The Real Estate Report

For Metropolitan Kansas City

2012

Block Real Estate Services, LLC (BRES) Highlights of 2011

Transactions:

BRES completed the year with total sales and leasing transactions in excess of $696 million.

Management:

BRES management portfolio reached 21.96 million square feet by year-end.

Development/ Construction:

Block Construction Services, LLC (BCS) completed renovation and development projects exceeding $46.5 million. Additionally, BCS managed projects totaling over $33.8 million.

Investment Syndication:

BRES completed over $143 million in investment sales and raised over $34 million in equity funds for syndication of new acquisitions and development projects.

Affiliates:

Block Hawley Real Estate Services was recognized as the leading industrial real estate group in the market and their transaction volume has doubled in the past 12 months, putting them in the top five most active real estate firms in the St. Louis market. Their management portfolio also doubled to over 6 million square feet.

Block Atlanta now manages over 1.6 million square feet of commercial office and industrial space in the Atlanta market.

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REAL ESTATE SERVICES, LLC

Real Estate. Real Strategies. Real Success.®

Block Real Estate Services

Prepared for Opportunity

While 2011 in many ways was another challenging year for the real estate sector both locally and nationally, Block Real Estate Services (BRES) continued to work closely with prospects, clients and investors to assist them in successfully navigating the rough waters.

We believe it is this attentiveness to enhancing the financial outcomes for our growing client base that allows our firm to again occupy the position of the leading commercial real estate company in the Kansas City market. This position of leadership has not been achieved by accident. It has been strategically planned and carefully implemented with our goal to provide the most comprehensive real estate services of any firm in our city and in the region.

Although we have no crystal ball or the ability to peek into the future, we do understand that an organization that is fully prepared with superior market knowledge has the ability to anticipate and quickly adapt to the market. While we anticipate the economic climate and general market demand to remain challenging, we know opportunities will become available and our organization will be poised to leverage these opportunities to **maximize the financial outcomes for our clients**.

A brief look back at 2011 will demonstrate our continuous effort to actively adapt and succeed in this challenging environment. With so many areas of expertise, we wanted to touch on a few where our efforts to excel became visible.

Asset and Property Management. In a response to the continued growth of our management portfolio by over 14% in 2011, we implemented a decentralized property management leadership team. From our extremely experienced and qualified staff of property managers, we chose four individuals who had exhibited a strong dedication to the profession, as evidenced though their pursuit of continuing education and professional designations, coupled with an affinity for leadership. These four leaders were promoted to Director level positions with a goal to continuously improve and maintain our leadership position in property management service delivery. To this end, the team has continued its efforts to enhance the quality of our service to our owners and tenants alike by reviewing and amending policies and processes, formalizing training programs, enhancing tenant service, benchmarking property performance, and ensuring the safety and security of tenants.

Block Maintenance Solutions (BMS) has clearly evolved into a full-service supplier of building services. Growing from a team of 22 maintenance support workers in 2010, BMS now employs over 40 individuals trained and qualified in various maintenance disciplines and construction trades. Much of this growth has been associated with our goal of generating savings for our property owners through vertical integration of services, but also to further provide a level of service to our tenants unparalleled in Kansas City. BMS now has the capabilities to self-perform all trade categories for tenant improvement projects for both our owners and our tenants. The result has enabled our brokers to become much more competitive in pricing lease transactions.

In 2011, BMS has also excelled in enhancing our properties' energy efficiency and has qualified eight of our managed properties with Energy Star eligibility, with 14 more in line to qualify in 2012. With a high level of accountability and speed of service, BMS will continue to provide benefits to our owners and tenants to ensure the success of this team in the year ahead.

One of the service opportunities BRES has focused on is providing our tenants cost-effective solutions to their in-house facilities services and maintenance needs. Through the success of this effort, BRES has leveraged the opportunity to provide these facility service solutions to other corporate real estate users not in occupancy of our managed properties. We look forward to bringing our buying power, depth of resources and cost-effective maintenance solutions to a growing number of customers in need of facilities support in 2012.

Health Care Real Estate Division. Recognizing the growth and need for professional service and support in healthcare real estate, BRES formally structured a Health Care Real Estate division in 2011. In late August, we hired a Vice President of Health Care Development who now leads this service offering. This division will focus on building strong relations with healthcare systems and investors to support their investment and development needs. In just the first two months, this division completed a medical office building development project in Grandview, Missouri and acquired a medical office building in Des Moines, Iowa. The equity for both of these projects was raised through BRES-sponsored investment groups. With several other projects in the pipeline and a market segment poised for expansion, we believe this focused effort in the healthcare field will yield significant opportunity for growth in the year ahead.

Marketing. Over the year, BRES enhanced its marketing services platform by adding a seasoned Director of Marketing and Communications, and an in-house Graphics/Web Designer. We challenged them to enhance the level of service we provide our brokers and team members and, in turn, our client base. In 2011, this team successfully completed a corporate-wide rebranding, reconstructed the corporate website and several other property specific sites, leveraged analytical performance tracking of electronic marketing efforts, and integrated electronic marketing and social media opportunities including Twitter, Facebook, QR codes, and YouTube property videos. BRES Marketing has now positioned our firm to better support our clients' goals through all media channels.

BRES's corporate social responsibility programs are rooted in the values of our company. At BRES, we know that when our communities thrive, so does our business. This is why community engagement is so embedded in our corporate culture. We work to invest philanthropic resources in the areas most relevant to our business, customers and employees as efficiently and effectively as possible. Through corporate giving, community partnerships, employee volunteerism and the BRES Foundation, we are making a real difference in our community through community development, education, and health and wellness.

Two years ago, the UMKC Bloch School of Business and Public Administration's Lewis White Real Estate Center and the Allen and Gloria Block Family Foundation established the Allen J. Block Scholarship Fund to support students wishing to pursue a real estate career. This year, two scholarships were awarded to Nick Freeman and Michael Elson for their accomplishments in community service, commitment to a career in commercial real estate and strong academic performance. We are excited to assist these award recipients in their educational pursuits as they move closer to a career in commercial real estate.

Left to Right: Scholarship recipients Nick Freeman and Michael Elson, with BRES principal Michael R. Block, CPM.

Block Technology Solutions. In 2011 we expanded Block Technology Solutions (BTS) to leverage our relationship with building ownership, tenants, strategic vendors, and local telco providers to offer a cost-saving alternative to tenant infrastructure wiring. These unique relationships have allowed BTS to improve pricing structures for customer data and phone wiring by as much as 35%. BTS enhances their service delivery by performing most of the work after normal business hours with support of the building engineer to ensure proper routing of cabling and minimal impedance on the lines. We are also working to identify key dark fiber locations that run parallel to our buildings, offering tenants multiple options of telecommunication vendors with below-market pricing at the "meet me room" located at the KC NAP in downtown Kansas City. This allows corporations to extend their branch faster while allowing more flexibility to their IT departments.

Block Hawley Real Estate Services. Our St. Louis, Missouri, office now consists of a staff of 20 industry experts. We are recognized as the leading industrial real estate group in the market and our transaction volume has doubled in the past 12 months which puts us in the top five most active real estate firms in the St. Louis market. Our property management services have grown to include seven seasoned property professionals who are responsible for over 6 million square feet of commercial real estate. With the support of our Kansas City headquarters platform, this office has been able to seize a number of significant opportunities and provide professional service and market expertise to their local, regional and national clients. In 2012, our goal is to continue the growth of this office by acquiring additional local expertise in the office, retail and multi-family sectors, as we pursue our vision to become one of the top three full-service commercial companies in the St. Louis market.

Block Atlanta. BRES has been active in the greater Atlanta, Georgia market for over six years. By acquiring properties for the Block Funds and other single purpose investment groups, we currently manage over 1.6 million square feet of commercial office and industrial space in the Atlanta market. While we continue to leverage local Atlanta brokerage relationships to provide landlord representation services, we felt it was time to bring our property management expertise to the market. This move was made to provide a more closely monitored tenant experience and ensure property management services were maintained at high levels of customer satisfaction. After an intensive search, a Managing Director was added to lead our management services, bringing with him over 30 years of high-level real estate management experience. Block Atlanta now has a level of knowledge and professionalism necessary to position us for growth and prepare us for the opportunities that this recovering market will provide.

While we do not know for certain what 2012 will bring, we do understand the industry dynamics and have positioned our organization to adapt to a rapidly changing environment. In the sections that follow, we have disaggregated the many factors that will drive the market in 2012 and looked at both the national and local trends that will affect the real estate industry in the year ahead.

With a vertically integrated platform of services combined with a dedicated team of knowledgeable market experts positioned to react instantaneously, Block Real Estate Services stands prepared to seize the opportunities that will inevitably present themselves in 2012.

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

Kansas City Overview

Riding the up and down roller coaster of the economy like the rest of the nation, Kansas City braced for challenges and opportunities during 2011. What's having a major impact on the economy? Lack of jobs.

While most economists heralded the improving U.S. economy in early 2011, this show of optimism quickly disappeared in the spring of 2011 as the economy reversed course and slowed again to a crawl. The Kansas City Metropolitan area lost over 100,000 jobs over the 10-year period from 2001 to 2011, but is expected to add 19,100 in 2012 and a surprisingly high 36,700 jobs in 2013. Even with this level of growth, the Kansas City economy will not return to its pre-recession employment level until the end of 2014, or over six years after the Great Recession began.

The unemployment rate of 9.4% in December 2010, dropped quickly to 8.8% in March 2011, as consumer confidence increased and corporations began talking about hiring again. However, the earthquake and subsequent tsunami in Japan caused global supply disruptions and that, together with rising global and U.S. consumer inflation, quickly slowed both household and corporate spending. Once spending decreased, firms again slowed their hiring and the U.S. unemployment rate reversed its course again, increasing quickly to 9.1%.

> The complexities of interconnected economies and banking systems have made finding national and international economic solutions more difficult.

The continued U.S. economic downturn caused by the worsening sovereign debt crisis in Europe has weighed tremendously on both the U.S. stock market and the overall economy. Since 2010, the European Economic Community (EEC) has been engaged in a prolonged process to find long-term solutions to the debt problems of Greece, Portugal, Ireland, Italy and Spain. While the world's leading central banks in September 2011 announced a coordinated action to make it easier for European banks to borrow U.S. dollars to fund their loan needs, this move only addressed the liquidity of European banks not their solvency. While Europe's bailout fund of over $1.4 trillion was put in place to save Greece from bankruptcy, the fund was simply too small to eliminate any further crisis such as what was facing Italy and Spain.

At year-end 2011, there was still talk of a potential Euro zone disaster with the world's most financially integrated region being ripped apart by defaults, bank failures, and the imposition of capital controls. Even the proposed fiscal pact by most of the Euro zone nations has been criticized by Moody's Investor Service and Fitch Ratings because it does not address Europe's immediate problem: the crushing debt loads of some nations and their rising borrowing costs. A failure of the Euro zone could even put the survival of the European Union in jeopardy. What has become clear is that any country that provides large entitlements as part of their economy will simply be unable to continue providing historically large entitlements, while at the same time dealing with substantially reduced revenues. And the austerity measures that have been put in place in many of these Euro zone countries to deal with these problems are being met by consumer unrest, protests and demonstrations, and often in violence, rioting and criminal actions.

Every developed nation understands that there is a global financial morass. Massive deleveraging is now visible throughout Europe and Asia. The United States economy may be wounded, but Europe is currently risking death. While China remains fundamentally strong, they depend on exports of their goods into Western economies which have continued to lose buying power. The complexities of interconnected economies and banking systems have made finding national and international solutions more difficult. The entire global banking system is in a crisis state and could again drop precipitously further with any major announcement of a default in a significant country like Spain or Italy.

EVENTS AFFECTING THE U.S. ECONOMY

In 2011, there were several events that had a significant effect on the stalled U.S. economy. The two most significant included:

1) **Inaction by Congress:** The Bowles-Simpson Act on Fiscal Responsibility and Reform recommended a plan for long-term debt reduction that would reduce our debt by $4 trillion over 10 years. However, rather than pass this long-term plan, which was shunned by the President and Congress, Congress, after seven months of wrangling, reached a very weak compromise to end the debt crisis and prevent a U.S. debt default. Unfortunately, the deal only marginally addressed the unsustainable growth in the U.S. and did not meet the expectations of capital markets around the world. As part of the agreement, the debt ceiling was raised by an additional $2.4 trillion, to a staggering $15.194 trillion. The bill also allowed for $1 trillion in spending cuts over 10 years, and in addition required Congress to appoint a bipartisan "Super Committee" to find at least $1.2 trillion in additional deficit reductions by

November 21, 2011. Due to bipartisan disagreements, the Super Committee was unable to come to a resolution.

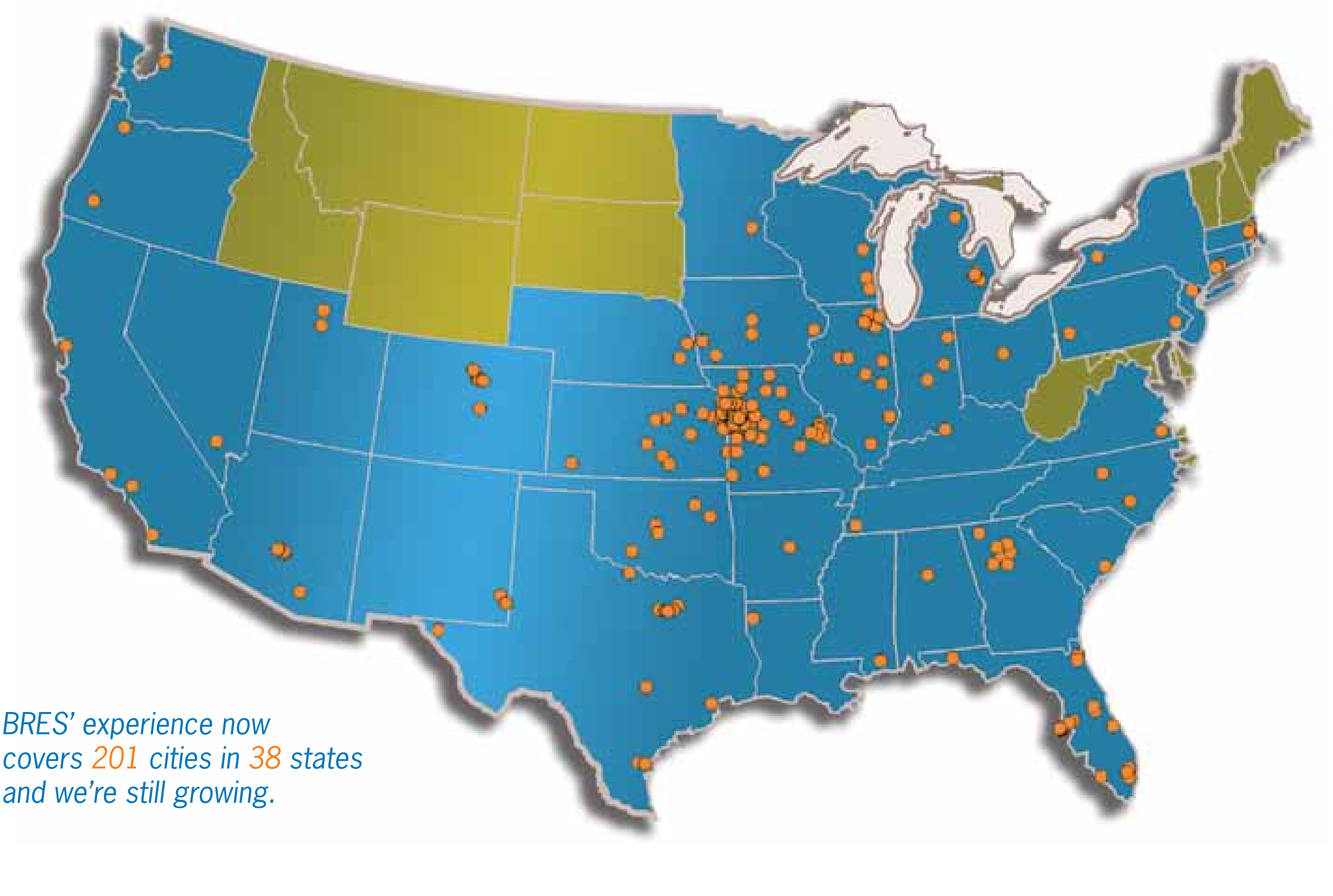
2) **Lower U.S. Credit Rating**: Standard & Poor's lowered the U.S. credit rating from AAA to AA+ only four days after the "watered down" agreement was announced by Congress, citing that the widening gulf between political parties "has reduced confidence in the government's ability to manage its finances." While neither Moody's nor Fitch, the two other credit agencies, downgraded the nation's debt rating at that time, they also expressed serious concern and noted a potential downgrade in the foreseeable future could be made if steps were not taken to get the deficit under control.

The 2011 U.S. federal budget was very similar to the 2010 budget, as it showed nearly $1.6 trillion of expenditures beyond expected revenues. This unwillingness of political leaders to fully address the deficit problem can simply no longer be solved by "kicking the can down the road." In fact, the U.S. debt exceeded $15.1 trillion in early December 2011 and grows at the rate of $3.99 billion per day. With an estimated population in the United States at 311,785,000, each citizen's share of this debt is now nearly $48,500, an amount that is simply unsustainable, and frankly, unpayable.

DEFICIT PROJECTED TO INCREASE

What is of greater concern is a recent report by the Congressional Budget Office (CBO) in which they project the U.S. deficit from 2012 to 2016 will increase by another $2.5 trillion, and by 2020 it will rise another $6.9 trillion. An ever increasing problem is that government entitlement obligations far exceed expected future revenue growth. Nearly $0.40 of every dollar spent by the Federal government is borrowed and the government is now spending 67% more than it earns. The current gap between spending and revenues as a percent of GDP stands at 9.9%, while for the past 50 years, the gap has averaged less than 2%. In fact, since 1970, federal spending has grown 10 times faster than the median income and the CBO projects by 2049, that U.S. entitlement spending will consume 100% of all tax revenues. Even the International Monetary Fund (IMF) estimates that by 2015, the U.S. gross debt will exceed 110% of U.S. GDP, a level that is not far behind the 142.8% debt level now being experienced by Greece, which hovers on the edge of bankruptcy.

The Federal Reserve has very few options left to improve the economy. They must keep long-term interest rates low in order to avoid having a complete stall-out of the current limited growth. Because Quantitative Easing 2 (QE2) did not add much energy to the economy, the Fed is now considering the possibility of Quantitative Easing 3 (QE3). However, it is uncertain whether the Fed will actually move forward with QE3, but instead go with a cap on two, three, and four year treasury rates, as opposed to any outright purchases. Chairman Bernanke recently suggested that any trillion dollar QE program is not possible due to the growing dissention between two factions of the Fed committee. The Fed did approve at its September 2011 meeting a new program called "Operation Twist." This action called for the Fed to sell $400 billion of short term Treasury Securities and buy $400 billion of longer-term Treasury Securities. This program is expected to put downward



BRES' experience now covers 201 cities in 38 states and we're still growing.

pressure on interest rates and make financial conditions more accommodating.

The Federal Reserve also made it very clear in an unusual commitment to the capital markets that it would keep interest rates low until at least 2013. Chairman Bernanke even has now suggested that the Fed will likely focus on a plan to reveal the direction of interest rates more explicitly. And it has already been three years since the Fed dropped its key rate, the Federal Funds Rate, to between zero and 0.25%. It has also bought more than $2 trillion in government bonds and mortgage-backed securities in effort to keep interest rates low and lower borrowing costs. All of these efforts and the recent Operation Twist represent extraordinary measures in order to improve employment and ensure price stability. Should the Federal Reserve see that additional stimulus to the economy is still necessary, they could also do a couple of other things such as:

1. **Eliminate interest on reserves.** Currently banks are earning interest for maintaining reserves with the Fed. This might encourage banks to seek income from other sources such as lending which would stimulate the economy.

2. **Monetize debt.** Under this scenario the government would continue to raise the debt ceiling and issue additional levels of debt, but this action, they fear, will simply fuel inflation and raise the level of U.S. debt outstanding, which frankly would face significant opposition from Congress.

A LOST DECADE

The major fear of the Fed that is our economy will face a "lost decade" like what has occurred in Japan. Both the United States and Japan had a huge housing bubble, and both faced the disaster of a huge stock market bubble. Both countries embarked on similar fiscal policies following each bubble collapse, but so far the U.S. economy has underperformed Japan's "lost decade" economy in terms of GDP and employment growth. This is perplexing to the Fed and therefore, they must deploy different plans and resources for the U.S. economy to change course or we will face the same long-term economic woes as Japan.

The biggest concern facing our economy is high unemployment. While the economy generated solid living every month of 2011, the first time since 2005, the picture is still not pretty. As of year-end 2011, unemployment stood at 8.5%, which was down from the 2010 year-end rate of 9.4%, but only marginally better than the 8.5% figure in March 2001. Unemployment in 2011 stayed in a range from approximately 8.6 to 9.1% throughout the vast majority of the year. Even the 8.5% rate at year-end 2011, which showed a reduction in the unemployment rate from year-end 2010, was simply due to a drop in the labor force participation rate down to only 64% combined with seasonal hiring by retailers for the holidays. The unemployment rate is expected to jump back up again in early 2012, once the temporary hires have been let go, and as the labor participation rate increases.

There are several long-term structural and cyclical factors that are impacting the U.S. labor market and which will cause a slow recovery before we return to the days of 5.5 to 6% unemployment. Over 45% (6.5 million) of the unemployed have been out of work for over six months, while nearly 30% (4.5 million) have been out of work for over a year. Some of these employees lost jobs at the state and local government level where large deficits in 2011, and as much as $90 billion in deficits expected for fiscal 2012, will keep jobs at a minimum in this sector. Also, companies that have been faced with a long and deep recession have simply figured out how to reduce or limit labor costs by investing in labor saving technologies, improving efficiency, relocating labor intensive operations to lower wage countries, and shifting from exporting products to moving manufacturing plants abroad closer to the foreign markets. This means that most of the 2 million employees who were laid off in the manufacturing sector will not be re-hired because there simply will be fewer jobs available. And some employers are even specifying in their job hires that they only want to hire currently employed workers or those only just recently unemployed.

A noteworthy concern facing our economy right now is that the housing market is truly in the midst of a double dip recession.

Two historically high drivers of employment growth, the construction and small business sectors, are still struggling and a near-term rebound is not expected. Small business, which accounts for close to 50% of new job creation, is unable to put forth the growth in jobs due to the weak economy and lack of resources. Even financing opportunities for small businesses are difficult to obtain as Dodd-Frank regulatory reforms have made it difficult for businesses to borrow and lenders to lend.

But then, 2012 is an election year and perhaps the most significant one in decades. While in 2010 we saw a major turnover in both the House and Senate, due to an inflow of new congressmen voted in to get control of the deficit and government spending, it still is uncertain what 2012 will bring. What we do know is that very little has been accomplished by the existing split Congress, and this inaction has caused protests and civil interest by many of our citizens, including a group called "Occupy Wall Street." Certainly, whomever is elected, they will face tough and economically undesirable decisions necessary to save our economy from the current economic quagmire.

HOUSING MARKET IN DOUBLE DIP RECESSION

But, perhaps the most significant concern facing our economy right now is that the housing market is truly in the midst of a double dip recession. The weak housing market has reduced GDP growth in four of the last seven quarters since the second half of 2009. Without housing contributing to economic growth, the U.S. economy will be unable to improve. The problem is there are between 3.5 to 4 million homes that are currently on the market and waiting to be sold, which is about 1.5 million more than the norm. In addition to this, over 2.2 million additional homes are empty and have not been put up for sale, but will when the market stabilizes. Add to that another 4.1 million homes where foreclosures may be imminent, and an estimate of as many as 6 million more homes that may be foreclosed by 2013. These numbers become of even greater concern because the homeownership rate has dropped to about 66% from a peak of nearly 70% in 2004. Also, household formation has fallen to 754,000 annually, down from over 2.1 million in the period of 2005 through 2006, and also below the 10 year average of approximately 830,000 per year. Home prices are down more than 35% since 2007, and are expected to drop another 7-10% by 2013. Future projections are that home values may drop another 10-25% over the next five years before finally stabilizing. This makes it extremely difficult for any government initiative to be successful in a near term turnaround of the housing market.

CONGRESS AND THE NEW JOB BILL

As it relates to jobs, the President did put forth a new job bill that was geared toward reviving the stalled economy. The American Jobs Act was a $447 billion plan which included $140 billion for modernizing schools and repairing roads as well as $240 billion in payroll tax cuts. However, upon close inspection, most members of Congress believed that this job bill was simply another stimulus program, and that the economy could not afford an additional $450 billion of debt without corresponding spending cuts. While some economists estimated that the bill would have helped the economy grow 2% faster and add 1.9 million additional jobs, other economists predicted that the additional burden on the deficit would have put the country even closer to a major fiscal crisis.

Currently, there are over 15.2 million people unemployed and an additional 10.4 million people underemployed or out of the job market completely due to limited opportunities available. There has been little change in these numbers since late 2009 and no real change is expected by year-end 2012. In essence, firms do not want to hire new employees or invest in new equipment when they are uncertain about the future of the economy.

One bright spot in the economy is that the number of failed banks closed by regulators declined from 157 failures in 2010 to only 90 through all of 2011. However, this still affected approximately $112 billion in assets nationwide, with the most significant failures occurring in smaller community and neighborhood banks. These are the very banks that lend to small businesses and the additional tightening of lending regulations for these banks has limited financing for small businesses, which in turn has reduced the possibility of increased employment.

Last year we projected the GDP growth for 2011 would be between 2.7 and 2.9%, but actual GDP growth was only 1.8% (estimated at the time of this report). Projections for GDP growth in 2012 are up slightly to 2.0 to 2.2% followed by GDP growth of about 1.9 to 2.1% in 2013. The 2012 and 2013 projections are however substantially below the long-run trend of growth which is between 2.5 and 3%.

Expectations for 2012 are for the unemployment rate to be at 8.3% by year-end, which is nearly the same figure as year-end 2011. The U.S. unemployment rate is expected to drop further to 7.2% by the year-end 2013. By fourth quarter 2013, the U.S. economy will create approximately 8.2 million jobs relative to its low point in the first quarter of 2010, and yet still be 400,000 jobs shy of what is needed to replace the 8.6 million jobs lost in the aftermath of the Great Recession. U.S. Moody's forecast also has a number of alternative scenarios in the event the current Euro zone debt crisis leads to a recession in Europe, which would then cause a significant decline in U.S. exports. This event, combined with the inability of our political leaders to agree on a fiscal policy to improve jobs or to address budget issues, would cause a further collapse of the U.S. stock market and combined with higher oil prices and a drop in business and consumer confidence, unemployment could increase to in excess of 11%, a disastrous level. While this scenario is not likely, it points out the risk the U.S. economy faces because of a weak global economy.

