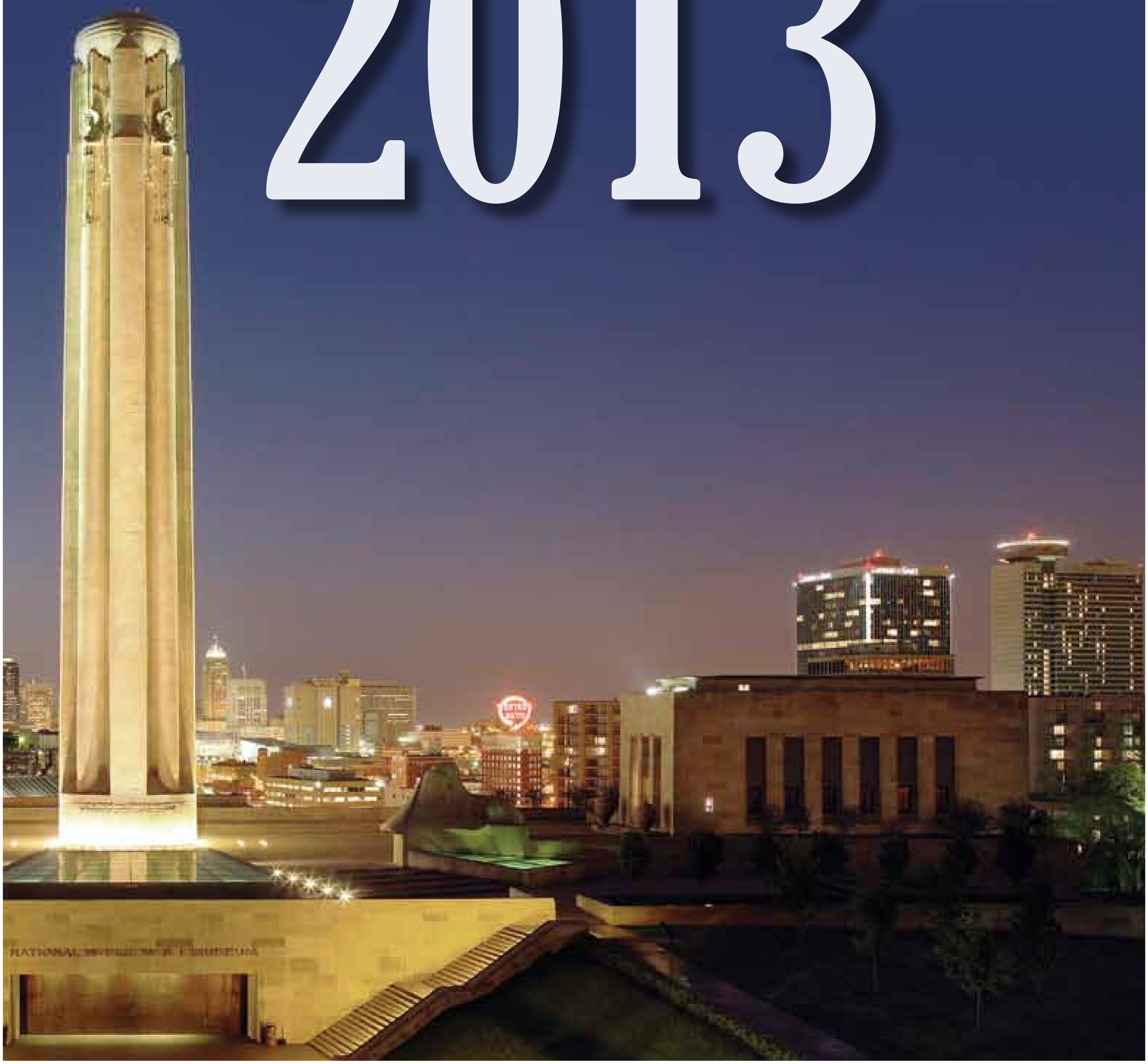
The Real Estate Report

For Metropolitan Kansas City

2013



Block Real Estate Services, LLC (BRES) Highlights of 2012

Transactions

BRES completed the year with total sales and leasing transactions in excess of $748 million.

Property Management

BRES management portfolio reached 23 million square feet by year-end.

Construction

Block Construction Services (BCS) completed renovation and development projects exceeding $32 million in Kansas City. Additionally, BCS managed projects in the St. Louis and Atlanta offices, expanding to a regional services company.

Investment Syndication

BRES completed over $122 million in investment sales and raised over $37 million in equity funds for syndication of new acquisitions and development projects.

Affiliates

Block Hawley Commercial Real Estate, LLC ranks as one of the largest real estate firms in the St. Louis area, with over 10 million square feet of listed property and over 7.5 million square feet under management.

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

Block Multifamily Group, BRES's newest division, started in May 2012 and now manages over 1,800 units.

Table of Contents

BLOCK REAL ESTATE SERVICES, LLC

Real Estate. Real Strategies. Real Success.®

Responding in a Challenging Economic Environment

The difficult times that have confronted our markets over the past five years have been challenging for every member of society. Budget deficits, health care reform, tax policy debate, global economic strife, high unemployment, unstable housing market, and election year rhetoric have compounded the caution exhibited by businesses and consumers alike.

The knowledgeable, experienced, and entrepreneurial teams of real estate professionals at Block Real Estate Services (BRES) have continued to discover solid real estate opportunities amid the economic turmoil of our present economy. Our team of seasoned professionals, guided by a commitment to maximize financial outcomes for our clients, has executed specific strategies which have enabled our clients to achieve investment results that exceed their own expectations. In support of this commitment, we would like to share some of the results achieved this past year and preview where we are headed in 2013.

BLOCK HEALTHCARE DEVELOPMENT

In 2012, Block Healthcare Development continued to expand in an ever-changing health care environment. With the leadership of Stephen Bessenbacher, a former hospital administrator, our Healthcare group moved into the acquisition arena and acquired five properties in Iowa, Indiana, and Missouri. Our team of specialists uncovered value that was locked in small medical practices and controlled by senior partners. Helping these senior partners realize their retirement goals, our team enabled the younger partners of these practices to assume control and ownership of the practice and the real estate through our resyndication of the property ownership.

Block Healthcare Development also broke ground and delivered two new medical office properties in 2012, and is positioned to move forward on several new development and acquisition opportunities in 2013.

BLOCK MULTIFAMILY GROUP

In response to an evolving housing market, BRES strategically entered the multifamily investment and property management field in early summer 2012. Our goal was to acquire an operation with a highly respected reputation, superior knowledge of the industry, and seasoned leadership that could enhance the overall quality of our services. We accomplished this with the asset acquisition of Bristol Properties and the formation of Block Multifamily Group (BMG). Led by Bill Larson, a 35-year veteran of multifamily property management, we are positioning this team to become a leading provider of multifamily property management services. By leveraging Bill's experience, relationships, and portfolio of properties in Louisiana, Texas, Nebraska, Missouri, and Kansas, we will focus on growth in the South, Southeast, Southwest and Midwest markets. We will grow this management portfolio by competing for third-party management business, acquiring multifamily product for our investors and institutional clients, and providing best-in-class management services to achieve the specific investment strategies desired by our clients.

BMG will also pursue new developments in markets where we identify a need and a clear investment story. We will acquire additional management organizations that exhibit a stable portfolio and quality of income that could be enhanced by leveraging the platform we have created.

As of year-end, BMG's management portfolio exceeded 1,800 units. With two new acquisitions in early 2013, and with projects under development in New Mexico and Kansas, we will continue to push toward building a management portfolio exceeding 10,000 units by year-end 2016.

BROKERAGE SERVICES

To better address our service delivery model, we have made a significant change in order to adapt to an evolving environment. We have added a Director of Brokerage to assist in oversight, training, and motivation of our brokerage teams. Lou Serrone, a 30-year veteran of sales leadership in the Kansas City market, joined BRES and will work to expand our sales force and maximize brokerage production.

BLOCK PROJECT SOLUTIONS

Due to the unanticipated but exciting growth in our maintenance services division, we have taken the projects division of Block Maintenance Services, responsible for small self-performed tenant and landlord improvements, and separated this team from those responsible for basic building preventative maintenance and tenant response services. This change is founded in the recognition of the diverse missions these two groups pursue.

PROPERTY MANAGEMENT

We have promoted two of our Associate Directors of Property Management to the Vice President level, resulting in a more coordinated and consistent approach to the property management leadership effort.

BLOCK CONSTRUCTION SERVICES

Ten years ago, we launched a formal construction management effort to ensure the projects undertaken in our properties were in compliance with specifications and met or exceeded our quality standards. The success of this operation was underscored in 2012 by its oversight of projects exceeding $32 million. From small tenant improvement projects, to the oversight of major base building and tenant build-out projects – such as the Polsinelli Shughart Law Firm's 230,000 sq. foot headquarters tenant improvement package, the 154,000 sq. foot Teva Neuroscience base building and tenant improvement construction, and Henderson Engineers' 84,449 sq. foot tenant improvement project – Block Construction Services has proven its ability to deliver value-added project management service for both large and small projects alike.

COMMUNITY INVOLVEMENT

BRES takes pride in our strong presence in Kansas City and we feel a responsibility to give back to our community. In 2012, our principals, officers and employees continued their active and progressive support of many invaluable organizations through monetary donations and volunteer activities. In addition to many other local and national organizations, we have lent our support to: the University of Kansas Hospital's Treads & Threads and the Within the Ribbon golf tournament; Children's TLC Groundhog Run; the Multiple Sclerosis Society; Harvesters; Operation Breakthrough; and Hope House.

MARKETING SERVICES

Our Marketing Department has made great strides in the area of social media. In 2012, we implemented the BRES blog, YouTube videos of our properties and special events, Twitter, LinkedIn and Facebook. With the addition of Google Places/Google Pack and SEO, we've been able to enhance our mobile/online presence and business listings.

Since the inception of these social media accounts in 2012, our blog has received over 23,000 page views. Our Twitter activity increased from zero to 475 followers and we are communicating with 106 employees and friends on Facebook. Our YouTube videos have received over 2,000 views and we are now receiving nearly 60% more people from Google to our website.

BLOCK HAWLEY COMMERCIAL REAL ESTATE

Our St. Louis office, Block Hawley Commercial Real Estate Services, has once again out-performed expectations. With the addition of 2.5 million square feet of new management business in 2012, our St. Louis metropolitan area management portfolio now stands at 7.5 million square feet. This once fledgling brokerage and property management operation, founded in 2008 as the markets were in free-fall, has come into its own and taken a prominent position as one of the largest, full-service commercial real estate firms in the St. Louis market.

BRES ATLANTA

The Atlanta metro area continued its slow growth in 2012 with little new job creation and slow absorption in the office and industrial real estate sectors. However, there were some victories along the way that held cause for celebration for BRES Atlanta. We achieved 41,000 square feet of leasing in our Two Sun Court building, which stabilized that property in a very competitive Atlanta office market. We re-established the executive suites operation in our Mansell 400 Business Park property and increased the occupancy at Mansell 400 almost 10% during the year. In addition, we extended leases in our Conyers market and leased 30,000 square feet at our 801 Blacklawn Road asset.

BRES principal Michael R. Block, CPM (left) with scholarship recipient Mario Vasquez, BRES principal Stephen J. Block and BRES managing principal Kenneth G. Block, SIOR, CCIM.

Economic indicators are pointing to slow growth in 2013 for the Atlanta metro area, much like we experienced in 2012. The most positive news we hear for 2013 is that the housing market is starting to show signs of improvement – not only in new housing starts, but in re-sales as well. This is a positive indicator because the Atlanta market suffered one of the worst crashes in the U.S., trailing only Phoenix, California, Florida and Las Vegas.

BLOCK TECHNOLOGY SOLUTIONS

Block Technology Solutions (BTS) has continued to expand its services to new and existing tenants, including lower costs as well as data and voice cabling consulting services. This has allowed the end users to also utilize tenant improvement funds for specific IT service upgrades. BTS prides itself in its quick turnaround time. This group works closely with building owners so they can access the property after normal business hours, which gives them the ability to complete IT projects with little or no disruption to their customers. In 2013, BTS will continue focusing on local tenant relationships with plans to expand into the St. Louis market by mid-year 2013.

We know success can be fleeting, and the professionals at BRES will continue our disciplined, process-oriented and client-focused approach to ensure successful outcomes for our clients and customer base.

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

Kansas City OVERVIEW

Even though the Fiscal Cliff was averted through an 11th hour agreement approved by Congress, some of the damage will already be felt in the U.S. economy in 2013. Photo courtesy of the White House.

As 2012 drew to a close, our country faced one of the largest economic challenges in our history as Congress and President Obama haggled over our revenue, spending and taxing issues.

The aptly named "fiscal cliff" is the popular term that has been used to describe the conundrum that the U.S. Government was going to face as of January 1, 2013, if the terms of the Budget Control Act of 2011 went into effect and the "Bush" tax cuts expired. Among the many laws that were set to change on December 31, 2012, were the end of temporary payroll tax cuts (resulting in a 2% tax increase for workers), the end of various tax breaks for businesses, shifts in the alternative minimum tax that would increase taxes on the vast majority of our population, the end of the "Bush" tax cuts, and the beginning of taxes related to President Obama's health care law.

In addition, there were enormous spending cuts in the Budget Control Act that would have immediately taken effect over 1,000 government programs including huge cuts to the defense budget as well as deep automatic cuts to Medicare.

But the fiscal cliff was averted late Tuesday night January 1, 2013, when a majority of the House passed the previously approved Senate bill, now aptly named the "American Taxpayer Relief Act of 2012," aimed at averting the wide tax cuts and budget cuts set to take effect in the new year. A summary of the major points of the compromise Bill approved by both the House and the Senate are as follows:

- Income Tax Rates: Extends tax cuts on incomes up to $400,000 for individuals and $450,000 for couples; raises the tax rate from 35% to 39.6% on all other earners.
- Estate Tax: Estates will now be taxed at the top rate of 40% versus 35%, but the first $5 million in value would continue to be exempted for individual estates and $10 million for family estates.
- Capital Gains: Taxes on capital gains and dividend income exceeding $400,000 for individuals and $450,000 for families increases from 15% to 20%.
- Alternative Minimum Tax: Permanently addresses the alternative minimum tax and indexes it for inflation.
- Other Tax Changes: Five-year extension for child tax credit, the earned income tax credit, and an up to $2,500 tax credit for college tuition. Also extends for one year accelerated bonus depreciation of business investments in new property and equipment, a tax credit for research and development costs, and a tax credit for renewable energy such as wind-generated electricity.

- Unemployment Benefits: Extends jobless benefits for the long-term unemployed for one year.
- Medicare Reimbursements to Doctors: Blocks a 27% cut in Medicare payments to doctors for one year.
- Social Security Payroll Tax: Allows a 2 percentage point cut in the payroll tax to end.
- Across-the-board Cuts: Delays for two months $109 billion worth of across-the-board spending cuts. Even though all of these tax cuts have been made, major corporations have already begun to make deep reductions in employment and therefore job loss rates are expected to rise again in early 2013.

Although the fiscal cliff was averted through this 11th hour agreement, some of the damage will already be felt in the U.S. economy in 2013.

> The growing level of debt continues to feed concerns related to our country's overall fiscal position.

The U.S. debt exceeded $16.3 trillion dollars at year-end 2012. The annual gross domestic product (GDP) of our country is just under $16 trillion and therefore our country's long-term debt actually exceeded 100% of the GDP. History shows when long-term debt to GDP ratios exceed 90%, that in almost every case, the country will experience lower economic growth in the coming year by over 1.2% compared to a normal year's growth rate. The growing level of debt continues to feed concerns related to our country's overall fiscal position and whether or not our country's debt is headed for another downgrade by Standard & Poor's (S&P), as well as the Moody's and Fitch rating agencies.

What is of even greater concern is that the Congressional Budget Office (CBO) cannot continue to predict accurately the speed at which the U.S. national debt will grow. The U.S. debt was half of the country's total revenue in 2009 which was 10 years ahead of the 2019 prediction set by the CBO in 2007. The national debt was expected to increase to 90% of GDP by 2014 – this is five years before their projection made in 2009 and 13 years before their projection in 2007 – and we hit this mark already in early in 2012.

In essence, as our debt gets larger, it grows more quickly. Without a substantial change in how our country operates in terms of entitlement programs and spending, we will face a "tipping point" at which point there may be no way to bring the debt back in line without a potential default event. If a default occurs, our debt will lose a substantial amount of its value.

The CBO also projects that our country will face deficits every year for the next 10 years, whether these projections are made under their baseline or alternative growth scenarios. Under either scenario, by 2020, our country is expected to have in excess of $20 trillion dollars of debt, although based upon current growth in our debt, this number could be reached by as soon as 2016.

Overall U.S. real GDP grew by 2.1% in 2012. For 2013, projections are even more difficult to gauge depending on the effects of the fiscal cliff agreement. GDP projections ranged as low as 1% to as high as 1.9% depending on which tax cuts and other programs are left in place.

FED LOOKS FOR U.S. ECONOMY TO GROW

In early December 2012, Federal Reserve Chairman Bernanke proclaimed that the Fed was looking for the U.S. economy to grow between 1.9% and 2.4% in 2013. It is nearly impossible to accurately project GDP growth for 2013 and beyond due to global concerns and inaction by Congress to stabilize our economy. While the pace of economic growth has been

The economic impact of Hurricane Sandy is expected to be felt well in to 2013. Photo Courtesy of Master Sgt. Mark C. Olsen/U.S. Air Force/New Jersey National Guard.

producing an average of about 140,000 jobs per month since employment bottomed out in February 2010, our economy needs in excess of 200,000 jobs per month in order to keep up with the growth in people entering the job market. Even employment growth for 24 consecutive months has simply not allowed employment levels to increase much because unemployment reached such high levels during this last recession.

UNEMPLOYMENT EXPECTED TO DROP AS ECONOMY EXPANDS

The unemployment rate peaked at just over 10% in October 2009 and while it has gradually declined since that time, it still was near 7.7% at year-end 2012. While unemployment did break through the 8% barrier in September of 2012, the real question is not what the unemployment rate is but what the "under" employment rate is together with how many in the workforce have simply stopped looking for jobs. At year-end 2012, over 12 million people were actively searching for jobs and over 41% of them had been out of a job for over six months. If we take into account the people working part-time who want full-time jobs, and those who are simply not even looking for jobs, then the estimated overall rate of under employment rises to nearly 16.1%. However, we do expect unemployment to drop as the economy expands, with unemployment down to 7.5% by year-end 2013 and 7.2% by year-end 2014.

Even if the economy grows over the next 18 months at the highest prediction by the CBO of 2.2% to 2.5%, the labor participation rate will still remain near its current 30-year low of 63.6%. With this low level of growth, unemployment would not be expected to drop much below 7.5% by year-end 2013. This anemic job growth, combined with the fiscal cliff crisis and global economic slowdown, has caused the Federal Reserve to continue its decision to keep short-term interest rates close to 0% well into 2015, or at least until employment is consistently below 7%. Just a year and a half ago, they expected that they would only have to keep rates this low through 2013, so this additional extension of time shows how deep of a hole our economy is in.

In essence, there are 3.5 unemployed people for every job opening, which is up from 1.8 in December 2007. This gap is even greater when you take into account that most of these job openings are available to those workers with a college degree. A recent survey of U.S. employers found that almost 50% of them could not find people with the education and skill level that was necessary to fill the job. This education gap will continue to cause the unemployment rate to be approximately 2% higher than would otherwise be the case. Health care, technology, and other high-skilled sectors, which have tremendous job growth, are experiencing a shortage of qualified workers. So while our economy is growing in some sectors and providing jobs, our workforce is simply not capable of filling these jobs.

The real key will be how many major corporations cut jobs in 2013. Their lack of knowledge relating to our economy and the inaction by Congress has caused over 40% of the top corporations to already announce major job cuts. Many of these multi-national companies are cutting jobs here in the U.S. and hiring employees oversees. So, as a whole, the corporations continue to do well, but more of their income comes from offshore activities.

The Federal Reserve is well aware of the problems in the job sector and they have determined that a third round of Quantitative Easing (QE) is needed to further drive down long term interest rates and stimulate both the housing market and job creation. This round of QE encompasses an open-ended bond buying program which has the Fed buying $40 billion dollars of mortgage-backed securities each and every month until unemployment recedes to under 7%. Based upon current projections, this is not likely until at least late 2014, which would mean an additional $800 billion dollars to $1 trillion dollars will be added to the nation's money supply. In the near term, the announcement of third round QE should help depress mortgage rates, but the downside is that as the economy recovers, there will be a very quick and damaging rise in the inflation rate, which will stunt growth in future years.

The global economy lost its momentum in 2012 and is expected to grow quite slowly in 2013.

GLOBAL ECONOMY IMPACT

The U.S. economy does not stand on its own anymore and we need to focus on the global economy and how that affects our economy. Currently Europe is in a recession and this is impeding Greece, Spain, Portugal, and Italy from dealing with their growing deficits and sovereign debt problems. The European Central Bank (ECB) announced that it would do "whatever it takes" to keep the Eurozone together, including unlimited purchases of sovereign debt bonds to reduce interest rates and fight currency speculation, but this has not helped bring down yields on Spanish and Italian debt. Furthermore, the Eurozone's own ministers do not seem any closer to solving their own fundamental problems – closer political/economic integration, labor reform, taxation, and the competitive gap between Northern and Southern European countries – than they were two to three years ago. Therefore, Greece continues to face a severe recession and will probably require an additional bailout in 2013. Spain, which also is facing a recession with over 25% unemployment and a serious banking crisis, and Italy, which is teetering on the edge of recession, together make the whole region very weak. The spreading recession in Europe is not only hurting the U.S. and Asian exports but because Europe was China's largest export market, it has even caused a slump in China's economy.

In Europe, they are using Outright Money Transactions

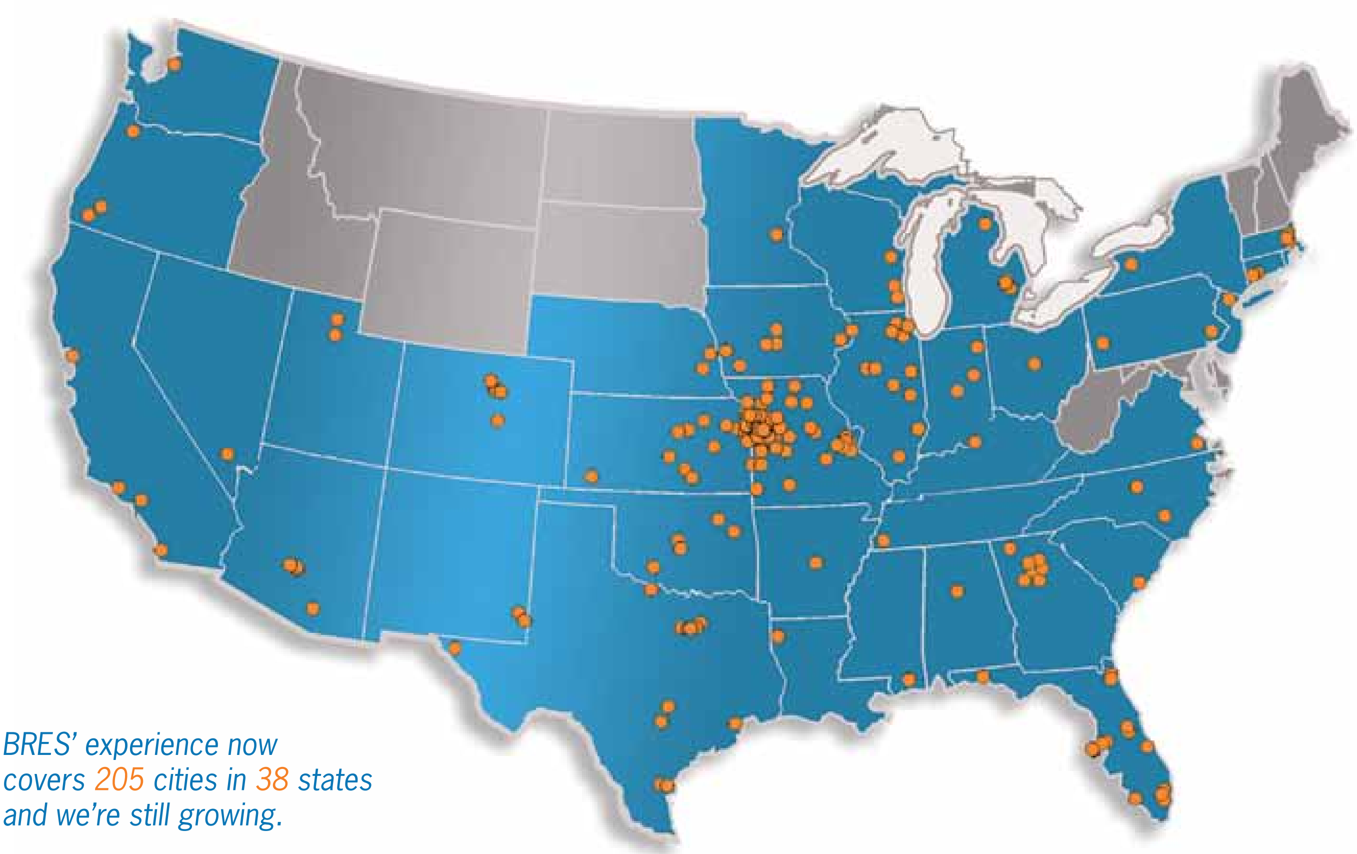
(OMT) to purchase bonds in their secondary sovereign bond markets. The Eurozone established the European stability mechanism and the European financial stability facility bail-out funds in order to meet the challenges of the European debt crisis. These funds, through OMT, can continue to buy government issued bonds that mature in one to three years, thereby providing some stability in Europe for countries such as Greece, Spain, Italy, and others. But these transactions, while injecting liquidity into the banking system with the aim of stimulating economic activity, will of course create additional inflation as the Eurozone strengthens in the future. Because of this, the global economy lost its momentum in 2012 and is expected to grow quite slowly in 2013. The U.S. economy, the world's largest economy, continues to expand although its pace remains subpar and any further drop will cause the global economy to spiral into a deeper recession.

ADDITIONAL RISKS TO THE U.S. ECONOMY

There a number of additional risks to the U.S. economy as we look forward. Easier monetary policy brings questions for the dollar and inflation. Our planned fiscal policy and high unemployment with a corresponding weak job market could cause our country to go into a new recession. Housing will continue to be a problem if it cannot sustain growth on its own. And the European debt crisis continues to weigh on global growth. In addition, a rise in oil and gasoline prices would further threaten real consumption, and weak unemployment growth means less than expected real income and spending growth and higher deficits. All of these concerns will loom large as we enter 2013 and beyond. While Federal Reserve Chairman Bernanke may be replaced at the end of his term, it is unlikely in this weak economy that the Fed will change direction as it relates to low interest rates, so at least this will be a consistent policy.

The potential for U.S. Sovereign debt downgrades could also be front and center in the coming months. These rating agencies have made it clear that if Congress does not address spending cuts, it is possible another downgrade in the U.S. credit rating would occur. S&P, Moody's, and Fitch have all issued a negative outlook for U.S. debt, while only S&P downgraded our AAA debt to AA+ on August 5, 2011. Both Moody's and Fitch have made it clear that a downgrade would occur if: 1) Congress fails to produce specific policies that stabilize the negative federal debt to GDP trend over the medium term; 2) if stabilization efforts lead to a large fiscal shock that limits the rebound of the economy; or 3) if the process for the increase in the statutory debt limit is disorderly which leads to market volatility. Since at least one or more of these will probably occur, we expect at least one of these agencies could issue a further downgrade to U.S. debt in 2013.

Perhaps the most significant way to improve our economy is by improving our housing market. To do so, financing must remain available and at attractive interest rates. Banks are doing their share by withholding distressed properties to restrict the inventory of homes for sale. If supply overwhelms demand, prices will simply decline. While this is keeping prices firmer, with the new "Dodd-Frank" rules going into effect in



BRES' experience now covers 205 cities in 38 states and we're still growing.

2013, banks are having a hard time finding qualified buyers to lend to in the home and commercial markets. Even with mortgage rates well below 4%, buyers are still scarce even though in some places it is cheaper to buy than to rent. The real question is with the baby boomer generation retiring, and Generation Y not wanting to buy homes, will there be enough buyers for the existing housing stock and for the projected increase in housing stock that is necessary in order to get our economy back on pace.

ELECTION YEAR, HURRICANE SANDY DAMAGES

The year 2012 was an election year and while it was expected that very little would be done by Congress during the year, it was quite extraordinary in terms of their lack of effort. The expectations were that like in 2010 – voters were distraught with the direction of the country and would vote their mind. After all the dust had settled, nothing changed. President Obama was elected for a new four-year term, the Senate continued to be controlled by Democrats, and the House continued under control of Republicans. In essence, the very same set of circumstances and stalemate that was in place prior to the election continued in place after the election. However, what was even worse is that an increased rancor and ideology between the two parties and the President was evident after the election, and it is expected that each and every bill that goes through Congress will be a battle based on ideology and not on what's good for the country.

