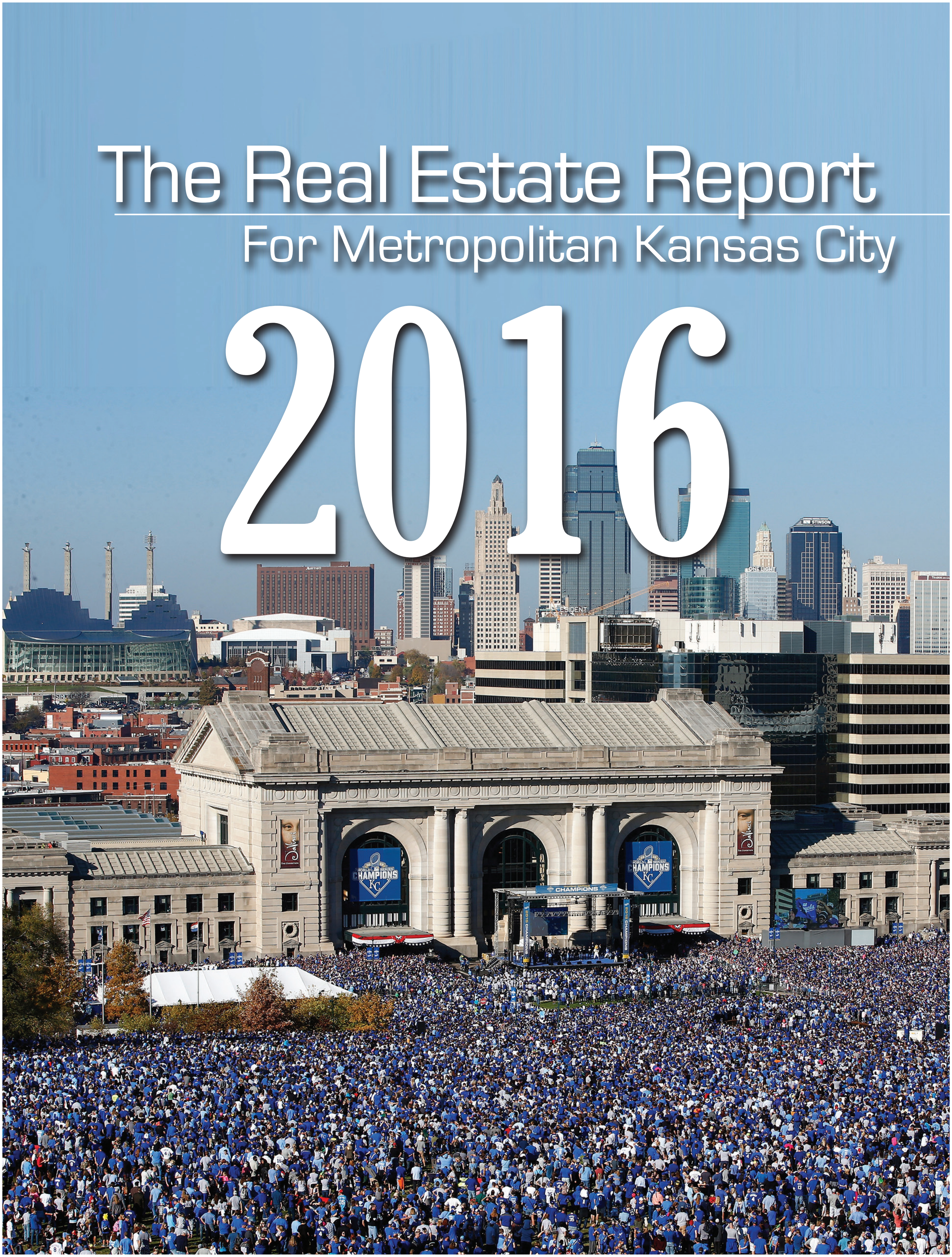
The Real Estate Report

For Metropolitan Kansas City

2016



Block Real Estate Services, LLC (BRES) Highlights of 2015

Transactions

BRES completed the year with total sales and leasing transactions in excess of $859 million.

Property Management

BRES commercial management portfolio reached 37.85 million of commercial square feet and over 7,000 multifamily units at year-end.

Construction

Block Construction Services (BCS) completed renovation and development projects exceeding $373 million. BCS managed more development projects in 2015 than in any other year.

Investment Syndication

BRES completed over $243 million in investment sales and raised over $81 million in equity funds for syndication of new acquisitions and development projects.

Affiliates

Block Hawley Commercial Real Estate, LLC ranks as one of the most active industrial brokerage firm in St. Louis, with over 3 million square feet of listed property and nearly 6.75 million square feet under management.

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

Block Multifamily Group, (BMG) now manages more than 6,875 units, an increase of over 52% in one year. Projections point toward 8,500 units by year-end 2016.

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BLOCK REAL ESTATE SERVICES, LLC

Real Estate. Real Strategies. Real Success.®

Success Abounds In Kansas City

Managing Principal, Kenneth G. Block, SIOR, CCIM (left), presented Hope House with a $5,000 match for the Purple Purse Foundation, a campaign to raise domestic violence awareness.

The Kansas City Royals 2015 World Series win ignited a level of spirit and excitement seldom witnessed by any city in the country. With over 800,000 people, or nearly 40% of the metropolitan population out on the streets to celebrate at the victory parade, it was hard to miss the fact that there is truly something special about this city. And just as the Royals' bats were consistently connecting, it seems like Kansas City was also hitting on all cylinders as growth proliferated in all corners of the metropolitan area.

Again in 2015, the leadership of Block Real Estate Services, LLC (BRES) and its associates was demonstrated by consistently ranking as the top commercial real estate team in the Kansas City market and among the leaders in the Midwest.

Block Real Estate Services (BRES) was recognized by the following journals and publications:

Kansas City Business Journal

- #1 Commercial real estate property manager—managing over 24 million gross leasable square feet of office, industrial, medical and retail and over 7,000 units of multifamily
- #1 Most active commercial real estate firm with 715 transactions
- #1 Commercial real estate company with a volume of over $800MM

St. Louis Business Journal

- #18 Largest commercial real estate firm, based on number of local active licensed agents (Block Hawley)

Commercial Property Executive

- Ranked 20th top property manager
- Ranked 20th top development firm
- Ranked 19th most powerful brokerage firm

Midwest Real Estate News

- Ranked 8th in top owners in the Midwest
- Ranked 13th in top property management in the Midwest

- Ranked 17th in top brokers in the Midwest

Ingram's

- #1 Top area commercial real estate company for $832 million gross sales
- #1 Top area commercial real estate company for square footage managed/sold/leased

Achieving this recognition was made possible by our dedicated team of individuals driven in the pursuit of their client's goals and who push themselves to be the most knowledgeable, educated, and professionally engaged team in the market. They are incentivized to share in the success they achieve for our clients. Our team members hold numerous professional designations such as CPM, CCIM, SIOR, RPA and LEEP, AP among others. Of the 64 agents and 161 full time employees, more than ½ hold some type of professional designation or degree. Over the years, many individuals have been inducted into the Midwest Real Estate Hall of Fame. We also have several team members who serve on local and national boards such as KCRAR and CCIM. In addition, Block Real Estate Services, LLC and Block Multifamily Group are Accredited Management Organizations (AMO). There are only 537 AMO firms in existence.

PROPERTY AND ASSET MANAGEMENT SERVICES TEAM

As our portfolio continues to evolve and expand, the Property Management Team is continuously looking for opportunities to improve our service delivery and client satisfaction. This past year our management team continued to process improvement initiatives designed to enhance management efficiency and leverage opportunities to improve properties.

A few specifics include engagement in our first MOCEF PACE program project at one of our area office buildings. This program focuses on providing cost effective sources of financing for energy conserving improvements in commercial properties. Through the MOCEF program the management team was able to secure approximately $1.5 million in bond financing enabling this office building to upgrade the heating, cooling, and air distribution systems through a financial model that does not burden tenants or owners with higher cost.