JOB AND BUSINESS INVESTMENT

Another factor limiting job growth is that many multi-national companies are simply choosing to invest abroad rather than in the United States, primarily to reduce labor costs. Most multinational company sales are now nearly 50% from sales abroad and this trend is expected to continue to grow over the coming years. Another drag on business investment is simply the difficulty in obtaining financing by small businesses. Even though the FDIC eased lending standards, loans of less than $1 million were down 10% from 2010 and only about 17% of small businesses were able to obtain the appropriate bank financing needed to operate their businesses at full capacity.

The good news is that real estate values have stabilized in most every market throughout the country,

The Urban Land Institute (ULI) and Price Waterhouse Cooper, LLC, in their joint publication *Emerging Trends in Real Estate* 2012, note that most U.S. real estate investment activity will be concentrated in a handful of property-wealth islands, notably the diversified "24-hour gateways" located along global trade routes. Also, the reliable multi-family sector will continue to attract a high load of investment interest. However, they noted that even in the "wealth islands," stubbornly high unemployment will still delay the filling of office space, and

Livestrong Sporting Park is the new soccer-specific stadium in Kansas City, Kansas and is the home of Sporting Kansas City. The stadium, which has a seating capacity of 18,467 seats and can be expanded to 25,000 for concerts, opened in June 2011.

at the same time, slow consumer spending will hurt shopping centers and industrial space. Also unprecedented government impairment will gridlock policy makers and roadblock decisions that might encourage business expansion and hiring. Perhaps no clear political action will occur until the outcome of the November 2012 Presidential election. Frankly, the combination of these items, together with the impending U.S. Supreme Court consideration of the Healthcare Act, the problems with Fannie Mae and Freddie Mac, an unworkable tax policy and the Dodd-Frank regulations, will continue uncertainty in our economy.

The good news however is that "core" product in 24-hour gateway cities are seeing some of the strongest pricing in four years with cap rates in some markets as low as 4 to 5%. Also, real estate values have stabilized in most every market throughout the country, and in some markets significant increases in value are occurring. However, caution is suggested to the investment community. Growing job centers such as those in Texas will provide substantially higher investment returns, and therefore, real estate investors should look for value add plays, with multi-family properties leading the way.

KANSAS CITY'S SERVICE INDUSTRY STRONG

Throughout 2011, the Kansas City area economy struggled and actually underperformed the national economy. Our economy is normally more stable than the national economy because of the diversification in our local region, including a strong service sector, government and education sectors, and a strong agricultural base. The service industry did stand out as the strongest of all market sectors, but the financial services sector also did well. Area banks grew dramatically in 2011, including Commerce Bancshares, Inc. and UMB Financial Corp., which are both listed among American's best banks by Forbes, with Commerce at #7 and UMB at #22.

In 2011, the GRP of the Kansas City economy grew at a rate of only 1.2%, down from 1.6% in 2010. This was slightly less than the U.S. GDP growth of 1.4% over the same period. However, the region's GRP is again expected to increase dramatically to 4.1% in 2012 and 4.3% in 2013, which would be substantially higher than the national GDP, now estimated to grow at a rate of 2.0 to 2.2% in 2012 and 1.9 to 2.1% in 2013.

NEW VENUES BRING MORE TOURISTS

Over the last eight years, over $10.3 billion of total construction activity has occurred in the Metropolitan area. Kansas City continues to become more visible as a dynamic and growing city in the Midwest. It is important to note that 8.72 million people live within four hours of Kansas City in the states of Kansas, Missouri, Illinois, Nebraska, Iowa, Arkansas, and Oklahoma. A large number of tourists are attracted to our community thanks to major venues like the recently opened Kauffman Center for the Performing Arts. Also appealing to tourists are the major professional and local teams including the Kansas City Chiefs, the Kansas City Royals, the Kansas City Command arena football club, the Sporting Kansas City soccer team, the Kansas City Comets, the Missouri Mavericks hockey team, the Kansas City Explorers world team tennis, the Kansas City T-Bones, and also high ranking college teams from the University of Kansas, University of Missouri, and the University of Missouri-Kansas City. Other incredible entertainment venues in the Metropolitan area include Worlds of Fun, the Kansas City Zoo, Oceans of Fun, Schlitterbahn Vacation Village, the Woodlands, Union Station, Community America Ballpark, Independence Events Center, the Kansas Speedway, and five area casinos. A sixth casino, the new $700 million Hollywood Casino at Kansas Speedway, is now under construction and set to open in early 2012. This huge casino will include a convention center, entertainment/retail district, hotel and spa, adding additional excitement and activity to the Village West/Kansas Speedway complex.

But perhaps the most exciting new addition to the Village West/Kansas Speedway complex was the opening of Livestrong Sporting Park in June of 2011. This new 18,000 seat soccer stadium has been heralded as one of the top soccer facilities in the entire country and has truly galvanized the soccer community in Kansas City. Also, the planned $150 million, 600,000 square foot office complex for Cerner Corporation will soon start on a 60 acre tract just south of the Great Wolf Lodge. This new office development will house as many as 4,500 Cerner employees and will continue to provide room for growth for this international healthcare company. Expectations are also high that additional multi-family residential, shopping center, and office development will be coming soon to nearly 800 acres of land near the Village West/Kansas Speedway complex which will provide additional economic engines to the local community.

New Kansas City Mayor Sly James is working toward creating a more developer-friendly City Hall to improve relations between the development community and the city.

RENOWNED CULTURAL & ARTS DESTINATION

Kansas City is already renowned nationally, and soon will be recognized internationally for its arts community. The Nelson-Atkins Museum of Art and the Bloch addition are known throughout the world, but perhaps the most significant venue to ever be developed in Kansas City is the Kauffman Center for the Performing Arts. Opening in the fall of 2011, it has allowed Kansas City to shine as an international city for the Arts and is one of the finest facilities of its kind anywhere in the world. The Kauffman Center has two specialized performance halls each with state of the art design including the 1,800 seat Muriel Kauffman theatre and the 1,600 seat Helzberg Hall. There is no question that the Kauffman Center will make Kansas City a national destination for cultural tourism.

Our city is also fortunate to have other fantastic venues including 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, as well as Starlight Theatre, the Kansas City Symphony, and the Copaken Stage of the Repertory Theatre.

And another truly significant event that occurred in Kansas City in 2011 was the announcement that Google, Inc. will bring a 1 GBPS fiber network both to Kansas City, Missouri and Kansas City, Kansas. Kansas City beat out 1,000 other towns for this new network and Kansas City may one day become the Silicon Valley start up capital of the Midwest. Kansas City has already been named a "national up and coming innovative center" and stands out for its significant growth in tech companies beating well-known tech hubs like Silicon Valley, Boston, and Austin.

KANSAS CITY IS BEST-KEPT SECRET

The Kansas City Metropolitan area is home to 2.2 million people. Over 90% of Kansas City residents have a high school education and nearly 35% have a college degree. Kansas City is also known for very high rankings in a number of other categories, making it one of the best kept secrets in the country. For example, Kansas City increased its ranking to the ninth best mid-sized city in the country for art destinations and continues its improvement from 12th best in 2010, and 16th best in 2009. We expect these rankings to increase even further as the reputation of the Kauffman Center becomes more widely known both nationally and internationally. Kansas City also continues to rank as one of the 12 cities to watch along with others such as Barcelona, Beijing, Seattle, Moscow and Abu Dubai, which is truly a unique honor.

Leisure magazine also named the Bloch building expansion at the Nelson-Atkins Museum of Art as one of the world's 12 most beautiful buildings. The Kauffman Center for Performing Arts has already been named as one of the top four performing art centers in the world, with this ranking expected to rise over the next two to three years.

Kansas City ranks as one of the top 10 cities in the U.S. to find a job according to research done by Monster.com. It also increased its ranking to 19 among the 40 strongest metro economies, and ranks 14th on the list of America's smartest cities. Kansas City is also ranked as one of the best places to live by *Money* magazine, and is ranked ninth for business attraction, third for number of festivals, fairs and cultural gatherings per capita, 11th for quality of life, and fourth among Metropolitan areas with the lowest rents. Kansas City has a cost of living that is far lower than the U.S. median, and substantially better than other well known major cities including Denver, Minneapolis-St. Paul, San Francisco, Washington, DC, Atlanta, Boston, and San Diego.

Kansas City is now ranked second on the "10 Cities To Watch" for contemporary design, ranked first for the best mid-sized airport in the country, and fourteenth for the lowest cost of air travel. Kansas City also ranks in the top five in *Kiplinger's* list of "50 Smart Places To Live" based upon its 15 institutions of higher education in the Metropolitan which offer graduate degrees. Kansas City still ranks in the top 20 cities nationally for its quality of public education. At year-end 2011, the UMKC Bloch School of Management was named the world's top academic site for innovative management research, beating other great universities such as Harvard, MIT, and Stanford. This incredible honor should spotlight Kansas City as the educational hub for future entrepreneurs.

TRANSPORTATION, RAIL, TRUCKING AND AIR

As it relates to transportation infrastructure, Kansas City is now known as one of the most significant distribution modes in the country. Kansas City also ranks as the second largest rail center in the U.S., including a number one ranking by freight volume. Two new rail intermodal hubs, one by Burlington Northern and one by KC Southern, are also expected to further enhance rail activity and should strengthen the Kansas City area as a distribution center.

Kansas City has four of eight Class I rail carriers, three regional lines, and a local switching carrier (KC Terminal) serving the area. Amtrak passenger trains serve the city four times per day.

Kansas City also has significant barge traffic since it adjoins the Missouri River Corps of Engineers managed shipping channel running from St. Louis, Missouri, to Sioux City, Iowa. There are seven barge lines operating along the Kansas City area of the Missouri river and 41 barge docks and terminal facilities in the Metropolitan area. Kansas City is now considered an inland port, being one of only 12 fully fledged inland ports in the United States. Inland ports will see the highest growth of intermodal traffic over the coming years, so this is significant for Kansas City.

Along with two new rail intermodal centers, the Metropolitan area is also served by 14 major commercial airlines and offers over 260 daily departures with non-stop service to over 64 destinations. Kansas City also has a new air intermodal center adjacent to Kansas City International airport which will further strengthen cargo shipment capabilities. Most national site selectors have now recognized Kansas City as one of the top five cities in the nation for distribution and the city should expect significant growth in this category over the next 5-10 years. The Kansas City Metropolitan area is served by three interstates (I-70, I-35, and I-29), and by the end of 2012, a fourth, I-49 which is a continuation of US 71 and which links Kansas City to Shreveport, Louisiana, will be in operation. Kansas City also has four interstate linkages (I-435, I-635, I-470, I-670), and 10 federal highways. Interstate 35, which is known as the NAFTA highway, and which stretches from Mexico to Canada, continues to be enhanced to further expedite the flow of traffic along this corridor.

WORLD FAMOUS COUNTRY CLUB PLAZA

Kansas City is well known as the home to the world famous Country Club Plaza, which stands as the oldest retail shopping center in the nation. A major event that defines the life in Kansas City is the annual Plaza lighting ceremony that draws more than 250,000 people each Thanksgiving night to the Country Club Plaza.

> The animal health corridor amazingly accounts for over 33% of all sales in the global animal health market which totals nearly $20 billion.

KC ANIMAL HEALTH CORRIDOR

Another significant industry in Kansas City is the animal health industry located in the internationally known animal health corridor. Since the corridor was launched in 2006, over 1,340 jobs and over $1.1 billion in capital investment have been created. The animal health corridor, which stretches from Manhattan, Kansas, to Columbia, Missouri, has Kansas City almost directly in the middle, making it a great destination for new animal health sector companies. The biggest project in the corridor is the new national bio and agri-defense facility, which plans to open in 2016, subject to obtaining the remainder of its funding from Congress, will be a $650 million project that will add over 500 jobs. The corridor amazingly accounts for over 33% of all sales in the global animal health market which totals nearly $20 billion. There are over 208 life science companies in the Kansas City Metropolitan area that are part of the animal health corridor including industry leaders Ceva Biomune, Bayer Animal Health, Boehringer Ingelheim VetMedica in St. Joseph, Cereal Food Processors, Inc., Merck Animal Health, Pfizer Animal Health, Nestle Purina Pet Care, Zupreem, Hills Pet Nutrition in Topeka, Maga Starter Biotech, Braake Consulting, Pet Screen, MWI Veterinary Supply, and the U.S. Animal Health Association. Argenta, which is a global provider of drug development services and contract product manufacturing for their animal health industry, is the newest company to locate in this area. The Kansas Bioscience Authority will invest up to $400,000 over five years to support the establishment of Argenta's operations in Kansas.

On another front, the University of Kansas Cancer Center has now submitted their application to become the 64th national cancer institute designated center. They hope to gain approval sometime in 2012, and based upon their 10-year projections, federal research grants would grow to in excess of $80 million annually for the Center. The University of Kansas Hospital is already ranked among the country's top academic medical centers, as noted in *U.S. News and World Report* for four years running, so this additional designation would be significant.

The Kansas City Area Life Sciences Institute (KCALSI) also continues to promote the expansion of the life science industry in Kansas City. Major participants in the Kansas City biosphere including the Kansas Bioscience Authority, Kansas City Area Life Sciences Institute, Kansas City Animal Health Corridor, KCADC, Midwest Research Institute, National Bio and Agri Defense Facility and the Stars Institute for Medical Research, are expected to lead the continued expansion of the life sciences industry in Kansas City well into the future. In fact, the life sciences industry is expected to attract nearly $700 million in research expenditures over the next 10 years, which should elevate Kansas City as the premiere location in the country for research academia.

NEW MAYOR IMPLEMENTS CHANGE

2011 was a truly significant year in Kansas City as the Mayoral election brought new Mayor Sly James into office to lead Kansas City. Mayor James has already brought fresh energy and leadership to Kansas City and has quickly taken steps to change the local, regional, and national perception of Kansas City as a forward thinking pro-business community. Mayor James has also made other significant changes including the selection of all new members for the Tax Increment Financing Commission, which had been completely

The $700 million, 95,000 square foot Hollywood Casino, located at the Kansas Speedway, is expected to open in early 2012. The casino, which includes a convention center, entertainment/retail district, hotel and spa, is expected to bring 1,000 new full-time jobs to Kansas.

dysfunctional over the last several years. He also is working toward creating a more developer friendly City Hall in order to improve relations between the development community and the city. These efforts will be helpful in promoting Kansas City both locally and nationally.

Mayor Sly James and a host of business leaders are also discussing the possibility of a new street car line that would serve an area from Crown Center through the downtown loop and to the River Market. A tentative plan would depend on using the City's credit to back approximately $83 million in bonds that will be required to build the project, in conjunction with receipt of a $25 million federal grant.

Kansas City is also becoming the new epicenter for wind energy and asset management firms including Upwind Solutions, Inc. and AH Industries, as both selected Lenexa, Kansas for their national headquarters.

And with the great success of the Sprint Center, plans are now underway to raze Kemper Arena in the West Bottoms and redevelop it into a new facility to further support the growing success of the American Royal. These large initiatives can quickly transform the very fabric of our downtown and create a more dynamic area to work and live.

The chamber also announced "The Big 5" which are five initiatives to build on strengths already in Kansas City. These five initiatives, which will propel our community forward and further enhance our quality of life, include:

- Organizing a world symposium on animal health
- Focusing on the urban core neighborhood initiative
- Making Kansas City America's most entrepreneurial city
- Making Kansas City a nationally recognized center for translational research
- Bringing the UMKC Conservatory of Music and Dance to a new downtown location

Kansas City also has a number of major development projects planned or under development throughout the area, which will change the landscape of Kansas City further in 2012. The $340 million East Village redevelopment continued to move forward, with the first 50 of the planned 800 residential units opening in November 2011. In addition to these residential units, plans are advancing for new offices, shops and additional residential units, as well as the $200 million GSA office building which will house 1,600 workers. However, the future of the GSA building is still uncertain, as funding from our debt-laden federal government is still uncertain.

One major development still seeing success is Park Place, a mixed-use development in Leawood, Kansas. In addition to last year's announcement of the 40,000 square foot Generali Life Insurance Company deal, new office building announcements include a new 130,000 square foot headquarters for AMC, and other office tenants including Regus, Archer Capital, Muller Bressler Brown, and the law firm Douthit Frets Rouse Gentile & Rhodes LLC.

Another big development, The Gateway project in Mission, Kansas, took a big step forward with the recent announcement of a new Walmart to locate at the project. While the project in the past made a number of proposals to highly visible office tenants like AMC and Polsinelli Shughart, this may finally be the start of this exciting $200 million mixed-use development. Also, The West Edge project in the Country Club Plaza is finally moving forward as high profile law firm, Polsinelli Shughart, committed to a long-term lease for nearly 200,000 square feet at the site. The former project had been in a state of limbo but this new project, which will require the demolition of the existing office tower, will become a new anchor to the world famous Country Club Plaza.

Kansas City is also becoming the new epicenter for wind energy and asset management firms. Upwind Solutions, Inc. and AH Industries both selected Lenexa, Kansas, for their national headquarters. Since Kansas is known for the highest winds anywhere in the nation, look for Kansas City to become more internationally recognized as the center for this alternative energy resource.

CONVENTION HOTEL

And finally, there are still plans to develop a 1,000-room convention hotel downtown that can augment the 5,600 hotel rooms currently located in the downtown district. A new convention hotel can provide increased activity in the Power & Light District and at the Kansas City Convention Center. Our city still needs to improve its high-end stock of hotel rooms, and the addition of at least one new quality hotel in the Country Club Plaza is key to bringing upper level corporate visits to our city.

Kansas City will see many more exciting development projects planned or already under construction over the next 24 months and these new projects will bring upwards of $1.6 billion of additional residential, commercial, and cultural construction to the area. As the economy improves, expect many more exciting projects to be announced, as Kansas City is quickly becoming a growing, vibrant epicenter of the community.

Kansas City's long-term success is based on strong leadership that can bring the whole community together. Because our community crosses two state lines and is divided among 50 separate communities, our business and government leaders need to work together to create a unified community that can more readily attract new business from the outside. Kansas City has always been "a great place to live and work," and with focused strong leadership, the best days are just ahead.

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

Kansas City
DOWNTOWN Development

New venues bring nationwide recognition to Kansas City's downtown.

America's best-known travel guide, *Frommer's*, has named Kansas City among its top 10 worldwide destinations for travel in 2012. The single most influential factor was the opening of the Kauffman Center for the Performing Arts. *Frommer's* stated that the building "not only looks interesting, it's one of the most technically advanced performance halls in the nation."

In addition to the Kauffman Center, the new home of the Lyric Opera, Kansas City Ballet and Kansas City Symphony, the respected travel periodical recognized our National World War I Museum, the Negro Leagues Baseball Museum, the College Basketball Experience and the Nelson-Atkins Museum of Art for their positions of national importance. With the exception of the Nelson, all of these Kansas City assets lie within the defined boundaries of our Downtown.

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.

Office leasing in the submarket is stable, holding a reported average 13% vacancy rate over the last 12 consecutive quarters. In the same period of time, aggregate reported lease rates have fluctuated minimally with average full service office rates in the $16.00 per square foot range.

2011 NEWS WITH IMPACT

The most significant office news of the year is the relocation of the National Association of Insurance Commissioners from Crown Center to Town Pavilion. The 131,000 square foot office tenant chose to remain in the downtown submarket, which is further confirmation of the Kansas City downtown renaissance. This is a political recognition that active and aggressive tenant retention programs, in the form of earnings tax abatement in this case, are necessary to retain a tenant base downtown.

Elected in 2011, Kansas City Mayor Sly James may be the most significant change affecting downtown Kansas City during the year. Thus far in his mayoral tenure, James has demonstrated an understanding of the complex business issues facing the entire metro area, particularly in downtown. His charismatic leadership approach seems to have reversed a civic malaise.

DOWNTOWN RETAIL

Retail in the downtown submarket is also stable. This area of town still suffers from a per capita lack of services. The combined work-force population, plus residential population base, makes downtown the most densely populated area metro-wide. Retail vacancy rates have remained stable since the first quarter of 2009. Vacancy is reported to be less than 7%. Consistent with nearly all American metropolitan urban areas, our downtown lost the majority of its large retailers in the 1970s. Though the residential population would now support an increase in retail use, this segment of consumer spending is still being lost to surrounding suburban areas.

The YMCA of Greater Kansas City has announced plans for a 100,000 square foot facility intended to house exercise and health concepts, a preschool, dining and a rooftop garden. Site selection for the $30 million dollar investment is still under consideration.

SEA LIFE at Crown Center, a two-story aquarium housing more than 30 displays of diverse marine life, is scheduled to open in Spring 2012.

Photo courtesy of INGRAM'S

The Kauffman Center for the Performing Arts is a newly inaugurated performing arts center in downtown Kansas City, Missouri. Its construction, which was completed in the Fall of 2011, was a major part of the ongoing redevelopment of downtown Kansas City.

RESIDENTIAL PROJECTS

The only significant residential projects in the downtown submarket this year were the Courthouse Lofts, opening 176 units in the former United States Courthouse at 811 Grand Boulevard, and a 50-unit apartment building completed by Swope Community Builders in the East Village. Tax credits for historic preservation and affordable housing were a significant driving force for many downtown loft/residential conversions. These entitlements have been and remain under political fire and may not survive the next legislative session intact. The growing difficulty for developers to obtain entitlements and the absorption of much of the property downtown that would support residential conversion, make further renovations downtown look scarce in 2012.

In spite of the economic difficulty in suburban housing, downtown residential rental units have 95% occupancy. The sweet spot for units for purchase is $210 per square foot, with a small but consistent interest in luxury units in excess of $800 per square foot.

NEW CROWN CENTER PLANS

The race for a metropolitan Kansas City aquarium goes to the downtown submarket. A suburban aquarium has also been proposed for the development site formerly occupied by the Mission Center, but that may be delayed further. Crown Center will open their SEA LIFE Aquarium in conjunction with LEGOLAND Discovery Center in Spring 2012. The combined concepts total $30 million in investment and will be operated by Merlin Entertainments Group.

Unresolved issues are still at play concerning where Kansas City will fall in the lineup of United States convention cities and what will be done with the Kemper Arena. Potential uses for Kemper Arena include improved facilities for the American Royal or permanent housing for an athletic use like hockey or basketball. The current mayor does not support tearing the arena down. Discussion and site selection for a new 1,000-room convention hotel have stalled, but behind the scene discussions may move this project forward again in 2012. Civic leadership and the mayor agree that Kansas City will continue to be passed over by desirable conventions if more hotel space is not built, both downtown and in the Country Club Plaza.

The connectivity of entertainment venues at Crown Center, Union Station and the Kansas City Power and Light District, plus the aforementioned nationally recognized tourism draws, have the recognition and interest to bring greater convention traffic to Kansas City. Late this year, the city council also adapted a proposed route for a streetcar line to run between Union Station and the City Market. Yet to be determined is how to pay for the proposed convention hotel and the improved transportation system. Effective public transportation and hotel space seem to be the main obstacles and yet the top opportunities in the coming year for downtown Kansas City.

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

Kansas City OFFICE Market

Park Central Plaza, a 146,800 square foot, Class A multi-tenant office complex located within the Country Club Plaza, was purchased by Sun Life Financial in late 2011, after two earlier offerings failed to secure a buyer.

By now, we all know how important job growth is to fuel expansion of all aspects of the economy, and the office market is no exception. While the "Great Recession" was officially declared over in mid-2009, every part of the economy, with rare exception, is still feeling its effects.

The slowest recovery in the last 70 years has slowly begun to pick up a little momentum. The unemployment rate dipped below 9% to 8.5% in December with the creation of over 200,000 non-farm jobs for the second month in a row according to the Bureau of Labor Statistics. A total of 1.9 million jobs were created during the year. Hopefully, this will signal the beginning of a much needed downward trend in unemployment. The Congressional Budget Office (CBO) estimates that just under 90,000 new jobs are needed each month to keep up with population growth and as many as 260,000 new jobs are needed each month to reach pre-2008 employment levels. It appears businesses have begun to plan to invest in expansion and hiring, but at a rate far below that needed, according to the CBO estimate.

Nationally, the outlook for the office market is mixed with modestly declining vacancy rates expected to continue through 2012. During the last half of the year, demand for office space started to trend up for the first time since 2008. Demand increased in the energy, healthcare and technology related industries, which happen to be the ones demonstrating the highest job growth numbers. However, since overall demand is flat or down except for the above specific industries, rents have continued to decline, but at a reduced pace. Spotty demand in cities like Kansas City has caused quoted rents to continue to drop. The national average has decreased 1.67% during the year. Quoted rates are expected to remain flat throughout 2012 in the smaller markets, but are expected to increase as much as 1.7% nationally as vacancy continues to dwindle. Net absorption, including both new and existing space, is projected to exceed 60 million square feet nationally, an increase of 12 million square feet over 2011.

In an Urban Land Institute (ULI) meeting, Kemp Conrad, Cushman & Wakefield principal, stated, "Corporate occupiers are being much smarter and efficient regarding their space… technology allows workers to be productive anywhere." He concludes that by using technology, corporate America is shrinking its space requirement and controllable rent expense as a means to protect and enhance profitability. The lack of new construction has reduced inventories, and institutional owners, who comprise the majority of the large property owners both nationally and locally, are beginning to tighten up rent concessions as the tenant-oriented bargain deals of the last couple of years have helped fill vacancies. As occupancy in certain buildings moves closer to 90%, the market for those buildings swings rapidly from tenant-oriented to landlord-oriented.

Kemp Conrad believes we have hit bottom in both fundamental demand and rent, and the national market will continue to bump along at least until the 2012 elections. Except in certain Metro Kansas City submarkets, and even specific buildings in those markets, quoted rents will likely remain flat and only increase slightly in late 2012.

Nationally, there were 54.5 million square feet under construction at the end of 2011 compared to 39.8 million at the end of 2010. This 37% increase simply illustrates that increased demand in certain sectors of the economy, notably the healthcare, energy and government, in conjunction with overall lack of development in the last two years, have caught up with the slight increase in market absorption and triggered some build-to-suit activity.

