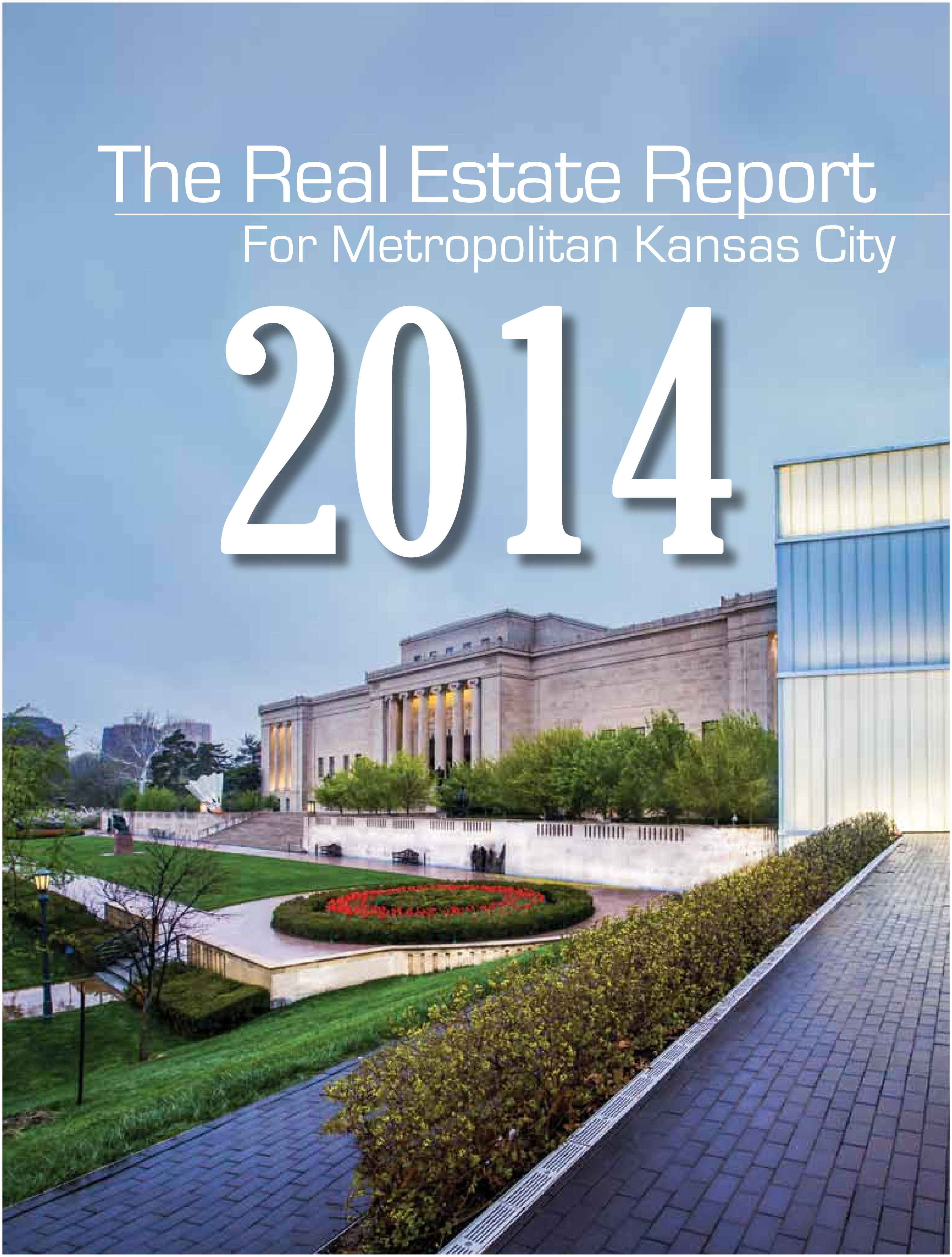
The Real Estate Report

For Metropolitan Kansas City

2014



Block Real Estate Services, LLC (BRES) Highlights of 2013

Transactions

BRES completed the year with total sales and leasing transactions in excess of $803.5 million.

Property Management

BRES commercial management portfolio reached 24.5 million square feet by year-end.

Construction

Block Construction Services (BCS) completed renovation and development projects exceeding $85 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 $200 million in investment sales and raised over $60 million in equity funds for syndication of new acquisitions and development projects.

Affiliates

Block Hawley Commercial Real Estate, LLC ranks as the most active industrial brokerage firm in St. Louis, with over 10 million square feet of listed property and nearly 7 million square feet under management.

BRES Atlanta now manages nearly 2 million square feet of commercial office and industrial space in the Atlanta market.

Block Multifamily Group, (BMG) now manages more than 3,000 units, an increase of over 60% in one year.

Table of Contents

BLOCK REAL ESTATE SERVICES, LLC

Real Estate. Real Strategies. Real Success.®

Leveraging a Multidisciplinary Team

Lisa Randall, Vice President of Block Real Estate Services Property Management team, along with Block Maintenance Solutions show their support during Breast Cancer Awareness month. Nearly three million people in the U.S. have breast cancer.

Since its inception, the leadership of Block Real Estate Services (BRES) has strived to be, first and foremost, our client's trusted fiduciary focused on maximizing their financial outcomes.

In order to consistently and successfully fulfill this mission, BRES is composed of three strategic business disciplines: a fully integrated commercial real estate services team; an active and seasoned development team; and a disciplined investment team. Together, these three distinct units combine to provide a cross-platform collaboration that enhances the value we bring to our clients and consistently allows BRES to maintain its position as the leading commercial real estate organization in the market.

Supporting our success, the 2013 Kansas City Business Journal's Top 25 list ranked BRES number one in Property Management; number one in Real Estate Brokerage Activity and number one in number of agents and full-time employees. In addition, the Midwest Real Estate News ranked BRES number 10 in top owners in the Midwest; number 15 in top property management in the Midwest and number 16 in top brokers in the Midwest.

Nationally, BRES ranked number 23 for total industrial space developed or under construction of 600,000 square feet, and number 23 for total office space developed or under construction of 600,000 square feet, according to the National Real Estate Investor. In addition, BRES is ranked 34th nationally for top property manager; 36th most powerful owners in the country and 27th in the CPE-MHE most powerful owners listings according to Commercial Property Executive.

As a result in 2013, a year of generally improving economic conditions and real estate fundamentals, our various business units realized progress across the board.

REAL ESTATE SERVICES TEAM

The property management and operations team saw its portfolio expand to encompass in excess of 24.5 million square feet of office, industrial and retail properties. These teams work closely with owners and tenants alike to provide a productive work environment and efficient, cost-effective properties. They enhance the value proposition by providing a service level that allows tenants to push down some facility services functions to our management team and allow higher efficiency within their organizations. While continuing to enhance tenant service levels and basic life-cycle cost strategies, the property management and operations team is centered on incorporating intelligent sustainable initiatives and optimizing energy consumption efficiency at their properties.

Over the past year, our brokerage teams have rebounded from the recession and are seeing increased activity and deal flow in the marketplace. In addition, BRES has been active in interviewing students soon to graduate from most of the local colleges. Our focus is on young, aggressive talent with well-rounded backgrounds in business, finance, and marketing, who have an interest in and have an aptitude for commercial real estate. This past year, we hired four new associates and their passion and eagerness to learn, coupled with the experience of seasoned brokers, creates a successful formula for quality real estate teams. The opportunities in the market currently have generated considerable activity and excitement.

BLOCK CONSTRUCTION SERVICES (BCS)

Continuing its growth, Block Construction Services managed over $85 million in construction contracts last year, their highest volume of activity in the past ten years. This success has been the result of achieving a sound track record of performance on a diverse mix of projects. In 2013, among other projects, BCS managed the base building and tenant finish project for Teva Pharmaceuticals' 154,286 sq. foot Overland Park, Kansas office; a 234,876 sq. foot tenant-improvement project for the Polsinelli law firm, and the base building development on the first of projected ten buildings in the $110 million Lenexa Logistics Centre, a BRES sponsored development located in Lenexa, Kansas. With current activity and projects already booked in 2014, BCS anticipates another banner year of growth.

BLOCK MULTIFAMILY GROUP (BMG)

Block Multifamily Group has been successful in its pursuit of our multifamily management strategy and has expanded their management portfolio by over 160%. BMG currently manages in excess of 3,000 units in eight states. Sticking to our growth strategies, this portfolio growth has developed from third-party relationships and through acquisitions by BRES syndicated investment groups.

Going forward, we will continue to focus on building third-party relationships with local and national players and on additional acquisitions by BRES syndicates. One major relationship is a joint venture effort with Balfour Beatty through which BMG will provide compliance reporting for large portfolios of public housing units. Additionally, our first BRES sponsored multifamily development project, located in Lenexa, Kansas broke ground in December 2013. The first phase will include 306 Class-A, market-rent units, the first of which should see initial occupancies by late summer of 2014.

BLOCK TECHNOLOGY SOLUTIONS (BTS)

Block Technology Solutions has realized that providing a one-stop solution with close coordination between owner, tenant, and contracting entities, can ensure a seamless transition of voice/data infrastructure for new and remodeled tenant space. In 2013, BTS sales more than doubled with projections of re-doubling its volume in 2014.

For BRES internal customers, BTS totally revamped voice systems to provide better connectivity to our office staff including voicemail to email, single number reach, and additional storage capacity. BTS is also upgrading the BRES Internet and remote office connectivity to increase the bandwidth by 100%. We are creating an entire layer two-fiber network to all of our remote offices in the Kansas City area, along with dedicated rack space in an offsite data center for disaster recovery.

In 2014, BTS will continue to provide customers one-stop solutions for voice/data needs while enhancing its offerings by partnering with a local provider to utilize dark and lit fiber.

BLOCK HAWLEY COMMERCIAL REAL ESTATE

Our full service St. Louis office, Block Hawley Commercial Real Estate Services, was the leading industrial brokerage firm in the St. Louis metropolitan area for the previous two years running. With large amounts of Class A industrial space being absorbed and Class A vacancy dropping below 6.5%, a leading indicator of recovery, Block Hawley sees opportunity in several recovering submarkets. As the St. Louis commercial market continues to gain strength, this team is positioned to accelerate its growth and expand its service offerings across the market.

BRES ATLANTA

Our Atlanta subsidiary, which manages a portfolio of nearly 2 million square feet, remained active with increasing occupancies within its current portfolio. The metropolitan area saw approximately 50,000 jobs added in 2013 which, although lower than the 75,000 to 80,000 jobs per year prior to the recession, was the best job growth since 2007. Our asset management operation is ready to leverage its capacity in this improving market with the addition of new third-party customers in both property and facilities management.

DEVELOPMENT TEAM

Block Development has come off one of its more active years with total development volume exceeding $100 million. New office, industrial and multifamily projects responded to local demand and gave BRES investors the opportunity to participate in quality projects with premium returns. Leading this array of activity was Teva Pharmaceuticals 154,286 sq. foot build-to-suit office building in Overland Park, Kansas. Industrial developments in Lenexa, Kansas included the Lenexa Logistics Centre, a planned $110 million logistics park, and Building K, a new addition to the College Crossing Business Park. With a recent groundbreaking in October 2013, the development team will undertake its first multifamily project totaling 306 Class A rental housing units - WaterCrest at City Center, located in the Lenexa City Center district. In 2014, the Block Development team expects new industrial and multifamily projects in several key, Class A locations in the metropolitan area.

BLOCK HEALTHCARE DEVELOPMENT (BHD)

In 2013, Block Healthcare Development continued to provide value in both the development and investment arenas. As the healthcare industry adapts to the changing environment and the uncertainties brought on by the Patient Protection Affordable Care Act, the industry specific expertise of BHD continues to uncover multiple investment and development opportunities.

BHD successfully closed on the acquisition of seven medical office investments located in four states; Indiana, Iowa, Tennessee, and Arkansas, with a total transaction



BRES continued its charitable support of local organizations such as Harvesters, Multiple Sclerosis Society, Hope House, and The Children's Place to name a few.

volume exceeding $22 million. Each investment was syndicated to fulfill the investment needs of our BRES investment partners. Additionally, BHD completed construction of a $2 million medical office building for DaVita Health Care Partners this past April. In the first quarter of 2014, BHD will break ground on several projects, including a 10,000 sq. foot build-to-suit in Blue Springs, Missouri, with the ability to develop up to 40,000 square feet as the market demands.

REAL ESTATE INVESTMENT TEAM

The Block Funds investment team continues to uncover well positioned, cash-flowing core and value-add opportunities in markets throughout the central United States. In 2013, our total acquisition volume exceeded $200 million and included projects located in Kansas, Missouri, Texas, Arkansas and Indiana. The Block Funds team believes 2014 will be another excellent year to invest in commercial real estate. Unemployment numbers continue to trend down and most of the cities we do business in are experiencing job growth, which leads to better overall occupancy numbers in every commercial real estate sector. The ability to lock in low interest rates for the long term, and provide a hedge against inflation, makes commercial real estate an attractive investment option for 2014. Leveraging these fundamentals, the Block Funds team will continue fulfilling the investment appetite of investors seeking the quality and performance of BRES syndicated transactions.

MARKETING SERVICES

The BRES Marketing Department continues to keep elevating the exposure of both our clients' properties and our organizations capabilities highlighted in all communication mediums. Social media continues to play a large role in our success in 2013 by featuring over 100 blogs that resulted in over 60,000 page views, Twitter followers increased by 60%, LinkedIn followers increased by 92%, Facebook likes increased by 207% which all aided in our website traffic increase of 36.1%.

As we continue to see increased mobile users in commercial real estate, our marketing department launched the BRES' mobile website, which continues to show more mobile users each month coming to www.blockllc.com. Our mobile site has made our end users experience fast and direct on any type of mobile device, which has also increased our search engine optimization. BRES continues to step up to the plate meeting the demand for our clients by implementing the newest advances for commercial real estate.

PHILANTHROPY

BRES continues to have a strong presence in the Kansas City Metropolitan area by supporting various organizations such as the Multiple Sclerosis Society, Children's TLC, Leukemia & Lymphoma Society, Operation Breakthrough, and many others. Some highlights of the year were assembling lunch bags through Harvesters supporting youth in need, our book drive through the KU Medical Center - Reach Out and Read, and our December Adopt-A-Family program through The Children's Place.

BRES feels so strongly about philanthropy; they started a corporate giving program to support our employees in contributing to organizations that are important to them.

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

Global, U.S., Kansas City Overview

After discovering the Internal Revenue Service was targeting conservative-leaning political groups, United States citizens took to the streets to show their disapproval.

As the year 2013 began, our country faced many global and national challenges to our economy. These social and economic challenges included the following:

- **Syrian War/Chemical Weapons.** Over 60,000 people have already been killed during Syria's civil war which has been ongoing for nearly 34 months. In the early part of 2013, the United Nations provided credible information that the government in Syria had used chemical weapons on its citizens. Later in the year, President Obama sought congressional approval for military action against Syria but none was taken after Russia and the U.S. reached an agreement with Syria to provide an inventory of its weapons and then destroy all of them by mid-2014.
- **President Mohamed Morsi's reign in Egypt ends.** After only one year in office, a military coup takes him and other members of his inner circle into custody. The new President, Adly Mansour, takes over in mid-2013, replacing Morsi, who was widely accused of monopolizing power for himself and the Muslim Brotherhood and his failure to implement economic and democratic reforms.
- **North Korea/Iran Nuclear Weapons.** While North Korea already has nuclear weapons, under new leader Kim Jong Un, the third nuclear bomb is detonated and the leader's threats to the U.S. and its allies become bolder. Meanwhile, Iran continues its path toward nuclear weapons as the world looks on. Iran's new leader President Hassan Rouhani promises to thaw relations with the west and engage the international community, but does not slow its nuclear plant construction.
- **Venezuelan President Hugo Chavez dies.** The new ruler, President Nicolas Maduro, takes the reign with a new law giving him the right to rule by decree. Expect more of the same from this corrupt regime.
- **China's Xi Jinping assumes the Presidency of China** and promises new economic reforms.
- **Relations become tense with U.S. allies France and Germany**, as "leaker" Edward Snowden releases more documents about the National Security Agency's (NSA) surveillance of our allies' leaders; Russia hides Snowden thereby damaging an already strained relationship with the U.S.
- **Nelson Mandella dies at age 95.** The famous anti-apartheid leader and Nobel laureate fought racism as the former leader of South Africa.
- **Pope Benedict steps down as leader of the**

Catholic Church and Argentina's Jorge Mario Bergoglio becomes the 266th pontiff and chooses the name Francis. Pope Francis vows to build more bridges and open dialogue with others and is named Time Magazine's Man of the Year.

- **From October 1-16, 2013 the United States Federal Government entered a shutdown** after congress failed to enact legislation to appropriate funds to raise the debt limit. Over 800,000 federal workers were furloughed and economic shockwaves were felt around the world.
- **U.S. Senate Majority leader Harry Reid leads the democrats** in the Senate to pass the "Nuclear Option" which eliminates the use of the filibuster on all Presidential nominees except those to the U.S. Supreme Court. This is a historic change to the Senate rules and creates an even more toxic relationship between Democrats and Republicans.
- **The United States Internal Revenue Service reveals that it had targeted conservative-leaning political groups**, such as ones with "Tea Party" in their name prior to the 2012 presidential election to delay tax exempt status and hold down fundraising. Further investigation showed the IRS was also "directed" to investigate high corporate and individual donors to conservative organizations.

OBAMACARE MAKES IMPACT

While there were many more significant world events in 2013, all of these stories paled in comparison to the most significant story affecting the U.S. economy and its citizens; the Patient Protection and Affordable Care Act (PPACA), more commonly known as "Obamacare".

Whatever side of the aisle that you sit on, it is clear that Obamacare will significantly change the insurance industry and how people obtain health insurance going forward. The Act was signed into law on March 23, 2010 by President Barack Obama and was later upheld by the Supreme Court on June 28, 2012. Obamacare had a stated goal to give more Americans access to affordable, quality health insurance and to reduce the growth in healthcare spending in the U.S. Its goal was to provide a number of new benefits, rights, and protections to young and old people, prevent gender discrimination, stop insurance companies from making unjustified rate hikes, do away with lifetime and annual limits, and provide healthcare to those with pre-existing conditions. It was designed to provide insurance to some 40 to 50 million citizens that did not have health insurance and do so in such a way that it would reduce the cost of health insurance for everyone.

However, it appears many promises about Obamacare simply will not be realized. President Obama stated that, "If you like your doctor, you can keep your doctor" or "If you like your healthcare plan, you can keep it", but it appears these quotes will not be true. Specific provisions in the new healthcare act require all policies to be updated to the required government standards with specific areas of healthcare coverage that many of our citizens did not want or need, such as maternity care for older, unmarried men. In essence, it appears the goal was to provide a "one size fits all" health insurance plan, so that young people with lower rates will pay higher premiums to support our older people with higher health risks.

Unfortunately, insurance companies trying to comply with new policy requirements of Obamacare have issued as of year-end 2013 nearly 6,000,000 cancellation notices on current existing health insurance policies, and it is estimated another 10,000,000 cancellation notices will be sent as Obamacare is further implemented.

However, it appears many promises about Obamacare simply will not be realized.

For those people whose healthcare has been cancelled, the cost of a new healthcare insurance policy is substantially higher as they pay for many things they do not want or need. For the healthcare act to work, it requires a large number of our young people to participate in the health insurance exchange in order to match their lower inherent risks to cover older citizens with higher health risks.

Also at year-end 2013, the healthcare.gov website built at a cost of $650,000,000, was at best, a struggle to use, thereby not even allowing the majority of people to sign up for the government healthcare insurance program, even after they lost their insurance. Less than 2,100,000 people had signed up by year-end and many experts now project that the necessary number of young people required to make the system viable, might not be achieved.

While there are many impacts that Obamacare will have on business, on states, and the overall economy, the biggest concern is the effect on doctors. Many doctors now understand that the expansion of nearly 18,000,000 more people on Medicaid will cause the doctors to take on more patients with substantially reduced reimbursements for medical procedures. Due to this increased regulation, less reimbursement, and more patients to assist, over 60% of our doctors are considering no longer accepting the government health programs. This would be catastrophic and already the government has signaled they could, and would, force doctors to participate or lose their licenses.

Participants are also learning that they might not be able to keep their existing doctors and in some cases, those hospitals that wish to visit have opted out of the system. Also of concern, is that Obamacare is expected to cost taxpayers $503 billion between 2010 and 2019 through major tax increases, and this is expected to slow the growth in our economy.

President Barack Obama, by executive order, delayed the implementation of the health insurance mandate on businesses until 2015, and also stated on the individual mandate, that individuals could keep their health insurance in 2014 if insurance companies agreed, but insurance companies are unlikely to go back to their older policies at this point. While the employer mandate is now scheduled to take effect January 2015, it will change the way businesses offer healthcare coverage. The mandate requires companies with more than 50 full-time employees (defined as those working an average of 30 or more hours per week) to provide health insurance to their workers. Businesses, especially small ones, will consider other options to help reduce that increase including operating with fewer people, supplementing their team with part-time employees, or trying to manage their health cost by increasing premiums when offering benefits to family members of employees, or simply denying coverage to family members altogether.

In addition, expect to see major corporations offer only consumer-driven health plans (CDHPs') in the years to come. While the CDHP premiums are significantly lower than with PPO's, annual deductibles can be $3,000 or more. These plans will therefore place a larger financial burden on employees which encourages them to seek lower cost care and focus on staying well to keep health expenditures low. The PPACA will have a major impact on the U.S. economy as healthcare represents nearly 18% of the U.S. GDP and equal to, by itself, the fifth largest economy in the world.

GLOBAL ECONOMY

The U.S. economy is, and will forever be, affected by changes in the global economy. The global GDP growth rate for 2013 was about 2.8%. It is further expected that the world's economy will stay out of recession during 2014, as the power of deflation is stronger globally than the power of an upward push in inflation. Overall global economic growth will be slower than normal but positive, and will continue to be driven by stimulative central bank policies that keep money supply abundant. Demand for capital will be low in relation to supply, resulting in monetary stimulus to the global financial system.

The U.S. and the Euro zone have seen their combined share of global GDP fall from more than 40% about 20 years ago to 33% today, while China's share has risen from less than 5% to over 15% during the same period. It's also interesting to note that even a 1% point increase in economic growth rates from a combination of the Euro zone, China and Japan would have only a limited affect on the U.S. real GDP growth, due to the relativity high exports to GDP ratio in the U.S. So while the U.S. is affected in policy making by the changes in the global economy, the U.S. will essentially need to rely on its own means if it wants to realize stronger economic growth in the foreseeable future.

The European Central Bank (ECB) shocked investors and forecasters in late November 2013 by cutting its main refinancing rate to a record low .25%. The ECB's rate cut helped weaken the euro by more than 1% against the dollar, and most economists polled by Reuter's believe it will put the currency on a firmly lower path, which should greatly help the fragile Euro zone recovery. In fact, the Euro zone, after nearly six quarters of recession, rose in the last quarter of 2013, and caused an increase in the ECB's forecast to 1.1% growth in GDP in 2014. However, unemployment in

After weeks of impasse in negotiations on a budget deal, Congress was unable to reach agreement, and the government was shut down for nearly two weeks for the first time in 17 years.

the Euro zone still remains high at 12% and is far too high for any significant improvement.

Members of the Euro zone are also pursuing bank reform, but doing so in a little different way than in the U.S. The ECB likes many of the powers that exist within the Federal Reserve, but recently it became painfully obvious that there was no system in place to deal with bank collapse on the scale they had seen over the last several years with Greece, Spain, Portugal, Ireland, Italy, and Cypress. The plan is to now create a Resolution Fund that will build slowly and that would fund major bank crises in the future, although it will not have enough funds to do so for several years.

Overall global economic growth will be slower than normal but positive, and will continue to be driven by stimulative central bank policies that keep money supply abundant.

Globally, major holders of U.S. debt are seeing their economies improve slightly. Japan, the number two holder of U.S. debt, is going through a major transition as it seeks to overcome long-standing deflation and stagnation. The government has used an aggressive stimulus policy which raised GDP to about 1%. The good news is deflation is coming to an end and there are upward forecasts in place for Japan.

On the other hand, China, with the second largest economy in the world, still has its own problems with debt at 180% of GDP. China needs to continue to have higher productivity, higher incomes, and higher consumption for it to get its economy on the right path. The new Chinese leader Xi Jinping is expected to make needed economic reforms and remove it from being a country with an unbalanced economy. Since China is the largest holder of U.S. debt with $1.25 trillion, we need to watch closely how they operate as their economy could have a major affect on ours.

U.S. DEBT NEWS

As it relates to the U.S. economy, while there was a clear strengthening of private sector output, this was primarily done by efficiencies in operations, reductions in essential workers and in cutting out all excesses to achieve a better bottom line. The U.S. debt exceeded $17.3 trillion at year-end 2013. The U.S. GDP for year-end 2013 is expected to be about $16.76 trillion. Overall, the U.S. real GDP grew by 1.7% in 2013 while our last year's projections noted a range from 1% to 1.9%. Expectations for GDP growth in 2014 will be in a range of 2.5% to as high as 3.2% (we feel it will be closer to the lower end of this range) as the fiscal drag subsides and the negative legacies of the financial crisis wane further.

Historically, the U.S. public debt as a percentage of GDP increased during wars and recessions, and subsequently declined thereafter. Debt held by the public as a share of GDP peaked just after World War II at 113% of GDP. U.S. debt currently stands at about 73% of U.S. GDP.

The Great Recession of 2007-2009 was the deepest and the pace of recovery has been the slowest of all recent recessions. Almost four years after the recession ended, the recovery from the Great Recession has provided a total GDP growth of only 9% compared to 13% after the 2001 recession and 14% after the 1990-1991 recessions. This slow recovery is also occurring while monetary policy is incredibly accommodating due to a record low Fed funds rate and Quantitative Easing.

While the country's overall fiscal position was not further downgraded by the big three agencies, Standard & Poor's, Moody's or Fitch, it was downgraded from China's Dagong Global by one notch to A- from A in October 2013. Dagong Global said the deal struck by Congress to raise the government's borrow ceiling failed to solve the cause of its debt problem and that a temporary fix of the debt issue would not diffuse the fundamental conundrum of the U.S. fiscal deficit or improve repayment ability in the long-term. Dagong Global also stated that the increase in the debt ceiling provided further proof of the U.S. government's inability to make improvements to fiscal fundamentals that were needed to enhance its debt servicing capability.

The Great Recession of 2007-2009 was the deepest and the pace of recovery has been the slowest of all recent recessions.

While the stated current U.S. debt is approximately $17.3 trillion, if you take the present value of all government unfunded obligations, that is an additional $45.8 trillion, making the total of the national debt and unfunded federal obligations in excess of $63 trillion. Without a decisive program to reduce deficits both in the near and long-term, the fiscal health of the U.S. will continue to remain in question and could influence both borrowing rates and the country's ability to sell its debt to foreign buyers.

CONGRESSIONAL BUDGET OFFICE INFLUENCERS

The Congressional Budget Office (CBO) continues to miss its predictions on the speed at which the U.S. national debt will grow, as it is becomes more difficult to predict how the U.S. GDP will grow due to unexpected recessions or other fiscal hits to our economy. However, it is clear that higher interest rates would cause our debt to rise faster, as federal spending on interest payments would increase substantially. Also, lawmakers would have less flexibility under these circumstances to use tax and spending policies to respond to unexpected challenges. A large debt would also increase the risk of a fiscal crisis and cause wild increases in borrowing rates. The CBO further warned growing future deficits could push debt to over 100% of GDP in future years.

The CBO projects that underlying economic factors will lead to more rapid growth in GDP, with growth perhaps as high as 3.2% in 2014. This is driven in a large part by consumer spending for big-ticket items, most notably motor vehicles and household appliances. U.S. GDP is further expected to rise to an average increase of 3.6% in the period from 2015 through 2018. These projections rely on a continued upswing in housing construction, rising real estate and stock prices, and increasing availability of credit to help a cycle of faster growth and employment. Unfortunately, the CBO still projects budget deficits to be at least a negative $5 trillion for the period from 2014 through 2022. Some of these results from the enactment of the American Taxpayer Relief Act of 2012 and part are due to the cost of servicing our debt which will increase as interest rates rise. And, during the entire period from 2014 to 2022, there is not one year with a projected surplus.

With the current Federal Reserve Chairman Bernanke retiring, Barack Obama's decision to nominate Janet Yellen, was finally approved by Congress. Miss Yellen will become the first woman to run the Fed and is also the first acknowledged "Dove". Miss Yellen believes that unemployment is a bigger problem than inflation, and publicly pushed Chairman Bernanke to hold interest rates near zero last year in order to hasten the fall in unemployment. She also helped Mr. Bernanke nudge the Federal Open Market Committee towards its commitments to keep its benchmark interest rate at zero (where it has been since 2008), and now until "well past the time" the current unemployment threshold falls below 6.5%. Therefore, the economy should benefit from low interest rates until at least 2015 or lower. She also supported reduced buying by $10 billion per month to $75 billion worth of bonds a month as the bond markets show consistent signs of improvement.

However the Fed bond portfolio which stood at $800 billion at the start of Quantitative Easing, has now reached nearly $4 trillion and reducing it by bond sales may have a big impact on bond rates and cause interest rates to rise. Clearly some experts believe the Fed is distorting prices in the financial markets, breeding excessive risk taking, and preventing investors from demanding fiscal discipline. In fact, the money that flowed into the economy has not resulted in the kind of business expansion and hiring that was expected and instead was used by the investment community to spark activity in the markets.

