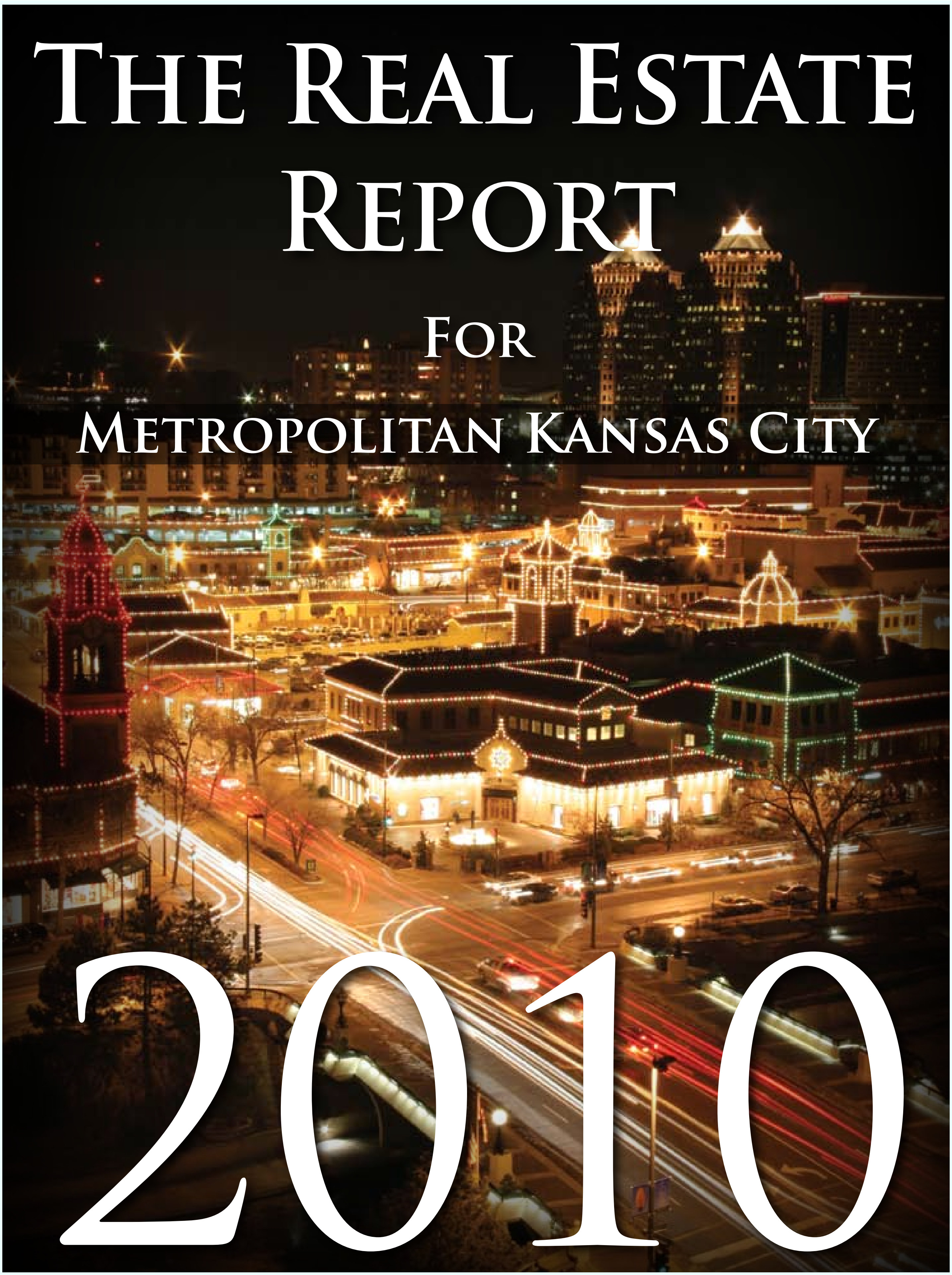
The Real Estate Report

For

Metropolitan Kansas City



2010

Block Real Estate Services, LLC Highlights of 2009

TRANSACTIONS:

BLOCK COMPLETED THE YEAR WITH TOTAL SALES AND LEASING TRANSACTIONS IN EXCESS OF $697 MILLION.

MANAGEMENT:

BLOCK'S MANAGEMENT PORTFOLIO REACHED 19.1 MILLION SQUARE FEET BY YEAR-END 2009.

DEVELOPMENT/ CONSTRUCTION:

BLOCK COMPLETED RENOVATION AND DEVELOPMENT PROJECTS IN 2009 EXCEEDING $53 MILLION. ADDITIONALLY, BLOCK CONSTRUCTION SERVICES, LLC, MANAGED PROJECTS TOTALING OVER $44 MILLION.

INVESTMENT SYNDICATION:

BLOCK COMPLETED OVER $128 MILLION IN INVESTMENT SALES AND RAISED OVER $38 MILLION IN EQUITY FUNDS FOR SYNDICATION OF NEW ACQUISITIONS AND DEVELOPMENT PROJECTS.

COMPANY EXPANSION:

IN 2009 BLOCK HAWLEY REAL ESTATE SERVICES MERGED WITH K2 COMMERCIAL THEREBY FORMING A FULL SERVICE, MULTIDIMENSIONAL COMMERCIAL REAL ESTATE FIRM AND TAKING ANOTHER STEP TOWARD ITS GOAL OF BEING ONE OF THE LEADING FIRMS IN THE ST. LOUIS MARKETPLACE.

TABLE OF CONTENTS

OUR SERVICES

REAL ESTATE. REAL STRATEGIES. REAL SUCCESS.®

BLOCK REAL ESTATE SERVICES
FOCUS ON THE FUTURE

The lobby of Block Real Estate Services corporate office located at 700 W. 47th Street, Suite 200 , Kansas City, Missouri.

As we wrote our "Focus on the Future" in our 2009 version of The Real Estate Report for Metropolitan Kansas City, we had no idea what changes we would see during 2009 and what permanent effect they would have on the real estate industry both in Kansas City and nationally. The first of these changes occurred as we went to press on our report last year, when on January 21, 2009, Allen J. Block, former Chairman of the Board of Block & Company, Inc., Realtors, passed away after a seventy year career in real estate in Kansas City.

During his career he saw a small one man company he started in 1940 turn into a multi-faceted regional full-service commercial brokerage company. His impact on Kansas City, the company, and his three sons will forever affect the way real estate is done in Kansas City. The second change, and one that was initiated by Allen J. Block and his sons, Kenneth, Stephen and Michael nearly six years prior, was implemented in July 2009 when the three sons, seeking to better define their company's role and service model within the Midwest, created Block Real Estate Services, LLC (www.BlockLLC.com). While Block Real Estate Services, LLC has a new name, a new logo, and a new website, it has the same team of experienced real estate professionals and management and support staff, and will continue to provide the same full pallet of real estate services locally, regionally, and nationally.

Block Real Estate Services, LLC continues to take on the role of the most comprehensive commercial real estate firm in Kansas City and continues to provide real estate brokerage services, tenant representation, investment services, asset and property management, economic incentives consultation, financial services, construction and development services, fee and receivership services, and support for the Block Funds, our private equity funds which focus on building wealth and providing investors with strong, stable cash yields. Block Real Estate Services, LLC opens its new chapter with a management portfolio of over 19.1 million square feet and over 115 employees, and continues to be the #1 commercial real estate brokerage and management firm in the Kansas City Metropolitan area. As always, our clients' needs will remain our primary focus, and we expect this next step in our growth will allow us to better serve our existing clients and to more readily expand our real estate operations into other surrounding communities. With our corporate office in Kansas City, and a regional office in St. Louis, which we operate as Block Hawley Commercial Real Estate Services and which now houses nearly 20 brokers, management and support personnel and has become a leader in commercial brokerage in the St. Louis market, we intend to deliver the same level of real estate services to our clients in new and exciting markets through the country.

This year's version of The Real Estate Report for Metropolitan Kansas City, while the first for Block Real Estate Services, LLC, will continue to be the most comprehensive review of what happened in Kansas City during the previous year and what is projected to happen in the upcoming year. Our tag line of Real Estate, Real Strategies, Real Success continues to say exactly what we are all about: Real estate is our business and we are knowledgeable in all parts of the commercial real estate field; we develop and implement real strategies for real success and provide solutions for our clients, no matter what their requirements.

"It is also with great pride and excitement that we announce the formation of The Allen J. Block Scholarship Fund at UMKC in the Lewis White Real Estate Center at the Bloch School of Business."

Focusing on our strengths, we are also taking advantage of this change to re-engineer how we deliver some of our services, including the creation of a "Strategic Asset Advisory Team". Block Real Estate Services, LLC has enjoyed the good fortune of tracking some of the most knowledgeable and experienced real estate professionals in the markets in which it operates. These experts are not just brokers and salespeople; they are seasoned commercial real estate professionals that possess the expertise in management, accounting and reporting, buildings systems and operations, construction, marketing, information technology and data conversion, insurance, human resources, property tax advisory services, valuation modeling and financial analysis, capital structuring, and more. These professionals, coupled with the Block Real Estate Services, LLC platform and infrastructure, have assembled into a rapid response team, poised to take action when an owner or lender is faced with the challenges of a distressed property or is in need of assistance to avoid the pitfalls currently facing commercial real estate in today's environment. Block Real Estate Services, LLC is currently serving as both receiver and trustee on several distressed projects for banks and special servicers and is assisting other owners of distressed property in order to maximize financial outcomes. Our principals and many of our associates are owners of commercial real estate. Simply put: we truly understand real estate. Every day our associates view transactions, management decisions, financial modeling, reporting, and construction processes through the eyes of ownership. Without question, it is this type of view that creates financial success for owners during otherwise troubling times.

In 2009, we also enhanced our on-site property management coverage by moving customer focused management teams to project site offices. This has improved the accessibility and responsiveness of the management team to our customers and properties, insuring even higher levels of service than before.

We also recently completed the conversion of our accounting systems to Yardi Asset and Property Management software. This industry leading software package enhances our ability to manage data for not only property accounting needs but ownership requirements as well. With in-house support for training and data conversion, Block Real Estate Services, LLC is enhancing its market leadership by remaining a technology pioneer in the real estate field.

Block Real Estate Services, LLC also took steps in late 2009 and will continue to implement these steps in 2010 to broaden the Block Funds investment strategies to include opportunistic acquisitions of both stabilized and destabilized commercial real estate assets. This modification in strategy will allow the Block Funds acquisition team to expand their focus within our targeted markets to include assets trading at deep discounts that may or may not have current income in place. Our focus will be the acquisition of fundamentally sound real estate suffering from short term pricing and operating inefficiencies that we can resolve by leveraging our competencies in renovating, repositioning, leasing, recapitalizing, and managing commercial properties.

Block Real Estate Services, LLC is also continuing its environmental sustainability program in 2010. In 2009, we completed the task of registering all of our office buildings toward achieving energy star ratings and LEED compliance across our portfolio. In 2010, we will take steps on other portions of our investment portfolios including industrial and retail properties, in order to maximize energy efficiency and produce operating cost savings for our tenants and our investors.

It is also with great pride and excitement that we announce the formation of The Allen J. Block Scholarship Fund at UMKC in the Lewis White Real Estate Center at the Bloch School of Business. Allen Block believed it was extremely important to get a good education and to constantly re-educate yourself due to the ongoing changes in the real estate industry. This new scholarship fund in his honor will award at least one scholarship every year to students who intend to pursue a career in real estate. The Allen J. Block Scholarship Fund will allow his love for the business to be carried on well into the future through upcoming young candidates.

While we understand 2010 will present many challenges for the commercial real estate industry, with offices in Kansas City and St. Louis, and plans for entries into other markets where our customers are looking for improved service and response, Block Real Estate Services, LLC has positioned itself to remain a consistent solution provider by meeting customer's needs today and long into the future. Real Estate – Real Strategies – Real Success.

Contributors: Kenneth G. Block, SIOR, CCIM, Principal; and Harry P. Drake, CCIM, CPM, Executive Vice President, COO

KANSAS CITY OVERVIEW

What began as a financial crisis primarily in the banking and housing sector in late 2008, spread like a wildfire through the entire economy as 2009 got underway.

Then on October 3, 2008, the Emergency Economic Stabilization Act was signed into law. This was the last major act of the Bush Administration and represented the largest bailout package in the history of the United States. The purpose of this bailout package, which was labeled TARP (Troubled Asset Relief Program) was to buy $700 billion in distressed mortgage related assets directly from financial institutions and to reestablish fluidity in the financial markets. What happened next however, was a completely different story.

The term "too big to fail" became the mantra of many banks, lending institutions, and even industries as they requested help from Congress and the Treasury. The Treasury quickly determined that valuing "toxic" assets would be difficult and decided to shift its focus to pumping hundreds of billions of dollars directly into state and federal banks. The TARP fund, however, began to be called upon to bail out other groups including the GM and Chrysler automobile companies and insurance giant American International Group (AIG). In essence, any industry that could make the case that it was "too big to fail," came to the trough. Through December, 2009 there were over 600 banks that participated in the TARP Program. What is worse is that by year-end 2009, taxpayers had already lost $41.5 billion in loans and with projections to lose much more.

In 2009, besides TARP, the government started TALF (Term Asset Backed Securities Loan Facility) which was to provide financing to replace high quality loans with good LTV ratios, TAF (Term Auction Facility), to allow banks to obtain liquidity more easily and PDCF (Primary Dealer Credit Facility), which allowed investment banks to borrow directly from the Fed. On top of TALF, in June 2009, the Fed extended the loan maturities for this program from three years to five years and the first newly issued CMBS transaction under the TALF program was being reviewed at year-end by Developer's Diversity Realty Corporation, with still other issues yet to be resolved.

During 2009, the Feds' balance sheet increased in assets from roughly $800 billion before the crisis to at year-end 2009, in excess of $2.4 trillion. The purchase of these assets funneled vast amounts of liquidity into the system but it also caused banks and other depository institutions to substantially increase their cash reserves making less money available to lend. In conjunction with these programs, the Treasury also announced the Public Private Investment Program (PPIP) which was to fulfill the original goal of TARP, or to actually purchase troubled assets from financial institutions. This program was substantially smaller than the original proposed TARP but in late 2009, investors agreed to invest $1.13 billion in the PPIP program to buy approximately $4.5 billion in non-government guaranteed mortgage backed securities, including CMBS loans from banks and financial institutions. If this program can continue to attract investors, it may be another option to extend or replace CMBS loan issuances.

For liquidity to occur, bank and lending institutions need to know that they can make loans to small businesses without fear that they will later be subject to regulators scrutiny of their loan portfolio, and thereafter required to raise additional cash reserves to guard against future loan losses. Regulators are currently running rampant with what appears to be total discretion on cash and loan reserve decisions. Because of this, many banks have no interest in making loans to small businesses and remain in survival mode.

But, it should be noted, that many of the problems the US faces are also global problems. For example, three years ago the 10 largest banks in the world accounted for about 59% of global banking assets. As of year-end 2009, those same 10 banks accounted for 70% of banking assets. For the first time in anyone's memory, there were discussions at year-end 2009 concerning the financial strength of the United States and whether or not the dollar would remain the peg for global currency. Even Moody's, which has rated US Treasuries as AAA since their first issuance, has warned of a possible downgrade to AA if the U.S. does not reduce its debt burden. This would completely destroy the ability of the United States to borrow money from other nations and would hasten the removal of the dollar as the peg for Global currency. In essence, the US is spending far too much, has trillion dollar budget deficits projected for years to come, and has an overall deficit that continues to escalate, so it is understandable that the domestic economy is viewed in less than certain terms.

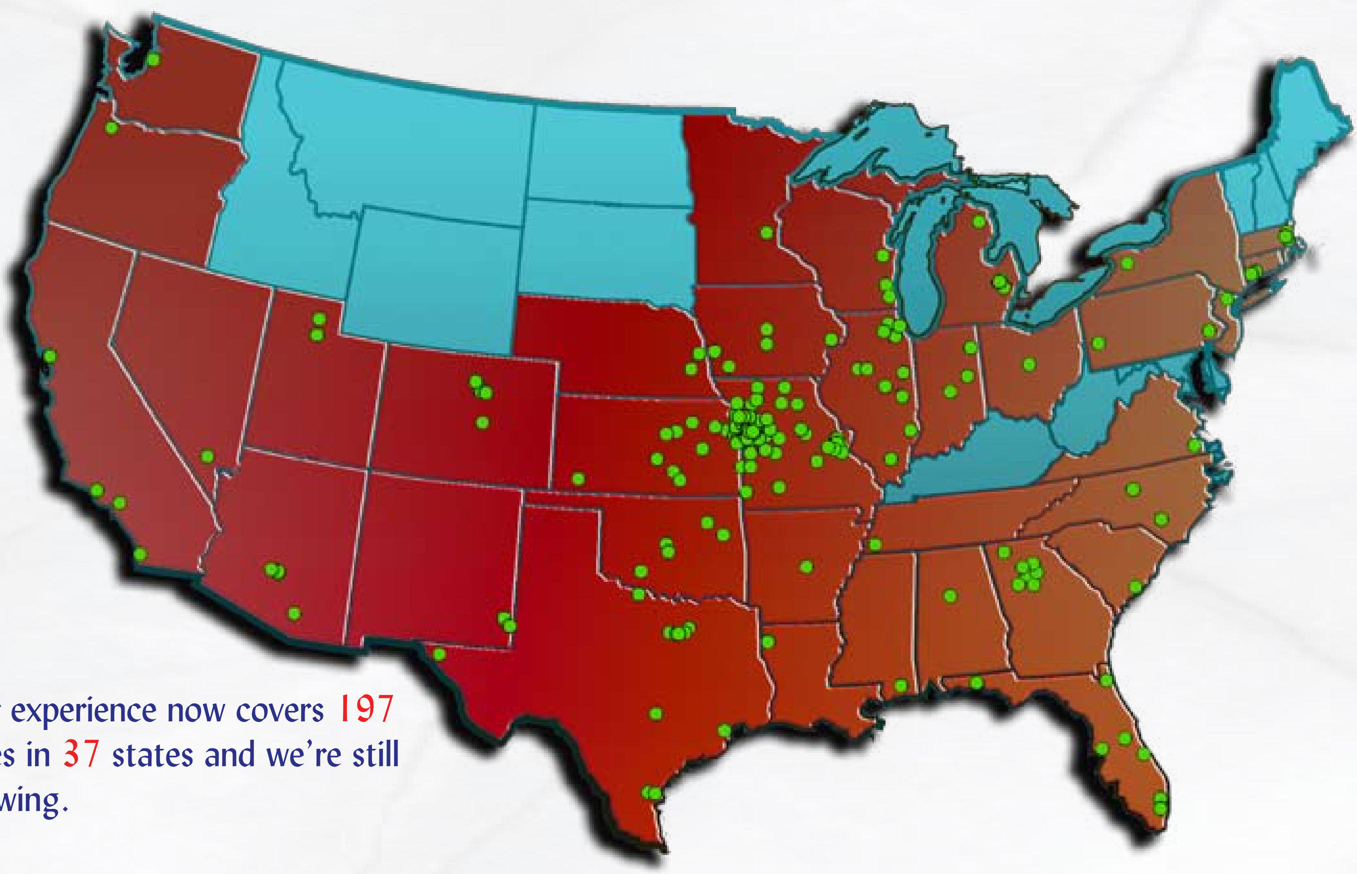
With an unstable economy in 2009, the real estate industry was also detrimentally affected. First, development activity crashed to a halt during the first quarter of 2009. Then, with financing limited to just a few lenders on terms that were in most cases undesirable, investment sales slowed to a standstill. While the Fed had taken steps through their various programs to ease liquidity between banks, banks simply hoarded their available monies in order to strengthen their own balance sheets and avoid closure. Therefore, the lack of available financing which is the fuel that runs the commercial real estate industry, simply wasn't available.

There are also two emerging issues that will impact not only the nature and sustainability of long term economic growth but also the near term recovery: deflation versus inflation and the government's success in unwinding $12 trillion of government bailout, guaranteed programs, and stimulus money. The Fed believes near term price deflation is a greater threat to recovery than inflation and is expected to keep short term interest rates constant through much of the next year. Consumer prices already have experienced deflation for nearly 8 months of 2009 and core inflation is expected to remain close to 0% during 2010. However, if inflation does resume, foreign investors may be unwilling to hold dollars and finance the deficit if the value of their dollars begin to fall. And without foreign buyers of US treasuries, interest rates are likely to be driven up to levels that would halt real economic growth, which would slow or stop any economic recovery.

This means that two programs now being pushed forward could cause further havoc with the country's economic stability. Health care reform is the biggest program and represents 16% of the annual GDP. While the majority of citizens are interested in reducing health care costs and making it more readily available, people are divided on how to successfully accomplish these goals. The second program, Cap and Trade Legislation, which aims to reduce greenhouse gas emissions and set nationwide limits on those emissions, could increase utility costs throughout the country, particularly in the Midwest. Coal plants are a substantial and cheap source of reliable energy for the Midwest and a good portion of the country. This potential legislation, which could not only cause the loss of over 2.2 million jobs nationwide if enacted, but also cause a serious increase in energy costs, may also be a very big factor in the economy's recovery.

One bright note, Wall Street had a remarkable rebound over the last 9 months of 2009. Since early in March 2009, all Wall Street indices have seen increases beyond anyone's expectations as big corporations, forced to cut back on expenses and do with less, have learned to cope with these changes. Wall Street has rewarded these companies by months of substantial value increases. In all, trillions of dollars have been recovered by corporations and consumers alike since the market lows seen during the first half of 2009. However, these same corporations have seen they can operate with reduced payrolls and expenses and this knowledge is expected to slow employment gains as the economy improves.

According to economists, the US fell into recession in December, 2007, and while it remains technically in recession, another positive growth quarter would signal at least the technical end. Even so, unemployment, which at year-end 2008 had registered just over 6.7%, reached a 26 year high of 10.2% in October 2009, and at year-end was steady at 10%. Approximately 50 million jobs worldwide were lost in 2009 and so while the economy, according to economists, may be coming out of the recession, the average consumer would not agree. Moreover, like most recessions of the past, which are "V" shaped and which have a straight path upward once the recession has ended, many economists believe this recession may be more of a "U" shaped recovery, meaning the economy would take a longer time to improve. Other economists feel we may even be in a "W" shaped recession, where we would fall back into recession again after a period of upward improvement. The potential



Our experience now covers 197 cities in 37 states and we're still growing.

for the "W" shaped recession could occur if the government continues to try and spend its way out of recession, as history has shown, it is private sector investment that will have the best chance to correct the recession. With over 60% of jobs coming from the private sector, until programs are put in place that will encourage and motivate small businesses to hire, unemployment will remain high and the threat of a longer or "W" shaped recession is possible.

"Industry leaders continue to express optimism in real estate investing due to the opportunity to participate in a "once in a lifetime" acquisition cycle..."

The final US GDP growth for the year 2009 was projected to be around negative 2.5% (estimated at the time of this report) with projections for GDP growth in 2010 expected to range between 2.25% and 2.5%. By 2011, the US is expected to again see a robust economy, with GDP growth potentially as high as 4.5% to 5%. However, this growth in GDP could be dramatically reduced due to inflation concerns, employment stagnation, or productivity drops. On unemployment, most economists expect that we could reach a peak of 10.4% in 2010 and then decline to around 9.7% by year-end 2010. As the economy picks up steam in 2011, the unemployment rate should drop to about 8.1% by year-end 2011. The unemployment rate is not projected to fall below 6% again until at least 2013, and the unemployment rate of 5% which our country experienced in 2007, may not be seen again for years to come. As it relates to monetary policy, the Federal Open Markets Committee (FOMC) will only begin raising interest rates if the recovery strengthens. Based on current projections, it is expected that the federal fund rate will remain near .25% through at least the third quarter of 2010 before any increases would be seen.

In the Urban Land Institute (ULI) and Price Waterhouse Cooper, LLC 2010 edition of "Emerging Trends in Real Estate," industry leaders continue to express optimism in real estate investing due to the opportunity to participate in a "once in a lifetime" acquisition cycle of assets that may come to the market due to foreclosures, lack of long term financing options, and distress. While values have dropped nearly 40% for some property types in some areas of the country from the peaks of 2007, opportunities may abound in 2010 and 2011 for "cash rich" buyers. The Midwest fortunately has seen the smallest declines of any section of the country. As we projected in our last year's report, "cash is king" buyers will rule the marketplace in 2010. In that regard, we have seen the first wave of REIT's and opportunity funds being formed to acquire assets that may come to the market in 2010 and 2011.