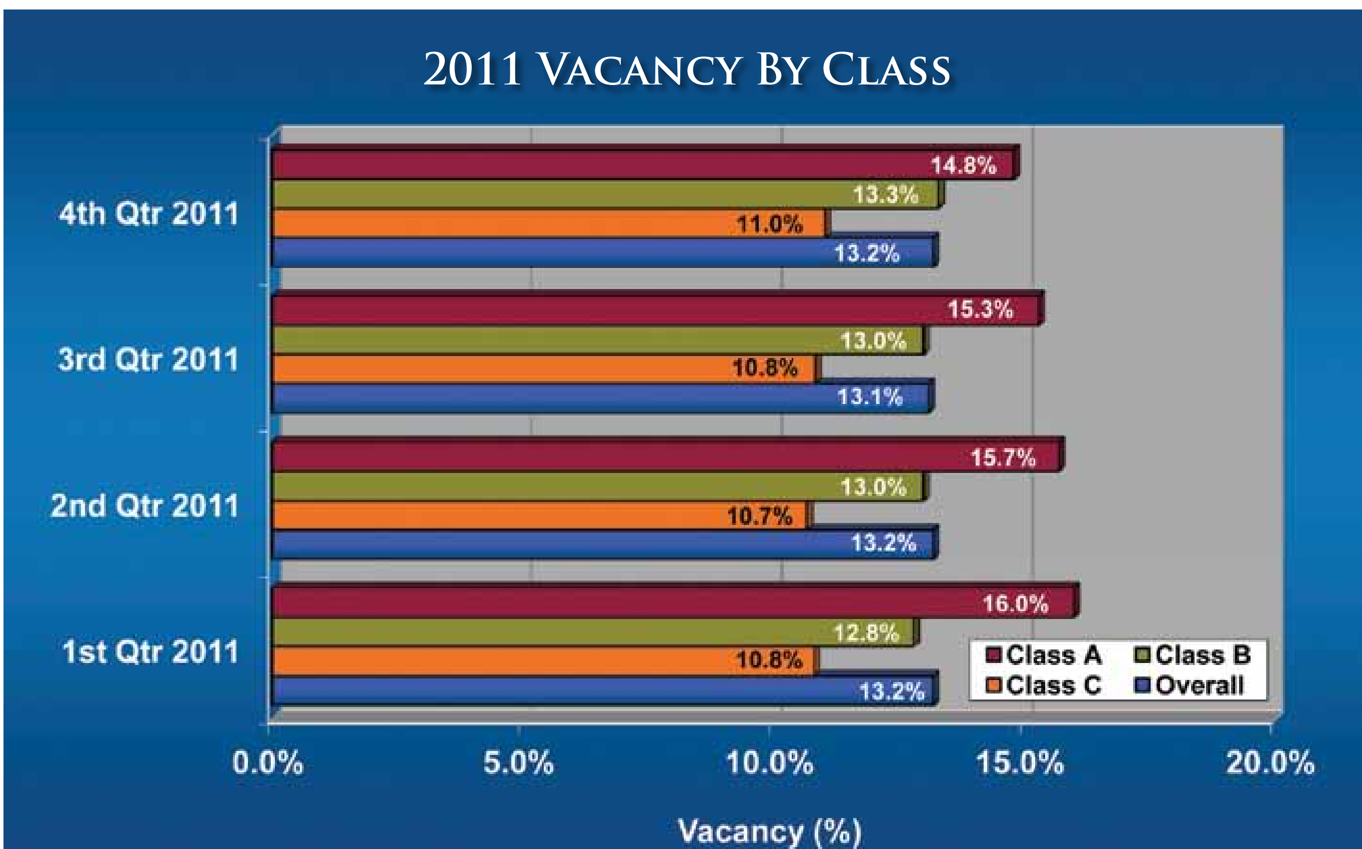
The Kansas City market, with 132,000 square feet under construction in two 100% leased buildings, as usual is lagging behind. As in the past two years, do not look for any major new office construction in 2012, unless it is for build-to-suit clients or substantially pre-leased projects.

The pent-up demand has played out on a small scale here during the past year. Overall absorption popped up to 365,000 square feet in the first quarter, and then dropped to 25,000 square feet in the second, then jumped up to 220,000 square feet in the third quarter before dipping to an anemic 8,000 square feet in the fourth quarter.

As in the past two years, do not look for any major new office construction in 2012, unless it is for build-to-suit clients or substantially pre-leased projects.

Class A absorption led the way with over 600,000 square feet driven by J.P. Morgan's move to 202,000 square feet at the Sprint Campus, US Bank's move to the 185,000 square foot former Capital One building in Southcreek and Applebee's 100,000 square foot deal to move to 8140 Ward Parkway, previously leased to Nova Star Financial.

After strong absorption of 226,000 square feet at the end of 2010, Class B absorption trailed off in successive quarters but finally began to rebound in the third quarter, then lose ground in the fourth to 25,000 square feet of negative absorption.



The Kansas City office of Henderson Engineers, Inc., will expand to 84,500 square feet and move to the 123,100 square foot Five Pine Ridge Plaza office building in late Spring, 2012.

Class C properties recorded negative absorption during the first half of the year, but managed to rebound in the third and fourth quarters and end up with 39,600 square feet of positive absorption.

Now, more than ever, global uncertainty is impacting expansion plans and hiring for U.S. corporations. That, coupled with still weak but slowly improving fundamentals, will result in flat office growth in 2012. The Metro area will not escape the impact of global uncertainty as major corporations who maintain offices here continue their "go slow" attitude toward growth as the economy continues to modestly recover. In short, expect 2012 to be slightly better than 2011, as 2011 was slightly better than 2010.

SOUTH JOHNSON COUNTY

At the close of 2011, the South Johnson County submarket consisted of approximately 27 million square feet of all building classes, of which 3.75 million square feet is available, including sublease space. The result is an overall vacancy of 13.9%, a level slightly down from the prior year.

The majority of sublease space continues to be offered by Sprint, which has several of its buildings for sublease with furniture at below-market rates. Apria Healthcare, Care Centrix, J.P. Morgan, Key Bank, MIQ, an others have all occupied Sprint sublease space within the past two years.

In addition, US Bank has leased 185,000 square feet in the former Capital One building. Likewise, DexOne Corporation leased 63,500 square feet of the GE Capital space that was offered for sublease, and the Environmental Protection Agency leased the 187,000 square foot Applebee's Support Center building. All of these transactions have helped keep the market relatively stable, despite the fact that Sprint keeps offering more sublease space as they continue to reorganize and downsize to control costs.

All building classes reported a total of 535,700 square feet of net absorption during 2011, with new deliveries of 376,400 square feet. Overall asking rates for direct deals showed a $0.40 per square foot decrease from $20.45 per square foot at the end of 2010 to $20.06 per square foot at the end of 2011. This reflects the landlords continuing struggle to maintain existing tenants and fill vacancy.

CLASS A PROPERTIES

Class A properties reported:

- Vacancy stood at 13.5%.
- Effective asking rates for direct deals and subleases was $22.04 per square foot at the end of 2011.
- Net absorption for 2011 was approximately 331,900 square feet.
- New Class A properties accounted for 124,700 square feet, with an additional 102,000 square feet currently under construction in Park Place.

CLASS B PROPERTIES

Class B properties reported:

- Vacancy stood at 14.4%.
- Effective asking rates for direct deals and subleases was $18.18 per square foot at the end of 2011.
- Net absorption for 2011 was approximately 204,000 square feet.
- New Class B properties accounted for 251,700 square feet.

CLASS C PROPERTIES.

Class C properties reported:

- Vacancy stood at 11.3%.
- Effective asking rates for direct deals and subleases was $16.18 per square foot at the end of 2011.
- There was no net absorption for 2011.

NORTH JOHNSON COUNTY

The North Johnson County submarket includes approximately 11.8 million square feet of office space. Overall vacancy totals 1.66 million square feet, and includes only 27,000 square feet of sublease space. With no new deliveries, and 127,998 square feet of negative absorption, vacancy increased from 12.3% at the end of 2010 to 14.0% at the end of 2011. With Lenexa Center East in receivership, and currently being marketed for sale or lease, its prime tenant, Generali Insurance, decided to vacate and move to Park Place in Leawood. Class A vacancy increased dramatically from 13.8% in 2010 to 24.5% at the end of 2011 with 139,000 square feet of negative absorption. Within the 7.7 million square feet of Class B buildings surveyed, vacancy levels remained flat at 11.4%, with 48,480 square feet of negative absorption. Class C properties reported 15.1% vacancy this year down from the 18.4% vacancy at the end of 2010.

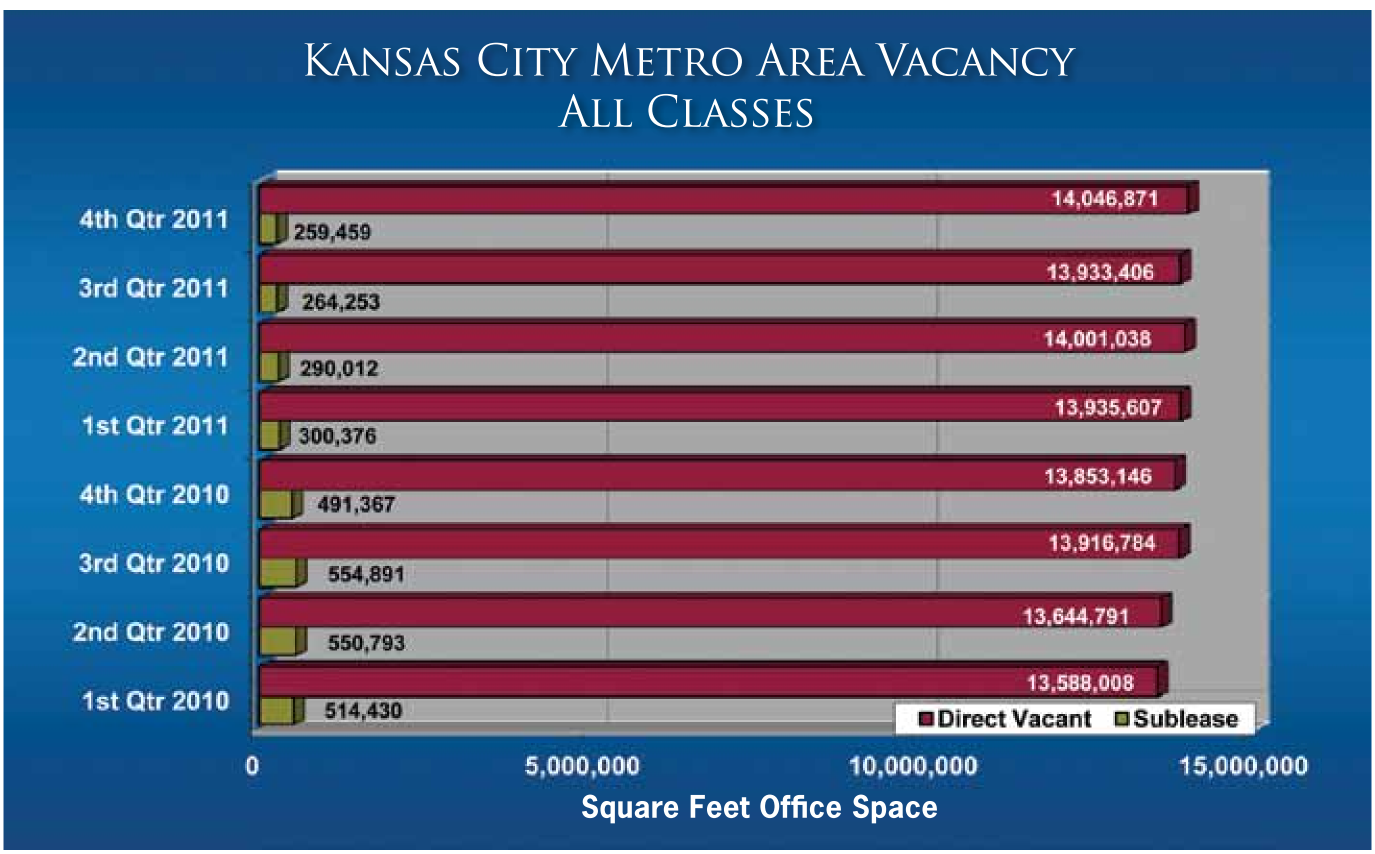
Average asking rents for this submarket decreased dramatically from $16.99 per square foot at the end of 2010 to $16.70.

The Cameron Group, developers of the Mission Gateway project, recently announced an agreement for a 70,000 square foot aquarium and 150,000 square foot Walmart which will allow that long awaited project to get under way in the spring of 2012. Henderson Engineering has agreed to a long-term expansion in 84,500 square feet in the Five Pine Ridge Plaza office building in the Pine Ridge Business Park.

CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads and West Bottoms areas make up the overall Downtown submarket. These areas combine for a total of 28.3 million square feet and an overall vacancy of 13.7% for the end of 2011. The total available space for the Downtown submarket was 3.9 million square feet which includes 106,000 of sublease space.

Class A properties saw the highest vacancy rate of 17% or 1.35 million square feet. Class A properties reported absorption of 246,000 square feet. Class B properties have a



Applebee's Services Inc. relocated to their new 100,000 square foot headquarters and restaurant support center at 8140 Ward Parkway in Kansas City, Missouri, a move which bolstered visibility and average rents in the Ward Parkway corridor.

vacancy rate of 13.2% and a negative absorption of 43,000 square feet. The Class B market is made up of 193 buildings and 15.4 million square feet. Class C properties had absorption of 71,000 and a vacancy rate of 10.1%.

Consisting of 17.9 million square feet, the CBD reported a vacancy rate of 14.7% and 266,000 square feet of absorption. The Class A submarket saw the highest vacancy rate for the end of 2011 at 17.9%. However, the vacancy rate is lower than the 24.5% vacancy rate reported at the end of 2010. Class B properties consist of 107 buildings and 10.3 million square feet and experienced a vacancy rate of 14.6% and negative absorption of 31,600 square feet. The Class C submarket consists of 72 buildings and 2.5 million square feet. Class C properties reported a vacancy rate of 8.7% and absorption of 5,700 square feet. Overall rental rates in the CBD ended the year at $15.91 per rentable square foot. One of the largest deals done in the CDB in 2011 was at Town Pavilion when The National Association of Insurance Commissioners leased approximately 131,000 square feet.

The Crown Center submarket consists of 74 buildings totaling 6.9 million square feet. The vacancy rate at the end of 2011 was 9.1% which is slightly higher than the 9.8% vacancy rate reported at the end of 2010. The eight Class A buildings experienced a vacancy rate of 16.2% or 405,000 square feet with negative absorption of 56,800 square feet. Within the 28 Class B buildings, vacancy rates were 6.0% with absorption of 63,600 square feet at the close of 2011. The Freight House/Crossroads submarket reported a vacancy rate of 20.2% compared to 22.9% at the end of 2010 within the 108 buildings that make up that submarket.

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 a Kansas City submarket. Boasting a total of over 9 million square feet of inventory, the market continues to be the "silk stocking" area for office users. Total vacancy of the area is 10.5%, which includes the Midtown buildings and Brookside. Lease rates on the Plaza range from the low $20 per square foot range to the low $30 per square foot range. Midtown and Brookside office space is minimal for the large user, 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. Many decision-makers who live in the nearby neighborhoods call this home due to quality of life.

The Polsinelli Shughart law firm will vacate their existing offices and move to a build-to-suit project at 48th & Roanoke where the partially constructed West Edge project is being demolished. The new building will be approximately 252,000 square feet with Polsinelli Shughart as the majority office tenant. This mixed-use development will also incur two retailers and restaurants with substantial outdoor seating.

Another Class A office tower is Valencia Place whose major tenant Lockton Companies has agreed to a longer-term commitment at the building.

There are a total of four anchor build-to-suit buildings, office users that feed the retail of the Plaza. Polsinelli Shughart, Lockton Companies, Husch Blackwell and American Century Investments are responsible for the long-term sustainability of the Plaza office market. Many smaller tenants have filled the vacancy gaps to continue the Plaza office tradition of high rents and low vacancies.

SOUTH KANSAS CITY

The South Kansas City office market, consisting of over 6 million square feet of office space, continues to be one of the lowest vacancy rates. Although no new construction deliveries occurred, the market has continued to be home for many Missouri based companies looking for value and accessibility within a residential demographic that proves progressive each year.

The South Kansas City market:

- Consists of 178 Class A, B, and C properties.
- Has an average size that is only 33,000 square feet.
- Experienced an overall vacancy of 12.7%.

The majority of the market is located at Holmes and Interstate 435 or on Ward Parkway, starting at Wornall Road and going north to 75th Street.

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

- Burns & McDonnell, which continues to expand on Ward Parkway in the granite horseshoe building at 9300 Ward Parkway, and has kept vacancies low overall.
- GSA, which continues to explore moving operations downtown to a build-to-suit facility on the east side of the CBD. Although this move will affect the overall vacancy, the project is not considered a normal office user option and its specific location does not dramatically affect the overall condition of the market.
- Applebee's for approximately 100,000 square feet located at 8140 Ward Parkway, but has plans for more growth in the future.

Average rental rates achieved in this market, range from $19.50 per square foot, down to $16.50. Most office prospects in the area find value in the buildings as it relates

The Polsinelli Shughart law firm selected the long-stalled West Edge project as the location for its new national headquarters. VA West Properties, LLC will own the new nine-story, 250,000 square foot building on the Country Club Plaza, once the former building is torn down.

to lease rates, while enjoying accessibility to the highways and Plaza amenities.

Looking forward, this submarket will continue to see lower vacancy rates and could be host to large users as the border war continues for incentives.

NORTH OF THE RIVER

Although geographically one of the largest submarkets in the Kansas City metropolitan office market, including areas ranging from just north of downtown to beyond the airport, and encompassing both Clay and Platte counties, the North of the River submarket 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 457 buildings that inventoried in this submarket in 2011 total just over 9 million square feet and experienced 16.7% vacancy as of fourth quarter, which was the highest reported vacancy of any individual submarket, and an increase from the 16.6% for the same period in 2010.

Average rents in the submarket were $15.93 per square foot, full service, one of the lowest across the city, and a full $.32 lower than the same period in 2010, a trend that has continued for several years.

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.

One significant lease was signed in this submarket: 14,836 square feet to CECO Concrete in the Tiffany Center I building.

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 673 properties totaling approximately 8.5 million square feet. At the end of the third quarter 2011, the Eastern Jackson County submarket saw a vacancy rate of 12.3% or 1.044 million square feet compared to 12.2% or 1.03 million square feet at the end of 2010. Although absorption is negative for the year, there was a slight reversal of that trend in the third quarter this year, hopefully a positive sign for the market. Average quoted rates dropped to $14.60 per square foot, down from $15.01 at the end of 2010.

The three Class A properties in the submarket total 257,526 square feet and reported a vacancy rate of 38.3% or 98,670 square feet, the highest in the submarket. Class B properties include 191 buildings and 2.47 million square feet with 13.6% or 335,444 square feet available, a positive absorption of 28,100 square feet. The 318 Class C properties, the majority of the buildings in this submarket, total approximately 2.4 million square feet, and experienced a vacancy rate of 15% or 363,000 square feet.

There is one building under construction, a 30,400 square foot build-to-suit Samuel U. Rogers Health Care, but no other construction has been reported.

SOUTHEAST JACKSON COUNTY

Consisting of 212 buildings and just shy of 3 million square feet, the Southeast Jackson County submarket is one of the smallest in the Kansas City area.

The vacancy rate for Southeast Jackson County submarket was 9.8% or 294,600 square feet at the end of the fourth quarter 2011. Compared to the end of 2010, the 9.8% vacancy rate is an increase from 8.6%. The Class A properties, consisting of two buildings and 103,000 square feet, have the second highest reported vacancy for the Southeast Jackson County submarket of 10.2% or 10,500 square feet. Class B properties have a vacancy rate of 8.4% or 186,000 square feet. The Class B market is made up of 96 buildings and 2.2 million square feet. Class C properties total 114 buildings and 667,400 square feet and experienced a vacancy rate of 14.5% or 97,000 square feet.

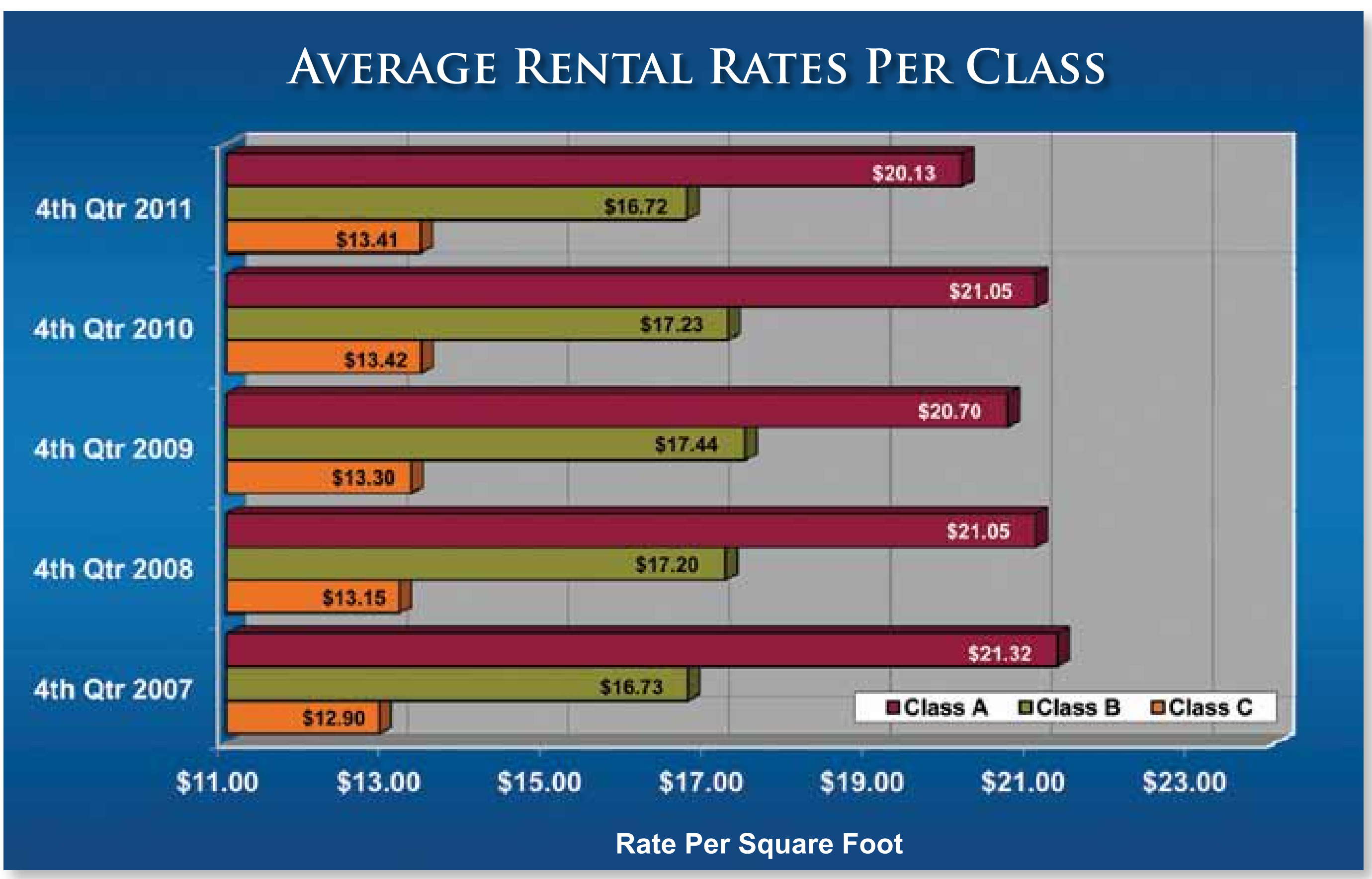
The overall rental rate of $16.85 per square foot for the end of 2011 was a decrease from the end of 2010 overall rental rate of $17.42 per rentable square foot. The Southeast Jackson County submarket experienced negative absorption of 40,000 square feet for the end of 2011.

KANSAS CITY, KANSAS

With only 3.8 million square feet, this is the smallest submarket in the metro. While historically inactive, this market has become more vibrant as a result of Cerner Corporation's large land purchase and future plans to develop a 600,000 square foot office campus near the Legends retail center, the new Sporting Kansas City soccer club, and the Hollywood Casino at Kansas Speedway.

At the end of 2010, the vacancy rate was 8% or 305,000 square feet compared to 7% at the end of 2011. Two Class A properties total 274,475 square feet reported zero vacancy, but the EPA, which occupies 203,000 square feet in one of those buildings, has signed a lease to move to the former Applebee's headquarters building in the Southlake development in Johnson County. Class B properties total approximately 2.0 million square feet and a vacancy rate of 8.3% or 166,000 square feet. Class C properties are the largest segment in this market, and include 171 properties totaling approximately 1.6 million square feet with a vacancy rate of 8.9% or 138,000 square feet.

This market experienced no growth in 2011, but the downtown market will suffer greatly from the relocation of the EPA to Johnson County. Rental rates continue to decrease from $14.53 per square foot at the end of 2010, to $14.04 per square foot in 2011.



The Environmental Protection Agency leased nearly 200,000 square feet at the former Applebee's headquarters in the Southlake Office Park in Lenexa, Kansas. The EPA moved from its former build-to-suit development in downtown Kansas City, Kansas, leaving a big vacancy for that market.

NEW CONSTRUCTION

New construction, while more active than last year, resulted in only ten new buildings all year. The 126,150 square foot building leased entirely to John Deere was built by Cayman Development in Ridgeview Corporate Centre, the 95% leased, 65,700 square foot Gibson Building delivered in the first quarter in the Park Place mixed-use development in Leawood, Kansas, and the 50,000 square foot expansion at Garmin's headquarters in Olathe, Kansas, were the largest of the buildings delivered. A total of only 405,000 square feet was delivered during the year.

The infamous West Edge project, purchased out of bankruptcy last year, is currently being demolished to make way for the new 252,000 square foot building being built by VA West Properties, LLC for Polsinelli Shughart.

The slow leasing market, uncertain economic climate and new, strict limitations on loan underwriting, have virtually stopped construction of multi-tenant office product. The only new projects forecasted for 2012 are build-to-suit projects with little or no excess space, like the new 102,000 square foot building under construction in Park Place for AMC Theaters' new headquarters, and a 30,400 square foot pre-leased building in Kansas City, Missouri. Without substantial credit tenant leases, banks won't loan money for new construction — a trend that will continue throughout 2012.

RENTAL RATES

The average full service asking rent in all classes of buildings surveyed in the Kansas City Metro area was $17.25 per square foot at the end of 2011 a significant decrease of 5% from the $18.17 per square foot average at the end of 2010. This decrease is in marked contrast to the 1.67% decrease seen nationally in 2011. That difference points out two things: first, average rents in Kansas City are substantially less than the national average of $21.59 per square foot; and second, that Kansas City typically lags behind the larger markets for both rents and absorption.

Class A quoted rent tells a different story. It was $21.05 per square foot in 2010, but has begun to increase and stands at $20.13 at the end of 2011. Class B quoted rents decreased to $16.72 per square foot from $17.23 at the end of 2010, a drop of 3%. Class C quoted rates decreased from $13.19 to $13.14 per square foot at the same time.

With vacancy beginning to bottom out, and a slightly more optimistic business outlook, effective rents for each building class are beginning to stabilize, as landlords fight to maintain cash flow. Credit tenants needing little in the way of tenant improvements are still able to achieve very attractive overall effective rents for new leases or for lease renewals.

SUMMARY AND OUTLOOK

As inventories continue to slowly be reduced and landlords begin to achieve greater occupancy, expect:

1. Movement away from "blend and extend" deals as landlords opt to continue existing rents and maintain cash flow from credit tenants rather than discount higher lease rates in exchange for longer terms. Landlords are betting rents will be higher in the next two or three years.