What we do know is any major change to Quantitative Easing will have a profound effect on our economy. In June 2013, when Mr. Bernanke spoke about improvements in the economy that might allow the central bank to slowly step back from its bond buying program by fall 2013, it caused a massive sell-off in the stock market and an 80 basis points rise in 10-year treasury rates in less than one month. This caused a similar rise in long-term interest rates and caused a short-term problem for the real estate market. While Mr. Bernanke noted that he was caught off guard by the extent of the market's reaction to the fed's intention to slow down its asset purchases, the fed's apparent difficulty in predicting and managing the market's reaction represents one of the most discerning threats to our country's economic recovery. At some point the Fed will need to change from a buyer to a seller of bonds, and will need to be of delicate process so they don't crowd out all other corporate bonds and stall business expansion.

Economic marshal law continues to be the rule of the land. While marshal law is "the imposition of extreme government measures that limits normal activity," in economic marshal law, the government takes charge of economic policies, such as interest rates and bond buying, and manipulates the economy in the short-term. This is why many economic forecasters have been consistently wrong in their forecasts since there's a continuous changing of the rules which destroys market stability. Because of this, real GDP growth remains 250 to 300 basis points below what would be expected following such a severe recession. Therefore, the economy stands $2.3 trillion behind where it should be in GDP growth. As for jobs, since there is an average of 8.5 million jobs for every $1 trillion of GDP, this implies a 19.6 million job shortfall. Based upon our current monthly job growth, it is not expected that we would recover all the lost jobs from the recession until 2015.

Economic marshal law continues to be the rule of the land.

In terms of real estate, this increase of 19.6 million jobs would require an additional 990 million square feet of office space, 1.5 billion square feet of occupied retail space, an increase in hotel occupancy rates of approximately 3%, and in short, would cause a substantial increase in additional real estate demand. Also, 1.3 million multifamily units would need to be occupied, and an additional 1.3 million single-family home buyers would be created. If the U.S. economy were at full potential, short-term interest rates would be approximately 50 basis points above inflation or approximately 3%, while the 10-year treasury yield would be in the 4.5% to 5% range. This would of course cause cap rates and interest rates to be about 100 basis points than they currently are. However, property cash flows would be increased more than enough to offset the higher cap rates.

UNEMPLOYMENT MARKET

As always, the biggest driver for the Federal Reserve continues to be the labor market, which averaged an addition of just over 202,000 jobs over the last several months of 2013. While this is substantially better than the 140,000 per month job average since employment bottomed out in

February 2010, the economy has still only regained 83% of all the lost jobs from the recession.

The unemployment rate at year-end 2012 was 7.7% but by year-end 2013, it had dropped to 7%. While the unemployment rate has dropped, unemployment together with underemployment are still approximately 13.4%, as many workers have taken lower paying jobs, part-time jobs, or simply dropped out of the market. Projections now show that unemployment should drop to a rate between 6.3% to 6.6% at year-end 2014.

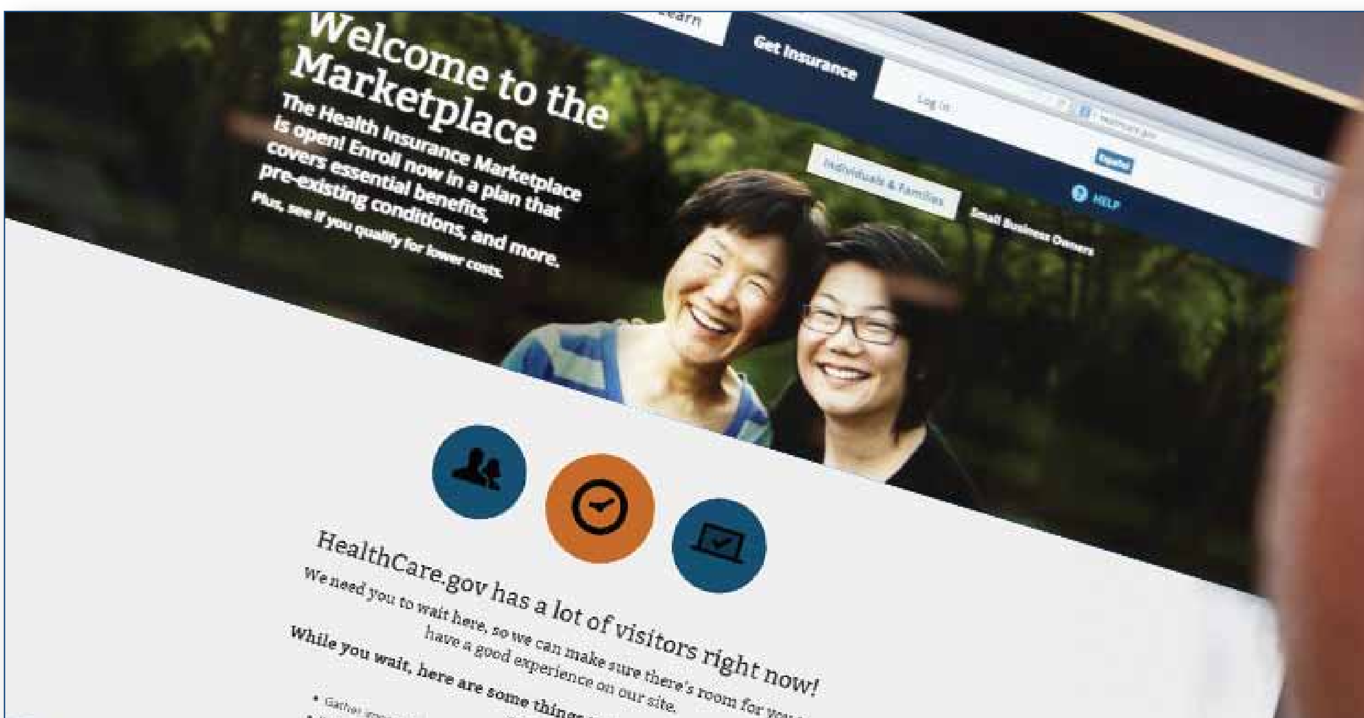
While we had expected the labor participation rate to grow slightly in 2013, it dropped to a 30 year low of 63.5%. The labor participation rate in young workers between the ages of 16-24 years old, has also dropped to a 30 year low of 54.8%. From a high of 68% in 1990, the labor participation rate keeps dropping, showing a structural change in how young people view and seek employment and how difficult it is for older workers to find employment when they do not have the new skills for today's jobs.

While the growth in residential construction is key to the improvement in our economy and job growth, the negative equity in homes in so many states has contributed to foreclosures and reduced labor mobility. In states like Nevada, Florida, Michigan, Arizona and Georgia, negative equity mortgages are anywhere between 30 and 45% of all mortgages outstanding. Home equity must return before the housing market can be healthy. And while home builder confidence continues to rise, single-family building still remains muted.

In 2014 and beyond, the U.S. Economy still faces a number of risks to its growth. Some of these risks remain the same year in and year out, while others are new based upon changes in the global environment. Certainly threats to our security by Iran, North Korea, and others can influence the price of oil, other commodities, and very safety. Also, any major fiscal crisis with the Euro zone or others economies could change the near term economic outlook and concerns about a fall back into recession. Also, monetary policy and the use of Quantitative Easing are of significant concern for the growth of our economy, inflation, and interest rates. Slowing Quantitative Easing too quickly could cause a disastrous drop in the stock market and unprecedented rises in interest and mortgage interest rates. Continued high unemployment and a low labor participation rate will lower revenues and continue an imbalance in our economy. The growth of the housing market is absolutely key for an improvement in our economy. As the housing market strengthens, it will improve consumer spending and with that, comes new job creation and an improvement in the real estate sector.

NEW DODD-FRANK ACT

In 2013, new provisions of the Dodd-Frank Act caused tighter lending and made it more difficult to find qualified borrowers to lend to in the residential and commercial markets. Banks will face more problems in 2014, as we see the implementation of the Volker Rule. While banks have had tremendous growth in 2013, the Volker Rule will stop banks from doing their normal business (installment loans, residential mortgages, equity credit loans, and deposit services) as well as trading on their own behalf. The rule was introduced following the recession of 2008 to control



Beginning in October of 2013, individuals and small businesses were allowed to purchase private insurance plans through The Affordable Care Act (ACA). Together with the Health Care and Education Reconciliation Act, the ACA represents the most significant regulatory overhaul of the U.S. healthcare system since the passage of Medicare and Medicaid in 1965.

the risk associated with the financial sector. Banks will now not be allowed to simultaneously enter into an advisory and creditor role with clients such as private equity firms. The rule will aim to minimize conflicts of interest between banks and their clients by separating the various types of business practices financial institutions engage in. In essence, the Volker Rule is designed to protect individuals by creating a more transparent financial framework which can be regulated with greater ease. However, as in the case of the Dodd-Frank Act, banks have to employ a host of new compliance experts to verify that the new rules are being implemented correctly. Banks believe that these new rules will cause lending to further tighten and make it difficult for small borrowers to obtain financing that would allow them to start new businesses and expand their employment.

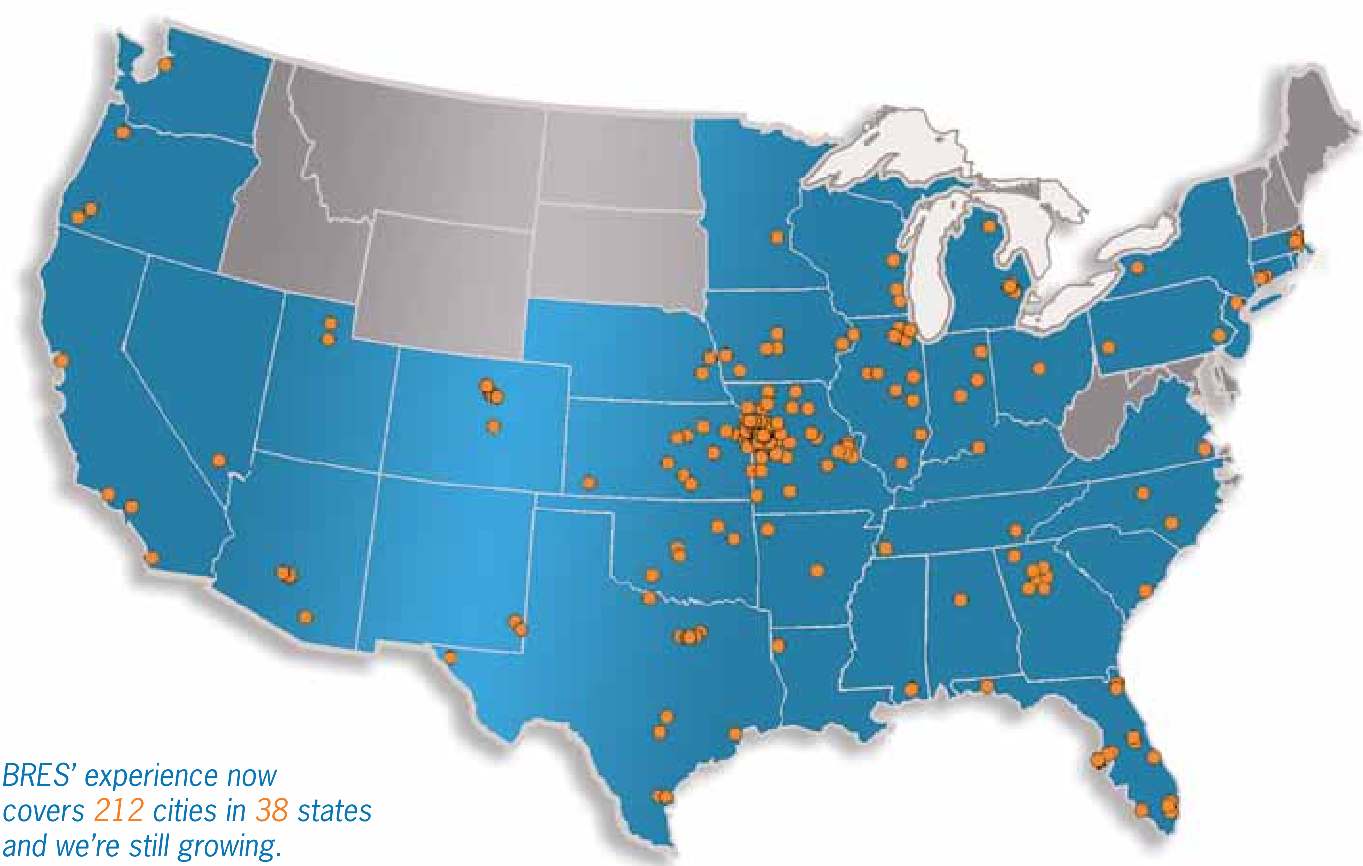
As it relates to the housing market, the current lack of supply and extremely low interest rates have spurred more families to venture back into home ownership. The production of homes combined with a continued slow job growth will apply upward pressure on home prices. In 2013, there was a 5% rise in home prices. A housing recovery will continue to be most visible in the middle section of the country, where new housing construction will spur growth in building products and manufacturing.

At year-end 2013, a bi-partisan budget bill by Democrat Senator Patty Murray and Republican Representative Paul Ryan passed the House on a 332-94 vote and is expected to pass the Senate. This bill would be for a two-year period and would allow some of the sequestered cuts to be eliminated in return for a series of current cuts and long term cuts to the budget. The $85 billion deal also avoids a threat of another government showdown in January 2014. While the bi-partisan budget deal is modest in scale, it does represent a positive step forward, as it would cut $12 billion from military spending but also further cut outlays for federal worker's retirement programs. This would be the first budget bill enacted by Congress since 2009.

U.S. PROPERTY SECTORS AND MARKETS

For the fourth consecutive year, the Urban Land Institute (ULI) and Price Waterhouse Cooper, LLC in their joint publication *Emerging Trends in Real Estate* 2014, indicated that U.S. property sectors and markets will continue to improve in the coming year. Commercial real estate is reaching an inflection point where valuations will no longer be driven by capital markets. *Emerging Trends* interviewees expect space market fundamentals and property enhancements to emerge as the primary drivers of total returns, thereby reducing the reliance on falling capitalization rates and high amounts of leverage. We expect the real impact on the real estate market to be seen in 2014 as real estate moves through the recovery phase.

The economic recovery is expected to continue in 2014, and with it, interest rates will be rising. Experts believe that the search for returns through cap rate compression will change to a search for returns through improving fundamentals and/or operations. In fact, some say that the year 2014 will be the year that real estate markets "recover from the recovery." *Emerging Trends* also expects growth to be sufficient to generate consistent and growing demand for



BRES' experience now covers 212 cities in 38 states and we're still growing.

commercial real estate across all property sectors.

While the multifamily sector will continue to lead all other sectors, expect industrial, office, retail, hotels, and other sectors to show recovery. Major industries that will affect commercial real estate investment include the energy, technology, healthcare and biological research, and to some extent education and financial services. Corporate profits and a recovering housing market expect to be stronger than the negative aspects of a stubbornly high unemployment rate, uncertain government regulation and fiscal policy, and the concern about the rising cost of debt capital.

Some say that the year 2014 will be the year that real estate markets "recover from the recovery."

In 2014, real estate assets will continue to command an attractive spread over fixed income investments and offer more stability than stocks. However, the equities market has seen substantial growth over the last two years due to the accommodative fiscal policy by the Fed so there will be significant capital still placed into equities. As interest rates rise, it is possible that bonds and equities will begin to be more attractive than they have been over the last three years and begin to command a bigger share of the overall capital allocation.

In *Emerging Trends*, it was noted that the key drivers and predictors for real estate activity in 2014 will include the following:

1. **Rising interest rates**: The market can handle an orderly increase in interest rates without serious disruption to the recovery, but there is still uncertainty and discomfort over higher interest rates which are expected in 2014. This makes it more difficult to determine the appropriate exit strategy for investors if cap rates rise.

2. **Fundamentals**: If interest rates rise, the market will begin to look at improving cash flows to drive returns. This will cause the transition from cap rate compression to fundamental performance and there will be an increased emphasis on asset management to enhance returns.

3. **Debt and Equity**: With the increased availability of debt and equity capital rising in 2014, more real estate markets and a wider set of investment strategies will be the theme. Equity capital will come from wealthy investors, institutional investors, global investors, sovereign wealth funds, real estate investment trust (REIT's), and family offices.

4. **Development Activity**: While multifamily development has been hot for the last 18 months, development of other product types, and in particularly industrial, will become more wide spread. If job growth continues, and the housing sector shows further improvement, the office sector will even see an increase in development and re-development, as building owners look to increase their rents and meet market demand.

5. **Demographic Shifts**: The growth of Generation Y and its impact on commercial real estate may be the singular most dominant trend for many years to come. This group lives, works, and plays in different ways than previous generations and will look for more urban, and less suburban type properties in which to locate. They want to be mobile and they want to have all of the services in close proximity. Also, baby boomers will drive change as they sell their homes and move into rental housing with increased amenities and those similar to those desired by Generation Y, although most will look to high-end suburban communities.

6. **Housing Industry**: A continued recovery will be strong enough to boost a number of local economies, and in some cases allow them to outperform expectations. If interest rates remain low, expect the housing industry to continue at their level of performance.

The growth of Generation Y and its impact on commercial real estate may be the singular most dominant trend for many years to come.

2013 TRENDS CONTINUE INTO 2014

Other trends that were in place in 2013 will continue through 2014 including the recapitalization of well-leased good quality assets by locking in long-term low interest mortgage debt. Real estate investment trusts (REIT stock) will also continue to be in demand as their real estate portfolios rise in value.

While core product and 24-hour gateway cities have had the strongest pricing and cap rates in 2013 and over the last several years, expect more investment in secondary and tertiary markets as investors look for higher investment returns. Cap rates which ranged in the low 4% to 5% in gateway cities in 2012, rose approximately 50 basis points in 2013 and are expected to remain flat or rise slightly in 2014. Because of the 100 to 200 basis points differential for cap rates in secondary markets, we will see more investment activity search out the real estate opportunities in these cities. As always, money will continue to flow to big employment and growth centers but expect the south, southeast, southwest, and coastal cities to again see the most investment activity.

KANSAS CITY ECONOMY

In 2013, the Kansas City economy again lurched slowly forward. The automobile industry, IT, and health sectors continue to be the leaders in employment in the metropolitan area. Cerner, once again, made the biggest headlines in 2013 when they announced their expansion of their innovation campus with a plan to purchase 257 acres at the former Bannister Mall site. Their proposed development, Three Trails Crossing, will span 10 years and it would add nearly 4.5 million square feet of office space and another 15,000 new Cerner employees. The campus is expected to cost in excess of $4.3 billion and will receive over $1.63 billion in economic incentives.

The real estate community as a whole saw the opening of a myriad of major developments in Kansas City. The recent opening in 2013 of the $687 million NNSA complex which houses 2,500 workers in Kansas City, to the opening of Cerner's $414 million, 660,000 sq. foot campus housing up to 4,000 jobs at Village West are just two of major projects completed in 2013.

Major office build-to-suit developments opening included the Polsinelli law firm, Teva Pharmaceuticals, and AMC, while the Perceptive Software new office campus will open in 2014. These developments show the office market has tightened dramatically and point out the need for new Class A office space. And over 3,500 units of residential development is either under construction or planned in Kansas City as this market strengthens dramatically. And certainly the rise in the speculative industrial development projects in Kansas City with over two million square feet now under construction shows that our intermodal centers will bring new business and construction activity to our market. With an expected gain of nearly 100 million square feet of additional industrial development over the next 10 years due to our intermodal centers, things will be active in the Kansas City industrial arena for years to come. And, it should be noted that with over $6.5 billion of investment in downtown Kansas City over the last 10 years, no city in America has done so much in such a short time to revitalize its downtown core.

Even the proposed new streetcar system is having an effect, as it appears it will jump-start the beginning of the $100 million Columbus Park redevelopment, which will eventually yield 370 residential units and 20,000 square feet of commercial space in the area bounded by Cherry, Gillis, Third, and Fifth Streets.

The regions' Gross Regional Product (GRP) grew at an annualized rate of approximately 1.9% in 2013, thereby exceeding the U.S. GDP of 1.7%. The regions' GRP should further accelerate in 2014 to 2.5% to 2.7%, and slightly ahead of the projected range for the U.S. GDP of 2.3% to 2.7%. The U.S. GDP and the KC GRP are both expected to rise further in 2015, as the economy strengthens. The Kansas City recovery is strengthening due to employment growth that now returns to a more historical average pace. The top four contributors to job growth will include the finance, insurance, and real estate industry, the information industry, the professional, scientific, and management services industry, and the manufacturing industry.

The Kansas City metropolitan area continues to see substantial construction activity as major office build-to-suit projects, government facilities, and bulk industrial projects

Kansas City's premiere major league soccer club, Sporting Kansas City, defeated the Real Salt Lake to win the MLS Cup Championship in December 2013. The score was tied at the end of two overtime periods and was ultimately decided by penalty kicks.

take front stage. There is a continued emphasis on the growth of residential in the downtown core by the City of Kansas City, Missouri as the current 21,000 units needs to increase to nearly 40,000 units in order to create a vibrant community in the downtown core.

With over $6.5 billion of investment in downtown Kansas City over the last 10 years, no city in America has done so much in such a short time to revitalize its downtown core.

The fact that Kansas City is located in the middle of the country and in the Central Time Zone, allows it to attract a constant influx of visitors from many small communities in the surrounding states. Because Kansas City is within a four-hour drive by over 8.45 million people in Kansas, Missouri, Iowa, Illinois, Nebraska, Arkansas, and Oklahoma, it remains a true tourist destination of choice by members of these communities.

There are a number of corporate headquarters located in Kansas City including Burns & McDonnell, Black & Veatch, Cerner Corporation, Commerce Bank, DST Systems, Garmin International, YRC Worldwide, UMB Financial, Sprint Corporation, Seaboard Corporation, H&R Block, Hallmark Cards, American Century, AMC Entertainment, Bats Trading, and many others.

Because of the large number of major universities located in or near Kansas City, Kansas City residents are very well-educated. Nearly 39% have a college degree and over 91% have a high school education. There are 15 institutions within the metro area which offer graduate degrees in numerous disciplines. Also, only the University of Kansas and University of Missouri offer professional degrees in law, medicine, dentistry, and pharmacy. Bioscience and bio technology are opportunities available at the Kansas State University Olathe facility and degrees in osteopathic medicine are offered by the Kansas University of Medicine and Biosciences. And one of the premier masters program in real estate in the country is available at the Lewis White Real Estate Center at the UMKC Bloch School of Business.

SPORTS AND ENTERTAINMENT

Kansas City is well known as one of the top sports and entertainment cities in the country. A number of professional teams call Kansas City home including the Kansas City Chiefs, Kansas City Royals, Sporting Kansas City soccer team, Kansas City Comets, the Missouri Mavericks hockey team, 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.

Because of its location in the center of the country, Kansas City has a large number of entertainment venues in the metropolitan area. Top venues such as Worlds of Fun, the Kansas City Zoo, Oceans of Fun, the Woodlands, Union station, Community America Ballpark, Schlitterbahn Vacation Village, the Independence Events Center, the Kansas Speedway and six area casinos. Last year's opening of Legoland Discovery Center and Sea Life Aquarium in the Crown Center district not only brought national attention to our community but has been well received by the country.

CULTURAL ARTS APPRECIATED

Kansas City continues to be known nationally and internationally for its arts and culture. There are a large number of amazing venues in the city including the Nelson-Atkins Museum of Art and the Bloch Building, the Kemper Museum of Contemporary Art Design, the American Royal Museum and Visitor's Center, the National World War I Museum at Liberty Memorial, the Kansas City Museum and Planetarium, the Kansas City Symphony, Starlight Theatre, the Copaken Stage for Repertory Theatre and the world renowned Kauffman Center for the Performing Arts. Art enthusiasts have a number of truly special places to enjoy arts and cultural events and with the Kauffman Center now ranking in the top four performance halls in the world, its' no wonder people come from far and wide to visit Kansas City. With the addition of the American Museum of National History slated to open in 2015 at the Prairie Fire project in Overland Park, Kansas City has increased its ranking to number nine in the country in terms of cultural art destinations. Yet, it ranks number one in the country, based upon the number of cultural venues compared to the population of our community.

TRANSPORTATION, TRUCKING, AND AIR

With the opening of several new air and rail intermodal centers, Kansas City continues to rank as one of the strongest distribution centers in the country. In fact, it has the number one ranking by rail freight volume and the number two ranking of largest rail centers in the U.S. behind Chicago. Kansas City's new rail intermodal hubs, one by BNSF and one by Kansas City Southern Railway, are already bringing new strength to Kansas City's reputation as a distribution center. Kansas City has eight class one rail carriers, three regional lines, and a local switching carrier (KC Terminal) serving the area. Also, Amtrak passenger trains serve the city four times per day. Kansas City continues to have significant barge traffic enjoying 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. One of Kansas City's most significant assets is that it is considered an inland port. There are only 12 of these in the entire country.

The Kansas City metropolitan area is served by four interstates including I-70, I-35, I-29, and I-49. There are four interstate linkages around the metropolitan area including I-435, I-635, I-470, and I-670. Kansas City is also

Several new air and rail intermodal centers have recently opened making this area perfectly positioned for the efficient shipment of goods nationally and internationally. These recent openings are already bringing new strength to Kansas City's reputation as a major national distribution center.

served by 10 federal highways, thereby providing a superior traffic system in the metro area. Finally, I-35, known as the North American Free Trade Agreement (NAFTA) Highway, which stretches from Mexico to Canada, has continued to enhance and expedite the flow of distribution throughout the metropolitan area and the U.S., thereby making Kansas City a sought after trade route.

SIGNIFICANT AIR PRESENCE

With 14 major commercial airlines and over 260 daily departures and non-stop service to over 65 destinations, Kansas City has a significant air presence. Kansas City's new air modal center, adjacent to Kansas City International Airport, has strengthened cargo shipment capabilities and distribution opportunities and will continue to do so in the years to come. In fact, with the addition of the new intermodal locations throughout the city, our city was recently recognized as one of the top five cities in the nation for cargo distribution.

MAGAZINES RATE KANSAS CITY HIGHLY

Kansas City continues to receive rave reviews from various different publications throughout the country. Kansas City ranks high in many categories including number 19 on *Travel & Leisure* magazine's "America's Best Cities for Hipsters;" is ranked ninth by *Entrepreneur.com* as a top city for tech startups; and the ninth Best Place to Retire; number seven city for young entrepreneurs; one of America's best downtowns; a top 10 travel destination for 2014; and 29th in the country for young brain power. Kansas City is among 12 global cities to watch including Barcelona, Seattle, Moscow, Bejing, and Abu Dhabi. Kansas City is ranked number one in the country for barbecue and the eighth strongest metropolitan economy in the country.

Kansas City also ranks 12th for best park systems in the nation; ranks 15th best city in America; is ranked 12th for female entrepreneurs; and is ranked as a top 10 coolest city in the Midwest. Kansas City also ranks number three among the nation's philanthropic communities, ranks 12th on the list of America's smartest cities by *USA Today*, ranked a top 10 romantic city by *Livability.com*, and is ranked overall the 11th best city in America to raise a family by *Parenting Magazine*. Also, the Sprint Center ranks as the second busiest venue in the United States and the seventh busiest in the world.

GOOGLE MAKES IMPACT

Google, Inc. began bringing its Google fiber network to Kansas City, Missouri and Kansas City, Kansas in 2013 and multiple communities have been asking to join the network. Google has now expanded its original network to 17 cities which is providing many of our residents with the highest level of connectivity in the country. Google's continued expansion in the Kansas City metropolitan area has made it a Google Fiber city and has bolstered cloud-based technologies and high definition streaming services throughout the community. The Kansas City metro and surrounding area has been nicknamed the "Silicon Prairie" and we are now ranked as "one of America's most entrepreneurial cities".

ANIMAL HEALTH CORRIDOR

The Kansas City animal health corridor, which stretches from Manhattan, Kansas to Columbia, Missouri, continues to see increased growth and represents nearly 34% of all sales in the global animal health market now totaling in excess of $22 billion. There are more than 300 animal health-related companies operating in the region and some of the world's largest and most influential health companies including Bayer Animal Health, Nestle Purina PetCare, Zoetis, Boehringer Ingelheim Vet Medica, Hills Pet Nutrition, Ceva, MRI Global, Agri Laboratories, Cereal Food Processors, Pfizer Animal Health, Zupreem, Magna Starter Biotech, Pet Screen, MWI Veterinary Supply, Argenta, and the U.S. Animal Health Association. The corridor has now created nearly 1,600 jobs and over $1.45 billion of capital investment since its launch in 2006.

The Kansas City Area Life Sciences Institute (KCALSI), in conjunction with major life science participants including the Kansas Bio Science Authority, Kansas City Animal Health Corridor, Midwest Research Institute, National Bio and Agri-Defense, and the Stowers Institute for Medical Research, are among top groups that lead Kansas City forward in the life sciences sector. The life sciences industry continues to grow in our community and now has made over $1.1 billion in research expenditures over the last ten years. Kansas City now ranks as one of the top three areas in the country for life sciences research academia.

Also, the University of Kansas Cancer Center received its NCI designation in late 2012 and is now becoming one of the dominant cancer centers in the country. With only 27 NCI designated cancer centers and 41 designated comprehensive cancer center in the entire country, KU's receipt of NCI designation was extremely beneficial to the community as a whole, as it has expanded research funding and will continue to provide economics benefits and new jobs to our community. Additionally, other area hospital systems including St. Luke's, HCA, and others have spent hundreds of millions of dollars in the last 24 months to improve area hospitals and care centers, making Kansas City a destination of choice for high quality medical care.

KC METRO RECAP

While in 2012, we saw the largest increase in build-to-suit office development in Kansas City in the last 20 years, in 2013 the two dominant sectors were multifamily and industrial. The multifamily sector in 2013 added 1,700 units in 12 projects underway and over 3,500 more units projected for 2014. On the industrial side, spec industrial development has returned to Kansas City, and by year-end 2013 more than 2.5 million square feet speculative mid-bulk or bulk industrial projects were either under construction or ready to commence. The total value of the multifamily and industrial projects alone represent over $2.65 billion of new investment activity and have catapulted Kansas City's real estate market into the limelight.

