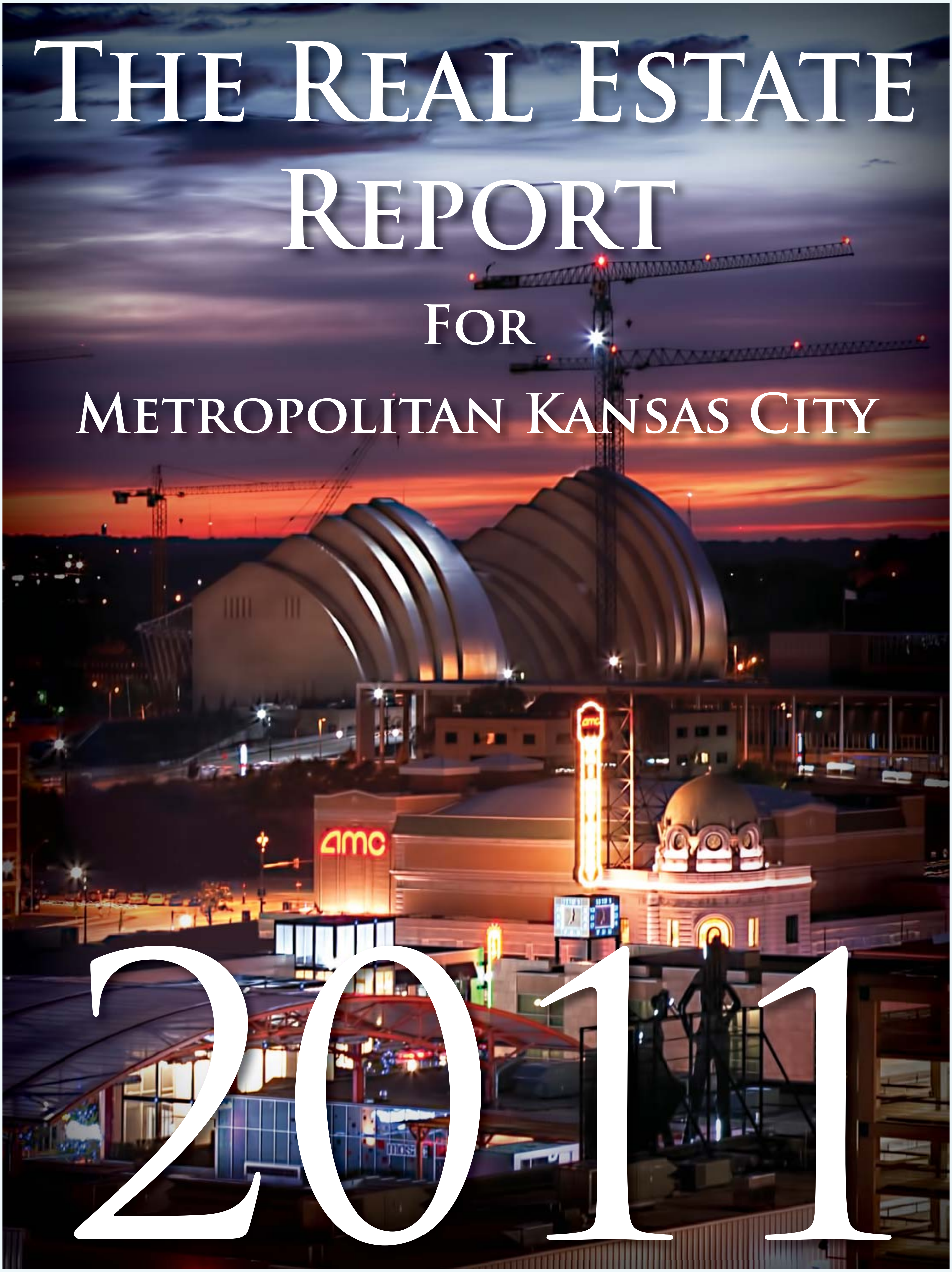
The Real Estate Report

For Metropolitan Kansas City

2011



Block Real Estate Services, LLC (BRES) Highlights of 2010

TRANSACTIONS:

BRES completed the year with total sales and leasing transactions in excess of $585 million.

MANAGEMENT:

BRES management portfolio reached 20.15 million square feet by year-end 2010.

DEVELOPMENT/ CONSTRUCTION:

BRES completed renovation and development projects in 2010 exceeding $44 million. Additionally, Block Construction Services, LLC managed projects totaling over $36 million.

INVESTMENT SYNDICATION:

BRES completed over $113 million in investment sales and raised over $29 million in equity funds for syndication of new acquisitions and development projects.

COMPANY EXPANSION:

In 2010 Block Hawley Real Estate Services accelerated its growth as a full service Commercial Real Estate firm and became the leading industrial brokerage firm in the St. Louis marketplace.

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BLOCK

REAL ESTATE SERVICES, LLC

Real Estate. Real Strategies. Real Success.®

BLOCK REAL ESTATE SERVICES
COMMITMENT TO CLIENTS

As in recent years, 2010 proved to be another challenging year for the commercial real estate industry. Investors, lenders and service firms alike were faced with multiple challenges and many struggled to maintain their market position and asset values.

As 2010 came to a close, Block Real Estate Services, LLC (BRES) was fortunate to complete another calendar year of operation with a strong performance. By leveraging the history and experience of our principals and associates, BRES has taken a prominent leadership position as the top commercial real estate firm in the Kansas City market. A key component of our success is the support of a stable and committed client base, which we believe is due to our clear focus on enhancing their financial outcomes. As always, the real mission of our firm is a focused commitment by each one of our associates to address our customers' needs and goals, and successfully exceed their expectations.

With the uncertainties in the real estate and financial markets, our clients continue to contact us for specific guidance and it is essential that we provide fast, accurate, and reliable service to successfully execute their requirements. Our company has continued to invest in leading edge database and analysis tools, as well as moved toward a vertically integrated service platform to perform any customer requirement. Continuing our tradition of expanding and improving our service offerings to address the needs of our clients, we again enhanced several platform components.

Block Maintenance Solutions (BMS) In 2009, we began the evolution of our building operations and maintenance platform by enhancing our service technicians' qualifications. Ron Fredericks has now transformed this support unit into a full-service facilities resource group, which is committed to providing integrated solutions that reduce expenses for our investors and our tenants, while at the same time addressing all of the physical building and facility needs. BMS now provides not only base building maintenance support, but also offers certified repair and replacement services for HVAC systems maintenance and emergency repairs, electrical and plumbing systems maintenance, repairs, installations, and small scale tenant improvement construction directly for landlords and tenants throughout the Metro. Through a strategy of hiring in-house talent in many core building trades, BMS can deliver rapid response at a significant savings thereby enhancing financial outcomes for our customers.

But this service does not just stop at preventative and reactive maintenance and repair, but instead has become more strategic by leveraging our technological knowledge and strength to ensure that we are anticipating building and facility needs and receiving advance warnings of potential failures. Our team of certified professionals review each property and assess opportunities to efficiently integrate technology and monitoring systems that will reduce costs and enhance productivity of building occupants. This includes incorporating new technologies and operating routines to enhance each property's ability to achieve sustainability ratings such as Energy Star and LEED. BMS has also had great success in performing lighting retrofits that significantly reduced energy consumption and has received local utility rebates and Federal EPAC tax credits resulting in payback of initial outlays in less than 12 months.

Block Technology Solutions (BTS) For several years BTS has worked closely with BMS and our property managers to ensure our managed properties have maximum control and information connectivity. In keeping with our overall internal support strategy, in 2010 BTS expanded its service platform by offering a cost effective IT systems wiring and network support service solution to tenants and third party customers. BTS provides consultation, planning, and installation services for voice, data, and security systems including servers, switches, routers, workstations, access systems, and security cameras/monitoring. BTS can also assist customers by leveraging our significant relationships with local telephone, cable and wireless providers resulting in improved response time for installations and loss of connectivity repairs.

Block Construction Services (BCS) provides outsourced project management expertise allowing clients to benefit from our superior building construction knowledge. This team continued its tradition of supporting our clients, tenants, and third party customers as well as managed on-time/on-budget projects exceeding $12 million in overall value.

Block Funds is a private equity firm with over $400 million in commercial real estate assets under management. As we near completion of the investment period for Block Fund IV, plans are already underway for Block Fund V. Fund V will seek to acquire core, core plus, and value added office, industrial, and multi-family assets in target markets across the U.S. An additional emphasis will be to acquire loans or special situation assets in select markets at discounted values where we can utilize the real estate strengths of our sister company's brokerage real estate services to increase near long term asset values. Fundraising for Fund V will begin in early 2011.

In 2011, BRES will begin offering a multi-family property management service. Multi-family investment sales have long been an area of expertise for our firm. With the commencement of multi-family management, we will again provide our many clients and investors with an in-house solution to their tactical needs and strategic initiatives.

BRES continues to expand and enhance our "Strategic Asset Advisory Team" as we have taken on more opportunities to act as trustee, receiver, or asset manager on troubled and/or foreclosed assets. BRES is currently serving as both receiver and trustee on several distressed projects for banks and special servicers as well as assisting owners of distressed property in turnaround and repositioning projects. Because we have a thorough understanding of all aspects of commercial real estate, we feel that we can more quickly understand these transactions, make management and repair decisions, and reposition these properties to provide the most effective bottom line benefit to our client.

As BRES continues to pursue growth in the Kansas City metropolitan market, we have also continued to pursue our growth in the Midwest. Known as Block Hawley Commercial Real Estate Services, LLC in the St. Louis metropolitan market, the firm is now the number one industrial realtor in St. Louis. With plans to continue the development of the St. Louis operating team, 2011 will see strategic additions to this office that will strengthen the existing office, retail, and management service offerings.

Supporting the strategy of following and fulfilling our investors' needs for services in multiple markets, we are reviewing the benefit of establishing a management office in the Atlanta market and are also exploring several opportunities to establish a full service commercial office in the Phoenix market.

In furthering our fundamental commitment to enhancing our service platform, we continue to focus on building an internal support structure of industry leaders who are focused on achieving success for our clients. This structure provides our associates the opportunity to draw on in-house industry expertise to more quickly and professionally respond to our clients and ensure their success. It is therefore with great pride that we note a few of the accomplishments of our associates this past year.

In 2010, Kenneth G. Block was awarded the prestigious Commercial National Award from the National Association of REALTORS® for demonstrating professional excellence in commercial real estate. Earlier this spring, Ken also received the first ever "Allen J. Block Realtor of the Year" award from the Kansas City Regional Association of Realtors (KCRAR). This award was renamed in 2009 to recognize Allen Block's 70 years in the business and his dedication to both the local real estate board and the real estate profession locally and nationally. Ken was also honored for reaching the significant milestone of over $2.5 billion in career sales. Lastly, Ken was recently named as a member of The Midwest Commercial Real Estate Hall of Fame. He was one of the top 60 commercial real estate professionals in the Midwest that were recognized for their long history of outstanding performance and leadership in the real estate industry.

BRES' CFO, Vincent T. Johnston, was named the "CFO of the Year" by the Kansas City Business Journal recognizing Vince's dedication and leadership in his field.

Anne Lemon, a Senior Property Manager in the Kansas City market, was inducted as the President of the local IREM chapter for 2011. Taking on this commitment, Anne, like many others in our firm, is demonstrating her commitment to industry leadership and our clients by making the sacrifice of time such a commitment requires.

In 2010 two associates, Brad Simma and Lisa Teske, received their CCIM designations from the CCIM Institute. Individuals who hold the CCIM designation are recognized as experts in the disciplines of commercial and investment real estate. With

Alesia A. Kays received the Allen J. Block scholarship award in 2010 from Managing Principal, Kenneth G. Block.

the addition of these two new designees, BRES has 13 active CCIMs associated with the firm, the most of any commercial real estate company in Kansas City.

Receiving top awards from the Kansas City Regional Association of Realtors in 2010 were Brian Beggs, Aaron Mesmer and Grant Reves for the highest investment transaction volume; Kim Bartalos for highest retail transaction volume; Michael Block for highest industrial transaction volume; and Gene Elsas for third highest industrial transaction volume.

Other notable recognitions received by BRES associates in 2010; Aaron Mesmer "30 Under 30" by Realtor Magazine; Brian Beggs "Top 40 Under 40" by Ingram's Magazine; Brian Beggs, Aaron Mesmer, Grant Reves and Dan Durkin as "Rising Stars" by KC Business Magazine.

In 2010, BRES was awarded the prestigious Accredited Management Organization (AMO) designation from the Institute of Real Estate Management (IREM). This designation is bestowed upon real estate service firms that meet the highest standards for property management.

Finally, in an effort to foster superior real estate talent for the future of the Kansas City Metropolitan community, BRES established the Allen J. Block Scholarship Fund at the University of Missouri Kansas City in the Lewis White Real Estate Center at the Bloch School of Business and Public Administration. Alesia Kays was awarded the inaugural scholarship for her noteworthy accomplishments in community service, her commitment to a career in commercial real estate, and for her strong academic performance.

BRES will remain focused on being the single source provider of commercial real estate investment, development, and support services to our customers and associates. Our success depends on your success.

The Real Estate Report for Metropolitan Kansas City will provide each of you with a better understanding of the real estate market in Kansas City. We are hopeful that the information and commentary in this report will be valuable to you as you plan for your real estate requirements in 2011.

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

OVERVIEW

While there were high hopes that the economy would strengthen since the "Great Recession" had reportedly ended in June 2009, it became clear very early in 2010 that the U.S. economy was going to continue to slowly sputter forward.

The 18-month recession, which began in December 2007, was the longest recession since the Great Depression. What became very clear as we came out of this recession were the high number of lost jobs, the lower wages across the entire employment spectrum, and the sense of helplessness voiced by the average worker.

The U.S. economy was now simply one piece of the global economic downturn that by early 2010 had become critical. In fact, you might even say that economic problems in the U.S. were not nearly as serious as those in Europe were early in the year, when the first debt crisis became evident starting with Greece on the edge of collapse. It was only with the help of the eurozone countries and the International Monetary Fund (IMF) that agreed to loan $100 billion to Greece that kept them from a complete collapse.

However, the loan to Greece was conditioned on the implementation of harsh economic austerity measures and a complete change to the Greek social mantra. This required shrinking in government spending, elimination of favored government sector jobs, and major changes to other social benefits including raising the retirement age. Now 20 months later, riots and unrest continue in Greece as citizens fight these measures. Even with this last minute help, other European countries also faced economic collapse during the year including Ireland, Portugal, and Spain. Each of these countries have been forced to undertake austerity measures designed to further reduce their deficit and social benefits that have been long received and expected.

MAJOR EVENTS IN THE U.S.

In 2010, citizens in the U.S. witnessed several major events which will have an immense effect on the U.S. economy, future budget deficits, and long-standing social programs. The two most significant were:

1. In February, President Obama presented to the Congress his 2011 budget of $3.8 trillion and the 10-year budget plan. This budget included a $1.6 trillion deficit for the year as well as future deficits estimated at over $7.6 trillion through 2016.
2. President Obama presented the Healthcare Reform Plan that subsequently gained approval on March 21, 2010 by a narrow final vote in the House of 219 to 212. This Healthcare Reform Plan would overhaul and completely change forever the American healthcare system by requiring all Americans to buy health insurance. This controversial plan is expected to add $2.1 trillion to the deficit and is expected to cause insurance rates for all Americans to rise.

The 2010 Federal budget underscored the lack of fiscal responsibility that has become the norm for many years in our Federal government. While tax receipts for fiscal year 2010 are estimated at $2.381 trillion, the total expenditures were expected to be over $4.0 trillion, thereby causing a deficit of nearly $1.6 trillion for the year.

More importantly, total U.S. debt exceeded $14 trillion during the year, which does not include Social Security and Medicare of over $43 trillion, a number that experts believe is simply too large to be repaid.

Furthermore, the Congressional Budget Office (CBO) released a report during the year entitled "Federal Debt and the Risk of a Fiscal Crisis" pointing out that the National Debt which was 36% of the Gross Domestic Product (GDP) just three years ago, is now projected to increase to approximately 62% of GDP by the end of fiscal year 2020.

The CBO further warns that these out of control deficits could lead to an ultimate debt crisis when buyers of Treasury Securities lose faith in the government's promise to not default on these financial instruments. The CBO also pointed out that if the U.S. encountered a fiscal crisis, there would be an abrupt rise in interest rates reflecting investors' fears of default by the U.S., and the Federal Reserve Bank would have to immediately increase the supply of money to finance its activities or pay creditors, which would boost inflation overnight. This sudden increase in interest rates would reduce the market value of outstanding government bonds, inflict losses on investors, and potentially reduce any future market for debt sales to foreign countries. In essence, the U.S. must eliminate budget deficits or risk its debt being downgraded by Moody's, and thereafter complete debt default.

However, the news in 2010 was not all gloomy as some of last year's bailout recipients started to improve financially. General Motors (GM) had an IPO offering and paid back a small amount of its debt owed to the Federal government, although critics pointed out those payments were simply a return of unused TARP money. In addition, American International Group (AIG), which originally borrowed as much as $180 billion from the Federal government, and still owes over $130 billion, continued working toward selling off additional units within the company and improving bottom line income and sales. AIG is also working with the government on a plan that would allow the Federal Reserve over the next two to three years to sell additional amounts of its stock in the open market in an attempt to gain repayment on its loan. However, prospects for these paybacks continue to be based upon improving prospects in the U.S. economy, which at the present time are muted.

WATCHING THE ECONOMY

The Federal Reserve also kept a close eye on the economy throughout 2010, and in particular on the bond market. Their goal was to keep long-term interest rates low in order to boost the economy. Therefore, in late November, they moved forward with Quantitative Easing Two (QE2), which in essence is the electronic equivalent of starting up the Federal Reserve "printing presses" to create money to buy financial assets (U.S. Treasury bonds) in the market. By buying U.S. bonds, and pushing down their yields, the Federal Reserve hopes to lower borrowing costs which would help homeowners refinance and businesses qualify for loans through cheaper credit.

The risk for these purchases of treasury bonds is simply when the economy begins to recover, the Federal Reserve will need to quickly withdraw all of the money it is printing in order to avoid a quick surge in inflation. Most investors believe that it will be difficult for the Federal Reserve to do this quickly enough and inflation therefore could shut down any improvement in the economy.

FISCAL TURMOIL

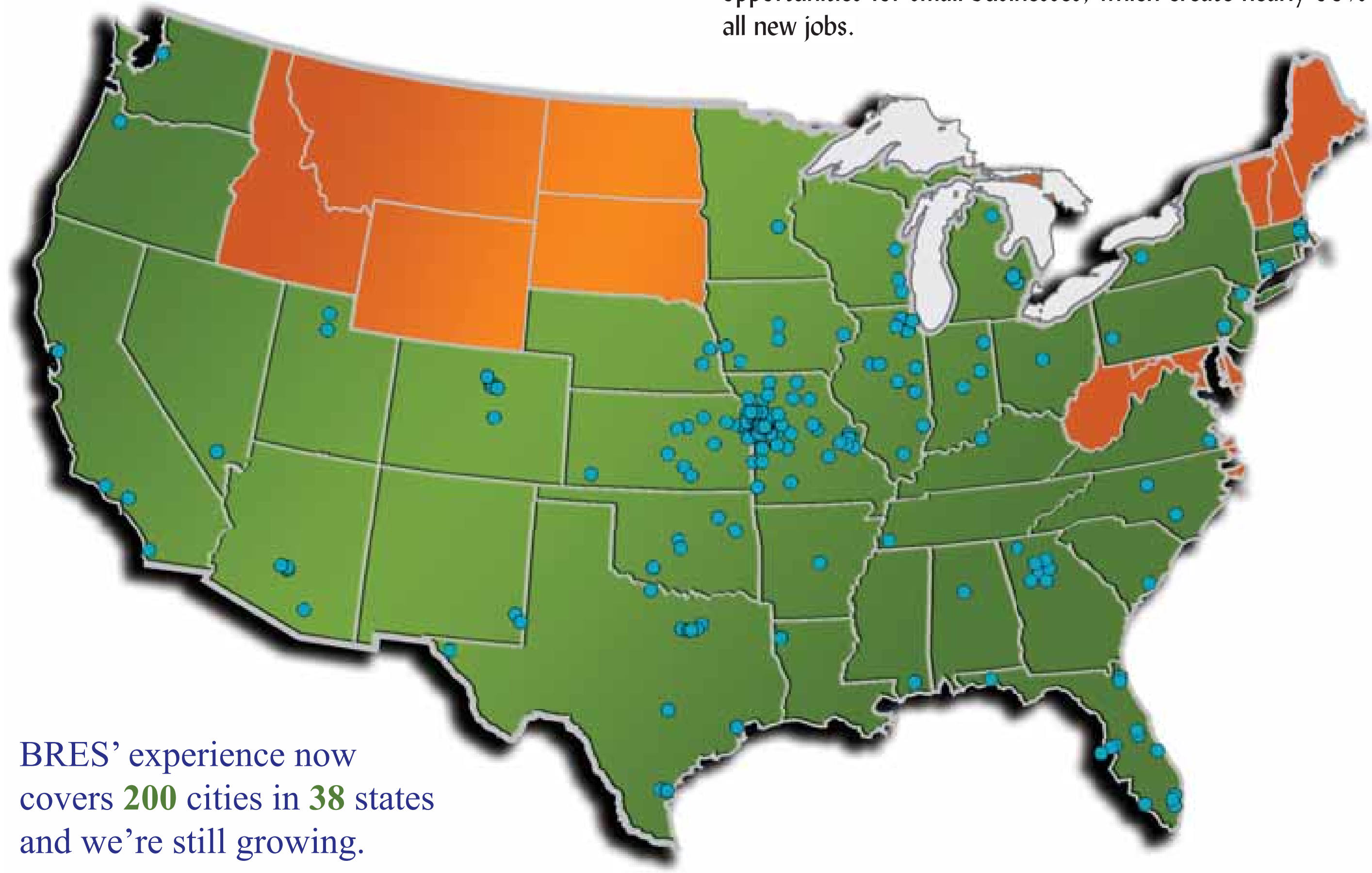
During 2010, Americans became more pessimistic about the economy and the nation's direction as unemployment stood between 9.6% and 9.8% for most of the year. The lack of jobs caused many Americans to cut back on spending, which continued to weaken the economy further, and in many cases homeowners with no other source of income lost their homes.

Foreclosure filings in the U.S. reached another record of $4.1 million, surpassing the 2009 record of $3.9 million and in 2008, $3.2 million. It is further expected that foreclosures will continue to rise well into 2011 before leveling out and declining by midyear.

With the economy in complete turmoil, it was clear the 2010 mid-term elections would send a message. The message was "stop this fiscal insanity" and was evidenced by the largest number of House and Senate seats lost since the 1938 election when Franklin D. Roosevelt was president. In all, the Democrats lost 63 seats in the House and six seats in the Senate.

In 2011, the U.S. will have a split party Congress with the Republicans controlling the House of Representatives and the Democrats still holding a slim majority in the Senate. This will require that Congress and the President work together to move forward any needed legislation that will jump-start our economy and increase jobs.

One thing is certainly clear, joblessness is the most significant concern of most Americans. It is essential for the government to take whatever steps are necessary to increase opportunities for small businesses, which create nearly 80% of all new jobs.



BRES' experience now covers **200** cities in **38** states and we're still growing.

SIGNIFICANT ISSUES

However, there is still another significant issue: liquidity of bank and lending institutions. While we saw an increase in lending in 2010 from many institutions, this increase was primarily for the most significant and well capitalized borrowers. Small business owners and less affluent borrowers were still left out in the cold and this is significant, as without these participants, business activity and increased hiring by small businesses will continue to be too little to move our economy forward.

Unfortunately, government regulators have continued their scrutiny of bank portfolios and the small community and neighborhood banks have received most of this focus, since these banks run the highest risk of near-term failure. In 2010 there were 157 bank failures that affected $169 billion in assets, up from 140 bank failures and $92.1 billion of assets in 2009. Since community and neighborhood banks are the main lenders to small businesses, with a change in this lending situation, 2011 will not improve dramatically as it relates to lower unemployment.

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Programs that were at the forefront of concern for American citizens in 2010, such as healthcare reform, cap and trade, and the Bush era tax cuts, will again be front and center in 2011.

Republicans are expected to bring health care reform back to the table in an effort to either repeal it and start over, or somehow revise the plan to reduce costs and focus on reform. Cap and trade legislation, which is designed to reduce greenhouse gas emissions and set nationwide limits on those emissions, appears to be dead in the water at least in the near term. This is good news for those in the Midwest, where coal plants are the main source of cheap energy and which would have been detrimentally affected by cap and trade legislation.

UNEMPLOYMENT IS GLOBAL CONCERN

During the last two weeks of 2010, a compromise was reached in Congress and the Tax Relief, Unemployment Insurance Reauthorization, and the Job Creation Act of 2010 was signed into law. This Act extended the Bush era tax cuts until December 31, 2012, and also modified and extended other provisions for unemployment insurance and job creation.

While the U.S. economy pulled out of the recession technically in June 2009, employment has not seen much change. It's hard to believe that in February 2008, less than three years ago, unemployment stood at 4.8% and yet at year-end 2009, it had risen to 10%.

Now over 15.1 million people are unemployed with another 10 million people either underemployed or out of the job market completely due to limited opportunities. This continues to be the most significant concern facing our country.

Globally, it is also a significant problem, as over 50 million jobs were lost worldwide in 2009, and another 38 million jobs were lost in 2010. We are in a global economic downturn. There are still disagreements among economists as to whether or not we will come out of this recession in a "V" shape, a "U" shape, or a "W" shape, where we would fall back into recession once again. What is clear is that the private sector is the engine for job growth, and without a jump-start through tax incentives, the sector will be stuck without job growth. However, as long as there is a continued lack of confidence by the business community, businesses will be reluctant to hire workers, will keep capital spending low, and will build cash levels to bolster their financials.

Final U.S. GDP for the year 2010 was projected to be 2.3% (estimated at the time of this report).

Projections for GDP growth in 2011 are 2.7% to 2.9%, although GDP growth could be as high as 3.7% if the economy were to improve more quickly.

The growth in GDP will be reduced by any serious inflation concerns, further employment stagnation, or if future employer productivity drops.

At year-end, unemployment fell to 9.8%, but this was partially due to people simply exiting the job market as they gave up on finding a job. In December 2010, only 103,000 jobs were added and at this rate it would take 10 months to get back the eight million jobs lost. Some economists expect that unemployment could reach a peak of 10.4% in 2011, but most believe it will stay between 9.4% and 9.8% during the first part of 2011. Unemployment is expected to decline to approximately 9.2% in 2011, and to as low as 7.5% by the end of 2012. The U.S. labor participation rate stood at 64.7% in 2010, its lowest rate since 1985, again a sign of high unemployment.