The Kansas City area economy in 2009 continued to fare better than the national economy in almost every respect. The Metro's economy was more stable than the national economy particularly in finance and manufacturing. The conservative nature of area financial firms kept them from participating in much of the exotic financing which caused other financial institutions to falter. The local financial sector employment declined only .4% during 2009 while the US financial employment declined 5.4%. In manufacturing, employment in Kansas City declined at only half the rate of the US decline. Kansas City Area Gross Regional Product (GRP) eked out a minor gain in 2009 as compared to the US GDP decline of 2.4% (estimated at the time of this report). And the region's GRP is expected to grow 2.25% to 2.5% in 2010, as compared to only 2.0% to 2.2% for the US GDP. However, by 2011, the US rate of economic growth should reach or surpass that of the Kansas City region at a projected 5% compared to 4.9% for the GRP.

However, while employment levels in Kansas City were expected to decline by about 11,000 jobs in 2009, the area saw an actual loss of 31,000 jobs. Projections for job gains in 2010 are expected at around 4,000 jobs, and will further rebound in 2011 with a gain of 33,000 jobs. It is not until 2012 that employment will reach the same level it was in 2007. The sectors leading job growth will include the medical, business services, business management, food services, telecommunications, government, and insurance.

While capital investments slowed to a trickle in 2009, thankfully over $9.4 billion of total construction activity in the last five years really put Kansas City on the map. Kansas City continues its unique position as the only major city west of St. Louis and east of Denver. Kansas City serves over 8.45 million people living within four hours in the states of Kansas, Missouri, Illinois, Iowa, Nebraska, Arkansas, and Oklahoma. Kansas City is able to benefit from its location and continues to attract increasing numbers of tourists each year from smaller communities in the surrounding states. Kansas City continues to boast a host of professional and collegiate sports comparable to Tier 1 cities, including the Kansas City Chiefs, the Kansas City Royals, the Kansas City Brigade Arena Football Club, the Kansas City Comets soccer club, the Missouri Mavericks hockey team, the Kansas City Explorer World Team Tennis, the Kansas City T-Bones, the Kansas City Wizards soccer club and several high ranking college sports teams including the University of Kansas, University of Missouri, Kansas State University, and UMKC.

Kansas City is also nationally known for its love of the Arts. Besides having the world renowned Nelson-Atkins Museum of Art including the new Bloch building, the Kemper Museum of Contemporary Art Design, the Liberty Memorial Museum of World War I, the Kansas City Museum and Planetarium, the Nerman Museum of Contemporary Art, the American Royal Museum and Visitors Center, and others, it will also be home to the Kauffman Center for Performing Arts when it opens in 2011. Designed by world renowned architect Moshe Safdie, this 285,000 square foot center will consist of two large half shell structures fronted by a wall of tempered glass. When completed, the Kauffman Center will feature two state of the art performance venues:

The 285,000 square foot Kauffman Performing Arts Center, scheduled to open in 2011, will feature two state of the art performance venues: the 1,800 seat Muriel Kauffman Theatre and the 1,600 seat Helzberg Concert Hall.

the 1,800 seat Muriel Kauffman Theatre and the 1,600 seat Helzberg Concert Hall. The theatre will house the Kansas City Symphony as well as patrons of the Lyric Opera, the Kansas City Ballet, and other musical performances, plays, and lectures from world renowned troops, performers, and individuals. Kansas City also supports other nationally known groups and theatres including the Kansas City Orchestra, the Copaken Stage of the Repertory Theatre, the Starlight Theatre, and a host of other venues. Recently Kansas City was ranked as the 16th best mid-sized city in the country for Art destinations, an improvement from 21st in 2008.

When describing Kansas City, one certainly cannot leave out some other entertainment venues in the Metropolitan area including the Kansas Speedway, Worlds of Fun, Oceans of Fun, the Kansas City Zoo, Stone Creek Ski Mountain, Schlitterbahn Vacation Village, Union Station, the Woodlands, Community America Ballpark, Independence Events Center, and four area casinos. Recently, the Kansas Lottery Gaming Facility Review Board approved a $700 million proposal for a new casino adjacent to the Kansas Speedway that would be developed by Kansas Entertainment, LLC in conjunction with Penn Gaming. This new casino complex would include a casino, hotel, spa, convention center, and an entertainment/retail district and would be located near turn 2 of the Kansas Speedway.

Kansas City has always had a great transportation infrastructure and it is getting even better. Infrastructure improvements continue throughout the metropolitan area including the $280 million Paseo Bridge which will expand the bridge to 8 lanes from the existing four and further enhance the flow of traffic along the NAFTA corridor. And, on the Kansas side, the US 69/I-35 Interceptor at 84th and I-35 would allow heavy traffic from US 69 to more easily merge onto I-35 and exit the highway.

Kansas City has also increased its ranking to the 7th least congested urban area in the nation with three interstates, four interstate linkages, and 10 federal highways serving the Metropolitan area. As rail becomes more important as a distribution mode, Kansas City's ranking as the second largest rail center in the US and its #1 ranking by freight volume, further strengthens the area's hopes for increased industrial activity. And now, two new rail intermodal hubs, one by KC Southern and one by Burlington Northern, will further enhance this activity. Kansas City also has a new air intermodal adjacent to KCI which will strengthen cargo shipment capabilities. These infrastructure enhancements will expand industrial activity which is expected to grow in 2010 and beyond as national site selectors have named Kansas City one of the top five cities in the nation for distribution. Kansas City already has over 300 freight carriers, and is now served by 14 commercial airlines with over 240 daily departures and non-stop service to 76 destinations. Kansas City has four of eight class I rail carriers, 3 regional lines, and a local switching carrier (KC Terminal) to serve the area along with Amtrak passenger trains serving the City four times per day. Kansas City also adjoins the Missouri River Corps of Engineers managed shipping channel which runs from St. Louis, MO to Sioux City, IA and operates seven barges along the Missouri River in the Metropolitan area. And with the $70 million expansion of the Charles B. Wheeler downtown airport nearing completion, it will have one of the finest corporate jet hubs in the region.

"The life sciences industry is expected to attract over the next 10 years an average of $600 million per year in research expenditures which should elevate Kansas City as one of the premier locations in the country for research academia."

Kansas City continues to rank very highly among first and second tier cities in a host of categories. For example, Kansas City has the lowest business and lifestyle costs of any other major Metropolitan city of its size in the country. In 2008, Kansas City was selected as one of 12 cities to watch for innovation along with others including Barcelona, Beijing, Seattle, Moscow, and Abu Dubai. Kansas City also ranked among the 40 Strongest US Metro Economies, ranked 17th on the list of America's Smartest Cities, and ranked one of the Best Places to Live in 2009 in Money magazine. Kansas City continues to rank above the national average for per capita income, ranked 12th for business attraction, 8th for quality of life, 3rd for number of festivals, fairs and cultural gatherings per capita, and is now 5th among the largest Metropolitan area with the lowest rents. Kansas City continues its ranking as number 3 on the "Ten Cities to Watch" for contemporary design, and has the number 1 ranking for the best mid-sized airport in the country, and number 18 for the lowest cost of air travel. Kansas City continues to rank in the top 5 of Kipplinger's list of 50 Smart Places to Live, with its 15 institutions of higher education in the Metropolitan area offering graduate degrees, and is ranked in the top 20 cities nationally for a quality public education.

The Kansas City Area Life Sciences Institute (KCALSI) continues to organize and promote the expansion of the Life Science industry in Kansas City. The life sciences industry is expected to attract over the next 10 years an average of $600 million per year in research expenditures which should elevate Kansas City as one of the premier locations in the country for research academia.

Kansas City is already in the middle of the Animal Health Corridor which stretches from Manhattan, Kansas to Columbia, MO. Kansas City currently accounts for over 34% of all sales in the global animal health market which totals $16.8 billion in business annually. The goal still remains to increase Kansas City's share of the nation's animal health market to nearly 60% over the next 10 years. The announcement of the National Bio and Agri-Defense Facility (NBAF) at a cost of $563 million to be located in Manhattan, Kansas certainly will increase prospects for the Metro area. Additionally, other projects such as the K-State Olathe Innovation Campus within the planned Kansas Bioscience Park should begin to see success beginning in 2011. In 2009, 14 different companies or organizations announced new locations or expansions in the region creating 1,000 new jobs, $52 million in payroll, and $819 million in capital investment. In addition to this, the new Missouri Innovation Park on 500 acres in Blue Springs recently announced that MC Realty Group would join the team as the research parks master developer. While the announced loss of the Fort Dodge Animal Health operations was a blow, other notable expansions such as the $15 million expansion of the Ceva Biomune Campus in Lenexa, KS and the $150 million expansion of the Boehringer Ingelheim, Vetmedica facility in St. Joseph will more than fill the gap.

Even with the slowing economy, major projects continue forward throughout the Metropolitan area. Some of these projects include the Children's Mercy $68 million east tower expansion as part of their proposed $600 million in future expansion projects, KU's $50 million, 207,500 square foot new medical office building at their main campus, the recent completion of the $60 million JE Dunn Headquarters in the proposed $357 million East Village project, the announcement of the new $500 million US of Energy's National Nuclear Security Administration nuclear weapons parts plant planned for South Kansas City, and the proposed $575 million Prairie Fire at Lionsgate project anchored by the nation's first museum for hosting traveling exhibitions of New York's American Museum of Natural History. And interest is growing for the nearly 1,500 acres of proposed redevelopment in the 87th and US 71 corridor including the Blue Riverglade Biomedical Park, Rockridge Quarry redevelopment, Marion Crossing at Three Trails business park, Bannister Mall area redevelopment, and a possible new campus for the Stowers Institute for Medical Research. These projects, together with over $965 million of residential projects that have occurred downtown over the last 10 years, show that Kansas City on the move.

As in all great cities, there needs to be a solid public/private partnership to encourage increased investment and development activity. In 2010, this will be particularly important as the development community will need financial support by the public sector in order to potentially jump start any projects and reduce development risk. While development opportunities will be limited in 2010, it is important now to strengthen public sentiment toward development in all corners of our community including the urban core, in order to provide a solid foundation to attract new companies to our city. By working together as a true partnership, we can continue to make Kansas City a great place to live and work.

Lead contributors include: Kenneth G. Block, SIOR, CCIM, Principal

KANSAS CITY DOWNTOWN DEVELOPMENT

The 30,000 square foot Cosentino's Market opened it's doors at 13th and Main to the delight of downtown residents who had been without a major grocery store in the area.

2009 may not have brought marked improvements to Kansas City's downtown/midtown submarket, but the overall picture is one of stability.

Downtown Kansas City consists of the central business district plus several neighboring submarkets. The Downtown Council of Kansas City defines the submarket by the Missouri River to 31st Street, and the Kansas state line to Troost Avenue. The downtown/midtown submarket is now home to over 51,500 residents with the average household income for the area just over $47,000. Additionally, over 102,500 people are employed downtown.

In spite of the national economic downturn, Kansas City's downtown only recorded a negative absorption of 1.9% during 2009. Current average full service office rental rates are approximately $18.00 per square foot, which represents a 1.1% increase over the 3rd quarter 2009 and a 1.13% increase over the last quarter of 2008. Overall vacancy is at approximately 14%, a few ticks higher than last year.

A major topic still under debate for downtown is the proposed light rail project. Light rail has been on the ballot in Kansas City approximately 9 times over the past 11 years. The most recent proposal to go before the voters provided for a transit system that covers a 14 mile route from approximately Vivion Road and North Oak to 63rd and Bruce R. Watkins Drive. This proposal was defeated by voters in 2008 despite the backing of much of the political establishment. Many issues caused doubt with the voters including a very difficult route through midtown which would have dramatically disrupted traffic and an expensive river crossing. Additionally, serious doubt about the financing and the fact that the route crossed taxing jurisdictions caused uncertainty in the minds of voters who already seemed fatigued with the ongoing process.

As we enter 2009, discussions regarding light rail initiatives are once again beginning to circulate. Light rail activist, Clay Chastain, who has been the driver behind most of the past initiatives, once again plans to submit a revised initiative. Also, Jackson County Executive Mike Sanders has weighed in on the issue with a proposed plan of his own. The only certainty with respect to light rail in Kansas City is that we will continue to see new initiatives and the issue will continue to be politically charged. Some see this in a negative light while others see this as a positive reflection of the diverse spectrum of the Kansas City electorate.

The most noteworthy lease of the year was a 200,000 square foot space in One Kansas City Place leased by Great Plains Energy, a subsidiary of Kansas City Power and Light. Opportunities continue to be available for tenants requiring large area floor-plates. There are currently 10 vacancies in excess of 100,000 square feet, but only 2 of the 10 came on the market in 2009. The majority of space available is in contiguous blocks less than 30,000 square feet and the vast majority of vacancies, 84%, are in block-sizes under 10,000 square feet.

Kansas City is still seeking a location for an additional downtown convention hotel; perhaps in 2010 a site will be selected. There are a number of viable locations including a vacant ground assembly on Quality Hill, the city-owned Barney Allis Plaza, the historic Power and Light Building at 14th and Baltimore and sites on either side of I-670 between Baltimore and Wyandotte.

"Any 2010 Missouri legislative changes that would cap, limit or remove Historic Preservation Tax Credits will have a significant effect on these submarkets where the majority of Kansas City's historic properties exist."

Sadly, the Power and Light District made the news in 2009 for reasons other than opening long anticipated retail establishments. The district's inconsistent enforcement of a dress code is still creating tension within Kansas City's minority communities. Though retail lags, new restaurants have come to Power and Light. Ingredient, Fran's Restaurant, originating in Toronto, the locally owned The Mixx and Zafar Boutique & Salon, and Kobe Japanese Steak & Seafood out of Manassass, Virginia have also opened in the past year.

One possible concern for 2010 remains the potential impact of state limitation or modification of tax credits. In particular, any 2010 Missouri legislative changes that would cap, limit or remove Historic Preservation Tax Credits will have a significant effect on these submarkets where the majority of Kansas City's historic properties exist. Recent appointments to the local TIF Commission raised questions this year over the current political leadership and a fundamental understanding of tax entitlements as financing tools. There have been no substantial changes in this area with regard to public transportation.

The 182,544 square foot US EPA Region 7 building located at 901 N. 5th St., Kansas City, Kansas was sold to UrbanAmerica L.P. in 2009.

With the exception of the new JE Dunn headquarters, the East Village has stalled during the last year and the location of a proposed GSA Complex remains in question. There is continued discussion of bridging the south section of the downtown loop of I-670. Studies indicate it is physically feasible from an engineering perspective. Should such a project be affordable, it would provide recreational and community green space in addition to much needed continuity between the Central Business District and Crossroads. Another silver lining is that the new Performing Art Center, now under construction, will bring activity, employment and attention to the downtown market.

Residential condo sales in this submarket did not fare as well in 2009 as other real estate categories. Lending standards imposed in 2009 by Fannie Mae have impacted condominium sales substantially. Sales for 2009 were approximately 43% lower than the previous year. While lower-end market sales remained stable, high end sales dropped by 32%. Accordingly, there are limited new developments currently under consideration in the area. This can also be attributed to the 30 month supply of units now available for sale on the market.

2010 looks to be a year of opportunity. Tenants have the leverage for excellent leasing values and plentiful inventory. Smaller commercial buyers also have economic incentives including opportunities through the SBA that will allow lower cash down payments. Institutional buyers can take advantage of sales based upon lower net operating income and higher capitalization rates in addition to excellent acquisition prices in this submarket.

Lead contributors include: Matthew L. Levi, CCIM, Vice President; Stephen J. Block, Principal; and Bruce Johnson, Vice President.

KANSAS CITY OFFICE MARKET

The new 115,000-square-foot Hallbrook Office Center building, located at 11161 Overbrook Road in Leawood, Kansas, had construction completed in May 2009 but stood vacant at year-end as the office leasing market slowed further.

Some economists suggested that the last two quarters had begun to show some early signs of economic recovery.

Gross National Product and the stock market both posted positive gains toward the end of the year and the residential real estate market appeared to have bottomed and may have started to improve. However, at the most fundamental level, office leasing demand is driven by job growth, and despite improving macro-economic indicators, monthly job losses continue and have only just begun to subside from the 288,000 per month average for the 3rd quarter, although the rate was half that of the prior two quarters. According to Lawrence Yun, Chief Economist for the National Association of Realtors, in all, over 7.3 million jobs have been lost. The addition of 227,000 jobs in November lowered unemployment from 10.2% to 10% according to government economists, and many considered this a sign the worst was over. However, in December an additional 85,000 were lost adding more evidence to support the notion that the "Great Recession," as it has been termed, was not over. There is now growing concern that, like the recovery of the 2001 recession, in which employment continued to decline for about two years after the recession was "officially" over, this one will also be a "jobless recovery." In the past, employers more easily laid off employees and then hired them back once business picked up. Now, due to specialization and the competitive environment, employers are less willing to lay off skilled workers who cost too much to replace when the market turns around. Today, employers are reducing payroll by reducing redundancy, cutting salaries, and increasing efficiency by keeping the most productive workers, all of which dramatically slows the need to hire additional workers as the market picks up.

According to Arthur Jones, economist for Torto Wheaton Research, labor force participation growth peaked in 2000 and will continue to slow as population growth slows and restrains the available pool of labor. This recovery will involve the strategic replenishing of workers as employers compete for available human capital. Over 3.5 million of the jobs lost during the recession are service jobs which populate offices. Now, more than ever, a slow or jobless recovery is more likely and will severely impact recovery in the office market.

Nationally, the office market has taken a beating and will continue to do so in the coming year. The U.S. vacancy rate is up to 13.1% and expected to go as high as 17%. That is up from 11.9% at the end of 2008, which was just the beginning of four consecutive quarters of negative absorption. In total, negative absorption was over 35 million square feet in 2009 causing quoted rents to drop 4% and effective rents to drop over 12%. Locally, vacancy stands at 13.8% at year-end while absorption was up and down during the year but thanks to a strong 4th quarter, ended the year a slight negative of 17,200 square feet on deliveries of 741,000 square feet. In contrast to the national scene, quoted rents in the Metro have remained relatively stable, although rent concessions and aggressive marketing have resulted in effective rent discounts of 12% to 15% for creditworthy tenants. In the large buildings, which are by and large owned by institutions, concessions are more aggressive on the front end of deals while making it up on the back end as the end of their hold period approaches. The difference in Kansas City is a lack of excessive space such as what was built in the larger markets, as well as the lack of big corporate headquarters that have been quick to shed workers and excess space in the recent downturn.

During the coming year, quoted rents are expected to remain relatively unchanged except in those instances when a credit tenant needs little or no tenant improvements, in which case asking rents will likely be dropped to make a deal and keep a tenant or fill a vacancy. Effective rent is another matter. Landlords are expected to continue to fight hard for credit tenants to keep space filled or to fill vacancy, but it will be a struggle as the job growth seen historically during an economic recovery will likely occur at a snail's pace this time, much like 2001 through 2003.

On the supply side, nationally, 59 million square feet was under construction at the end of the year compared to 109 million at the end of 2008. This slowing development trend will continue in 2010 as developers have trouble getting tenants to move and investors and bankers are reluctant to lend. The Kansas City market mirrors the national market, with the only building under construction reported at year-end, the West Edge project on the Plaza, which is mired in bankruptcy proceedings. Do not look for any major new construction in 2010 unless it is for build-to-suit clients.

The overall weakness in the market is exemplified by weak demand for Class A office space which recorded negative absorption of only 54,500 square feet with 572,000 square feet of new deliveries during the year. Class B space has been up and down all year but recorded absorption of 64,000 square feet on deliveries of 169,000 square feet at year-end. Class C properties reported relatively little activity and the same is expected for 2010.

The conservative Midwest is a bright spot for institutional investors compared to the deep trough being experienced on both coasts. However, it is still no picnic for property owners. The local market is faced with the same slow recovery, difficult financing and high unemployment as the larger markets, and it will take longer to recover if history is any indicator. Usually, these conditions set up a great buyers' market but this time, companies do not know what to do yet because there are few clear signs that the recession is over, and the financial markets have not loosened credit to allow for expansion. It looks like at least the first half of 2010 will be a difficult year for all parts of the country.

Black & Veatch purchased it's existing building and then announced expansion plans for it's 600,000-square-foot headquarters, located in Overland Park, Kansas. The expansion project will make room for 1,000 new employees and add 250,000 square feet as well as many environmental enhancements.

SOUTH JOHNSON COUNTY

At the close of 2009, the South Johnson County submarket consisted of approximately 26.3 million square feet and reported 3.5 million square feet available, including 572,000 square feet of sublease space. This reflects a 300%+ increase in sublease space over the prior year. This massive increase is due to Sprint Nextel offering three of its buildings for sublease at below market rates, including furniture. Apria Healthcare subleased 101,000 square feet of one building, 28,000 square feet has been subleased to Care Centrix, and JP Morgan recently announced it has subleased 202,000 square feet in the building at 6850 Sprint Parkway for occupancy in 2011. With the sale and gradual relocation of Embarq, Sprint will be getting two more buildings back in the coming year. But good news came at year-end with the announcement by US Bank that they had made a long term lease on the former Capital One building, taking all 185,000 square feet off the sublease market. Taking into account all remaining sublease space, the overall vacancy in South Johnson County is 13.6% at year-end. A 12% increase over the 12.1% vacancy rate reported at the end of 2008, and there is potential for a further increase in 2010, as companies continue to shed excess space and wait to see what the economy will bring.

South Johnson County is the largest suburban submarket in Kansas City. For building classes A, B, and C, the entire submarket reported negative net absorption of only 165,600 square feet during 2009, but had new deliveries of 228,600 square feet. As expected, overall asking rates for direct deals showed a decrease from $20.78 at the end of 2008 to $20.02 at the end of the year, reflecting the overall depressed state of the office market. Effective rents dropped 12% to 16% across the board during the year as landlords fought to keep tenants and fill vacancy.

Class A properties reported an increase in vacancy from 18.5% to 20.5% out of a total available inventory of 7.2 million square feet. Vacancy stood at 1.47 million square feet, including 241,324 square feet of sublease space. Net absorption for 2009 was only 36,000 square feet. New Class A properties accounted for 138,400 square feet with no new buildings under construction at the close of the year.

Class B properties totalled approximately 17.5 million square feet and reported a 11.2% vacancy rate compared to 10% at year-end 2008. Approximately 1.9 million square feet of Class B space remained available for lease at the end of the year. Of the 1.9 million square feet available, 142,000 square feet is sublease space compared to 52,000 square feet available for sublease at the end of 2008. Class B properties saw negative absorption of only 127,800 square feet for the year. New construction of Class B properties totaled 90,000 square feet, down from 199,600 square feet delivered to the market last year. Only 15,000 square feet is under construction for delivery in 2010.

Class C properties make up approximately 1.6 million square feet of this submarket. The vacancy rate for Class C properties in 2009 was 7%, down slightly from 6.9% at the end of 2008. A total of 31,500 square feet was absorbed during the year.