Our city was recently recognized as one of the top five cities in the nation for cargo distribution.

Overall, there is nearly $3.5 billion of residential, commercial, and industrial construction planned or underway in the metro area as compared to just $2.4 billion in 2012. We expect this activity to continue to increase over the next 18 to 24 months, as our economy moves forward and gains steam, and assuming no negative global or national fiscal crisis occurs.

The border war between Kansas and Missouri still remains at the forefront. While many of the companies considering relocation in our metropolitan area are doing so primarily to find better quality facilities with updated technological features to match their new requirements, there still remains substantial movement back and forth across the state line to capture economic incentives. However, we know many of these relocations might not happen without these economic benefits, and believe the overall benefits far outweigh the amount of economic incentives offered. Also, many of these companies have the ability to move completely out of the metropolitan area and in some cases, without an incentive package, they would leave our metro altogether.

Business and government leaders must continue to all work together and promote the Kansas City metropolitan area as a united community that is intent on attracting new business from inside and outside our community. There needs to be a solid public/private partnership in all 50 separate communities making up the metropolitan area in order to encourage increased investment and development activity. It is also important to strengthen area sentiment toward development in all corners of our community including the urban core, in order to provide a solid foundation to attract new companies to the entire Kansas City metropolitan area. By working together as a true partnership, Kansas City will remain "a great place to live and work".

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

Kansas City Downtown Development

Downtown Kansas City is an amalgam of the central business district and ancillary neighboring submarkets. The area is defined geographically from the Missouri River to 31st Street and from the Kansas/Missouri state line to Troost Avenue.

Within the Downtown submarket are the Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads and West Bottoms and portions of midtown. 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 for the second year in a row. Currently vacancy rates are 2.8% over last year with a fourth quarter vacancy of 8.2%. The trend continues to be positive as the five-year average vacancy for the area is 12.5%. Full service office rates are stable for the second year with an average of approximately $16.50 per square foot.

Two long awaited and much anticipated issues have been settled for downtown in the last year: Will Kansas City get a new downtown hotel? And, where will the General Services Administration (GSA) locate?

A significant question that remains is whether Kansas City successfully lands the bid for the 2016 National Republican Convention. The convention answer will come in 2014 as the GOP narrows their choices. The successful city stands to gain millions in economic benefit and exposure from the convention.

The GSA's Heartland Regional Offices will be relocating 900 employees from the Bannister Federal Complex to the Two Pershing Square office building at 2300 Main Street, just east of Union Station. The 144,000 sq. foot transaction is valued at just under $50 million for a 20-year lease term. The momentum generated by the influx of employees is expected to have a broad economic impact for support businesses in the area as well as increased ridership of the new downtown streetcar system.

NEW DOWNTOWN HOTEL

Full approval for the construction of the first hotel since 1985 is expected to come before January 2014. The 257-room complex will be assembled in the 1600 block of Baltimore Avenue at an anticipated cost of $46 million. The plans included in the 10- story building are a parking garage, street-level retail shops, a Courtyard Marriott and a Residence Inn. Perhaps the single strongest sign of improved economics for the area is that the new hotel developer is not seeking entitlements or tax incentives.

> Though the streetcar plan has not broken ground, it is already driving residential development downtown.

Much of previous downtown development has come with entitlements in the way of tax incentives through Kansas City's Economic Development Corporation. Late in 2013, the city announced sweeping reforms have been proposed for the Economic Development Council (EDC) which include a reduction in board members and more control to the city's mayor. The revamp is designed to make the process more efficient for developers and provide greater control to the city. Among the last two projects to come through the old system are the $71 million Commerce Tower redevelopment announced in September of 2013 and the Pickwick Hotel Project announced in October of 2013. The Commerce plan proposes the building at 911 Main Street convert to mixed-use with approximately 80,000 square feet dedicated

Commerce Tower is set to undergo a $71 million mixed-use renovation with the help of $23 million in historic tax credits.

to residential conversion and 80,000 square feet to remain office. Completion is scheduled for 2015. The Pickwick plan is a $35 million transformation of the historic complex of buildings located between 9th and 10th Streets on McGee. Plans include retail at street level and an affordable and senior mix of residential units in the rest of the property.

Due to a failed bid for low income housing tax credits, development plans for the former Folgers Coffee roasting plant at 7th and Broadway have been revamped to 147-luxury apartment with commensurate amenities. Units are anticipated to be ready for occupancy in 2015. Block Multifamily Group will be in charge of the lease-up and management.

Though the streetcar plan announced last year has not broken ground, it is already driving residential development downtown. Financing for a $70 million residential project in Columbus Park, between 3rd and 5th Streets in the City Market area, has been secured as a result of the transportation plan. The 22-acre development will include 120 new apartment units and 130 attached town homes plus some retail in the mix. The first phase of the development is expected to begin in 2014.

MORE RESIDENTIAL PROJECTS

Other residential projects expected to break ground in 2014 include Centropolis on Grand. The 56-unit 5-story residential building planned for a vacant site at 5th and Grand. The East Village hopes to come out of its stall with the announcement of 600 planned new units near 10th and Holmes. Low residential vacancies and high area demand are fueling continued multifamily growth in the submarket. Indications are the market is very healthy for purchases, but lending continues to complicate the process. The projects proposed are for the rental market as lending for the purchase of individual condominiums remains elusive. This is evidenced by the drop in volume of residential sales in the submarket. Average sales were approximately $225,000, with just over six months on the market. Though 90% of the units listed have sold, the number of listings has dropped by 61% in the last year.

IMPACT OF ROAD IMPROVEMENTS

The year 2013 was the time for road improvements in Downtown Kansas City. Congestion created by multiple bridge improvements resulted in significant traffic snarls through most of the autumn months. Parking and traffic congestion are issues that will begin again in March 2014 when construction for the streetcar line is anticipated to begin. The 2013 traffic issues instigated a moratorium on drive-through businesses downtown. Though it is widely recognized that downtown can and should support more retailers as residential density continues to increase, the issue may impact future banking, fast food and other retailers dependent upon drive-through service.

The Downtown Submarket is rapidly evolving. In the coming years we look for real estate growth in the following areas: stabilized office uses, continued multifamily development, the conversion of surface parking to higher and better uses, stronger retail/restaurant support for a growing residential and convention markets and concentrated activity along public transportation corridors.

Contributor: Matthew L. Levi, CCIM, Vice President.

The six-story, 217,160 sq. foot Folgers plant closed and has been purchased by O'Reilly Development Company LLC of Springfield, Missouri with plans to redevelop the space into approximately 147 luxury apartments.

Kansas City
Office Market

The first tower of Cerner's Kansas Campus, near the Legends shopping area, opened in mid-2013. Cerner will occupy both nine-story buildings totalling 660,000 square feet in early 2014.

As rental rates remained at historical lows, decreased vacancy and increased absorption highlight the year as the Kansas City market continues to stabilize and rebound from the Great Recession.

With rates holding relatively firm, other market fundamentals continued to improve despite the slowly improving economy. Both tenants and landlords continue to take a cautious approach in an environment sensitive to both cost and risk.

The U.S. office market continued on a path of decreasing vacancy since 2010. From 2011 to 2012, the vacancy rate dipped from 12.3% to 12.1% which represented an average quarterly positive absorption of 18 million square feet. From the fourth quarter of 2012 to the fourth quarter of 2013, that same vacancy rate has dropped to 11.6%. A 50 basis point change reflects a quarterly absorption of approximately 20.5 million square feet.

Locally, the Kansas City market outpaced the national market in overall vacancy decreases from 2012 to 2013 which resulted in Kansas City closing the gap on the national market on an overall vacancy percentage. The office vacancy dropped from 13.4% to 11.7%. The result was an increase of net absorption to 2.4 million square feet over last year's 90,000 square feet. Although much of this may be attributed to the delivery of large build-to-suit pre-leased projects, both the decrease in vacancy and increase in absorption are positive signs for upcoming quarters.

Following past trends, concessions continued to decrease nationally and as the vacancies decreased, national rental rates trended upwards. National rates increased from $21.42 per square foot in 2012 to $21.75 per square foot in 2013.

While the national lease rates continue to rise, Kansas City's office market continued to go in the opposite direction. Rental rates have continued to decrease since 2010. As Kansas City continues to catch up to national trends, the positive news is that the decreased vacancy and increased absorption may further the cause for increased rates and decreased concessions.

The year 2013 saw a decrease in new construction starts from 2012—down from 1.306 million square feet in 2012 to 600,000 square feet in 2013. The conservative Kansas City construction market continues to lurch forward due to substantially pre-leased and build-to-suit projects. Until strict lending restrictions loosen and developers' aversion to risk change, we anticipate this trend will remain the norm for the foreseeable future.

A dramatic increase over 2012 in overall net absorption proved to be one of the highlights for the Kansas City market in 2013. Whereas in recent years, the Kansas City market fluctuated up and down leaving it difficult to anticipate future direction, net absorption was positive for all four quarters in 2013. A healthy overall positive net absorption of almost 2.4 million square feet was a dramatic increase over 2012 and previous years.

Class A absorption again led the way with over 1,648,000 square feet, which was driven in part by St. Luke's office lease of 140,000 square feet at Executive Hills East, and Polsinelli P.C.'s lease of 42,946 square feet at Plaza Corporate Centre.

Led by deals such as Quest Diagnostic's lease of 77,450 square feet at 9601 Renner and SelectQuote's lease of 34,385 square feet at the 2020 West 89th Street building, Class B rebounded from 25,000 square feet of net absorption in 2012 to almost 630,000 square feet of net absorption in 2013.

Class C properties also drastically outpaced a 20,000 square foot 2012 positive absorption, with a total of 148,400 square feet in 2013.

Even with decreased vacancy and increased absorption, rental rates in Kansas City continued to trend downward in 2013. As the U.S. economy continues its path toward recovery, economic uncertainty will inevitably continue to impact future expansion plans as well as hiring in both the U.S. and Kansas City office markets. On a micro scale, the question posed is, "Will the office market continue on the path of recovery and when and to what end will these realized positive fundamentals influence an increase in local rental rates?" Where we previously projected 2013 to be marginally better than 2012 based on previous slow progress, the 2014 market outlook hinges on the impact of the improved fundamentals and reaction by landlords and tenants alike.

SOUTH JOHNSON COUNTY

At the close of 2013, the South Johnson County submarket consisted of:

- Approximately 28,290 million square feet of all building classes.
- 2.715 million square feet available, including sublease space which equates to an overall vacancy of 9.6%, a level slightly down from 12.7% for the same period in 2012.

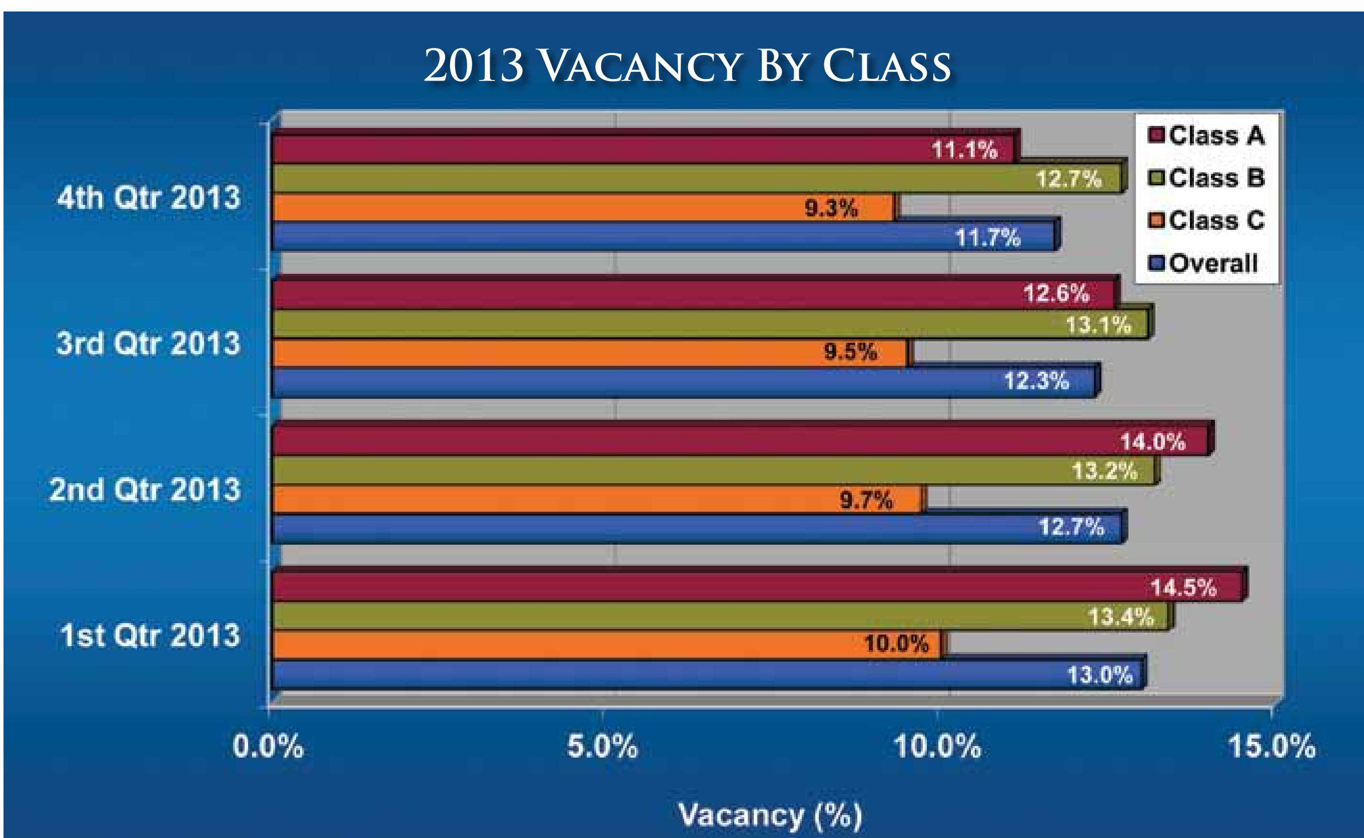
Significant office leases completed in 2013 included: GE for 37,000 square feet, Thales USA for 34,000 square feet, iModule Software for 18,000 square feet, and Walsworth Publishing for 18,000 square feet.

Building classes A, B, and C reported a total of approximately 770,571 square feet of net absorption during 2013, with approximately 156,100 square feet of new deliveries.

Overall vacancy decreased from 12.7% at the end of 2012 to 9% at the end of 2013. However, the overall average asking rate remained flat at $19.11 per square feet for the period. This reflects landlords' success in maintaining existing tenants and filling vacancy. This submarket continues to be one of the strongest markets in the metropolitan area.

CLASS A PROPERTIES REPORTED:

- Vacancy stood at 5.8% inclusive of sublease opportunities.
- Average asking rates for direct deals and subleases was $21.57 per square foot at the end of 2013.



Kiewit Corporation purchased the 129,000 sq. foot building at 9701 Renner Boulevard in April at a low sales price which allowed them to expand at below market occupancy costs. Kiewit Power Constructors will immediately occupy all but 16,000 square feet of the building.

- Net absorption for 2013 was approximately 550,993 square feet.
- New Class A properties accounted for 127,000 square feet.

CLASS B PROPERTIES REPORTED:

- Vacancy stood at 12.5%.
- Average asking rates for direct deals and subleases was $18.32 per square foot at the end of 2013.
- Net absorption for 2013 was approximately 236,745 square feet.
- New Class B properties accounted for 29,100 square feet.

CLASS C PROPERTIES REPORTED:

- Vacancy stood at 7.3%.
- Average asking rates for direct deals and subleases were $15.72 per square foot at the end of 2013.
- Net absorption for 2013 was approximately 4,000 square feet.

NORTH JOHNSON COUNTY

The North Johnson County submarket includes approximately 11.968 million square feet of office space in 650 properties.

At the close of 2013, the North Johnson County submarket consisted of:

- Approximately 11.968 million square feet of all building classes.
- 1.232 million square feet available, including sublease space which equates to an overall vacancy of 10.34%.

  Significant office leases completed in 2013 included Quest Diagnostics for 77,500 square feet and SelectQuote for 34,000 square feet.

Building classes A, B, and C reported a total of approximately 287,470 square feet of net absorption during 2013. Overall vacancy decreased from 13.2% at the end of 2012 to 10.34% at the end of 2013. The overall average asking rate including subleases rose slightly from $16.61 per square foot to $16.78 per square foot for the same period. Again, this reflected property owners struggles to maintain existing tenants and fill vacancy.

CLASS A PROPERTIES REPORTED:

- Vacancy dropped to 4.7%, effectively unchanged for the period.
- Effective asking rates for direct deals and subleases was $22.07 per square foot at the end of 2013.
- Net absorption for 2013 was approximately 220,014 square feet.

CLASS B PROPERTIES REPORTED:

- Vacancy stood at 11.8%.
- Effective asking rates for direct deals and subleases were $16.35 per square foot at the end of 2013.
- Net absorption for 2013 was approximately 66,250 square feet.

CLASS C PROPERTIES REPORTED:

- Vacancy stood at 10.5% inclusive of sublease opportunities.
- Average asking rates for direct deals and subleases were $13.25 per square foot at the end of 2013.
- Net absorption for 2013 was approximately 1,203 square feet.

CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads and West Bottoms areas make up the overall Downtown submarket. These areas combine for a total of 27.9 million square feet and an overall vacancy of 15.2% at the end of 2013. The total available space for the Downtown submarket was 4.24 million square feet which includes 77,382 of sublease space.

Class A properties saw the highest vacancy rate of 20% or 1.58 million square feet. Class A properties reported positive absorption of 84,113 square feet. Class B properties have a vacancy rate of 14.7% and a negative absorption of 11,411 square feet. The Class B market is made up of 195 buildings and 15.05 million square feet. Class C properties had absorption of 59,168 and a vacancy rate of 9.2%.

Consisting of 18.2 million square feet, the CBD reported a vacancy rate of 16.2% and 70,624 square feet of negative absorption. The Class A buildings saw the highest vacancy rate for the end of 2013 at 20.6%, higher than the 18.5% vacancy rate reported at the end of 2012.

Class B properties consist of 110 buildings and 10.6 million square feet and experienced a reduced vacancy rate of 16.4% and negative absorption of 65,414 square feet. The Class C submarket consists of 73 buildings and 2.5 million square feet. Class C properties reported a vacancy rate of 6.1% and absorption of 4,247 square feet. Overall rental rates in the CBD ended the year slightly up from 2012 at $15.86 per rentable square foot.

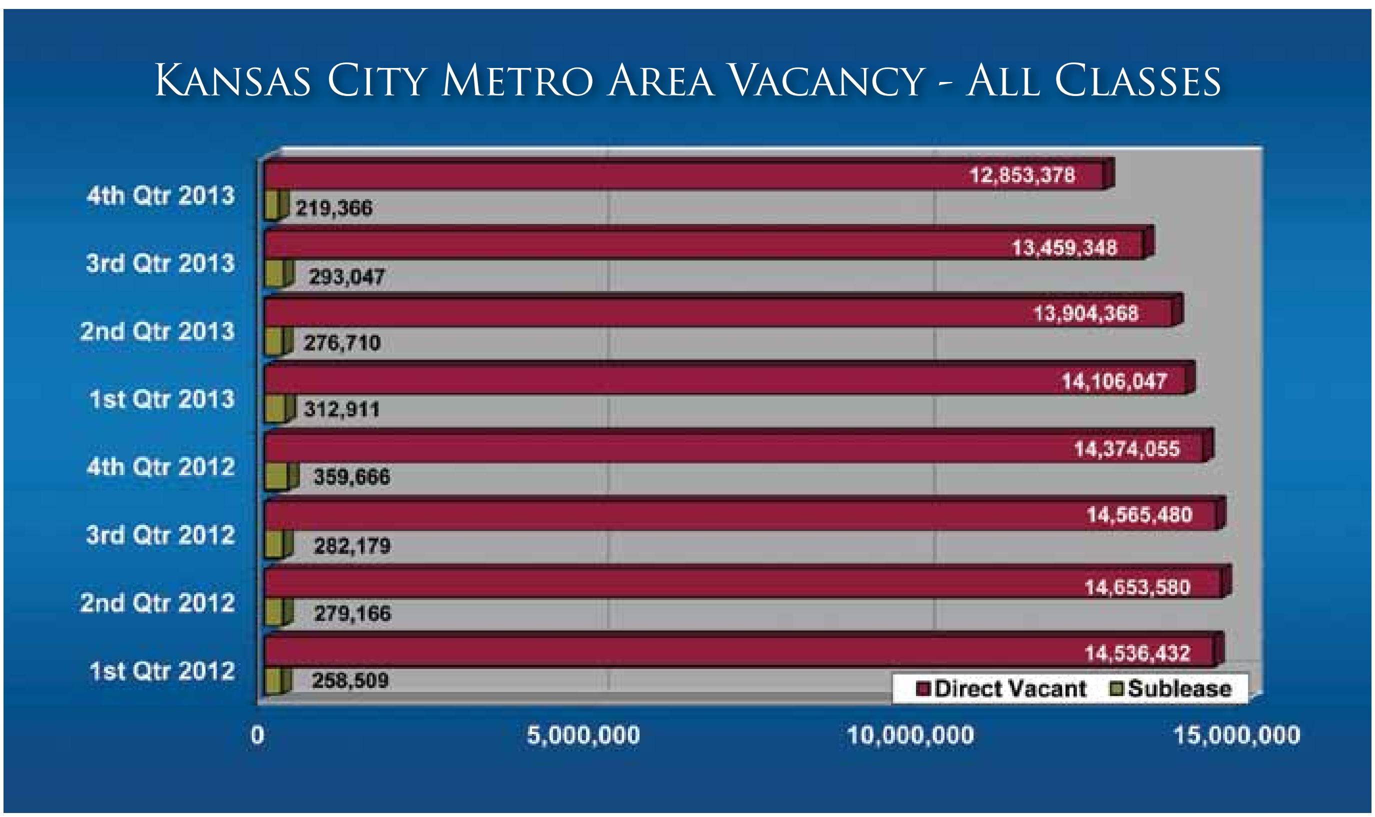
The Crown Center submarket consists of 71 buildings totaling 6.3 million square feet. The vacancy rate at the end of 2013 was 12.8% which is higher than the 12% vacancy rate reported at the end of 2012. The eight Class A buildings in this submarket experienced a vacancy rate of 20% or 506,000 square feet with positive absorption of 93,718 square feet. The big news at the end of 2013 was the General Services Administration (GSA) lease of approximately 140,000 square feet at Two Pershing Square. They will take occupancy towards the end of 2014 which will be a boost to overall vacancy and absorption for the upcoming year. Within the 26 Class B buildings, vacancy rates were 6.2% with absorption of 36,928 square feet at the close of 2013.

PLAZA

At an average quoted gross rent of $22.30 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 9.9 million square feet and still boasts one of the highest quoted rents in the Metro. With only four contiguous vacancies of at least 20,000 square feet, this submarket remains most appealing to small and mid-size tenants.

The Country Club Plaza market consists of 116 Class A, B, and C buildings. These buildings had a 12% overall vacancy and boasted an average quoted gross rent of $22.30 for all building classes.

Eight years after the original project broke ground at 900 W. 48th Place, the newly developed Plaza Vista office building became the new home for the Polsinelli law firm which moved into its new 234,876 square foot headquarters, consolidating its Downtown and Plaza Steppes legal practices into one location. Polsinelli's back office support moved into 35,047 square feet at Plaza Corporate Centre.



OFFICE MARKET

Another highlight included United Way absorbing 19,000 square feet of vacancy at Park Plaza after moving its headquarters out of Downtown.

As part of its continued effort to shed non-core real estate assets, DST placed 255,000 square feet of office space on the investment market at 4900 and 4901 Main. Highwoods Properties also placed the 165,000 sq. foot Board of Trade Building on the market after the building was acquired by Chicago-based CME Group. The Board of Trade Building and 4901 Main were placed under contract in the fall of 2013.

The Brookside and Midtown portions of the submarket offer 305 total Class A, B, and C buildings with a combined total of 4.9 million square feet, 4 million of that total consisting of older buildings in Midtown. An 8% vacancy attests to the desirability of this central area.

SOUTH KANSAS CITY

The South Kansas City office market includes buildings located at Holmes and I-435, along Ward Parkway from Wornall Road north to 75th Street, and the complex of buildings leased by Cerner at I-49 and I-435. It consists of approximately 6.7 million square feet of office space in 227 buildings.

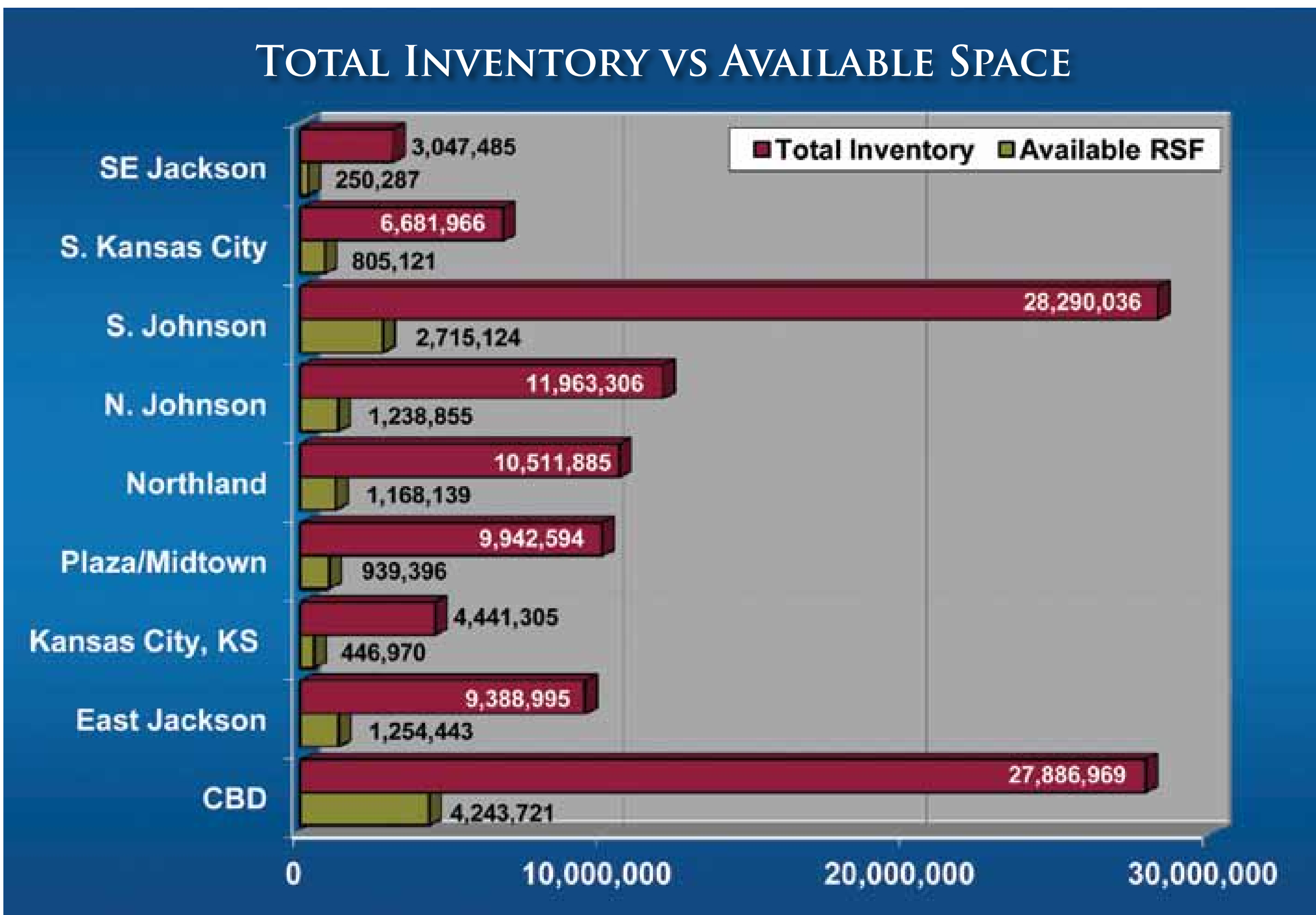
The South Kansas City market experienced an overall vacancy rate of 12%. Class A properties, which consist of 14 building and 2.4 million square feet, had a vacancy rate of 9.9% at the end of 2013. With 3.6 million square feet in 95 buildings, the Class B properties reported the highest vacancy rate in the submarket, 14.5%. Class C properties reported a vacancy rate of 6.9% reported over 699,000 square feet in 118 buildings. Overall, the South Kansas City submarket experienced positive absorption of 140,862 square feet.

Major activity in the South Kansas City submarket include Freightquote moving in to their new 200,000 sq. foot headquarters building located near I-435 & State Line Road. While the relocation of Freightquote is positive news for the South Kansas City submarket, the announcement by the GSA to relocate approximately 1,000 employees from the Bannister Road complex to Two Pershing Square downtown slows absorption again in this market.

The average rental rates achieved in this South Kansas City Submarket range from $20.06 per square foot for Class A properties to $13.17 per square foot for Class C properties with an overall quoted rental rate of $16.91 per square foot. The overall rental rate of $16.91 per square foot is a decrease from the overall rental rate of $17.16 at the end of 2012. The South Kansas City submarket offers companies great accessibility and value while staying close to the Kansas state line.