To return to the 5% unemployment rate experienced in late 2007, the U.S. must create an average of 205,000 jobs per month for five years, a level not even reached in the peak 2005-2007 years. Even under good projections, employment will not return to its pre-recession peak for at least six to seven years.

BORROWING RATES AND THE REAL ESTATE INDUSTRY

As it relates to borrowing rates, the Federal funds rate is expected to remain between 0% and .25% through most of 2011 and perhaps into early 2012. This monetary policy is truly constrained by what has been called the "Zero Interest Bound" strategy. The Federal Reserve, in order to avoid a serious deflationary environment, has in essence pushed interest rates to almost zero, but even so, the economy has not responded sufficiently. The Federal Reserve will now be forced to use other less conventional monetary policies if the economy

The Kansas City Chiefs and Jackson County spent $375 million dollars to upgrade the new Arrowhead Stadium. The project increased the stadium's square footage by about 40%, for a total of more than 1.64 million square feet.

doesn't improve on its own.

As it relates to the real estate industry, the Urban Land Institute (ULI) and Price Waterhouse Coopers, LLC stated in their report, "Emerging Trends in Real Estate," industry leaders expect that the real estate world is entering the new "era of less." These real estate leaders expect a shrunken industry, lower return expectations, restrained development prospects, reduced credit availability, and slightly crimped profits. However, most of these same real estate leaders believe that they will gain significantly in 2011 by avoiding over leveraging, and keeping their powder dry so that they will be well positioned to take advantage of their credit-starved competitors who may have over borrowed or overpaid.

While real estate values dropped anywhere from 20% to 40% on properties in various areas of the country from the peaks of 2007, the Midwest saw the smallest declines of any section of the country. As projected in last year's report, "Cash is King" buyers ruled the marketplace. In 2010, buying was very limited due to minimal product coming to the market, but industry leaders believe that 2011 will be the year of activity.

The Kansas City area economy in 2010 again fared better than the National economy in almost every respect. Our economy is simply more stable than the National economy because of the diversification of our local economy as well as strong service, government and education sectors. There is also the conservative nature of area financial firms and that has kept most of our bigger banks strong and therefore, our economy did not falter like other cities throughout the country.

In 2010, the GRP of the Kansas City economy grew at a 1.6%, compared with only a 0.2% growth rate of the U.S. GDP. The region's GRP is expected to grow as much as 3.5% to 4.1% in 2011, compared to the growth in the National GDP of somewhere between 2.8% and 3.1%. Gains are expected to continue in 2012, with the Kansas City economy to again improve faster than the nation as a whole.

After losing nearly 62,000 jobs from fourth quarter 2007 to the fourth quarter of 2009, the Kansas City area economy added only 7,650 jobs in 2010. However, this was higher than last year's projection for job gains of 4,000 so this was good news for the local economy. Job growth in 2011 should increase to 17,200 jobs, and then by 2012, should more than double to 37,000 jobs.

FUTURE GROWTH GOING FORWARD

As the recovery becomes more self-sustaining in 2011, nearly all area industries will grow. Those sectors leading growth will again include medical, business services, business management, food services, telecommunications, government, and insurance.

With over $9.6 billion of total construction activity in the last six years, Kansas City has become a focal point of the Midwest. Kansas City serves nearly 8.61 million people living within four hours in the States of Missouri, Kansas, Illinois, Nebraska, Iowa, Arkansas, and Oklahoma. Because of its location, Kansas City can benefit by attracting large numbers of tourists each year from small communities in these surrounding states.

Since Kansas City is the only major city west of St. Louis and east of Denver, it has continued to be able to support a large number of professional and collegiate sports compared to tier one 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 Explorers World Team tennis, the Kansas City T-Bones, the Sporting Kansas City soccer club, and high ranking college sports teams from the University of Kansas, University of Missouri, Kansas State University, and local institution University of Missouri Kansas City.

Kansas City also has a host of other entertainment venues in the Metropolitan area including the Kansas Speedway, Oceans of Fun, Worlds of Fun, Stone Creek Ski Mountain, the Kansas City Zoo, Schlitterbahn Vacation Village, the Woodland's, Union Station, Community America Ballpark, Independence Events Center, and five existing area casinos.

In addition, the Kansas Lottery Gaming Facility Review Board recently approved a $700 million proposal for a new casino adjacent to the Kansas Speedway to be developed by Kansas Entertainment, LLC in conjunction with Penn National Gaming, Inc. This new casino complex will cost nearly $565 million and will include a casino, convention center, entertainment/retail district, hotel, spa, and would further enhance the Village West/Kansas Speedway region.

There are over $1 billion in construction projects that have either recently begun or been announced in the Village West/Kansas Speedway area, and about $2.3 billion already invested. The new 18,000 seat soccer stadium for Sporting Kansas City soccer team, combined with a projected 600,000 square foot office development for as many as 4,500 Cerner Corporation employees, are the most recent additions to the area.

The significant growth in this area can be traced to one unique difference: Sales Tax and Revenue bonds (STAR). STAR bonds capture sales taxes generated in the district to finance continuing infrastructure improvements and this gives the Village West/Kansas Speedway area an enormous advantage.

Big sales tax generators like Nebraska Furniture Mart and Cabela's are truly the economic engines that drive this continued growth. With another 800 acres of undeveloped land directly west of the Speedway, there are still a number of significant opportunities being discussed that may provide future growth in this area.

A CULTURAL AND ARTS DESTINATION

Another tremendous strength of Kansas City is the fact that it is nationally known for its embrace of the Arts. The Nelson Atkins Museum of Art is world renowned and with the new Bloch building, activity at the museum has never been greater.

Other notable venues include the Kemper Museum of Contemporary Art Design, the Liberty Memorial Museum of World War I, the American Royal Museum and Visitor's Center, the Nerman Museum of Contemporary Art, the Kansas City Museum and Planetarium.

Soon Kansas City will be home to the Kauffman Center for The Performing Arts when it opens in fall 2011. The Kauffman Center will allow Kansas City to compete on an international stage and has the potential to be one of the very finest facilities of its kind in the world. Kauffman Center will have two specialized performance halls with state-of-the art design including the 1,800 seat Muriel Kauffman Theatre and the 1,600 seat Helzberg Hall. The concert hall will boast a 5,548 pipe organ which is expected to be one of the finest in the U.S., as well as a glass enclosed grand lobby and adjacent parking garage. It's amazing to understand that more people actually attend arts functions in Kansas City than sports venues and many people don't understand the impact of the Arts on our community. The Kauffman Center is expected to finally solidify Kansas City as a true national destination for cultural tourism giving people the opportunity to visit a major league sports event, visit the Country Club Plaza, and visit the Kauffman Center.

"Kansas City increased its ranking among the 40 strongest U.S. Metro Economies to 21st, ranks 16th on the list of America's smartest cities, and continues to be ranked one of the best places to live by Money Magazine."

Kansas City also supports other nationally known groups and theatres including the Starlight Theatre, the Kansas City Symphony, the Copaken Stage of the Repertory Theatre, and a host of other venues.

KANSAS CITY RANKINGS

Kansas City increased its ranking to the 12th best mid-sized city in the country for art destinations, an improvement from 16th in 2009 and 21st in 2008. Kansas City also ranks very high in other surveys as an attractive destination. For example, Kansas City was selected in 2008, and again in 2010, as one of 12 cities to watch for innovation along with others including Barcelona, Beijing, Seattle, Moscow, and Abu Dhabi.

Kansas City increased its ranking among the 40th strongest U.S. Metro Economies to 21st, ranks 16th on the list of America's smartest cities, and continues to be ranked one of the best places to live by Money Magazine. Kansas City ranks above the national average for per capita income, is ranked 11th for business attraction, third for number of festivals, fairs, and cultural gatherings per capita, fourth among the large Metropolitan areas with the lowest rents, and seventh for quality of life.

The value of living in Kansas City is far ahead of the U.S. median, and ahead of other major cities such as Boston, Denver, Minneapolis-St. Paul, Raleigh, San Francisco, and Washington D.C.

Kansas City continues its ranking as number three on the "10 Cities to Watch" for contemporary design, number one for the best midsized airport in the country and number 17 for the lowest cost of air travel. Kansas City is also top five on Kiplinger's list of "50 smart places to live" with its 15 institutions of higher education in the Metropolitan area offering graduate degrees. Kansas City also ranks in the top 20 cities nationally for a quality public education.

TRANSPORTATION: RAIL, TRUCKING AND AIR

Transportation infrastructure has always been excellent in Kansas City and continues to improve. During late 2010, the $245 million Christopher S. Bond project, which will ultimately offer six lanes from the existing four, continued forward with construction and even opened to some traffic in 2010. This major improvement will further enhance the flow of traffic along the NAFTA corridor and should be complete sometime in late 2011.

The Christopher S. Bond Missouri River Bridge reconstruction is the centerpiece of a $245 million project that will upgrade a 4.5 mile stretch of I-29 and I-35 from four to six lanes near the downtown loop.

On the Kansas side, the US 69/I-35 interceptor at 87th Street and I-35 continues moving ahead and is expected to be completed in late 2011, thereby allowing traffic from US 69 to more quickly and efficiently merge onto I-35 and exit the highway.

Kansas City continues to rank seventh as the least congested urban area in the nation with three interstates, four interstate linkages, and 10 federal highways serving the Metropolitan area.

Rail is a significant distribution mode with Kansas City ranking as the second largest rail center in the U.S., and the first ranked rail center by freight volume. Two new rail intermodal hubs, one by KC Southern and one by Burlington Northern, are expected to further enhance rail activity and to strengthen the Kansas City area as a distribution center.

Kansas City has four of eight class-one rail carriers, three 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 is ranked as the third largest trucking center. It has nearly 300 freight carriers, is served by 14 commercial airlines with over 250 daily departures, and has non-stop service to 76 destinations.

Kansas City also has an air intermodal center adjacent to Kansas City International Airport which will further strengthen cargo shipment capabilities. These improvements have caused Kansas City to be recognized by national site selectors and they recently named Kansas City as one of the top five cities in the nation for distribution and expect it to grow significantly over the next five to 10 years.

Kansas City also is one of the finest corporate jet hubs in the region now that the $70 million expansion of the Charles B. Wheeler downtown airport is nearing completion.

Kansas City also enjoys the Missouri River Corps of Engineers Managed Shipping Channel which runs from St. Louis, Missouri to Sioux City, Iowa, and operates seven separate barges along the Missouri River adjacent to the Metropolitan area.

TOP CITY FOR YOUNG ADULTS

Kansas City also ranks among the top 10 cities for young adults according to www.Kipplinger.com. This business forecast and finance publication chose 10 U.S. cities with higher than normal youth friendly factors, such as low cost of living, rich culture, and an active night life. Kansas City joined the top 10 because of its below average rents, low cost of living, and innovative jobs in business, research, and technology. Kansas City also gained points for its short average commute of 21 minutes, for the expansive redevelopment effort that has occurred downtown, and the multitude of entertainment venues existing and expanding within the community.

KC ANIMAL HEALTH CORRIDOR

When the KC Animal Health corridor campaign was started in 2006, no one expected what effect it would have on the community. Since the corridor was launched, 16 entities created 1,249 jobs, $935 million in capital investment, and more than one million square feet of new space, has occurred. The largest and most recent addition, the new National Bio and Agro-defense facility, which will open its doors in 2016, is a $650 million project which will add 500 jobs.

Kansas City lies directly in the middle of the animal health corridor which stretches from Manhattan, Kansas to Columbia, Missouri and accounts for over 34% of all sales in the global animal health market which totals $19 billion. Over

206 life sciences companies in 24 Kansas City area counties are part of the animal health corridor including industry leaders like Bayer Animal Health, Boehringer Ingelheim Vetmedica in St. Joseph, Hill's Pet Nutrition in Topeka, Ceva Biomune, Maga Starter BioTech, Braake Consulting, Pet Screen, MWI Veterinary Supply, and U.S. Animal Health Association.

According to Brakke Consulting, Kansas City companies represented 7% of the $49 billion in global animal food sales, while all U.S. sales for pet food products had Kansas City companies representing 13% or $17 billion.

Other projects such as the Kansas State Olathe Innovation Campus within the planned Kansas Bioscience Park and the Missouri Innovation Park on 500 acres in Blue Springs, are positioned to bring additional companies and new successes to the corridor.

Perhaps the biggest boost to the corridor was the passing of the Kansas Economic Growth Act in 2004, which created the Kansas Bioscience Authority and authorized it to invest $581million worth of tax revenue in new and existing life sciences assets. This funding has proved significant by allowing the expansion of major groups new to the region including Osteo GeneX and others.

Perhaps the most recent and significant effort is that the University of Kansas Cancer Center hopes to become the 64th National Cancer Institute designated center. Based upon 10-year projections, federal research grants will grow to nearly $80 million annually for the University of Kansas Cancer Center and will propel related construction activities, operations, licensing and revenues, and cancer mortality reductions. The University of Kansas Hospital already ranks among the country's top academic medical centers as noted in U.S. News and World Report for four years running. This will translate to in excess of $1.3 billion in overall economic benefit and will create as many as 9,400 jobs over the next 10 years.

The Kansas City Area Life Sciences Institute (KCALSI) continues to promote the expansion of the life science industry in Kansas City. The Life Sciences industry is now expected to attract in excess of $675 million in research expenditures over the next 10 years and will continue to elevate Kansas City as the premier location in the country for research academia. Efforts by six major players in the KC Biosphere including Kansas Bioscience Authority, Kansas City Area Life Sciences Institute, Kansas City Animal Health Corridor, Midwest Research Institute, National Bio and Agro-Defense Facility, and the Stars Institute for medical research are expected to lead an unparalled expansion of the Life Sciences industry in Kansas City in the future.

MAJOR DEVELOPMENT PROJECTS

While the economy in Kansas City slowed and came to a crawl in 2010, there were still some major projects in the area. Children's Mercy's $68 million east tower expansion as part of their proposed $600 million in future expansion project marched forward, together with multi-million dollar investments by the University of Kansas Hospital at their main campus.

In addition, the East Village project, slated for a total investment of $340 million, moved forward with plans to construct roughly 600 residential units, retail, and new office projects. Also, a major new federal office building received an endorsement in 2010 to locate there. At the cost of $175 million and with the full support of the City of Kansas City, the new federal building which will hold up to 1,200 workers, is projected to look for further federal approvals over the next 12 to 18 months.

Other major development projects around the Metro include the Gateway project, which recently announced the involvement of Caymus development to the project. They will also shift to a larger office presence at the project.

Another big project is Prairiefire at Lionsgate, which hopes to start construction on the nation's first museum for traveling exhibitions of New York's American Museum of National History. Additionally, talk still centers on a new $57 million planned office building on the Country Club Plaza planned for the Polsinelli Shughart law firm.

> "Two new rail intermodal hubs, one by KC Southern and one by Burlington Northern, are expected to further enhance rail activity and to strengthen the Kansas City area as a distribution center."

There's even been a recent update to The Trails plan for the site of the former Bannister Mall and hopes to move forward with demolition and perhaps new construction over the next 12 to 24 months.

These are just a few of the many projects currently underway or planned in the Metropolitan area which are projected at upward of $1.3 billion of residential, commercial, and cultural construction.

With the mayoral election coming to a head in early 2011, and candidates vying for votes, the necessity for a strong public/private partnership to encourage investment and development activity in our community needs to be highlighted. The disappointing 2010 year is behind us and it will be extremely important that the development community gain necessary financial support by the public sector in order to move forward new projects that will bring more jobs and more new tax revenues to our community. It is more important now than ever to strengthen public sentiment toward development in all sectors of our community including the urban core, the Country Club Plaza, and other cultural centers.

Kansas City leaders must provide a unified image which helps attract new business from outside the community to our area. Strong local business leaders are also extremely key in this effort to continue to move Kansas City forward in the years ahead and make Kansas City one of the "great places to live and work."

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

KANSAS CITY DOWNTOWN DEVELOPMENT

The 140,000 square foot New York Life building located at 20 West 9th Street, Kansas City, Missouri was sold to the Diocese of Kansas City-St. Joseph for $11.7 million.

2010 saw the Sprint Center in Downtown Kansas City become known nationally as a popular event destination.

According to Pollstar Magazine's third quarter report, the downtown Kansas City Sprint Arena has been named the second busiest arena in America and ranks seventh worldwide. Now in its third year, the arena is exceeding financial projections and setting attendance records higher than projected. This translates to overall economic stability for downtown Kansas City in 2010. Downtown Kansas City is beginning to be defined as an event area.

All news about the Kansas City Power and Light District adjoining the arena was not positive; however, a number of high profile restaurants such as Bice Bistro and Peachtree have left the district due to low sales.

As a result of the low sales in the district, the city has had to subsidize payments on the bonds issued to help build the area. It is clear that the Power and Light District is still trying to find its place in the market.

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 daytime population for the downtown submarket is greater than 100,000. Residential populations for portions of the submarket are up 600% from the year 2000 according to a study conducted by Kansas City Urban Market Assets. From this perspective, there are significant opportunities for retail and service users for first-floor space.

BEST OPPORTUNITIES FOR OFFICE TENANT VALUE ARE IN THE FORM OF SUBLEASES

Consider the following: 3% of the market, approximately, is available through sublease. 60,000 square feet leasing blocks can be sublet at rates 30% below market, assuming no tenant improvements are required. Office vacancy rates of 15% are being reported, but absorption is stable with virtually the same number of square feet coming on and off the market. Current average full-service office rental rates are up 4% over last year, now at approximately $18.25 per square foot.

AUCTIONED PROPERTIES HAD LACKLUCKSTER RESULTS

An accumulated block of properties in the submarket totaling more than 230,000 square feet was auctioned earlier this year. The 15 properties, including two parking lots, ranged from 3,000 to over 100,000 square feet. The properties represented the life's work of a developer, and many came with entitlements in place.

Unfortunately, only 12 of the 15 properties sold at auction. The sales that did occur were 20% to 30% less than anticipated value considering the development incentives in place. One of the largest remaining buildings from that portfolio, the Candle Building at 2101 Broadway, has subsequently been foreclosed upon by the lender. It has been relisted at 82% of the previous price. The difficult lending environment and limited loft market certainly contributed to the lackluster auction.

The most noteworthy lease of the year was a 70,000 square foot office lease by the Federal Deposit Insurance Corporation in 1100 Walnut at a rate 18% below average office leases for the submarket.

Opportunities continue to be available for tenants requiring large area floor plans. Currently 10 vacancies are available in excess of 1.5 million square feet. The majority of space available is in contiguous blocks less than 30,000 square feet. The vast majority of vacancies, 84%, are in block-sizes under 10,000 square feet.

DOWNTOWN HOTEL UNDER CONSIDERATION

Still under debate is the need and location of a new 1,000-room hotel. A feasibility study conducted this year recommended a site at the northwest corner of 14th Street and Baltimore Avenue for the $300 million project. The proposed hotel would be constructed on the west side of the Power and Light building, completing a plan for a second tower at that location that has been on hold since the 1930's. The study did not answer significant questions about the project:

1. Will a new hotel erode the existing hotel market?
2. Will it bring more demand to downtown Kansas City with increased convention business?
3. How much public participation will the citizens of Kansas City, Missouri be willing to provide?

Considering no other urban hotels of this size have been built in the last 30 years without public assistance, the last question remains a significant issue to resolve.

An interesting adaptive use of space occurred this year when the Chamber of Commerce and the Kansas City Area Development Council together leased 26,000 square feet of former restaurant space in Union Station. Community building organization offices housed in one of Kansas City's iconoclastic structures is an excellent use of civic dollars and will bring additional activity and public awareness to Union Station.

BEST VALUE OF THE YEAR

The Diocese of Kansas City-St. Joseph acquired the former New York Life building at 20 West 9th Street in what could be considered one of the best values of the year. Plans are to consolidate Diocesan offices around the metro area into the new building. Facts include: 140,000 square foot structure was formerly headquarters for the utility company, Aquila Inc.; A $60 million dollar renovation on the 1890's structure less than a decade ago was completed by Aquila; at $12 million, the Catholic Diocese purchased the property with the adjoining 565-space parking structure for substantially less than appraised value.

RESIDENTIAL CONDOMINIUM SALES

Residential condominium sales in this submarket have remained stable over the last 12 months. Approximately the same number of condominium units sold in 2010 as in 2009. Median unit prices are up by 7% this year and for the last quarter of 2010 median sale prices increased by 60% over the previous quarter. Though it is too early to track this trend, it may be an indication that the downtown condo market is thawing.

CHANGES TO MISSOURI TAX CREDIT PROGRAMS

Significant changes to Missouri tax credit programs may have a negative impact on the downtown submarket. State budgetary shortfalls have prompted proposed changes to Missouri Historic Preservation Tax Credits and a strong legislative look at low income housing tax credits through Missouri Housing Development Corporation (MHDC). Downtown development has been heavily influenced by the combination of these two incentive programs in past years.

The Town Pavilion scored big in 2010 with over 237,000 square feet of leasing to major tenants including the Federal Deposit Insurance Corporation, NAIC and Westrope.

The 2010 MHDC tax credit awards this year for 4% and 9% projects were not favorable to Kansas City-based developers. Currently, downtown has 17,000 residents. There is a goal to bring that total to 35,000, which many believe is necessary to ensure the long-term success of retail and restaurant uses in the area. The additional 18,000 residents will require about 10,000 housing units. The proposed limits on "stacking" of State and Federal Credits will reduce the number of units being produced and extend the time to reach the 35,000 resident goal.

In the spring of 2011, the citizens of Kansas City, Missouri will be voting to retain or end the 1% earnings tax now in existence. The downtown and midtown submarkets will be heavily impacted by the result of that vote when it comes to funding existing services.

The year ahead, 2011, is a mayoral election year as well. With strong mayoral leadership, Kansas City may be able to recoup some influence lost to other parts of the state, including the development tax programs that have been so critical to previous downtown advancement.

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

KANSAS CITY OFFICE MARKET

The 78,000 square foot building located at 8455 Lenexa Drive in the Pine Ridge Business Park was 100% leased on a long-term commitment by Uhlig LLC, an advanced technology publishing firm.

Expect corporations to begin investing in expansion and hiring in 2011 as the overall economy continues to slowly improve.

Job growth continues to be the basic fundamental affecting the health of the office market. After improvement in the first half of the year, job growth in the U.S. declined and only recently have new jobs begun to be added.

At this stage in the recovery, the jobs added continue to be offset by first time unemployment insurance claims, which are averaging around 450,000 per week. That number needs to be consistently below 400,000 per week to indicate meaningful job creation. The sluggish employment market is evidence that while corporate profits are back up to their pre-recession peak, companies are sitting on cash and not expanding or hiring in any meaningful numbers.

Expectations are that corporations will begin investing in expansion and hiring in 2011 as the overall economy continues to slowly improve. Lawrence Yun, chief economist for the National Association of REALTORS® (NAR), who believes even this slow improvement will benefit the office market, says "The basic fundamental of raising commercial leasing demand resulting from a steadily improving economy, means overall vacancy rates have already peaked or will soon top out." He goes further to say, "The outlook for the office market has moderated with modestly declining vacancy rates expected as 2011 progresses." During the last quarter, demand for office space started to trend up for the first time since 2008 with the demand increasing in the Midwest and Mountain West where energy development has begun. At the same time, rents began to edge up fractionally.

The Society of Industrial and Office Realtors (SIOR) Commercial Real Estate Index, performed a survey of over 400 local market experts, which shows total vacancy rates slowly improving, but with soft rents and elevated levels of sublease space as companies continue to improve efficiency and shed excess space caused by layoffs, attrition or job consolidation. SIOR projects the current office vacancy will change very little in 2011 stating that:

- Rents will likely decline as much as 1.6% nationally.
- The market will experience some positive absorption in 2011 after absorbing 3.7 million square feet of negative absorption in 2010.

OFFICE MARKET

Nationally, while the office market has taken a beating for four of the last eight quarters, positive absorption has finally started to be reported in two of the last three quarters.

- The U.S. vacancy rate for all classes of buildings was 12.6% at the end of 2010, according to CoStar.
- That is down from 13.4% in 2009, but still more than 11.9% at the end of 2008, which was just the beginning of three consecutive quarters of negative absorption.
- In total, net absorption was 37.9 million square feet in 2010, evidence of a slightly improving economy, but absorption over the past eight quarters was still negative 2.1 million square feet.
- During that same time, asking rents have dropped $2.00 per square foot.
- Locally, vacancy stands at 13.7% at year-end.
- Absorption ended the year with a negative 266,550 square feet on deliveries of only 57,408 square feet.

In contrast to the national scene, quoted rents in the Metro area have remained relatively stable, although rent concessions and aggressive marketing have resulted in effective rent discounts of 12% to 15% for creditworthy tenants. Average asking rents decreased from $18.23 per square foot at the end of 2009 to $18.17 per square foot.

In large buildings, typically owned by institutions, rent concessions for good credit tenants are common on the front end of deals. The increased rent comes on the back end to lower the effective rent in an effort to protect property value as buildings near the end of their hold period.