2. Lower tenant finish allowances as landlords struggle to conserve cash and improve returns.

3. Gradual cessation of rent concessions as vacancies continue to decline.

These changes will not be due to a dramatic increase in demand, but rather are the result of a slow reduction of inventory in the past three years, coupled with gradually increased occupancy, a trend that will continue in the future.

Emerging Trends in Real Estate, an annual publication prepared by Urban Land Institute and Price Waterhouse Coopers, forecasts for 2012, "U.S. real estate players must resign themselves to a slowing, grind-it-out recovery following a period of mostly sporadic growth confined largely to … 24-hour global gateways, like Washington, D.C., San Francisco, New York, Boston and Seattle."

Other markets will benefit from growth in locally based technology, healthcare and its related industries, and energy related industries. With real unemployment in 2012 expected to range between 8.2% and 8.8% and GDP growth projected to increase between 2.0% and 2.2% at most, there is no dynamic job generator driving overall demand. As a result, demand and absorption, across the country, are expected to remain flat in the coming year.

With a local unemployment rate hovering around 7.4%, we are better off than the nation as a whole, although Kansas City, as a tertiary city, has few large employers in the technology, energy and healthcare sectors, industries projected to generate the most job growth and demand in the coming year. Add the political uncertainty surrounding Washington's inability to address fiscal and tax policy challenges, new regulatory requirements, and severely curtailed consumption by the consumer, and you have a recipe for caution on the part of businesses and resulting flat demand for new office space.

Our expectations for 2012 show only a slight improvement over 2011, which was itself only a slight improvement over 2010. In other words, more of the same, slow, ponderous improvement which we've seen the past two years, with businesses taking the same cautious attitude until after the November presidential election. Some experts are forecasting improved economic conditions in late 2012.

FORECAST CAN IMPROVE DRAMATICALLY, IF:

- The European Economic Union agrees to a meaningful, workable plan to solve their financial crisis.
- The Federal Reserve continues its loose money policy.
- Congress reigns in some of the new regulatory requirements which are detrimental to business growth.
- Consumer spending continues to improve.
- Congress and the President adopt a pro-business, pro-growth attitude.

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

AMC, the nation's second-largest theater chain, signed a long-term lease for a new $30 million building to be constructed in the Park Place development in Leawood, and will relocate its 450 employees and contractors to the building in the Spring of 2013.

Kansas City Industrial Market

Johnson Controls Inc.'s new plant brought over 60 new jobs to Riverside, Missouri. The 170,000 square foot manufacturing plant is located on the newly constructed 41st Street at Mattox Road in the 800 acre Riverside Horizons development.

The year 2012 – will it become the year of the "Haves" and "Have-Nots"? Is big going to be better? Maybe so on both counts and Kansas City is poised to take advantage.

Google, the biggest and most powerful brand in the world, picked Kansas City over 1,100 other cities to build an ultra high-speed broadband network – we're definitely a "Have" now. So why Kansas City? Well, the region's diversified economy has allowed it to come through the economic challenges of the last few years at a stronger pace than the overall U.S. economy.

Kansas City's strength in the transportation and distribution industries will allow the region to continue growing as these industries are seeing positive growth. Clean and Green Technology movements are the fastest growing areas both nationally and in Kansas City. In addition to growing clean tech in battery and automotive manufacturing, we are taking advantage of a location in the heart of the North American Wind Corridor, and are considered the center of the nation's animal health corridor. The city is poised to continue to grow.

Skilled, flexible, highly productive—these are all qualities that site-selection professionals look for when assessing the labor pool available for a prospective relocation. Employees in the region are reliable – when they have a job they show up and when they arrive they perform at higher levels than their counterparts in much of the rest of the country.

The area's strong work ethic is the primary reason Ford is investing over a billion dollars at their Claycomo Assembly Plant. They will build a new stamping plant that will feed the production lines for the new Transit Van and locating the plant near the production facility is a must to remain competitive. The last Ford Escape will roll off the line in April 2012, and then Ford will transform the assembly plant in a way that's expected to secure the plant's future for years to come. The Transit Van will launch from assembly lines in 2013. As the best-selling van in Europe, it should have strong U.S. sales. The Kansas City plant also builds the Ford F-150 truck and is slated to add a second shift next year.

General Motors (GM) will also make a significant investment in its Fairfax Assembly Plant in Kansas City, Kansas. There will be major upgrades made for the 2012 Buick LaCrosse and 2013 Chevy Malibu. Again based upon the quality of the workforce, this is a very productive plant for GM and is the main reason they are investing over $150 million dollars there.

BIG-BOX APPEAL FOR WAREHOUSING

What's been occurring on both coasts for many years is finally making its way here—the popularity of large, bigger boxes for warehousing. Developers note Kansas City has a large amount of warehouse and distribution space historically; much of it is in buildings of less than 100,000 square feet, which is too small for the operations many of the national-level companies require. Behind this movement are the larger, more fundamental trends involving labor costs and higher-capacity transportation. As companies are consolidating their distribution centers to reduce costs, Kansas City is turning out to be one of the locations for the next generation of these big-box distribution facilities.

Depending on the company and their product, the location of their distribution centers comes down to inbound or outbound transportation costs with fuel and speed to the market being considerations. Retailers have been driving down these expenses by consolidating distribution centers.

Our region's status as a freight hub drives jobs and fuels our economy. Today, a power web of transportation infrastructure continues to drive Kansas City's engine. Depending on how you measure it, Kansas City is the first or second largest rail freight hub in the country. Kansas City boasts five of the seven Class I rail lines that connect with every corner of North America – including ocean ports in California and Mexico. North American rail lines – Union Pacific, BNSF, KCS, Norfolk Southern (Norfolk), and Canadian Pacific – run through this region. That means companies can move their product from any port on any coast in North America to warehouses in the metro area. Ocean shipping rates and capacity are predicted to stabilize in 2012 creating high levels of activity across the country through these inland ports.

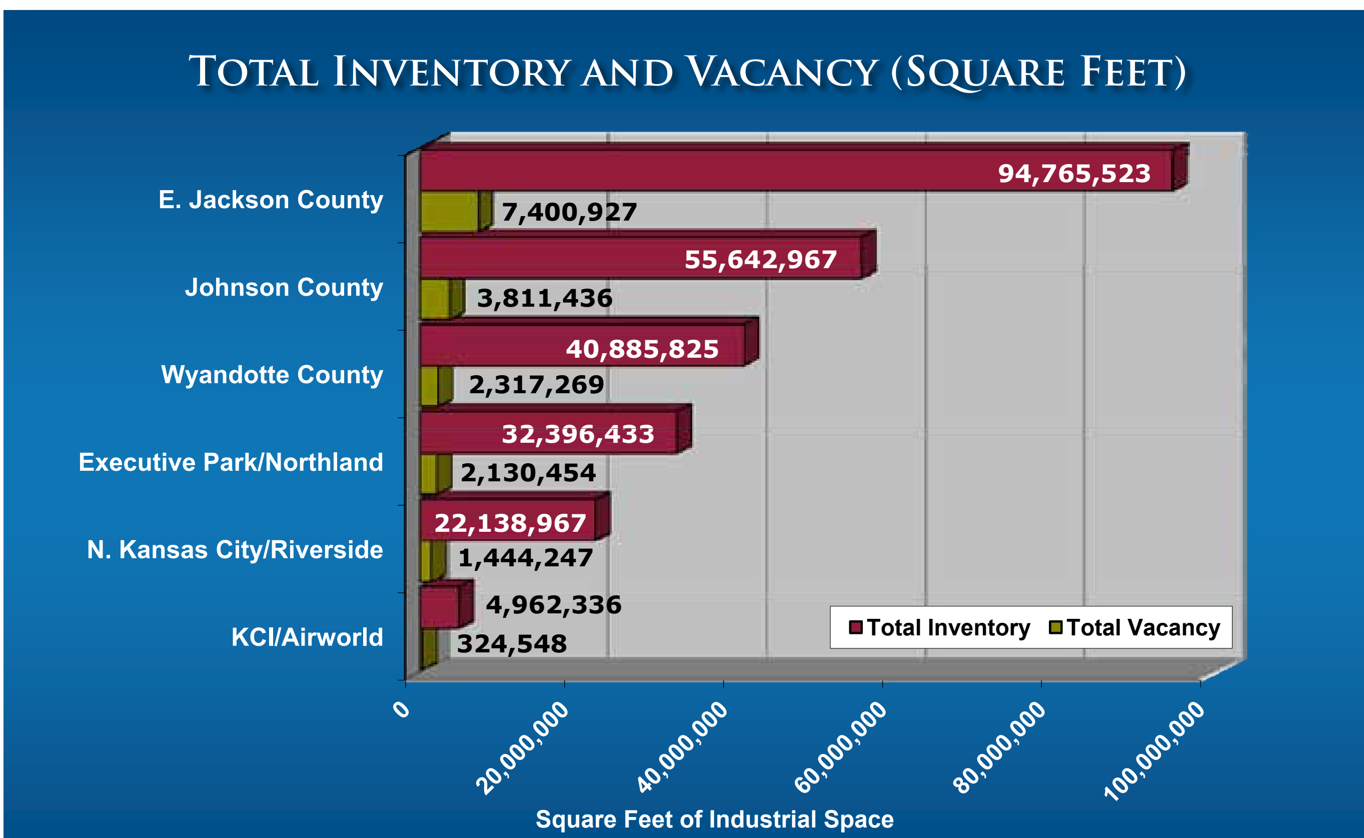
Distribution/transportation is a significant portion of the growth in this community. It is estimated that between 20% and 25% of the jobs in the Kansas City area are linked to transportation and supply chain activities. The Interstate highways that crisscross the region make it the third largest trucking hub and we have more freeway-lane miles per capita than any other U.S. city. There are three intersecting Interstates in the Kansas City area (I-29, I-35, and I-70) with a fourth Interstate (I-49) coming soon.

Kansas City's strength as a transportation hub can be a curse as well as a blessing, since the transportation sector is frequently the first industry to decline in a slow economy. However, it is also the first industry to recover as the economy rebounds. Many roads, interstates, rail lines and air corridors lead to Kansas City, a fact that has led to transportation/distribution related initiatives here as well.

INTERMODAL GROWTH AND UPDATE

Throughout 2011, the supply chain industry had seen increases in business growth in all modes. Import volumes from Asia were up and U.S. exports were up over 2010. The rail intermodal, both domestic and international, also showed increases. Trans-load companies in the Kansas City area will continue to see growth in their industry's business going into 2012.

Already a key player in the region's distribution and logistics sectors, Kansas City International Airport (KCI) will take on increasing importance in the coming years. KCI with the largest air cargo facility in a six-state region is also expanding with the development of its Intermodal BusinessCentre (KCIBC). KCIBC is an 800 acre master planned development which will eventually have 5.4 million square feet of buildings that will



include air freight, logistics, air cargo, warehouse/distribution centers, office/warehouses, flex space/service centers and light manufacturing facilities. Phase I infrastructure is underway to support 1.8 million square feet of buildings on approximately 180 acres. Buildings will have state-of-the art systems and LEED construction.

Plans call for the project's second phase to include an extension of roads and utilities to about 200 acres that will have more than 4,000 linear feet of frontage along KCI's main runways. This will allow KCI to extend its reach in air cargo and commercial distribution as well as manufacturing and assembly. This intermodal site has seen much activity with the announcement that Nordic Windpower will move its headquarters, manufacturing and research facilities from around the country to consolidate here in the region at KCI. The logistical infrastructure and our location as the "center of the windbelt" – Texas, Kansas, Nebraska, and Iowa – led Nordic to this choice and are giving the metro area an advantage in attracting companies looking for a site to manufacture and assemble or maintain and repair wind towers.

Another major announcement is Blount International, Inc. which will lease a 350,000 square foot build-to-suit distribution center scheduled to be operational by January 2012.

CenterPoint Intermodal Center is operated by Kansas City Southern (KCS) and is a 1,340-acre development that includes a 1,000 acre industrial park located directly adjacent to the Kansas City Southern Intermodal Facility. With infrastructure in place, these sites are build-ready for facilities up to one million square feet for manufacturing, warehouse and distribution. The rail infrastructure that KCS has developed connects Kansas City with Texas and Mexico at the deep-water port at Lazaro Cardenas on the Pacific coast, where cargo comes in from Asia. Swift Transportation has announced a new container – on-flat-car intermodal service to and from Mexico.

Will Northland Park have the fourth intermodal park in the Kansas City metro? Through the Reorganized Church of the Latter Day Saints, Northland Park may see some new activity as they have been discussing development with consultants. Northland has more than 375 acres of vertical-ready sites and operates within the Norfolk rail line.

ACTIVITY UPDATE

There's a little more activity than a year ago, but not overwhelming levels. A number of larger companies are looking to expand in the area or create new locations here. Part of the success in freight-based business in 2011 was industrial product companies like Olympic Steel and Van-Rob that have moved distribution and manufacturing facilities to the Kansas City area. However a lot of the activity is still looking versus doing.

In the smaller space end of the industrial market, the 20,000 to 100,000 square foot buildings, not many companies are looking. In the small flex type tenant spaces the market is nearly non-existent. Not much change is predicted over the next 12 months with the uncertain political landscape. There is no clear sign that the overall market is on the rise, though there have been some significant transactions as well as movement by local companies. But without real growth, there won't be significant change in market dynamics, in terms of absorption or rental rate increases. In fact we're seeing some tenants in Class B space moving up to Class A and similarly, tenants in Class C space are moving to Class B due to lower rental rates. Unfortunately, we're still seeing a general downsizing of many of the companies even though they are upgrading the quality of their premises. The landscape is still spotty but is experiencing growth and expansion in some submarkets.

It is estimated that between 20% and 25% of the jobs in the Kansas City area are linked to transportation and supply chain activities.

Over the past five years, Kansas City has stayed in a narrow range of vacancy of between 6% and 8%. But there is some concern about the nearly 11% "availability" rate which tracks buildings that are available on the market, but are not yet vacant. These are often with companies that are hoping to shed excess space and/or inventory, but, due to lease obligations, they continue to occupy the larger space. The difference between vacant and available is another 8.75 million square feet of space. Compared to 2010 when there was 1,706,060 square feet of negative net absorption, 2011 has provided a more positive result with 532,481 square feet of net absorption.

In comparison, from 2004 through 2008 we saw Kansas City averaging nearly 3 million square feet of net absorption annually. Quoted lease rates for warehouse space in Kansas City are off by about 10 to 15% from their highs in late 2008, sitting at around $5.21 per square foot gross across all classes and categories. The flex market has been hit hardest facing a 12.5% availability rate leading to quoted rental rates of 25 to 35% discounts from their highs, at $7.66 gross on average. On a positive note, the flex category is seeing some new activity with an influx of smaller entrepreneurial businesses into the marketplace.

SALE PRICES DOWN

Lender-owned properties and distressed sellers have dragged the sale price down across all categories and submarkets with few exceptions. Single tenant flex buildings had peaked at an average sale price of $100.00 per square foot by 2007 and now are averaging closer to the $65.00 to $75.00 per square foot range. Warehouse sale prices have held up better overall, falling from a high of about $52.00 per square foot down to $42.00. Sale prices are more likely to fall another 5% to 10% before stabilizing, with at least 15% of the industrial

Designed for one or two LEED-certified buildings, the 472,771 square foot K-10 Commerce Centre in Olathe, Kansas, being developed by Block Real Estate Services, is perfect for a distribution headquarters, high tech assembly facility, or data center.

buildings that are currently on the market, either owned by lenders or in highly distressed situations. As they sell, they will no doubt drag down the average pricing across all categories. Right now there are over 600 industrial/flex buildings on the market for sale and it may take another 12 to 18 months to reach stabilization. In addition, renewal transactions are having a major impact on the leasing market with many tenants realizing strong positions and taking advantage of negotiating favorable lease terms.

New industrial development around the City has come to a near standstill with less than 500,000 square feet over the past three years compared to a historical average 2.5 million square feet annually. Given the lack of Class A distribution space, it's entirely possible that we could see a groundbreaking in 2012. Sun Life has plans for an 800,000 square foot high cube distribution space in Olathe, Kansas to compliment their existing 600,000 square foot building constructed in 2008. In addition, USAA Real Estate could move forward with a similar type facility in the New Century Air Center in Kansas.

MAJOR MARKETS

JOHNSON COUNTY

Continuing the trend of the past decade, the Johnson County Industrial submarket has remained the most stable and now has potentially become the most important industrial submarket in the region. Combining strong demographics with a premier location aided by major highway access at the intersection of I-35 and I-435, along with U.S. Highway 69, this submarket has been the backbone for the industrial market in Kansas City.

When looking at Johnson County, as a whole, the submarket has a total inventory of 53,636,577 square feet as of the fourth quarter of 2011, amassed in some 1,477 buildings. These figures are unchanged from the previous year as a result of no new construction being finalized during the year. Overall occupancy of 93.2% is virtually unchanged from the previous year, with a positive net absorption of 39,611 square feet or 0.1% over the period. Illustrating the size and strength of the market, the Johnson County industrial submarket represents 21% of the overall Kansas City Industrial Market, is the second largest of the submarkets, and compares favorably to the overall market occupancy of 92.9%.

BENEFITS OF JOHNSON COUNTY

Outside of the marginally higher occupancy rate, the main advantage, from a Landlord's perspective, of the Johnson County submarket, compared to the other submarkets in the City is found in average rental rates. Marketwide, we see average rates range from $3.84 per square foot for bulk/warehouse space to $8.49 per square foot for flex/light industrial buildings, with an overall rental rate average of $4.10 per square foot. Comparing this to Johnson County's averages of $5.30 per square foot for warehouse and $9.20 per square foot for flex space, and $7.39 per square foot overall, the benefit of income growth by ownership in this submarket is evident. The product mix is 16% "flex" buildings and 84% "industrial or bulk" warehouse. While rates are comparatively good within the market, tenants are still benefiting in lease rate negotiation because of the turnovers which have kept concessions on the table in every transaction.

Market lease rates and overall economic conditions, combined with the costs of new construction, held new development in check. No new projects are currently under development or were delivered within the past year. Additionally, through state and regional incentives, Johnson County, perhaps more so than the balance of the market, has become a mini-hub for bioscience and animal science. A significant portion of the new activity in the last year, in this submarket, can be directly attributed to these bioscience initiatives and our market's overall location within the Animal Health Corridor.

LEASING AND SALES ACTIVITY:

Significant Bioscience and Animal Health Leasing Activity:

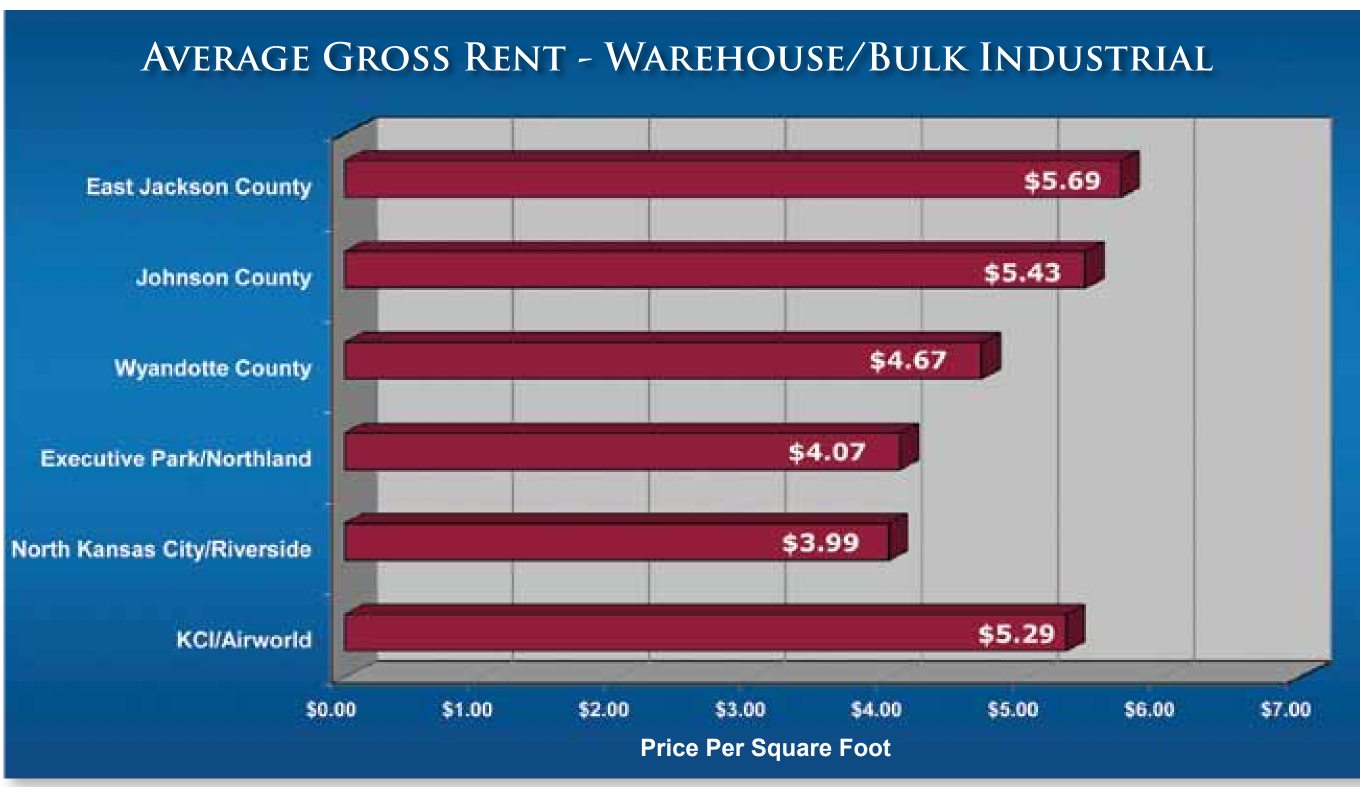
- CEVA Biomune completed an $18 million expansion and remodel of its biomune poultry vaccine production plant in Lenexa, in 55,000 square feet.
- Abaxis Veterinary Reference Laboratory selected Olathe for a new state-of-the-art laboratory testing facility. They will partner with K-State for the 20,000 square foot building for this medical products company.
- SmartVet picks Olathe for its U.S. headquarters on the Kansas State University's Olathe campus.
- Ceva Biomune, which has leased 45,000 square feet of space for its warehouse and distribution operation.

Other significant new leases during the year include:

- 1A Auto selected the Kansas City area and specifically the Johnson County submarket, for its national distribution center at the New Century AirCenter in a 52,000 square foot facility.
- Van-Rob, Inc. signed a lease in late 2010, and has now moved into a 79,000 square foot free-standing building in Shawnee.
- Meritex Underground completed several leases totaling over 370,000 square feet including Remel at 137,500 feet; Ceva Biomune in 45,000 feet; Power Sales expanding by 26,000 feet to a total of 96,000 feet; a west coast health supplement company for 24,000 square feet; and Service Pak doubling their space from 25,000 to now 50,000 square feet.

Significant renewals and expansions include:

- Smart Warehouse extended the lease on 62,400 square feet on Santa Fe Trail in Lenexa.
- Hockenbergs Food Service Equipment & Supply Inc. renewed its lease of 72,620 square feet in Lenexa Interstate Center at I-35 and 112th.
- Vertis renewed their lease for 57,000 square feet at Oxford Square in Olathe
- Hockenbergs Minneapolis renewed 64,575 square feet at Lenexa Interstate Center.
- Global Ground Support renewed its lease of 112,500 square feet at 540 E. U.S. Highway 56 in Olathe.



Premier Beverage Inc. consolidated its Kansas operations with the purchase of a 245,000 square foot distribution center in Edwardsville, bringing 77 new jobs to Wyandotte County, Kansas.

- Title Boxing renewed their 75,496 square feet in Lenexa Interstate Center and then expanded and leased an additional 60,000 square feet in the adjacent Crossroads Industrial building.
- Victorian Trading Company leased 54,474 square feet on 99th Street.
- Beltmann Group, North American Van Lines' largest agency, renewed but downsized from 70,000 to 51,425 square feet at the US Safety Building at 81st & Lenexa Drive.

Sales transactions were historically low in 2011 as well. Some larger transactions include:

- ADDvantage Technologies Group, Inc. purchased 26,000 square feet on 99th Street in Lenexa.
- Adams Global Communications purchased the former Mass Medical building of 26,960 square feet in Lenexa.
- Himoinsa Power Systems purchased a 100,000 square foot building in Lenexa.

EXECUTIVE PARK/NORTHLAND PARK

Executive Park and Northland Park are both major industrial parks located adjacent to and on the southern and northern sides, respectively, of the Missouri River. Both offer a sought-after mix of flex and warehouse space along with the more modern bulk space. Pricing is reasonable given the qualities of these buildings. The submarket contains more than 30 million square feet of the City's industrial product with 5 million square feet of that being situated in underground warehouse space.

Executive Park began development in the mid to late 1970's on 1,200 acres and is now about 95% developed. The premier industrial park in Kansas City, Missouri, it is situated between I-435 on the east and I-35 on the west along Front Street.

Northland Park is newer and is often sought by many of the larger big-box users who have either outgrown their space in Executive Park or can't find suitable space. Many of the users are tied to the nearby Ford Claycomo Assembly Plant. Located just northeast of Executive Park, its versatile buildings offer reasonable lease rates along with excellent highway access.

TRAFFIC IMPROVEMENTS

With the Paseo Bridge (I-35) replacement having been completed in late 2011, the focus will be on improving Front Street. Front Street, the main east-west connector through Executive Park, links the Interstates and downtown, and ushers thousands of vehicles to and from the park on a daily basis. Updates to Front Street at the I-435 interchange are taking place now. The Conventional Diamond Interchange (CDI) there has been redesigned and will be reconstructed as a Diverging Diamond Interchange (DDI) allowing it to accommodate more traffic, move it faster, decrease congestion, and increase safety. This improvement will make Front Street, at the interchange, a pair of one-way streets that cross at two signalized intersections and will take at least through 2012 to complete so there will be major congestion issues on this roadway.

NOTABLE ACTIVITY

Activity in larger spaces was strong in 2011 and should carry over into 2012. Overall vacancy rates decreased in 2011 to 6.8% compared to 8.2% at year-end 2010.

- Perhaps the most interesting deal of the year was the PrimeSource Building Products, Inc. lease of a 100,000 square foot building in Executive Park. The facility, which was previously occupied by Owens and Minor, was put on the market in 2009. With the building still being offered for sale in 2011, PrimeSource was immediately interested in the building but needed outside storage and only wanted to lease, not purchase. Adjacent to the building, a separate owner, associated with principals of Block Real Estate Services, had a vacant land parcel. Block Income Funds bought both properties and was able to negotiate a 12-year lease with PrimeSource, providing them with everything they wanted.

