and concierge service. just to name a few. The final three buildings will deliver in early 2015.

BCS has broken ground on its CityPlace project located at College Boulevard and 69 Highway and has started all infrastructure work, which includes the construction of Switzer Boulevard, Indian Creek Parkway, and I 13th Street.

It also includes the extension/relocation of all utilities, construction of a streamway corridor, and improvements for a conservation easement. We anticipate construction of a multifamily project, senior housing project, an office building, and some retail components all starting in 2015.

### TENANT IMPROVEMENTS

Our tenant improvement division has remained extremely busy as well and has coordinated many projects in 2014. We handled all aspects of the tenant finish and build-out of the Amazon facility at LLC South building 4 this past year. Amazon occupies 260,707 square feet and includes a fully air conditioned warehouse with building automation, insulated exterior walls, approximately 12,000 square feet of office, two backup generators, security fencing, and guard shacks. Other tenant improvement projects in 2014 included Arrowhead Insurance, Wesco, Uhlig, Caravan Ingredients, Accenture, HD Supply, Infuse Systems, IQI, Tall Grass Energy, BHC Rhodes, Experitec, and University of Kansas just to name a few.

### SUMMARY

In 2014 our development team and tenant finish divisions managed over \$174 million in total projects and \$65 million of construction contracts respectively. BCS continues to see significant growth in all market sectors and is very excited about our expected backlog in 2015 and beyond. We will continue to strategically add staff and will be looking for new development opportunities in Kansas City as well as other markets around the Midwest.

*Contributor: Brad S. Simma, CCIM, Vice President.*



*Lenexa Logistics Centre 5, located at College Boulevard and Renner Road in Lenexa, Kansas, was under construction at year end 2014. This 345,055 sq. foot development is scheduled for completion in August, 2015 and is being developed speculatively by a BRES-sponsored investment group.*

# BLOCK HEALTHCARE DEVELOPMENT



*Block Healthcare Development led the acquisition of Christ Hospital's Mason, Ohio MOB. The 23,000 sq. foot building, purchased in December 2014, was acquired under a 10-year sale-leaseback transaction with Cincinnati-based Christ Hospital for \$3,550,000.*

*The healthcare real estate market, much like it was in last year's edition, continues to establish itself as one of the most active sectors in commercial real estate.*

Often described as a “recession resistant” sector in the real estate industry, the medical asset class continues to provide stable returns to the real estate investor. Many factors contribute to this being such a strong asset class, but two, simple, key characteristics that drive this stability are that regardless of economic conditions, individuals get sick, and the baby-boom generation is ever increasing the aging population. In fact, it is estimated that by the early 2020's, the 65-year-old age class will expand by over 35%. Couple that fact with a more concentrated approach via the Affordable Care Act of limiting readmissions and return visits to the hospital, which is the most expensive and least patient-friendly location to receive treatment in terms of access, and you have a recipe for a strong, stable healthcare focused real estate class as medical providing tenants look to drop anchor in community-centered medical office buildings (MOBs).

Further, we are seeing more of the 10,000-20,000 sq. foot medical office buildings that hold one to four tenants versus a growth in large, multi-tenanted, on-campus medical

office buildings. While there are multiple reasons for this, one of the drivers of this trend is caregivers looking to provide their services in a more patient-friendly setting. With providers seeing reimbursements cut via the ACA, and patients becoming more and more involved in managing their higher-deductible insurance plans, physicians are having to find competitive ways to win their patients' “business.” Patients are demanding easily accessed, centrally located providers. The response from the providers are an increase in urgent care centers, free-standing emergency rooms and imaging centers mixed with national retail merchants. These facilities, in addition to being convenient to the patient, serve as a marketing tool and an opportunity to establish a foothold in a given area.

Another continued trend is that healthcare providers are still looking more to third-party balance sheets to assist them in their strategic growth. Whether it is divesting of current system-owned MOBs, creating “trusted partner” developers for build-to-suits, or leasing existing office space, healthcare providers appear more and more to be exiting the landlord business in an effort to free up their balance sheets and shift their capital commitments to tools that will drive their reimbursements. A large healthcare sector following the “trusted partner” approach that continued to grow in 2014 and will even more in 2015 is the dialysis service line.