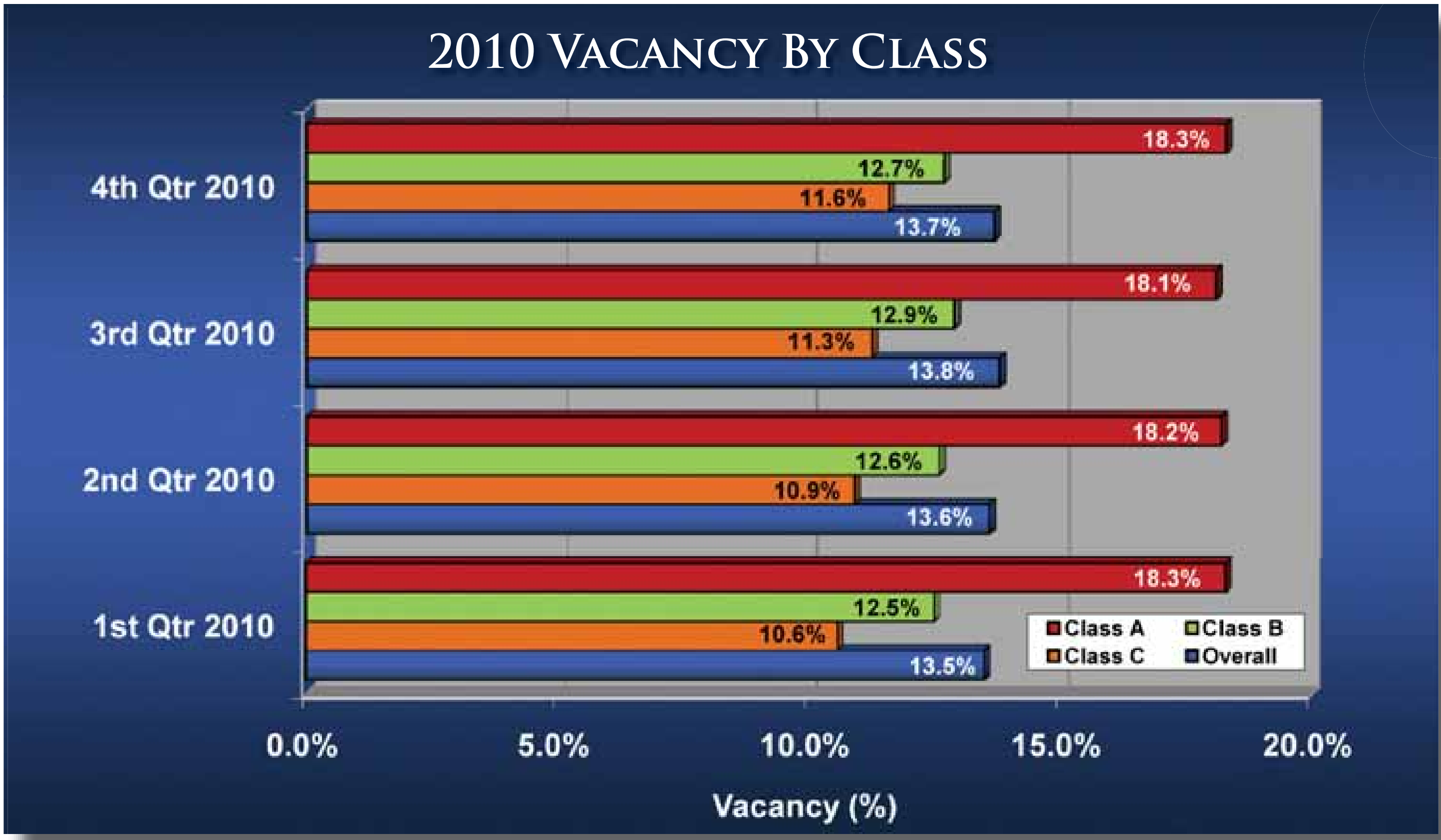
Fortunately, Kansas City does not have the huge overhang of office space seen elsewhere, and, as evident by our 8.6% unemployment rate, we don't have many big corporate headquarters that have been quick to shed workers and excess space in the recent downturn.

Expect quoted rent to increase slightly in the coming year as we work our way through excess inventory and vacancy rates begin to go down. Nevertheless, when a credit tenant needs little or no tenant improvements, effective rents will continue to be dropped to make a deal and keep a tenant or fill a vacancy as landlords continue to fight hard for credit tenants to keep space filled or to fill vacancy. A buyers' or tenants' market will continue to be experienced until at least 2012 as job growth improves at a snail's pace.

"Expect quoted rent to increase slightly in the coming year as we work our way through excess inventory and vacancy rates begin to go down."

ON A SMALL SCALE, KANSAS CITY MARKET MIRRORS NATIONAL MARKET

On the supply side, nationally, 39.8 million square feet was under construction at the end of 2010 compared to 109 million at the end of 2008. This slowing of the development trend may begin to reverse in late 2011 as developers compete



As Sprint continues to downsize their Kansas City headquarters staff, expectations are that in addition to the 420,000 square feet sublet in 2010, as much as 1-1.5 million of the 3.9 million square foot complex will be put on the market for sublease.

to get tenants to move and investors and bankers begin to seek the historic safety of real estate for investment.

On a small scale, the Kansas City market mirrors the national market. The only new building under construction reported at year-end, is the West Edge project on the Plaza, which has just emerged from bankruptcy proceedings, and the 65,000 square foot Gibson building in Park Place. Do not look for any major new construction in 2011, unless it is for build-to-suit clients or is substantially pre-leased like the new 54,000 square foot office/retail building recently announced at Park Place in Leawood where Generali USA has agreed to move its U.S. headquarters.

The overall weakness in the market is exemplified by weak demand for Class A office space. It has recorded positive absorption throughout the year of only 27,500 square feet and no new space was delivered during the year. Occupancy of Class B space has been up and down all year, but with generally negative absorption as B tenants moved to reduced price A buildings, resulting in negative absorption of 54,870 square feet on deliveries of only 20,560 square feet at year-end. Class C properties suffered the worst with 239,200 square feet of negative absorption, and the same is expected for 2011.

MOST OF 2011 PREDICTED TO BE LIKE 2010

The conservative Midwest is a relatively bright spot for institutional investors compared to the deep vacancy trough being experienced on both coasts. Although unemployment here is less than the national average, we still have relatively high unemployment, and 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. The scale is just smaller, and it will take longer for our market to recover if history is any indicator. Usually, these conditions set up a great buyers' market, but this time, there are few investment grade properties for sale, cap rates are falling, and the financial markets have not loosened credit to allow for expansion. It looks like at least most of 2011 will be like 2010 for all parts of the country.

SOUTH JOHNSON COUNTY

At the close of 2010, the South Johnson County submarket consisted of approximately 26.7 million square feet of all building classes with 3.9 million square feet available, including 303,000 square feet of sublease space, a level down slightly from 2009.

The majority of sublease space continues to be offered by Sprint, which is currently offering three of its buildings for sublease at below market rates, including furniture. Apria Healthcare, Care Centrix, JP Morgan and Key Bank have all occupied Sprint sublease space within the past two years. Approximately 420,000 square feet have now been subleased at the campus. In addition, US Bank has subleased 185,000 square feet from Capital One. All of these factors keep the sublease market relatively stable, even though Sprint keeps offering more sublease space as they continue to reorganize and downsize to control costs.

At the same time, Embarq has vacated 106,200 square feet at 9300 Metcalf adding to the increase in vacancy from 13.6% at the end of 2009 to 13.7% at the end of 2010. Expectations for 2011 are that we will see a slight drop in vacancy toward the end of the year, but not below 12.9% to 13%.

Building Classes A, B, and C reported virtually no absorption during 2010, but had new deliveries of only 9,880 square feet with 115,900 square feet under construction at year-end. Unexpectedly, overall asking rates for direct deals increased from $20.23 per square feet at the end of 2009 to $20.34 per square foot at the end of the year, reflecting what may be the beginning of a shift toward firmer rents. However, rents are still down 12% to 15% across the board from pre-2008 levels, as landlords fight to keep tenants and fill vacancy.

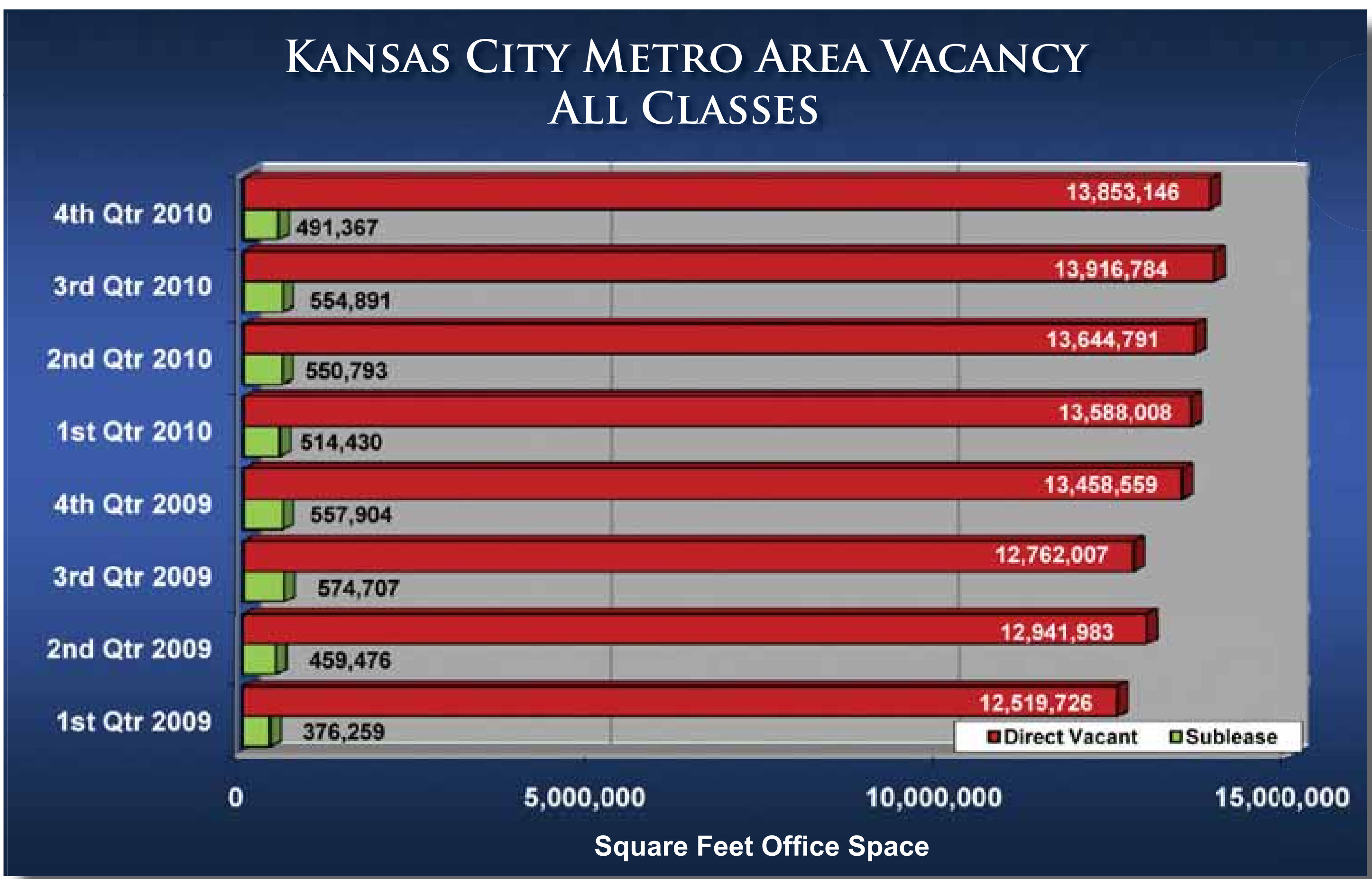
Class A properties experienced an increase in vacancy from 20.5% to 21% out of a total available inventory of 7.7 million square feet which was a continuation of what occurred in 2009, and evidence the aggressive pricing of A building landlords is not having much impact on market demand. Vacancy stood at 1.6 million square feet including 205,500 square feet of sublease space. Net absorption for 2010 was negative 193,700 square feet. New Class A properties accounted for only 65,726 square feet, with no new buildings under construction at the close of the year.

Class B properties total approximately 17.5 million square feet and experienced a 12.7% vacancy rate compared to 11.2% at year-end 2009. Approximately 2.1 million square feet remained available at the end of 2010 including 100,000 square feet of sublease space compared to 142,000 square feet available for sublease at the end of 2009. There was positive absorption of 225,000 square feet for the year, only 9,880 square feet of new construction of Class B properties during the year, and none under way at year-end.

Class C properties total approximately 1.4 million square feet and displayed a vacancy rate in 2010 that was 9.8% which was up from 7% at the end of 2009. This is further evidence of overall business closings and tenants moving up to Class B buildings as effective rents are lowered. Net absorption was negative 31,500 square feet during 2010.

NORTH JOHNSON COUNTY

The North Johnson County submarket includes approximately 11.4 million square feet of office space. Overall vacancy totals 1.4 million square feet, and includes only 44,000 square feet of sublease space. After new deliveries of only 7,000 square feet and 93,400 square feet of negative absorption, vacancy increased from 11.2% at the end of 2009 to 12.2% at the end of 2010. The 55,000 square foot Lenexa Center East mixed-use project delivered last year is in receivership and its prime tenant, Generali Insurance, has just agreed to move to Park Place in Leawood. Class A vacancy decreased from 14.7%



Hoefer Wysocki Architects leased 18,409 square feet of the 106,000 square foot Class A Pinnacle Corporate Centre III building located at 11460 Tomahawk Creek Parkway, Leawood, Kansas, bringing the building occupancy to 96.5%.

in 2009 to 12.2% at the end of 2010, despite 15,600 square feet of negative absorption. Within the 7.8 million square feet of Class B buildings surveyed, vacancy levels increased from 10.5% to 11.4%, with 7,000 square feet of deliveries and 22,900 square feet of negative absorption. Class C properties reported 15.4% vacancy, compared to 12.3% vacancy the previous year, as a result of 54,800 square feet of negative absorption.

Average asking rents for this submarket decreased dramatically from $17.15 per square foot at the end of 2009 to $16.84.

Recently, the Cameron Group, developers of the stalled Mission Gateway project, announced an extension of the $63 million STAR bonds Kansas has awarded the project. This extension now allows the project to start as late as June 5, 2011, and still qualify for bond underwriting from the state. The Cameron Group hopes to break ground in the summer of 2011.

CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The Downtown submarket includes the Central Business District, River Market, Crown Center, Freight House/ Crossroads and West Bottoms areas. These combined together consist of approximately 27.9 million square feet. Overall vacancy as of the fourth quarter 2010 was 14.9%. Total available space was 4.1 million square feet, including 111,000 square feet of sublease space. Class A properties had absorption of 218,990 square feet and vacancy of 20%, or 1.6 million square feet. Class B properties, which make up 14.6 million square feet of the overall submarket, had negative absorption of 132,641 square feet and a vacancy rate of 12.6%. Vacancies in the older Class C properties stood at 13.1% or just over 605,000 square feet at the end of 2010; after negative absorption of 94,300 square feet during the year.

The Central Business District (CBD) reported 87,400 square feet of absorption, registering vacancy at 16.5% on an inventory of 17.8 million square feet. Positive absorption of 173,300 square feet in Class A properties helped the overall market, and resulted in Class A vacancies dropping from 26.8% at the end of 2009 to 24.5% at the end of 2010. Vacancy levels dropped slightly within the 124 Class B buildings, from 14% to 13.9% despite 57,300 square feet of negative absorption. Overall, rental rates in the CBD stood at $18.27 per square foot up from $18.23 per square foot at the end of 2009. The largest deals in the CBD included the planned relocation of the Federal Deposit Insurance Corporation's (FDIC) 70,000 square feet from Crown Center to Town Pavilion.

The Crown Center area has a total of 6.3 million square feet in 66 primarily Class A and B buildings. Vacancy increased from 9.7% to 9.8% during the year, which was primarily due to the relocation of the FDIC from 2345 Grand Boulevard to Town Pavilion. Class A buildings had a vacancy of 12.6% at the end of 2010, or 347,000 square feet, and 45,700 square feet of positive absorption. Within the 24 Class B buildings, vacancy levels increased from 4.5% to 6.9%, with 60,900 square feet of negative absorption. The Freight House/Crossroads district, consisting of 105 buildings, experienced a 22.9% vacancy, substantially up from 17% at the end of 2009.

PLAZA/MIDTOWN

The "Jewel of Kansas City," also known as the Country Club Plaza, continues to achieve the highest lease rates and one of the lowest vacancies of any Kansas City submarket. Boasting a total inventory of a little over 9.1 million square feet, the market continues to be the "silk stocking" area for office users. Total vacancy for this submarket which includes the Midtown buildings and Brookside, is 13.2%. Lease rates on the Plaza range from the low $30.00's per square foot to the low $20.00's. Midtown and Brookside office space for the large user is minimal, but can deliver mid-teen value when it comes to lease rate.

Office users who call this submarket home typically value the retail amenities of the Plaza and a geographically centralized location for employees commuting from the greater metro area.

The Polsinelli Shughart law firm plans to vacate their existing office, and has opted for a build-to-suit project to be located up the hill at the intersection of 47th and Broadway where the Neptune Apartment complex is currently located. The law firm had a strong preference to stay on the Plaza but wanted to avoid burdening the Kansas City taxpayers by asking for City and State incentives to stay. Thus, this new building will have no incentives, which will bring millions of dollars in additional taxes to the area, while improving the Plaza's skyline.

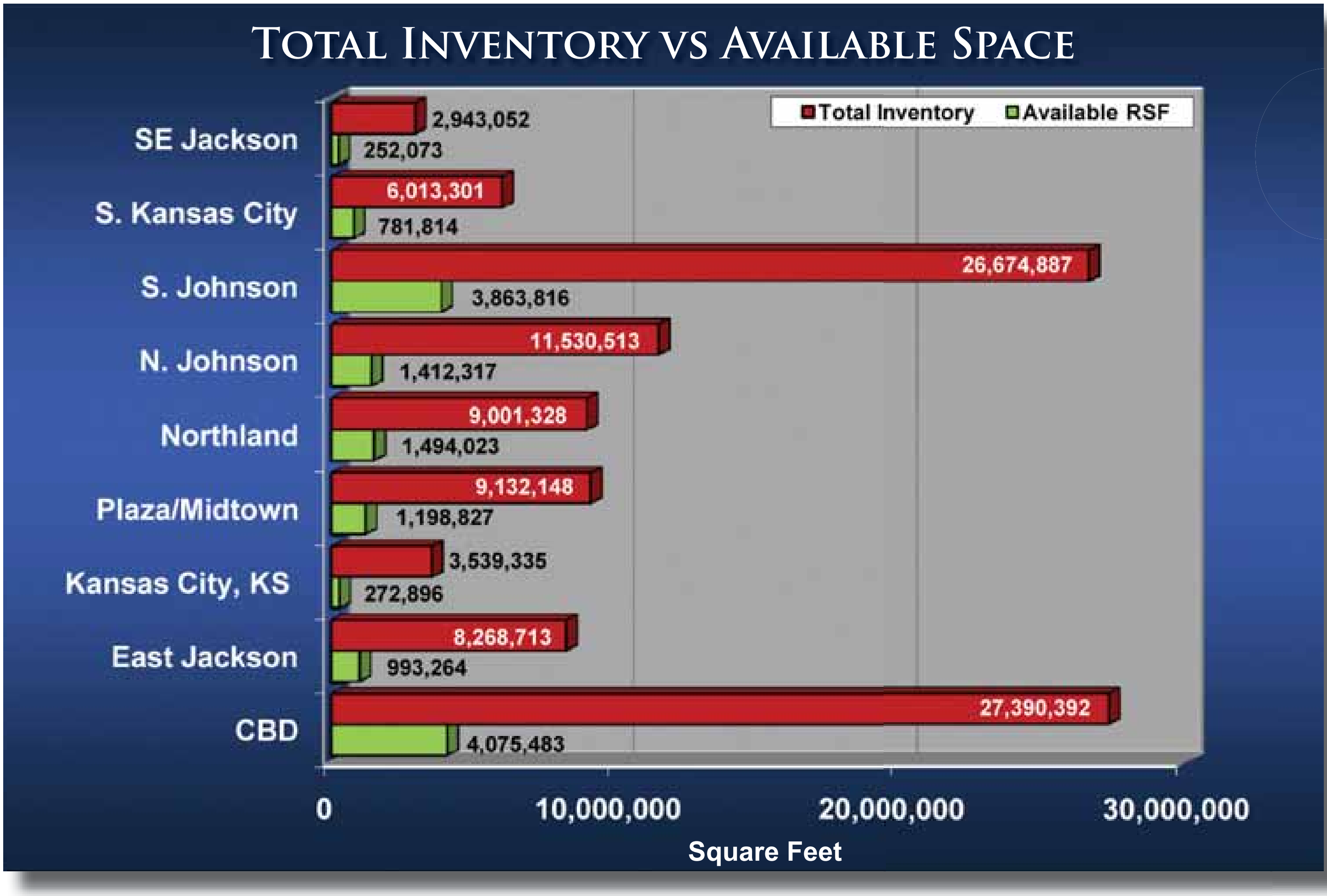
The West Edge has come full circle this year. The original proposed developer and owner of this land, Cecil Van Tuyl, has acquired the unfinished project in an entity called VA West Properties, LLC. This new ownership group plans to find a large tenant and complete the project.

SOUTH KANSAS CITY

The South Kansas City office market, consisting of over six million square feet of office space, continues to hold strong in these economic times. Although no new construction deliveries occurred, the market has continued to be home for many Missouri-based companies looking for value and accessibility.

The South Kansas City market:

- Consists of 178 Class A, B, and C properties.
- Has an average size of only 33,000 square feet.
- Experienced an overall vacancy of 13%.



The 13,816 square foot building located at 11250 Tomahawk Creek Parkway in Leawood, Kansas was purchased by Brandmeyer Holdings II, LLC. for $2.6 million.

The majority of the market is located at Holmes and I-435, along Ward Parkway from Wornall Road north to 75th Street, and it incorporates the complex of buildings leased by Cerner at 71 Highway and I-435.

This office submarket has three main users who will affect the market in years to come:

- Burns & McDonnell, whose headquarters are on Ward Parkway and who have expanded into buildings at I-435 and Holmes.
- Cerner has leased all the former Marion Labs complex and continues to grow and add to their presence in this market, the North Kansas City market, and most recently the Kansas City, Kansas market.
- The GSA, with their concentration of offices in the Bannister Road complex as they continue to explore moving operations downtown to a build-to-suit facility on the east side of the CBD.

Average rental rates achieved in this market, range from $19.50 a square foot down to $16.50 per square foot. Most office prospects of the area need to be located in Missouri but want to be as close to the Kansas state line as possible. That demand plus aggressive rental rates has provided good value for the tenants in this market. Looking forward, expect this submarket to continue to be among the lowest vacancy in the City.

NORTH OF THE RIVER

Ranging from just north of downtown, to beyond the airport, and encompassing both Clay and Platte counties, the North of the River submarket is geographically one of the largest in the metropolitan area. Yet, despite it's vast size, it has remained a secondary office market with minimal impact on the overall office market due to the general southward growth of the City.

The buildings that comprise this submarket are grouped generally into several clusters spread throughout the area including, Airworld (airport area), Briarcliff, North Kansas City, Gladstone and Liberty.

The 434 buildings that inventoried in this submarket in 2010 total nearly nine million square feet and experienced 16.6% vacancy as of year-end, which was the highest reported vacancy of any individual submarket. The submarket had negative absorption of nearly 100,000 square feet for 2010.

Average rents in the submarket were $16.25 per square foot, full service, one of the lowest across the city, and a full $.25 lower than the same period in 2009.

Outside of the general macro economic conditions, the relative age of the product in this submarket is a factor in the high vacancy and low rents, with essentially all buildings in the submarket being Class B and C buildings.

A bright spot for this submarket is in the Class A buildings. Only six buildings, totaling nearly one million square feet, exist in the submarket, primarily in the Briarcliff development just north of downtown. Briarcliff claims a 92% occupancy with a positive net absorption of over 46,000 square feet for the year.

There were no significant deliveries or leases signed in this submarket in the past year.

Looking forward, these general trends are expected to continue in the North of the River submarket. As the overall economy strengthens, leasing should pick up and some of the vacant space should backfill with local and regional companies, although significant new construction is not expected.

EASTERN JACKSON COUNTY

Consisting of Blue Springs, Independence and Eastern Kansas City, the Eastern Jackson County submarket has 650 properties totaling approximately 8.3 million square feet. At the end of the fourth quarter 2010, the Eastern Jackson County submarket saw a vacancy rate of 12% or 993,300 square feet compared to 12.8% or 1.03 million square feet at the end of 2009. The three Class A properties in the submarket total 257,526 square feet and reported a vacancy rate of 16.8% or 43,360 square feet, the highest in the submarket. Class B properties include 229 buildings and 4.3 million square feet with 12.6% or 544,309 square feet available, and a negative absorption of 33,010 square feet. The Class C properties total approximately 3.7 million square feet, and experienced a vacancy rate of 11% or 405,600 square feet, on negative absorption of 4,570 square feet.

As in a majority of the office markets in the metro area, no buildings are currently under construction. At the end of the fourth quarter 2010, net absorption for this submarket was negative 35,000 square feet. The overall asking rent for the Eastern Jackson County submarket is $15.02 per square foot in 2010 compared to $15.10 at the end of 2009.

SOUTHEAST JACKSON COUNTY

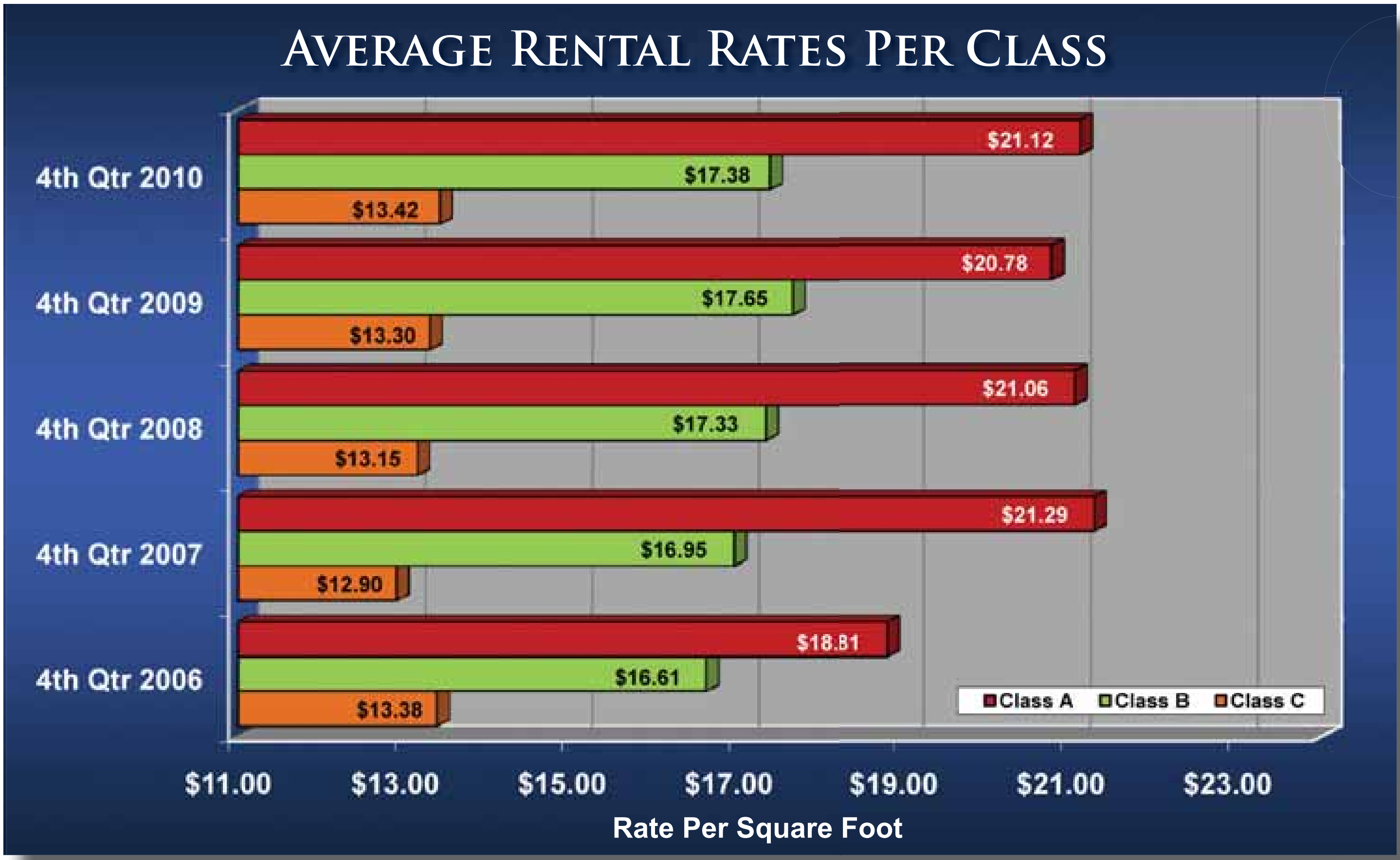
The Southeast Jackson County submarket is one of the smallest submarkets in the area with 204 buildings totaling approximately 2.9 million square feet.

