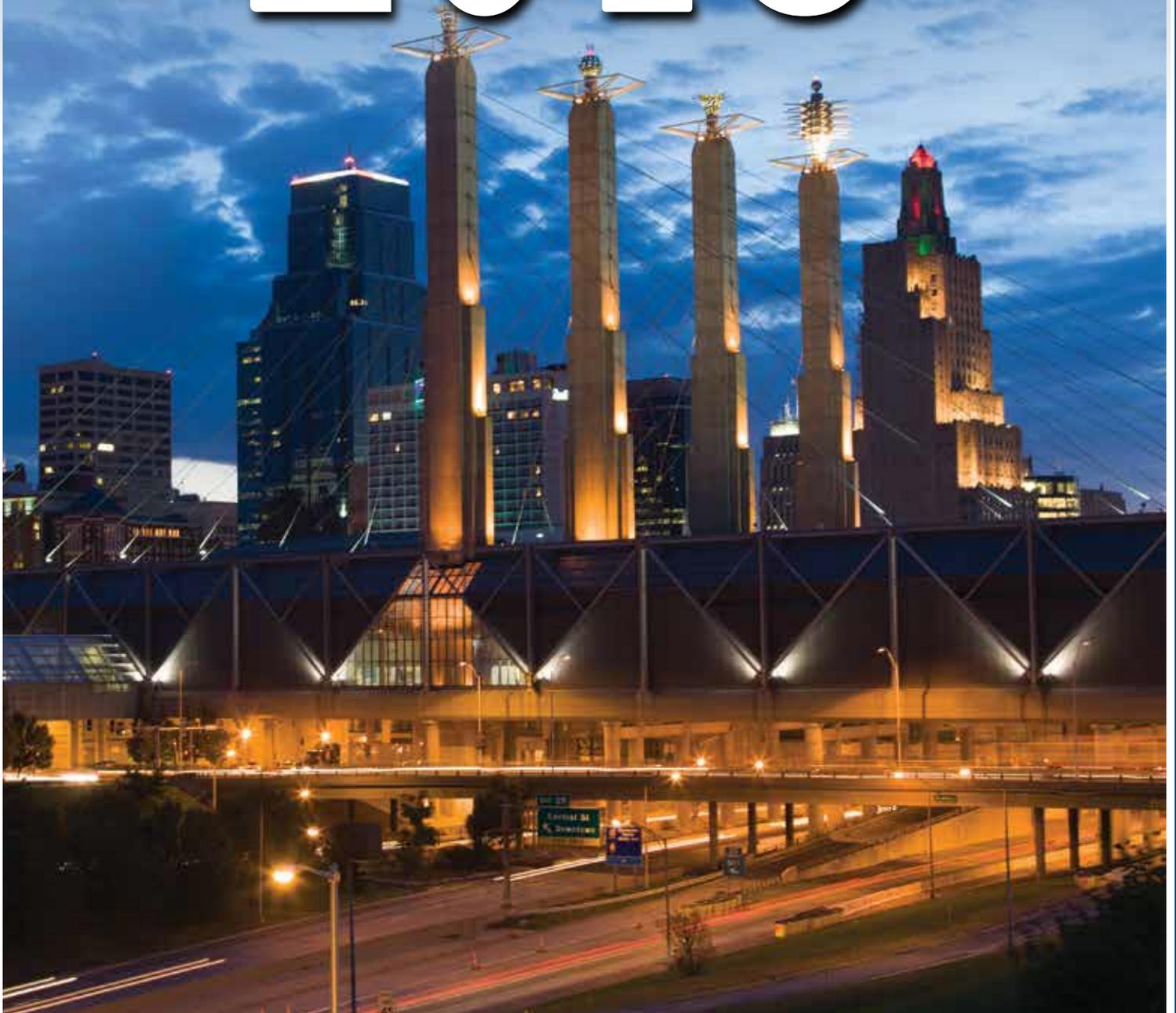


The Real Estate Report

For Metropolitan Kansas City

2018



BLOCK REAL ESTATE SERVICES, LLC (BRES) HIGHLIGHTS OF 2017

Transactions

BRES completed the year with total sales and leasing transactions in excess of \$1.1 billion.

Property Management

BRES commercial management portfolio reached over 40 million of commercial square feet and nearly 7,575 multifamily units at year-end.

Construction

Block Construction Services (BCS) managed renovation and development projects exceeding \$149 million. Projects included work in all sectors, including: office, industrial/warehouse/distribution, multifamily, retail and medical.

Investment Syndication

BRES completed over \$274 million in investment sales and raised over \$72 million in equity funds for syndication of new acquisitions and development projects.

Affiliates

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

Block Multifamily Group, (BMG) now manages nearly 7,575 units. Projections point toward 8,450 units by year-end 2018.

Block Technology Solutions, (BTS) completed 197 installations in over 26 million square feet totaling over \$1.4 million, a 180% increase over 2016.

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SUCCESS ABOUND IN KANSAS CITY



For the second year in a row BRES treated its employees to a company picnic at Kauffman Stadium in June. Employees throughout the Kansas City Metro enjoyed food, drinks and games before watching Salvador Perez get his first MLB Grand Slam to propel the Royals over the Boston Red Sox.

2017 saw an increase to growth at both the local and national level. Economic indicators in nearly every sector are showing promising results as the U.S. continues to recover from the Great Recession. Local trends have followed national ones as both experienced an increase to Gross Domestic Product (GDP) and decrease to unemployment rates. This has led to an increase in development and real estate transactions which Block Real Estate Services, LLC (BRES) has been a part of as we continue to work with equity partnerships and third party owners.

BRES' success in 2017 would not have been possible without the outstanding staff we have assembled. Through a concentrated effort BRES recruits the most knowledgeable and professional real estate strategists, brokers, managers, accountants, maintenance and support staff in the industry. Of the 69 agents and 105 full-time employees, more than half hold some type of professional designation or degree while being active in industry trade associations, including: the Society of Industrial and Office Realtors (SIOR), Certified

Commercial Investment Member (CCIM), Institute of Real Estate Management (IREM), Building Owners and Managers Association (BOMA), and many others.

BRES continues to lead the Kansas City commercial real estate industry and has again been recognized by the following publications:

Kansas City Business Journal

- #1 Commercial real estate property manager—now managing over 40 million gross leasable square feet—managing industrial, office, retail and nearly 7,600 multifamily units with over 500 units under construction and approximately an additional 1,600 in development
- #1 Most active commercial real estate firm with 832 transactions

St. Louis Business Journal

- #19 Largest commercial real estate firm based on total local staff (Block Hawley)
 - #23 Largest commercial real estate firm, based on number of local active licensed agents (Block Hawley)
- National Real Estate Investor



In 2017 BRES' managing principal Ken Block (right) launched Renew KC Neighborhoods. The goal for this non-profit organization is to revitalize communities by providing funds and construction services to repair, renovate, and, one day, build new housing in distressed communities. Ken Block worked closely with Lee Barnes, Jr., Councilman 5th District at-large (left) and Alissia Canady, Councilwoman 5th District (center) on neighborhoods where the organization can start its work. The goal is to start work in 2018.

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

Commercial Property Executive

- Ranked 20th nationally for top property manager
- Ranked 20th nationally for top development firm
- Ranked 19th nationally for most powerful brokerage firm

Midwest Real Estate News

- Ranked 5th in top owners in the Midwest
- Ranked 10th in top property management in the Midwest
- Ranked 16th in top brokers in the Midwest

Ingram's

- #1 Top area commercial real estate company with \$879 million gross sales in 2016. 2017 total increased to \$1.15 billion!
- #1 Top area commercial real estate company for square footage managed/sold/leased
- Best Commercial Real-Estate Firm - Silver Award

Many of the major highlights for BRES in 2017 will be discussed within the pages of this report. Of those, below are some that stand out from the rest:

1. In August, 2017, Group RMC Corporation (RMC) completed their second acquisition in the Kansas City area when they closed on Corporate Woods in Overland

Park, Kansas. Corporate Woods, Kansas City's premier office park, is bordered by I-435, 69 Highway, College Boulevard and Antioch Road. It features 29 office buildings totaling approximately 2.2 million square feet on 300 acres with a 50 acre recreational space. The Corporate Woods deal was the largest commercial real estate transaction in the Kansas City metro since the sale of the Country Club Plaza in 2016. BRES acted as an advisor in the transaction and was appointed by RMC as the exclusive leasing and property manager for 22 of the office buildings, including the retail shops on College Boulevard. The other seven buildings, including the Doubletree Hotel, are under separate ownership. The entire onsite maintenance and management teams remained in place becoming BRES employees.

2. With a ceremonial first turn of the soil, October 5, 2017 marked the official start of construction on 46 Penn Centre, BRES' future headquarters. Located in Kansas City, on the Country Club Plaza, 46 Penn Centre will feature exceptional office, restaurant and retail space all within steps of the area's premier entertainment, dining and retail destination. Situated on the north side of the Plaza, 46 Penn Centre will feature 14 stories on 1.17 acres, totaling over 220,000 rentable square feet. Joining BRES as an inaugural tenant, CrossFirst Bank will lease more than 30,000 square feet, including the entire top floor, part of the 13th floor and space for a ground-floor bank. When complete, their space will serve as the headquarters for their Kansas City business and private banking teams.

The building's exterior will consist of multiple shades of pre-cast, natural stone, and reflective glass. BRES is also working toward an exterior lighting system that will truly make it a showcase for Kansas City. All floors have been designed with access to private tenant balconies to offer exceptional views of the Plaza's renowned 15-block district. Inside, smart technology will be implemented throughout, which will continuously monitor power loads to minimize energy consumption while maintaining an ideal working environment.

3. BRES' managing principal Ken Block launched Renew KC Neighborhoods in 2017, a non-profit organization established to improve distressed Kansas City, Missouri neighborhoods. The organization will assist homeowners, many of whom are elderly and living on fixed income, bring their property up to city codes through remediating code violations such as peeling, cracked or blistered paint, damaged siding, roof leaks, broken, cracked or missing window panes, and other unsafe living conditions. The intent for Renew KC Neighborhoods is to leave a legacy and lend a hand to Kansas City homeowners. The selection process is starting by reviewing a list of repeat Kansas City, Missouri code violators. Once homes are identified a visit will be setup with the homeowners to assess their needs. The organization's board will review the prospects and determine which block will be the first to be revitalized. Once repairs have been made, the organization will ask the city to re-inspect the homes to record that the code violations have been corrected. In some cases,



BRES partnered with Seigfried Bingham and the Kansas City Chiefs to host a tent at the 38th anniversary of the American Royal World Series of Barbecue. Over 600 teams competed in the competition and nearly 1,500 clients and guests visited the BRES tent. The Friday night event kicks off the competition with music, food, and fireworks.

- rehabilitated homes may be made available to families that cannot qualify for any type of mortgage loan.
4. BRES is also beginning to dive into the Senior Living industry and will be pursuing developments in this sector moving forward. The team is already under contract on a piece of ground in the Kansas City metropolitan area and will be pursuing that development in 2018.
 5. The 200 acre Avenue One master development in Omaha, Nebraska is now underway with grading and infrastructure work. BRES is looking at multiple development opportunities at this project including office, medial, retail, multifamily and senior living, when the site is ready in late 2018.

Not every event in 2017 was cause for celebration. On March 20, 2017 tragedy struck at the multifamily development The Royale at CityPlace in the form of an eight alarm fire. Thankfully no lives were lost and we directly attribute that to the heroic efforts of the first responders as they made every effort to protect the surrounding residents and their homes. Our main concern then and now is for all of those impacted by the fire. To assist those impacted Ken and Lisa Block created, and provided the initial funding for, the Block Cares Fire Relief Fund through the Greater Kansas City Community Foundation. To date the fund has raised over \$100,000 and, with the fund administration being handled by The Salvation Army, has expended close to \$70,000, including \$16,000 to

the Overland Park Fire Department. The fund has helped 28 households, eight of whom had their homes destroyed, and paid expenses not covered by their insurance providers.

PROPERTY AND ASSET MANAGEMENT SERVICES TEAM

BRES has expanded its commercial footprint in the KC area by 2.7 million square feet in 2017 by furthering our relationships with existing partners. This includes taking over new management opportunities for Group RMC at Corporate Woods and retaining management of our existing third party agreements with several institutional partners. Additionally, Block Construction Services and Block Funds have continued adding to our commercial portfolio with the addition of new ground up projects including industrial and office properties; Lenexa Logistics Centre 7, Lenexa Logistics North I and Riverside Logistics Centre and Nall Corporate Centre II. Block Healthcare Development also added to our portfolio through the acquisition of multiple medical buildings, both in the Kansas City metropolitan area and outside locations including Ohio, Las Vegas and Florida.

The cornerstone of our department, commitment to tenant satisfaction, continues to be met by our entire staff through active management practices. We have connectivity to our properties 24/7 through our online building and work order system Building Engines. Block Maintenance Solutions also continued efforts to increase our properties energy

efficiencies throughout the portfolio. This year multiple LED upgrades in our parking lots and warehouses were completed. Our work with Building Engines and their modules to enhance property maintenance and tenant satisfaction is ongoing as we work closely with them to develop modules to increase our performance.

To further support our growth and ensure utilization of cutting edge industry resources and knowledge, we currently have four Managers working toward their CCIM designations. Our Property Management team strives to employ top notch relationships with asset managers, vendors and tenants while focusing on the best options for our partners that will also satisfy our tenant's needs.

BLOCK MAINTENANCE SOLUTIONS

In 2017 Block Maintenance Solutions (BMS) had another successful year. We implemented a new electrical maintenance policy that will ensure our infrastructure is well maintained and documented. Over the years we have been benchmarking our energy usage for about 40 buildings in both Kansas and Missouri. In 2015 Kansas City, Missouri was the first area city to make it a requirement. While none of the other area cities have adopted the same ordinance yet, we continue to benchmark for them as well. This year, we have also been successful in assisting tenants in utility reviews. One such review yielded a refund of nearly \$20,000 for one tenant. By reviewing / adjusting rate codes, we saved over \$100,000 this year alone. Electricity was not our only focus though, as we also participated in buying 3rd party de-regulated natural gas for properties that meet the usage requirement. We were able to lock in our best rate to date this year by working with a Houston, Texas based group. Utility costs continue to rise it seems, our simple approach is to limit the exposure to our tenants and investors as much as possible though benchmarking, account reviews and proper preventative maintenance practices.

Our goal is to expand on services that we currently offer to benefit our owners, investors and tenants alike in 2018. Currently outside our building engineers, we also have on staff a master plumber, master electrician and a locksmith who handles electronics repairs as well. We are looking forward to growth in staffing and personal growth through training programs in 2018.

BLOCK CONSTRUCTION SERVICES

In 2017 Block Construction Services (BCS) managed a total volume of \$149 million in development projects and a total of \$12.5 million in tenant improvement projects.

Some notable projects of 2017 include:

- Earth City, Missouri, a 130,825 square foot manufacturing/warehouse facility near St. Louis, Missouri
- Traders on Grand is a historic redevelopment project converting an office building to 200 residential apartment units
- EdgeWater at City Center consisting of 276 multifamily units totaling 334,417 square feet in the second multifamily development at City Center in Lenexa, Kansas
- WaterSide Residences on Quivira consisting of 481

multifamily units totaling 289,892 square feet in Lenexa, Kansas

- 531 Grand consisting of 185 multifamily units and 10,000 square feet of retail space for a total of 221,425 square feet in the River Market area of Kansas City, Missouri
- Lenexa Logistics Center – Building 7 in the south park, a 401,197 square foot distribution facility
- Nall Corporate Centre II, a 153,884 square foot office building with a two-story garage in Overland Park, Kansas
- Roe Medical Centre, a 77,987 square foot medical office building in Overland Park, Kansas.
- Some notable projects we are starting or planning for 2018 include:
- 46 Penn Centre, the newest high-rise development on the Country Club Plaza, is an eight story, 200,465 square foot Class A office building with a 6,728 square foot restaurant
- Avenue One, a 200 +/- acre mixed use development located in Omaha, Nebraska
- 4400 Washington, a 228 unit multifamily project, adjacent to St. Luke's Hospital
- CityPlace Corporate Centre III – a 120,238 square foot office building and the first at CityPlace
- Galleria 15, a mixed use development encompassing grocery, retail, restaurant, entertainment users as well as approximately 548 multifamily units
- 47 Madison, a 260 multifamily unit project that includes a rooftop terrace, in the heart of the Country Club Plaza
- The Apex at CityPlace, the second multifamily phase of the CityPlace development, that will include about 30,000 square feet of retail and 361 multifamily units
- The Shoppes at CityPlace, a mixed-use development, totaling some 29,000 square feet of commercial space
- The Clearing at Anderson Point, a multifamily project housing 255 units in Olathe, Kansas
- More information on these exciting projects can be found inside this report.

BLOCK MULTIFAMILY GROUP

In 2017, Block Multifamily Group (BMG) added the management of acquired stabilized properties and multiple new developments in the Kansas City Metropolitan area and across the United States. They will start 2018 with over 7,600 multifamily units consisting of BRES-owned assets and third-party management service contracts. Communities new to BMG's management this year include:

BMG has already been tasked with the lease up of two redevelopments in 2018. The Grand, formerly the Traders on Grand building in Downtown Kansas City, which is expected to open in July 2018. The second is The Wonder, formerly the Wonder Bread building, which is under a third-party management service with BMG. Additional multifamily community developments are in the works for 2019 delivery, including:

- Galleria 115, 276-units, Overland Park, Kansas
 - Anderson Pointe, 303-units, Olathe, Kansas
 - 4400 Washington, 188-units, Kansas City, Missouri
 - The Apex at CityPlace, 360-units, Overland Park, Kansas
- The strong success of our newest community, WaterSide



BRES is proud to support local charitable organizations such as the Alzheimer's Association, Big Brothers Big Sisters of Greater Kansas City, and the Salvation Army. In 2017, BRES also donated \$16,000 to the Overland Park Fire Department and continued to support their own Vicki Kelly's organization, Hot Stiletto as they seek to raise money and support for domestic violence victims in the greater Kansas City area.

Residences on Quivira, in 2017 led to the start of construction on phase two of the property. An additional 104 units will bring the property to 481 total units across 12 three or four story buildings. Located along Quivira Road the community is an in-fill development that has brought luxury living to Lenexa, Kansas.

BLOCK TECHNOLOGY SOLUTIONS

Block Technology Solutions (BTS) completed 197 installations in over 26 million square feet of office, industrial, and multifamily space in 2017, totaling approximately \$1.4 million in sales volume, a 180% increase over 2016.

BTS continues to partner with Google Fiber, AT&T, and Wan Security to bring gigabit fiber, and wireless internet to our portfolio. In 2017 BTS installed Google Gigabit fiber services in an additional 16 million square feet of space. We are currently expanding this service outside of the Kansas City metro area to include fiber to the door in our Arkansas, Texas, Oklahoma, and Louisiana multifamily communities.

2017 has seen the Internet of Things (IoT) technology boom. We have implemented new cloud based card access controllers in our portfolio, which gives us the ability to unlock doors from any internet connected device. This has been popular with our new multifamily and Class A commercial projects.

Cloud based security camera installations have begun on all of our new development projects in the Kansas City metro area. This has given us the ability to tie in the card access doors and provide physical footage of who enters the premises.

BTS is closely working with ownership groups on all new

construction projects. The close access allows us to properly pick the type of technology that is in demand, while closely monitoring the properties to insure we maximize efficiency for the building, as well as the tenants. With BRES' new headquarters being built on the Plaza, two new technologies we are exploring are self-tinting glass, and an LED media façade lighting system. Both of these technology features will allow the building to operate at maximum efficiency, while bringing a wow factor to the Plaza area.

In addition to providing card access and security camera installation, local desktop, server and networking support, BTS will continue to work with ownership groups on the technology needed, as well as low voltage data and phone cabling.

BLOCK HAWLEY

2017 was the top year ever for Block Hawley in St. Louis, Missouri. With over 3.975 million square feet of sales and leases, Block Hawley continues to be one of the top commercial brokerage groups in the St. Louis area and ranks in the top 10 commercial property management firms in the area with 4.1 million square feet of commercial space under management. Block Hawley completed over \$60 million in investment sales and have multiple speculative industrial projects either under construction or planned. We look forward to maintaining this pace into 2018.

BLOCK HEALTHCARE

In the 2016 Block Healthcare report, the question was

raised as to whether or not the overall healthcare real estate market was beginning to see stabilization as cap rates began to level a bit, as did total transaction volume between 2015 and 2016. However, 2017 is showing that once again the healthcare real estate market remains very competitive. As 2016 came to a close, the quarterly average cap rates between Q1 2015 to Q4 2016 for outpatient medical office buildings ranged from 6.6% to 6.8%, according to the healthcare real estate analytics firm Revista. Through the first half of 2017, the same MOB market is showing an average cap rate at 6.45%.

While part of the 2017 trend could be attributed to very large portfolio purchases by the leading Real Estate Investment Trusts (REITs), much of this is being attributed to the continuing outpatient migration trend in the healthcare industry. Typically, outpatient settings are generally lower in cost to construct when compared to the acute care setting, which translates to lower healthcare costs to consumers. With the uncertain future of the Affordable Care Act (ACA), consumers with growing high deductible plans will seek to offset rising premiums by continuing to be price conscious. The construction of new MOBs is continuing to show this trend, as Revista's mid-year 2017 construction report states that 20.9 million SF of MOB deliveries will take place in 2018, 64% of which will be off-campus. The total development represents a 10% increase over the 2016 deliveries, which totaled 19 million SF.

BHD was also very busy during the year finding many off-market, sale-leaseback transactions and acquiring medical buildings with long-term leases by very large hospital systems. These opportunities allow us to execute our investment strategy of finding quality real estate below replacement-cost prices. This strategy also allows us to provide our investors with an excellent cash-on-cash return while at the same time paying down a significant amount of debt over the 10-year hold period.

BLOCK REAL ESTATE INVESTMENT TEAM

Commercial real estate continued to be a favorite investment for many high net-worth investors, keeping the Block Real Estate Investment Team very busy in 2017. Fueling this trend was the continued low-interest-rate environment, which allowed real estate investments to produce a higher yield than other types of investments. This year, the team raised \$72,487,979 in equity funds, which was invested in 14 transactions totaling \$274,748,881 in acquired assets.

Block Income Fund I, which launched in 2004, will be closing on the sale of its last remaining asset by the end of 2017. Block Income Fund II sold many of its assets and with those sales, Block Funds is completely out of the Atlanta real estate market.

PHILANTHROPY

BRES has always been deeply involved in giving back to the Kansas City community. This year was no different as we are proud to announce the creation of Renew KC Neighborhoods. As a non-profit organization, it was established to strengthen low-income, economically distressed and blighted neighborhoods in Greater Kansas City.

This year, BRES was also proud to contribute and sponsor

many organizations and events, including: The Salvation Army, Hot Stiletto Foundation, Special Olympics Missouri, Treads and Threads, Jazzoo, Operation Breakthrough, American Royal, Boys & Girls Clubs of Greater Kansas City, Signature Healthcare Foundation, University of Kansas Cancer Center, Children's Mercy Kansas City, Village Shalom, Big Brothers Big Sisters, Boys Hope Girls Hope Kansas City and many more. As always, we continue to encourage our associates' participation in local charitable organizations of their choice and support their efforts through a matching-gift program.

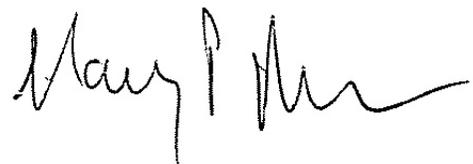
BRES will remain focused on our goal of being the top single-source provider of commercial real estate investment, development and support services to our clients and investors in the Kansas City metropolitan area. This goal, in conjunction with intense focus on our mission to enhance financial outcomes for our clients, enables us to deliver the results that have earned our clients' trust and their continued commitment to the services and opportunities presented by our team of industry-leading professionals.

We believe this report provides valuable research and information and is an excellent place to obtain a basic understanding of the local real estate market. However, we encourage you to reach out to our seasoned professionals, many of whom have provided the insights and analyses you will find in this report. They understand that local, national and global events will continue to affect your real estate needs and decisions, and they stand ready to help you interpret the market dynamics and assist you in achieving your goals and maximizing your financial outcomes in 2017.

From all of us at BRES, we wish you a healthy and prosperous year ahead.



Kenneth G. Block, SIOR, CCIM
Managing Principal



Harry P. Drake, CPM, CCIM
Executive Vice President & COO

GLOBAL, U.S., KANSAS CITY _____

OVERVIEW



North Korea's President, Kim Jong Un, continues to threaten peace and security as they develop missiles that could hit the U.S. President Trump placed them back on the list of "State Sponsors of Terrorism" in November 2017 that prevents them from receiving U.S. foreign assistance and places a ban on defense exports and sales.

In 2017, both the global and US economies continued to surge ahead with better than expected growth. However, as we noted in previous years, there continues to be challenges and risks to strong global and U.S. economic growth. Some of the risks include:

North Korea: North Korea continues to threaten international peace and security. The U.S. has increased economic pressure on North Korea and has applied pressure to China, the largest exporter of goods to North Korea. This pressure isolates North Korea from outside sources of trade and revenue. The goal is to isolate the regime by exerting maximum economic and diplomatic pressure on them. In November, President Trump put North Korea back on the list of "State Sponsors of Terrorism." North Korea joins Iran, Sudan, and Syria as the only four countries in the world on this list. This new designation prevents North Korea from receiving U.S. foreign assistance and places a ban on defense exports and sales. However, this has not stopped North Korea's president, Kim Jong Un, from developing missiles that could hit the U.S. with nuclear war heads. The U.S. is working hard on counter measures which includes Counter-electronics High Power Microwave Advanced Missile Project, otherwise known as CHAMP. The project seeks to deliver a high powered microwave weapon that can be mounted on an air launched cruise missile and would send out strong pulses of electromagnetic energy, jamming North Korea's command control systems and causing any missile to splash down at sea.

Terrorist Activity: President Trump and the U.S. military have done a good job of taking the fight to the Islamic State of Iraq and Levan (ISIL) in their strongholds of Syria, Iraq,

Eastern Lybia, the Sinai Peninsula of Egypt, and northern Africa. However, developed states have suffered more terror attacks now than in the previous 10 years. While the power of ISIL has been broken in the Middle East, their model has changed. They now emphasize the "lone wolf" attack using a vehicle, or a bomb, to inflict damage instead of taking territory or executing large scale assaults. This will continue to be a key method for ISIL to inflict terror. In 2017, there was an increasing number of these attacks, including:

- February 3, 2017 - Machete wielding Egyptian civilian yelling "Allahu Akbar" attacked soldiers guarding a principal entrance to the Louvre in Paris, France.
- March 22, 2017 - Four people were killed when a man drove a car into pedestrians near Westminster Bridge. The driver left the vehicle and fatally stabbed a London police officer. ISIS, or the Islamic State of Iraq and Syria, claimed responsibility.
- April 3, 2017 - A suicide bomber on the subway in Russia's second largest city, St. Petersburg, killed more than a dozen passengers. ISIS claimed responsibility.
- April 7, 2017 - Five people were killed when a truck driven by a man drove through a pedestrian shopping street in Stockholm. The perpetrator admitted to being a member of ISIS.
- April 20, 2017 - An attacker fired an automatic weapon at a parked police van, killing the officer inside, before shooting others on the Champs-Élysées Boulevard. ISIS claimed responsibility.
- May 22, 2017 - 22 people were killed by a suicide bomber at an Ariana Grande concert in Manchester, England.
- June 3, 2017 - Seven people were killed and dozens

were injured when a van plowed through pedestrians on London Bridge. The perpetrator also stabbed revelers in the Borough Market.

- August 17, 2017 - A man killed 14 people and injured over 100 people in Barcelona, Spain. ISIS claimed responsibility.
- September 15, 2017 - 22 people were injured when a bucket bomb exploded on a London subway.
- October 31, 2017 – A man drove a rental truck through a crowd of pedestrians and cyclists near the World Trade Center in Manhattan killing eight and injuring at least 12 others. He carried this attack out in the name of ISIS.

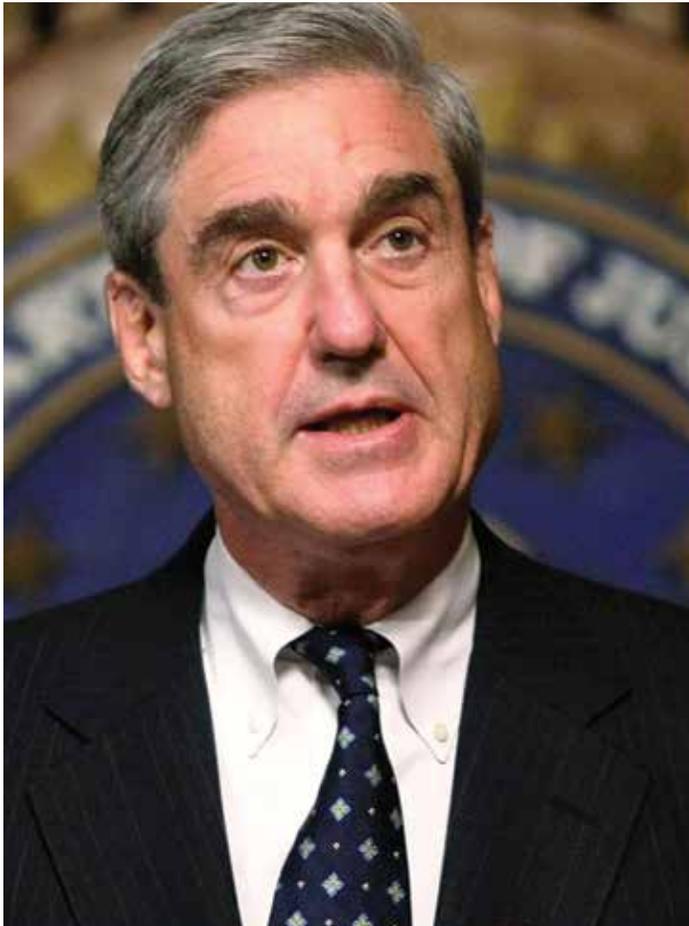
Iran Nuclear Deal: In October, President Trump announced the decertification of the Joint Comprehensive Plan of Action, or the nuclear agreement with Iran. While many say that the plan is simply an agreement to allow Iran to develop nuclear weapons, others say that it is slowing the process and making the world safer. Congress now needs to amend existing U.S. legislation to make sanctions easier to impose on Iran, or President Trump will end the agreement. Iran, feeling pressure not only from the West but also from other Arab nations, has been ramping up activity through sponsored terror groups, such as Hezbollah, in order to create instability in the Middle East where Iran's influence of power has grown dramatically.

Middle East Stability: The Middle East continues to be as unstable as ever. The U.S., Saudi Arabia, and Israel share concern about expanding Iranian influence in the region as

Hezbollah, Iran's Lebanon-based proxy, now controls significant territory in Syria along the Israel border and in Lebanon. President Trump has tasked Jared Kushner with leading efforts to forge an Israeli-Palestine peace, a goal that has eluded U.S. Administrations for decades. A major element in Kushner's strategy is gathering regional Arab support through the assistance of Saudi Arabia to bring the Palestinians on board for a potential settlement. However, the recognition of Jerusalem as Israel's capital by President Trump, and his announcement to move the U.S. Embassy there, has inflamed tensions in the region and may impact peace talks. The announcement follows through on a law passed by the U.S. Congress in 1995 to move the embassy from Tel Aviv to Jerusalem.

Brexit: Britain and the European Union (EU) have reached a preliminary agreement on the terms of a separation, Brexit, allowing them to enter talks on the future of their relationship. Initial talks focused on the Irish border, Britain's financial commitments to the EU, and citizen's rights for both groups. After agreeing on solutions for those issues, the two move on to the second phase of Brexit negotiations which covers trade talks and a transition period. After over four decades of membership, Britain is set to leave the EU on March 29, 2019

Russia: Donald Trump won the Presidential election in 2016, but there continues to be multiple investigations into the role Russia may have played in the election. The Department of Justice (DOJ) appointed Robert Mueller to serve as Special Counsel with a mandate to examine any coordination between



Multiple investigations by the DOJ are underway to determine the role Russia may have played in the 2016 Presidential election. Robert Muller was appointed to serve as Special Counsel, but to date no collusion or obstruction of justice by the Trump campaign has been found.

Trump's presidential campaign and the Russian government. To date, no collusion or obstruction of justice has been found, and it appears that Mueller has expanded his inquiries to outside of the original investigation.

During the investigation, additional evidence came to light concerning potential Russian interference during the Obama Administration, specifically, the sale of approximately 20% of U.S. uranium production capacity through the transfer of majority control of Uranium One to Rosatom, Russia's nuclear agency. Approval for the sale had ties to the Obama Administration, the Clinton Foundation, and also involved the FBI. A number of Congressional Committees are still looking into relationships between the Clinton Foundation and the Obama Administration, as well as controversies around Hillary Clinton's secret server, her deletion of 30,000 emails, Benghazi, and a number of other scandals. What remains clear is the strong divide in the U.S., but perhaps an improved economy, more jobs, and higher wages will bring harmony to the country.