NORTH OF THE RIVER

The North of the River market is defined as property in Missouri, north of the Missouri River. This market includes both Platte and Clay Counties and is geographically one of



Saint Luke's Health System moved its corporate headquarters into 120,000 square feet in the Executive Hills East building, formerly occupied by Teva Pharmaceuticals.

the largest submarkets in the metropolitan area which is spread over 13 different municipalities. Despite geographic size, proximity to the Kansas City International Airport and a well developed interstate system, the submarket has historically underperformed most other submarkets in the MSA. In spite of the historic performance, the market has experienced strong positive absorption in 2013.

The 263 buildings that comprised the inventory in this submarket in 2013 total over 10.5 million square feet, and experienced 11.1% vacancy for 2013 compared to 16.3% in fourth quarter 2012. They also reported three consecutive quarters of positive absorption.

Average quoted rents in the submarket were $15.27 per square foot, full-service. Actual rents are significantly less, especially in the I-29 corridor near the Kansas City International Airport, which still suffers from substantial oversupply.

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. The limited number of Class A properties in this submarket enjoy a very healthy vacancy rate of less than 2%. These Class A properties are primarily located in the Briarcliff development in the extreme southern part of the submarket, just north of the CBD. This development is a mixed use lifestyle development, including retail and housing, which is becoming increasingly attractive to Class A office users throughout the MSA.

The submarket has recently attracted the attention of owner occupants and investors taking advantage of abundant, high quality space at prices far below replacement. These include 7300, 7505 and 7509 NW Tiffany Springs Parkway, and 11125 NW Ambassador all in the I-29 corridor near the airport. The 7300 building was acquired by Truman Medical Center as an owner/occupant which removed 109,000 square feet of vacant space (109,000 square feet) from the market, substantially contributing to the reported positive absorption. In addition to these transactions, several additional leases in excess of 20,000 square feet have been secured, mostly in the Briarcliff development.

Looking forward into 2014, we expect additional space to be acquired by value-oriented users either though purchases or landlord incentivized leases, although the market is still expected to underperform the overall MSA.

EASTERN JACKSON COUNTY

The Eastern Jackson County office market appears to be on the slow path of recovery and statistics for 2013 continue to support this. This submarket consists of Blue Springs, Independence, and Eastern Kansas City.

At the end of 2013, this submarket consists of 730 office buildings which total 9,388,995 square feet. The vacancy rate dropped this year 0.2%, from 13.5% at the end of 2012 down to 13.3% at the end of 2013. The square foot vacancy was approximately 1.2 million at the end of 2013.

SelectQuote, represented by BRES, moved into 42,946 square feet at 2020 West 89th Street, Leawood Kansas in 2013. The firm had been at 9200 Ward Parkway in Kansas City, Missouri but required a larger space to accommodate their accelerating growth.

Eastern Jackson County saw a net absorption of 30,109 square feet this year. The absorption for 2012 was negative. Average quoted rates rose from $13.96 in 2012 to a surprising $14.34 in 2013. This submarket is vastly Class B and Class C properties.

Class A office properties in Eastern Jackson County account for 257,822 square feet. There are only three buildings with a vacancy of 6.8%. There was a net absorption of 64,761 square feet. Class B consists of 254 buildings totaling 5,063,836 square feet. This class reported 16.3% vacancy and a negative net absorption of 56,375 square feet. Class C properties in Eastern Jackson County consist of 473 buildings totaling 4,067,337 square feet. This class saw a vacancy rate of 10.1% or 410,352 square feet. It also produced a positive net absorption of 21,723 square feet.

These statistics show that the Eastern Jackson County submarket is slowly absorbing office space. Additionally, these statistics conclude that there is a small demand for Class A office space in Eastern Jackson County as it saw no new construction and produced a net absorption of 30,109 square feet.

SOUTHEAST JACKSON COUNTY

The Southeast Jackson County submarket is one of Kansas City's smallest submarkets consisting of 227 buildings spread over approximately 3 million square feet.

At the end of the fourth quarter 2013, Southeast Jackson County's vacancy rate was 8.2% or 250,287 square feet. The 8.2% vacancy rate at the end of 2013 is a slight decrease in vacancy compared to the 8.5% vacancy rate at the end of 2012. Consisting of two buildings and approximately 103,000 square feet, the Class A submarket reported a vacancy rate of 7.9% at the end of 2013. Made up of 103 buildings and 2.2 million square feet, Class B properties reported the lowest vacancy rate of 57.5%.

With a vacancy rate of 10.4% over 122 buildings and 665,000 square feet, Class C properties contain the highest amount of vacancy within the Southeast Jackson County submarket.

In 2013, the Southeast Jackson county submarket experienced a decrease in the overall quoted rental rate of $16.70 per square foot compared to $17.34 per square foot at the end of 2012. At the end of 2013, Southeast Jackson County experienced positive absorption of 6,337 square feet.

KANSAS CITY, KANSAS

The Kansas City, Kansas Submarket has seen a pleasant increase in all facets of real estate over the past few years. With the continued development of The Legends, the University of Kansas Medical Center and the recent emergence of Cerner Corporation investment, Kansas City, Kansas has seen an increase from 3.98 million square feet to 4.4 million square feet of inventory.

We, however, saw an overall rise of vacancy in the Kansas City, Kansas submarket from 6.8% in 2012 to 10.1% at 2013 year-end.

Class A properties, with 604,475 total rentable square feet of office space, is the largest problem within the Kansas City, Kansas submarket with 192,595 square feet of vacancy, or 31.9%.

Class B properties, the largest square foot holder in the submarket with 2,173,771 total rentable square feet, have fared much better with a vacancy of 133,656 square feet, or 6.8%.

Class C properties, the second largest square foot holder with 1,663,059 total rentable square feet, has a vacancy of 120,719 square feet, or 7.3%.

The bright spot of the Kansas City, Kansas submarket for 2013, and continuing into 2014, is the major investment made by Cerner Corporation. Cerner Corporation is a healthcare information technology company that has continued to grow and impact various Kansas City Metro submarkets. We saw them complete Phase I of their new campus bringing 330,000 fully occupied square feet to the Class A market. Phase II, with another 330,000 square feet, will be completed and occupied during 2014.

Additionally, 39 Rainbow Phase II is under construction and scheduled to be completed in 2014. The 39 Rainbow Phase II building will add approximately 111,200 square feet of mixed-use development. The office portion will be predominately medical use in conjunction with KU Medical Center.

NEW CONSTRUCTION

The year 2013 saw the delivery of 11 buildings totaling almost 1.5 million square feet. As has been a recent norm, new construction in 2013 was reserved for build-to-suit and pre-leased projects. Strict limitations on financing and developer's aversion to risk in an uncertain economic climate, have removed speculative multi-tenant office projects from the immediate horizon. What remains to be seen is how developers and the climate for construction changes, if at all, with the continued decrease in vacancy rates and the improvement in positive absorption over the past year.

RENTAL RATES

Holding true to past performance, Kansas City office rates continue to underperform in comparison to the U.S. market. While the national market saw an increase in overall rental rates, the Kansas City market saw its rates dip for the fourth consecutive year. The overall average full service asking rate for the Kansas City market declined from $16.97 per square foot in 2012 to $16.75 per square foot in 2013. This overall decline is not realized throughout all building classes, as the rates did increase in Class A buildings.

Class A quoted rates increased from $19.92 per square foot in 2012 to $20.06 per square foot for the 2013 year, but this slight increase is far from recovering pre-recession market rates.

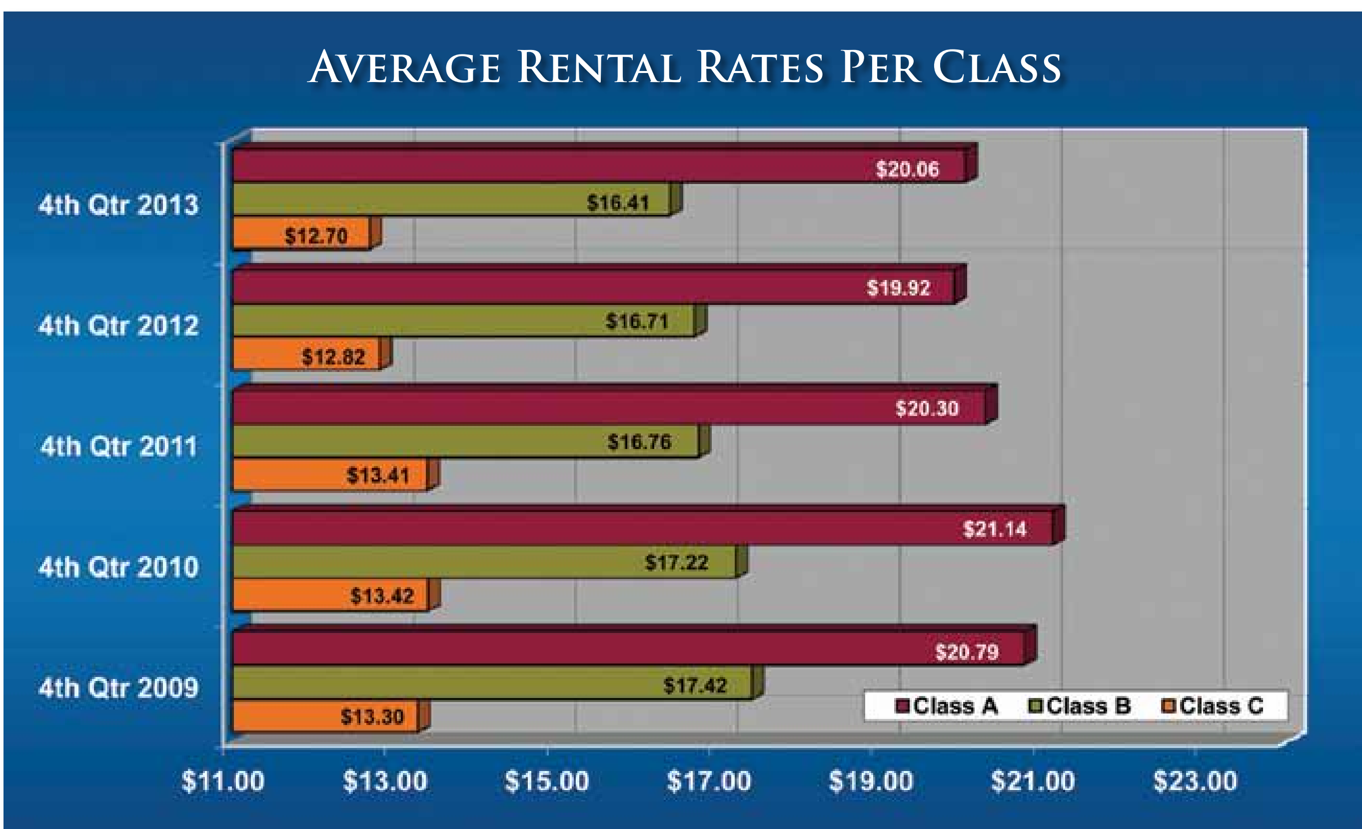
Class B rates showed the greatest decrease of the three tracked building classes and fell from $16.71 per square foot in 2012 to $16.41 per square foot in 2013.

Class C rates followed suit and decreased from $12.82 to $12.70 per square foot.

Landlords are still working towards minimizing out-of-pocket tenant improvement costs while their cash flows slowly return. While lower effective rate deals are still attainable for credit tenants, the overall concessions offered by landlords have and will continue to decrease.

SUMMARY AND OUTLOOK

The year 2013 marked the first time in the past four years that we have seen a more definitive improvement in the basic fundamentals of the office market. The economy, both



The General Services Administration (GSA) leased 150,000 square feet on five floors of Two Pershing Square for 900 GSA employees, thereby eliminating most of the 35% vacancy at this building. This lease will boost the overall downtown market and should create further absorption for the Crown Center/Crossroads District.

locally and nationwide, continues to slowly stabilize, which provides positive news for Kansas City as well as the office market outlook.

We continue to see employment growth in Kansas City. According to information provided in the Kansas City Chamber's 2014 Economic Forecast, "2013 marked the first time in over three years that the Kansas City market added jobs more quickly than the nation." This is a good sign for an economy typically behind the curve in relationship to the U.S. recovery. How will this continue to affect 2014?

The uptick from 2013 is no doubt attributed to a number of notable build-to-suit deliveries, the decreased amount of sub-lease space on the market, lack of new speculative multi-tenant construction and positive economic and employment growth. Are the fundamental improvements an illusion? Are we on track for another step forward or a step backwards in 2014, both of which still remain to be seen? As the market gains traction, will developers and lenders begin to change their most recent positions on speculative multi-tenant office projects? An influx of such product would undoubtedly affect the current decrease in vacancy we have seen in 2013, but it could also help push the rental rates upward.

Landlords continue to face challenges. The slow pace of the economic recovery continues to breed a cautious environment and a "wait and see" approach from tenants. Workplace culture continues to evolve as well. Tenants strive for cost-cutting measures. Landlords are seeing tenant's requests for increased employee density which puts a strain on some properties' abilities to serve their current and future tenants. As costs of materials increase, tenant improvement costs have continued to rise, adding further strain to landlords' cash flows.

The slow pace of the economic recovery continues to breed a cautious environment and a "wait and see" approach from tenants.

WHAT'S IN STORE FOR THE COMING YEAR?

According to the Kansas City Chamber's 2014 Economic Forecast, "Not only was the past recession one of the deepest, but the pace of recovery has also been the slowest." This slow recovery had a direct effect on the Kansas City office market. It remains to be seen how the Kansas City market will react to the positive increase of fundamentals in 2013. The U.S. vacancy is projected to continue its gradual decline and see rates continue to rise. Based on historical data, Kansas City tends to mirror the U.S. market as a whole, and while it is safe to project continued decrease in vacancy and positive absorption, the biggest unknown will continue to be whether or not we see an increase in overall rental rates in 2014.

Contributors include: Josh Gabriel, Vice President; Matthew Spachman, Senior Vice President; Hunter Johnson, Vice President; Bruce Johnson, CCIM, Vice President; Mike Comisky, Sales Associate and Austin Paul, Sales Associate.

Kansas City Industrial Market

Block Construction Services nears completion on College Crossing K, located at College Boulevard and I-35 in Lenexa, Kansas. The park is 99% occupied and with the completion of Building K, the park's total square footage will increase to 530,000.

The new intermodal facilities have put Metro Kansas City on the map!

The Kansas City region is the most centrally located in the U.S. making it a top tier logistics hub. For companies with one, three, five or more centers, Kansas City is becoming more attractive. Kansas City is the number one rail center in the U.S. by tonnage, and along with regulatory changes in the trucking industry that have affected the number of hours that drivers can be on the road, there has been greater cooperation between railroads and trucking companies. Railroads have improved speed and efficiency allowing a ton of freight to move 500 miles on one gallon of fuel. The average double stack intermodal train takes 265 trucks off the highways, reducing traffic and emissions.

Intermodal freight transport involves rail-to-truck and many companies are moving their international and domestic freight to the internal portion of the country. Kansas City is served by all five of the Class I Railroads and is at the heart of the Burlington Northern-Santa Fe Railway's (BNSF) transcontinental rail corridor as well as the Kansas City Southern's (KCS) rail extending from Canada to Mexico (NAFTA Railway). Being located at the intersection of four of the nation's major Interstate highways (I-35, I-70, I-29, I-49) allows for exceptional rail-to-truck connections and access to 85% of the U.S. population in two days.

In addition, Kansas City International Airport moves more air cargo each year than any air center in a six-state region and we are located on the largest navigable inland waterway with the Missouri and Mississippi Rivers. There is more foreign trade zone space here than any other U.S. city and the largest U.S. customs fiscal clearance.

At intermodal centers, users that bring in numerous rail containers want to locate nearby to save on drayage, the cost to move rail containers from the intermodal to their facility and back. Transportation and logistics are eight to ten times more expensive than rent and companies are becoming more focused on this. Cheap land, buildings and tax abatements can make significant short-term savings, but transportation costs are continuous. Fuel costs, traffic congestion and delays in getting products to market are big incentives to move closer to intermodal facilities. Users not utilizing large container quantities who receive products by truck, distributing locally or regionally, prefer more centralized locations due to transportation costs, employee base, and quick access to interstates.

Game Changers

New and expanded intermodal facilities are already a game changer. BNSF's Kansas City intermodal traffic is projected to grow from 300,000 containers a year, at their Argentine facility on 45 acres in Kansas City, Kansas, to more than 1.5 million within 20 years at the new 440 acre Edgerton, Kansas intermodal. This growth of intermodal business is projected to support development of 100 million square feet of industrial space within a 350-mile radius, with 60 million square feet of that in the Kansas City area, and 15 million square feet at Logistics Park Kansas City (LPKC). This projected development would be a 25% expansion of the market.

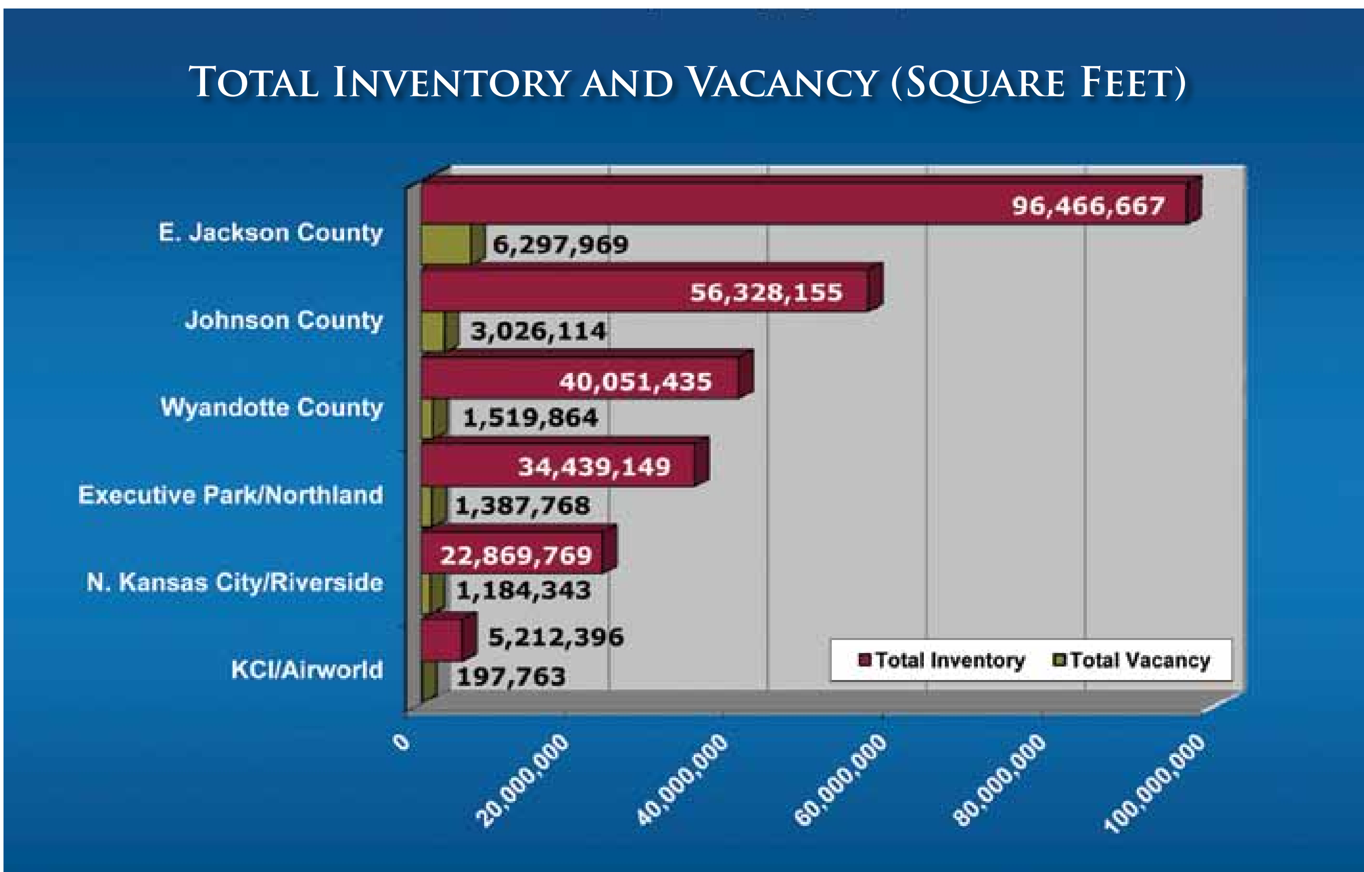
Other railroads that are off-loading intermodal containers in the region will also drive the building demand. Projects that continue to elevate Kansas City's intermodal hub status include CenterPoint – KCS Intermodal Center at M-150 Highway and I-49 in Grandview and KCI Intermodal Business Centre.

In addition, there is Northland Park, a 2,200-acre intermodal facility operated by Norfolk Southern Railroad, which includes Musician's Friend, an over 700,000 sq. foot facility, along with FedEx, Watkins Motor Lines, and TNT Logistics. KCS operates one of the few intermodal facilities at the U.S. – Mexican border and system wide volume is only 50,000 containers per year. The development of the CenterPoint - KCS Intermodal Center was with the assumption that congestion at the west coast ports would prompt shippers to start importing Asian freight through Lazaro Cardenas, Mexico, but the traffic has not shifted enough yet to spur additional development. However, CenterPoint has decided to move forward with its first new building at the project, which will be 300,000 square feet.

E-commerce sales are expected to more than double over the next four years, creating added demand. These seasoned e-commerce tenants are opting for modern buildings that can provide increased infrastructure, heavy power, higher clear stacking heights, extra trailer parking, and land for growth. With FedEx expansions in Northland and their SmartPost operation in Olathe, Kansas, and UPS having a major facility in Lenexa, Kansas, both are touting the metro area for e-fulfillment companies to expand, like 1A Auto and Amazon did in 2013. Same and next day delivery models are a growing trend in e-commerce distribution.

NEW DEVELOPMENTS

In late 2013, there were only a handful of existing buildings offering high cube space of 150,000 square feet or larger, and most of those had multiple prospects to fill them. In 2013, NorthPoint Development replaced the Allen Group as the developer of LPKC. During the year, they acquired an additional 570 acres of land to double the size and accommodate 15 million square feet of industrial buildings. Leasing agents say they are currently entertaining prospects for up to 4.5 million square feet. NorthPoint is finishing construction of a 351,000 square foot build-to-suit for Demdaco and is under construction with a 500,150 square feet speculative distribution center. LPKC should boost the entire Kansas City industrial market by attracting users that support their tenants as well as for nearby industrial parks, such as BRES' 175th Commerce Centre in Olathe. These new industrial users will also attract other commercial, hotel, restaurant, retail and office space development.



Seven miles north of LPKC is the I-35 Logistics Park. The 200-acre park is located at 155th & U.S. Highway 56, close to the 159th & I-35 interchange. It has the largest speculative industrial building in Kansas at 821,660 square feet. Building B, at 821,660 square feet, has 1A Auto in 190,000 square feet, and is currently courting additional tenants. Ultimately the park can accommodate up to 3 million square feet in three buildings, with the third, a proposed 920,000 sq. foot building, planned for construction upon lease-up of Building B.

In 2008, Sun Life developed a 601,000 sq. foot building which is now fully leased and located just south and east of I-35 Logistics at 167th and Lone Elm in Olathe, Kansas.

A rush to convert mined-out, underground warehouse space into ready-to-occupy quarters is being driven by strong demand from automotive suppliers, e-fulfillment businesses and government users.

At the KCI Intermodal Business Centre, the 686-acre site is being developed by Trammel Crow Company and Clarion Partners. A 349,440 sq. foot building was developed in 2012 for Blount International and they are now underway with a spec 351,520 square foot cross-dock building.

Leasing success in the 300-acre Riverside Horizons Business Park, at I-635 and Missouri Highway 9, led to the development of a spec 341,760 square foot cross-dock building that will be delivered in spring 2014. The park, a joint venture with Northwestern Mutual Life Insurance, has seen great success with all of its previously developed 1 million square feet having been leased in less than two years. Though Riverside does not offer tax abatement, there are no city property taxes, and along with other incentives, tenants have flocked to the development.

BRES is developing the 120-acre Lenexa Logistics Centre at College Boulevard and Renner in Lenexa, Kansas. The site has capacity for more than 1.6 million square feet of mid-bulk industrial space. Building #4, a spec building of 260,707 square feet, is under construction with a summer 2014 delivery. The Park is projected to be a $100 million investment once build-out is complete. BRES is also finishing up a new addition to College Crossing Business Park at I-35 and College Boulevard. The 66,916 sq. foot space, Building K, will be ready for spring 2014 occupancy. Upon lease-up of that building, BRES plans to begin construction on two mid-bulk buildings, I & J, totaling 223,958 square feet.

Central Industrial Park, adjacent to the General Motors Fairfax assembly plant, is an attractive draw for industrial manufacturing users that work with GM. The 74-acre heavy industrial zoned property is at the north end of the Fairfax District and will be served by the Union Pacific Rail. Sites are likely to be sold users versus leased to tenants. At the south end of Fairfax, a spec 363,000 sq. foot cross-dock facility has been proposed.

Woodend Industrial Park at I-435 and Woodend Road in Edwardsville is the site of a 369,000 sq. foot spec building. The building is to be delivered in spring 2013 and is a development of VanTrust Real Estate and Jones Development Company. The Park has room for a second 280,000 sq. foot building.

Westlink Business Center is being developed by AirTex. The park, at 43rd and K-7 in Shawnee, Kansas, contains 80 acres. The first building is a 170,000 sq. foot spec building under construction. This is flex industrial building, designed for users wanting access to the western portion of the metro market.

The only above ground spec product to be delivered on the Missouri side of the metro is in Executive Park, a 100,791 sq. foot building being developed by Industrial Park Realty for a spring 2014 delivery.

Underground Developments

In the underground product, Subtropolis is getting involved in the industrial development with a 127,000 sq. foot space. It is the first spec building added in 15 years and will increase the volume of build-out space to approximately 5.2 million square feet, with an additional 200,000 square feet of underground spec space planned. A rush to convert mined-out, underground warehouse space into ready-to-occupy quarters is being driven by strong demand from automotive suppliers, e-fulfillment businesses and government users.

Ford Motor Company's F-150 pickup, produced at their Kansas City Assembly Plant in Claycomo, Missouri, along with the new Transit Van, has produced more demand from distribution and sequencing users. Ford made a $1.1 billion investment in re-tooling the plant, including a new 420,000 sq. foot stamping plant, bringing the facility to 3.4 million square feet. In addition, General Motor's reinvestment in the Fairfax Assembly Plant, with a new 450,000 sq. foot paint shop opening in 2015, will bring the GM plant to a total of 3.7 million square feet. The growth by the automotive manufacturers has been another reason that vacancy in high quality Class A industrial buildings has become so tight, thus leading to all of the new construction.

CLASS A BULK

Though vacancy in this product is very low, there are many new buildings and square footage, as noted that are coming to the market. With all of the new development in 2014, we expect rents to remain relatively flat in the lower $4.00 per square feet range. However, the combination of construction prices and interest rates, both which have fallen over the last several years, are allowing developers to provide these aggressive rental rates in the low $4.00 range, and still be profitable. For these modern Class A buildings that are typically coupled with tax abatement, it is making these rates extremely competitive with the Class B shorter product, which keeps leasing activity up.

General Motors in Kansas City, Kansas is investing $600 million to build a new plant and make manufacturing updates. This is one of many planned upgrades in Wyandotte county totalling $1.3 billion.

FLEX SPACE

Smaller flex-space tenants are still struggling to figure out what the future will be. Many of them are either cutting their workforces or are just stagnant. They're squeezing their costs and their income is being pressed due to economic conditions. With the much higher vacancy and lower overall demand, rental rates are flat or dropping, depending on the submarket. Developers cannot afford to build flex space because it is so expensive to remodel and split-up the spaces. Coupled with weak demand for this hybrid use between industrial and office space, there is limited new construction.

JOHNSON COUNTY

From nearly every measure, Johnson County remains the symbol of relative strength and stability in the region's industrial market. As the decade-long growth of the metro has pushed further to the southwest, coupled with state and municipal incentives, demographics and infrastructure have continued to improve this submarket's appeal to tenants, investors, and owner/users. This is especially true in the logistics and supply chain industries as the development of the BNSF Intermodal facility and the adjacent Logistics Park Kansas City (LPKC), in Edgerton, Kansas, is spurring additional growth. The logistics and rail-to-truck continue to be the largest driver of activity in the submarket, with development occurring on site as well as spurring supporting development throughout the submarket.

Development and Construction — It's Big

- Completion of the largest speculative industrial building ever built in the state of Kansas or the Kansas City Market, the 821,663 sq. foot Building B in the I-35 Logistics Park, joins the previous record holder for size, the 601,000 sq. foot Building A.
- Construction beginning on the first spec building in LPKC, the 500,150 sq. foot Inland Port I building, which should be delivered to the market in early 2014.
- WestLink Business Center starting construction on Building 1 with 170,000 square feet.
- College Crossing Building K, 66,916 square feet to be delivered in early 2014.

From nearly every measure, Johnson County remains the symbol of relative strength and stability in the region's industrial market.

The Numbers

The Johnson County submarket has a total inventory of 56,328,155 square feet as of the end of the third quarter of 2013. This includes 1,635 newly delivered buildings in the total. Overall occupancy is 94.6% compared to 95.3% at this time in 2012. The slight uptick in vacancy can be attributed to the spate of new speculative product added to the submarket this year, not seen for many years.

The Johnson County industrial submarket, representing 21.4% of the overall Kansas City industrial market, continues to be the second largest of the submarkets. Johnson County leads with the lowest overall vacancy rate, highest overall rents, and in 2014 is expected to have the greatest net absorption as these new buildings lease-up. These figures attest to the influential nature and strength of the submarket.