At the end of the fourth quarter 2010, the vacancy rate for the submarket was 8.6% or 252,000 square feet. The vacancy rate represents a slight decrease from 2009 when it was 9%. The two Class A properties total 103,442 square feet, and reported a vacancy rate of 19% or 19,657 square feet. Class B properties total 97 buildings and 2.19 million square feet and experienced a vacancy rate of 7.8% or 171,400 square feet. Class C properties total 108 buildings and 645,000 square feet and experienced a vacancy rate of 9.5% or 60,900 square feet.

The overall absorption for the end of the fourth quarter 2010 in the submarket was 58,600 square feet. The rental rates increased to $17.42 per square foot compared to $15.53 per square foot at the end of 2009.

KANSAS CITY, KANSAS

With only 217 buildings totaling approximately 3.5 million square feet, this is the smallest submarket. This historically inactive market is included this year as a result of the Cerner Corporation's large land purchase and future plans to



The University of Kansas Hospital Authority signed a long-term lease for 56,956 square feet at the Broadmoor Place building located at 5799 Broadmoor in Mission, Kansas, with expectations of further expansion at the building.

develop a 600,000 square foot office campus near the Legends retail center, the new Sporting Kansas City soccer club, and the Kansas Speedway.

At year-end 2010, the vacancy rate was 7.7% or 272,896 square feet compared to 7.2% or 248,320 square feet at the end of 2009. Two Class A properties total 275,454 square feet and reported zero vacancy. Class B properties include 64 properties totaling approximately 1.6 million square feet and a vacancy rate of 8.6% or 133,700 square feet. Class C properties are the largest segment in this market, and include 151 properties totaling approximately 1.7 million square feet with a vacancy rate of 8.1% or 139,200 square feet.

This market experienced negative total absorption of 10,200 square feet in 2010. Rental rates decreased by approximately 2.8% throughout the year, from $15.36 per square foot at the end of 2009, to $14.53 per square foot in 2010.

NEW CONSTRUCTION

News is brief about new construction because, as predicted, it came to a virtual standstill in 2010. Only four new buildings were completed with three of those being small office buildings in Johnson County. The largest building is the 65,700 square foot Gibson Building, delivered in the fourth quarter, and 66% leased to RPS Financial Group.

Two Hallbrook Place, built entirely as a spec building with 110,000 square feet, was completed in the second quarter of 2009 and has no tenants announced. It's not new construction, but it is a new building which is available.

Although the West Edge project has been reported as under construction for the past two years, it has never been completed due to bankruptcy proceedings. Now that the Van Tuyl organization has purchased it, final construction is slated to begin in 2011.

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 forecasted for 2011 will be build-to-suit projects with little or no excess space.

The year ahead 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 the large overhang of newly constructed projects with large vacancies, which are prevalent on the East and West Coasts.

RENTAL RATES

The average full service asking rent in all classes of buildings surveyed in the Kansas City Metro area was $18.17 per square foot at the end of 2010. This represents a decrease of .27% from the $18.22 per square foot average at the end of 2009. This decrease overall is significant in that it is substantially lower than the 1.6% decrease anticipated nationally in 2010, and gives further evidence to the slowing of market velocity and landlords' efforts to retain occupancy.

While the average Class A quoted rent was $21.12 per square foot in 2010, it is up 3% from 2009. Class B quoted rents decreased to $17.22 per square foot from $17.38, a drop of .09%. Class C quoted rates increased from $13.19 to $13.42 per square foot at the same time.

Effective rents for each building class are still being discounted, from 12% to 15% off quoted rents, as landlords fight to reduce vacancy and maintain cash flow. Credit tenants that need little in the way of tenant improvements are able to achieve very attractive overall effective rents for new leases as landlords try to conserve cash flow.

SUMMARY AND OUTLOOK

While the "Great Recession" is officially over, office building owners locally and nationally continue to fight decreasing rents, high vacancy, increasing tenant improvement costs and frequent tenant downsizing and insolvency. Only in the latest quarter have unemployment numbers begun to improve slightly as the private sector begins to slowly add new hires. Hopefully, this trend will gain momentum in 2011 as the economy begins to show some preliminary signs of re-awakening.

However, keep in mind that the national unemployment rate dipped from 9.8% to 9.6% late in the second quarter only to lose that momentum and increase to 9.8% again. At no time in our history has it been so evident that the health of the office market is directly tied to job growth. Economists are beginning to tout a slow but steady improvement in the economy during the coming year, but we now know the activities of the Federal Reserve and Congress have done little to stimulate the growth in 2010 which their programs were expected to accomplish. It will be up to the private sector to begin to stimulate economic growth.

Look for the coming year to be a little better than 2010. There will be some improvement in vacancy levels. Available leasing opportunities will dwindle and limited new supply and moderate demand will combine, causing the market to gradually move from a buyer's market to a seller's market. This will be accompanied by an increase in rents. Projections are that rents will begin to improve nationally 2% to 3%.

Expect that tenants will begin to see the "blend and extend" opportunities vanish as market power starts to shift back to landlords. Landlords, at the local level, hope to see the same improvement. However, if history is a guide, any significant improvement in our market will lag behind the national statistics. There is not likely to be much evidence of a consistently improving market until late 2011 or early 2012.

THE FORECAST CAN IMPROVE DRAMATICALLY, IF:

- The new Congress reins in spending.
- The Federal Reserve is able to contain inflation.
- The world financial markets begin to stabilize.

If this occurs, corporations large and small will be more inclined to invest the cash they have been hoarding in new plants and equipment, new hires and new or expanded office space.

Contributors include: Estel C. Hipp, Senior Vice President; Daniel J. Durkin, Vice President; Hunter Johnson, Assistant Vice President; and Brian Bock, Sales Associate.

The Park Place mixed-use development in Leawood, Kansas announced at year-end a new 54,000 square foot office and retail building to be built in 2011 anchored by the 40,000 square foot office of Generali USA Life Reassurance.

Interline Products consolidated multiple Kansas City facilities into a larger space of 85,638 square feet and WEG Electric Corporation leased 41,103 square feet in Nieman Business Park recently vacated by Bushnell Outdoor Products.

There is a compelling trend pointing to increased future distribution activity for the Kansas City Metro area and Intermodal projects such as CenterPoint and the Kansas City Intermodal Facility in Edgerton, Kansas. It is a movement by some manufacturers to locate factories in places such as Mexico with accessibility to the U.S. NAFTA Highway, rather than places like previously favored China and Indonesia.

China alone has seen its labor costs increase by at least 20% each year since 2004. Along with rising labor costs in Asia, there are also rising costs for fuel. Kansas City continually makes it into the top ten locations for consideration by logistics companies thanks to factors such as:

- Quality of roads and trucking.
- Access to ports and waterways.
- Number and condition of rail lines.
- Tax structure.
- An available and skilled workforce.

When moving goods through the Midwest, Kansas City's central location stands out as an effective choice. Area Development Magazine rated Kansas City number five among the top U.S. distribution logistics locations. The city was also noted for its innovative logistics activity, its accessibility to 78% of the consumer markets within two days, as well as its capacity for growth.

In the realm of transportation and distribution, Kansas City features a number of key components that make it a top-tier logistical hub:

- The largest rail center by tonnage in the U.S.; five Class I and seven regional or short-line carriers.
- More Foreign Trade Zone space than any other U.S. city (over 10,000 acres).
- Located at the intersection of three Interstate highways and one that may soon become an Interstate (I-35, I-70, I-29 and U.S.-71).
- The top air cargo center in a six-state region.

- Located on the largest navigable inland waterway.
- In the heart of a rail corridor spanning coast to coast across the U.S. and extending from Canada to Mexico.

KANSAS CITY INTERMODAL FACILITIES

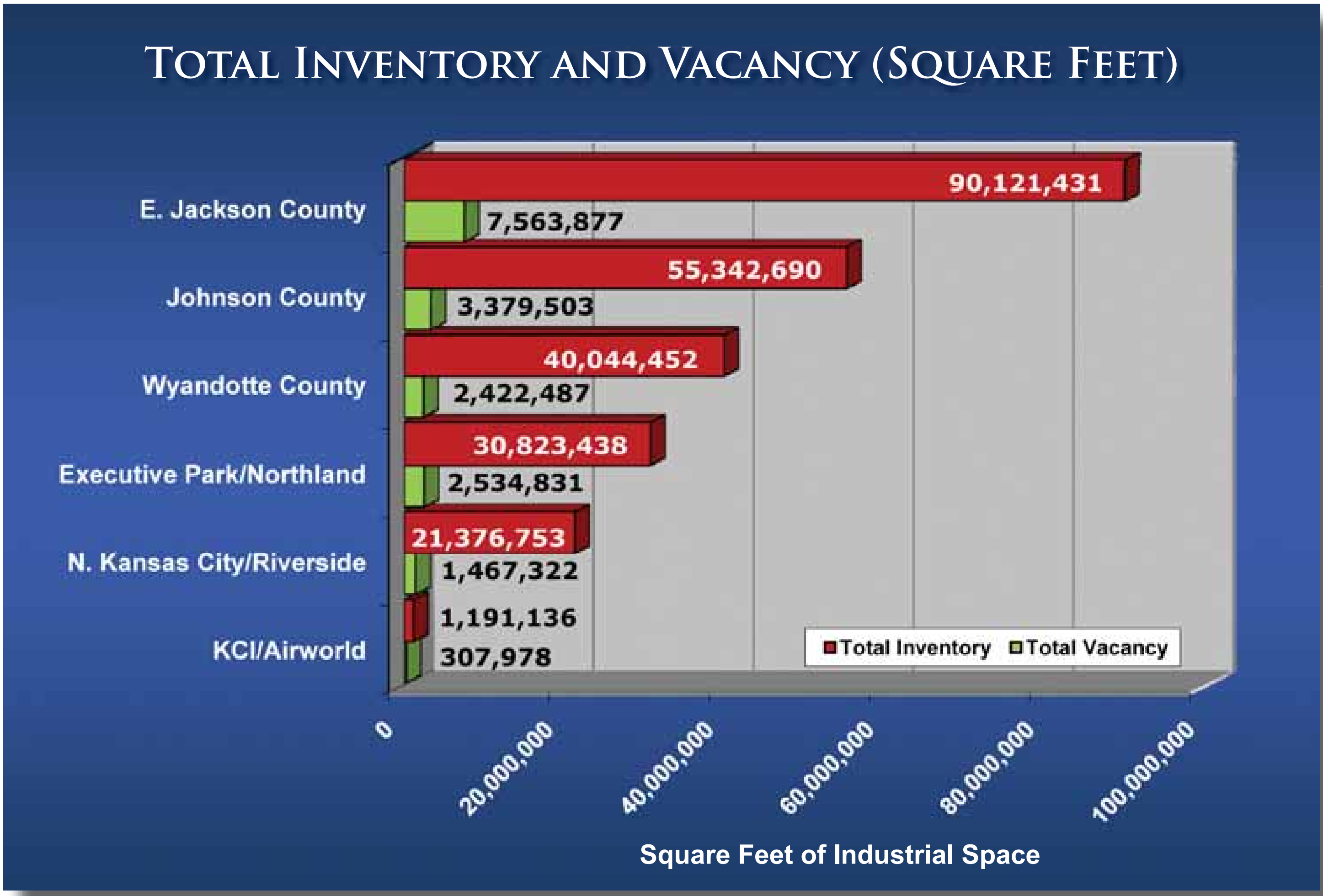
Kansas City's major intermodal facilities made large strides in 2010. Located throughout the Kansas City region, each facility offers low transportation costs as well as all of the other advantages previously noted and makes the city a prime intermodal destination. After major battles with prospective neighbors and annexation by Edgerton, Kansas, the $250 million KCI Intermodal BusinessCentre (KCIIBC) is finally underway. This is also thanks in part to a $35 million grant from the State of Kansas for roadway infrastructure that will help construction start on the 443-acre site in Edgerton. It is being developed by The Allen Group. Currently Allen is responding to build-to-suit opportunities and offering land sites for owner/occupants with occupancy available in the second quarter of 2011.

In July 2010, KCIIBC opened its first phase of development, 183 acres with full infrastructure in place and 'building-ready' sites that can accommodate buildings from 180,000 square feet up to one million square feet. The first structure to be built on a speculative basis may be a 494,000 square foot state-of-the-art cross dock distribution center, to be located just south of Kansas City International Airport (KCI). The building would be expandable to 988,000 square feet. The 800-acre KCIIBC will eventually encompass buildings totaling 5.4 million square feet.

Facilities at KCIBC will offer significant economic incentives, including a unique financial structure that offers, in lieu of real estate taxes, a ground lease payment, at a fraction of the cost of the taxes for similar buildings. KCI has a plan that includes expanding capabilities and enhancing the attractiveness of aviation facilities associated with manufacturing and industrial operations.

CENTERPOINT INTERMODEL CENTER

CenterPoint Intermodal Center-Kansas City (CICKC) is located at the former Richards-Gebaur Memorial Airport in Kansas City, Missouri. Developed by CenterPoint Properties, the 1,340-acre development includes a 1,000-acre industrial park located directly adjacent to the newly opened Kansas City Southern Intermodal Facility (KCS). With infrastructure in place, and opened in 2007, these sites are build-ready for facilities up to one million square feet. CICKC offers direct access to the natural deep water port of Lázaro Cárdenas in Mexico, via KCS rail lines. KCS acquired an intermodal facility adjacent to Mexico City which strengthens the access to and from Kansas City and



Mexico playing to those companies interested in "near shoring."

In mid 2010, the General Services Administration signed a lease agreement to house the relocation of the National Nuclear Security Administration's Kansas City manufacturing operations (NNSA). This new facility will be adjacent to the KCIC on Missouri Highway 150 near U.S.-71 Highway. The NNSA Campus carries a hefty price tag of $687 million. Even more impressive, however, will be the ongoing economic value the project will provide to Kansas City and the governmental industry. This development should provide a jump-start for CICKC.

KANSAS CITY LEADS THE NATION IN "GREEN INITIATIVES"

Another area that the region is leading the nation in is "Green Initiatives" including the production of bio fuels. 50% of U.S. Bioenergy (biodiesel and ethanol) capacity exists within a 300-mile radius. Kansas and Missouri rank among the top in the highest potential for biomass feedstocks.

In addition:

- The region is at the most central point of North America's Great Plains Wind Corridor, with conservative estimates claiming up to 20% of the nation's future electric supply will be wind generated.
- Regional utilities, KCP&L and Westar Energy have made significant investments in large-scale wind facilities in the region and remain committed to increasing electric generating capacity through sustainable resources.
- Kansas City has the engineering backbone to support the nation's growing advanced energy industry and the workforce to support advanced energy companies.
- Several billion dollars of research are underway every year through both public and private institutions that are cultivating distinctive expertise across the entire spectrum of plant-animal-human health research.
- Another major catch is the new $600 million National Bio and Agro-Defense Facility, which will be America's first line of defense in the war against animal and agricultural disease, and will be developed near Manhattan, Kansas.

CONFIDENCE IS KEY TO ECONOMIC SUCCESS

A number of factors will influence the direction of the industrial market in 2011. Job creation and consumer spending may be the two most significant factors. While these are actually separate indicators, they will go hand-in-hand to determine the speed in which the industrial market begins to recover.

Multiple sources are projecting relatively flat employment in the near term with only subtle increases over the next couple of years. Although Kansas City's economy remains somewhat stagnant, the local unemployment rate has continued to remain under the national average.

Though it is difficult to predict, both business activity that drives demand for industrial space and the belief that businesses will grow are slowly improving based on confidence by business owners. There were positive indicators in 2010 that trucking volume was rebounding in concert with retail sales that had improved after weakening in 2008 and 2009. 2010 holiday season sales increased 3.3% over 2009, providing additional confidence. Even though overall deal velocity continues to lag, the lack of speculative development over the past several years has allowed the Kansas City industrial market to better withstand the down-turn and more quickly respond to normalcy as compared to other sectors. While caution is still the dominant theme, there are more businesses that are now willing to make decisions regarding their real estate situations.

The belief that the economy is somewhat stabilized and the worse is behind us is comforting. It is also providing decision-makers with the confidence to act, whether it is for growth or cost controls for a smaller facility. While asking rents have not dropped significantly, evidence suggests that the decline in effective rates due to Landlord concessions, has become more pronounced.

It is anticipated that 2011 will be similar to 2010, with tenants still having the upper hand. Industrial vacancy is projected to surpass 8.5% for the first time since 2002. Landlords are more focused on improving their properties and becoming more competitive with tenants' needs. Considering both the increase in vacancy and the economic environment, Landlords will need to put forth greater efforts on tenant retention strategies in 2011.

"Even though overall deal velocity continues to lag, the lack of speculative development over the past several years has allowed the Kansas City industrial market to better withstand the down-turn and more quickly respond to normalcy as compared to other sectors."

INDUSTRIAL PARK MARKET

Investments in industrial park projects are growing, but new speculative development in the market has remained stagnant. Activity stalled while waiting for stronger tenant demand, thus keeping the market from becoming over built as compared to many other cities. Developers have been what has held the vacancy rates in the single digits and lease rates to remain relatively flat while other markets have seen significant rental declines.

FedEx SmartPost leased an additional 95,000 square feet and Bushnell Outdoor Products leased 220,000 square feet at 22101 West 167th Street in Olathe, Kansas, bringing the building's total occupancy for the building to 73%.

WAREHOUSE LEASE RATES

Overall warehouse lease rates averaged $4.76 per square foot in 2010 and are expected to remain flat in 2011. Generally, the only new construction over the last two years has been in the big box distribution sector where light has begun to shine. Several tenants are in the request for proposal stage for potential new expansions, consolidations and/or new entries into the market. This could spur state-of-the-art build-to-suits for distribution centers, thus potentially justifying some speculative development for late 2011- 2012 delivery.

MANUFACTURING SPACE

Complimenting the distribution warehouse space in the market is the well established manufacturing sector:

- General Motors is investing $136 million in their Kansas City, Kansas Fairfax assembly plant, which will build the next generation of popular mid-sized Chevrolets and Buicks.
- Jet Midwest located their full U.S. operations in Kansas City. They provide commercial spares, engines and complete aircraft to the aviation industry worldwide.
- Smith Electric Vehicles' U.S. headquarters and assembly operations and U.S. battery manufacturing operations for Dow Kokam have helped make the region attractive for this emerging industry.

Emerging optimism in the industrial community for 2011 and beyond lies in the ground, and the infrastructure that will continue to be developed in the industrial land sites and intermodal centers throughout the metro area.

In real estate, it is always about location and Kansas City is right where it needs to be: in the center of the country's transportation network. Developers and investors will look to the distribution and logistics part of the market to start the rebound in the market and their wallets.

MAJOR MARKETS

JOHNSON COUNTY

Johnson County, Kansas continues to be the most active and important industrial submarkets in the area. It is a hub for local light industrial developments. With access from I-35 and I-435 and from many other highways and major roadways, most of the development here is along these thoroughfares.

Benefiting from strong demographics, including a well-educated employee base, Johnson County continues to be the most stable market in the Kansas City area.

This industrial submarket is comprised of nearly 54 million square feet in 1,444 buildings, with an average building size of 37,000 square feet. As a whole, it is 92.9% leased mirroring the overall industrial market occupancy rate of 92.4%.

BENEFITS OF JOHNSON COUNTY

The advantages of this submarket are found in the average rental rates which are the highest of all submarkets. Rates continue to rise despite economic conditions, currently $6.07 per square foot net, versus an overall industrial market average of $4.20 per square foot. This is a significant increase over the previous year's $5.90 per square foot.

The product mix is 10% 'flex' buildings and 90% 'bulk' warehouse. Net absorption was negative 234,182 square feet, with nearly 74% of that loss coming in buildings located north of I-435, and approximately 11% of the total loss came in flex buildings. This net absorption represents approximately 0.4% of the total inventory, and compared to the overall Kansas City market absorption of negative 1,794,000 square feet or nearly 0.8% of the total market, is further evidence that this submarket is stronger than the overall market.

Market and economic conditions held new development in check with one 9,200 square foot building in the Parkside Business Center. No new projects are currently under development.

LEASING AND SALES ACTIVITY

Leasing activity was sparse in 2010; however, a few deals made headlines.

Significant new leases during the year include:

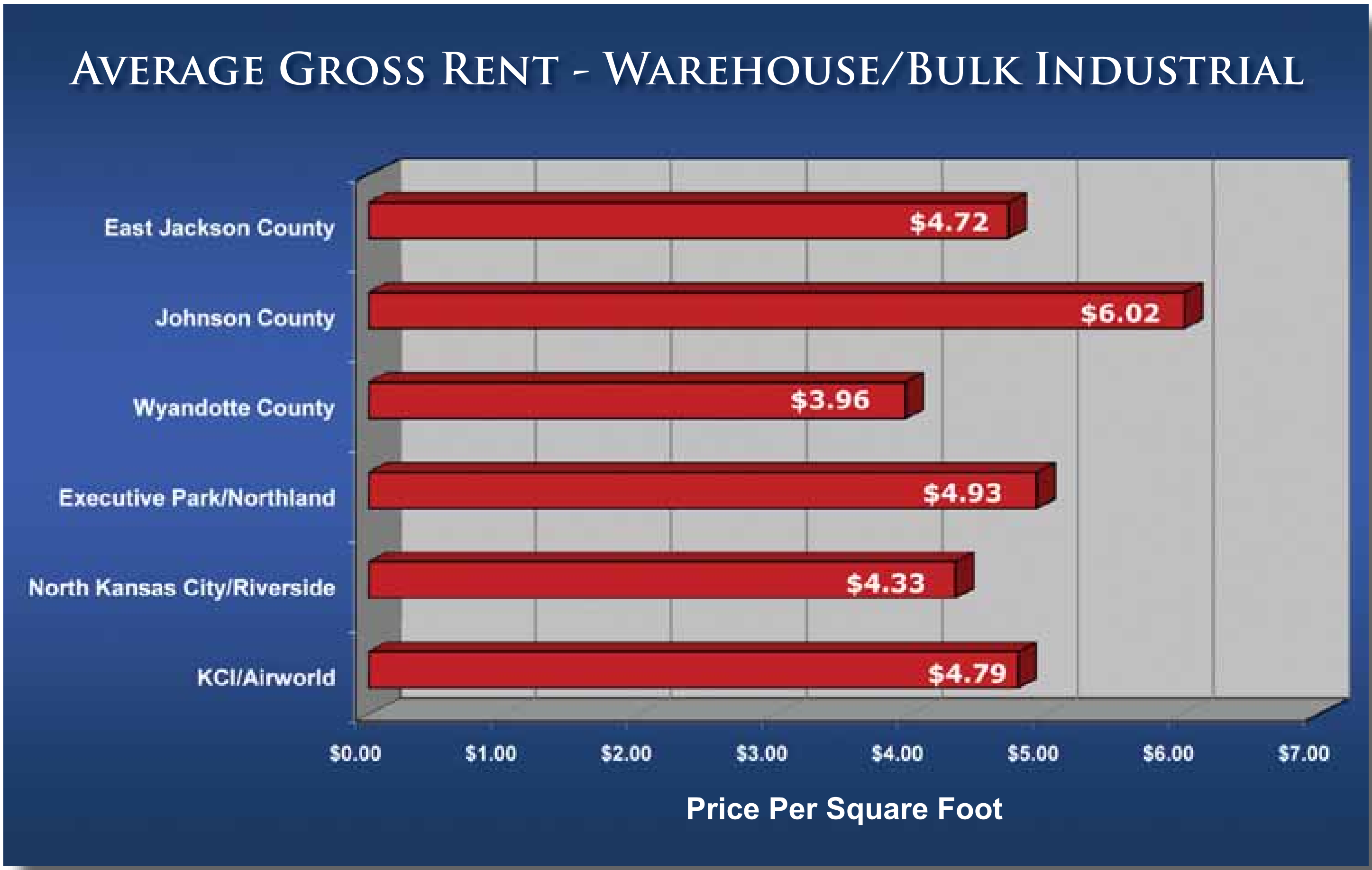
- Russell Creations leased 65,714 square feet in the Lindenwood Business Park in Olathe, Kansas.
- EiKO, Ltd. leased approximately 72,000 square feet in Shawnee, Kansas.
- Back to Basics leased 35,000 square feet in Lenexa, Kansas.
- Movers Equipment Services leased 30,472 square feet in Lenexa, Kansas.

Significant renewals and expansions include:

- Hockenbergs Equipment and Supply's expansion into a total of 65,575 square feet in Lenexa.
- Freightquote.com's expansion into a total of 106,042 square feet in Lenexa.
- FedEx SmartPost's 95,000 square foot expansion into a total of approximately 221,000 square feet in Olathe.

Sales transactions were historically low in 2010 as well. A few significant sales occurred including:

- Avon Products, Inc. purchase of the Silpada Designs building in Renner Business Park for $44 per square foot.
- Dennis Garberg and Associates' purchase of 14001



EiKO, Ltd. leased 72,000 square feet of the 111,000 square foot Perimeter Park building, located at 8500 Hedge Lane Terrace, in Shawnee, Kansas, bringing occupancy to 100%.

Marshall Drive for approximately $37 per square foot.
- A $2.5 million sale lease back of the Goldblatt Tool building.