Hurricane Sandy was a major blow to the U.S. economy during the later part of 2012. Sandy, which was nearly 1,000 miles wide, caused over $50 billion dollars of damages to the East coast and in some cases, wiped out entire communities. Job losses and a slowdown in the economy in some of these East coast communities will be felt long into 2013.

One other unusual risk to the U.S. economy is the United Nations (U.N.) newly formalized goal for a global tax on developed nations in the Northern Hemisphere and especially the U.S. In essence, the U.N. wants to raise some $400 billion dollars annually to send to lesser developed nations in the third world. These taxes would include a 1% income tax on all billionaires worldwide, a tax on all financial transactions, a tax on currency transactions, a carbon tax on developed nations, a tax on commercial airline flights from the U.S. to Europe, a tax on oil and gas extracted offshore, a global tobacco tax, and of course control over the internet. While the U.N. does not have legal authority to impose these taxes, it will attempt to structure these new taxes as "treaties" with member nations. Treaties in the U.S. are signed by the President and ratified by only the Senate, with the House of Representatives having no vote. So in essence, should such a treaty be presented and President Obama and the Democrat-controlled Senate wish to pass it, a new treaty could be put in place which would cause a major economic collapse in our economy.

U.S. PROPERTY SECTORS AND MARKETS

For the third consecutive year, the Urban Land Institute (ULI) and Price Waterhouse Cooper, LLC, in their joint publication *Emerging Trends in Real Estate 2013*, have indicated that U.S. property sectors and markets will register noticeably improved prospects during the coming year. The publication noted that "decent though relatively disappointing" job creation should be enough to coax absorption higher and nudge down vacancy rates in office, industrial, and retail sectors, helped by little or no new supply in commercial markets.

A robust demand for apartments will continue, despite new construction ramping up and potential for the housing sector to "turn the corner" in some regions of the U.S. In essence, buying, holding, managing, and bumping up property revenues slowly over time will continue to be the way to win in the real estate game. And low interest rates will continue to be a benefit to the real estate industry as they give lenders and borrowers breathing space and time for assets to rise in value.

In 2013, real estate assets will continue to command an attractive spread over fixed income investments and offer considerably more stability than stocks. Now that the 2012 election is over and the U.S. Supreme Court has upheld "ObamaCare," businesses will need to figure out how to expand and operate in the coming year with these new policies and costs. What worked last year may not work this year and successful players will continue to adapt.

> The very same set of circumstances and stalemate that was in place prior to the election continued in place after the election.

The key is that the real estate market will continue to improve because there is a great deal of liquidity and financing available compared to three years ago when both were absent. In *Emerging Trends*, it was noted that the key drivers and predictions for real estate activity in 2013 include the following:

1. Since there is not enough product in some U.S. real estate markets for prudent investment, there will be a movement by investors to secondary and tertiary markets and from Class A to Class B properties.
2. Under tighter pricing, investors will concentrate on higher quality assets in key markets in order to increase investor expectations.
3. Transaction volume will pick up due to the availability of excellent long-term financing, and big bank balance sheets.
4. Multifamily investments will continue to out-perform other sectors of the market and investors will be bullish both in acquisitions and in new development. An expected demand from Generation Y'ers living with parents, who will subsequently find jobs and move out on their own, will bring thousands of rents into the market place.
5. The housing industry, bolstered by low interest rates and the sheer force of an expanding population, will expand

With the arrival of Google Fiber, Kansas City is square in the middle of the new "Silicon Prairie" designation.

and cause some new home building.

Other important trends expected in 2013-2015 will be the recapitalization of well-leased good quality assets by locking in historically long-term low interest rate mortgage debt. Investors will also hold core properties in 24-hour cities which continue to improve and strengthen and will purchase non-performing loans from lenders who move these loans off their balance sheets. Real Estate Investment Trust (REIT) stock will also be in demand as their blue chip portfolios rise in value.

As always, core product in the 24-hour gateway cities have the strongest pricing and cap rates, and in 2013, cap rates will remain in the low 4% to 5% range. Stabilization of real estate values will continue throughout almost every market in the U.S., as new construction has been limited and over building eliminated. Money will continue to flow to the big employment and growth centers in the South, Southeast, Southwest and coastal cities.

In 2012, the Kansas City economy continued to steadily improve, albeit slowly. Ford and GM invested in their Claycomo and Fairfax plants respectively, and with the continued expansion in the IT and health sectors, along with companies like Cerner growing quickly, the Kansas City area economy expanded at a faster pace than the U.S. economy. In fact, the region's gross regional product (GRP) is expected to grow at over one half percent faster than the U.S. average over the upcoming 2013-2014 projection period. The Kansas City Metropolitan area GRP for 2012 should end the year at 2.4% for 2012 compared to 2.1% for the U.S. GDP over the same period. The region's GRP should further accelerate in 2013 to 3.2%, now that the fiscal cliff crisis has been basically averted.

The U.S. economy will continue to accelerate in 2014 when the Kansas City metro economy may grow by as much as 4.9%. The Kansas City region can be expected to add as many as 21,200 jobs during 2013 and as high as 33,400 jobs in 2014.

CONSTRUCTION ACTIVITY

The Kansas City metropolitan area has seen over $7.5 billion dollars of construction activity over the last nine years. The city's location in the middle of the country and the fact that it is the only major city west of St. Louis and east of Denver, allows it to attract a constant influx of visitors from a host of small communities in these surrounding states. Kansas City is reachable within four hours by over 8.3 million people in the surrounding states of Kansas, Missouri, Iowa, Illinois, Nebraska, Arkansas, and Oklahoma.

SPORTS & ENTERTAINMENT

Kansas City is home to a number of professional sports teams including: The Kansas City Chiefs, The Kansas City Royals, Sporting Kansas City soccer team, the Kansas City Comets, the Missouri Mavericks hockey team, the Kansas City Explorers Tennis, and the Kansas City T-Bones. Kansas City is also home to high ranking college teams from the University of Kansas, University of Missouri, and the University of Missouri-Kansas City.

Kansas City is also fortunate to have a number of amazing entertainment venues including Worlds of Fun, the Kansas City Zoo, Oceans of Fun, the Woodlands, Union Station, Community America Ballpark, Schlitterbahn Vacation Village, the Independence Events Center, and six area casinos, including the new Hollywood Casino at the Kansas Speedway which opened in 2012. Recently, the opening of Legoland Discovery Center and Sea Life Aquarium in The Crown Center district has brought additional national attention to our community.

TOP 10 RANKING FOR CULTURAL ARTS

With the American Museum of Natural History slated to open in 2015 at the Prairiefire project in Overland Park, our community ranks in the top 10 in the country in terms of cultural arts destinations.

Kansas City continues to be renowned internationally for its arts and culture. Venues including the Kemper Museum of Contemporary Art Design, the National World War I Museum at Liberty Memorial, the American Royal Museum and Visitor's Center, the Nerman Museum of Contemporary Art, the Kansas City Museum and Planetarium, Starlight Theatre, the Kansas City Symphony, the Copaken Stage of Repertory Theatre, and now the world renowned Kauffman Center for the Performing Arts, provide art enthusiasts a host of special places to enjoy cultural events. The Kauffman Center for the Performing Arts now ranks in the top five performance halls in the world. Also, the world famous Nelson-Atkins Museum of Art and the Bloch addition round out a list of art venues that are hard to match anywhere in the country.

AMERICA'S MOST ENTREPRENEURIAL CITY

After Google, Inc. announced it would bring its new Google Fiber network to Kansas City, Missouri and Kansas City, Kansas, there was a rush by multiple communities to join the network. Google has continued to expand its original network to a number of additional municipalities and it is clear that Kansas City is square in the middle of the new "Silicon Prairie" designation. Google's selection of Kansas City over 1,100 other cities as the first community in the U.S. to receive its service, has bolstered cloud-based technologies and high-definition streaming services throughout our community and will strengthen our ability to attract technology companies. Kansas City will soon be known as "America's Most Entrepreneurial City."

The Kansas City metropolitan area is home to 2.25 million people and a number of corporate headquarters including AMC Entertainment, American Century, Black & Veatch, Burns & McDonnell, Cerner Corporation, DST Systems, Garmin International, YRC Worldwide, JE Dunn Construction Company, Hallmark Cards, H&R Block, Sprint (Sprint/Softbank), and many others. Kansas City residents are very well educated with over 90% having a high school education and nearly 37% having a college degree.

Kansas City ranks high in many categories including #20 on *Travel & Leisure* magazine's list of "America's Best Cities for Hipsters;" one of the Best Places for Business & Careers by *Forbes* magazine; one of the nation's eco-friendliest cities; and was selected by Policom Corporation as the nation's eighth Strongest Metropolitan area due to its consistent growth in the size and quality of its economy over the last 20 years. Entrepreneur.com also identified Kansas City as one of the top nine cities for tech start-ups. Tech entrepreneurs continue to flock to Kansas City, sighting Google's ultra fast internet network as the reason for this "instant tech infusion." Of course, Kansas City also continues to be known as the world's best barbeque town!

Kansas City ranks eighth among mid-sized cities in the country for art destinations and among 12 cities to watch including Barcelona, Beijing, Seattle, Moscow, and Abu Dhabi. Kansas City is now one of the top 10 cities in the U.S. to find a job and ranks 12th on the list of America's smartest cities. *Kiplinger* magazine ranks Kansas City as one of the "50 smartest places to live," and our city ranks eighth for business attraction, third for number of festivals, fairs and cultural gatherings per capita, tenth for quality of life, and fourth among Metropolitan areas with the lowest rents.

TRANSPORTATION, TRUCKING AND AIR

Of course, Kansas City continues its ranking as one of the strongest distribution centers in the country, due to its #1 ranking by rail freight volume and #2 ranking of the largest rail centers in the U.S. behind Chicago. Kansas City now has two new rail intermodal hubs – one by Burlington Northern and one by Kansas City Southern Railway – and both will continue to strengthen Kansas City's national distribution prospects.

Kansas City has 14 major commercial airlines with over 260 daily departures and non-stop service to over 65 destinations. Kansas City's new air intermodal center adjacent to the Kansas City International Airport will strengthen cargo shipment capabilities and distribution opportunities over the next few years. Last year Kansas City was recognized as one of the top five cities in the nation for distribution and is expected to continue significant growth from 2013 through 2015.

Kansas City has 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 adjoining the Missouri River Corps of Engineers managed shipping channel running from St. Louis, Missouri, to Sioux City, Iowa, with seven barge lines operating along the Kansas City strip of the Missouri River. Kansas City is also considered an inland port, of which there are only 12 in the entire country.

The Kansas City metropolitan area is served now by four interstates with the recent opening of I-49 from south of Kansas City through Joplin. Other interstates include I-70, I-35, and I-29 and together with four interstate linkages at I-435, I-635, I-470 and I-670 and 10 federal highways, make traffic movement around the region excellent. Most importantly, I-35, which is known as the North American Free Trade Agreement (NAFTA) highway and which stretches from Mexico to Canada, will continue to enhance and expedite the flow of distribution through the metropolitan area.

BIORESEARCH, LIFE SCIENCES & ANIMAL HEALTH

One of the most exciting events in our Kansas City community in 2012 was the designation by the National Cancer Institute

(NCI) of the University of Kansas Cancer Center. This new NCI designation signifies that KU's academic cancer center has achieved the highest standards provided in the country. There are only 27 NCI designated cancer centers and 41 designated comprehensive cancer centers in the entire country. NCI designation is expected to open doors to expanded research funding as well as economic benefits and new jobs to the metropolitan community. Our community should also see a new level of excellence in bioscience research which will allow us to more fully leverage the research investments made by both the University of Kansas, and the Stowers Institute for Medical Research. The University of Kansas Hospital was already ranked among the country's top academic centers as noted in *U.S. News & World Report* for four years running, so this additional designation should be a great benefit to the community as a whole.

Kansas City Area Life Sciences Institute (KCALSI), together with major life science participants including the Kansas Bioscience Authority, Kansas City Animal Health Corridor, Midwest Research Institute, national bio and agri-defense, and the Stowers Institute for Medical Research, continues to lead Kansas City forward in the life sciences sector. The Life Sciences industry in our community will have nearly $1 billion dollars in research expenditures placed over the next 10 years, thereby elevating Kansas City to one of the top three areas in the country for research academia.

Kansas City remains the center of the animal health corridor. Since its launch in 2006, this corridor has created over 1,450 jobs and over $1.3 billion dollars in capital investment. The corridor, which stretches from Manhattan, Kansas to Columbia, Missouri, continues to be the focus of growth and accounts for nearly 34% of all sales in the global animal health market which totals nearly $21 billion. Currently over 212 life science companies are located in the Kansas City metropolitan area including leaders Bayer Animal Health, Boehringer Ingelheim Vet Medica in St. Joseph, Cereal Food Processors, Inc., Merck Animal Health, Ceva Biomune, Pfizer Animal Health, Nestle Purina Pet Care, Zupreem, Hills Pet Nutrition, Magna Starter Biotech, Pet Screen, MWI Veterinary Supply, Argenta, and the United States Animal Health Association.

BIG 5 COMMITMENT

The Greater Kansas City Chamber's commitment to the "The Big 5" initiatives will move forward under the careful leadership of Russ Welsh as the 2012-2013 Chamber Chair. Chairman Welsh follows Chairman Greg Graves in 2011 and Frank Ellis in 2012, in their commitment to further enhance the quality of life in our community. The Big 5 initiatives 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, and bringing the UMKC Conservatory of Music and Dance to a new downtown location.

REAL ESTATE COMMUNITY SEES MAJOR DEVELOPMENTS

The real estate community continues to see major development projects pop up all over the city. For example, progress continues forward with the $340 million East Village re-development as the first residential units are occupied and more are planned over the next few years. And with the General Services Administration looking for 150,000 square feet of office space to consolidate into over the next 24 to 36

In 2012, the Kansas Speedway underwent a track reconfiguration and road course project, adding progressive banking and a road course in the infield. The speedway was built in 2001 and currently hosts two annual NASCAR race weekends.

months, interest in residential development is expected downtown. Couple this with the planned $57 million high rise residential tower by the Cordish Companies, the $19.5 million residential renovation of the Argyle building, and many other residential projects downtown, the River Market, and in the Freight House District, and residential living opportunities will be readily available in the downtown core.

MASS TRANSIT ARRIVALS

In addition, voters in Kansas City at year-end 2012, passed final approval for a two mile streetcar line at a cost of $102 million that would link the downtown community to Crown Center and the River Market. The city will now make plans to issue bonds and start construction, with operation planned for 2015.

Another mass transit goal is a commuter rail. Lawmakers are currently discussing a $600 million commuter rail plan to link smaller communities in Missouri with the Kansas City metropolitan area via a line paralleling I-70 and a separate line paralleling Highway 350. However, this project still faces planning and challenges in 2013.

RETAIL SECTOR

The retail sector is also showing signs of hope with big announcements including the 349,000 sq. foot IKEA retail store coming to the former Merriam Village project in Merriam, Kansas, and a 220,000 sq. foot Scheels Sporting Goods store to soon be constructed within the Corbin Park project.

KANSAS CITY METRO RECAP

The year 2012 was one of major office building development in Kansas City and a year unlike any other. With a multitude of projects under construction and planned occupancies in 2013 for AMC Entertainment, Teva Pharmaceutical, Freightquote, Perceptive Software, and the Polsinelli Shughart law firm, Kansas City experienced an office development boom greater than any in nearly 20 years. These projects represent over $250 million of new investment and send a message nationally that the Kansas City office market is strong.

Other big developments include the completion of an 821,256 sq. foot speculative bulk warehouse owned by Sun Life Insurance Company in Olathe, as the lack of Class A industrial space has spurred on new speculative construction to begin. Also over 1 million square feet of new development in the past 24 months has occurred in Horizon's Business Park. With new Class A developments expected at College Crossing Business Park and Pine Ridge Business Park in Lenexa and 550,000 square feet planned in Edwardsville, the industrial market appears to be gaining steam.

The multifamily sector continues to be very strong with new development projects planned near the Legends complex in Kansas City, Kansas, in the County Club Plaza, north of the river, at several locations in South Johnson County, in Eastern Jackson County and downtown. There are in excess of 2,000 residential units planned or underway as growing demand fuels this new construction.

The Cordish Companies proposed a $57 million residential high rise at 13th and Walnut streets. The new 23-story, 250-unit residential tower is one of four in the original plans for the Power & Light District.

In all, there is upwards of $2.4 billion of residential, commercial, and industrial construction planned or underway in the Metro area. This will bode well for our community over the next few years and will continue to fuel economic growth in our community.

There continues to be a border war between Kansas and Missouri with companies throughout the city relocating from one state to the other, but we cannot lose sight of the fact that many of these same companies have the option of moving completely outside of the metropolitan area. While it is incumbent upon our community leaders to find ways to work to keep these companies in the Kansas City metro area, economic incentive programs are still the fuel that sparks new development activity in this slow economy. Without a full arsenal of these incentive programs, economic growth would slow dramatically in our region.

Although our community crosses two state lines and is divided among 50 separate communities, it is still our hope that our business and government leaders will find ways to work together to create a unified community that will readily attract new business from outside our community and keep businesses already in the community here for the long term. Kansas City continues to be "a great place to live and work" and by a continued and focused strong leadership, Kansas City will keep growing and remain a great city economically, culturally, and socially.

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

Kansas City

DOWNTOWN Development

Fixed-rail streetcar line approval for Downtown Kansas City makes impact in 2012.

Downtown Kansas City consists of the central business district (CBD) plus several neighboring submarkets. The Downtown Council of Kansas City defines the submarket as the Missouri River to 31st Street, and the Kansas state line to Troost Avenue.

Divisions within the submarket include the CBD, River Market, Crown Center, Freight House/Crossroads and West Bottoms. Data for each of these divisions for office space are more specifically detailed within The Kansas City Office Market section of this report. The overall Downtown submarket includes data for office, industrial, retail, residential and specialty real estate. Overall vacancy rates for this submarket have improved by 2% over last year with a fourth quarter vacancy of 11%. This follows a pattern of stability over 12 consecutive quarters. Full service office rates also increased to an average of $16.50 representing a 3% increase over last year.

The most significant news for the Downtown Submarket came in mid December 2012, when Kansas City voters approved a $.01 sales tax increase and a property tax increase to fund a fixed rail streetcar line. The property tax sunsets in 25 years and impacts only those properties within the defined Downtown Streetcar District. The approval will result in residential property taxes increasing by 8.7% while commercial taxes will increase by 5%. The two-mile line will run from Union Station to the River Market principally along Main Street. This initial spine is considered a starting point only, with the hope of extending service to UMKC to the south and with east/west lines along major connective corridors. Funding will come from multiple sources including federal grants of $18 million, an annual contribution from the city of Kansas City, Missouri, the sales tax increase and property taxes.

The streetcar line is a major component in advancing Kansas City's position for convention, sporting and entertainment travelers.

Transportation options for downtown improved in July 2012 with the addition of B-cycle, a help-yourself bicycle rental program that has been popular and successful in other urban cities. Hourly, daily and monthly rates are available to rent bicycles from docking stations strategically located throughout downtown. Plans are already under way to expand the program south to Crown Center.

> The streetcar line is a major component in advancing Kansas City's position for convention, sporting and entertainment travelers.

Progressive public transportation options will advance the Downtown Council's goal of bringing the downtown population to 40,000 residents. In one decade, the population has increased by over 300% to a current number of 19,590 residents. Residential rental properties in the downtown submarket have been reporting 98% occupancy for over a year. Rents are anticipated to increase in 2013.

Downtown Kansas City voters approved sales and property tax increases to help pay for a $100 million, two-mile streetcar system that will run from the River Market to Union Station.

Officers began working at the Kansas City Police Department's new South Patrol campus in November 2012. The $25.6 million, six-facility police campus on 19 acres features a new South Patrol Division station, a kennel, and a Special Operations Division station.

DOWNTOWN CONDOMINIUMS

Condominium sales have also been brisk this year, with 101 properties listed and 82 sold. Prices ranged from $50,000 for studio units to just under $1 million for luxury units. The average sale value for the area was $186,000 for a two bedroom, two bath condominium unit. Mid-range properties averaged 2.5 months on the market. High-end units averaged 10 months on the market.

Housing, employment and education are the recognized components that will lead to increased population as targeted by the Downtown Council. Available housing is not meeting current demand and remains one of the most viable investment opportunities in the submarket.

EDUCATION COMPONENTS

An acknowledged element critical to drawing families to live downtown is the proximity to schools. The missing education component was advanced this year when the charter school, Crossroads Academy of Kansas City, opened their Kindergarten through eighth grade facility at 1015 Central. This is the first primary-level education option for downtown dwelling families in many decades.

Secondary education is also advancing as the University of Missouri-Kansas City arts campus continues to look for space near Kauffman Center for the Performing Arts. There is a growing interest in creating an urban campus for the Conservatory of Music students, bringing increased demand for housing, retail and food service venues.

NATIONAL WORLD WAR I CENTENNIAL OBSERVANCE AT LIBERTY MEMORIAL

As a bonus to the cultural advancement of the area, Kansas City's Liberty Memorial will be host the U.S. Centennial Commission charged with planning the events and activities surrounding the observance of the 100th anniversary of The Great War. Associated European organizations will work with the American commission from 2014-2018 to promote awareness of war-related history. This is considered an advancement to local efforts to secure Liberty Memorial as the national memorial to World War I.

EMPLOYMENT

The employment factor held national focus throughout the previous year. Downtown Kansas City will benefit from the addition of 1,000 federal employees as announced by the Heartland Region of the General Services Administration in November of 2012. Two hundred employees will come as a result of the relocation of the Bannister Federal Complex in south Kansas City. Eight hundred are expected to be newly hired employees for the U.S. Citizenship and Immigration Service. The Federal Government is the largest employer in the region, providing over 41,000 jobs and an annual payroll in excess of $3 billion. Each additional Federal job as an established Base Employer is estimated to provide ancillary employment for two additional workers. The addition of 800 jobs for the downtown submarket has the potential to impact 1,600 supplementary positions, all of which provides buoyancy to the area.

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

Kansas City OFFICE Market

Country Club Bank purchased One Ward Parkway for $6.5 million. The bank will move into the 62,000 sq. foot office building on the Country Club Plaza in 2013.

One positive aspect of the global, national, regional, and local economic downturn and slow recovery of these past three years is the supply of new office product has fortunately been held at historically low rates.

Vacancy rates as well have slowly descended from their peak levels in this economic cycle despite lackluster gross domestic product (GDP) growth and below average absorption rates. Market fundamentals have gradually improved as a result. However, tenants continue to exhibit a "wait and see" cautious approach, and remain exceptionally cost and risk adverse in every market due to the uncertainty resulting from the weak economic environment.

The U.S. office market has seen slightly reduced inventories with positive absorption reported in each of the past four quarters, resulting in a gradual decrease in vacancy at the national level from 12.3% to 12.1%. A decrease of 20 basis points may not sound like much, but it represents positive absorption of an average 18 million square feet for each of the last four quarters. Although net absorption has not recovered to pre-2008 levels, the past four quarters have shown positive growth of 1.5% over the prior year.

Locally, the market has not performed quite as well as the national market, although vacancy is closely following the national trend and decreasing. During the past four quarters, vacancy has decreased from 13.6% to 13.4%, even though net absorption during the same period was only 90,000 square feet. The poor absorption numbers were driven largely by a 360,000 sq. foot increase in sublease inventory.

As vacancies gradually decrease, rents have begun to rise on the national level, and concessions have begun to be less prevalent. Nationally, the average quoted rent for all classes of office space was $21.42 per square foot, a slight increase over the prior quarter which landlords hope is the start of a trend upward. Some economists are projecting rents will increase as much as 3.5% in 2013. While that dramatic increase may occur on a national level, in the last four quarters rents have continued to go down in our market. Just like in past years and economic cycles, Kansas City has not proven to be a particularly dynamic economy, and market fundamentals have historically lagged behind the more dynamic markets. For that reason, while we anticipate a gradual improvement in quoted rents and a decrease in concessions, we do not believe it will parallel the forecasted improvements on a national level.

The encouraging news is we are beginning to see some preliminary signs that landlords, particularly the REITS, are moving toward increased rents and reduced concessions in certain Kansas City submarkets.

The Kansas City market, with 1.306 million square feet under construction in ten 100%-leased buildings, is once again lagging behind the larger markets. Do not look for any major new office construction in 2013, unless it is for build-to-suit clients or substantially pre-leased projects.

Pent-up demand has played out on a small scale here during the past year. Overall absorption continues to go up. For example, it was negative 137,805 square feet in the first quarter, and then increased to 85,000 square feet in the second, then jumped up to 113,938 square feet in the third quarter before dipping to an anemic 8,000 square feet in the fourth quarter. That seesawing back and forth has been the hallmark of the local market during the past three years making it very difficult to get a read on where the market is headed.

Class A absorption led the way with over 255,000 square feet driven by NAIC's move to 131,000 square feet in the Town Pavilion, Henderson Engineering's move to 84,500 square feet in Five Pine Ridge, and Ascend Learning's move into 83,000 square feet at Two Hallbrook Place.

After negative absorption of 124,300 square feet at the end of 2011, Class B absorption bumped along in successive quarters but finally began to rebound in the third quarter, to end the year with 25,000 square feet of positive absorption.

Class C properties recorded slightly negative absorption during the first half of the year, but managed to rebound in the third and fourth quarters and end up with 20,000 square feet of positive absorption.

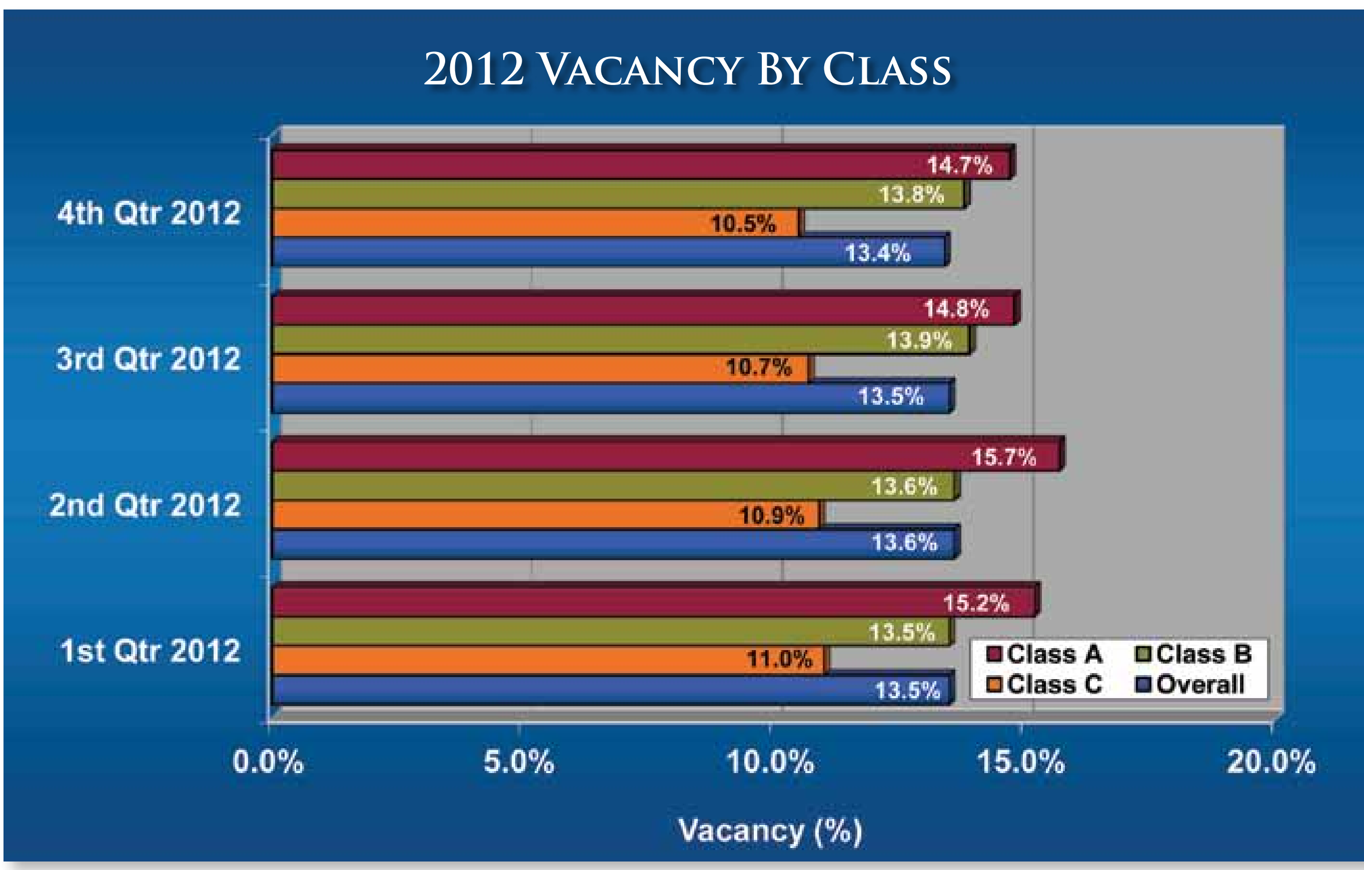
Do not look for any major new office construction in 2013, unless it is for build-to-suit clients or substantially pre-leased projects.