NORTH JOHNSON COUNTY

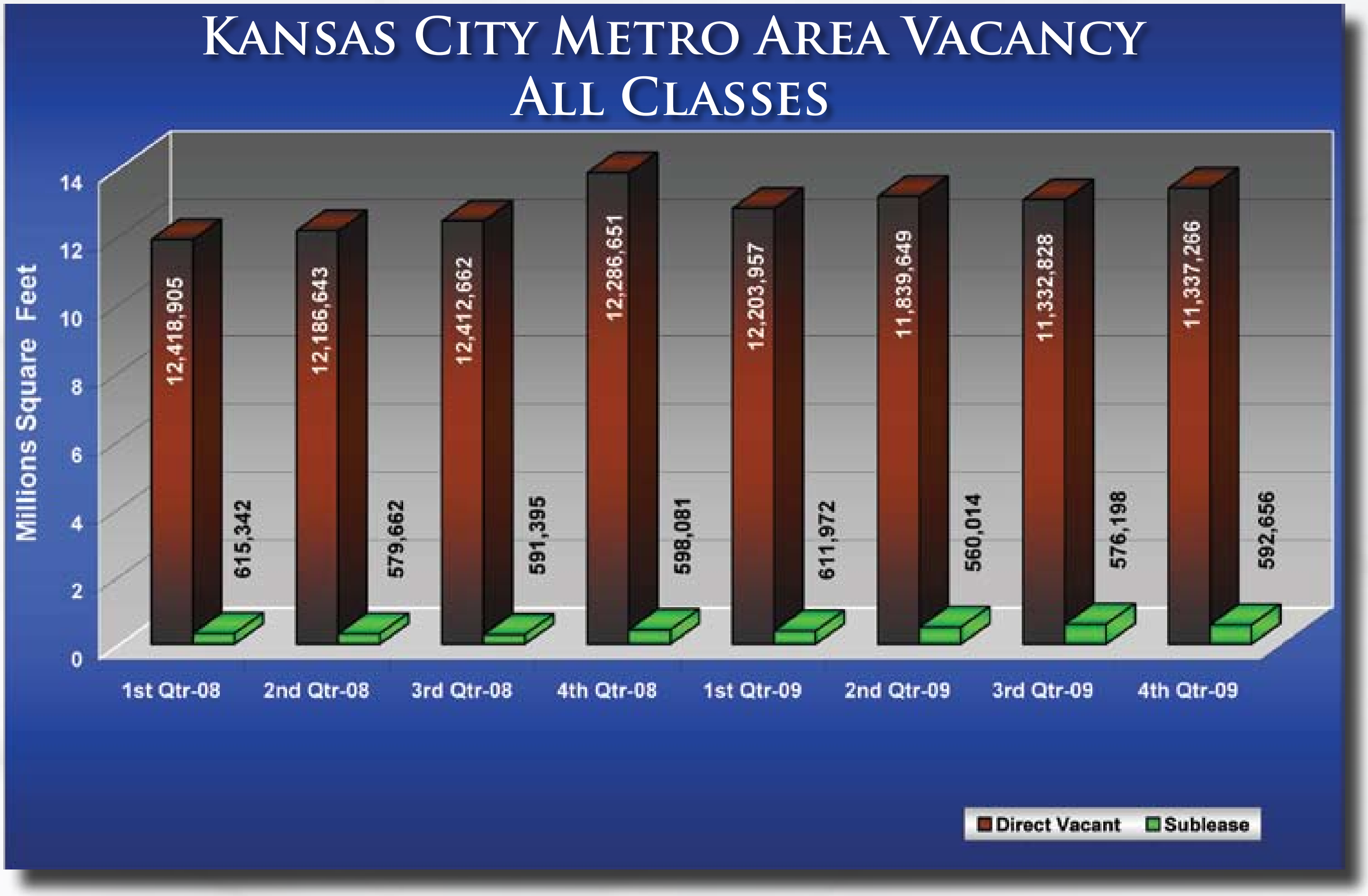
The North Johnson County submarket includes approximately 11 million square feet of office space in 533 properties. The overall vacancy totals 1.24 million square feet, and includes virtually no sublease space. That is an increase of 150,000 square feet, but after new deliveries of 295,000 square feet and 172,300 square feet of absorption, vacancy only increased from 10.4% at the end of 2008 to 11.2% at the end of 2009. This was a much better performance than in other suburban markets. New Class A properties caused a dramatic increase in both absorption and inventory. They accounted for 230,000 square feet of the new deliveries during the year. The 151,000 square foot building developed by Block Real Estate Services for Kiewit Power Inc. was the largest addition, followed by the 78,600 square foot Santa Fe Medical Building on the Shawnee Mission Hospital campus and the 55,000 square foot Lenexa Center East mixed use project with Generali Insurance as the lead tenant. Class A vacancy soared from 4.7% in 2008 to 14.7% at the end of 2009, with 116,400 square feet of net absorption out of the 230,000 square feet of new product. Within the 7.89 million square feet of Class B buildings surveyed, vacancy levels decreased slightly from 10.8% to 10.5% with 77,000 square feet of deliveries and 96,000 square feet of absorption. Class C properties reported 258,000 square feet vacant, or 12.3%, compared to an 11.3% vacancy in the previous year, as a result of 21,500 square feet of negative absorption.

Average asking rents for this submarket increased from $16.47 at the end of 2008 to $17.11. However, the increase is an anomaly of this market which can be traced to the unusually large increase in the Class A buildings, and the correspondingly higher rents they command.

CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The Downtown submarket includes the Central Business District, River Market, Crown Center, Freight House/Crossroads and West Bottoms subsections that consist of approximately 26.9 million square feet in 379 buildings. Overall vacancy reported as of the 4th quarter 2009 was 15%. Total available space was 3.97 million square feet, including 136,500 square feet of sublease space. Class A properties reported negative absorption of 194,000 square feet and vacancy of 23.6%, or 1.86 million square feet. Class B properties that make up 14.7 million square feet of the overall submarket, reported virtually no positive activity during the year and absorption of 36,750 square feet and a vacancy rate of 11.7%. Vacancies in the older Class C properties stood at 10.8%, or just over 460,000 square feet at the end of 2009, a positive absorption of only 400 square feet during the year.

The Central Business District (CBD) subsection reported negative net absorption of 225,000 square feet during the



calendar year 2009, registering vacancy at 17.4% on an inventory of 17.9 million square feet. Class A buildings reported an increase in vacancy to 28.6% as of the end of 2009. Within the 118 Class B buildings, vacancy levels increased to 14% or 1.37 million square feet at the end of 2009 with 18,100 square feet of negative absorption. Overall, rental rates in the CBD stood at $18.23 per square foot. The largest moves in the CBD included the relocation of Great Plains Energy / Kansas City Power & Light Company (257,400 square feet) to One Kansas City Place, the completion of the JE Dunn headquarters campus (204,000 square feet) in the East Village, and the TransAmerica Corporation (183,448 square feet) moving out of the Town Pavilion building and out of Kansas City.

The Crown Center submarket, with its residential, office, and entertainment components totals 6 million square feet in 60 primarily Class A and B buildings. This submarket reported a stable vacancy at 9.7% during the year with 1,800 square feet of positive absorption. Class A buildings reported an increase in vacancy to 14.2% as of the end of 2009, or 366,000 square feet, a negative absorption of 16,000 square feet. Within the 22 Class B buildings, vacancy levels remained stable at 4.5% at the end of 2009 with 2,000 square feet of positive absorption. The Freight House/Crossroads district, consisting of 97 buildings, maintained a 17% vacancy, up from 15.6% at the end of 2008.

The 137,000 square foot Broadway Summit building, located at 3101 Broadway St. in Kansas City, Missouri, was purchased from the lender after a foreclosure process, for $5 million ($36.50 per square foot) at a 10.8% CAP rate.

PLAZA/MIDTOWN

The Plaza/Midtown submarket consists of three sectors: Midtown, Country Club Plaza, and Brookside. This submarket currently consists of approximately 9.1 million square feet of office space within 342 buildings. The Country Club Plaza subsection is the most desirable area in this submarket and contains nearly half of the total inventory, or 4.68 million square feet in 99 buildings. Vacancy at the end of the year stood at approximately 672,000 square feet or 14.4%, with no new buildings completed in 2009. Leasing activity and absorption for 2009 reflected the rest of the metro area and recorded negative absorption of 65,000 square feet. Class A properties, which account for over 1.86 million square feet of the Country Club Plaza inventory, experienced an increase in vacancy levels from 14.5% in late 2008 to the current level of 16.2%. Of the 57 Class B properties, overall vacancy levels increased from 12.1% reported at the end of 2008 to the current level of 14.1%.

The West Edge mixed use development is still the hottest topic of conversation within the commercial real estate industry. The developer filed Chapter 11 bankruptcy with only 75% completed. The project will sit un-enclosed for another winter while the parties and bankruptcy court work toward moving the project forward.

The Midtown sector that consists of 3.82 million square feet in 212 buildings, reported vacancy of 8% or approximately 304,000 square feet at the end of 2009. The Midtown sector of the submarket is made up of primarily older Class B and C properties. One-half of the total inventory within this sector, or 1.97 million square feet is within 78 Class B buildings and accounts for approximately 154,400 square feet of the total available space.

This market boasted one of the few office acquisitions in 2009. The Broadway Summit Building, located at 31st & Broadway, was acquired by Children's Mercy Hospital for office expansion. Many of the existing tenants are relocating within the submarket as their leases expire. These relocations should cause a trend toward positive absorption for 2010.

The entire Plaza/Midtown submarket reported a negative absorption of 31,200 square feet with average rental rates increasing from the $18.83 per square foot reported at the end of 2008 to $19.25 per square foot reported at the end of 2009. Look to see a positive trend in this market at the tail end of 2010.

SOUTH KANSAS CITY

The South Kansas City submarket consists of three sectors: The Ward Parkway/State Line corridor, the I-435 corridor, and the Bannister/Hickman area. These three sectors, along with small office buildings along other major thoroughfares, account for a grand total of 173 Buildings or 5.77 million square feet of office space. There are only 9 Class A office buildings in the submarket, which consist of 1.66 million square feet, and which command only an average rental rate of $17.00 per square foot and have a 24.3% vacancy rate. Class B buildings account for the majority of the inventory consisting of 87 buildings or 3.4 million square feet, which command an average rental rate of $16.82 with a 17.4% vacancy rate. Class C buildings account for 77 buildings consisting of 730,000 square feet and commanding a rental rate of $13.33 with a vacancy rate of only 11.5%.

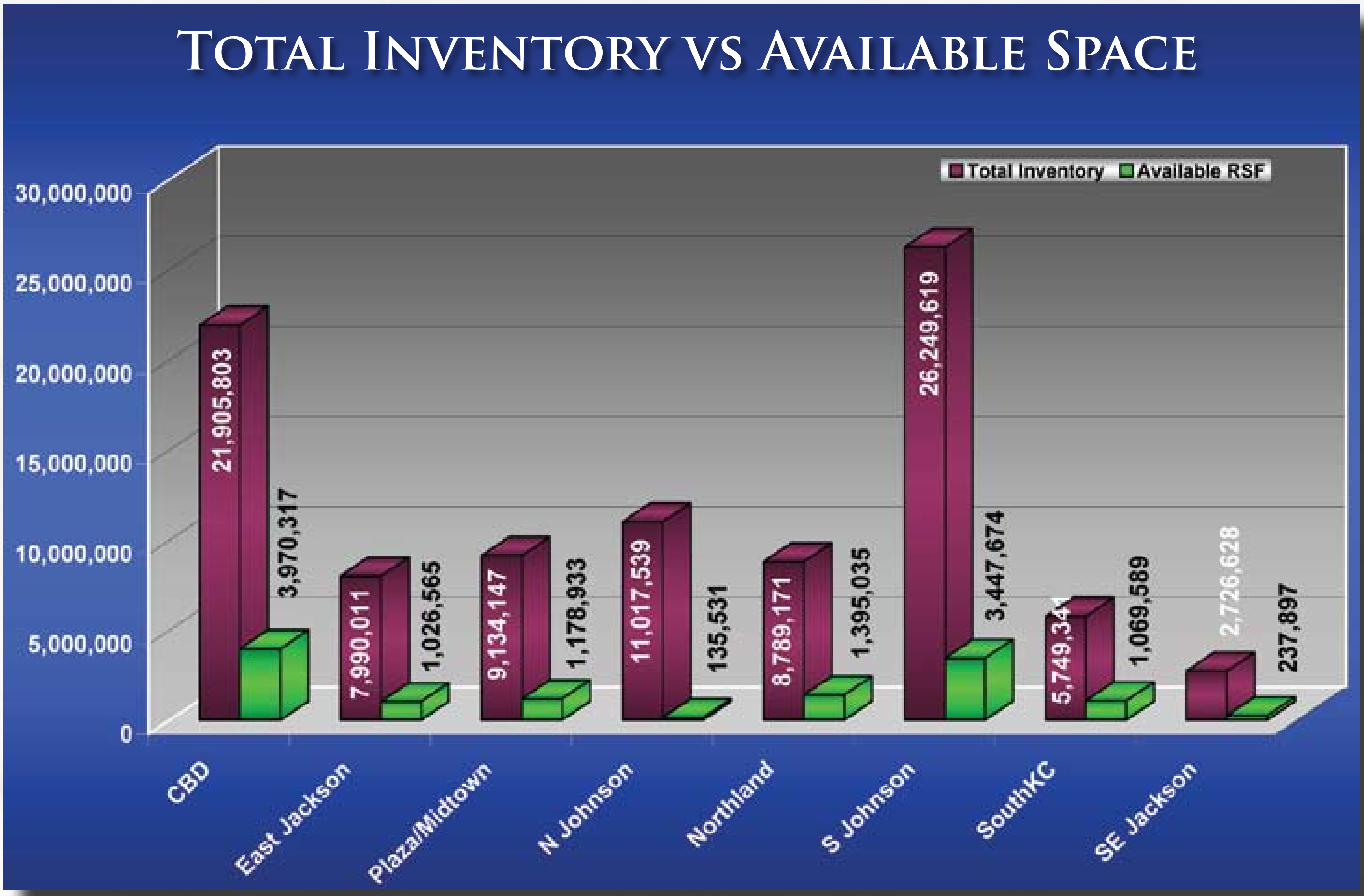
This market is dominated by large users such as Burns & McDonnell, the Federal Government, and Cerner. The submarket has a vacancy rate of 18.6% due to large blocks of space at the Aventis Complex and a few large single-user buildings that have not been retro-fitted for multi-tenants. The typical multi-tenant office building accommodating the smaller local business owner, is more highly leased. The area continues to attract tenants from the Metro's inner-loop and business owners who desire to be near the Johnson County market but are limited to occupying space in Missouri.

The Bannister area is the major unknown concerning the future of this submarket. Cerner's growth and development plans for office and retail developments at Three Trails (old Bannister Mall site) will be the major factor for this portion of the submarket. The announcement of the Wizards' stadium being moved to the Legends complex in Wyandotte County is not a positive development for this submarket. However, the submarket does have all the potential to accommodate and attract a large user that would quickly lower the vacancy rate.

NORTH OF THE RIVER

This covers the sprawling submarket containing both Clay and Platte Counties, and the North of the River office submarket. While large in geographical size, it is a secondary location when viewing the Kansas City office market overall. The office product in this submarket is generally isolated in several pockets throughout the area, primarily located in the Airworld, Briarcliff, North Kansas City, and Liberty areas.

The majority of the product in this submarket is in Class B buildings, with a small number of Class A and C buildings. This submarket has a total of 413 office buildings in its inventory, totaling roughly 8.8 million square feet. This market achieved positive absorption of 133,000 square feet during 2009, its total vacancy of 15.6% is down from 16.5% at the end of 2008. Quoted rents averaged $16.27 per square foot for full service leases, 6% lower than year-end 2008 and significantly lower than the $18.22 per square foot overall Kansas City average. This substantial difference is primarily attributable to the relative



The West Edge, a 2.4-acre mixed-use project near the Country Club Plaza, was halted in late 2009 after its developer, Trilogy Development Co., filed for bankruptcy due to cost overruns and inability to access additional capital. Project plans include 218,000 square feet of rentable office space, 19,000 square feet of retail, a 131-room hotel, a 10,000 square foot signature restaurant, a 970-space parking garage, an advertising-icon museum, an auditorium, a spa and health center, and a retail bank branch.

age of the product in this submarket and the secondary nature of its location.

One bright spot in this submarket is in the Class A properties. Although only 8 buildings are classified as A buildings, the occupancy of 87.9% leads all other submarkets for similar type buildings. Further, with over 90,000 square feet of net absorption in these buildings, they represent nearly 40% of the net absorption for Class A office buildings market-wide.

There is no new construction of office product in the submarket currently, and only 16,400 square feet was delivered in 2009. Significant leases in the submarket during 2009 were focused in the Briarcliff development, which leased approximately 100,000 square feet of space this year, notable deals being Tradebot Systems with 25,510 square feet, BATS with 5,800 square feet, Executive Airshare with 5,500 square feet, United Benefits Group with 5,500 square feet, American Italian Pasta Company with 32,000 square feet, and Infegy with 8,500 square feet. Other notable deal in the market include the 11,800 sf lease at 400 N Missouri Street in Liberty by Northland Lutheran Schools, Trow Engineering's 11,300 sf lease renewal at the Circle Building I on Tiffany Springs Drive, MillerCoors 11,000 sf lease in Zona Rosa, and Smith Electric Vehicles 8,000 sf lease at The Ambassador Building at KCI.

Overall, this submarket is small and static when viewed in the context of impact on the overall Kansas City Metropolitan office market, yet it is stable and with certain positive attributes. Looking ahead to 2010, expect sales and leasing in this submarket to remain flat with few deals that have a large influence on the overall office market.

EAST JACKSON COUNTY MISSOURI

The Eastern Jackson County submarket which includes Blue Springs, Independence and Eastern Kansas City, has a total 589 properties with approximately 7.99 million square feet. At the end of 2009, the vacancy rate was 12.8% or 1.03 million square feet down from 14% or 1.127 million square feet at the end of 2008. This decrease reflects positive absorption of 92,500 square feet. There are only 5 Class A properties, totaling 335,941 square feet in this market. They continue to have the highest vacancy rate in the market at 21.4% or 72,000 square feet. Class B properties, which include 225 buildings totaling 4.5 million square feet had a vacancy rate at 11.2% or 510,700 square feet, as the result of positive absorption of 150,434 square feet. Class C properties, which include 359 properties totaling approximately 3.1 million square feet had a vacancy rate at 14.4% or 443,900 square feet, with a negative net absorption of 61,000 square feet for 2009.

Currently, there is no space under construction. Net absorption was positive at 92,500 square feet for the year. Asking rental rates decreased by approximately 4%, from $15.76 per square foot at the end of 2008 to $15.14 per square foot currently. Frontier School of Innovation leased approximately 21,000 square feet in the 2nd quarter of 2009 at Lakeside Plaza II Building, which was the largest lease in this submarket.

SOUTHEAST JACKSON COUNTY

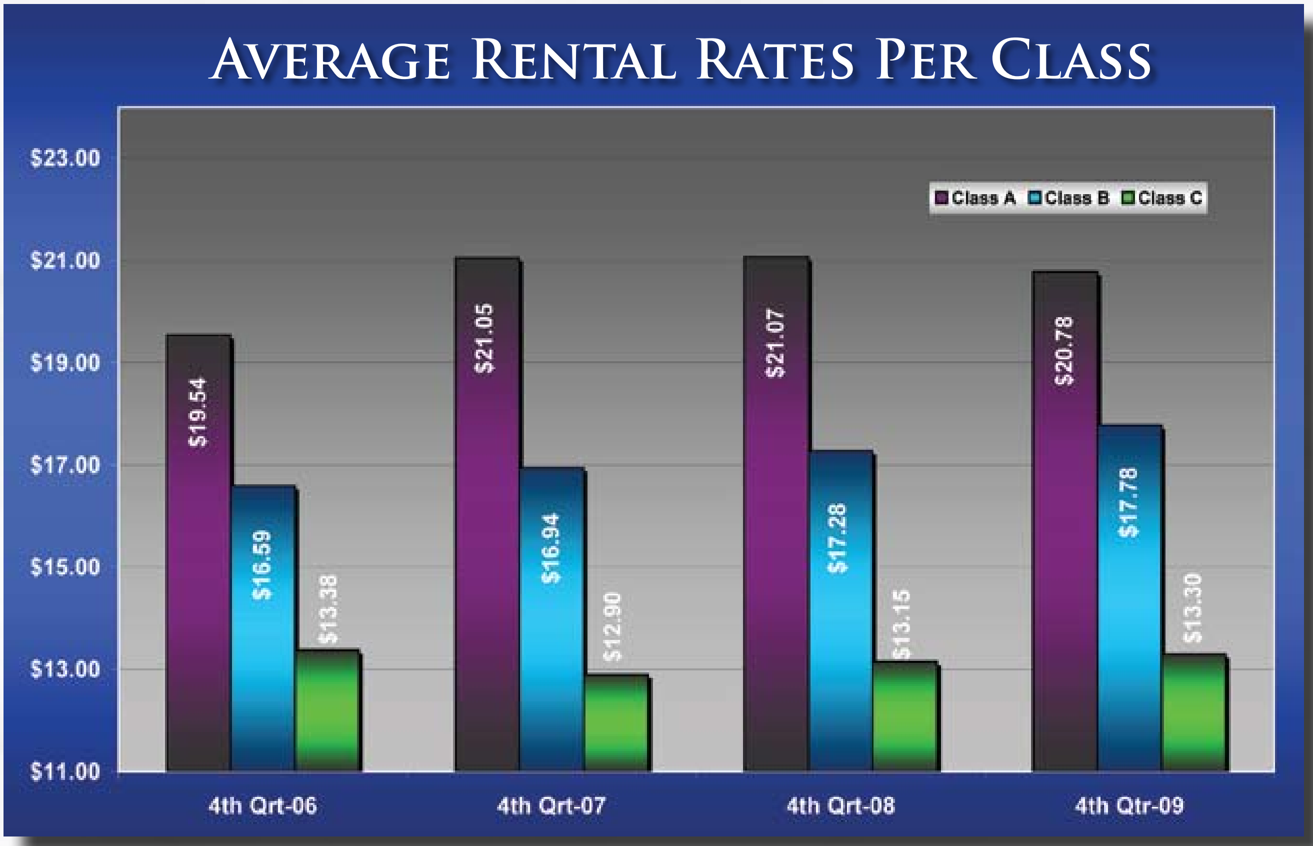
With only 187 buildings, totaling approximately 2.73 million square feet, this is one of the smallest submarkets. At year-end, the vacancy rate was 9% or 245,136 square feet compared to 9.4% or 257,300 square feet at the end of 2008, a minimal change. Class A properties, of which there are 3 totaling approximately 151,800 square feet, reported a vacancy rate of 15.6% or 23,635 square feet. Class B properties, which include 84 properties totaling approximately 1.94 million square feet had a vacancy rate of 8.3% or 161,100 square feet. Class C properties, which include 99 properties and total approximately 631,500 square feet had a vacancy rate of 9.6% or 60,350 square feet.

A small amount of leasing activity produced a positive total absorption of 12,100 square feet, a far cry from the 34,160 square feet absorbed in 2008. Rental rates decreased by approximately 2.7% throughout the year, from $15.954 per square foot at the end of 2008 to $15.53 per square foot currently.

NEW CONSTRUCTION:

New construction, as predicted, came to a virtual standstill in 2009 with only fourteen new buildings completed, four of which are small office condominium buildings in South Johnson County. Of the remaining ten new buildings, the 204,000 square foot JE Dunn Corporate Headquarters downtown and the 150,000 square foot Kiewit Power Inc. headquarters building are both 100% leased. Two Hallbrook Place, built entirely as a spec building with 110,000 square feet, was completed in the 2nd quarter and has no tenants announced. The Santa Fe Medical Building, the latest addition to the Shawnee Mission Medical Center campus, had 59% of its 78,670 square feet leased, while the mixed use Lenexa City Center East project's 55,000 square foot office/retail building opened in the second quarter with Generali Insurance as its lead tenant and is 68% leased, but currently in foreclosure due to lack of funds to complete the parking garage. The project may lose its lead tenant if construction is not complete in early 2010. The remaining buildings completed during the year include the new 46,000 square foot Johnson County Communications Center and four smaller single story buildings ranging from 9,000 to 28,000 square feet with some preleased space, plus the small condominium office building mentioned above.

Clearly the pull-back in the leasing market together with unprecedented restrictions on loan underwriting has virtually stopped construction of new multi-tenant office product. The only new projects forecast for 2010 will be build-to-suit projects with little or no excess space. 2010 may very well see recently completed or undercapitalized projects go back to the lender, a trend that will be pervasive throughout the country. Fortunately, Kansas City does not have a large overhang of newly constructed projects with large vacancies, which are prevalent on the east and west coasts.



Missouri Gas Energy purchased the 116,745 square-foot building located at 3420 Broadway St, which was formerly occupied and owned by American Century Investments, but sold as part of a downsizing effort by American Century.

RENTAL RATES

The average full service asking rent in all classes of buildings surveyed in the KC Metro area was $18.22 per square foot at the end of 2009. This represents an increase of 1.7% over the $17.91 per square foot average at the end of 2008. This increase is chiefly the result of new preleased buildings being completed in the North Johnson County and Downtown markets and landlords' efforts to overcome higher tenant finish costs. The average Class A quoted rent was $20.71, down 4% from the prior year. Class B quoted rents actually increased to $17.54 from $17.33 and average Class C quoted rates were unchanged at $13.19 The effective rents for each building class are being discounted from 12% to 15% off quoted rents as landlords try to keep existing tenants and fight to fill vacancy. Credit tenants that need little in the way of tenant improvements can achieve very attractive overall effective rents for new leases as landlords try to conserve cash flow.

SUMMARY & OUTLOOK

At this time, the economic recovery for the office market hinges on the job market. With demand for office space as weak as it has been since 2001, prospects for a rapid recovery are out of the question. Even so, with all the dire statistics and analysis, there appears to be light at the end of the tunnel.