- Colony Realty Partners acquired a 172,445 square foot, two-tenant building from Quadrangle Development, along with an additional nine acres of vacant land at 6100 Stilwell. The building sold for $5.95 million and is occupied on long-term leases with AM Castle and Ken-Mac Metals. This was the only investment purchase of multi-tenant space in the submarket this year, following Colony's acquisition of Front Business Center in 2010.
- U-Haul International purchased the former Ball Container building at 1800 Reynolds Avenue. The building is 412,000 square feet and sold for only $11.41 per square foot.
- Beyond Organics, a food company new to Kansas City, leased 55,000 square feet.
- McKesson Medical renewed their lease in 153,718 square feet in a modern cross-dock, 32-foot clear building at 1405 NE Chouteau, for ten years.
- Kansas City's resurging automotive industry has driven a couple of the larger new leases including the 148,800 square foot lease at 1601 Southern to Flex-N-Gate.

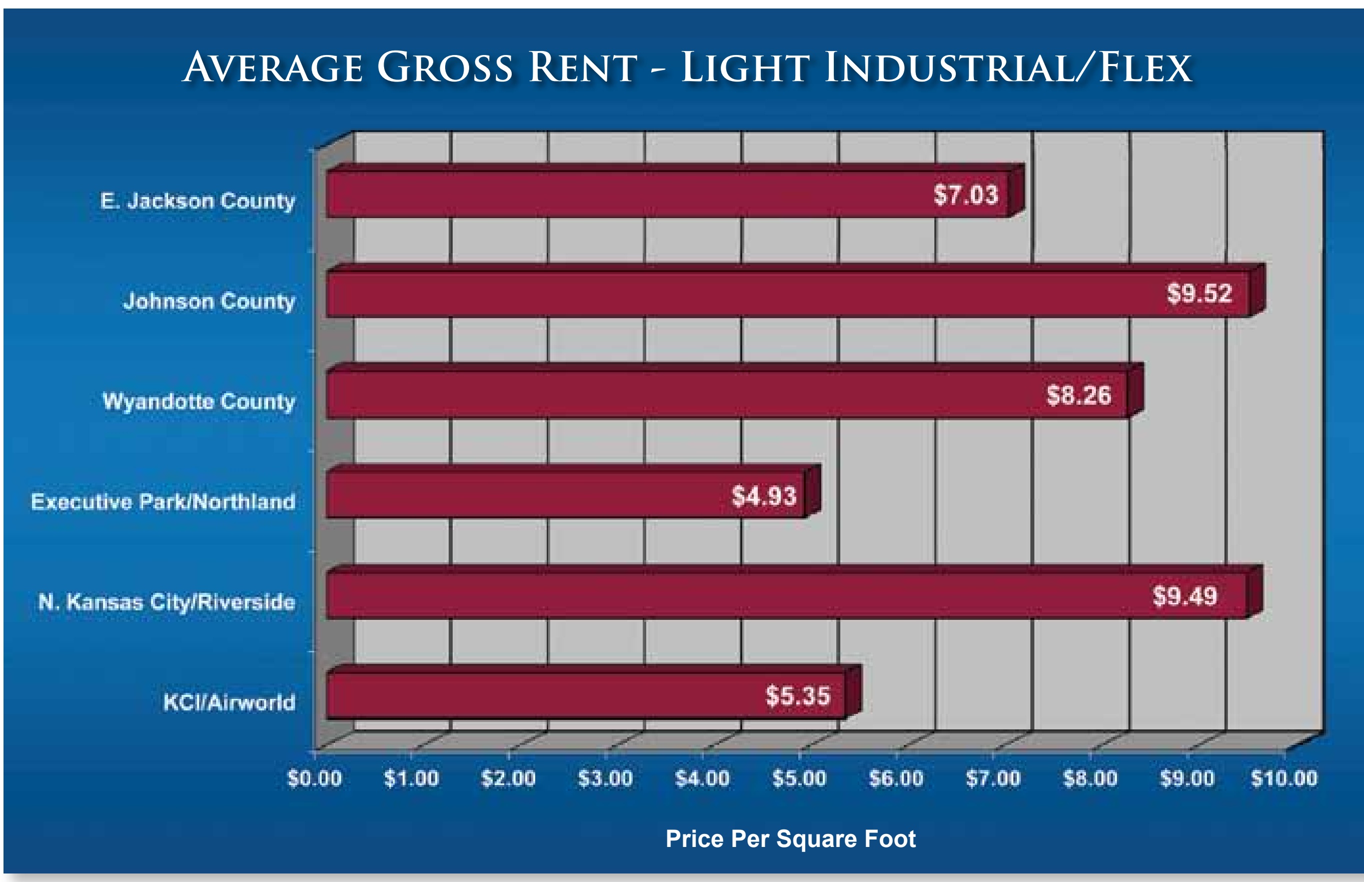
UNDERGROUND WAREHOUSING

In SubTropolis, the Hunt Midwest Underground development, located north of the Missouri River, had several large transactions:

- Vanguard Packaging leased 250,000 square feet.
- Bayer Crop Science expanded to a total of 209,000 square feet.
- Best Service Stores expanded from 41,000 to 101,000 square feet.
- Advance Logistics and Fulfillment added 21,600 square feet and brought their total to 151,175.
- Hantover renewed its 206,000 square foot space.

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. With much of the development of industrial product taking place in the 1940s-60s, this submarket offers a range of building types, from modern high cube distribution to flex/industrial to manufacturing and



Quality Technology Services purchased the 35,000 square foot tech building in Pine Ridge Business Park in Lenexa, Kansas, and plans to invest more than $20 million to build out the space for data center capabilities.

appeals to potential Industrial users given the excellent access to I-35, I-29, I-70, I-435, and I-635.

Among these high-traffic arteries, 2011 saw the completion of improvements for the reconstruction/rehabilitation of about four miles of I-29/I-35 as it crosses the Missouri River from Downtown to North Kansas City. These improvements caused some challenges for tenants and commuters for much of 2010 and a portion of 2011, however the $275 million invested in the project has made travel along the Interstate noticeably more efficient.

The submarket directly competes with the City of Kansas City, Missouri, and the industrial buildings located within. Many business owners are drawn to North Kansas City/Riverside to avoid the 1% Earnings Tax paid by employees working in Kansas City, Missouri. Kansas City residents voted on abolishment of the tax earlier this year, but with heavy lobbying, it failed and thus it has remained in effect. Given the outcome of the vote, North Kansas City/Riverside has kept this competitive advantage. This submarket is expected to remain very stable throughout this economic malaise and should rebound in parallel with the economy in coming years. These benefits will continue to keep the submarket stable for the long-term which should help vacancy to decline slightly:

- Overall vacancy decreased to 6.4% from 6.9% in 2010.
- Industrial/flex vacancy at year-end 2010 was 11.4%, but by year-end 2011 we saw that vacancy decrease to 8%.

Industrial/flex space has seen the worst impact from the economic situation. Although vacancy decreased in this building type, it's anticipated that vacancy will rise again in the industrial/flex buildings, similarly to the rest of the submarkets. However, given that the North Kansas City/Riverside submarket has rentable building area in excess of 22 million square feet, it is important to understand that the industrial flex portion of it is only 235,991 square feet. Even with small fluctuations in the industrial/flex vacancy, there will be little impact to the entire submarket.

LARGE TRANSACTIONS FOR 2011

Riverside had several large transactions take place in 2011:

- AT&T Communications renewed their 61,600 square foot lease located in the Platte Valley Industrial Center.
- New York Air Brake expanded their warehouse by 15,000 square feet to 40,216 square feet in 2011, while extending their lease term.
- In the same building Sears Logistics Service, Inc. renewed their 48,000 square foot lease
- Green Bay Packaging expanded and relocated from their 31,900 square foot space in the Platte Valley Industrial Center into the Belgium Business Park where they leased a 40,000 square foot unit.

North Kansas City transactions included:

- Inteva's renewal of 125,566 square feet.
- NFI Industries lease of 40,000 square feet at 1243 Ozark in the Paseo Industrial District.
- Welch & Wilson's short-term lease of 155,000 square feet on Levy Road.

- Steelman Transportation, which leased 65,000 square feet and is already outgrowing their space.
- Wagner Industries took on a short-term lease in 244,000 square feet in an older building on Swift in North KC.
- Door Link renewed at 1501 Taney in 162,000 square feet with Northtown Devco.

Some strong purchases also took place in the area including:

- Midwest Research Institute's $1.5 million purchase of a 76,000 square foot building at 1222 Ozark.
- Holland purchased a 43,000 square foot building.
- Arrowhead Specialty Meats bought the 43,000 square foot building at 1200 Taney.

IMPORTANT DEVELOPMENTS OF 2011

Hoover Universal, a subsidiary of Milwaukee-based Johnson Controls, Inc., built a 170,000 square foot building in Riverside area. This project, which was announced in late 2010, received final approval in the first quarter of 2011 and was one of the few developments to take place in the Kansas City Metro area. Johnson Controls received the contract to manufacture seats and interior components for GM's 2012 Chevrolet Malibu. The current Malibu contract is fulfilled by the Riverside operations of Faurecia Corporation and Woodbridge Corporation. Malibu seat fulfillment accounts for a large majority of each of these companies' Kansas City operations, so the effect on their leased spaces could play out during the course of 2012.

In addition, the City of Riverside named Briarcliff Development Co. to develop Horizons Business Park, a 260-acre Master Planned Business Park with industrial, office, and service retail site at I-635 and Missouri 9 Highway. The Park's initial plans show the addition of 1.1 million square feet of office space and 1.5 million square feet of industrial/innovation space, with a full build-out of 2.6 million square feet when complete. The initial proposed building will offer space from 22,000 to 280,000 square feet. These new buildings will house employers creating 5,900 permanent new jobs over the 20 year life span of the development. Riverside will abate the City property taxes. Buildings will be state-of-the-art LEED construction to sustain efficient distribution operations. Construction on infrastructure is expected to be underway in 2012 on 25 acres of lakes, three miles of tree-lined canals and setting land aside for public use and recreational purposes.

KCI/AIRWORLD

With just 4,962,336 square feet in only 73 buildings, the KCI/Airworld Industrial submarket is a minor component of the overall Kansas City industrial market. Of this, 4.1 million square feet is bulk industrial with the balance of 863,000 in flex space. It is an important submarket due to its close proximity to Kansas City International Airport (KCI), which is the preferred location for air-cargo transporters in a six state region. KCI is already a key player in the region's distribution

The former Ball Manufacturing headquarters, a 412,000 square foot building located at 1800 Reynolds Avenue in Kansas City, Missouri, was purchased by U-Haul International for the consolidation of its area operations.

and logistics sectors, and will be taking on considerable importance in the years ahead. The location of the submarket does place it fairly far from some of the more active industrial parks, like North Kansas City's Paseo Industrial and Kansas City, Missouri's, Executive Park. However, the excellent proximity to I-29 and I-435, allow easy access to all points in the city.

With the combined industrial and flex occupancy at nearly 94%, and average quoted rental rates at $5.37 per square foot gross, as of year-end 2011, the submarket has exhibited more stability than the industrial market as a whole. This is partially due to the specialized nature of air transit-based tenants and the large national companies that are seeking a facility near an air cargo operation like KCI. But once again, the flex portion of the submarket is the drag on occupancy with nearly 21% vacancy as opposed to only 3% in bulk warehouse space, demonstrating the area's strength with large tenants. These statistics compare to the year-end 2010 occupancy rates, and the overall Kansas City industrial market's $5.21 per square foot average rental rate, thus, making this submarket one of the bright spots in the Metro area.

With the combined industrial and flex occupancy at nearly 94%, and average quoted rental rates at $5.37 per square foot gross, as of year-end 2011, the submarket has exhibited more stability than the industrial market as a whole.

Important growth of this market will be the KCI Intermodal BusinessCentre which is now ready for vertical construction as discussed earlier. The most significant transaction and advancement that took place in this submarket during 2011 was the aforementioned Blount International lease for their 350,000 square foot distribution center, which is slated to be operational by early 2012. Additionally, RadSource expanded and relocated from 20,000 square feet in Parkville to a 67,000 square foot building it purchased in the KCI/Airworld submarket area. Overall submarket activity was limited due to such high existing occupancy in the warehouse bulk space and disappointing leasing in flex space.

WYANDOTTE COUNTY

EXISTING WAREHOUSE/BULK INDUSTRIAL BASED SUBMARKET

Once again Wyandotte County's Warehouse/Bulk Industrial product accounted for the vast majority of leasing volume in the submarket. In fact, this submarket was perhaps the most active in the large spaces. With overall leasing of 1,475,459 square feet in 2011 versus 1,928,196 in 2010, it wasn't as good of a year for the submarket landlords, even with all the activity. Warehouse/bulk industrial product makes up over 97% of the Wyandotte County submarket's square footage of 40,898,407. The center of the Metro location along with the immediate access to I-70, I-35, I-435 and I-635, provides efficient distribution of products by third party logistics providers and traditional distributors alike. Even though Appleton Paper downsized to 105,000 square feet in a space at Richland Business Center in the Turner Industrial District in 2010, the relocation and expansion of Earp Meat Company, Wagner Industries leases, and Freight Concepts demonstrates continued satisfaction with the submarket, as do the numerous renewals.

To ensure both current and new potential users continue to hear about the benefits of Wyandotte County, the Wyandotte Economic Development Council created the position of Business Retention Director for Jackie Carlson in June and installed seasoned economic development expert Greg Kindle as President in December. As Wyandotte County vacancy fell to 6% by the end of 2011, officials will likely look for opportunities to encourage new development as the overall economy improves.

Wyandotte County realized another year of steady recovery with several lease renewals and a few notable new leases. Lease renewals included:

- Owens Corning's 200,000 square foot renewal near their manufacturing facility in Fairfax.
- Comprehensive Logistics' 187,000 square foot renewal in Turner.
- Fastenal's 183,571 square foot renewal in Edwardsville.
- MWI Veterinary Supply's renewal and further expansion of its distribution center by 35,000 square feet to a total of 125,000 square feet on Midland Drive in Edwardsville.
- Lagasse's 90,000 square foot renewal in Edwardsville.
- Interconnect Devices' 62,138 square foot renewal in Turner.
- Cross Midwest Tire expanded by 40,000 square feet to a total of 310,000 square feet.

Those were supplemented by the following new leases:

- Wagner Industries leased two spaces, one on Armourdale Parkway of 100,000 square feet and the second on 7th Street of 76,838, for their Packaging Dynamics division, for a total in the Kansas City Metro area that is now greater than 1 million square feet.
- LKQ Automotive, driven by modern functionality, with 30-foot clear height and ample truck/trailer parking, chose an 118,215 square foot space in the Armourdale Industrial District.
- Freight Concepts' new 49,137 square foot space in Fairfax, expanding from their Armourdale roots.
- History & Heraldry USA will move its distribution center from California to Kansas City in 44,585 square feet of space in Armourdale.
- Schmuhl International Commodities Services completed a new 8 acre state-of-the-art bulk grain export facility.
- Premier Beverage acquired a 245,000 square foot, 30-foot clear, bank owned, distribution facility in Edwardsville at $14.29 per square foot—at a discount of 60-75% of replacement cost.
- Capital Electric Construction Company leased 43,000 square feet.

Other notable activity included the following new building delivery and sales:

- Earp Meat Company's new 160,000 square foot freezer/cooler distribution center was completed in the Edwardsville Industrial District.

Block Real Estate Services represented Colony Realty Partners LLC in their acquisition of a 172,000 square foot industrial building in Executive Park, bringing the Colony portfolio up to 3.5 million square feet in the Kansas City market. BRES will handle property management services for Colony.

Phase I of the KCI Intermodal BusinessCentre is underway and will support 1.8 million square feet of buildings on 180+/- acres. Blount International will occupy 349,440 square feet in LogisticsCentre I.

- Upon completion of the Earp move-out from their existing facility at 6550 Kansas Avenue, Best Harvest Bread Company, which owns the attached facility and is a supplier along with Earp to McDonald's restaurants in the Midwest, purchased the 108,000 square foot building to bring their total space to 141,816 square feet in that facility. The additional building sold for just over $22 per square foot.
- Glazer's purchased the 245,000 square foot Appleton Paper Building in Edwardsville.
- Brancato's Catering purchased 200,000 square feet in two adjacent buildings at 51st and Kansas Avenue in Turner for a little over $15.00 per square foot.
- BNSF Railway leased 10 acres in the Hart Industrial Park.

These new and retained distribution/warehouse users helped to offset 48,511 square feet of negative absorption in the light-industrial/flex segment, resulting in over 142,000 square feet of total industrial absorption in the submarket in 2011.

EAST JACKSON COUNTY/DOWNTOWN

East Jackson County is considered all of Jackson County except the Executive Park area. In 2011, the construction on the NNSA adjacent to the CenterPoint-KCS Intermodal Center continued and should do so through 2012. Unfortunately, the proposed biotechnology sites in south Kansas City have made no movement forward and there are not any new plans to start development in the pipeline.

On a more positive note, representatives from the City of Blue Springs, the Blue Springs Economic Development Corporation and University of Missouri signed a Letter of Agreement to develop the first phase of the Missouri Innovation Park, which represents 63 acres and an 80,000 to 90,000 square foot building with MU as the anchor. Eventually the park could grow to a 500 acre science and technology park that is expected to be a focal point for technology-based innovation in Western Missouri in the coming years.

INDEPENDENCE BUSINESS PARK – NO NEWS IS NOT GOOD NEWS

The 360-acre project will be at Missouri 78 and Missouri 7, in east Independence across Missouri 7 from the Lake City Army Ammunition Plant. It will straddle Missouri 78 and could include industrial, office and even retail space. Although Independence has a large amount of underground industrial space, most of it along Missouri 291, it hasn't added above ground industrial space since the early 1970s. The project has taken years to plan and will take years to fully develop and no new activity or announcements occurred in 2011.

TREND FOR 2011 IN EAST JACKSON COUNTY

Though East Jackson County is one of the Metro area's largest submarkets, with over 94 million square feet in 2,638 buildings, the majority of that square footage is located within older product, much of which is in outdated industrial neighborhoods. A large amount of this space is lower quality than today's modern distribution centers, but is highly price attractive. It still will not provide the bulk space that is in demand by today's logistics and distribution companies.

The overall combined industrial and flex vacancy rate at the end of 2011 dropped from 2010's year-end 8.4% to 8.1% at year-end 2011. Leasing activity in 2011 totaled 1,009,824 square feet versus 845,230 square feet and resulted in a positive net absorption of 176,916 square feet compared to 2010's negative net absorption of 520,878.

These new and retained distribution/warehouse users helped to offset 48,511 square feet of negative absorption in the light-industrial/flex segment, resulting in over 142,000 square feet of total industrial absorption in the submarket in 2011.

With the older and inefficient buildings of lesser quality, rental rates have been all over the board, but there was a modest five cents per square foot uptick in 2011, with an average warehouse rate of $4.85 per square foot. Newer facilities, with more convenient highway access and considerably better loading that have been built in other Missouri side markets like Executive Park and Northland Park, are attracting the major and national tenants. Other suburban Kansas locations are also pulling tenants away from these older developments and are stifling overall rent growth.

The trend for 2012 will be a continuance of what has occurred over the last ten years with little or no new industrial buildings which weakens dynamics for these older neighborhoods. Often firms in these areas are growing and need better space and thus locate outside of the East Jackson County submarket.

Much of the inventory in the central industrial areas of Jackson County is functionally obsolete: multi-story industrial buildings, many of which have converted to residential lofts; creative loft offices; and "dead" storage or even entertainment venues like Halloween haunted houses. Developments in Lee's Summit and Blue Springs, as well as the anticipation for the newer parks announced in south Kansas City and Independence, hold the hope for overall growth in rental stock and rates. These newer developments continue to hold very high occupancy rates, but the last few years have increased vacancy.

Vacancy rates in the southeast portion of the submarket, Lee's Summit, were as low as 5% in 2009, but have risen to 7% in 2011. The vacancy has been primarily in flex space, both in multi-tenant and single-tenant buildings.

NOTABLE TRANSACTIONS INCLUDED:

- New Breed Logistics leased the 70,000 square foot former Corporate Express building, that had been vacant for nearly three years, at Stadium Industrial Park.
- Midland Metal Manufacturing made a $2.6 million purchase investment relocation and building expansion to 115,000 square feet on 3122 Gillham Plaza, staying in Jackson County.
- Exergonix, a green energy storage company based in Lee's Summit, will build a new facility on the former Pfizer property at Missouri 291 and U.S. 50, on a campus that could include space for other green type industries and a possible re-location of the University of Central Missouri Summit Center.
- Dow Kokam unveiled a makeover of its Lee's Summit facility into a state-of-the-art research and development lab for lithium-ion batteries.
- High Tech plans for the historic Hanna Rubber Company building in the Crossroads Art District of downtown were unveiled by the owners supporting Kansas City's professional soccer team, who want to locate their new interactive software venture to the building.
- The Independence Regional Ennovation Center has landed its first bioscience tenant, bringing the promise of jobs soon and perhaps more such companies in the future. AndroJek plans to move to Independence from Fort Lauderdale, Florida, early in 2012.
- In the Geospace Underground east of Missouri 291 Highway in Independence, Store Opening Solutions leased 153,000 square feet.
- At 6520 Winner Road, Kessler Sales & Distribution, a plumbing supplier new to Kansas City, leased 60,000 square feet.
- Allied Building Products, an independent distributor of roofing, siding and similar products, leased 43,998 square feet on Mercier above the downtown industrial park caves.
- On the sprawling 4,000 acre Lake City facility in Independence, Missouri, two large leases were made: Caliber Ammo Systems for 46,000 square feet and MAST Technologies for 32,000 square feet.
- American Builders & Contractor Supply leased 40,000 square feet at 624 NE Industrial in Lee's Summit.

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

Kansas City RETAIL Market

A new Trader Joe's store anchored the revitalization efforts at Ward Parkway Center. The second store – just five miles away in Leawood – marked Trader Joe's foray into Kansas.

While it appears behind us, the Great Recession continues to weigh on the minds of consumers everywhere, yet economic indicators show recovery is underway. The only major retailer to close locations in Kansas City during the year was Borders, having closed three of its six area locations.

Even though the Kansas City area continues to fight a high unemployment rate of 7.4% at year-end, consumers have loosened their purse strings and embraced a string of new retailers to the market. Retail real estate continues on its slow pace to recovery, but the clouds appear to be parting and a return to pre-recession consumer spending, retail sales, and vacancy may not be as far off as it has seemed in the past few years.

RETAIL SALES ARE REBOUNDING

Unlike 2010 with its rocky up and down monthly sales trends, The International Council of Shopping Centers (ICSC) Retail Chain Store Sales Index showed an overall total store sales year over year increase in each month of 2011.

Additionally, each retail category experienced positive increases. The National Retail Federation agrees with this trend, predicting overall retail sales for 2011 will increase by 3.8% over 2010.

We continue to keep an eye on the fact that Kansas City has in excess of 39 square feet of retail space per capita versus the national average of 20 square feet per capita. This abundance of retail space will likely cause a prolonged, higher than average, vacancy rate in Kansas City's retail centers. While this is definitely driven by the vast land mass of the area and the low-density nature of our retail projects, one way in which this dynamic will shift in the coming years is a trend toward more infill redevelopments versus green field developments which attempt to follow new rooftops. Those new rooftops simply aren't coming online as rapidly as needed for continued retail sprawl. Housing permits for 2011 were slightly lower than both 2009 and 2010 with only 2046 permits being pulled.

In our 2011 Annual Report, we indicated development was anticipated to start again in 2011 and we have seen several new projects get underway with others being announced.

New grocery store development tops the list with Hy-Vee having opened in Liberty, the Northland, and with a store under development in Overland Park, as well as Price Chopper under development in Belton. These new grocery locations will create some big-box vacancies in the older centers from which they will relocate.

Back-filling those spots may be getting easier as witnessed by several big-box stores coming to life with new tenants over the last year:

- Feldman's opened in the former Hy-Vee in Liberty.
- Strikerz Entertainment Center opened in the former Circuit City in Independence.
- Nellie's Antiques and Collectibles opened in the former Hy-Vee in Shawnee.
- Nordstrom Rack opened in the former Circuit City in Overland Park.
- BuyBuy Baby opened in the former Borders in Overland Park.
- Savers Thrift Store will open in the former Price Chopper in Shawnee, and the list goes on.

Some smaller retail projects are also underway. In Kansas City, Kansas, the redevelopment at 39th Street and Rainbow is under construction, as is the retail strip project east of the Country Club Plaza at Emanuel Cleaver II Boulevard. Lenexa is getting in on the game with a new small retail strip center at 95th Street and Renner Boulevard.

The new retailers to come to Kansas City over the last year are mostly lower price point retailers. Clearly this is in response to the consumers keeping an eye on spending and looking for the greatest value. Saks Fifth Avenue OFF 5TH, Nordstrom Rack, and H&M are in the forefront. Trader Joe's, one of the nations's most coveted retailers, opened two locations. BuyBuy Baby, Bed Bath & Beyond's concept filling the needs of the smallest consumers, added two locations to the metro this year. Penn Station East Coast Subs and Runza also opened their first area locations in Kansas City in 2011.

Other discounters currently in the market have been expanding as well. Save-A-Lot and ALDI both opened two new locations over the last year. Other retailers currently expanding include: Title Boxing Club, Jimmy John's, Yogurtini, Dunkin' Donuts, Glidden Paints, Family Dollar, Orange Leaf, Burger King, Arby's, IHOP, and Jack In The Box.

Overall, vacancies recovered slightly moving from 11.8% at the end of 2010 to 10.8% at the end of 2011. Citywide, average rental rates lowered slightly from $12.68 per square foot at the end of 2010 to $12.42 per square foot at the end of 2011.

JOHNSON COUNTY, KANSAS

Corbin Park has had another rocky year, but finally appears to have a developer committed to the project. Bidding wars occurred in January but nothing was finalized. In July, a buyer was secured but issues with transferring the Transportation Development District prevented the developer from closing on the asset. Finally in September, the developer secured the items necessary from the City of Overland Park and made a new offer that was accepted. The price having once been discussed at $30 million, finally traded at $8.1 million. The development will be renamed Aspen Square.

Prairiefire has announced Cinetopia Theater will open in the spring of 2013, adjacent to the American Museum of Natural History. The theater is intending to house a full-service restaurant and wine bar featuring live music. Pinstripes Bowling/Bocce/Bistro is also announced to open in the development in 2013.

MISSION'S GATEWAY, CORINTH SQUARE, PRAIRIE VILLAGE SHOPS

Mission's Gateway has finally announced plans to get their project started. Instead of the aquarium, dine-in theater, fitness center and boutique hotel that have been discussed for years, they are building a new Walmart. There was an early December deadline to break ground to remain eligible for $63 million in sales tax revenue (STAR) bonds. It is unclear if Walmart will allow the project to keep the six-month extension granted on its STAR bonds in June. The aquarium may still be a possibility but at best is delayed.