Now, more than ever, the deficit, taxes, regulation and global uncertainty are impacting expansion plans and hiring for U.S. corporations. That, coupled with still weak but slowly improving fundamentals, will result in slightly better growth in 2013. 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 2013 to be only marginally better than 2012, as 2012 was slightly better than 2011.

SOUTH JOHNSON COUNTY

At the close of 2012, the South Johnson County submarket consisted of:

- Approximately 27.2 million square feet of all building classes.
- 3.453 million square feet available, including sublease space. This equates to an overall vacancy of 12.7%, a level slightly down from 2011.



B.E. Smith moved into new offices that the company purchased at the former bankrupt Lenexa City Center East project, helping fuel new interest in the struggling 1 million sq. foot office, residential and retail development. B. E. Smith's new 74,634 sq. foot building accommodates more than 200 employees and consultants.

Significant office leases completed in 2012 included: Teva Neuroscience, 154,000 sq. foot build-to-suit for 2013 delivery; Coventry Health, 70,000 square feet; United Healthcare, 30,000 square feet; Douthit Frets Rouse Gentile & Rhodes, 43,000 square feet; Freightquote, 40,000 square feet of temporary expansion; Alexander Open Systems, 40,000 square feet; FMH, 35,000 square feet; Cardinal Health, 34,000 square feet; Hantover, Inc., 25,500 square feet; CapWest Mortgage, 25,500 square feet; and HNTB, 19,000 square feet.

Building classes A, B, and C reported a total of approximately 356,000 square feet of net absorption during 2012, but only had one new delivery of 127,000 square feet in the Park Place complex.

Overall vacancy decreased from 14% at the end of 2011 to 12.7% at the end of 2012. Note the overall effective asking rate including subleases fell slightly from $20.06 per square foot to $19.10 per square foot for the same period. This reflects the landlords' struggle to maintain existing tenants and fill vacancy. However, this submarket continues to be one of the strongest markets in the metropolitan area.

Class A Properties Reported:

- Vacancy of 10.6% inclusive of sublease opportunities.
- Effective asking rates for direct deals and subleases was $20.91 per square foot at the end of 2012.
- Net absorption for 2012 was approximately 276,000 square feet.
- New Class A properties accounted for 127,000 square feet, with 150,000 square feet currently under construction.

Class B Properties Reported:

- Vacancy stood at 14.4% inclusive of sublease opportunities.
- Effective asking rates for direct deals and subleases was $18.35 per square foot at the end of 2012.
- Net absorption for 2012 was approximately 63,000 square feet.
- New Class B properties accounted for no new additions but have 113,000 square feet currently under construction.

Class C Properties Reported:

- Vacancy stood at 10.2% inclusive of sublease opportunities.
- Effective asking rates for direct deals and subleases was $16.50 per square foot at the end of 2012.
- Net absorption for 2012 was approximately 17,000 square feet.

NORTH JOHNSON COUNTY

The North Johnson County submarket includes approximately 11.8 million square feet of office space in 596 properties. At the close of 2012, the North Johnson County submarket consisted of:

- Approximately 11.8 million square feet of all building classes.
- 1.554 million square feet available, including sublease space. This equates to an overall vacancy of 13.2%.

Significant office leases completed in 2012 included: Henderson Engineers, 84,500 square feet; Kiewit, 31,000 square feet; National Seminars Training, 34,200 square feet; UKHA, 23,200 square feet; and CMP KC Corp., 21,000 square feet.

Building classes A, B, and C reported a total of approximately 20,000 square feet of net absorption during 2012, with no significant new deliveries. Overall vacancy decreased slightly from 13.4% at the end of 2011 to 13.2% at the end of 2012. Note the overall effective asking rate, including subleases, fell slightly from $16.75 per sq. foot to $16.61 per square foot for the same period. This reflects the landlords' struggle to maintain existing tenants and fill vacancy.

Class A Properties Reported:

- Vacancy stood at 18.9% inclusive of sublease opportunities.
- Effective asking rates for direct deals and subleases was $19.09 per square foot at the end of 2012.
- Net absorption for 2012 was approximately 55,500 square feet.

Class B Properties Reported:

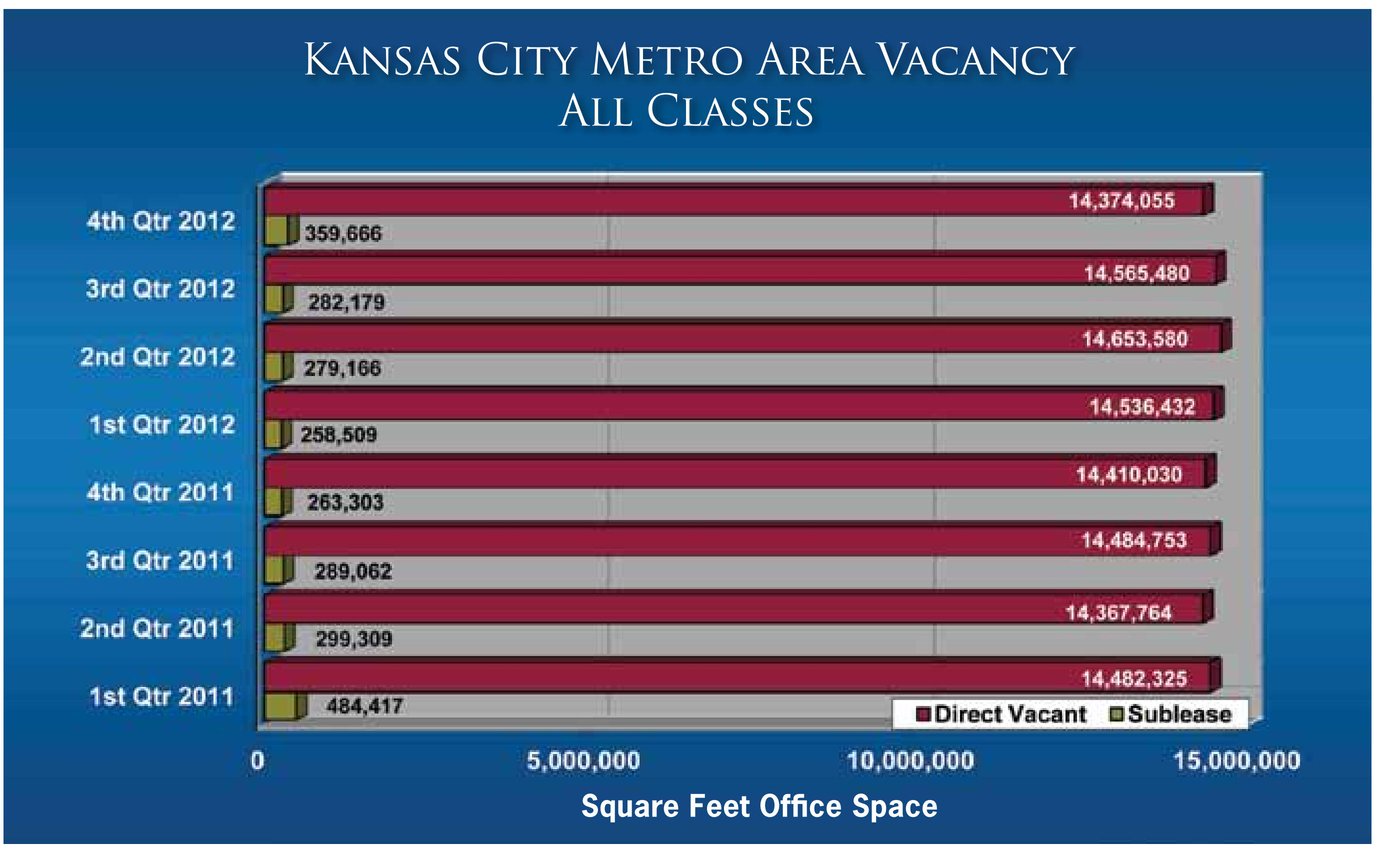
- Vacancy stood at 12.1% inclusive of sublease opportunities.
- Effective asking rates for direct deals and subleases was $16.61 per square foot at the end of 2012.
- Net absorption for 2012 was approximately 47,000 square feet.

Class C Properties Reported:

- Vacancy stood at 12.5% inclusive of sublease opportunities.
- Effective asking rates for direct deals and subleases was $13.36 per square foot at the end of 2012.
- Net absorption for 2012 was approximately 19,000 square feet.

CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads and West Bottoms areas make up the overall Downtown submarket. These areas



combine for a total of 28.6 million square feet and an overall vacancy of 15.5% for the end of 2012. The total available space for the Downtown submarket was 4.4 million square feet which includes 113,000 of sublease space.

Class A properties saw the highest vacancy rate of 20% or 1.58 million square feet. Class A properties reported absorption of negative 25,800 square feet. Class B properties have a vacancy rate of 15.2% and a negative absorption of 105,286 square feet. The Class B market is made up of 198 buildings and 15.8 million square feet. Class C properties had absorption of 18,000 and a vacancy rate of 9.5%.

Consisting of 18.3 million square feet, the CBD reported a vacancy rate of 16.4% and 46,685 square feet of absorption. The Class A buildings saw the highest vacancy rate for the end of 2012 at 18.5%, higher than the 17.9% vacancy rate reported at the end of 2011.

Class B properties consist of 110 buildings and 10.6 million square feet and experienced a vacancy rate of 17.6% and negative absorption of 136,200 square feet. The Class C submarket consists of 72 buildings and 2.5 million square feet. Class C properties reported a vacancy rate of 6.4% and absorption of 56,983 square feet. Overall rental rates in the CBD ended the year at $15.84 per rentable square foot.

The Crown Center submarket consists of 74 buildings totaling 6.9 million square feet. The vacancy rate at the end of 2012 was 12% which is higher than the 9.1% vacancy rate reported at the end of 2011. The eight Class A buildings in this submarket experienced a vacancy rate of 24.1% or 601,000 square feet with negative absorption of 151,900 square feet.

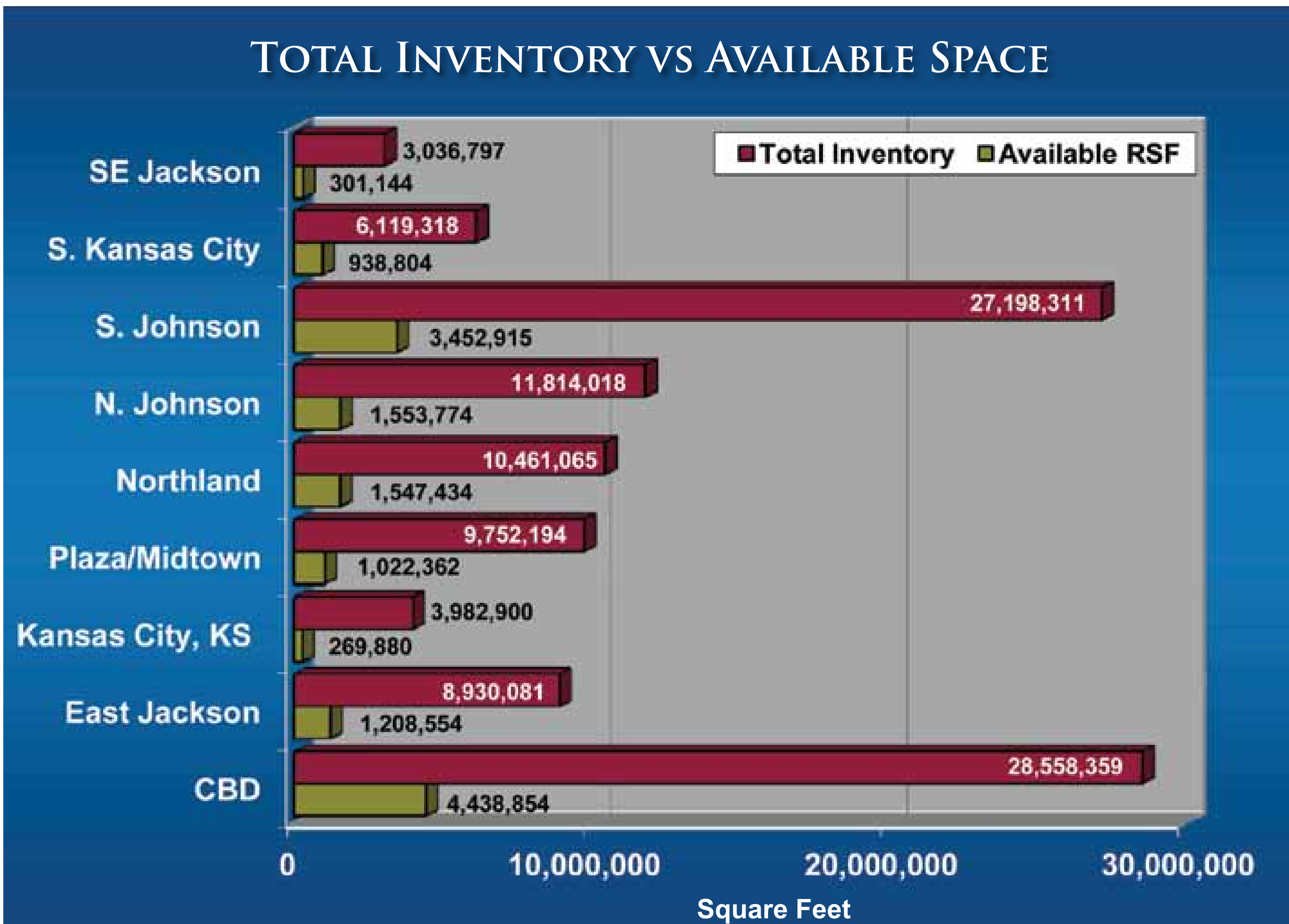
Within the 29 Class B buildings, vacancy rates were 5.3% with absorption of 23,800 square feet at the close of 2012. The Freight House/Crossroads submarket reported a vacancy rate of 20.1% compared to 20.2% at the end of 2011.

PLAZA/MIDTOWN

At an average quoted gross rent of $22.46 per rentable square foot, the Country Club Plaza continues to achieve the highest lease rates of any Kansas City submarket. When combined with the Midtown submarket, the combination includes 9.7 million square feet and still boasts the highest quoted rents in the Metro. While this area does not offer a great deal of inventory for large users, small to mid-size tenants find it immensely appealing.

The high-end portion of the Plaza market:

- Consists of 119 Class A, B and C buildings.
- Has a 13% overall vacancy.
- Boasts an average quoted gross rent of $22.46 for all building classes.



Country Club Bank made a splash by announcing a major increase in their presence on the Plaza by purchasing the 62,000 sq. foot One Ward Parkway Building for its new headquarters. In one of the few institutional sale transactions in 2012, TA Associates sold Park Center Plaza to Sun Life of Canada for $18 million.

After discussions for over three years, Van Tuyl Real Estate closed on the purchase of the beleaguered West Edge project and immediately demolished the nearly complete office building. The site is now home to Plaza Vista, the new 230,000 sq. foot headquarters for the Polsinelli Shughart law firm.

The Brookside and Midtown portions of this submarket offer:

- 295 total Class A, B, and C buildings.
- A combined total of 4.9 million square feet, with over 4 million of that total being older buildings in Midtown.
- An 8% vacancy attests to the desirability of this central area.

SOUTH KANSAS CITY

The South Kansas City office market consists of over six million square feet of office space in 193 buildings. The market has continued to be home to many Missouri-based companies looking for value and accessibility.

The South Kansas City market:

- Consists of 193 Class A, B, and C properties.
- Experienced an overall vacancy of 15.3%.
- YTD absorption of negative 279,331 square feet.

The majority of the market is located at Holmes and I-435, along Ward Parkway from Wornall Road north to 75th Street. It incorporates the complex of buildings leased by Cerner at I-49 and I-435.

The South Kansas City submarket has experienced its share of activity this year, most notably the transactions below:

Freightquote, currently located in Lenexa, Kansas, broke ground on a new 200,000 sq. foot headquarters building near I-435 & State Line Road. Freightquote will relocate approximately 1,000 jobs to the South Kansas City market by mid 2013.

Coventry Health Care announced they will relocate approximately 300 jobs from their current location along Ward Parkway to Corporate Woods in Overland Park, Kansas. The move will take place in mid-April 2013.

The General Services Administration, with their concentration of offices in the Bannister Road complex, continue to explore moving operations downtown to a build-to-suit facility on the east side of the CBD that will house approximately 1,000 employees, and recently announced they expect to need 150,000 square feet. With the vacant space available in the Downtown market, there will be keen competition for that lease.

Coventry Health Care of Kansas Inc. will move its 300 employees from the company's Ward Parkway headquarters in Kansas City, Missouri, to their new 70,000 sq. foot office space in Corporate Woods' Building 40 in Overland Park, Kansas.

The average rental rates achieved in this market range from $20.01 per square foot down to $14.14 per square foot. The South Kansas City office market is made up of prospects that need to be located in Missouri but want to be as close to the Kansas state line as possible. The combination of accessibility plus aggressive rental rates has provided good value for the tenants in this market.

NORTH OF THE RIVER

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

The 494 buildings that comprised the inventory in this submarket in 2012:

- Total over 10.4 million square feet.
- Experienced 14.8% vacancy as of year-end.
- Reported positive absorption for the first time over the past several years.

Construction on Teva Neuroscience Inc.'s 154,268 GSF office building in Overland Park, Kansas, is expected to be completed in the third quarter of 2013. Approximately 350 employees and 50 contract employees will move there from their current Executive Hills East location in Kansas City, Missouri.

Average rents in the submarket were $15.70 per square foot, full-service, one of the lowest across the city, and $.30 lower than the same period of the prior year. This submarket, as most secondary submarkets, has been significantly impacted by the recent economic slowdown.

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

A bright spot for this submarket, however, is in the Class A buildings. Only five such buildings, totaling nearly 800,000 square feet, exist in the submarket, primarily in the Briarcliff development just north of downtown. These North of the River Class A buildings claim a 94% occupancy. There were no significant deliveries in this submarket in the past year.

Significant leases have been nearly as sparse, with an unnamed tenant signing a 12,830 square foot lease in the Corporate Circle II building in the second quarter as the lone highlight.

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 back-fill 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 705 properties totaling approximately 8.9 million square feet. At the end of the third quarter 2012, the Eastern Jackson County submarket saw a vacancy rate of 13.5% or 1.2 million square feet compared to 13.4% at the end of 2011. Although absorption is negative for the year, there was a slight reversal of that trend in the third quarter this year. Average quoted rates increased slightly from $13.94 at the end of 2011 to $13.96.

The three Class A properties in the submarket total 257,526 square feet and reported a vacancy rate of 33.1% or 85,140 square feet, the highest in the submarket. Class B properties include 243 buildings and 4.7 million square feet with 14.8% or 700,475 square feet available, and negative absorption of 22,021 square feet. The 459 Class C properties, the majority of the buildings in this submarket, total approximately 3.9 million square feet, and experienced a vacancy rate of 10.7% or 422,939 square feet. There are no buildings under construction in this slow submarket.

SOUTHEAST JACKSON COUNTY

Consisting of 217 buildings and just over 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 9.9% or 301,144 square feet at the end of the fourth quarter 2012, compared to the 9.7% vacancy rate at the end of 2011. The Class A properties, consisting of two buildings and 103,000 square feet, have the second lowest reported vacancy for the Southeast Jackson County submarket of 7.9% or 8,200 square feet.

Class B properties have a vacancy rate of 8.6% or 193,784 square feet. The Class B market is made up of 98 buildings and 2.27 million square feet.

Class C properties total 117 buildings and 667,400 square feet and experienced a vacancy rate of 14.9% or 99,000 square feet.

The overall rental rate of $16.36 per square foot for the end of 2012 was a decrease from the 2011 overall rental rate of $16.85 per rentable square foot. The Southeast Jackson County submarket was relatively flat with negative absorption of 7,300 square feet for the end of 2012.

KANSAS CITY, KANSAS

With only 3.98 million square feet, this is one of the smallest submarkets in the metro. While historically inactive, this market has become more vibrant as a result of Cerner Corporation's development of a 660,000 sq. foot office campus near The Legends retail center, the Sporting Kansas City soccer club, and the Hollywood Casino at Kansas Speedway.

At the end of 2012, the vacancy rate was 6.8% or 270,000 square feet compared to 7.2% at the end of 2011. Two Class A properties totaling 274,475 square feet reported zero vacancy, but the EPA, which occupies 203,000 square feet in one of those buildings, is moving to the former Applebee's headquarters building in the Southlake development in Johnson County in 2013.

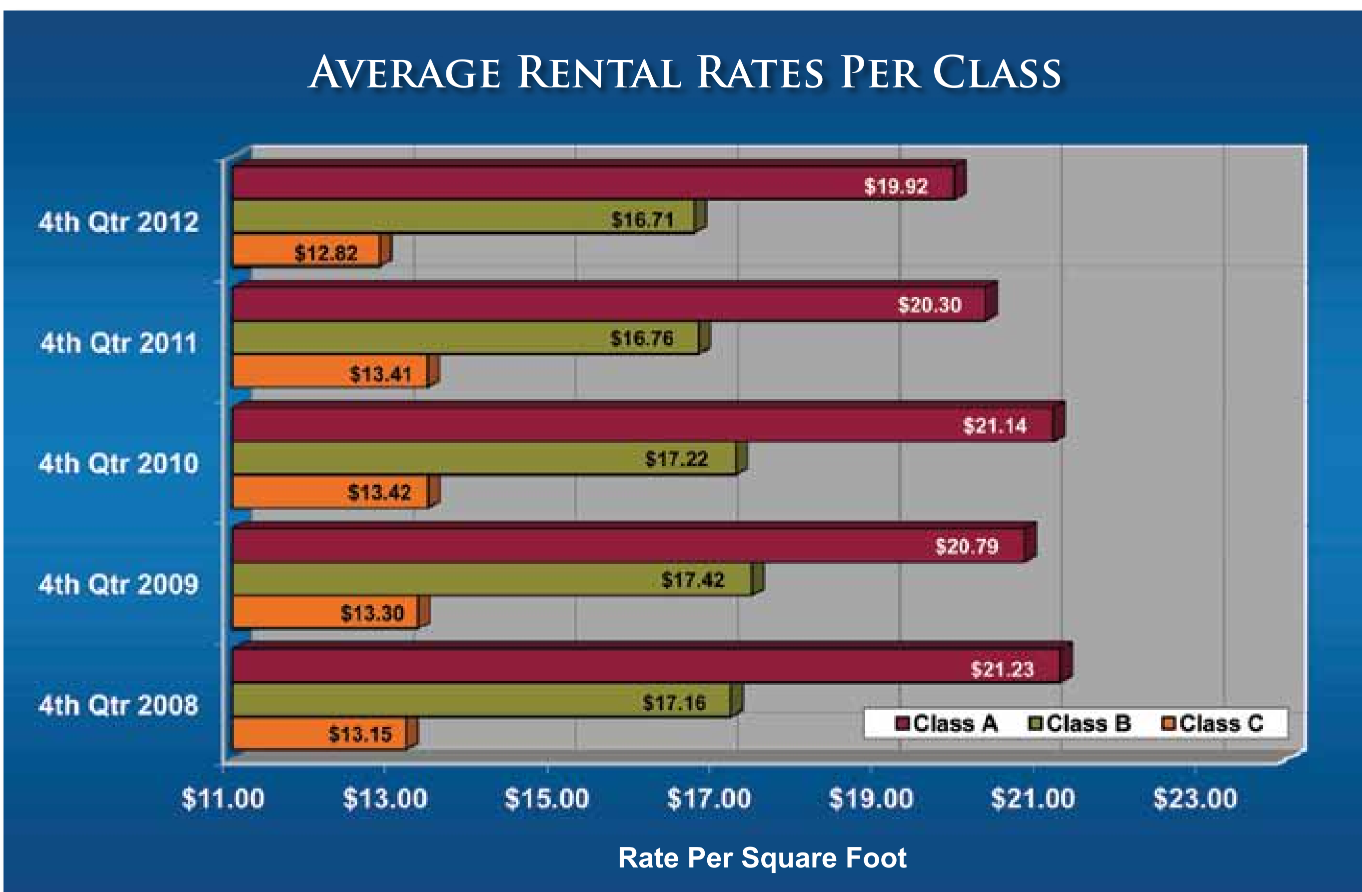
Class B properties total approximately 2.1 million square feet with a vacancy rate of 7.4% or 156,000 square feet.

Class C properties are the largest segment in this market, and include 173 properties totaling approximately 1.6 million square feet with a vacancy rate of 7.1% or 114,000 square feet.

This market experienced no new deliveries in 2012, and the downtown market will suffer greatly from the relocation of the EPA to Johnson County. Rental rates continue to increase from $14.23 per square foot at the end of 2011, to $16.20 per square foot in 2012, mainly due to the marketing of the EPA space and the rent quoted for the new Cerner buildings being constructed.

NEW CONSTRUCTION

New construction was about the same as 2011, and resulted in only ten new buildings. The 127,000 sq. foot building leased entirely to AMC is under construction in Park Place; the 230,000 sq. foot headquarters for the Polsinelli Shughart law firm (Plaza View) is being completed on the Country Club Plaza; the 111,200 sq. foot 39Rainbow project is being completed



AMC Entertainment Inc.'s new 127,000 sq. foot headquarters in Leawood's Park Place mixed-use development is slated for occupancy in May 2013. The four-story, $30 million Theatre Support Center will include space for the company's 450 local employees and contractors.

across from KU Med Center; two Cerner Corporation buildings totaling 660,000 square feet are under construction at The Legends; the 200,000 sq. foot headquarters for Freightquote is under construction in South Kansas City; and 154,000 sq. foot building for Teva Neuroscience is under construction at Nall and College Boulevard in Overland Park, Kansas.

The slowly improving leasing market, still uncertain economic climate, and strict limitations on loan underwriting, have virtually stopped construction of speculative multi-tenant office product. The only new projects forecasted for 2013 will be similar to 2012 and 2011, build-to-suit projects with little or no excess space.

RENTAL RATES

The average full-service asking rent in all classes of buildings surveyed in the Kansas City Metro area was $16.97, down from $17.25 per square foot at the end of 2011, a further decrease 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 during the year. That difference indicates 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 rents tell the same story. They were $20.13 per square foot in 2011, but have continued to decline to $19.92 at the end of 2012. Class B quoted rents decreased to $16.71 per square foot from $16.72 at the end of 2011. Class C quoted rates decreased from $13.14 to $12.82 per square foot at the same time.

The Kansas City market
has proven to be a microcosm of the
national office market.

With vacancy beginning to bottom out, and possibly a slightly more optimistic business outlook, effective rents for each building class may have stabilized while landlords continue to 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. However, the larger landlords will continue to firm up rents and use incentives to achieve lower effective rates for their tenants.

SUMMARY AND OUTLOOK

During the past three years, we have continued to track small, incremental improvements in the basic fundamentals of the office market. The Kansas City market has proven to be a microcosm of the national office market. While we've seen improvements in demand and deal velocity each year, any improvement is never sustained long enough to establish a discernible trend.

The market keeps sputtering along day to day, and week to week. We see a quarter of improved absorption, then activity seems to die, and then picks up again.

Tenants in every market are conserving cash, demanding more production from their workers, and working hard to reduce the amount of office space occupied per employee.

Although there have been a number of notable leases and build-to-suit projects announced in the past year, that activity has been the exception rather than the rule. The statistics show a slight drop in vacancy, but that is more a result of the record low level of new construction both here and nationally. Overall vacancy rates here and across the country remain elevated. Are they lower than last year? Generally, yes, but not significantly so. The cause? Despite historically low delivery of new product, the lackluster economy and the uncertainty it creates, government regulations and government fiscal policy have driven tenants to adopt a "wait and see" attitude. Tenants in every market are conserving cash, demanding more production from their workers, and working hard to reduce the amount of office space occupied per employee.

However, even as depressing as much of the economic news has been over the last eight quarters, office fundamentals have held up, vacancy is going down slightly, rents are improving, however slowly, and big concession packages are becoming a marketing ploy of the past as occupancy rises and relocation costs continue to increase.

Nationally, unemployment has been slowly decreasing, and locally unemployment is reported by the Mid America Regional Council (MARC) to be 6.1%, down from 7% in August, and significantly below the national average. However, further examination shows much of the reduction in unemployment is the result of a decline in the overall labor force. Still, the local economy has been maintaining a modest 2% growth rate over the past few years. With the local economy beginning to improve, MARC is forecasting a 3.2% growth rate in 2013 and as much as 4.9% in 2014, if we do not suffer any effects of the "fiscal cliff." At the same time, only moderate employment growth is forecast for 2013 and 2014, further evidence that employers continue to find ways through technology and a skilled workforce to improve output and delay hiring.

WHAT'S IN STORE FOR THE COMING YEAR?