While the ACA continues to be a political hot-button in Washington, the healthcare CRE investor should continue to view these changes as a great opportunity. Block Healthcare Development (BHD) was established in 2011 with the foresight that healthcare changes would create a great opportunity for investors. Since 2011, BHD has established itself both locally and nationally in the healthcare sector and we continue to see healthcare CRE as a great opportunity for the foreseeable future.

## BLOCK HEALTHCARE DEVELOPMENT'S 2014 HIGHLIGHTS

Overall, BHD's completed transactions, acquisitions, developments or dispositions, totaled approximately \$27 million. In each transaction in 2014, we focused on opportunities that yielded steady cash flows with annual increases, increased our equity position through accelerated amortizations, or took advantage of favorable disposition opportunities to exchange current, steady cash flows into better-yielding, cash-flow acquisitions. Three transactions that show how BHD followed the healthcare trends outlined above are the following:

### The Jackson-Dayton-Aurora Acquisition (JDA)

The JDA acquisition consisted of seven medical office buildings crossing three separate real estate markets: Jackson, Tennessee, Dayton, Ohio, and North Aurora, Illinois. The two medical office buildings in Jackson and the one building in North Aurora were brought to BHD off-market. At the same time, the four-building portfolio of dialysis centers in Dayton were on the market, which BHD successfully purchased. The acquisition for all seven facilities was structured under one source of debt and totaled \$12.3 million. The driver in acquiring seven buildings at once and syndicating this package to our investors as one portfolio was to spread out the risks of purchasing smaller sized buildings in smaller communities. The five-year annual average cash-on-cash return for this portfolio to our investor is 8.5%.

Another continued trend is that healthcare providers are still looking more to third-party balance sheets to assist them in their strategic growth.

### Development of AD Medical

Located on the frontage of Adams Dairy Parkway in Blue Springs, Missouri, the AD Medical development is a direct result of a strategic partnership with O'Reilly Development Company (ORD). BHD served as ORD's equity-raise partner for their Parkway Senior Living development in Blue Springs. With excess land adjacent to the 150-unit senior project, BHD purchased one of the lots and launched a multi-phased



*The Dayton Dialysis Centers acquired by BHD Development in July of 2014 consisted of 46,000 square feet spread across four DaVita Dialysis-anchored clinics. The Dayton buildings were acquired for a total of \$5,500,000.*

medical office development. The first phase, a 10,000 sq. foot facility, will be anchored by Fresenius Medical Group, the world's largest dialysis provider. The \$3.8 million medical office building will be completed by third quarter 2015.

### Dispositions of Wyco Medical and Cumberland

Wyco Medical and Cumberland were two properties that possessed excellent, long-term, credit-rated tenants. Both medical offices were developed by BHD with the plan being a long-term hold. However, as we are seeing more and more in the marketplace, exchange investors, especially those selling off land, are feverishly searching for cash-flow properties to purchase. Buildings such as Wyco Medical and Cumberland became prime off-market targets for such an exchange investor. After carefully considering a strong offer on the properties, both ownership groups opted to dispose of the properties, with the aggregate sale being in excess of \$5.0 million. Wyco Medical has already exchanged into another long-term medical office building that enhanced their cash flows, while Cumberland is scheduled to do the same in first quarter of 2015.

## BLOCK HEALTHCARE DEVELOPMENT'S OUTLOOK FOR 2015

In 2015, BHD will continue to focus on development opportunities within the local community and throughout the Midwest, and we will continue to identify properties across the country that bring long-term, stable cash flows to our investors. BHD will also look to continue to grow our relationships and partner with other entities in the healthcare CRE sector, as we continue to grow our property portfolio.