Other service delivery related changes included the implementation of a new work order system with an improved work order ticket platform and enhanced tracking of work and operational history. This added level of history has been enabled the team to isolate opportunities to initiate operational saving strategies for our clients. This system has allowed each property to have a building specific webpage- portal facilitating tenant's access to the work order system/history and general building and property management information.

Block Maintenance Solutions (BMS) continues to become more responsive and efficient through focused implementation of many strategic resources and quality enhancements. A few specific examples are the addition of a skilled Master Plumber to the staff allowing many small contracted repairs and maintenance needs to be completed "in-house" at a significant savings over market rates. Our HVAC mechanics continue to pursue factory training and general skills enhancement designed to provide a first line of maintenance and reducing our dependence on higher cost subcontractors.

Energy management also continues to rank high on BMS' strategic solutions to energy consumption. Although the energy team has realized the benefits of a global energy supply from an expense perspective, they have not rested and continue to focus their attention on reduction of energy consumption benchmarks. The incorporation of LED's and the teaming with professional consultants have enabled BMS to become successful in curtailing utility consumption.

BLOCK CONSTRUCTION SERVICES

In 2015 Block Construction Services (BCS) had a record setting year of activity with significant ground up construction and renovation projects. Although industrial and multifamily development projects led the way, new Class A office projects and a large Mixed-Use project in Overland Park, Kansas have rounded out a banner year for the Construction Services Team which saw a total volume of $225 million in new development projects managed and a total of $148 million in tenant improvement projects.

Some more notable projects of 2015 include Pinnacle Corporate Centre V, a 71,327 square foot Class A office building in Leawood, Kansas; two new industrial buildings in College Crossing Business Park totaling nearly 225,000 square feet of Class A Light Industrial space; the second building in Lenexa Logistics Center, LLC 5, a 354,055 square foot, Cross-Dock, Class A, Distribution Facility; the new Edgewater at City Center, a multifamily development consisting of a 276 luxury units.; The CityPlace development is underway and will feature over 600,000 square feet of Class A office development, 1,382 luxury multifamily units, and over 38,000 square feet of retail space insuring BRES Construction Services Team will be busy for the next few years. More information on these exciting projects and the projects in process for 2016 can be found inside this report.

BLOCK MULTIFAMILY GROUP

In step with the success of the multifamily housing market, Block Multifamily Group (BMG) has expanded its management portfolio from approximately 3,600 units to the current level of 7,000 units; again far exceeding our growth estimates for 2015. Some of the more notable communities added to our management portfolio within the past several months include:

- Ranch at Pinnacle Point 392 units, Rogers, Arkansas
- Stadium at the Park 112 units, Fayetteville, Arkansas
- Stoneleigh Centerton 280 units, Centerton, Arkansas
- Roasters Block 146 units, Kansas City, Missouri

Our strategic alliance with Balfour Beatty Communities (BBC), a National leader with more than 40,000 multifamily units, bore fruit during 2015 as well via two specific transactions: A 392-unit property in Rogers, Arkansas was



BRES continued its charitable support of local organizations such as Hot Stiletto, The Children's Place, Hope House, and Harvesters Community Food Network, to name a few.

purchased in early 2015 and 1,598 units were purchased, by BMG and BBC, in the Dallas Fort Worth area in mid-2015. BMG and BBC both participate in the Property Management and Asset Management of these properties.

WaterCrest at City Center is BRES' newest multifamily development located in Lenexa, Kansas. Phase I of this project consisting of 306 luxury units, opened in September 2014 and completed lease-up in October 2015. Riding the success at WaterCrest, Block Multifamily Group is now focused on three new Kansas City area developments which will open during 2016. BMG is involved in the development process, from branding each development to the opening of the leasing facility and ultimate management of these project incorporating operational enhancements all along the way.

- CityPlace, a 90-acre mixed use development located in the Kansas City suburb of Overland Park, Kansas in prestigious Johnson County, is bordered by Interstate 435, U.S. 69 and College Boulevard, allowing easy access for commuters. Ground has been broken on the first phase 344 unit project, The Residences at CityPlace, which will ultimately lead to a connected community of 1,382 multifamily units.
- EdgeWater at City Center is a multifamily development at the Lenexa City Center. The multifamily development will consist of 276 luxury units in the heart of Lenexa, Kansas. EdgeWater apartment completion is anticipated by late-2016.
- WaterSide Residences on Quivira is a multifamily development located on an infill site within Lenexa, Kansas. The multifamily development will initially consist of 304 luxury units. WaterSide Residences' completion is anticipated by late-2016.

All of our multifamily developments provide luxury amenities including top-of-the line apartment living with access to pools, a clubhouse, tanning and personal training options for residents.

To support this growth, BMG created the position of Executive Vice President and secured a 25 year veteran of the multifamily management industry to take on that role. Block Multifamily Group will continue to focus on growth in 2016 by seeking additional development opportunities; project acquisitions; Joint Venture partnering; and traditional third party management relationships.

BLOCK TECHNOLOGY SOLUTIONS

With the need and desire to bring faster, high end, fiber into the Kansas City area, Block Technology Solutions (BTS) has completed 138 contracts with Google fiber to bring in low cost, high speed gigabit internet into our managed and owned properties. By the end of 2016, we anticipate Google fiber

BRES employees showed their team spirit by cheering on the Kansas City Royals. The Royals beat the New York Mets in five games to complete their quest to win the World Series.

coverage of approximately 22 million square feet of office, industrial and multifamily property in the Kansas City area. BTS has also worked closely with Google fiber to provide Smart thermostats in all of our multifamily developments. This will give a tenant the ability to control the heating and cooling of their residence while away at work or vacation.

With the need for better indoor coverage of cellular services, BTS is currently designing and implementing Distributed Antenna systems (DAS) into our buildings to increase cellular coverage where the services are deficient.

BTS has worked closely with our construction division to bring solar construction cameras to each of our development/construction sites. This technology allows us to closely monitor the day to day activities, as well as giving the ownership and partnership groups the ability to view the progress in real time as well as view the time lapse videos as they are being built.

From a corporate standpoint, BTS has successfully been trained and is now flying our drone for future projects. This has allowed us a cost effective, timely solution to present video and photographs that were at one time not possible. We can now show 360 degree views of the building floors as well as any views the new offices may have. Later this year, we will have the ability to fly the drone to do exterior and roof top building inspections without the need for physical access to the roofs and building exteriors.

2016 will be an exciting year for BTS. We will continue to leverage the Internet Of Things technology (IoT) allowing us to look deeper into buildings' heartbeat and see exactly where the energy, water, and gas usage is being used down to the faucet, light switch, and sprinkler level. With this new technology, we will have the ability to compile all of this information, in real time, on any smart device.

We will also continue low voltage phone and data installations, as well as include new technology offerings to tenants and end users. This will include audio/visual installations, drone footage, assistance in Telco provider installations, and one-on-one end user technical support.

BLOCK HAWLEY

In 2015 Block Hawley (BH) continued to be one of the market leaders in both the number of square feet of transactions with over 60 transactions completed and a total of 3,000,000 square feet leased and sold.

BH has booked significant construction management income for 2016 and over 1,000,000 square feet of leasing and sales in the first quarter. Block Hawley has multiple significant assignment announcements for the first quarter of 2016 as well.

While BH was awarded an additional 300,000 square feet of property management in 2015, they are projecting over 1,000,000 square feet of new property management assignments in 2016, which will be an exciting year for Block Hawley Commercial in St. Louis.

For more information on the St. Louis Metropolitan market, please visit Block Hawley's website at www.blockhawley.com.

BRES ATLANTA

Early 2015 started off with a flourish of activity that seemed to indicate a tremendous year ahead for BRES Atlanta.

Overall occupancy remained stable in our Mansell 400 Business Center. Our tenant retention rate remains extremely high throughout our Atlanta office product. Our office/showroom and industrial product continues to perform well and the market remains extremely active insuring a solid performance in 2016.

We are pleased with our leasing results in 2015. While the Atlanta real estate market is back to a healthy state, some sub-markets and product types still face some challenges. We look to 2016 to be an even more robust year as we see the market continue to trend along its current healthy path.