The U.S. office vacancy rate is expected to continue to slowly improve. One national economist believes the economy is gaining traction and expects vacancy on the national level, which Costar pegged at 12.1%, to drop lower in 2013 and 2014. At the same time, average rents are projected to increase as much as 3.5% in 2013 on a national basis. Based on historical data, achieving that strong rental growth in one year in the Kansas City market is highly questionable.

Contributors include: Matthew Spachman, Vice President; Hunter Johnson, Vice President; and Brian Bock, Sales Associate.

The General Services Administration signed a 106,215 sq. foot lease at the Rosana Square office building in Overland Park. The lease will accommodate approximately 500 employees from the U.S. Citizenship and Immigration Services.

Kansas City Industrial Market

Construction is underway on Building B, an 821,256 sq. foot warehouse in the I-35 Logistics Park. The warehouse is the largest speculative building ever built in the Kansas City area. Sun Life Financial plans to build three bulk warehouses in the 200-acre park.

THE RETAIL EFFECT

Being in the middle of the country, far from any oceans or mountains, Kansas City may not be everyone's ideal place to settle. But for those involved in shipping, transportation, or logistics, Kansas City is becoming king, especially for retailers.

The goal of all retailers today is ship-to-shore to the store or your door as quickly and as cost-efficiently as possible. Kansas City is the ideal location for e-commerce distribution due to the low transportation costs, favorable tax environment, and an unparalleled transportation infrastructure that supports the distribution of online retail businesses. The presence of significant FedEx and UPS hubs, as well as the largest foreign trade zone in the nation, support e-commerce. Companies like Amazon are spurring larger build-to-suit requirements. With 92% of retailers selling online and 64% utilizing catalogs, retailers are embracing multichannel approaches to meet buyer expectations and battle for market share. With this multichannel selling comes a major focus on retail distribution.

Retail chains are finding it more cost effective to increase online logistics operations rather than open more traditional stores, which require a different kind of distribution model. Therefore, retailers are evolving their regional distribution networks with the addition of e-commerce distribution centers. Traditional warehouses that support stores require less investment and machinery along with fewer people. However, new e-commerce distribution centers, which involve direct order fulfillment, can cost three times as much and involve three times as many employees. Proximity to key customers, tax incentives, sales tax, and the availability of local labor, are all vital to retailers when searching for the right location for their e-commerce distribution centers.

The city's strategic position at the crossroads of highway and rail traffic has spawned more sites for storage and distribution, creating a growing market for all kinds of businesses in the supply chain. As the national leader, measured by tons of rail shipments, and being at the intersection of four interstate highways that span the nation's borders, as well as its locations on the banks of the much navigated Missouri River, trucking out of Kansas City can reach 80% of the U.S. population within two days, as well as into a good part of Canada and Mexico. These are just a few key reasons e-commerce companies are finding Kansas City the perfect place to locate a distribution center.

Kansas City is also completely vertical-ready, with pre-permitted sites, confirmed incentives and completed site work to accommodate any build-to-suit request.

THE TRUCKING EFFECT

The American Trucking Association forecast through 2023 shows a total freight tonnage increase of 21%. With Kansas City being the third largest trucking center in the country, this will greatly contribute to distribution growth. American manufacturing in Mexico is growing, and they are the third largest partner and second largest export market for U.S. business. With low cost labor and numerous free trade agreements with other nations, along with a shorter supply chain from Mexico, Kansas City Southern and I-35 provide tremendous logistics and intermodal service. Since surface trade among the United States, Canada and Mexico jumped to a record in 2012, the trade among the North American Free Trade Agreement Partners rose 6.2% from March 2012 over March 2011, as both truck and rail imports and exports rose from 2012 over 2011.

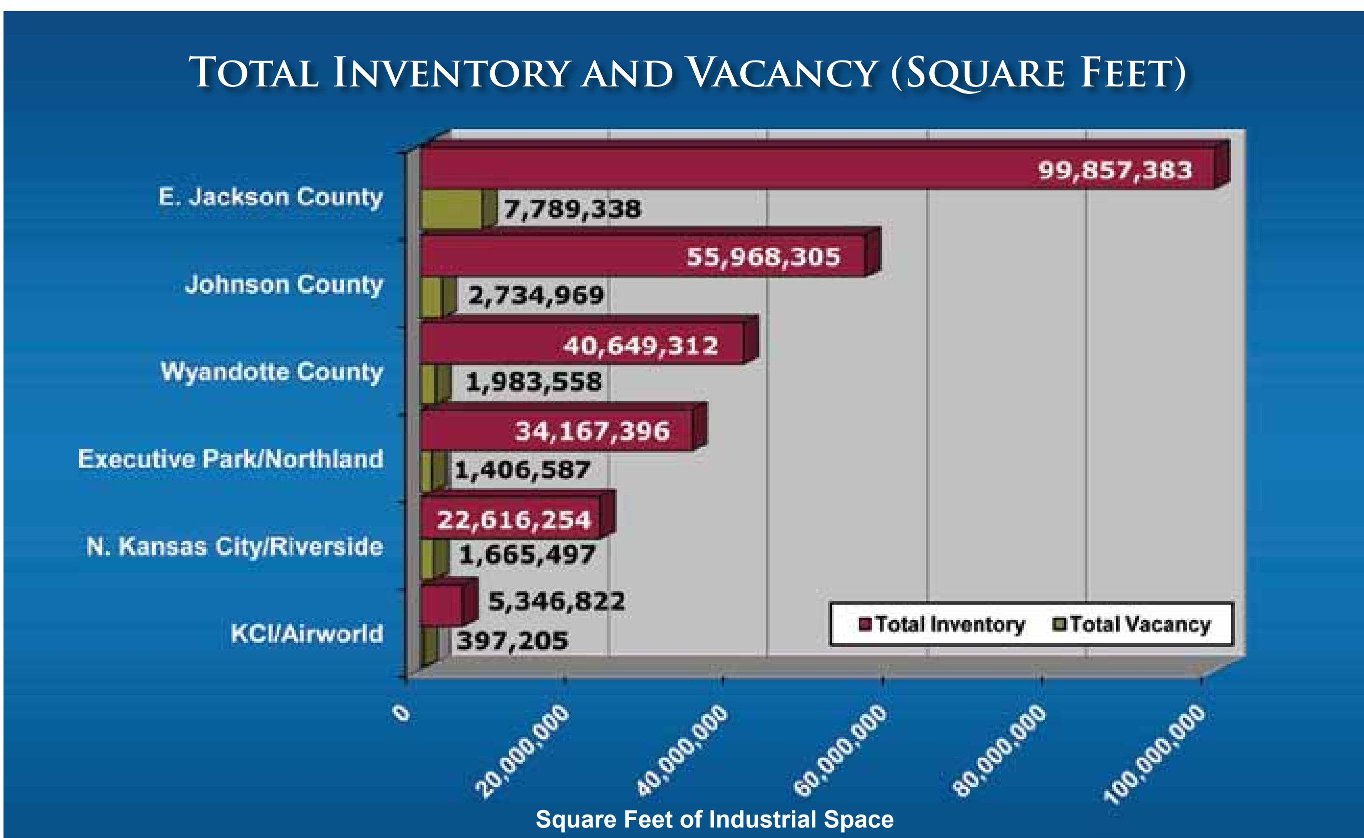
Besides rising fuel costs, a shortage of drivers due to retirement and stricter new driver regulations, and increasing regulations for truck efficiencies and emissions, trucking companies, for the first time in a long time, are embracing the rail industry. For greater efficiency, industrial parks are growing around intermodal facilities. In the Kansas City region, Burlington Northern Santa Fe (BNSF), Kansas City Southern (KCS) and Norfolk Southern (NS) all have significant projects adjacent to industrial parks where companies can build their warehouses or distribution centers right at the site.

THE MARKET REBOUND

Tightening vacancies, build-to-suits, and speculative development returns!

After entering the recession in 2009, the industrial real estate development market ground to a halt. Difficulty in obtaining financing, inability of corporations to determine future growth, and an overall slowdown in industrial demand were all factors. Kansas City, which has been known as one of the more stable markets due to development not getting significantly out of pace with demand, did not see overall industrial vacancy higher than 8.8%. However, the demand softening created landlord inducements for tenants to renew early by providing rental concessions on lease rates that were entered into during stronger markets.

As the economy has stabilized, vacancies have been reabsorbed, causing developers to dust off plans for new construction on their existing vertical-ready land sites. At the same time, credit tenants with strong balance sheets and growing businesses have been looking at build-to-suits, due to a lack of speculative space.



Build-to-suits moving forward in 2012 include:

- Gallagher International with 57,000 square feet for their new U.S. headquarters in Riverside Horizons.
- Premium Waters in 160,000 square feet in Riverside.
- Magna International in 200,000 square feet in Liberty.
- 187,000 square feet for Xpedx in Edwardsville.
- The new Ford Stamping Plant of 435,750 square feet in Liberty.

In both the build-to-suit and speculative market, we are continuing to have more 100,000 sq. foot and larger transactions, in part due to the continued growth of e-commerce. We are seeing major shortages in spaces ranging from 100,000 square feet and up, with less than 3% vacancy in that segment. As the height of the building increases from 24 feet, that vacancy rate shrinks further. Since vacancy rates have continued their steady decline, especially in the larger spaces and higher quality high-cube warehouses, the need for more speculative construction becomes clear.

At the opposite end of the spectrum, industrial blocks of space under 20,000 square feet have seen a vacancy rate of near 12.5%. With the lack of demand from smaller business prospects, this end of the market has remained soft. The large-scale users are realizing that with the cost of fuel, the heavy traffic in the major ports, limitations on truck drivers' hours of operations, and Kansas City's central location with four interstates and five Class I railroads, Kansas City is becoming the ideal distribution location. Continued changes in the commercial trucking industry, including an aging driver pool that averages 57 years old, combined with reductions in fleet size, have also made transportation a key consideration for many companies. There is a greater emphasis in looking at Kansas City for distribution hubs. Proof of Kansas City's continued growth in e-commerce distribution includes such heavyweight companies as PacSun, Zumiez, Pure Fishing, and Coleman Industries, along with expansions by FedEx and Amazon.

Kansas City industrial real estate development appears to be on a steady growth pattern for the foreseeable future.

RAIL, INTERMODAL AND DEVELOPMENT ACTIVITY UPDATES

The Port of Lazaro Cardenas, with its $900 million redevelopment project that will eventually be a 252-acre development, makes the port more competitive with Los Angeles and Long Beach for container traffic headed to the U.S. interior. Rail is hot in Mexico and getting hotter every year. Mexico's second largest rail carrier, Kansas City Southern de Mexico, is growing at a tremendous rate. This is due to the growing demand for rail transportation both domestically and between Mexico and the United States. The "near-shoring trend" is one driver of this growth as high oil prices and rising wages no longer make Asia the obvious low-cost location for companies that manufacture goods for the U.S. market. Increases by companies building factories in Mexico have boosted the flow of materials headed south from the U.S. to Mexico and finish products headed north. These changes will continue to drive intermodal growth in Kansas City.

Set to open in late 2013, the overall 1,000 acre BNSF KC Intermodal in Edgerton, Kansas, will have a rail-to-truck loading yard and Logistics Park, and the Kansas City Metropolitan area will have 7 million square feet of warehouse and distribution space when fully built out. Though no significant new developments have occurred there as of yet, a lot of land is coming on the market for speculation and potential industrial development. Just seven miles north, the I-35 Logistics Park, in Olathe, Kansas, is home to a new 821,256 sq. foot warehouse under construction. As the largest speculative warehouse in the region, it follows on the 2008 construction of a 620,000 sq. foot warehouse which took nearly three years to reach 100% occupancy. Once this new warehouse is occupied, work will commence on another 920,000 square feet and then a 1.1 million sq. foot building in the 200-acre park near the new 159th and Lone Elm interchange on I-35.

Increases by companies building factories in Mexico have boosted the flow of materials headed south from the U.S. to Mexico and finish products headed north. These changes will continue to drive intermodal growth in Kansas City.

Another prominent site is the CenterPoint Intermodal Center on I-49 and 150 Highway in south Kansas City, where the KCS Intermodal is located. In addition, there is the KCI Intermodal Business Centre, near the airport, the 377-acre Northland Park in North Kansas City, and the Hunt Midwest Business Center at I-435 and NE Parvin Road. Northland Park, a 450-acre business park, is home to Musician's Friend, FedEx Ground, and WW Granger, and is at 210 Highway close to I-35 and adjacent to the Norfolk Southern Intermodal, Triple Crown Services Intermodal, and the Ford Claycomo Automotive Plant. It's located within the Missouri Enhanced Enterprise Zone and has Foreign Trade Zone benefits. These sites are all at or proceeding to being vertical-ready.

Even with the five Class I railroads running throughout the nation's most centralized location, developers and investors aren't yet sinking their dollars into creating new rail-served properties in this important Midwest market. Only two percent of the industrial properties constructed during the last ten years have provided active rail service and none of the current industrial projects, or those slated for delivery within the next year, are employing active rail.

Premium Waters started work on a 160,000 sq. foot, $36 million manufacturing expansion of a private-label bottled water manufacturing and distribution facility at Riverside's Horizons Project.

As demand for rail continues to grow and the benefits of Kansas City's strategic location and intermodal development continues, perhaps developers will be reexamining the benefits of providing active rail service.

One of the sites seeing major activity, despite the lack of a rail presence, is the Riverside Horizons Business Park in Riverside, Missouri. This joint venture between NorthPoint Development and Northwestern Mutual developed a 155,000 sq. foot speculative building that was 80% preleased by the time the shell building construction was complete. Due to this strong demand for quality multi-tenant product, the same ownership broke ground in October 2012, for a 169,000 sq. foot multi-tenant building and has plans for other similar buildings. Other developers, including affiliates of Block Real Estate Services, are working on already permitted, speculative buildings in other parts of the city including Lenexa and Olathe, which are in the planning stages, pending partial preleasing.

INDUSTRIAL MARKET TRENDS SUMMARY

- Local market users continuing to surface with greater space needs.
- Extend and blend transactions continue, but with stronger opposition by landlords, as rental rates and conditions improve and vacancy tightens.
- Landlords continue to offer aggressive lease rates, but are tightening up on free rent and extra tenant improvements.
- Cash-conscience landlords are reluctant to fund larger tenant improvement allowances, forcing tenants to invest or reassess their needs.
- Tenants continue to explore longer lease terms to take advantage of lower rental rates that are anticipated to increase.
- Increases in manufacturing and food related users.
- Continued flights to quality by tenants to relocate from Class B to Class A buildings, but the options are tight.
- An increase in build-to-suit activity due to limited larger space options – especially in Class A.
- Increase in user building sales.
- Developers seeing opportunity for speculative construction, similar to Riverside and Olathe, but showing concern over achieving lease rates and financing.
- Investors exploring the purchase of quality vacant or partially leased industrial buildings in order to upgrade and re-tenant them.
- Developers are exploring strategic land acquisitions and are making them vertical-ready with permits in hand.
- As the economic markets gradually strengthen, the Kansas City industrial market is getting both developers' and tenants' attention. As leasing and rents continue to stabilize, we will see more new construction.

MAJOR MARKETS

JOHNSON COUNTY

The long-standing trend continues with the Johnson County industrial submarket still as the most stable, and quite possibly, the most telling submarket in the region. With strong demographics and a premier location, aided by major circumferential highway access at the intersection of I-35 and I-435, along with U.S. Highway 69, this has become the backbone for the industrial market in Kansas City.

To that point, prospective development has become more active in this submarket. The new intermodal activity in the southern sector is going to prove to be a major boost, not only to the Johnson County market but the entire Kansas City metro market as well. Land plays for prospective development in the surrounding area are occurring with many large parcels of land, near or adjacent to the BNSF's KC Intermodal, now on the market. Likewise, in the northwest sector, the city of Shawnee has a planned development known as the Eco-Commerce Center, located at the northwest corner of K-7 and 43rd Street. It will be a 330-acre sustainable logistics and business park. The preliminary design calls for environmentally sustainable infrastructure including solar or LED street lighting, pervious parking lots, water conservation and irrigation enhancements, and encouragement towards LEED certified construction. At just ten minutes from the intersection of I-70 and I-435, it would become the largest individually platted industrial park in Johnson County. This development has the potential for over 3.3 million square feet of high quality flexible office, distribution and logistics space, and currently has several owners who are working with the city to facilitate the assembly and development of this site.

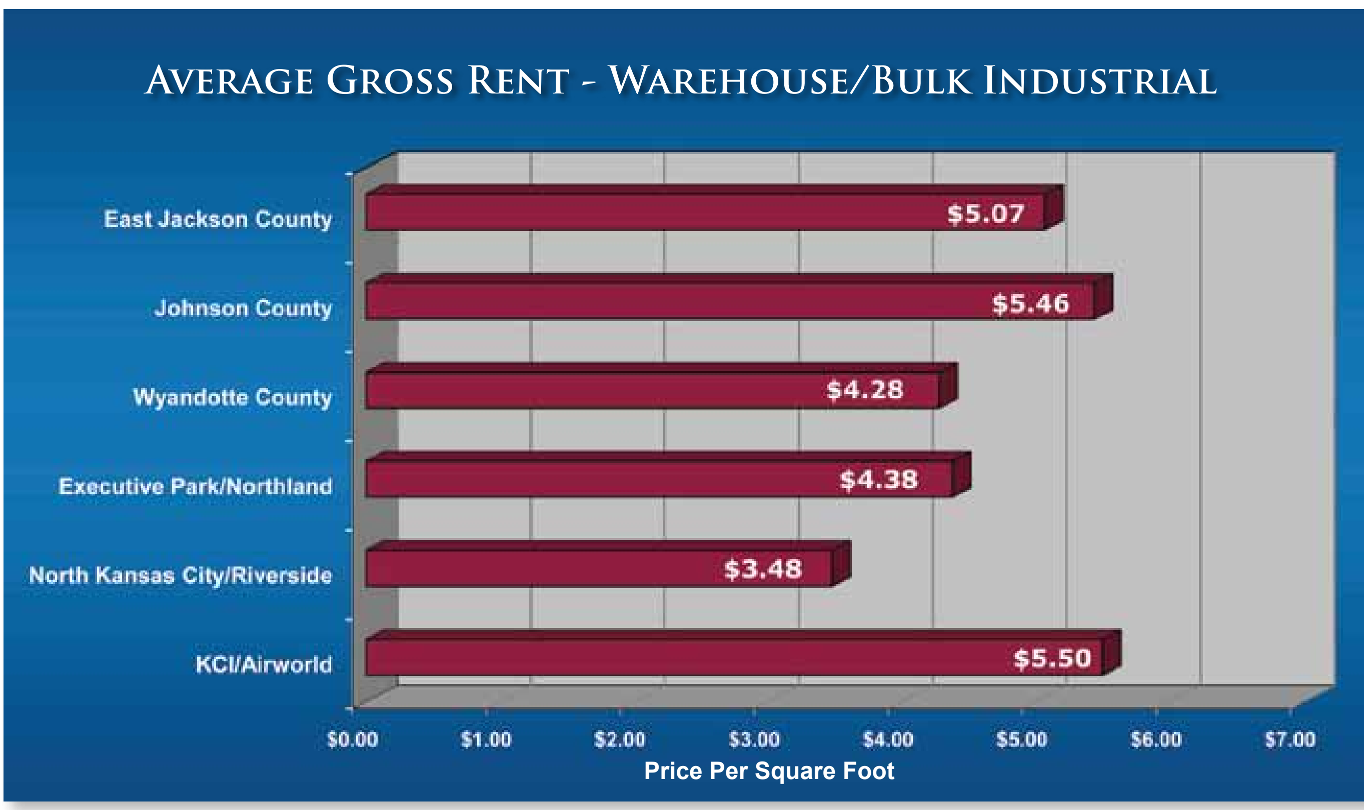
New construction highlights include:

- Construction continues at the region's largest speculative warehouse, 821,256 square feet, in Olathe's I-35 Logistics Park. Anticipated delivery is in Spring of 2013, though no leasing announcements have yet been made.
- Lackman Business Park's Building D, 65,900 square feet, will be completed shortly and will house Consentino USA Granite in 24,000 square feet. The owner's companies – Oddo Development, CityWide Development, and Basys – will fill the building. Consentino is new to the Kansas City market while the other three companies will be relocating from their own building in the Brookhollow Business Park.

NOTABLE LEASING AND SALES ACTIVITY

Significant new leases and renewals during the year include:

- Cummins Tool leasing 168,750 square feet in Olathe in the first quarter.
- FedEx Smart Port expanding by 158,229 square feet at 22101 W 167th street in Olathe in second quarter.
- Baldwin Technology Group Leasing 69,605 square feet in the Lenexa Tech Center in second quarter.



Quidsi Logistics LLC leased 100,940 square feet at 14601 W. 99th Street, Lenexa, Kansas, owned by a BRES sponsored investment group. The company also leased the entire 300,838 sq. foot industrial building at 11011 Lackman Road in Lenexa, and moved in to the space in June 2012.

- Kansas Sampler leased 54,000 square feet in Kansas Commerce Center.
- Meritex Lenexa Underground signed five new leases and tenant expansions in 2012 totaling 173,000 square feet.
- On Demand Technologies LLC leased 34,070 square feet in Overland Park.
- Quidsi (a division of Amazon) leased over 400,000 square feet in two buildings in Lenexa.

Sales transactions were generally on the low side in 2012 with only a couple of investment sales, but some user transactions which include:

- McLane Food Services $14.4 million purchase at 8200 Monticello in Shawnee.
- Himoinsa Power Systems bought the former Olathe Millwork Building of 101,000 square feet for $33.89 per square foot.
- Marmon Commercial LLC purchased 10,200 square feet at 23720 W. 83rd. Terrace.
- Pella Window Company bought a 37,500 sq. foot building at 11333 Strang Line Road.
- CoSentry invested more than $32 million to retrofit an existing 60,000 sq. foot building into a data center, at 14500 W 105th Street, in Lenexa.
- Custom Store Fronts built a 32,404 sq. foot manufacturing facility.
- Webco is building a 200,000 sq. foot facility for its own occupancy in Olathe.
- Combat Brands, LLC, better known as Ringside, relocated its national headquarters to Lenexa and will move from 14865 W. 105th St. to occupy 47,964 square feet at 15850 W. 108th St.

The Johnson County submarket has a total inventory of 55,968,305 square feet as of the fourth quarter of 2012, in the reporting and 1,571 buildings. These figures reflect new construction being finalized during the year. Overall occupancy is 95.3% compared to 93.2% at this time in 2011, showing a positive net absorption of 1,405,119 square feet or 2.1% over the period. The Johnson County industrial submarket represents 21.6% of the overall Kansas City industrial market, is the second largest of the submarkets, and has the lowest overall vacancy rate. These figures attest to the influential size and strength of the submarket.

EXECUTIVE PARK/NORTHLAND PARK

Executive Park and Northland Park are both major industrial parks located adjacent to and on the southern and northern sides 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 1970s on 1,200 acres and is now about 95% developed. The premier industrial park in Kansas City, Missouri, it is situated between I-35 on the west and loop I-435 on the east and 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.

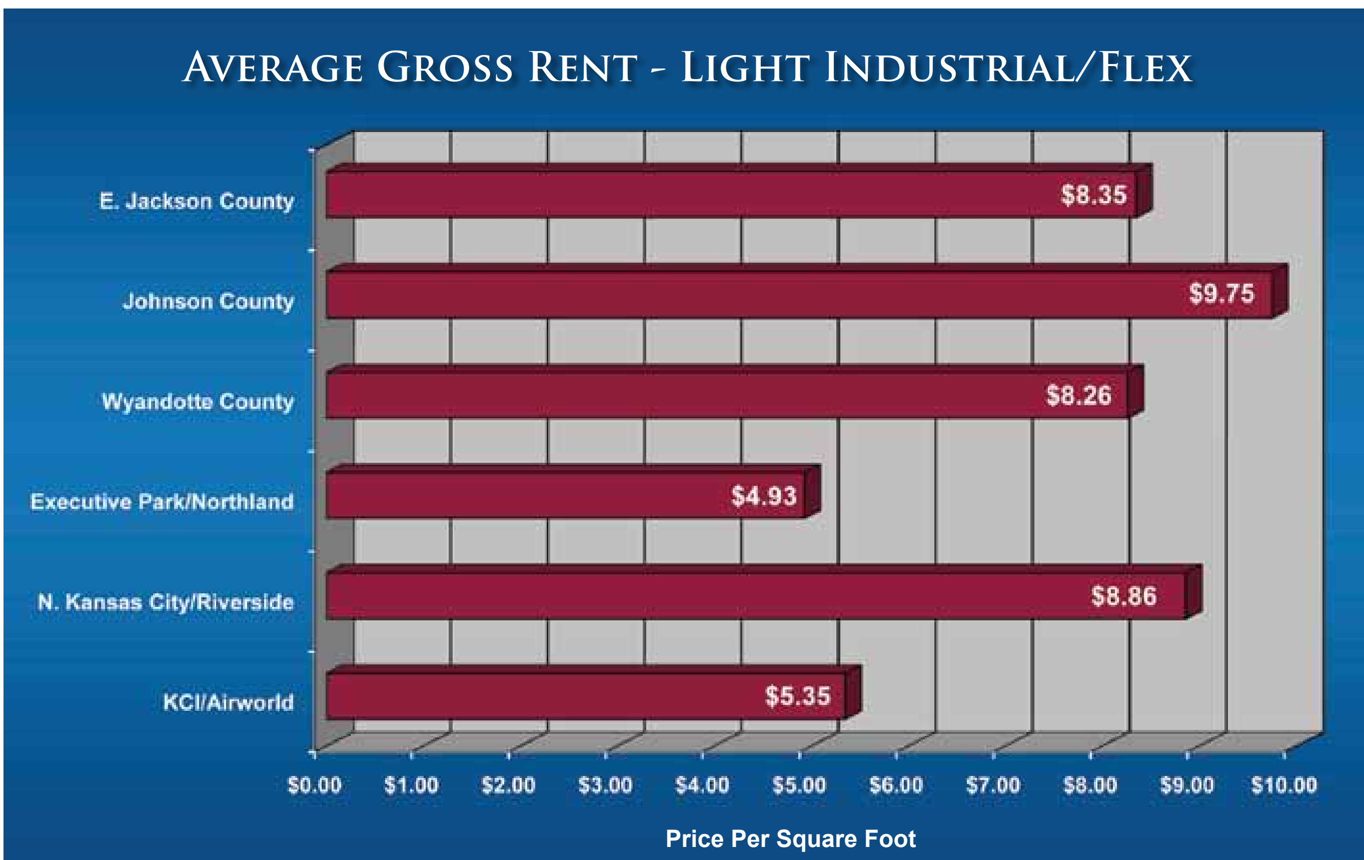
TRAFFIC IMPROVEMENTS

The Conventional Diamond Interchange (CDI) which was situated at Front Street and I-435 was redesigned and reconstructed in 2012 as a Diverging Diamond Interchange (DDI) allowing it to accommodate more traffic, move it faster, decrease congestion, and increase safety. Front Street is the main east-west connector through Executive Park and links the two major interstates that surround the park. With the interchange complete, the city is now focused on further reconstruction of Front Street, which is in desperate need of repair. These improvements include repaving and widening Front Street, which, in the short-term, will cause new traffic congestion. However, because this area has grown accustomed to the congestion caused by these types of improvements which create some bottlenecks and headaches, in the long-run, it should really improve the area both logistically and physically.

NOTABLE ACTIVITY

Activity in larger spaces during 2012 was strong and should carry over into 2013. Overall, the vacancy rate decreased in 2012 to 5.3% as compared to 6.8% at year-end 2011. Notable activity included:

- Logoplaste, a manufacturer of rigid plastic packaging, selected the Kansas City region for its new manufacturing operation and will be located at 6920 Executive Drive, in Executive Park. The company announced it will invest $31.5 million in the 200,000 sq. foot facility.
- Ford Motor Company announced a $400 million investment to its Claycomo Assembly Plant. The plant is located just east of Northland Park, south of Liberty and will produce Ford's European best seller, the Transit Commercial Van.
- Brown & Company developed a 30,060 sq. foot speculative industrial building in Executive Park. The building was leased to American Contract Systems before construction was completed, as they had been in



Heartland Sheets, LLC remodeled a 127,600 sq. foot building at 3950 N. Kimball Drive in the Northland Industrial Park, Kansas City, Missouri. The project cost $23 million and brought 43 jobs to the new manufacturing facility in Kansas City.

the market looking for more functional space.

- Heartland Sheets, a corrugated sheet manufacturer, purchased a 127,600 sq. foot building in Liberty, Missouri.
- Carroll Tire Company signed a lease for 49,000 square feet of warehouse space.
- McKesson Medical-Surgical, Inc., who already has a presence in the Executive Park area, leased 95,000 square feet from Midwest Terminal Warehouse Company.
- Magna International of America, Inc. will occupy 212,000 square feet for its new LMV Automotive Systems Auto Parts assembly operation in Liberty, Missouri.