Due to the slowing of construction nationally, as well as locally, vacancies are generally not concentrated in big blocks of space, but are more evenly distributed across all types of office buildings. This should improve the marketability of the available spaces. Furthermore, job losses have slowed dramatically in the last quarter of 2009 and some new jobs are being added. Not insignificantly, the government's $1 trillion Term Asset-Backed Securities Loan Facility (TALF) program has helped spark renewed interest in the commercial mortgage backed securities (CMBS) market with $1.2 billion already invested, and the program extended into 2010. In anticipation of the number of commercial real estate loans coming due over the next 18 months, the Federal Reserve issued a policy statement on October 30, 2009 in support of commercial real estate loan modifications given declines in cash flow, asset prices and values, and greatly reduced transaction volume. In all, though 2010 will likely present additional struggles for the national and local office market, the present employment trends and government sponsored assistance programs are likely to provide a support level to the market.

Lead contributors include: Estel C. Hipp, Senior Vice President; Matthew Spachman, Vice President; Daniel J. Durkin, Vice President; Matthew L. Levi, Vice President; Robert J. Reintjes III, Sales Associate; and Brian Bock, Sales Associate.

KANSAS CITY INDUSTRIAL MARKET

Global Industries, Inc. purchased the newly constructed 50,702 square foot build-to-suit office/showroom/warehouse building located in Pine Ridge West Business Park in Lenexa, KS.

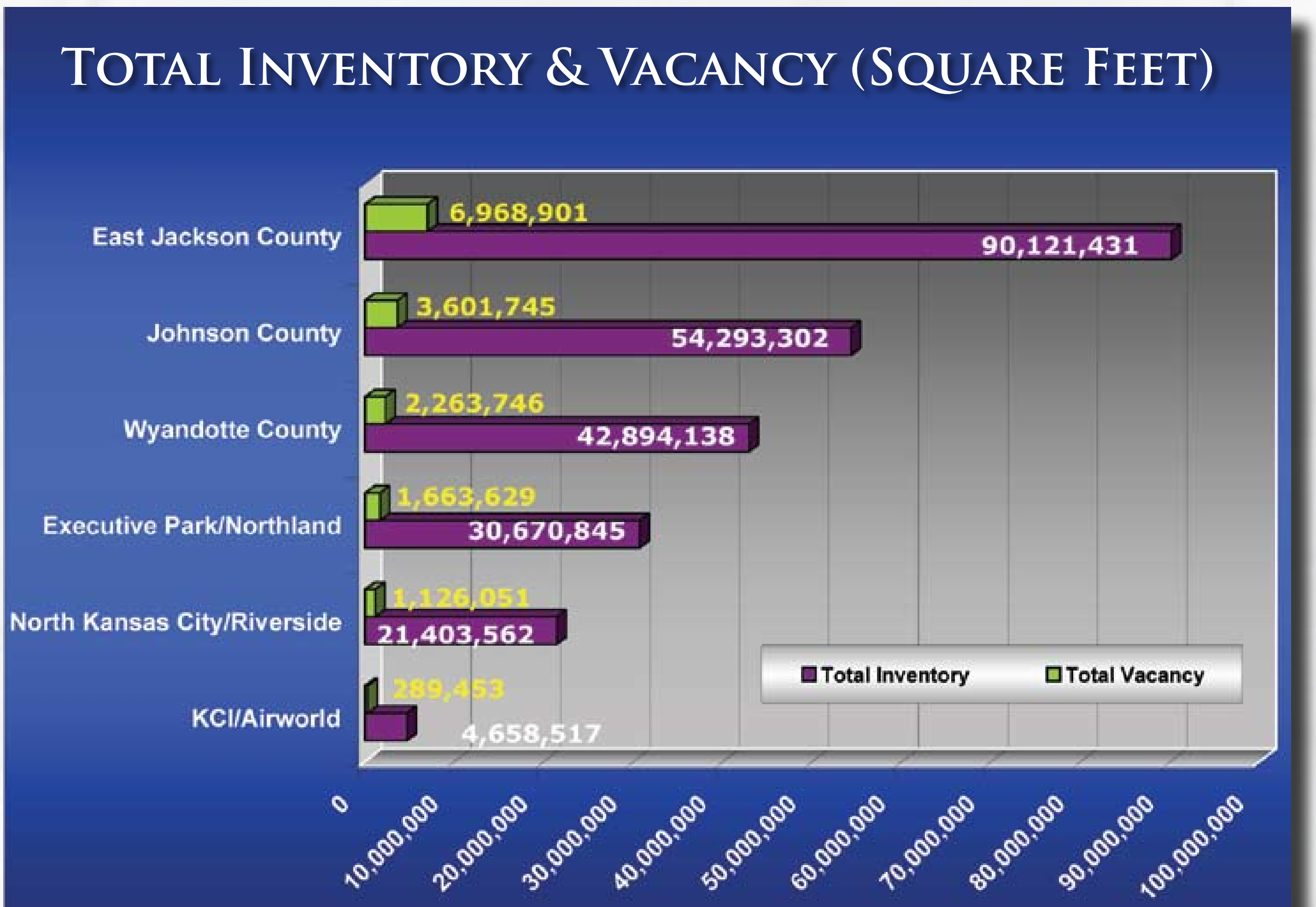
In spite of depressed economic market conditions both within Kansas City and nationally, there is a surprising amount of activity in large transactions of over 100,000 square feet and up to 1 million square feet or more, especially in the more modern industrial buildings within the Metro.

Several major companies have already chosen Kansas City as their location for new big box distribution centers, including Coleman, Jarden's Pure Fishing division, Home Depot, Lowes, Target, Musician's Friend, PacSun, Federal Express, and Wal-Mart. All together they have invested millions in new distribution centers in the Metro. In each case, these new centers were built in order to save supply chain costs. These buildings, some of which are very recent build-to-suits or speculative construction projects, have higher ceilings (28'-36'), larger truck courts, an abundance of truck docks, extra trailer parking, and, if older, often have been updated with energy efficient T-5 florescent lighting, as well as other upgrades, including ESFR sprinkler systems.

There are 20 distribution companies evaluating new projects within the Kansas City region, with five of these users seeking more than 400,000 square feet. With all of this new development taking shape, it is no surprise that Kansas City has been ranked as one of the top 15 logistics cities as determined by Inbound Logistics. Up and coming distribution hubs like Kansas City should be able to capitalize on the rising transportation costs that are prompting many U.S. companies to seek out shorter distribution routes for their goods. To keep costs down, shippers are increasingly utilizing rail and sea transportation for as long as possible while working to minimize air and truck freight. Rising fuel prices are the main reason behind the latest reconfiguration of the nation's supply chain. In the late '80s and through the '90s, a mega-distribution strategy depended on fewer and very large distribution centers to serve the entire country. Now, it seems that strategy may be less cost-effective than a more integrated hub and spoke model that relies on smaller facilities located closer to consumers. While Chicago's dominance as the top inland hub will remain unchallenged, Kansas City, located at the nexus of the transcontinental (I-70) and NAFTA (I-35) trade corridors, is emerging as a major player. With the NAFTA Corridor and a two-day truck drive to 78% of the U.S. population, Kansas City should see increased demand for these large box distribution centers. The Kansas City area has one of the lowest truck load shipment costs, which makes it ideal for shipping non-time-sensitive products. These economical shipping costs make it very appealing for non-consumer and assembly goods. Highway connectivity and low congestion levels are also very appealing factors as businesses consider locating their freight-intensive developments.

Kansas City's market is being re-engineered with the addition of thousands of acres of industrial sites that can handle big-box buildings. Kansas City, the nation's number two rail center, is now being evaluated as a viable distribution point for products being imported from China and the Pacific Rim, and this is evidenced by both the Kansas City Southern Railroad (KCS) and Burlington Northern Santa Fe (BNSF) Intermodal operations already located here and expanding. Adjacent to KCS' hub is the new CenterPoint Intermodal Center – Kansas City, a partnership between CenterPoint Properties Trust and KCS located at M-150 and US 71 Highways, in south Kansas City, Missouri. CenterPoint's new development will provide big-box distribution facilities adjacent to KCS' hub, which has direct imports from the Pacific seaport, Lazaro Cardenas, as well as imports and exports to Mexico and Canada. These new intermodal developments are typically located adjacent to large development tracts and the new sites in the Kansas City area are no exception. The second site will be in South Johnson County, Kansas, near the Gardner/Edgerton area and is a development of the Allen Group of San Diego, which will be involved in the future industrial park, adjacent to the planned $250 million BNSF Intermodal. BNSF will build on 400 acres and have up to 7 million square feet of distribution space with an additional 10 million square feet available for speculative development. With the addition of the BNSF and KCS hubs, the metro area will have three sites capable of handling these large industrial users requiring rail, with the third one being the existing Northland Park industrial development at Missouri Highway 210 and I-435, north of downtown. An additional intermodal center, this one with air-truck freight transfer, is proposed for development by Trammell Crow Development Company at Kansas City International Airport (KCI) on the north side of the city. All of these developments are designed to provide multiple big-box facilities and several million square feet of build-to-suits or speculative distribution warehouse construction. The Metro now has over 2,000 acres of land that is appropriately zoned and development-ready to handle new industrial projects, which is a great improvement over the last several years, when ready to develop land was not plentiful.

Despite the ongoing economic challenges, large prospects are investigating the area, with the anticipation that the seaports will become overcrowded again in the very near future as the economy recovers. There has been enough consistent interest from these large users that as lending loosens, speculative construction might be considered by the end of 2010. Although tenants have tended to focus on building costs during site selections in the past, rent represents less than 5% of total



logistics cost and transportation accounts for more than 50%. As an example, a 450,000 square foot warehouse that receives 5,000 containers per year spends $1.25 million on drayage (the cost shipping companies incur to have a container delivered from the intermodal terminal over public streets to their warehouse) or $2.77 per square foot. By locating within an intermodal facility, this charge can be nearly eliminated, which makes Kansas City exceedingly competitive compared to cities that do not have intermodal facilities.

Results of a national comparison of peer cities show that Kansas City is and will continue to be competitive in the transportation-intensive industries including warehousing and distribution. Due to the relatively conservative nature of development in the metro area, and with a local economy that is not reliant on one industry, the rebound in development should be fairly strong.

Additionally, Kansas City continues to see tremendous growth in the life sciences arena. Specifically, the animal life sciences industry is poised to propel Kansas City's economy for the next several years. Home to over 130 animal health companies, 37 of which are headquartered in Kansas City, the metro area life science community accounts for more than one-third of the $16.8 billion industry. Furthermore, the "life sciences corridor," along a portion of I-70 including Manhattan, Kansas and Columbia, Missouri, drew the attention of the Department of Homeland Security (DHS) in early 2009. Naming Manhattan its official new home, DHS expects construction of its National Bio and Agro-Defense Facility (NBAF) to begin on the site in 2010 and be fully operational in 2015. Other proposed developments in the corridor include Innovation Park, a 500-acre science and technology project located in Blue Springs, which will provide a new regional center for knowledge-based innovation and commercialization.

The National Nuclear Safety Administration is also developing a new 1.5 million square foot plant for non-nuclear components on 186 acres due north of the CenterPoint development. This ambitious proposal in South Kansas City calls for developing a 350-acre tract called Blue River Glade Bio-Medical Park for a research campus, which will include a residential village and other amenities for scientists. James Stowers III, formerly of the American Century Mutual Fund company, headquartered in Kansas City, is leading the proposed development at 87th between U.S. 71 and I-435. This development would allow Kansas City to match incentives that the Kansas side of the metro area has when it comes to life-sciences research since the Kansas Bioscience Authority has invested more than $50 million in nearly 60 projects since 2006. Other adjacent potential developments include Rock Ridge Quarry with 508 acres and up to 6.5 million square feet for industrial, office and retail planned just south of the biomedical campus, along with Marion Crossings at Three Trails Business Park. This development would be on 75 acres located south of the former home of Marion Labs, now occupied by the Cerner Corporation. With leadership from global companies in the industry, the Kansas City economy has been transforming and is being recognized around the country as the place to be for animal life sciences.

CHALLENGES IN 2010

The significant big-box users over the past few years have allowed Kansas City's reputation to grow as a regional distribution player. Now, even with the slowdown in the national economy, there appears to be a reasonable amount of activity in Kansas City, as compared to other large markets throughout the country. The real concern continues to be what lies ahead. With the current lack of consumer spending, reflected in the decline in shipping container traffic, along with the significant drop-off in orders for durable goods, big-box users will have to carefully evaluate all new development projects for the foreseeable future. At some point, if there is not a measured increase in consumer activity, these macro issues that affect the whole U.S. economy could easily result in a significant and continued slow down for all forms of industrial leasing and sales activity. As such, no speculative construction is expected in 2010.

"Results of a national comparison of peer cities show that Kansas City is and will continue to be competitive in the transportation-intensive industries including warehousing and distribution."

To remain a leading transportation hub, the region must continue to invest in the maintenance and expansion of its freight handling infrastructure. If logistics continue to shift from truck to rail due to long term increases in energy costs, highway congestion and other factors, Kansas City must be oriented in advance to capture the trends. Kansas City needs to grow established industries like automotive, aircraft and agricultural machinery while leveraging new opportunities like near sourcing of raw material and component parts from the industrial areas of Northern Mexico. The rail connection via KCS provides a very significant opportunity to take advantage of the sourcing of machinery parts for final assembly by our region's skilled workforce.

While the forecast of activity is uncertain, the overall vacancy rate of 6.4% across all major markets, limits the exposure of many landlords. Additionally, due to the lack of available inventory, tenants may lose the ability to use other vacant projects as leverage when negotiating renewals or new leases. For this reason, landlords are hopeful to see rents stabilize during 2010. The inventory of big-box Class A and B distribution space is in short supply, but there could be new opportunities coming on the market for some as a result of consolidation and plant closings. On the flip side, new construction should be

A new lease by Church and Dwight for 250,000 square feet filled the 499,144 square foot Botts Road bulk warehouse building located in Grandview, Missouri and owned by Colony Realty Partners to 100% occupancy, demonstrating a strengthening of this Southeast Kansas City submarket.

more competitive as concrete, steel and asphalt have seen price drops over the last 12 to 18 months, and labor is restless and looking for new opportunities. Kansas City can continue to excel in being a stronghold in the area of transportation-intensive, freight-related development. With the aforementioned rail assets of KCS and BNSF along with Norfolk Southern, Union Pacific, and Canadian Pacific, Kansas City has the opportunity to play an important role in the movement of goods between Canada, the United States, and Mexico.

MAJOR MARKETS

JOHNSON COUNTY

Johnson County, Kansas is one of the most active industrial submarkets in the area. Well served by I-35 and I-435, as well as many other major roadways, most of the development in the submarket has generally followed these thoroughfares. Planned business park developments dominate the industrial landscape. Johnson County draws from a well-educated employee base and continues to be the most stable market in the Kansas City area, despite overall economic conditions. Based upon the proximity to executive and management level housing, some of the most desirable office space and excellent retail centers, it is expected that the big-box distribution developments will grow faster around Johnson County based intermodal facilities when compared to competing intermodal hubs in Kansas City, Missouri.

At a glance, the submarket's 1,421 industrial buildings, comprised of 231 flex and 1,190 warehouse/distribution buildings, and over 54 million total square feet are 93.4% leased, mirroring the overall market occupancy of 93.3%. The average quoted rents are $5.90 per square foot, and significantly higher than the overall market average of $4.40 per square foot, illustrating the desirability of this submarket. At nearly a quarter of the total metro market inventory, what happens in Johnson County has a major impact on the market as a whole.

Older buildings in the market continue to have modest activity and many owners are upgrading to be competitive with the newer buildings. However, some of the upgrades, like ceiling height and land area for trailer parking, cannot be changed in an economical manner, thus the higher quality buildings are seeing more activity with higher, yet still competitive lease rates. In the north portion of the County, flex buildings represented 2.52 million square feet in 101 structures with an average lease rate of $8.29 per square foot. In contrast, the southern portion has a growing flex space inventory with 130 buildings and 3.42 million square feet. Average lease rates in the southern portion were $9.66 per square foot, primarily due to higher quality tenant finishes. Year-end vacancy is at 6.79% compared to 2008's 5.47%, with no new product coming to market, indicating negative net absorption.

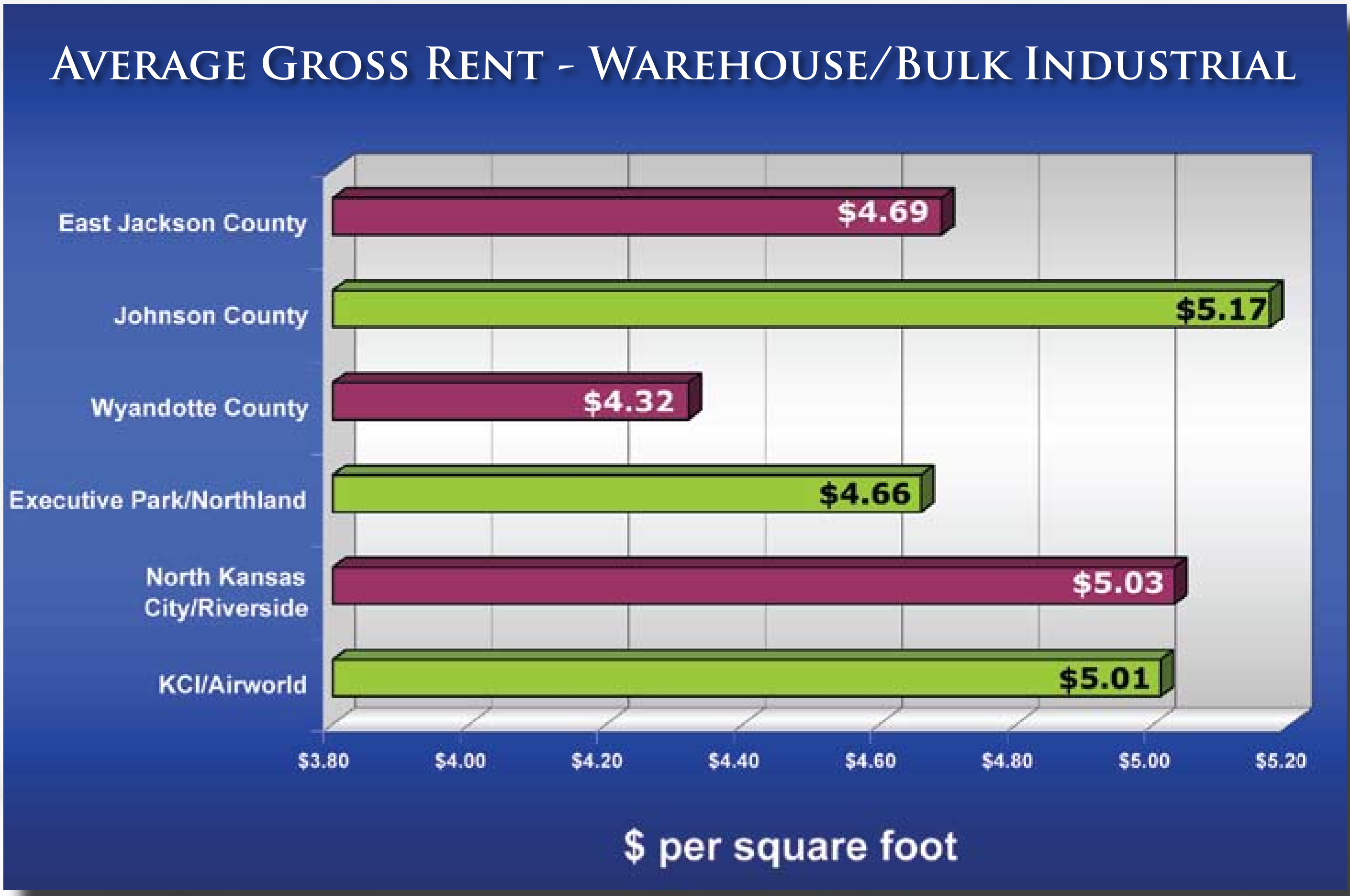
Although industrial development throughout the market has been sparse in 2009, and lease transactions have been fewer than in recent years, the 1.1 million square foot Coleman Distribution Center, a manufacturer and distributor of camping gear and outdoor products, is being completed in south Olathe. On a smaller scale, a 13,700 square foot flex-condo building was delivered early in the year in the Millwood Business Park in northern Johnson County. Several other significant transactions were made including the 126,000 square foot lease by FedEx SmartPost in Olathe, Broderson Manufacturing's 28,000 square foot lease in the Lenexa Tech Center, BNSF's 30,000 square foot lease in Brookhollow, Neal Harris' relocation from cramped quarters in Kansas City's Waldo area to 20,000 square feet in Overland Park, U.S. Foodservice's 25,000 square foot lease at College & Renner Corporate Center, Marcone Appliance Parts' 24,000 square foot lease in the new Lackman Business Park's 28 foot clear ESFR sprinkled facility, and Bushnell's consolidation and efficiency move to a 221,000 square foot facility in Olathe, where they will operate in a Foreign Trade Zone (FTZ). Bushnell is the first company in the country that managed to move their FTZ status intentionally versus having to move into a building that already has FTZ status. This will open up a lot of similar opportunities for companies using foreign trade zones in the future.

A sampling of sales include the Terex Crane building in Olathe, an 89,000 square foot building, sold to Canyon Stone Investments for $32.02 per square foot; Ringo's Fund purchase of the 69,805 square foot building at 14001 Marshall Drive in Lenexa for $35.81 per square foot; Hennessey Research's purchase of the 26,000 square foot building at 11730 W. 86th Terrace in Lenexa for $69.13 per square foot; and 1900 E. 123rd Street in Olathe, a 5,520 square foot building bought by individual owner occupant for $109.51 per square foot. In addition, there were some major land sales including a Block sponsored partnership that purchased 229 acres at 175th and Hedge Lane to develop the Hedge 175 Corporate Centre business park. Finally, a partnership involving Sun Life Insurance Company, purchased a 200 acre land site for a future industrial park development at 151st and U.S. 56 Highway in Olathe.

EXECUTIVE PARK MARKET/NORTHLAND PARK

Executive Park and Northland Park contain more than 31 million square feet of the City's industrial product, with 5 million square feet of that as underground warehouse space. This submarket is made up of those areas immediately north and south of the Missouri River on the east side of Downtown Kansas City and it remains one of the most desired areas for the City's warehouse/distribution users. Executive Park consistently provides clean and versatile buildings with low lease rates and excellent interstate access. Northland Park, though newer and north of the Missouri River, typically is looked to by tenants who want a Kansas City address, but who are unable to find suitable space in Executive Park. For the most part, Northland Park has more big box space, often as a result of build-to-suits, for users that have outgrown space in Executive Park.

Nearly twenty-five years ago, Executive Park was developed at what has become an extremely convenient location, situated between I-435 and I-35. With over 1,200 acres of developed industrial land, the park is now 95% developed. Front Street, the main east-west connector, links the interstates and downtown Kansas City, Missouri, and ushers thousands of trucks, customers, and workers to and from the park on a daily basis. However, all of this traffic has brought congestion, and with it, the need for roadway infrastructure updates. Two plans are on the horizon, one for the widening and expansion of Front Street, and another for redevelopment of the I-435 interchange.



Coleman Industries lease of this 1.1 million square foot distribution center, located in the Midwest Commerce Center at 167th Street and Old 56 Highway in Gardner, KS, represented the largest Industrial lease transaction in 2009.

With the current Paseo Bridge replacement project for I-35 over the Missouri River, both of these projects have been placed on the back burner to avoid additional congestion issues. Completion of the Paseo Bridge project is on schedule and slated for June 30, 2011. When construction of the replacement for the Paseo Bridge began in 2009, many feared it would negatively impact the Executive Park/Northland Park market. As 2009 progressed, it became evident that the project has had little impact on leasing activity due to the exceptional efforts made by the Missouri Department of Transportation to minimize congestion and traffic flow impediments.

Overall vacancy rates rose slightly in 2009 to 6% compared to 5.2% at year-end 2008. Net absorption totaled a negative 443,579 square feet. Surprisingly, rates for warehouse space in this market are on a rise with average asking rates of $4.93 per square foot, up from 2008 where rates held at $4.59 per square foot.

Some notable transactions included the Watts Water lease of 121,500 square feet, which they will use for the manufacture of hot and cold water piping; Diapers.com leased 64,000 square feet for distribution; Malt-O-Meal took on 125,000 square feet on Chouteau with occupancy to occur in summer 2010; Glazer's is moving one block and increasing footage from 171,000 to 220,000 in order to upgrade and expand their facility; Wagner Industries came back to a building it vacated last year and leased 110,000 feet; Alliant leased 87,500 feet; and Penske relocated from Kansas City, Kansas and leased 100,000 square feet on a three year lease, when they were forced to relocate because another user was willing to lease their former premises on a longer term lease. Penske is a just-in-time supplier to Ford and GM and their lease commitments are tied to their automotive contracts. In addition, in the Hunt Midwest Underground development, several large leases were made from 43,000 up to the 130,000 foot Advanced Logistics lease.