BLOCK HEALTHCARE

In its fifth year of operation, Block Healthcare Development (BHD) has continued to grow in 2015 by keeping its focus on acquiring, high-quality, net-leased medical office buildings across the country, and at the same time, locally developing Class "A" medical offices buildings (MOBs) for both national providers and local physician groups. Within each of these transactions, the strategy has been providing stable cash flows to our investors utilizing conservative debt models and buying/ developing at the right price. Through these efforts, BHD had over $45 million in transaction volume.

A highlighted 2015 successful acquisition is ME Associates. Members of ME Associates were able to acquire 2 off-market medical office properties, one in Massillon, Ohio and the other in Elizabethtown, Kentucky, that totaled $20.25 million. Each property contained long-term, net leases with annual rental increases. With a combined purchase cap rate of 8.02%, the investors will realize increasing cash-flows on a 20-year amortization that projects an initial 5-year annual cash return of over 8.4%.

From a development standpoint, BHD utilized their preferred developer status with national healthcare groups for both the AD Medical development in Blue Springs, Missouri and the Richmond Dialysis development in Richmond, Missouri. Both of these opportunities were created as a result of BHDs past successful developments with these firms, and their desires to grow in the marketplace. Both projects were developed and delivered to the investors on-time and on-budget.

A highlighted development in 2015 was the re-purposing of a building in Overland Park, Kansas for the new home of Johnson County Imaging Center (JCIC), a full-service medical imaging practice. As part of the development, the physician members of JCIC were able to participate in the ownership structure, a group goal from the inception of the project. The project kicked off in May 2015 and was completed in December 2015.

THE BLOCK REAL ESTATE INVESTMENT TEAM

Our investment team has enjoyed a tremendous year on several fronts. The team raised approximately $92,502,813 which was invested in 18 transactions totaling approximately $525,363,328 in acquired assets.

With the original Block Funds beginning to mature, the team completed several key dispositions of assets from Block Fund I & II. These original Block Funds were established about 10 years ago and the strategy over the next few years will be to continue disposition by positioning the remaining assets where market fundamentals will provide for optimal returns allowing investors to push that capital into higher yielding opportunities.

Although high yielding opportunities are becoming more difficult to uncover, the team was successful in acquiring several multifamily and medical office assets. Additionally our initial JV partnership with Balfour Beatty succeeded in acquiring nearly 2,000 multifamily living units in Arkansas and Texas and proved this relationship to be a model of success for future growth.

Two of the more strategic initiatives that were successfully launched by the team in 2015 were the roll out of the Block Funds Investment Portal, an online facility providing investors to effortlessly create an investor profile, view detailed information on current investment opportunities and seamlessly allow the investor to invest online. The team also kicked off the new Block Industrial Fund which projects acquisitions of over $325 million in industrial assets with a primary focus on all Midwest and a few select Southeastern markets.

DISPOSITIONS/ACQUISITIONS

In the spring of 2016, BRES created the position of Disposition Director for maturing investments. In 2015, the Dispositions Team sold two office buildings, Five Pine Ridge (123,101/sf) in Lenexa, Kansas and Leawood Executive Centre (113,710/sf) Leawood, Kansas.

With a strategy to divest of mature investments and other strategic dispositions of select industrial and retail assets from Block controlled investments, as well as an active outreach to local owners to support their disposition needs, the Dispositions Team at BRES will have another active year in 2016.

BRES MARKETING SERVICES GROUP

In 2015 BRES brought on a new Director of Marketing who brought 12 plus years of marketing, public relations and media experience. This position will bring new functionality to our online presence and enhanced data analytics. Planned marketing initiatives for 2016 include:

- Updated website
- Broker and marketing partnership
- Enhanced visibility at trade shows and events
- Improved brand definition
- Increased online presence
- Hosting local real estate forums

PHILANTHROPY

BRES takes pride in our strong presence in Kansas City and we feel a sense of responsibility to give back to our community. We don't have just one signature charity but we give back to multiple charities. BRES is proud to be a continued supporter of many worthwhile organizations such as Heart of America Boy Scout Council, University of Kansas, EDC Cornerstone,

BRES employees and leadership team members volunteered with the Salvation Army Bell Ringing event during the holidays. The theme "Doing the Most Good" was obvious as a donation was made to the Salvation Army in the amount of $2,500.

Children's TLC, Nelson Atkins Museum of Art, Harvesters, The Star in Education, American Royal, Kemper Museum, Guadalupe Centers, MainCor, Leukemia & Lymphoma Society, KU Cancer Center, American Cancer Society, Children's Mercy Hospital, Boys & Girls Clubs, Jazzoo, St. Joseph Medical Center Foundation, Village Shalom, Operation Breakthrough, Multiple Sclerosis Society, Hope House, Kansas City Art Institute, Kansas City Ballet, New Reform Temple, American Royal, Bacchus Foundation, Avidus Foundation, Pilots and Paws, Threads and Treads, Grace Flight and the Salvation Army.

We encourage our associates to actively participate in and support local charitable organizations of their choice and we will continue to stand alongside these individuals with a program of matching support.

The achievements our teams have realized in 2015 have positioned us well to address our clients' needs and goals in the year ahead. BRES will remain focused on our goal of being the single source provider of commercial real estate investment, development and support services to our clients and investors. We believe this report provides valuable research and information and is an excellent place to obtain a basic understanding of the local real estate market, however, we encourage you to reach out to our seasoned professionals, many of whom have provided the insight and analysis you will find in this report. They understand that local, national, and global events will continue to affect your real estate needs and decisions and they stand ready to help you interpret the market dynamics and assist you in achieving your goals and maximizing your financial outcomes in 2016.

From all of us at BRES, we wish you healthy and prosperous year ahead.

Kenneth G Block

Kenneth G. Block, SIOR, CCIM
Managing Principal

Global, U.S., Kansas City Overview

While top government officials from all corners of the world gathered to discuss the Iran Nuclear Deal, at home strong concerns were voiced by many top U.S. leaders that this agreement would lead to nuclear proliferation.

While both the global and U.S. economies continued to strengthen in 2015, multiple global and national challenges remained. Many of these challenges were due to unrest in both the social and economic fabric of society. Although the global economic market is slightly improved, major challenges face the global economy, including:

- **Terrorist activity and the state of ISIL.** The Islamic State of Iraq and the Levant (ISIL) is an extremist jihadist rebel group that continues to expand its territory through local alliances and has now entered eastern Libya, the Sinai Peninsula of Egypt and northern Africa while keeping its strongholds in Iraq and Syria. Its goal is to push into the European countries in eastern and central Europe and then spread across the globe. In particular, the expansion into eastern Libya gives this terrorist organization the best opportunity to expand its caliphate. This has increased concerns in European capitals about the potential threat ISIL poses in the wake of the recent Paris attacks,its downing of a Russian plane and its attack in a London subway; clear indications of the group's intention to expand into international terrorism.

  ISIL has evolved into an organized, structured extremists' organization that is managed by a hierarchy of government structures that controls the daily life of residents, collects income and maintains law and order by enforcing its ideology of Islamic extremism. It is important to have a consolidated global approach to eliminating ISIL as it currently controls oil fields, banks and other sources of income providing it with over $20 million of income a month to support its existing operations. Both Republicans and Democrats are challenging the current administration to take stronger actions as part of a global force, as lone wolf attacks increase in the United States, like the recent one in San Bernardino, California, in which 14 people were killed.
- **The Iran Nuclear Deal.** Iran, the United States, France, China, Russia, and the United Kingdom, permanent members of the U.N. Security Council, plus Germany

agreed on a detailed comprehensive framework for the future of Iran's nuclear program, despite the concerns raised by the U.S. Congress and Israeli Prime Minister Benjamin Netanyahu. Major provisions of the deal block Iran from enriching uranium, from making weapons-grade plutonium and from taking any covert attempts to produce fissile material.

The International Atomic Energy Agency will monitor every element of Iran's nuclear program, but those who were not in favor of this deal noted that Iran has a history of breaking agreements and is not likely to change. Proponents say that should Iran violate any aspect of this deal, the United Nations, United States and European Union can snap the sanctions that have crippled Iran's economy back in place, but it remains to be seen whether it will hold true as the deal gets underway.