UNDERGROUND WAREHOUSING

SubTropolis is the Hunt Midwest underground development. Located just north of the Missouri River, it is the largest and most developed of the city's unique underground warehousing. There were several large transactions here in 2012, including:

- Knapheide Truck Equipment, a producer of steel service truck bodies and platform/stake-style truck bodies, leased 103,100 square feet.
- Roger's Sporting Goods who is locally owned and operated in Liberty, Missouri leased 67,800 square feet.
- GSA/NARA leased 102,000 square feet with options to expand up to 372,000 square feet.
- Nor-Am Cold Storage leased 53,000 square feet and specializes in full service, public refrigerated warehousing for the evolving and ever-changing 3PL market.
- M8 Products, LLC leased 50,400 square feet in the Hunt Midwest underground.
- 123 Mattress signed a lease for 60,000 square feet.

NORTH KANSAS CITY/RIVERSIDE

The North Kansas City/Riverside submarket is made up of two smaller Missouri communities that offer the most centralized locations in the Metro area 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 in North Kansas City and 1980s in Riverside, this submarket offers a broad range of buildings from the modern high cube distribution to manufacturing and about everything in between, thus appealing to every type of user. In addition, with I-29 and I-35, as well as loop I-635 bisecting these markets, access to the entire market is superb.

North Kansas City/Riverside users are usually considering the Executive Park/Northland Park submarket as well. Given that each of the submarkets are well-located, with excellent access, many business owners are drawn to North Kansas City/Riverside just to avoid the 1% Earnings Tax paid by employees working in Kansas City, Missouri. The Earnings Tax has been around for a long time, and continues to be the main difference maker between these two competing submarkets, which otherwise offer similar amenities and buildings.

Overall vacancy increased to 7.5% from 6.7% in 2011, yet the light industrial/flex vacancy at year-end 2011 was 14.8%. But by year-end 2012, that vacancy decreased to 9.2%.

Although the light industrial/flex vacancy saw a significant decrease, the submarket has rentable building area in excess of 22 million square feet, with the light industrial/flex portion only 176,079 square feet. Even with small fluctuations in the light industrial/flex vacancy, there will be little impact to the overall submarket occupancy rate.

IMPORTANT DEVELOPMENTS OF 2012

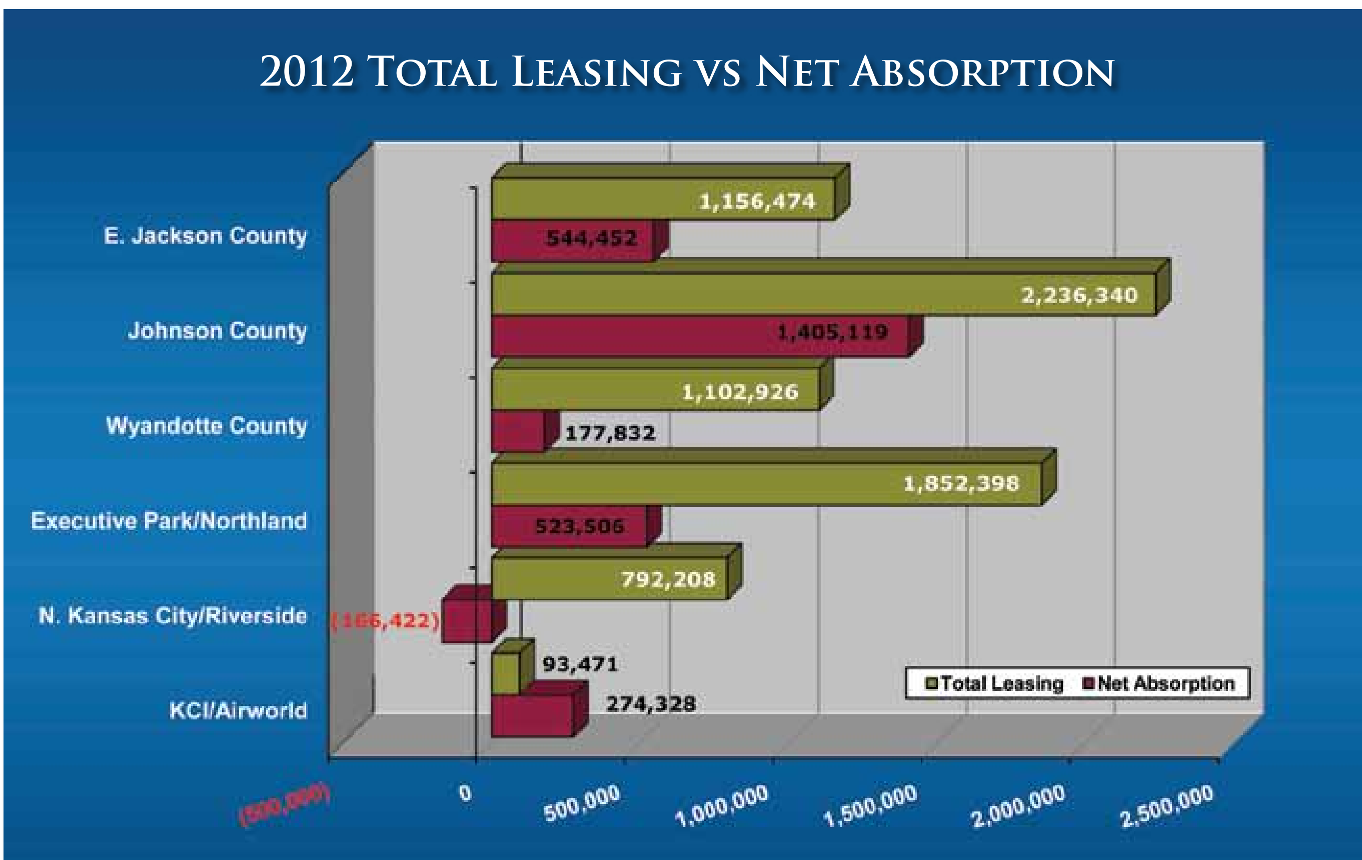
This submarket recognized many exciting events in 2012. Most notably was the city of Riverside naming NorthPoint Development as the developer of Horizons Business Park, a 260-acre Master Planned Business Park with industrial, office, and service retail sites located at I-635 and Missouri Highway 9. The park has seen tremendous activity since starting to move dirt at the beginning of this year. It is interesting to note that in a study released in October 2012, conducted by the Lewis White Real Estate Center, within The Bloch School of Business at the University of Missouri–Kansas City, Riverside is the fastest and least expensive community in the Kansas City Metro area for obtaining new development permits. Thus it is no surprise that the newest industrial activity within the metro area is occurring in Riverside.

NorthPoint has three speculative buildings underway in Horizons. Building I is 155,884 square feet now under construction and is currently 80% leased. Building II, 169,025 square feet, is scheduled to start construction shortly, while Building III, a 197,400 sq. foot facility is already 70% preleased. All of these modern buildings come with drive-in and dock high loading, dock locks, shelters, and 35,000 pound pit levelers, 28 to 32 foot clear heights, ESFR sprinklers, T-5 high efficiency lights with motion sensors, and are LEED certified construction.

LARGE TRANSACTIONS FOR 2012

Riverside transactions include:

- Vistar, a snack and beverage vending distributor located in Johnson County, is moving its local operations and about 75 employees to Riverside. The division of Virginia–based Performance Food Group will lease 138,000 square feet of a forthcoming 200,000 sq. foot speculative Building III at Riverside Horizons.
- In April of 2012, Premium Waters started work on a 160,000 sq. foot expansion of a private-label bottled water manufacturing and distribution facility. The expansion is expected to lead to 100 new jobs in the next three years on top of the 25 jobs that were retained. Premium Waters purchased the ground directly from the City of Riverside.



- Gallagher North America, Inc. relocated its distribution and office headquarters from North Kansas City to Riverside Horizons in 55,000 square feet in speculative Building I.
- Marlen International consolidated its Overland Park and Hutchinson, Kansas operations into 89,000 square feet in the Horizons Building I.
- Mobile Hydraulics signed a lease on 18,000 square feet in an existing building owned by ColonyRealty Partners.

North Kansas City transactions include:

- Crane Logistics signed a lease for 100,000 square feet of industrial space in North Kansas City.
- CEVA Logistics, one of the world's leading supply chain companies, relocated their operations from Airworld to North Kansas City and signed a lease for 60,000 square feet
- Murphy Warehouse Co., a third-party logistics warehouse, selected a 46,000 sq. foot building to expand their operations.
- Supply Network Inc. leased 42,720 square feet.
- Kokamo Kansas City took 50,400 square feet.
- Graham Packaging took on 59,241 square feet.

Some owner occupant purchases in North Kansas City include:

- MHS Casters relocated from Kansas City, after fire destroyed their facility, and purchased a 37,000 sq. foot building in North Kansas City.
- Gordon and Sams Enterprises bought a 41,772 sq. foot building.
- Onyx Properties purchased a 48,692 sq. foot facility.

KCI/AIRWORLD

The KCI/Airworld industrial submarket is the smallest industrial submarket in the Kansas City area at 5,346,822 square feet in a total of 77 buildings. Of this, 4.4 million square feet is bulk industrial with the balance of 863,191 square feet in flex space. Although KCI/Airworld is the smallest submarket in the metropolitan area, it is important due to its close proximity to Kansas City International Airport (KCI), the preferred location for regional air-cargo transporters. KCI/Airworld is also one of the submarkets that could be poised for future growth, due to its massive availability of industrially-zoned land. The location also provides excellent highway access, with I-29 bisecting and I-435 looping through the submarket.

With the combined industrial and flex occupancy at nearly 93%, and average quoted rental rates at $5.50 per sq. foot gross, as of year-end 2012, the submarket is fairly stable, compared to competitive submarkets. As in past years, the flex portion of this the submarket is the main drag on occupancy, with nearly 30% vacancy as opposed to only 3% for bulk warehouse space. Air-transit-minded tenants who lease space in this submarket are typically there for the access to KCI, which helps explain the high occupancy. The only large bulk vacancy is due to CEVA Group's vacating 90,000 square feet at the Congress Building II in the third quarter, when they downsized to 60,000 square feet and relocated to North Kansas City. This move had a significant impact on the occupancy rate, and though another large space is anticipated to come available in early 2013, prospects are actively considering this space.

> KCI/Airworld is also one of the submarkets that could be poised for future growth, due to its massive availability of industrially zoned land.

The most notable activity included Blount International, an Oregon-based manufacturer of outdoor products that moved into their new 349,000 sq. foot facility in early 2012. Blount International is the first tenant at the KCI Intermodal Business Centre, an 800-acre master-planned business park. Other major activity included the lease at 10711 NW Airworld Drive where Toyota Motor Sales took 45,696 square feet from Cobalt Industrial REIT. Another large transaction involved the building at 7909 NW 100th Street where Multi-Vac, a Wisconsin based manufacturer of Vacuums, leased 27,350 square feet.

WYANDOTTE COUNTY

Wyandotte County experienced steady recovery in 2012. Total leasing volume of 1,102,926 square feet was lower than the 2011's total volume of 1,475,459 square feet, thus continuing a trend of slow recovery that began in 2010 with total leasing volume of 1,928,196 square feet. As in previous years, the warehouse/bulk industrial product type accounted for nearly all leasing volume and comprises the vast majority of Wyandotte County's 40,649,312 square feet of industrial building inventory. The submarket's central metro location and immediate access to I-35 and I-70 as well as loop I-435 and connector I-635, provide efficient distribution of products by both third-party logistics providers and traditional distributors. Same-submarket expansions and new activity both emphasized those distribution advantages.

Notable transactions include:

- Zumiez's 153,000 sq. foot lease in Edwardsville.
- Comprehensive Logistics' 637,000 sq. foot renewal and expansion in Turner.

- VersaFlex's relocation and expansion from 30,000 square feet to 99,708 square feet in a building they purchased in Armourdale.
- Ford Moving & Storage's 50,000 sq. foot new lease in Muncie.
- Simpson Strong-Tie's 50,000 sq. foot new lease in Armourdale.
- Metal Panels' 34,450 sq. foot new lease in Edwardsville.
- FedEx's 50,000 sq. foot expansion in Edwardsville.
- Bankruptcy auction sale of the 120,000 sq. foot building at 4600 Kansas Avenue to BK Properties, LLC.

Wyandotte County's central metro location and its immediate accessibility to interstates assures tenants an efficient distribution of products by both third-party logistics providers and traditional distributors.

Despite the significant new deals and expansions, net absorption was low, but remained positive, at 177,832 square feet. On the other hand, the light industrial/flex product had a negative effect on absorption, with its 10% vacancy, while the warehouse/bulk industrial product that makes up 97% of the submarket square footage, remained healthy at 5% vacancy. This suggests a tightening submarket that may see rental rate growth before any of the newly announced developments can be delivered.

New development activity includes:

- Construction has begun on a 280,000 sq. foot distribution center for Xpedx in Edwardsville to replace its 225,000 sq. foot Olathe facility.
- General Motors has requested $120 million in industrial revenue bonds for a 400,000 sq. foot expansion and retrofit of is Fairfax Assembly Plant.
- Industrial Realty Group (IRG) has requested an incentive package worth $25 million that includes the creation of a tax increment financing district and issuance of industrial revenue bonds for redevelopment of the Public Levee in Fairfax. The new development would support 300,000 square feet of new industrial product and renovation of existing freezer/cooler/dry space.
- The Revitalizing Auto Communities Environmental Response Trust (RACER) reviewed proposals in 2012 and is expected to finalize the sale of 74 acres of industrial, infill development land that is adjacent to the GM Fairfax Assembly Plant in early 2013. This site could support as much as 800,000 square feet of buildings.
- Zeolyst, a partnership between PQ Corporation and Shell Global Solutions affiliate CRI/Criterion, Inc., will expand its Armourdale manufacturing plant by 43,000 square feet.
- Jones Development Company acquired 40 acres in Edwardsville. The site is approved for up to 550,000 square feet of warehouse/distribution space.

All of these development sites are geographically well positioned to capitalize on Wyandotte County's manufacturing and distribution assets. For the most part, these sites are centrally located, infill locations. In particular, the RACER and IRG sites are essentially adjacent to the expanding GM Assembly Plant with immediate access to I-70. As long as investment in domestic manufacturing remains strong, the Wyandotte County submarket will expand. Overall submarket rental rate growth will follow as newer, more functionally efficient buildings contribute a larger percentage to existing inventory. However, if investment in domestic manufacturing slows and the rate of foreign imports increases, building development may shift to sites closer to new intermodal developments in the southern metro submarkets. While Wyandotte County would still enjoy its convenient central location, a slowing domestic manufacturing rate would likely slow new construction and rental rate growth may in turn drop back to historic growth rates.

Regardless of outside forces, the forecast for the Wyandotte County industrial submarket remains stable with an opportunity for significant growth. However, new development in 2013 could put this otherwise conservative submarket on a high growth trajectory.

EASTERN JACKSON COUNTY

The Eastern Jackson County submarket covers a broad area and is the largest submarket with 99,857,383 square feet in 2,723 buildings. This submarket includes the easterly portions of Jackson County, such as Lee's Summit, Blue Springs, Independence and Grandview, but excludes the Executive Park submarket in Kansas City. Of the total footage in this submarket, the vast majority, 95.4 million square feet, is manufacturing, multi-story warehouse, or bulk warehouse, with the balance of 4.4 million square feet in light industrial flex space. Occupancy in the Eastern Jackson County submarket is nearly 92%, which is excellent, given the age and varied inventory. Highway access is particularly good with Interstates 35, 49, and 70, as well as loops I-435, I-470, and I-670, and Missouri Highway 291 running throughout the county. I-49, which is the former U.S. Highway 71, will provide a great impetus for growth in Eastern Jackson County for distribution companies

Although the Eastern Jackson County submarket is the area's largest submarket, the majority of these buildings are within older industrial neighborhoods and industrial parks

The 120,000 sq. foot mid bulk industrial building at 4600 Kansas Avenue, formerly home to Ankmar Door, was sold through a bankruptcy auction to BK Properties, LLC, an entity owned by Kenneth G. Block, for $3,585,750.

or smaller suburban developments. In fact, many of the buildings within this submarket are considered obsolete and non-functional by large national users. The market does not boast very many of the higher quality buildings that large distribution and logistics companies are currently seeking. Most of the growth for new facilities, with more convenient highway access and considerably better loading, have been or are being built in south Johnson County, Riverside, or the Executive Park/Northland Park submarkets.

The Eastern Jackson County submarket does not boast very many of the higher quality buildings that large distribution and logistics companies are currently seeking.

The overall combined industrial and flex vacancy rate at the end of 2012 was nearly identical to 2011's year end, at 8.1% versus 8%. Interestingly enough, absorption in 2011 totaled 1,156,474 square feet versus (29,321) of net absorption in 2012. Rental rates tend to fluctuate in this submarket, more so than others, because of the older and less efficient buildings that do not draw as high of rents. However for 2011, the average warehouse rate was $4.85 per square foot and in 2012, there was steep uptick with the average rate moving up to $5.07 per square foot.

Notable in this submarket was the sale of the 500,000 sq. foot building at 14100 Botts Road, in Grandview, to an investment group led by Block Real Estate Services. The building is fully leased to two tenants, Church & Dwight and Caravan Ingredients. Another investment sale was the acquisition of 3801 South Selsa Road, in Independence by 3801 Selsa, LLC. The building is occupied by Boost Sports Performance and Progress Rail. CenterPoint Properties, which has developed the National Nuclear Security Administration's (NNSA) facility in Grandview, has recently been chosen to redevelop the massive Bannister Federal Complex in South Kansas City. This property will become available for redevelopment with the impending move out by the NNSA to the new Grandview facility and the GSA's pending plan to relocate other operations to downtown Kansas City, Missouri. CenterPoint has not yet disclosed any details on what their plan is for the redevelopment of the 5.1 million sq. foot complex and its 300-acre site.

Recently an 83-acre parcel of land, sitting between the 14100 Botts Road facility and the new NNSA facility, was designated as one of only 13 sites in the state of Missouri to be a "Certified Industrial Site." This is designed to knock off about three to six months of due diligence on the front end, that an interested developer would have to perform, thus reducing a lot of the upfront work, at no cost to them, so they can move faster in their development plan on a certified site than in other areas. The CenterPoint Intermodal Center as well as Riverside Horizons have similar sites.

The city of Blue Springs has acquired about 24 acres for the Missouri Innovation Park, where they envision a Science and Technology research center with the University of Missouri as the anchor tenant. The location of the site is near Adams Dairy Parkway and RD Mize Road off I-70. Space could be ready for occupancy by the first quarter of 2014. Officials anticipate 15 to 25 years to build out the entire park area. Some believe the project could ultimately be home to more than forty companies with up to 4,000 employees.

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

Kansas City RETAIL Market

Swedish furniture retailer IKEA announced plans to open a location in Merriam Village, Merriam, Kansas, a long-vacant retail development near Johnson Drive and I-35. The large store is expected to open in the second half of 2014.

Kansas City's retail environment is well on the mend. We are still a long way from needing additional speculative retail developments, but with the increase in retailers committing to the metro and the increased number of leases being completed, this activity is sure to reduce the overall vacancy rate and help to improve rental rates in 2013.

Development has been specific to single-tenant users or small multi-tenant buildings with a few tenants lined up in advance in redevelopment or infill locations. With the exception of Prairiefire in Overland Park, and the redevelopment of Truman Corners in Grandview, Missouri and Wyandotte Plaza in Kansas City, Kansas, this is anticipated to continue over the next couple of years. We can continue to expect to see more infill and redevelopment, mostly on a smaller scale as larger, new developments continue to seek economic incentives to help with development costs.

Construction permits for single and multi-family dwellings have been on the rise. At the end of October, 4,027 permits had been issued across the metropolitan area. The area hasn't seen 4,000 permits pulled since 2008. Each and every month through October saw an increase in the number of construction starts over the same month last year. Consumer confidence is also on the rise, despite worries about the impending fiscal cliff. With gains in employment, combined with lower gasoline prices and rising home values and sales, consumers have once again increased their spending.

New retailers committed to Kansas City this year include: IKEA, Scheels Sports, Ross Dress for Less, Recreation Equipment Inc (REI), Fresh Market, Sprouts Farmers Market, Aspen Athletics, Freebirds World Burrito, and Pizza Ranch. Menard's had planned as many as six stores in the metro area but has put its plans on hold citing the concerns over a worsening national economy.

Some retailers are expanding and looking for new sites. HomeGoods, Staples, Whole Foods, Dollar General, Dollar Tree, Papa Murphy's, and Firehouse Subs announced new stores in the metro. Store closings are fewer: Best Buy and Blockbuster and a few others closed stores in 2012. Other retailers are focused on enhancing the customer's experience, for instance, Target opened an expanded grocery component in three of its existing stores (Independence, Mission and Ward Parkway). Most retailers are focused on keeping their inventories tight, some are reducing the size of their back rooms and working to improve the supply chain of new product.

RETAIL SALES RISING

Retail sales are increasing. Sales of motor vehicles, clothing, electronics, and appliances have all seen healthy gains since July. While the National Retail Federation expected holiday sales to rise 4.1% across the nation, exceeding the historical 3.5% 10-year average increase in holiday sales, initial reports on sales were not so robust, but trending flat. The anticipated growth came from emerging positive indicators that witness a cautious but capable consumer.

Online holiday sales were predicted to grow 12% over 2011 according to Shop.org. International Council of Shopping Centers Chain Store Sales Trends showed all retail categories comparable store sales increase in each and every month of 2012 for an overall increase of 4.4% through November excluding drug store sales.

Metro retail shopping centers are once again being sought by investors. Among the centers which have traded hands this year, were the sale of One Nineteen at 119th Street and Roe to Glimcher who also owns Town Center Plaza; Shawnee Village Shopping Center at Shawnee Mission Parkway and Quivira purchased by Price Brothers; and The Fountains at 119th Street and Glenwood is also under contract and expected to close by the end of the year.

Overall, vacancies recovered slightly moving from 10.8% at the end of 2011 to 10.1% at the end of 2012. Citywide, average rental rates reduced slightly from $12.42 per square foot at the end of 2011 to $12.40 per square foot at the end of 2012.

JOHNSON COUNTY, KANSAS

Prairiefire at Lionsgate, located on 135th Street between Nall and Lamar, had been stalled by the economy but is finally breaking ground. In 2008, Merrill Companies announced they would build a museum that would house traveling exhibits from the American Museum of Natural History in New York. In 2011 they added commitments from Cinetopia Theater and Pinstripes Bowing/Bocce/Bistro. This year the developer was able to secure REI, Fresh Market and Rock & Brews. These new deals, along with the construction of 600 luxury apartments, allow the 60-acre, $580 million mixed-use development to start construction. The 30,000 sq. foot museum, 20-screen dine-in movie theater; 23,500 sq. foot REI space; 26,000 sq. foot bowling and bocce venue; anticipated 20,000 sq. foot specialty grocery store; and 5,000 sq. foot outdoor beer garden are expected to open between the fall of 2013 and spring of 2014. State and local government provided a package consisting of $81 million in Kansas STAR bonds, along with an estimated $30 million generated via an additional 1.5% sales tax from two community improvement districts within the development, and an additional $58 million from federally taxable private activity revenue bonds to help finance the development.

Corbin Park, which was bought out of bankruptcy in 2011, announced it will develop a 220,000 sq. foot building to house Scheels Sporting Goods. Scheels, based out of North Dakota, had previously announced plans to open by the Schlitterbahn Water Park near the Legends in Kansas City, Kansas in 2009. Construction is expected to start in 2013 with the store opening in the summer of 2015. Sprouts Farmers Market has also committed to Corbin Park.

Glimcher purchased and renamed One Nineteen to Town Center Crossing to better associate it with Town Center Plaza, which they also own. Town Center Plaza's new retailers include Brooks Brothers and the first Madewell store in Kansas City, while Restoration Hardware and Mario Tricoci closed their stores in the center. Town Center Crossing added a second Kansas City location for Drunken Fish Sushi Restaurant and Lounge who opened in the location previously occupied by Fo Thai; Love Culture opened this summer in the space formerly occupied by Soho 119; and Feng and Hot Mama, two upscale boutiques, opened along with Orvis, a Vermont-based outdoors and sporting goods store.

Park Place announced Pig and Finch, a new gastro pub, and 801 Fish, a restaurant featuring pristine seafood and crustaceans from all over the world. In addition, Alysa Rene Boutique, Luxe by Kelley Brady, Marv's Original Delicatessen, Geno's Clothiers, Parisi Artisan Coffee, and Traq 3D, a

Prairiefire at Lionsgate, the 60-acre, $580 million mixed-use development at 135th Street and Nall Avenue, will include the American Museum of Natural History Exhibitions, The Fresh Market, Cinetopia, REI, as well as 300,000 square feet of office space.

fitness concept, all opened at the mixed-use center this year. Additionally, Starwood Hotels is considering adding a 125-room Element hotel at the development.

IKEA ARRIVING IN MERRIAM VILLAGE

Kansas City has been longing for an IKEA store for many years and will finally get its wish. IKEA purchased Merriam Village and is aiming to open in the fall of 2014. The Swedish furniture retailer plans to demolish the center and replace it with a 349,000 sq. foot store. The center, located at Johnson Drive and I-35, was developed in 2008 housing Circuit City for a short time prior to their demise. Merriam Village never secured additional tenants and has sat vacant until now. Jack in the Box and QuikTrip secured pad sites and have opened stores at the intersection.

Abandoning its eligibility for STAR bonds, Mission Gateway scrapped plans for a 2.5 million gallon aquarium and hotel and instead will start construction on a new Walmart and Sprouts Farmers Market grocery store. The existing Walmart, less than a mile north on Roe Boulevard, will close in anticipation of the new site. Elsewhere in Mission, Mission Crossing at 61st Street and Metcalf opened with the area's first Freebirds World Burrito along with Subway, Sport Clips, Chick-fil-A and Culver's. The development fronts the Target store in Mission.

The area surrounding Oak Park Mall continues to add new retailers. The Microsoft Store, Lego Store, Crocs, James Avery, Bachrach (who had previously closed a store in the mall in 2009 is back again), Camille La Via, Maurice's, and Body Central opened in Oak Park Mall. Staples is under construction at the northeast corner of 95th Street and Quivira. Hy-Vee announced it will close its store in the shopping center as well as its store at 91st Street and Metcalf as it braces for the opening of a new store at the southeast corner of 95th Street and Antioch, the site of the former Valley View center which was demolished to make room for the new grocery store.

Mission Farms added a new concept by the owners of Bluestem. Rye will open this month while Fusion Fitness and The Tavern at Mission Farms also opened at the center. Solera Salon & Spa purchased a building near 122nd and Blue Valley Parkway and is redeveloping the site for an 18,000 sq. foot, two-story, luxury day spa and salon. A portion of Olathe Station at 119th and Strang Line Road faced foreclosure in August but it is anticipated that the ownership group will successfully refinance the property. Whole Foods is rumored to be looking at opening a store at Olathe Pointe. Hy-Vee is under construction with a new store at 151st Street and Blackbob in Olathe, scheduled to open in the summer of 2013.

JC Penney closed its 50,000 sq. foot Home Store at 119th Street and Metcalf Avenue while Red Lobster opened at 119th and Blackbob in Blackbob Corners. Nuts and Bolts opened at 135th and Nieman. City Thrift opened at Shannon Valley at College and Antioch taking the last portion of the vacancy left behind by Hen House. Natural Grocers opened at 91st Street and Metcalf and Mattress Hub opened locations at both 119th Street and Metcalf and at 95th Street and Quivira. Walmart Neighborhood Market is improving the site formerly occupied by Apple Market at 47th and Mission Road for a 2013 opening.

First Watch got its long awaited location at the intersection of 151st Street and Metcalf when Blockbuster closed. QuikTrip opened a new store at Shawnee Mission Parkway and Midland and expanded an existing store at the intersection of 151st Street and 69 Highway. Also at the intersection, Tide Cleaners is under construction. Famous Dave's has opened in the former Piccadilly Cafeteria at 119th Street and Metcalf. Frida's Tacqueria and Chocolate Soup opened in the Fountains, and Genghis Grill closed there, while Frida's also opened at Southridge, 121st Street and Metcalf. Aspen Athletic Club opened at the site of the former Bally's at Northridge Shopping Center at 119th Street and Strang Line Road in Olathe. We will have to wait and see what happens to Menard's plans for a store at 135th Street and Pflumm.

Also in Johnson County, CVS opened on a pad site previously occupied by Tippin's at Corinth Square at Somerset and Mission Road. Spin Pizza and Tide Cleaners also opened in the shopping center.

The Village in Prairie Village added Ultramax Sports and a UMB bank branch on a pad site. Dineplex and Standees plans to open a 14,000 sq. foot adult-oriented upscale dinner and movie theater concept in the former Macy's Home Store and Einstein Bagels spaces in the spring of 2013. There are intentions to demolish the closed Waid's restaurant to make room for a 6,000 sq. foot multi-tenant, retail building with a drive-through lane.

Johnson County's vacancy rate has lowered from 10.6% at end of 2011 to 10% at the end of 2012. Rental rates dropped from $14.31 to $13.94 per square foot.

EAST JACKSON COUNTY, MISSOURI

The Falls at Crackerneck Creek had announced that Menard's would join the Bass Pro, Hobby Lobby and Mardel anchored

Ross Dress for Less opened a 22,000 sq. foot space at Adams Dairy Landing in Blue Springs, Missouri.