GLOBAL RISK

Global risk is defined as an event that causes significant negative impact for several countries and industries over a time frame of up to 10 years. Members of the world economy are well aware of the ties between global risk and the U.S. economy, making both important to consider. Different risk forecasting groups look at the risks facing the world quite differently. For example, the Economist Intelligence Unit (EIU) lists the following 10 global risks:

- China suffer from a disorderly and prolonged economic slump.
- U.S. stock markets tumble, destabilizing the global economy.
- A major increase in global terrorism fuels isolationist sentiment.
- Oil prices slump further in 2018 after the OPEC, or the Organization of Petroleum Exporting Countries, deal to keep production down breaks apart.
- Territorial disputes in the South China Sea lead to an outbreak of hostilities.
- A major cyber-attack cripples corporate and government activities.
- A major military confrontation on the Korean peninsula.
- Global growth surges past 4% creating a significant "bubble."
- Proxy conflicts in the Middle East develop into an outright war.
- Multiple countries withdraw from the Eurozone.
- Some outlooks are more economic in nature. Global Research from Bank of American Merrill Lynch recently issued a bullish global economic outlook for 2017, predicting the following 10 macro calls for the year:
- The Standard & Poor's 500 (S&P 500) index will continue to rise and reach 2,800 by the end of 2018.
- There will be solid global economic growth. Real Global GDP, or gross domestic product, will grow at a solid 3.7% rate, while emerging market economies will grow at nearly 5%, and China at 6.6%.
- Steady U.S. economic growth will continue with a GDP projected at 2.4% in 2018. The unemployment rate

should drop to 3.9%.

- Inflation will reach 1.8% by the end of 2018 and the target 2% rate by the end of 2019.
- Emerging markets will move lower, thereby making investors much more selective in bonds and equities.
- Monetary fiscal policy will point to higher interest rates.
- There will be higher foreign exchange volatility.
- Robust global demand and tight supplies could allow Brent crude oil to rise to \$70 barrel by mid-2018.
- Credit spreads will tighten in the first half 2018 as excess demand conditions prevail.
- Stocks are expected to outperform bonds for the seventh consecutive year in 2018 as a global investment strategy.

In early 2017, at the World Economic Forum (WEF) in Geneva, Switzerland, world leaders gathered to discuss some of the greatest risks facing the world. U.S. President Donald Trump was absent due to his inauguration. At the meeting of 3,000 global leaders, the three biggest risks discussed were environmental dangers, social instability, and wealth disparity.

A separate conference of technology companies noted the five biggest corporations in America were all in one sector, technology. Google, Apple, Facebook, Amazon, and Microsoft are all seeking to rewrite the rules of the digital economy by obtaining, within the World Trade Organization (WTO), a mandate to negotiate binding rules under the guise of eCommerce. Their agenda seeks free access to the world's most valuable resource, data. Simply put they want to capture billions of data points that are produced on a daily basis, transfer that data wherever they want, and store it on servers in the U.S. This would allow them to process the data before packaging and selling it to third parties for a large profit. Two examples of harvesting data include: Google becoming the largest collector of advertising revenue because of its ability to analyze and repackage user data, and Uber increasing its profits by charging more in high demand areas based on the data they have on people moving around cities.

The Global Business Policy Council predicts that a variety of technology breakthroughs and the rising rate of technology adoption will open the door to a more efficient, healthier, and greener future. These breakthroughs include: quantum computing, facial recognition technology, cancer treatments, and the rising demand for, and adoption of, electric vehicles. Quantum computing will dramatically enhance the power of artificial intelligence and data security, in addition to opening up new areas of scientific discovery. Several key predictions for 2018 from the Global Business Policy Council are:

- Quantum Supremacy will be achieved.
- Difficult negotiations will raise the risk of a hard Brexit in early 2019.
- Facial recognition technology will become omnipresent.
- The threat from the Islamic State will metastasize in Southeast Asia, Africa, and beyond.
- Domestic policies in Germany and France will cut short the "Merkron" honeymoon phase.
- Catastrophic natural disasters will put even more pressure on global insurance markets.
- New regulations will emerge as scrutiny of the U.S. Internet giant's power and autonomy reaches a fever pitch.

- Rapidly rising demand for electric vehicles will spark a spike in global sales.
- Chinese foreign investment will accelerate, but will face growing resistance.
- Breakthroughs in cancer treatments will accelerate at an unprecedented rate.

A major risk that will become substantially more serious in 2018 is the global damage from ransomware, a malware that affects computers and restricts access to files in exchange for ransom payment. In the first half of 2017, 1.9 billion data records were either lost or stolen. By the end of 2017, ransomware attacks exceeded \$5 billion and are rising at a yearly rate of 350%. Cybercrime will cost the world over \$6 trillion annually by 2021, making it more profitable than the global trade of all major illegal drugs combined. Cyber security spending will correspondingly amount to \$1 trillion over the next four years.

The U.S. economy has grown for eight straight years, one of the longest stretches in history. Unemployment is down to 4.1% at year-end 2017, the lowest since 2001 with the U.S. adding jobs in 80 of the past 84 months.

There were several large cyber-attacks in 2017. One of the largest attacks included WannaCry, which attacked hundreds of thousands of computers in over 150 countries. The ransomware encrypted the hard drive contents of infected computers. The WannaCry perpetrators then demanded a ransom in Bitcoin to unlock them. Another large attack included Equifax, one of the largest consumer credit reporting agencies in the world with the information of over 800 million individual, announced that it was breached. A web development tool called Apache Struts was believed to have been the point of breach, compromising information for 143 million Equifax customers. Other ransomware attacks included MongoDB, Elasticsearch, Cloudbleed, Ethereum, amongst others. Two large U.S. companies, Uber and Yahoo, also revealed the existence of older devastating cyber-attacks. Uber covered up a massive attack in 2016, which saw 57 million records stolen and included a \$100,000 payment to hackers. Meanwhile, Yahoo revealed over 3 billion accounts had been comprised in the 2000 security breach on their platform, making it one of the largest cyber-attacks in history. Because of the evolving nature of cyber-attacks, everyone is at risk, which will require a substantially higher emphasis on technology to protect data going forward.

GLOBAL ECONOMY

Global growth in 2018 is expected to increase to 3.7%, up from 3.6% in 2017 and 3.2% in 2016. Broad based upward revisions in Japan, Asia, Europe, and Russia had growth outcomes in the first half of 2017 were better than expected. This more than offset some downward revisions from the United Kingdom, the small but positive revision for the U.S.

China and other parts of emerging Asia remain strong. The difficult conditions faced by several commodity exporters in Latin America, the Commonwealth of Independent states, and sub-Saharan Africa are showing signs of improvement. This will combine with the stronger activity in the U.S. and Canada, the euro area, and Japan as global economic strength increases in 2018.

The Japanese economy has now been growing at a rate not seen in 16 years, with near impossible growth for the seventh quarter in a row. The majority of their growth has been due to expanded export activity, showing that Japan remains dependent on the U.S. customer. Bloomberg economists predict the U.S. will grow 2.4%, maybe in excess of 3% with tax reform, in 2018. China is expected to grow at 6.6%, Japan at 0.9%, and Germany at 1.6%, as examples of the strengthening global economy.

The Global GDP was nearly \$77.99 trillion in 2017, but GDP Purchasing Power Parity (PPP) will reach \$126.69 trillion. Using GDP (PPP) to compare countries in terms of purchasing power creates a different picture of where the largest economies in the world truly are. The largest economy in the world by GDP is the U.S. at \$19.4 trillion compared to China at \$11.8 trillion and Japan at \$4.8 trillion. However, the largest economies in the world by GDP (PPP) are China with \$23.2 trillion, the U.S. at \$19.4 trillion, and India at \$9.5 trillion, with Japan coming in fourth at \$5.4 trillion. It is also important to note that the EU combined would have a GDP (PPP) of approximately \$19.7 trillion, making it the second largest entity in terms of GDP (PPP) behind China.

China, with a population of 1.37 billion people, more than any other country in the world, continues to be a relatively poor country in terms of the standard of living. Its economy only produces about \$15,400 per person as compared to the U.S. at nearly \$58,000 per person. So while the Chinese economy continues to increase in size and GDP, it still has a long way to go to really compete with the U.S.

One of the largest items on President Trump's agenda that could affect the global economy is his thoughts about the North American Free Trade Agreement (NAFTA). During his campaign for President, he stated he would renegotiate NAFTA by adding tariffs and even threatened to withdraw completely from the Agreement. With the first rounds of talks underway, it is uncertain how it will go. With the elections in Mexico not far away, candidates are making their positions known, attempting to appear strong against changes to the agreement. The U.S. is concerned about the loss of manufacturing jobs, which have shifted to Mexico over the last several years. Specifically, U.S. automakers have been trying to bring their costs for parts and assembly down by continuing to relocate their factories to Mexico. While the U.S. opened the talks with demands for both Canada and Mexico to make major changes to the Agreement, even U.S. automakers and other businesses are suggesting that these changes could severely limit trade. The effort to hold on to U.S. manufacturing may be a case of too little, too late with the majority of manufacturers having already left and not planning to come back. The only ones that will return are those that can lower production cost through technology and robotics. The U.S. also imports a great deal of fruit and vegetables from Mexico and a great deal of grain from Canada. Over 65% of all cheese produced in Wisconsin is shipped to Mexico as they are the largest importer of U.S. dairy product



The stock market rose dramatically during President Trump's first year in office. The DJIA rose nearly 8,000 points by January 4, 2018, reaching a high of 25,000. Stocks are expected to continue to rise with the Bank of America Merrill Lynch Global Research predicting the S&P 500 index to reach 2800 by the end of 2018.

in the world. At this point, these discussions could be a no win situation for all concerned, but it is expected that a compromise will evolve that allows all sides to save face while continuing to allow trade to proceed.

One other global market shaper continues to be alternative fuel vehicles. A Chinese mandate that all new vehicles will be fossil free by the year 2040 will further ignite competitive pressures. This combined with the desire to get in front of the deadline will cause global investment and production of electric vehicles to surge over the coming years. In fact, Ford just announced a major joint venture with a Chinese automobile manufacturing company (ANHUI ZOTYE Automobile Company) to produce electric vehicles for the Chinese market.

What is intriguing about this is forecasters have noted the following data points:

- Pure electric and hybrid vehicle sales grew by 50% last year in China.
- That equates to 336,000 electric or hybrid vehicles while the U.S. sold only 159,620 in comparison.
- Ford expects Chinese sales of pure electrics to be in the 6 million units per year range by 2025.
- 70% of the models that Ford markets in China will have an electric option by 2025. Meaning that similar pressures will emerge in the U.S. causing a broader adoption of electric vehicles and a substantially faster movement from fossil fueled vehicles to electric vehicles.

U.S. ECONOMY

The Federal deficit increased again in fiscal year 2017 to \$666 billion which was \$80 billion higher than in 2016. The deficit reached 3.5% of the GDP in 2017, slightly higher than the 3.2% of GDP in 2016. The total U.S. debt at year end 2017 now exceeds \$20.6 trillion, the highest Federal debt total in U.S. history. The U.S. gross debt to GDP now stands at a ratio of 106.7%. If all deferred obligations are counted, including Social Security and Medicare, U.S. total unfunded liabilities are over \$110 trillion or \$903,316 per taxpayer.

The GDP in 2016 grew at a final adjusted rate of only 1.5%, while GDP for 2017 was at 2.5%. However, actions taken by President Trump during the year, including a number of Executive Orders that allowed deregulation of key industries, pushed domestic growth up to over 3% in the last three quarters of the year. This allowed the full year to finish higher than originally projected. Additionally, the Tax Reform Act which has recently been passed, is projected to add as much as 0.8% to the initial 2018 GDP growth projections of 2.4%.

The U.S. economy has grown for eight straight years, one of the longest growth stretches in history. Unemployment is down to 4.1% at year-end 2017, the lowest since 2001 with the U.S. adding jobs in 80 of the past 84 months. President Trump has promised to get an entire year of annual growth in excess of 3% in 2018. Economic growth has hung around 2%

“U.S. property sectors and markets will continue again to be the top choice for investment dollars.” The current real estate cycle has now continued for 97 months and is the third longest in U.S. history.

for the last eight years, mostly due to slow wage growth and weak spending by businesses.

The Federal Open Market Committee (FOMC) has two courses of action planned, which may inhibit President Trump’s plans for growth. The first course of action is hiking interest rates. The Federal Reserve hiked the interest rate in December by 0.25% bringing the target range to 1.25% to 1.5%. Its goal is to hike interest rates three times in 2018 and two times in 2019, to reach a short term federal funds rate of approximately 3% by 2020. This would affect the bank prime lending rate substantially, increasing it to as much as 6.25% by 2020. The second course of action is for the FOMC to reduce its \$4.5 trillion balance sheet, likely as soon as early 2018. The balance sheet is forecasted to take 4.4 years to wind down to around \$2.5 trillion dollars. Reducing the balance sheet is viewed as a slight negative for economic growth, and a bit worse for stocks. Overall expectations are for only moderately negative effects as the economy remains strong.

We expect core Personal Consumption Expenditure (PCE) inflation to reach about 1.4% to 1.5% by year-end 2017, however, it is expected to increase to 1.8% in 2018. Remember, 2% is the key measure for inflation, above which the Fed normally takes measures to tighten fiscal policy to keep inflation low.

It is uncertain if President Trump’s selection of Jerome Powell to head the Federal Reserve Board will affect monetary policy. Governor Jerome Powell will be the first non-economist to lead the Fed since William G. Miller in the 1970’s. Chairman Yellen’s term expires on February 3, 2018. It is largely expected that Governor Powell will pick up where Chairman Yellen leaves off; it is uncertain what his long term plans will be. He did note that “the normalization process is projected to have several years to run, the end point of which is a long-run neutral rate of interest.” Additionally, he noted, “Once the process of balance sheet normalization has begun, it should continue as planned as long as there is no material deterioration in the economic outlook.” He further noted, “2% annual inflation... is a symmetric objective.” And finally, “Low rates can lead to excessive leverage and broadly unsustainable asset prices, things that we watch carefully for and do not observe at this point.” For now, we see no apparent change in policy by Chairman Elect Jerome Powell as it relates to monetary policy in 2018 and beyond.

JOB MARKET

The unemployment rate reached 4.1% at year-end 2017, the lowest rate recorded since 2000. The job market continued to tighten as average new jobs per month dropped from 187,000 in 2016 to 174,000 in 2017. The slowdown in job growth is completely normal as the labor market

nears full employment. The shrinking labor market and low unemployment rate will unleash a faster pace of wage growth in 2018. The labor force participation rate rose slightly to 62.7% at year-end 2017 after hitting a low of 62.4% in September 2015, the lowest in almost 40 years. Each 0.1% point change of the labor force participation rate represents around 250,000 potential workers so this is significant as the rate has dropped from nearly 66% before the recession. Today, approximately 10 million men between the ages of 25-54, the prime working age, are out of work. By 2050, nearly a third of all men in the U.S. between the ages of 25-54 will be out of work. In addition, the decline in the workforce participation rate is due to a number of things including structural changes, such as: an aging population, rising entitlements, government benefit programs that provide higher financial benefits, the absence of a job creation plan at the federal level, a decline in jobs for unskilled workers, the worse economic recovery after the great recession in decades, globalization, rising costs to run a business, technological advances, and economic mobility. The key to seeing a reversal of this significant rate lies with the millennial work force. They will have a challenge as technology advancements continue to render some job sectors obsolete.

The unemployment rate is not a true indicator of the employment market. The U-6 measure for unemployment still hovered around 8.8% at year-end 2017, and continues to be the more complete measurement of unemployment as it includes “discouraged workers, or those who have formally stopped searching for work.” Learning new job skills is essential for job seekers to take on new job opportunities. If they don’t learn new skills, the U-6 unemployment measure will continue to remain high. However, the small business optimism index rose to its highest level in 17 years and the U-6 rate is at its lowest in 16 years.

The Congressional Budget Office (CBO) expects the labor market to continue to tighten over the next two years. The primary measure the CBO uses to assess the degree of slack in the labor market is the estimated shortfall between employment and potential employment. The CBO projects the unemployment rate will decline to 3.9% by the end of 2018. The longer term projections for 2019 through 2020 show the unemployment rate drifting back upward, ranging from 4.7% to 4.9%. Additionally, the CBO expects core inflation to rise to 1.8% in 2018 and perhaps 2.0% in 2019 and 2020. The Federal Funds rate is expected to reach 2.1% at the end of 2018, 2.7% in 2019, and 2.9% to 3.0% in 2020.

HOUSING

The housing market was strong for most of 2017 as smaller, more economic housing was built for millennials. The boost in housing that started in late 2017 was far more than had been previously predicted, but some of the boom was due to the recovery efforts caused by Hurricanes Irma and Harvey in the fall. There are a number of factors that will affect the U.S. housing market in 2018, which could be quite positive, including: moderately rising mortgage rates, President Trump’s new tax reform plan, the low risk of a housing bubble/crash, millennials coming into the home buying market, a trend of government deregulation, labor shortages pushing up the cost of production and incomes, and a strong economy. At least in the near term, it looks like the housing market will remain



On December 22nd, 2017 President Donald Trump signed into law the Tax Reform Act of 2017 (H.R.1.). With the Act going into effect January 1st, 2018, there is a potential for a modest lift to economic growth including a boost to corporate earnings through an incentive to bring back equity overseas and put it to work in the U.S.

reasonably firm which will boost the U.S. GDP.

PRESIDENT TRUMP

Since President Trump's victory in 2016, the stock market has risen dramatically. The Dow Jones Industrial Average (DJIA) has spiked an incredible 6,500 points since the election and has since reached over 75 records. Since reaching 20,000 points for the first time on January 25, 2017, the Dow Jones ended the year at a high of 22,830.68. Much of this rise is due to the perception that the Trump Administration is good for business and part is due to his administration cancelling over 900 job billing regulations and putting a moratorium on new regulations until our economy improved significantly.

Other major actions by the Trump Administration during the first year include the following:

- President Trump signed an Executive Order that revoked or negated over a half dozen orders from the Obama Administration dealing with the issue of climate change.
- The Trump Administration passed a travel ban for a number of countries that were considered breeding grounds for terrorist activity with the Federal government recently upholding the travel bans.
- On October 26, 2017, President Trump declared Opioids a U.S. Public Health emergency. His declaration will redirect resources for rural areas and he is expected to grant more funding to stop this crisis in the future.
- The Trump Administration failed to get Obamacare repealed and replaced as the Bill did not pass the House

and the Senate. Expect a new version of "Repeal and Replace" in 2018 as health insurance costs continue to skyrocket out of control throughout the country.

- The Trump Administration has backed an effort to curb the level of legal immigration by proposing a "skills based immigration system" as a way to protect American workers by reducing unskilled immigration and creating a merit based system that grades possible immigrants based on their ability to work in the United States.
- However, the single most important act completed was the Tax Reform Act of 2017 (H.R. 1.), which passed both the House and Senate and was signed into law by President Trump on December 22nd, 2017. It was put into effect January 1, 2018 with most of the provisions for individuals set to expire after 2025. There is a potential for a modest lift to an already fairly healthy economic growth, including a boost to corporate earnings, an incentive to bring back some of the several trillion dollars overseas and put it to work in the U.S., higher take home pay for most taxpayers, and further increases in the stock market. Notable items in the new tax bill include: lower individual income tax rates, doubled estate and gift tax exemption rates, reduced corporate tax rates to 21%, expanded use of college savings accounts to pay for education, expanded charitable deductions to 60% of Adjusted Gross Income (AGI) and no change to capital gains, and retirement plans and IRAs.

U.S. PROPERTY SECTORS AND MARKETS.

For the eighth consecutive year, the Urban Land Institute (ULI) and PricewaterhouseCoopers (PwC), in their joint publication, *Emerging Trends in Real Estate 2018*, have indicated that “U.S. property sectors and markets will continue again to be the top choice for investment dollars.” The current real estate cycle has now continued for 97 months and is the third longest cycle in U.S. history. Investors are now describing the cycle as reasonably mature, but expect a long glide path for the economy and the industry, extending the current cycle through 2018 and beyond. Financing continues to be difficult to obtain which is reducing development activity as less financially capable developers are pushed out of the market due to a lack of equity.

Perhaps the biggest concern that will be faced by investors going forward is the replacement of over \$350 trillion in financial instruments that use LIBOR as the benchmark for transaction pricing and interest rate adjustment.

Real estate capital managers are pouring over maps as they determine the destination for available funding. In essence, the money is flowing into something resembling the Hub-and-Spoke pattern familiar to the major carriers. More service is being provided to select secondary cities and suburbs where customer demand continues to rise. It’s interesting that major investors expect a soft landing after this extended bull market as earlier expansions saw “hard landings,” such as: the collapse of the savings and loan industry in the late 1980’s, the bursting of the dot-com bubble at the end of the 1990s, and the cataclysm of 2008 as the subprime lending bubble triggered a systematic financial meltdown. Perhaps the difference is the lack of a “late-cycle optimism” which acts as a hedge against risk. Indicators, such as a very low unemployment rate, the policy shift toward tightening at the Fed, and high asset prices in both real estate and soft equities, are causing some investors to simply move to the sidelines.

However, there is over \$350 billion of available capital seeking high-quality properties. Pricing has continued to rise as cap rates decline. Institutional buyers are less concerned about debt leverage, as they are placing more equity into these investments as lenders reduce their loan to value. However, acquisitions are becoming especially selective. This is evident in the fact that some of the core markets having cap rates so low that it is pushing many of these investors to secondary cities where they can achieve a higher return on their investment. For the first time ever, this is bringing significant international money into cities across the Southeast and Midwest. While short term and long term interest rates are projected to increase somewhat in 2018, we saw little or no effect of the small rate hikes in 2017.

Perhaps the biggest concern that will be faced by investors going forward is the replacement of over \$350 trillion in

financial instruments that use LIBOR, or the London Interbank Offered Rate, as the benchmark for transaction pricing and interest rate adjustment. Since November 2016, a working group comprised of 15 government and private sector institutions, known collectively as the Alternative Reference Rates Committee, have been carrying on an intensive examination of possible replacements for LIBOR. Because some of the alternative benchmarks under consideration are rates such as the Treasury Repo Market, there is an expectation that interest rates will decline as the LIBOR Benchmark is replaced.

For the past four years, industrial has been the top ranked property sector, and it will remain so in 2018. Market fundamentals have only gotten better due to supply and demand being in balance, market vacancies at historic low levels, and unleveraged total returns still running in the double digits. Additionally, demand has been better than expected with net absorption on pace to reach nearly 1.5 billion square feet over the five year period, a streak that has not been seen in nearly 20 years.

Medical and multifamily will be the next best investment categories followed again by office and retail. The multifamily sector will not be as strong in 2018 as it was in 2017, which may go down in the books as the post great recession high watermark in terms of new construction and rental rate increases. The office sector, while improving, is now focusing on “live-work-play” locations where millennials, the largest working class, will be able to find office space that can fit their needs and desires. On the retail side, grocery anchored retail continues to be very strong. Meanwhile, Amazon will move further into the grocery sector. It is expected that grocery anchored retail centers will have good restaurant opportunities and an entertainment feature leading the way as best in class performers in 2018 and beyond.

In 2018, real estate will again command an attractive spread over fixed income investments. During 2018, expect the equity markets to stay strong and keep pace, just as they did in 2017. As expected, investors are already beginning to sell bonds as interest rates rise. While new bonds with higher interest rates will make this investment vehicle more attractive, they still cannot compete with the equities market, or real estate, where investors receive high single or double digit returns.

Investment activity by foreign and U.S. institutional investors will continue to increase, but will be directed towards markets that are achieving higher competitive investment returns. This will mean that while in the past, 18 and 24 cities have received the most attention. A much larger pool of investment capital will be deployed in the south, southeast, and also in secondary cities that are well positioned for growth. As always, big employment and tech centers in the south, southwest, and coastal cities will continue to receive the vast majority of this money; however, it will be more pinpointed to specific areas in markets where growth is clearly visible.

The top trends in real estate for 2018, according to *Emerging Trends in Real Estate*, include:

- **Long Glide Path to a Soft Landing:** Very few markets are descending into the hyper supply phase. Therefore, we should view this part of the market as a long cycle propelled by the “new normal” of generationally low interest rates.



Hurricanes Irma and Harvey struck the U.S. in 2017 causing major damage to the Florida and Houston, Texas areas respectively. Due to the destruction of homes by these storms, an already strong housing market saw an additional bump in starts in late 2017. The housing market looks to remain firm in 2018, which will add a boost to the U.S. GDP.

- **Working Smarter and Working Harder:** Even though millions of jobs have been added in this recovery, the overall growth of the economy has still been disappointing. Under the Trump Administration we are looking at the potential for a new era of growth. While you will see space compression it will be modulated by a provision of “creative commons,” areas where office workers can move away from their solitary task for more interaction with co-workers. This is a result of smart properties and smart human resource management working together. The biggest trend is towards flexibility and quality as real estate facilities will move from being over-head to a means of improving productivity and employee engagement.
- **Procession of the Generations:** Millennials have grown to be the largest class in the work force, but we are now seeing the emergence of Generation Z. This generation has never known a low stress social environment as they were shaped by 9/11, the Great Recession, income equality and political polarization. Because of this, Generation Z will seek stability, staying ten or more years with an employer as compared to the millennials who look to move after three or four years. Generation Z wants more structure, and while they will not dismiss collaborative space, there may be the return of more structured, personal office space. They are also the generation with the most technology impact in terms of social, mobile, and interactive devices.
- **Do Not Forget the Baby Boomers:** Unfortunately, nearly 37% of boomers have less than \$50,000.00 in savings to draw on. In many cases they will be staying in the work force longer and retiring later.
- **It is Different This Time...Isn't It?:** Secondary markets are seeing an increased level of interest just like they did in the 2005 to 2007 period. This time, however, secondary markets have much more staying power. More importantly, investors have taken the time to educate themselves about the nuances of secondary markets and also understand that these markets have not suffered the level of overbuilding as in previous cycles.
- **Housing at a Technological Tipping Point:** Housing is about ready to change dramatically with on-site factory construction, robotics, 3-D printing, componentization, and a growing number of hybrid construction workflow systems and models blending two or more of these technologically advanced processes.
- **Retail Transforms and Stores Remain:** American retail space is changing at the fastest pace since the introduction of regional malls in the 1950s and the widespread proliferation of discount big box in the 1980s. eCommerce is beginning to change how we view retail, and that will require the deconstruction of



Kansas City, Missouri residents voted to approve a new single terminal at KCI in 2017. After a lengthy decision making process, Edgemoor Infrastructure and Real Estate was chosen to be the developer. The City Council however voted in December to reject the initial Memorandum of Understanding but eventually voted to continue negotiations with Edgemoor with hopes of concluding an agreement by the end of January, 2018.

department stores, changes in apparel manufacturing, changes in consumer demographics and preferences, and advances in retail technology. Retail property is not going away, but it is changing.

- **Tax Reform:** It has been a generation or more since the tax system has been given a thorough overhaul. The Reagan era of Tax Reform Act of 1986 has been repeatedly tweaked, but continues to be the basic framework for federal taxes. Corporate and individual tax rate reductions will spur the economy. The new Reform Tax Act of 2017 will spur the economy.
- **Replacing the Yardstick:** With the replacement of \$350 trillion of financial instruments that make LIBOR, we will see a voluminous increase in document redrafting in order to bring in new measures of interest rates.
- **Blockchain as the New Web 3.0?:** Blockchain gives internet users the ability to create value and authenticates digital information. There are many new examples of the use of Blockchain technology including Uber and Airbnb which enable peer-to-peer payments, and others like Open Bazaar, Mycelia, and a host of others. Expect Blockchain to grow further with crypto currencies such a bitcoin expanding and potentially becoming the digital currency of the future.

By 2025, the real estate industry will consist of 25% to 35% fewer firms than exist today. Legacy retirements and exits, the inability to compete and retain a competitive advantage, capital limitations that inhibit or prevent investments in the future, and inability to create a substantial future will cause this reduction. By 2020, the use of telepresence robots, 3-D

printing, gesture-controlled devices, augmented reality and wearable technology will change real estate technology from a place to work, live, and shop to an experience. The real estate industry, at this point, is only 20% to 30% fully engaged with technology, so expect major changes to the industry for the next few years. Disruptive technologies are those which change the way we work, live, interact, etc. One of these is Amazon's goal to break into the \$800 billion grocery market via Amazon Go, AmazonFresh, and Amazon Prime Pantry. Amazon expects to be one of the top five grocers by 2025. Another is robotics and artificial intelligence (AI). In 2019, spending on this will exceed \$188 billion. In the U.S., the industrial robotics market will be valued around \$80 billion by 2022. The AI market is suspected to grow to a \$5 billion industry by 2020. Up to 33% of all jobs will be replaced by software, robots and/or smart machines by 2025.

KANSAS CITY ECONOMY

The Kansas City economy continued to grow at a slightly faster pace in 2017 than it did in 2016. Employment sectors leading the increase, included: the automobile industry, information technology (IT), health services, technology, and financial services. Employment growth continued in the leisure and hospitality industries, manufacturing, trade transportation, and utilities and professional services. However, the influence of eCommerce and intermodal activity in the Kansas City area increased substantially over 2016, making the three-year trend the strongest in the city's history. Kansas City is now one of the top three eCommerce cities in the country.

As in 2016, the hospital sector continued to expand in

2017. Major projects continued for the University of Kansas (KU) Hospital, HCA Midwest Health, Shawnee Mission Health, and the St. Luke's Health System. While KU was completing their new 118,000 square foot hospital facility at 107th Street and Nall Avenue, HCA Midwest Health was beginning its expansion in the new Roe Medical Centre I facility at I-435 and Roe Avenue. HCA has continued to expand all of its area hospitals, but felt it needed a larger presence in the I-435 Corridor to increase their visibility.

Cerner continued their expansion at their new \$4.45 billion Innovations campus. The campus, located in South Kansas City, will eventually support 15,000 workers and features a fitness center, wellness clinic, dining hall, and a host of other amenities. Plans are also being considered that would add some retail and housing accommodations to the complex.

Amazon continues to expand in the Kansas City Metro opening two facilities. One facility located at Logistics Park Kansas City in Edgerton and in the other located in Kansas City, Kansas. Each facility employed approximately 1,000 workers in 2017. Expect Amazon to offer same day parcel delivery service in Kansas City in 2018. Additionally, Amazon is considering 238 cities and regions across North America for its HQ2. This will be a second office headquarters for Amazon, giving the winning city nearly 50,000 high-paying jobs, a promised \$5 billion in construction spending, and the prestige of having a headquarters for one of the fastest growing best-known tech companies in the world. Moody's Analytics has already crowned Austin, Texas and the New York Times has chosen Denver, Colorado as the next site. Expect a decision sometime in 2018 on this major building development. While Kansas City presented an extremely attractive proposal in terms of capital and operating costs, it is unlikely that we will win due to the lack of a new airport not being in place, as well as a deep enough labor pool to support the new campus.

The Kansas City Streetcar topped two million rides in May 2017 and over three million rides before year end. A plan is now underway to extend the Streetcar routes south to the University of Missouri - Kansas City and north to Berkley Riverfront Park.

Two other major actions took place in Kansas City in 2017. Those actions included: the passing of three general obligation bond issues and the stunningly lopsided approval by the voters of a new single terminal at Kansas City International Airport (KCI). After a lengthy decision making process, Edgemoor Infrastructure and Real Estate was chosen to be the developer of the new KCI single terminal airport, beating out other strong candidates including: AECOM, a leader in aviation engineering projects, and the hometown team lead by Burns & McDonnell, the original company that suggested the KCI financing plan to the city. However, in a stunning surprise, the Kansas City Council voted 9-4 to reject an ordinance authorizing City Manager, Troy Schulte, to execute a Memorandum of Understanding with this group. However, seven days after

the rejection, the City Council voted to continue negotiations on a memorandum of understanding with Edgemoor. The resolution lays out a schedule of negotiating sessions that seek to reach an agreement or impasse by the end of January. During that seven day period, Burns & McDonnell announced they were joining the AECOM team and stood ready to make the deadlines if Edgemoor was out. This team now has the strongest local partners of any team and could be a strategic joint venture to develop our airport, should that opportunity come back around. The goal of building a new airport for the Kansas City Metro is to attract new and larger businesses to our market. In order to do this, a larger airport with more viable connections and air routes is required. The new KCI airport will be completed at a cost of about \$964 million dollars by the end of 2021. Separately, the three "Go KC" bonds totaling \$800 million for a comprehensive capital improvements program was approved by voters on April 4, 2017. The city will spend the first \$40 million in 2018. In total, \$600 million in bonds will be used to repair streets, bridges and sidewalks, \$150 million in bonds to improve flood control, and \$50 million in bonds to repair public buildings.

The Kansas City Streetcar Authority, which opened the streetcar system on May 6, 2016, celebrated its first birthday in 2017. The Kansas City Streetcar topped two million rides in May 2017 and over three million rides before year end. The streetcar system currently in place has blown past its original forecast of 2,700 rides per day with about 5,500 average daily rides. A plan is now underway to extend the streetcar routes south to the University of Missouri - Kansas City and north to Berkley Riverfront Park. These extensions, if approved by voters, will begin to make the streetcar system a truly beneficial way of moving people around Kansas City without the use of automobiles.

One other major project in 2017 was CenterPoint Properties taking title to the former Bannister Federal Complex, a 300-acre redevelopment site in South Kansas City on November 15, 2017. Bannister Transformation Redevelopment retained CenterPoint as project manager for the estimated six year demolition and remediation phase at the site. The site is being transferred by the National Nuclear Security Administration, which previously occupied most of the 5 million square foot Bannister Complex. Once the site is remediated, the developer anticipates more than 1,000 jobs will be created from the start of the project to finish.