- **Israel/U.S./Palestine relations.** Israeli Prime Minister Benjamin Netanyahu addressed Congress in March 2015 in an effort to sway the Obama administration against negotiating with Iran. Despite those efforts, the Iran Nuclear Deal was approved in April.

  Relations between the Obama Administration and Israel continued to deteriorate, thereby influencing Palestine's Hezbollah to increase violent outbreaks during the latter part of 2015. The United Nations Security Council and the U.S. Secretary of State John Kerry both called for meetings between Israeli and Palestine leaders to agree on a plan to stop the violence.

- **Internet hacking.** Successful computer hacking linked to China and North Korea exposed millions of U.S. federal employees and employees of major corporations to data breaches during 2015. Concerns grow within the international community that major services across western nations could be shut down by enemies of the United States and its allies through these Internet hackings.
- **Greece/European Central Bank and Russia.** The European Central Bank (ECB) continued talks with Greece even though a referendum approved by 61% of Greek voters, backed by Greece Prime Minister Alexis Tsipras, called for a "no" vote on proposed budget cuts by creditors in return for loans to Greece. The ECB sets monetary policy for the 19 countries in the European Union with the primary objective to maintain price stability. Greece missed a critical debt payment of 1.5 billion euros to the International Monetary Fund (IMF) in June. It appears that in 2016, Greece may be asked to leave the European Union.

  Russia's economy continued to falter with a contraction of 3% in 2015 and an expected 1% contraction in 2016. However, the country, led by President Vladimir Putin, continues its occupation of portions of Ukraine and is now challenging the Baltic states after successfully taking over Crimea in 2014.

- **Diplomatic relations with Cuba.** At the end of 2014, President Obama ordered the restoration of full diplomatic

ISIL continued to target major cities around the world and now even in the United States with the San Bernadino attack. ISIL rebels and other islamic terrorist groups are the most predominant threat for our national and the global economy.

relations with Cuba and the opening of a U.S. embassy in Havana for the first time in more than a half century as he vowed to "cut loose the shackles of the past" and sweep aside the last vestiges of the Cold War. Under this new order, the United States has eased restrictions on remittances, travel and banking, and allowed Cuba to have internet access. However, the trade embargo will remain in place, although the Obama administration and Cuba President Raúl Castro want it lifted. The embargo cannot be lifted, however, without Congressional action, which is not likely in the near term.

GLOBAL RISK

It is important to note that whatever affects the global economy will subsequently affect the U.S. economy. A global risk is defined as an uncertain event or condition that, if it occurs, can cause significant negative impact for several countries or industries within the next 10 years.

The 10 highest risks in 2015 include the following:

1. Terrorist attacks/international conflict.
2. Extreme weather events.
3. Failure in national governments.
4. Countries financial collapse or crisis.
5. Underemployment or unemployment.
6. National catastrophe.
7. Failure of climate-change adaptation.
8. Water crises.
9. Data fraud or theft.
10. Cyber attacks.

It has become clear that terrorist activities can immediately affect the global economy. The world is insufficiently prepared for an increasingly complex risk environment. Terrorist activity, fiscal instability, data fraud and cyber threats must be dealt with in a global manner as they will continue to affect stability of the economic and financial fabric of society.

GLOBAL ECONOMY

The global economy continued to strengthen in 2015 and is poised for continued economic growth in 2016, although with a somewhat different texture. European countries will continue to do better, Asian countries will be anemic, and natural-resource-based economies will do substantially worse. The IMF expects the world economy to expand in 2016 by 3.3%, up from the estimated 3.1% growth in 2015.

While Europe is slated for 1.9% GDP growth, Asia is the wild card for the global economic outlook. China is opaque-it is difficult to know what is really happening inside that giant economy. Although the official growth rate of GDP in China in 2015 was noted at 6.8%, no one seems to trust the official statistics. China is now expected to grow in 2016 by 6.3%, showing a further weakening in this incredibly large economy.

Japan has relapsed into recession, and while employment remains low, the shrinking population simply prevents much growth in the labor force in that country. India's growth remains quite strong, and it has now surpassed China as the fastest-growing emerging economy, although its dollar contribution to global growth will remain far lower than China's.

Finally, commodity-dependent countries, such as much of Latin America and Africa and parts of Asia, will face difficult times in 2016 as commodity prices remain 30% lower than their 2011 peak. This will continue to drive cutbacks in mining, petroleum and agricultural industries and will halve any continuation of new project construction.

The IMF projected that the world economy would be back on track in 2015 and would grow at an expected 3.4% rate. But it only hit about 3.1%. Specifically, Brazil, Russia, India and China experienced substantially lower growth rates than expected. Projections of 4.8% growth in 2014 and 3.2% growth in 2015 were both substantially higher than the actual growth rate.

In summary, in 2016, the eurozone is expected to grow at about a 2.8% rate, Japan at a 1.8% rate, the United Kingdom at a 2.6% rate and Russia at about 0.7%. IMF Chief Economist Olivier Blanchard said, "New factors supporting growth—lower oil prices, but also depreciation of the Euro and the Yen—are more than offset by persistent negative forces, including the lingering legacies of the economic crisis and lower potential growth in many countries." In essence, this means good news for oil importers, bad news for oil exporters. Good news for commodity importers, bad news for exporters. Good news for countries linked to the euro and the yen, bad news for those linked to the dollar.

The European Central Bank has also fired off a new volley of monetary policy shots aimed at pushing up chronically low inflation in the eurozone. The ECB has extended its program of quantitative easing from September 2016 to March 2017 and widened its eligibility to include additional categories of bonds. The goal is simple: By buying bonds in large quantities, the price of those bonds will go up and their yields will go down, encouraging banks to place their money elsewhere, such as in loans to businesses and households. This follows the actions of the ECB in 2014, when it became the first major central bank of the world to use negative interest rates. This meant that banks parking their money with the ECB were actually charged for doing so. By penalizing the banks for hoarding their cash, the ECB gave them the incentive to loan the money out to pump more cash into the economy.

U.S. ECONOMY

The federal budget deficit continued to fall in 2015 from $506 billion in 2014 to $426 billion, or 2.4% of GDP, the smallest shortfall since 2007. The U.S. deficit exceeded $18 million at the end of 2014 and may exceed $19 trillion at the end of 2015. Federal debt is now more than two times higher than in 2007 and higher than any year since 1950. Unfortunately, no significant policy changes appear to be in place to reduce the deficit, with a goal to return to a surplus economy. Many policies remain that could assist in this return, such as lowering the corporate income tax rate and increasing taxes on imports from those nations in which the United States has a trade deficit. It appears these potential options will not be visited until a new administration is in place in January 2017.

The Congressional Budget Office (CBO) continues to project deficits through 2025 when it reaches $1 trillion in that year. It projects the deficit to fall to 2.1% of GDP in 2017. But in the latter half of the decade, the CBO predicts that deficits will increase to an average of 3.5% of GDP and the cumulative deficit growth between 2016 and 2025 will be an additional $7 trillion dollars. Should this occur, debt held by the public would increase to 77% of GDP, exceed $27 trillion and would have serious negative consequences for the nation including the following:

1. As interest rates return to more typical, higher levels, federal spending on interest payments would increase substantially thereby increasing the deficit further.
2. Because federal borrowing reduces national saving over time, the nation's capital stock would ultimately be smaller, and productivity and total wages would be lower than they would be if the debt were smaller.
3. Lawmakers would have less flexibility to use tax and spending policies to respond to unexpected social and economic challenges.
4. Continued growth in the debt might lead investors to doubt the government's willingness or ability to pay its obligations, which would require the government to pay much higher interest rates on its borrowing, as well as putting the country in a position of economic risk.

Real GDP growth in the United States is expected to be 2.4% for 2015, up to 2.5% in 2016 and back to 2.4% in 2017. In 2018 and 2019, the economy should grow at an average annual rate of approximately 2.2%.The CBO also expects the rate of inflation to stay below the Federal Reserve's goal of 2% through mid-2017. The federal funds rate, the interest rate that financial institutions charge one other for overnight loans, has been near zero since the end of 2008. The Federal Open Market Committee (FOMC) raised the rate by 25 basis points in December 2015. The FOMC is expected to raise this rate to about 2.4% by the fourth quarter of 2017 before settling at a 3.5% rate by mid-2019.