SummitWoods Crossing saw two new tenants in 2012 – Ulta Cosmetics and an 810 Zone restaurant. This 792,562 sq. foot shopping center continues to be the go-to retail center in Lee's Summit and Eastern Jackson County.

development. Menard's delay is especially painful as the development needs the sales from additional retailers to cover its bond-backed, development debt service payments. To date, the project has not generated the revenue that was anticipated at time of development, and once again the city of Independence has had to fund the obligation. Elsewhere at the intersection of I-70 and Highways 291 and 40, Children's Mercy East is on schedule to open in the Trinity Woods development in 2013 and Famous Dave's plans to open early summer in the former TGI Friday's spot at Bolger Square.

Adams Dairy Landing saw HomeGoods open along with T.J. Maxx, Charming Charlie, Rue21, Dressbarn, Cato, Hallmark, Subway, Claire's and Ross Dress for Less. Ross also opened in Independence Commons across from Independence Center while Independence Center added Fanzz, a sports memorabilia store; Yogurtini; Mattress Firm; and Fly, an urban fashion apparel store. Additionally, Chuck E. Cheese relocated from I-70 and Noland Road to Highway 291 and 39th Street outside of the mall.

Also in East Jackson County, Dickinson Theaters announced that it would close its location in Blue Springs as part of a Chapter 11 bankruptcy filing. Blue Springs won two new businesses: Planet Fitness and Aaron Rents.

In Independence, Furniture Deals opened at Hawthorne 40 Shopping Center at 40 Highway and Noland Road in April, and Westlake Ace Hardware closed its hardware store at the same intersection in September. Lastly, QuikTrip opened two stores, one at 23rd Street and Noland Road and the other at 40 Highway and Lee's Summit Road.

Rental rates in East Jackson County have increased, going from an average of $9.81 per square foot at the end of 2011 to a current average of $10.94 per square foot. Vacancy has decreased from 12.3% to 10.2%.

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

The Country Club Plaza continued to add new retailers to its lineup including: The Art of Shaving; Parlor: a Beauty Bar; a new, relocated Bo Lings Chinese restaurant; FootLocker; Cooper's Hawk Winery & Restaurant; Free People; Soft Surroundings; Lululemon; and Moosejaw, an outdoor apparel retailer.

Closings during the year included Abercrombie & Fitch, Betsey Johnson, and 810 Zone. Hotel Sorella, a 132-room luxury hotel operated by the Valencia Group will open in the Plaza Vista, formerly known as the West Edge in the fall of 2013 with room rates between $200 and $300. Whole Foods announced plans for a new store at 51st and Oak Street just south of the Country Club Plaza.

Ward Parkway Shopping Center continues to improve. AMC Theaters completed its $3 million renovation, bringing digital cinema projection to every auditorium and adding a bar and lounge to the 14-screen theater. HomeGoods opened in the center in 2012 and Firehouse Subs has been announced. Façade renovations and site upgrades to make way for new retailers are underway now that the former Dillard's has been demolished.

CROWN CENTER ADDS FAMILY ENTERTAINMENT

Crown Center was successful in opening two new family entertainment draws with Sea Life Aquarium and Legoland Discovery Center having opened in the spring of 2012. Both projects totaled a $30 million investment and were achieved without need for incentives. Elsewhere in the downtown/ midtown areas, Power & Light saw Fran's Restaurant and Peachtree close while others opened including The Dubliner, which opened in the former Raglan Road spot; The Gallery, a private event space; Kill Devil Club; and Hotel Nightclub.

Following AMC's departure in the joint venture with Cordish for the Mainstreet 6 movie theater, Alamo Drafthouse Cinema took over and received rave reviews.

Lee's Summit continues to grow. Red Development is working on Summit Place, located at I-470 and Blue Parkway, and is planning to start construction in 2013 for a group of discount, value-branded, retailers. Elsewhere, 810 Zone opened at the former Peachtree location in SummitWoods Crossing and Ulta took the old Borders space in the center. Chick-fil-A opened at Summit Fair as did White House/Black Market, Freebirds, Chico's and Prairie Soap Company. Lee's Summit got a new 37,000 sq. foot Chevy dealership by Roberts Auto Group replacing a site that closed in Raytown and CVS developed and opened a new store near Third Street and 50 Highway while closing its longtime location in Summit Shopping Center across the highway from the new location. Big Lots is looking at opening at Highway 291 & Langsford. Ball's Price Chopper has presented a plan to the city for a new store at Todd George Road and 50 Highway. It is uncertain if this would mean they would close their store two miles to the east, in Pine Tree Plaza, which is in receivership. Lastly, Arvest Bank, Jack in the Box and AutoZone opened on pad sites in front of Walmart at Highway 291 and Tudor.

Now that it meets interstate highway standards, U.S. Highway 71, connecting downtown to Cass County and beyond, has been converted to I-49, giving some properties in Grandview and Belton interstate exposure.

Red Legacy is working to redevelop Truman Corners starting with a new 80,000 sq. foot grocery store and aiming for additional co-tenants including apparel, arts and crafts, a pet store and others. Phase one is scheduled to open in 2014 with phase two planning to open early 2015.

Price Chopper also opened a new store in Belton this spring at Belton Crossroads, Highways 58 and Y, while closing an older store at Highways 58 and 71. Chipotle opened a new store nearby while Steak 'N Shake opened across I-49 in Raymore on a pad site near Lowe's. Menard's had been looking at a site near I-49 and 163rd Street.

Elsewhere in the southland, Tuesday Morning opened at State Line Station. Michael Forbes Bar and Grille opened in the location formerly occupied by Sharp's in Brookside, while the long-time Hallmark store nearby closed its doors. Metro Plaza, now called Pener Plaza, at 63rd Street and The Paseo, has completed its facelift. New tenants include a new 12,000 sq. foot Harold Pener store, a 10,000 sq. foot Dollar Tree and Lutfi's Fried Fish, along with a remodeled, long-time tenant, Metro Thriftway.

Westport has proven to be a solid area for dining and foot traffic, with openings of several new restaurants including Freebirds World Burrito, Huddle House, Sama Zama, The Boot, and Port Fonda. While in Raytown, Sav-A-Lot opened and closed within the year at 63rd and Raytown Trafficway, one of 60 closings announced by SuperValu. A new family entertainment center with indoor go kart racing, Extreme Grand Prix, will open in the space formerly occupied by Hy-Vee at 67th and Blue Ridge Boulevard and Chipotle and GameStop opened near Gregory and 350 Highway, while Buffalo Wild Wings closed its location at that intersection.

Rental rates in this area of the metro jumped from $11.89 per square foot at the end of 2011 to a current average of $12.67 per square foot. The area's vacancy slipped from 10.5% at the end of 2011 to 10.4% at the end of 2012.

Selected New Retail Construction

New Construction	Square Feet	Project Status	Tenants Announced
Metro North Mall Redevelopment	1,300,000	Planning Phase	Macy's (will remain)
Corbin Park	1,100,000	Phase III, In Development	Scheels Sports, Sprouts Farmers Market
The Trails	1,000,000	Stalled	N/A
Coffee Creek	1,000,000	Stalled	N/A
Shoal Creek Town Center	1,000,000	Planning Phase	N/A
Antioch Center	515,000	Under Construction	Sears, Burlington Coat (will remain)
The Falls at Prairie Star	500,000	Stalled	N/A
City Center Lenexa	400,000	Stalled	N/A
Summit Place	350,000	Planning Phase	N/A
Merriam Village Redevelopment	349,000	In Development	IKEA
Prairiefire at Lionsgate	348,000	Phase I, Under Construction	REI, Fresh Market, Rock & Brews
Crystal Springs	330,000	Stalled	Menards
The Gateway	300,000	In Development	Walmart, Sprouts Farmers Market
Merriam Pointe	239,000	Near Completion	Lexus Dealership, Merriam Auto Mall
Crossroads at Belton	130,000	Phase I, Complete	Price Chopper (open)
Todd George Retail Center	98,000	In Planning	Price Chopper
Valley View Redevelopment	83,000	Near Completion	Hy-Vee (opening February 2013)
Metcalf Village	25,000	Stalled	N/A
39Rainbow	17,000	Phase I, Under Construction	Holiday Inn Express and Suites, Five Guys (open)
Total Square Feet:	*9,084,000*		

Price Chopper opened a new 68,000 sq. foot store in Belton Crossroads, near Highway 58 and Highway Y in Belton, Missouri.

KANSAS CITY/WYANDOTTE COUNTY, KANSAS

Legends Outlets was foreclosed upon and seeks a new owner but that hasn't prevented the center from adding a few new tenants including Dress Barn, Uniform Destination, and White House/Black Market, with Five and Dime General Store committing to a 2013 opening. Nearby, Hollywood Casino opened in February at the Kansas Speedway and recorded nearly $11 million in its first full month of operation. Sam's Club opened a 140,000 sq. foot store on land purchased at the Plaza at the Speedway, while Best Buy closed its store in the development. Farther west, AutoZone opened in Bonner Springs.

Red Legacy is redeveloping Wyandotte Plaza at the northeast corner of 78th Street and State Avenue. The 230,000 sq. foot center is anchored by Price Chopper and following redevelopment will have a smaller footprint at 211,056 square feet. As part of the redevelopment, Price Chopper will be relocated into a larger 68,000 sq. foot store with plans to backfill the existing grocery store site with new-to-market junior anchors. The new grocery store is due to open in November 2013.

Elsewhere in Wyandotte County, near the University of Kansas Medical Center, Lane 4 Group developed 39Rainbow, a mixed-use project. The first phase of the development opened with a new Five Guys Burgers and Fries and an 83-room Holiday Inn Express and Suites hotel. In all, 17,000 square feet of retail space is planned for the project.

Retail rental rates for Wyandotte County were $10.64 per square foot at the end of last year. They have dipped to $9.99 per square foot at year's end. The area is presently experiencing 12.3% vacancy, compared to 10.7% vacancy at the end of 2011.

NORTHLAND KANSAS CITY, MISSOURI PLATTE AND CLAY COUNTIES

Ruling in favor of the developer, MD Management, a Clay County judge allowed the Planned Industrial Expansion Authority to condemn the former Metro North Dillard's (owned by an affiliate of Zona Rosa), allowing plans to redevelop the mall to proceed. With the exception of Macy's, demolition of the mall is planned, replacing it with a mixed-use development. Best Buy closed its area store and the former Dickinson Theaters directly south of the mall was torn down in August. New tenants in the area include Harbor Freight Tools and Dunkin Donuts, both of which opened near the old mall on Barry Road.

Zona Rosa added Clark's, White House/Black Market, European Wax Center and Bar Louie opened in the former O'Dowd's Little Dublin space. Cache and Abercrombie & Fitch closed their Zona Rosa locations in 2012. Hot Mama, Altar'd State and Torrid have committed to spring of 2013 openings.

Shoal Creek opened Aspen Athletics in the former Circuit City. Liberty Triangle will see Discount Tire and Pizza Ranch open soon, as will North Oak Village as both companies have committed locations to both developments. Petco opened earlier in the year at North Oak Village and Arby's plans a 2014 opening there as well. Boardwalk Shopping Center opened Aspen Athletic Club and Rally House this year. Menard's had been working on rezoning 152 and North Green Hills Road and was looking at a site in Liberty as well. Shoal Creek Town Center has received approval for funding from Kansas City's TIF Commission despite the argument of whether vacant land fits the definition of blight. Sam's Club is rumored to be considering the location. The first phase calls for 100,000 square feet of retail space with a plan to ultimately house one million square feet of commercial space south of Missouri Highway 152 and west of Shoal Creek Parkway.

A Super TIF development subsidy was approved for Antioch Crossing in April and demolition of the balance of the mall and site improvements have begun. Sears and Burlington Coat will remain tenants during the redevelopment and receive upgraded buildings in the process. Walmart Neighborhood Market has been expected to join the tenant line-up.

Farther south, Briarcliff Village traded hands as Nathaniel Hagedorn bought out partner Charles Garney's interest in the development. The Main Event, an event venue, opened in the new Courtyard by Marriott hotel which also opened in the development in 2012.

Rental rates in the Northland presently average $12.80 compared to $13.20 per square foot at the end of 2011. Vacancy is currently at 8.6%, down from the 2011 year end 10.2% vacancy.

RETAIL OUTLOOK

With Kansas City now home to 75 of the top 100 hottest retailers, who will be next to announce they are ready to open in Kansas City? Maybe Corner Bakery Café, Container Store, Plow & Hearth, Five Below, and Academy Sports and Outdoors will make the commitment in the coming year. Time will tell. In the meantime, for 2013 we predict a forecast of overall slight increases in rental rates with decreasing vacancy rates.

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

Kansas City & National Investment Market

Botts Road Distribution Center, a 500,000 sq. foot facility in Grandview, Missouri, was purchased by a group of Block Real Estate Services investors, led by Managing Principal Ken Block. The building is fully leased to tenants Caravan Ingredients Inc. and Church & Dwight Co. Inc.

The United States' commercial real estate industry has continued to rebound but on a slower than normal recovery track.

While the commercial real estate recovery has seen improved commercial real estate fundamentals, an increased number of investment transactions, increased asset pricing, and the abundance of capital in both debt and equity, this recovery has been very "unsteady" due to concerns about the sluggish U.S. economy. What was clear in 2012 was the lack of suitable investment alternatives and how the real estate sector has garnered an increased percent of investment capital. Investors with either discretionary income or retirement funds to invest have had a real dilemma in finding a home for their investment dollars and have turned to commercial real estate for yield.

> "We're the dull sisters of the investment world; earning a 5% to 7% return is what we do best."
>
> *Commercial Real Estate Professional: Emerging Trends in Real Estate 2013*

Additionally, commercial real estate syndicators have experienced unprecedented success in raising equity for one-off investments. Over the last couple of years, investors have been hesitant to lock up investment dollars in real estate funds because of the typical 7 to 10 year investment horizon. However, the lack of investment alternatives with comparable yield profiles has investors flocking to higher yielding commercial real estate investments in all asset classes. Depending on the risk profile of the deal and the location of the asset, investors are finding a safe haven in commercial real estate generating generally 5-7% cash-on-cash returns with modest leverage levels and tax sheltering benefits. Almost certainly in the near term, real estate assets will continue to outperform fixed-income investments in this low interest rate environment and offer a better alternative to the unpredictable stock markets, due to the hybrid nature of real estate returns.

INVESTMENT COMMERCIAL REAL ESTATE TRANSACTIONS RISE

With the tremendous amount of equity in the marketplace in 2012, Kansas City and national investment professionals saw transaction volume increase significantly over 2011 and dramatically over 2009 and 2010. Several factors pushed investment commercial real estate back to the forefront as an investor's preferred asset class. According to Real Capital Analytics, third quarter 2012 property sales volume totaled $67 billion, a 19% increase over the same period in 2011. A more important factor for Kansas City and other secondary markets is the increased trend of investors going into secondary and tertiary markets to find higher investment yields.

Gateway markets were still seeing pre-2008 competition for "Trophy" assets. In total investment volume, REITs and institutional fund buyers made the most commercial real estate investments in 2012. Multifamily, as in most years, was by far the most desired asset class followed by industrial, retail and office rounding out the four main groups.

According to Green Street Advisors Commercial Property Price Index, commercial real estate prices have increased 5.2% over the last 12 months, which is due to investors' access to capital, the extremely low cost of debt financing, and the lack of investment alternatives. The global and domestic economic concerns tempered what could have been an even greater increase in pricing, as some foreign investors jumped out of the market as prices escalated.

The U.S. remains an attractive cross border commercial real estate investment destination. In a recent survey conducted by the Association of Foreign Investors in Real Estate, over 60% of international investors identified the U.S. as offering the best potential for capital appreciation. Even though the U.S. has economic concerns, global investor interest in U.S. commercial real estate continues to support transaction activity and pricing. While most foreign investment has been focused on Gateway cities, as stated earlier, this appetite has begun to spill over into secondary and tertiary markets. As investors get discouraged by overpriced core assets in Gateway markets, they will look for better yields in commodity assets in secondary markets like Kansas City.

Kansas City also continues to be at the top of investors' preferred list, although the challenge is breaking into this tightly held real estate market and being able to place enough capital to gain market share.

The largest limiting factor facing the commercial real estate investment market is the availability of quality properties available for purchase. This has always hampered investment sales volume in Kansas City, but it has never been as evident as it was in 2012 and projected to be in 2013. With property fundamentals improving but not back to the pre-recession levels, owners have two choices: sell or refinance and hold through the next cycle. Although cap rates in some asset classes are back to pre-recession levels, rents are still substantially off the highs while expenses continued to grow continuously through this cycle. Thus, owners' property values for the most part are not back to the levels at which most deals were purchased. Hence, owners are electing to refinance with historically low interest rates, hold for the longer term, and push cash flows back to the original targeted levels at acquisition.

Kansas City continues to be at the top of investors' preferred list, although the challenge is breaking into this tightly held real estate market and being able to place enough capital to gain market share.

Colliers International reported in their 2013 Global Investor Sentiment that 34% of respondents said that finding available properties is their biggest roadblock in implementing their current investment strategies, while only 6.8% of U.S. investors feel that political uncertainty will affect their investment activity. Investors now, however, are willing to chase higher yields by increasing risk, a sentiment that has been nonexistent since the crash in 2008. This is directly related to the dearth of quality investment assets in targeted markets. Cap rates therefore continued to compress throughout 2012, and are expected to continue this downward slide, thereby increasing sales prices as we move through 2013, with core markets still the main focus, but secondary and tertiary markets gaining increased focus and capital allocation.

A NEW COMMERCIAL REAL ESTATE ASSET CLASS

Another investment class has emerged as a favorite among traditional commercial real estate investors: foreclosed single-family homes. As of year-end 2012, there were approximately $1.85 million foreclosed homes in the pipeline, although that has been decreasing by about 4% each month. Even though the pace of new foreclosures has been reduced, there is an overabundance of foreclosed homes still available. There is also a government program in the pilot stage to sell a large tranche of 2,500 foreclosed homes to investors, and this process is being compared to the Resolution Trust Corporation of the 1980s. Investors are contemplating options to buy-to-rent or even buy-to-securitize-and-rent. This new strategy is

Best Bets for 2013

- Concentrate acquisitions on budding infill locations
- Construct new-wave office and build core properties in 24-hour markets
- Develop select industrial facilities in major hub distribution centers near ports, international airports, and emerging intermodal ports
- Use caution investing in secondary and tertiary markets unless teaming with best local operators with boots on the ground
- Begin to back off apartment development in low-barrier-to-entry markets
- Consider single-family housing funds
- Repurpose the surplus of obsolescent properties

Source: "Emerging Trends in Real Estate 2013"

Glimcher Realty Trust is rebranding the One Nineteen shopping center at 119th & Roe Avenue after its recent purchase, and will change its name to Town Center Crossing in order to pair it with nearby Town Center Plaza.

being implemented by all types of investors (private equity, homebuilders, and institutional buyers) who are putting together portfolios of distressed homes to rent and operate much like traditional multifamily assets. These new investors are working through the process of trying to efficiently manage portfolios of single-family homes, and how to turn this asset class into a long-term high-yield investment. This investment strategy is now being "institutionalized" as a multitude of investors are considering single-family homes as a new asset class.

Distressed single-family homes continue to be a key challenge for economic growth in the United States. Factors impeding the progress of clearing the decks of single-family loans include stringent lender underwriting practices. We continue to see declines in new single-family loan issuance, even though we are experiencing the lowest interest rate environment in our nation's history. Additionally, the American dream of owning a home is going by the wayside as tougher lending practices being implemented through the current Dodd-Frank regulations and new ones to be implemented in early 2013 make home ownership more challenging. This is fueling investors to place investment resources in multifamily properties, resulting in a dramatic increase in multifamily development.

INVESTORS ARE SEEKING YIELD

Commercial real estate has become the most targeted investment class due to relatively stable returns, and 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. While discretionary investment funds are not quite as popular with investors, individual "one-off" properties are being syndicated by proven sponsors at an accelerated clip.

Investors are seeking qualified sponsors to acquire properties with strong and consistent cash flow or with a value-add component. These investors include high net worth individuals, middle class individuals with disposable income or retirement dollars to invest, family wealth management offices, registered investment advisors placing client equity, and institutional investors. Investors like the ability to evaluate each transaction on an individual basis and to analyze the investment merits of each transaction. The potential for stable and predictable returns makes commercial real estate attractive in today's investment climate. In comparison to other asset classes, especially with the low interest/savings rate environment of 2012, commercial real estate is again the preferred investment alternative to stocks, bonds or cash.

CAPITALIZATION RATES & REAL ESTATE RETURNS

Commercial real estate should be purchased with the mindset of buying an income stream. Many investors get caught up in the quick flip mentality, and while some succeed in executing a buy and flip strategy, many do not. Especially here in the Midwest, the highs of the market are not as high and the lows not as low as in either coastal cities or tourist destinations. In essence, the Midwest is more stable. Over time, investors need to remember that on average, 75% of commercial real estate returns are derived from income, and the balance of the return is attributable to appreciation. Although commercial real estate should not be a "traders market", this is a good time to invest as long-term values are increasing.

2012 Class A Average Capitalization Rates		
PRODUCT TYPE	**NATIONAL**	**KANSAS CITY**
Multifamily	**5.74%**	**5.94%**
Strip Centers	**7.06%**	**7.75%**
Warehouse (Ind.)	**7.13%**	**7.50%**
Suburban Office	**7.53%**	**8.25%**
Medical Office	**7.94%**	**8.00%**

Source: National cap rates based on PWC 3Q12 Real Estate Investor Survey; Kansas City cap rates based on Block Real Estate Services' research.

Over the last year, we have seen cap rates depress with the most activity in the multifamily and industrial sectors. (See chart referencing 2012 Class A Average Capitalization Rates) Class A multifamily and industrial asset classes have seen a 25 to 50 basis point drop in cap rates with the largest movement being Kansas City industrial. In 2011, we quoted a cap rate of 8% for Kansas City industrial product, but sales in 2012 support a reduced cap rate of 7.5%.

Multifamily continues to be red hot and provides the clearest analysis due to the large number of trades that occur each year in this sector. Nationally, cap rates dropped 40 basis points, while cap rates in Kansas City dropped 35 basis points. The largest two transactions also garnered the lowest cap rates at 5.75% each for the sale of The Crossing ($54.6 million) and Market Station ($52.5 million). The third-largest transaction, Briarcliff, posted a cap rate of 5.9% early in the year when interest rates were higher, causing speculation that it could have set the benchmark for cap rates if the transaction had occurred closer to year-end.

Cap rates are compressing for several reasons:

1. Lack of quality offerings in the market.

2. Commercial real estate is in favor in the investment world and the equity flow into this sector is due to the inability of investors to find suitable yield in other investment alternatives.

3. Historically low interest rates have allowed buyers who use debt to get more aggressive on pricing but still achieve their return hurdles, due to a spread in investment yields over the interest rate on their debt.

As noted in last year's annual report, there is still a wide gap in pricing (cap rates) between the "haves and have nots." While cap rates have steadily compressed in Class A assets, Class B and& C properties have continued to lag. In the pre-recession period of 2004-2007, cap rates of all asset classes, regardless of property type, moved in conjunction with one another. We have not seen that over the last few years. In the pre-2008 days of the commercial real estate investment world, buyers, lenders, appraisers and all stakeholders would give income credit for vacancy, master leases and the

Essex Place, a 352-unit apartment community in Overland Park, is 95% occupied and has received $2.6 million in improvements during the past two years. This project recently sold to Bridge Partners for $25.5 million.

prospects of future rent growth. Underwriting standards by all stakeholders continue to be much stricter, especially in Class B and C properties. Lenders and buyers examine the in-place income, and value properties based on historical performance as opposed to the prospect of future performance. Therefore, a greater focus has been implemented by investors to focus more on the top submarkets in any given city. Properties in the top submarkets are always the first to lease and the first to see rent growth. Also, infill locations with high barriers to entry are the most sought-after for new development projects.

As reported last year, the focus of investors on desired property profiles has not seen much movement. On a national level, this chart shows how assets are ranked regardless of property type:

Haves	Have Nots
1. Core Product in Gateway Cities/ Secondary markets 2. Foreclosed properties in excellent locations or under-leased relative to market rents 3. Value-add properties in the top submarkets regardless of city	1. Core plus (small value add component), properties that are 75-85% leased 2. Properties with in-place above market debt 3. Single-tenant assets with suspect credit and/or lease terms of less than seven years

LONG-TERM DEBT MARKET AND INTEREST RATE ENVIRONMENT

Long-term debt is abundant for the right deals. Lenders are looking for excellent locations and solid income streams with good credit borrowers. As property and market fundamentals improve, the "rich will get richer" and more properties will meet the standards of life insurance lenders and banks. Quality properties owned and operated by excellent borrowers will be able to lock in cheap money. But borrowers who need capital infusion will continue to be left out or in limbo with their lender, and forced to try and extend their loans.

Lenders' underwriting has also swung back into focus on the income side of real estate and although debt is extremely cheap, loan-to-value ratios have remained tight. Lenders are focusing on current income during underwriting and being stingy to project any income growth moving forward. In a recent survey conducted by PWC (formerly Price Waterhouse Cooper), 39% of respondents believe underwriting standards will be more rigorous in 2013, while only 19% think standards will soften. Further impacting the ability to finance questionable acquisitions is $300 billion in loan maturities in 2013, which will force borrowers to seek short-term solutions that often include full recourse to the borrowers.

Mezzanine lenders are more active today than ever, and these lenders in the middle of the capital stack are able to achieve higher returns for less risk than current equity investments. Many of the mezzanine lenders are pricing their loans in hopes that they get the property back and step into the equity position.

"A search for yield in a low interest rate environment leads some to argue that sub 5% cap rates are rational given the spread to treasuries."
Emerging Trends in Real Estate 2013

Commercial Mortgage Backed Securities (CMBS) loans have remained mostly out of favor and have been unable to help the lower quality borrowers that CMBS lenders catered to before the recession. Bond investors still feel the burn of the bets they made on CMBS tranches in which they did not know what they were buying and the underwriting risks were unclear. While CMBS issuance will increase, these financing investments will be far short of the levels of several years ago and will not be the major source of funding in commercial real estate in 2013.

CONTINUED SUPPORT FROM THE FED

The Federal Reserve announced on December 12, 2012 that it will keep interest rates low until unemployment or inflation rates hit very specific levels. Federal Reserve policymakers have just said in September 2012 that interest rates would likely remain low through the first half of 2015. Now, the Federal Reserve indicated it will not raise interest rates until unemployment drops below 6.5% or if inflation rises above 2.5%. The Fed expects inflation to run at or below its 2% target for the coming one to three years. The jobless rate was 7.7% in November 2012. Though economic activity continues to grow modestly and the unemployment rate continues to drop at a slow pace, the Fed is worried that the economy is not strong enough to sustain job growth without continued support from the Fed's monetary policies. Also, while the unemployment rate dropped, the underemployment rate is substantially higher and the labor participation rate remains less than 64%, near its worst ever level.

SELL OR REFINANCE QUANDARY

On average, commercial real estate investors/owners focus on a ten year life cycle. The typical cycle includes acquiring the asset, placing ten year fixed rate financing with life insurance companies (or other on book lenders), holding and operating the asset, and disposing at the end of the ten-year window. However, due to the recession that started in 2008, income levels have been depressed for most of this time so now owners are electing to refinance and hold through the next ten-year period.

This strategy is being implemented for several reasons:

Memphis-based real estate investment trust MAA purchased Market Station, a 323-unit urban mid-rise apartment community located in the River Market area, for $52.5 million and at a 5.75% cap rate.

1) Fixed-rate financing placed in 2002 and 2003 had an interest rate of around 6.5-7.5% and now owners are replacing existing debt with new financing between 3.75-4.25%. Even if income levels are off the highs of the mid 2000s, reducing mortgage payments can improve property cash flows tremendously.

2) The other dilemma owners are currently facing is the lack of options to recycle their equity into new deals. If an owner elects to sell an asset today, the lack of quality offerings (especially in Kansas City) in the market makes it challenging for them to sell and then find a suitable replacement property. Due to the hold and refinance strategy we are seeing, fewer 1031 tax-free exchanges for new acquisitions are taking place and more deals are being done with new equity.

Assets for sale with above market assumable fixed-rate financing are extremely challenging to dispose of right now and are out of favor with investors. Owners are better off holding until the financing matures rather than taking a discount. Buyers evaluate assumable debt transactions with the assumption that they could place new market debt on the property and work backwards to achieve their return hurdles when assuming higher than market debt. Obviously this impacts sales pricing negatively for the seller and in most cases, the seller cannot achieve the true value of the property.

COMMERCIAL REAL ESTATE: WHO'S BUYING?

The most active buyers for 2012 in the United States included Equity Residential (multifamily), Simon Property Group (retail), Clarion (office) and Industrial Income Trust (industrial). The most active sellers were Lehman Brothers (multifamily), Lightstone Group (retail), Hines (office) and Dexus Property Group (industrial).