Other big announcements in 2017 included Sprint Corporation marketing parts of its Overland Park, Kansas campus for sale for the first time ever, hiring global real estate firm Cushman & Wakefield to assist in the effort. The Sprint Campus, located at 119th Street and Nall Avenue, consists of 17 brick buildings and was built to accommodate 14,500 employees. Sprint has since downsized to about 6,000 employees and now is selling either empty or under-utilized buildings on the campus.

The \$39 million conversion of Kemper Arena, originally to be named Mosaic Arena, started in September 2017 and will result in a two level facility to accommodate indoor soccer, basketball, volleyball, gymnastics, dance, fitness, running, and other activities. The National Soccer Training headquarters, now under construction at 98th Street and Parallel Parkway, in Kansas City, Kansas, opened for business at year end 2017.



47 Madison, a proposed 245-unit, luxury 15 story residential tower proposed by BRES, received approval from the Kansas City Council with construction projected for late 2018. The project will be located at the west end of the Country Club Plaza at 47th Street and Madison Avenue.

The National Training and Coaching Development Center, at a cost of \$80 million, will house Sporting Kansas City fulltime, as well as the U.S. Soccer coaching and educational programs.

A California based investment partnership broke ground on the first phase of The Grove, a 1.2 million square foot, \$220 million mixed-use project in Lee's Summit, Missouri. Lee's Summit, LLC, an affiliate of Westcott Investment Group, plans to build 602,000 square feet of industrial and flex space, 95,000 square feet of office, 88,225 square feet of retail and restaurant, 384 apartment units totaling 506,950 square feet, and 1,548 structured parking stalls along with 1,026 surface parking spaces. A \$15 million renovation and restoration of Kansas City Museum's Corinthian Hall got underway. The 77-year old museum was funded by \$6 million from the City's Museum Mill Levy, \$1.25 million in private fund raising, and \$8 million from the recently approved Go KC Bonds.

BRES began construction of their \$93 million dollar office and restaurant tower at 46 Penn Centre in the Country Club

Plaza. The building, which will be 14-stories high on 1.7 acres and will total over 220,000 rentable square feet, will be an iconic building with over \$600,000 spent on exterior lighting effects. The former Metcalf South Shopping Center, now named 95 Metcalf South will be renovated into a \$180 million dollar development with 14 buildings on the property. Lowes is expected to be one of the main users and is targeted to open in the summer of 2018.

47 Madison, a proposed \$90 million 245-unit, 15-story apartment tower project proposed by BRES, received approval from the Kansas City, Missouri City Council at the beginning of 2017. Plans are underway to get construction started in 2018 subject to completion of equity and financing.

Price Brothers acquired the 10-story Valencia Place office tower occupied by Lockton Insurance from Taubman Centers Inc./Macerich Company. NorthPoint Development completed the sale of a majority stake in ten fully leased industrial buildings totaling 6 million square feet to Los Angeles based Ares Management, LLC at a price of approximately \$330

million. A new mixed-use retail and multifamily development at 115th Street and Nall Avenue, at a total price of \$182 million, received City Council approvals in late 2017. BRES will be handling the development of the project which will consist of a grocery store anchored retail center of about 240,000 square feet as well as 548 units of apartments.

Garmin also broke ground on their headquarters expansion which will add up to 2,600 jobs. UPS, the second largest package delivery service in the country, will also add 400 permanent positions on top of their seasonal hiring of 2,100 workers for their new distribution center in Edgerton, Kansas. Additionally, the Brookridge development, which is planned to be nearly 5.5 million square feet of office, retail, multifamily and support services, received its plan approvals in 2017, but still needs additional approvals and economic incentive agreements to be fully ready for development.

Also, a year-end announcement by The Woodbury Corp for a \$305 Million redevelopment of the Great Mall of the Great Plains into a sports and entertainment-oriented project may have legs. The site still qualifies for Star Bonds after a December 2016 extension of the Star Bond application by the City of Olathe.

Xceligent, Inc., a Blue Springs commercial real estate data company, will liquidate through Chapter 7 bankruptcy in the wake of a legal fight with giant competitor CoStar Group, Inc. CoStar had sued Xceligent in December 2016 claiming it had participated in a “brazen and widespread theft” of CoStar’s data and photos. The firm’s 250 employees were let go on December 14th, 2017.

Perhaps the biggest of all real estate announcements in 2017 was the sale of the Corporate Woods office park to Group RMC Corp., a New York based co-investment and management firm. The transaction included 22 buildings in Corporate Woods from the previous owner, a joint venture including CenterSquare Investment Management and Stoltz Real Estate Partners. While the purchase price was not disclosed, sources said it was in excess of \$300 million dollars. BRES has taken over as the exclusive leasing and management agent for the office buildings and retail shops at the project. Group RMC also acquired the 806,864 square feet Colony Realty Partners office portfolio in 2016 which is also being managed and leased by BRES.

KANSAS CITY REGIONAL

The region’s gross regional product (GRP) grew at an annual rate of 2.2% in 2017, faster than the 2.0% in 2016. The region’s GRP is expected to remain steady at 2.3% in 2018 and 2.4% in 2019.

Employment growth will continue to remain strong relative to labor supply growth, which again will put downward pressure on unemployment and put pressure on wages. In 2017, there were 19,000 new jobs in the Kansas City Metro. Job growth however is expected to expand further in 2018 to 20,000 jobs and then to drop back to 18,000 jobs in 2019. As in the past, medical services, technical, scientific, and professional service industries added the most new jobs, while declines continued in retail, communications, manufacturing, and government employment. The construction sector was quite strong in 2017 and is expected to remain firm in 2018.

At year-end 2017, Kansas City’s unemployment rate was 4.4%. Additionally, Kansas City’s real median household income increased by 6.4% again in 2017. This trend should continue, although slightly lower, in 2018.

The Kansas City Metro again shows strong economic strength compared to other large metropolitan areas. Economic strength ratings are created by Polycom Corp. to study the characteristics of strong and weak economies, and determine which ones have rapid consistent growth in both size and quality and for an extended period of time. In 2017, Kansas City still ranked high at 24, but down 6 spots from its ranking of 18 in 2016.

Kansas City currently ranks 17th in GDP, 12th in quality jobs, and 14th in real median household income. However, its rank on how fast these are growing is 19th, 20th, and 24th respectively. For Kansas City to be considered a “Primary City,” the city will need to increase economic resilience in the face of uncertainty, and civic leaders will have to focus on improving the drivers of regional prosperity: trade, innovation, and entrepreneurship.

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KANSAS CITY’S LOCATION

Kansas City continues to benefit from a long list of strong attributes, such as its location in the middle of the country and in the central time zone. This 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 8.79 million people in Kansas, Missouri, Iowa, Illinois, Nebraska, Arkansas, and Oklahoma; for these communities, it is the tourist destination.

The Kansas City Metro is home to over 2.57 million people and to a number of significant corporate headquarters, including: H&R Block, Hallmark Cards, DeBruce Grain, DST Systems, Garmin International, Burns & McDonnell, Cerner Corporation, American Century, BATS Global Markets, Inc. Black & Veatch, AMC Entertainment, Commerce Bank, UMB Financial, Westar Energy, YRC Worldwide, Seaboard Corporation, Great Plains Energy, JE Dunn Construction Company, Lansing Trade Group, LLC, and a host of others.

Our residents are very well educated with over 41% having a college degree and over 93% having a high school education. Fifteen institutions within the metro area offer graduate degrees in numerous disciplines. Additionally, the University of Missouri and the University of Kansas offer professional degrees in law, medicine, dentistry, and pharmacy. Kansas State University offers Bioscience and Biotechnology programs, and the Kansas City University of Medicine of Biosciences offers degrees in Osteopathic Medicine. The Lewis White Real Estate Center at the University of Missouri-Kansas City Henry W. Bloch School of Management continues to rank as one of the premier master programs of real estate in the country. Other colleges and universities in and around Kansas

City include: Devry University – Missouri, the Kansas City Art Institute, Ottawa University, MidAmerica Nazarene University, Cleveland Chiropractic College, Rockhurst University, William Jewell College, Webster University, University of Phoenix, Avila University, Missouri Western State University, and a host of others.

SPORTS AND ENTERTAINMENT

Kansas City continues to rank as 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, Kansas City Mavericks, Kansas City Comets, Kansas City T-Bones, Kansas City Tornados, and Kansas City Renegades. Also, major college and university teams from the University of Kansas and the University of Missouri - Kansas City, the Kansas City Chiefs, Kansas City Royals, and Sporting Kansas City have each reached the pinnacle in their sports in the past and have brought national visibility to Kansas City.

Due to its location in the center of the country, Kansas City is home to a variety of entertainment venues including: the Kansas City Zoo, Oceans of Fun, Union Station, Worlds of Fun, Schlitterbahn Vacation Village, Community America Ballpark, the Kansas Speedway, Lego Land Discovery Center, Sea Life Aquarium, Silverstein Eye Centers Arena, the American Royal Barbeque and Rodeo, City Market, Top Golf, and six area casinos. In addition to these amazing venues, the 18th and Vine Jazz District, Snow Creek Ski Resort, the Plaza Art Fair, Westport Art Fair, Wyandotte County Fair, Overland Park Arboretum and Botanical Gardens, Powell Gardens, and the Kansas City Renaissance Festival as well as many other venues

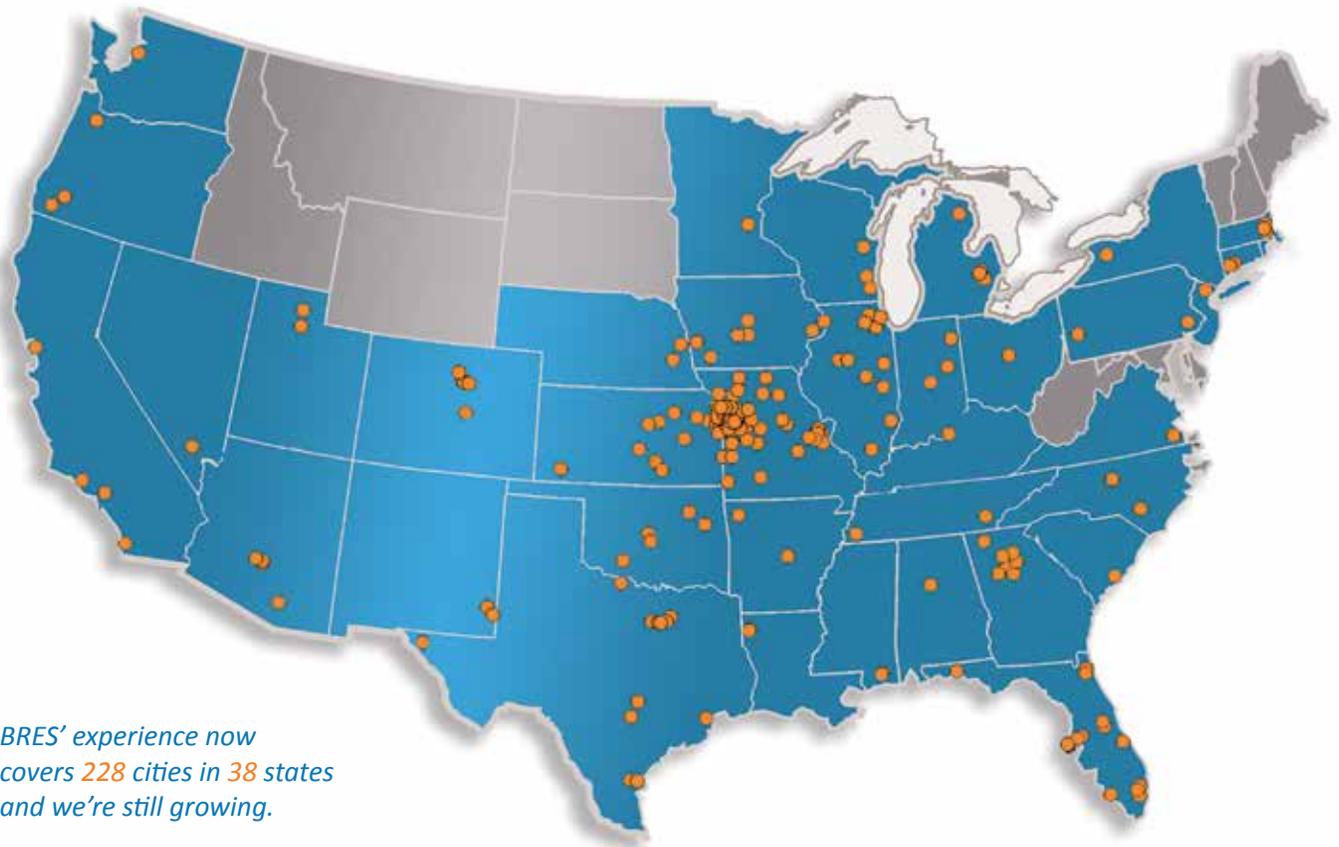
provide a variety of entertainment options in Kansas City.

KCRise Fund, a venture capital side car fund with a mission of encouraging early stage investment in Kansas City based companies, continues to provide funding to promising entrepreneurs. In 2017 they provided funding to PEQ, which is an IoT service enabler, as well as DUNAMI, which provides a big data analytics platform designed to give companies the insights they need to build their business, drive their brand, and secure their interest. Also, Grabforce Kansas City, which was formed in 2014, has a 2025 goal to have 60% of the U.S. population hold an associate degree or higher. Grabforce Kansas City focuses on helping two primary populations: first generation college students and adults who are returning to college. By increasing the number of higher education degrees for young adults in Kansas City, there is more opportunity for young people to advance their careers in our area.

UNPARALLELED TRANSPORTATION PRESENCE

The Kansas City metropolitan area is served by nine major commercial airlines and their connection partners. These carriers offer over 200 daily departures with non-stop service to nearly 70 destinations. Kansas City's new air modal center, adjacent to KCI, continues to strengthen cargo shipment capabilities and distribution opportunities together with several intermodal locations located in our community. Kansas City is now recognized as one of the top three cities in the nation for cargo distribution.

Kansas City is also ranked as one of the top four distribution centers in the country. It has the number one ranking by rail freight volume and the number two ranking of largest rail carriers in the U.S., behind Chicago. Kansas City's



BRES' experience now covers 228 cities in 38 states and we're still growing.

new rail intermodal hubs, one by Burlington Northern Santa Fe Railroad, and one by Kansas City Southern Railroad, joined existing hubs run by Union Pacific and Norfolk-Southern, further strengthening Kansas City's reputation as a top four 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 multiple times per day. Four Interstates, I-70, I-35, I-29, and I-49, serve the Kansas City metropolitan community. Additionally, the city has four additional linkages, including I-635, I-470, I-670, and I-435. Kansas City is further served by 10 federal highways, thereby providing a superior traffic system throughout the region, and I-35, known as the NAFTA Highway which stretches from Mexico to Canada, continues to enhance and expedite the flow of distribution, not only in the metropolitan area but also throughout the U.S.

KANSAS CITY ANIMAL HEALTH CORRIDOR

The Kansas City Animal Health Corridor, which stretches from Manhattan, Kansas to Columbia, Missouri, continues its long-term growth as it has for the last several years. The corridor now represents 35% of all sales in the global animal health market, which now totals \$22.95 billion. More than 300 animal-related companies operate in the region, including Boehringer Ingelheim VetMedic, Inc., Nestle Purina PetCare Company, Hill's Pet Nutrition Inc., Pfizer Animal Health, Ceva Animal Health LLC, MRI Global, AgriLabs Inc., Bayer HealthCare Animal Health, Argenta, ZuPreem, MWI Veterinary Supply, Inc., TVAX Animal Health, FitBark, Inc., KC Canine, US Animal Health Association, Cereal Food Processors, Inc., and several others. Kansas City Area Life Sciences Institute, Inc., together with major life science partners, including Kansas City Animal Health Corridor, Midwest Research Institute, Kansas City University of Medicine and Biosciences, the National Bio and Agro-Defense Facility, and the Stowers Institute for Medical Research, have continued to propel Kansas City forward as one of the top five national life science cities in the country. In Kansas City alone, the life sciences industry has spent more than \$1.7 billion in research during the last 14 years, which puts it among the top three areas in the country for life sciences research. With the Stowers Institute, Midwest Research Institute and others searching for the top leaders in the life sciences sector, Kansas City will continue to expand and become a top life sciences leader in the country.

CITY RANKINGS

The Kansas City Area Development Council, ranked the number one regional economic development team in the U.S. in the 2014 *Winning Strategies Report*, and which continues to rank in the top five in 2017, is the major promoter of the Kansas City region. The organization helps sell companies on Kansas City when they are evaluating relocation options. Kansas City ranks very high in a number of areas, including number three in the 10 best US Cities for real estate investors, number 15 in *Travel+Leisure* magazine America's Best Cities for Hipsters, number seven Best Place to Retire, number eight Top City for Tech Start Ups by *Entrepreneur.com*, number 11 for America's Best Downtowns, number five for Young Entrepreneurs, a top 10 travel destination, number 23 in the country for young brain power, number nine for best park systems in the

nation, number 13 best city in America, number six for female entrepreneurs, a top 10 coolest city in the Midwest, a top three most philanthropic community in the country, number seven on the list of America's smartest cities by *USA Today*, a top eight romantic city by *Livability.com*, number seven overall best city in America to raise a family by *Parenting* magazine. Kansas City also ranks the number 17th best city in America for sports but ranks as the number one city for soccer in the country. Kansas City also ranks as a "smart city" as is one of the most connected cities in the country, thanks to the installation of cutting edge technologies through a \$15 million public-private partnership.

Kansas City continues to be one of the best places in the country for real estate investments, capital returns, and long term yields.

Kansas City also ranks number 31 of the best places for business and careers out of 1,200 U.S. cities with populations between 25,000 and 100,000, based on 33 key indicators of livability. Leawood, Kansas, a community within the Kansas City metropolitan area, ranked in the 99th percentile for desirability and number one on the affordability index.

The Sprint Center continues its ranking as the second busiest venue in the U.S. and the eighth busiest venue in the world. Kansas City continues its ranking as the number one city in the country for barbeque and hosts the largest barbeque event in the country with the American Royal Barbeque Tournament. Kansas City also ranks number 16 as the overall strongest metropolitan area in the country. It ranks number two as the best city for women in tech, number three for the best job market according to the U.S. Census of Bureau American Community Survey, a top five affordable city for millennials according to Zillow, number two best city for jobs according to Glassdoor, number four Greenest City according to *Travel+Leisure*, number three most cultured city in America according to *Travel+Leisure*, number seven on *Travel+Leisure's* list of 20 coolest cities in America and number two on the top 10 budget destinations for travelers according to *Sherman's Travel Blog*. Starlight Theatre was voted the third best outdoor music venue in the nation by *USA Today*. Other Kansas City rankings include fourth most friendly city in America according to *Travel+Leisure*, sixth best city in the country for new startups, and first in the country for affordability by *Travel+Leisure*.

KANSAS CITY METRO RECAP

In 2017, the Kansas City metropolitan area economy remained extremely strong and grew at a steady pace in all property sectors. Kansas City continues to be one of the best places in the country for real estate investments, capital returns, and long term yields. It has been ranked as one of top cities for investments for several years, because it has consistent predictable investment returns. This ranking has continued to attract more institutional and foreign investors to the Kansas City market.

The multifamily sector, in 2017, continued its strong growth as it has for the last several years. Over 4,800 units were constructed in 2017 and another 4,300 units are expected to be under construction in 2018. The multifamily sector will continue to thrive in 2018, although the pace of development will slow based upon demand, rent growth, and less desirable construction financing.

In the industrial sector, speculative development continued to grow and again after 2016 reached the highest square footage in Kansas City's history with over 9.85 million square feet delivered, we saw another 6.17 million square feet in 2017. Most of this space continued to be speculative mid-bulk and bulk industrial property. What's amazing, however, is that while in 2016 over 4.15 million square feet of development was absorbed, we saw over 7.68 million square feet absorbed in 2017. This is the most absorption in Kansas City history. The industrial market will continue to be strong for the next couple of years, however, we are seeing a substantial increase in development competition, which will reduce investment returns and require developers to be far more strategic in their development strategies going forward.

The healthcare sector in Kansas City continued to be extremely strong with over \$725 Million in new healthcare development in 2017 by area hospitals, medical developers, and health service providers. This continued the strong growth of 2016 but we do expect this growth to slow in 2017 as hospitals begin to fill out their capacity in the near term.

The office sector has been slow for the last couple of years, but targeted office development has been successful. However, with only about 20,000 new jobs per year in Kansas City, the office sector has not been able to keep up with the multifamily and industrial sectors in terms of growth. Expect office developments with lead tenants to provide additional high quality "live-work-play" locations in the community, which will attract additional interest by major office users.

The retail sector improved in 2017, but specific niche projects will be the most successful. Again, grocery anchored and entertainment anchored retail projects had the most activity, but we can expect well located projects in the community to still be successful in 2018 and beyond.

The healthcare sector in Kansas City continued to be extremely strong with over \$725 million in new healthcare development in 2017 by area hospitals, medical developers, and health service providers. This continued the strong growth of 2016, but we do expect this growth to slow in 2017 as hospitals begin to fill out their capacity in the near term.

In 2017, more than \$1.85 billion of residential, commercial, and industrial construction was either planned or underway in the metro area. This was still about 18% less than in 2016. We do expect this development activity to

slow in 2018, as interest rates rise and financing becomes more difficult to obtain. As we noted in our annual report last year, there are warning signs on the horizon that include the following:

The Federal Open Market Committee (FOMC) raised the Fed funds index in December 2017 by 0.25% to 1.25% to 1.50% and they expect to raise interest rates again perhaps three times in 2018 and two more times in 2019. Their goal is to reach approximately 2.9% to 3% for the Fed funds index by 2020. As these increases occur, they are expected to slow development activity by increasing the cost and decreasing the availability of construction financing. The key for continued strong economic growth will be how many increases occur and how much growth occurs in the economy, which could be substantially increased based upon significant tax reform.

As we noted last year, neighborhood groups continue to become empowered and NIMBY, or Not In My Back Yard, sentiment continues to increase. In particular, many communities are looking to decrease economic incentive programs but that will quickly reduce development activity. Even Missouri Governor Eric Greitens plans to take action to withhold state low-income tax credits which is a program many developers use in Kansas City and across the state. The reduction in these credits would be a substantial blow to redevelopment activity in our downtown core.

The constant bickering between members of Congress and the "do nothing" attitude that exists in Washington. This needs to change and become more bi-partisan for progress to continue.

Business and government leadership needs to work together consistently to promote the Kansas City metropolitan area as a unified community that desires new business from both inside and outside the community. It is also important to have solid public-private partnership in all 50 separate communities making up the metropolitan area to encourage increased investment and development activity. Investors and area leaders need to strengthen area sentiment toward development and understand that the development community provides the capital for the construction of new projects. In turn, this will create new employment opportunities and a host of other benefits to the community.

When developers are not willing to put their capital at risk, communities will not see the level of continued growth that has been visible in Kansas City over the last several years. All citizens community leaders need to work closely with real estate leaders to provide a solid foundation that can support good development and attract new companies to the entire Kansas City metropolitan area. Kansas City is an amazing community and has so many great places to live and work. Our community will continue to grow and remain a great city economically, culturally, and socially, as long as we have diligent and focused leadership. By everyone working together in a true public-private partnership, Kansas City will continue to remain "a great place to live and work."

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

KANSAS CITY

DOWNTOWN DEVELOPMENT



New York-based shared workspace developer, WeWork, leased 44,000 square feet in Corrigan Station in March of 2017. Located in the heart of the Crossroads Arts District, this four story collaborative office space can host up to 750 members, and features world-class amenities with immediate access to the Kansas City Streetcar.

2017 proves that with older buildings being removed from the inventory, Downtown Kansas City provides a tremendous opportunity for new development to occur.

Downtown consists of several submarkets: the Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads, West Side and West Bottoms and finally extends to the southern border of what is known as Midtown. The overall downtown submarkets include: office, industrial, retail, residential, and specialty real estate. Occupancy has continued to trend upward which has reached the point that allows development to be considered financially feasible.

According to industry reports, the city's approximately \$100 million investment of the streetcar line has sparked more than \$2 billion in new investments since 2016. The focus and opportunity of Downtown Kansas City has been to create a technology-based downtown area that would create interest of both start-up and established companies. While focused on driving companies downtown, the city has been working with developers to increase the amount of residential space, targeting people to want to live in an urban

environment. The goal is to build the downtown area into a metropolitan location where people can live, shop, eat, and go to work all in a centralized area. The free streetcar line has proven to be successful, and a main driving force behind successful development.

RESIDENTIAL

In 2017, it was reported that there were 2,897 multifamily units under construction in Downtown Kansas City, with an additional 1,480 units that are planned in the downtown area for 2018.

Block Real Estate Services, LLC (BRES) has joined with Sunflower Development Group to convert Traders on Grand, a previous 20-story office building, into apartments. The building will have retail on the first floor, office space on the second floor, and the remaining floors will host 206 apartment units. The rooftop will feature a pool and amenity deck where tenants can spend time and enjoy the beautiful downtown views. The basement of the property will have bike storage, a fitness center, a golf driving simulator, a lounge and two movie rooms with one of the rooms locked away in the old Traders Bank vault. Tenants will have access to on-site parking and an electric car share program where they can utilize a fleet



Kansas City-based coworking platform, Plexpod, renovated the historic Westport Middle School in April of 2017, resulting in a 166,650 square foot progressive coworking campus known as the Plexpod Westport Commons. The campus is surrounded by 80 acres of parks in the heart of Midtown and is currently 85% occupied.

Cordish has partnered with New York City real estate development firm Kushner Companies on both One Light and Two Light. They have confirmed interest in developing Three Light and Four Light, two additional towers that are in close proximity to the existing towers and Power and Light entertainment district

of electric cars that the apartment will offer. Rental rates will average \$1.60 to \$1.75 per square foot.

On December 15, 2017, the previous Brookfield Building, a historic 12-story building from the 1930's located at 11th Street and Baltimore Avenue, reopened as Hotel Indigo and is topped with three floors of apartments. This will be the 50th Hotel Indigo in the United States and will be made up of 118 hotel rooms and a 27-unit Fairfax Lofts. Monthly rental rates for the apartments will range from \$1,100 for a 480 square foot one-bedroom unit and go up to \$2,100 for a 1,080 square foot two-bedroom unit. Hotel rates will range from \$209 to \$249 per night. The redevelopment comes with a \$33 million price tag and is being developed by Brookfield Hotel Redevelopment Corp., a Madison, Wisconsin based partnership. The hotel will also be the home to Dott Boss Cocktails & Coffee House, a restaurant which highlights sandwiches, small plates, and craft cocktails.

Cityscape Residential, an Indianapolis based company, is developing a 221-unit project named Crossroads Westside located just east of the I-35 overpass. The new development has sparked controversy in the news as one of the units will sit nearly 20 feet off of the I-35 highway. The project, which includes on-site parking and luxury urban living, is estimated to cost approximately \$40 million and will have an average rent of \$1.65 per square foot.

The Two Light apartment tower is nearing completion and is actively marketing the opportunity for tenants to lease. The 24-story tower is projected to open its doors March 2018. The approximately \$120 million project will have 296-units. The property will have one-bedroom apartments starting at \$1,250 per month and 20 penthouse units that will come with 1,556 square feet over two stories and a price tag of \$5,800 per month. The developer, Cordish Companies, has had previous success with their first project, One Light. Cordish has partnered with New York City real estate development firm Kushner Companies on both One Light and Two Light. They have confirmed interest in developing Three Light and Four

Light, two additional towers that are in close proximity to the existing towers and Power and Light entertainment district

Copaken Brooks and Altus Properties have joined to develop ARTerra which is a 12-story building that will be the first high-rise building constructed in the Crossroads. The \$40.7 million project will add 200,000 square feet of space and 126-units that include studios to three-bedroom apartments. Units will average rental rates of \$2.15 per square foot. Additionally, the building will have retail space on the first floor along with off-street secured parking and an infinity pool. Local general contractor, JE Dunn Construction, is leading the construction and will be integrating a light-gauge-steel framing system that allows for lower construction cost, faster development, and higher fire safety than traditional wood frame construction.

HOTEL

Hilton Hotels worked with Sunflower Development Group to develop a 105-room Hilton Home2 extended stay hotel which opened in December of 2017. The new lodging is located at the intersection of 20th Street and Main Street, right in the heart of the Crossroads District. Amenities of the hotel include a complimentary breakfast, in-suite kitchens, an indoor pool, a gym, and streetcar access steps away. The hotel has a price tag north of \$20 million.

BERKLEY RIVERFRONT DEVELOPMENT

Berkley Riverfront is located south of Riverfront Drive and in-between Kit Bond and Heart of America bridges. The master-planned development totals 85-acres of riverfront property that will include over five million square feet of offices, residential, retail, and entertainment. Currently, construction has started with developer Flaherty & Collins building Union Berkley Riverfront Park, a 410-unit luxury complex with 12,000 square feet of commercial space and structured parking. Amenities will include a resort-style, outdoor pool and sundeck with fitness club, yoga and Pilate's studio, a gaming lounge, and walking paths. There is an additional unique feature in the area called Bar K which will be a dog park and restaurant for locals to enjoy.

With the success of the first phase of the Kansas City Streetcar the Kansas City Streetcar Authority (KCSA) has started the development on two new extensions. One going north to the Riverfront and one continuing south to the Country Club Plaza and University of Missouri – Kansas City campus. New developments along the proposed lines have already been seen with multiple mixed-use projects going into early development.

Contributors: Chip Chalender and Connor Childress, Financial Analysts.



The University of Kansas University Health System leased 65,000 square feet in the Corporate Center at Southlake office building in Lenexa in March of 2017. The additional space will be used to accommodate the institution's growth and already hosts up to 70 employees and counting.

The United States office market vacancy rate fell to 9.5% in 2017, down slightly from 10.9% at the end of third quarter 2016. Through third quarter 2017, the market absorbed 50 million square feet of office space. The 4.1% U.S. unemployment rate, as of November 2017, has continued to be reflected in the strength of the overall office market.

As has been the recent trend, the office market landscape continues to see a move to open and collaborative work space options to accommodate a denser employment population. The continued transition from a baby boomer workforce to a millennial workforce is driving this trend. Today's labor force is further impacting the office market through a vibrant entrepreneurial mindset and a demand for workplace amenities and diversity.

Demand nationally for office space within mixed-use developments offering a work, live, play environment is very strong. Urban core revitalization continues to attract office users and mass transit options are continuing to expand meeting that demand.

In 2017, the office market nationally saw an increase in the average rental rate, to \$24.75 per square foot, up from \$23.97 per square foot, across all classes. Year to date (YTD) delivery of office space was at 66 million square feet with another 154 million square feet under construction.

Growth in the Kansas City market saw increases in both the rental rate as well as YTD absorption. With increased leasing activity, the market saw rental rates increase to \$18.77, up from \$18.07 per square foot for the same time period in 2016. Additionally, the market saw positive absorption of nearly 1.5 million square feet across all classes for the second year in a row.

Class A and B absorption was strong at 1.5 million square feet. This positive absorption was led by strong demand in the healthcare sector particularly several large office leases signed by the University of Kansas Medical Center. The office suites concept has continued to impact absorption with the entry into the market of WeWork taking 70,000 square feet in the freight house district. Demand for high-end office space has helped increase rental rates to \$22.08 per square foot for Class A buildings.

New deliveries and a strong economy across the nation, especially in the Kansas City market, will help drive increased rental rates into 2018. We will be watching to see how tax

policy and midterm elections in the fall of 2018 will shape the country in terms of the overall office market.

SOUTH JOHNSON COUNTY

At the end of the third quarter of 2017, the South Johnson County submarket consisted of about 29.3 million square feet in all building classes. Of that, 2.4 million square feet were available, including sublease space. This equated to an overall vacancy rate of 8.1%, approximately the same as a year ago, with over 400,000 square feet in deliveries with the market showing strong positive absorption.

Significant office leases in the South Johnson County submarket completed in 2017:

- PNC Bank, 146,540 square foot renewal in Corporate Woods
- Physician Office Partners, 52,000 square foot expansion at the Sprint Campus
- Lansing Grain, 38,370 square foot renewal in Corporate Woods
- GE Energy, 29,000 square foot renewal at 7101 College Boulevard
- Allstate, 28,000 square foot relocation on the Sprint Campus
- University of Kansas Hospital, 75,000 square feet at 10710 Nall Avenue
- KU Healthcare Systems, 65,000 square feet at 11300 Corporate Avenue
- Digital Evolution, 33,600 square feet at 6601 College Boulevard
- Multi-Service Corporation, 37,500 square feet at College Hills
- Honeywell Federal Manufacturing & Technologies, 62,575 square feet at the Quintiles Building, 6700 W. 115th Street

The overall average asking rate increased from \$20.78 per square foot at the end of the third quarter of 2016 to \$21.63 per square foot at the end of the third quarter of 2017. The South Johnson County submarket continues to be one of the strongest markets in the metropolitan area.

- Grundfos Pumps Corporation, 58,827 square feet at I-35 & 119th Street Tech Park Building Classes A, B and C reported a total of approximately 115,000 square feet of net absorption through the third quarter of 2017, which includes about 400,000 square feet of new construction delivery.