Federal Reserve Chair Janet Yellen said that employment increases in November as well as an average increase of over 200,000 jobs per month throughout 2015 made the committee think slow but gradual interest rate hikes were possible. As Yellen noted, the pace of subsequent interest rate hikes will be determined by the "actual progress" made in getting inflation back to the 2% target. The committee thinks the Fed will be forced to raise interest rates more rapidly than is widely anticipated next year as inflation rebounds more quickly. However, because it is an election year, the Fed may initially dismiss any rebound in inflation and stick religiously to its gradualist mantra of slow increases. Yellen also noted, "The U.S. economic growth is likely to be sufficient over the next year or two to result in further improvement in the labor market." The consensus of the forecasters was that the Fed's target interest rate would be about 1% to 1.25% on Election Day 2016, and 1.35% to 1.625% by the end of 2016. However, raising the rates too quickly could have any number of adverse affects, including potentially stomping the housing recovery, undermining exports by strengthening the dollar or causing dangerous volatility in financial markets.

JOB MARKET

Despite almost doubling the national debt over the last seven years, with much of the spending on social programs, not only is the poverty rate in the United States near an all-time high but more people are now living on food stamps. Both of these not-so-desirable records have come during the current eight-year Obama administration.

The number of Americans who receive disability benefits has also exploded. Unfortunately, Congress has reduced the requirements to receive disability payments to the point that many able-bodied Americans are no longer working, creating one of the lowest labor participation rates the country has ever seen.

The overall unemployment rate remains elevated partly because of weakness in the demand for goods and services and partly because of the stigma and erosion of skills that can stem from long-term unemployment. The U-6 measure of the unemployment rate has fallen some since the end of the recession, but it still remains high. The percentage of people who were employed part-time for economic reasons remains significantly higher than it was before the recession, and the percentage of people who are marginally attached to the labor force is slightly greater than it was before the recession began. In other words, some people are employed part-time for economic reasons but would prefer to be employed full-time. And some people—those considered marginally attached to the labor force—are not currently looking for work but have looked for work in the past 12 months. The U-6 employment rate is closer to 11%, and while the government taunts a 5% unemployment rate, this rate ignores these employees for part-time economic reasons and those who have left the actual labor market. The CBO further expects the percentage of the population that is employed to fall more over the next 10 years because of declining participation in the labor force by baby boomers as they age and move into retirement. In 2015, the labor force participation rate sat at approximately 62.5%, hovering just above a 38-year low, .I and T is expected to drop to 61% by 2025.

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It should also be noted that more seniors 65 years and older who have not paid off their home mortgages are now

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working well into retirement. This has also changed the availability of good jobs for our youth who are graduating from college and find themselves with large student loans and no quality jobs. Student loan debt also continued to increase and reached $1.54 trillion at the end of 2015. With over 11% of this debt at least 90 days delinquent and without enough jobs to serve the graduating student population, student loan debt will continue to put the U.S. economy at financial risk.

The housing market in 2015 continued to be a bright spot in the economy. According to the Standard & Poor's Case-Shiller Home Price Index, home prices grew by 4.5% in 2015 but slowed considerably from the 10.5% rise in 2014 and still lag pre-recession levels. A strong housing recovery is essential to the overall health of the U.S. economy. Interest rates should remain supportive in 2016, even with the Fed's 25 basis point rate hike in December 2015. In addition, housing inventories remain relatively tight for new and existing homes, which will continue to lead steady gains in home prices. This makes new construction more attractive and should support strong housing starts in the coming years. Housing starts are expected to average 1.25 million in 2016 and 1.35 million in 2017.

Economic problems facing the United States include:

1. The country no longer produces what it needs to sustain itself.
2. It fails to even acknowledge predatory foreign trade practices undermining U.S. industry, such as China's currency manipulation, which cost the United States a large number of jobs.
3. The country must take direct action to reverse its out-of-control trade deficits. Because of failed policies, the United States has had a negative balance of trade of over $10 trillion in the last two decades. Estimates show that for every $10 billion in trade deficit, 9,500 jobs are lost. With a total of $10 trillion, therefore, the United States has lost over 9.5 million jobs.
4. The United States must carefully manage access to its markets so that other countries will not gain an unfair cost advantage. In essence, the United States cannot hand over sovereign rights of its domestic markets to international bodies like the World Trade Organization that are committed to "free trade" agreements, such as NAFTA, CAFTA-DR and KORUS. The U.S. economy is in a dramatically different position from emerging low-wage markets that continue to undercut employment in the United States.
5. A dramatic new direction is required. The United States must make sure to invest in infrastructure and new technologies that make American manufacturing competitive for the rest of the world.

OIL AND GAS

According to the U.S. Department of Energy, 40% of total energy in the United States is supplied by the oil and gas sector. Approximately 9.2 million American jobs come from this industry, which adds over $1 trillion to the nation's economy. The current drop in oil prices to under $38 per barrel has implications both globally and in the United States.

Domestically, lower energy prices mean more money for discretionary spending but, unfortunately, the loss of jobs in the oil sector continues as companies scramble to keep afloat. The overall economic benefits of the collapse in oil prices are significant with predictions that the collapse will add almost 1% point to real gross domestic product growth in the United States in 2016.

Cheaper energy has been an unexpected gift for the airline industry in which jet fuel costs have plummeted. Airlines had a record $33 billion in profits in 2015. However, continued low oil prices could mean more industry bankruptcies, more lost jobs and dire times for oil-producing markets. And this is likely in 2016, as no increase in oil prices appears to be in sight with OPEC maintaining its current production levels of 31.5 billion barrels a day, roughly a third of the global supply.

2016 ELECTIONS

The presidential and congressional elections in the fall 2016 are likely to push major policies to the forefront. Immigration and border control, tax reform and the potential appeal and replacement of Obamacare will be among the issues debated throughout the year. Congress is likely to submit new laws to President Obama to address terrorist activity, the No. 1 issue concerning Americans. Already at the end of 2015, GOP leaders sent a bill passed by House Republicans to the Senate for approval that would repeal Obamacare and provide for its replacement over the next 24 months with a new law providing insurance to citizens. However, President Obama is expected to veto this bill, and at this point, it does not appear that the Senate will have the votes to override a veto.

U.S. PROPERTY SECTORS AND MARKETS

For the sixth consecutive year, the Urban Land Institute and PricewaterhouseCoopers, LLP and their joint publication Emerging Trends in Real Estate 2016 have indicated U.S. property sectors and markets will continue to improve in 2016 and through 2018. They see investors, developers, lenders, users and service firms, however, relying upon intense and sophisticated coordination of both their offensive and defensive game plans as the environment becomes more competitive and as well-capitalized players show a more disciplined approach to strategy and execution. Active management will be important as investors focus on operating and management skills. Again, the continued availability of capital from both U.S. and foreign sources will allow cap rates to remain low, but the potential of upward pressure is expected in 2016 as interest rates rise. By locking in historically low rates, considerable recapitalization of

In the first half of 2015, large numbers of Syrian refugees crossed into European Union member states, reaching 313,000 applications across Europe by early August 2015. Fake Syrian passports were being used by non-Syrians in the hopes of fraudulently gaining legal residency in Europe.

well-leased, good quality assets is expected. However, because long-term interest rate spreads will decrease in the early going, long-term financing is still expected to be highly attractive and at historically low rates.

With continued historically low interest rates, all property sectors will do well. But in 2016, the industrial sector is expected to lead all investment categories, followed closely by multifamily. Inadequate growth is expected in both the retail and office sectors. In particular, office product in prime locations in 18- and 24-hour cities will see an increased infusion of capital from foreign sources wanting to place their money in the strong and safe U.S. market. Grocery-anchored retail will also continue to be highly attractive together with transit-oriented retail and urban mixed-use development retail. Healthcare, financial services and technology will again lead job growth. But the energy sector, burdened by low oil prices, could see some steep job losses and tough times.

Despite expectations, the Republican-controlled Congress did not pass legislation to reduce U.S. corporate taxes and to allow foreign corporation profits to be non-taxed and brought back to the United States. So job growth, while still positive, did not see what could have been significant improvements.