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 the following and countless others:

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

New entrants in the Kansas City market in 2012 included Chambers Street Properties with the purchase of the Coleman Distribution Warehouse in Gardner, Kansas; JMG Realty which acquired Lexington Farms Apartments in Overland Park, Kansas; Crow Holdings stepped back into the marketplace with the purchase of Briarcliff Apartments in Kansas City, Missouri; and Nightingale Properties completed a joint venture with David Werner on the largest office transaction of the year with the acquisition of City Center Square in Kansas City's Central Business District. Kansas City will continue to be an attractive investment market when product is available as institutions and private equity firms see more stable investment returns at cap rates which are 50 to 100 basis points higher than other first-tier markets.

"Commodity properties,
except apartments, will continue to struggle
to establish pricing power with tenants."
Emerging Trends in Real Estate 2013

COMMERCIAL REAL ESTATE PROPERTY TYPE PERSPECTIVES

Multifamily remains the most preferred asset class with highly functional industrial product a close second. Power Centers (and all retail) saw an uptick in activity and suburban office remains the least favorable category. High vacancies and sluggish growth by corporations and retailers will continue to see rents stay flat with limited growth in office, retail and Class B and C industrial properties. Medical office properties are a niche play that will continue to experience above-average demand as our aging population requires more and more health care services.

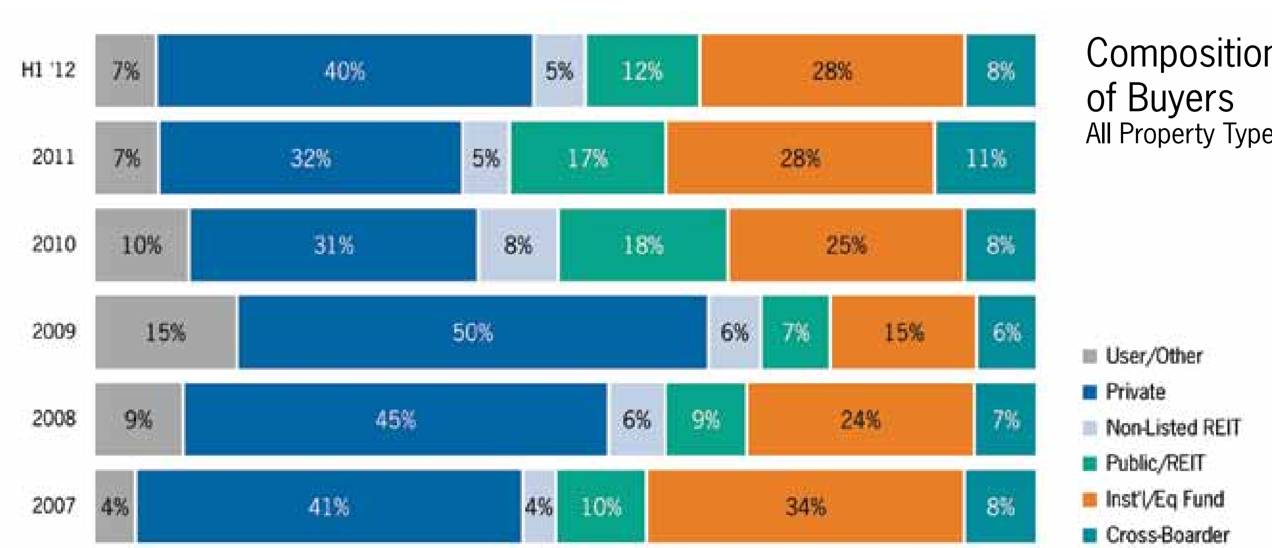
MULTIFAMILY

Multifamily continues to be the sweetheart of the commercial real estate investment world. As home ownership falls out of favor with Generation Y'ers and downsizing baby boomers sell their homes and move to apartments, this increase in demand spurs new development. New projects in the right locations have had trouble keeping up with demand. Lease-ups of new projects have consistently outpaced projections. Over the long-term, apartments will continue to outperform all other commercial real estate classes. Apartments also provide investors with the greatest amount of liquidity in the commercial real estate space. Having annual leases with a constant rollover requires less market timing to sell assets as it relates to the underlying property fundamentals. Office, retail and industrial properties are assets with a smaller number of tenants that typically have five-year leases making occupancy less stable and predictable. Buyers of core properties prefer longer term leases in the other asset classes, but annual leases in the multifamily arena are the norm.

Best bets in the multifamily sector will be "in the big cities with job growth." Attractive buys can still be made from sellers that are overleveraged and lenders deposing of assets on the books. Value-add plays are still attractive and attention should be focused on good assets in great locations that could use a modest rehab to help push yields. Additionally, due to the fact that leases are on an annual basis, rents can grow faster and owners can react to the market at a much more nimble pace than in the competing asset classes of retail, office and industrial product.

INDUSTRIAL

The top national industrial markets, including Kansas City, experienced good absorption in 2012 and vacancies continued to decline. For the best buildings, owners are seeing real rent growth but a drop off occurs in functionally obsolete properties that struggle to retain occupancies. The challenge with investing in industrial properties is finding quality investments in good locations. Industrial owners, especially in Kansas City, are longer term holders, and acquiring a critical mass of assets has always been a challenge. This conundrum



(Source: RCA)

is illustrated by a recent market survey of investors that show United States industrial investors are focused on buying (68%), holding (24%) and only 8% of respondents report that they are sellers.

Office/warehouse (flex or research and development space) is a different story. Buyers reported only 23% have the appetite to acquire, 45% reported holding and 32% of office/warehouse owners are sellers. Office/warehouse properties typically sell at higher cap rates (lower valuations) due to the split in income between the office and warehouse portion of the space. Buyers struggle with releasing of space and the uncertainty that the next tenant will require the same split of office and warehouse space which can vastly change the rents achieved on any given space.

The best investment plays are Class A warehouses and lower-finish buildings with good clear height and excellent access to highway systems and population centers. Owners should continue to hold these assets although speculative development is expected to increase over the next few years. This speculative development will not negatively impact existing quality buildings but you will see tenants in Class B and C buildings moving to the new developments for increased square footage, functionality and image. In infill markets such as Johnson County, Kansas and Executive Park, Kansas City and in other similar markets nationwide, investors should be looking for functionally obsolete properties that can be rehabbed into a desirable asset.

RETAIL

Retail properties in 24-hour locations and good demographic areas continue to hum along and occupancy levels have stayed relatively constant as affluent Americans continue to shop. The areas hardest hit in the retail sector have been the suburban power centers and unanchored strip centers. Power Centers have seen a glut of bankruptcies in retailers like Linens-N-Things, Borders and Circuit City to name a few. Theses spaces have been slow to lease and usually are leased to second generation users with less credit and at lower rents. The preferred retailers require dedicated floor plans and footprints and typically look to new developments to build to their specifications. Unanchored strip centers have fallen out of favor in the investment world mostly due to the “mom and pop” tenants that have struggled through the economic downturn.

The most sought-after properties continue to be the Class A+ fortress malls that typically trade back and forth between publicly traded REITs. Outlet mall properties also have come into favor as shoppers continue to be price sensitive. Grocery-anchored centers in good neighborhoods with well performing grocery stores continue to be in favor and are a very high priority with the investment community. Typically these centers have high barriers to entry and for the most part, performed well during the recession. Prime neighborhood shopping will continue to survive as patrons need to buy groceries, clothes and pharmacy items, unlike many of the big box stores such as electronics and other items that are easily purchased online.

The Coleman Company, Inc. opened a new distribution center at Midwest Commerce Center in Gardner, Kansas, in 2009. The $35 million, 1.1 million sq. foot facility, which sits near 175th Street and I-35, was sold in 2012 to Chambers Street Properties for $63 million at a 7.05% cap rate.

OFFICE

Office properties continue to lag behind other property sectors and investors must focus on location more than ever. Commodity assets in the commercial real estate sector are somewhat out of favor in the investment world. Tenants continue to downsize their space per capita requirements, as more employees are working from home and are able to work more away from the office. Landlords are seeing increased tenant improvement cost and higher commission rates to help retain existing tenants and attract new tenants. Current owners are facing issues with properties bought pre-2008 that have seen rents rolled off the highs of the pre-recession levels down to current market rents and in some cases, tenants are also downsizing at lease rollover. Many properties have seen net operating incomes decreasing, capital increasing and mortgage payments staying consistent, thus significantly reducing debt coverage ratios.

The best bets are on well-leased office properties in the top markets and investors should avoid functionally obsolescence properties. Buyers should also focus on green buildings that have energy-efficient systems in place to lower occupancy cost of tenants and provide tenants with "cool" space that attract young professionals. Location has always been a key to well-performing assets, but this has been further emphasized by office buyers in the post-recession environment. Buyers are focusing on 24-hour epicenters that have employment, housing and shopping areas, not just in Gateway cities but environments that fit those criteria such as The Country Club Plaza and Park Place in the Kansas City metro area.

DEVELOPMENT

Construction activity as a whole remained slow to stagnant in 2012 except for a few areas including build-to-suits for all asset classes and multifamily speculative development which is expected to continue into 2013. Except for a few Gateway cities, speculative development in office and retail property types has remained nearly non-existent. This is allowing commercial real estate fundamentals to benefit from "favorable absorption-completion" dynamics, thus allowing rents and vacancy levels to stabilize across all property types. Most areas cannot sustain any new speculative development given weak tenant demand. While this gives current landlords a reprieve, it brings into question the long-term growth of the commercial real estate market as a whole. The Kansas City market is on the verge of more significant speculative industrial development, and several projects were already started in 2012 with a select few local developers planning new projects in 2013.

OFFICE MARKET SALES ACTIVITY

Investment sales in the office sector in 2012 experienced about the same activity as 2011. This is a function of several factors including office property fundamentals still lagging, and the availability of cheap debt allowing owners to hold on and wait for a better window to dispose of assets.

Kansas City did see two large troubled assets trade in 2012. City Center Square was sold by Time Equities to The Nightingale Group although the building had only 49% occupancy. This 650,000 sq. foot Central Business District tower was purchased by Time Equities in 2003 for $26.95 million and was sold in November 2012 for $17.5 million. Glenwood Towers at 95th and Metcalf in Overland Park was recently purchased for $4 million by a group controlled by Ryan Transportation as an owner/user acquisition. Glenwood Towers was only 12% occupied at the time of sale. The asset was purchased by Lionstone Group of Houston in December 2006 for $21 million. Deutsche Bank held the note on the two buildings after Lionstone Properties could not fill the vacant space that Embarq vacated, leading to a note sale. This project was nearing functional obsolescence due to small floor plates, old and failing infrastructure, and being in an "in between" market. However, this owner/user buyer can occupy the smaller floor plates for its business and therefore will have an excellent long-term investment.

Other notable sales in the Kansas City market included the FBI Field Office in Kansas City sold for a 7.76% cap rate to GPT Properties Trust; the former Headache and Pain Center at 4801 College in Leawood, Kansas, which sold at $188 per square foot to a buyer with a long-term tenant in hand at an overall cap rate of 8.28%. The other significant user sale occurred on the Country Club Plaza with Country Club Bank's

City Center Square was purchased by Nightingale Properties, an investment group with headquarters in Seattle and New York City. The purchase price was $17.5 million, much less than the $26.95 million sale price of the building in 2003.

ColonyRealty Partners – represented by the National CBRE sales team and Block Real Estate Services – sold the 110,000 sq. foot Perimeter Park Distribution Center in Shawnee, Kansas, at 83rd Street and Kansas Highway 7, to Welsh Property Trust, LLC for $5.6 million at a 7.46% cap rate.

purchase of One Ward Parkway from Highwoods Properties Trust. The property was occupied at the time of sale but tenants were given enough time to vacate to accommodate Country Club Bank's use of the property. As in years past, institutional and private investors focus on the Country Club Plaza and South Johnson County as the two top submarkets when deploying capital into the Kansas City office market.

INDUSTRIAL SALES ACTIVITY

As always seems the case, the industrial sector is 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. The Class A industrial market is tight in Johnson County and in fact there are very few infill development sites left. Local and national developers have begun design phases for speculative development, which speaks to the strength of the Kansas City industrial market. Like in years past, there are always more buyers of high quality industrial properties in Kansas City than sellers. This helps support the low cap rates that seem to be the norm in the industrial investment arena in Kansas City.

The largest sale was the Coleman Distribution Warehouse in Gardner, Kansas. This 1.1 million sq. foot property was developed by USAA in 2009 and was recently sold to Chamber Street Properties well above replacement cost at $56.87 per square foot at a 7.05% cap rate.

Other intriguing sales include Stag Industrial's purchase of 1508 N. Chouteau in Executive Park for a 9% cap. ColonyRealty Partners reduced its Kansas City industrial holdings with the sale of the Perimeter Park distribution building to Welsh Property Trust, LLC and Botts Road to a group controlled by Block Real Estate Services. 4600 Kansas was purchased vacant at auction by a Block Real Estate Investment Group for $30 per square foot. Two other noteworthy user sales occurred in Johnson County with Adam's Cable purchase of 9635 Widmer Road for $41 per square foot and the former Apria Healthcare asset sale for $47 per square foot.

Look for the same if not more investment activity in 2013 as investors continue to target Kansas City as a premier market to acquire strong performing industrial investment properties.

RETAIL PROPERTY SALES ACTIVITY

As retailers continued to slow their growth plans, retailers with strong histories and solid business plans were still active and continued to take advantage of empty buildings vacated by failed retailers. As mentioned in the Retail Section of this report, the big news in Kansas City was the land acquisition by IKEA of the failed Merriam Village project in Merriam for a new building development.

On the sales front there were several significant transactions including 119th Street Development, LLC's sale of One Nineteen in Leawood to 119 Leawood, LLC (Glimcher Realty Trust). Glimcher already controlled the opposite corner with Leawood Town Center, one of the most successful power centers in Kansas City, and this further motivated them to buy at a market-leading 5.78% cap rate. The other market-leading transaction was the 50% partial sale of SummitWoods Shopping Center in Lee's Summit, which equated to a $90 million valuation. A year-end sale occurred with the first Kansas City purchase by MDC Properties of The Fountains center on 119th Street across from the Sprint Campus. MDC Properties paid $44.15 million which equated to a 6.31% cap rate.

A group controlled by Mike Boyd purchased the Nall Hills

Shopping Center (Nut & Bolts) at a 9.25% cap rate. Look for this group to renovate the center and push rents. Several small strip centers sold in 2012 including The Shoppes at Coronado Place I for a 7.75% cap rate to Passco Cos. and the Parkway Shopping Center in Lawrence, Kansas at an 8.34% cap rate. Independence Plaza was purchased as a value-add play for $93 per square foot and a significant center traded in Topeka when Weingarten Realty Trust sold the Kohl's and Barnes & Noble center for an 8.4% cap rate. The 77% occupied Heatherwood Village at 149th & Metcalf sold for $103 per square foot and at a 9.55% cap rate on in-place income.

What is important to note in 2012 was the void of grocery anchored center sales. Grocery anchored retail centers are always highly sought after by investors, but they are hard to shake loose from current owners. Infill anchored retail will be the product in 2013 that investors desire.

MULTIFAMILY SALES ACTIVITY

With long-term debt at sub-4% interest rates provided by Fannie Mae and Freddie Mac, buyer activity remained "white hot" just like 2011 and don't expect the pace to slow in 2013. The number of quality multifamily investment sales in 2012 outpaced projections. There were 13 transactions larger than $20 million with the average Class cap rates of 5.94% and Class B cap rates of 7.22%.

The select transactions that made our comparable list included GoldOller's purchase of the Crossings at Barry Road for a 5.75% cap rate; Lincoln Property Company's acquisition of Camden Passage for a 6.5% cap rate; Lexington Farms sale for a 5.86% cap rate to JMG Realty; Mid-America Apartments purchase of the Market Station Apartments for a 5.75% cap rate; Aragon's purchase of The Fairways at 6.05% cap rate; and Crow Holdings' purchase of the infill, newly developed Briarcliff Apartments at a 5.9% cap rate. Rents continued to grow at a rate of 2.5% and occupancy improved to 93.5% across the market.

2013 will be another interesting year in the Kansas City apartment market with several seasoned developers breaking ground on new construction. Investors will continue to target Johnson County for suburban product as well as infill locations and new locations near significant office or retail activity.

WHAT IS AHEAD FOR 2013?

The U.S. economy should continue to generate greater leasing activity and decreased vacancies across all property types. Multifamily will remain the darling of investors, medical office properties will garner investor attention, and Class A and highly functional industrial product is expected to see the biggest improvement in 2013. But unanchored retail and suburban office remain the most questioned categories by investors heading into 2013.

Owners will continue to test the sales market, but most will find capitalizing on low interest rates by refinancing properties through 2013 is a preferred option. Lenders will look to place

2013 Commercial Real Estate Outlook

Office	RENT GROWTH	VACANCY	NET ABSORPTION
National	↑	↓	↑
Kansas City	■	↓	↑
Multifamily			
National	↑	↓	↑
Kansas City	↑	↓	↑
Industrial			
National	↑	↓	↑
Kansas City	↑	↓	↑
Retail			
National	↑	↓	↑
Kansas City	■	↓	↑

Source: Deloitte Commercial Real Estate Outlook 2012

more capital into good quality real estate, but will remain stringent in underwriting standards and focus on quality assets, as they clear their balance sheets of foreclosed properties.

Kansas City has and will continue to be a highly desirable market on the investment front. There will be more buyers than sellers in Kansas City in 2013, thus helping to further compress cap rates for quality properties. Similar to the U.S. as a whole, in Kansas City, multifamily will continue to lead the way in investment transactions in 2013 followed by industrial, retail and office. As we saw towards the end of 2012, speculative development of apartments and industrial will be in vogue in 2013.

As restraint and lack of confidence in the current economy persists, the commercial real estate recovery remains uneven and sustained momentum will be stymied. But we have seen certain commercial real estate indices on the mend as investment transaction volumes, property fundamentals and capital allocations of debt and equity all improve.

The demand for high-quality properties will remain elevated in Gateway cities and secondary markets as investors seek stable returns and pursue yield in our uncertain current economic environment. Equity will remain ample from cash flush REITs, yield-chasing pension funds and foreign investors looking to find a safe haven in the United States. These investors will need to remain disciplined as investment markets further tighten in Gateway cities and investment focus continues to shift to other regions of the U.S. United States real estate, when properly underwritten, will remain the number one place to deploy capital in the global real estate investment arena.

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

Investors Chart and Sales Records

Office Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
City Center Square 1100 Main Street, Kansas City, MO	653,674	$17,500,000 $26.77	Value Add (49% Occupied)	Buyer: The Nightingale Group (JV w/ David Werner) Seller: Time Equities, Inc.
Glenwood I & II (Shamrock Towers) 9300 and 9350 Metcalf Avenue, Overland Park, KS	283,503	$4,000,000 $14.11	User	Buyer: Shamrock Trading Corp (Ryan Transportation) Seller: Cf02 Overland Park, LLC (Deutsche Bank - Forclosure)
FBI Field Office 1300 Summit Street, Kansas City, MO	86,738	$15,700,000 $181.00	7.76%	Buyer: GPT Properties Trust Seller: Rubicaon GSA II Kansas City LLC
One Ward Parkway One Ward Parkway, Kansas City, MO	62,116	$6,500,000 $104.64	User	Buyer: Country Club Bank Seller: Highwoods Properties
2000 Shawnee Mission Parkway Mission Woods, KS	31,491	$1,950,000 $61.92	Value Add/User	Buyer: Karbank Techpark, LLP Seller: JD R. Real Estate Ventures (JD Reece)
Former Headache and Pain Center 4801 College Boulevard, Leawood, KS	18,043	$3,401,294 $188.51	8.28%	Buyer: Karin College, LLC (Chuck Peters) Seller: MMIC Leawood MOB, LLC

Industrial Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
Coleman Distribution Warehouse 17150 Mercury Street, Olathe, KS	1,107,000	$62,950,000 $56.87	7.05%	Buyer: Chambers Street Properties Seller: US Industrial REIT II (USAA Real Estate)
Botts Road 14100 Botts Road, Grandview, MO	499,144	$16,100,000 $32.26	8.25%	Buyer: Botts Road Associates, LLC (BRES Investment Group) Seller: CRP-2 Holdings Botts, LLC (Colony Realty Partners)
1508 N. Chouteau Trafficway Kansas City, MO	226,579	$8,000,000 $35.31	9.00%	Buyer: Stag Industrial Seller: Monroe Investment Partners LLC
4600 Kansas Avenue Kansas City, KS	120,000	$3,585,750 $29.88	N/A Investor	Buyer: BK Properties, LLC (BRES Investment Group) Seller: Bankruptcy Court Sale/Mazuma Credit Union, Lead Debtor
Perimeter Park Distribution Center 8500-8580 Hedge Lane Terrace, Shawnee, KS	110,360	$5,680,000 $51.47	7.46%	Buyer: WPT Perimeter Park, LLC (Welsh Property Trust, LLC) Seller: CRP Holding B, LP (ColonyRealty Partners)
Former Apria Healthcare 9500 Widmer Road, Lenexa, KS	70,000	$3,300,000 $47.14	User	Buyer: Skates, L.C. (Glenn Zumbehl) Seller: General Electric Credit Equities, Inc.
9635 Widmer Road Lenexa, KS	64,521	$2,635,000 $40.84	User	Buyer: MCA, LLC (Adams Cable) Seller: The Pack America Corp

Retail Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
SummitWoods Crossing 1600-1632 Chipman Road, Lee's Summit, MO	399,119	$90,000,000 $225.50	7.00% Approximate	Buyer: Summitwood Spe, LLC (50% Partial Sale) Seller: BLT Summit Woods, LLC; Ville 36 Investment Company, LLC; Summit Woods Investment Company, LLC & Necor, LLC
One Nineteen Shopping Center 4303 W. 119th Street, Leawood, KS	167,238	$67,500,000 $403.62	5.78%	Buyer: 119 Leawood, LLC (Glimcher Realty Trust) Seller: 119th Street Development, LLC
The Fountains 6301-6621 W. 119th Street, Overland Park, KS	131,330	$44,150,000 $336.18	6.31%	Buyer: MDC Properties Seller: G-K Development Co.
Nall Hills Shopping Center 9502-9628 Nall Avenue, Overland Park, KS	144,101	$9,500,000 $65.93	9.25%	Buyer: Nall Group, LLC (Mike Boyd) Seller: Varnum-Armstrong-Deeter, LLC
Kohl's/Barnes & Noble 6130 SW 17th Street, Topeka, KS	115,684	$11,750,000 $101.57	8.39%	Buyer: T-Town Investment Co., LLC Seller: Weingarten Realty Trust
Independence Plaza 18675 E. 39th Street, Independence, MO	29,143	$2,700,000 $92.65	9.90%	Buyer: Independence Plaza Partners Seller: McGregor Interests Indeplaza, LLC (Mac McGregor)
Heatherwood Village 149th & Metcalf Avenue, Overland Park, KS	32,375	$3,340,000 $103.17	9.55% (77% Occupied)	Buyer: David Noon Controlled Group Seller: Local Partnerhip

Multifamily Properties	Units	Sales Price / Per Unit	Cap Rate	Buyer/Seller
Crossing at Barry Road 7831 NW Roanridge Road, Kansas City, MO	624	$54,550,000 $87,420	5.75%	Buyer: GoldOller Barry Road Seller: Creekstone Partners
Camden Passage 6360 N. London Avenue, Kansas City, MO	596	$40,700,000 $68,289	6.50%	Buyer: Lincoln Property Company Seller: Camden Property Trust
Lexington Farms 8500 W. 131st Place, Overland Park, KS	404	$38,550,000 $95,421	5.86%	Buyer: JMG Realty, Inc. Seller: The Northwestern Mutual Life
Market Station Apartments 240 W. 2nd Street, Kansas City, MO	323	$52,500,000 $162,539	5.75%	Buyer: Mid-America Apartments, L.P. Seller: Market Station, LLC
The Fairway Apartments 3460 NE Akin Boulevard, Lee's Summit, MO	274	$27,500,000 $100,365	6.05%	Buyer: Aragon Holdings Seller: Chaple Ridge Multifaimly, LLC (Dalmark Group)
Briarcliff City Apartments 3880 N. Mulberry Drive, Kansas City, MO	263	$43,800,000 $166,540	5.90%	Buyer: Crow Holdings Seller: Kansas City Life Insurance Company

Kansas City Multifamily Market

Lexington Farms Apartment Homes, a Class A complex in Overland Park, Kansas, sold for $38.6 million, at a 5.86% cap rate to JMG Realty.

Multifamily properties remained at the top of investors' wish lists throughout 2012. As the economy continues its sluggish recovery and uncertainty is the new normal, individuals have gravitated towards apartments as an affordable, flexible form of housing.

With the amenities being incorporated into newer Class A developments, the renter-by-choice pool has also grown steadily. This has provided a solid footing for key rental housing fundamentals, which have experienced occupancy and rental growth. This demand, coupled with historically low interest rates, has pushed investor pricing beyond their previous pre-recession peak.

ECONOMIC TRENDS

The entrepreneurial spirit surging in Kansas City has led the area to become a national leader in technology. After receiving proposals from 1,100 municipalities, Google recently announced it will build its first ultra-high-speed broadband network in Kansas City. Google Fiber will deliver Internet speeds more than 100 times faster than what most Americans experience. The Wall Street Journal recently coined Kansas City as "Silicon Prairie" and believes that the first Google Fiber network "will likely bolster cloud-based technologies and pave the way for high-definition streaming services that will be hard to find elsewhere." This has been especially beneficial for large corporations and institutions in the area, including Cerner Corp., Sprint, KU Medical Center, Children's Mercy Hospital, and the University of Missouri-Kansas City.

Kansas City outpaced the national economy with unemployment falling in 2012 from 7.5% at the start of the year to 6.1% at year-end. Unemployment was lowest in the Johnson County submarket at 5.5%. This compares to national unemployment of 7.7% at year-end. The Federal Reserve has stated it will continue to provide accommodative monetary policy in the form of low interest rates and quantitative easing until national unemployment reaches 6.5%. With the economy currently adding about 150,000 jobs per month, 6.5% unemployment is expected to occur in 2015. This could happen in 2014 if the pace of job growth increases to 200,000 per month. Understanding job growth and unemployment will be important to apartment owners as interest rates have a large impact on borrowing costs, cap rates and single-family affordability.

Kansas City has experienced job growth across a wide variety of sectors, including professional and business services

(+9,900 jobs), leisure and hospitality (+4,500 jobs), manufacturing (+1,900 jobs), education and health services (+1,300 jobs) and government employment (+1,200 jobs). Hiring professional business services, leisure, hospitality and manufacturing outpaced national trends, while the employment increases did not keep pace in education, health services and government employment.

APARTMENT MARKET OVERVIEW

The multifamily market continues to lead the U.S. housing and real estate recovery. Increasing numbers of retiring baby boomers, combined with the entry of the Millennial generation into the renter pool, has created tremendous demand for high quality, high amenity apartment housing. The collapse of the single-family market only accelerated these trends over the last several years, causing national multifamily vacancy to fall to 5% by year-end 2012, down from 5.4% the previous year. At the same time, effective rents have grown by 4.3%, reflecting constricted supply.

The multifamily market continues to lead U.S. housing and real estate recovery.

New deliveries in 2012 were approximately 85,000 units, still critically short of a conservative demand forecast for 120,000 units. This has initiated a new development cycle across the country, particularly in top-tier urban markets such as Boston, Los Angeles, New York and San Francisco and in states where job growth remains strong such as Texas. As the nation gains potential renters and loses 130,000 units per year to obsolescence and redevelopment, this development cycle is expected to grow over the next decade with the need for as many as 300,000 new rental units each year. Experts are predicting new completions of 140,000 to 175,000 in 2013 and 2014. As in any cycle, however, apartment developers need to be cautious regarding the potential for oversupply. Development is expected to reach historically normal levels by the end of 2013.

Over the near to medium-term, gains in occupancy and effective rent growth will remain strong. In 2013, national apartment occupancy is expected to remain at or slightly more than 95% with effective rent growth between 3.6% and 3.8%.

MIRRORING NATIONAL TRENDS

Effective rental growth was 2.5% in 2012 and is expected to continue at an annual rate of 3.2% in 2013. The overall occupancy rate in Kansas City was 93.5% at year-end and is expected to near 94% in 2013. Continuing a trend from previous years, Class A properties in the South Johnson County, the Plaza and North Johnson County continue to show high occupancy rates of 94.8%, 94.7% and 96.4% respectively. The positive occupancy trends led to a 2.34% annualized asking rental rate increase for the metropolitan Kansas City market. Class A properties are expected to realize a 2.5% rental rate increase, while the B and C properties are expected to see growth at 3%. Limited vacancies in the Class A properties have positively impacted B and C assets. Potential residents are being excluded from some Class A properties due to higher tenant screening criteria or are leaving voluntarily as landlords demand rent increases at renewal.

The Wyandotte County and South Kansas City submarkets continue to show the highest vacancy in the metro areas, with Wyandotte County at 11% and South Kansas City at 8.5%. New residential, commercial and retail developments in western Wyandotte County, however, are expected to upgrade the quality and availability of rental offerings in the submarket

GoldOller Real Estate Investments LLC, a Philadelphia-based investment group, purchased The Crossing at Barry Road apartment complex for $54.55 million. The 624-unit complex was sold by Creekstone Companies at a 5.75% cap rate.