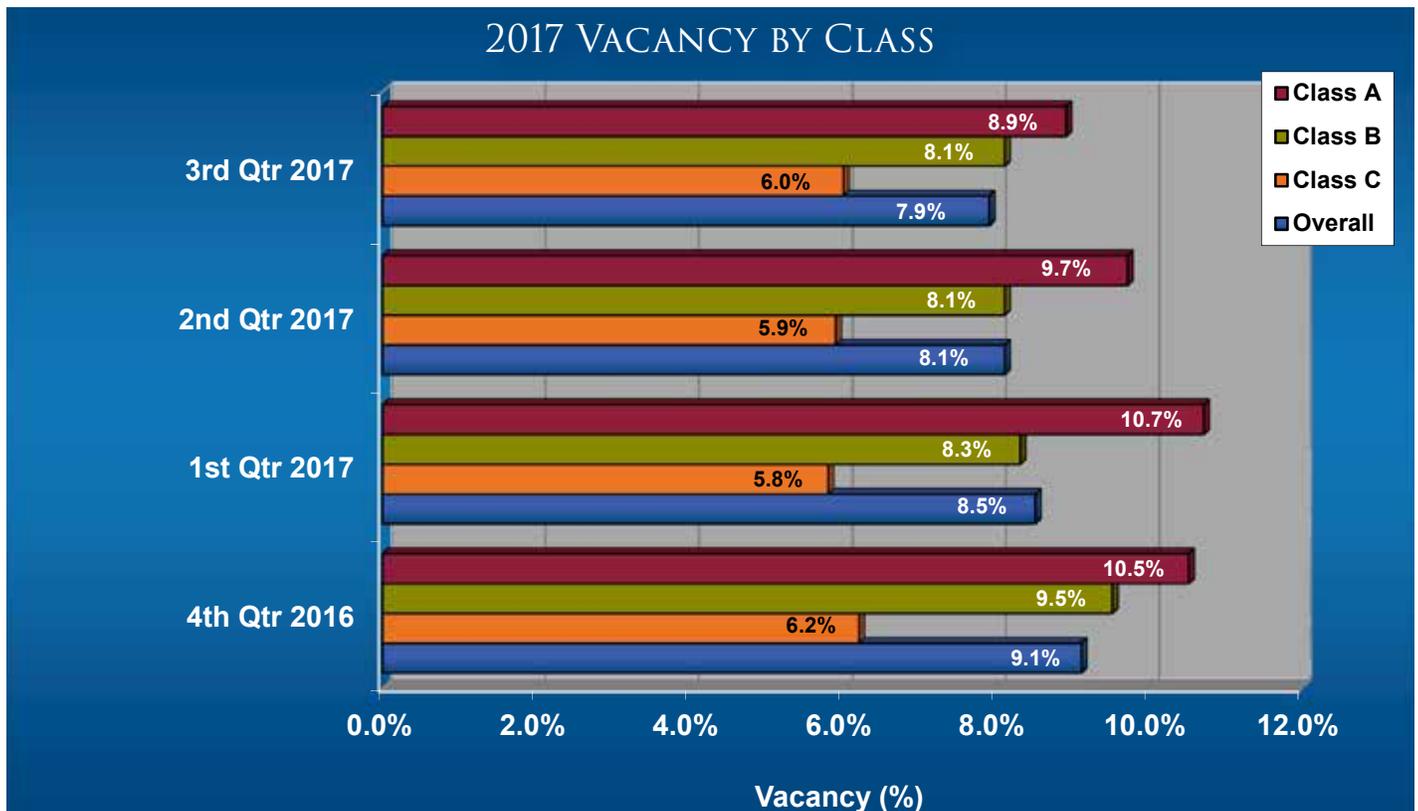
Current deliveries include:

- 6650 West 110th Street, the Diagnostic Imaging building, 76,195 square feet
- Mission Farms West Building, 52,500 square feet
- Nall Corporate Centre II, 149,389 square feet

The overall average asking rate increased from \$20.78 per square foot at the end of the third quarter of 2016 to \$21.63 per square foot at the end of the third quarter of 2017. This reflects strong demand as well as rising construction costs. This submarket continues to be one of the strongest markets in the metropolitan area.

For Class A properties:

Vacancy stood at 7.1% inclusive of sublease opportunities,





Diagnostic Imaging Centers PA moved into their new Headquarters in 2017. Located in Overland Park, Kansas, the newly completed 79,000 square foot building is on the south side of I-435 near Metcalf Avenue. Diagnostic Imaging will occupy approximately 50,000 square feet of the building spread across the first two floors.

down from 8.0% a year ago.

The average asking rate for direct deals and subleases was \$23.43 per square foot at the end of the third quarter, also an increase.

YTD deliveries totaled 350,000 square feet for the South Johnson County submarket with a positive net absorption of about 244,000 square feet YTD 2017.

For Class B properties:

Vacancy stood at 9.1% inclusive of sublease opportunities which is level with 2016.

The average asking rate for direct deals and subleases was \$20.27 per square foot at the end of the third quarter, up nearly \$0.75 per square foot from a year ago.

YTD deliveries totaled 49,000 square feet for the submarket with a negative net absorption of about 160,000 square feet in 2017.

For Class C properties:

Vacancy stood at 6.6% inclusive of sublease opportunities.

The average asking rate for direct deals and subleases was \$16.94 per square foot at the end of the third quarter.

YTD the submarket has a positive net absorption of about 32,000 square feet in 2016

NORTH JOHNSON COUNTY

At the end of 2017, the North Johnson County submarket consisted of about 12.63 million square feet of office space across 670 properties in all building classes. About 1.03 million square feet remained available, including sublease space. This

Despite the recent history of the market struggling to maintain existing tenants and fill vacancies in predominately older product, the North Johnson County market boasted six of the top 40 office leases by square footage in Kansas City for the year.

equated to an overall vacancy rate of 8.2%.

Building Classes A, B and C reported a negative absorption of 21,127 square feet during 2017 which included YTD deliveries of approximately 65,000 square feet. The overall vacancy rate remained relatively stable from 8.3% at the end of 2016 to 8.2% at the end of 2017.

The overall effective asking rate including subleases increased from \$19.39 per square foot to \$19.85 per square foot for the same period, which was influenced by the new deliveries. Despite the recent history of the market struggling to maintain existing tenants and fill vacancies in predominately older product, the North Johnson County market boasted six of the top 40 office leases by square footage in Kansas City for the year.

For Class A properties:

Vacancy stood at 12.5% inclusive of sublease opportunities.

The effective asking rate for direct deals and subleases was \$24.71 per square foot at the end of 2017, which was down from \$26.03 per square foot at the end of 2016.



In September of 2017, senior health insurance brokerage firm, Spring Venture Group, leased 130,000 square feet at 12 Wyandotte Plaza in Downtown Kansas City. The health and life insurance brokerage firm plans to expand their workforce by hiring 400 new employees in the next two years and occupy almost half of the building by the end of 2019.

Net absorption for 2017 was approximately 4,775 square feet.

For Class B properties:

Vacancy stood at 7.5% inclusive of sublease opportunities. The effective asking rate for direct deals and subleases was \$19.10 per square foot at the end of 2017, which was up from \$18.39 per square foot at the end of 2016.

Net absorption for 2017 was negative 1,686 square feet.

For Class C properties:

Vacancy stood at 6.4% inclusive of sublease opportunities. The effective asking rate for direct deals and subleases was \$15.26 per square foot at the end of 2017, which decreased from \$15.34 per square foot at the end of 2016.

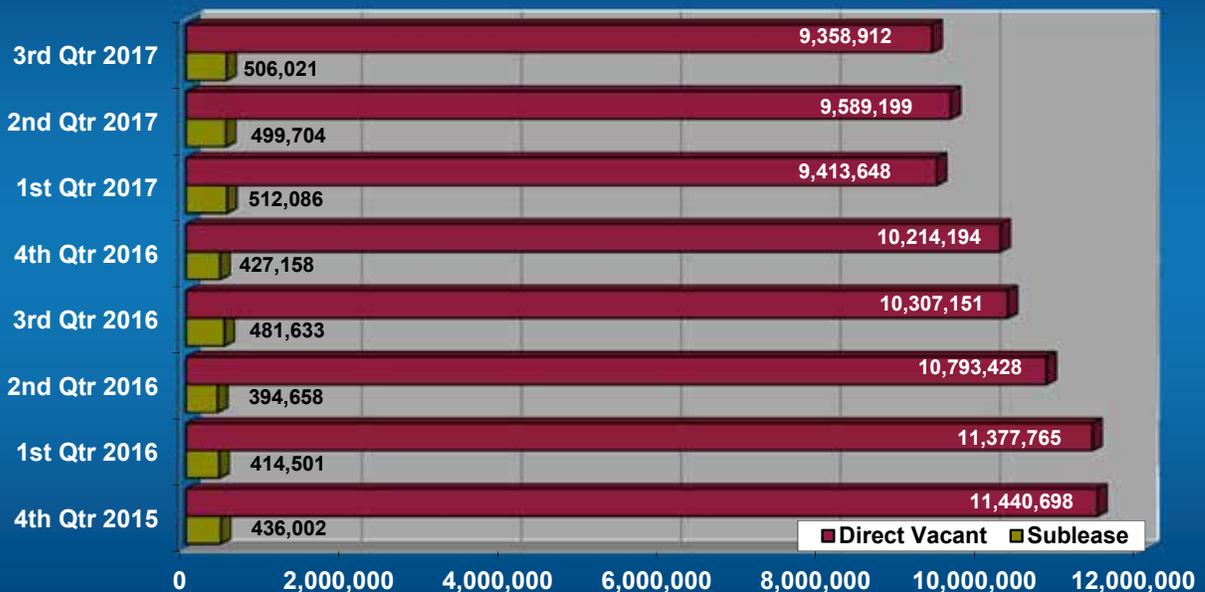
Net absorption for 2017 was negative 24,216 square feet.

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 27.5 million square feet and an overall vacancy which dropped significantly from 10.6% in 2016 to 7.6% at the end of third quarter 2017. The total available space for the Downtown submarket was 2.08 million square feet which includes 110,474 square feet of sublease space.

Overall, Class A properties saw the highest vacancy rate of 13.4%, or 1.17 million square feet, with Class B properties reporting the highest absorption of just under 500,000 square feet. The largest single contributor to this absorption was WeWork occupying 71,000 square foot at Corrigan Station in

KANSAS CITY METRO AREA VACANCY - ALL CLASSES





BRES completed construction and syndication of equity for Roe Medical Centre, a three-story medical office building located on the SW corner of Roe Avenue and I-435, in December of 2017. The 77,987 square foot building features immediate access and visibility from I-435 and unparalleled amenities in the Class A medical market. (Photo taken in December before construction was completed.)

the second quarter. Vacancy rate for Class B property decreased to 4.9% from 8.9% a year earlier, with apartment conversion projects lowering total inventory by about 100,000 square feet. Class C properties had negative absorption of 7,149 square feet and a vacancy rate of 4.7%.

Consisting of 17.5 million square feet, the CBD reported an overall vacancy rate of 7.8%, which was down from 11.7% at the end of the third quarter of 2016, and enjoyed positive absorption of 493,920 square feet. Class A buildings saw the highest vacancy rate for the end of 2017 at 15.2%, lower than the 17.6% vacancy rate reported at the end of 2016.

Class B properties in the CBD consist of 104 buildings and 9.2 million square feet, and experienced a reduced vacancy rate of 4.6% and positive absorption of 347,590 square feet. The Class C submarket consists of 65 buildings and 2.7 million square feet. Class C properties reported a vacancy rate of 3.1%. Overall rental rates in the CBD ended the year up \$.46 at \$18.08 per rentable square foot.

The Crown Center submarket consists of 64 buildings totaling 6.12 million square feet. The vacancy rate at the end of 2017 was 8.7% which is down slightly to 2016 at 9.0%. The nine Class A buildings in this submarket experienced a vacancy rate of 10.7% or 302,888 square feet with negative absorption of 13,315 square feet. Within the 24 Class B buildings, vacancy rates decreased from 6.2% in 2016 to 5.7% at the end of 2017.

PLAZA/MIDTOWN

The Country Club Plaza, also known as the Plaza, continues to demand the highest rental rates in the city at an average

The Plaza market consists of 120 Class A, B, and C buildings. These buildings had a 4.3% overall vacancy, down from 4.8% a year ago, making this the tightest market in the entire metro.

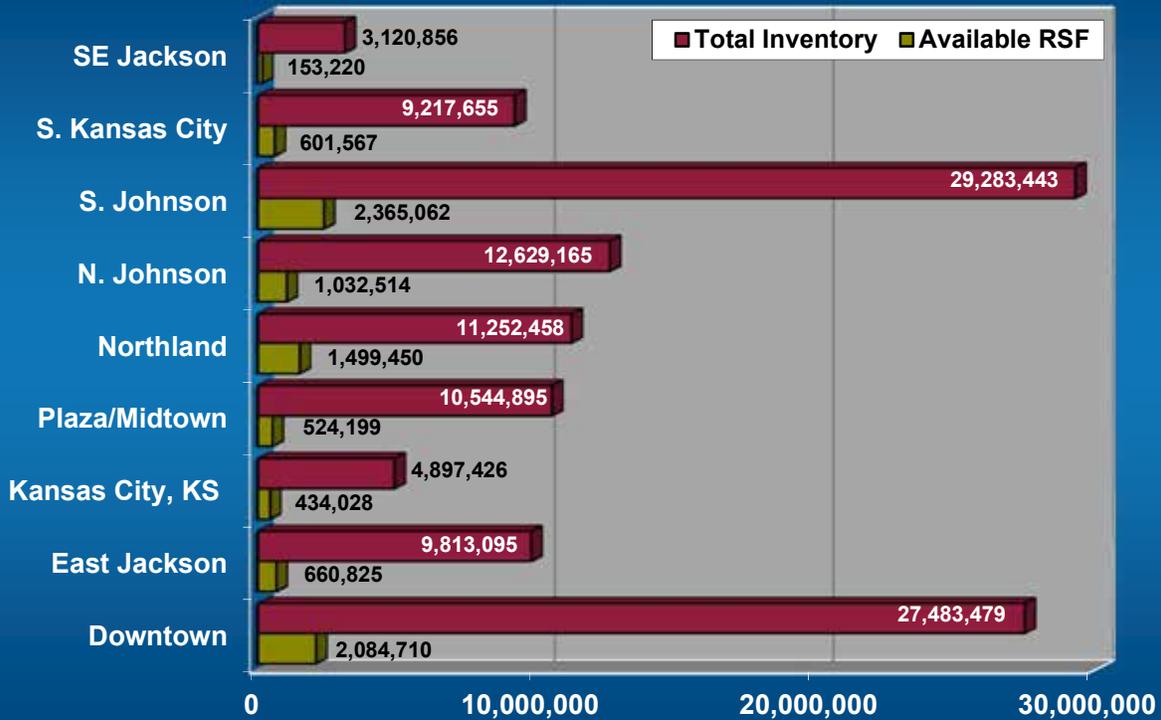
quoted rate of \$24.81 per square foot, up \$1.60 per square foot over 2016. When combined with the Midtown and Brookside submarkets, the area includes over 10 million square feet and boasts a vacancy rate of 5.0%, 2.9% lower than the city average. Options for large users wanting a Plaza address continue to be limited. Vacancies of at least 20,000 square feet can be found in only three buildings, one of which is targeted for redevelopment.

The Plaza market consists of 120 Class A, B, and C buildings. These buildings had a 4.3% overall vacancy, down from 4.8% a year ago, making this one of the tightest markets in the entire metro.

Notable deals include CrossFirst Bank's new Plaza office at One Main Plaza and Cushman & Wakefield's relocation to 4600 Madison from Crown Center.

The Brookside and Midtown portions of the submarket offer 309 buildings with a combined total of 5.4 million square feet. Midtown accounts for 4.8 million square feet of that total. Midtown's 4.3% vacancy rate, second lowest in the city, attests to the desirability of its central location and proximity to the Plaza.

TOTAL INVENTORY VS. AVAILABLE SPACE



SOUTH KANSAS CITY

The South Kansas City submarket stretches from 75th Street to I-435 and from Ward Parkway to the Cerner Innovations campus at I-49 and I-435 interchange. The submarket is made up of 9.2 million square feet across 255 buildings and is desirable to companies given its proximity to retail amenities and its accessibility to I-435 and State Line Road. The overall vacancy rate for the South Kansas City submarket at the end of 2017 was 6.5%, or 601,567 square feet including sublease space, compared to a vacancy rate of 10.1% at the end of 2016.

Consisting of 3.8 million square feet and 18 buildings, the Class A properties saw the lowest vacancy rate in the South Kansas City submarket at the end of 2017 at 2.3%. As with 2016, Class A properties saw positive absorption at the end of 2017 of 347,940 square feet.

Class B properties, totaling 4.4 million square feet and 101 buildings, ended 2017 with the highest vacancy rate in the South Kansas City submarket of 10.2%. The 10.2% vacancy rate was slightly higher than the 9.2% vacancy rate at the end of 2016. Class B properties ended 2017 with a negative absorption of 808 square feet.

Consisting of 3.8 million square feet and 18 buildings, the Class A properties saw the lowest vacancy rate in the South Kansas City submarket at the end of 2017 at 2.3%. As with 2016, Class A properties saw positive absorption at the end of 2017 of 347,940 square feet.

Class C properties posted a vacancy rate of 5.1% or 951,681 square feet over 135 buildings at the close of 2017. As with the Class B properties, negative absorption was seen in the Class C buildings of 2,748 square feet at the end of 2017. Overall, the South Kansas City submarket saw positive absorption of 344,384 square feet.

The overall rental rate of \$17.69 per rentable square foot for the South Kansas City submarket at the end of 2017 was a slight decrease from \$17.75 per rentable square foot at the end of 2016.

Notable move-ins during 2017 include Cerner moving into two of their new buildings at their Three Trails Campus in the first quarter, National Bank of Kansas City relocating to 8320 War Parkway and occupying 83,000 square feet, and GlynnDevins moving in to just over 45,000 square feet at 8880 Ward Parkway.

NORTH OF THE RIVER

Defined as the portion of the Metropolitan Statistical Area (MSA) north of the Missouri River, this submarket includes both Platte and Clay counties in Missouri. Geographically, it is one of the largest submarkets in the metropolitan area and the fourth largest submarket in terms of total square footage, exceeding 11 million square feet across all classes.

The submarket has historically underperformed compared to other submarkets in the MSA, despite its size, proximity to the Kansas City International Airport, well-developed interstate system, and price value. After experiencing a modest positive absorption in 2016, the submarket reversed course with a nearly 32,000 square foot negative absorption through the third quarter of 2017. This ended a three-year run of positive net absorption for this submarket.

In 2017, the inventory in this submarket included more than 11 million square feet in 565 Class A, B, and C buildings.

It had a 13.3% vacancy rate as of the third quarter of 2017, compared to 12.4% during the same period in 2016. The average quoted rate was \$16.25 per square foot, unchanged from the third quarter of 2016.

The average per square foot quoted rents for Class A buildings is \$20.38, and Class B rates average \$15.65. Actual effective rents in Class B buildings are significantly less than quoted rates, as landlords continue to discount aggressively to compete for tenants.

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 Class C buildings. The limited number of Class A properties in this submarket had a vacancy rate of 19.2%. This is due almost exclusively to the JWilliams Technology Centre with a vacancy of over 197,000 square feet of primarily call center space. Excluding this property, the Class A sector is performing well despite the limited inventory

The market experienced minimal lease activity in 2017 with most transactions being small and limited to relocations within the submarket thus having no impact on vacancy rates. Two Class B office buildings totaling 135,000 square feet, Ambassador I and II, were removed from inventory. Ambassador I is currently being converted to a Hilton flagged hotel and Ambassador II was acquired by International Academy of Science who will occupy the property.

The biggest news of 2017 for the submarket, and one of the most important issues for the MSA in general, was the approval of a new single terminal for the Kansas City International Airport.

The biggest news of 2017 for the North of the River Market submarket, and one of the most important issues for the MSA in general, was the approval of a new single terminal for the Kansas City International Airport.

This \$1 billion dollar, long sought and much needed, project was approved by Kansas City voters in November and promises to invigorate the already dynamic Kansas City economy, especially the Northland. Looking forward, we expect the market to continue to be an attractive alternative for value-driven tenants and buyers in 2018. The availability of large blocks of space, including a number of full buildings, should attract the attention of large users in an otherwise tight market in the Kansas City MSA. There are currently six blocks of available space in the submarket that are 50,000 contiguous square feet or larger compared with seven blocks 12 months earlier.

EAST JACKSON COUNTY

The Eastern Jackson County submarket consists of 6.05 million square feet throughout 563 buildings. As with 2016, the Class A buildings held the lowest vacancy rate of 4.4%. The Class A market is made up of three buildings and 257,822 square feet. At the end of 2017, only 15,489 square feet was available in the Class A market.



In June of 2017, the National Bank of Kansas City completed renovations on 8320 Ward Parkway, resulting in a 106,000 square foot corporate headquarters tailored to their specific needs. The five-story building includes a state-of-the-art gym, arcades and game rooms, and an outdoor patio for its employees.

Overall, the Eastern Jackson County submarket saw a total vacancy rate of 7.8%. The overall rate for 2017 was \$15.63 per square foot compared to \$15.10 per square foot at the end of 2016.

The Class B market, comprised of two buildings over 3.39 million square feet, posted a vacancy rate of 7.6% at the end of 2017. The Class B market saw positive absorption of 110,312 square feet in 2017.

The Class C market posted the highest vacancy rate in Eastern Jackson County of 8.2% at the end of 2017. The Class C market is made up of 340 buildings spread over 2.48 million square feet and saw a positive absorption of 31,098 square feet.

Overall, the Eastern Jackson County submarket saw a total vacancy rate of 7.8%. The overall rate for 2017 was \$15.63 per square foot compared to \$15.10 per square foot at the end of 2016.

SOUTHEAST JACKSON COUNTY

The Southeast Jackson County submarket is comprised of parts of Lee's Summit and Grandview. Consisting of 254 buildings and 3.12 million square feet, it is one of the smallest submarkets in the Kansas City Metropolitan area. Overall, Southeast Jackson County ended 2017 with a vacancy rate of 4.9% which represents a slight increase from 4.1% at the end of 2016. The average rental rate

for the submarket decreased from \$16.96 per square foot at the end to 2016 to \$16.41 per square foot at the end of 2017.

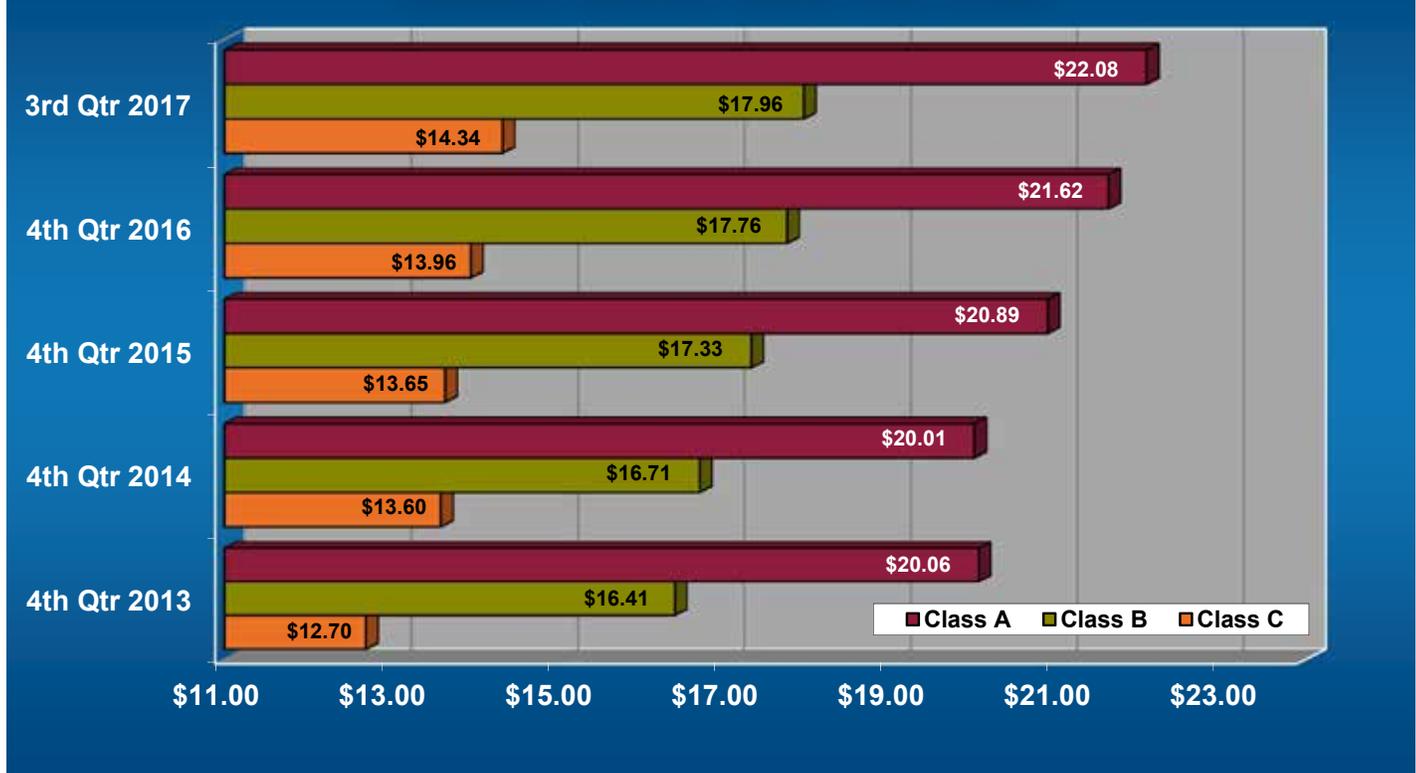
The Class A market ended 2017 with the lowest vacancy rate at 2.2% with only 2,251 square feet available out of a total of 103,442 square feet of Class A space and saw positive absorption of 2,167 square feet. At the end of 2017, the Class B market, comprised of 105 buildings and over 2.66 million square feet, saw a vacancy rate of 5.3%. The average asking rate for Class B space was \$17.40 per square foot compared to \$17.80 per square foot at the end of 2016. The Class C market is made up of 147 buildings and 751,665 square feet and posted vacancy rate of 4.1 % or 30,995 square feet available. The vacancy rate represents a slight increase from the end of 2016's vacancy rate of 3.7%. In addition, the vacancy rate decreased from \$14.14 per square at the end of 2016 to \$13.47 per square foot at the end of 2017.

KANSAS CITY, KANSAS

Kansas City, Kansas (KCK), the third largest city in the state of Kansas, is a member of the Unified Government of Wyandotte County along with Bonner Springs and Edwardsville.

The KCK office market has continued to tighten. With 3.18 million rentable square feet in 212 Class A, B, and C properties, at the end of 2017, only 3.6% or 116,019 square feet was available for lease. Three buildings, totaling 760,000 square feet, make up the Class A portion of the market. All three properties are located in western Wyandotte County near the Legends, and all three are 100% leased. Two of the buildings are part of the Cerner Corporation Continuous Campus. The 100,000 square foot

AVERAGE RENTAL RATES PER CLASS





One of the top wealth management advisors in the country, Creative Planning, bought the entire 13.5 acres from VanTrust Real Estate, to construct their new office headquarters at the intersection of I-435 and Nall Avenue in Overland Park, Kansas. Currently under development are two facilities, a 125,000 square foot building and a 100,000 square foot building, to house their employees, with one additional site left for the firm's future expansion.

Dairy Farmers of America headquarters building, which opened in the second quarter 2017, is the third Class A building in the market.

There are 53 Class B buildings in KCK, with a total of 1.22 million square feet. At the end of 2017 only 5.8% or 70,258 square feet were vacant, and the average asking rent increased 7% from \$15.74 per square foot at the end of 2016 to \$16.85 per square foot at the end of 2017.

With 156 buildings totaling 1.21 million square feet, only 3.8% or 45,761 square feet was available. At the same time, asking rents increased 2% from \$12.67 per square foot to \$12.89 per square foot.

CLIMATE FOR COMMERCIAL REAL ESTATE

Nationally, 2017 continued the positive trend with respect to job creation and lower unemployment rates. Our country saw a very low unemployment rate of 4.1%, however, this has continued to put pressure on labor cost which has been felt throughout the construction sector.

President Donald Trump has had mixed success in his first year of office as political gridlock still rules in Washington. It does appear that progress has been made on tax reform which should have a positive impact in commercial real estate (CRE). Likewise, there is hope that a bipartisan infrastructure bill will be put into effect in 2018.

The U.S. Federal Reserve Bank believes the country is headed in the right direction. The Fed raised the federal

interest to 1.0% in March of 2017 and then to 1.25% in June of 2017. The expectation is for an additional increase at the end of 2017. This would represent the fifth time the Fed has raised the rate since the financial crises. Our industry will keep a close eye on these developments as much of the CRE development and investment have been helped by low interest rates and access to capital.

On a positive note, the Gross Domestic Product grew at the rate of 3.3% in 2017 up from 2.9% in 2016.

The shift of generations, baby boomers to millennials, continues to challenge employers with respect to meeting skilled labor demands and has forced employers and likewise office building owners to consider mass transit, 24/7 flexibility and overall lifestyle more than ever. More and more employers are opting to upgrade office environments to attract and retain the best and brightest employees and office building developers are responding to that demand.

Construction costs continue to stay high with new Class A building rental rates falling in line. The market for existing office space will continue to see low vacancy rates as tenants needing more space continue to opt for existing space whenever possible.

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

KANSAS CITY

INDUSTRIAL MARKET



BRES completed construction on Lenexa Logistics Centre Building 7 in 2017. The 401,197 square foot cross-dock facility is the fourth of a planned nine building development on the southwest corner of the College Boulevard and Renner Boulevard intersection in Lenexa, Kansas.

The Kansas City Royals said it best in 2012, it is “Our Time” and this truly applies to the Kansas City industrial market in 2017. Growth in Kansas City’s industrial distribution market is landing more national companies that are seeking to consolidate their logistic operations, as well as internet-based firms looking for a central location to process and ship orders efficiently.

There has been an explosion of growth in the logistics and distribution business throughout the U.S., and this has helped companies from across the nation and around the world see the Kansas City region as a transportation and logistics superstar. Kansas City is a leader in terms of velocity, or the rate of increase, in square footage or distribution facilities in the country. We are really standing out from the crowd to corporations when they see the amount of construction overall, as well as the speculative activity coupled with the absorption of this new space. Companies are recognizing that Kansas City is an ideal distribution location. As a result, the metro has ranked top 10 in the country over the past two years in construction as a percentage of existing inventories.

What makes Kansas City stand out from many other markets is the single-point distribution model, meaning one national distribution facility to cover the U.S. In that model, it must be

located in the Midwest to achieve the greatest physical one- or two-day reach. In the three-point model, which still desires to provide one-day access to markets on the east and west coast, the Midwest reigns as a logical choice for the third location and the same thing happens with a five-point model, where the nation is divided into five regions. But what really sets our market apart is the presence of multiple large intermodal railroad operations, which will continue to attract regional and national corporations as they look to set up their logistics and distribution lines here to capitalize on the cost-effective shipping by rail. Rail has distinct advantages in speed and reliability and a cost that rivals ship-by-truck, making the five Class I railroads serving the city vital. Markets with intermodal facilities boast the highest rent growth and we see that here as well. Kansas City’s industrial market is in line for continued growth as a top national hub due to the congestion and burgeoning costs to operate in other major markets. From Kansas City, companies can reach 90% of the U.S. utilizing a two day shipping model. This model allows companies to not have to be in densely populated cities along the east or west coast.

How we do it

Whether it is through access to multiple interstates, rail lines, air, or water, Kansas City moves people and freight. Kansas City’s strength is the multiple access points of the interstate

system with connections at I-35, I-70, and I-29 and present as vital cogs in the national commerce picture. They span the nation east to west, bi-sect it north to south, and give this region access from Canada to Mexico. The addition of I-49 to the equation has added to our market greater truck access to the Gulf of Mexico complimenting existing rail access. Kansas City remains the second largest rail center in the country, and number one overall, in terms of rail tonnage shipped and third largest center for trucking. This puts Kansas City in some elite company as a transportation hub with the likes of New York, Dallas, and Chicago. Over the past five years, the interstates and rail lines running through this region have given Kansas City prestige in corporate discussions. These discussions have led to a rise in new distribution facilities and speculative distribution construction in the region. U.S. rail container and trailer volumes have increased sharply and demand for this freight transportation is projected to continue to rise through 2025.

Diversification is the Key

Kansas City has never relied on a single industry or sector for its success. It has been diversifying for many years.

Agribusiness will always be a large part of Kansas City's commercial identity, being the home of some of the biggest dairy, meat processing, food distribution, grain production, and storage companies in the United States. Kansas City will continue to solidify its global role as the hub of the Animal Health Care industry. It continues to attract more and more companies like French pharmaceutical giant Virbac, which opened a 150,000 square foot distribution facility here. Manufacturing also has had a strong presence in Kansas City. In recent years, both Ford and GM have invested billions of dollars for modernization of their plants and have become highly productive inventory suppliers. Global leaders in greeting cards, food production, and other sectors are within the Kansas City metro area as well.

eCommerce

It is the greatest economic condition that continues to drive the ever-increasing demand for distribution, facilities both nationwide as well as here in Kansas City. The ever-changing retail landscape and the way that consumers are buying their goods has helped developers add millions of square feet of new Class A industrial product especially here in Kansas City. A growing number of traditional retailers have evolved into multi-channel merchants operating both with an online as well as a bricks-and-mortar presence. Retailers who once operated only in the traditional brick-and-mortar locations now are generating slightly more than half of all the online sales completed in the U.S. Traditional retailers are expanding into more distribution space than their online-only competitors are, and they accounted for 58% of new leases for retail supply chain space – retail-specific warehouses and distribution centers – during 2015-16 in the U.S. Companies that focus only on eCommerce made just 32% of the new leases while wholesale-only retail users claimed just 10%.