NORTH KANSAS CITY / RIVERSIDE

The industrial districts of North Kansas City and Riverside, Missouri share similar access to major interstates and state highways as they converge near the geographic center of Metropolitan Kansas City. With roughly 21.3 million square feet of industrial space, this combined submarket includes buildings in a wide range of functional classes.

Market considerations continue to delay the development of approximately 800 acres of public and private land master planned for light industrial uses adjacent to I-635 in the southwest quadrant of Riverside. While various solutions are being considered, some arterial infrastructure projects have proceeded. The Highway 9 lane expansions are now complete and will better serve the industrial workers and truckers coming in and out of the Platte Valley Industrial Center.

Negative net absorption of 134,871 square feet increased the overall vacancy in this submarket to 5%, up from the 2008 year-end vacancy of 3%. Notable transactions included leases in North Kansas City by Consolidated Moulding and Millwork of 211,000 square feet at 31 Design Drive, Maverick Converting & Logistics' lease of 72,000 square feet at 1300 Vernon, Hertz Equipment Rental's lease of 57,155 square feet at 1307 Vernon, Fulfillment Plus' lease of 31,430 square feet, Supply Core's lease of 52,689 square feet on 1543 Erie, Alliance Fire Protection's purchase of a 30,000 foot building, Sunflower Food & Spice's lease of 24,300 square feet in Riverside, and Globe International's lease of 28,800 square feet in Platte Valley Industrial.

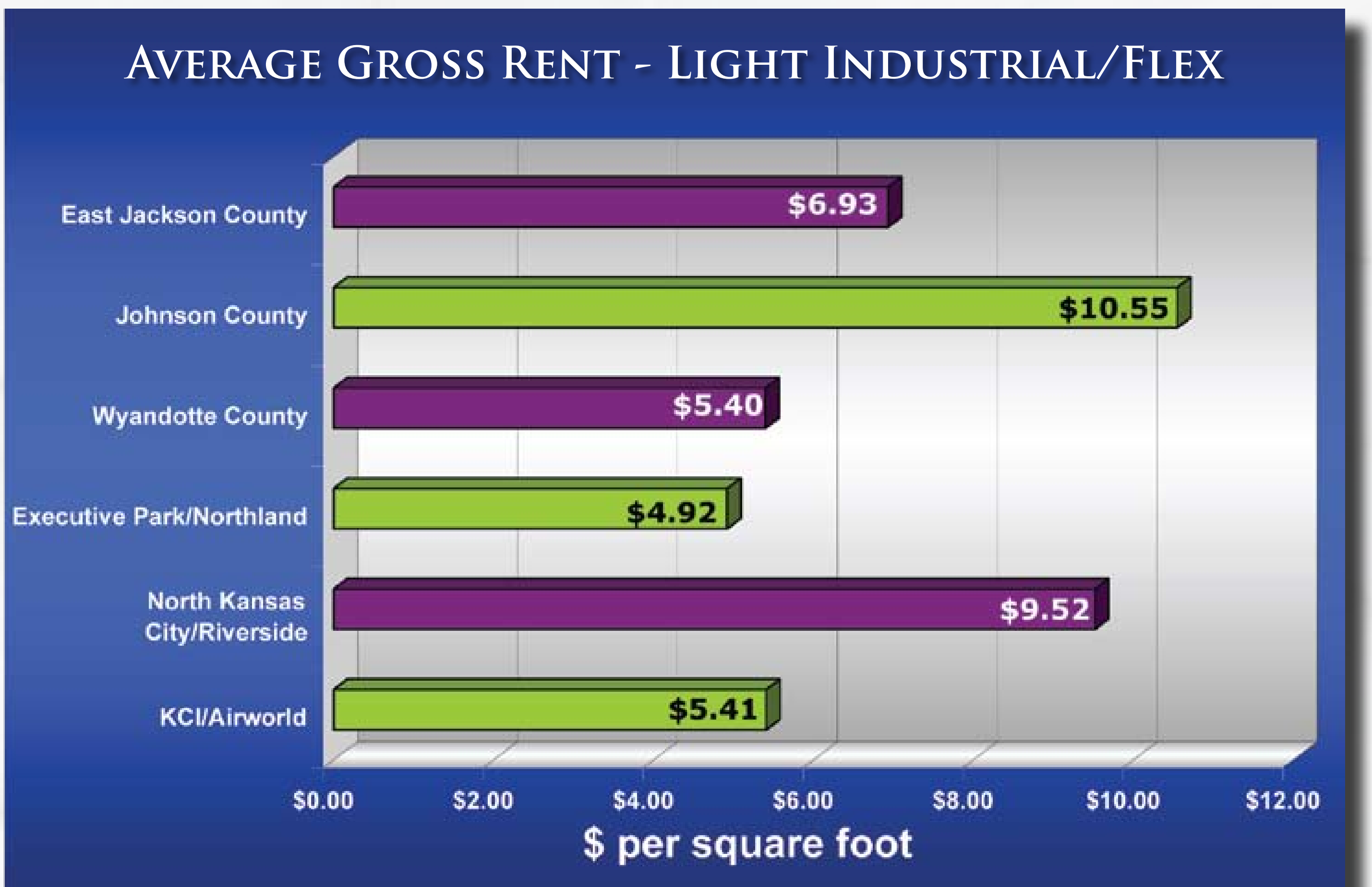
KCI AND AIRWORLD

With just 4.4 million square feet in only 66 buildings, the KCI/Airworld Industrial submarket is a small component of the overall Kansas City industrial market. It is, however, an important submarket due to its proximity to the Kansas City International Airport and a preferred location for air-cargo transporters. With the new KCI air-truck intermodal being developed, as well as its abundance of available ground for future development, Kansas City, Missouri's hopes are high that new development will take off here. The location of the submarket, at the north end of the city does place it fairly far from some of the more familiar industrial parks like North Kansas City's Paseo Industrial and Kansas City, Missouri's Executive Park; however the excellent access to I-29 and I-435, make access to other points in the City rather quick.

With the combined industrial and flex occupancy at 93.4%, and average quoted rental rates of $5.22 per square foot, as of year-end 2009, the submarket has exhibited more stability than the market as a whole. This is partially attributable to the specialized nature of air transit-based tenants and large national companies seeking a mid-west based distribution point. These statistics compare favorably to the 7% vacancy at year-end 2008, and the overall Kansas City industrial market's $4.40 per square foot average rental rate, thus making this submarket one of the few bright spots in the Metro area. There is further display of this when examining the specific product types in the submarket. The flex components, often leased by smaller or locally based companies, display an 18.9% vacancy compared to the 4.0% vacancy for the larger warehouse product, demonstrating the area's strength for large tenants. The submarket's 4.4 million square feet is broken down into 3.7 million square feet of industrial distribution space, and just 700,000 square feet of flex space.

Significant transactions in the submarket in 2009 include the 37,000 square foot lease of a newly constructed manufacturing and distribution building at 8001 NW 106th Street by Kansas City Sausage LLC, and the 100,000 square foot lease by Smith Electric Vehicles of the former American Airlines overhaul base.

There were not any significant sale transactions in the submarket in 2009. Also, since the completion of the Jarden's-Pure Fishing build-to-suit facility early in the year, there has been no new construction starts in the submarket. The new KCI Intermodal BusinessCentre, located on the southeast corner of



Infrastructure construction was mostly complete in 2009 for the 370-acre intermodal facility operated by Kansas City Southern, which will also feature a 970-acre industrial park to be developed by CenterPoint Properties.

the KCI airfield, will be 800 acres of master planned industrial development capable of supporting 5.4 million square feet of buildings, including air cargo, air freight and logistics, warehouse/distribution, light manufacturing, office/warehouse and flex/service center space. The infrastructure for Phase I, which is on 180 acres and can support up to 1.8 million square feet, will be complete by year-end 2010. Both the State of Missouri and the City of Kansas City are aggressively offering tax credits including usage of Enhanced Enterprise Zone credits to spur further development on the abundance of available ground in the area. Foreign trade zone and air side access, along with connectivity to the area's new rail intermodal yards keep expectations high.

WYANDOTTE COUNTY

The Wyandotte County industrial submarket includes some of the largest manufacturing and distribution facilities in the Kansas City Metro area. These facilities range from early 1940's construction to new, functionally modern facilities in industrial parks and infill development. They support diverse industries including automotive manufacturing & assembly, logistics & fulfillment, contractor services, and wholesale food distribution. Wyandotte County benefits from excellent interstate access, proactive economic development, and an efficient and reliable workforce.

Submarket vacancy peaked at 5% by year-end 2009 with negative net absorption of 801,655 square feet accounting for 2% of total vacancy. Year over year vacancy climbed 1%, due in part to volatility in the automotive sector. Lease asking rates rose approximately 3% as more functionally modern spaces became available toward year-end.

In the automotive sector, General Motors announced the addition of a third shift at its Fairfax Assembly Plant beginning in January 2010. Woodbridge Corporation renewed the 228,571 square feet short-term lease it signed last year in the Turner Industrial District. Wainwright Industries agreed to a 98,000 square feet short-term lease in Turner and Exide will occupy 84,000 square feet in Fairfax. Shorter contracts with automotive assembly manufacturers have directly impacted the length of building leases. In some cases, the result has been relocation of suppliers to other submarkets or less desirable spaces when landlords choose competing users amenable to longer lease terms. In most cases, competition for Class A warehouse/distribution space has remained strong in Wyandotte County.

Recent and upcoming vacancies in Class A space will soon be filled by Aaron's Rents with their 123,000 square foot lease, Sealy Mattress Corporation's 120,000 square foot lease, and YRC Worldwide's lease in the Armourdale Industrial District. These newly signed leases will commence in 2010 and buffer the submarket from vacancy increases. Acquisition of vacant Class B and manufacturing buildings by Sports Associated, Inc. and Sara Lee Corporation's 187,000 square foot acquisition in

Turner reclaimed sub-market vacancy created by recent closures of operations by Ankmar Door, Meridian Automotive Systems, and ConAgra Foods. In addition to Sara Lee, other food products distribution companies that absorbed Class C, freezer/cooler, and subsurface spaces, include Standard Distribution Company with their 101,000 square foot lease and expansions of Liberty Fruit Company and the Kansas City Steak Company in Armourdale.

Several sources cited Wyandotte County and Kansas' efficient workforce in their decision to operate in the right-to-work state. Stu Earnest, Director of Manufacturing at Sealy said their Kansas City, Kansas facility was the most productive among 18 U.S. Sealy plants. In response to Sara Lee's acquisition announcement, David Kerr, Secretary of the Kansas Department of Commerce, commented that, "for a global giant like Sara Lee to choose Kansas, speaks volumes about our State, our strong workforce and our reputation for business-friendly policy making."

The Wyandotte Economic Development Council (WYEDC) assisted in many of these relocations, expansions, and retentions in conjunction with the Kansas Department of Commerce, providing an aggressive array of business incentives. WYEDC President Brent Miles said in a press release, "We are fortunate as a county to be able to offer companies…extremely competitive incentive programs." State and local incentives have included property tax exemptions on inventory, state and local property tax exemptions on machinery and equipment, workforce development and training grants, income tax incentives for new jobs, low interest financing, and real property tax abatement. Kansas Department of Commerce spokesman Joe Monaco said the state provided $70,800 of assistance to Sealy and about $75,000 to Kansas City Steak Company through the Kansas Industrial Retraining Program and Kansas Economic Opportunity Initiative Fund. Sara Lee received a10-year, 75% property tax abatement from the Wyandotte County Unified Board of Commissioners for their project.

Although not immune to global economic conditions, Wyandotte County has benefited from a sizable inventory of large scale warehouse/distribution and manufacturing facilities in all functional classes. The efficiency of these facilities combined with robust transportation infrastructure, a productive workforce, and a business-friendly government, has mitigated the impact of slower economic activity. The Wyandotte County Submarket is positioned well to weather the current conditions and take early advantage of a future recovery.

EAST JACKSON COUNTY/DOWNTOWN

The CenterPoint-KCS Intermodal Center, in addition to the 370-acre intermodal facility operated by KCS, will feature a 970-acre industrial park developed by CenterPoint Properties. This new park, which has ready-to-develop sites, is capable of supporting over 5 million square feet of big box distribution space. The Richards Gebaur Airport – a former U.S. Air Force base – used to sit on the majority of the site. As import and domestic traffic volumes continue to grow from both Mexico and Canada, CenterPoint- KCS Intermodal Center will become an

The 215,000 square-foot warehouse at 1200 Century Avenue in the Executive Park industrial development, downtown Kansas City, was completed and opened for operations in 2009.

economically viable location for a variety of distribution-related customers. Other than the site work for make ready development, all is quiet on the Eastern Jackson County front. However, besides CenterPoint's development, newly proposed biotechnology sites in south Kansas City could ignite significant industrial growth in the coming years. In addition, the Missouri Innovation Park at Blue Springs is a partnership of the City and the University of Missouri and is proposed to contain a 500-acre science and technology park that is expected to be a focal point for technology-based innovation and commercialization in Western Missouri.

Though this is one of the Metro area's largest submarkets, with just over 90 million square feet in 2,321 buildings, the majority of that square footage is located within older industrial neighborhoods and industrial parks or smaller suburban developments, and does not provide the higher quality buildings that are in demand today. The overall vacancy rate at the end of 2009 stood a hair above 8%, up from 7.4% in 2008. Leasing activity in 2009 totaled 1.36 million square feet, which resulted in positive net absorption of 344,299 square feet. With the lack of modern industrial parks in this submarket, vacancy and rental rates did not move a great deal. Newer facilities, with more convenient highway access and considerably better loading, continue to attract tenants into the planned industrial parks and suburban locations, thus pulling tenants away and stifling any rent growth. This often causes those firms that are growing to move to other metro submarkets.

With the majority of the inventory in the central industrial areas being almost functionally obsolete, multi-story industrial buildings have seen adaptive reuse as offices, residential and loft space. The trends in this market for 2010 will be similar to those the last 8 to 9 years, with little or no growth of industrial product and a weakening occupancy level as well as rental rates. Rental rates ranged from $1.12 per square foot to $8.00 per square foot net in one-story buildings with average rates of $3.72 gross per foot in 2009. Much of the upside gain on rates comes from the newer flex developments in Lee's Summit which continue to ride a demand surge that began about six years ago, and with vacancy rates near 4%, there are few options for tenants seeking space in that portion of the submarket.

Notable transactions during 2009 include Barnett Capital's sale/leaseback purchase of 220,000 square feet in the West Bottoms from Wagner Industries. Wagner was having difficulty refinancing a loan and felt that a sale/leaseback would not only free up capital but allow them to continue their usage of the facility while providing cash to operate their business. Church & Dwight leased 250,000 square feet in Grandview on Botts Road, and in the process, displaced Sterling, Inc. which then leased 96,000 square feet just south of CenterPoint, Lexington Plumbing purchased a 34,000 square foot building at 1620 Troost to consolidate their facilities in the building that came available as a result of Inland Truck Parts' relocation from three local facilities to one new facility in Northland Park. Winntech leased 100,000 square feet at Midtown Park, and will sell their two smaller facilities. Garsite/Progress, LLC took advantage of Dean Machinery's relocation into a new facility on I-435, and upgraded their space by leasing the former Dean facility on 31st Street. Banner Logistics leased 44,000 square feet in the Stadium Industrial Park at I-70 and I-435.

Lead contributors include: Michael R. Block, CPM, Principal; Gene Elsas, Vice President; Zach Hubbard, Sales Associate; Scott Cordes, Sales Associate and Brian Bock, Sales Associate.

KANSAS CITY RETAIL MARKET

Phase I of the 865,000 square foot retail center development, Plaza at the Speedway, located in Wyandotte County, Kansas was completed in 2009 with Phase II construction underway and scheduled for completion in 2010.

Following 13 straight months of retail sales decline that began in August 2008, the frigid pocketbooks of consumers are starting to thaw out as retail sales finally picked up a little momentum in the second half of 2009.

Though most retailers kept inventory levels lower than normal during the holiday season, overall sales managed to eke out gains compared to the 2008 season. Strategically speaking, current inventory levels will allow retailers to maintain better margins into 2010. Research from the International Council of Shopping Centers reported a 1.8% increase in holiday sales but a drop of 2% in overall sales for retailers in 2009. These results are mixed in comparison to 2008's 5.6% decline in holiday sales, and an overall 1.1% decline in sales for the year. Potential catalysts for the year-end improvement include renewed, albeit cautious, momentum in the housing market and the slowdown in job losses as the employment outlook strengthens.

Indicative of reduced consumer demand, retail developers nationwide have put the brakes on new centers. The drop in new construction is predicted to help stabilize leasing in 2010 and aid the beginning of retail recovery. Additionally, the lack of new development helped push retailers into existing, more mature centers. Not insignificantly, many well know national brands not only halted expansion, but took the opportunity to close underperforming stores. Nationwide in 2009, Gap closed 100 stores; Brinker Restaurants, 44 locations; Waldenbooks , 112 stores; and Zales, 191 stores. Claire's closed 26, but reported planning to open 17 locations. Car dealerships closed across the country with General Motors closing 1,350 (two locally) and Chrysler closed 789 (11 locally).

While many national chains are closing locations or cutting back on expansion plans, the Kansas City metro has also seen its fair share of local closings, particularly in the restaurant industry. According to the Kansas City Star, by midyear, Kansas City had lost more than 70 restaurant operations. Others found this a great time to be a tenant and take advantage of landlord's incentives. Denver-based Smashburger announced that it will open three locations in or near the Kansas City metro in 2010: Lawrence, Overland Park and Westport . A local gourmet hamburger restaurant concept, Blanc Burger is also expanding. They opened in Mission Farms earlier this year and will be opening in Summit Fair in Lee's Summit under the name B:2 A Burger Boutique. They also announced plans to open in early 2010 on

The 500,000 square foot open air Summit Fair Shopping Center, located at I-470 and US 50 Highway in Lee's Summit, Missouri, was completed in 2009 with JC Penney, Macys, and several in-line tenants commencing operations.

the Country Club Plaza. Dickey's Barbecue Pit with 110 restaurants in 15 states found it a good time to open in Kansas City with two new locations; one in Overland Park and the other in North Kansas City. Dunkin Donuts entered the market with its first store opening in South Johnson County and another store planned for North Johnson County.

While new development came to a standstill, reorganizing was the name of the game for several retailers in 2009. Many companies filed for bankruptcy during the year resulting in several store closings in the Kansas City area. Mark Shale closed its Country Club Plaza location after filing for bankruptcy protection. Crabtree and Evelyn also filed. Ritz Camera closed its remaining 400 stores and its 130 store Boater's World chain. Bally Total Fitness filed bankruptcy and closed two of its three locations in Kansas City, leaving only the Olathe location open. Landlords and developers were not immune to financial struggles; DBSI and General Growth filed for bankruptcy as well as two local development companies: Shawnee Village Associates, LP (developer of City Center East Village in Lenexa) and Merriam Pointe LLC (developer for a proposed 239,000 square foot center at I-35 & 67th Street). The hospitality sector was also hard hit with Extended Stay Hotels and Red Roof Inn filing for bankruptcy protection.

With store closures throughout the city, overall vacancies increased from 11.1% at the end of 2008 to 11.5% at the end of 2009. This left prime locations available and landlords suddenly scrambling for replacement tenants. Some retailers and restaurants found this to be a wonderful time to relocate a stable business to a better location and take advantage of lower rental rates. City wide, asking rates were actually up from $12.67 per square foot in 2008 to $13.24 per foot in 2009. Many grocery stores found relocation opportunities too; Hy-Vee will relocate its Liberty store early in 2010 and they relocated their Raytown store just a few months ago. Price Chopper relocated their store in Harrisonville. CVS and Walgreens pharmacies will continue to open new locations throughout the Kansas City area in 2010, including the relocation of a CVS in Johnson County, a new store in Lawrence and two new Walgreens in Johnson County. Finally, Dollar-store chains are expected to continue to expand and national discounters plan new locations as well. Four new Wal-Marts opened in the Metro with locations in Raytown, Lawrence, Leavenworth and Kansas City, Kansas.

SUBMARKET OVERVIEW

NORTHLAND KANSAS CITY, MISSOURI, PLATTE COUNTY AND CLAY COUNTY

Zona Rosa's expansion in 2008 has been met with a handful of new deals including: Sephora, Select Comfort, Vintage Stock, and 54th Street Grill which plans to relocate from Barry Road in the Spring of 2010. Napoleon Bakery opened its second location in Briarcliff Village this year and Golf Stop opened in Barry Woods. Barry Towne Center at U.S. 169 & Barry Road recently lost Linens 'n Things, Circuit City and Steve & Barry's. Those spaces remain vacant. The 700,000 square foot East Hills Mall in St. Joseph, anchored by Sears, Dillard's and JC Penney, underwent redevelopment this year with the addition of an exterior lifestyle component.

The redevelopment of the Antioch Center, which was originally anticipated to begin in 2005, still remains stalled. In 2007, Sears decided to remain in its current store and the Super TIF granted by the City was reduced to $20 million. The demolition date has been moved several times and recently the developer suggested a 2012 start date. The project is now in jeopardy of losing the Super TIF.

Rental rates in the northland averaged $13.97 per square foot at year-end 2009, and the area is presently experiencing a 10.9% vacancy compared to $13.07 rental rates and a 9.7% vacancy at this time last year.

EAST JACKSON COUNTY MISSOURI

Summit Fair, a 550,000 square foot open air center located at I-470 & U.S. 50 Highway, opened this year with a new Macy's and J.C. Penney along with a few in-line tenants including Jake's Summit and Gennaio Boutique. The joint venture development between CBL & Associates Properties, Inc. and RED Development has announced other tenants planning to open soon, including: I.O. Metro, B:2 a Burger Boutique, Sakura Sushi, Beauty Brands, Complete Nutrition, Finish Line and Yankee Candle. Outside of the anchor tenants, this new center is primarily vacant.

Adams Dairy Landing, located at Adams Dairy Parkway and I-70, opened this year with a 150,000 square foot Target store. Additional stores are now built and ready for tenants to complete interior finishes and open for business. The following tenants have been announced: Staples, Petco, Gordman's, Kohls, Lowe's, Books a Million, Famous Footwear, Olive Garden, Gap Outlet, Maurices, M&I Bank and others.

Under construction and joining Bass Pro at The Falls development located in Independence at I-70 and Missouri Highway 291 are Hobby Lobby and Mardel. These leases were signed in 2008.

Rental rates in East Jackson County averaged $9.53 per square foot at year-end 2009 and the area is presently experiencing an 11.2% vacancy, compared to $10.32 rental rates and 12.1% vacancy at this time last year.

JOHNSON COUNTY KANSAS

Kansas has a great strategic economic development tool: STAR (sales tax revenue) bonds. These bonds are designed to help finance the development of major commercial, entertainment and tourism areas that create statewide and regional destinations. To comply, among other things, a development eligible for STAR bonds must include high quality innovative entertainment with a tourism attraction. This tool, which is not available in Missouri, has created, and continues to create many opportunities for new and exciting developments in the metro.

A big project in Johnson County, Corbin Park, at 135th and Metcalf in Overland Park, had construction stalled this year when mechanics liens of more than $15 million were filed against the developer. However, JC Penney has continued its work on the building it owns in the development.

The $575 million Prairiefire at Lionsgate development between Nall and Lamar on 135th (containing 60 acres with $1.4 million square feet of developable space) signed 30,000 square feet with Prairiefire Cultural Museum which will house traveling exhibits from New York's American Museum of Natural

Selected New Construction

New Construction	Square Feet	Project Status	Tenants Announced
Corbin Park	1,100,000	Phase II Under Construction	Lifetime Fitness & Von Maur (open), JC Penney construction continues, remainder of development stalled.
The Trails	1,000,000	In Development	Demolition of former mall completed
Coffee Creek	1,000,000	Planning Phase	N/A
Plaza at the Speedway	865,000	Phase II Under Construction	Wal-Mart Supercenter & Best Buy (open), Kohl's (announced)
The Falls at Crackerneck	850,000	Phase II Complete	Bass Pro Shop (open), Mardel & Hobby Lobby (opening soon)
The Falls at Prairie Star	600,000	Planning Phase	N/A
Adam's Dairy Landing	600,000	Open	Target (open), Lowe's and Kohl's (announced)
Summit Fair	550,000	Open	JC Penney & Macy's (open)
Antioch Center	515,000	Planning Phase	Sears
Villaggio at Leawood	425,800	In Development	M&I Bank
The Gateway	416,000	In Development	Aquarium
Schlitterbahn Vacation Village	400,000	In Development	Phase I of Water Park (open), Scheels Sports (announced)
City Center Lenexa	400,000	Under Construction	Lifetime Fitness (opening soon)
Prairiefire at Lionsgate	348,000	In Development	Museum
Crystal Springs	330,000	Planning Phase	N/A
Citadel Plaza	300,000	Planning Phase	N/A
Merriam Pointe	239,000	Planning Phase	N/A
Highland Plaza East	142,000	Open	Price Chopper
Merriam Village	53,000	Phase I Complete	100% Vacant
Total SF:	10,133,800		

History and is expected to open in 2012. The City of Overland Park approved an application to the state for $97 million in STAR bonds. The museum is anticipated to draw 400,000 visitors in its first year alone creating a tourist destination for the 135th Street corridor.