In 2016, real estate assets will again command an attractive spread over fixed-income investments and will continue to be competitive with the equities market, as investors begin to feel the stock market has reached a bubble. Investment activity by foreign and U.S. institutional investors will remain high for well-located, highly functional and institutional-quality real estate in 18- and 24-hour cities. The vast majority of investment capital will continue to be deployed in big employment and growth centers, but the South, Southeast, Southwest and coastal cities will again see most of the foreign and institutional investment activity.

The top trends in real estate for 2016, according to Emerging Trends include:

1. **18-hour cities 2.0.** A tangible desire exists to place a rising share of investment capital in attractive markets outside the 24-hour gateway cities. Global as well as domestic investors are casting wider nets as they look at all U.S. real estate markets. These 18-hour cities have seen more moderate cap rate compression and therefore provide an opportunity for superior yields.
2. **Next stop: the suburbs…what is a suburb?** The country has only about 10 dynamic downtowns. The rest of the areas are considered suburbs. As prices rise dramatically in gateway markets, investors are now taking a fresh look at suburban opportunities to achieve the necessary investment returns. Additionally, close-in, transit-oriented and mixed-use urban or suburban projects are the most desirable to millennials.
3. **Offices: barometer of change.** Companies are redesigning office space and doing away with walls and cubicles—redesigning how employees interact. Landlords are now looking at co-working layouts to get better space and to open space designs to meet this new trend.
4. **A housing option for everyone.** Both the "work and live" element of the "live, work, play" mantra is evolving. As the market begins to sort itself out, the home ownership rate will drop into a narrow range around its 50-year average of 65%.This will provide a distinct advantage to investors and developers in the rental housing sector.
5. **Parking for change.** The need for large parking lots and parking structures will begin to change as more people adopt other forms of transportation including Uber, Lyft and mass transit. Additionally, parking will be built to be shared by different uses depending on the intensity of that use during different hours of the day.
6. **Infrastructure: Network it! Brand it!** High-frequency bus networks and other creative plans are predicted to provide greater transit capacity with superior flexibility and lower costs than fixed-rail operations. Also expected is a denser network of transportation around new developments, including green infrastructure,such as green rooftops, greener parking lots, rainwater harvesting and other strategies.
7. **Consolidation-free specialization.** Real estate developers are expected to become more specialized to compete successfully in the future. Lenders want to see development specialists and will be more interested in providing financing in long-term money to those specialists.
8. **We raise the capital; now, what to do with it?** Total acquisition volume in 2015 exceeded $500 billion, up nearly 25% from 2014. Investors in 2016 will seek more diverse opportunities in which higher investment returns can be achieved, such as alternative asset classes like cell towers, outdoor advertising, historical building renovations and data/mission critical centers.
9. **Return of the human touch.** Management of real estate is expected to be more intensely active as returns become more difficult to achieve.

KANSAS CITY ECONOMY

In 2015, the Kansas City economy continued to grow at an impressive pace. Several employment sectors drove the activity, including the automobile industry, IT and health services. Additionally, e-commerce and intermodal activity were also strong influences on the local economy.

A number of major developments seemed to be in the headlines continuously throughout 2015. One was the continued growth in the hospital sector with The University of Kansas Hospital, HCA Midwest Health, Saint Luke's Health System and Shawnee Mission Health all announcing expansion plans. Shawnee Mission Health-Blue Valley broke ground on its new 75,000-square-foot medical facility in the 300-acre BluHawk development; the University of Kansas moved forward with final city approvals for its 118,000 square foot hospital expansion at its complex at the 107th Street and Nall Avenue campus; and plans for both HCA and Saint Luke's hospital expansions neared unveiling. Also, urgent care centers sponsored by all of the major healthcare systems began popping up all over the metro, providing a faster and better level of healthcare to the community. Cerner Corp.'s growth continued with the construction of the first of two buildings on its 4.5-million-square-foot Three Trails Campus, which will eventually accommodate over 17,000 new employees. The company also invested over $500 million in its Lee's Summit data center. These developments by Cerner and area health care providers show that the healthcare sector has become a huge driver of the Kansas City economy.

In 2015, a number of major projects that will shape the city for years to come also moved forward. In particular, the planned $310 million convention center hotel planned for downtown Kansas City, which is slated to open in 2018, is expected to make Kansas City a convention center target for a host of new companies that would like to bring their business to this region. Ronnie Burt, CEO of Visit KC,said the development of a new significant convention center hotel will allow Kansas City to shift its attention to the larger conventions seeking 3,000 or more hotel rooms and get away from simply focusing on smaller conventions that do not bring a large amount of economic activity to the city. Still, at the end of 2015, the Citizens for Responsible Government filed a lawsuit aimed at forcing the City of Kansas City, Missouri, to submit the convention hotel project to a public vote.

Recent developments by Cerner and area health care providers show that the health care sector has become a huge driver of the Kansas City economy.

In another major deal, Dairy Farmers of America Inc. announced plans to move its headquarters and 325 employees across the state line to a new 100,000-square-foot building to be built in the Village West district. Other major development projects underway in Kansas City include the downtown streetcar line, which has already spurred $1.5 billion of investment along the line and may eventually become a $1 billion transportation network within the community.

VanTrust Real Estate LLC's redevelopment of the 136-acre Meadowbrook Golf & Country Club into a hotel, residential and retail campus recently gained approval in Prairie Village. However, plans remain stalled for two significant golf course redevelopment projects in Overland Park, Kansas The $320 million Central Square mixed-use development sponsored by a joint venture between Lane4 Property Group and The Kroenke Group was delayed when the City of Overland Park denied approval of the mixed-use projects due to their failure to meet the Vision Metcalf guidelines. Additionally, the $2.4 billion development of the former Brookridge Golf & Fitness Club for a mixed-use project remains stalled as it appeared to be much larger than the community or Overland Park thought appropriate for the site.

Finally, at the end of 2015, two significant properties were on the market for sale: the Country Club Plaza, currently owned by Highwoods Properties, and Corporate Woods, the 2.2-million-square-foot office park along I-435 in Overland Park. It remains to be seen who will buy these two highly visible projects and how the projects will be run as the new owners strive to become integral members of the Kansas City community.

INDUSTRIAL DEVELOPMENT

On the industrial front, bulk industrial development continued to race ahead as major new developments were proposed throughout the market including Odyssey Acquisitions' 496,150-square-foot distribution center at 159th Street and Lone Elm Road, a new 716,000-square-foot building proposed by VanTrust at 167th Street and Lone Elm Road, a new 635,800-square-foot building proposed by Block Real Estate Services at College and Renner boulevards, a 432,600-square-foot building at KCI Intermodal Business Centre, a new 450,000-square-foot building at CenterPoint, and a continued flurry of spec development at Logistics Park Kansas City in Edgerton, Kansas, the largest intermodal in Kansas City.

Besides speculative development, other projects, like the 596,000-square-foot facility underway for Sioux Chief Manufacturing Co. at the CenterPoint-KCS Intermodal Center and the recent approval of the 712,842-square-foot manufacturing distribution center expansion for Garmin in Olathe, show that leading local companies are expanding their facilities to keep up with significant new demand.

While a significant new supply of industrial products is to be coming to the market, the demand for e-commerce, automobile industry and intermodal space in Kansas City has increased dramatically over the last several years, and therefore most of the new projects have been leased very quickly by this increased demand. Besides the bulk industrial sector being very active, companies like BRES and Hunt Midwest Enterprises, among others, are developing light industrial space that can accommodate 20,000- to 150,000-square-foot users, which primarily serve local distribution and service-oriented companies.

Kansas City was fortunate to be the first city in the country to see the expansion of Google Fiber, and it is already in operation in a multitude of local communities throughout the metro. In 2015, AT&T also moved forward with the expansion of its high-speed internet service through the expansion of its GigaPower fiber network. Kansas City is one of 17 metropolitan areas where this expansion will occur. The GigaPower network provides 1-gigabyte-per-second service and is expected to be available throughout the community over the next 24 months, primarily to apartment complexes and residential communities.