Kansas City has now reached a new level as a major destination for eCommerce distribution, and the growth is going to continue for some time. eCommerce sales are

expected to reach \$500 billion dollars by 2018, representing about 12.5% of all retail sales. This has caused retailers and distributors to re-think the size, location and diversification of their facilities. eCommerce distribution is increasingly getting closer to population centers with over 45% of the U.S. population within 20 miles of an eCommerce fulfillment center of some sort.

What makes Kansas City stand out from many other markets is the single-point distribution model, meaning one national distribution facility to cover the U.S.

Who is driving the demand for these distribution buildings? Fifty percent of the largest transactions are in five categories including: eCommerce, third-party logistics (3PL), automotive, food and beverage, and consumer goods. eCommerce has significantly changed real estate in Kansas City and will continue to do so in the future. Our industrial market, which historically posted over 2 million square feet of net absorption per year prior to 2012, now has been averaging over 5 million square feet annually over the last several years. Half of this absorption can be tied directly to distribution center expansions for the fulfillment of eCommerce orders. The businesses that are winning in the retail arena include eCommerce giants like Amazon, as well as bricks-and-mortar juggernauts like Walmart and IKEA. The result is a radically transformed logistics landscape where the line between a click on a website and a knock at the door from UPS or FedEx is increasingly blurred. And to push the envelope, what about Amazon Key? Their new program will have its customers install special locks in their homes allowing the company to deliver packages inside the house. Though Amazon did shut down two logistics centers totaling 400,000 square feet in early 2017 for its Quidsi subsidiary, they have leased nearly 3 million square feet in new facilities from Wyandotte County, Shawnee, and Edgerton. Amazon's pending purchase of Whole Foods Markets could bode well for the Kansas City region with additional distribution needs.

Growth in the Market

Though Kansas City is the 17th largest industrial market in the country, during 2010 to 2016 it ranked seventh in square feet and cubic feet of new industrial construction inventory in the country. The market got a jolt from the addition of the PacSun distribution center ten years ago, and since has seen development surge. During that time Kansas City added nearly 14 million square feet of space at an average clear height of 33 feet that translates to nearly 460 million cubic feet. Cubic feet have become important because of the rising demands of eCommerce firms, and others, using industrial space to distribute goods and preferring the efficiencies of stacking height over pure square footage. By taking advantage of the additional vertical space and the ability to stack inventory higher, and in some cases installing mezzanines, this has allowed them

to add more inventory pickers. The emergence of speculative development has been a turning point in the market and a good illustration of investor and user confidence. Companies have been looking to fulfill their national distribution needs in Kansas City for some time now, and this interest shows no signs of slowing down. Changes in trucking regulations among other adjustments have altered national distribution maps revealing the advantages of Kansas City. However, in the past, the required property type has not been readily available. Fortunately, large speculative projects have sprouted up all over the metro area and these projects are filling quickly. Strong consumption from eCommerce spending in particular and structural factors like reverse logistics have raised optimism for continued industrial development. Now that retailers are working the “last mile” of logistics, they are focusing on the “first mile” which are full containers of merchandise that feed domestic delivery networks with products from the Far East, Europe, and other international markets. This is pushing freight forwarders and other logistics companies to match the speed that eCommerce companies and retailers so desperately crave, and is leading to the explosion of Class A distribution centers in the Kansas City Metro area.

By the Numbers

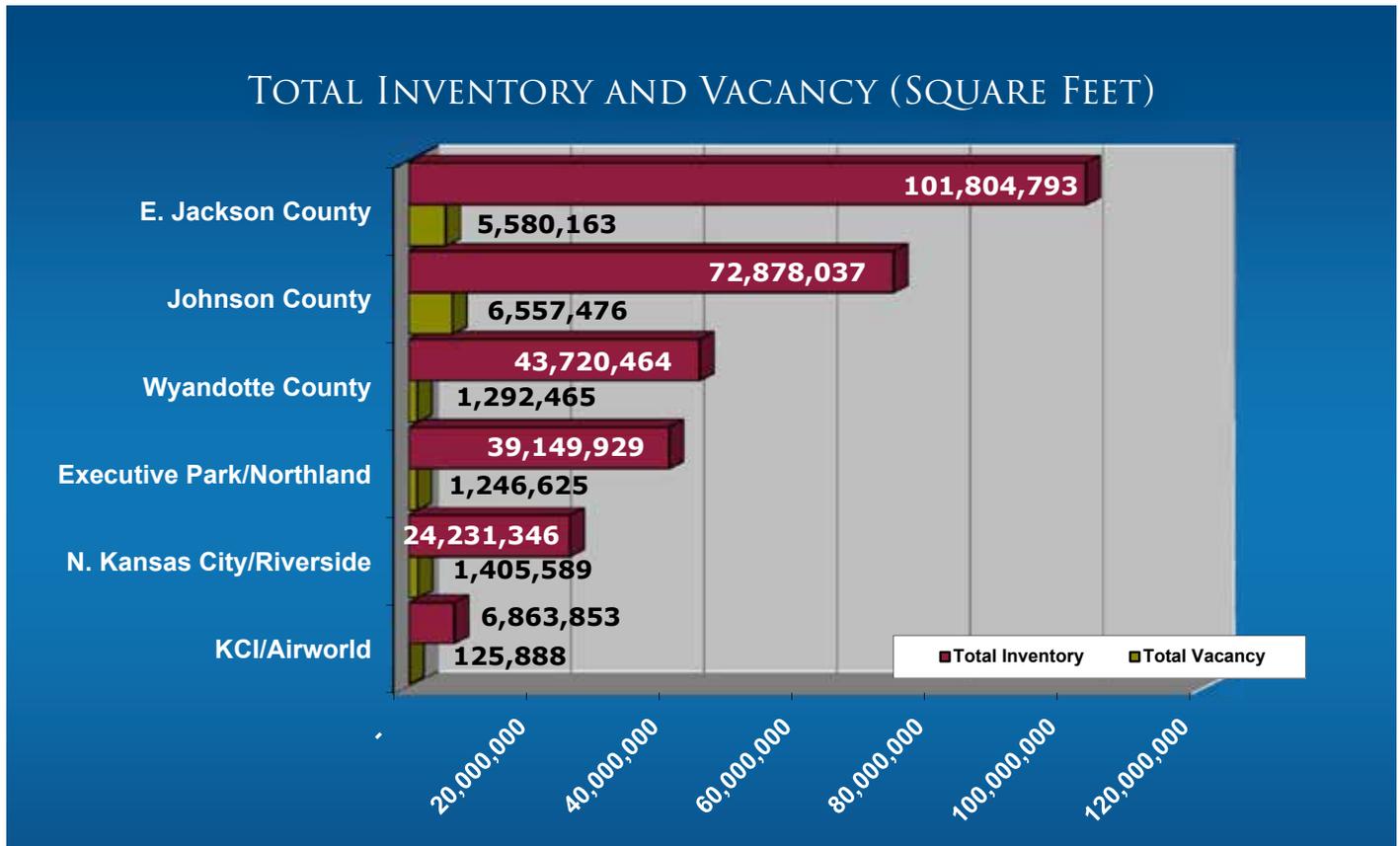
Kansas City is not unusual, as the industrial market across the country is firmly in boom mode today. The best news of all is that the industrial boom is not showing any signs of a slowdown. In 2016, Kansas City’s industrial market absorbed an all-time high of 5.5 million square feet. In 2017, build-to-suit contracts totaling 3.1 million square feet were completed for Amazon, Sioux Chief, Garmin, and General Motors, while ongoing speculative

construction totaled 3.9 million square feet.. Total deliveries in 2017 were at over 6 million square feet by the end of the third quarter, and an additional 5.7 million square feet were under construction. Through the third quarter, the market had a net absorption of nearly 6.3 million square feet.

Looking ahead at the Kansas City industrial market we believe that we will see continued growth in the marketplace. Reasons include our stable vacancy rates and rental rates. The speculative delivery market will come online with a demand for quality distribution space, along with a continued move towards population centers and easy distribution to the population.

JOHNSON COUNTY, KANSAS

The term “edifice” best describes new construction in Johnson County. The trend that started in 2013 with bulk industrial development has continued with strong demand through 2017. All signs and delivery statistics offer a foreshadowing of what is to come in 2018. With over 4.3 million square feet of industrial buildings under construction, the recession has taken a seat in the rear-view mirror. The real estate market has recovered, and we are now in expansion, and Johnson County is performing considerably well. Tenants are seeing droves of new bulk and modern distribution product entering the market at affordable lease rates, and in-turn the market result is in a state of higher net absorption and lower vacancy. The absorption of both new and existing industrial product has created more confidence among landlords, while tenants are experiencing increased confidence in their businesses, all of which has led to higher rents. Johnson County’s positive industrial trend has evolved with the help of certain catalysts including: widespread market growth, eCommerce, manufacturing, and logistics industries, all of which continue to stimulate the submarket.





Atlanta-based Spectrum Brands Hardware and Home Improvement leased the 927,112 square foot Inland Port XXXIII distribution facility in February of 2017. The facility is located at Logistic Park Kansas City in Edgerton, Kansas and is estimated to add approximately 315 jobs to the Edgerton area.

Where the Action Is

Despite new developments occurring throughout the metro, nearly half of all completed distribution constructed, and 75% of active construction, has been in Johnson County. Block Real Estate Services, LLC (BRES) delivered the 635,800 square foot Lenexa Logistics Centre (LLC) North Building 1, with room for an identical building on the site located on College Boulevard west of Renner Road. South of College Boulevard, BRES delivered the 401,098 square foot LLC Building 7, joining three existing buildings in the industrial park. Both new buildings feature a 36-foot clearance with cross-dock configurations. Between the two LLC sites, nearly 3 million square feet of industrial buildings can be developed. In the fast-moving world of eCommerce, one of the best ways to attract and obtain new tenants, as said best in the movie *Field of Dreams*, is to “build it and they will come.” This location is close to high-end office developments, has great access to I-35 and I-435, and is near one of the largest UPS distribution facilities in the country.

In Edgerton, NorthPoint Development has developed the 822,104 square foot Inland Port XIV, which was leased by Amazon. At the end of 2016, NorthPoint completed the 765,927 square foot Inland Port XXXII and early in 2017 completed the largest speculative building ever built in Kansas City’s history, the 927,112 square foot Inland Port XXXIII, which is now fully occupied by Spectrum Brands Hardware & Home Improvement. When a company makes a decision like this, it grabs the attention of others. Decision makers instruct their logistics people to look at Kansas City, which bodes well for more development in the park and throughout the metro.

In 2017, two more buildings were completed: 777,222 and 625,000 square feet, the latter of which leased 163,618 square feet to ColdPoint Logistics. These speculative buildings are in the 1,700-acre Logistics Park Kansas City (LPKC) adjacent to the intermodal hub for Burlington Northern. With these buildings, they will have completed 16 buildings totaling nearly 9 million square feet since 2013 in the park which has capacity for 17 million square feet of warehouse and distribution facilities. The 512,000 square foot Inland Port XXII, was fully leased to Horizons Global, with delivery in the fourth quarter.

In 2016, VanTrust Real Estate completed a speculative two-building development known as Lone Elm 515 made up of 515,132 square feet and Lone Elm 716, of 716,000 square feet. Located at 167th Street and Lone Elm Road in Olathe, the project received a 10-year, 50% real estate tax abatement. Himoina Power Systems, a worldwide generator set manufacturing company, purchased Lone Elm 515 to initially occupy 330,000 square feet for its relocation from multiple buildings in Lenexa.

After selling their first building of 205,000 square feet that was built speculatively to Orizon Aero, a firm that builds components for the aerospace industry, Opus broke ground on their second speculative project in Olathe at 56 Commerce Center Industrial Park at Old 56 Highway and Lone Elm Road. Slated to deliver in May of 2018, the 230,122 square foot building will feature 32’ clear height and a rear-loaded truck court. This is the second phase of the development that is slated for full build-out with three buildings totaling 505,000 square feet.

Midwest Gateway, a Copaken Brooks project, will be marketed to users seeking between 50,000 and 300,000

square feet, providing an alternative to the so-called “Big Bomber” industrial projects that are the hallmark of LPKC.

The Numbers

The submarket has a total inventory of 67,879,414 square feet of which nearly eight million square feet, or 14% of it, was delivered in the last eighteen months. Overall, occupancy is 93.5% compared to 93.8% in 2016, or virtually unchanged. Representing 25% of the overall Kansas City industrial market, Johnson County continues to be the most dynamic, with more new construction, net absorption, occupancy levels and highest overall rents per square foot.

Other Notable Submarket Activity

Amazon moved in to 446,500 square feet at the New Century AirCenter in Gardner, Kansas, which will facilitate its upcoming Amazon Prime Pantry and Amazon Fresh endeavors, their online grocery and consumer goods operations.

UPS is investing more than \$220 million in its Kansas City-area operations including acquiring a 301,000 square foot building adjacent to its current facility at 110th Street and Lackman Road. They are also adding a new sort center at LPKC of 197,000 square feet to continue their expansion in the market.

J.A. Peterson sold its 53,000 square foot flex building, Brookhollow I, to Silverstone Auto.

Colony Realty Partners wrapped up a sale of the 253,000 square feet Benchmark Express Distribution Center. The building was sold to Sealy & Co., a fully-integrated commercial real estate investment and operating company from Shreveport, Louisiana.

Kubota Tractor announced intentions to purchase 203 acres near the company’s current leased facility in LPKC in order to build two, 1 million square foot facilities to expand their distribution capacity and streamline logistics processes.

Excelligence Learning Corporation will move from Kansas City, Kansas in 2018 to a brand new build-to-suit \$38 million 646,600 square foot distribution and call center building located at Midwest Commerce Center, a park that is master-planned for five buildings totaling 2.3 million square feet. It is currently home to Coleman Products’ 1.1 million square foot facility.

EXECUTIVE PARK/NORTHLAND PARK

Executive Park and Northland Park are two of the major industrial parks in Kansas City, Missouri as well as the Metro area. Both lie adjacent to the Missouri River, on the south and north side respectively. Both offer the usual mix of office/flex space, traditional warehouse spaces, as well as modern bulk distribution product. Together they form a submarket that consists of 39.15 million square feet in 409 buildings. Of the total, nearly 1 million square feet is flex space, with the balance in warehouse and distribution.

Executive Park is still a mainstay for companies looking to stay centrally located on the Missouri side of the metro area and enjoy relatively modern buildings at lower occupancy costs. It is the most developed industrial park within Kansas City, Missouri, and is almost fully developed with a few parcels left for future development. Located along Front Street between I-35 on the west and I-435 on the east, it has tremendous access to the entire Metro area.

Located just to the northeast of Executive Park, Northland Park is newer and contains versatile buildings that offer reasonable

AVERAGE GROSS RENT - WAREHOUSE/BULK INDUSTRIAL





Lone Elm 515, a VanTrust Real Estate development project totaling 515,000 square feet, was completed in the first quarter of 2017. The building, located at Lone Elm Road and 167th Street, sits on 30.9 acres of land and was sold to Himoinsa Power Systems, Inc. for \$24.5 million in March.

lease rates. Much of the new construction for bulk facilities has been in Northland Park. Many of these buildings have received significant real estate tax abatement with most at 100% for the first ten years after construction is completed. These benefits further aid in attracting tenants from older buildings with functional obsolescence in comparison to new buildings with modern efficiencies and low operating costs with tax abatements, which benefits tenants with a lower gross rental rate.

Six million square feet of distribution space is situated in underground developments, which is unique to Kansas City, and have room for expansion by 8 million square feet. With consistent temperature and humidity, but low stacking heights, underground developments are well-suited for assembly, light manufacturing, records storage, data centers and food distributors. The existence of the underground development does create a “governor” effect on the rental rates for above-ground buildings without higher ceilings that would occur in a market with such competition. This effect is felt not only in the submarket but throughout the Kansas City market.

Lease rates for industrial space averaged \$3.89 per square foot and had a vacancy rate of just 3.1%, by year-end 2017. Flex space averaged \$5.85 per square foot with a 6.6% vacancy rate. The combined average is only \$4.03 per square foot, which is the lowest rate of all submarkets in Kansas City.

New Development and Construction

There was a major increase of development in this submarket by two of the area’s largest developers. NorthPoint Development’s Northland Park has already had tremendous success. The nearly 400-acre master planned park is

located along Missouri Highway 210. In 2017, Northpoint Development completed Building 1, a 386,000square foot distribution center and is 100% leased. Buildings 2 & 3 are under construction, each of which are 413,332 square feet and will deliver by mid-2018; and Building 2 is already 64% leased. Pathfinder Systems leased 66,683 square feet, Delaco Steel leased 58,665 square feet and Staples, Inc. leased 257,828 square feet at Building 1, while Houston’s, Inc. leased 123,000 square feet at Building 2.

The developer plans to construct another seven to eight bulk industrial buildings over the next seven years, all of which are anticipated to receive the same 10-year, 100% real estate tax abatement, as the first three buildings.

Hunt Midwest Enterprises was also very active both above ground and in its Subtropolis, underground development. Hunt’s development, which includes above and below ground, at I-435 and M-210 Highway, has been coined “Automotive Alley” due to its close proximity to the Ford Automotive plant in Claycomo, Missouri. The park has attracted many automotive suppliers including Spartan Motors, XPO Logistics, Grupo Antolin, AER Manufacturing, and most recently Dejana Truck & Utility Equipment which signed a lease for 90,000 square feet, among others. The underground park, which is the largest underground business park in the world, has 6 million square feet of current leasable space and 8 million square feet more to be developed.

Above ground, Hunt Midwest has roughly 700-acres of development, which has also been extremely successful, and the market demonstrated just that in 2017. Hunt Midwest Business Center (HMBC) delivered two, 200,000 square foot bulk facilities, HMBC I and HMBC 2, both of which received

the 10-year, 100% real estate tax abatement in mid-2017 and leasing at the projects increased significantly. HMBC 1 is 50% leased, including 50,261 square feet to Spartan Logistics, and HMBC 2 is 73% leased. Hunt Midwest has plans to construct two additional buildings consisting of 425,000 square feet and 886,000 square feet on the 126-acre site.

Other Notable Activity

Brennan Investment Group, a Chicago based REIT, purchased two second-generation industrial parks including Rivergate Business Center in Executive Park and Midtown Park in East Jackson County. The complexes total 559,367 square feet over nine buildings.

Deodis Logistics leased 226,576 square feet at 1508 Chouteau Trafficway, the former “Malt-O-Meal” distribution facility.

Lanter Distributing leased 126,000 square feet and Virbac, a veterinary pharmaceutical company, leased 150,000 square feet in Subtropolis.

Dyke Industries purchased a 123,730 square foot building at 6010 Equitable Road.

Murphy Warehouse leased 100,879 square feet at 4900 Deramus Avenue and then expanded into a second building across the street of 136,000 square feet.

Midway Auto purchased a 146,233 square foot building for an additional location at 4210 Gardner Avenue.

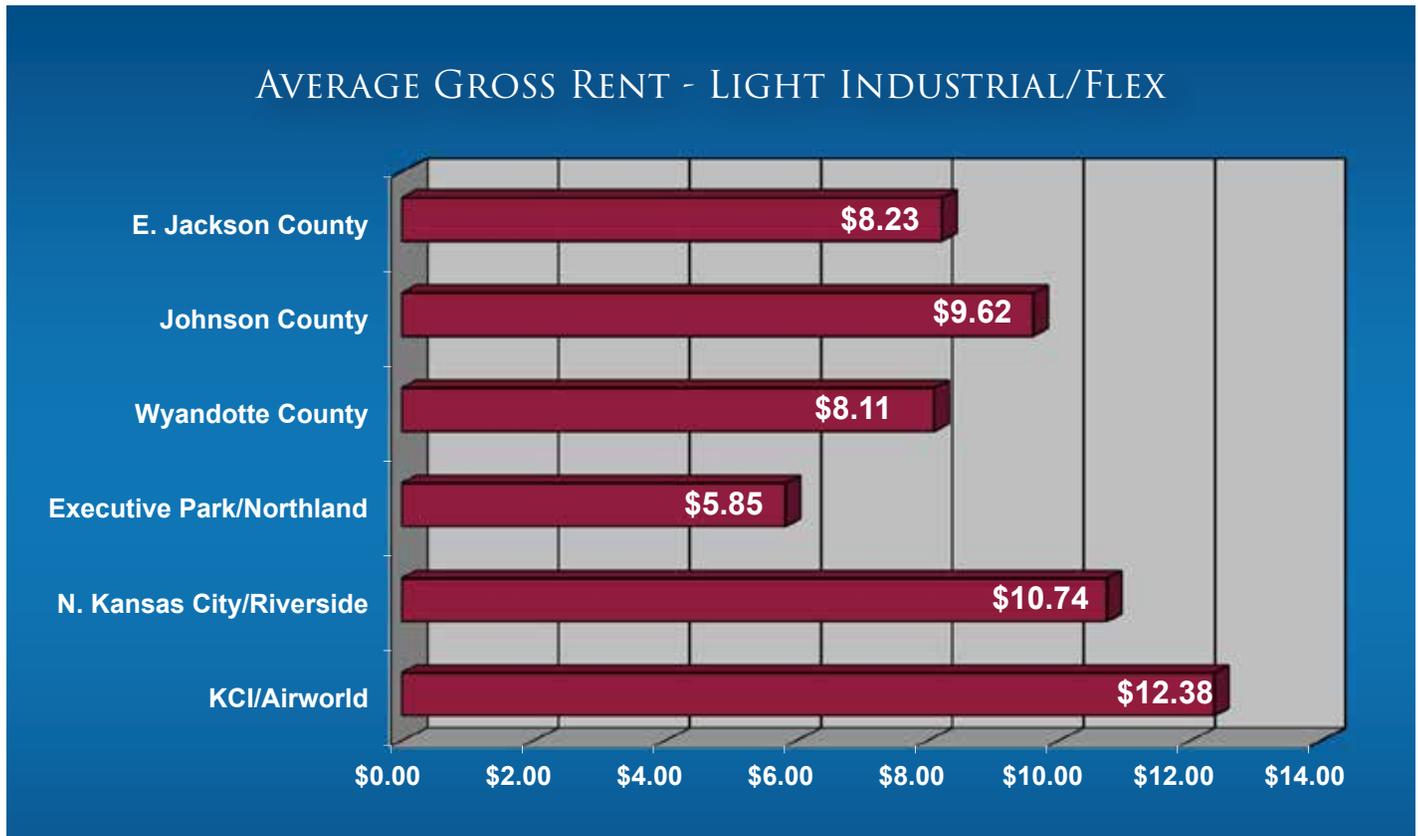
WYANDOTTE COUNTY

Wyandotte County has historically had a plethora of people and cultures that mix together due to opportunities to work at great American companies. Due to the industrial

revolution of the mid-20th century, the companies provided workers and their families a better standard of living. Automobiles and numerous other manufacturers, as well as businesses associated with agriculture, flourished. With the transformation from an agricultural to an industrial economy, Kansas City, Kansas, and Wyandotte County as a whole, transformed, providing more stability and prosperity, becoming attractive to the working class families of the community. Industrial development in Wyandotte County traces its roots to 1923 when the KC Industrial Land Company, a subsidiary of the Union Pacific Railroad, purchased nearly 1,300 acres of former flood-plain land and launched a multi-million dollar infrastructure improvement plan to create the Fairfax Industrial Park. The park has modern rail access and multiple spurs and sidings. Later, the expansion of rail-served industrial parks in Armourdale, Muncie, and later out to Edwardsville, Bonner Springs, and Turner Diagonal, with the new Amazon development, make up most of the industrial product in the Wyandotte County Industrial submarket. Most of Wyandotte County’s industrial submarkets are positioned with immediate access to I-35, I-70, I-635, and the I-435 loop which provides tremendous benefits for companies that need to be centrally located for in-city distribution and manufacturing.

Amazon at the Center of a Marker Event

A marker event occurred, crossing multiple cultural borders and impacting social classes and the economy in the county when eCommerce brought sweeping changes to industrial development. Technology has impacted the delivery of goods and services and social media has changed the way people shop for goods all over the world. In addition,





Copaken Brooks broke ground on Gateway Midwest, a new 487,000 square foot warehouse and distribution facility in June 2017. The development includes 2 buildings located in Edgerton, Kansas adjacent to the entrance of Logistics Park Kansas City.

changes to transportation, with rail being in vogue again, and the delivery of goods and services has positively affected every facet of industrial development in the metro area as well as Wyandotte County.

Turner Diagonal is a 2.983-mile freeway that connects Kansas Avenue or K-32 and I-70. Turner Commerce Center, at 130 acres, is a new industrial development that will house the new 856,000 square foot Amazon Fulfillment Center. The project received 100% real estate tax abatement for 10 years.

The Numbers

Wyandotte County is developing a track record for landing significant projects needing a stable employment base in a central geographic location with a strong manufacturing presence. Because of that, this 43.72 million square foot submarket that covers 974 building saw a very healthy total combined occupancy rate of 96.1% at year-end 2017 up from 95.4% in 2016. Notable Transactions

In the Fairfax Industrial District, several large transactions occurred including:

Western Fireproofing's purchase of a 106,000 square foot building at 2850 Fairfax Trafficway

Orion Fittings' purchase of 106,400 square feet

Evolve Chef, which relocated from Lenexa, to lease 42,840 square feet

Reardon Pallet's purchase of a 150,780 square foot building on Funston Road

General Motors lease of 840,000 square feet in a brand-new bulk distribution facility built adjacent to the GM assembly plant. They then subleased 650,000 square feet to Comprehensive

Logistics who is operating as a just-in-time supplier to GM

In the Armourdale Industrial District larger transactions included:

- 69,680 square feet leased by Cargill
- 50,297 square feet leased by Capital Electric
- 52,800 square feet leased by Simpson Strong-Tie

While in Edwardsville at the Woodend Industrial Park, Building 2, Dri Duck Traders leased 97,641 square feet.

In the I-635 Industrial Park, Stanion Wholesale Electric purchased a 78,240 square foot building, relocating from its location in Armourdale.

Best Drive Commercial Tires leased 31,984 square feet fronting I-35 in the former Shatz Distributing building.

NORTH KANSAS CITY/RIVERSIDE

North Kansas City and Riverside are the two centrally located municipalities in Missouri, both are situated directly North of the Central Business District and adjacent to the north side of the Missouri River. Because of their central location, both communities offer proximity to available labor and major transportation infrastructure. They also provide nearby access to major manufacturers, including General Motors, Ford Motor Company, and Harley-Davidson, as well as many others.

North Kansas City's building inventory is primarily functional, older generation warehouses and manufacturing spaces developed between the 1940s and the 1970s. Recently, new and functionally modern buildings have been developed on some of the last remaining in fill lots and on the redeveloped sites of demolished, functionally inefficient spaces. Riverside experienced most of its industrial growth from the mid-1970s through the late 1990's with the development of mid-sized

office and warehouse product. Growth was nearly halted after a significant flood in 1993, but completion of a new 500-year flood protection levee in 2005 not only protected existing buildings, but opened up additional land for development. Riverside has seen significant development of new, speculative mid-bulk industrial warehouse inventory since 2011 and additional land remains available to meet the steady demand. With functional warehouse inventory available in all sizes and at multiple price points, available labor, best-in-market highway access, and nearby proximity to basic industry, the submarket supports a diversified mix of warehousing and distribution, including 3PLs; tier 1 suppliers for manufacturers, such as GM and Ford, sequencers, secondary support manufacturers, quality assurance providers, service companies as well as local, regional, and national distributors.

The North Kansas City and Riverside submarket continued to see steady activity through 2017. With many new tenants to the submarket signing leases, the submarket realized 75,627 square feet of net lease absorption despite recently adding nearly 3 million square feet of inventory, including three new mid-bulk speculative buildings. Submarket vacancy shrank from 8.8% in 2016 to 7.4% by year-end 2017. Overall vacancy was impacted most by newly delivered mid-bulk space; the departure of Faurecia’s manufacturing operations from the market; and persistent vacancy in the old and inefficient, low ceiling height buildings with poor loading in the North Kansas City inventory. Despite those factors, the submarket ranked third in average lease rates at \$4.25 per square foot, for all industrial submarkets, trailing only the Johnson County and KCI/ AirWorld submarkets.

Despite heavy development of new inventory throughout the Kansas City market, the demand for first-generation, functionally modern space is expected to drive additional development in North Kansas City and Riverside. Most of that

new development will likely occur in Riverside on “green-field” sites. Lease rates are also expected to rise as absorption of new space keeps occupancy high and construction costs continue to rise both for development of new buildings and renovations of existing buildings.

Notable transactions in Riverside

Bunzl leased 175,185 square feet in Riverside Logistics Centre, relocating, combining and expanding operations that were previously located in KCI/Airworld and North Kansas City.

One year after leasing nearly 70,000 square feet in Riverside Horizons Building V, Victaulic expanded and relocated into 90,000 square feet in Riverside Horizons Building VI, while Size-wise back-filled the space in Building V.

eShipping leased 90,000 square feet in Riverside Horizons Building VI.

TopMaster leased nearly half of the new 491,448 square foot Riverside Horizons Building VI.

Progress Rail, a Caterpillar company, leased 246,364 square feet in Riverside Horizons Building V.

Children’s Mercy Hospital purchased the 86,500 square foot building in Riverside that was formerly occupied by Apria.

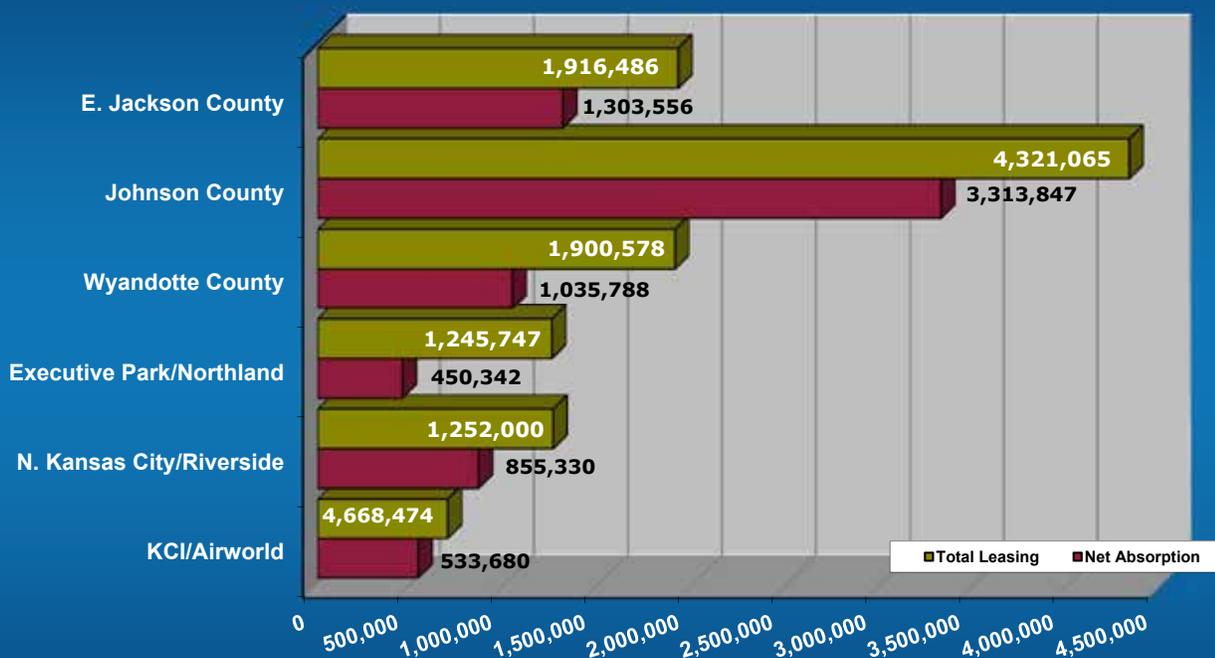
Notable transactions in North Kansas City

In the Paseo Industrial District, several transactions occurred including:

Yangtze Railroad Materials leased 53,970 square feet, CM Seafoods leased 65,000 square feet, VS Services leased 40,017 square feet, while Fabri-Quilt purchased the 106,664 square feet building vacated by Bunzl.

In the traditional industrial areas of North Kansas City transactions included Centurion Moving & Storage which leased

2016 TOTAL LEASING VS NET ABSORPTION





Northland Park is a planned 300-acre industrial park located east of I-435 on Missouri Highway 210. The 123,000 square foot Northland Park Building 2 was leased to Houston's, Inc in the third quarter of 2017.

34,560 square feet, Edge Capital which leased 79,000 square feet in the Northtowne Business Center, and North Kansas CityGrace which purchased a 52,000-square foot building.