One Nineteen, the 166,000 square foot retail center which is a joint venture between MD Management and Red Development, anchored by Crate & Barrel and located at 119th & Roe, signed a few new clothing retailers this year including Destination Maternity and Republic of Couture. West Elm has announced it will close its store in this development in mid-January after only 18 months of operation.

Park Place, the open air, mixed use development at 117th & Nall, has been busy filling its vacancies this year. Aloft Hotel, RA Sushi, J. Hawthorne, Bella B's Boutique and Bella Bambino, Michael Shae Salon, Café Roux, Cupcake A La Mode and Carmen's Café have all been announced and a few have already opened. Phase II is now underway, including a new office/retail building with Northwestern Mutual Life as a 22,000 square foot lead tenant.

Cherokee South Plaza at 95th Street & Antioch broke ground for redevelopment earlier this year. Demolition of the former grocery store space made way for a new freestanding Walgreen's which should open early in 2010. This is the first project to be granted Tax Increment Financing by the City of Overland Park. Lifetime Fitness began construction this year at City Center Lenexa and is expected to open early in 2010.

The Gateway project located at Shawnee Mission Parkway and Roe remains stalled despite having received $63 million in STAR bond authorization in 2008. The developer, Cameron Group, LLC out of Syracuse, New York, announced plans for the 2 million gallon, 70,000 square foot, Kansas Aquarium to anchor the development. Last word was that the developer was still working on financing the project and construction was intended to begin sometime in 2010.

The 170,000 square foot first phase of Merriam Village, which opened in late 2008 at I-35 and Johnson Drive, remains 100% vacant. Spirit Halloween enjoyed the space for a few months this fall. However, Best Buy has now committed to take the space vacated by Circuit City, which may breathe life into this project.

Rental rates in Johnson County averaged $14.18 per square foot at year-end and the area is presently experiencing 9.1% vacancy, compared to $14.52 rental rates and 10.6% vacancy at this time last year.

KANSAS CITY, KANSAS
WYANDOTTE COUNTY

Schlitterbahn Vacation Village located at I-70 and State Avenue in Kansas City, Kansas received STAR bonds in 2005 and opened the first phase of its water park in July. The remainder of the $750 million, 270 acre retail and lodging development is on hold until 2011, though Scheels Sports has announced it will open a 221,000 square foot store in the retail portion of this development.

The Legends at Village West has seen some turnover. Vanity Fair is opening in the former Linens N Things space, Los Cabos opened in the former Cantina #1 and Wild Bill's Legendary Steakhouse and Saloon took over the former Saddle Ranch Chop House. Backfire BBQ opened an 8,300 square foot restaurant. The former Chili's, which closed earlier in the year, remains unoccupied.

Despite the lack of a formal development agreement, the Kansas City Wizards are so confident with their plans to open in the Village West before the start of the 2011 soccer season, that they announced plans to begin construction of their Stadium before the year-end.

Late in 2009, the Village West also won approval for a $700 million casino to be developed by Kansas Entertainment LLC, a partnership between the Kansas Speedway and Penn National Gaming. The development is anticipated to include a hotel, spa, convention center and entertainment/retail component.

The new Plaza at the Speedway development at 104th & Parallel Parkway opened last year with Best Buy and this year was joined by Wal-Mart. Also announced were Olive Garden, Red Lobster, Mattress Firm, Sports Clips, Jimmy Johns, Taco Bell, Wendy's and Chick-fil-A.

Retail rental rates for Wyandotte County average $10.95 per square foot and the area is presently experiencing 11.9% vacancy, compared to $11.17 rental rates and 15.9% vacancy at this time last year.

DOWNTOWN/MIDTOWN/PLAZA AREA
SOUTH KANSAS CITY, MISSOURI

The $1 billion redevelopment of Bannister Mall, named The Trails, hit a snag when the Wizards' 18,500 seat soccer stadium was drawn to the Village West development in Kansas City, Kansas. The stadium will be located at the current home of the Community America Ballpark, and will be eligible for assistance from the current STAR bond on the project. Additionally, the office development that had been planned by Cerner, a medical software company, which already has offices in the general area, postponed any decisions for a new facility at the development, further stalling retail development at the site of the former 1.1 million square foot mall. So far, $30 million has been invested in the purchase of 200 acres of land and the demolition of the mall. The developer remains confident the site will be redeveloped as a retail development and office campus destination.

Ward Parkway shopping center was sold in a "friendly foreclosure" for $33.5 million to Mass Mutual, the insurance company that financed its sale in 2003. Staples both opened and closed its store in the shopping center in 2009.

The Metro Plaza shopping center located at 63rd & the Paseo is planned to undergo a $6.1 million renovation by its owners who also own Pener's Menswear. The 92,000 square

The 600,000 square foot Adams Dairy Landing shopping center was partially completed in 2009 with the 150,000 square foot Target opening for business and other retailers soon to follow.

foot 40 year old center is expected to receive a new façade, additional landscaping and a parking lot overhaul. A new 22,700 square foot Pener's store will join the center. The property was purchased at a foreclosure sale last year and the owners are looking for tax increment financing assistance to help with the renovation. It is unclear when these proposed improvements will take place.

Following a $25 million renovation, downtown saw the opening of AMC Mainstreet Theatre with its attached bar and grill, The Marquee. The Lenexa based chain, Johnny's Tavern, opened its 7th location and first location on the Missouri side of the metro in KC Power & Light District. Other tenants adding locations in the Power and Light district include: The Mixx, Ingredient, Genghis Grill, and Pizza Bar.

Forever 21 will open a 27,000 square foot store on the Country Club Plaza in spring 2010. Café Trio also opened on the Country Club Plaza. Noodles is opening in the space previously occupied by McDonald's and Blanc Burgers is opening in the space formerly occupied by Uno Chicago Grill. Ingredient will also open on the Plaza early in 2010 and Jack Gage American Tavern opened late in 2009 just south of the Plaza. Store closings on the Plaza in 2009 included, among others, Children's Place, Z Gallerie and Function Junction.

The Crossroads district has seen some significant activity during 2009: The Prime Rib Grill by Hereford House opened this year, replacing the original Hereford House which was closed by fire late in 2008; the independently owned Bang & Olufsen announced plans to leave the Country Club Plaza and relocate to 19th & Main early in 2010; and Hamburger Mary's opened in the former Smokin' Joe's Bar-B-Q in the Crossroads.

Rental rates in this area of the metro averaged $11.90 per square foot and the area is presently experiencing 10.1% vacancy which compares to $11.98 rental rates and 10.1% vacancy at this time last year.

OUTLOOK

The retail landscape endured the downtrends of 2009 and left landlords with reason for optimism in 2010. The bottom of the curve has arrived and the market is preparing for the upward trend. Retailers will continue to open new locations selectively and retail sales are anticipated to grow 3% to 3.5% in 2010. The retailers who consolidated early, limiting their exposure to risk during this downturn, will take advantage of the opportunities that have been created. New and innovative retailers will eventually emerge. Local retail tenants will continue to shift positions in the market as this is undoubtedly a prime time to be a tenant shopping for space. On the flip side, where rent concessions were given, landlords took appropriate measures to protect themselves. They extended lease terms and offset the reductions with percentage rent structures. Additionally the wisest landlords required tenants to perform completely on the new terms or to risk being liable for the full rent under the original agreement. Rental rates are likely to decline somewhat through the second quarter of 2010 and planned new developments, especially those in South Johnson County, will most likely be pushed into 2011 and 2012.

Though the overall retail outlook will remain uncertain until both employment and consumer sentiment improves, 2010 is likely to have less negative pressure than the prior two years. Demand for existing space will stabilize nationwide as retailers effectively manage their overhead expenses in light of current economic trends. Development of new retail product is likely to take time to materialize, but this bodes well for landlords with vacancies in prime locations. Ultimately, 2010 will see continued improvement in terms of tenant credit as the less capable operators file for bankruptcy and only those with the best retail concepts, superior supply chains, and prime locations manage to return profits during these slower economic times.

Lead contributors include: Kim Bartalos, CLS, Vice Resident; Stephen J. Block, Principal

KANSAS CITY
INVESTMENT MARKET

The 271,804 square foot Glenwood Plaza office complex located at the 9300-9400 Metcalf Ave was available for lease or sale as its major tenant, Embarq Corporation, now known as CenturyLink, exercised its option to terminate its lease at the project. The soon-to-be vacated space will be available on the market in 2010.

After the financial market meltdown in the fall of 2008, investment sales activity began to stall into 2009, deal markets froze and buyers went into hibernation.

In fact, commercial and multi-family property sales nationally for all of 2009 only reached $23.9 billion, as compared to the $137 billion notched at the height of the market in 2007. While the oversupply of money from CMBS issuances and lending institutions was the main culprit that drove valuations of commercial real estate to unsustainable levels, it is the lack of debt financing that will stop the market from a quick recovery. Wall Street invented a multitude of ways to package debt vehicles, with some so exotic that the purchasers of the debt had no idea what they were buying. These complicated debt structures, combined with unrealistic debt underwriting expectations, drove cap rates to new lows and sales prices to new highs.

According to statistics recently published by Real Capital Analytics, US Pension Fund investment grew continuously from 2000 until 2007 when it reached a high of nearly $71 billion. However, pension fund investments slowed to $42 billion in 2008, and in 2009 was less than $7.5 billion. Clearly the biggest cause of the reduced sales activity was the complete disappearance of the CMBS market. CMBS issuances, which had supported the phenomenal increase in investment sales activity for the last four years, dropped to under $13.9 billion in 2008 and to less than $4.7 billion for all of 2009. This was an unbelievable drop from the $181.1 billion in 2007.

The National Real Estate Investor and Marcus and Millichap Real Investment and Brokerage Company recently released their 2010 Real Estate Investment Outlook. This year's report was of high interest because the opinions of surveyed investors were dramatically different than what would be expected based upon the gloomy outlook for 2010. Over 65% of those surveyed planned to boost their investment in commercial real estate over the next 12 months. However, these same respondents also stated they were fully aware of the obstacles that lay ahead including the continued lack of permanent financing, a narrower but still sizeable bid/ask gap between buyers and sellers, and the uncertainty about the true volume of distressed properties that would come to market. However, 72% of respondents indicated that they are currently amassing capital in preparation for buying opportunities, although most are waiting for bigger price discounts before they jump into the market.

The national investment community, as a whole, is waiting for cap rates to hit higher levels before they begin aggressively buying. For the most part, those expected levels range from near 8% for top tier multi-family property to as much as 10% for suburban office and retail malls. However, at this point, these cap rates appear unrealistic considering most Class A multi-family properties are still trading in the 6½% to 7¼% range and other top tier properties are still a full 75 to 100 basis points below these projected rates. While, the investment community is expecting a flood of distressed properties coming to the market, at this point, it is only a tiny trickle at prices still too high to garner much interest. Surprisingly, at the beginning of the decade, cap rates were in the 9% to 10% range but then steadily decreased from 2002 to 2007 and generally bottomed out in the 6% to 7% range. The highest quality properties in the most desirable markets sold for cap rates as low as 5% and were "priced to perfection." And now, as the decade ends and investors look to 2010, cap rate ranges are again expected in the 9% to 10% range until property values, occupancies, and employment stabilize, at which point, cap rates should decrease to the 7% to 9% range for all property types.

> "A continued lack of confidence in the commercial real estate market and a massive wave of impending maturities on loans has stymied efforts by banks to increase lending within this crucial sector of the economy."

While interest rates on long term financing remain in the middle 6% to low 7% range for 10 year money and are highly attractive by historical standards, the lack of lenders and liquidity are the real problems. Most lenders are unwilling or even unable to provide financing due to either their improper ratios compared to bonds and equities or their concerns about protecting their balance sheets and liquidity to avoid problems with regulators.

As to the CMBS mortgage market, more than $814 billion is set to mature over the next six years, and with no solidified CMBS market currently in place, the fear of sizable defaults due to a lack of financing alternatives looms near. And if you add banks and insurance company loans to this total, you have debt of nearly $300 billion of commercial real estate (CRE) coming due each year for the next five years.

While lender spreads over 10 year treasuries are currently 350 to 450 basis points, these should tighten in 2010 by 50-100 basis points, but may be offset by similar increases in interest rates. Cap rates are expected to rise another 30-50 basis points in early 2010 before dropping by a similar amount toward year-end 2010. Even so, overall cap rates are 200 to 250 basis points off the lows of 2007. These changes in cap rates, combined with increased vacancy, lower rents, and lack of long term financing, have reduced property values from 2007 highs by nearly 40% depending on the product type and geographical location. In fact, a staggering $2.2 trillion in US Commercial properties purchased since 2004 are worth less now than when the transaction took place.

The consensus view is to shy away from underwriting "any growth in rents or decrease in cap rates for one to two years." It is expected that the first investors in the market, particularly those that are cash rich, may choose to ignore cap rate analysis entirely, concentrating instead on occupancies, rents, and year to year cash flow changes, and particularly focus on immediate cash on cash returns.

The National Council of Real Estate Investment Fiduciary Index (NCREIF) which now tracks over $243 billion of pension fund owned real estate, showed actual cash returns in the Midwest region declining to a negative 12.52% for 2009. This is a substantial decline from the negative 5.18% in 2008 and the positive 12.89% return in 2007. What's even more astonishing is that the overall investment returns nationally in 2009 actually declined to a negative 15.85%, as compared to the negative 6.3% overall return in 2008 and the positive 14.9% overall return in 2007. With the CMBS market completely devastated moving forward, and with no new plan to revive it at this time, annual returns for the NCREIF index are expected to be flat through most of 2010.

A continued lack of confidence in the commercial real estate market and a massive wave of impending maturities on loans has stymied efforts by banks to increase lending within this crucial sector of the economy. However, when surveyed, nearly 75% of the banks and lending institutions expect their commercial real estate loan production to increase in 2010 versus 2009. While this is good news, it appears much of the capital will be reserved for refinancing existing loan portfolios. These lenders will provide "extend and pretend" and "delay and pray" rollover financing in order to extend loan maturities into a stronger real estate market down the road. Those lenders that do have funds to lend will do so at 55-65% loan to value and with interest rates in the 6¼% to 7½% range, with higher rates for longer terms. Partial or full recourse will also be requested on loans in order to keep the borrowers "on the hook." Only the most credit worthy and successful borrowers will even find this financing available while less desirable borrowers are passed over.

Pension Funds, which have been one of the major buyers of institutional real estate over the last 10 years, will tread water in early 2010 as they did in most of 2009, as they face their own sea of troubled investments. Despite having a steady flow of capital for investment, most plan sponsors will be slow to invest. While they recognize opportunities will be available, they will remain gun shy during the early part of 2010.

While REITS nearly tripled in value from 2000 to 2006, they have succumbed to losses now equaling nearly 70% of their value. And General Growth Properties, one of the giant REIT's, was forced into Chapter 11 bankruptcy so that it could reorganize its heavy debt burden when no refinancing options appeared. REITs have been forced to reduce their dividends,

The 383,937 square foot YRC Worldwide Headquarters was purchased by a Block Real Estate Services sponsored investment group in a sale leaseback transaction in early 2009.

completely cease development activity, and sell prime assets in order to raise capital to eliminate debt. Those REIT's that were successful in reducing their debt will now emerge ready to acquire stakes in foreclosed assets and other troubled properties with their cash reserves. Besides the stronger REIT's, a new wave of "vulture" funds are raising capital to acquire Class A properties and distressed property in first tier cities as they come to market in 2010 and 2011. Each of these groups realize that the turmoil that has frozen credit markets at a level not seen in decades is also capable of creating investment opportunities of truly historic proportions.

Of the $865.3 billion of equity currently invested in US real estate, about 80% is held by private equity holders. Private equity holders were still led by private investors with 51%, pension funds at 16%, foreign investors with 5.3%, private financial institutions with approximately 4%, and life insurance companies with 3.3%. Equity and hybrid REIT's continued to hold about $167 billion of equity while publicly untraded funds held nearly $20 billion.

One of the major buyers of commercial real estate over the last five years, tenant in common sponsors (TIC), has been nearly eliminated as a major buyer in the market. Between 2007 and 2008, the total equity of TIC offerings fell by 56% to $1.24 billion and through year-end 2009, the offerings dropped an additional 88% to just under $150 million. In fact, TIC sponsors are so out of favor that the former "Tenant in Common Association" changed its name to Real Estate Investment Securities Association, thereby reflecting the wider spectrum of real estate securities, including REIT's and mutual funds that their members now offer.

The best bets for the investment community in 2010 can be summed up in a few basic bullet points: deal with cash; don't rush; focus on quality and be selective; buy cash flow and real yield not leverage driven yield; consider buying depressed public REIT stock; purchase distressed debt; and implement quality asset management to protect your existing portfolio and to safeguard net operating income. As for development, write it off for 2010, as construction financing will be limited, occupancies will be low, and few build to suit opportunities will be available.

KANSAS CITY

The Kansas City investment market was pretty quiet for most of 2009, as sales were very limited. While the latter half of 2008 slowed dramatically, by 2009, investment sales had completely stalled out. Even though Kansas City property values were not as detrimentally affected as properties on the East, South, and West coasts, very little institutionally held real estate or real estate held by strong local owners came to market. With cap rates rising, prices declining and financing limited, those owners that did not need to sell understood that it was not the time to consider disposition. Even so, Kansas City will not escape the entire distressed asset problems and Real Capital Analytics, Inc. projected distressed and potentially troubled assets topped $1 billion at year-end 2009. In January 2009 there was about $50 million in distressed commercial property and $272 million in troubled property but by July, the total of $322 million had risen to about $1.15 Billion.

Kansas City now has a large number of national and international buyers that have invested locally including RREEF, Colony Realty Partners, Passco Real Estate Enterprises, Inc., LaSalle Investments, Multi-Employer Property Trust, Cobalt Capital Partners, CBL & Associates Properties, Inc., Inland Real Estate Corp., CW Capital, Glenstreet Properties Group, Hines Investments, GE Capital, SVN Equities, LLC, DCT Industrial Trust, Inc., Orix Real Estate Capital, Inc., SunLife, Paladin Realty Income Properties, Barnett Capital, Bridge Investment Group, Grubb & Ellis Healthcare REIT, ArciTerra Group, LLC, and others. Kansas City continues as an attractive alternative to other first tier cities because buyers see more stable investment returns and at rates which are 75 to 125 basis points higher than those in first tier and 24 hour cities.

PRIVATE INVESTOR ACTIVITY

Historically, private investors in Kansas City have had a competitive advantage over most out of town institutional investors, but primarily in smaller deals ranging from $5 million to $20 million. In 2009, this was even more pronounced, as only a handful of institutional properties came to market and most were pulled off due to poor offers. Smaller properties did become available as "one off" owners either had to sell or lost their property to their lender, at which point the lender brought it to market. Kansas City still has a small town mentality and relationships have always been very important as local investors know the sellers, local government officials, local banking industry officers, and those "connected" lawyers who represent the major real estate owners. Clearly, when large portfolios or multi property investments come to market, the institutional investor is the investor of choice simply because they have the equity and are available to complete a transaction without going to the lending market. Local buyers, due to a lack of capital, visibility, and speed of close, simply are not able to close larger dispositions quickly. However, over the last few years multiple private equity funds, sponsored by top local real estate companies, have begun to compete more readily on larger property portfolios. But, most of these same fund managers hit a brick wall in late 2009 as their targeted investors, concerned about how commercial real estate is "the next shoe to drop," held tight on any new investment activity. Unfortunately, these same investors who were willing to invest in real estate when cap rates were 200 basis points lower, may be too nervous to take advantage of buying opportunities at better pricing in early 2010.

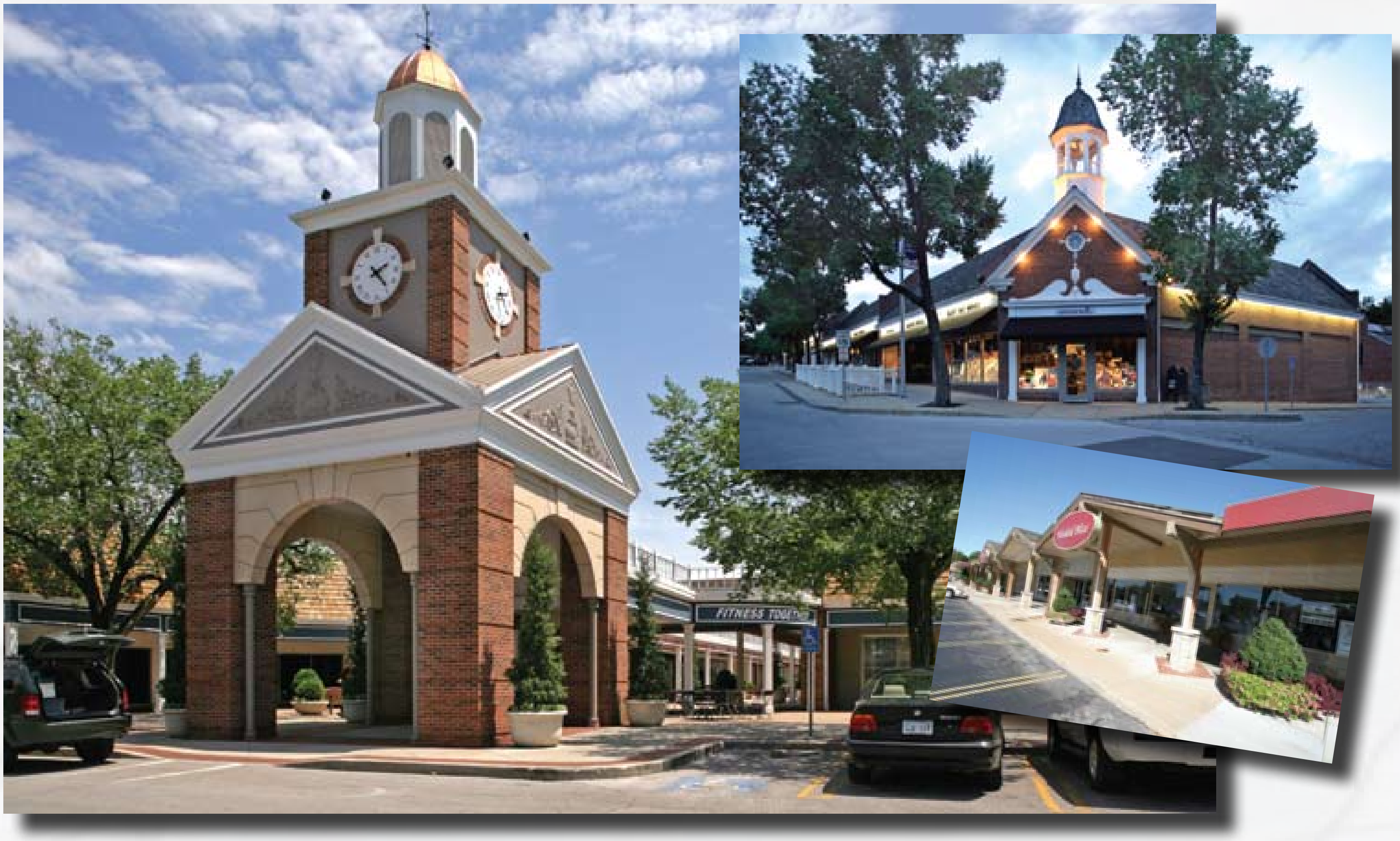
In particular, the Block Income Funds, which have attracted investors both locally and nationally, continue to find high quality investment properties by utilizing broker and seller relationships throughout the country, and by following thorough and completing an intense due diligence process that allows the managers to hand pick successful long term investment opportunities from the large quantity of properties analyzed. Block Income Funds have been highly successful over the last six years and continue to produce investment returns substantially higher than comparable indices over the same period including the S&P 500, Nasdaq, the Dow Jones Industrial average, and the Morgan Stanley US REIT index. Block Real Estate Services, LLC, which continues to be one of the strongest leasing and management firms in the Midwest, provides additional assurance to Block Income Fund Investors as management, leasing, development, consultation, and financial analysis functions are handled internally and will be completed properly to maximize property cash flows and sale profits.