Also of significance is the U.S.-69/75th Street/I-435 improvement project. This project will improve access and reduce traffic congestion along 69 Highway. The first phase of this multi-phase project is from 75th Street to I-435, and includes adding lanes to 69 Highway, reconstructing Lenexa Drive from 87th to 75th, and improving interchanges at 103rd, 95th, 87th and 75th streets. It is well under way, with work to continue through most of 2011.

EXECUTIVE PARK MARKET/NORTHLAND PARK

Executive Park and Northland Park contain more than 30 million square feet of the City's industrial product, with five million of that being underground warehouse space.

Located immediately north and south of the Missouri River on the east side of Downtown Kansas City 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 typically is sought 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 contains more of the big box space, often as a result of build-to-suits for users that have outgrown space in Executive Park.

In 1974, ADCO affiliate Lee National Corporation sold its 21% interest in the KCS Railroad back to KCS and in part, received 1,200 acres of land, which ADCO developed as Executive Park, a massive, multi-use park which is the hub of a broad range of business/commercial enterprises including offices, showrooms, and bulk distribution. This convenient location, situated between I-435 and I-35, is now 95% developed.

FRONT STREET IMPROVEMENTS

Front Street, the main east-west connector, links the Interstates and downtown and ushers thousands of vehicles to and from the park on a daily basis. Significant road improvements are planned in 2011 and will help alleviate congestion in the Park.

With the Paseo Bridge (I-35) replacement having been mostly completed in late 2010, the focus will be on improving Front Street and the interchange at I-435 and Front Street. The Conventional Diamond Interchange (CDI) at I-435 and Front Street has been redesigned and will be reconstructed as a Diverging Diamond Interchange (DDI), to accommodate more traffic, move it faster, decrease congestion, and increase safety.

Front Street will be improved as a pair of one-way streets that cross at two signalized intersections and will take one year to complete, during which there will be major congestion issues on this roadway.

NOTABLE ACTIVITY

In December 2010, after months of nervous speculation, Ford Motor Company said it would bring a new vehicle to the Claycomo plant to replace the popular Ford Escape SUV. Ford made that pledge the same day it announced it would move production from Claycomo, Missouri to build the next-generation Escape at its Louisville, Kentucky plant starting in late 2011. This major transaction will keep this plant humming along, although it will probably cause a lot of movement in the industrial market in 2011, as suppliers compete for contracts and warehouse space near the plant.

Activity in large spaces was fairly strong in 2010 and should carry over into 2011. Overall vacancy rates rose slightly in 2010 to 8.3% compared to 7.6% at year-end 2009. Net absorption was a negative 212,877 square feet. Average asking rates of $4.93 per square foot remained unchanged from 2009.

In late 2010, Graphic Packaging signed a long-term lease for 155,000 square feet at 5800 Stilwell. This building was occupied by Glazer's Distribution until they moved down the street in early 2010, to 210,000 square feet to accommodate expansion. Graphic Packaging has a manufacturing plant in the nearby east bottoms and will warehouse and distribute their packaging materials from this location.

Some other notable transactions included:

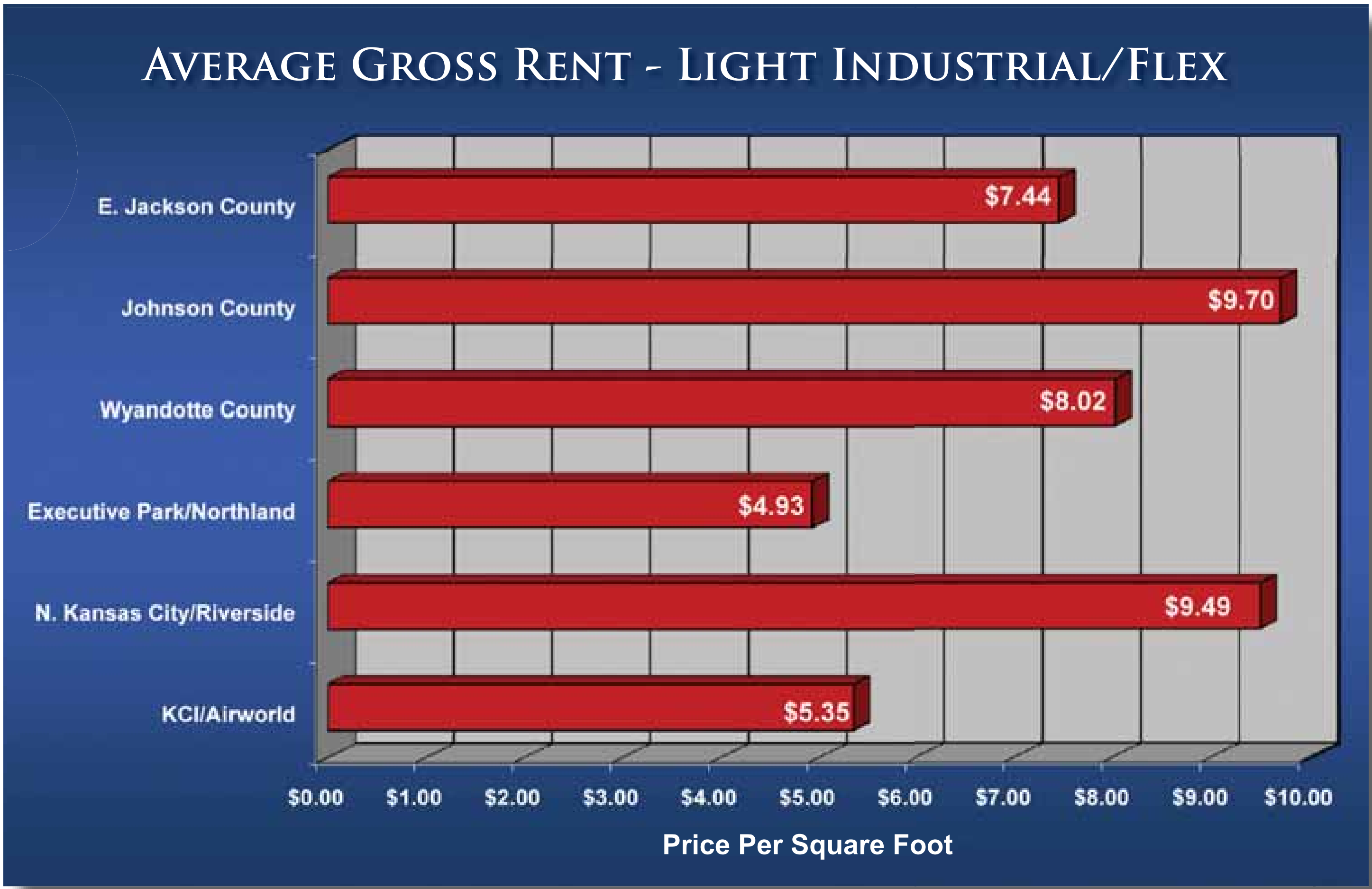
- Sika Sarnafil leased 53,326 square feet, which they used for the warehousing of roofing materials and waterproofing systems. It is Sika Sarnafil's second location in the metro area.
- Diapers.com expanded by 210,000 square feet to a total of 312,000 square feet.
- Replico expanded by 26,816 square feet for a total of 49,856 square feet.
- Safelite Auto Glass Fulfillment leased 34,000 square feet in Executive Park.

SUBTROPOLIS TRANSACTIONS

In SubTropolis, the Hunt Midwest Underground development, large transactions were made with:

- Vanguard Packaging leased 250,000 square feet.
- Bayer Crop Science expanded to a total of 209,000 square feet.
- Best Service Stores expansion of 41,000 to 101,000 square feet.
- Advance Logistics and Fulfillment added 21,600 square feet and brought their total to 151,175.

In Northland Park, Murphy Tractor & Equipment completed a new 43,000 square foot building to replace their



Graphic Packaging International leased a 155,000 square foot building at 5800 Stilwell Avenue, in Kansas City, Missouri, for distribution of production from their nearby Kansas City manufacturing plant.

much smaller facility in Executive Park.

NORTH KANSAS CITY/RIVERSIDE

The North Kansas City/Riverside submarket is made up of two smaller Missouri communities that offer the most centralized locations and are just north of and adjacent to the downtown Kansas City business core.

This submarket offers users a wide range of building types, from modern high cube distribution to flex/industrial to manufacturing. Most of this industrial space was built in the 1940's and 1950's or earlier.

These locations are not only central to the metro area, but have terrific and immediate access to I-35, I-29, I-635, and I-435 and are minutes north of I-70.

Although bridge repair and replacement projects have created some bottlenecks and limited some of the traffic flow between this submarket and others south of the Missouri River, this natural barrier has also created insulation and separated it from older residential urban blighted areas in the Missouri and Kansas river bottoms, south of the river.

SUBMARKET ENHANCEMENTS

Land in these submarkets is enhanced by the substantial revenue each city receives from its respective casino operators. This further combats blight and decay since the revenue supplements capital improvements for infrastructure and public safety.

Many entrepreneurial business owners are drawn to the submarket to avoid the 1% earnings tax paid by employees working in Kansas City, Missouri. However, the earnings tax is now subject to a referendum aimed at eliminating the tax. If the tax is eliminated, a major draw to this submarket would be neutralized, even if it is phased out over ten years. However, with this tax elimination, there would also need to be a reduction of blight as well as new improvements to public safety in the East Jackson County and Executive Park submarkets before they would truly compete with the North Kansas City/Riverside submarket. For these reasons, North Kansas City/Riverside is expected to remain very stable throughout this economic turbulence and will rebound quickly in the coming years.

While these benefits continue to keep the submarket stable for the long-term, it could not avoid small declines in occupancy in 2010:

- Overall vacancy rose to 7%.
- Industrial/flex vacancy spiked, up from 4.5% at the end of 2009, to nearly 22% in the 3rd quarter of 2010, before settling back to 18% at year's end.

Larger distribution spaces fared better, but still saw over 460,000 square feet of new vacancy in 2010. Most transactions were small and did not have a great impact on the overall occupancy rate considering the total inventory of space near 22 million square feet.

LARGEST TRANSACTIONS FOR 2010

The largest transaction of the year was Demdaco renewing its lease on 435,000 square feet for three years at $2.95 per square foot. This was a great save for the Cobalt portfolio.

Another notable activity included the United Stationers Supply renewal of 118,801 square feet in North Kansas City. In both cases, these tenants had determined that the submarket did not have substantial large blocks of space available for relocation consideration.

Charles D. Jones acquired a building and opened a new 54,000 square foot service and distribution branch at 621 E. 14th Avenue and Welch & Wilson, LLC leased a 155,000 square foot warehouse at 1836 Levee Street, both in North Kansas City.

In late November, Riverside announced the proposed 170,000 square foot building to be built for Hoover Universal. This location, in the planned "Horizons Project," will provide close proximity to the General Motors Fairfax Assembly Plant in Kansas City, Kansas. The new building has been tentatively scheduled for completion by the third quarter of 2011. This project would benefit from state and local tax abatement as well as infrastructure improvements that would provide land and extend a roadway and utilities to the site.

MOST IMPORTANT DEVELOPMENTS OF 2010

The Hoovers Universal announcement could be one of the most important developments of 2010. If the project receives final approval, Hoovers would provide seats for the new 2012 Chevrolet Malibu. The current Malibu seat contract is fulfilled by the Riverside operations of Faurecia Corporation and Woodbridge Corporation. Malibu seat fulfillment accounts for a large majority of each company's Kansas City operations.

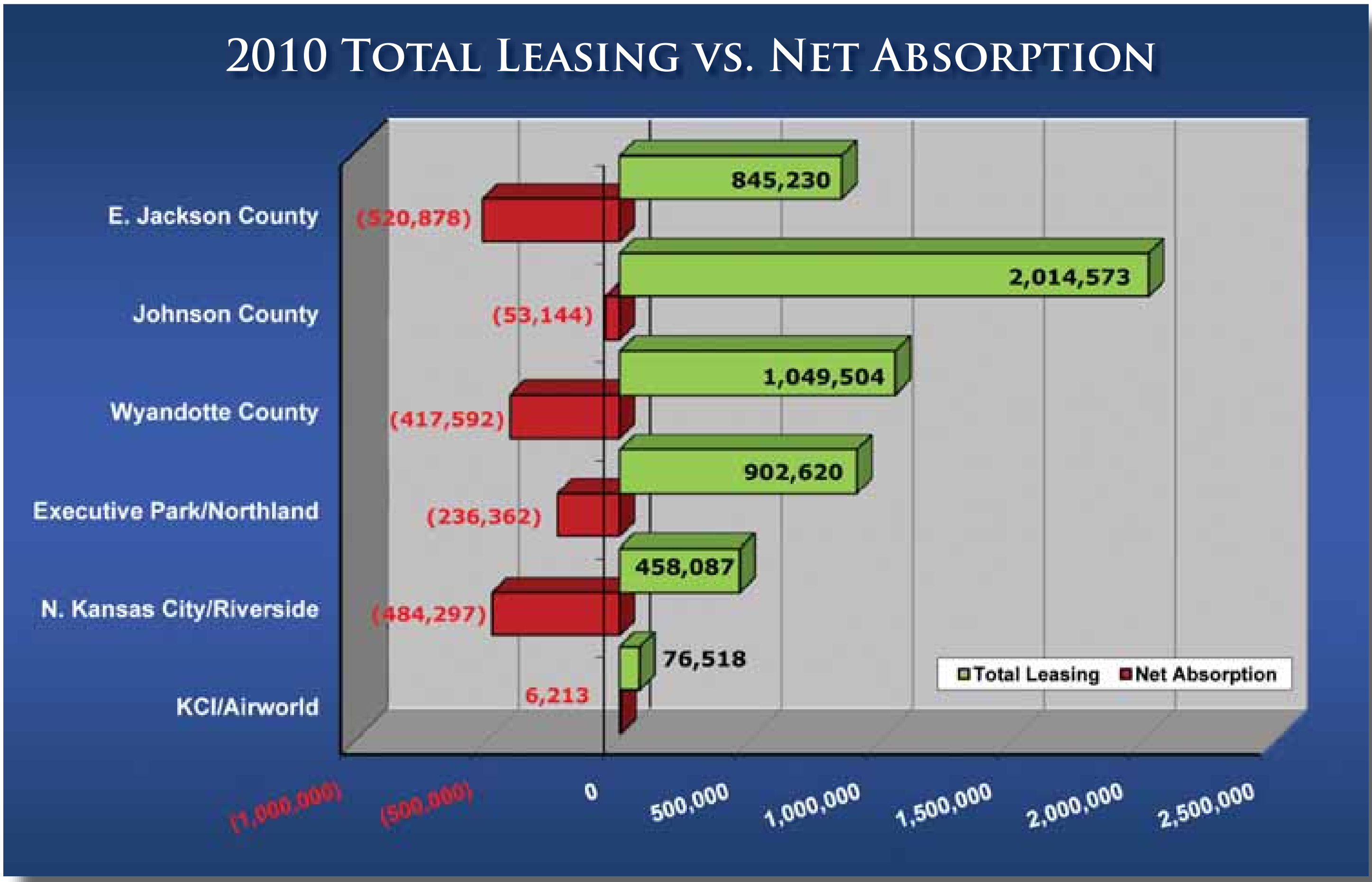
If the project proceeds, Johnson Controls might consolidate its Northland Park operation to the new Riverside location. The Northland Park plant manufactures seats and interior components for the Ford F-150 which is built in Claycomo, Missouri.

Despite uncertainty among individual users, the North Kansas City/Riverside submarket remains a good choice for industrial businesses of all types and sizes.

KCI/AIRWORLD

The KCI/Airworld Industrial submarket is the smallest industrial submarket at 4.6 million square feet in 77 buildings. However, this submarket is one of the more important submarkets due to its massive land availability and strategic locations adjacent to the largest air freight facility in six states.

With the increased costs of shipping, companies are looking for savings any way they can. Locating their distribution centers near accessible highways, airports and train lines, and especially within the Intermodal, provides these savings. As a



The 114,867 square foot building located at 9909 Lakeview Avenue in Lenexa, Kansas, was leased by Premium Mills, a distributor for Crosswinds Pet Products.

result, intermodal parks such as KCI Intermodal Business Center (KCIIBC) are gaining momentum.

FLEX AND WAREHOUSE SPACE VACANCY

Even though the combined industrial and flex space vacancy remained unchanged at 7% from year-end 2009 to year-end 2010, flex space vacancy increased from 18% to 22% during that time.

In contrast, vacancy in warehouse space decreased from 4% to 3%, which was somewhat similar to the overall industrial market in 2010.

Quoted rents for combined industrial and flex space decreased significantly from $5.22 to $4.79 per square foot, though mostly due to increased vacancy levels in flex space since the industrial rates held steady at $5.60 per square foot. About 18% of this submarket or 808,026 square feet is flex, indicating that there is a significant share of flex space in what is surely to become more of a logistics submarket in the future. An additional encouraging sign for this submarket is a positive net absorption of 12,087 square feet.

The most notable transaction is the relocation of Nordic Windpower USA's headquarters and operations from California and Idaho to a manufacturing facility the company will build at KCIIBC, the first building to be built in the development. They will invest $15.8 million and create more than 200 skilled positions over the next six years.
Other notable deals include:

- Crane Cartage, a logistics supplier of Harley Davidson, which leased the former Sony distribution center of 97,155 square feet.
- Wainwright Industries expanded to 200,000 square feet.
- Both Toyota and Haldex expanded into locations outside their main facilities, to 45,000 square feet and 105,000 square feet, respectively, in the Airworld Expansion Building.
- Med4Home's leased 49,952 square feet in the Congress Building I.
- Jet Midwest relocated their national aircraft maintenance base into the former American Airlines Overhaul Base at KCI.

KCI/AIRWORLD INDUSTRIAL SUBMARKET IS POISED FOR GROWTH

With its proximity to KCI and I-29, companies will likely be looking at this part of the City for their distribution centers. This market allows air freight delivery to and from trucks to reach anywhere in the U.S. population overnight. With KCIIBC capable of supporting 5.4 million square feet of buildings, along with other build-ready development sites for air cargo and air freight, these are the first steps in this submarket's growth. There should be continued momentum in 2011 following improvement in the economy.

WYANDOTTE COUNTY

Wyandotte County had several industrial transactions that came to fruition by the middle of 2010. Those included:

- Relocations and expansions by Sealy Mattress, moving from

Comprehensive Logistics, a provider of distribution and transportation management, leased 227,000 square feet of the 513,000 square foot industrial building at 5300-5350 Kansas Avenue in Kansas City, Kansas.

Fairfax to Armourdale, from 100,000 square feet of low ceiling space to 121,500 square feet of modern high cube space.

- Aaron's Inc. new Kansas City Center, took 123,735 square feet of high cube space.
- Liberty Fruit expanded by 30,000 square feet to a total of 156,000 square feet.

This activity was supplemented in the third quarter of 2010 by expansion announcements in the Fairfax Industrial district:

- Tritz Pallet leasing 74,600 square feet.
- Owens-Corning leasing 184,000 square feet.
- PBI-Gordon taking 45,120 square feet.

In addition, Schier Products acquired a 44,700 square foot building and Appleton Paper leased 103,836 square feet, both in Edwardsville, Kansas. Comprehensive Logistics, a third party logistics provider, signed a lease for 227,000 square feet at 5300 Kansas Avenue in the Turner Industrial District. Altogether, these transactions resulted in over one million square feet of leasing volume and will contribute to the overall stability of the submarket for the next several years.

Wyandotte County, Kansas recorded another year of negative net industrial absorption. Weaker demand in flex/industrial product contributed to this negative absorption. Overall though, the submarket remained healthy, recording 7% vacancy at year's end.

DIVERSITY IN USE

Submarket health can be attributed to diversity in use and renewal of building inventory with manufacturing, distribution, and industrial services represented across several industries.

For instance, in May of 2010, Earp Distribution began construction of a 160,000 square foot distribution center in Edwardsville, Kansas. It will replace their existing facility at 6550 Kansas Avenue in the Muncie Industrial District. This $26 million facility will keep the supplier of meats and other products used in McDonald's and Chipotle Mexican Grills, in Wyandotte County.

In August 2010, Zeolyst International announced a 43,000 square foot addition to their Armourdale manufacturing plant. The addition will include $20 million in real estate, with 10 year tax abatement as part of a total investment of $83 million. The company makes high-performance catalysts and absorbents for the petroleum refining and petrochemical production industries.

SMALLER INDUSTRIAL USERS

Weaker demand persisted among smaller industrial users. These users operate in flex product, which comprises a small portion of industrial in Wyandotte County. The higher costs associated with office finish in flex spaces and lower credit of users in less functional spaces have resulted in higher flex vacancy in Wyandotte.

HEALTH OF BULK INDUSTRIAL

In total, the 40 million square foot Wyandotte County, Kansas industrial submarket ended 2010 with negative net absorption of 400,000 square feet. This pushed vacancy up by 1% to 7% overall.

Larger bulk type distribution, warehouse and manufacturing buildings accounted for a disproportionately large percentage of the total industrial building inventory in

Wyandotte County. The weakness in flex space had little impact on occupancy rates.

The health and the bulk of industrial has helped insulate the submarket by off-setting the 15% vacancy in flex product. If state, county, and city leaders continue to support development incentives to create jobs, increase operational efficiencies and reduce overall production and distribution costs, the Wyandotte County submarket will remain healthy and well-positioned for continued growth.

EAST JACKSON COUNTY/DOWNTOWN

This submarket is in Jackson County and excludes Executive Park. The only significant new construction activity is for the infrastructure work for the National Nuculear Security Administration (NNSA) adjacent to the CenterPoint-KCS Intermodal Center. However, recently proposed biotechnology sites in south Kansas City could potentially ignite some significant industrial growth in the coming years.

In addition, the Missouri Innovation Park in Blue Springs totaling some 500 acres is expected to be a focal point for science and technology-based innovation in Western Missouri in the coming years.

"The majority of the inventory in the central industrial district of Jackson County is functionally obsolete, multi-story industrial buildings, many of which saw adaptive reuse as offices, residential and loft space, during the market run-up from 2003-2007."

INDEPENDENCE BUSINESS PARK

A new business park coming to Independence is the 360-acre Independence Business Park. It will be located in the Little Blue River Valley at Highways 78 and 7 across from Lake City Army Ammunition Plant, and it could include industrial, office and retail space. The project is the result of years of talks involving the city and The Community of Christ land owner and Clayco Inc., the project developer.

It will take years to fully develop and no tenants are signed up yet. Clayco executives noted that this public-private partnership will require the city to play an active role using incentives. The site is not far from the Harmony residential development which is set to get under way in 2011. With 3,000 acres in the valley, some of which has been held for close to 100 years, some experts speculate that they may be waiting for many more years for the project to become reality.

TREND FOR 2011 IN EAST JACKSON COUNTY

Although East Jackson County 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. It does not typically provide the higher quality buildings that are in demand by logistics and distribution companies today.

The overall combined industrial and flex vacancy rate at the end of 2010 jumped from the 2009 year-end of 8% to 12%. Leasing activity in 2010 totaled 874,930 square feet resulting in a negative absorption of 520,878 square feet compared to 2009's positive net absorption of 344,299 square feet.

With the huge cross section of building age and quality, rental rates were all over the board with an average warehouse rate of $4.80 per square foot. 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 from the older buildings and stifling overall rent growth.

The trend for 2011 will be a continuance of what has occurred over the last eight to 10 years; little or no growth of industrial product and a weakening of occupancy levels and rental rates in the older established neighborhoods. Often those firms that are growing tend to relocate out of these neighborhoods and into other metro submarkets where they can find higher quality space.

The majority of inventory in the central industrial district of Jackson County is functionally obsolete, multi-story industrial buildings, many of which saw adaptive reuse as offices, residential and loft space, during the market run-up from 2003-2007. Much of the upside, and what holds the overall submarket rates steady, came from the newer flex developments in Lee's Summit. These continue to show demand that began around 2000, though currently with less vigor than over the last couple of years.

Vacancy rates in Lee's Summit were down 5% in 2009, providing few options for tenants seeking space in this portion of the submarket. Occupancy did loosen in 2010 to 6% so a few more options became available.

Notable transactions included:

- A lease extension by Church & Dwight in Grandview on 125,000 square feet.
- Kansas City's Parks & Recreation Department's purchase of a 27,500 square foot service facility in the West Bottoms.
- KC Store Fixtures lease of 75,000 square feet.

Contributors include: Michael R. Block, CPM, Principal; Zach Hubbard, Vice President; Scott M. Cordes, Assistant Vice President, Brian Bock, Sales Associate and Ryan Almaleh, Sales Associate.

RETAIL MARKET

The Power & Light District, located in Kansas City's Central Business District, added several traditional soft goods and service retailers this year making the district more appealing as a shopping venue.

So long as high unemployment persists, consumers are likely to continue to be tentative in their shopping patterns. Retail real estate is on a rocky road to recovery nationwide, with monthly retail sales on a bit of a roller coaster ride.

In April sales were up 5%, excluding gasoline and motor vehicles, May sales were down 1% and in June they were up again, but only by a paltry 0.1%. As of October, sales were up 2.6% nationwide compared to October, 2009.

In the first bit of positive news in awhile, November sales jumped 0.8% from October's level. Consumer spending in December was expected to rise 3.4% year over year. This is the highest level since 2007. Spending was especially strong in the clothing, books and sporting goods sectors.

Even though retailers cut back on holiday inventories again in 2010, many were restocking to keep store shelves full through Christmas. There weren't a lot of "must-have" new products this holiday sales season and most consumers were still focusing on the necessities, but they opened their wallets again.

Development is anticipated to start again in 2011. Developers aiming to get their projects out of the ground are watching the residential market. Housing starts need to increase in order to support new development. New homes peaked in 2005 with more than 11,000 single family homes having been built. In 2009, only 2,200 new single family homes were built. Through October 2010, 2,089 residential permits were issued throughout the metro. The top cities included Kansas City, Missouri with 415 permits issued, Olathe issued 305, Overland Park had 168 and Kansas City, Kansas and Wyandotte County issued 157 permits.

RETAILERS EXPANDING AREA LOCATIONS

Kansas City continues to attract new retailers to the area although at a slower pace than in years past. Retailers expanding their area locations include: O'Reilly Automotive, Title Boxing, Family Video, Smashburger, Jersey Mike's, Jimmy John's, Schlotsky's Deli, Yogurtini, McAlister's Deli, Noodles & Co., Burger King, Dollar General, Family Dollar, Dunkin Donuts, Orange Leaf, Jack-in-the-Box, and Trader Joe's.

Three multi-unit restaurant chains closed their Kansas

Despite Cormac filing bankruptcy and the halt to the construction, JC Penney opened its doors at Corbin Park at 135th Street and Metcalf Avenue.