KANSAS CITY REGION

The 2015 region's gross regional product (GRP) grew at an annual rate of 2.7% compared to the 2015 national GDP growth rate of 2.5%.The region's GRP is expected to increase slightly in 2016 to 3.1%, although in 2017, it is expected to drop to 2.6% as growth slows across the region.

Bulk industrial development continued to race ahead as major new developments were proposed throughout the market.

The economy in the Kansas City Metro has seen substantial growth in output for three consecutive years. Although the metro had low employment growth rates in 2013, over 20,000 jobs were added in 2014, and in 2015,the momentum increased to over 26,000 new jobs. Health and professional service industries together added over 50,000 net new jobs over the last several years. Unfortunately, telecommunications and publishing showed significant job declines that have continued since 2001. The forecast for employment growth will include an additional 25,000 jobs in 2016. The construction sector remains strong with over 8,000 new jobs projected over the next two years.

Despite these remarkable numbers, Kansas City only ranks 30th out of the 53 largest metros in the country with its 2.7% growth rate. One impressive note,however,is that while Kansas City is home to just 25% of the total jobs in Kansas and Missouri, the Kansas City economy accounted for 63% of new jobs added in 2015. Kansas City's advantages include its central location, a strong work force, an excellent quality of life, Google Fiber connectivity, a renovated growing downtown and a number of business benefits, including a low cost of business, university alliances, good value for high quality talent and collaborative/respectful industries.

Strategically, for Kansas City to continue to become more globally competitive,a new perception of Kansas City as a whole is needed, and the metro must emphasize its vast business resources, including growth opportunities, capital and talent. Kansas City also needs easier access to international travel and more international training at the university level, and it needs to prioritize acquisition of international talent.

KANSAS CITY'S LOCATION

As always, of all of Kansas City's various attributes, one of the strongest is its location in the middle of the country in the Central time zone. Because of this, Kansas City can attract a constant influx of visitors from a multitude of small communities in the surrounding states. In fact, Kansas City is within a four-hour drive of over 8.72 million people in Missouri, Kansas, Iowa, Nebraska, Illinois, Oklahoma and Arkansas, and it is the tourist destination for these communities.

The Kansas City metropolitan area (SMSA) is home to nearly 2.5 million people and continues to be home to a number of

After eight years in office, President Obama's term will come to a close in 2016. Republican and Democratic candidates alike are lining up to compete for the position of Commander in Chief, when elections occur this November, 2016.

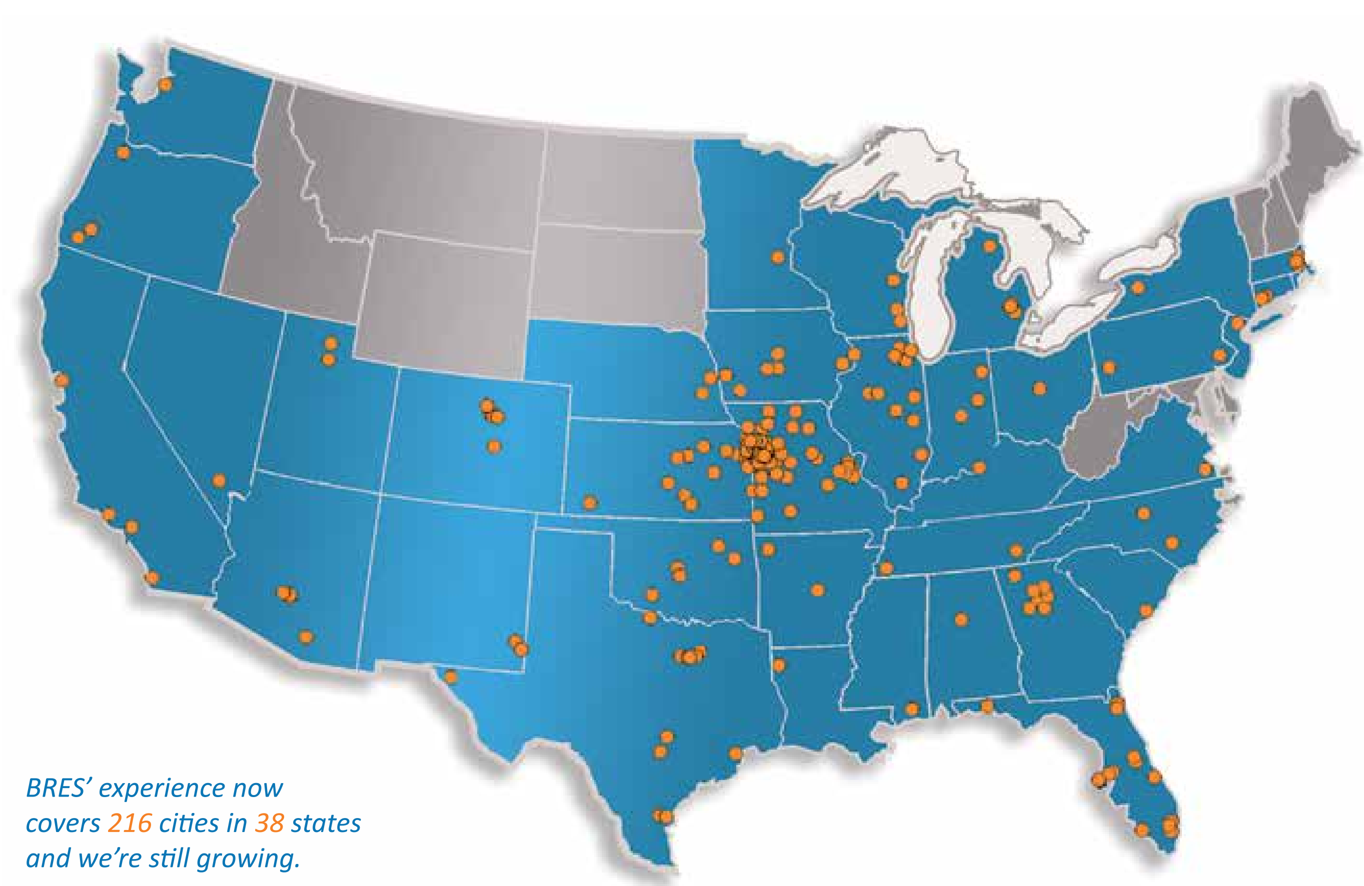
corporate headquarters, including DST Systems Inc., American Century Investments, BATS Global Markets Inc., Black & Veatch, Burns & McDonnell, AMC Entertainment Holdings Inc., Cerner, Commerce Bank, UMB Financial Corporation, JE Dunn Construction, Seaboard Corp., Garmin International Inc., Great Plains Energy Inc., H&R Block Inc., Hallmark Cards Inc., Westar Energy Inc., YRC Worldwide Inc., Lansing Trade Group LLC, Farmland Industries and a host of others.

Because of the significant number of major universities located in and near Kansas City, the community's residents are very well educated. Over 40% have a college degree and nearly 91% have a high school education. Fifteen institutions within the metro area offer graduate degrees in numerous disciplines. In addition, the University of Missouri and the University of Kansas offer professional degrees in law, medicine, dentistry and pharmacy. Kansas State University offers bioscience and biotechnology programs, and the Kansas City University of Medicine of Biosciences offers degrees in osteopathic medicine. The Lewis White Real Estate Center at the University of Missouri-Kansas City Bloch School of Management continues to rank as one of the premier master programs in real estate in the country. Other colleges and universities in and around Kansas City include Cleveland Chiropractic College, DeVry University-Missouri, Kansas City Art Institute, Kansas City University of Medicine and Biosciences, MidAmerica Nazarene University, Missouri Western State University, Ottawa University, Avila University, Park University, Rockhurst University, University of Kansas, University of Missouri-Kansas City, University of Phoenix, Webster University, Heritage College, William Jewell College and a host of others.

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, the Kansas City Royals, Sporting Kansas City soccer team, Missouri Comets, Missouri Mavericks hockey team, the Kansas City T-Bones and the Kansas City Renegades indoor football club. In 2015, the Kansas City Royals finally reached the top with a World Series victory over the New York Mets. This was after winning the American League pennant in 2014, but then falling in the final game to the San Francisco Giants. Certainly, this Royals World Series title has shined a spotlight on Kansas City and its community.