OFFICE MARKET

In 2009, very little or no institutional office product came to market, and on the buy side, there existed very little demand. Both local and national office investors pulled out of the market early in 2009 and did not even consider looking again until the tail end of 2009. Those buyers that were interested in pursuing acquisitions, were faced with a huge bid/ask gap in pricing. Financing for office acquisitions was also very difficult to obtain which did not make the process easier. Very little construction activity occurred, even though construction prices dropped over 12% during 2009.

The largest office property sale in 2009 was Black & Veatch's $60 million acquisition of their 600,000 square foot headquarters from Equity Group Investments, LLC. Other significant sales included the 383,937 square foot YRC World Headquarters in a sale leaseback transaction to a Block sponsored investment group, the 182,554 square foot US EPA Region 7 building at 901 N. 5th Street to Urban America, L.P., and the 137,000 Broadway Summit office building to Children's Mercy Hospital. Other smaller sales included the 24,795 square foot Harrington Bank Building to Arvest Bank, the 14,140 square foot 8500 College Blvd building to Sunway Hotel Group, and the 7,065 square foot Corporate Woods 14 building to MII Management Group.

Class A capitalization rates did rise however by about 80 basis points in 2009 to an average of 8½% to 8.85% while rates for Class B buildings increased to a range of 9.25% to 9.85%. Class A properties continue to hold a premium of about 80 to 90 basis points above Class B properties due to differences in location, quality, and expectation for appreciation. Other than the US EPA Region 7 building, which can be classified as a Class A building, no other Class A office property came to market in all



Highwoods Properties sold their remaining three retail centers to a local investment group in 2009, holding onto only its trophy property, The Country Club Plaza.

of 2009.

While there was limited office investment activity in the market, most of the activity continued to occur in Johnson County. One Main Plaza, a major office tower located on the Country Club Plaza was brought to market, but no buyer would pay the ask price. Other normally strong office markets, including the eastern sub-markets of Lee's Summit, Independence, and Blue Springs, were also very slow. The KCI/Airport market continues to be the weakness market in both pricing and activity and it is expected that one or two additional buildings may be taken back by their lenders in early 2010 and thereafter brought to market. User/investor activity was also very weak in 2009, as financing became difficult or impossible to obtain. This activity usually is quite strong in smaller freestanding buildings ranging from 5,000 to 30,000 square feet and prices tend to be very high. But even in this category, prices for small freestanding buildings reached a range of only \$175.00 to \$253.00 per square foot, down from a range of \$215.00 to \$305.00 in 2008.

INDUSTRIAL

The industrial sector is the second most sought after category for both local and institutional investors right behind multi-family product. Whether it is a single asset or a portfolio, industrial assets tend to be sold at a premium since the industrial market in Kansas City has always been viewed as a very stable market with low vacancies. With Kansas City gaining increased national attention due to its abundance of railroads, new intermodal centers, and its location on the NAFTA Highway, it would be expected to attract a multitude of buyers to the market. However, the buyers were limited and the product for sale was even scarcer.

There was no large portfolio of industrial properties brought to market in Kansas City in 2009. However, there were some individual large building sales including Barnett Capital's purchase of the Wagner Industries' 244,000 square foot building at 1731 St. Louis Avenue, KC Residence, LLC's purchase of the 925,726 square foot building at 12755 Loring Drive, Big Industrial LLC's purchase of the 201,325 square foot 900 S. 68th Street building, Sports Associates, Inc.'s purchase of the 120,000 Ankmar Door Manufacturing facility at 4600 Kansas Avenue, and Midway Auto Realty, LLC's purchase of the 61,000 square foot building at 950 N. Century Avenue. Also other small building sales in the market including the 19,800 square foot sale of 4901 Deramus to JG Limited, LLC, the 27,840 square foot 15765 S. Keeler Street building to BMJ Building Management, LLC, the 17,232 square foot 6210 Merriam Drive to FAJ, LLC, and the 12,000 square foot 18903 W. 157th Terrace to Air Power Consultants, Inc. The biggest industrial transaction, a 1,000,000 square foot build to suit for Coleman Industries, Inc. was developed by USAA Life Insurance and will be held for long term investment.

There were no Class A properties brought to market in 2009 but the capitalization rate on the Coleman build to suit was near 7.5%. This showed a cap rate increase of at least 40 basis points from the 7.35% to 7.95% range in 2008. Class B properties had capitalization rates ranging from 8.65% to 10.5%. At year-end, a 4 building portfolio totaling 2,637,351 square feet was put on the market which included the 702,000 square foot Guitar Center Distribution Center. While it sold at a cap rate of 7% in 2007, any eventual sale is expected to be at a cap rate perhaps over 8%.

RETAIL PROPERTIES

Retail investment activity throughout 2009 was nearly non-existent. As consumer spending slowed and development activity halted, those planned shopping center development projects not already underway, were put on the back burner. Many retailers pulled back on expansion plans and others went bankrupt, such as major retailer Circuit City. Those retail property owners that could hold on to their properties did so and those that could not, allowed their lenders to foreclose.

However, there were still a few significant sales in the market including the 572,000 square foot three center portfolio that included Prairie Village Shopping Center, the Corinth Square Shopping Center, and the Fairway Shops to an investment group led by principals at Lane 4 Property Group and Cosentino's. Also, the 753,216 square foot Ward Parkway Center was significant as it was purchased through foreclosure by Massachusetts Mutual Life Insurance Company eliminating the previous joint-venture partners, Developers Diversified Realty and Coventry Realty Advisors. Other smaller sales in the market included the 14,975 square foot Lazy Boy building to Jack W. Isley Trustee, the 8,964 square foot Heatherview Shopping Center to Eversun Property, Inc., the former 33,460 square foot Fuhr's Furniture, Inc. building to Shawnee Place 1, LLC, and the 9,800 square foot 12221 Shawnee Mission Parkway Center to CCB Parkway, LLC. Even smaller retail investment property sales were sparse in 2009 as very few sellers were willing to sell at the substantially higher cap rates. Even so, 2010 will bring more sales as additional properties become distressed and are taken back by lenders through foreclosure, and thereafter are brought to market to clear bank balance sheets.

Again, while there were no true Class A retail centers brought to market in 2009, capitalization rates increased by nearly 100 to 125 basis points over those in 2008. Class B shopping center cap rates rose about 80 basis points to a range of 8.9% to 10.5% as compared to rates in 2008.

MULTI-FAMILY

As in past years, the multi-family sector showed more activity than any other sector of investment sales. With Fannie Mae, Freddie Mac, and institutional financing more readily available, buyers were still reasonably active. Also, the multi-family sector continued to have reasonably strong occupancies, and therefore had the least deterioration in cap rates. Multi-family properties still saw slight declines in rental rates but not as severe as the other sectors.

The more significant multi-family property sales included the 352 unit Claremont Apartments to SCP PBD, LLC, the 289 unit Quivira Place Apartments to an out of town partnership, the 300 unit Pepperwood Apartments to JVM Realty, and the 280 unit Park Apartments to a local buyer. There were a host of other smaller sales including the 108 unit Euclid Avenue complex to The Housing Authority of Kansas City, the 76 unit Chouteau Heights complex to a local family partnership, the 40 unit Maple Manor apartment complex to a local family partnership, the 168 unit Three Fountains complex to a local buyer.

The Class A capitalization rate was 6% while Class B capitalization rates averaged 8.7% and ranged from 8.28% to 10.7%. The spreads between Class A and Class B capitalization rates widened further in 2009 as most investors flocked to the Class A properties due to quality, stronger locations, and better long term exit strategies.

SUMMARY & OUTLOOK

Economists are projecting that the national economy will show only basic signs of stability well into the second quarter of 2010. Financing will remain extremely tight until the federal government can assure bankers and lending institutions that regulators will not interfere with their operations, should they begin to lend to borrowers. The same major concerns that faced investors in 2009 will continue in 2010 including constrained debt and equity, further lending institution defaults, uncertainty in energy prices particularly as cap and trade legislation discussions continue, a weak housing market, limited consumer spending, continued threats of terrorism and instability throughout the world, and a global economy that remains weak.

For 2010, expect the multi-family sector to again lead all product types in 2010, although sales may be limited until the latter part of 2010 when the economy is expected to improve. Industrial investment activity will also be limited but will be the second most desirable product type, with office in third, and retail again being a distant fourth. Office and industrial properties should see stabilized pricing by midyear 2010 as the economy and vacancies begin to stabilize. Kansas City continues to have a reputation as a stable investment market and that reputation has attracted both local and institutional investors. While the economy is expected to be unstable and debt capital will continue to be constrained, there will still be a strong demand for real estate. Even so, there is concern that the stabilization of the economy in 2010 is less than certain due to trade legislation, health care reform, and other stimulus package issues. But, while these major concerns may limit overall investment activity in the near term, they are not expected to change an investor's view of Kansas City, as a strong, stable, and growing investment market for 2010 and beyond.

Lead contributors include: Kenneth G. Block, SIOR, CCIM, Principal

INVESTORS CHART AND SALES RECORDS

OFFICE PROPERTIES	SIZE (GSF/NSF)	SALES PRICE / PER SF	CAP RATE	BUYER/SELLER
Black & Veatch Headquarters 11401 Lamar Avenue, Overland Park, KS	599,182 GSF	$59,999,990 $100.14	8.56%	Buyer: Black & Veatch Seller: Equity Group Investments
YRC Worldwide Headquarters 10990 Roe and 5200 110th St, Overland Park, KS	383,937 GSF	$22,500,000 $58.60	14.48%	Buyer: Block Sponsored Partnership Seller: YRC Worldwide
US EPA Region VII 901 E. 5th Street, Kansas City, KS	182,554 GSF	$25,345,640 $138.84	7.65%	Buyer: UrbanAmerica, LP Seller: Rubicon America Trust
Broadway Summit Office Building 3101 Broadway, Kansas City, MO	137,000 GSF	$5,000,000 $36.50	10.8%	Buyer: Children's Mercy Hospital Seller: US Bank National Association
Cline Woods Building 4300 W. 133rd Street, Leawood, KS	28,000 GSF	$7,084,000 $253.00	N/A (User)	Buyer: Cline Woods Management, LC Seller: Peters & Associates, Inc.
Harrington Bank Building 6300 Nall, Mission KS	24,795 GSF	$3,000,000 $120.99	N/A (User)	Buyer: Arvest Bank Seller: Great Plains Development

RETAIL PROPERTIES	SIZE (GLA)	SALES PRICE/SALES PRICE PER GLA	CAP RATE	BUYER/SELLER
Ward Parkway Shopping Center 8600 Ward Parkway, Kansas City, MO	753,216 GLA	$33,500,000 $44.48	11.94%	Buyer: Massachusetts Mutual Life Insurance Seller: DDR & Coventry Realty Advisors
Prairie Village Shopping Center 6940 Mission Road, Prairie Village, KS	169,381 GLA	$27,800,000 $164.13	9.36%	Buyer: PV Retail Partners Seller: Highwoods Properties
Corinth Square North 83rd & Mission Road, Prairie Village, KS	138,152 GLA	$22,200,000 $160.69	7.95%	Buyer: CSN Retail Partners Seller: Highwoods Properties
Corinth Square South 83rd & Mission Road, Prairie Village, KS	67,149 GLA	$6,842,000 $101.89	8.40%	Buyer: CSS Retail Partners Seller: Highwoods Properties
Fairway Shops 2700 W. 53rd Street, Fairway, KS	38,720 GLA	$5,300,000 $136.88	9.99%	Buyer: FW Retail Partners Seller: Highwoods Properties
Former La-Z-Boy Furniture 6824 W. 119th Street	14,975 GLA	$1,620,000 $180.72	N/A (User)	Buyer: MCA, LLC Seller: Robert A. Gorman Trust

INDUSTRIAL PROPERTIES	SIZE	SALES PRICE / PER SF	CAP rate	BUYER/SELLER
Coleman Co, Inc. 175th Street & U.S. Highway 56, Gardner, KS	1,107,000 GSF	$46,789,200 $42.27	7.50% est.	Developer: USAA Life
Home Depot Facility 5200 SW Wenger Street, Topeka, KS	465,600 GSF	$23,500,000 $50.47	7.65%	Buyer: American Realty Capital Trust, Inc. Seller: USAA
Wagner Industries 1701 Saint Louis Avenue, Kansas City, MO	244,400 GSF	$5,400,000 $22.09	12.45%	Buyer: Barnett Capital Seller: Wagner Industries
Former Meridian Automotive Systems 900 S. 68th Street, Kansas City, KS	198,490 GSF	$2,000,000 $10.08	N/A (User)	Buyer: Big Industrial, LLC Seller: Meridian Automotive Systems Inc
Ankmar Door Manufacturing Building 4600 Kansas Avenue, Kansas City, KS	120,000 GSF	$3,500,000 $29.17	N/A (User)	Buyer: Sports Associated Warehouse Seller: Gallagher Industries
Global Industries, Inc. 11617 W. 81st Street, Lenexa, KS	50,702 GSF	$5,188,161 $102.33	8.25%	Buyer: Global Industries, Inc. Seller: PERG Buildings, LLC

MULTI-FAMILY	UNITS	SALES PRICE / PER Unit	CAP rate	BUYER/SELLER
Pepperwood Apartments 19400 E 37th Terrace, Independence, MO	300	$23,350,000 $77,833.33	6.01%	Buyer: JVM Realty Corp. Seller: Municipal Mortgage & Equity, LLC
Quivira Place Apartments 12000 W. 77th Terrace, Lenexa, KS	289	$6,250,000 $21,626	6.50%	Buyer: Firmus Equity Seller: AIMCO
The Park Apartments 7843 Riley, Overland Park, KS	280	$7,400,000 $26,429	5.50%	Buyer: Nevin Dewer Seller: AIMCO
Three Fountains 1001 W 101st Terrace, Kansas City, MO	169	$10,650,000 $63,018	9.57%	Buyer: David Thiemann Seller: Tom Beal
Chouteau Heights 5161 NE Chouteau Trafficway, Kansas City, MO	76	$3,040,000 $40,000	9.42%	Buyer: Fischer Family Properties Seller: Tom Beal
Mission Apartment Complexes Mission, KS	40	$2,075,650 $51,891.25	8.28%	Buyer: Courtyard Investment, LLC Seller: Rolland D. Vix

KANSAS CITY MULTI-FAMILY MARKET

The 300-unit Pepperwood Apartments, located in Independence, Missouri, was purchased by JVM Realty Corp. for $23.3 million.

While the U.S. economic recession technically ended in the third quarter of 2009, apartment owners and investors are still slowly working their way through murky waters.

A mixed bag of national economic indicators shed little light on the true economic picture. Many of the positive indicators such as an increase in home sales and a slowdown in job losses have been artificially impacted by some type of government assistance. However, continued job losses and more than $535 billion of maturing commercial mortgage-backed securities (CMBS) present significant economic challenges for 2010.

Nationally, apartment owners watched as vacancy pushed above the 2004 cyclical peak to 7.7%, a year-over-year increase of 1.6%. At the same time, apartment sales volume fell by more than 70% from the previous year and more than 90% from its peak. Deals under $20 million accounted for 94% of the transaction volume, up from 77% the previous year. Remaining lower than other product types, but trending in the same direction, cap rates for U.S. apartments rose by 1.6% to 7.2%.

Locally, apartment owners have watched as Kansas City companies trimmed payrolls by 27,750 full time positions, bringing unemployment to 8.9%. While this is better than the national average, it reflects a year-to-year increase in unemployment of 2.8%, driving other key metrics for apartment owners in the wrong direction.

Vacancy in the Kansas City metro area increased by 0.8%, ending the year at 7.8%. Experts anticipate this trend to continue with multi-family vacancies expected to reach between 8.4% and 9% in the first half of 2010. The Country Club Plaza submarket continues to lead the metro area with the lowest vacancy rates at 6.3% with the North and South Johnson County submarkets rounding out the top three at 6.9% and 7.2%, respectively. The Downtown market was most impacted by the economic downturn with vacancy rates increasing from 1.6% to 8.4%. Shadow vacancy also continues to impact submarkets throughout the metro. Most experts believe vacancy in the overall rental market, which includes townhome, duplex and single-family homes for rent, is currently well into double digits. This can be attributed in large part to the housing market where slow-selling homes and bank-owned subdivisions have been added to the rental supply.

Like vacancy rates, rental rates throughout Kansas City are reflective of a weaker market. Overall, Class A rental rates were down 3% to $764 per unit per month. Class B and C rental rates were impacted to an even greater degree as the fight to attract or retain tenants became more intense. Class B and C rental rates were down 7.6% to $572 per unit per month. Rental rates in South Kansas City and Downtown were most affected by the tougher environment, with rates declining anywhere from 5.9% to 8.1%. Most landlords are now offering increased concessions as well, which most commonly include waiving application fees, reducing deposits or offering one month free on a 12 or 13 month lease. This has impacted economic occupancy for apartment owners, and taken a bite out of cash flows.

Compounding the issues of lower rental rates and increased vacancies is increased delinquencies. Mike Napovanice, Managing Director with the Neighborhood Group, says, "it is difficult for the market to track delinquencies, which have increased significantly within our management portfolio over the past 12 months as tenants struggle to balance their personal finances." Landlords are then faced with the decision of whether to pursue evictions, which can be costly, or to allow tenants to remain in the property and hope they can catch up on payments when they are able. Some owners are asking managers to reduce salaries, administrative expenses or management fees in an effort to help offset lost revenues.

INVESTMENTS & DEVELOPMENTS

Overall, a perfect storm of higher vacancies, lower rents, more concessions, and increased delinquencies put a crunch on multi-family cash flows. Lower cash flows combined with restricted access to debt and equity capital caused apartment sales in Kansas City to come to a near stand-still. In 2009, multi-family transaction volume was down by more than 70% from the previous year in Kansas City. Interestingly, 70% of the deals that reached the closing table did so in the first half of the year, while only one significant transaction was completed in the fourth quarter, indicating investors became more cautious as the year went on. Older, smaller properties traded at a much higher frequency than newer, larger properties. In fact, only one significant transaction occurred in 2009 that was less than 20 years old, and only three properties over 200 units were sold. Jackson County led the way with about 68.6% of the transaction volume with Johnson County taking second place with 25.1%.

With such a dearth of comparable sales, cap rates were all over the board, ranging from 6.01% to 10.7% for units with discernible net operating income. The clear high watermark was the sale of the Pepperwood Apartments, a newer, 300-unit property in Independence, to an out-of-town institution for $23.35 million. This represented a 6.01% cap rate on in-place income and a price per unit of nearly $78,000. However, the overall market saw cap rates rising 1.7% to 8.7% in 2009, while the overall price per unit fell by 33.5% to $43,572 per unit. Much of these changes were attributed to the fact that only one Class A property sold in 2009 while more than 70% of the sales were for Class C properties.

Several transactions occurred without applicable cap rates because of low occupancies, causing the property to have no operating cash flows or negative cash flows. This includes Quivira Place, a 289-unit property in Lenexa, which was sold by AIMCO to an out-of-town investment group for $6.25 million. At the time of sale, the property was about 75% occupied and required about $1.1 million of immediate capital repairs. The Nancene Apartments, a vacant 94-unit property in Lee's Summit, was sold by a conduit lender to a local construction group for $1.55 million. Other apartment sales without applicable cap rates include the sale of Holly Plaza, a 24-unit property near the Country Club Plaza, to a local group for condominium conversion at a price of $1.15 million, and the sale of the Euclid Avenue Apartments, a 108-unit property in Kansas City, to the Housing Authority of Kansas City for $5.2 million.

> "Overall, a perfect storm of higher vacancies, lower rents, more concessions, and increased delinquencies has put a crunch on multi-family cash flows."

The lack of active multi-family investors, combined with maturing debt and weakening fundamentals, are causing a rise in loan delinquency rates and growing distress, particularly in the CMBS sector. While many distressed owners are being foreclosed on in places like Florida, Southern California, Nevada and Arizona, Kansas City has seen relatively few foreclosure sales. However, the threat of foreclosure has driven some sellers to take less for their properties, and foreclosure sales of apartments are expected to rise in the first half of 2010. Sensing this, investors remain cautious and are demanding higher returns for the same level of risk, regardless of seller distress.

Yet, signs of life appear to be showing on the investment horizon. A handful of REIT's began actively purchasing property nationally towards the end of 2009, and, as returns increase, buyers are expected to migrate back to the market and begin deploying significant amounts of capital that has remained on the sidelines for the past two years. These buyers will benefit from the government sponsored enterprises (GSE's) such as Fannie Mae and Freddie Mac, which continue to actively lend, giving multi-family borrowers an edge over other commercial property owners. Furthermore, portfolio lenders have demonstrated an increased willingness to work with at-risk borrowers in order to avoid foreclosure-related losses, thereby slowing down and in some cases preventing distressed sales.

Consumer confidence has started to recover, and most economists have a positive outlook going into 2010. The Kansas City housing market has also seen a modest recovery, with sales volume and prices showing modest gains at the end of 2009. Apartment developers attempting to anticipate future demand added about 950 units in 2009, a 0.8% addition to the supply. While this is in line with the trailing five-year average, it is nearly double

The 76-unit Chouteau Heights Apartments in Kansas City, Missouri sold for $40,000 per unit. The seller was represented by Block Real Estate Services, LLC.

the number of units constructed in 2008, indicating increased confidence among multi-family developers.

Significant projects completed include Market Station and Riverstone. Market Station, a 323-unit, mid-rise community in the River Market neighborhood, was built by Houston developer The Morgan Group. The project is branded as upscale urban living and is expected to garner some of the highest rents in the city. Riverstone, built by local developer Price Brothers, contains 324-units in a garden-style community just north of Zona Rosa in Kansas City's Northland.

Entering 2010, nearly 700 units were under construction or prepared to break ground, with several others in the planning stages. Price Brothers has planned a 200-unit second phase to its Stonepost Ranch community in southern Overland Park. Sherman Associates of Minneapolis also announced plans to move forward with its $31.2 million renovation of the long-vacant 17-story building at 1006 Grand in downtown Kansas City. The redevelopment, expected to be complete in the spring of 2011, was sidelined due to financing problems before receiving aid from tax-credit financing and a federal stimulus program grant. Following a national trend, developers are beginning to incorporate more "green" elements into the design and construction of apartment properties in Kansas City.

The availability of capital will determine whether or not many new projects or second phase developments are able to move forward in 2010. One positive indicator in the capital markets is that the major banks, including Bank of America, US Bank, Citigroup and Wells Fargo, have all repaid TARP bailout funds, indicating healthier balance sheets. Still, banks are hesitant to lend on commercial real estate as rising vacancies and lower property values have led to increasing delinquencies.

FINANCING

Every sector of the commercial real estate market has been affected by the credit crisis. Weakening fundamentals, falling values, and a looming cloud of maturing loans have put lenders and apartment owners on the defensive.

The first clouds appeared on the horizon in late 2008 and negative indicators continued into 2009 as unemployment soared. The sky darkened further when those job losses turned into higher vacancies and increased borrower delinquency rates. While multi-family delinquency rates are currently low, they are climbing. At the same time, property values have fallen nationally by more than 30%. As billions of dollars in maturing loans come due, lenders see a gathering storm on the horizon.

Market-research firm Real Estate Econometrics currently predicts a multi-family delinquency rate of 5.5% by the end of 2010. Fannie Mae and Freddie Mac and many portfolio lenders are grappling with these delinquencies, but the largest problems are expected to surface in the CMBS market. About $171 billion of commercial and multi-family loans matured in 2009, and another $120 billion will mature in 2010, according to the Mortgage Bankers Association. About 53% of these maturing loans are in CMBS loans, collateralized debt obligations (CDO's), or other asset-backed securities such as short-term, aggressively underwritten loans. Loan issues are expected to remain in focus for the foreseeable future, darkening the horizon for both lenders and borrowers even as the economy begins its recovery.

"Many balance sheet lenders are asking borrowers to close equity gaps created by declining prices, but many cash-strapped borrowers are unable to come up with the necessary funds to do so."

But in every dark cloud there is a silver lining. One advantage for apartment borrowers over other commercial real estate borrowers is the presence of the GSE's such as Fannie Mae and Freddie Mac. Both are currently working on several strategies to get out ahead of the potential wave of distress and help troubled borrowers ride through the downturn. While the workouts will be decided on a case-by-case basis, some of the tactics being considered include extending maturities, providing favorable refinancing rates, and lowering the balances on existing loans. However, in order to get any assistance, borrowers will need to demonstrate solid management skills and keep properties in excellent physical condition.

Many balance sheet lenders are asking borrowers to close equity gaps created by declining prices, but many cash-strapped borrowers are unable to come up with the necessary funds to do so. This has helped to create some interesting new terms, including "defensive refis," "high LTV refis," and "no choice refis," where the lender has no choice but to renew the original loan. One writer joked that the new lender lexicon can basically be boiled down to "pretend and extend." However, lenders with weaker balance sheets are increasingly less-inclined to work with borrowers as regulators force them to move loans off their books.