*Contributor: Stephen Bessenbacher, Vice President.*



*WaterCrest at City Center is BRES' newest multifamily development in the Lenexa City Center. Phase I of this project consisting of 306 luxury units, opened in September 2014. Phase II will be underway in late 2015 as lease-up in Phase I is completed.*

**Block Multifamily Group (BMG) saw growth in several metropolitan areas during the year, each with a specialized strategic action plan.**

All eyes in Lenexa, Kansas focused on Block Real Estate Services, LLC (BRES) Class A property, WaterCrest at City Center. BMG was charged with developing the leasing and marketing plan for this 306-unit property and hired an experienced leasing and management team for WaterCrest. The team has demonstrated a successful blending of leasing, management and community involvement at the property level. While significant pre-leasing took place in the second quarter, occupancy began in earnest during September. With a state-of-the-art fitness center, a resort-style pool and luxurious clubhouse amenities, WaterCrest sets the bar for Class A multifamily.

Implementation and supervision of multifamily rehabilitation projects is an area that BMG has focused on. At the present time, BMG has \$2.1 million dollars of rehabilitation projects under supervision in three different locations. BMG has developed the operational plans, which enable ownership to achieve their tactical, as well as, strategic objectives. Blending this specialized area, along with the marketing and management side, enables BMG to offer a complete package of services to ownership.

The above mentioned program came to fruition in a recently completed project. BMG was tasked with implementing an interior unit upgrade program, changing

the rental structure of the property, reducing the rental losses and increasing the revenue. The property was rebranded as "The Woods at Johnson Mill." This was successfully completed with a 40% increase in gross revenues within a twelve month period of time. The success of BMG's work is that the property has been nominated for Property of the Year by the Northwest Arkansas Apartment Association.

During 2014, BMG continued to consult with O'Reilly Development on the historic rehabilitation of the Folgers buildings, which is now called the "Roasters Block" in downtown Kansas City, Missouri. All salvage operations are complete, and the demolition of the coffee bean silo was completed in the fall of 2014. The anticipated first multifamily building delivery date is July of 2015.

BMG continues to expand its strategic alliance with Balfour Beatty Communities (BBC). Completing a teaming agreement with BBC in the past 12 months, giving both groups the necessary operational strengths in the LIHTC and HUD Property Management field, BMG and BBC are entering a new operational relationship. Utilizing the operational strength of the BBC 40,000 unit portfolio, together with BMG's lead principals' long involvement in the multifamily industry, a combined asset and property Management Teaming Agreement has been entered into. Both Asset Management and Property Management will work in unison, focused on maximizing the investor's return.

*Contributors include: Bill Larson, President of BMG and Justin Larson, Vice President of Operations.*

# KANSAS CITY

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# ECONOMIC INDICATORS

*The U.S. and Kansas City economies continue to gain traction. With growth in economic output near 3%, the region's job growth is expected to accelerate.*

Coupled with reductions in labor market underutilization, worker incomes may begin to see more significant increases during the next year or two. This is paramount because positive trajectory in average household income has been the missing link in solidifying the current economic recovery. As incomes improve resulting in increased consumer spending, it is expected the Federal Open Market Committee (FOMC) will begin normalizing interest rates. Currently, the market believes such a move by the FOMC is most likely to occur during third quarter 2015.

## NATIONAL TRENDS

As the U.S. economic recovery continues, many markets have surpassed their pre-recession peaks. As of mid-year 2014, Gross Domestic Product (GDP) was 7% higher than before the Great Recession began. The Dow Jones Industrial Average is 22% higher than its prior peak. Additionally, non-farm payroll employment was 750,000 higher in August 2014 than its prior peak in December 2007. Year-to-date, the average monthly increase in jobs has been 215,000, up from 197,000 in 2013, and 179,000 in 2012.

As a result of the improvement in the job market, the labor market has achieved similar results. The December 2014 unemployment rate of 5.8% marks a 10% improvement from the peak of the Great Recession. However, this metric remains 1.3% higher than a year prior to the beginning of the recession which translates to 2.4 million additional jobs needed in order to reach pre-recession employment levels.

Growth in real wages and income has lagged due to the pace of the labor market recovery. According to the U.S. Census Bureau, annual real household income for median households has not appreciably improved from the 2012 lows and still stands 8% below its 2007 pre-recession peak.

The housing market continues to suffer with housing prices and starts for construction of new units at only half of their pre-recession levels. These struggles can be attributed to sluggish income growth, tighter lending standards, and a more risk adverse consumer.