City area stores this year. Ted's Montana Grill exited abruptly in November, closing their three stores in the Power & Light District, Legends Outlet and 135th Street in Leawood. TGI Fridays closed their two stores on separate occasions. The Independence store closed in November and their Shawnee store closed in September. O'Charley's closed their northland location and their Independence restaurant in December. Several of these prime locations are certain to find users in 2011.

CLEARING THE WAY FOR NEW RETAIL PROJECTS

Kansas City awaits a sustained recovery. Filling existing vacancies, the return of available financing, strength in the residential market and increases in retail sales will all help clear the way for new retail projects.

ICSC reports the U.S. gross leaseable area per capita is 20.44 square feet while Kansas City has 39.62 square feet per capita. In our opinion, this is partly driven by the nature of our trade area – low density development spanning an enormous metro area. People don't want to drive long distances for their goods and services. We continue to be concerned about the large amount of space per capita. The obvious result is fewer people shopping at each location, thus lower sales per square foot, especially in this economy. This, coupled with high rents and net charges, has forced merchants to reevaluate each location. Owners are being forced to lower rents to keep tenants in spaces, in some cases, to levels below their break even point. While we see some development resuming, we wonder whether we will see less than past years so that ultimately, our space per capita level will start to head downward.

Overall, vacancies remained relatively flat, moving from 11.5% at the end of 2009 to 11.6% at the end of 2010. Citywide, average rental rates dipped slightly from $13.24 per square foot at the end of 2009 to $12.87 per square foot at the end of 2010.

JOHNSON COUNTY, KANSAS

Dominating the list of wealthiest zip codes, Johnson County's consumer confidence reached a high of 68.6, the highest level since January, 2009. This compares to the national consumer confidence index of 57.9.

The Gateway project in Mission received an extension of its $63 million in sales tax revenue bonds for its development on the former site of Mission Center Mall. The redevelopment plans for a 2.5 million gallon saltwater aquarium, movie theater, fitness facility and hotel. The extension of the $300 million project delays its requirement to break ground until June. To help, the development located at Johnson Drive and Shawnee Mission Parkway is looking at trading out several hundred thousand square feet of planned retail space for the same amount of space for office users.

One Nineteen, located at 119th Street and Roe Avenue, saw West Elm and JP Wine Bar close their stores in the development in January. Since then, they have added a few new tenants including the Roasterie Café, La Bodega, Fo Thai and Charming Charlie. Additionally, Trader Joe's has announced they will open in the development early in 2011.

Corbin Park's bankruptcy occurred in January, 2010. The subsequent agreement between the Bankruptcy Court and the developer to allow for the sale of the 1.1 million square foot, 96-acre development located at 135th Street and Metcalf

Avenue, in Overland Park allowed for bidding to occur in October. Bids received are under analysis with expectation of an announcement of a buyer in early 2011. The buyer will be challenged to finish construction and face the current economic leasing challenges.

Prairiefire, having secured The American Museum of Natural History, asked the Overland Park City Council in December, 2010, for an opportunity to raise an additional $30 million in order to get the project off the ground. The developers of the $588 million dollar project are seeking a Community Improvement District that would collect the additional money through an extra 1.5% sales tax within the district. The CID would replace the Transportation Development District already in place. Overland Park does not currently have any CIDs in place. A subcommittee is reviewing the plan and anticipates setting a date for public hearings regarding the proposal. Sixty-six million dollars in state-issued STAR bonds have already been granted to the project. Construction is anticipated to begin in 2012 with the Museum opening in 2013.

Merriam Town Center, located at I-35 and Johnson Drive, filled the former Pier I Imports with a local clothing store, Market Revolution. The store offers overstock merchandise at up to 70% off on retail brand names. The success of retailers like this signal that area consumers are looking for a bargain. The former Blockbuster is now China Garden Buffet. The second phase of the development remains 100% vacant; however, Spirit Halloween occupied the former Circuit City during the Halloween shopping season. Across I-35 at 67th Street is Merriam Pointe. The developer of the 239,000 square foot proposed development declared bankruptcy late in 2009. A Marshall-Ilsley affiliate group has now assumed ownership of the land and is tracking with intended suitors.

THE GOURMET BURGER CRAZE IS ACTIVE:

- BRGR Kitchen + Bar opened in Corinth Shopping Center at 83rd Street and Mission Road. The owner plans another concept to be rolled out in Corinth in 2011.
- Foster's Grille and Five Guys opened stores near 119th Street and Metcalf.
- Burger King opened at K-10 and Ridgeview in Bonner Springs and at the Shops at Blue Parkway.
- Smashburger opened at 119th Street and Blackbob Road, at 119th Street and Lamar Avenue, as well as an operation in Lawrence.
- Freddy's Frozen Custard and Steakburgers purchased a pad site at 135th Street and Metcalf Avenue. They also opened in Lawrence and expect to open a new location north of the river in 2011.

Hy-Vee would like to build an 83,000 square foot grocery store at Valley View Shopping Center located at 95th Street and Antioch Road. This would accommodate a relocation of its current store at 95th Street and Quivira. Due to the cost of demolition and utility relocation, the developer is seeking tax increment financing for the project. Last year, Overland Park granted TIF to the Cherokee South Shopping Center renovations; it was the first project to receive such incentives from the city.

CVS Pharmacy has opened two freestanding locations, relocating one from an inline space at 95th and Nall to a new freestanding building across the street. They opened a new location at Prairie Star Parkway and Woodland. Walgreen's is hoping to take over the former Coyote Grill location in Leawood Town Center at 119th Street and Roe Avenue.

The former Feist Furniture location at 95th and Quivira

SELECTED NEW RETAIL CONSTRUCTION

New Construction	Square Feet	Project Status	Tenants Announced
Metro North Mall Redevelopment	1,872,467	Planning Phase	N/A
Corbin Park	1,100,000	Phase II Under Construction	Lifetime Fitness & Von Maur, JC Penney (open), remainder of development stalled
The Trails	1,000,000	In Development	Demolition of former mall completed, development stalled
Coffee Creek	1,000,000	Planning Phase	N/A
The Falls at Prairie Star	600,000	Planning Phase	N/A
Antioch Center	515,000	In Development	Sears, Burlington Coat, demolition to begin 2011
Villaggio at Leawood	425,800	In Development	M&I Bank (open)
Schlitterbahn Vacation Village	400,000	Phase I Complete	Phase I of Water Park (open), Scheels Sports (announced)
City Center Lenexa	400,000	Under Construction	Lifetime Fitness (open), remainder of development stalled
Prairiefire at Lionsgate	348,000	In Development	American Museum of Natural History (announced)
Crystal Springs	330,000	Planning Phase	N/A
Citadel Plaza	300,000	Planning Phase	N/A
Merriam Pointe	239,000	Planning Phase	N/A
The Gateway	150,000	In Development	Aquarium (announced); retail space has been reduced
Crossroads at Belton	130,000	In Development	Price Chopper (announced)
Valley View Redevelopment	83,000	In Development	Hy-Vee (TIF Pending)
Prairie Creek	70,000	In Development	Retail and Office
Metcalf Village	25,000	In Development	Retail at site of former car dealership
Total Square Feet:	8,988,267		

sold to Kansas Sampler. American Girl Doll store opened in Oak Park Mall along with Five Guys and Noodles & Co. Noodles & Co. has been busy elsewhere in Johnson County also opening locations at 76th and State Line, 135th and Metcalf, 91st and Metcalf, and a location in Independence and on the Country Club Plaza. Jimmy John's has also been on an expansion mode with stores opening at 95th Street and Antioch, 82nd Street and Metcalf, and at Camelot Court at 119th Street and Roe.

OTHER OPENINGS IN JOHNSON COUNTY INCLUDE:

- The former Dillon's grocery at 143rd Street and Metcalf Avenue sold to a local church body.
- Prairie Life opened a 112,000 square foot fitness facility near 87th Street and Renner.
- Dollar Tree opened at 116th Street and Metcalf Avenue.
- Mission Farms at 105th Street and Mission Road added Las Cabos.
- Bruegger's Bagels opened their first location in the metro, in an outparcel building in Corbin Park.
- Zepi's Pizza & Pub opened its second location in Olathe and plans a third in Platte City.
- Salty Iguana opened in the former Uno Chicago Grill at 135th Street and Antioch Road.
- Café Roux opened in Park Place at 115th Street and Nall Avenue.
- Eggtc., a locally owned breakfast and lunch restaurant, opened its second location in Shawnee.

Johnson County's vacancy rate has crept up from 9.1% at end of 2009, to 11.4% at the end of 2010. Rental rates dropped from $14.18 to $14.03 per square foot.

EAST JACKSON COUNTY, MISSOURI

Mardel and Hobby Lobby opened at the Falls at Crackerneck Creek, while Cheddar Café expects to open it's second area location in the development in the near future. Cheddar's first location opened earlier this year at 95th Street and Quivira in Overland Park.

A little farther east, Children's Mercy East plans to open a 55,000 square foot facility in 2012 in the Trinity Woods development. Located at I-70 and Little Blue Parkway, Corner Café and Burger King are already open for business, while Drury Inn & Suites is scheduled to open this summer.

After receiving $14 million in bonds in 2009, the developer of Adams Dairy Landing at I-70 and Adams Dairy Parkway went back to the City of Blue Springs in January. They requested an additional $27 million in bonds to cover additional improvements and parking lots needed for new tenants. The City approved only $16.9 million in additional bonds. Kohl's is expected to open in the development in the fall.

Centro Properties Group sold Marketplace Shopping Center at I-70 and Noland Road to Phillips Edison & Co. who hopes to sign a junior anchor at the center. The $11.2 million sale marks a nearly 40% drop in the value from Centro's 2002 purchase of $20 million.

Other news for this area includes the City of Independence taking over management of the new arena from Global Entertainment Corporation. The arena is home to the Missouri Maverics hockey team and the Missouri Comets soccer team. The 33,000 square foot former Circuit City near 39th Street and 291 Highway sold to an investment firm for $1.4 million. The intention is to demise the property into two retail spaces. No tenants have been named.

Rental rates in East Jackson County have increased, going from an average of $9.53 per square foot, to a current average of $10.66 per square foot. Vacancy has crept up from 11.2% to 13% current vacancy. Eastern Jackson County has used tax incentives over the last 10 years to encourage development of several shopping areas. As a result, the older, established centers along 23rd Street, 40 Highway and Noland Road have suffered significant vacancies. We expect the city will be forced to consider incentives to reinvigorate these corridors. In the end, it's not clear that incentives have actually improved tax collections, but it is clear that they have diminished the value of older properties.

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

State Line Station, located at 135th Street and State Line, declared bankruptcy in June and has received bids from parties interested in purchasing the project. The 925,000 square foot power center, in south Kansas City is anchored by Super Target. Marshall's opened in the former Linen's N Things over the summer. An announcement regarding a buyer is expected in early 2011.

On the Country Club Plaza, Highwoods reports sales are up 6% through October compared with a year ago. However, several restaurants have closed including Blonde, re:Verse, and Baja 600. New stores on the Plaza include:

- Forever XXI, opened a 30,000 square foot store in the space formerly occupied by Mark Shale and Swanson's.
- Highwoods opened a Customer Service center.
- Blanc Burgers + Bottles opened early in the year in the space formerly occupied by Uno Chicago Grill.
- Helzberg Diamonds reopened its signature store, Helzberg Collection, after a five month renovation period in nearly triple the space of the original location.
- Noodles & Co. located in the former McDonald's space

Cargo World and Five Guys opened at Ward Parkway Plaza while Dillard's Clearance and New York & Co. both closed their locations at the center earlier this year. Trader Joe's is expected to open in February but required a variance in Kansas City's package liquor ordinance which they were successful in achieving. Trader Joe's will occupy 14,000 square foot store at the center.

Hobby Lobby and Mardel Christian & Education together opened a new 80,000 square foot building located within The Falls shopping center project in Independence, Missouri.

McAlister's, EyeMaster's, America's Best Contacts and Eyeglasses, DSW, Coldwater Creek, and Jos. A. Bank have opened in Summit Fair in Lee's Summit. Occupancy climbed dramatically throughout the year, with the addition of Olive Garden, Red Lobster, Beauty Brands, I.O. Metro, Yankee Candle, Finish Line, The Buckle, Dress Barn, Charming Charlie, and others.

Belton may soon be home to another grocery anchored retail center. The Crossroads at Belton has received a commitment for $4.8 million in tax increment financing for a 130,000 square foot retail center to be anchored by a 68,000 square foot Price Chopper. The project at Highways 58 and Y should break ground early next year for the grocery component.

POWER & LIGHT DISTRICT

The Power & Light District in Downtown Kansas City will require city subsidies to make its debt payments due to its delayed start, higher than anticipated borrowing costs and the economic slow-down. Taxpayers are expecting it may never fully cover its costs. This could cause a projected $10-15 million annual subsidy from city revenues through 2033 when the bonds will be retired. The 500,000 square foot development has seen some turnover in the last year. Bice Bistro, Chef Burger, and Peachtree have all closed. New tenants include Envolve Boutique, The Polished Edge, The Garment District, Latteland, Lovebird and Organic Power Dry Cleaners.

OTHER KANSAS CITY, MISSOURI OPENINGS

Elsewhere in Kansas City, the Metro Plaza at 63rd Street and Paseo, a 92,000 square foot, 44-year-old grocery anchored strip center, anticipates a $6.1 million ($3.1million backed by TIF) rehabilitation. Pener's Men's Wear is expected to open a 22,700 square foot clothing store. Renovations include a new façade, roof repairs, new sidewalks, an overhaul of the parking lot and landscaping including rain gardens. The Shops on Blue Parkway has been adding new tenants. Burger King is open on a pad site and Funnel Cake Creations opened in the center. The Fine Arts Group opened a second Glenwood Theater at Red Bridge and Holmes. The space formerly occupied by Red Bridge Theatre closed in 2008.

Rental rates in this area of the metro increased from $11.90 per square foot at the end of 2009 to a current average of $13.82 per square foot. The area's vacancy increased from 10.1% at the end of 2009 to 11.4% at the end of 2010.

KANSAS CITY, KANSAS/WYANDOTTE COUNTY

The 18,000-seat Sporting Kansas City soccer stadium is under construction in Wyandotte County's Village West Development at I-70 and I-435. The $165 million stadium will sit on 11 acres between Nebraska Furniture Mart and the Kansas Speedway and is expected to be completed in 2012. As a part of the development of the stadium, an additional $35 million is to be spent on 18-24 tournament quality youth soccer fields in nearby Wyandotte County Park to the west.

Also in the area, Kohl's opened at the Plaza at the Speedway along with Red Lobster, Olive Garden, Chick-fil-A, Taco Bell, Mattress Firm, Jimmy John's, Wendy's and others. The State of Kansas approved the Hollywood Casino project in February. Penn National Gaming, LLC and Kansas Speedway broke ground in April and are on target to build the $386 million casino which is expected to open in 2012.

Schlitterbahn Vacation Village Waterpark announced plans for six new attractions to open at the start of the 2011 season. The plans for 1,100 hotel rooms, a Riverwalk shopping, dining and entertainment district and additional park features have all been delayed. Scheels Sporting Goods had been announced for the project in 2009 with an opening scheduled for 2012.

The Legends announced it converted its format to an outlet concept in March of 2010. The conversion has increased traffic at the center by 5% and sales at the center were up 9% in July, compared to the same period in 2009, more evidence that shoppers want bargains in this economy. New tenants include Zales Outlet, a conversion from a traditional Zales store, and the first Zales Outlet in Kansas City; Loft Outlet, the Ann Taylor concept, and Christopher & Banks.

Elsewhere in Wyandotte County, Bonner Springs saw Walgreen's and Burger King both open earlier this year. A mixed-use project has been approved for 39th Street and Rainbow Boulevard, near KU Medical Center. The development is slated to include 30,000 square feet of retail space, an 89-room hotel, and 68 apartments. The $30 million plus project will be backed by approximately $6 million in tax increment financing and about $1.5 million from a community improvement district let alone New Market Tax Credits. A few blocks south at 43rd Street, CVS is expected to open another store. Jack in the Box opened its first location in the Metro, in Prescott Plaza, at 18th Street and I-70.

Retail rental rates for Wyandotte County were $10.95 per square foot at the end of 2009. They have dipped slightly to $10.85 per square foot at year-end 2010. The area is presently experiencing only 11.3% vacancy, compared to 11.9% vacancy at the end of 2009.

NORTHLAND KANSAS CITY, MISSOURI, PLATTE COUNTY AND CLAY COUNTY

Zona Rosa's second phase increased its occupancy during 2010. Stone Canyon Pizza opened its third metro location in Zona Rosa. Vintage Market, Apricot Lane, Complete Nutrition, I.O. Metro, 54th Street Grill, Chocolaterie Stam, Planet Sub, Perfume Max, Yogurtini and Spencer's Gifts also opened in the center in 2010. Subway, Buffalo Wild Wings and Parmida Home expect to open early in 2011.

Eastbourne Investments defaulted on their loan on Antioch Center at Antioch Road and Vivion Road earlier this year. The 410,000 square foot mall now has a new owner, Antioch Redevelopment Partners, LLC. They bought the 50-year-old mall and plan to demolish it. Sears and Burlington Coat are the two major retailers presently occupying space in the project that originally was approved for $30 million in Super TIF incentives as well as $2.5 million in remediation tax credits. The new partners in the project successfully redeveloped the former Blue Ridge Mall in 2008.

Elsewhere in the northland, the City of North Kansas City hopes to find a developer willing to construct a $100 million mixed-use project at I-29 and Armour Boulevard/M-210 Highway. The 55-acre site is city owned with potential incentives including tax increment financing, property tax abatements, the capacity for bonding and city assisted financing.

Rental rates in the northland presently average $13.78 compared to $13.97 per square foot at the end of 2009. Vacancy is currently at 10.5% down slightly from the 2009 year-end 10.9% vacancy.

"Rental rates are likely to continue to flatten out through the second quarter of 2011 with a slight increase expected by the end of 2011."

RETAIL OUTLOOK

The retail marketplace made it through another tough year. The bottom of the economic curve lingered throughout the year with the upward trend again seemingly around the corner. Holiday sales for 2010 helped set the picture for what we can expect in 2011. In our 2010 Market Report, we stated an anticipated growth in retail sales of 3-3.5%. According to the National Retail Federation, initial reports indicate we experienced 3.3% growth over last year, and we're on pace to top the pre-recession record set in 2007.

The worst of the Great Recession is behind us. We have a long hill to climb to reach pre-recession rental rates, occupancy rates and retail sales. In the near future we anticipate expansion among the discount categories as the average consumer continues to support these businesses. Local retail tenants will continue to open new stores and/or shift positions within the marketplace taking advantage of the opportunities left behind by shuttered businesses. Luxury retailers are also expected to begin expansion as consumer confidence among the wealthier segment gains momentum.

Rental rates are likely to continue to flatten out through the second quarter of 2011 with a slight increase expected by the end of 2011. Planned new developments are expected to pick up some traction in 2011 for openings in 2012.

Contributors include: Kim Bartalos, SCLS, Vice President; Stephen J. Block, Principal

KANSAS CITY INVESTMENT MARKET

One Liberty Properties, Inc. acquired the Kohl's Department Store at 8540 North Church Road in Kansas City, Missouri for $8.95 million. This purchase was an 8.25% cap rate and Kohl's had 15 years remaining on their lease.

After the abysmal level of activity in 2009 in the commercial real estate investment market, lenders, buyers and a few sellers came out of hibernation and began looking at making transactions again in 2010.

While this did not indicate that the market was back, participants in the market at least began to "kick the tires" and consider investment deals once again. However, uncertainty continued to plague the commercial real estate market in the post-recession environment as owners, lenders, investors, tenants and developers continued to look for signs that market fundamentals had hit bottom and a recovery had begun.

Signs of a recovery have been elusive, making it challenging for market participants to formulate short-run and long-term strategies. As Deloitte points out in its recent publication, Commercial Real Estate Outlook, there are several factors that exist in the current commercial real estate cycle that differ from previous cycles, which make it difficult to estimate when favorable market conditions will return. In the current cycle, there are several historic tendencies of other downturns that have not held up, making it difficult to determine if the current cycle has hit bottom and essentially making historical data points useless for evaluation. Deloitte points out the following historical rules of thumb that have not held up in the current commercial real estate cycle:

Historic tendencies during downturns	Difference in current cycle
• CRE downturns based on overbuilding	• CRE downturn driven by overleveraging
• Lenders remain strict about CRE loan terms	• Lenders displaying more lenient attitudes
• Limited capital set aside for opportunities	• Sizable capital waiting on the sidelines
• Distress-driven opportunities come steadily to market	• Delayed wave of distressed deals
• Economic recovery driven by employment growth	• Jobless recovery
• Housing leads the way into and out of recession	• Housing led way in, but continues to decline
• CRE lags return of economic growth by 6 to 12 months	• Yet to be determined

The biggest factor that caused this downturn is the overleveraging that occurred in the mid 2000's which was unlike other historic downturns. In the past, other commercial real estate downturns have been fueled by overbuilding. The oversupply of commercial space on the market was tangible and the recovery could be monitored by vacancy rates, absorption and rental rates. The current cycle has been much harder to quantify. We know that there is an estimated $1.4 trillion in commercial real estate debt that is set to mature from 2010 to 2014, but there has not been a "clearing of the deck" like in past recoveries. In simplistic terms, recoveries of past cycles involved letting the space markets return to equilibrium. In this cycle, the root of the problem in the current downturn lies beneath the space markets within the capital structure of the marketplace.

Although overbuilding was not the reason for the recent downturn, underlying commercial real estate fundamentals remain anemic and the lack of demand for space has been more of an issue than oversupply.

The employment picture remains fragile, so vacancy and rents are unlikely to improve in the near term considering many tenants have reduced staffing levels and have underutilized space. Property owners continue to offer incentives and concessions to retain tenants. They are getting aggressive to gain new tenants by offering minimal rent that increases over a five-year term. Many tenants in solid financial positions have taken advantage of this economic downturn and have upgraded their spaces to Class A buildings, leading to increased vacancies in lower-quality B and C spaces.

AMEND AND EXTEND

In past cycles, the combination of declining property values and short duration of commercial real estate loans have resulted in lenders taking extensive write-offs and significant foreclosures.

The current downturn has seen lenders with a new willingness to extend terms of loans even though the lending institutions are unlikely to see a return of the full value of principal and interest accrued. In the marketplace these practices are referred to as "amend and extend" or "extend and pretend." It is impossible to determine the full impact of these practices for the long-term health of the commercial real estate market, but lenders might be delaying the inevitable. These practices are not being used market-wide and often depend on the quality of the properties and the experience of the borrower.

These loan extensions allow banks to preserve capital, delay write-offs, and avoid taking over properties that cannot be sold for a favorable price. They also allow owners to maintain their properties for the time being, rather than face foreclosure or the sale of their property at a huge discount. However, there are several negatives that could arise from pushing out maturities of problem loans, such as delaying the inevitable and not letting the free market clear the bad debt that currently exists. The lenders that have adopted this loan extension strategy are hoping the commercial real estate fundamentals will recover, thus avoiding the need to foreclose or force a short-sale. Of the estimated $1.4 trillion in commercial real estate debt which is set to mature between 2010 and 2014, most of this debt is on overleveraged property and will mature during the present economic downturn. Weak commercial real estate fundamentals will make it challenging for borrowers who have not built up significant equity in their properties to refinance them at any level. Not only was the amount of debt (high loan-to-values) placed on these properties an issue, but lenders, especially in the Commercial Mortgage-Backed Securities (CMBS) market, were offering 30-year amortization and even "interest only" loans, thus making equity buildup impossible.

Without building equity in properties, owners are not leaving themselves any room for error and if a problem arises, the property is at risk of being given back to the lender. CMBS lenders were not concerned with the long-term performance of the property, but instead focused only on the need to place capital and sell the loan to a collateralized pool. If properties in the securitized loan packages had problems, the loans would have already been sold and the problems would have been someone else's to deal with.

"We know that there is an estimated $1.4 trillion in commercial real estate debt that is set to mature from 2010 to 2014, but there has not been a "clearing of the deck" like in past recoveries."

COMMERCIAL REAL ESTATE FINANCING

Although commercial real estate is facing serious challenges over the next few years, some lenders in 2010 began to come out of hibernation. Banks responded to the financial crisis of 2008 by swiftly tightening underwriting standards, but data from a recent Federal Reserve survey suggest that approval standards have begun to loosen. Just 13% of senior loan officers at banks are continuing to tighten lending standards, which is down from a high of 87% at the end of 2008.

The long-term lenders, especially life insurance companies, began to show signs of life in 2010. Although most life insurance lenders' allocations are 60% off their lending levels of 2007, the lenders are chasing quality product at aggressive rates. For the right deals, loan-to-values could be in the 70% to 75% range, with 25-year amortization and interest rates ranging from 5.25% to 5.75%. In 2009, life insurance lenders would not consider loan-to-values over 65% and rarely considered amortizations over 20 years.

The 274,330 square foot Front Street Business Center, located in Kansas City, Missouri, was acquired by Colony Realty Partners for $7.85 million. Block Real Estate Services, LLC has assumed leasing and management responsibilities.

CMBS LOANS

In addition, CMBS loans have made a minor comeback in 2010. CMBS loans accounted for 26% of all commercial mortgage loans in 2008 and saw issuance drop to nearly zero in 2009 due to the central role these types of securities played in the recent financial crisis. It is estimated that including the fourth quarter pipeline of CMBS issuance, the 2010 total will near $14 billion. That is a long way off the peak issuance for CMBS loans of $230 billion in 2007, but it is a start. Interviewees from Emerging Trends in Real Estate 2011 estimate the CMBS market will be back to $75 to $100 billion within a few years but will focus on single-borrower portfolios, simpler structures, stricter underwriting standards, greater subordination levels, fewer classes and loans.

Trends suggest that lending by commercial banks, life insurance companies, and Fannie Mae and Freddie Mac will remain stable, but tepid and below peak levels for the foreseeable future as underwriting standards ease and the wall of commercial loan maturities get resolved. New long-term, non-recourse lending that occurs will be with well-capitalized proven sponsors on core properties. Lenders providing leverage on distressed assets will require borrowers to have recourse, low loan-to-values and relatively short loan terms.

LOW INTEREST RATES

The increase in loan restructuring activity and historically low interest rates has allowed borrowers to service their debt obligations even with declining property cash flows. The low interest rates in this cycle differ from previous downturns in commercial real estate that had much higher interest rates. For example 10-year treasuries in the early 1990's were over 7% and today they remain around 3.5% and were below 3% for most of 2010.