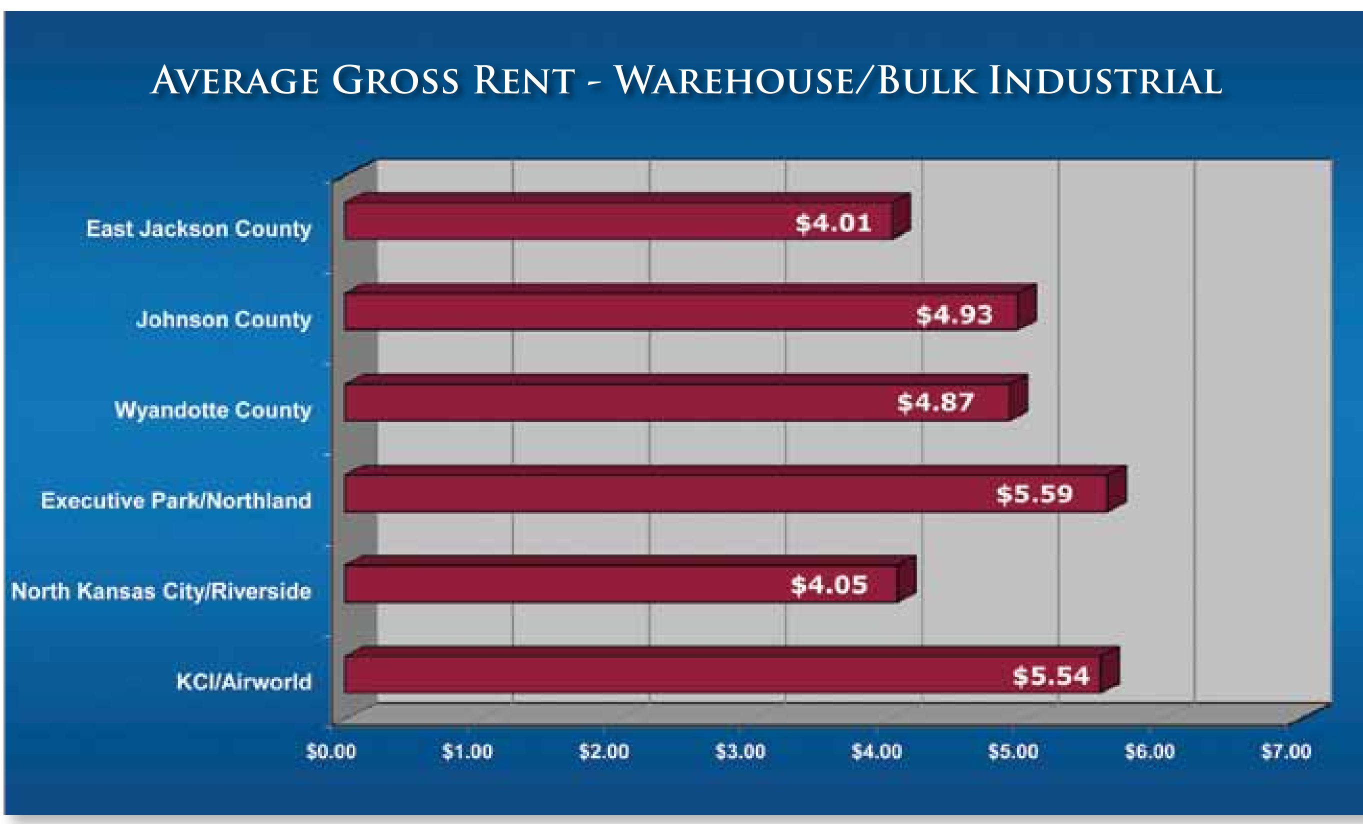
Notable Leasing and Sales Activity

Significant new leases and renewals during the year include:

- DEMDACO executed a long-term lease for a 326,500 sq. foot build- to-suit in LPKC, consolidating its warehouse from North Kansas City to take advantage of drayage savings.
- 1A Auto leasing expanding from its 50,000 square feet in New Century Air Center to 189,157 square feet at the I-35 Logistics Park, in the second quarter.
- Smart Warehousing signed a lease for 62,960 square feet in the Sprint distribution building at 110th and I-35, in Lenexa, in the second quarter.
- Ford Storage & Moving signed for 62,558 square feet in the third quarter in the Lackman Business Park, Building II.
- Victorian Trading Company leased 54,458 square feet at 15600 W 99th Street in the first quarter.
- On Demand Technologies, LLC leased 34,070 square feet in Overland Park, Kansas.
- Behavioral Healthcare leased 34,739 square feet in the Danka Building in Brookhollow.
- CraneWorks leased 108,000 square feet on Paniplus Drive in Olathe, Kansas.
- Crown Equipment, a material-handling distributor, leased the former Apria building of 70,000 square feet in Lenexa, Kansas.
- E.C. Manufacturing, an advance manufacturing start-up, leased the majority of the Thales ATM building in Shawnee consisting of 142,000 square feet.
- MWI Veterinary supply relocated from Edwardsville and leased 120,000 square feet in space vacated by PFG Vistar that moved to Riverside Horizons in late 2012.
- Title Boxing continues to expand picking up an additional 25,000 square feet at 119th and Lackman, in Lenexa.
- Zhongda, a Chinese publicly held company and one of the world's largest manufacturers of drink packaging film, took 50,000 square feet in Lenexa.

Sales transactions continue to lag behind leasing volume and new development. Some believe the potential buyers are still under the impression that the market is more depressed than actual conditions demonstrate. However, there were several notable transactions in the year, including:

- DH Pace buying the 225,000 square feet in the former Xpedx building in Olathe, Kansas for $38.67 per square foot.
- Hair U Wear, a leader in alternative hair extensions and accessories, is moving from Executive Park into a 141,000 sq. foot building it purchased in Lenexa, Kansas.
- Welsh Companies purchased the leased investment property of Building 1 in Perimeter Park from ColonyRealty Partners of 110,511 square feet, for $50.67 per square foot.
- Midwest Bioscience Research Park purchased Bayer Agriculture Research Park in Stillwell for $4,800,000 or $30.59 per square foot.



- Johnson Controls sold the 172,511 sq. foot Amcor Packaging Building to DaVinci Roof Scapes for $25.80 per square foot.
- Jack Stack Barbecue bought a 37,600 sq. foot building off 89th and I-35 in Overland Park as a distribution and off-site food facility.
- Kocher + Beck USA, a German-based envelope and label equipment manufacturer, purchased adjacent land to expand its building in the Kansas Commerce Center.
- A BRES sponsored investment group acquired the 238,000 sq. foot Silpada Designs/Ash City USA building in Renner Business Center.

EXECUTIVE PARK/NORTHLAND PARK

Executive Park and Northland Park are major industrial parks in Kansas City, both lying adjacent to the Missouri River, on the south and north side respectively. Both offer a sought-after mix of flex and warehouse space along with modern bulk space. Executive Park began development in the 1970's on 1,200 acres and is now about 95% developed. It is the premier industrial park in Kansas City, Missouri and is situated between I-35 on the west and I-435 on the east and along Front Street. Located just northeast of Executive Park, Northland Park has versatile buildings that offer reasonable lease rates along with excellent highway access. As a newer development, Northland Park is often sought by many of the larger big-box users who have either outgrown their space in Executive Park or can't find other suitable space on the Missouri side of the metro. Many of the users are tied to the nearby Ford Claycomo Assembly Plant.

This submarket consists of 34,167,396 square feet in a total of 389 buildings. Of this, it is nearly all industrial space with 5 million square feet of that situated in the unique underground space, while the balance of 270,000 square feet is office/warehouse, or flex space. The underground provides constant temperature and humidity, though offering much lower stacking heights, making it desirable for assembly, light manufacturing, storage, and food uses. This allows the underground to create pricing pressure on rents in this submarket and even throughout the metro. Lease rates for bulk industrial warehouse space for 2013 averages $5.59 per foot while flex spaces averaged $7.00 per foot. Overall the combined average is $6.16 per foot.

Traffic Improvements

The Diverging Diamond Interchange (DDI) that was constructed in 2012 at Front Street and I-435 has already been an aid to distribution users in Executive Park allowing traffic to flow more smoothly while limiting congestion. Front Street is the only east-west connector through Executive Park and links the two Interstates, I-35 and I-435. 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. Because tenants in the area have grown accustomed to the congestion caused by poor roads and then subsequent road improvements which acerbate the bottlenecks and headaches, most tenants are willing to work through the changes since they will drastically improve the area's logistics and appearance.

New Construction

Industrial Park Realty is constructing a 100,791 sq. foot distribution facility at 5208 Stilwell Avenue. The building will have 32' clear height and dock-high loading on only one side of the building which is contrary to most of its competition in "big box" distribution space. This Stillwell Avenue facility will be the first large distribution/warehouse building to be constructed in the Executive Park submarket in several years.

Notable Activity

Activity in larger spaces during 2013 was strong and should carry over into 2014. Overall, the vacancy rate decreased in 2013 to 4% from the 5.3% at year-end 2012. Notable activity included:

- Grupo Anotolin, a Spanish Auto Supplier, leased 148,800 square feet at 1601 Southern Road.
- CEVA Logistics relocated from 90,000 square feet in the KCI-Airworld submarket to 100,860 square feet at Northland Park on NE Kimball Drive.
- Ranpak Corporation, a paper packaging company, signed a lease for 61,658 square feet of warehouse space in the Rivergate Center at 1634 N. Topping Road.
- Holland 1916, a manufacturer of nameplates, leased 95,857 square feet at 2901 Heartland Drive in Liberty, Missouri. Holland 1916 also occupies space in the North Kansas City submarket at 1300 Burlington.
- Menlo Worldwide Logistics leased 81,560 square feet at 4601 Stilwell in Executive Park.
- Moovers, Inc. purchased a 26,000 sq. foot industrial building at 4201 NE 34th Street in the Buckeye Industrial Park.
- Caseco Truck Body, a manufacturer of heavy-duty cranes, leased 55,000 square feet in the underground at Subtropolis in the Hunt Midwest Business Park.
- UPS leased 96,658 square feet of distribution space at the recently acquired and remodeled 1000 N. Century Drive property.
- Exel Logistics leased 158,058 square feet at 6900 Stilwell in Kansas City, Missouri.
- Lightedge Solutions, a data center for disaster recovery, entered the Kansas City market by leasing 60,000 square feet in the underground at Subtropolis.
- Ground Effects leased 55,060 square feet in the underground at Subtropolis.
- LMV Automotive Systems, a Ford supplier, built a 212,500 sq. foot, $42 million manufacturing facility

in Liberty, Missouri.

- Adrian Steel, a manufacturer for commercial van and truck equipment, leased 32,000 square feet in the underground at Subtropolis.

NORTH KANSAS CITY/RIVERSIDE

The North Kansas City/Riverside submarket consists of two smaller Missouri communities that offers the most centralized locations in the Metro area and is just north of and adjacent to the downtown Kansas City business core. Much of the development of this industrial product took place in the 1940's through the 1960's in North Kansas City, and in the 1980's in Riverside. This submarket offers a broad range of buildings, from the modern high cube distribution to low ceiling type manufacturing space and about everything in between, which appeals to every type of user. In addition, with I-29, I-35, and I-635 bisecting these markets, access to the entire metro is superb and is widely considered by real estate experts the most accessible submarket in the city.

North Kansas City/Riverside users are often considering locating in the Executive Park/Northland Park submarket. Due to the fact that this submarket is centrally located with excellent interstate 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 does not appear to be going away anytime soon. It often is the main differentiator for companies looking at these two competing submarkets, which otherwise offer similar amenities and buildings.

The North Kansas City/Riverside submarket consists of over 22 million square feet and the overall vacancy was nearly the same, at 7.5% at year-end 2012 to 7.4% for year-end 2013. Lease rates for bulk industrial warehouse space for 2013 averaged $4.05 per square foot while flex spaces averaged $5.80 per square foot. Combined the average rent was $4.12 per square foot.

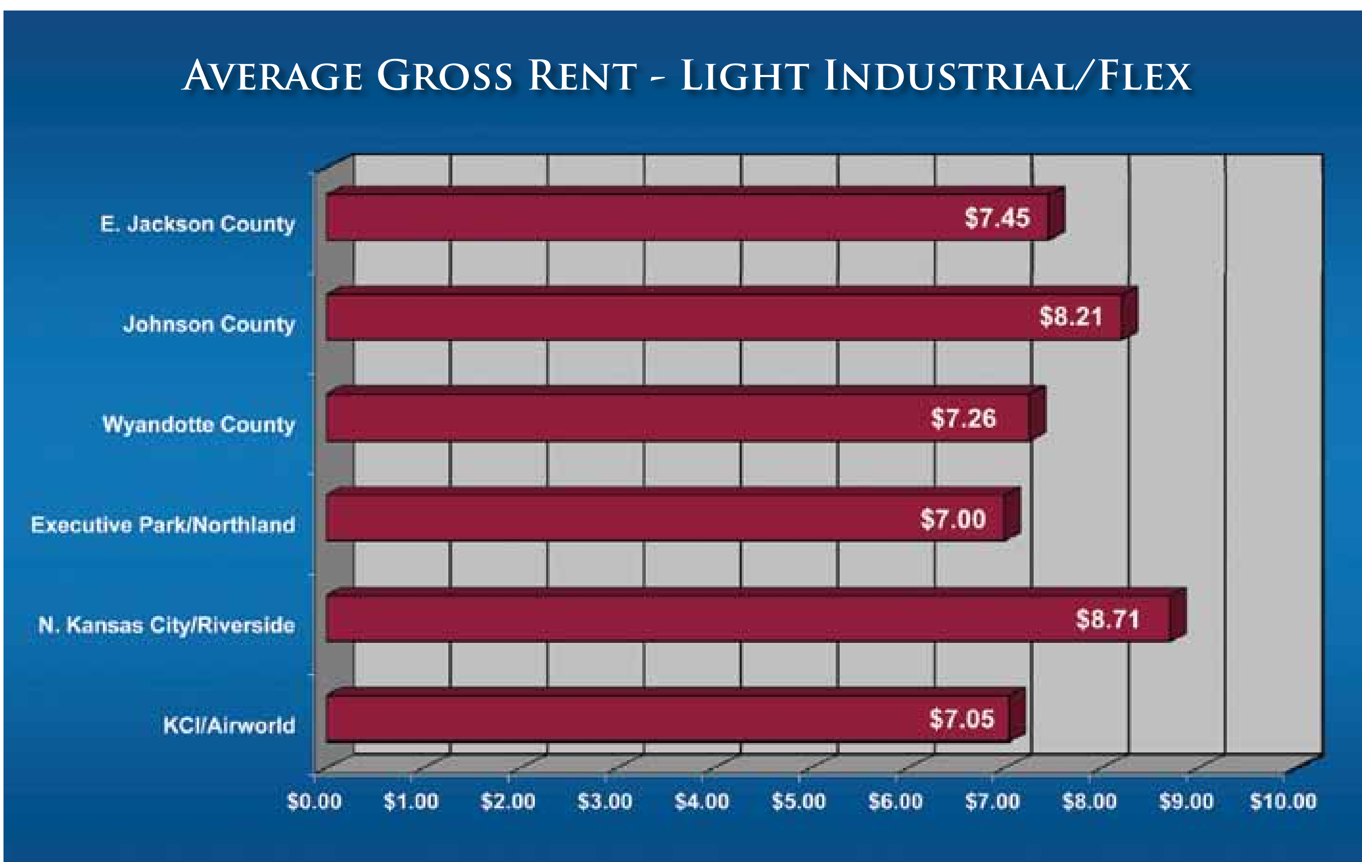
Horizons Business Park Developments

The Riverside Horizons development continues to drive growth in the Riverside submarket. Northpoint Development, the park's developer, has completed three spec buildings that are now fully occupied. Building I is 155,884 square feet, Building II is 169,025 square feet, and Building III is 197,400 square feet. All of these Class A buildings come with drive-in and dock-high loading, dock-locks, shelters, numerous pit levelers, 28 to 32 foot clear heights, ESFR sprinklers, T-5 high efficiency lights with motion sensors, and are LEED certified construction. Northpoint is currently under construction on Building IV, which will be a 341,760 sq. foot cross-dock distribution facility, scheduled for April 2014 delivery. The park also plans on adding office buildings in 2014.

Notable Transactions for 2013

Riverside transactions include:

- Nitto Denko, a Japanese automotive supplier to GM, leased 74,880 square feet at 901 NW Platte Valley Drive in an existing building owned by ColonyRealty



D.H. Pace is moving 300 employees from their North Kansas City location to the 225,000 sq. foot building at 1901 W. 119th Street in Olathe, Kansas in early 2014. Block Real Estate Services represented the company in this acquisition.

Partners.

- Velociti, a global provider of technology deployment services, leased 33,000 square feet at the Riverside Horizons development.
- A.S. & W. Wholesale of Kansas City, a supplier of siding and windows, leased 31,567 square feet at 535 NW Parkway in an existing building owned by ColonyRealty Partners.
- Marlen International, a global manufacturer of food processing equipment, leased 89,000 square feet at the Riverside Horizons development.
- Grainger, a manufacturer of industrial tools, leased 170,000 square feet in Horizons.
- Yanfeng USA Automotive Trim Systems, a GM supplier, purchased land in the Horizons Business Park and constructed a 258,000 sq. foot facility.
- E&T Plastics, a plastics manufacturer new to the Kansas City market, leased 17,500 square feet at 301 NW Business Park Lane in North Kansas City.
- PBI Gordon, a Kansas City-based supplier of landscaping, agricultural and animal health markets, leased 165,588 square feet in May and by November had expanded to 212,000 square feet at 1300 Quebec.
- Chalmers Automotive, a custom van converter, leased 40,000 square feet at 1420 Gentry.
- Garden Creek, a petroleum refinery industry, leased 17,762 square feet at 1601 Taney.

KCI/AIRWORLD

The KCI/Airworld industrial submarket is the smallest industrial submarket in the Kansas City area at 5,212,396 square feet in a total of 74 buildings. Of this, 4.4 million square feet is bulk industrial with the balance of 772,871 square feet in flex space. KCI/Airworld is important due to its close proximity to Kansas City International Airport (KCI), which is 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 96%, and average rental rates at $4.12 per square foot, as of year-end 2013, the submarket is fairly stable. As in past years, the flex portion of this submarket is the main drag on occupancy, with nearly 30% vacant as opposed to only 2% for bulk industrial space. Air-transit-minded and logistics tenants, who lease space in this submarket, are typically there for the access to KCI, which helps explain the high occupancy. There are also servicers of the automotive GM and Ford automotive plants and the Harley-Davidson motorcycle plant.

Notable Activities:

There were two notable activities that occurred in 2013. The first was NorthPoint Development's purchase of three industrial/distribution facilities totaling 240,000+square feet. They include one fully occupied multi-tenant building of 57,000 square feet at 10801 Pomona Avenue and a 90,500 sq. foot building at 10960 N. Congress Avenue, which was vacated by CEVA and then pre-leased to M&M Quality Solutions in a consolidation of their three locations in the submarket. The third building is a 91,280 sq. foot facility at 10760 N. Congress Avenue that is 70% leased.

The other notable activity is the continued development of the KCI Intermodal Business Centre, a 690-acre master planned development, with capacity for 5.4 million square feet of buildings to include, AirFreight & Logistics, Air Cargo, warehouse/distribution, office/warehouses, flex space/service centers, and light manufacturing facilities. Phase I infrastructure is complete and is able to support 1.8 million square feet of buildings on its 180 acres. There are building-ready sites available and buildings are built to LEED construction. The new Logistics Centre II, a spec building, is under construction and will be a 351,520 sq. foot cross-dock facility which will be expandable to twice that size.

WYANDOTTE COUNTY

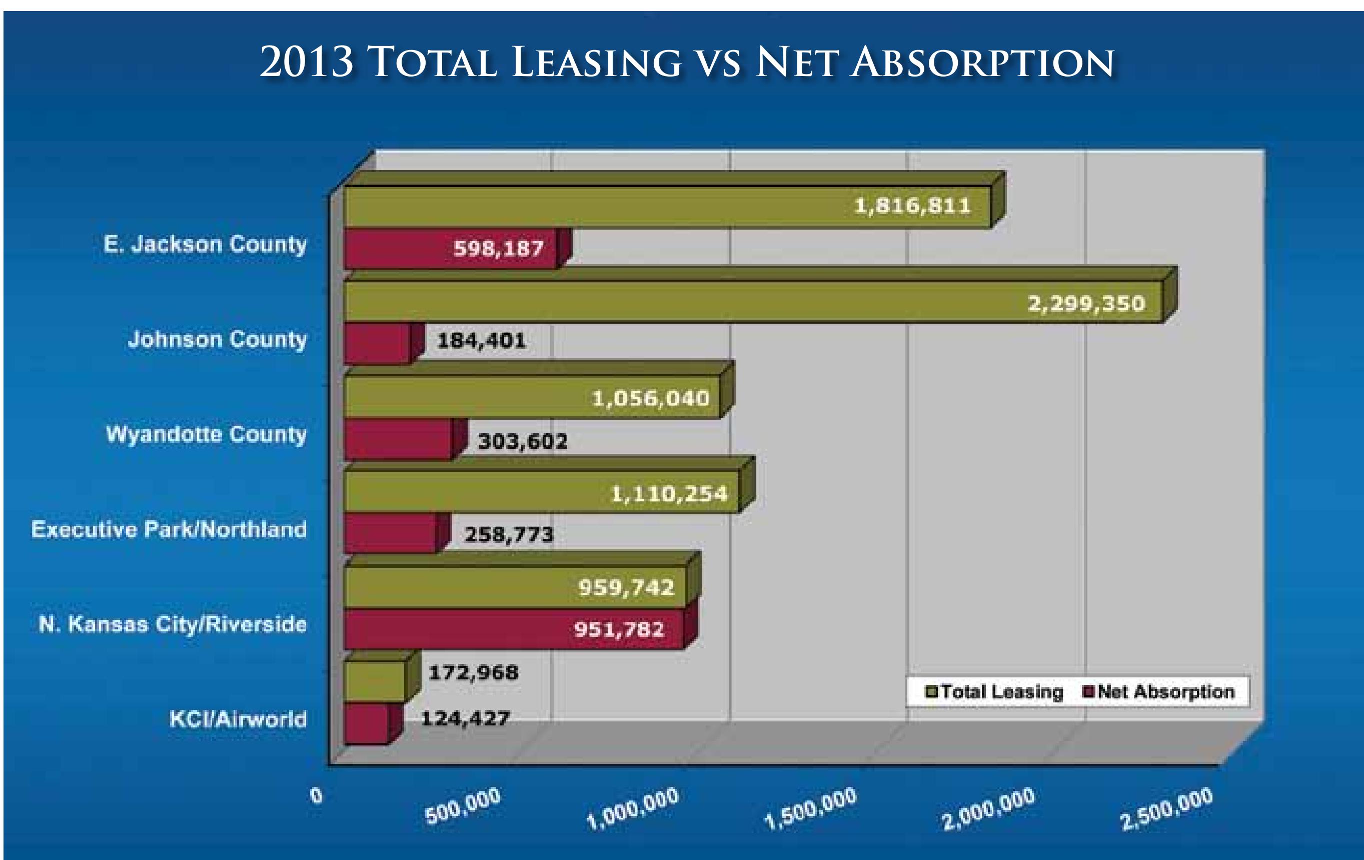
All bets seem to be on in Wyandotte County as they continue their resurgence with approximately 1 billion dollars in economic development projects announced in 2013. Wyandotte County has emerged as a place where established top companies have elected to build and expand.

General Motors kicked off 2013 by announcing a 450,000 sq. foot expansion of their Fairfax Assembly plant which will bring the total size of their plant to 3.7 million square feet.

Central Industrial Park, the long-established Fairfax Industrial Park, has experienced new development for the first time in many years. Central Industrial Park was created when 74 Acres of the "Racer Trust" were sold to a local developer. The 74 acres were previously owned by General Motors and are adjacent to the Fairfax Assembly plant. Racer was created to help revitalize auto communities where plants had closed or ground had become underutilized, and had environmental concerns. The park could house eight to ten new industrial buildings, most likely manufacturers or suppliers to the Fairfax plant. The first occupant to the park will be a company named Inergy that will build and occupy 75,000 square feet.

A new industrial development will start in Kaw Point Industrial Park. This area was discovered in June of 1804 when the expedition of Lewis and Clark landed at Kaw Point, the confluence of the Missouri and Kansas Rivers. The Levee, as the development here has been known for decades, is owned by the Unified Government of Kansas City-Wyandotte County. In 2013 a development agreement was signed with a California-based real estate development and investment firm, which plans to demolish the current Levee project to make way for new industrial development starting with a 300,000 sq. foot, 32' clear-height, cross-dock distribution building.

Wyandotte County's central location in the metro



A BRES sponsored investment group acquired the 239,000 sq. foot, multitenant warehouse building at 16910-17000 W. 116th Street from Silpada Designs in September, 2013 for $10.4 million.

Kansas City area, along with its immediate access to I-35, I-70, I-635 and the I-435 loop provide tremendous benefits for companies that need to be centrally located for in-city distribution. By the numbers, Wyandotte County experienced a steady decrease in vacancy during 2013, with the current industrial vacancy rate at 4.4%, down from 5.5% at year-end 2012. Total leasing volume for 2013 was 1,056,040 square feet, slightly less than the 1,102,926 square feet leased in 2012. As in years past, the warehouse/bulk industrial product type accounted for nearly all of the leasing volume and comprises the vast majority of Wyandotte County's 40,051,435 square feet of industrial inventory. One reason the leasing volume was less in 2013, than in 2012, may be due to the age of the industrial inventory in Wyandotte County, much of which is functionally obsolete. Net Absorption almost doubled this year to 303,602 square feet.

Notable transactions for 2013

- International Paper lease of 280,000 square feet in Edwardsville.
- 75,000 sq. foot build-to-suit for Inergy in Fairfax.
- Associated Cylinder Services, of California, acquired a 15,000 sq. foot building to remodel for the refurbishing of oxygen and other compressed gas cylinders.
- Construction of a 369,000 sq. foot spec, 32' clear, cross-dock building at Woodend Industrial Park in Edwardsville.
- Purchase of the 114,000 sq. foot Greystone Graphics building that sits on 6.2 acres at I-35 and Cambridge Circle by MKS Pipe & Valve, relocating from Kansas City, Missouri.
- Carlisle Tire and Wheel Company's lease of 179,258 square feet in Bonner Springs.
- Interconnect Devices leased 62,157 square feet in Turner.
- Bender Group, a 3PL headquartered in Reno, Nevada, entered the market and opened a new facility of 50,926 square feet in Armourdale.
- HD Supply leased 60,000 square feet at 4600 Kansas Ave, in Argentine, and will relocate from North Kansas City, Missouri.
- ProPak leased 60,000 square feet, also at 4600 Kansas Ave and relocated from Kansas City, Missouri.
- Kraft Tank acquired a 25,000 sq. foot building on 16 acres in Fairfax to expand their production.
- Marten Transport, a leading temperature sensitive truck carrier out of Wisconsin, acquired 20 acres in Edwardsville to construct a new service facility.
- PQ Corporation, based in Malvern, Pennsylvania, a leading producer of inorganic specialty chemicals and engineered glass materials, began a $120 million expansion of their Armourdale facility.

With many new developments in the works, a viable economic outlook, a great employment base, strong geographic location, and a manufacturing base, this stable, centrally located submarket is poised for another good run. Wyandotte County has only one drawback and that is the lack of any new tracts of land for future industrial development projects. Edwardsville, Central Industrial and Kaw Point Industrial have taken up all of the existing development sites, so in the future, as these sites are built-out, Wyandotte County will need to look at providing incentives for the redevelopment of older, functionally obsolete properties.

EASTERN JACKSON COUNTY

The Eastern Jackson County submarket covers a broad area and is the largest submarket with 96,466,667 square feet in 2,745 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. Out of the total footage in this submarket, the vast majority or 91.7 million square feet, is manufacturing, multi-story warehouse, or bulk warehouse, with the balance of 4.7 million square feet in light industrial/flex space. Occupancy in the Eastern Jackson County submarket is nearly 93.5%, which is excellent, given the age and varied inventory.

Highway access is particularly good with I-35, I-49, and I-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, could provide an impetus for growth at the CenterPoint - KCS Intermodal Center, located in south Jackson County.

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 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 overall combined industrial and flex vacancy rate decreased significantly from 8% at year-end 2012 to 6.5% at year-end 2013. Interestingly enough, absorption in 2012 was a negative 29,321 square feet versus 598,187 square feet of positive net absorption in 2013. Rental rates tend to fluctuate in this submarket, more so than others, because of older and less efficient buildings that draw lower rental rates. However for 2012, the average warehouse rate was $5.07 per square foot and in 2013, there was a steep uptick with the average rate moving up to $5.68 per square foot.

Large Transactions for 2013

- CenterPoint Properties has been awarded a 15-year lease to house a U.S. Department of Agriculture operation that is being relocated from the Bannister Federal Complex. The USDA will lease 104,184 square feet of a new 300,000 square feet building.
- Kansas City National Security Campus leased 327,877 square feet in Building 4 at the NNSA Campus in South Kansas City, Missouri.
- A.B. May Company, a heating & cooling service company, purchased an 83,076 sq. foot facility at I-435 and Eastwood Trafficway in Kansas City, Missouri, relocating from Leawood, Kansas.
- ABC Supply Company, Inc., a wholesale distributor of roofing materials, leased an additional 30,057 square feet at 624 NE Jones St. in Lee's Summit, Missouri.
- Central Distribution, a wholesaler of janitorial products, leased 68,160 square feet in the underground at the CareFree Industrial Park in Independence, Missouri.
- Fresh Warehousing, a third-party logistics provider, leased 108,926 square feet in CareFree Industrial Park.
- Grainger, Inc., an industrial supply company, leased 155,058 square feet at Space Center, an underground development in Independence, MO.
- Hennessy Enterprises purchased a 47,000 sq. foot building at 520 W. Pennway in Kansas City, Missouri.
- Laser Apparel, a whole custom embroiderer, purchased an 85,000 sq. foot facility in Grandview, Missouri.
- Midwest Merchandising leased 78,060 square feet in the underground at the CareFree Industrial Park.
- National Nuclear Security Administration leased 101,396 square feet in Building 3 at the NNSA Campus in South Kansas City, Missouri.
- Resolution Reuse, a recycler of used clothing, leased 51,304 square feet at 1000 W. 12th St. in Kansas City, Missouri.
- Westgate Products, a manufacturer of plastic containers, leased 50,000 square feet in Grandview, Missouri.