Redevelopment plans for both Corinth Square Shopping Center and Prairie Village Shops in the center of Johnson County have been announced. Two new restaurants have opened in the Prairie Village Shops: Tavern in the Village and Story, both claiming to be contemporary, American restaurants. Corinth added Urban Table, a modern American interpretation of the corner café; and BRGR Kitchen + Bar, a modern burger joint. Clover, a women's boutique also opened in Corinth Square. Prairie Village raised the sales tax at Prairie Village Shops and Corinth Square to help fund major improvements to the centers, which include a more pedestrian friendly atmosphere, more outdoor seating and an enhanced "mall" area at Prairie Village Shops.

The outlet retail concept, Saks Fifth Avenue OFF 5TH, filled 27,000 square feet at The Legends in Kansas City, Kansas, signaling Saks Inc.'s re-entrance into the Kansas City market.

PARK PLACE STILL POPULAR

Park Place, the newest upscale, open-air center in Johnson County, continues to amaze the retail community with continuing development, mostly driven by new office tenants, but filling its retail spaces with trendy specialty shops, restaurants and boutiques. This mixed-use development added Gordon Biersch, 801 Chophouse, and Mestizo by food network celebrity Chef Aaron Sanchez in 2011. We continue to expect wonderful surprises from this first class development.

With the local and national closing of Borders bookstores, high profile locations were vacated making room for another newcomer to Kansas City. BuyBuy Baby opened in the former bookstore space at 119th Street and Metcalf Avenue in Overland Park. Bed Bath & Beyond purchased BuyBuy Baby in 2007. The allegiance allows both stores to be in adjoining locations.

Lenexa is now home to Nordstrom Rack, which offers its on-trend merchandise at clearance prices. Having opened in September in a space vacated by Circuit City at Orchard Corners at 95th Street and Quivira Road, this allows Rack to be immediately across the street from its Nordstrom parent, a full department store in Oak Park Mall.

Trader Joe's excited the city with its openings in 2011. One Nineteen in Leawood was one of the centers chosen for its new locations; the other location was Ward Parkway Center in Kansas City. Loyal followers of the ALDI-owned concept begged for them to come to Kansas City and Trader Joe's listened. It delighted the community and had lines of waiting patrons to enter its doors on opening day this past July. At the same time, One Nineteen saw a shuffle of tenants: VaKo Jewels, a locally owned jewelry store and Fo Thai, a contemporary Thai cuisine restaurant opened this year, while Soho and Mitzy London's closed their doors. The owner announced that Love Culture, a contemporary women's clothing and accessories chain will open in the spring of 2012.

Two of the restaurant chain locations vacated in 2010 are now, or will be, home to new local restaurants. Oklahoma Joe's, winner of numerous state and world BBQ championship awards, announced that it will open in Camelot Court at the former TGI Friday's location. Talk of the Town Grill and Bar has opened its second area location in the former Ted's Montana Grill at 135th Street and Nall Avenue.

NEW LOCATIONS FOR RETAILERS

Other Johnson County retailers opening new locations:

- Spin Pizza opening at 95th Street and Renner Road in Lenexa in a newly developed small retail center.
- Salvation Army Thrift Store took over the former CompUSA at 115th Street and Metcalf Avenue.
- Anthropologie opened in Leawood's Town Center Plaza.
- The Foundry Big and Tall Supply Co. opening two of its four area locations at 119th Street and Metcalf Avenue, and at Oak Park Mall.
- Jack In The Box has added a new location on a pad site at 103rd Street and Metcalf Avenue and construction has started on a location at 119th Street and Ridgeview.
- Logan's Road House opened a new location on a pad site at 135th Street and 69 Highway.
- Coach's Bar and Grill opened a freestanding location at 135th Street and Antioch Road.
- Arby's opened at 151st Street and Metcalf Avenue.
- Dollar Tree opened at Shawnee Mission Parkway and Quivira Road.
- Freddy's Frozen Custard & Steakburgers opened at 135th Street and Metcalf Avenue with plans to open another location at 118th Street and Blackbob Road in 2012.

Trader Joe's excited the city with two openings in 2011 – one in Leawood, and the other at Ward Parkway Center.

Redevelopments include a new Hy-Vee grocery store at 95th Street and Antioch Road, and an expected redevelopment of Houlihan's and the former Steinmart at 95th Street and Quivira Road.

Lastly, Hendrick Automotive Group is building a 12-acre Toyota dealership at the site of stalled Merriam Pointe development at I-35 and 67th Street. Shawnee Mission Hyundai opened a dealership on the south end of the development in the fall of 2007. A new investment group purchased the property last year. The 60,000 square foot showroom is expected to open in 2012.

Johnson County's vacancy rate has lowered from 11.9% at end of 2010 to 10.6% at the end of 2011. Rental rates increased from $13.87 to $14.31 per square foot.

EAST JACKSON COUNTY, MISSOURI

Amidst the shuffling of locations, Bed Bath & Beyond relocated from Independence Commons to Hartman Heritage Center to adjoin the new BuyBuy Baby location there. The former Circuit City in Eastland Town Center was backfilled with Strikerz Entertainment Center and Amore Bridal and Tuxedo.

Also now open in that area are Golden Corral, next to the Independence Event Center in Eastland Town Center, and Cheddars in The Falls development that includes Bass Pro, Mardel and Hobby Lobby.

Children's Mercy East is under construction in the Trinity Woods development located at I-70 and Little Blue Parkway. The 55,000 square foot facility is expected to open in 2012. Drury Inn & Suites opened a hotel in the development last summer. Adams Dairy Landing at I-70 and Adams Dairy Parkway has announced that in 2012, Ulta Beauty will open in the space formerly slated for Books-A-Millon, and Arby's will open in the development in 2012, while Michael's arts and crafts store, Yogurtini, and Chick-fil-A opened in 2011. The Foundry Big & Tall Supply Co. opened in Independence Center; Perkins Restaurant and Bakery opened in Bolger Square; IHOP opened a new location at Blue Ridge Crossing, and Jack In The Box opened in Blue Springs.

Rental rates in East Jackson County have decreased; going from an average of $10.67 per square foot at the end of 2010 to a current average of $9.81 per square foot. Vacancy has increased slightly from 12.1% to 12.3%.

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

Driven by the closing, shuffling and relocation of retailers, prime locations came available on the Country Club Plaza, which added several new stores to its tenant roster in 2011:

- Forever XXI opened early in the year
- Coal Vines, a pizza and wine bar
- Michael Kors, designer fashions for men and women
- Sur La Table, a popular kitchen retailer
- Kate Spade, a women's boutique
- Zocalo, a locally owned Mexican restaurant
- Firehouse Subs
- Cupcake A La Mode
- Pandora Jewelry, offering stylish fine jewelry
- for-tu-ity, a locally owned accessories and gift store
- Peruvian Connection + PRIZE, featuring one-of-a-kind items from around the world
- Gram & Dunn, a locally owned gastropub
- Seasons 52, a fresh grill and wine bar
- H&M, a Swedish retailer known for trendy, inexpensive clothing, opened just before Thanksgiving

Demolition of the former Dillard's department store and adjoining parking garage are underway in the Ward Parkway Center. In May, 2011, the City Council approved a community improvement district that carries a 1% sales tax for purchases within the mall to help pay for renovations. The demolition will make way for up to 70,000 square feet of retail space for new tenants.

A new retail project has been announced for Lee's Summit. Summit Place is intended to be a 366,625 square foot development on 42 acres at the southeast corner of I-470 and Blue Parkway. No retailers have been announced. Elsewhere in Lee's Summit, Sears announced plans to close their store on 291 Highway.

CROWN CENTER ADDS NEW VENUES

Crown Center has long served the Kansas City area as a destination for family entertainment with its outdoor fountains, skating rink, Coterie Theatre, Kaleidoscope Children's Museum, and Crayola Café. It continues to capitalize on this focus. Merlin Entertainments Group's LEGOLAND Discovery Center and SEA LIFE Aquarium are anticipated to open in the spring of 2012 and are predicted to bring 250,000 visitors each year. Hall's Crown Center department store downsized to about half its original space to make way for the attractions. The Hyatt Regency Hotel at Crown Center will rebrand to Starwood's Sheraton brand in January. This move would allow Hyatt to bid for the long-planned downtown convention hotel

Selected New Retail Construction

New Construction	Square Feet	Project Status	Tenants Announced
Metro North Mall Redevelopment	1,300,000	Planning Phase	N/A
Corbin Park	1,100,000	Phase II Under Construction	N/A
The Trails	1,000,000	In Development	N/A
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	N/A
Schlitterbahn Vacation Village	400,000	Phase I Complete	Scheels Sports (announced)
City Center Lenexa	400,000	Under Construction	N/A
Summit Place	366,625	Planning Phase	N/A
Prairiefire at Lionsgate	348,000	In Development	Cinetopia, Pinstripes Bowling (announced)
Crystal Springs	330,000	Planning Phase	N/A
Citadel Plaza	300,000	Planning Phase	N/A
Merriam Pointe	239,000	Under Construction	Hendrick Auto Group
The Gateway	150,000	In Development	Walmart (announced)
Crossroads at Belton	130,000	Under Construction	Price Chopper
Valley View Redevelopment	83,000	Under Construction	Hy-Vee
Prairie Creek	70,000	Phase I Complete	Spin Pizza
Metcalf Village	25,000	In Development	N/A
39th Street Redevelopment	10,000	Under Construction	Holiday Inn Express and Suites
Total Square Feet:	8,366,625		

The Kansas City area's first Nordstrom Rack store opened at 9540 Quivira Road in Lenexa, Kansas, taking the 35,000 square foot space formerly held by Circuit City in the Orchard Corners Shopping Center.

and look for other area hotel venues. Starwood has managed the Crown Center Westin for years.

Elsewhere in the South Kansas City area:

- Sutherland's purchased and opened in the space formerly occupied by Walmart in Raytown.
- ALDI opened a new grocery store at Highway 350 and Gregory Boulevard, and IHOP opened in Raytown.
- Brywood Center's improvements have attracted Dollar Tree, CitiTrends and Planet Fitness.
- A new Price Chopper is under construction in Belton at Highways 58 and Y and will open early in 2012, relocating from its current location at Highways 71 and 58.
- Jo-Ann Fabric and Craft store opened in the Belton Marketplace.
- The Vitamin Shoppe and Element, a Wellness Spa Studio, both opened in Brookside.
- Panera announced plans to open in Brookside in 2012.
- Michael Forbes intends to take over Sharp's 63rd Street Grill.
- Redeemer Fellowship Church purchased the historic Katz Drugstore in midtown for a cultural community development facility.
- Jack In The Box plans to open in Lee's Summit.
- Shepler's western style footwear and apparel opened at Stateline Station.

Openings in the Power & Light District include: Balsano's Gelato Café and Drunken Fish, both opened in portions of the former Bice space; Whopper Bar, a Burger King concept, took over the former Chef Burger space; and Bar Louie, took over the former Ted's Montana Grill. Ragland Road closed their doors in the development after seeking bankruptcy protection.

Rental rates in this area of the metro fell from $13.89 per square foot at the end of 2010 to a current average of $11.89 per square foot. The area's vacancy fell from 11.5% at the end of 2010 to 10.5% at the end of 2011.

KANSAS CITY, KANSAS/WYANDOTTE COUNTY

The announcement that the Legends (now known as the Legends Outlets of Kansas City) defaulted on its refinanced construction loan for the nearly 700,000 square foot center, apparently in an effort to restructure the debt, came as somewhat of a shock to the community. This is especially so in light of the news that the STAR bonds, issued to build the larger area Village West development which includes Nebraska Furniture Mart and Cabelas, were outperforming projections allowing the bonds to be paid off years ahead of schedule.

However, the transportation development district bonds issued by the Unified Government, which were paid from sales taxes generated by retailers in the district, had struggled but appeared to have improved. This struggle caused the Unified Government to restore a balance to the fund, drawing from reserves to cover the debt service shortfalls amidst its failure to achieve a certain level of sales tax revenues.

The center, which recently saw Saks Fifth Avenue Off 5th, Under Armour Factory House and J. Crew Factory open in the development, will certainly recover. Books-A-Million is relocating within the development with a new format store which will include a Yogurt Mountain self-service yogurt concept. Polo Ralph Lauren Factory, Chico's, Soma Intimates, and Charming Charlie have also opened. Chiusano's Brick Oven Pizzeria will open in the former Ted's Montana Grill space in 2012.

In addition to the opening of Livestrong Sporting Park, home to Sporting Kansas City professional soccer team, Hollywood Casino is anticipated to open in 2012. Wild Bill's Legendary Steakhouse, Los Cabos, Pin-Up Bowl, and Wyldewood Cellars all closed their stores at the Legends Outlet in 2011.

Schlitterbahn expanded nearby. At the Plaza at the Speedway, Jack In The Box opened during the year and Logan's Roadhouse is under construction. Elsewhere in this community, Nuts and Bolts opened in Bonner Springs and CVS opened a new location at 43rd Street and Rainbow Boulevard. And, the redevelopment of 39th Street and Rainbow is underway with Phase I incorporating an 83-room Holiday Inn Express and Suites and 10,000 square feet of retail space.

Retail rental rates for Wyandotte County were $10.77 per square foot at the end of last year; they have dipped slightly to $10.64 per square foot at year's end. The area is presently experiencing only 10.7% vacancy, compared to 11.7% vacancy at the end of 2010.

NORTHLAND KANSAS CITY, MISSOURI, PLATTE COUNTY AND CLAY COUNTY

The Great Recession has been especially hard on two of the smaller centers in the Northland. Boardwalk Shopping Center lost several tenants in 2011 and Tuileries has struggled to capture occupancy. This was certainly fueled in part by the more premium availability of space in the newer developments, Tiffany Springs and the expansion of Zona Rosa. The owner and developer of Tuileries, an upscale boutique shopping center, defaulted on its note in 2010. Briarcliff Development has purchased the project and plans to change its name to Village at Burlington Creek.

Tiffany Springs and Zona Rosa both still have plenty of opportunities to increase their own occupancy levels but both have added or announced new tenants this year. Michael's arts and craft stores has announced plans to open in the former Ethan Allen location.

Other businesses have closed in Zona Rosa including:

- Tomfooleries
- Studio Movie Grill
- Hollister (now home to Wet Seal)
- O'Dowd's Little Dublin (will become home to Bar Louie early in 2012)

Opened in Zona Rosa during the course of the year were:

- Buffalo Wild Wings
- Crazy 8, a Gymboree brand
- On a Roll, a quick-casual restaurant
- Watercolors, women's high fashion
- Buddha By Kenji Fusion, an East Coast restaurant chain offering Asian, French, Brazilian and sushi bar
- J. Jill
- The Limited
- EyeMasters

The Foundry Big and Tall Supply Co. and Red Mango opened at Tiffany Springs.

The redevelopment of Antioch Center was due to begin in March, but was once again delayed. The developer has since announced plans to build a senior living community on the site of the former enclosed mall. Elsewhere in the Northland, ALDI opened in Shoal Creek; Dick's Sporting Goods and Hy-Vee opened in Liberty Triangle; and Feldman's backfilled the former Hy-Vee location at Highways 291 and 210 in Liberty. Hy-Vee also opened a new location at I-29 and 64th Street. Wendy's has opened at North Oak and Vivion, and Arby's is under construction there. Courtyard by Marriott is under construction at Briarcliff, and Holiday Inn Express & Suites is under construction near KCI Airport.

Rental rates in the Northland presently average $13.20 compared to $13.35 per square foot at the end of 2010. Vacancy is currently at 10.2% down slightly from the 2010 year end 10.6% vacancy.

A full recovery might still be a year or two away, but Kansas City is now showing healthy signs.

RETAIL 2012 OUTLOOK

Will retailers Ross Dress for Less, REI and IKEA come to Kansas City during 2012? The answer is unknown, but we do predict continued improvement in the retail sector.

A full recovery might still be a year or two away, but Kansas City is now showing healthy signs. We are experiencing year-over-year growth in the number of retail transactions getting completed in the marketplace. The new locations opened by so many retailers this past year have added a steady supply of new jobs to a waiting workforce. Rental rates have increased and we are starting to experience longer lease terms. New developments and redevelopments will break ground and Kansas City will be home to new retailers entering the market in 2012 and 2013. The retail future for the metro area is bright.

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

Kansas City Investment Market

The two building, 405,000 square foot Midpointe Corporate Centre, was purchased by Welsh Property Trust at year-end 2011.

Following a lackluster year of investment activity, 2011 was a year of marked change. Though still off the peak of 2005 through 2007, several factors in 2011 indicated the commercial real estate market was heading in the right direction.

These positive indications were led by a substantially higher number of transactions than in 2009 and 2010. Though transaction levels were still lagging behind those of "the good old days," activity appeared more robust and consistent, while pricing grew stronger in 2011.

While the United States economy does not inspire huge confidence, and because the rest of the world is facing even more uncertainty, core U.S. markets are the lesser of two evils for global investors. The top five global investment markets are, in order of investment activity, the United States, the United Kingdom, Japan, Germany and Brazil. In the United States, core asset sales in gateway cities and in particular core multi-family assets led the activity. Almost two-thirds of all investment activity was in one of six gateway markets: New York, Miami, Phoenix, Dallas, Houston and Los Angeles. Demand grew so strong in these markets that cap rates plummeted to levels last experienced in 2006-2007, and in some cases, even lower. This growth in demand should become more widespread in 2012 as capital becomes more readily available and alternative investment options pale.

This good news, however, should be tempered with a note

Some notable observations from Commercial Real Estate Professionals

- The housing market is lagging but the commercial market has bottomed out.
- The capital markets are improving, though issues associated with the need for capital to refinance ballooning mortgages and clear the queue of distressed assets remain.
- Availability of commercial mortgages has improved somewhat. However, accessibility to these mortgages has not necessarily improved at the same pace due to continued tight underwriting practices and appropriate risk-adjusted rates.
- The general environment regarding development remains, at best, guarded. Some anticipate development conditions to improve to become in line with underlying fundamentals.

Source: "NAIOP Confidence Report: Spring 2011" of caution: investors will continue to be very selective and lenders will not likely return to the lax underwriting standards of a few years ago. The investment market is decidedly bifurcated; well-leased properties in Gateway cities garner aggressive bidding, while less desirable properties in secondary and tertiary markets see limited or no activity. Interest in distressed properties also saw increased activity in 2011, and due to improved financing conditions and favorable bid/ask convergence, more distressed property transactions were closed during the year. However, pricing discounts continued to shrink as 2011 came to an end.

"Most of the investment action concentrates in a handful of property-wealth islands-notably the diversified 24-hour gateways located along global trades route…" – *Emerging Trends in Real Estate 2012*

Real estate investment trusts (REITs) led the way in terms of investment transaction activity in 2011, but had increased competition for transactions from institutions and private equity funds. The most active buyers nationally in 2011 were Blackstone, Ventas Inc., HCP Inc., AMB Property Corporation, Health Care REIT, J.P. Morgan, TIAA-CREF, Invesco Ltd., Beacon Capital Partners and Vornado Realty Trust.

INVESTORS ARE STILL RISK ADVERSE

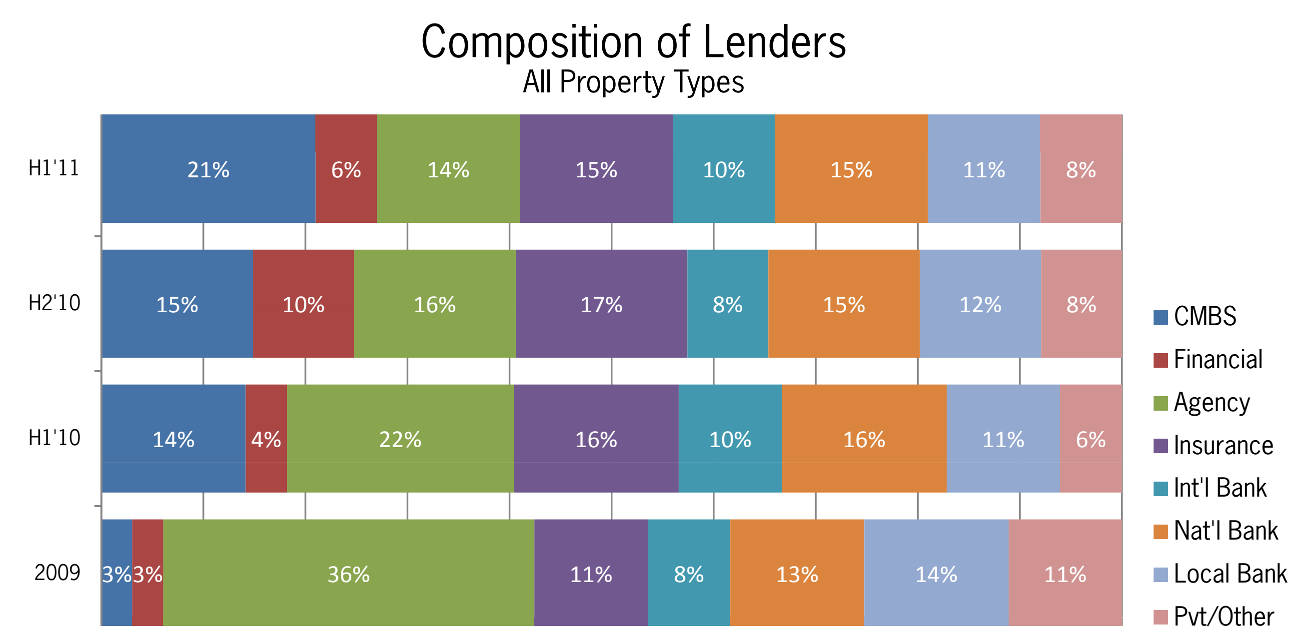
Quality commercial real estate remains a relatively safe investment due to uncertainty and volatility in financial markets in the U.S. and abroad. Commercial real estate is "tangible and transparent" allowing investors to more easily project cash flows on leased real estate. The potential for stable and predictable returns make commercial real estate attractive to institutional and private investors, and even the middle class, who are risk adverse. In comparison to other asset classes, especially with the low interest/savings rate environment of 2011, commercial real estate is again the preferred investment alternative to stocks, bonds or cash.

COMMERCIAL REAL ESTATE FINANCING/CMBS

Demand for commercial real estate financing steadily increased during 2011, and many life insurance lenders actually hit their targeted allocations by the third quarter, thereby removing them from the market until 2012. Lenders' balance sheets also strengthened due to fewer write-offs, as they tried to complete more loan modifications and extensions.

As discussed in last year's report, the commercial real estate debt market remains challenged by over $1.8 trillion of loans maturing during 2012-2015. It is thought that possibly 60% of these loans may be underwater. The underwater loans, which are subject to default, are due to revaluations through current appraisals now required by lenders. In essence, these appraisals are showing lower rents and higher vacancy rates and thus, lower overall valuations. Small regional banks are also continuing to fight liquidity challenges and continue to restructure loans in order to stay afloat. These banks are still not providing enough liquidity to the local real estate markets which is necessary to further increase sales activity and pricing.

Although commercial mortgage-backed security (CMBS) loan numbers are way off the peak of 2007 when nearly $200 billion in loans were originated, the CMBS market cannot be ignored. 2010 and 2011 saw the reemergence of CMBS shops reopening their doors and even new firms entering the CMBS space. At year end 2011, CMBS loan originations ended up at over $31 billion. However, at the beginning of 2011, projections for originations were expected



(Source: RCA)

Midwest Trust Co. acquired the four story, 112,175 square foot building at 5901 College Blvd. in Overland Park, Kansas, from MEPT/New Tower Trust for $14.5 million. Midwest Trust is the major tenant in the property.

near $75 billion, but the downgrade of U.S. debt threw the CMBS market into "turmoil."

After the downgrade of U.S. debt, the S&P withdrew its rating on a $1.5 billion CMBS sale by Goldman Sachs and Citigroup. But the Goldman Sachs' CMBS deal came back to the market restructured with a super-senior tranche. The Goldman Sachs transaction marked the third super-senior CMBS offering since the 2008 Crash and prompted industry executives to label the super-senior offering as "CMBS 3.0." Again, Wall Street figured out how to sell CMBS issues, although the process and terms were far less desirable than expected.

> "Clearly CMBS is taking a breather in trying to figure things out," says John Pelusi, Vice Chairman and CEO of HFF. "Instead of loan quotes coming in with a five handle (5% interest rate range), they are coming in with a six handle. And they are less aggressive with the proceeds, which is creating a hole in the capital structure."

It is important to note that the current investment market is close to its "apex" in transaction volume and will struggle in 2012 to get to the next level without a more robust return of CMBS loans.

COMMERCIAL REAL ESTATE FUNDAMENTALS

Job growth can only help in the recovery of commercial real estate fundamentals. An increase in jobs directly leads to increased demand for most segments (except maybe multi-family) of commercial real estate. According to the commercial real estate outlook of the Top Ten Issues in 2012, published by Deloitte LLP, despite the lack of sustained job growth, national commercial real estate fundamentals are benefitting from record-low construction and property development. This results in better-than-expected absorption, so there is a gradual recovery in overall rent and vacancies. Nationally, construction activity remained at very low levels, and for the foreseeable future, the gradual recovery in overall rent trends will help pricing increase across all product types. The multi-family sector posted the most favorable rent and vacancy trends, while retail continued to be the slowest to recover.

Nationally, office fundamentals continued to stabilize amid a flight to quality, as vacancy levels decreased. Given the limited level of development activity, and a slightly higher demand by tenants, the office sector posted a net absorption of 8.9 million square feet in second quarter 2011 compared to 4.1 million square feet in second quarter 2010. The office sector likely will improve further in 2012 with a gradual decline in vacancy. However, rent growth is likely to remain subdued with a full recovery not expected until late 2014.

The multi-family sector experienced favorable supply-demand attributes with supply at record lows. Tight underwriting standards, high foreclosure rates, and stagnant income continued to favor renting and, thus, impacted home-buying decisions. Despite the fact that the ratio of a median-priced home's monthly principal and interest payment to apartment rent is at record lows, homeownership continued to decrease as many shied away from this big expenditure. These facts have allowed improved occupancy and landlords regained bargaining power resulting in rent growth throughout 2011.

Due to several overseas disasters, including the Japanese earthquake and subsequent tsunami, absorption in the industrial real estate market slowed precipitously by late 2011. Positive growth, however, did continue. Despite improved absorption, availability remains high, which continues to place a slight downward pressure on rents. Occupancy rates should, however, benefit from very low construction activity in 2012. Hence, while demand should increase modestly in the first half of 2012, driven by exports to and imports from Asia, growth in rental rates should improve, but at a slower rate than demand.

Improvement in retail real estate fundamentals has moderated due to retailers' increased cautiousness and the reining in of expansion plans. As retailers shelve expansion plans due to uncertainty surrounding consumer spending, retail absorption continues to be slow. With new development at record lows, lower tenant demand is somewhat tempered. Cautious consumer spending indicates that retail sales growth momentum is most likely unsustainable in 2012 and may increase vacancy and depress rents. Landlords' weak bargaining power continues to result to a "flight to quality" among retail tenants.