KCI/AIRWORLD CENTER

The KCI/Airworld submarket is the smallest and most distinct in the Kansas City metro with just 6.86 million square feet in 81 buildings. Of the total square footage, over 6.3 million is bulk industrial with the balance in flex space. KCI/Airworld's biggest asset is its proximity to Kansas City International Airport (KCI), which is the preferred location for regional air-cargo transporters. Air transit and logistics-minded tenants, who lease space in this submarket, typically locate there for access to KCI. These include suppliers for the GM Fairfax, Ford Claycomo, and Harley-Davidson assembly plants. The submarket will likely see growth in new industrial product due to the availability of large tracts of land that are already zoned or land that is appropriate for industrial and distribution development. The location also provides excellent highway access, with I-29 bisecting and I-435 looping through the submarket. However, its lack of rail availability and its distance from the center of the city will limit its overall growth.

The combined overall industrial and flex occupancy rate at year-end 2017 was 90.0%, with average rental rates at \$4.77 per square foot. The flex submarket improved in 2017 compared to the same period in 2016. There was an overall vacancy rate of 7.6% compared to that of warehouse flex, which had a 10.2% vacancy rate, a slight uptick from 2016.

HIGHLIGHTS IN 2017

KCI Intermodal Business Centre, being co-developed by Trammel Crow and Clarion Partners, has broken ground

for the industrial park's fourth building, a 202,800 square foot structure to be built on a speculative basis. Known as Logistics Centre III, it will be a front-load warehouse and distribution facility with 31 docks and a 32' ceiling. It is designed to accommodate tenants as small as 40,000 to 50,000 square feet. They also plan to break ground in the spring for Logistics Centre V, a 442,280 square foot building. They noted that they are chasing a build-to-suit prospect, but if that tenant is not landed, the project may advance as speculative construction. If the smaller-tenant demand proves as strong as anticipated, they may build two more smaller speculative buildings like Logistics Centre III.

To date, 1.2 million square feet of structures have been completed at the park including the speculative-built Logistics Centre IV at 432,640 square foot building that was totally leased to third-party logistics provider BMS Logistics in 2017. It included a \$1.45 million-dollar interior build-out. BMS is headquartered in St. Joseph, 30 minutes north of KCI Intermodal, and has 14 facilities throughout the Midwest. This will be their first operation in the Kansas City area. The adjacent 423,928 square foot facility was occupied by Challenge Manufacturing in 2014. The 349,000 square foot Building I was a build-to-suit for Blount International in 2011. At 679 acres, the park can hold more than 5.4 million square feet of structures.

Other significant activity included Exide Technologies spending \$35 million to renovate their building in the AirWorld Industrial Park at 7601 NW 107th Terrace, and Panasonic Automotive Systems leasing a 120,000 square foot building at 10800 NW Ambassador Drive.

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KANSAS CITY & NATIONAL INVESTMENT MARKET



22 out of 29 buildings in the Corporate Woods office park were sold to Group RMC Corporation, a New York based co-investment company. Spanning 350 acres and including 2.2 million square feet of office space, BRES was selected to lease and manage the office park.

The Commercial Real Estate Market moved into its eighth straight year of expansion. Transaction volumes in 2017 were projected to finish nearly 10% lower than in 2016, according to Cushman & Wakefield's 2017 third quarter Market Beat. Urban Land Institute's (ULI) Emerging Trends 2017 sees the real estate industry positioning itself for "a long glide path to a soft landing".

Kansas City has sustained its momentum after absorbing significant levels of new construction and attracting new national capital investment capital. The Kansas City market is essentially in supply-demand equilibrium. Expect cap rates to remain stable and developers to exercise "cautious optimism" in new developments.

OUTLOOK FOR 2018

A Reuters poll, conducted in August 2017, boldly predicted the U.S. economic expansion will last another two years, through 2019. Many, but not all, observers anticipate a general slow-down following record peak production and sales in the industrial and multifamily sectors. In ULI's

Emerging Trends 2017, one institutional advisor predicted that institutional investors will return to familiar "safe havens" in top tier markets as the market cools down. A contrary view expressed by another portfolio manager said, "investors may want to take a harder look at some top secondary markets with top performing submarkets."

Leading economists are banking on improving GDP growth based on tax reform and off-shore capital repatriation. The U.S. economy expanded at its most robust pace in more than two years in the spring of 2017, and it continued to enjoy second half momentum and record Black Friday consumer spending. Barring any major shocks, 2018 will follow a similar track, with the global economy in its best shape since the Great Recession.

MIDWEST MARKETS SEE MORE ORGANIC GROWTH – ULI EMERGING TRENDS 2018

Perceptions of the cities in the Midwest are changing as their urban cores are redeveloping due to an influx of young, tech savvy people. While Kansas City has never been blessed with a wealth of Fortune 500 companies, it does have many fast-growing tech employers, and it is not just another regional office destination. Kansas City, also boasts higher quality of life benefits, translated as affordable housing and lower cost

of living. In turn, employers gain a new, educated labor supply while maintaining a low cost of doing business.

The top twenty cities on ULI's Markets to Watch list for 2018 included only two large, primary cities with the rest being secondary markets. Kansas City ranked in the upper half of the "Midwest Cities to Watch" ahead of some of our competitors.

MARKET FUNDAMENTALS

The Greater Kansas City Chamber of Commerce Forecast for 2018, prepared by Mid-America Regional Council, shows the metro area has been adding about 20,000 jobs per year, an increase of 1.4% over the last two years and will continue at that pace over the next two years. Because of low unemployment, rising wages, and low inflation, they describe the economic outlook as "Goldilocks moment" suggesting everything is just right. Their outlook is status-quo with potential upside from KCI Airport and the street care expansion. The economic downside relates to merger talks involving Sprint that could displace some local jobs adding vacant office space to the market, again.

Kansas City's commercial real estate market fundamentals remain healthy with occupancy and rents reaching cyclical highs. The 2017 market was led by record setting absorption of new industrial space and continued strong demand for multifamily units in both urban and suburban markets.

Industrial Market

Net absorption in Kansas City's booming industrial market surpassed 6.6 million square feet through the first three quarters this year, setting a new market record, according to a new CBRE Group Inc. report. Net absorption totaled 3.3 million square feet in third quarter 2017 matching the total from the first two quarters of 2017 combined.

Office Market

Office market vacancy, which was at 16.2% in third quarter 2017, is the lowest it has been in nine years as reported by Cushman & Wakefield MarketBeat. The office space absorption rate is positive and asking rents are increasing. The office market realized its 16th consecutive quarter of increased asking rental rates through the third quarter of 2017. They reported in third quarter 2017, the year-to-date office absorption was at 1.4 million square feet. Current projects under construction remained flat at 150,000 square feet during the quarter, as no new projects were delivered to the market.

Retail Market

The Kansas City Retail Market is sound, but slowing as it adapts to multi-channel consumer shopping patterns. Third quarter 2017 vacancy increased 40 basis-points to 6.2%



JDM Partners, a Phoenix based real estate development company, bought a 193,953 square foot data center from State Farm Insurance at the end of 2016. The center is located at 24400 W Valley Parkway, Olathe, Kansas and sold for \$125 million.



Los Angeles based Ares Management LLC bought a majority stake in 10 industrial buildings at the 1,700 acre Logistics Park Kansas City distribution and warehouse development in Edgerton, Kansas. The buildings total about 6 million square feet and the transaction was in excess of \$282 million.

overall. However, the market experienced 947,035 square feet of net absorption during the past four quarters, with nearly 3 million square feet absorbed over the past two years. The average quoted rental rate measured \$13.21 per square foot, up \$0.52 per square foot from the prior year. The ever-changing retail landscape will be worth monitoring to see how it effects real estate.

Apartment Market

Kansas City area apartment deliveries in 2017 will peak at 4,201 units, the highest total since 4,439 new apartments were delivered in 2000. CBRE projects that new apartment deliveries in the market will decline to 2,280 units in 2018 and 2,060 units in 2019. Kansas City's historical average absorption of apartment units has been about 1,500 to 2,000 units a year. By 2019, Kansas City apartment vacancy may climb to 6.0% while effective rents may contract by 1.0% according to CBRE's second quarter 2017, Baseline Forecast, however, fundamentals are still strong.

CAPITAL MARKETS

ULI's Emerging Trends - 2018, sees cap rates leveling off and prices remaining relatively stable. "On balance real estate looks good." No argument here.

According to HHF Advisors, investor allocations to commercial real estate will remain at all-time highs. Capital is

abundant for commercial real estate, but given the extended recovery cycle, investors will take a measured approach to underwriting and valuation. Statistics show investment transactions declined around 10% in 2017. Analysts agree that all classes of investors remain interested in the attractive returns provided by commercial real estate assets compared to other asset classes.

The HFF analysis goes on to say that investment managers across the nation hold record amounts of dry powder, referring to capital already committed to commercial real estate investments, but not yet placed.

CRE PRICES AND CAP RATES

Commercial Real Estate Prices and Cap Rates should remain steady in 2018 as long as markets remain in general supply-demand equilibrium.

According to the CBRE Research report From National to Local: What's Ahead for U.S. CRE, "The U.S. real estate investment environment remains attractive with strong fundamentals and limited risk." In their third quarter 2017 economic forecast, they expect the Fed to increase its target rate and the ten year bond yield to drift upward as the Fed begins de-leveraging. CBRE has revised its inflation and interest rate upward reflecting expectations in the financial markets. A summary of the CBRE H-I cap rate survey observations are presented below.

- Nationally, industrial cap rates have gone steadily

downward. Smaller, Tier III cities experienced the most cap rate compression.

- The near-term outlook for Suburban Office pricing is for relative stability with a modest increase of less than 25 basis-points.
- Concern for the retail asset class in 2017 was reflected in cap rates that rose an average of 39 basis-points nationally.
- Multifamily cap rates essentially held firm nationally. Stabilized assets inched down 5 basis-points in all asset classes. The lowest cap rates are found on the coasts at 4.0% in San Diego and Los Angeles, and 4.25% in Miami, New England, and Washington DC.

In the third quarter 2017, REIS Inc. also reported apartment sector cap rates continuing, and are as low as they were in 2016 when the Fed began to raise interest rates. They noted office cap rates climbing, but retail showing some resilience despite the eCommerce headwinds they are facing. The industrial sector showed strong investor interest due to expansion of eCommerce and distribution growth.

INTEREST RATES

In 2017, there was concern that rates might rise faster than expected. In fact, the 10 Year Treasury went down slightly from 2.45% to 2.34%”- November 24, 2017.

A 2017 year-end poll by Reuters showed Wall Street's top banks anticipated the Fed to raise borrowing costs. Goldman Sachs said the strength of the economy is “too much of a good thing” and expects the Federal Reserve to hike interest rates as many as four times next year.

Forbes offered alternative logic as to why long-term interest rates may not rise right away. “Gone are the days that the U.S. Federal Reserve is the only game in town. In this environment, cash-flows into the U.S. from foreign investors could be the biggest reason we may not see a significant rise in longer-term U.S. interest rates in 2018. So despite the Fed’s stated intentions to raise rates, the global markets are having a more significant influence on our longer-term rates.”

OTHER LOCAL INVESTMENT DRIVERS

Offshore Capital -A scarcity of alternative high-return investment options elsewhere has kept the U.S. as the favorite destination for foreign capital. However, as rental growth in the Gateway Markets has slowed, second and third tier cities are attracting more capital as investors become more comfortable with the markets, product, and steady returns.

Family Offices -Family offices are looking beyond stocks and bonds and are pursuing direct investments in companies and/or real estate. The most sophisticated are winning deals from private equity funds and turning into investing giants according to Bloomberg. A Utah-based family office, Sundance Capital Group, has been active in Kansas City’s “value-add” apartment market over the last several years.

Health Care - The single tenant medical sector remained popular with investors through the first three quarters of 2017. Third quarter 2017 cap rates in this sector, defined as medical assets under \$10 million, compressed by 25 basis points compared to 2016, and now stand at 6.25%, according to a November 30, 2017 report from the Chicago-based Boulder Group.

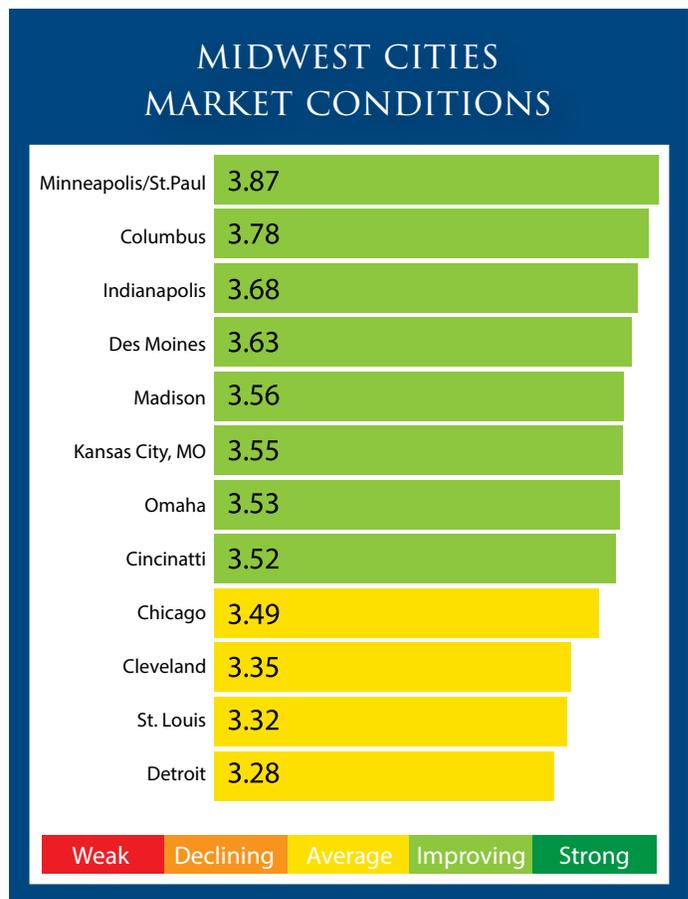
Cash-flows into the U.S. from foreign investors could be the biggest reason why we may not see a significant rise in longer-term U.S. interest rates in 2018.

Senior Housing - With 10,000 baby boomers turning 65 every day, the sheer number of seniors and their living and healthcare needs has created a fast-growing industry. Senior living isn’t just a health care and hospitality business; it’s also an attractive investment. Ventas (Reit) has \$16B in senior housing investments – double what it had invested in 2015.

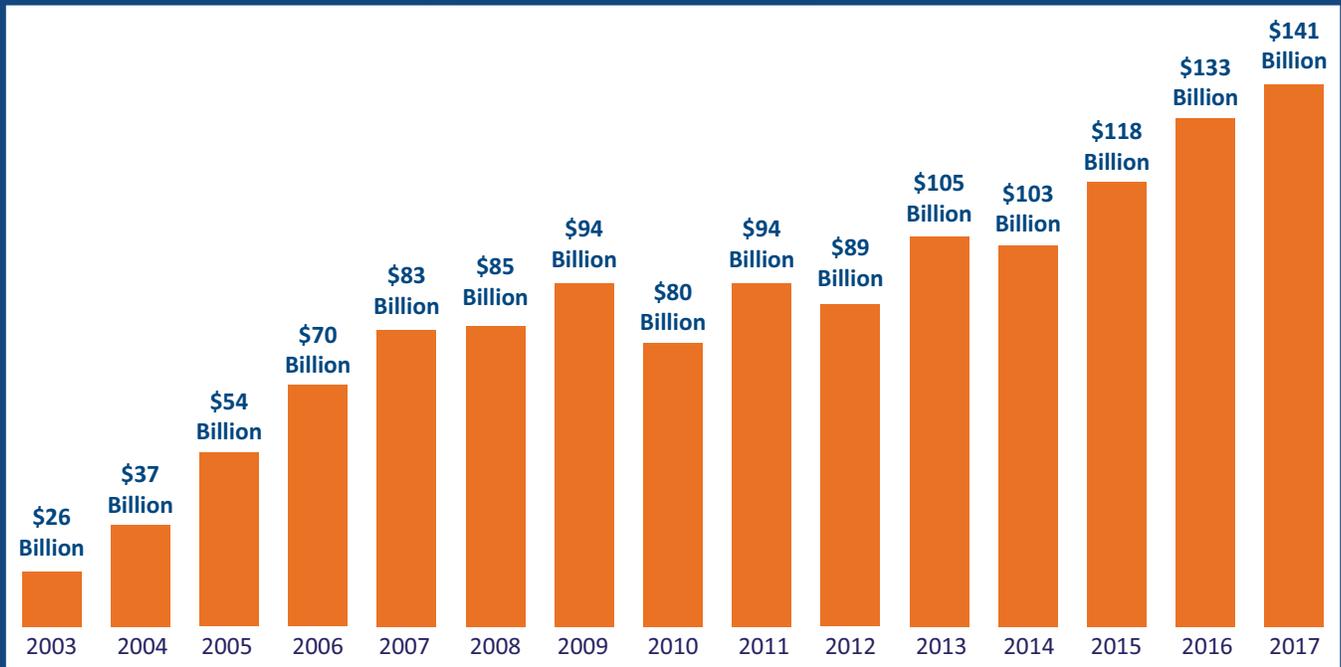
Life Sciences - Missouri employment in the life sciences industries has grown 17% in the last five years and represents a \$440 million industry. Westward on the I-70 Life Sciences corridor, a \$4 billion National Bio and Agro-Defense Facility is under construction on the Kansas State University Campus. These industries include: pharmaceuticals, agriculture research, environmental, and biomedical technology.

Tertiary Market Retail & NNN - In their 2017 Mid-Year Outlook, JLL reported that transaction volumes rose 52% over last year, as buyers are having a hard time finding quality product in primary and secondary markets due to a shortage of opportunities and cap rate compression. REITS continue to sell non-strategic assets in these smaller markets.

Co-Working and Technology-Collaboration work spaces, or co-working, are the up-and-coming office trend. Westport



INVESTMENT CAPITAL SEEKING U.S. COMMERCIAL REAL ESTATE REMAINS AT ALL-TIME HIGH



Source: Prequin

Middle School is now one of several new co-working spaces scattered throughout the city. The Westport Commons owners partnered with Plexpod in Lenexa to adapt the 160,000 square foot building into “the biggest co-working space anywhere.” OfficePort, Village Square, Cowork Waldo, and Plexpod have a variety of professional, flexible spaces in which to work. In May, all four of these offices joined forces with a few others in the area to create an alliance with iWerx Incubator, Ennovation Center, and Think Big Coworking.

THE KANSAS CITY INVESTMENT MARKET

In 2017, the Kansas City investment market was driven by record setting construction, absorption, and all-time high rent levels in the industrial sector. Kansas City remains a target of national multifamily investors seeking both new and valued-add properties in the urban core and suburbs.

- The landmark deal of the year was the \$295 million sale of Corporate Woods, a 22 building, 2.2 million square foot office park in the heart of Overland Park, Kansas.

Kansas City has experienced a boom in speculative industrial space that saw developers deliver almost 8.8 million square feet in 2016, second only to Chicago. Some 5.8 million square feet of that space was leased that year and another 3.3 million square feet was absorbed in the first half of 2017. The market has achieved 23 consecutive months of positive absorption according to the September 2017 issue of Heartland Real Estate Business.

In their third quarter 2017 market report, JLL observed that the Kansas City Industrial market remains strong with 5.7 million square feet under construction and a vacancy rate of 5.9%. They reported average asking rents of \$4.56 per square foot. JLL warns that vacancy may be ticking up the next few quarters due to new deliveries, but the overall

market continues to be extremely healthy as evidenced by strong net absorption trends.

INDUSTRIAL SALES:

Industrial sales continued to be strong in Kansas City. Our Investor Chart and Sales record highlights over 7.4 million square feet of transactions this past year. The intermodal in Edgerton, Kansas continues to show tremendous growth and opportunity for the Kansas City industrial market.

The Kansas City Intermodal Logistics Portfolio was comprised of 4.35 million square feet and was purchased by ARES from NorthPoint Development. This transaction was sold at a 6.25% cap rate which allowed the property to trade at \$64.99 per square feet, for a total sales price of \$282.75 million. This was the largest industrial transaction of the year.

Sealy acquired the Kansas City & St. Louis Core-Plus Portfolio which was comprised of 1.18 million square feet from Colony Realty Partners. This portfolio was spread between multiple locations in Kansas City and St. Louis, Missouri. The property sold for \$43.00 per square foot and totals a final sales price of \$50.73 million.

Colony Realty Partners acquired Lackman Business & Crossroads Distribution from Invesco. The property totaled 596,281 square feet and sold for \$37.15 million. This was the third largest industrial transaction in Kansas City.

Block Real Estate Services, LLC (BRES) acquired the 448,479 square foot PacSun Distribution Center located in Olathe, Kansas from PacSun and the Olathe Chamber of Commerce. The property sold at a 7.5% cap rate which allowed the property to trade at \$17.95 million. The transaction included development ground where one or two buildings can be added.

VanTrust sold the newly completed Lone Elm 515 to Himoina Power Systems, a principal supplier of power distribution and generation equipment. They paid \$24.5 million for the brand new 515,132 square foot facility in Olathe, Kansas that will serve as the company's corporate headquarters. VanTrust has another 5.8 million square feet of speculative industrial in various stages of development, according to Heartland Real Estate Business Magazine.

MULTIFAMILY SALES:

Multifamily sales in Kansas City remained strong through the year of 2017. Five of the six properties presented in the Investor Chart and Sales Records traded for over \$35 million, with two assets trading above \$70 million. Cap rates for Class A properties trended under 6%.

Jones Development Company based in Kansas City, Missouri acquired Kenilworth & Corinth Communities from GoldOller Real Estate Investments. This was the largest multifamily transaction in Kansas City. The transaction was spread over multiple properties in Prairie Village, Kansas and was comprised of 588 units. The portfolio sold at \$119,473 per unit which resulted in a final sales price of \$70.25 million. Originally Developed by J.C. Nichols Company, the portfolio comprises the largest, single multifamily ownership opportunity in the prestigious Prairie Village submarket, which has a limited supply of multifamily properties.

Multifamily sales in Kansas City remained strong through the year of 2017. Five of the six properties presented in the Investor Chart and Sales Records traded for over \$35 million, with two assets trading above \$70 million. Cap rates for Class A properties trended under 6%.

CRES Management, from Kansas City, Missouri, purchased Prairiefire Phase I & II located in Overland Park, Kansas from Cityscape Residential; this was the second largest multifamily transaction of the year. The two properties totaled 426 units and sold for a 5.86% cap rate. At \$164,554 per unit, the final sales price was \$70.1 million.

DRA Advisors from New York, New York had the third largest transaction of the year when they purchased Sandstone Creek in Overland Park, Kansas from Preferred Apartment Communities. Sandstone Creek is 364 units and was able to sell at a 5.4% cap rate. The total sales price for this property was \$48.1 million.

RETAIL SALES:

Retail sales lagged the investment market showing the lowest transaction scale during 2017. The largest transaction was completed by New Orleans based PMAT Companies that purchased Pavilions at Hartman Heritage from Inland American Independence Hartman, LLC. Pavilions at Hartman Heritage is 223,473 square feet and located in Independence, Missouri. The property traded at an 8.30% cap rate which allowed the property to sell for \$21.7 million.

Mission Peak Capital from Kansas City, Missouri made the second largest retail purchase when they acquired Regency Park from LNR Partners. The property is 201,974 square feet spread across multiple locations in Overland Park, Kansas. This was a value-add property that sold for \$16.78 million. At the same time, Mission Peak also bought Westbrook Village, which contains 236,000 square feet, from LNR and have proposed a 530-unit mixed-use project on the nearly 30-acre, in fill Mission, Kansas site.

Liberty K, LLC acquired the Kohl's building from One Liberty Properties, located at 8540 North Church Road in Kansas City, Missouri. This property is 88,248 square feet and sold for \$115.58 per square feet; this resulted in a sale price of \$10.2 million.



The West End at City Center apartments sold in 2017 for an estimated \$36.4 million. TA Realty sold the 309 unit apartment complex, located at 17410 W. 86th Terrace, Lenexa, Kansas in the Lenexa City Center, to LivCor.



Valencia Place, home to the Lockton Companies world headquarters, was acquired by Price Brothers for \$72.5 million. Located on the Country Club Plaza at 444 W 47th Street, the 10-story office building was built in 2000.

OFFICE SALES:

The Kansas City area had a historic sale when the Corporate Woods portfolio in Overland Park, Kansas was purchased from Stoltz Real Estate Partners by Group RMC, a co-investment group, based in New York and Montreal. The 22-building portfolio that totals 2.2 million square feet traded at a 7.60% cap rate which resulted in a sales price of \$295 million.

JDM Partners from Phoenix, Arizona acquired the State Farm Data Center in Olathe, Kansas from State Farm Insurance. This property sold for the highest amount per square foot at \$646.03. With a total property square footage of 193,953 it sold for \$125.3 million.

Price Brothers from Overland Park, Kansas purchased Valencia Place from The Taubman Company. The Taubman Company is the main shareholders of The Country Club Plaza in Kansas City. This property is 242,038 square feet and sold for a 6.46% cap rate which resulted in a sales price of \$72.5 million.

At year-end, 2323 Grand is under contract to Los Angeles based, Stanton Road Capital. They entered the market last year closing on Plaza West, located at 4600 Madison in Kansas City, Missouri, at \$33 million, or \$125 per square foot at 7.5% cap..

WHAT'S AHEAD FOR 2018?

The Kansas City real estate market continues to thrive in this “extra inning” expansion cycle, which is now in its eighth year. Fortunately, Kansas City has always been in the right place, meaning the geographic center of the country, and 2017 proved to be the right time for the development community to respond to increasing space

demands presented by shifting eCommerce trends and new logistical and distribution needs. This didn't all happen overnight.

By 2014, our industrial developers had ramped up to build facilities for eleven new automotive suppliers relocating to Kansas City to meet changing supply chain requirements at Ford and GM. They had each spent nearly one billion dollars to retool their plants to increase production. That led to significant organic growth in jobs and payrolls. At the same time, Kansas City was completing four intermodal logistic parks that would add to supply and distribution capacity. By the time Amazon arrived, Kansas City was geared up and ready to deliver the much-needed industrial space.

While 2017 outperformed most expectations, ULI, CBRE, and other industry forecasters are predicting a gradual slow down, or cooling off period, for 2018 into 2019. Most believe interest rates will remain low by historical standards, but rise gradually over the next two years creating a “soft landing.”

WHAT'S AHEAD IN KANSAS CITY...

A strong demand continues for investment real estate, including the third tier cities. All indications point to ample dry powder, albeit more selective. Due to limited supply and pricing in gateway and second tier markets, this capital will reach out into third tier locations for the right asset such as the late year acquisition of Crown Center, located at 2323 Grand, by Los Angeles based Stanton Road Capital. We might call that dollars chasing deals - selectively.

The Kansas City pipeline in multifamily and industrial is expected to level off and slow down in 2018- and 2019. The exception for office is an increase in build-to-suit for growing Kansas City based companies. Garmin will grow in place while others will relocate. Office redevelopment projects will also create new expansion opportunities.

Once again, we approach the New Year with cautious optimism with regard to interest rates and availability of debt to meet developer's needs. We look forward to continued stability in cap rates and pricing as the national commercial real estate markets go forward, and while preparing for a soft landing as the economy adjusts to new tax policy.

FreddieMac says economic conditions have never been more favorable for housing as interest rates remain at historic lows and prices are rising. The home improvement retailers should prosper and expand.

The record setting performance in the industrial and multifamily sectors in 2017 will be a hard act to follow. Retailers will continue to adapt to eCommerce, redeveloping two closed area malls. Office developers, on the other hand, will undertake at least four new headquarter buildings.

We can look forward to further stability in 2018 and moderation in all things as we enter the ninth year of this unprecedented business cycle expansion.

As we bid fair well to 2017, the economy is gaining momentum as the forecasters call for a soft landing. Have a prosperous 2018!

Contributors include: Grant O. Reves, MBA; Kenneth G. Block, SIOR, CCIM, Managing Principal; Bill Powell, and Matt Ledom.

INVESTORS CHART AND SALES RECORDS

| OFFICE PROPERTIES | SIZE (SF) | SALES PRICE / PER SF | CAP RATE | BUYER/SELLER |
|---|-----------|---------------------------|-----------|--|
| Corporate Woods Portfolio Multiple - Overland Park, Kansas | 2,167,784 | \$305,000,000 \$140.64 | 7.60% | Buyer: Group RMC Seller: Stoltz Real Estate Partners |
| State Farm Data Center 24400 W Valley Parkway, Olathe, Kansas | 193,953 | \$125,300,000 \$646.03 | 7.10% | Buyer: JDM Partners Seller: State Farm Insurance |
| Valencia Place 444 W 47th Street, Kansas City, Missouri | 242,038 | \$72,500,000 \$299.54 | 6.46% | Buyer: Price Brothers Seller: The Taubman Company |
| Alliance Data Systems Building 8035 Quivira Road, Lenexa, Kansas | 96,467 | \$18,000,000 \$186.59 | 6.90% | Buyer: Block Sponsored Entity Seller: Block Sponsored Entity |
| Broadmoor Place 5799 Broadmoor Street, Mission, Kansas | 115,811 | \$15,500,000 \$133.84 | 7.38% | Buyer: Senior Housing Properties Trust Seller: Mohr Partners |
| Belletower 4700 Belleview Avenue, Kansas City, Missouri | 80,615 | \$10,750,000 \$133.35 | Value-Add | Buyer: Woodbury Corporation Seller: Oaktree Capital |
| INDUSTRIAL PROPERTIES | SIZE (SF) | SALES PRICE / PER SF | CAP RATE | BUYER/SELLER |
| Kansas City Intermodal Logistics Portfolio Multiple, Edgerton, Kansas | 6,446,000 | \$282,750,000 \$64.99 | 6.25% | Buyer: ARES Seller: NorthPoint Development |
| Kansas City & STL Core-Plus Portfolio Multiple, Kansas City & St. Louis, Missouri | 1,179,727 | \$50,728,000 \$43.00 | 7.6% | Buyer: Sealy Seller: Colony Realty Partners |
| Lackman Business & Crossroads Distribution Kansas City MSA | 596,281 | \$37,150,000 \$62.30 | 5.90% | Buyer: Colony Realty Partners Seller: Invesco |
| Lone Elm 515 16600 S Theden Street, Olathe, Kansas | 515,132 | \$24,700,000 \$47.56 | N/A | Buyer: Himoina Power Systems Seller: VanTrust Real Estate |
| Lenexa Logistics Center #5 113th Street & Renner Boulevard, Lenexa, Kansas | 353,823 | \$23,640,000 \$66.81 | 6.20% | Buyer: Exeter Seller: Block Sponsored Entity & Thackeray Partners |
| PacSun Distribution Center 21800 W 167th Street, Olathe, Kansas | 448,479 | \$17,950,000 \$40.02 | 7.50% | Buyer: Block Sponsored Entity Seller: PacSun & Olathe Chamber of Commerce |
| RETAIL PROPERTIES | SIZE (SF) | SALES PRICE / PER SF | CAP RATE | BUYER/SELLER |
| Pavilions at Hartman Heritage 20000 E Jackson Drive, Independence, Missouri | 223,473 | \$21,700,000 \$97.10 | 8.30% | Buyer: PMAT Companies Seller: Inland American Independence Hartman LLC |
| Regency Park Multiple, Overland Park, Kansas | 201,974 | \$16,775,000 \$83.06 | Value-Add | Buyer: Mission Peak Capital Seller: LNR Partners |
| Kohl's Building 8540 N Church Road, Kansas City, Missouri | 88,248 | \$10,200,000 \$115.58 | 7.75% | Buyer: Liberty K LLC Seller: One Liberty Properties |
| Walgreens Building 17811 E US Hwy 24, Independence, Missouri | 15,120 | \$4,875,000 \$322.42 | 5.50% | Buyer: Exchange Right Seller: VEREIT |
| JC Penney Outlet Store 9495 W 75th Street, Overland Park, Kansas | 139,330 | \$4,050,000 \$29.07 | Value-Add | Buyer: RFR LLC Seller: KTJ 286 LLC |
| Pinetree Plaza 350 SW Blue Parkway, Lee's Summit, Missouri | 133,137 | \$3,750,000 \$28.17 | Value-Add | Buyer: LEP Caboose LLC Seller: FFG Development LLC |
| MULTIFAMILY PROPERTIES | UNITS | SALE PRICE/PER UNIT | CAP RATE | BUYER/SELLER |
| Kenilworth & Corinth Communities Multiple, Prairie Village, Kansas | 588 | \$70,250,000 \$119,473 | Value-Add | Buyer: Jones Development Co. Seller: GoldOller Real Estate Investments |
| Prairiefire Phase I & II Multiple, Overland Park, Kansas | 426 | \$70,100,000 \$164,552 | 5.86% | Buyer: CRES Management Seller: Cityscape Residential |
| Sandstone Creek 14030 Riley Street, Overland Park, Kansas | 364 | \$48,100,000 \$132,143 | 5.40% | Buyer: DRA Advisors Seller: Preferred Apartment Communities |
| Greenwood Reserve 13825 College Boulevard, Lenexa, Kansas | 228 | \$38,250,000 \$167,763 | 5.50% | Buyer: PASSCO Real Estate Seller: Cityscape Residential |
| West End at City Center 17410 W 86th Terrace, Lenexa, Kansas | 309 | \$36,400,000 \$117,799 | 5.50% | Buyer: LivCor Seller: TA Realty |
| Province of Briarcliff 1282 NW Vivion Road, Kansas City, Missouri | 120 | \$18,770,000 \$156,417 | 5.675% | Buyer: Forum Real Estate Group Seller: Maxus Realty Trust |



Ward Parkway Center completed construction of their new, \$16 million restaurant district in Fall 2017. The 31,000 square foot development includes five restaurant spaces, three of which were filled by Smitty's Garage, Charleston's and MidiCi Pizza in 2017.