Contributors include: Michael R. Block, CPM, Principal; Lou Serrone, SIOR, Sr. Vice President; Zach Hubbard, Vice President; Gene R. Elsas, Sr. Vice President Brian Bock, Sales Associate; and Chris Cargill, Sales Associate.

Retail Market

The Fresh Market at 6261 West 135th Street opened in Prairiefire at Lionsgate development in September. A health conscious grocery store, it spans 24,300 square feet, stocking more than 400 kinds of produce, 200 kinds of cheese and an in-house bakery.

Retail follows rooftops, and for the first time since the start of the Great Recession, rooftops are under construction at a pace half that of the pre-recession era.

Housing starts were slow at the first of the year, but have been gaining momentum. The supply of existing homes and new homes in the greater Kansas City area has been shrinking throughout 2013 (4% lower as of September from the same time in 2012), while the average sales price increased by 9%. Homebuilders have pulled more permits in 2013 than in any year since 2008. As of October, 3,092 permits were pulled, 207 short of the 2012 total but still far from the 6,385 pulled in 2007. There were 2,098 multi-family permits pulled as of September, 2013 compared to 1,649 in September of 2012. Multi-family permits are anticipated to top 4,200 by the end of the year with the momentum carrying into 2014.

Once again, Kansas City has added new national retailers to the landscape with Academy Sports entering the market with two stores in Overland Park; Scheels is under construction at Corbin Park; REI entered the market; as did Fresh Market; and Sprouts. Meanwhile, we wait and watch as we expect some closings from either Office Depot or Office Max as a result of their merger.

REDEVELOPMENT GROWING

Redevelopment continues to grow. With the success of Mission Crossing, 39 Rainbow, Corinth Square, Ranchmart South, and Wyandotte Plaza, among others, older neighborhoods are finding new life in new or upgraded centers. Greystone South, 47th and Troost, Truman Corners, 10 Quivira, and Shawnee Parkway Plaza join the bandwagon with others anticipated to hop on next year. With these redevelopment plans comes a request for city incentives. In some instances, the city that provides them continues to cover shortfalls out of their annual budget. But without the development, other investments in the area would not likely occur. The Power and Light District is one example where Kansas City has redirected more than $14 million from its general fund this year. Eventually these new developments will pay full taxes on property valued much higher than when started. In the meantime, while the cities pour money out of their budgets, they do enjoy new shopping, dining and entertainment venues that would not be present without each individual city's investment in their own backyards.

Kansas City proper is Community Improvement District (CID) happy. It has 27 CID's which allow additional sales taxes, property taxes or both to pay for improvements or services that produce some public good. Features like meeting facilities, parks and landscapes, fountains, trash receptacles, sidewalks, streets, traffic signals, and providing security personnel for the area can qualify for public benefit. Studies have shown that if sales taxes are pushed above 10 percent, the consumer takes notice. And with Kansas City having initiated and passed a new sales tax for the Kansas City Zoo (penguins are new this year) and a streetcar line, one district has already hit that level, the 210 Highway Corridor CID which includes the Ameristar Casino.

Consumer spending, which increases sales tax revenue, is a critical piece of the new development equation. Consumers, particularly among lower and middle-income brackets, have been slow to increase household discretionary purchases while they focused on paying down debt. Consumer confidence hit a high in May at 76.2%, the highest since February 2008. As the year progressed, consumer confidence waned to 70.4% with the November reading. With consumer spending accounting for about 70% of the U.S. economy, shoppers' willingness to spend money on discretionary items directly correlates to a growth in the Gross Domestic Product. The National Retail Federation again expects an increase in retail sales during the last two months of the year to the tune of 4% or $602 billion. This is higher than last year's 3.5%, but below the 6% pace seen before the recession.

Additionally, much like the Internet changed the way in which shopping occurs, social media changes the stage for retailers. Companies who embrace social media are able to stay in constant communication with their customers. This, compounded with consumers who engage in social media by offering a review of a specific shopping experience, raises awareness of those retailers and continues the social aspect of those who rely on the confidence of their peers in given brands. Then, there is the shopping "experience," citing the National Retail Federations, "Artful Science of Customer Experience" article, the "art" of customer experience is described as the many multi-sensory strategies and techniques retailers use to engage and delight customers and inspire their behavior. This can take many forms: décor that resonates with customers' lifestyles or aspirations; lifestyle displays that help customers understand how to integrate particular merchandise into their lives; impeccable housekeeping that demonstrates retailers' attention to every detail; pleasing scents and sounds; the ability for the customer to emotionally connect by personalizing selections; and special services to respond to special customers' every whim; and more.

Overall, vacancies recovered well moving from 10.1% at the end of 2012 to 8.3% at the end of 2013. Citywide, average rental rates lowered slightly from $12.40 per square foot at the end of 2012 to $12.09 per square foot at the end of 2013.

JOHNSON COUNTY, KANSAS

Johnson County provides more than half of the new business and job growth in the Kansas City MSA. It is no surprise, the majority of the year's retail activities took place in Johnson County.

Prairiefire's $427 million mixed-use development located on 60 acres along 135th Street between Nall and Lamar, saw its long awaited 209,000 sq. foot, $160 million first phase come into being. REI and Fresh Market are now open. Others expected to open soon include: The Museum of Prairiefire, the first museum to house the American Museum of Natural History's traveling exhibits; Cinetopia with its Vinotopia Wine Bistro, and Pinstripes Bowling Bocce Bistro; Rock & Brews Backstage Beer Garden; Cocoa Dolce Artisan Chocolates; Wasabi Sushi; Coco Bolos Wood-Fired Grill (a Michael Smith partnered restaurant); Varney's Sports Apparel; Toner Jewelry; French Tip; and Treshing Bee (home to over 15 local boutiques); along with two PB&J restaurants: Newport Grill and Paradise Diner. The Museum qualified for $81 million in sales tax revenue (STAR) bonds from the state. The City of Overland Park approved $23 million in CID bonds from a 1.5% sales tax surcharge in the development.

It is no surprise, the majority of the year's retail activities took place in Johnson County.

In addition to Scheels opening June, 2015, Corbin Park will see Ulta, Sprout's and Stein Mart (a relocation from 145th and Metcalf), Apricot Lane Boutique, Brew Top Bar and Patio, Dress Barn, MODE, Off Broadway Shoes, The Bakery, Sleep Number, Corner Bakery Café, YaYa's, and Sharkey's Cuts for Kids open during 2014. Scheels is one of the retailers embracing the art of consumer experience with the largest selection of sports, sportswear and footwear in either Kansas or Missouri. Set-up as a series of specialty stores including golf, bike, ski, canoe and kayak, fishing, hunting and special attractions like their 16,000-gallon aquarium, 65-foot, 16-car operating Ferris wheel and shooting galleries, Scheels is sure to deliver a true consumer experience. Elsewhere at the intersection, Visionary Jewelers, Sears Appliance and Mattress, Firebirds Wood Fire Grill, Marco's Pizza, Pacific Dental, Amelia's Boutique, Nothing Bundt Cakes, and Pie Five Pizza Co. all opened.

The Mission Gateway development finally moved dirt during the second half of the year in preparation for construction to begin on Walmart, Sprouts Farmer's Market, and Toby Keith's I Love This Bar and Grill. The $165 million mixed-use project will be supported by $30 million in bonds, $8 million of which will be backed by the city's credit.

Three Kmart stores closed in Johnson County: Overland Park, Shawnee and Olathe. Also, JC 5 Star, the outlet format for JC Penney at I-35 and 75th Street, closed after the 2013 holiday shopping season. All 15 JC 5 Star stores in 14 states will be closing.

In the 119th and Roe area, Hawthorne Plaza announced that YaYa's would be torn down to make way for The Container Store, Rumor's expanded, and Annabelle's Linens moved from Park Place. Camelot Court stole Diebel's Sportsmens Gallery from Hawthorne and opened the area's first Corner Bakery Café and Red Door Grill, a concept of culinary master, Debbie Gold. Camelot is slated to undergo a $35 million renovation with a CID district raising $8.9 million in eligible redevelopment costs through a sales tax surcharge. Hen House will expand by 20,000 square feet. At Park Place, 801 Fish opened along with Bella Bridesmaids, Pinot's Palette, Sweetpea & Company, T. Loft, Fitness-Culture, and Orangetheory Fitness; while Romanelli Sun Galleria will open soon, and BurgerFi is rumored to be in lease negotiations.

Along 119th Street, Burlington Coat Factory opened in the former JC Penney Home Store and Taqueros Fresh Mexican Grill opened at Metcalf; Fitness Showcase, Futbol Club Eatery & Tap and Bank of the West opened at Pinnacle Village; Whole Foods and Five Below will open in 2014 at Blackbob while Twin Peaks opened its first area restaurant. Cosmic Jump, Kirkland's, Taqueria Mexico, and Sake Asian Bistro opened at Olathe Station. Olathe Station fell into foreclosure last year. Mid-year, Mariner Real Estate Management, LLC bought the note and now controls the property. Tractor Supply is due to vacate their location near I-35 in 2014.

The area surrounding Oak Park Mall got in on the action with H&M opening its second area location along with The Art of Shaving. Torrid and Chipotle opened in the food court. Houlihan's moved to a new building in the spot of the former TGI Fridays, leaving their building vacant across the street. Elsewhere at the intersection, Ross Dress for Less, Ulta, Pie Five Pizza Co., Bath and Kitchen Showroom, and Cricket opened, while Cinderella's Couture, the area's first women's formal wear rental company, signed a lease. The gas station on the northwest corner has been demolished and a new 10,000 sq. foot small shop retail space is under construction. T-Mobile has committed to the site and is rumored to be paying upwards to $50.00 per square foot per year. Nearby, the northeast corner of 95th and Metcalf is under contract to a local developer intending to redevelop the site while Hancock Fabrics looks to relocate to Regency Park.

IKEA is under construction at the site of the failed Merriam Village project at I-35 and Johnson Drive. The development received $19.9 million in tax increment financing with annual sales expected to be in excess of $80 million. The 349,000 sq. foot store will sit on 22 acres, open in the second half of 2014 and draw approximately 2.4 million customers through its doors.

Redevelopment is underway in Johnson County at a number of older centers including Shawnee Parkway Plaza, 10 Quivira and Greystone South. Shawnee Parkway Plaza will add Nuts and Bolts and Natural Grocers. The developer requested $3.25 million in TIF and $3.75 million through the creation of a Transportation Development District which

Selected New Retail Construction

New Construction	Square Feet	Project Status	Tenants Announced
Corbin Park	1,100,000	Phase III, Under Construction	Scheels, Sprouts, Steinmart, Ulta
Coffee Creek	1,000,000	Stalled	N/A
The Trails	1,000,000	In Development	N/A
Metro North Mall Redevelopment	950,000	In Development	Macy's (will remain)
Antioch Crossing	515,000	Stalled	Sears, Burlington Coat (will remain)
The Falls at Prairie Star	500,000	Stalled	N/A
City Center Lenexa	400,000	Phase I, Under Construction	Hyatt, Grand Street Café
Summit Place	350,000	Planning Phase	N/A
Merriam Village Redevelopment	349,000	Under Construction	IKEA
Crystal Springs	330,000	Stalled	Menards
The Gateway	300,000	Under Construction	Walmart, Sprouts Farmers Market
Shops at 151	238,000	Phase I, Under Construction	Hy-Vee
Whitehall Station	236,000	Planning Phase	N/A
Prairiefire at Lionsgate	207,000	Phase I, Complete	REI, Fresh Market (open), Prairiefire Museum, Rock & Brews
Shoal Creek Town Center	100,000	Planning Phase	N/A
Todd George Retail Center	98,000	Under Construction	Price Chopper
39Rainbow	30,560	Phase II, Under Construction	7-11 (open), IHOP
Metcalf Village	25,000	In Development	Wendy's (open)
Total Square Feet:	*7,728,560*		

Scheels All Sports will open in Overland Park, Kansas in 2015. The two-story, 222,000 sq. foot building will house a 16,000-gallon aquarium, a 65-foot Ferris wheel, and is located at the southeast corner of 135th and Metcalf in the Corbin Park development.

will push sales taxes at the center to 9.8% to pay for, among other things, the realignment of Midland Drive and the new traffic signal at Shawnee Mission Parkway. 10 Quivira Plaza renovations will include new building facades, awnings and landscaping. It makes way for new tenants including Jimmy John's and Saints Pub + Patio. It is being funded by a .5% sales tax surcharge established through a CID. Greystone South was purchased late in the year and is slated to undergo redevelopment including increased lighting, new mansard roof, upgrades to the façade and pillars, new sidewalks, parking lot and landscaping. The improvements are being supported by a CID district with 1% sales tax surcharge.

Perceptive Software's corporate headquarters at 89th and Renner will drive some retail to the City Center Lenexa project. Ten thousand square feet of retail is under construction across from the corporate headquarters on the west side of Renner and is due to open this spring. BE Smith's move to the area allowed for the construction of the parking garage on the East Village Site and a 127-room Hyatt Place Hotel and Conference Center is under construction, due to be complete by mid-2015 with $11 million in tax increment financing assistance. Grand Street Café opened in 7500 square feet and the East Village offers another 10,500 square feet of retail space.

Hy-Vee is under construction at 151st and Blackbob. The new location is expected to cause the Hy-Vee at 135th and Brougham to close. Walmart Neighborhood Market opened at Brentwood Plaza Shopping Center.

Prairie Village added the first Blue Cross Blue Shield retail space in the city, in part due to the Healthcare Marketplace initiated by the Affordable Care Act. First National Bank of Louisburg, Spin Pizza, French Market, and Standees also opened. New construction in the location of the former Waids will include Starbucks. Einstein Bros. Bagels will take the space Starbuck's vacates together with the Dolce Bakery space, as Dolce relocates to a larger space in the center.

Johnson County's vacancy rate dropped significantly from 10% at end of 2012 to 7.4% at the end of 2013. Rental rates decreased from $13.94 to $13.62 per square foot.

EAST JACKSON COUNTY, MISSOURI

Phase II of Blue Ridge Crossing announced Burlington Coat Factory will open at the 18-acre site of the old Blue Ridge Cinema. Wingstop also opened and a 12,500 sq. foot multi-tenant retail building is under development.

Farther east, Kirkland's and Earthbound Trading opened at Independence Center, Culver's opened in Trinity Woods and Pizza Ranch is planning to open early in the year at The Falls. AT&T opened at Adam's Dairy Landing while Five Guys

New in-fill development included tearing down the former Stein Mart at 95th and Quivira to make room for Ulta, Ross, Staples and Verizon in the Quivira 95 shopping center.

Burgers and Fries, Supercuts and Massage LuXe will open in the spring.

In Blue Springs, Burgers American Grill opened along with Aaron Rents, Good Day Donuts, Pizza Hut and Los Cabos will open soon. Independence saw Nuts and Bolts and Great Clips open on 23rd Street and Northern Tool Equipment open on Noland Road, while Zirpolo's Italian Restaurant opened on 291 Highway.

Rental rates in East Jackson County have decreased: going from an average of $10.94 per square foot at the end of 2012 to a current average of $10.53 per square foot. Vacancy has decreased from 10.2% to 8.6%.

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

The world-renowned Country Club Plaza leads the pack in retail news in this area of the city.

While some stores have announced closings, there is plenty of demand to backfill those spaces with new tenants. Stores having closed or announced closing include Pottery Barn, Starkers, Hibachi, Swakorski, and Brooks Brothers along with Halls which will close in the summer of 2014 to expand their store at Crown Center. Coach expanded, Potbelly Sandwich Shop opened their first area store along with Athleta, Baldwin KC, Vera Bradley, Chuy's Tex-Mex restaurant, Teavana, J. McLaughlin, It'Sugar, and Knotty Rug Company.

Hotel Sorella opened in November as part of the Plaza Vista development at 48th and Roanoke. Russo, an Italian rooftop restaurant, along with Bar Russo, grace the 7th floor of this 132-room upscale hotel.

Nearby at 51st and Main, VanTrust is under construction with a 176-unit luxury apartment development to include 10,000 square feet of streetside retail. This development is expected to open in the fall.

DST sold World Market in Westport to Cole Real Estate. Elsewhere in Westport, Corner Restaurant opened along with Sports Clips, and Which Wich Superior Sandwiches leased space next to Freebirds, while Blockbuster, The Beaumont Club and The Boot closed.

Truman Medical Center and the Hospital Hill Economic Development Corporation have teamed up to purchase land at 27th and Troost to build a grocery store in an area that is considered to be a food desert. Additionally, the store will provide cooking classes and resources to help educate customers on healthy choices and economical shopping. The Affordable Care Act charges hospitals with addressing preventative measures, such as nutrition and lifestyle, to bring down healthcare costs.

Cerner's $4.3 billion proposed corporate campus may bring some ancillary retail back to the site of the former Bannister Mall. The final remaining buildings surrounding the site of the old mall are being demolished to make way for the new development. Tax increment financing totaling $1.6 billion will support the project. The developer hopes to recruit a boutique hotel and grocery store along with other supportive retail to the site.

Other happenings in the southland include: Firehouse Subs and Ulta opened at Ward Parkway Plaza; Cedar Tree Shopping Center was purchased by I-49 Investors LLC, Aaron Rents leased space in the center this year; Menard's purchased the land they had been working on at 163rd and I-49; Westlake will close their Belton location in the summer; Hampton Inn opened in Belton and Sam's Club opened in Raymore Galleria while closing their store in Grandview. Truman Corners is still working on a redevelopment plan.

The world-renowned Country Club Plaza leads the pack in retail news in this area of the city.

In Lee's Summit, Sears Hometown Store opened along with Kirkland's, Cato, Topsy's, 9 Round Kickboxing, Monetti's and Home Furnishings while Deals intends to close, and Freddy's is under construction. The Price Chopper development at Highway 150 and Todd George is seeking a reduced TIF of $3.8 million to cover extensive grading and water detention at the site.

Rental rates in this area of the metro increased from $12.67 per square foot at the end of 2012 to a current average of $12.81 per square foot. The area's vacancy fell from 10.4% at the end of 2012 to 9.2% at the end of 2013.

KANSAS CITY/WYANDOTTE COUNTY, KANSAS

The area surrounding the Legends continues to see the most activity.

KKR Real Estate Holdings, an arm of KKR & Co., LP, a publicly traded investment and private equity company out of New York, and joint venture partner Red Legacy, was the successful bidder for Legends Outlets. Four thousand employees of Cerner and the multifamily residential development in the area are sure to bolster the sales and activity at the center. Kitchen Connection opened at the Legends. The Schlitterbahn Vacation Village added four new attractions in 2013. In 2014, they will add Verrückt, the tallest, fastest, steepest, waterslide in the world providing a ride down a 180-foot plunge at speeds of 78 miles per hour. They obtained a CID from Wyandotte County Kansas City and Kansas Economic Development Committee at 2% sales tax, the highest allowed by law, so they can pay for sewers and traffic signals to further improve and develop the 315-acre project to add retail and lodging.

Elsewhere in Wyandotte County, Kansas, IHOP and 7-11 signed on at 39 Rainbow and Subway took over the former DQ site at Southwest Boulevard and Rainbow. Taco Republic opened at 47th Street and Mission while Lulu's Asian Bistro is hoping to open late spring at 47th Street and Belinder, and Port Fonda is also looking in the area for their new concept, The Town Co.

Wyandotte Plaza at 78th and State Avenue underwent renovations with an expanded Price Chopper grocery. Walmart Neighborhood Market and Sav-A-Lot are under construction at 24th and Metropolitan. A new Walmart Supercenter opened at Kansas Highway 7 and Johnson Drive. Mi Antojo Pastes and Empanadas opened at 75th and State Avenue.

Retail rental rates for Wyandotte County were $9.99 per square foot at the end of last year. They have increased to $11.09 per square foot at year's end. The area is presently experiencing only 10.4% vacancy, compared to 12.3% vacancy at the end of 2012.

NORTHLAND KANSAS CITY, MISSOURI, PLATTE AND CLAY COUNTIES

Barry Road dominates retail in the northland. Metro north is moving forward on redevelopment plans to convert the property to a one story, two-anchored mall by the fall of 2015. Currently the project houses 1.3 million square feet, but in its redevelopment will reduce to about 950,000 square feet. New sewers in the area will help aid residential development (21,000 new homes, 75,000 residents) that will support the redevelopment of the defunct mall.

Also along Barry Road, Chik-fil-A purchased land at the site of the former Lone Star Steakhouse and David's Bridal opened in Barrywoods Crossing while Faithful Fitness opened nearby. Big Biscuit and Panchero's opened at Boardwalk Square, Brew Top Pub and Patio, Gymboree and Juicy's Burgers and Spirits opened in Zona Rosa. Leslie's Pool Supply opened in Tiffany Springs Market Center. Power Play opened at the former Best Buy at Metro North Square across from the Metro North Mall. Dollar Tree opened down the road at Oak Barry Shopping Center, which is being renovated and is anchored by Price Chopper and Kmart. Liberty's Highlands Plaza West saw Goodwill open and Ross will open at Liberty Triangle early in 2014. Across the highway, the 130,000 sq. foot Shoppes and Shoal Creek, anchored by Best Buy and Office Max, was purchased by Pine Tree Commercial Realty in partnership with Wanxiang America Corporation.

Sam's Club has a site under contract for a new store at the intersection of N. Ambassador, NW Tiffany Spring Parkway and NW Skyview. They are also looking at an 18-acre site along Northeast 81st Terrace between Flintlock Road and North Church Road in Clay County near I-35/ Missouri Highway 152.

Near I-29 and Highway 45, Milbourn's Food & Drink Co. opened along with Swirl Wine Bar. A little farther east, Diego's Bar & Grill plans to open in the former Tanner's Bar & Grill while Tanner's relocated nearby, Nuts and Bolts and Marco's Pizza opened, and Woodsweather II Diner closed at N. Vivion and N. Antioch. Smokin' Guns BBQ in downtown north Kansas City relocated next door in order to expand.

During 2014, we anticipate continued momentum in the leasing of quality vacancies.

Rental rates in the northland presently average $11.02 compared to $12.80 per square foot at the end of 2012. Vacancy is currently at 7.3% down slightly from the 2012 year end vacancy of 8.6%

RETAIL OUTLOOK

During 2014, we anticipate continued momentum in the leasing of quality vacancies. Additional openings are likely to include primarily restaurants such as Raising Cane's, Panchero's, Dickie's BBQ, and Corner Bakery Café. Retailers opening, aside from Menard's, should include Five Below and Boot Barn.

Contributors include: Kim Bartalos, SCLS, Vice President; Stephen J. Block, Principal; Callie Laue, Sales Associate.

Kansas City & National Investment Market

Block Real Estate Services, along with Block Construction, Hoefer Wysocki Architects, and Titan Built, completed this BRES sponsored investment, 154,268 sq. foot Class A office space for Teva Pharmaceuticals in Overland Park, Kansas in October 2013. BRES will also manage the property.

In 2013, the commercial real estate investment market began a return to valuations based on solid fundamentals and moved away from the dependence of cap rate compression and financial engineering.

Investors began to seek returns through improving market fundamentals and operational improvements. Investors and lenders expanded their search for suitable investments to secondary markets and varying asset types. Transaction volume was up for the fourth consecutive year and 343% over the trough of sales volume in 2009.

Capitalization rate compression is likely to slow and become neutral as net operating income growth becomes the primary source of returns over the next five years. Cap rate compression occurred over the last three years as investors anticipated an economic recovery. Commercial real estate fundamentals should continue to improve with increasing consumer confidence and job growth occurring in healthcare, energy, technology, education and financial services. Occupancies are rising across all sectors and new development remains limited mostly to build-to-suit and multifamily opportunities. When combined, these factors should translate to positive rental rate growth over the next three to five years.

Multifamily and industrial assets will continue to be the most desired asset classes, but activity and interest is accelerating for office and retail assets. The other pronounced tailwind for commercial real estate is the recovery of the housing market, which has translated to suppliers in that industry leasing space in the industrial and office sectors.

U.S. Vacancy Rate Trends (%)

	2009	2010	2011	2012
Apartment	7.3	5.9	5.1	4.9
Industrial	14.3	14.3	13.5	12.7
Office	16.5	16.4	15.9	15.3
Retail	12.7	12.9	12.9	12.6

Sources: CBRE-EA (History) and Deutsche Asset & Wealth Management (Forecast), as of August 2013.

Concerns in the commercial real estate investment arena continue to be rising interest rates and political and economic uncertainty. Another concern in the market is the changing needs of real estate users. For example, office users are using less space, but with higher density of workers per square foot. This change is affecting the ability of current parking ratios to meet the needs of users, and limiting occupancy based parking counts not the demand for space.

Captilization rate compression is likely to slow and become neutral as net operating income growth becomes the primary sourse of returns over the next five years.

With the recovery in full swing, debt and equity have been readily available. With the improving conditions, capital from traditional sources such as institutions, REIT's, family offices and syndicators are looking for a home. Lenders will continue to be local and national banks, insurance companies and Fannie Mae and Freddie Mac for multifamily assets. The two sources of debt that are now growing quickly are mezzanine lenders and CMBS issuers.

2013 Transaction Volume Increases

With improving market fundamentals and the availability of equity and debt, Kansas City and national investment professionals saw 2013 transaction volume increase significantly. Through the first eight months of 2013, Real Capital Analytics (RCA) reported national sales volume of all property types totaled $196 billion. This was a 19% increase over the same period in 2012, a 38% gain over 2011, and more dramatically, a 184% increase over 2010.

Along with increased sales volume, there has been a recovery of values as well. According to Moody's/RCA Commercial Property Index (CPI), the national all-property composite index has seen 47.2% appreciation since the trough of December 2009. The pricing index shows that values have recovered approximately 70% of the peak to trough losses with significant appreciation occurring in the last 12 months of 13.6%.

Additionally, increased investor interest and sales are spilling over to secondary markets such as Kansas City and tertiary markets in regions like Omaha, Des Moines, Oklahoma City, Tulsa and Wichita. Investors are taking on more risk to achieve higher yields, either by assuming more leasing risk or buying "Trophy" assets in secondary and tertiary markets. As investors struggle to find suitable yield and opportunities in the gateway markets (New York, San Francisco, Washington D.C., Boston, Los Angeles and Chicago), there is a trend of investors to look towards secondary and tertiary markets. Gateway markets are still seeing pre-2008 competition for "Trophy" assets, and opportunities to acquire these assets remain scarce. Since most gateway markets have substantially recovered, property fundamentals are now improving in the late-recovering secondary and tertiary markets.

In 2013, multifamily was by far the most desired asset class followed closely by industrial, with retail and office

Founders Properties, LLC sold a 102,000 sq. foot office building to Griffin Capital Corporation for $19.1 million, 7.6% cap rate in Olathe, Kansas. The deal, which closed in December 2013, netted approximately $187 per square foot and was leased to Farmers Insurance for ten years.

The sale of the Legends Outlet Shopping Center near I-435 and I-70 in Kansas City, Kansas was completed earlier this year. KKR Real Estate Holdings, an investment and private equity company out of New York, partnering with Red Legacy, was the highest bidder with a price of $131,500,000.

rounding out the four main product types. Occupancies are rising across all product types as new construction has remained limited. The trend of occupancies increasing and the lack of new development should result in positive rent growth across all sectors. Multifamily has already seen significant rent growth, but rental rate growth should accelerate in industrial, office and retail as well. Multifamily growth is expected to be tempered in 2014 as supply coming online will more closely match demand.

In 2013, multifamily was by far the most desired asset class followed closely by industrial, with retail and office rounding out the four main product types.

FOREIGN INVESTMENT

The trend of foreign investors coming into the United States continues unabated. Foreign capital from sovereign wealth funds, high net worth individuals, family offices and other sources should continue. Through August 2013, foreign investors acquired $22.8 billion of United States real estate, or 13% of all transactions. That is up from 9% over the same period in 2012.

Foreign investors still see investments in the United States being the most stable and secure, and providing the best opportunity for capital appreciation. However, there are proposed changes being discussed by Congress to the Foreign Investment in Real Property Tax Act (FIRPTA), requiring foreign investors selling real estate in the U.S. to withhold 10% of a property's sale price to ensure payment of any taxes owed. The proposed changes to FIRPTA would exempt foreign pension funds, though not other foreign investors, from this requirement.

CAPITALIZATION RATES & REAL ESTATE RETURNS

Cap rates again dropped year over year across all sectors, with the biggest change occurring in the industrial sector dropping from 7.13% in 2012 to 6.22% in 2013 (see chart referencing 2013 Class A Average Capitalization Rates). It is hard to imagine cap rates can compress much further, but values should still improve due to improving property fundamentals.

In 2012, we quoted a cap rate of 7.5% for Kansas City industrial product, but two significant sales in 2013 traded below the 7.5% threshold. The Case New Holland Distribution Center outside of Kansas City in Cameron, Missouri traded at a 7.2% cap rate and the International Paper build-to-suit warehouse traded for a 6.4% cap rate. These two deals were long-term leases with good tenants.