2012 Commercial Real Estate Outlook

Multi-Family	RENT GROWTH	VACANCY	NET ABSORPTION
National	↑	↓	↑
Kansas City	↑	↓	↑
Office			
National	↑	↑	↑
Kansas City	↓	↑	↑
Industrial			
National	↓	↑	↑
Kansas City	↑	↑	↑
Retail			
National	↓	↓	↓
Kansas City	↓	↑	↑

Source: Deloitte Commercial Real Estate Outlook 2012

INTEREST RATES: WHEN CAN WE EXPECT SIGNIFICANT MOVEMENT?

It is a widely-held belief by real estate investors that the present day's low interest rate environment will continue for at least the next 18 months. Even the Fed has indicated it does not expect to increase interest rates through mid-year 2013. These comments have played a part in the drop in the Ten-Year Treasury rate to just over 2% from nearly 3.36% at year-end 2010. The Ten-Year Treasury rate is the basis for most long-term financing of commercial real estate. It is thought that the yield curve will remain in step with the slow and bumpy recovery expected in the job market. This historically low interest rate environment has made debt inexpensive and has already begun to induce investors to take on more risk. But low interest rates alone will not, by themselves, pull commercial real estate out of the doldrums.

> "The economy is simply too fragile to absorb a meaningful hike in interest rates..."– *Investor Reflection August 2011*

Reacting to the current environment, many private equity funds, like the Block Funds, are pursuing investments within narrowly-defined parameters. Attractive long term interest rates are allowing investors to focus on long-term, credit-leased, single-tenant assets. Current interest rates, and the willingness of lenders to make commercial real estate loans on these secure investments, are enabling investors to once more get in the game for income-producing properties.

As an example, an investment using a 5% interest rate and a 20-year loan amortization has a loan constant of 7.92%. This enables a purchase to be made at a cap rate higher than the loan constant and thereby provide positive leverage and a higher return to the investor on their equity. The advantages of the shorter loan amortization term are numerous. First, they increase the universe of lenders willing to make loans and allow for significant principal pay down over the term of the lease/loan, which greatly reduces the refinance risk at loan maturity and builds equity during the hold period. Additionally, with the low interest rates, the deal can still be structured to have a significant cash flow stream, which is very desirable in the current market.

> "Low interest rates perversely encourage investors into taking greater risk since they can't make money in bonds or money markets." – *Emerging Trends in Real Estate 2012*

Also on the top of investors' minds is the impact of a future significant interest rate hike as the economy improves. Right now, the Fed's opinion is that our economy is too delicate to absorb an increase in interest rates. However, there are many outside forces that could impact the current interest rate environment such as the financial crisis in the Euro zone, as well as budget concerns at both the Federal and State level in the United States.

It is no secret that job growth is still the main key to improving the overall economy. Job growth provides wide-ranging impacts for commercial real estate. However, expectations surrounding job growth will likely remain muted until after the 2012 national elections.

CAPITALIZATION RATES: HAVES AND HAVE-NOTS

It was widely believed that, at the start of the present commercial real estate downturn, pricing (cap rates) would adjust upwards to higher levels, much as they did in the early-1990s, which conversely lowers sales prices. However, while there was some movement upward, it was not as significant as expected. In retrospect, by mid-year 2009, the erosion in sales prices and the upward adjustment in cap rates halted. Since then, cap rates for most property-types have steadily compressed, thus causing a rise in property pricing.

The Gateway cities, such as New York, Miami, Houston, Phoenix, Dallas, Boston, Washington, Los Angeles, San Francisco and Chicago were the first to experience this compression in cap rates. As noted earlier, as of year-end 2011, cap rates in these Gateway cities were at levels, or lower, than those in early 2006 through late 2007, with some cap rates dropping into the high 4% range. Investors, always looking to optimize yields, are now evaluating which markets will provide these opportunities. Most are following one of two courses of action: pursuing transactions with higher going-in cap rates, such as value-add opportunities in Gateway cities, or, in the alternative, looking at core assets in secondary and tertiary markets.

On a national level, below is a chart of how assets rank on a whole regardless of product type:

Haves	Have-Nots
1. Core Product in Gateway Cities **2. Core Product in Secondary/Tertiary Cities** **3. Value-Add Properties in Gateway Cities**	**1. Value-Add in Secondary/Tertiary Cities** **2. Low occupancy properties of any type in Gateway, secondary or tertiary cities**

Not showing up on the radar of institutional investors at the time of this report were value-add projects in secondary/tertiary cities. This is a difference from the mid 2000s, when the pricing tide of all commercial real estate rose with the top asset classes. Clearly, the present environment is extremely bifurcated between the Haves and the Have-Nots.

Due to the lack of investor interest in value-add projects in secondary/tertiary cities, sponsors either must have the staying power to ride out the downturn or they are giving the "keys" back to the lenders.

DISTRESSED STRATEGIES

Distressed assets made up about 25% of all asset sales in the U.S. in 2011. But in the U.S. primary markets, the pool of distressed assets quickly dwindled and investors were unable to pick up great properties "on the cheap." Many distressed buyers had to change their strategies and look to secondary markets to deploy their capital.

2011 Year-End Capitalization Rates

PRODUCT TYPE	NATIONAL	KANSAS CITY
Multi-Family	6.00%	6.25%
Strip Centers	7.20%	8.00%
Warehouse	7.45%	8.00%
Suburban Office	7.50%	8.50%
Medical Office	8.10%	8.10%

Source: Block Real Estate Services research.

When the current real estate down cycle began, it was the consensus in the real estate community that the next great buying opportunity period, the first since the Resolution Trust Corporation (RTC) days of the early 1990s, was about to begin. This illusion of opportunity swiftly turned to delusion. The reality of distressed opportunities in the present market has less to do with the ability to buy assets at "pennies on the dollar," but instead to take advantage of the fundamental market distress by actively managing and aggressively leasing of assets. This approach allows a repositioning of the asset within the market and this repositioning provides the chance to monetize the asset at a higher value when the general economy is on better footing.

As an example happening right now in Kansas City, Polsinelli Shughart is relocating to the partially completed West Edge development. The West Edge project sold in 2011 at a bankruptcy auction for $9.5 million. The purchase price included a 970 car structured parking garage and a partially finished hotel and office building. This low sales price was due to the market perception that the existing project was not adaptable for future uses. Now, West Edge will be razed for redevelopment for the Polsinelli Shughart law firm. The value of the existing project, without a tenant, was nearly worthless. Now with the long-term lease with Polsinelli Shughart, the developer will have an asset that, when the new building is completed, will have excellent long-term investment value.

COMMERCIAL REAL ESTATE: WHO'S BUYING?

With the change in market fundamentals in the commercial real estate investment market from 2009 to 2011, the buyer landscape changed. Private equity funds' transaction activity saw a sharp increase in 2011 from the low activity rate in 2010. According to Real Capital Analytics 2011, as a percentage of all buyers, equity funds activity level increased 71% over

2010 and represented 24% of total buyers in 2011. Private investors continued to be the largest single group but still only represented 26% of the market in 2011, which was far behind the pace private investors set in 2010 (30%) and 2009 (50%). Private investors' appetites diminished in 2011 as increasing real estate values made value-add opportunities less attractive. However, more conservative private investors returned to the market with available and attractive debt financing for stabilized real estate assets across all sectors. All investor types, but in particular private investors, found commercial real estate to be an attractive investment alternative, particularly when stabilized real estate investments were achieving 7 to 8% unleveraged yields. As the stock market continues to stumble, the number of private real estate investors will continue to increase throughout 2012.

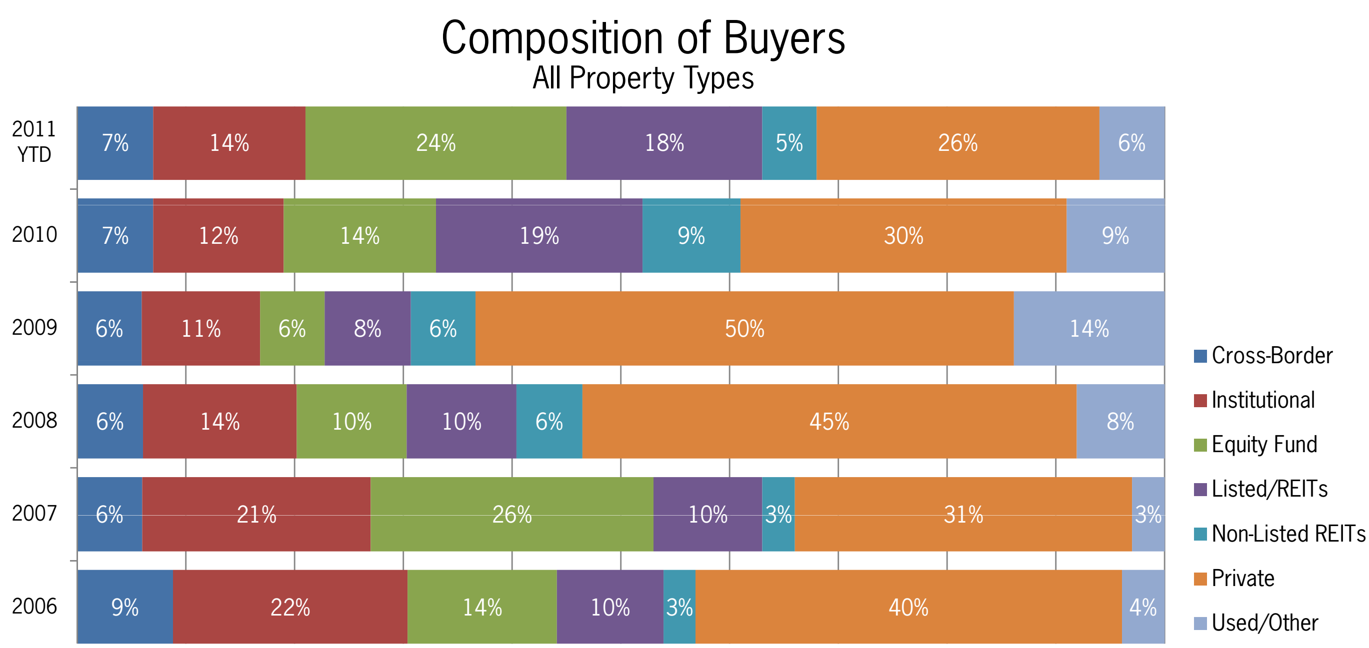
Along with private investors, the improving economy has also drawn REITs, institutional investors, and foreign investors off the sidelines to chase core assets in primary and secondary markets. Private REITs (whose shares do not trade on the exchange) as a percentage of all buyers, increased from 8% in 2009 to 18% in the first half of 2011. Private REITs were most active chasing retail, office and medical assets. With the increase of Private REITs, publicly traded REITs, as a percentage of total buyers, actually declined to 5% in 2011 from 9% in 2010.

As noted earlier in this report, the most active buyers nationally in 2011 were Blackstone, Ventas Inc., HCP Inc., AMB Property Corporation, Health Care REIT, J.P. Morgan, TIAA-CREF, Invesco Ltd., Beacon Capital Partners and Vornado Realty Trust. Foreign buyers have increased their acquisitions in the U.S. and will continue to invest in core assets in the strongest markets. About 40% of all foreign investment transactions in 2011 were in Manhattan. Foreign investors believe that the U.S. is still the safest country to invest in and the best opportunity for global appreciation. Additionally, funneling foreign dollars into the U.S. provides a favorable currency exchange and stays away from the instability of the E.U. sovereign-debt crisis. The most active foreign buyers in the U.S. have been from Canada, Germany and Israel. Other large investors included capital from China, Hong Kong and South Korea. In fact, a Canadian REIT, Whiterock Acquisition Corporation, made one of the largest transactions in Kansas City, with the purchase of the US Bank Building for $198.30 per square foot at a 7.52% cap rate.

KANSAS CITY INVESTMENT SALES: 2011

Last year, the Kansas City commercial real estate investment market came back to life. Several factors that have already been discussed collided to make investment in commercial real estate in vogue once again. Sales activity rose to levels not seen since the first part of 2008. Low interest rates, the pressure to place equity, and the fear of missing out on good pricing, made commercial real estate investment activity rebound. However, these three factors alone would not have increased activity without sellers and buyers changing their mindset in 2011 as it relates to pricing and expected returns.

In all investment classes, the activity pace in Kansas City heightened in 2011. In actuality, the number and quality of sales completed outpaced prior year projections. 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 Investment, Cole Real Estate Investments, Multi-Employer Property Trust, Crow Holdings, Glimcher Realty Trust, Sentinel Real Estate, Developers Diversified Realty, Cobalt Capital Partners, CBL & Associates Properties, Inc., Inland Real Estate Corporation, CW Capital, Great Point Investors, Invesco, One Liberty Properties, JVM Realty Corporation,



(Source: RCA)

The 185,000 square foot office building in Overland Park, Kansas, leased long term to US Bank, was purchased by new market entrant, Whiterock Acquisition Corporation.

Phillips Edison, Hines Investments, GE Capital, SVN Equities, LLC, DCT Industrial Trust, Inc., Orix Real Estate Capital, Inc., Sun Life Assurance, Paladin Realty Income Properties, Barnett Capital, Bridge Investment Group, Grubb & Ellis Healthcare REIT, ArciTerra Group, LLC, Welsh Property Trust, and others. New entrants in the Kansas City market in 2011 included Whiterock Acquisition Corporation, GoldOller Real Estate and Town Management. 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.

OFFICE MARKET

With the willing seller's change of strategy, the vast bid/ask spread of the last several years began to tighten from a buyer's and seller's prospective. The largest office sale of the year was the US Bank Building in Overland Park for $38.2 million ($198 per square foot) at a 7.52% cap rate, bought by Whiterock Acquisition Corporation. The other notable office sales of 2011 included Park Central Plaza I & II on the Country Club Plaza for $18 million ($122 per square foot) at an in-place cap rate of 8.95% to Sun Life Assurance from TA Associates. TA Associates had the building under contract in 2007 for $30 million ($205 per square foot), but the buyer failed to close and the market deteriorated. Two other recent offerings on the building also failed to attract a buyer until Sun Life Assurance stepped up to the table. Also, the Midwest Trust building on College Boulevard was sold to lead user, Midwest Trust, for an 8% cap rate or $14.5 million ($123 per square foot).

Other smaller office sales included the Greenview Office Building in Prairie Village, Kansas, to the Price Brothers, the user sale of a Bank Building in Overland Park, Kansas, to Arvest Bank, and 7501 Tiffany Springs Parkway, in a distressed sale to a local investor. While there was significantly increased investment activity in the market, institutional and private investors continued to show favoritism for Johnson County and the Country Club Plaza. As referenced in years past, South Kansas City, Lee's Summit, Independence and Blue Springs stay on investors' radar when quality product becomes available.

INDUSTRIAL

Like in years past, the industrial sector is always Kansas City's most 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, Welsh Property Trust, Cobalt, INVESCO, Blackstone, USAA, and Sun Life Assurance.

Along with the increased single asset sales that occurred in 2011, a large 24-building, 1,080,380 square foot portfolio owned by RREEF, was brought to market at year-end 2011. But while a buyer was selected, the closing is not expected until early 2012. Welsh Property Trust continued to add to its Kansas City portfolio with the purchase of the 405,000 square foot Midpointe Corporate Centre in Edwardsville, Kansas for $21.5 million ($53.00 per square foot) at a 7.86% cap rate. Also, the Block Funds completed the purchase of 6106 NE Parretta Drive in Executive Park and then a long-term lease was completed with PrimeSource to provide a going-in cap rate of 8.35%. Colony Realty Partners remained active with the purchase of the 172,445 square foot Castle Metals building in Executive Park at a 9.35% cap rate from Quadrangle Development.

Several significant owner/user transactions were completed, including the 412,699 square foot Ball Container building to UHAUL, the 245,000 square foot 1100 Blake to Glazer's Wholesale Liquor, and the 97,053 square foot Olathe Millwork Building to Himoninsa Power Systems, Inc. Investment activity in 2012 will remain strong as additional investors continue to target Kansas City to place equity.

RETAIL PROPERTIES

The lack of new development activity carried over from 2010 into 2011. Landlords continued to protect occupancy and manage existing tenants as their top priority. Retailers slowed their growth plans, which is expected to continue into 2012. Retailers with strong histories and solid business plans were still active and took advantage of empty buildings vacated by less successful companies.

The two largest sales in the Kansas City market were both part of national portfolio transactions and included the Oak Park Mall sale from CBL & Associates to TIAA-CREF and Town Center Plaza from DDR to Glimcher Realty Trust. Oak Park Mall traded for $185 per square foot ($290 million) and Town Center Plaza traded for $337 per square foot ($139 million). A cap rate was not reported in either sale but industry experts expected them in the low 6% range.

There were also several smaller notable transactions that occurred in 2011. Tuileries Plaza was purchased for $16.2 million in Kansas City by Briarcliff Realty in a distressed purchase from a consortium of banks. The property had low occupancy and was a value-add purchase. Shawnee Village was sold by Weingarten Realty Investments to Five Star Investors, a group led by RH Johnson, for $6,769,500 at a 10.98% cap rate. Another transaction occurred with the single-tenant sale of a 55,491 square foot Dillon's Store in Lawrence, Kansas. The final significant retail sale also occurred in Lawrence, Kansas with Condor Investments' purchase of Wakarusa Crossroads, a 50,945 square foot shopping center at a 9.81% cap rate for $4,250,000 ($83.42 per square foot). Additionally, a 1031 buyer purchased CarMax in Merriam, Kansas, from Cole Capital for a 7.6% cap.

Although the number of transactions was still small, there are a number of buyers in the marketplace actively looking to purchase quality grocery-anchored retail centers and other well-priced retail properties.

MULTI-FAMILY

The darling of the commercial real estate investment world continued to be multi-family. With long-term debt at sub-4% interest rates provided by Fannie Mae and Freddie Mac, buyer activity remained "white hot." Multi-family investment sales activity in 2011 outpaced the number and quality of transactions completed in 2010. The 340-unit Barrewoods Apartments sold at a 5.72% cap rate for $100,735 per unit ($34.25 million). The 324-unit Cordillera Ranch was sold by Sentinel Real Estate Corporation to A.G. Spanos Companies for nearly $32.6 million and at a 6.34% cap rate. Sentinel Real Estate Corporation also purchased the Fairways at Corbin Park, a 276-unit complex in Overland Park, Kansas, for $30.5 million at a 6.0% cap rate.

> The darling of the commercial real estate investment world continued to be multi-family. With long-term debt at sub-4% interest rates provided by Fannie Mae and Freddie Mac, buyer activity remained "white hot."

Other significant transactions included the sale of the 250-unit Bella Palazzo in Overland Park, Kansas, and the 322-unit Timber Lakes at Red Bridge in Kansas City, Missouri. At the end of 2011, the Briarcliff City Apartments, developed in 2009/2010 in a joint venture between Briarcliff Realty and Kansas City Life, was under contract to Crow Holdings at a reported sub-5.75% cap rate, with an expected closing during the first quarter of 2012.

Moving forward in 2012, we expect cap rates for Class A multi-family properties to remain in the 5.5 to 6% range, as they did for the 2011 sales. Class B multi-family cap rates should remain steady in the 7 to 8% range.

INVESTMENT SUMMARY & OUTLOOK

Commercial real estate fundamentals are improving across all sectors, albeit at varied paces. This recovery has been more muted than many expected as a result of continued softness in the general economy. Yet, commercial real estate has been an unintended beneficiary of the soft economy. The dearth of new construction and resultant delivery of new properties has aided in the slow improvement of underlying fundamentals, especially in the multi-family sector, as demand continues to outweigh supply. The lag in the improvement of market fundamentals within the office, industrial and retail sectors, as compared to multi-family, is an indicator of adjusted expectations and of course, slow job growth. While the drastic drop in development activity and contracted demand levels may have reduced overall real estate activity in the short term, activity is expected to grow quickly if and when new job growth is evident.

Expect 2012 to again see an increase in investment transaction volume. There is definitely sufficient capital for investment transactions, but the limiting factor will continue to be the "supply of marketable properties" to fuel transaction growth. The deleveraging process will continue and take time to sort through as properties get right sized, as it relates to debt levels.

Moving forward into 2012, debt availability should grow further than 2011. Lenders will continue to hold on to strict underwriting standards, and in most cases, will be more concerned about the sponsorship of a particular deal first and the underling real estate second. Low interest rates will continue to be attractive to borrowers, and with historically low treasury rates, institutions will look to place money in core real estate deals to achieve 4 to 5% versus sitting in treasuries at 2%.

BEST BETS 2012

With the exception of multi-family, none of the property sectors offer sure-fire opportunities for big gains in 2012. As addressed in this report, owners can feel secure in Gateway cities and buyers will continue to focus on the few markets generating jobs. Look for commercial developers and construction lenders to remain on the sidelines unless a single-tenant credit build-to-suit becomes available, which will ensure a feeding frenzy by developers chasing the deal. The sectors that will garner the most attention from equity investors in 2012 will be Class A multi-family, Class A enclosed malls, infill neighborhood centers, gateway industrial and on-campus medical office buildings.

Look for investors to continue to capitalize on low interest rates by refinancing properties through 2012. Lenders will not be likely to allow owners to pull cash out unless a deal is underwritten to strict standards, but good properties with high occupancy should find plenty of options for replacement debt, albeit at lower LTVs (loan-to-value). However, don't be surprised to see some investors still sitting on the sidelines in cash until the economy shows some real signs of significant recovery.

Kansas City has and will continue to be a sought after market on the investment front. Multi-family will continue to lead the way in investment transactions in 2012 followed by industrial, office and retail. However, due to Kansas City's industrial market being tightly held by local developers and historically difficult for institutional investors to break into the deal flow, activity may continue to be limited in this sector in 2012.

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

The Fairways at Corbin Park, a 276-unit complex in Overland Park, Kansas, was purchased by Sentinel Real Estate Corporation for $30.5 million at a 6% cap rate.

Investors Chart and Sales Records

Office Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
US Bank Building 12800 Foster, Overland Park, KS	192,636	$38,200,000 $198.30	7.52%	Buyer: Whiterock Acquistion Corporation Seller: K City, LLC (Opus)
Park Central Plaza I & II 4740-4717 Grand Avenue, Kansas City, MO	146,884	$18,000,000 $122.55	8.95%	Buyer: Sun Life Assurance Co. of Canada Seller: TA Associates
Midwest Trust 5901 College, Overland Park, KS	117,200	$14,500,000 $123.72	8.00%	Buyer: 5901 Midwest Building LLC Seller: MEPT 5901 College Boulevard LLC
7501 Tiffany Springs Parkway Kansas City, MO	81,369	$1,475,000 $18.13	Low Occupancy	Buyer: Local Investor Seller: Charford, Inc
Southridge Medical Building 12541 Foster, Overland Park, KS	57,844	$16,600,000 $286.97	7.56%	Buyer: Undisclosed Family Trust Seller: Nueterra Healthcare
Barkley Office Buildings 10520-10580 Barkley, Overland Park, KS	37,992	$1,625,000 $42.77	9.25%	Buyer: MBS Barkely 1031 Seller: Union Bank

Industrial Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
Ball Metal Beverage Facility 1800 Reynolds Avenue, Kansas City, MO	412,699	$4,550,000 $11.03	User	Buyer: UHAUL International Seller: AMERCO Real Estate Company
Midpoint Corporate Center 2401-2440 Midpoint Drive Edwardsville, KS	405,000	$21,500,000 $53.09	7.86%	Buyer: Welsh Property Trust Seller: DCT Industrial Trust, Inc.
Premier Beverage Inc. 1100 Blake Street, Edwardsville, KS	245,000	$3,528,000 $14.40	User	Buyer: Premier Beverage Inc. Seller: M&I Bank Regional Properties
Castle Metals 6100 Stilwell, Kansas City, MO	172,445	$5,600,000 $32.47	9.35%	Buyer: Colony Realty Partners Seller: Quadrangle Development
PrimeSource 6106 NE Parretta Drive, Kansas City, MO	100,000	$4,135,091 $41.35	8.25%	Buyer: PrimeSource Associates, LLC Seller: Ownes & Minor Distributions
Olathe Millwork Building 16002 W. 110th Street, Lenexa, KS	97,053	$3,425,000 $35.29	User	Buyer: Himoninsa Power Systems, Inc. Seller: OMC Millwork, LLC

Retail Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
Oak Park Mall 11451 W. 95th Street, Overland Park, KS	498,406	$290,000,000 $581.85	Partial Sale 50% Interest	Buyer: TIAA-CREF Seller: CBL & Associates Properties, Inc.
Town Center Plaza 5000 W. 119th Street, Leawood, KS	412,879	$139,000,000 $337.00	Property Swap	Buyer: Glimcher Realty Trust Seller: Developers Diversified Realty
Tuileries Plaza 6109 NW 63rd Terrace, Kansas City, MO	162,744	$16,200,000 $99.54	Distressed Sale	Buyer: Briarcliff Realty Seller: Bank Consortium
Shawnee Village Shopping Center 6415 Quivira Road, Shawnee, KS	131,539	$6,561,500 $49.88	10.98%	Buyer: Five Shawnee Investors, LLC Seller: Weingarten Realty Investments
CarMax 6801 E. Frontage Road, Merriam, KS	58,430	$19,100,000 $326.89	7.60%	Buyer: 1031 Buyer Seller: Cole Capital
Dillons Store #70 1015 West 23rd Street, Lawrence, KS	55,491	$5,000,000 $90.10	7.80%	Buyer: American Realty Capital II, LLC Seller: Falgers, Inc.

Multi-Family Properties	Units	Sales Price / Per Unit	Cap Rate	Buyer/Seller
Urdang Kansas City & Prarie Village Portfolio Coach House, Corinth Gardens, Kenilworth, Mission Valley	1,395	$77,000,000 $55,197	7.50%	Buyer: GoldOller Real Estate Investments Seller: Urdang Associates
Barrewoods Apartments 2900 NE Barry Road, Kansas City, MO	340	$34,250,000 $100,735	5.72%	Buyer: Town Management Seller: ePartment Communities
Cordillera Ranch 8300 N. Skiles Avenue, Kansas City, MO	324	$32,575,000 $100,540	6.34%	Buyer: Sentinel Real Estate Corporation Seller: A.G. Spanos Companies
Timber Lakes at Red Bridge 11201 Montgall Avenue, Kansas City, MO	322	$26,700,000 $82,919	7.00%	Buyer: Aragon Holdings Seller: Timberlakes, LLC
Fairways at Corbin Park 13820 Russell Street, Overland Park, KS	276	$30,500,000 $110,507	6.00%	Buyer: Sentinel Real Estate Corporation Seller: A.G. Spanos Companies
Bella Palazzo 7100 W. 141st Street, Overland Park, KS	250	$27,000,000 $108,000	6.25%	Buyer: KC Apartments, LLC Seller: Plaza Gardens Partners, LLC

Kansas City Multi-Family Market

The 284-unit Stonepost Lakeside Apartments in Olathe, Kansas, was purchased for $23.5 million by Price Brothers at a cap rate of 6.71%.

Commercial real estate remains in vogue with investors despite marginal gains in the overall economic outlook and concerns stemming from the European debt crisis.