The retail real estate environment is ever changing. Bricks-and-mortar will not disintegrate, but retailers are continually forced to respond to the changing habits of its customers to be successful. The ability to target a buyer based on electronically acquired data supplied through social media allows online retailers to go beyond brick-and-mortar to sell products that fit a customer's daily changing needs.

As internet sales continue to increase, an opportunity for alternative uses to absorb retail space, in place of traditional retailers, grows. Redevelopment and conversion of long-standing retail properties with new facades become more inviting to landlords, and the addition of a residential component to these centers adds to the viability of the newly changed product.

Despite the number of store closings that have been announced, over 4,000 more stores are opening than those that are being shuttered. Apparel and home entertainment have had the hardest hit with footwear and department stores following. Of the stores that announced openings, variety stores account for more than one-third of the additions.

Retailers who announced closings during the year included: JC Penney, however all seven area stores remain open, Macy's, Loft, Ann Taylor, Lane Bryant, Dress Barn, Rue21, Sears, Kmart, American Apparel, BCBG, Bebe, GameStop, Michael Kors, The Limited, J. Crew, and Applebee's, including three area locations. Businesses that declared bankruptcy protection included: Gordmans, which was bought by Stage Stores and decided to keep two area stores open, while closing four stores, including the Liberty location which opened in 2016, Toys R Us, Joe's Crab Shack, bought by Landry's, Payless Shoe Source, Charming Charlie, Family Christian, RadioShack, and Gymboree.

While the traditional retailer continues to determine if they can adapt to the constantly changing demands, the silver lining remains in the fact that consumers have money to spend and they often choose to spend it on entertainment. As such, it should not come by surprise that the largest growth in the retail sector comes in the way of those offering entertainment and dining options.

Consumer confidence remained strong as gas prices continued to remain low. Job growth continued, but the labor shortage filling those jobs has been present. Automobile sales have been sluggish during the year. These facts lead some economists to predict a downturn late in 2018. In the

moment, however, according to the National Retail Federation, 2017 annual retail sales were expected to grow between 3.2% and 3.8%, and holiday spending was expecting a 3.6% to 4% increase.

Housing starts have continued their positive trend with 4,639 single family permits issued throughout the metropolitan area through September 2017; this was the highest number of permits pulled in 10 years, and up from 4,282 for the same period last year.

Investors in retail properties continued to find opportunities at reasonable cap rates. Raytown saw three neighborhood shopping centers change hands: Raytown Plaza, a 95,000 square foot center at 62nd Street and Blue Ridge Boulevard, which was renovated in 2008, Center 63, a 71,300 square foot district at 62nd and Raytown Trafficway and was built in 1987, and Blue Ridge Plaza, a 53,000 square foot center, whose 32,000 square foot shadow anchor building was purchased by the Raytown School district, sits at 52nd and Blue Ridge Boulevard, and was renovated last year. The 273,000 square foot Barry Town Center located at U.S. Highway 169 and Barry Road was sold and has been renamed Twin Creeks. Hotel Sorella on the Country Club Plaza sold its 132-room hotel. Pine Tree Plaza in Lee's Summit also changed hands.

Notable openings and closings in the area included:

B&B Theatres, the seventh largest theater chain in the U.S. with 50 locations and nearly 400 screens, has been active. Aside from their new corporate headquarters in Liberty, they plan to complete a new Liberty Cinema 12-screen theater Spring 2018. They are providing the customer with a unique experience: a 4D action, equipment that simulates fogs, emits scents, and seats with "butt kickers and leg ticklers."

Some of the chains who are opening multiple locations included: The Roasterie, Kneaders Bakery & Café, Slim Chickens, Raising Cane's, Andy's Frozen Custard, Larkburger, Qdoba, Dunkin Donuts, MOD Pizza, Freezing Moo Rolling Ice Cream, and Doughnut Lounge. In support of our furry friends, Pet Supplies Plus and Bentley's Pet Stuff are also opening multiple locations.

Overall, vacancy rates fell across the metro, moving from 7.2% at the end of 2016 to 5.9% at the end of 2017. Citywide, average rental rates increased slightly from \$12.63 per square foot at the end of 2016 to \$12.99 per square foot at the end of 2017.

JOHNSON COUNTY, KANSAS

The Belmont Promenade, located at the southwest corner of Shawnee Mission Parkway and Maurer in Shawnee, previously housed a plan known as Shawnee Landing. The plan may come to fruition with its 265,000 square foot retail development on 26 acres having lined up intentions for retailers to occupy 70% of the center. Hobby Lobby, TJ Maxx, Off Broadway Shoes, Ulta, Five Below, Ross, Forever XXI, Kirkland's and Petco have been listed on the site plan. The previous plan included a Dick's Field & Stream, but that concept is not present in the new plan. The city approved the requested \$19.5 million in tax breaks to assist with the developer's \$59 million price tag.

BluHawk is still eligible for STAR bonds with a one year extension. The Cosmosphere, with its world-renowned science education center and space museum in Hutchinson,

Kansas, has agreed to create a satellite facility in the \$1 billion mixed use project on 300 acres at 159th Street and U.S. Highway 69. The 60,000 square foot, freestanding building is under construction and will include artifacts, replicas, and interactive exhibits. The 300-acre, \$1 billion mixed-use project saw Cosentino's Market open as well as one of the area's four Shawnee Mission Health Emergency Rooms. The plans have been scrapped for development of a new hockey arena.

Block Real Estate Services, LLC (BRES) and The Retail Connection are partnering on a 37-acre site at 115th Street and Nall Avenue to bring 548 apartments and 240,000 square feet of retail space. The first phase is expected to break ground in September 2018 and include 250 apartments and 140,000 square feet of retail space with a specialty grocer and 15,000 square feet of entertainment space with an aim to provide some additional nightlife to Johnson County. Two more phases would have the project completed by summer 2024. The \$182 million project has received support from the city by way of \$27 million in incentives.

Vacancy rates fell across the metro, moving from 7.2% at the end of 2016 to 5.9% at the end of 2017. Citywide, average rental rates increased slightly from \$12.63 per square foot at the end of 2016 to \$12.99 per square foot at the end of 2017.

Brookridge, home of the former 18-hole golf course located east of Antioch Road between 103rd Street and I-435, was able to secure a one year extension on its opportunity for STAR bond financing for its first phase, the South Village project. The \$445 million project plans for 1.84 million square feet of office space, 247,000 square feet of retail space, 2,035 apartments, 550 hotel rooms, and a 67,000 square foot performance hall together with 10,000 structured parking stalls. The lofty plans include a three phase development of less than 5 million square feet, downsized from an original plan of more than 8.5 million square feet.

After twelve years in the making, Mission Gateway received the city of Mission's approval to its fifth revision of its plans for the now \$214 million mixed-use redevelopment project. With Walmart gone from the plan, it now intends to add 168 apartments atop a 55,000 square foot area consisting of food, market, and entertainment type tenants. The plan calls for three phases including 195,000 square feet of retail space, Aloft and Element hotels with 200 rooms, a 45,000 square foot office building and up to a 20,000 square foot conference and training center with parking garage. \$66 million in Tax Increment Financing (TIF) and Community Improvement District (CID) have been approved, but it is required that the developer begin the first phase no later than the end of October 2018 and complete it by the end of April 2020, pay all back taxes and special assessments, and keep them current such as not to lose them.

Corbin Park opened Dave & Buster's, Basset Furniture, Maggiano's, Larkburger, OrangeTheory, Beef Jerky Outlet, Fusion Fitness, Joplimo Mattress, Redrock Canyon Grill, Old Chicago Pizza & Taproom, Simple Science Juices, Signature Tennis with Dogtopia, and Subzero Ice Cream & Yogurt. An area that was intended to house a hotel has now turned into a plan for 254 apartments. The apartments had originally been planned to be on top of the ground floor retail located to the south of Von Maur.

Johnson County's vacancy rate dropped from 9.2% at the end of 2016 to 6.4% at the end of 2017. However, the average rental rate decreased from \$15.04 to \$14.38 per square foot from 2016 to 2017.

At City Center Lenexa, 35,000 square feet of retail is underway, in addition to 175 luxury apartments and 45,000 square feet of office in the \$50 million project dubbed the District at City Center. Its latest openings included the Lenexa City Hall and Civic Campus, along with Ignite Wood Fire Grill.

Regency Park located at the northwest corner of 93rd Street and Metcalf Avenue is seeking approval and incentives for refacing the 202,000 square foot center with more modern materials and a more chic color scheme. Romano's Macaroni Grill and Billy Sims BBQ closed at the center, and Whole Foods

at 92nd Street and Metcalf Avenue will close in May.

Metcalf South has been demolished to make way for the \$80 million, 305,000 square foot retail center which will be anchored by Lowe's. Sears closed its location here. Some of the smaller out parcel buildings have received final development approval. Andy's Frozen Custard has announced plans to occupy one of the buildings.

Elsewhere in Johnson County, the 435 Overland Park Place Hotel has been razed to make room for a new six-story Staybridge Suites hotel with 123 rooms, an office building, and a parking garage. Hampton Inn and Suites is under construction at 135th Street and U.S. Highway 69. A Holiday Inn Express and an extended stay Candlewood Suites are both under construction at 95th Street and I-35.

Blanc Burgers + Bottles and Pizzabella closed at Mission Farms. In Prairiefire, Newport Grill and Paradise Diner closed while Home Goods took over the 24,000 square foot space, previously occupied by Fresh Market, and MaruSushi & Grill opened in the former Wasabi Sushi Bar location. Aldi opened at Northridge at 119th Street and Strang Line Road. Kohler opened in Hawthorne Plaza.

Raising Cane's and Andy's Frozen Custard make up new retailers at Stag's Creek development at Shawnee Mission Parkway and Nieman Road. QuikTrip will build a new store on the south side of Shawnee Mission Parkway at Goddard.

Freezing Moo Rolling Ice Cream opened at Town Center Crossing, Deer Creek Marketplace, and on an out parcel at Oak Park Mall alongside Zoe's Kitchen, and Pizzeria Locale. Cheddar's Scratch Kitchen also opened at Oak Park Mall while Bebe closed.



The first phase of BluHawk Marketplace was completed by Price Brothers during the first quarter of 2017. Located in Southern Johnson County at 159th Street and 69 Highway, the development is anchored by a 60,000 square foot Cosentino's Market grocery store and will total over one million square feet of shopping, dining, and entertainment space.



The upscale Italian restaurant, Maggiano's Little Italy, opened their 53rd restaurant in the Overland Park development, Corbin Park, in July 2017. The freestanding building is a 8,468 square foot, newly constructed space and sits next to the existing Red Rock Canyon grill at the intersection of Metcalf Avenue and 135th Street.

The former JCPenney Outlet near I-35 and 75th Street is undergoing renovations as the 127,000 square foot building welcomes its first 81,300 square foot tenant, Floor & Décor.

Elsewhere in the county, Planet Fitness signed a lease for 29,000 square feet at 135th Street and Mur-Len; Blaze Pizza and Chuy's announced openings at 119th Street and Strang Line Road; Kneaders Bakery & Café is under construction at 121st Street and Blue Valley Parkway; Meshuggah Bagels opened at 105th Street and Metcalf Avenue; Home2 Suites by Hilton is expected to open in May 2018 on the former Smokehouse Bar-B-Que near 135th Street and Metcalf Avenue, and Rosana Square at 119th Street and Metcalf Avenue had Discount Tire open on a pad site and is proposing a four-story 86-room Comfort Suites on the east end of the shopping center. Caffetteria and T. Loft opened in the Prairie Village Shopping Center.

Johnson County's vacancy rate dropped from 9.2% at the end of 2016 to 6.4% at the end of 2017. However, the average rental rate decreased from \$15.04 to \$14.38 per square foot from 2016 to 2017.

EAST JACKSON COUNTY, MISSOURI

This smaller portion of the market, covering Independence and Blue Springs, has one center under renovation, the Marketplace Shopping Center in Independence, and one redevelopment, White Oak Marketplace in Blue Springs.

The Marketplace Shopping Center, at I-70 and Noland Road, has completed its façade upgrade and demolished a hotel to make way for two, new two-tenant buildings along I-70 with Jack In the Box taking the hard corner location.

White Oak Marketplace, located at Missouri Highway 7 and U.S. 40 Highway, has a new 86,000 square foot relocated

Rental rates in East Jackson County increased from an average of \$10.71 per square foot at the end of 2016 to a current average of \$11.16 per square foot. The vacancy rate however, increased from 6.9% to 8.7%.

Price Chopper with 16,000 square feet of retail space and a 90 unit senior housing development planned.

Arrowhead Shopping Center expects upgrades and renovations of the grocery anchored center next year.

Kneaders Bakery and Café in Blue Springs opened on a pad site in front of Home Depot and MOD Pizza also opened. Both sites are located near NE Coronado Drive and Adams Dairy Parkway.

Joe's Crab Shack closed its location in Hartman Heritage on the north side of I-70 while Stroud's closed its location across I-70; however, Qdoba opened in Eastland Village at U.S. 40 Highway.

Rental rates in East Jackson County increased from an average of \$10.71 per square foot at the end of 2016 to a current average of \$11.16 per square foot. The vacancy rate however, increased from 6.9% to 8.7%.

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

Openings in the greater Downtown Kansas City area have been abundant in 2017. Hotel rooms and micro-breweries

seem to be leading the expansion. The streetcar and significant residential development in the area have created a buzz amidst an area that was already exploding in its own right with unique niches for retail in the Crossroads, Power & Light District, River Market and Crown Center areas, all amongst the 28 million square feet of office product. Notably, Corrigan Station added The Roasterie and the Corvino Supper Club and Tasting Room, which was created by a former chef of The American Restaurant. A Denver-based developer purchased 10 vintage buildings along Delaware Street between Third and Fifth Streets in the River Market and plans for a boutique hotel and indoor market. Hotel Indigo, with 118-rooms, will open in the historic, 12-story, former Brookfield Building, and Community America Credit Union and Mazuma Credit Union have both announced openings in the Crossroads.

The Linwood Shopping Center got started on the \$17 million redevelopment plan which includes Sun Fresh Market as an anchor. The area on the east side of Troost Avenue between 25th and 27th Street is home to a \$24 million mixed-use plan calling for 180 apartments, 12,000 square feet of retail space.

Country Club Plaza had several retailers close this year including Swirk, Houston's, BCBG and American Apparel, with Zoom toy store and Williams Sonoma also announcing closings. Openings included: Hogshhead, Parkway Social Kitchen, Rye, Niall, and Charlie Hustle. Nearby on Main Street south of the Plaza, Elly's Brunch & Café and Larkburger opened, and Black Dirt hopes to open soon, while The Monarch Cocktail Bar & Lounge opened on the west end of the Plaza at Plaza Vista.

Ward Parkway Center, opened its restaurant cluster with newcomers to Kansas City: The Garage, Charleston's, and MidiCi: The Neapolitan Pizza Co. Farther south, The Red Bridge Shopping Center has announced that Wonderscope Children's Museum of Kansas City will relocate from Shawnee into a new 30,000 square foot space being built adjoining the Mid-Continent Public Library. A 300-seat auditorium will connect the Museum to the Library. Blue Moose, Caleb's Breakfast and Lunch, Silks and Poles Aerial Fitness, and

Crow's Coffee have also been announced at the center, while Euston's Hardware and Blue Bicycle Health and Fitness opened earlier this year.

PineTree Plaza at U.S. Highway 50 and Jefferson Street sold to a Springfield area developer who is giving the project a face lift to make way for Planet Fitness. Across the highway to the south, The Grove broke ground on the first phase of its 85-acre, 1.29 million square foot \$220 million mixed-use project in Lee's Summit. The development is expected to be built over 10 years and will include 602,000 square feet of industrial space, 95,000 square feet of office space, and 88,000 square feet of retail and restaurant space, with 384 apartments together with both surface and structured parking. Elsewhere in Lee's Summit, Holiday Inn Express opened near Chipman and Ward Roads. Big Whiskey's American Restaurant & Bar opened in Summit Fair together with Kay Jewelers, Dick's, and H&M. Pinsa Pizzeria & Kitchen opened in Summit Woods Crossing.

Belton Gateway finished its second phase 47-acre \$63 million development and is now home to Ross Dress for Less, Marshalls, Party City, Petco, Five Below, and Kneaders Bakery & Café. Located on the south side of Missouri Highway Y and west of I-49, the development also plans for a hotel to be constructed. Nearby in Raymore, MOD Pizza, Qdoba, Panda Express, and Kay Jewelers opened.

Rental rates in this area of the metro increased from \$12.08 per square foot at the end of 2016 to an average of \$12.92 per square foot at the end of 2017. The area's vacancy rate dipped from 5.9% at the end of 2016 to 5.0% at the end of 2017.

KANSAS CITY/WYANDOTTE COUNTY, KANSAS

Village South broke ground on a 33.5-acre tract at the southeast corner of I-70 and 110th Street in Edwardsville across from Village West. The first phase includes a two hotel complex with 185 rooms operated by Holiday Inn and La Quinta Inns, with a 12,000 square foot conference center and restaurant.

SELECTED NEW RETAIL CONSTRUCTION

| <i>New Construction</i> | <i>Square Feet</i> | <i>Project Status</i> | <i>Tenants Announced</i> |
|--------------------------|--------------------|-----------------------------|---|
| BluHawk | 1,000,000 | Phase II, Under Development | Consentino's (open), Cosmosphere (announced) |
| Summit Place | 350,000 | Phase I, Under Construction | Sam's Club, Cabela's |
| 95Metcalf South | 305,000 | Phase 1, In Development | Lowe's |
| Bellmont Promenade | 265,000 | Planning Phase | N/A |
| Belton Gateway | 250,000 | Phase II, Complete | Ross, Marshalls Party City, Petco, Five Below |
| Brookridge South Village | 247,000 | Planning Phase | N/A |
| Edgewood Farms | 200,000 | Phase I, Complete | Main Event Entertainment |
| Gateway Sports Village | 107,000 | Phase I, Under Construction | Multisport Field House |
| White Oak Marketplace | 86,000 | Phase I Complete | Price Chopper |
| CityPlace | 60,000 | Phase I, In Development | N/A |
| Mission Gateway | 55,000 | Phase I, In Development | N/A |
| Metro North Crossing | 52,000 | Phase I, Under Construction | Troon Golf & Entertainment Complex |

Total Square Feet: 2,977,000

The phase is expected to be open mid-2018. The plan also calls for two 25,000 square foot retail buildings and two pad sites.

Frontier Justice opened their second area location, a 33,000 square foot shooting range, gun shop, and fashion boutique together with a private club component. The new building sits on the east side of I-435 and the north side of I-70 and was developed by BRES.

Legends Outlet added H&M, HomeGoods, while Freddy's Frozen Custard and Steakburgers purchased land nearby.

NorthWood Shopping Center added Ginger Sue's, and Tanner's Bar & Grill opened at 39th Street and Rainbow Boulevard.

Retail rental rates for Wyandotte County were \$10.72 per square foot at the end of last year. They decreased to \$9.10 per square foot at end of 2017. The area had a 3.4% vacancy rate at the end of 2017, compared to a 3.7% vacancy rate at the end of 2016.

THE NORTHLAND KANSAS CITY, MISSOURI

A Cedar Falls, Iowa based developer purchased the site of the former Kmart located at Northeast Antioch Road and Northeast Vivion Road. The \$45 million 167,000 square foot redevelopment renamed itself Shoppes at Vivion Point to make way for a 55,000 square foot Hobby Lobby, relocated from Gladstone, and a 30,000 square foot Urban Air along with Jimmy John's. The project was backed by \$9.9 million in TIF. Across Vivion, at Antioch Crossing, Petsmart, Starbucks, Baskin Robbins, and MOD Pizza added locations while Sears closed at the center.

Edgewood Farms, located on the east side of I-29 and south of Barry Road witnessed the opening of Freddy's Frozen Custard & Steakburgers, Main Event Entertainment, and Texas Roadhouse with plans for 225,000 square feet of additional retail space as well as 275 apartments coming soon.

Metro North Crossing, the site of the former enclosed mall located at U.S. 69 Highway and Northwest Barry Road, has signed its first entertainment based tenant, a 52,000 square foot golf entertainment complex with 64 climate controlled hitting bays. Troon, a global leader in golf course development and management, will operate venture.

Twin Creeks, formerly Barry Town Center, will undergo renovations, as well as invest \$30 million in additional development allowing for 200,000 square feet of retail space on 13 acres north of the existing center. Ross Dress for Less has announced plans to open. Costco opened earlier this year at Missouri Highway 152 and North Platte Purchase Drive. The residential area created by the addition of sewers allows for residential growth of up to 60-75,000 new residents in the area.

Valley View Shoppes planned to house 92,000 square feet of retail space northeast of Missouri Highway 152 and North Booth Road, south of the Shoal Creek Golf Course obtained approval for \$9.4 million in TIF to pay for infrastructure improvements need for the \$49.7 million project intending to break ground mid-year.

Liberty Commons at I-35 and Missouri Highway 152 added McAlister's Deli, Louie's Wine Dive, Meshuggah Bagels, and Slim Chickens

For the first time in history, Americans spent more money in restaurants and bars than they did in grocery stores. This is at least in part attributed to the on-line social element we've become used to; much of the younger generation attempts to post experiences that make the best social media content, delivering the most popular Instagram, Facebook, or Twitter post to their followers.

FlowRider and Flow House Kansas City is expected to open in 2018 at One North. The \$200 million mixed-use development at I-35 and Armour Road will feature one of three indoor wave generating surf simulators along with Driv Golf Lounge + Brewhouse, a concept similar to TopGolf. Also anticipated in the development, a 35,000 square foot grocery store and two 100-room hotels with a 15,000 square foot conference center.

Two hotels sites sold to SpringHill Suites, with 90 rooms, and Holiday Inn Hotel & Suites, with 126 rooms, within the 140-acre development near Parvin Road and I-435. The hotels are expected to open in 2018.

Two hotels are in the making near the airport. A 98-room Tru by Hilton could neighbor a five-story vacant office building being converted into a 104-room Hilton Garden Inn.

Rental rates in the Northland averaged \$14.16 at year-end up significantly from \$12.41 per square foot at the end of 2016. The vacancy rate fell to 4.8% down from 7.7% at the end of 2016.

RETAIL OUTLOOK

Retail will remain in a state of flux throughout 2018. According to an article in The Atlantic earlier this year, travel and hotel occupancy is thriving with more passengers being flown each year since 2010. For the first time in history, Americans spent more money in restaurants and bars than they did in grocery stores. This is at least in part attributed to the on-line social element we've become used to; much of the younger generation attempts to post experiences that make the best social media content, delivering the most popular Instagram, Facebook, or Twitter post to their followers.

In addition to an increase in the vacancy rate and a decrease in rental rates metro wide, we expect to see Shake Shack, MAD Greens, and Black Bear Diner enter the market while Schlotzky's, Tropical Smoothie Café, and Hawaiian Bros Island Grill expand their market footprint. Hotel development will continue to be strong going into 2018, while service providers will continue to expand into retail locations. Redevelopment, mixed-use development, and infill development is expected to continue, but it will slow dramatically in the coming year.

Contributor: Kim Bartalos, CLS

KANSAS CITY

MULTIFAMILY MARKET



Construction has started on the second phase of the BRES developed WaterSide Residences on Quivira community located between W 81st Street and W 83rd Street on Quivira Road in Lenexa, Kansas. The second phase consists of 104-units across two buildings and brings the total to 481.

It's 2018 and the multifamily market is still going strong. We've been saying the same thing for years. Market fundamentals are better than they've ever been, interest rates and cap rates are historically low, and transaction volume has continued to maintain historically high levels. For the third year in a row, Kansas City's transaction volume reached more than \$700 million. There was a healthy mix of sales in Class A, Class B, and Class C properties all throughout the metropolitan area. We have also seen many new low-rise, high-rise, and mixed-use developments popping up throughout the metro. Millennials continue to choose renting over buying, and multifamily fundamentals continue to follow their lead.

FUNDAMENTALS AND STATISTICS

The Kansas City apartment market grew to 138,240 units in 2017. Vacancy rates improved slightly to 4.6%, and rent

increased by 3.6%, similar to the increases in 2015 and 2016. Average asking rents for Class A properties were \$927 per month and Class B and C asking rents were \$681 per month.

The highest rents in the metropolitan area continue to remain close to the Plaza and Downtown. Certain properties Downtown, like Two Light, are pre-leasing at the highest per square foot numbers that Kansas City has ever seen. One Light's quick lease-up and high rents are allowing for Two Light, and other similar deals, to pre-lease at even higher numbers. Other projects, like ARTerra in the Crossroads, are being underwritten at rents of \$2.25 per square foot. With the correct unit layouts and amenities, the rents will be achievable due to the high demand of living in the Urban Core.

URBAN CORE – LIVE, WORK, PLAY

The revitalization and continued development of Downtown Kansas City is proving how important the “live, work, play” lifestyle is to today's generation of workers. More than 3,000 units have been constructed Downtown since 2014 and nearly another 3,000 are expected to be completed by 2020. Those units are being absorbed quickly and at high rents.

The downtown population is expected to grow 42% between 2015 and 2020 due to all of the new and rehabbed

The revitalization and continued development of Downtown Kansas City is proving how important the “live, work, play” lifestyle is to today’s generation of workers.

housing. The streetcar, which opened in 2016 and connects the City Market in the River Market to Downtown, the Crossroads and Crown Center, has helped spur even more development along its route. It’s expected that this trend will continue southward through Midtown so there aren’t any gaps between Downtown and the Plaza. The phrase “if you build it, they will come” can be taken quite literally in context with multifamily development in the urban core right now.

WELCOME DOWNTOWN OVERLAND PARK TO THE PARTY

Developers have had the same mind-set in Downtown Overland Park as well. We are seeing the first new developments coming online in years in that part of the city. Avenue 80, a 220-unit community at 80th Street and Metcalf Avenue developed by EPC Real Estate, was recently completed and is in lease-up stages. The Vue, a 219-unit community being developed by Hunt Midwest, will be the second 200-plus unit deal in the area and will help change the landscape. Other deals, like the Interurban Lofts and Market Lofts, will also add to the influx of high-end units in the Downtown Overland

Park area. This area, which was once below-average in rental housing, will now feature new apartments leasing at more than \$1.40 per square foot and add new residents to the flourishing area that includes a farmer’s market and a multitude of shops and restaurants within walking distance.

DEVELOPMENT UPDATE

Over 4,000 units were delivered in 2017 across the metro, continuing the recent trends of high-quality assets being added to Kansas City’s apartment market. A multitude of ground-up suburban and urban developments, historic rehabs, and building conversions have taken place and are changing the skyline with relatively no signs of slowing down.

Notable developments completed on the Missouri side include: Commerce Tower (342-units by Commerce Tower Group); East 9 at Pickwick Plaza (260-units by Gold Crown Properties); Summit on Quality Hill (252-units by CityScape Residential); Apex on Quality Hill (138-units by CityScape Residential); Second and Delaware (276-units by Arnold Development Group); Crossroads Westside (221-units by CityScape Residential); 531 Grand (140-units by Cornerstone Associates and Block Real Estate Services); Kinsley Forest Apartments (328-units by Taurus Investment Holdings); Savannah West (201-units by EPC Real Estate Group).

Notable developments currently under construction on the Missouri side include: 51 Oak (170-units by VanTrust Real Estate); Two Light (296-units by Cordish Companies); Union (410-units by Flaherty & Collins); Altitude 970 (291-units by AG Spanos); Traders on Grand (203-units by Sunflower Development and Block Real Estate Services);



The Residences at Prairiefire and West End Flats at Prairiefire sold to CRES Management for a combined \$70.1 million. The two communities are part of the Prairiefire development in Overland Park and total 426-units.

Gallery Green (360-units by Milhaus and UC-B Properties); ARTerra (126-units by Altus Group and Copaken Brooks); Liberty Parkway Heights (204-units by Filios Companies); The Continental (154-units by Hudson Holdings); 31 Levy (122-units by Epoch Development).

Notable developments completed on the Kansas side include: Avenue 80 (220-units by EPC Real Estate Group); Adara Overland Park (260-units by Davis Development); Waterside Residences (377-units by Block Real Estate Services); Royale at CityPlace (344-units by Block Real Estate Services); Metcalf Village (270-units by J.A. Murphy Group); EdgeWater at City Center (276-units by Block Real Estate Services).

Notable developments currently under construction on the Kansas side include: The Vue (219-units by Hunt Midwest); Mission Gateway (168-units by Cameron Group); Apex at CityPlace (395-units by Block Real Estate Services); The Promontory (291-units by Arbor Development and Launch Development); The Kessler (280-units by VanTrust Real Estate).

MULTIFAMILY SALES

NOTABLE CLASS A TRANSACTIONS

- Prairiefire Phase I & II, a 426-unit community in Overland Park, Kansas, sold to CRES Management for \$70.1 million or \$164,554 per unit at a 5.86% cap rate.
- Sandstone Creek, a 364-unit community in Overland

Park, Kansas, sold to DRA Advisors for \$48.1 million or \$132,143 per unit at a 5.4% cap rate.

- Greenwood Reserve, a 228-unit community in Lenexa, Kansas, sold to PASSCO Real Estate for \$38.25 million or \$167,763 per unit at a 5.5% cap rate.
- West End at City Center, a 309-unit community in Lenexa, Kansas, sold to LivCor for \$36.4 million or \$117,799 per unit at a 5.5% cap rate.
- Province of Briarcliff, a 120-unit community in Kansas City, Missouri, sold to Forum Real Estate Group for \$18.77 million or \$156,444 per unit.

NOTABLE CLASS B TRANSACTIONS

- Kenilworth & Corinth Communities, a portfolio of 588-units in Prairie Village, Kansas, sold to JDC for \$70.25 million or \$119,473 per unit.
- The Bridges at Foxridge, a 317-unit community in Mission, Kansas, sold to Landmark Realty for \$29.5 million or \$93,060 per unit.
- The Reserve at Barry, a 690-unit community in Kansas City, Missouri, sold to PRG Real Estate for \$58.25 million or \$84,420 per unit at a 6% cap rate.
- Mitchell Park Plaza & Lofts at 415, a portfolio of 349-units in St. Joseph, Missouri, sold to Time Equities for \$26 million or \$74,499 per unit.
- Three Fountains, a 170-unit community in Kansas City, Missouri, sold to Inco Real Estate for \$20.8 million or \$122,353 per unit.



Passco Cos., a real estate firm based in Irvine California, purchased the two year old property Greenwood Reserve for \$38.25 million. The 228-unit community in Lenexa, Kansas is their fifth acquisition by the firm in the Metropolitan area.



A local investment group purchased five communities located in Prairie Village, Kansas. The Kenilworth Apartments, Corinth Place, Corinth Paddock, Corinth Gardens, and Corinth Mission Valley communities totaled 588-units and sold for \$70.25 million.

NOTABLE CLASS C TRANSACTIONS

- Carlyle, a 436-unit community in Shawnee, Kansas, sold to BH Equities for \$27.55 million or \$63,188 per unit.
- Forest Park, a 198-unit community in Kansas City, Missouri, sold to Monarch Investment and Management Group for \$13.92 million or \$70,303 per unit.
- Villas at Colonial Point, a 438-unit community in Kansas City, Missouri, sold to Team Property & Investment for \$7.58 million or \$17,306 per unit.
- Broadway 46, a 72-unit community on the Plaza in Kansas City, Missouri, sold to R.H. Johnson Company for \$7.3 million or \$101,389 per unit.

2018 FORECAST

As 2017 comes to an end and 2018 begins, it's important to recognize all of the positives that have taken place in the multifamily industry in recent years. Kansas City has continued to improve its Urban Core and add housing for millennial and renter-by-choice individuals. High-rise buildings have been built, and more are under construction or are being planned for the future. A multitude of mixed-use developments have taken place all around the metro and are allowing for tenants to have access to immediate services that previously would have required a car to get to. Investing in multifamily has been

in high-demand and many groups from the coasts have started placing money in our city, further proving it is a viable place to be and is seen as a viable place to invest for investment groups that have historically kept their money out of cities like ours.

There has been non-stop talk in the last year or so about the top of the market and questions about when the next recession will be and what kind of recession we should expect after going through the last one. No big changes are expected any time soon, especially in Downtown, Crossroads, Westport, and Plaza areas. Unfortunately, Johnson County may see some negative decline first in the metro, especially properties asking the most in rent.

With the continually evolving market, we also have to look at the economic drivers of different resident groups. Are these mixed-use environments with over-the-top amenity packages and conveniences going to continue to draw premium rents? Or will economics play a role in residents migrating towards more affordable Class B properties. There's only so much rent that Kansas City residents can handle, so where is that cap? Unfortunately, we do not have a crystal ball that tells us exactly what will happen in the future. In the meantime, expect rents to remain steady and future construction to slow down in order for the market to absorb the new units coming online in the next couple years. At that point, we'll have a good idea of where everything stands.

Contributor: Matt Ledom, CCIM, Vice President.



An investment group led by BRES acquired the 445,000 square foot PacSun distribution building in 2017 for approximately \$19.4 million. The facility, located at the northwest corner of 167th Street and Lone Elm Road in Olathe, Kansas, is the sole distribution center nationally for PacSun which signed a long-term lease for the building as part of the \$17,950,000 transaction. This site has two development parcels for a future Value Add opportunity.