Multifamily continues to be red hot and provides the leading sample size due to the large number of trades that occur each year in the multifamily marketplace. Both nationally and in Kansas City, multifamily cap rates remained relatively stable due to the already low cap rate trades in 2012. Crow Holdings backed up their 5.9% cap rate purchase of Briarcliff Apartments in 2012 with their most recent Kansas City acquisition of 45 Madison at a 5.45% cap rate. After their Briarcliff Apartment purchase, Crow Holdings indicated that would be their only purchase in

Kansas City, but the additional acquisition shows how strong they feel about the Kansas City market.

Historically in Kansas City, demand outpaces availability of quality investment properties brought to the market. Multifamily trades in Kansas City significantly outnumbered the other three sectors combined. If a Class A industrial or retail deal came to market, there would be significant interest, but the availability is limited as many are held locally by long-term investors.

In the office sector, deals in irreplaceable locations still garner significant interest from investors. In 2014, it is expected as fundamentals continue to improve and values recover, owners will begin to place more quality deals on the market.

2013 Class "A" Average Capitalization Rates

Product Type	National	Kansas City
Multifamily	5.61%	6.00%
Strip Centers	6.91%	7.75%
Warehouse	6.22%	7.25%
Suburban Office	7.51%	8.50%
Medical Office	7.77%	8.00%

Source: PWC 3q13 Real Estate Investor Survey. Kansas City Cap Rates Based on Block Real Estate Services research.

DEBT MARKETS

Lenders are easing lending standards and pushing loan-to-values. Commercial real estate loan issuances are up due to the improving economy and rising property values. As the U.S. economy recovery continues, lenders are willing to take on additional risk compared to last year.

Although lending standards are loosening, two criteria have remained the same: quality of the asset, and the sponsor requesting the loan. Lenders are very aggressive and competing for top quality, class A deals, especially if a strong sponsor is requesting the loan. For value-add deals, the lenders are looking very closely at the sponsor and their track record of success to underwrite and get comfortable with the transactions.

Mezzanine loans and preferred equity have made a big surge over the last year on new acquisitions and recapitalization of existing deals. These lenders are providing a bridge for sponsors to stabilize their asset until a refinance can occur, or sponsors are electing to use these sources to push loan-to-values, thereby increasing projected returns. For the most part, mezzanine lenders and preferred equity investors are not making loans and investments in hopes of getting control of the properties, but instead are chasing yield. As competition continues to increase for these opportunities, returns are being driven down.

One of the main reasons for the uptick in commercial real estate lending is the revival of Commercial Mortgage-Backed Securities (CMBS) loans. Issuance of U.S. CMBS loans have reached $73 billion so far this year, up from $48 billion in the same period in 2012. The rise in CMBS issuance has been steepest in the U.S., reflecting the country's economic recovery. U.S. issuance has risen from a low of $2.2 billion in 2009, but still significantly off the high of $229 billion in 2007.

Somerset Partners, a private investment firm, purchased the Reserve at Barry, a 690-unit, multifamily apartment complex built in 1986 in Kansas City, Missouri. The property, which closed in October 2013, sold at a price of $48,650,000.

Holmes Corporate Center I & II, in Kansas City, Missouri, had leased 58,207 square feet in 2013. The 202,391 sq. foot project was sold as a "value add" acquisition to Oaktree Capital/ScanlanKemperBard for $9,600,000.

Another sign of improving health in the commercial real estate market is the decline of CMBS delinquency rates. In September of 2012, 9.99% of CMBS loan were delinquent, which dipped to 8.14% in September 2013.

Additionally, with the historically low interest rates in the first half of 2013, a significant amount of commercial real estate lending occurred with sponsors electing to swap out floating rate debt for fixed rates on five, seven and ten year loan terms. Banks became ultra competitive to retain their business and to go out and win new business. Banks again are looking for commercial real estate opportunities and lending rules are trending back to pre-recession times. As banks' balance sheets continue to improve, expect this trend to carry on in 2014.

INTEREST RATE CORRELATION TO CAP RATE

With the thought that interest rates cannot stay as low as they currently are, many stakeholders in commercial real estate are wondering about the correlation between the 10-year treasury rate and cap rates. The 10-year treasury rate increased from a 2013 low of 1.63% in May to 2.97% (12/31/13) on speculation of the Federal Reserve reducing asset-backed purchases. The 10-year treasury is the benchmark that is used to price long-term debt on commercial real estate. While cap rates do move somewhat with the 10-year treasury rate, it is not on a one-to-one relationship. Investor fears tend to focus on rising interest rates resulting in increased cap rates, thus declining property values. This assumption ignores all the other valuation metrics of commercial real estate. There are a myriad of factors that impact cap rates such as capital flow into the market, macroeconomics, and property fundamentals including property cash flows, investor speculation and inflation. As the economy strengthens and interest rates begin to creep up, occupancies, rent growth and operations should all improve as well, increasing net operating income and partially offsetting impacts of rising cap rates.

Another important factor that helps offset worries of increasing interest rates impact on cap rates is the assumption that investors use "exit" cap rates that are 50 to 100 basis points higher than their going in cap rates in pro forma projections. This underwriting practice builds in some room for cap rate movement during a hold period of an investment. Investors' fears that rising interest rates will drive values down for commercial real estate are only justified if all other factors remain unchanged, and all the other variables that drive values of commercial real estate are ignored.

COMMERCIAL REAL ESTATE: WHO'S BUYING?

The most active buyers for 2013 in the United States included Equity Residential (multifamily), Spirit Realty Capital (retail and industrial) and J.P. Morgan (office). The most active sellers were Lehman Brothers (multifamily), Primaris REIT (retail), Blackstone (office) and Cole RE Investments (industrial). Kansas City continues to have a large number of institutional buyers that have invested locally including the following and countless others:

- American Realty Capital
- Aragon Holdings
- ArciTerra Group, LLC
- Barnett Capital
- Blackstone
- Bridge Investment Group
- CBL & Associates Properties, Inc.
- Cobalt Capital Partners
- Cole Real Estate Investments
- ColonyRealty Partners
- Crow Holdings
- CW Capital
- DCT Industrial Trust, Inc.
- Developers Diversified Realty
- Duke 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
- KKR
- LaSalle Investment
- Lincoln Property Company
- Monmouth Real Estate Investments
- Multi-Employer Property Trust
- One Liberty Properties
- Orix Real Estate Capital, Inc.
- Passco Real Estate Enterprises, Inc.
- Phillips Edison
- RREEF
- Sentinel Real Estate
- Sun Life Assurance
- SVN Equities, LLC
- Town Management
- Welsh
- Whiterock Acquisition Corporation

New entrants in the Kansas City market in 2013 included Griffin Capital Corporation with the acquisition of the Farmers Insurance building in Olathe, Kansas, and Somerset Partners with the purchase of The Reserve at Barry in Kansas City, Missouri; Duke Realty purchased the Kimberly Clark Logistics Center in New Century, Kansas as part of a national portfolio; Oaktree Capital and ScanlanKemperBard completed a joint venture to purchase the struggling Holmes Corporate Center I and II in Kansas City, Missouri; Tiffany Springs Market Center in Kansas City, Missouri anchored by Best Buy was purchased by American Realty Capital. 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 rates which are 50 to 100 basis points higher than the gateway markets.

COMMERCIAL REAL ESTATE PROPERTY TYPE PERSPECTIVES

Multifamily continues to post the highest investment sales volume for two reasons: it is a preferred asset class and it is the product type that trades with the most frequency. Industrial product is a close second,and is gaining ground on multifamily. Retail and office remain the least favorable categories. At the end of each product type summary, we will report the "Buy/Hold/Sell" recommendations of the "Emerging Trends in Real Estate 2014" survey. This survey is taken from more than 1,000 real estate professionals in varying roles within the industry.

Multifamily

Multifamily continues through the growth phase of the real estate cycle. Currently the U.S. vacancy rate of 4.6% is below the historical average of 5.5%, resulting in essentially full occupancy. Multifamily has produced substantial rent gains over the last three years, and even though rent gains have begun to slow, the sector continues to shine. Rental demand continues to be driven by falling home ownership. Even as the housing market is rebounding with increased home sales and significant price increases, U.S. home ownership has fallen to its lowest point in almost 20 years. The percentage of home ownership in mid-2013 of 65% has fallen over the last year from 65.4%.

There are a couple of factors that might impact the performance of multifamily in the short and long term. In the short term, slow income growth of renters might hamper their ability to afford rising rents that are currently at historically high levels. Increased levels of development could hinder the longer term prospect of continuing to push rents as newer projects come online. The increased development pipeline threatens to shift market conditions away from landlords back toward tenants.

US Moderate Income Apartments	Buy	Hold	Sell
2013 Results	28.10%	33.10%	38.80%
2014 Results (Expected)	37.60%	34.30%	28.10%

Source: Emerging Trends in Real Estate 2013 & 2014 Survey

Industrial

Investors are aggressively seeking large bay and shallow bay warehouses as tenant demand remains strong and the prospects of rent growth continue to strengthen. Vacancy rates continue to fall, and net absorption year-over-year has continued to increase since 2010, while development remained in check. Demand factors such as forecasted employment growth, expanding international trade, and increased retail spending all support strong fundamentals for warehouse properties. The resurgence of the housing market has been significant as suppliers to home builders are expanding again in the market place.

Another force that is significantly impacting industrial space requirements in a positive way is the vast development of e-commerce distribution networks. Online retailers are building new fulfillment centers in or near major cities all over the country with the goal of same-day delivery via trucks, thereby greatly reducing delivery cost and increasing customer satisfaction.

Flex assets remain out of favor with investors as rents of future tenants are hard to anticipate. The required amount of office finish and warehouse requirements will most likely change as tenants' turnover and rents adjust accordingly.

US Warehouse Industrial	Buy	Hold	Sell
2013 Results	67.90%	23.60%	8.50%
2014 Results (Expected)	63.50%	26.90%	9.60%

Source: Emerging Trends in Real Estate 2013 & 2014 Survey

Retail

The conundrum in the retail sector is that consumers are in the strongest position now than in many years, but it is not translating to significant gains in retail property fundamentals. As e-commerce continues to expand, retailers are quickly changing to meet this demand. Retail properties are going through a transition due to the effect of e-commerce. Retailers are shifting strategies to use less square footage and in some instances, using stores more as showrooms. As online shopping continues to surge, a significant amount of sales that traditionally happened in retail locations are being, for the most part, transacted over the Internet. The financial health of consumers and retailers is significantly better than four years ago and the cycle of store closings and bankruptcies is coming to an end.

Retail development activity is at a record low, which will help offset the lower demand for space. There has also been a shift away from expanding further into the suburbs as retailers and developers are now looking for quality in-fill locations that are under served. Mixed-use urban developments continue to be popular as developers look for creative ways to repurpose buildings. Do not expect to see new power center development in the near future as retailers are trying to tighten their real estate growth requirements.

HIGH-END SHOPPING CENTERS

High-end shopping centers have continued to perform well. The small, unanchored strip centers that were hit the hardest during the recession are having a hard time bouncing back as the split is widening between the best and worst performing centers.

The financial health of consumers and retailers is significantly better than four years ago and the cycle of store closings and bankruptcies is coming to an end.

Behind irreplaceable in-fill locations, grocery anchored centers continue to be the investors' preference. Although more sales are occurring of unanchored centers, pricing remains soft as properties continue to stabilize.

As reported in the Emerging Trends in Real Estate 2014 survey, power centers and regional malls both received buy recommendations of 20% or less, while neighborhood/community centers (which include grocery anchored centers) still have a strong buy recommendation.

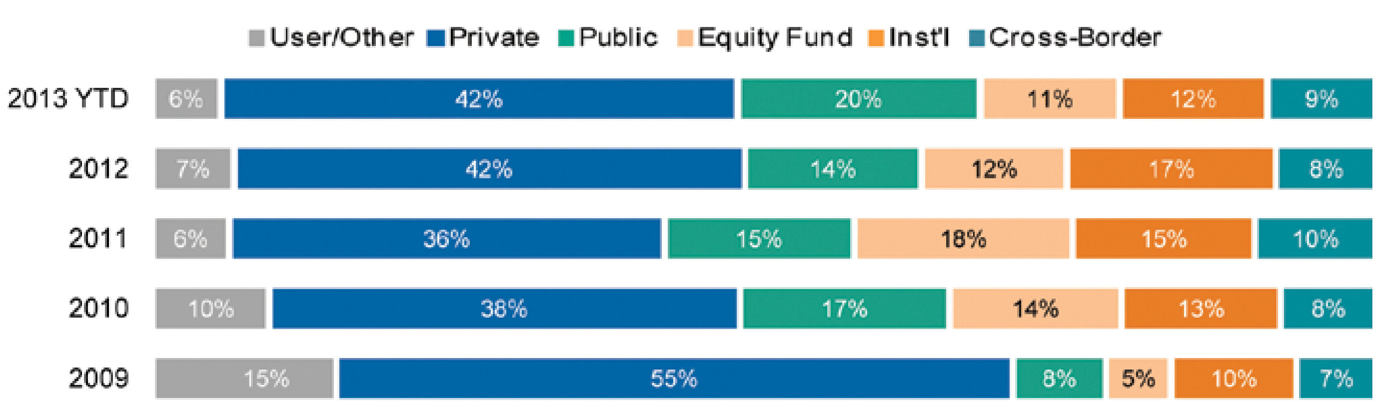
Neighborhood/ Community Centers	Buy	Hold	Sell
2013 Results	52.70%	28.00%	19.30%
2014 Results (Expected)	47.10%	35.80%	17.10%

Source: Emerging Trends in Real Estate 2013 & 2014 Survey

OFFICE

Job growth continues to be positive, but it is not necessarily translating into demand for more office space. Companies are filling space that they have not been using or

All Types Buyer Composition - 2013



Source: RCA, August 2013

The 447,000 sq. foot Kimberly-Clark Regional Distribution Center at New Century AirCenter near Gardner is part of a 4.8 million-square-foot portfolio of 100 percent-leased industrial properties that was sold for $311 million to Duke Realty.

are getting more efficient in the use of their space. A trend is emerging of companies increasing density and getting by with fewer employees. The other factor reducing the demand for space is the continuing trend of telecommuting. As technology continues to evolve, the need for employees to be in one centralized location is waning. Now teleconferencing and online meetings are preferred to traveling for on-site meetings. These factors are hampering the office recovery, compared to prior office expansion phases.

What is helping with the office recovery is the lack of new development. Except for build-to-suit projects for single tenants, speculative office development remains nearly nonexistent. Without Class A office options available, tenants have elected to go the build-to-suit route to design space that maximizes efficiency and productivity. However, as we see some markets post rental rate gains, the development of new speculative space may be around the corner.

Investors and tenants will continue to primarily focus on locations that are 24-hour epicenters with live/work/play environments. During 2013, demand for office assets in secondary markets did, however, increase somewhat. In 2012, the six gateway markets comprised 65% of all office investment sales, but a shift is occurring as investors turn to secondary markets to achieve their desired yield and to reach their capital allocations.

Suburban Office	Buy	Hold	Sell
2013 Results	25.10%	45.50%	29.40%
2014 Results (Expected)	30.00%	35.50%	34.50%

Source: Emerging Trends in Real Estate 2013 & 2014 Survey

OFFICE MARKET SALES ACTIVITY

Investment sales in Kansas City's office sector for 2013 basically mirrored the results of 2012. The majority of sales were either distressed sales or user acquisitions. Toward the tail end of 2013, several office investments came to market in Kansas City, which are expected to trade in 2014. These offerings include The Renaissance Buildings at College Boulevard and Metcalf, Five Pine Ridge Plaza in the Pine Ridge Business Park, and the 2020 Building at 2020 W. 89th Street in Leawood, Kansas. When these sales occur, it will provide a better representation of the current market for multi-tenant investment office buildings in Kansas City. It is anticipated with improving property fundamentals, additional investment properties will transact in 2014. Institutional and private investors will continue to focus on the Country Club Plaza and South Johnson County as the two top submarkets when deploying capital into the Kansas City office market.

Except for build-to-suit projects for single tenants, speculative office development remains nearly nonexistent.

CommonWealth REIT has elected to exit the Kansas City market with its sale of Holmes Corporate Center I and II below $50 per square foot and it sale of the Lenexa Office and Industrial/Flex portfolio to a partnership of Hines and Oaktree Capital. Holmes Corporate Center I and II were

49% occupied at the time of the sale and the office portion of the Lenexa portfolio was 48%. The benchmark sale of 2013 occurred in the last days of December with Griffin Capital Corporation 7.6% cap rate purchase of the single tenant Farmers Insurance Building. The asset is in the Corporate Ridge Business Park in Olathe, Kansas. Farmers Insurance recently extended its lease and had ten years remaining at the time of sale.

Two significant user sales include the former U.S. Central Federal Credit Union at 9701 Renner in Lenexa purchased by KP Renner, LLC, a group controlled by Kiewit Power Engineers. This allowed Kiewit Power Engineers to expand their presence in the area. Also, the Government Employees Health Association purchased the Landmark Building in Independence, Missouri for $57 per square foot, which previously sold for $178 per square foot in 2004.

INDUSTRIAL SALES ACTIVITY

Kansas City's industrial market remains very stable and has seen significant development start occurring in 2013. Both local and institutional investors continue to look in Kansas City for quality assets to purchase. Like in years past, there are always more buyers of high quality properties in Kansas City than sellers. This helps support the low cap rates that seem to be the norm in the Kansas City industrial investment arena. As mentioned earlier, the Commonwealth REIT sold its office and industrial portfolios in Lenexa. The industrial portion of the portfolio included 25 industrial and flex properties that were 84% occupied when the assets were sold to Hines/Oaktree Capital in late December 2013.

Three single-tenant sales led the way in Kansas City in 2013. Realty Income Corporation purchased the Case New Holland Distribution Center in Cameron, Missouri for a 7.2% cap rate. As previously mentioned, Kimberly Clark Logistics Center was purchased by Duke Realty and Monmouth Real Estate made another purchase in Edwardsville, Kansas of the newly developed International Paper build-to-suit. The International Paper transaction traded at a very aggressive 6.4% cap, which equated to $66 per square foot. Buyers will continue to crave Kansas City industrial assets, however, sales volume will depend on the number of sellers willing to dispose of quality product.

Retail Property Sales Activity

Significant sales transactions that occurred in Kansas City

International Paper (Xpedx) relocated to Edwardsville, Kansas bringing 180 employees to its new 280,000 sq. foot distribution facility. The building was sold to Monmouth Real Estate Investment Corporation at a price of $18,600,000 and the lowest market cap rate for an industrial property at 6.4%.

included Tiffany Market Center being sold to American Realty Capital at a 7.87% cap rate; The Legends Outlet Kansas City was recapitalized by Red Development replacing Morgan Stanley with KKR at a 6.54% cap rate; a group controlled by Lane 4 purchased Cedar Tree Shopping Center in Belton, Missouri for a healthy 10.99% cap rate; the Greystone South Shopping Center was purchased for $59 per square foot by a Block Real Estate Services sponsored investment group and redevelopment plans are under way to upgrade the image of this Lenexa, Kansas shopping center. The rest of the sales in the marketplace were smaller strip centers of 40,000 square feet or less, most of which traded in the 8-10% cap rate range.

There were no significant grocery anchored center sales in the marketplace. Grocery anchored retail centers will continue to be a highly sought after asset in Kansas City, but they have historically changed hands on a very infrequent basis.

MULTIFAMILY SALES ACTIVITY

Transaction volume was led again by multifamily sales in Kansas City. With improving rent growth and decreasing vacancies, the availability of debt and equity capital in Kansas City mirrored the national marketplace. Transaction volume in Kansas City eclipsed $400 million. There were seven transactions that traded over $20 million and at an average of over $89,000 per door.

The select transactions that made our comparable list include the 690-unit The Reserve at Barry bought by Somerset Partners at a 6.25% cap rate; the Preserve at Overland Park sold for $105,000 per unit at a 5.75% cap rate; the Ridgeview Apartments in Olathe, Kansas sold below a 6% cap rate for $23,150,000 and was rebranded to The Lennox of Olathe Apartments; and Carrington Park sold for over $100,000 per door at a 6.12%.

The highest transaction on our report on a price per unit basis was 45 Madison at $189,394 per unit. With a location just off the Country Club in Kansas City, 45 Madison traded at the lowest cap rate at 5.45%.

2014 will be another active year in the multifamily sector. Sales will continue and development activity is now hot. Prairie Creek Apartments (308 units), developed by Price Brothers at Prairie Star Parkway and Renner Boulevard, opened in 2013 and the last phase is nearing completion. A group sponsored by Block Real Estate Services started construction on the 306-unit WaterCrest at City Center located at 87th and I-435 in Lenexa, Kansas. This high-end project will have superior amenities to the competition in the sub-market. Developers and investors will continue to target Johnson County for suburban product, and in-fill locations, especially in and near the Country Club Plaza.

WHAT IS AHEAD FOR 2014?

Property fundamentals will continue to strengthen in 2014. The U.S. economy should continue to improve, creating greater consumer confidence and employment growth thereby decreasing vacancies across all property types. It is expected that investment sale transactions should continue to increase over the next year. Capital should remain readily available, lenders will look to place more capital into the debt markets, and investor equity will continue to chase stabilized yields.

Expect multifamily to again lead the way in 2014 in transaction volume, followed by industrial assets. The office sector has the most room for growth in number of quality sales. Office sales volume will be dependent on sellers' willingness to dispose of assets that have not recovered to pre-recession values. The retail sector will remain slower than normal as investors appear leery of fundamental changes in this sector.

As pricing continues to increase in gateway cities, secondary and tertiary markets will receive increased attention from debt and equity looking for suitable risk adjusted returns. Foreign investors' interest will continue to grow in U.S. commercial real estate as the preferred market for safety of investments and prospects of capital appreciation. Underwriting standards from a debt and equity perspective should continue to loosen, but do not expect standards to return to the pre-recession frenzy.

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2014 Commercial Real Estate Outlook

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

Source: CBRE Global Research Q3 2013

Investors Chart and Sales Records

Office Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
Lenexa Portfolio - 15 Office Buildings College Blvd. & I-35, Lenexa, KS	933,511	$64,000,000 $68.56	4.67% (48% Occupied)	Buyer: Hines/Oaktree Capital Seller: CommonWealth REIT *(Estimated sales price breakout of overall portfolio sale)*
Holmes Corporate Center I & II 800 & 1001 East 101st Terrace, Kansas City, MO	202,391	$9,600,000 $47.43	2.78% - In-Place 16.23% - Pro Forma	Buyer: Oaktree Capital/ScanlanKemperBard Seller: CommonWealth REIT
Corporate Ridge III (Farmers Insurance) 10551 S Ridgeview Road, Olathe, KS	102,000	$19,100,000 $187.25	7.60%	Buyer: Griffin Capital Corp. Seller: Founders Properties
Former US Central Credit Union 9701 Renner, Lenexa, KS	129,321	$13,000,000 $100.53	User	Buyer: KP Renner, LLC (Kiewit Power Engineers Co) Seller: U.S. Central Federal Credit Uniion
Landmark Building 20201 E Jackson Dr., Independence, MO	91,812	$5,200,000 $56.64	User	Buyer: Government Employees Health Association Inc. Seller: JER Partners
1900 Shawnee Mission Parkway Shawnee Mission Parkway & Stateline Road, KS	46,051	$7,200,000 $156.35	Tenant Vacating	Buyer: Borgward, LLC (Karbank) Seller: 1900 Associates, LLC (Jim Ellis)

Industrial Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
Lenexa Portfolio - 25 Industrial/Flex Buildings Pflumm Road & I-35, Lenexa, KS	736,594	$21,500,000 $29.19	10.99% (83.46% Occupied)	Buyer: Hines/Oaktree Capital Seller: CommonWealth REIT *(Estimated sales price breakout of overall portfolio sale)*
Case New Holland Distribution Center 300 E Pence Road, Cameron, MO	500,000	$23,500,000 $47.00	7.20%	Buyer: Realty Income Corporation Seller: Cardinal Industrial
Kimberly Clark Logistics Center 27200 West 157th Street, New Century, KS	447,000	$21,000,000 $46.98	8.00% (Leasehold Estate)	Buyer: Duke Realty Seller: USAA
International Paper 2552 South 98th Street, Edwardsville, KS	280,000	$18,600,000 $66.43	6.40%	Buyer: Monmouth Real Estate Investment Corp. Seller: Jones Development Company
Renner Business Center 16910-17000 W 116th Street, Lenexa, KS	238,659	$10,400,000 $43.58	7.96%	Buyer: RGD Associates, LLC (BRES Investment Group) Seller: SDW Realty, LLC (Silpada Designs)
Congress Building I & II 10760-10800 N. Congress, Kansas City, MO	182,083	$8,000,000 $43.94	Vacant - Bldg. I 8.23% - Bldg. II	Buyer: NorthPoint Development Seller: North American Savings Bank

Retail Properties	Size (SF)	Sales Price / Per SF	Cap Rate	Buyer/Seller
Legends Outlets Kansas City 1843 Village West Parkway, Kansas City, Kansas	658,453	$131,500,000 $199.71	6.54%	Buyer: KKR/RED Development Seller: Morgan Stanley/RED Development
Tiffany Springs Market Center 9012 NW Skyview Avenue, Kansas City, MO	238,000	$51,250,000 $215.34	7.87%	Buyer: American Realty Capital Seller: Cousins Properties
Overland Crossing 11900 Metcalf Avenue, Overland Park, KS	174,497	$27,395,000 $156.99	7.75%	Buyer: GDA Real Estate Services, Inc. Seller: Continental Properties Company, Inc.
Cedar Tree Shopping Center 100 Cedar Tree Square, Belton, MO	91,875	$5,228,000 $56.90	10.99%	Buyer: I-49 Investors, LLC (Lane 4 Entity) Seller: George Gilchrist
Shoppes at Shoal Creek 8500 NE Flintlock, Kansas City, MO	81,485	$14,400,000 $176.72	7.52%	Buyer: Pine Tree Commercial Realty, LLC Seller: Shoal Creek Center BWG & BW Five LLC (David Block)
Greystone South Shopping Center 12800 W. 87th Street, Lenexa, KS	62,917	$3,710,000 $58.97	8.90% (Redevelopment)	Buyer: GDC, LLC (BRES Investment Group) Seller: Greystone South, LLC

Multifamily Properties	Units	Sales Price / Per Unit	Cap Rate	Buyer/Seller
The Reserve at Barry 8504 North Cosby Avenue, Kansas City, MO	690	$48,650,000 $70,507	6.25%	Buyer: Somerset Partners Seller: Levin Realty Advisors
Preserve at Overland Park 12401 W 120th Street, Overland Park, KS	476	$50,100,000 $105,252	5.75%	Buyer: DiNapoli Capital Partners Seller: Fogelman Properties
Ridgeview Apartments 1890 North Lennox Drive, Olathe, KS	384	$23,500,000 $61,198	5.94%	Buyer: NS-1890 Lennox KS, LLC Seller: Olathe Leased Housing
Carrington Park 8501 North Platte Purchase Drive, Kansas City, MO	298	$31,399,664 $105,368	6.12%	Buyer: Platte Purchase Development Seller: Barrytown Apartments
The Crossing 8514 Monrovia Street, Lenexa, KS	240	$23,250,000 $96,875	5.75%	Buyer: Town Management Seller: Great Lakes Property Group Trust
45 Madision 4445 Madison Avenue, Kansas City, MO	132	$25,000,000 $189,394	5.45%	Buyer: Crow Holdings Seller: Praedium Group

Kansas City Multifamily Market

WaterCrest at City Center, a 306-unit luxury apartment project is currently under development by Block Development Company. It will be located at 85th and Renner Road, just north of the Lenexa Civic Center site and the new Perceptive Software campus in Lenexa, Kansas.

APARTMENT OVERVIEW

Multifamily properties continued to be the most desirable asset class for commercial real estate investors in 2013, a trend that is expected to continue into 2014.

Investors remain attracted to strong underlying, multifamily fundamentals, including heavy demand, low vacancies, rising rental rates, lower concessions and historically low interest rates.

Nationally, vacancies reached a historic low in 2013 of 4.2%, down from 5% in 2012. Rent growth increased in 2013 by a rate of 3%, slowing from 4.3% growth in 2012. However, effective rent growth reported by many landlords was greater as fewer concessions were given while additional charges such as parking fees or utility reimbursements were added or increased.

LOOKING FORWARD

Strong fundamentals and investor demand propelled developers across the U.S. to increase deliveries for the second straight year with roughly 125,000 new multifamily units completed in 2013, up from 85,000 in 2012 and the highest level since 2009. Developers are expected to continue increasing deliveries in 2014, with projections ranging from 150,000 to 170,000 new units coming online. The large volume of new construction is reflective of pent-up demand during 2010 and 2011 when fewer units were being developed. The entry of the millennial generation into the workforce and an increasing number of retiring or downsizing baby boomers has also fueled demand for well-designed, efficient and affordable housing with a higher level of amenities. Additional household formation resulting from the arrival of 1.2 to 1.6 million immigrants per year is also expected to drive demand for workforce housing.

Some experts have voiced concerns over the increasing levels of apartment development, with many speculating about overbuilding in the sector, which would have a negative impact on occupancies and rental rates. Our opinion is that certain markets or submarkets will struggle as oversupply takes hold and net absorption flattens. This is most likely to occur in markets with fewer geographic and regulatory barriers to entry where the development cycle is shorter and less costly. However, on the whole, we believe the national multifamily market will continue to experience strong fundamentals with peak deliveries occurring in 2014 and vacancy rates remaining at or below 5% for the next several years. Rental rates are also expected to continue increasing nationally over the next several years.

As we examine the apartment investment market outlook for 2014, interest rates will play a key role. The Federal Reserve is expected to begin tapering its Quantitative Easing in 2014, which will have an impact on treasuries, the benchmark for most apartment financing. If interest rates remain attractive for investors and developers, multifamily transaction activity will remain swift. If interest rates rise, transaction activity could slow down. However, the ability to raise rental rates on a continual basis differentiates multifamily from other commercial sectors, providing a better hedge against inflation. Overall, the outlook for apartment investment sales remains strong throughout the country.