Due to the low long-term interest rates, cap rates have not spiked in this cycle as predicted. However, owners with staying power continue to hold on to properties in anticipation of market and property stabilization. Even with cap rates staying relatively stable, owners do not want to sell with depressed rents and reduced occupancies thus affecting the valuation of their properties. Because there are so few sellers of quality assets in the market, the properties that are available and are trading have seen increased competition among potential buyers thus driving cap rates down even further.

The investment transactions that are getting completed are bifurcated between top-quality core assets and distressed deals. In today's investment market, except for in the multi-family sector, there are very few stabilized Class B and C properties trading hands. Although deal flow remains significantly off the 2007 peak, sizable core deals have recently started to occur in "Tier One" markets throughout the U.S. As a result of pent-up demand and a scarcity premium, pricing on these Class A core properties has been stronger than expected.

On the national front, property cap rates in top tier cities in 2011 will range from 7.5% for institutional quality real estate to around 8.2% for lesser quality properties, and 8.2% to 9.2% in second tier cities. Major hot spots like New York and Washington D.C. have again seen cap rates drop below 5% for some multi-family deals, a clear sign of an overheated market.

DISTRESSED COMMERCIAL PROPERTIES

A vast number of investment funds were formed over the last few years with the purpose of acquiring distressed commercial properties. While lenders and special servicers have brought a significant amount of distressed property to market, there have not been enough properties available for all the equity to be placed, resulting in a plethora of equity on the sidelines. These funds projected 20% plus returns which have not materialized and in many cases investors' equity has been returned to them that could not be placed in investments. Now these sponsors have gone back to "core/opportunity" funds with mixed property portfolio and return expectations of 12% to 14%. But, the best fund managers continue to remain with "core" funds and keep prime properties as their target with investment return expectations of 7% to 9%.

YEAR-OVER-YEAR SALES TRANSACTIONS

When looking back at the transaction trends of the 2000's, commercial real estate transactions climbed aggressively with the aid of cheap leverage from less than $100 billion in 2001 to more than $500 billion in 2007. As the financial crisis hit in the second half of 2008, transactions declined sharply and only $54.6 billion was completed in 2009, according to Real Capital Analytics.

The encouraging news is that there has been an increase in year-over-year sales transactions. In 2010, transaction volume improved by 78% year-over-year to approximately $93.6 billion, from $52.4 billion in the same period in 2009. The majority of the gains can be attributed to high-quality core assets, especially in the office sector. Recent transaction growth has been split between distressed and quality core assets. While investors have raised significant capital, they remained risk adverse.

In 2010, real estate capital sources totaled $4.059 trillion and private equity and debt represented 75% of this total. Of the private equity total of $1.1 trillion, private high net worth investors were 44%, pension funds 18%, foreign investors 8.8%, life insurance companies 24% and private financial institutions about 5%.

The big winners in 2010 were REITS which notched investment returns over 19.7%. This is the second good year in a row after a 24.9% return in 2009. These excellent returns however followed the horrific negative 37.3% return in 2008. The 19.7% annual return that REITS saw in 2010 was higher than the Russell 2000 index at 13.3%, the NASDAQ composite return of 7.1%, the S&P 500 return of 6.8% and the Dow Jones Industrial return of 6.2%. REITS even outperformed alternative investments of private equity, venture capital, hedge funds and commodities. This has allowed REITS to raise significant new equity from investors, which has subsequently strengthened their balance sheets and made them strong buyers for 2010 and 2011.

REAL ESTATE TRENDS IMPROVE IN FUTURE

Heading into 2011, it can be summarized that commercial real estate trends are improving, but there is still a long road to a full recovery. Low interest rates have helped significantly, allowing borrowers to more easily service their debt obligations. However, if interest rates rise too soon, the commercial real estate market could dramatically lose any progress previously made towards a recovery.

Commercial real estate fundamentals remain weak and until significant progress is made on the job front, demand for office space, distribution inventories and retail expansions will continue to suffer.

Investment activity will steadily increase again in 2011 as lenders continue to loosen strict underwriting standards and feel pressure to get capital back into the market. In addition, investment activity should pick up due to the pent-up demand as funds are raised and are waiting to be deployed. High cash investors with "dry powder" will again rule the investment market. These buyers will not rush, but instead will focus on the top quality properties in the top tier markets. Again, limited new development is expected in 2011 and this will allow properties to fill vacancies, strengthen cash flows and further increase valuations.

KANSAS CITY

Although the investment market has picked up pace nationally, the Kansas City investment market was again quiet in 2010, much like 2009. Except for a few notable transactions, sales activity was almost nonexistent. Very little institutional-quality real estate came to the market in 2010. Unlike larger 24-hour cities that felt an uptick of investment activity in the second half of 2010, Kansas City is still waiting for substantial investment activity to return to the market.

Besides the West Edge development that sold in November 2010 for $9.5 million, Kansas City has not been flooded with distressed commercial real estate offerings. However, there does exist over $963 million of current distressed assets in the market and another $221 million of troubled properties are held by area banks. Kansas City and other second tier cities will likely see investment sale activity pick up in the middle of 2011. Investment activity nationwide saw a substantial increase in the latter half of 2010 with investors focused on core properties and distressed opportunities.

Kansas City continues to have a large number of institutional buyers that have invested locally including Colony Realty Partners, RREEF, ING Clarion, Passco Real Estate Enterprises, Inc., LaSalle Investments, Cole Real Estate Investments, Multi-Employer Property Trust, Cobalt Capital Partners, CBL & Associates Properties, Inc., Inland Real Estate Corporation, CW Capital, Great Point Investors, Invesco, One Liberty Properties, JVM Realty Corporation, Phillips Edison, Hines Investments, GE Capital, SVN Equities, LLC, DCT Industrial Trust, Inc., Orix Real

The 238,658 square foot building located at 16910 W. 116th Street in Renner Business Center in Lenexa, Kansas was acquired by Avon Products, Inc. from Silpada Designs, Inc. for approximately $10.5 million as part of Avon's acquisition.

Estate Capital, Inc., SunLife, Paladin Realty Income Properties, Barnett Capital, Bridge Investment Group, Grubb & Ellis Healthcare REIT, ArciTerra Group, LLC, and others. Kansas City will continue to be an attractive investment market as institutions see more stable investment returns at rates which are 75 to 125 basis points higher than other first tier markets.

PRIVATE INVESTOR ACTIVITY

Private investors have always held a competitive advantage in Kansas City over out-of-town institutional investors especially on deals in the $5 million to $20 million range.

Private investors historically have been able to close on more transactions for several obvious reasons: they know the buyers and sellers; they know the intricacies of the market; they have relationships with local governments that allow them to be more informed about local conditions; and they know the well-connected lawyers who represent major property owners.

However in 2010, there were very few quality investment offerings available in the marketplace. Sellers, for the most part, elected to hold on to assets, as opposed to sell in a down market. The few investment transactions that were completed in Kansas City were bought by institutional buyers, which may be an indication of internal pressure to get capital invested.

Private equity funds have increased their visibility in Kansas City over the last few years as they pool larger amounts of capital for purchases. The Block Funds, which have attracted investors both locally and nationally, continue to underwrite high-quality investment properties by utilizing broker and seller relationships throughout the market and elsewhere in the country, but the bid/ask spread continues to keep the market in a holding pattern. Block Funds has continued to add to its $200 million portfolio that it has acquired since 2004 through its first four private equity funds. Block Funds completes an exhaustive and intense due diligence process that allows Block Fund managers to hand-pick successful long-term investments on behalf of Block Fund investors. Block Fund investors have also benefited from the host of services that Block Real Estate Services, LLC provides, which further enables maximization of property cash flows and sale profits for the funds.

OFFICE MARKET

Unlike 2009, buyers were back in the market chasing office product in 2010, but that did not translate into a host of completed transactions. Similar to other property types throughout Kansas City, the minimal investment activity was due to a lack of sellers willing to dispose of assets in a down market. Owners of office product faced several negative factors such as increased vacancy, declining rents and increased cap rates, all of which would dramatically affect the value of their asset. Those sellers that were willing to test the market faced a vast bid/ask spread and the majority of office transactions that were completed in 2010 were distressed sellers or properties purchased by owner-users.

The most notable sale of 2010 was the failed West Edge development that sold for $9.5 million or $0.10 on the dollar at auction in November to VA West Properties, LLC. This mixed-use project on the Country Club Plaza will take significant capital to complete and new ownership will focus on finding a lead tenant to restart the development.

The largest investment office sale in Kansas City was the 107,320 square foot Waddell & Reed Building in North Johnson County from a distressed seller to a local partnership at the very end of 2009. The relatively short-term nature of the lease and the above-market rental rate pushed the cap rate above 11%.

The other significant office sales that occurred in Kansas City were purchased by owner-users. These sales included the 222,686 square foot New York Life Building to the Diocese of Kansas City-St. Joseph, and 9201 Ward Parkway to CRES Management, which intends to add 15,000 square feet to the existing 26,929 square feet and convert this former bank facility into a multi-tenant office building. Other significant smaller sales included the 20,336 square foot KVC Building in Overland Park for $100 per square foot and the 13,816 square foot Cline Wood Building in Leawood, which the Brandmeyer Holdings II, LLC paid over $185 per square foot for the vacant building.

Although there are very few sales to substantiate market cap rates, we feel there was very little movement from the 2009 cap rates levels. Class A office properties in Kansas City traded at cap rates from 8.5% to 8.85% and Class B properties from 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 the differences in location, quality, and expectation for appreciation.

While there was very limited office investment activity in the market, institutional and private investors continue to favor Johnson County and the Country Club Plaza. South Kansas City, Lee's Summit, Independence and Blue Springs stay on investors' radar when quality product becomes available.

INDUSTRIAL

The industrial sector in Kansas City is always a highly sought-after category for both local and institutional investors. Kansas City's industrial market is very tightly held by numerous long-time local real estate developers, but there are several institutions that have made inroads into Kansas City over the last five years through acquisitions and development. These institutions include Colony Realty Partners, Cobalt, Invesco, First Industrial, USAA, Sun Life, WelshInvest, DCT Industrial and HAS Acquisitions to name a few.

Just like the other investment sectors, the industrial market was relatively quiet in 2010 except for a few notable transactions. No large portfolios were brought to market in 2010. However, two institutions made sizable acquisitions; WelshInvest purchased the 311,100 square foot KGP Distribution Center and Colony Realty Partners purchased the 274,330 square foot Front Business Center. Several smaller local transactions were completed, including Goldblatt Tool's sale/leaseback of its 57,000 square foot facility in Olathe to ZBC-DGA, LLC, and Olathe Properties, LLC acquisition of a 20,000 square foot office/warehouse located at 19942 W. 162nd Street.

Two significant user transactions occurred in 2010 including the sale of the 238,658 square foot Silpada Distribution Center as part of the Silpada Designs, Inc. sale to Avon Products Inc., and Cowley Distributing's purchase of the 48,438 square foot building it previously leased in Lenexa.

There were no Class A industrial properties brought to the market in 2010, but the capitalization rates in the market continued to hover around 8% to 8.5%.

Both the KGP Distribution Center and Front Business Center sales in 2010 are Class B properties that were not stabilized for varying reasons. In our estimation, if both of those properties were stabilized, the properties would have traded at a 9.25% to 9.75% capitalization rate, which is the cap rate range to be expected for Class B industrial.

"The industrial sector is always Kansas City's most sought-after category for both local and institutional investors."

RETAIL PROPERTIES

Retail investment activity in 2010, by historical standards, was nearly non-existent. The lack of new development activity carried over from 2009 into 2010. Landlords of retail properties have been protecting occupancy and managing existing tenants as their top priority in this economy. Through the downturn, stronger shopping centers continue to target weaker centers' tenants to relocate and provide them with upgraded locations and image typically for comparable or better rental rates.

The hardest-hit segment of the retail market has been the unanchored strip centers. These are historically sustained by local "mom and pop" tenants that have struggled to survive in this economic climate. In today's market, many retail investors will not even consider the acquisition of unanchored strip centers even at cap rates over 10%.

A notable transaction that occurred in 2010 was the Phillips Edison purchase of the 241,682 square foot Market Place Shopping Center in Independence from Centro Properties Group. The property sold for $10 million, which was half of what it traded for in 2002. Jasper Stone Partners made its first investment in the Kansas City market with the distressed purchase of State Line Station from M&I Bank for $10.75 million or $66.25 per square foot.

Other notable transactions included the One Liberty Properties purchase of Kohl's Department Store in Kansas City from Inland Western on an 8.25% cap rate and BBT Investors, LLC purchased the JoAnn Fabric and Craft store in Independence on a 14% cap rate. The higher cap rate was due to the short-term lease that was in place with JoAnn Fabric and Crafts. Supermarket Developers, Inc. sold Falcon Valley Shopping Center at year-end to Cole Real Estate Investments for $12.5 million or $162.37 per square foot, in an off-market transaction.

Other smaller transactions in the market included the 32,262 square foot Foxcross Shopping Center in Topeka, and the mixed-use 19,307 square foot 7425 Broadway Building for $137.26 per square foot.

Two notable net lease sales occurred, including a Tractor Supply Company in Lee's Summit and Walgreens in Platte City, Missouri. Both of the properties were new construction and sold at cap rates under 8%.

While there were no Class A anchored centers that traded in 2010, we estimate that cap rates would be 8.25% to 8.75% depending on the quality of tenant and location of the property.

Class B shopping center cap rates range from 9.25% to 10%. Although the number of transactions is not indicative, there are a number of buyers in the marketplace actively looking to purchase quality grocery-anchored retail centers and single-tenant net leased assets.

MULTI-FAMILY

The multi-family sector continues to show more activity than any other sector of investment sales. With long-term debt at sub-5% interest rates provided by Fannie Mae and Freddie Mac, buyers remained reasonably active. Multi-family investment sales activity in 2010 was consistent with the number and quality of transactions completed in 2009.

JVM Realty followed up its acquisition of Pepperwood in 2009 with two of the most significant multi-family transactions in Kansas City over the last year. These acquisitions included the recently developed 326-unit Riverstone Apartments at a 6.4% cap rate and the purchase of Amli at Creekside from Amli at a 7.3% cap rate. JVM continues to build a sizable portfolio in Kansas City and is expected to continue that trend into 2011.

The other institutional quality transaction of 2010 was the Monitor Finance purchase of the 288-unit Bennington Ridge from the local ownership of KC Venture Group at an 8.6% cap rate.

Other smaller transactions included John Emanuel's purchase of Lamar Place from Maxus Realty Trust, and Firmus Equity's purchase of Park Lane West in Lee's Summit. One significant distressed transaction occurred with Greenbrier Condos, LLC purchase of Greenbrier Apartments for $38,235 per unit. First National Bank of Kansas sold the properties and it is widely expected that the buyer will convert the 68 units to condominiums.

Toward the end of 2010, several significant deals came to market that are expected to trade early in 2011. The Marquis at Lakeside, a 284-unit, Class A complex located in South Johnson County is expected to trade below a 7% cap rate. Also, the former JC Nichols apartment portfolio, consisting of eight complexes and over 1,300 units is on the block. The majority of JC Nichols' portfolio is well-located and pricing is expected to be in the low 7% cap rate range.

In addition, the 596-unit Camden Passage in Kansas City is being offered as part of a 3,237-unit portfolio consisting of nine properties throughout Missouri and Kentucky for sale by Camden Property Trust.

Moving forward in 2011, we expect cap rates for Class A multi-family properties to stay at or around the 7% range, as they did for the 2010 sales.

Class B multi-family cap rates should remain steady in the 8% to 9% range. With attractive financing available and sellers' expectations getting more realistic in today's market, 2011 multi-family investment activity should outpace 2010.

"All signs point to increased sales of quality multi-family properties and multi-family will again lead all sectors in sales activity."

INVESTMENT SUMMARY AND OUTLOOK

Investment sales over the last two years have virtually been non-existent in Kansas City and the pace has just recently started to pick up nationally. The same major concerns that faced investors in 2010 will continue in 2011, including constrained debt and equity. Also, high vacancies and reduced rents will keep most properties off the sales block. Some signs toward the end of 2010 do point to a few more investment transactions getting completed in 2011.

Long-term lenders are providing debt for quality projects, but are still off 60% of their lending levels of 2007 and 2008. Also, investors are back in the marketplace from their hibernation of 2009. However, until sellers decide to settle on market pricing, or property fundamentals dramatically improve, the investment market will continue to move at a slow pace.

All signs point to increased sales of quality multi-family properties and multi-family will again lead all sectors in sales activity.

Industrial investment activity will be very limited, but will be the second-most desirable product type, with office being third and retail again being least attractive. Pricing of office and industrial properties should continue to stabilize as market fundamentals firm up.

Kansas City has always had a reputation as a stable investment market and will continue to garner attention from local, private and institutional investors. Even though sales activity has been relativity stagnant for the last few years, the lack of activity will not change investors' view of Kansas City as a strong, stable and growing investment market for years to come.

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INVESTORS CHART AND SALES RECORDS

Office Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
West Edge (Mixed-Use Development) 4840 Roanoke Parkway, Kansas City, MO	333,009	$9,500,000 $28.53	Development	Buyer: VA West Properties, LLC Seller: Trilogy Development
New York Life Building 20 W. 9th Street & 850 Main, Kansas City, MO	222,686	$11,700,000 $52.54	User	Buyer: Diocese of Kansas City-St. Joseph Seller: KCP&L
Waddell & Reed Building 6301 Glenwood Avenue, Overland Park, KS	107,320	$16,942,672 $157.87	11.17%	Buyer: WRKC Investors, LLC Seller: WR Glenwood, LLC
Former AT&T Call Center 201 NE Mulberry Street, Lee's Summit, MO	44,674	$4,000,000 $89.54	User	Buyer: Government Employees Health Association, Inc. Seller: SBC Asset Management (AT&T)
9201 Ward Parkway Kansas City, MO	26,929	$1,454,000 $53.99	User	Buyer: CRES Management Seller: UMB Financial
KVC Building 12301 W. 106th Street, Overland Park, KS	20,336	$2,050,000 $100.81	User	Buyer: KVC Behavioral Healthcare Seller: Babylon, LLC
Cline Wood Building 11250 Tomahawk Creek Parkway, Leawood, KS	13,816	$2,575,000 $186.38	User	Buyer: Brandmeyer Holdings II, LLC Seller: Cline Wood Agency, Inc.

Industrial Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
KGP Distribution Center 500 Sumner Way, New Century, KS	311,100	$12,500,000 $40.18	11.87%	Buyer: WelshInvest Seller: Lion Industrial Trust (ING Clarion)
Front Business Center 2095-2383 Front Street, Kansas City, MO	274,330	$7,850,000 $28.62	7.75%	Buyer: Colony Realty Partners Seller: Fowler Property Acquisitions, LLC
Silpada Distribution Center 16910 W. 116th Street, Lenexa, KS	238,658	$10,500,000 $44.00	User	Buyer: Avon Capital Corporation (Tenant) Seller: Silpada Designs, Inc.
14001 Marshall Drive Lenexa, KS	69,805	$2,575,000 $36.89	User	Buyer: The Sunflower Group Seller: Ringo's Fund
Goldblatt Tool 15785 S. Keeler Terrace, Olathe, KS	57,000	$2,500,000 $43.86	10.40%	Buyer: ZBC-DGA, LLC Seller: Goldblatt Tool Company
Cowley Distributing 9605 Dice Lane, Lenexa, KS	48,438	$2,250,000 $46.45	User	Buyer: Cowley Properties (Tenant) Seller: Jim Brunkhardt

Retail Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
Marketplace Shopping Center Noland Road and I-70, Indpendence, MO	241,682	$10,000,000 $41.38	8.75%	Buyer: Phillips Edison Seller: Centro Properties Group
Stateline Station (Phase II) 13617 Washington Street, Kansas City, MO	162,257	$10,750,000 $66.25	12.00%	Buyer: Jasper Stone Stateline Stn, LLC Seller: M & I Bank
Kohl's Department Store 8540 N. Church Road, Kansas City, MO	88,248	$8,950,000 $101.42	8.25%	Buyer: One Liberty Properties Seller: Inland Western Real Estate Trust
Falcon Valley Shopping Center 19601 W. 101st Street, Lenexa, KS	76,984	$12,500,000 $162.37	8.00%	Buyer: Cole Real Estate Investments Seller: Super Market Developers, Inc.
JoAnn Fabric and Craft Store 3810 S. Crackerneck Road, Independence, MO	46,350	$3,570,000 $77.02	14.00%	Buyer: BBT Investors, LLC Seller: DCL Realty Trust
Foxcross Shopping Center 5967 SW 29th Street, Topeka, KS	30,000	$2,500,000 $83.33	7.37%	Buyer: WH, LLC Seller: James Hruska
Tractor Supply Company 1253 SE Oldham Parkway, Lee's Summit, MO	22,670	$4,065,229 $179.32	7.94%	Buyer: Budion Investment Co., LLC Seller: Chojo Fudosan, LLC
Walgreens 2301 NW Running Horse Road, Platte City, MO	14,490	$4,782,000 $330.02	7.64%	Buyer: VNRR Holdings, LLC Seller: Blue Partners, LLC

Multi-Family Properties	Units	Sales Price / Per Unit	Cap Rate	Buyer/Seller
Riverstone Apartments 8940 Shannon Avenue, Kansas City, MO	326	$33,000,000 $101,227	6.40%	Buyer: JVM Realty Corporation Seller: Price Brothers Partnership
Bennington Ridge 4027 N. Bennington Avenue, Kansas City, MO	288	$16,580,000 $57,569	8.60%	Buyer: Monitor Finance Seller: KC Venture Group
Amli at Creekside 11920 Oakmont, Overland Park, KS	224	$17,650,000 $78,795	7.30%	Buyer: JVM Realty Corporation Seller: Amli Residential Properties
River Oaks Apartments and Townhomes 11107 NW. Lema Drive, Kansas City, MO	244	$4,000,000 $16,393	4.25%	Buyer: Tim Wahl Seller: Unknown (REO asset)
Lamar Place 6230 W. 51st Street, Mission, KS	108	$3,550,000 $32,870	8.22%	Buyer: John Emanuels Seller: Maxus Realty Trust
Greenbrier Apartments 8562 W. 85th Street, Overland Park, KS	68	$2,600,000 $38,235	Condo Conversion	Buyer: Greenbrier Condos, LLC Seller: First National Bank of Kansas
Park Lane West 817 NW Park Lane Drive, Lee's Summit, MO	60	$1,750,000 $29,167	7.34%	Buyer: Firmus Equity Partners, LLC Seller: Park Lane West, LLC

KANSAS CITY

MULTI-FAMILY MARKET

The 323-unit Market Station Apartments began leasing units in 2010 to residents looking for contemporary, first-class space in downtown's River Market community.

Heading into 2011, the U.S. economic recovery is making slow, irregular progress.

More than one million jobs have been added, corporate profits are soaring, personal incomes are up 4.1% and housing starts are expected to increase to more than 700,000 in 2011. While most economists believe we are past a potential double-dip recession scenario, all agree that the economy faces significant challenges in 2011. These include persistent high unemployment, tight credit conditions and anxious consumers reluctant to begin spending freely again.

As confidence slowly returns, businesses and consumers alike are expected to loosen purse strings and increase spending, a key driver in an economy where the consumer sector accounts for 70% of Gross Domestic Product.

APARTMENT MARKET

Apartment owners and investors across the country have been the beneficiaries of the convoluted economic outlook. Nationally, the apartment market turned the corner in the second quarter of 2010 as modest private-sector job growth unleashed pent-up renter demand.

More than two million young adults were estimated to have moved in with their parents from 2005 to 2009. As these individuals leave the nest again, and renters who doubled up through the downturn re-establish independent households, multi-family demand is expected to remain strong.

Adding fuel to the fire will be an additional four million echo boomers expected to join the prime renter cohort between 2010 and 2015. Owner-occupied housing declined by more than 40,000 units in 2010 as the homeownership rate fell below 67%, its lowest level since 1999. These demand drivers, combined with limited new construction, are expected to create a shortage of apartments nationwide, driving down concessions and accelerating rent growth. At year-end, national vacancy receded 40 basis points from a peak of 7.8% to 7.4%.

While owners began to experience the shift from a tenant's market to an owner's market, many have chosen to forego rental rate increases in 2010. Instead, most are focused on slowly reducing concessions and filling vacancy in an effort to attract price-sensitive residents. Tenants continue to make cost-conscious decisions while upgrading to well-located, Class A properties where rates remain historically attractive.

CLASS A PROPERTIES AND VULTURE FUNDS

Large private investors, pension funds and real estate investment trusts (REITs) came off the sidelines during the second half of 2010, creating increased transaction activity for deals above $20 million. As fundamentals improve, significant capital inflow has driven up the pricing for core, Class A properties in infill locations. This is particularly evident in large, 24-hour cities with private-sector job growth and positive demographics, which accounted for more than half of all apartment absorption in 2010. Sellers were slow to respond in the first half of 2010, creating a dearth of product and causing investors to reach for their wallets as cap rates fell 10 basis points to 7.1%.

Conversely, 2010 was a disappointing year for the vulture funds. As prices increased and underlying fundamentals improved, many distressed fund managers were forced to return equity or modify objectives to acquire stabilized properties. The anticipated wave of loan rollovers and subsequent foreclosures never materialized as banks, insurance companies and bond holders elected to work through problem assets in lieu of foreclosure. Note sales and a handful of distressed apartment property sales have occurred, but most have taken place in Class C properties valued at less than $5 million where properties have traded at attractive per-unit prices to local or regional players.

MIRRORING NATIONAL LEVELS

Kansas City has weathered the recession slightly better than the national averages, and apartment fundamentals have generally mirrored those at the national level. According to the Mid-America Regional Council (MARC), total output for the Kansas City area is expected to increase by 4.4% in 2011, compared to 4.1% at a national level.

In 2010, the metro added about 7,900 jobs, a dramatic turnaround from the nearly 28,000 jobs lost in 2009. In 2011, MARC has forecasted regional job growth of 17,200 jobs, or slightly less than 2%. The region is expected to return to pre-recession job levels nearly five years after the recession began by adding 37,000 jobs in 2012.

Job growth is anticipated primarily in professional and technical services as well as the health care sector with Cerner Corporation, a Kansas City-based medical software company, leading the way. These are expected to outweigh smaller job losses in the transportation, finance, real estate and government sectors.

Much of the job growth in 2010 occurred in the second half of the year. This is consistent with apartment vacancies, which peaked at mid-year 2010 around 8.6% before falling by 40 basis points at year-end to close 2010 at 8.4%. As jobs are added and confidence grows, young renters are expected to lease units at increasing numbers in 2011, creating the opportunity for apartment owners to add occupancy and, in select cases, increase rental rates.