During 2017, the Block Income Fund I sold its last remaining asset, 9200 Ward Parkway. Block Income Fund II sold many of its assets and with those sales, Block Funds has completely removed itself from the Atlanta real estate market. 2017 also saw Block Income Fund III sell some assets to once again take advantage of the strong seller's market. The Block Income Fund IV portfolio continues to increase cash distributions, as our long-term net lease buildings have annual rental increases.

Below are the major highlights for each specific fund during 2017.

BLOCK INCOME FUND I

9200 Ward Parkway is the last remaining asset in Fund I and is under contract to close early in 2018. This will dissolve the Fund which had an initial closing of July 2004.

BLOCK INCOME FUND II

Two Sun Court in Atlanta, Georgia was sold.

The Corporate Express Building in Denver, Colorado will be sold in 2018.

1300 E. 104th Street in Executive Hills in Kansas City, Missouri will be sold in 2018.

Valle Vista Shopping Center in Lee's Summit, Missouri is on the market for sale, and it is expected to sell in 2018.

The Martinrea building in Riverside, Missouri will be the only asset remaining in the portfolio after 2018.

BLOCK INCOME FUND III

Rivergate Business Center in Kansas City, Missouri was sold in 2017.

The ADS building in Lenexa was sold in 2017, and the proceeds were traded into the Pacific Sunwear building in Olathe, Kansas.

The Movius building in Atlanta, Georgia was sold in 2017 with the proceeds traded into three new deals: Desert Perinatal located in Las Vegas, Nevada, Springdale Medical in Springdale, Arkansas, and Pine Ridge Business Park Building 31 in Lenexa, Kansas. All three deals have long-term leases and will provide the Fund with excellent cash flow.

Riverside Business Center in Riverside, Missouri was refinanced during 2017, and the annual debt service was lowered significantly

BLOCK INCOME FUND IV

EdgeWater at City Center Apartments in Lenexa, Kansas was refinanced in 2017 and a significant portion of the fund's initial investment was returned to the partners.

As previously stated, a majority of the fund's portfolio is invested in long-term net leased deals with annual rent increases, which will result in strong cash flow for the fund.

Block Funds continues to raise equity to acquire multifamily deals, industrial deals, and medical deals in single purpose entities. The goal remains to provide our investors with long-term cash flow, to pay down debt principal, and to provide any upside on property appreciation during the hold period. Investors can register to see all offerings at www.blockfunds.com.

If you have any questions about any of the Block Income Funds, please do not hesitate to call Brian Beggs at 816-932-5568, or email him at bbeggs@blockllc.com.

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

BLOCK CONSTRUCTION SERVICES

PROJECTS



A historic redevelopment in downtown Kansas City, Missouri, the Traders on Grand building, now called The Grand, will reopen in 2018 with 200 market-rate residential units on floors three through 20. The first two floors will feature a mixture of commercial and common area space for residents, while the rooftop will have a pool deck and entertainment area.

Block Construction Services (BCS) managed over \$149 million in development projects and \$12.5 million in tenant improvement work in 2017. BCS continues to exceed owners' expectations by staying on schedule and developing projects within budget. The relationships BCS has created over the past 15 years has allowed it to continue building a strong construction management and owners' representation firm. Development projects under construction in 2017 included work in all sectors, including office, industrial, warehouse, distribution, multifamily, and retail.

OFFICE/MEDICAL

In 2017, BCS completed Nall Corporate Centre II (NCC II), located at College Boulevard and Nall Avenue. This 150,000 square foot, five-story, Class A office building is located adjacent to the Teva Pharmaceuticals building in Overland Park, Kansas. NCC II's major tenants include Mariner Holdings LLC, Willis of Kansas City Inc., Worldwide Express and Spencer Reed Group.

Roe Medical Centre, a 77,987 square foot, three-story medical office building in Overland Park, Kansas was also

completed in 2017. This facility is comprised of precast, brick inlays, and reflective glass. One floor of the building is currently leased and scheduled for occupancy in January of 2018. There is activity on all of the remaining space and it is expected to be fully leased ahead of schedule.

In late 2017, a ground breaking ceremony was held at 47th Street and Pennsylvania Avenue in Kansas City, Missouri for 46 Penn Centre, the newest high-rise development on the Country Club Plaza. This Class A office building will feature 200,465 square feet in eight stories, a 246,666 square foot parking structure, and a 6,728 square foot restaurant. The building will be constructed with only four columns per floor for maximum space-plan efficiency and will also feature balconies. Located on the Country Club Plaza, 46 Penn Centre will capitalize on its nationally recognized popularity and reputation. The entire 15-block district, with more than 150 shops and dozens of fine restaurants, makes The Plaza one of Kansas City's premier destinations.

INDUSTRIAL/WAREHOUSE/DISTRIBUTION

Lenexa Logistics Centre South Building 7 in Lenexa, Kansas was completed in 2017. Building 7 is a 401,197 square foot, cross-dock, Class A distribution facility. A special benefit district project with the City of Lenexa was also constructed to complete the extension of Britton Street from College

Boulevard to 113th Street. When completed, this eCommerce-ready business park will offer roughly 1,700,000 square feet of bulk industrial space with multi-tenant occupancy.

Construction was completed in December 2017 in Earth City, Missouri for an approximately 130,825 square foot tilt-up concrete manufacturing/warehouse facility. A lease has been executed for 30,225 square feet and that tenant will be occupying the building in February of 2018.

MULTIFAMILY/MIXED USE

BCS has completed its second multifamily development project, EdgeWater at City Center. EdgeWater is a 276 luxury-unit project consisting of five buildings and a 6,230 square foot clubhouse located at 84th Street and Renner Boulevard in Lenexa, Kansas. EdgeWater is one of the first multifamily projects in the area to use a “center green” concept and focuses on an atmosphere of luxury, pampering, and resort-style living.

Construction activities continue at WaterSide Residences on Quivira located at 81st Street and Quivira Road in Lenexa, Kansas. The first phase of WaterSide was completed in October 2017 and consists of 377 luxury units with 10 buildings and a 7,393 square foot clubhouse. A second phase has been started which will consist of an additional 104 luxury units with two buildings and is expected to be completed June 2018.

Construction also continues on the first of four multifamily projects located at CityPlace, a 90-acre, mixed-use development in Overland Park, Kansas that will feature four office buildings totaling 600,250 square feet on 26-acres, 1,382 multifamily units on 39-acres and 66,890 square feet of retail space on 10 acres. The Royale at CityPlace is an urban, high-density, community featuring a four-story podium building with enclosed parking garage, an 8,456 square foot clubhouse and four freestanding apartment buildings consisting of 344 units. Construction of The Royale is expected to be completed August 2018.

531 Grand, located in the River Market area of Kansas City, Missouri, consists of 185 luxury units and 10,000 square feet of retail space for a total of 221,425 square feet. Construction is scheduled to be completed March 2018.

Traders on Grand is a historic redevelopment project located at 1125 Grand Boulevard in Kansas City, Missouri. Floors three through 20 of the 21-story property are being converted to 200 market-rate residential apartment units while the basement is being converted to common area and tenant amenity space. The first and second floors are being rehabilitated for commercial use and common area space. The 21st floor, which previously housed the building HVAC system, is being converted to a pool and amenity area. Construction is scheduled to be completed mid-2018.

MASTER PLANNING

Avenue One – BCS continues to lead the planning efforts of Avenue One, an approximately 200-acre, mixed-use development located at the intersection of 192nd Street and Dodge Road in Omaha, Nebraska. The project is anticipated to generate an economic impact of over \$1.28 billion for the Omaha region and Nebraska. BCS, along with the design team, are working to provide a comprehensive master site-plan to create a dense and truly mixed-use community. Mass grading efforts are underway.

4400 Washington –BCS has received planning approvals for a 288-unit multifamily project located at the southwest corner of 44th Street and Washington Street in Kansas City, Missouri adjacent to St. Luke’s Hospital. Demolition of existing houses and utilities started in December of 2017 and construction for the new project will commence in early 2018.

CityPlace Corporate Centre III - A four-story, 120,238 square foot building is planned as the first office building at CityPlace in Overland Park, Kansas. It will feature efficient 30,000 square foot floor plates designed to offer maximum flexibility for tenants. The building will be constructed using steel structural systems combined with masonry, precast concrete, glass and natural stone to present a uniquely contemporary design. The Offices at CityPlace are designed in a campus like setting incorporating walking and jogging paths, bike paths, and a reflective pond.

Galleria 115 - Galleria 115 is a mixed-use development encompassing grocery, retail, restaurant, entertainment, and multifamily. The site is adjacent to the Sprint World Headquarters in Overland Park, Kansas. The development will include two multifamily buildings with approximately 550-units and an approximately 209,000 square foot Class A retail power center.

47 Madison - 47 Madison Avenue is a multifamily development planned for the west side of the Country Club Plaza in Kansas City, Missouri. Current plans call for approximately 260-units, structured parking, and an unprecedented amenity package that includes a rooftop terrace. Designed in 1922 as the nation’s first suburban shopping district, the Plaza’s fountains, sculptures, and murals bring the very best of the old world and the new to the heart of the city.

The Apex at CityPlace – The second multifamily phase of the CityPlace development in Overland Park, Kansas is planned to commence in early 2018. The Apex is a Class A multifamily project that includes 36,623 square feet of retail space and 361 multifamily units.

The Market at CityPlace – Also part of the CityPlace mixed-use development, The Market at CityPlace will include four retail buildings that total approximately 30,267 square feet. Construction is slated to start in early 2018.

The Clearing at Anderson Pointe– In November 2017, we received approval from the Olathe City Council to construct five four-story multifamily buildings housing a total of 255 units in Olathe, Kansas.

TENANT IMPROVEMENTS

Some of the projects coordinated by our tenant-improvement division during 2017 include:

- Bunsz Distribution - Riverside Logistics Centre
- Willis Towers Watson - Nall Corporate Centre II
- Worldwide Express - Nall Corporate Centre II
- HCA Medical - Row Medical Office Building

GREAT EXPECTATIONS FOR 2018

BCS will continue to shape skylines and landscapes throughout the country. We expect to see continued growth in all market sectors in 2018 in Kansas City and throughout the Midwest region. BCS looks forward to providing accurate direction to its partners, institutional and private investors, clients, and tenants.

Contributor: Brad S. Simma, CCIM, Vice President

BLOCK HEALTHCARE DEVELOPMENT



A BRES sponsored invested group, DP Medical, LLC, closed on a single-tenant MOB in Las Vegas, Nevada in 2017. The 24,465 square foot building is 100% occupied by Desert Perinatal Associates. The purchase also included a 20% interest in the Fort Apache Professional Plaza Condominium Association, which consists of 15 professional buildings totaling 121,560 square feet.

In the 2016 Block Healthcare Development (BHD) report, the question was raised as to whether or not the overall healthcare real estate market was beginning to see stabilization as cap rates began to level a bit, as did total transaction volume between 2015 and 2016.

However, 2017 is showing once again that the healthcare real estate market remains very competitive. As 2016 came to a close, the quarterly average cap rates between first quarter 2015 and fourth quarter 2016 for outpatient medical office buildings ranged from 6.6% to 6.8%, according to the healthcare real estate analytic firm Revista. Through the first half of 2017, the same medical office building (MOB) market showed an average cap rate of 6.45%. While part of the 2017 trend could be attributed to very large portfolio purchases by the leading Real Estate Investment Trusts (REITs), much of this was attributed to the continuing trend in the healthcare industry, outpatient migration. Typically, outpatient settings are lower in cost to construct when compared to the acute care setting, which translates to lower healthcare costs to consumers. With the uncertain future of the Affordable Care Act (ACA), consumers with growing high deductible plans to

offset rising premiums are continuing to be price conscious. The construction of new MOB is continuing to show this trend, as Revista's mid-year 2017 construction report states that 20.9 million square feet of MOB deliveries will take place in 2018, 64% of which will be off-campus. The total development represents a 10% increase over the 2016 deliveries, which totaled 19 million square feet.

While the competitiveness to purchase assets in the healthcare arena is driving down cap rates, the interest rates to purchasers that utilize debt, runs counter to the cap rate trend. At the start of third quarter 2016, the lead indicator for commercial debt, the 10-year Treasury, was around 1.45%. That same time period for 2017 showed a 10-year Treasury of 2.40%. The choice for non-REIT purchasers, such as the BHD syndications, is to either wait out the trend of cap rate compression until it aligns with rising interest rates, or continue to find high quality medical offices to acquire and adjust investor return expectations to match that of the market trends.

Our choice at BHD has been to remain very bullish on acquiring and developing healthcare properties, and to continue to forge a name for ourselves in the marketplace. We have been successful in accomplishing this by moving our focus to more off-market opportunities through long-standing brokerage relationships that allow us to receive more favorable



A BRES sponsored investment group, Springdale Medical, LLC closed on a single MOB located in Springdale, Arkansas in June 2017, after an equity raise of \$4.04 million. The 31,200 square foot building is 100% triple net leased to Northwest Physicians, LLC.

pricing through a less bureaucratic approach. The result is that in 2017, BHD once again was able to acquire over \$52 million in long-term, net leased properties. In total, BHD acquired eight 100% occupied properties totaling over 150,000 SF leased to a combination of independent physician groups and large health systems. Utilizing our strategy of focusing on off-market transactions through our brokerage relationships and our reputation of closing deals, we were able to acquire these properties at an average cap rate of 7.15%, which yields higher initial cash flow returns to our investors.

NOTABLE ACQUISITION TRANSACTIONS

In December 2017, members of P2 Medical, LLC closed on a \$13.86 million portfolio of medical offices located in Pell City, Alabama and Portage, Indiana. The two properties had fully-guaranteed, NNN leases that had terms of 12-years in Pell City and 13.5-years in Portage with 3% annual increases. The overall capital raise for the project was \$4.56 million at \$48,000 per share. The blended purchase cap rate was 6.75%, giving investors a projected five year cash-on-cash annual return average of 7.19% and a 10-year cash-on-cash annual return average of 8.35%.

In June 2017, members of Springdale Medical, LLC closed on a single MOB located in Springdale, Arkansas. The property, which totaled 31,200 square feet of space, is 100% leased to Northwest Physicians, LLC, a wholly-owned subsidiary of Northwest Health System. The property is triple net leased and has a remaining term of nine years. The overall capital raise for the project was \$4.04 million at \$42,500 per share. The purchase cap rate was 7.00%, giving investors a projected five year cash-on-cash annual return of 7.13% and a 10-year annual projection average of 8.14%.

NOTABLE DEVELOPMENT TRANSACTIONS

In November 2016, members of LV Medical, LLC closed on a shell building in Las Vegas, Nevada. As part of

the transaction, LV Medical, LLC and the physicians with Gastroenterology Associates entered in to a 15-year triple net lease pending the completion of a turn-key tenant improvement development. The building will be completed in June 2018 and will include a second floor clinic space and first floor ambulatory surgery center. The physician group is also a member of LV Medical, LLC. The overall project size is just over \$8.2 million.

2018 OUTLOOK

As we begin a new year, the BHD's expectations for 2018 are that the marketplace will continue to be more competitive as investors continue to look for long-term stable investments. With the baby boomer population continuing to populate the 65 year old marketplace, healthcare utilization rates will continue to increase. In addition to this population, the millennial approach to convenience will also drive the outpatient market place. Urgent Care providers will continue to serve as this group's primary care physician, which must take place at varying hours and usually close to where they live. As pointed out earlier in this section, the construction trends support the projections.

Other factors that will have unknown impacts on this sector, such as how the ACA is handled from a legislative perspective, will be factored in to the summary on 2018, as could the currently debated tax reform measures.

BHD will continue to track all of these potential impacts to the healthcare commercial real estate marketplace and adjust accordingly. In its seventh year, BHD's approach to sourcing the right deal for its investors has continued to allow itself to be a presence in this multi-billion dollar sector. 2018 will continue to build on those past successes and continue to bring excellent, stable, long-term investment opportunities to its investors.

Contributor: Steven Bessenbacher

MULTIFAMILY GROUP

In 2017, Block Multifamily Group (BMG) again added more management of acquired stabilized properties and multiple new developments in the Kansas City Metropolitan area and across the United States. In addition to the stabilized properties that were acquired in the prior twelve months, BMG focused on the lease-up of three large multifamily assets in the metro area: two located in the Lenexa submarket, and one located in the southern Overland Park submarket.

Despite being relatively new to the industry, BMG has delivered top-of-the-market quality apartments that have attracted an array of tenants from empty nesters to millennials. The product BMG delivers continues to excel within the relentless Kansas City amenity war. BMG's resort-style apartments have set the competitive edge with new trends and designs, including: resort-style, heated saltwater pools, heated spas, cabanas, sundeck, outdoor kitchens with TVs and grills, fire pits, putting greens, bocce ball courts, dog parks, pet spas, dog walking services, dry cleaning services, micro-markets, parcel pending, bike rentals, makers room, massage room, tanning beds and red-light therapy, media lounge, indoor and outdoor pool tables, indoor community kitchens as well as summer kitchens, state-of-the-art fitness centers, private studio rooms with fitness on demand, yoga and cycle group fitness classes. The primary motivation for the investment in amenities was to create numerous interactive spaces for cooking, dining, and entertaining where residents could relax and host guests, creating a sense of ownership in the community. BMG has also recognized the innovation of in-home technology that continues to grow with the smart home movement. Residents enjoy monthly resident events, full-time concierges, and a fantastic overall community feel.

In mid-March, one of BMG's primary lease ups, The Royale at CityPlace, experienced a devastating 8-alarm fire, one of the most trying weeks in the history of BMG. The fire resulted in damage to neighboring houses, as well as four buildings under construction. Our immediate area of focus was to ensure all who were impacted by the event received attention and support. The Royale team actively reached out to the neighborhood and communicated directly with those affected. BMG was able to accommodate some of the homeowners affected within the non-affected building. Many within Block Real Estate Services (BRES) contributed to the Block Cares Fire Relief Fund, established by Block Development Company at the Greater Kansas City Community Foundation, to support those directly impacted by this unfortunate event. Everyone at BRES, BMG, and The Royale at CityPlace owe an enormous debt of gratitude to the numerous firefighters, police, and first responders who worked around the clock. Because of them no lives were lost. They are genuine heroes. We are also extremely

grateful to the relief agencies, churches, and hotel partners whose immediate response will forever be appreciated. We truly live in a compassionate and supportive community.

The Royale team immediately amplified resident relations and marketing efforts to ensure the devastating event would not create a lasting negative effect within the current resident community, in addition to the overall marketplace. From hosting a wonderful dinner for first responders, to the fourth of July resident event to view the Corporate Woods fireworks the BMG staff was able to overcome the initial effects of the event and were able to bond as a community. Because of the monumental efforts from the BMG staff, the main building is now 100% leased, and the construction progress of the remaining buildings is well underway. Although previously scheduled in 2017, the final two buildings for The Royale at CityPlace will be completed in the summer of 2018.

In addition to The Royale at CityPlace, there were several new developments that occurred simultaneously within our lease-up markets. BMG was able to achieve rental increases up to 11%, with the highest increase reflected at WaterSide Residences on Quivira. As the demand for multifamily housing accelerated in 2017, the requirements for powerful marketing and leasing professionals was forefront for BMG who was up for the task. Over 90% of each Class A+ property was leased during 2017.

We predict the leasing and marketing activity not to slow down in 2018. BMG has been tasked with the lease-up of Traders on Grand, the former Traders Bank which is being converted into The Grand multifamily apartments located in downtown Kansas City. This revitalized asset is planned to open in July 2018. Furthermore, BMG's leasing and marketing team will direct the lease-up of The Wonder Building, the former Wonder Bread Bakery located at 30th Street and Troost Avenue in Kansas City.

Contributors: Bill Larson, President of BMG and Chandler Hampton, Vice President of BMG



The 4700, a 26-unit seven-story high-rise Class-A multifamily community located in Kansas City, Missouri on the west end of the Country Club Plaza was purchased by a BRES sponsored investment group in 2017. Following the purchase, BMG took over leasing and management of the community.

KANSAS CITY

ECONOMIC INDICATORS

NATIONAL TRENDS

2017 has proven that the nation's recovery from the Great Recession could not be stronger. With economic indicators in nearly every sector showing very promising results, job growth and unemployment have continued to improve. Job growth has averaged 174,000 per month year over year. This is down from 187,000 over the same period a year ago, but it is important to note that the national unemployment rate is down to 4.1% at year-end, relative to 4.9% last year. While job growth appears stymied, the number of new entrants in the job market is growing by less than 100,000 per month, suggesting previously displaced or discouraged workers are reentering the workforce. The U6 rate is another unemployment metric that measures all unemployed workers including all persons marginally attached to the labor force. As of December 2017, the U6 rate was at 8.8%. This compares positively to 9.1% in December 2016. U6 peaked in 2009 at 17.1%, and this downward trend bodes very well for the nation.

Corresponding with the low unemployment rate and demand for jobs is the growth in wages. Average hourly earnings grew at 2.4% as of October 2017. This is slightly down from 2.7% growth in 2016. However, early predictions suggest 2018 will experience growth in earnings of 3.0%.

Economic growth, as measured by Gross Domestic Product (GDP), is up 2.5% year over year and increased at an annual rate of 3.3% as of third quarter 2017. This is exciting news as GDP growth turned in at 1.5% in 2016, its weakest performance since 2011. Analysts expect GDP growth to temper some in 2018 at 2.4%.

As GDP strengthened year over year, housing starts and completions have remained strong. As of October 2017, privately-owned housing starts totaled 1.29 million square feet as compared to 1.33 million square feet in 2016 and completions in 2017 totaled 1.23 million square feet as compared to 1.07 million square feet in 2016. Similarly, existing home sales have remained resilient with many markets experiencing major shortages of housing stock. Existing home sales in 2017 averaged an annualized rate of 5.48 million square feet as compared to 5.53 million square feet a year earlier. Further, prices have experienced 5% increases year over year during this period as well.

Inflation is down in 2017 from the Fed's target of 2% at a depressive 1.4%-1.5%. This compares to inflation in 2016 of 1.8%. This is believed to be due to temporary factors as opposed to weakening demand in the broader economy as the Federal Open Market Committee (FOMC) expects inflation to normalize to 1.8% in 2018. However, the Fed still believes the economy to be inherently strong as evidenced by three rate hikes in the Federal Funds rate in 2017 with the current rate between 1.0% and 1.25%. This is marking a significant increase from recessionary lows.

KC ECONOMIC FORECAST

GDP growth in Kansas City mirrored that of the national economy and grew at 2.2% in 2017, an improvement over 2016's growth of 2.0%. As the nation recovers from natural disasters, GDP growth is expected to grow at a slower rate over the short term. It is predicted to catch up to the nation by year end 2018 at 2.3%. Kansas City's unemployment rate remains strong at 4.4% as of year end 2017 as does job growth in 2017, at 19,000 jobs added since fourth quarter 2016, down from 21,000 jobs a year prior. Job growth is expected to remain strong in 2018 adding another 20,000 jobs. Riding the coattails of job growth is wage growth – real median household income increased a staggering 6.4% in 2017.

Despite increases in the federal funds rate, long term rates remain at historic lows and new construction continues to dominate the commercial real estate scene. Continued investment in multifamily is evidenced by over 4,200 units delivered in 2017 with another 2,300 expected in 2018. Industrial completions are expected to surpass 6.17 million square feet in 2017 with 5.1 million under construction as of third quarter 2017. Much of the region's industrial growth is due to the changing dynamic in the retail sector. Development continues to abound along the streetcar corridor with an expansion to the University of Missouri – Kansas City in the works. The recently approved airport redevelopment will also have a shock wave of effects. Other projects of note are the \$300 million 800-unit convention center hotel breaking ground in January 2018, Cerner's continued development of its Innovations Campus, and the \$1.8 billion Brookridge development in suburban Overland Park, as well as an abundance of new speculative and build-to-suit industrial development.

SUMMARY

2017 has proven to be a banner year as the economic recovery from the Great Recession appears to be in full swing. This is not to say that we have not experienced setbacks. Natural disasters have cost the public dearly. A tumultuous political environment remains, while fiscal, foreign, and domestic policy issues are under contention. It is evident that we are not resting on our laurels as we continue to build economic momentum into 2018. In spite of the negative press, nationwide and local economic performance remains strong, and local decision makers and the public remain diligent in the effort to keep Kansas City a relevant and prosperous community.

Sources: Bureau of Labor Statistics, U.S. Census Bureau, FRED, Yardi Matrix, Aon Hewitt Salary Survey, Greater Kansas City Chamber of Commerce 2018 Economic Forecast, MARC, CBRE Research
Contributor: Adam Barnard, Acquisitions Manager

MARKET STATISTICS

Year-End 2017 Data

OFFICE - CLASS A

| Market | Inventory | # of Buildings | Overall Vacancy | YTD Deliveries | Net Absorption | Avg. Full Service Rent |
|-------------------------------|-------------------|----------------|-----------------|----------------|----------------|------------------------|
| Atchison | 0 | 0 | 0.0% | 0 | 0 | 0 |
| Downtown | 8,775,488 | 29 | 13.2% | 0 | 154,759 | \$20.25 |
| East Jackson County | 378,372 | 6 | 4.1% | 0 | (11,723) | \$25.10 |
| Johnson County | 0 | 0 | 0.0% | 0 | 0 | 0 |
| Kansas City, Kansas | 1,061,979 | 5 | 19.7% | 100,000 | 82,995 | \$27.41 |
| Lawrence | 64,432 | 2 | 4.5% | 0 | (2,884) | \$20.00 |
| Leavenworth County | 0 | 0 | 0.0% | 0 | 0 | 0 |
| Midtown | 3,487,526 | 17 | 3.8% | 0 | 6,546 | \$23.73 |
| North Johnson County | 2,370,378 | 22 | 12.0% | 36,000 | 12,575 | \$24.93 |
| North of the River | 1,213,052 | 9 | 18.9% | 0 | 1,635 | \$20.98 |
| Ottawa | 0 | 0 | 0.0% | 0 | 0 | 0 |
| South Johnson County | 11,399,407 | 81 | 6.7% | 351,158 | 291,498 | \$23.77 |
| South Kansas City | 3,870,071 | 18 | 2.3% | 90,000 | 348,940 | \$20.30 |
| Southeast Jackson County | 129,104 | 3 | 4.2% | 0 | (903) | \$20.50 |
| St. Joseph | 363,961 | 1 | 0.0% | 0 | 0 | 0 |
| TOTAL OFFICE - CLASS A | 33,112,770 | 193 | 8.7% | 577,158 | 882,438 | \$22.34 |

OFFICE - CLASS B

| Market | Inventory | # of Buildings | Overall Vacancy | YTD Deliveries | Net Absorption | Avg. Full Service Rent |
|-----------------------------------|-------------------|----------------|-----------------|----------------|------------------|------------------------|
| Atchison | 64,101 | 5 | 0 | 0.0% | 0 | 0 |
| Downtown | 13,624,149 | 198 | 4.9% | 60,000 | 277,924 | \$17.82 |
| East Jackson County | 5,325,625 | 278 | 5.6% | 0 | 221,445 | \$16.04 |
| Johnson County | 113,523 | 18 | 1.0% | 0 | 2,746 | \$14.56 |
| Kansas City, Kansas | 2,063,167 | 79 | 6.0% | 0 | (4,153) | \$16.68 |
| Lawrence | 1,373,244 | 80 | 10.7% | 19,205 | 6,463 | \$19.43 |
| Leavenworth County | 637,949 | 30 | 14.2% | 0 | (12,855) | \$16.19 |
| Midtown | 4,348,020 | 147 | 3.8% | 166,650 | 156,924 | \$21.47 |
| North Johnson County | 7,590,330 | 279 | 7.1% | 29,170 | 29,398 | \$19.76 |
| North of the River | 7,873,144 | 291 | 12.9% | 29,746 | (2,581) | \$15.85 |
| Ottawa | 55,591 | 9 | 0.0% | 0 | 0 | 0 |
| South Johnson County | 15,091,561 | 474 | 9.1% | 57,033 | (158,896) | \$20.31 |
| South Kansas City | 2,245,470 | 106 | 8.0% | 20,000 | (67,987) | \$18.33 |
| Southeast Jackson County | 2,274,165 | 105 | 4.5% | 0 | 6,911 | \$18.23 |
| St. Joseph | 1,274,520 | 86 | 9.7% | 0 | (3,682) | \$12.98 |
| TOTAL OFFICE - CLASS B | 66,079,334 | 2,183 | 7.9% | 381,804 | 398,387 | \$18.22 |
| TOTAL OFFICE - CLASS A + B | 99,192,104 | 2,376 | 8.2% | 958,962 | 1,280,825 | \$20.28 |

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MARKET STATISTICS Continued

RETAIL

| Market | Estimated Inventory | Percent Vacant | Vacancy SF | Net Absorption | Avg. Rental Rate | Planned Development |
|--------------------------|---------------------|----------------|------------------|------------------|------------------|---------------------|
| South Johnson County | 19,402,805 | 5.9% | 1,135,573 | 269,836 | \$16.18 | 10,640 |
| North Johnson County | 18,903,371 | 4.9% | 919,429 | 128,512 | \$13.13 | 9,147 |
| Kansas City, Kansas | 9,308,995 | 2.9% | 274,274 | 27,185 | \$9.62 | 84,000 |
| North of the River | 18,713,024 | 5.7% | 1,073,805 | (567,920) | \$14.07 | 166,833 |
| Midtown/Downtown/Plaza | 8,949,302 | 3.6% | 308,080 | (70,897) | \$15.24 | 45,000 |
| East Jackson County | 23,468,048 | 6.0% | 1,405,656 | (80,076) | \$11.38 | 10,200 |
| Southeast Jackson County | 5,930,416 | 4.5% | 267,244 | 56,706 | \$15.85 | 0 |
| South Kansas City | 8,463,439 | 7.5% | 635,525 | 105,029 | \$12.48 | 0 |
| TOTAL RETAIL | 133,004,904 | 5.3% | 7,056,402 | (508,873) | \$12.97 | 370,614 |

WAREHOUSE/BULK INDUSTRIAL

| Market | Inventory | # of Buildings | Overall Vacancy | Leasing Activity | Net Absorption | Avg. Gross Rent |
|-----------------------------|--------------------|----------------|-----------------|-------------------|------------------|-----------------|
| KCI/Airworld | 6,301,702 | 70 | 1.40% | 672,101 | 552,967 | \$4.28 |
| North Kansas City/Riverside | 24,060,267 | 508 | 5.80% | 1,240,273 | 849,033 | \$4.19 |
| Executive Park/Northland | 38,207,716 | 390 | 3.10% | 1,225,834 | 455,491 | \$3.89 |
| Wyandotte County | 42,809,909 | 934 | 2.80% | 1,778,269 | 1,399,671 | \$4.20 |
| Johnson County | 66,985,889 | 1,489 | 9.20% | 3,997,634 | 3,234,925 | \$5.06 |
| East Jackson County | 96,548,018 | 2,649 | 5.60% | 1,835,172 | 1,333,903 | \$6.79 |
| TOTAL WH/BULK SPACE | 274,913,501 | 6,040 | 5.6% | 10,749,283 | 7,825,990 | \$5.28 |

LIGHT INDUSTRIAL/FLEX

| Market | Inventory | # of Buildings | Overall Vacancy | Leasing Activity | Net Absorption | Avg. Gross Rent |
|------------------------------------|--------------------|----------------|-----------------|-------------------|------------------|-----------------|
| KCI/Airworld | 562,151 | 11 | 6.70% | 19,320 | (19,287) | \$12.38 |
| North Kansas City/Riverside | 171,079 | 13 | 5.90% | 11,727 | 6,297 | \$10.74 |
| Executive Park/Northland | 942,213 | 19 | 6.60% | 19,913 | (5,149) | \$5.85 |
| Wyandotte County | 910,555 | 40 | 10.30% | 122,309 | (8,804) | \$8.11 |
| Johnson County | 5,892,148 | 257 | 6.70% | 323,431 | 78,922 | \$9.62 |
| East Jackson County | 5,256,775 | 198 | 3.30% | 81,314 | (30,347) | \$8.23 |
| TOTAL LIGHT INDUSTRIAL/FLEX | 13,734,921 | 538 | 5.6% | 578,014 | 21,632 | \$8.86 |
| TOTAL FLEX + BULK | 288,648,422 | 6,578 | 5.6% | 11,327,297 | 7,847,622 | \$5.45 |

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

MULTIFAMILY

| Market | Unit Inventory | Overall Vacancy | Average Asking Rent | Asking Rent YOY Change | Units Under Const. |
|--------------------------|----------------|-----------------|---------------------|------------------------|--------------------|
| Johnson County | 51,478 | 6.0% | \$978 | 2.7% | 3,469 |
| CBD/Country Club Plaza | 20,484 | 10.5% | \$1,125 | 1.3% | 3,016 |
| Inner Jackson County | 9,934 | 11.6% | \$742 | 4.1% | 495 |
| Outlying Jackson County | 21,139 | 6.5% | \$771 | 2.1% | 638 |
| Wyandotte County | 8,071 | 7.9% | \$765 | 1.9% | 426 |
| Northland | 24,180 | 8.2% | \$874 | 1.3% | 787 |
| Platte County | 1,041 | 10.1% | \$770 | 3.8% | 0 |
| Cass County | 1,500 | 4.3% | \$801 | 1.6% | 0 |
| TOTAL MULTIFAMILY | 137,827 | 8.1% | \$853 | 2.4% | 8,831 |

Compiled by Block Multifamily Group

Our Services



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