We believe the national multifamily market will continue to experience strong fundamentals with peak deliveries occurring in 2014

KANSAS CITY

With all of the positive trends nationally in regards to the multifamily product, Kansas City is similarly experiencing strong occupancies, rental-rate growth and high absorption. In 2013, employment growth in the Kansas City region was 1.1% and GDP growth was 2.7%. Kansas City added 12,300 jobs in 2013, and is forecasted to add 14,300 jobs in 2014 and 16,700 jobs in 2015. A stable job market has helped increase household formation as young professionals drive demand for multifamily housing.

The overall occupancy rate improved from 93.5% in 2012 to 93.9% in 2013. Landlords increased average asking rents by 4.3% in 2013, up from 2.5% in 2012, outpacing expectations. The increase in rental rates can be largely attributed to a number of new developments entering the market at record-breaking rental levels. This pushed Class A rental rates to $836, an increase of 5.7%, and Class B/C rental rates to a blended rate of $606, an increase of 2.9%.

North Johnson County, South Johnson County and the Country Club Plaza posted vacancies of 4.6%, 4.8% and 4.9%, leading the market in occupancies. Wyandotte County and South Kansas City continue to have the largest vacancies in the metro at 9.5% and 8.1%, respectively, due to a lagging supply of older properties. However, Wyandotte made significant gains in Class A rental rates and decreased vacancies by 1.5%, the largest increase in the metro, due to newer developments with strong occupancies near the Kansas Speedway.

We expect rental-rate growth to slow between 2.2% and 2.5% in 2014 as many new projects are delivered, increasing market supply. We expect the overall occupancy level to improve slightly to 94%, with occupancies for newer products in desirable areas outpacing the average.

DEVELOPER INTEREST

Rental rate growth, strong occupancies and increasing absorption have contributed to continued developer interest in creating new multifamily communities in the Kansas City area. Kansas City experienced net absorption of about 2,100 units in 2013, up from about 1,500 units in 2012.

Developers in 2013 added nearly 1,700 units of new supply to the market, an increase of 88.9% from the 900 units delivered in 2012 and the largest build-up since 2001. At the start of the year, there are nearly 3,500 units planned or under development for 2014 delivery. However, we predict the number of actual deliveries in 2014 will reach approximately 2,400 units as some projects will be delayed or unable to progress. These figures are in excess of Kansas City's historical average of 1,500 to 1,800 units per year, but are a reflection of pent-up demand from 2008 to 2012 when deliveries were well below historical averages.

The trend has been towards luxury apartments geared towards residents seeking a maintenance provided, upscale

The Sovereign at Overland Park, a 250-unit luxury apartment complex was completed in 2013. Its 42.7 acre site fronts 135th Street at Melrose Street, one of the busiest thoroughfares in the Kansas City metroplex.

The most significant multifamily transaction in 2013 was the sale of 45 Madison, which garnered a market-record $189,394 per unit. It was sold to Crow Holdings at a cap rate of 5.45%.

address with first-class amenities. These developments are targeted at the Renter-by-Choice segment of the market, which usually consists of residents with professional jobs, no children at home, and a desire for increased mobility. We believe this trend will continue as residents seek high-quality, hassle-free living.

INVESTMENT TRENDS

All quadrants of the metro area are benefiting from development activity, with the largest concentration of units being added in the southern Johnson County submarket. Delivered in Johnson County in 2013 were 812 units and more than 1,400 are under construction, near completion, or expected to be delivered in 2014. Some are traditional garden-style communities, including Corbin Greens (228 units – AG Spanos), Manor Homes of Prairie Trace (280 units – Launch), Residences at Prairiefire (300 units – Heathview Residential), and Prairie Creek (308 units – Price Brothers).

Higher density, or infill projects planned in the area include Domain at City Center (203 units – Land Development Strategies), Highland Lodge (230 units – Land Development Strategies)and WaterCrest at City Center (306 units – Block Real Estate Services).

Prairie Creek, Domain at City Center and WaterCrest at City Center all represent a resurgence in development in Western Johnson County along I-435 where BE Smith, Kiewit and Perceptive Software have all recently made large corporate investments and added several thousand jobs. Developers hope to attract employees from these firms as well as Cerner, which recently added several thousand employees to its new Kansas City, Kansas, operation immediately north along I-435. WaterCrest at City Center will provide condo-quality finishes and amenities to the renter-by-choice market and include approved plans for a 256-unit second phase.

The Northland submarket experienced the second-highest level of development activity in 2013 with the delivery of The Residences at Burlington Creek (298 units – Northpoint) and the Arbor Mist Townhomes (120 units –Willbanks). Briarcliff Riverfront is also expected to add 340 units to the submarket in 2014, adjoining Briarcliff's successful mixed-use development.

A slight surprise to longtime Kansas City residents is the resurgence of development activity in the Midtown/ Plaza submarket. With six projects underway, approximately 600 units will be added in these two areas. Slightly more than half are in the Country Club Plaza submarket, including 51 Main (176 units – Van Trust) and 46 Penn (177 units – Price Bros). The remaining units are being renovated by Antheus Capital, which continues to move forward in the rehabilitation and renovation of once-grand apartment homes along Armour Boulevard in Kansas City's Midtown market.

Kansas City's Downtown and River Market areas have also experienced a new wave of planned developments. Though no new units were delivered in 2013, plans for more than 400 units have been announced, including Centropolis on Grand (56 units – KC Commercial), River Market West (137 units – Great Plains), and a new 311-unit, $79 million residential tower planned by the Cordish Companies. Cordish dropped plans at the end of 2013 to convert the Kansas City Power and Light Building into 200 additional multifamily units, but the project could be picked up by another developer. These units move the city of Kansas City, Missouri closer to a critical mass of residents living within the Central Business District.

At no other time has the Kansas City area experienced such a wide variety of new residential product types being developed.

Wyandotte County is also experiencing new multifamily development near the Kansas Speedway with Gold Crown completing the 228-unit Heights at Delaware Ridge in 2013 and Northpoint kicking off its Village West development, which is expected to add 306 units to the submarket in 2014.

Grandview, in the South Kansas City submarket, will also add 300 units in 2014 as Lindsey completes the Fairway at Grand Summit.

At no other time has the Kansas City area experienced such a wide variety of new residential product types being developed. They run the gamut from high-rise to garden-style with lofts, wraps and mid-rise in between. Many reflect the design trend towards a large, central green area with communal gathering spaces. Nearly all indicate an amenity arms race that has yet to slow down.

The development outlook remains healthy for multifamily in the Greater Kansas City area with 2014 expected to be a banner year.

MULTIFAMILY SALES

In 2013, Kansas City's investment sales of multifamily assets remained brisk with volume of more than $550 million dollars for the second straight year. A healthy mix of class A, B and C properties sold to local, regional and national investors.

Class A apartments accounted for 55.5% of the total sales volume this year with more than $305 million of transactions. There were 12 Class A transactions with an average capitalization rate of 6% and an average sale price of $118,259 per unit. While cap rates remained relatively flat over 2012, the average price per unit increased 10.7% due in part to improving income and several signature sales.

The most significant transaction in 2013 was 45 Madison, which garnered a market-record $189,394 per unit and posted the lowest cap rate of the year at 5.45%. Other signature Class A sales included The Preserve at Overland Park ($50.1 million), The Sovereign at Overland Park ($33 million), The Savoy ($32.3 million), and The Crossings ($23.3 million).

Class B apartments accounted for 22.7% of the total sales volume this year with approximately $125 million of transactions. There were seven Class B sales with an average capitalization rate of 6.49% and an average sale price of $68,343 per unit. Class B property sales showed cap rate compression of 73 basis points and a 5.9% increase in the average price per unit as competition for Class B properties increased. Notable Class B transactions include The Reserve at Barry ($48.7 million), Lennox of Olathe ($23.5 million), Villa Medici ($19 million) and Jefferson Place ($18.3 million). Many Class B buyers have planned incremental upgrades to allow for additional rent growth as a way to increase returns.

Stabilized Class C multifamily sales represented 19.1% of the total sales volume with approximately $105 million of sales volume on 22 transactions. Class C apartment transactions experienced the largest movement in cap rates and prices per unit. The average Class C capitalization rate was 8.1%, down 94 basis points from 2012. The average price per unit in Class C transactions jumped 31.4% to $37,413. While the majority of Class A and B transactions were completed by larger institutional investors such as REITs or Pension advisors, local or regional buyers dominated the Class C market. Similar to Class B buyers, many of these investors have plans to reposition these properties through physical and managerial improvements to enhance returns. The larger Class C transactions included The Oaks at Prairie View ($10.8 million), The Fountains of LindenWoods ($10.8 million), Arbor Square ($7.3 million) and Shadow Creek ($7.1 million).

Redevelopment or rehabilitation Class C multifamily sales represented the remaining 2.7% of the sales volume in the market with approximately $15 million of transactions.

Financing remains readily available for multifamily investments from banks, life insurance companies, CMBS lenders, and GSE entities Fannie Mae and Freddie Mac. Competitive rates and terms will continue to have a positive impact on multifamily investment transactions throughout 2014. Sales at the national level and in Kansas City are expected to remain strong driven by institutional and private-equity demand for multifamily assets as a source of current yield and a hedge to inflation risk.

Contributors: Aaron M. Mesmer, Investment Sales & Acquisitions; Matt Ledom, Sales Associate.

The Crossing, a 240-unit Class A apartment complex in Lenexa, Kansas, sold to Town Management for $23.3 million.

Funds I-IV

In 2013, Block Funds sold its interest in the iconic Plaza Corporate Centre office building to new BRES investors, after the building was leased to 100% occupancy.

During 2013, both the commercial real estate and job market improved, which was good news for all of our holdings in the Block Funds. We continued to execute new leases and were able to renew the majority of our large tenants in each portfolio. Next year marks the tenth year of Block Income Fund I and we will begin the disposition process.

BLOCK FUND I HIGHLIGHTS

- We sold our 15.75% interest in the Plaza Corporate Centre building. That transaction closed on June 27th and the Fund received $969,468.87 in sales proceeds which was a 57.10% total return over the hold period.
- We have executed a 64-month renewal LOI for Jack Henry Associates, Inc., which occupies 36,006 square feet in our 350 Technology building in Atlanta.
- Our Phoenix Tech Center building continues to show positive momentum as we executed a lease for 10,828 square feet with Injured Workers Pharmacy. The broker thinks it's only a matter of time before they expand into the rest of the vacant space in the building.

BLOCK FUND II HIGHLIGHTS

- Presidio has executed a 72-month renewal for 22,337 square feet in 2 Sun Court.
- We have executed a letter of intent for 8,372 square feet with Weston Solutions for space in the 5390 building at Lakeside.
- The Atlanta Bread Company took 10,234 square feet as-is, bringing Rubicon at Highlands to 96% occupancy. Rubbermaid has a lease in their possession for the remaining vacancy. We expect to be 100% occupied over the next 30 days at our Rubicon at Highlands project.

BLOCK FUND III HIGHLIGHTS

- With regards to Rivergate, Capital Express, which currently occupies 44,098 square feet, has executed a lease for an additional 21,552 square feet giving them a total of 65,650 square feet and raising the occupancy from 77% to 90%.
- A new lease has been signed in Riverside Business Center for 12,500 square feet with CoreAthletic, and we have a lease out for 17,500 square feet with ET Plastics for the month-to-month space that Premier Coach currently occupies.

BLOCK FUND IV HIGHLIGHTS

- All of our buildings are 100% leased with long-term leases and rental rate increases.

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

Block Construction Services Projects

Block Construction Services (BCS) experienced continued growth in 2013. With record revenues in 2013, we continue to build momentum to maintain strong growth in 2014 through the management of tenant improvement and development projects in many sectors of the Kansas City metropolitan area.

OFFICE PROJECTS

BCS led the construction and completion of the Teva Pharmaceuticals build-to-suit project in Overland Park, Kansas. This project began in 2011 and TEVA took occupancy in September, 2013. This project was a highly complex five-story, 154,268 sq. foot office structure with an interior stairwell spanning all five floors. It includes a 600-stall parking structure with a fully conditioned connection link to the building as well as a state-of-the art café, fitness center, pharmacy, data center, outdoor dining area and call center. This building is in the process of obtaining LEED Certification through the USGBC.

It's not often we're fortunate enough to manage two large office development projects at one time, however, 2013 brought BCS that opportunity as we finalized the 234,876 sq. foot interior of the Plaza Vista building for the Polsinelli law firm on the Country Club Plaza. This project was started several years ago and Polsinelli took occupancy in November, 2013. Polsinelli has been a great partner and client of our firm and we appreciate the opportunity to represent them in their new world headquarters building.

INDUSTRIAL/FLEX/DISTRIBUTION

Although this market has been somewhat active over the past couple of years, BCS was not involved with any new development projects in this sector until 2013. BCS started and nearly reached completion of a new 68,000 sq. foot facility in Lenexa, Kansas. Building K is an addition to the existing eight buildings in College Crossing Business Park.

BCS has broken ground on one of our largest projects in recent years at the intersection of College and Renner in Lenexa, Kansas. Lenexa Logistics Centre (LLC) will encompass 10 overall buildings upon final completion. BCS worked earlier this year to acquire the property and obtain all the necessary zoning and planning approvals. We then entered into three separate contracts which included a mass excavation contract of the entire site, a Special Benefit District project for construction of the interior roadway system and utility infrastructure, and our first building. LLC Building #4 is a 260,000 sq. foot cross-dock distribution facility with an anticipated completion date of early summer, 2014.

MULTIFAMILY

BCS entered into a new market over the past year and construction of our first multifamily development project began in November. WaterCrest at City Center is located at 84th and Renner in Lenexa, Kansas and is a 306-unit, luxury apartment home project. These units will include very high-end finishes with an amenity-rich environment. Our first units should be open for leasing sometime late summer of 2014 with an overall completion date in the second quarter of 2015.

TENANT IMPROVEMENT

Our tenant finish team handled several large projects including Teva Pharmaceuticals and Polsinelli law firm tenant finish projects. This team managed over $60 million in construction contracts this past year and continues to thrive in this market.

SUMMARY

Our development team managed approximately $25 million of construction contracts in 2013. Our tenant finish team managed over $60 million in construction contracts this past year as well, and as a whole, our firm managed $85 million in construction contracts this year, which is by far the best year BCS has had in its existence.

We look forward to 2014 with our existing and current backlog as well as potential development projects anticipated to be completed in the upcoming year.

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

Plaza Vista, a 235,000 sq. foot, 10-story, structure located at 900 West 48th Place, accommodates 450 total Polsinelli employees, including more than 250 attorneys.

Block Healthcare Development

Block Healthcare Development acquired the 8,000 sq. foot Athens Surgical Center in Athens, Tennessee for $2 million. The building was purchased from a group of independent physicians who had entered into a joint-venture with a national health system.

The healthcare real estate market continues to establish itself as one of the most active sectors in commercial real estate.

As noted in the Block Healthcare Development (BHD) section of the 2012 Market Report, two drivers helping to sustain that activity are:

1. The implementation of the Affordable Care Act (ACA)
2. The transition of the baby-boom generation into the Medicare eligible demographic.

Two outcomes as a result of the ACA that will positively impact the CRE healthcare sector are the projected growth in insured lives and the decrease of healthcare reimbursement from both Medicare and commercial payers. The result of the latter are that hospitals are looking for solutions to outsource many health services typically provided in an acute care setting (i.e.-traditional hospital) and transitioning those to the less expensive, more accessible setting of the medical office building (MOB). In addition to the cost saving benefit, many health systems utilize off-campus MOBs as a marketing tool and an opportunity to establish a foothold in a given area.

As the transition takes place for more health services to be delivered away from the acute setting, the growth and visibility for providers becomes more important as the baby-boomer population, comprised of individuals born between 1946-1964, becomes the highest utilizing group of health services and the fastest growing group. According to the U.S. Census Bureau, between now and 2050, the projected number of individuals in this generation will double from 40 million to 88.5 million. With this significant growth in high service users, traditional hospitals will look to retain high reimbursement, as well as higher risk, services on campus where they get better reimbursements. Health systems will then look to shift the other services to outpatient settings across multiple locations in an effort drive the margins of lower reimbursement services via volume.

The result of these drivers to the healthcare CRE sector is that we will continue to see health systems as a much sought after customer to real estate investors. By nature, healthcare providers are very stable tenants as they are destination services. As a result, longer-term leases are often more attainable and in the event the healthcare tenant is a health system or hospital, the investor often gets the security of solid credit behind the lease commitment.

Another key result of the ACA implementation and increased aging population requiring multiple points of access is that healthcare providers are looking more to third-party balance sheets to assist them in their strategic growth. Whether it is divesting of current system owned MOBs, creating trusted partner developers for build-to-suits, or leasing existing office space, healthcare providers appear more and more to be exiting the landlord business in an effort to free up their balance sheets and shift their capital commitments to tools that will drive their reimbursements.

While the implementation of the ACA and the capacity concerns tied to the significant increase in the high-utilization demographic have created many negative headlines across the country, the healthcare CRE investor should view these changes as a great opportunity. BHD was established in 2011 with the foresight that healthcare changes would create a great opportunity for our investors. Through a combination of real estate development and acquisitions in 2013, we continue to see Healthcare CRE as a great opportunity for the foreseeable future.

2013 BLOCK HEALTHCARE DEVELOPMENT HIGHLIGHTS

Overall BHD's completed transactions, either acquisitions or developments, totaled approximately $25 million. In each of our endeavors, we focused on opportunities that yielded steady cash flows with annual increases, while also having the opportunity to increase our equity position through accelerated amortizations. Three transactions that show how BHD followed the healthcare trends outlined above are the following:

Acquisition of Central Indiana Cancer Centers (CICC)

This acquisition, which totaled $8.2 million, consists of two radiation oncology facilities in the Indianapolis market. Both centers came to the market as a result of Indiana University Health (IUH) acquiring the physician practices that owned and operated the two facilities that totaled 35,000 square feet. After the practices were purchased, the credit on the leases, with eight and a half years remaining on the initial term, became that of IUH. Being able to leverage the credit and the significant time remaining on initial lease, we were able to obtain long-term, non-recourse debt that will translate to initial cash flows exceeding projections at the project outset.

Development of Wyco Medical

This development, which totaled just over $2 million, was an opportunity for BHD to bring to our investor community a build-to-suite development for a publicly traded healthcare provider, DaVita Dialysis. The project, which started in third quarter 2012, was completed with a lease commencement of second quarter, 2013. The new dialysis center is 7,500 square feet and is located in the growing western edge of Wyandotte County. Again, having a strong credit tenant with an initial 15-year lease term, BHD was afforded the opportunity to secure excellent financing for the investment translating to strong investor returns.

Acquisition of Athens Surgical Center

The acquisition of this surgery center in Athens, Tennessee, a small community located in the Tennessee valley region, shows BHD's ability to identify excellent properties, regardless of size, to bring to our investors. The $2 million acquisition of an 8,000 sq. foot surgery center would often be passed over by non-local investors. The building was owned by a group of independent physicians who had just entered into a joint-venture with a national health system. As a result of the joint-venture, the physician owners chose to sell the asset to avoid any Stark Law restrictions. BHD was able to purchase the asset with over nine years remaining on the term of the lease that now carried the health system credit. BHD worked with the local lending community and was able to secure limited recourse, low-cost debt that runs parallel to the term of the lease once the first option commences.

BHD OUTLOOK FOR 2014

In 2014, BHD will continue to focus on identifying development opportunities within the local community, while also identifying properties across the country to bring to our growing investor pool. In addition, BHD will look for opportunities to partner with other entities in the healthcare CRE sector to continue to grow portfolio.

Contributor: Stephen Bessenbacher, Vice President.

Block Healthcare Development purchased a two-building portfolio, totalling 31,725 square feet in Des Moines, Iowa from Mercy South LLC for $6.95 million. The Mercy South I building is fully occupied by Fresenius Medical Care while Mercy South II is occupied by Mercy Clinics.

Block Multifamily Group

A BRES sponsored investment group acquired The Settlement, a 396-unit, luxury apartment community located in Kyle, Texas, situated just south of Austin, Texas. This represented the first acquisition for our company in this booming, Texas market.

With the expansion of Block Funds into the multifamily area, BRES Multifamily Group's (BMG) knowledge of market and operational asset experience was vital in the acquisition process.

The executive team at BMG has over 35 years of experience in the operation of multifamily assets and provides the "ground-level look" at all facets of multifamily.

In 2013, BMG's portfolio increased by 1,300 units in four different locations:

- 396 Units in Kyle, Texas
- 232 Units in Johnson Mill, Arkansas
- 72 Units in Ogden, Kansas
- 612 Units in Lewisville, Texas

THE SETTLEMENT
396 UNITS, KYLE, TEXAS

The Settlement (delivered to the market in 2012) is a Class A development in Kyle, Texas which is about 20 miles south of Austin. With a resort style pool, this property is a market favorite and the one- and two-bedroom apartment floor plans are perfect for the growing Austin area market. The property was constructed in 2011 and completed lease-up in the summer of 2012. The product is top-notch, so it leases quickly. During due diligence it was noted that the lease-rollover was significant. Considerable discussion took place regarding this fact. With 218 leases expiring in the summer months of 2013, representing 55% of the property, BMG knew it was facing a second lease-up. But due to the quality and location BMG believed, with an aggressive Revenue Management Program it could achieve a better economic standing for the investment by maintaining a high level of occupancy, spreading the lease expirations over the year and generating growth in Net Rental Income. The goal was reached with the property ending 2013 at 95.1% occupancy.

Utilizing Revenue Management resulted in:

- Loss-to-lease reduction of 12%
- Gross potential rent increase of 4.53%
- Rent per occupied unit increase of 5.6%
- Renewal capture of 44%

THE WOODS AT JOHNSON MILL
232 UNITS, JOHNSON, ARKANSAS

The Woods at Johnson Mill is a 232-unit property perfectly located near Fayetteville, Arkansas, with easy access to I-540, a major north/south interstate. The property is nestled in the hills of northwest Arkansas, but is within 20 minutes of Tyson Chicken, Walmart international headquarters, and the University of Arkansas. We are repositioning this asset with a light rehabilitation that includes new plank flooring, updated color scheme, lighting fixtures to the interior and exterior, and amenity and landscape improvements. With these improvements we expect The Woods to have a premier stature in the market.

Revenue Proposition:

- Gross potential rent increase of 20%

RIVER TRAIL TOWNHOMES
72 UNITS, OGDEN KANSAS

This 72-unit property is located near Manhattan, Kansas and close to Fort Riley, Kansas. With two- and three-bedroom units (with garages), this property is perfect for growing families.

The overall management plan for this asset is a focus on an exterior improvement program. The landscape improvement program will be focused on an extensive landscaping program which will enhance the value of the asset. In addition, a picnic area, a playground and a large dog park are all in the planning stage for 2014. These additions, coupled with an effective outreach marketing plan will add to the success of River Trail.

BELLA MADERA
612 UNITS, LEWISVILLE, TEXAS

Bella Madera is located in Lewisville, Texas which is about 20 miles north of Dallas. Once again the resort-style pool makes this property a favorite in the market and an idea social meeting place for the residents. An aggressive marketing and social media program will keep this property at the top of this rapidly growing area of Texas.

AREAS OF EXPANSION

During 2013 BMG joined forces with Balfour Beatty Communities, to jointly pursue property management opportunities for HUD, Low Income Housing Tax Credit (LIHTC) and other Public Housing Authority projects.

Balfour Beatty Communities, LLC is a diversified real estate services company delivering development, design, financing, construction, renovation, property and facilities management services in the multifamily, student and military housing sectors. A leader in the industry, Balfour Beatty Communities has more than 37,000 residential units and $5.5 billion in real estate assets under management and has developed or renovated more than 27,000 units with a total value of close to $4 billion.

BMG has an extensive background in HUD and LIHTC property management, including all certifications and compliance requirements for HUD-related property management. The executive team at BMG brings a significant historical geographic footprint and expertise to the alliance with Balfour Beatty Communities. This joint effort will be national in scope, but local in its market and operational focus.

BMG entered into agreements to provide design consulting, pro forma creation, revenue structure development and creation, and management services for new multifamily projects regionally and in the south/southwest markets. These assignments enable BMG to guide the project in a way that positions the property for successes, both long and short term. We are seeing the results in the current lease-up, and expect the same once the other projects are completed. These three areas of expansion in 2013 showcases the depth of services that BMG is able to offer clients on a National basis.

Contributor: Bill Larson, President of BMG and Justin Larson, Vice President of Operations.

A BRES sponsored investment group acquired Bella Madera, a 612-unit, Class A, garden-style apartment property located in Lewisville, Texas. This resort-like property in a north Dallas submarket is now managed by Block Multifamily Group and marked our second acquision in Texas.

MARKET STATISTICS Year-End 2013 Data

OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	7,882,353	24	20.1%	115,000	84,113	$17.86
East Jackson County	257,822	3	6.8%	21,531	64,761	$21.11
Kansas City, Kansas	604,475	3	31.9%	0	330,000	$20.00
Midtown	2,865,777	16	10.1%	112,479	297,641	$22.91
North Johnson County	1,812,503	17	4.7%	9,121	220,014	$22.07
North of the River	874,403	6	1.2%	3,551	27,957	$20.05
South Johnson County	10,658,724	73	5.8%	880,655	550,933	$21.57
South Kansas City	2,393,488	14	9.9%	40,000	75,468	$20.06
Southeast Jackson County	103,442	2	7.9%	0	0	$24.50
TOTAL OFFICE - CLASS A	**27,452,987**	**158**	**11.1%**	**1,182,337**	**1,650,887**	**$20.06**

OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	15,055,648	195	14.7%	145,602	(11,411)	$15.38
East Jackson County	5,063,836	254	16.3%	96,044	(56,375)	$15.12
Kansas City, Kansas	2,173,771	71	6.2%	21,755	36,037	$15.72
Midtown	4,236,562	143	8.8%	65,437	54,667	$17.49
North Johnson County	7,382,858	270	11.8%	620,418	66,250	$16.35
North of the River	7,487,035	257	12.6%	244,756	232,924	$15.47
South Johnson County	15,756,500	454	12.5%	904,928	236,745	$18.32
South Kansas City	3,588,941	95	14.5%	155,721	41,822	$16.82
Southeast Jackson County	2,278,309	103	7.5%	85,618	(4,521)	$17.12
TOTAL OFFICE - CLASS B	**63,023,460**	**1,842**	**12.7%**	**2,340,279**	**596,138**	**$16.41**
TOTAL OFFICE - CLASS A + B	**90,476,447**	**2,000**	**11.7%**	**3,522,616**	**2,247,025**	**$17.35**

WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	4,439,525	61	1.6%	132,827	91,825	$5.54
North Kansas City/Riverside	22,693,690	506	5.2%	959,742	951,453	$4.05
Executive Park/Northland	34,016,130	370	3.9%	1,093,042	269,800	$5.59
Wyandotte County	39,141,843	915	3.6%	1,004,234	296,661	$4.87
Johnson County	50,229,891	1,382	5.0%	1,890,276	124,235	$4.93
East Jackson County	91,698,269	2,571	6.4%	1,709,374	602,581	$4.01
TOTAL WH/BULK SPACE	**242,219,348**	**5,805**	**5.1%**	**6,789,495**	**2,336,555**	**$4.59**

LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	772,871	13	14.3%	40,141	32,602	$7.05
North Kansas City/Riverside	176,079	14	6.9%	0	329	$16.00
Executive Park/Northland	423,019	15	12.8%	17,212	(11,027)	$7.00
Wyandotte County	909,592	36	8.4%	51,806	6,941	$11.96
Johnson County	6,098,264	253	7.7%	409,074	60,166	$8.21
East Jackson County	4,777,398	174	8.6%	107,437	(4,394)	$7.45
TOTAL LIGHT INDUSTRIAL/FLEX	**13,157,223**	**505**	**8.6%**	**625,670**	**84,617**	**$8.19**
TOTAL FLEX + INDUSTRIAL	**255,376,571**	**6,310**	**5.3%**	**7,415,165**	**2,421,172**	**$4.78**

MARKET STATISTICS Continued

RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	Planned Development
South Johnson County	10,100,959	8.2%	828,279	481,468	$15.70	3,786,000
North Johnson County	12,417,423	6.7%	831,967	471,209	$11.93	888,000
Kansas City, Kansas	6,053,589	10.4%	629,573	125,972	$11.09	17,000
North of the River	13,102,142	7.3%	956,456	178,119	$11.02	2,815,000
Midtown/Downtown/Plaza	11,055,950	5.9%	652,301	(205,700)	$13.62	0
Independence/Blue Springs	13,067,364	8.6%	1,123,793	217,139	$10.53	0
Lee's Summit	3,630,287	7.7%	279,532	80,012	$13.03	448,000
South Kansas City	7,010,405	15.1%	1,058,571	203,302	$11.42	1,130,000
TOTAL RETAIL	**76,438,119**	**8.3%**	**6,360,473**	**1,551,520**	**$12.09**	**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	41,339	4.8%	$945	$665	1,984
Downtown	4,803	5.5%	$890	$535	264
Plaza/Midtown	2,300	4.9%	$1,035	$700	113
East Jackson County	15,920	6.8%	$695	$595	1,083
Wyandotte County	8,818	9.5%	$825	$525	838
Northland	17,302	5.5%	$845	$560	952
South Kansas City	22,000	8.1%	$675	$495	1,782
North Johnson County	13,000	4.6%	$875	$745	598
TOTAL MULTIFAMILY	**125,482**	**6.1%**	**$836**	**$606**	**7,613**

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

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