For these investors, the multi-family market emerged as the clear favorite among the traditional four commercial property types in 2011, a trend that is expected to continue well into 2012.

While office, industrial and retail grapple with weak demand, a strong fundamental recovery in rental housing demand has propelled apartments to a broad recovery in occupancy, rental rates and investor pricing.

ECONOMIC TRENDS

Multiple factors have contributed to this recovery, including several macro-economic factors. Heading into 2012, the U.S. economy continues to add jobs, albeit at a slower pace than hoped for by many. In 2011, the U.S. added about 1.7 million jobs, helping to bring the national unemployment rate down to 8.5%, its lowest level in several years. However, some of the gains in unemployment rate can be attributed to the 900,000 new "discouraged workers" who are not currently looking for work because they believe no jobs are available for them. The private sector continues to add jobs due in part to record-setting corporate profits. However, states and municipalities dealing with massive budget shortfalls have begun shedding employees alongside the U.S. Postal Service, causing the number of government jobs to fall in 2011. The healthcare sector continues to be a leading job creator along with retailers and professional services. Manufacturers' new orders have also rebounded sharply since year-end 2009 and reached pre-recession levels in 2011.

According to the Mid-America Regional Council in the Kansas City region, employers added about 30,000 jobs in 2011, causing the unemployment rate to fall to 7.8%, down 0.6% from the previous year and 0.8% better than the national average. Healthcare, education and manufacturing lead the way in job creation. Blue collar job growth was aided by Ford's plan to add 1,600 jobs at its Claycomo plant, GM ramping up production at its Fairfax facility and work on two intermodal facilities, one by Kansas City Southern and the other by BNSF. Experts project employment growth in 2012 between 0.8% and 1.6% as the area continues its slow, but steady growth.

APARTMENT MARKET OVERVIEW

Market factors have provided for a broad recovery in apartments nationally and in the Kansas City area. Nationally, homeownership rates reached their lowest levels in 2011 since 1998. With more than 3 million foreclosures since 2009, profound shifts in demographic, economic and social patterns have changed the way many Americans, particularly those of the millennial generation, feel about homeownership. This, combined with the entry of the first wave of "echo boomers" graduating from college, has resulted in the addition of an estimated 1.4 million renter households.

Tight supply conditions have also factored into the equation, with just over 30,000 units being added during the year, allowing for absorption of more than 150,000 apartment units in 2011. Landlords were able to raise asking rents by 2.1% and achieve an effective rent increase of 2.4%, indicating fewer concessions are being offered. Vacancy continued to decline by another 150 basis points to 5.9%, its lowest level in nearly a decade. Landlords in large, coastal cities such as New York, San Francisco and Washington D.C., have fared even better, with vacancies approaching the low 4% range in many markets.

MIRRORING NATIONAL TRENDS

In 2011, the Kansas City story closely mirrored that of the national apartment market with the absorption of more than 1,600 units and overall vacancy falling by 1.4% to end the year at 7.0%. While owners focused on stabilizing rent rolls and eliminating concessions in 2010, landlords implemented rental rate increases across the board in 2011 allowing Class A rental rates to move up 2.5% to $771 per month and Class B/C rental rates to increase 1.8% to $576 per month.

Owners of Class A properties in desirable locations pushed rents the most, with South Johnson County, the Plaza and North Johnson County showing 3.0 to 3.4% increases in asking rental rates. Not surprisingly, it was these three submarkets that also posted the lowest vacancy rates of 5.5, 5.6 and 5.9%, respectively.

South Kansas City and Wyandotte County had the highest vacancies of 8.7 and 8.6%, respectively. However, South Kansas City and Eastern Jackson County both experienced strong occupancy gains of 1.6 and 1.7%, respectively, due to large employers such as Ford and Honeywell adding jobs. The Northland and Wyandotte submarkets showed the smallest occupancy gains, adding 0.2 and 0.4%, respectively.

For the first time in several years, all submarkets showed positive rental rate and occupancy growth. Owners in Kansas City, Missouri, experienced a 15% hike in water and sewer rates in 2010 and 2011, with another 15% increase planned for 2012 as the city struggles to pay for more than $2.5 billion in storm sewer repairs and replacements.

In 2012, apartment vacancies are expected to continue to decline in the Kansas City area, although at a more moderate pace of 0.5%. Rental rates for Class A units are expected to increase 1.9% while Class B and C units are expected to see rental rate increases of up to 2.4% due to growth in the manufacturing and service sectors.

STABILIZING MULTI-FAMILY MARKET

One moderating factor for Class A apartments in 2012 may be the stabilizing single-family market. According to the Kansas City Association of Realtors, home prices have remained steady and volumes have increased slightly year-over-year. The number of available bank-owned homes is expected to decline throughout the year, and new home construction is virtually at a standstill. These factors, combined with the overall affordability of home prices and historically low interest rates, may lead some renter-by-choice tenants to make the leap into homeownership.

With more than 3 million foreclosures since 2009, shifts in demographic, economic and social patterns have changed the way many Americans feel about homeownership.

APARTMENT DEVELOPMENT ACTIVITY

Limited apartment deliveries in 2011 aided in the recovery. Only 657 units were delivered in 2011, adding 0.5% to total inventory. This is down from 850 units delivered in 2010 and below the trailing 10-year average of about 950 units. South Overland Park added nearly all of these units in two projects: the 331-unit Kelly Park Apartments and the 276-unit Fairways at Corbin Park. Both are Class A properties designed to cater to the renter-by-choice segment of the market. Swope Community Builders also completed the 50-unit East Village development on the east side of the downtown loop.

Permit activity increased significantly towards the end of 2011, indicating that as fundamentals recover, more developers are likely to initiate projects. Locals are leading the development push, including Briarcliff Development, Price Brothers and DST:

- Briarcliff is planning a 298-unit, luxury apartment property on ground it recently acquired at the former Tuileries Plaza Shopping Center.
- Price Brothers recently received approval for its 188-unit development at 46 Penn, which features a medium-density concept on the north side of the Country Club Plaza.
- DST recently announced its plans to add 204 apartment units as a neighbor to its successful retail redevelopment at 51st and Main Street.
- Tanner & White Properties is also planning a redevelopment of the Woodside Health Club into Woodside Village, a 330-unit property that recently received TIF and CID approval from the City of Westwood.

The 250-unit Bella Palazzo Apartments in Overland Park, Kansas sold for $27 million to KC Apartments, LLC at a cap rate of 6.25%.

- The Village at Mission Farms is expected to complete construction on its 212-unit apartment property on the west side of Mission Road in Leawood, the first "wrap" concept to be constructed in the Kansas City suburbs.

Several developers have also acquired land in Wyandotte County for apartment construction near the Kansas Speedway, Legends Shopping Center and new Cerner office campus. However, high real estate taxes and resistance by city officials to new apartment development have prevented new properties from being constructed to meet the demand.

APARTMENT INVESTMENT

Apartment sales activity across the country was up by nearly 75% in 2011 as investors of all kinds moved significant funds into the sector. Similar to the rise in demand for gold, grain, farmland and other commodities, multi-family properties are being viewed by some as a way to hedge impending inflation anticipated as a result of the increased money supply pumped into the system by the federal government. Investors are also attracted to attractive financing, recovering fundamentals and less volatility when compared to the equities market.

Capitalization rates in first tier cities such as New York, San Francisco, and Washington D.C., experienced average capitalization rates of 5.5%, a compression of 0.7% from 2010. However, overall capitalization rates nudged down only 0.4% to 6.7% in 2011 as investors began exploring second and third tier markets in a search for better returns. Unit prices increased by 7% during the year, with nearly 60% of total sales volume attributed to transactions of $20 million or greater.

THE YEAR OF THE REBOUND

For Kansas City multi-family sales, 2011 was the year of the rebound. Sales volume totaled nearly $400 million, returning to historical norms while nearly quadrupling the volume completed in 2010. Transactions were steady for most of 2011 with a small spike in the fourth quarter as a result of several large sales. Prices averaged $59,300 per unit on the sale of more than 6,500 housing units, up from about 2,500 in 2010.

Price Brothers led all local buyers with its acquisition of the 232-unit Wynnewood Farms for $24.1 million and the 284-unit Stonepost for $23.5 million. Both are Class A assets located in Johnson County, which is consistent with other Price Brothers' holdings.

Apartment sales activity across the country was up by nearly 75% in 2011 as investors of all kinds moved significant funds into the sector.

Other than Price, out of town investors were the most likely candidates to snap up larger Class A and B assets. GoldOller Real Estate Investments led the way with its purchase of the former J.C. Nichols portfolio from Urdang Associates. This eight-property, 1,395-unit transaction included three Kansas City properties (Coach House, Coach House North and Coach Lamp) along with five Prairie Village communities (Corinth Gardens, Corinth Paddock, Corinth Place, Kenilworth and

Mission Valley). With a price of $77 million, this sale made up nearly two-thirds of all Class B apartment sales in 2012.

Other large buyers to make significant purchases in the Kansas City area included Town Management, Aragon Holdings, Sentinel Real Estate Corp. and Steadfast Income REIT. These purchases can be found in the investor sale chart on page 52.

The dearth of apartment sales in 2009 and 2010 made capitalization and unit pricing comparisons difficult. With the resurgence in sales volume, pricing in 2011 was more clearly defined across property classes.

With over $223 million in total transactions, Class A properties accounted for more than half of all sales volume while accounting for only 36% of the number of units sold. Apartments sold for an average of $95,700 per unit and capitalization rates dipped to 6.3%. The Fairways at Corbin Park represented the highest price per unit at $110,507. Five of the eight Class A transactions occurred in Johnson County, solidifying the area's reputation as one of the most desirable in the Kansas City metropolitan area.

The Northland submarket also kept its winning streak going from 2010 with two significant Class A sales, including Barrewoods, which fetched the most aggressive capitalization rate in 2011 at 5.7%.

Class B apartment sales totaled $119 million and included more than 2,150 units sold for an average sale price of $55,300. The average capitalization rate was 7.3%. The market for Class B units was driven largely by the aforementioned portfolio sale to GoldOller, which paid $55,197 per unit with a capitalization rate of 7.5%. Other significant Class B transactions included the 232-unit Signature Place in Overland Park and the 220-unit Clarion Park in Olathe. Class B sales were split nearly evenly between the Johnson County and Kansas City South submarkets.

Strong demand is expected to continue throughout 2012 as fundamentals are anticipated to remain strong and interest rates expected to remain low.

Pricing for Class C properties continued to trail Class A and B properties significantly. Despite representing 31% of all units sold, Class C properties represented only 11% of all sales volume. Average sale prices of Class C properties was $21,200 per unit on just over 2,000 units sold in 2011. Capitalization rates for Class C properties averaged 9.7%, a 240 basis point premium over Class A units and a 140 basis point premium over Class B units. Significant sales included lender sales of Country Meadows in Lee's Summit and Timber Wind in Independence. The Eastern Jackson County submarket captured over three-fourths of all Class C sales.

Strong demand is expected to continue throughout 2012 as fundamentals are anticipated to remain strong and interest rates expected to remain low.

Contributor: Aaron M. Mesmer, Investment Sales & Acquisitions.

Wynnewood Farms, a 232-unit luxury apartment complex in Overland Park, Kansas, sold for $24.1 million to Price Brothers at a cap rate of 6.03%.

Block Income Funds

Funds I-IV

The world was not all doom and gloom in the commercial real estate industry during 2011. The unemployment rate fell from approximately 9.8% in 2010 to 8.5% as of year end 2011. While this rate is still higher than we would like, Block Real Estate Services is starting to see positive leasing momentum in our buildings and rent concessions are not as bad for the landlord as they were in 2010. Below are some of the selected highlights on each of our Block Funds.

BLOCK FUND I HIGHLIGHTS

- 9200 Ward Parkway occupancy improved 10% and is currently at 96%.
- Jack Henry Associates, 36,048 square feet, is currently looking to expand and extend at 350 Tech Park.
- Since inception in 2004, the Fund has paid over $3.7 million of cash distributions and over $3.5 million down in debt principal.

BLOCK FUND II HIGHLIGHTS

- Over 16,000 square feet of lease renewals and expansions at Rubicon at Highlands.
- Valley Vista Shopping Center is now 100% occupied.
- Sold a partial interest in the Machine Labs for a 52.75% total return.
- Network Communications, Inc. executed a 25,428 square foot lease at Two Sun Court bringing occupancy up to 92% from 65%.
- Floor Coverings International has executed a 9,621 square foot lease at Lakeside at Spalding Triangle.

BLOCK FUND III HIGHLIGHTS

- Completed a renovation of 801 Blacklawn of over $160,000, repositioning the property for multi-tenant occupancy.
- Capital Express in Rivergate Business Center expanded by 13,000 square feet and now occupies 32,578 square feet.
- Mattress Hub and Plato's Closet each executed leases at Plaza West for 8,800 square feet combined.
- Refinanced our debt on the ADS building which increased total cash flow by $72,000 annually.

BLOCK FUND IV HIGHLIGHTS

- Closed its third acquisition for the Fund with the purchase of 6101 NE Parretta Drive. The building is 100,000 square feet and will be leased 100% to PrimeSource Building Products, Inc. for 12 years.

PrimeSource Building Products, Inc. leased 100,000 square feet of industrial space located at 6101 NE Parretta Drive in Kansas City, Missouri, on a long-term basis.

- The PrimeSource building was acquired 100% vacant and our team executed on the building closing and a long-term lease, which added significant value to the transaction. Over the 10-year hold period, the total average cash return is 8.79% and the total average return is over 20%.

INVESTMENT SYNDICATIONS

- The Block Funds team is currently acquiring single tenant assets and providing financing for projects with hard money loans. These transactions are outside of the Fund structure and are set up as one-off deals via a single asset LLC. The average cash-on-cash return for the long-term single-tenant deals over the 10-year hold will be an average of over 10%. The hard money loan deals will average 6.5% over a six-month hold period and 13% annually.
- Plans are underway for Block Fund V, which may move forward in 2012. More information will be available later this year.

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

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

Block Construction Services Projects

National construction pricing has continued to experience steady increases throughout the year. On average, the national trend reflects a 2-3% increase in construction costs across the board for 2011 compared to 2010. Most of the increases can be attributable to copper pipe and diesel fuel, which have seen increases over the past year of 21.8% and 32.9% respectively. Fortunately, Kansas City has been on the lower end of that average and only experienced between 0.8 and 1.6% increases for construction pricing across the board.

While no new ground-up development occurred in 2011, our tenant finish and interior remodeling divisions were active this past year, managing approximately $7 million of construction contracts in the Kansas City market. We are also continuing our efforts to expand our services in St. Louis, Missouri, and are currently working on several opportunities in that market, which should move forward in 2012.

DROP IN CONSTRUCTION ACTIVITY

As reported in the *Kansas City Star* on Tuesday, December 6, 2011 by Kevin Collison, “construction activity in the Kansas City metropolitan area was down through October with $1.4 billion in contracts reported over the 10 months, a 35% drop from the same period a year ago.” The data in the article was provided by McGraw-Hill Construction.

Construction activity in the Kansas City metropolitan area was down 35% from the same period a year ago, as reported in the *Kansas City Star.*

INVOLVEMENT IN COMPLEX PROJECT

BCS has also been heavily involved with the team representing Polsinelli Shughart, PC in their new office relocation process. Our involvement started with the selection of architects to provide programming services and continued through site selection and lease negotiations. Our team is now involved in representing the firm through programming, design, and construction of the new building at 4840 Roanoke (Old West Edge Project). The anticipated completion of this exciting and complex project will be fourth quarter, 2013.

In summary, we believe we will see new development activity increase in 2012. We still predict the strongest sector in the Kansas City market to be in the commercial industrial market as Kansas City continues to stake its claim as one of the premier distribution hubs in the country.

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

Mutual of Omaha Bank’s leased space on the Country Club Plaza will serve as a focal point for their expansion in the Kansas City market.

A few of our construction projects completed or started in 2011:

GE Financial – *Overland Park, Kansas*
(44,877 square foot office tenant finish)

Interline Truck Parts – *Shawnee Mission, Kansas*
(4,846 square foot office tenant finish and 2,000 square feet of hazardous material storage)

Montage Investments LLC – *Leawood, Kansas*
(15,688 square foot office tenant finish)

Cohen Financial – *Leawood, Kansas*
(16,464 square foot office tenant finish)

PrimeSource – *Kansas City, Missouri*
(3,600 square foot office tenant finish and 100,000 square feet of industrial distribution redevelopment)

Commerce Plaza I and II – *Overland Park, Kansas*
(restroom renovations)

Financial Plaza – *Overland Park, Kansas*
(restroom renovations)

Mitchell Capital Management – *Leawood, Kansas*
(4,101 square foot office tenant finish)

Renuva LLC – *Overland Park, Kansas*
(2,032 square foot medical office tenant finish)

The Mutual Fund Store – *Overland Park, Kansas*
(5,226 square foot office tenant finish)

Mutual of Omaha – *Kansas City, Missouri*
(3,096 office tenant finish)

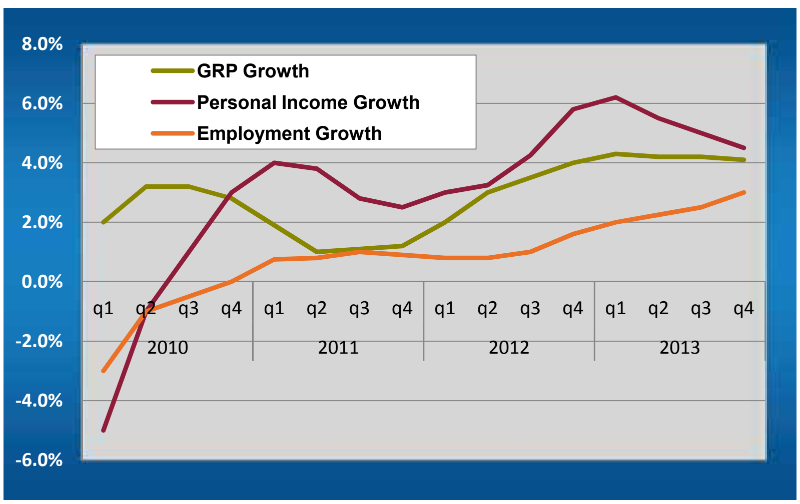
Kansas City
Economic Indicators

NATIONAL TRENDS

Early 2011 presented glimmers of sustainable and material recovery in the national economy with unemployment sinking from 9.4% at the end of 2010, to an encouraging 8.8% within the first quarter 2011.

This trend was not to continue however. Employment growth, arguably the most important metric for ensuring real economic gains for the long run, flattened and then reversed course into the summer, with unemployment standing at 8.5% at year-end. Economists point out that this rate is only part of the picture: approximately 2.8 million potential employees have dropped out of the employment market after prolonged frustration in unsuccessful job seeking.

Consumer confidence and, by extension, consumer spending, continues to be directly impacted by the lack of employment recovery. Compounding the problem is the perceived wealth of U.S. households where consumers tend to spend less when they feel less wealthy. Without a marked recovery in housing prices, many middle class families have a perceived loss of net worth per household of approximately 17% since 2007. This is despite moderate recoveries in the stock market since its 2009 lows.



Finally, interest rates remained historically low for yet another year as the Federal Reserve, though cautious about inflation, is compelled to use the few tools it has left to spur economic growth. Unfortunately there will remain additional inflation and risk premium worry into 2012 as deficit spending, as a percentage of gross domestic product (GDP), has yet to fall below 8%.

For comparison, the 1982 recession saw, at its peak, only a 6% deficit to GDP ratio. Despite the prolonged government measures, GDP growth has yet to materialize. The growth was below 0.5% at mid-year with a slight rebound to 1.4% by year-end.

Two divergent forward-looking models exist for 2012. Assuming factors combine to push business confidence up and cash balances above 2011 levels, employment will follow along with consumer spending. The consensus is that 2012 could see a sharp GDP recovery by August if a slight drop in unemployment occurs. Alternatively, a "second recession" is plausible if the government efforts fail, the lending environment becomes murky and business owners conserve cash to weather the next storm. The uptick in GDP at the end of 2011 allows forecasters to remain more positive than negative, however.

KANSAS CITY TRENDS

The local economy has been tracking closer to the national trends during 2011 after two years of slightly outperforming the general U.S. trends. Similar to GDP, gross regional product (GRP) grew an aggregate of 1.2% on the year with employment growth averaging around 1%. It should be noted that the Kansas City market did not experience as sharp a decline as was seen in larger cities nationwide and as a result, the recovery numbers are expected to remain more moderate.

Economic models prepared by MARC and Moody's indicate an upward trend in 2012 for the region with output jumping to 4.1% by mid-year. Personal income growth will lag by about a quarter but mirror the gains in GRP largely due to expectations of declining unemployment.

Specifically, the Kansas City area is expected to add just over 19,100 jobs in 2012 with an even more impressive jump to 36,700 jobs in 2013. This is particularly positive news for the area in light of the net 100,000 jobs lost as measured from the peak employment figures reported in 2007, to the lowest employment numbers in 2009. It goes without saying that in order for this to occur, the U.S. economy will need to experience a similar recovery at least in terms of real GDP growth.

Contributor: Zach Batson.

OUR SERVICES

SALES & LEASING

Owner/Landlord Services
- *Landlord Representation*
- *Disposition*
- *Acquisition*
- *Auction Management*
- *Technology/Connectivity*
- *In-house Marketing*

User/Tenant Services
- *User/Tenant Representation*
- *Sale Leaseback Analysis*
- *IT Consultation*

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

PROPERTY & ASSET MANAGEMENT
- *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*

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

STRATEGIC ADVISORY SERVICES
- *Repositioning Existing Assets including Redesigning, Master Plans, Site Layouts and Architectural Plans*
- *Investment Analysis and Strategic Review*
- *Lender Negotiation*
- *Debt Restructuring*
- *Acquisition and Disposition Advisory Services*
- *Development and/or Construction Management*
- *Land Use/Entitlement/Zoning*
- *Formulation/Implementation of New Leasing and Marketing Plans*
- *Sales and Leasing Management*

MARKET STATISTICS Year-End 2011 Data

OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	7,916,940	24	17.0%	95,662	246,247	$17.57
East Jackson County	257,526	3	34.5%	0	(45,436)	$21.05
Kansas City, Kansas	274,475	2	0.0%	0	0	$0.00
Midtown	2,865,777	16	13.0%	47,907	82,807	$23.61
North Johnson County	1,705,124	14	24.5%	7,789	(138,847)	$18.72
North of the River	947,284	6	7.8%	0	(3,143)	$16.00
South Johnson County	10,305,268	69	13.5%	236,910	331,965	$22.04
South Kansas City	1,949,742	14	9.9%	121,078	121,078	$17.77
Southeast Jackson County	103,442	2	10.2%	9,128	9,128	$25.24
TOTAL OFFICE - CLASS A	**26,325,578**	**150**	**14.8%**	**518,474**	**603,799**	**$20.13**

OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	15,393,817	193	13.2%	178,914	(43,001)	$15.67
East Jackson County	4,743,263	239	12.7%	59,648	(93,212)	$14.83
Kansas City, Kansas	1,995,166	67	8.3%	32,648	(37,048)	$15.33
Midtown	4,479,857	145	10.1%	66,755	(25,716)	$16.41
North Johnson County	7,721,213	272	11.4%	18,105	(48,481)	$16.77
North of the River	6,102,917	245	19.7%	16,303	49,316	$16.10
South Johnson County	15,211,689	445	14.4%	94,771	203,827	$18.88
South Kansas City	3,534,377	91	12.1%	4,781	(11,671)	$16.26
Southeast Jackson County	2,227,389	96	7.8%	17,249	(19,333)	$17.43
TOTAL OFFICE - CLASS B	**61,409,688**	**1,793**	**13.3%**	**489,174**	**(25,319)**	**$16.72**
TOTAL OFFICE - CLASS A + B	**87,735,266**	**1,943**	**13.7%**	**1,007,648**	**578,480**	**$17.84**

WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	4,099,645	59	4.0%	60,430	280	$5.29
North Kansas City/Riverside	21,902,976	480	6.0%	616,021	3,638	$3.99
Executive Park/Northland	32,172,438	324	6.0%	482,330	(3,600)	$4.07
Wyandotte County	39,951,469	933	5.0%	1,426,852	52,976	$4.67
Johnson County	49,650,134	1280	6.0%	1,220,995	(25,154)	$5.43
East Jackson County	90,372,986	2488	8.0%	983,696	(15,679)	$5.69
TOTAL WHSE/BULK SPACE	**238,149,648**	**5,564**	**6.6%**	**4,790,324**	**12,461**	**$5.08**

LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	862,691	14	20.0%	0	(979)	$5.35
North Kansas City/Riverside	235,991	14	11.0%	9,493	9,388	$9.49
Executive Park/Northland	268,995	13	20.0%	23,556	(229)	$4.93
Wyandotte County	934,356	37	15.0%	49,607	(48,511)	$8.26
Johnson County	5,992,833	244	13.0%	288,542	(7,168)	$9.52
East Jackson County	4,392,537	159	8.0%	26,128	(13,642)	$7.03
TOTAL LIGHT INDUSTRIAL/FLEX	**12,687,403**	**481**	**12.0%**	**397,326**	**(61,141)**	**$8.18**
TOTAL FLEX + INDUSTRIAL	**250,837,051**	**6,045**	**6.83%**	**5,187,650**	**(48,680)**	**$5.24**

MARKET STATISTICS Continued

RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	Planned Development
South Johnson County	9,971,445	10.5%	1,047,002	194,774	$15.41	3,956,000
North Johnson County	12,198,040	10.7%	1,305,190	16,566	$13.41	389,000
Kansas City, KS	6,053,589	10.7%	647,734	383,732	$10.64	410,000
North of the River	13,075,791	10.2%	1,333,731	(63,409)	$13.20	1,815,000
Midtown/Downtown/Plaza	11,055,950	6.2%	685,469	273,525	$13.68	300,000
Independence/Blue Springs	13,060,364	12.3%	1,606,425	90,986	$9.81	0
Lee's Summit	3,630,287	9.3%	337,617	63,509	$14.18	366,625
South Kansas City	7,010,405	18.0%	1,261,873	(102,341)	$11.19	1,130,000
TOTAL ALL MARKETS	**76,055,871**	**10.8%**	**8,225,040**	**857,343**	**$12.42**	**8,366,625**

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

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	39,627	5.5%	$879.00	$631.00	2,179
Downtown	4,803	7.9%	$840.00	$488.00	379
Plaza/Midtown	2,300	5.6%	$947.00	$664.00	129
East Jackson County	15,920	7.8%	$668.00	$567.00	1,242
Wyandotte County	8,590	8.6%	$705.00	$495.00	739
Northland	16,944	7.9%	$721.00	$547.00	1,339
South Kansas City	21,700	8.7%	$649.00	$480.00	1,888
North Johnson County	13,000	5.9%	$829.00	$693.00	767
MSA TOTALS:	**122,884**	**7.0%**	**$771.00**	**$576**.00	**8,662**

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

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