Some borrowers have attempted a cash-out refinancing strategy, where they pull out capital from stable properties to prop up under-performing assets or plug equity gaps. However, significantly tighter lending standards have limited the effectiveness of this strategy. This has led to an increase in borrowers seeking funds through FHA's Sec. 223(f) program, where cash-out refinance terms currently feature 80% loan-to-value and a 1.17x debt service coverage ratio.

Interestingly, institutional equity funds and mezzanine lenders have entered the market as a possible solution to close the equity gap in some cases, essentially creating joint-venture agreements with the original borrower. For borrowers, it can be an expensive solution, but prevents them from losing a property to foreclosure.

Looking forward, experts predict a significant number of troubled commercial assets will hit the market in 2010. While multi-family should fare better than most due to the presence of the GSE's, large fund advisors are already assembling large amounts of capital in anticipation of attractive buying opportunities. However, CMBS deals typically have a complex capital stack, which means it could take time for troubled assets to come to market. Still, those with patient capital should have the chance to turn the national credit crisis into investment opportunities.

JOHNSON COUNTY

The Johnson County submarket experienced a rise in vacancies to 7% in 2009, while rents fell by about 2%. North Johnson County served as home for two of the three 200+ unit property sales in Kansas City in 2009. Quivira Place, a 289-unit, garden-style apartment community, was sold for $6.25 million, or about $21,600 per unit, to an out-of-town private equity group. The Park Apartments, a 280-unit, garden-style apartment community, was sold by AIMCO as they exited the Kansas City market for $7.4 million, or about $26,400 per unit. Both sales represent unusually low prices for Johnson County apartments, demonstrating the dearth of large buyers in 2009. Bright spots have emerged in the Johnson County economy, including an announcement by JP Morgan to move 800 jobs to the Sprint Campus, and an announcement by US Bank to add 1,100 jobs at a new service center, both in southern Overland Park. The area remains the most desirable for executive housing, schools and job growth, indicating that apartment investors will continue to seek out properties in Johnson County as stable, long-term assets.

EASTERN JACKSON COUNTY

Following trends in the Kansas City Metro, Eastern Jackson County experienced a 0.7% increase in vacancy, a decline in Class A rents of 1.1%, and a decline in Class B & C rents of 3.5%. While sales were down, eastern Jackson County led the market in sales volume, due in large part to the sale of the Pepperwood Apartments, a 300-unit community in Independence that sold for $23.35 million, or $77,833 per unit, in the first quarter of 2009. The buyer, JVM Realty, took the opportunity to create economies of scale within its Kansas City portfolio with the purchase of a solid, stabilized property. The property featured the metro's lowest cap rate of 6.01%. On the distressed end of the spectrum, the Nancene Apartments, a 94-unit community in Lee's Summit was sold by a lender for about $16,500 per unit after being vacated by The Missouri Housing Authority. In 2010, investors will continue to be attracted to Eastern Jackson County due to strong demographics in Lee's Summit and Southern Independence, along with an AAA rated school district.

The 289-unit Quivira Place Apartments, located in Lenexa, Kansas, was sold to an out of town investment group for $6.5 million with plans to immediately invest upwards of $1.1 million in capital repairs.

NORTHLAND

The Northland struggled this year as well, posting an increase of 0.6% in vacancies and a decline in rents of 2.6%. Jim Rice of the Northland Chamber of Commerce believes the Northland's setbacks revolve primarily around stalled retail and residential developments, which had been leading the Northland's growth for many years. Stalled retail projects include the Antioch Mall and a center at the northeast corner of N. Oak and Vivion Road. This lack of activity put a virtual halt to apartment sales in the Northland, with the only significant sale being that of Chouteau Heights, a 76-unit, garden-style community. Chouteau, sold by Rosie Kiene of Block Real Estate Services, for just over $3 million, or $40,000 per unit. The Northland was also home to one of the largest new deliveries this year, the aforementioned 324-unit Riverstone Apartments, which was completed in August of 2009, and which reached stabilization prior to year-end.

WYANDOTTE/KCK

Apartment owners in Wyandotte adjusted rents downward by an average of 2.6% this year as vacancies increased to 8.1%. On the investment front, no significant apartment sales occurred in 2009. Only nine small multi-unit properties traded hands at an average price per unit of $23,000, with five of those transactions being forced sales or foreclosure sales. On the development front, 2009 was a relatively quiet year for a county known for aggressive job growth over the previous five years. However, two large potential developments could have a dramatic impact on the multi-family landscape in Wyandotte over the next 12 to 24 months. The Kansas Lottery Gaming Facility Review Board has approved a $700 million proposal for a Wyandotte County casino. The proposal calls for a casino, hotel, spa, convention center and an entertainment/retail district. The second large development is a $414 million proposal that includes a new Kansas City Wizards soccer stadium and a 4,000 employee Cerner Corporation office complex located near the Village West retail district. If either development moves forward, this would bring thousands of new jobs to Wyandotte County, creating the need for new workforce housing.

RIVER/CROWN/PLAZA CORRIDOR

The corridor beginning in the River Market and extending to the Country Club Plaza is home to Kansas City's downtown central business district and its premier shopping destination. The downtown submarket experienced a sharp increase in vacancy in 2009 to 8.4%, while the Country Club Plaza remained one of the tightest in the market at only 6.3% vacancy. Overall, rental rates along the River/Crown/Plaza Corridor were down about 5.9%, the largest decrease among Kansas City's submarkets. The commencement of the renovation of the 17-story building at 1006 Grand is expected to bring new, affordable workforce housing to the central business district in 2011.

Lead contributors include: Aaron M. Mesmer, CCIM, Investment Sales & Acquisitions; Grant O. Reves, CCIM, Investment Sales & Acquisitions; Keoni Fursse, CCIM, Vice President; Joe Dorsh, Vice President; Rosie Kiene, Vice President and Ryan Almaleh, sales associate.

BLOCK INCOME FUNDS

FUNDS I-IV

Kiewit Power Inc. opened their new headquarters at Renner Corporate Centre I, a Class A, 150,000 square foot build-to-suit office building located in Lenexa, Kansas. The property is part of a two-building LEED Standards office park being developed by Block Real Estate Services, LLC.

2009 was an exciting year for all of the Block Income Funds.

While the investment market remained turbulent, and as major REIT managers nationwide coped with sagging occupancy and slow deal flow, the asset management team of Block Income Funds leveraged its experience to continue to provide superior returns to its investors. Existing tenant satisfaction remained a key focus along with upgrading the quality of the Block Fund product in order to ensure the portfolio is well-positioned to take advantage as the leasing market thaws. The recent economic downturn has underscored the importance of local representation and knowledge when investing in commercial real estate. The Block Income Funds and its management team continue to deliver quality investment options via long-term relationships, superior market knowledge, and a proven investment strategy.

BLOCK FUND I HIGHLIGHTS

- Rasmussen Willis Dickey & Moore, LLC renewed for 7 years at 9200 Ward Parkway for 31,019 square feet.
- Larkin Engineering renewed for 7 years at 9200 Ward Parkway for 11,037 square feet.
- Liberty Mutual renewed for 7 years for 20,350 square feet at 9200 Ward Parkway.
- Leawood Executive Centre, 4400 College and Plaza Corporate Centre each underwent substantial capital improvement projects totaling over $2.5 million. Improvements included upgrades to the lobby finishes, renovated restrooms, renovated corridors and upgrades to the elevators, which will bring the quality of all of these buildings up from middle class B up to B+ or A- status.
- PRG Schulz renewed for 3 years at Phoenix Tech Center for 18,562 square feet.
- Experitec, Inc. executed a new 7-year lease at Millennium Business Center for 12,211 square feet.
- Inception date of July 2004 - 78% overall return.

BLOCK FUND II HIGHLIGHTS

- Bags and Bows renewed for 12 months at Westview Business Center in Atlanta for 110,000 square feet. Discussions are ongoing for a longer term renewal.
- Frito Lay executed a new 11-year lease for 8,921 square feet at 3080 Northfield in Atlanta bringing that building up to 100% occupancy.
- Comverge, Inc. executed a new 7-year lease at Lakeside at Spalding Triangle for 25,696 square feet.
- Inception date of September 2005 - 35% overall return.

BLOCK FUND III HIGHLIGHTS

- Victory Packaging renewed for 3 years at Rivergate Business Center for 61,624 square feet.
- ETS Direct renewed for 2 years for 13,814 square feet at Rivergate Business Center.
- Teijin Tawaron renewed for 5 years at 801 Blacklawn in Atlanta for 39,000 square feet.
- ALCOA renewed for 5 years at Riverside Business Center for 20,000 square feet.
- Inception date of January 2007 - 25% overall return.

BLOCK FUND IV HIGHLIGHTS

- Fund IV acquired a 16.48% interest in the new build-to-suit for Kiewit Power, Inc. at 95th and Renner Boulevard in Lenexa, Kansas. This was the first acquisition for Block Fund IV. Members of the General Partner continue to look for quality acquisitions that fit within the Fund's investment parameters.

If you have any questions or want information about the Block Income Funds, please do not hesitate to contact Director of Investor Relations, Jeff Calvert at 816-412-8410 or jcalvert@blockfunds.com.

Lead contributors include: Brian R. Beggs, CCIM, CFA, Director of Acquisitions

BLOCK CONSTRUCTION SERVICES

PROJECTS

2009 will be remembered as a very challenging year in the construction and development industries, both nationally and locally, with the real estate market in limbo and little to no financing available for new projects. As many speculative developers filed for bankruptcy and "easy money" dried up, only the developers with strong local connections and long term track records managed to get projects off the ground in 2009. Accordingly, construction service providers with ties to top tier developers and superior business models faired better over the past 24 months. Block Construction Services was involved in two such development projects in Kansas City, both of which started in 2008 and were completed mid-year in 2009. Renner Corporate Centre I, which is a 150,958 square foot, 5-story, Class A office building was completed for Kiewit Power Constructors and Kiewit Power Engineers in Lenexa, Kansas. The construction costs including both shell and tenant finish totaled approximately $137/square foot. Pine Ridge West Building #33 which is a 50,702 square foot, single story, flex-warehouse building was completed in a build-to-suit project for Global Industries, Inc. in Lenexa, Kansas. The property was purchased by Global upon completion.

In addition to these two significant development projects, the Block Construction Services group oversaw approximately $8 million of tenant improvement projects this past year in the Kansas City market. This continued success with construction management for tenant improvement projects and owner representation on development work has led the Construction Services team to expand into project management tasks with a tenant representation focus. Additionally, 2010 will see an expansion of the Kansas City based services into the St. Louis market where Block Construction Services can leverage its existing knowledge and relationships to drive value in new markets.

MARKET FORCES: MATERIAL PRICING

Though most construction and development related news has been negative during 2009, one positive result from the recent economic downslide has emerged: construction costs have experienced a reasonable decline after continual increases and record highs in 2007 and 2008. In fact, material prices declined steadily through the first three quarters of 2009 though the fourth quarter has seen some stabilization as the housing market thaws. Relevant material pricing changes include:

Cement/Concrete/Aggregates: Prices for liquid asphalt paving bounced back 0.2% for December checking three months of previous declines; after posting some big swings in 2009, asphalt prices will begin 2010 about 1.2% below a year ago.

New common area renovations at 4400 Corporate Centre

Pipe: December prices for reinforced-concrete pipe and copper water tubing posted monthly increases from 0.2% to 3.5%, however, those prices were down 2.8% from a year ago. Prices for plastic pipe products were down 1.8% for the same time period. Prices for ductile iron pipe went both ways, with larger diameter DIP prices slipping a bit this month.

Lumber/Drywall: The lumber market seems to be responding to recent signs the housing market may be turning around a bit. The 20-city average price for the most commonly used species of softwood 2x4's increased 2.4% this month. However, it remains 5.2% below a year ago. The modest rebound in contractor prices follows similar gains in mill prices. The Eugene, Oregon based wood-products pricing specialist Random Lengths notes the average mill price for framing lumber rose from a low of $198 per thousand board foot last May to $235 last October. This was equal to October 2008's price but 37% below 2004's peak.

Steel: Prices for concrete reinforcing bar are bouncing back, after posting steep declines during the first half of the year. The 20-city average price for grade-6 rebar posted modest but steady increases since June, but is still 7% below a year ago. The Bureau of Labor & Statistics' producer price index for concrete reinforcing bar declined an average of 37% this year, following annual gains of 39% in 2008 and 12% in 2007. The Washington D.C. based forecasting firm HIS Global Insight predicts rebar prices will bounce back with increases of 5.4% in 2010.

A FEW OF OUR CONSTRUCTION PROJECTS FROM 2009:

Pine Ridge West Building #33, Global Industries, Inc.,Lenexa, KS
(50,702 square feet industrial/flex building)

Renner Corporate Centre I – Kiewit Power, Lenexa, KS
(150,000 square foot, build-to-suit office building)

Uhlig, Six Pine Ridge, Lenexa, KS
(77,828 square foot office tenant finish)

Plaza Corporate Centre – Kansas City, MO
(exterior garage, connector, and common area renovations totaling approximately $1,032,400)

Lead contributors include: Brad Simma, Vice President

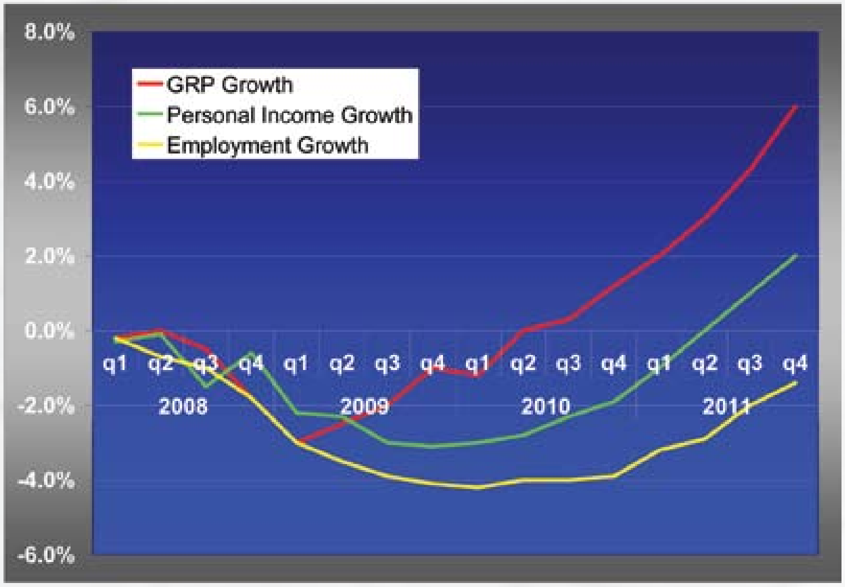
KANSAS CITY ECONOMIC INDICATORS

NATIONAL TRENDS

Consistent with the overall economic indicators available at year-end 2008, this past year has presented continued difficulties in investment markets, manufacturing, employment, and macro fiscal policy. Accordingly, it comes as no surprise that 2009 provided businesses and consumers alike little incentive to "spend" their way out of the recession. On the consumer front, this can primarily be attributed to the U.S. unemployment rate reaching 10% during the 3rd quarter, a continued softness in the housing market leaving household net worth at decade lows as foreclosures inched up continually through the 3rd quarter 2009, and a lower reliance on consumer credit for discretionary purchases. While the latter factor certainly pushed down spending overall, the eventual recovery will be more robust if both consumers, businesses, and the U.S. government all deleverage permanently.

From a business perspective, aggressive growth was not seen in 2009 due to a continued lack of credit, despite misguided legislation aimed at returning credit to the markets. The TARP and TALF programs managed to focus resources on whole industries that were deemed "too big to fail" rather than mandate liquid lending programs across the country. By the end of the year, the Federal Reserve built up nearly $1.1 trillion in cash reserves, yet even with this tremendous potential pipeline of credit available, lending remains flat as banks shore up balance sheets and react to uncertain legislation concerning future banking ratio requirements. In short, business growth will occur once consumers are ready to spend and once lending can continue in a largely privatized manner.

2010 will likely signal the technical end of the recession by economic definitions, but the average consumer and business owner will not see material improvements until 2011. Employment nationally is expected to remain at or above 10% through the first half of 2010, and only make minor improvements through the 4th quarter. Business owners will be reluctant to take on liabilities until there are clear signs the recession is fully over. Inflation remains a back-burner concern through 2010 as the Fed looks to keep "easy money" policies available as long as necessary to affect recovery. Expectations for a neutral rate of 4.5% to 5% are not expected until after 2010. Finally, output on a national scale as measured by GDP will likely rebound moderately in 2010 to a respectable 2.25% to 2.5% range (though well below the long run average of 5%.) This growth will be attributed to the required cost cutting measures effected economy wide during the worst of the recession in the prior two years. As with most recessions, the cleansing of economically unproductive activities allows for a more aggressive return to profitability than might otherwise be possible.



KANSAS CITY TRENDS AND OUTLOOK

It has been said routinely that the Kansas City economy tends to be more stable than the U.S. economy, and this recession is no different. In 2009, the Gross Regional Product (GRP) turned back to positive territory one quarter faster than the national economy, and future growth is expected to outpace GDP over the next year. Attributing to the stable nature of Kansas City is the pervasive and conservative nature of its finance and manufacturing sectors. Lending practices were not as aggressive as in coastal cities, thereby softening the impact of underperforming assets, and as domestic manufacturing consolidates post-recession, the low cost to do business and excellent transportation access make Kansas City a go-to city for restructured manufacturers. Reduced to its most basic terms, Kansas City will rebound faster, and was hurt less, due to its strengths in the very industries that caused much of the recession on the national level.

Additionally, real personal income was hurt less in Kansas City than in other cities, employment did not fall as far, and local lending will likely pick up faster than lending on a national level. Though 2010 is unlikely to be a banner year in terms of regional economic output, it is safe to say that Kansas City will once again weather the storm better than the U.S. economy as a whole.

Lead contributors include: Zach Batson

MARKET STATISTICS 1st QT/2010

BLOCK REAL ESTATE SERVICES, LLC

OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	2009 Leasing Activity	2009 Net Absorption	Avg. Full Service Rent
Downtown	7,891,394	22	23.6%	185,042	(193,837)	$20.08
East Jackson County	335,941	5	21.4%	20,006	(4,063)	$20.63
Kansas City, Kansas	275,454	2	0.0%	0	0	$0.00
Midtown	1,921,374	9	15.7%	217,180	(30,712)	$22.32
North Johnson County	1,025,168	10	6.8%	189,295	116,417	$22.71
North of the River	1,045,284	8	12.1%	64,576	90,252	$18.91
South Johnson County	7,211,647	57	19.9%	636,033	(36,124)	$21.10
South Kansas City	1,656,566	9	24.3%	0	0	$17.00
Southeast Jackson County	151,803	3	15.6%	3,188	(3,472)	$24.77
TOTAL OFFICE - CLASS A	21,514,631	125	20.6%	1,315,320	(61,539)	$21.22

OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	2009 Leasing Activity	2009 Net Absorption	Avg. Full Service Rent
Downtown	14,749,121	195	11.8%	199,899	(39,949)	$16.85
East Jackson County	4,571,948	225	11.2%	104,664	150,434	$16.34
Kansas City, Kansas	1,427,400	59	6.4%	2,900	(328)	$16.58
Midtown	4,723,949	142	12.5%	167,225	(72,477)	$20.58
North Johnson County	7,895,730	254	10.2%	306,490	77,235	$17.05
North of the River	5,755,866	223	18.1%	85,234	14,389	$16.63
South Johnson County	17,466,162	429	10.9%	495,926	(127,829)	$19.19
South Kansas City	3,362,248	87	17.4%	67,832	38,389	$16.82
Southeast Jackson County	1,943,265	84	7.9%	152,403	18,650	$15.24
TOTAL OFFICE - CLASS B	61,893,689	1,698	12.3%	1,582,573	58,514	$17.68
TOTAL OFFICE CLASS A + B	83,408,320	1,823	14.4%	2,897,893	(3,025)	$18.96

WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	2009 Leasing Activity	2009 Net Absorption	Avg. Gross Rent
KCI/Airworld	3,851,451	61	4.0%	76,219	(22,863)	$5.01
North Kansas City/Riverside	21,288,533	455	5.0%	836,534	(125,006)	$5.03
Executive Park/Northland	265,970	12	18.0%	41,295	(438)	$4.66
Wyandotte County	41,032,197	822	5.0%	1,082,407	(678,716)	$4.32
Johnson County	48,327,181	1210	6.0%	1,545,625	930,054	$5.17
East Jackson County	86,133,686	2165	8.0%	1,240,710	262,270	$4.69
TOTAL WHSE/BULK SPACE	200,899,018	4,725	7.7%	4,822,790	365,301	$4.77

LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	2009 Leasing Activity	2009 Net Absorption	Avg. Gross Rent
KCI/Airworld	807,066	13	18.0%	155,095	5,941	$5.41
North Kansas City/Riverside	115,029	11	1.0%	0	(250,172)	$9.52
Executive Park/Northland	30,404,875	299	5.0%	1,549,080	(340,206)	$4.92
Wyandotte County	1,861,941	31	6.0%	66,550	3,514	$5.40
Johnson County	5,966,121	213	15.0%	459,590	(26,264)	$10.55
East Jackson County	3,976,758	155	9.0%	123,259	82,029	$6.93
TOTAL LIGHT INDUSTRIAL/FLEX	43,131,790	722	9.0%	2,353,574	(525,158)	$5.93
TOTAL FLEX + INDUSTRIAL	244,030,808	5,447	7.9%	7,176,364	(159,857)	$4.98

MARKET STATISTICS Continued

RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	New Development
South Johnson County	9,859,335	12.6%	1,241,776	(45,095)	$15.44	4,203,800
North Johnson County	12,198,040	9.9%	1,209,646	65,555	$12.39	708,000
Kansas City, KS	5,964,459	15.8%	942,336	(79,318)	$12.67	1,265,000
North of the River	13,075,791	9.7%	1,270,322	141,338	$13.87	657,000
Midtown/Downtown/Plaza	11,055,950	8.7%	958,994	(78,419)	$17.06	300,000
Independence/Blue Springs	12,928,908	12.1%	1,565,955	(6,858)	$9.39	1,450,000
Lee's Summit	3,618,287	10.8%	389,126	341,257	$18.74	550,000
South Kansas City	7,010,405	16.5%	1,159,532	(48,251)	$11.76	1,000,000
TOTAL ALL MARKETS	75,711,175	11.5%	8,737,687	290,209	$13.24	10,133,800

Compiled by Block Real Estate Services, LLC with the assistance of CoStar and Integra Realty Reources

MULTIFAMILY

Market	Unit Inventory	Overall Vacancy	Avg. Class A Rent (w/out utilities)	Average Class B/C Rent (w/out utilities)	Vacant Units
South Johnson County	38,820	6.9%	$839.00	$601.00	2,679
Downtown	4,430	8.4%	$828.08	$475.21	372
Plaza/Midtown	2,300	6.3%	$918.42	$637.06	145
East Jackson County	15,920	9.0%	$700.21	$566.46	1,433
Wyandotte County	8,590	8.1%	$710.75	$514.35	696
Northland	16,620	7.4%	$714.92	$573.69	1,230
South Kansas City	21,700	9.1%	$677.10	$499.94	1,975
North Johnson County	13,000	7.2%	$810.46	$672.28	936
MSA TOTALS:	121,380	7.8%	$763.84	$572.26	9,465

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

BLOCK REAL ESTATE SERVICES, LLC

COMPILED BY BLOCK REAL ESTATE SERVICES, LLC
COMMERCIAL REAL ESTATE BROKERAGE, PROPERTY MANAGEMENT AND DEVELOPMENT
700 WEST 47TH STREET, SUITE 200, KANSAS CITY, MO 64112
PHONE: 816.756.1400 FAX: 816.932.5598 EMAIL: INFO@BLOCKLLC.COM
WWW.BLOCKLLC.COM

National Association of Realtors | Metropolitan Kansas City Board of Realtors | Institute of Real Estate Management | Realtors National Marketing | National Assoc. of Industrial and Office Parks | National Institute of Real Estate Brokers | Real Estate Securities & Syndication Institute

Presented by Block Real Estate Services, LLC

REAL ESTATE SERVICES, LLC

Block Real Estate Services, LLC
700 W. 47th Street, Ste. 200, Kansas City, MO 64112

Phone: 816.756.1400 FAX: 816.932.5598
Email: info@blockllc.com
www.blockllc.com

Real Estate. Real Strategies. Real Success.®