STRONG LOCATIONS OUTPERFORMED

Class A communities or Class B properties in strong locations have predictably outperformed the overall market. While down from 2009 levels, the Country Club Plaza and South Johnson County led the market with an average occupancy in 2010 of 92.8%.

This was followed by the North Johnson County and Northland submarkets, which averaged 92.3% and 91.9%, respectively.

South Kansas City continued to underperform in the market with overall occupancy declining by 1.3% to finish the year at 89.6%, the lowest of all submarkets. Eastern Jackson County and Downtown rounded out the bottom three with occupancy levels of 90.6% and 90.8%, respectively.

Looking into 2011, occupancy levels are expected to post gains broadly across all submarkets as the local economy picks up steam.

> "Large private investors, pension funds and real estate investment trusts (REITs) came off the sidelines during the second half of 2010, creating increased transaction activity for deals above $20 million."

RENTAL RATES DOWN

Similarly, rental rates trended downward in the first half of 2010, but picked up steam in the second half of the year to finish almost flat. Class A rental rates are down by $12 per unit per month to $725, a year-to-year decline of about 1.6%. Class B and C rental rates have fallen by $6 per unit per month to finish the year at $566, a decline of just over 1%.

The Country Club Plaza and South Johnson County submarkets posted very small rental gains, while the balance of submarkets remained flat or at small declines.

The upside for apartment owners and managers is that concessions during the second half of the year, while higher than historical norms, were being reduced and application fees were reinstated in some cases. This helped overall effective rents, and cash flows remained stable. While delinquency information is difficult to obtain or track, owners are reporting anecdotally that overall delinquencies are down as tenants begin to balance their personal

KC Venture Group completed the sale of Bennington Ridge, a 288-unit apartment community on 22.3 acres in Kansas City's Northland submarket. Built in 1989, the property was purchased by Minneapolis-based Monitor Finance.

finances, another potentially positive impact on net cash flows.

Owners focused heavily on reducing expenses in 2010 by putting service contracts out for bid, postponing capital improvements and consolidating or eliminating overhead. Regional managers are being asked to handle a larger number of properties and, in some cases, onsite managers are being asked to move onto the property and accept free rent as part of their overall compensation package.

One expense owners in Kansas City, Missouri could not avoid was a 15% hike in water and sewer rates in 2010. 15% increases also are planned for 2011 and 2012 as the city struggles to pay for more than $2.5 billion in storm sewer repairs and replacements.

Despite short-term challenges, owners and managers face 2011 with a renewed sense of optimism for the multi-family market in Kansas City.

MULTI-FAMILY INVESTMENTS AND DEVELOPMENT

For Kansas City multi-family sales 2010 was a tale of two markets. In the first half of the year, only five properties transacted for combined sales of about $22 million. In the last six months of 2010, more than $80 million of transactions occurred, bringing the annual transaction total to about $105 million with more than 2,750 units sold. The increase in activity resulted in several significant assets being placed under contract as of year-end 2010 with scheduled first quarter 2011 closings. If the transactions under contract successfully close, the first quarter of 2011 could bring more than $135 million of sales for more than 2,100 units, indicating a considerable acceleration of deal flow and capital allocated to multi-family purchases. It would also signal a sizable shift in the market towards the sale of large, institutionally-owned, stabilized properties.

For significant 2010 property sales, the Northland ruled the metro area, accounting for the only four communities of 200+ units to sell. The sale of River Oaks, Tiffany Manor, Bennington Ridge and Riverstone showcased the diversity of the Northland's apartment supply.

- River Oaks, a Class C, 244-unit property sold for $4.2 million or about $17,000 per unit, and without an applicable capitalization rate.
- Tiffany Manor, a Class C, 228-unit property sold for $5.25 million, or about $23,000 per unit, and without an applicable capitalization rate.
- Bennington Ridge, a Class B, 288-unit property sold for $16.58 million, or $57,600 per unit, with an estimated capitalization rate of 8.6%.

- Riverstone, a new Class A, 324-unit community sold for $33 million, or $101,852 per unit, with an estimated capitalization rate of 6.4%.

Riverstone served as Kansas City's largest apartment transaction of the year as well as its only Class A transaction. Its sale, which is above replacement cost, has set the pricing benchmark for other potential Class A transactions scheduled to close in the first quarter of 2011. Camden Passage, a 596-unit, Class B property, is expected to be the first significant sale of 2011 in the Northland.

"Looking into 2011 and 2012, investors and sellers alike believe transaction volume will increase with cap rates coming down and prices moving upward."

JOHNSON COUNTY

Johnson County experienced a relatively quiet year for sales. Notable transactions included Torries Chase (99 units, $2.3 million), Lamar Place (108 units, $3.55 million) and Greenbrier (68 units, $2.6 million). However, four properties combining for more than 1,500 units are under contract and anticipated to close in the first quarter of 2011, signaling that investors remain greatly interested in making bets in Johnson County.

DISTRESSED PROPERTIES

While vulture investors were disappointed in what Kansas City had to offer in 2010, investors did snap up a handful of distressed properties at bargain basement prices. The largest of these was the Hillcrest Townhomes, a 304-unit redevelopment play in Kansas City's urban core that sold for a mere $800,000. The Highland Park Townhomes, a 126-unit property in Kansas City, Kansas, also waived the surrender flag. After being shuttered by the county, the lender sold this empty property for $600,000.

Questions still circulate regarding the billions of dollars in apartment loans maturing over the next two to three years, but lenders have shown a willingness to work with borrowers, particularly in light of improving market fundamentals. This will limit the assets that are marketed and sold as distressed properties over the coming two years, with most foreclosure properties in less desirable submarkets with restricted rent growth and high delinquencies.

The remaining transactions in the Kansas City marketplace in 2010 were largely Class B and C properties ranging from 40 to 100 units. Most of these properties traded between $30,000 to $40,000 per unit, with average capitalization rates ranging from 8% to 9%.

CAPITAL MARKET DRIVERS

Looking into 2011 and 2012, investors and sellers alike believe transaction volume will increase with cap rates coming down and prices moving upward. This can be attributed to multi-family's success at being the first real estate asset class to

In the largest sale of 2010, JVM Real Estate purchased the 324-unit Riverstone Apartments in the Northland submarket.

Adjacent to the Briarcliff Village Shopping Center, the Briarcliff City Apartments offer a central location with views of the downtown skyline in a mixed-use, amenity-rich setting.

fundamentally turn the corner, causing large amounts of equity and debt to be allocated to this property type above others.

Another key capital market driver for investor demand is the availability and affordability of apartment financing. Government sponsored entities Freddie Mac and Fannie Mae continue to provide up to 80% financing for property acquisitions with historically low rates that have dipped into the upper 4% range at times.

Insurance companies have also entered the multi-family finance game for the first time in two years, and have been aggressively pricing deals where buyers are requiring leverage of 65% or less. Even five to six conduit lenders began actively quoting deals by the end of 2010, though without the same success as their GSE and insurance counterparts.

NEW PROJECTS

Improving fundamentals, available financing and the successful merchant development/sale of Riverstone has led some apartment developers to kick off new projects. 2010 witnessed the addition of about 850 units, or 0.7%, to the market supply. This is down slightly from the 950 units added in 2009, but in line with historical trends.

Several new developments have been announced, indicating that 2011 could see ground breaking in numbers well above historical norms. Developers have targeted the speedway submarket near the I-70/I-435 interchange in Kansas City, Kansas, for several new multi-family developments totaling nearly 1,000 units. These developers hope to capitalize on the thousands of jobs Cerner is expected to add to a new satellite campus, but hurdles to development are likely to prevent some of these developments from starting in 2011. These hurdles include an unproven rental market, high finish requirements from city planners and above-market property taxes.

Johnson County and the Liberty submarkets also remain favorite targets due to strong demographics and highly rated school districts. Developers have begun exploring HUD's 221 loan program in order to secure higher proceeds, longer amortizations and limited recourse. However, the cost and long time delays associated with this type of financing have caused many to turn back to traditional development financing sources.

Historic and low-income housing tax credits are another mechanism that developers have utilized in the past to finance complex affordable housing or historic building conversions. However, as Missouri faces stiff budget shortfalls, proposals to significantly reduce the use of these programs have been put forth by Governor Jay Nixon and several members of the state legislature. Even the threat of systematic cuts to these programs has begun driving historic and low-income developers to other states, a scenario that may leave many projects, such as the renovation of the historic Pickwick Hotel in downtown Kansas City, in limbo. Advocates also have expressed concern that this could create a lack of affordable housing in years to come. It is an issue that will be monitored closely as 2011 unfolds.

Contributor: Aaron M. Mesmer, Investment Sales & Acquisitions

BLOCK INCOME FUNDS

FUNDS I-V

Quality asset Management was the driving force for Block Funds during 2010. The highest priority was securing new tenants and keeping our existing tenants happy and our buildings full. While the year was a challenging one in the commercial real estate industry, Block Income Funds had a number of wins in each of our funds. Our number one goal at Block Funds remains to preserve, protect and return your capital contribution. The highlights below are positive steps towards achieving that goal.

BLOCK FUND I HIGHLIGHTS

- Completed the sale of our ownership interest in Mill Street Station and achieved a 145.85% return on this investment.
- Genesis Restaurant executed a 14,800 square foot lease at Mountain Industrial Center.
- US Foodservice executed a renewal for 40,650 square feet at Phoenix Tech Center.
- Babcock and Wilcox executed a 12,589 square foot lease at 4400 College Blvd.
- Cohen Financial executed a 21,124 square foot lease at Leawood Executive Centre.

BLOCK FUND II HIGHLIGHTS

- Artstone executed a 9,638 square foot lease at Rubicon at Highlands.
- Deluxe Corporation executed a long-term renewal for 110,000 square feet at Westview Business Center.
- Caren Products expanded into a 6,480 square foot suite at 3080 Northfield.
- Kimberly Horn executed a lease for 5,730 square feet at 2 Sun Court.
- Benchmark Brands executed a renewal for 37,408 square feet at Lakeside at Spalding Triangle.
- Vendedge executed a lease for 12,886 square feet at 3080 Northfield.

BLOCK FUND III HIGHLIGHTS

- Dish Network executed a renewal for 16,100 square feet at Compass Pointe.
- Capital Express executed a renewal for 18,764 square feet at Rivergate.
- Briggs executed a new lease for 9,031 square feet in Building F at College Crossing.
- Smart Karton executed a renewal for 22,400 square feet at Compass Pointe.
- Kawneer executed a renewal for 26,000 square feet at Riverside Business Center.

A 108,632 square foot building located at 1050 Northbrook Parkway in the Northeast Atlanta industrial submarket was acquired by Block Fund IV on a 12 year sale-leaseback.

- PRA executed a new lease for 11,315 square feet in Building G at College Crossing.
- FedEx executed a renewal for 110,000 square feet in their building in Earth City, MO.

BLOCK FUND IV HIGHLIGHTS

- Closed the second acquisition for the Fund with the purchase of a sale-leaseback with Evermark Building Products, LLC. The 108,632 square foot industrial building is located in Suwanee, GA which is just north of Atlanta. The tenant executed a new 12-year lease. The building will be an excellent addition for the Fund since the acquisition CAP rate was 9.42% which is well above the current average market CAP rates.
- At least two more deals are anticipated to be added to Fund IV in 2011.

BLOCK FUND V HIGHLIGHTS

- Currently working on launching Block Fund V which will have a slightly different focus than Funds I-IV.
- The Fund will be created with the goal of generating current income with substantial upside through capital gains. The Fund will seek to invest in structured real estate investments, many of which will be priced at a fraction of replacement cost.
- The Fund will also seek to purchase or finance the purchase of performing, sub-performing and non-performing real estate loans on institutional quality real estate.

If you have questions about any of the Block Funds or want additional information, please contact Brian Beggs at 816-932-5568 or bbeggs@blockllc.com.

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

BLOCK CONSTRUCTION SERVICES PROJECTS

The past year, was an interesting year in the construction and development fields. There have been very few projects completed in the past calendar year and many construction companies have either downsized or closed their businesses. We are fortunate that Block Construction Services (BCS) had another successful year.

2010 was the first calendar year in BCS's nine-year existence without any new ground-up construction either started or in process. However, tenant finish and interior remodeling projects were at an all-time high at close to $10 million. We are continuing to expand our services and are currently working on multiple land development projects in the areas of office, industrial, retail, and mixed-use. BCS has been involved with the team representing Polsinelli Shughart in their new office/relocation process and have continued our efforts to expand our services in St. Louis, Missouri.

Diagnostic Imaging Center opened on the 12th floor at 7101 Tower, taking 10,650 square feet with all new Class A finishes.

COST FLUCTUATIONS, MATERIAL PRICING

Construction costs, building costs, and material costs have all fluctuated throughout the year, but for the most part have only moderately increased from this time last year.

The transportation/highway sectors have experienced strong gains through various economic stimulus packages, but in the private sector, construction remains slow. The following material price information is a summary from Engineering News Record's 20-city average for the 2010 calendar year:

Cement/Concrete/Aggregates: Asphalt and concrete prices have both dropped from last summer's peak. The 20-year average price for asphalt paving oil declined 1.5% from last July. In 2010, prices have still increased for crude-oil which is keeping overall prices 3.5% above a year ago. The ready-mix concrete price has fallen 2.8% from last August's peak and is averaging 1% lower than 2009's level.

Pipe: Despite modest movement in December, the 20-year average price for most construction pipe products ended the year with relatively strong increases. Reinforced concrete pipe prices are up between 2-6% from a year ago. Corrugated steel pipe prices have increased between 4-8% from last year. Plastic piping and PVC water piping product prices are both up roughly 2% from a year ago.

Lumber/Drywall: Lumber and plywood prices have lost nearly all the gains made earlier this year when record-low prices reacted to a hint of a rebound in housing. However, as the housing market fizzled, lumber and plywood prices fell. The Eugene, Oregon based wood products pricing specialists, Random Lengths, reported its composite mill price for framing lumber was down 29% from its April 2010 peak leaving it just 8% above 2009's level. Random's composite panel pricing index in October was down 38% from 2010's peak in April and just up 7% from a year ago.

Steel: Despite the recession, commodity prices rose and construction material prices are up 4.8% from the same period a year ago. Steel mill prices were up 1.4% for the month of December and are 12% higher than November 2009's level. National economists believe that current conditions are ripe for further increases in commodity prices such as steel.

SIGNS OF RECOVERY

In summary, we believe the market has stabilized and is starting to show signs of a recovery. We are optimistic that we'll see a spark in development in late 2011. We expect our interior construction division will remain strong. We still predict the strongest sector in the Kansas City market will be in the industrial market as Kansas City continues to stake its claim as one of the premier distribution hubs in the country.

A FEW OF OUR CONSTRUCTION PROJECTS FROM 2010:

Uhlig, Lenexa, Kansas
(57,525 square foot office tenant finish)

University of Kansas Hospital Authority, Mission, Kansas
(56,956 square foot office tenant finish)

Federal Emergency Management Agency
(50,000 square foot regional headquarters)

Rasmussen Willis Dickey & Moore
(31,019 square foot office tenant finish)

Hoefer Wysocki Architects, Leawood, Kansas
(18,849 square foot office tenant finish)

Mariner Wealth Advisors
(18,764 square foot office tenant finish)

Contributor: Brad Simma, CCIM, Vice President

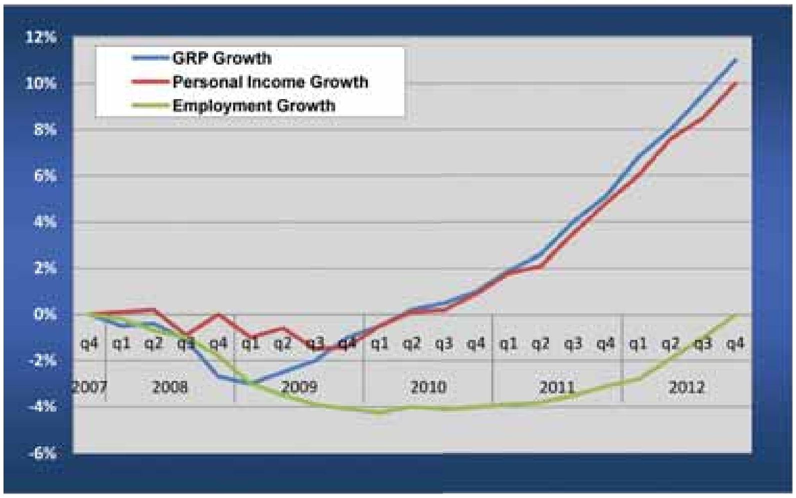
KANSAS CITY ECONOMIC INDICATORS

NATIONAL TRENDS

With the national economy piecing together consecutive quarters of marginal growth in mid 2009, the "Great Recession" is officially over.

However, this economically defined occasion only provides a modicum of reassurance to investors, consumers, and job seekers. While GDP has inched into positive territory since the initial decline in December of 2007, the U.S. unemployment rate remains little changed hovering at 9.4% at year-end 2010. When including workers who are underemployed (those workers who are employed but are unable to find enough hours and those who have ceased to look for work but indicate that they remain available and interested in a job) the "underemployment rate" jumps to 17.1%. That is almost 7% higher than during the 2001 recession.

In short, though the blunt measuring of GDP indicates a fledgling but sustained economic recovery, the average consumer likely feels worse than during any of the most recent recessions.



As consumer behavior and sentiment is critical for sustaining any meaningful recovery, the link between employment and GDP growth cannot be over emphasized. Not only does the "underemployment" rate remain critically high despite economic growth, wages per worker has declined for those who are employed by 1% since the beginning of the recession. Couple this with home values remaining 29% lower than their 2006 highs, and the private sector spending has little momentum with which to push growth and avoid a double-dip recession.

Politics aside, the question becomes how best to handle the lack of support from consumers in order to keep the economy from declining further. Lately, the solution has come from both government spending and government measures to provide liquidity to businesses and investors. With the federal funds rate targeted at 0 to .25 basis points, along with multiple rounds of quantitative easing, the Federal Reserve has provided significant liquidity to banks.

The September survey of small business owners by the National Federation of Independent Businesses shows that 91% of owners believe their capital needs are already met. Instead, business owners fear more that sales will cease to grow which is reducing the desire to hire new employees. The obvious hope is that despite the weak tools of the Fed, the present political inaction, and dour consumer mood, there will be sufficient positive economic feedback to all stakeholders in 2011 to sustain growth.

KANSAS CITY TRENDS

Due to the confluence of multiple factors, including a skilled labor force, central location for distribution and transportation industries, and reasonable cost of living, the Kansas City metropolitan area experienced a shallower recession than the U.S. (falling 5.25% in total output compared to about 6.5% at its deepest for the U.S.). Accordingly, job loss was less steep as was the decline in home prices. This fact allows the region to "spring back" quicker than the national economy with GRP growing 1.6% during 2009 compared with the nation's .2% growth over the same time. 2010 saw this edge shrink slightly due to an imbalance in seasonal workers locally, compared with the national employment strata.

Economic models prepared by MARC and Moody's indicate a continued upward trend in 2011 for the region with output ending up 11.1% over the high point of the prior economic expansion in 2007. Personal income growth will closely mirror the GRP growth with employment following a slightly slower growth pace as businesses take caution when taking on full time workers, opting instead to push existing workers into overtime or increase productivity through technology. Even so, employment in Kansas City is expected to be back to pre-recession levels by year-end 2012.

Sources: MARC, Moody's, Greater Kansas City Chamber of Commerce 2011 Economic Forecast

Contributor: Zach Batson

OUR SERVICES

Brokerage & Transaction Management:

Owner/Landlord Services:
- Landlord Representation
- Acquisition/Disposition Services
- Auction Management
- Technology Enhancement and Connectivity Services
- In House Marketing Services

User/Tenant Services:
- Tenant/User Representation Services
- Acquisition/Disposition Services
- Sale/Leaseback Analysis
- IT Consultation

Corporate Real Estate Services:

Facilities Management
Facilities Operations/Repairs/Maintenance:
- HVAC Sales and Service
- Emergency Response and Management
- 24x7 Response and Dispatch
- Architectural/Engineering Services
- Energy Star/LEED/Energy Use and Reduction Consulting

Space Utilization Assessment/Planning
Lease Audits/Advisory/Management
Move Add Change (MAC) Management
Multi-Function Device Management

Investment Services:

- Investment Syndication
- Fund Management
- Portfolio Strategies
- 1031/721 Exchanges
- Tenant in Common Structures
- Financial Modeling & Analysis
- Financing & Debt Structuring Advisory

Development Services:

- Capital Structuring
- Ownership Syndication
- Feasibility Studies
- Land Assemblage
- Site Selection
- Project Team Management
- Build to Suit

Asset Services:

- Asset/PropertyManagement
- Project/Construction Management
- Distressed Property Repositioning
- Property Accounting
- Property Operations/Repairs/Maintenance
- Emergency Response
- Property Inspection Services
- Portfolio Review
- Insurance Review/Placement

Advisory Services:

- Strategic Property Planning
- Distressed Property Advisory
- Valuations Advisory
- Discounted Cash Flow Modeling
- Broker Opinion of Value
- Property Tax Consulting/Appeals
- Government Incentive Advisory
- Debt Structuring Advisory

Construction Services:

- General Contracting
- Project/Construction Management
- Construction Scheduling
- Project Estimating/Bidding
- Design Coordination
- Building Commissioning
- Entitlements/City Process Coordination
- Design Build/Design Assist
- LEED Accredited Construction
- Preconstruction Services

MARKET STATISTICS

Approximate fourth quarter 2010 data

OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	8,084,856	23	20.0%	455,596	218,990	$20.83
East Jackson County	257,526	3	16.8%	11,013	2,495	$20.82
Kansas City, Kansas	0	0	0.0%	0	0	$0.00
Midtown	2,654,118	15	15.9%	160,769	(19,361)	$23.42
North Johnson County	1,458,367	13	12.2%	34,603	(15,605)	$19.07
North of the River	947,284	6	7.5%	25,067	52,528	$15.93
South Johnson County	7,734,052	57	21.0%	513,220	(193,719)	$21.81
South Kansas City	1,939,026	14	16.2%	0	(17,821)	$17.31
Southeast Jackson County	103,442	2	19.0%	0	0	$25.36
TOTAL OFFICE - CLASS A	**23,178,671**	**133**	**18.3%**	**1,200,268**	**27,507**	**$21.12**

OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	14,677,661	209	12.6%	319,608	(132,641)	$16.01
East Jackson County	4,319,294	229	12.6%	79,560	(33,010)	$15.93
Kansas City, Kansas	1,554,770	64	8.6%	41,923	9,795	$15.59
Midtown	4,147,870	146	12.5%	63,340	557	$18.26
North Johnson County	7,875,007	265	11.4%	344,053	(22,909)	$16.56
North of the River	6,001,462	241	19.7%	91,948	(103,782)	$16.55
South Johnson County	17,511,379	449	12.0%	554,103	225,243	$19.50
South Kansas City	3,530,827	86	12.3%	99,191	(63,249)	$16.47
Southeast Jackson County	2,194,613	97	7.8%	104,399	65,125	$17.33
TOTAL OFFICE - CLASS B	**61,812,883**	**1,786**	**12.7%**	**1,698,125**	**(54,871)**	**$17.38**
TOTAL OFFICE - CLASS A + B	**84,991,554**	**1,919**	**14.26%**	**2,898,393**	**(27,364)**	**$18.24**

WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	383,110	60	3.0%	21,552	38,116	$4.79
North Kansas City/Riverside	21,217,789	457	7.0%	449,976	(461,996)	$4.33
Executive Park/Northland	269,170	13	23.0%	10,862	(12,167)	$4.93
Wyandotte County	39,316,253	904	6.0%	996,889	(407,276)	$3.96
Johnson County	49,435,415	1234	5.0%	1,684,527	60,889	$6.02
East Jackson County	89,625,159	2410	8.0%	773,538	(544,935)	$4.72
TOTAL WHSE/BULK SPACE	**200,246,896**	**5,078**	**8.7%**	**3,937,344**	**(1,327,369)**	**$4.85**

LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	808,026	13	22.0%	54,966	(31,903)	$5.35
North Kansas City/Riverside	158,964	13	19.0%	8,111	(22,301)	$12.61
Executive Park/Northland	30,554,268	309	8.0%	891,758	(224,195)	$4.93
Wyandotte County	728,199	33	12.0%	52,615	(10,316)	$8.02
Johnson County	5,907,275	239	14.0%	330,046	(114,033)	$9.70
East Jackson County	3,862,444	156	8.0%	71,692	24,057	$7.44
TOTAL LIGHT INDUSTRIAL/FLEX	**42,019,176**	**763**	**13.8%**	**1,409,188**	**(378,691)**	**$5.92**
TOTAL FLEX + INDUSTRIAL	**242,266,073**	**5,843**	**7.19%**	**5,346,532**	**(1,706,060)**	**$5.03**

MARKET STATISTICS Continued

RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	Planned Development
South Johnson County	9,971,445	10.8%	1,076,916	164,860	$16.11	4,381,800
North Johnson County	12,198,040	11.9%	1,451,567	(129,811)	$12.48	389,000
Kansas City, KS	6,053,589	11.3%	684,056	347,410	$10.85	400,000
North of the River	13,075,791	10.5%	1,372,958	(102,636)	$13.78	2,387,467
Midtown/Downtown/Plaza	11,055,950	7.3%	807,084	151,910	$17.67	300,000
Independence/Blue Springs	13,060,364	13.5%	1,763,149	(65,738)	$9.31	0
Lee's Summit	3,630,287	11.1%	402,962	(1,836)	$16.59	0
South Kansas City	7,010,405	17.9%	1,254,862	(95,330)	$11.34	1,130,000
TOTAL ALL MARKETS	**76,055,871**	**11.6%**	**8,813,554**	**268,829**	**$12.87**	**8,988,267**

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MULTI-FAMILY

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	39,020	7.2%	$850.00	$615.00	2,809
Downtown	4,753	9.2%	$815.00	$475.00	437
Plaza/Midtown	2,300	7.2%	$925.00	$645.00	166
East Jackson County	15,920	9.4%	$660.00	$555.00	1,496
Wyandotte County	8,590	9.0%	$695.00	$490.00	773
Northland	16,944	8.1%	$710.00	$545.00	1,372
South Kansas City	21,700	10.4%	$635.00	$475.00	2,257
North Johnson County	13,000	7.7%	$805.00	$680.00	1,001
MSA TOTALS:	**122,227**	**8.4%**	**$752.00**	**$566.00**	**10,312**

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

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