The Briarcliff City Apartments, a high-end, 263-unit apartment complex north of the Missouri River, consists of six buildings. The 335,000 sq. foot, Class A complex sold for $43.8 million, at a cap rate of 5.9%, to Crow Holdings.

as several projects deliver units near the Kansas Speedway and Legends Shopping District.

APARTMENT DEVELOPMENT ACTIVITY

Developers added 900 units to the apartment supply in 2012, short of the 10-year average of about 950 units. However, this is an increase from 2010 and 2011 when 810 and 657 units were delivered, respectively, and signals a return of apartment development at a significant level. During the first six to nine months of 2013, approximately 1,572 units are expected to break ground or achieve delivery. The development of multifamily in South Johnson County and the Kansas Speedway/Legends Shopping District areas will dominate the development scene over the next year.

Development projects being completed in Johnson County include The Manor Homes of Prairie Trace (280 units), The Mansions at Canyon Creek (220 units), The Village at Mission Farms (212 units) and Horizon Trail (168 units). Tanner and White's exciting redevelopment of Woodside Health Club is expected to contain at least 330 Class A+ units, and is projected to deliver between fourth quarter 2013 and second quarter 2014.

Western Wyandotte County will add 4,000 jobs at Cerner's new campus adjacent to the Kansas Speedway and Legends Shopping District. This has jump-started the first multifamily construction in the area in several decades with The Heights at Delaware Ridge (228 units) and Prairie Heights (333 units). Gold Crown Properties and The Filios Companies are pioneering, but others are already making plans to follow their lead.

Kansas City will add The Residences at Burlington Creek (298 units) north of the river and the Power & Light Apartments (230 units) in downtown. Power & Light is a natural addition for The Cordish Companies as they add to their adjacent dining and shopping district of the same name.

INVESTMENT TRENDS

Developers are rushing to meet resident and investor demand for multifamily properties, particularly in light of falling capitalization rates fueled by inexpensive debt. Investors snapped up nearly $100 billion of new and existing communities in 2012, an increase of more than 65% from 2011.

Worries about pending changes to the tax laws and accommodative monetary policy helped drive sales volume in the second half of the 2012. Properties valued at $20 million or more represented nearly 60% of all transaction volume, consistent with 2011 and a figure that is typically boosted by larger portfolio sales. In 2012, this included one of the largest single transactions in recent history with the $17 billion, 58,000-unit sale of Archstone Inc. by Lehman Brothers Holdings to Equity Residential and AvalonBay Communities. Equity Residential will take 60% of Archstone while AvalonBay will buy the remaining 40%, allowing them to remain the two largest landlords in the U.S. by market value. The deal is scheduled to close in the first quarter of 2013.

While large, institutional trades made the headlines, private buyers regained their hold as the top buying group in 2012 with a 56% share of all purchases, up from 48% the year before. Institutions began increasing average yield expectations from

5.5% to 6%, while private buyers went the other way with a fall to 6.25% from 6.5%, making them more competitive in the marketplace. Capitalization rates in primary markets continued a gradual decline of 10 basis points to 5.4% while capitalization rates in second-tier cities fell 25 basis points to 6.65%. This demonstrates increased investor interest in secondary markets as a source of higher, more predictable yields for investors, a benefit to the Kansas City marketplace.

In 2012, sales in the Kansas City metropolitan area easily surpassed 2011 levels, growing by more than 25% to more than $550 million. In mirroring national trends, Class A properties comprised 65% of the sales volume. Transactions over $20 million accounted for nearly 80% of transaction volume. Capitalization rates for Class A properties moved down 35 basis points to 5.94%, while the average price per unit rose more than $11,000 to $106,813. Kansas City led the way with nearly $162 million in Class A transactions, including The Crossing at Barry Road ($54.6 million), Market Station ($52.5 million), Briarcliff ($43.8 million), and The Neptune ($11 million). Johnson County featured nearly $120 million of Class A transactions, including Lexington Farms ($38.6 million), Clear Creek ($29.2 million), Tuckaway ($25.5 million), and Park Edge ($24 million). Eastern Jackson County also had several notable deals, including Pepperwood ($27.8 million), The Fairways at Lakewood ($27.5 million), and Eastland Trails ($24.5 million).

Class B sales were also brisk in 2012 with transaction volume approaching $150 million, outpacing 2011 by 25%. Capitalization rates remained relatively flat at 7.22%, but average unit prices increased by $9,200 to $64,507, demonstrating higher prices through growth in effective rental income. Class B sales were dominated by a handful of large transactions, including Camden Passage ($40.7 million) in Kansas City and Rosehill Pointe ($28.8 million), Essex Place ($25.5 million) and Shawnee Station ($17.3 million) in Johnson County.

> It was a robust year for Kansas City apartments. Strong fundamentals, low interest rates and improving demographics indicate that 2013 will be an encore performance.

Class C properties also experienced capitalization rate compression, falling from 9.71% in 2011 to 9.04% in 2012. Unit prices for Class C properties averaged $28,467 while unit prices for Class C-minus properties averaged $14,138. Class C-minus properties typically traded without stabilized capitalization rates due to the need for lease-up or additional capital. Notable Class C property sales included Knollwood ($10.3 million) and The Hills ($4.3 million) in Kansas City and Thomasbrook ($6.6 million) in Overland Park.

Overall, it was a robust year for Kansas City apartments. Strong fundamentals, low interest rates and improving demographics indicate that 2013 will be an encore performance.

Contributors: Aaron M. Mesmer, Investment Sales & Acquisitions and Justin Larson, VP/Director of Sustainability.

Maxus Realty Trust Inc. bought the 498-unit Rosehill Pointe Apartments complex in Lenexa, Kansas, for $28.8 million at a 7% cap rate.

Funds I-IV

With the presidential election over, corporate decision-makers are finally ready to think about their real estate needs. Historically low interest rates, coupled with a falling unemployment rate, has helped the overall building occupancies in each of our Block Funds portfolios. Below are some of the selected highlights on each of our Block Funds.

Siemens reached a lease renewal agreement for 56,000 square feet at our Lakeside building in Norcross, Georgia.

BLOCK FUND I HIGHLIGHTS

- The occupancy of 4400 Corporate Centre improved dramatically with ServiceLink leasing 27,368 square feet, MII Management taking up 8,803 square feet, and Gaughan & Cundiff moving in to 3,744 square feet. Additionally, we were able to keep the AllState Claims Center in the building for what is equivalent to 1,978 square feet, which is not included in our rentable square feet, bringing income straight to our bottom line. These transactions represent over 40,000 square feet of new deals in the first half of 2012.
- A 36-month lease was executed with Quidsi, a division of Amazon.com, for the entire 100,940 square feet at our former Staples building.
- The Block Fund I portfolio is currently 88% occupied after we completed several big leases during 2012.

BLOCK FUND II HIGHLIGHTS

- Pine Ridge Building 21 is now 88% leased, up from 56%, with the new 8,500 sq. foot lease to Retail Data Systems for five years.
- We reached an agreement with Kimley-Horn to expand from 5,730 square feet to 13,207 square feet and they executed a new 66-month lease.
- Siemens, which occupies 56,000 square feet at our Lakeside building in Norcross, Georgia, reached a lease renewal agreement with Block Funds. This is an excellent deal for Block Funds and allows us to keep a very strong tenant at a good rental rate with future rental increases.

BLOCK FUND III HIGHLIGHTS

- A new lease with Title Boxing was executed at Plaza West in Topeka for 4,600 square feet.
- Power Engineers, which occupies 4,848 square feet, renewed in College Crossing for three years and expanded, taking up the remaining building vacancy.
- An agreement has been reached with Unum Life Insurance Company to allow us a par payoff on our first mortgage at Compass Pointe in St. Louis. This allows Block Funds to take advantage of the lower interest rate environment, increase our monthly cash flow, and position the property for potential sale to a user or investor.

BLOCK FUND IV HIGHLIGHTS

- Since Fund IV is a portfolio of long-term, single-tenant, net-leased buildings, there is not a lot of new activity to report. All of our tenants are paying rent on a timely basis and we are amortizing our first mortgage debt at a rapid pace since two of our buildings are on 17-year amortizations.
- Kiewit Power Constructors may have some interest in consolidating off-site space in our proposed Renner Corporate Centre II building. If they do, Block Funds would work toward a long-term lease extension at our Renner Corporate Centre I building.

INVESTMENT SYNDICATIONS

- The Block Funds team is currently acquiring single tenant assets with a focus on long-term net leases. These transactions are outside of the Fund structure and are set up as one-off deals via a single asset LLC. Multiple investment opportunities are available for those interested investors.
- The average cash-on-cash return for these long-term single tenant deals over the 10-year hold will be in excess of 10%.

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

The year 2012 was a rebound year for construction and development as a whole for the Kansas City marketplace. The rebound by sector differed slightly across the board, but overall construction activity was up significantly in 2012 compared to past years. Construction pricing and material pricing have started to rise as well, but haven't quite approached the levels prior to the economic downturn.

EXCITING AND COMPLEX PROJECTS

Block Construction Services (BCS) played an integral role in several significant projects in 2012. After a year-long effort in pursuing Teva Neuroscience for a build-to-suit project, BCS was successful in assisting the Block Development Company team in negotiation and execution of a lease in 2012. Construction for the new five-story, 154,268 sq. foot facility began in June 2012. The project also included a three-story parking structure to support parking requirements for the building. Construction is slated to be complete in the summer of 2013 with Teva occupying the new building by October 2013.

BCS has continued its efforts in assisting the team representing Polsinelli Shughart PC, in their new office/relocation process. Currently our team is in the process of managing construction of the tenant improvements being performed by JE Dunn Construction Company. The anticipated completion of this exciting and complex project will be in the fourth quarter of 2013.

Overall, BCS has seen a significant increase in the volume of construction contracts managed in 2012. BCS managed approximately $14.5 million of tenant improvement construction and capital improvement contracts in Kansas City, approximately $6.5 million of ground-up construction contracts, and consulted on another $11 million of projects. BCS has continued to expand services in the St. Louis market where approximately $2.5 million of TI construction and capital improvement contracts were managed in 2012. The total estimated volume of construction contracts managed in 2012 by BCS was approximately $32 million.

In summary, we are very excited about the potential of new ground-up industrial and office development activity in 2013, the continued increase in the volume of TI construction and capital improvement contracts, as well as the potential for development in the multifamily sector of the market.

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

BCS completed a tenant improvement project at Ameriprise Financial's 15,637 sq. foot space in Overland Park, Kansas.

A few of our projects completed or started in 2012:

Teva Neuroscience
154,268 square foot build-to-suit office development
Overland Park, Kansas

Polsinelli Shughart – Plaza Vista
234,876 square foot tenant improvement project
Kansas City, Missouri

Ameriprise Financial – Roe Corporate Centre
15,637 square foot tenant improvement project
Overland Park, Kansas

Power Group – Roe Corporate Centre
13,529 square foot tenant improvement project
Overland Park, Kansas

Dr. Mirabile/Vijoni – Roe Corporate Centre
7,129 square foot tenant improvement project
Overland Park, Kansas

Henderson Engineers – Five Pine Ridge
77,295 square foot tenant improvement project
Lenexa, Kansas

KU REI – Corporate Medical Plaza II
3,014 square foot tenant improvement expansion
Overland Park, Kansas

Lifestyle Lift – Financial Plaza IV
5,973 square foot tenant improvement project
Overland Park, Kansas

Cardinal Health – Commerce Plaza II
10,131 square foot tenant improvement project
Overland Park, Kansas

Exel Direct – McDonnell Point
57,820 square foot tenant improvement project
Hazelwood, Missouri

Stroco Manufacturing – Lambert Point
23,431 square foot tenant improvement project
Hazelwood, Missouri

Block
Healthcare Development

The 20,000 sq. foot Grandview Medical Building, home to Hickman Mills Clinic, Carondelet Heart Institute and Albers Medical Pharmacy, brings a high level of integrated outpatient health services to the Grandview, Missouri community. This project was developed by Block Healthcare and syndicated with some of the existing doctors and BRES investors.

In 2010 when the Patient Protection and Affordable Care Act (PPACA), more often referred to as Obamacare, was passed by Congress, the health care industry was thrust into a whirlwind scramble that left many health systems and private physicians pumping the brakes on growth strategies until they could determine how the PPACA was going to affect their industry.

With the United States Supreme Court upholding the mandate in June 2012 and President Barack Obama being voted in for a second term, there is no doubt that the PPACA is here to stay. Key stakeholders in the industry are now making directional changes in how they practice medicine and strategize for future growth. One area that cannot be overlooked in this significant shift in health care strategy is in the real estate sector.

OPTIMISTIC ABOUT THE HEALTH CARE REAL ESTATE MARKET

Three areas that are creating a bullish environment in health care real estate are the upholding of the government mandate, physician reimbursement cuts and the creation of Accountable Care Organizations (ACOs).

- With the mandate's passage, it is anticipated that an estimated 32 million more people will be covered via a health plan beginning in 2014 (there are currently an estimated 46 million uninsured Americans). That increase in patient volume alone has physician practices and health systems trying to figure out how they will be able to accommodate such an influx of patients.
- In addition to more patients, physicians are seeing their Medicare reimbursement rates cut, which trickles over to the commercial insurance reimbursement which is often a percentage of Medicare. So now physicians are charged with seeing more patients and getting less reimbursement.
- The third challenge facing providers, this time more focused on health system providers, is the creation of ACOs. While the details of an ACO are quite complex, the basic breakdown is that providers are incentivized by utilizing less while focusing on quality measures like fewer readmissions. For the patient who comes to the local hospital for an inpatient stay, the hospital's reimbursements will go down every time that patient comes back to the hospital for treatment within the same episode of care.

These three areas that are creating opportunities in health care real estate are doing so in a handful of ways, in which Block Healthcare Development (BHD) is actively participating:

- With the increase in patient volumes via the mandate, the opportunity for new development arises. Both physician and hospital-owned facilities are looking at expansion opportunities. Some of these opportunities lie solely in adding on to the current facility, while others who are landlocked need to look to areas for new developments that not only address their space needs, but also could provide a chance to relocate to a more centralized location to better serve their outpatient population.

With the increase in patient volumes via the mandate, the opportunity for new development arises. Both physician and hospital-owned facilities are looking at expansion opportunities.

- The decreases in reimbursements with increasing patient loads have given rise to the trend of health systems employing physician groups. This employment model provides cover to the physicians by way of a salary plus bonus compensation model, while providing the hospital an opportunity to capture key referrals from the now employed group. Many of these groups took advantage of the pre-August 2008 financial environment and developed their own facilities. Now that they are becoming employed by the systems, in many instances the systems try to avoid any Stark Law gray areas and either purchase the real estate with the group, or make it a requirement the group dissolve its ownership to a third-party.

  The opportunity for real estate investors is that in buying these properties, often times the tenant credit shifts from physician guarantees to corporate guarantees of the health system, creating a much stronger financing and investment opportunity.

- With the established ACO model, the incentives to the health system are based on improving care management and limiting unnecessary expenditures, but continue to provide patients the flexibility to select their medical services. One way the incentives are realized is by limiting patient visits to the higher cost access point of the hospital facility. To the extent patients can be seen and treated in clinical settings outside of the traditional hospital, the associated costs are less, providing the incentive for higher reimbursement. This approach ties closely to the "hub and spoke" model health systems are examining. From the development perspective, this infrastructure is not fully in place. Health systems and other care providers are looking to development partners to help realize this approach.

FORECASTING GROWTH FOR BHD

Within BHD, our approach is to continue to evolve with the changing health care landscape and provide our investor community an opportunity to share in what is truly a growth market in commercial real estate. Since the establishment of BHD in third quarter 2011, the principals have brought opportunities totaling over 110,000 square feet of health care real estate to our investment community via single asset LLC syndications. Each of these syndications has provided strong returns to our investors that continue to look for opportunities in this sector.

The outlook for 2013 will be a continuation of the growth BHD has seen since its inception. Creating relationships with the key stakeholders being affected by the PPACA will translate into development and acquisition opportunities for us to bring to our investor community. In addition to the traditional health care real estate, such as medical office buildings, additional opportunities will be sought after in the growing Assisted Living and Memory Care health care submarket.

For more information related to health care development and investment opportunities within BHD, please contact Steve Bessenbacher, Vice President of Healthcare Development, at 816.412.8467 or sbessenbacher@blockllc.com.

Contributor: Stephen Bessenbacher, Vice President.

Wyandotte Medical Building, a 7,543 sq. foot build-to-suit medical building developed by Block Healthcare Development in Kansas City, Kansas, will be the home of DaVita Dialysis.

Block

Multifamily Group

The multifamily industry continued to lead the real estate recovery charge in 2012. We saw tremendous gains in rental revenue, amenity growth and occupancy.

This was fueled by the convergence of two storms: demographic influences of Gen Y and Boomers, which both find renting an increasingly attractive option; and, a single family market that has been slow to regain footing. While single family trends are stabilizing, don't expect those starts to threaten the current multifamily juggernaut in the next few years.

Block Multifamily Group (BMG) made more industry trends this past year than ever before. There are several multi-state, to-be-announced acquisitions and developments on the horizon. We also expanded our management service offerings and our management portfolio now includes multiple sites in four states, with a fifth and sixth to be added by the first quarter of 2013. Below are some notable takeaways:

CASE STUDY #1

High vacancy tax credit site with poor curb appeal and bad reputation

Results of Action Plan:

- Increased economic occupancy 18% and achieved physical occupancy of 99%
- Increased total revenue 23.7% and increased NOI 36.1%
- Reduced bad debt by 63%

CASE STUDY #2

Stabilized underperforming site

Results of Action Plan:

- Increased economic occupancy from 91% to 95% and achieved physical occupancy of 100%
- Reduced bad debt 71%
- Increased total revenue 4.3%

CASE STUDY #3

Stabilized Underperforming Site

Results of Action Plan:

- Reversed a negative cash flow position to positive with a $124,000 increase
- Increased NOI 23% and revenue 10%
- Increased the debt coverage ratio by 74.4%
- Achieved the highest level of occupancy the property has seen in the past five years: 99%

VETERAN HOUSING

- BMG has expanded our Veterans Housing program by working with state agencies to place veterans in affordable, quality units.

APPLICATION DEVELOPMENT

- We have partnered with a Silicon Valley start-up company to develop application software specially designed for our industry needs.

SUSTAINABILITY

- BMG works with development partners and clients to assist in achieving green goals, utility reduction strategies and program compliance.
- BMG continues to expand green living education programs that help residents reduce their utility burden and be a responsible consumer.

BMG provides multifamily management services in a wide geographic area.

Contributor: Bill Larson, President of BMG and Justin Larson, VP/Director of Sustainability.

Kansas City
Economic Indicators

NATIONAL TRENDS

The past year 2012 saw the continuation of 24 months of slow and steady, yet unremarkable, gross domestic product (GDP) growth following the recession. The economic output of the nation has exceeded the peak levels prior to the recession, yet the pace of growth remains below long run averages and more importantly, a corresponding spike in job growth remains elusive.

The pre-recession peak of 138 million jobs is still approximately 4 million jobs stronger than the year end 2012 job totals. In short, the economy is more productive with fewer employed resources than before the recession. Despite this being a positive indicator to macroeconomists, employment must recover more before GDP has a more significant spike associated with consumer spending.

Making the employment picture slightly worse yet is the growing number of workers exiting the job market after attempting to secure employment for a significant duration (approximately 5 million workers have been seeking employment for six months or longer at the close of the third quarter of 2012).

The Federal Reserve continues to pursue highly accommodating monetary policy in an attempt to induce organic spending. Though rates have been targeted at or near zero for an extended period, it is clear that the Fed has few remaining options as it continues to signal to the market that rates will remain suppressed with a particular emphasis recently on employment targets. It goes without saying that the Fed will need to be cautious and diligent to counteract inflationary pressures the moment the economy gains traction and momentum.

That momentum is projected to spike into the latter half of 2013 with GDP hitting a respectable 3.2% by fourth quarter and job growth keeping its moderate pace of 100,000 to 200,000 jobs per month. However, despite an 11th hour compromise to initially avert the "fiscal cliff," if a permanent solution involving clear tax cuts and spending cuts is not codified early in 2013, GDP is expected to drop significantly in 2013, to only about 1%. Economic models demonstrate a reversion to near zero GDP growth through most of 2013, thereby exacerbating the likely duration before employment levels return to pre-recession levels.

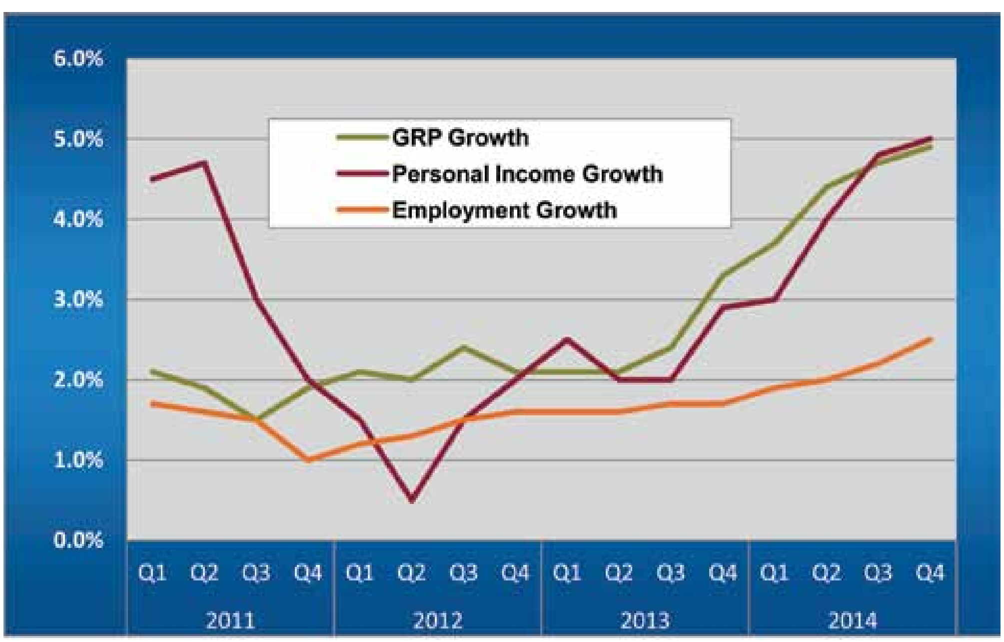
KANSAS CITY TRENDS

The year 2012 brought stronger growth to the Kansas City region where gross regional product (GRP) outpaced GDP three out of four quarters. This is a return to a familiar trend for this region as Kansas City typically is more resilient during recessions than the nation and has been growing faster than the national averages for the last two decades. GRP is expected to top 4% for the region by the end of 2013 with mid to high 4% levels achieved into 2014.

Along with the GRP growth will come demands for labor with a forecasted 21,200 new jobs for the area in 2013 and job growth accelerating into 2014 with an additional 33,400 jobs. As the region remains strong in financial services, technology and health care, it is these sectors that are specifically expected to drive job growth in the coming 24 months.

Sources: MARC, Moody's, Greater Kansas City Chamber of Commerce 2013 Economic Forecast.

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 2012 Data

OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	7,916,940	24	20.0%	204,402	(25,877)	$17.93
East Jackson County	257,526	3	33.1%	3,656	3,656	$21.11
Kansas City, Kansas	274,475	2	0.0%	0	0	$0.00
Midtown	2,650,777	15	14.1%	5,805	(4,506)	$23.36
North Johnson County	1,705,124	14	18.9%	95,694	55,497	$19.09
North of the River	742,752	5	5.1%	5,828	(30,161)	$21.83
South Johnson County	10,287,117	69	10.6%	576,556	275,512	$20.91
South Kansas City	1,949,742	14	15.8%	23,500	(138,894)	$20.01
Southeast Jackson County	103,442	2	7.9%	2,356	2,356	$24.50
TOTAL OFFICE - CLASS A	**25,888,457**	**148**	**14.7%**	**917,797**	**137,583**	**$19.92**

OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	15,876,166	198	15.2%	265,979	(105,286)	$15.61
East Jackson County	4,731,796	243	14.8%	74,232	(22,286)	$14.87
Kansas City, Kansas	2,101,693	70	7.4%	10,138	12,438	$15.40
Midtown	4,197,992	140	9.4%	28,014	(30,721)	$18.90
North Johnson County	7,707,511	267	12.1%	6,908	(47,388)	$16.61
North of the River	7,499,592	252	16.3%	106,345	88,642	$15.92
South Johnson County	15,322,295	449	14.4%	73,087	63,276	$18.35
South Kansas City	3,592,664	92	15.4%	7,966	(132,967)	$16.84
Southeast Jackson County	2,266,360	98	8.6%	16,128	(9,314)	$17.43
TOTAL OFFICE - CLASS B	**63,296,069**	**1809**	**13.8%**	**588,797**	**(183,341)**	**$16.71**
TOTAL OFFICE - CLASS A + B	**89,184,526**	**1,957**	**14.1%**	**1,506,594**	**(45,758)**	**$17.84**

WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	4,483,631	63	3.0%	59,491	363,563	$5.50
North Kansas City/Riverside	22,440,175	516	7.0%	776,321	(176,267)	$3.48
Executive Park/Northland	33,900,792	376	4.0%	1,840,512	518,000	$4.38
Wyandotte County	39,738,756	939	5.0%	1,079,513	129,298	$4.28
Johnson County	50,075,173	1328	4.0%	1,869,727	1,252,811	$5.44
East Jackson County	95,394,381	2557	8.0%	1,085,324	566,305	$5.07
TOTAL WH/BULK SPACE	**246,032,908**	**5,779**	**6.0%**	**6,710,888**	**2,653,710**	**$4.79**

LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	863,191	14	30.0%	33,980	(89,235)	$5.35
North Kansas City/Riverside	176,079	14	9.0%	15,887	9,845	$8.86
Executive Park/Northland	266,604	13	19.0%	11,886	5,506	$4.93
Wyandotte County	910,556	36	10.0%	23,413	48,534	$8.26
Johnson County	5,893,132	243	10.0%	366,613	152,308	$9.75
East Jackson County	4,462,402	166	9.0%	71,150	(21,853)	$8.35
TOTAL LIGHT INDUSTRIAL/FLEX	**12,571,964**	**486**	**11.2%**	**522,929**	**105,105**	**$8.73**
TOTAL FLEX + INDUSTRIAL	**258,604,872**	**6,265**	**6.2%**	**7,233,817**	**2,758,815**	**$4.98**

MARKET STATISTICS Continued

RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	Planned Development
South Johnson County	9,859,335	11.3%	1,118,935	(71,933)	$16.21	3,786,000
North Johnson County	12,198,040	9.0%	1,096,393	221,397	$12.11	888,000
Kansas City, Kansas	6,053,589	12.3%	755,545	(18,758)	$9.99	17,000
North of the River	13,075,791	8.6%	1,123,044	225,507	$12.80	2,815,000
Midtown/Downtown/Plaza	11,055,950	3.9%	435,070	250,399	$12.92	0
Independence/Blue Springs	13,060,364	10.2%	1,333,922	277,903	$10.94	0
Lee's Summit	3,630,287	9.8%	359,544	15,073	$14.45	448,000
South Kansas City	7,010,405	20.8%	1,458,164	(196,291)	$11.33	1,130,000
TOTAL RETAIL	**75,943,761**	**10.1%**	**7,680,617**	**703,297**	**$12.40**	**9,084,000**

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

MULTIFAMILY

Market	Unit Inventory	Overall Vacancy	Avg. Class A Rent (w/out utilities)	Average Class B/C Rent (w/out utilities)	Vacant Units
South Johnson County	40,527	5.2%	$905.00	$645.00	2,107
Downtown	4,803	6.0%	$865.00	$505.00	288
Plaza/Midtown	2,300	5.3%	$985.00	$675.00	122
East Jackson County	15,920	7.1%	$680.00	$580.00	1,130
Wyandotte County	8,590	11.0%	$719.00	$509.00	945
Northland	16,944	5.9%	$735.00	$555.00	1,000
South Kansas City	21,700	8.5%	$655.00	$490.00	1,845
North Johnson County	13,000	4.6%	$854.00	$705.00	598
TOTAL MULTIFAMILY	**123,784**	**6.5%**	**$791.00**	**$589.00**	**8,035**

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

BLOCK REAL ESTATE SERVICES, LLC

700 West 47th Street, Suite 200, Kansas City, MO 64112
Phone: 816.756.1400 Fax: 816.932.5598 Email: information@blockllc.com
www.blockllc.com

Compiled by Block Real Estate Services, LLC
Commercial Real Estate Brokerage, Property Management and Development

BLOCK

REAL ESTATE SERVICES, LLC

Real Estate. Real Strategies. Real Success.®

| 700 W. 47th Street, Suite 200 | Kansas City, MO 64112 | [816] 756-1400 |
| www.BLOCKLLC.com | information@blockllc.com |