Weaknesses in the housing and labor markets have led to uncertainty about when the FOMC will begin normalizing

interest rates. Gross domestic product (GDP) growth in 2014 is expected to be about 2.15% and is expected to accelerate in 2015 to between 2.7% and 3.1% before a slight decline, which is forecasted in 2016.

As growth increases, the inflation forecast increases only slightly in 2015, to between 1.6% and 2.0%; still below the long-run inflation rates of 2%. Consequently, the current Federal Funds futures market implies a 76% probability of a Federal Funds rate hike by October, 2015.

## KANSAS CITY ECONOMIC FORECAST

Kansas City's economic recovery from the Great Recession has been sluggish by historical standards. The region's economy has added an average 10,100 jobs year over year since job growth turned positive in July 2010, or 2,200 fewer jobs per year on average than during the mid-2000s.

The region's job creation is surprising when its job growth rates are compared to the nation's. Nationally, as job growth has picked up speed, Kansas City's job recovery appears to be lagging the U.S. average. At midyear, the region's growth rate was nearly 1.5% lower than the nation's.

Kansas City's economic output is projected to outpace that of the United States in 2014, largely due to the absence of any weather-related shocks (2.9% vs. 2.2%). However, this trend will not be sustained as the U.S. economy accelerates to an output growth rate of 3.1%. The rate of regional economic growth in 2015 is expected to decline slightly to 2.7%. These growth rates in economic output are expected to translate into job growth. As a result, the region's economy is expected to add 16,500 jobs in 2014, up from 8,500 jobs a year earlier and another 19,300 in 2015.

Greater Kansas City's total employment is projected to increase 1.3% in 2014 and 1.5% in 2015, as compared to the region's historical average of 1.5%. Thus, the forecast shows a return to job growth more consistent with this long-term average. This job growth, coupled with the reduction of unemployment, is expected to put upward pressure on income and wages. As a result, personal income of residents of the region is expected to increase 3.1% in 2014, even faster than the region's real economic output. In 2015, real income growth is expected to increase to 3.6%. Consequently, such increases should improve household income.

*Sources: MARC, Moody's, Greater Kansas City Chamber of Commerce 2015 Economic Forecast.*

*Contributor: Wesley Detwiler, Financial Analyst.*

# MARKET STATISTICS

Year-End 2014 Data

## OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	7,946,447	24	22.1%	186,341	40,027	\$18.32
East Jackson County	360,068	5	5.1%	3,251	(1,103)	\$20.89
Kansas City, Kansas	934,574	4	21.8%	330,000	330,000	\$20.00
Midtown	2,869,918	16	11.6%	364,689	80,555	\$22.66
North Johnson County	2,223,013	20	11.8%	46,957	488,724	\$27.20
North of the River	1,006,054	7	29.3%	50,833	(20,417)	\$18.71
South Johnson County	10,619,715	73	5.6%	459,520	34,053	\$21.70
South Kansas City	2,676,488	14	8.2%	6,615	16,104	\$18.63
Southeast Jackson County	103,442	2	4.3%	0	1,067	\$24.50
<b>TOTAL OFFICE - CLASS A</b>	<b>28,739,719</b>	<b>165</b>	<b>12.8%</b>	<b>1,448,206</b>	<b>969,010</b>	<b>\$20.17</b>

## OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	15,198,567	193	12.5%	239,902	286,068	\$15.77
East Jackson County	5,001,989	255	15.7%	41,668	56,762	\$15.67
Kansas City, Kansas	1,994,238	72	9.8%	23,567	31,710	\$15.28
Midtown	4,202,063	143	6.8%	122,470	45,260	\$18.60
North Johnson County	7,320,452	270	9.7%	180,925	88,659	\$16.59
North of the River	7,336,235	259	12.4%	200,236	150,547	\$15.73
South Johnson County	15,214,818	455	8.7%	789,430	233,047	\$18.52
South Kansas City	3,637,202	97	13.2%	54,257	31,272	\$17.00
Southeast Jackson County	2,283,091	104	6.5%	37,444	19,820	\$16.82
<b>TOTAL OFFICE - CLASS B</b>	<b>62,188,655</b>	<b>1,848</b>	<b>10.8%</b>	<b>1,689,899</b>	<b>943,145</b>	<b>\$16.63</b>
<b>TOTAL OFFICE - CLASS A + B</b>	<b>90,929,374</b>	<b>2,013</b>	<b>11.7%</b>	<b>3,138,105</b>	<b>1,912,155</b>	<b>\$17.35</b>

## WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	5,532,925	65	9.1%	452,147	(4,843)	\$4.45
North Kansas City/Riverside	22,830,518	506	5.6%	1,728,709	319,104	\$3.77
Executive Park/Northland	34,212,360	378	3.0%	1,949,976	799,678	\$3.92
Wyandotte County	40,867,198	923	4.5%	2,106,031	850,896	\$3.87
Johnson County	53,316,742	1,412	5.9%	2,926,705	1,876,553	\$4.90
East Jackson County	91,405,190	2,624	7.0%	1,722,518	194,614	\$3.47
<b>TOTAL WH/BULK SPACE</b>	<b>248,164,933</b>	<b>5,908</b>	<b>5.7%</b>	<b>10,886,086</b>	<b>4,036,002</b>	<b>\$3.95</b>

## LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	766,591	13	17.8%	14,700	5,040	\$9.44
North Kansas City/Riverside	170,079	13	9.6%	5,430	(4,173)	\$10.52
Executive Park/Northland	427,774	15	11.9%	7,080	16,091	\$5.82
Wyandotte County	913,692	37	5.9%	34,188	39,653	\$6.65
Johnson County	6,130,306	256	9.6%	545,407	(63,499)	\$8.31
East Jackson County	4,864,223	185	6.7%	163,852	117,160	\$8.89
<b>TOTAL LIGHT INDUSTRIAL/FLEX</b>	<b>13,272,665</b>	<b>519</b>	<b>8.8%</b>	<b>770,657</b>	<b>110,272</b>	<b>\$8.42</b>
<b>TOTAL FLEX + INDUSTRIAL</b>	<b>261,437,598</b>	<b>6,427</b>	<b>7.25%</b>	<b>11,656,743</b>	<b>4,146,274</b>	<b>\$6.19</b>

# MARKET STATISTICS Continued

## RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	Planned Development
South Johnson County	18,861,199	8.4%	1,578,744	159,563	\$16.27	283,910
North Johnson County	18,941,121	8.6%	1,632,266	41,981	\$10.66	0
Kansas City, Kansas	10,383,060	9.3%	968,046	120,148	\$11.59	5,000
North of the River	17,368,609	7.9%	1,374,225	(150,667)	\$11.80	41,180
Midtown/Downtown/Plaza	8,747,150	5.0%	455,911	78,564	\$14.24	26,479
East Jackson County	21,447,224	8.4%	1,803,293	128,012	\$10.67	0
Southeast Jackson County	5,217,233	7.1%	370,890	9,308	\$13.21	0
South Kansas City	8,814,497	13.4%	1,178,348	(69,752)	\$11.44	0
<b>TOTAL RETAIL</b>	<b>109,780,093</b>	<b>8.5%</b>	<b>9,361,723</b>	<b>317,157</b>	<b>\$12.39</b>	<b>356,569</b>

Compiled by Block Real Estate Services, LLC with the assistance of CoStar.

## MULTIFAMILY

Market	Unit Inventory	Overall Vacancy	Avg. Class A Rent (w/out utilities)	Avg. Class B/C Rent (w/out utilities)	Vacant Units
South Johnson County	42,709	3.8%	\$975	\$695	1,623
Downtown	5,096	2.3%	\$950	\$595	117
Plaza/Midtown	2,674	4.9%	\$1,075	\$750	131
East Jackson County	16,019	5.8%	\$725	\$625	929
Wyandotte County	9,352	6.2%	\$850	\$535	580
Northland	17,302	5.1%	\$875	\$575	882
South Kansas City	22,000	6.7%	\$695	\$525	1,474
North Johnson County	13,000	3.8%	\$925	\$795	494
<b>TOTAL MULTIFAMILY</b>	<b>128,152</b>	<b>4.9%</b>	<b>\$869</b>	<b>\$637</b>	<b>6,231</b>

Compiled by Block Real Estate Services, LLC with the assistance of Integra Realty Resources.

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