Because the city's location is in the center of the country, Kansas City also has a large number of entertainment venues, including Worlds of Fun, the Kansas City Zoo, Oceans of Fun, Union Station, Community America Ballpark, Schlitterbahn Vacation Village, the Kansas Speedway, Legoland Discovery Center, the Sea Life Aquarium, TopGolf, Silverstein Eye Centers Arena, the City Market, the American Royal barbeque and rodeo, and six area casinos. In addition to these exciting venues, Snow Creek ski resort, the Overland Park Arboretum and Botanical Gardens, Powell Gardens, the 18th & Vine Jazz District, Wyandotte County Fair,the Kansas City Renaissance Festival, Plaza Art Fair, Westport Art Fair and a host of other venues provide a variety of things to do in Kansas City.



BRES' experience now covers 216 cities in 38 states and we're still growing.

Two of the cars for the new Kansas City Streetcar have been undergoing testing and third is scheduled to arrive in late January, 2016. The Kansas City Streetcar Authority is anticipating a grand opening in April, 2016. Develpment projects have already been announced or are underway along the Streetcar route.

LOVE OF CULTURAL ARTS

Kansas City continues to be known nationally and internationally for its art and culture and has a number of amazing venues to enjoy arts and cultural events. Some of these venues include the Nelson-Atkins Museum of Art, Kansas City Starlight Theatre, the Folly Theater, Kansas City Ballet, Kansas City Chamber Orchestra, Lyric Opera of Kansas City, the Kansas City Symphony, the American Royal Museum and Visitors Center, the National World War I Museum and Memorial, Copaken Stage for the Kansas City Repertory Theatre, the American Jazz Museum, the Airline History Museum, the Negro Leagues Baseball Museum, and a number of others.

Perhaps the best known venue is the world-renowned Kauffman Center for the Performing Arts, which is now ranked the third-best performance hall in the world. What's even more amazing is Kansas City continues its ranking as No. 1 in the country based upon the number of cultural venues compared to the population of the community. Additionally, Kansas City is now ranked No. 6 in the country in terms of cultural arts destinations, increasing its visibility as a true cultural destination.

TRANSPORTATION: RAIL, TRUCKING AND AIR

Four interstates—I-70, I-35, I-29 and I-49—serve the Kansas City metropolitan community. The metro area also has four additional interstate linkages, including I-435, I-635, I-470 and I-670. Kansas City is further served by 10 federal highways, providing a superior traffic system in the metropolitan 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 United States, making Kansas City a highly sought-after trade route.

Kansas City also continues to rank as one of the strongest distribution centers in the country. It has the No. 1 ranking by rail freight volume and the No. 2 ranking of largest rail centers in the United States behind Chicago. Kansas City's new rail intermodal hubs, one by Burlington Northern Santa Fe Railroad Co. and one by Kansas City Southern railway, join our existing hubs run by Union Pacific Corp. and Norfolk-Southern Corp., and it further strengthens Kansas City's reputation as a top-four distribution town. Kansas City also has eight, Class 1 rail carriers, three regional lines and a local switching carrier (KC Terminal) serving the area. Amtrak passenger trains also serve the city multiple times a day, providing convenient access to surrounding smaller communities.

The Kansas City Metropolitan area is served by nine commercial airlines and their connection partners. These carriers offer over 268 daily departures with nonstop service to over 68 destinations. Kansas City's new airmodal center, adjacent to Kansas City International Airport, continues to strengthen cargo shipment capabilities and distribution opportunities together with the several intermodal locations located throughout the community. Because of this, Kansas City is now recognized as one of the top four cities in the nation for cargo distribution.

KANSAS CITY ANIMAL HEALTH CORRIDOR

The Kansas City Animal Health Corridor, which stretches from Manhattan, Kansas, to Columbia, Missouri, continued to see increased growth as it has for the last several years. The community now represents nearly 56% of total worldwide animal health, diagnostics and pet food sales, reaching $22.5 billion. More than 300 animal health-related companies operate in the region, including Bayer HealthCare LLC Animal Health, Boehringer Ingelheim Vetmedica, NestlePurina PetCare Co., Hill's Pet Nutrition Inc., Ceva Animal Health LLC, MRI Global, AgriLabs Inc., Pfizer Animal Health, Cereal Food Processors Inc., ZuPreem, Argenta, MWI Veterinary Supply Inc., TVAX Animal Health, FitBark Inc., KC Canine and the United States Animal Health Association.

Key players in the Kansas City region's business education, scientific and government communities have joined together as part of the Kansas City animal health initiative to cultivate a climate of opportunity for companies competing in and supporting the animal health and nutrition industry. In addition to being home to 300 animal health companies,the corridor represents the largest concentration of animal health industries in the world. Over the last 11 years, the animal health corridor has created over 1,900 jobs with over $1.62 billion of capital investment.

Kansas City Area Life Sciences Institute Inc. in conjunction with major life science participants, such as the Kansas Bioscience Authority, Kansas City Animal Health Corridor, Midwest Research Institute, Kansas City University of Medicine and Biosciences, and the National Bio and Agro-Defense Facility, are some of the top companies that lead Kansas City in the life sciences sector. The life sciences industry in Kansas City has now made over $1.5 billion in research expenditures over the last 12 years and ranks as one of the top three areas in the country for life sciences research. This industry is expected to continue to grow and push Kansas City forward as one of the top leaders of life sciences in the country.

According to MarketWatch, Kansas City ranks No. 3 in the 10 Best US Cities for Real Estate Investors. Kansas City ranks high in many categories, including No. 17 in Travel +Leisure magazine's "America's Best Cities for Hipsters,"No. 8 by Entrepreneur.com as a top city for tech start-ups, No. 8 best place to retire, No. 7 for young entrepreneurs, No. 12 for America's Best Downtowns, a top-10 travel destination for 2015, No. 27 in the country for young brainpower, No. 11 for best park systems in the nation, No. 14 best city in America, No. 12 for female entrepreneurs, and a top-10 coolest city in the Midwest. Kansas City also ranks No. 3

At the end of 2015, President Obama ordered the restoration of full diplomatic relations with Cuba, and the opening of the United States embassy in Havana.

among the nation's philanthropic communities, No. 11 on the list of America's smartest cities by USA Today, a top-10 romantic city by Livability.com, and No. 9 overall best city in America to raise a family by Parenting magazine. Also, the Sprint Center continues its ranking as the second-busiest venue in the United States and the eighth-busiest venue in the world. Kansas City also continues to be ranked the No. 1 city in the country for barbeque and No. 8 overall strongest metropolitan economy in the country. Kansas City ranks as the No. 2 best city for women in tech, the No. 1 soccer city in America, the No. 3 best job market according to U.S. Census Bureau's American Community Survey, a top affordable city for millennials according to Zillow, the No. 2 best city for jobs according to Glassdoor, Starlight Theatre voted No. 4 best outdoor music venue in the nation by USA Today, No. 4 most-friendly city in America according to Travel +Leisure magazine, No. 4 greenest city according to Travel +Leisure, No. 4 most cultured city in America according to Travel +Leisure, No. 8 on Travel +Leisure's list of 20 Quirkiest Cities in America, No. 2 on the top 10 budget destinations for travelers according to Shermans Travel blog and the No. 6 best city in the country for new start-ups.

KANSAS CITY METRO RECAP

In 2015, Kansas City continued to see major real estate project announcements. The economy continues to grow rapidly in all sectors, and currently the Kansas City community is considered one of the best places in the country for real estate investments, capital returns and long-term yields.

What is remarkable is how growth was spread among all real estate sectors. For example, in 2015, the multifamily sector added more than 3,500 units and over 3,000 more units were under construction for 2016 delivery. This was a further increase over 2014 and shows that this part of the economy continues to strengthen. In the industrial sector, speculative development reached 6,010,838 million square feet in 2015. Over 6,559,171 million square feet of speculative mid-bulk or bulk industrial facilities are expected to be added in 2016.

The healthcare sector also grew very quickly with over $440 million of new healthcare development started or underway in 2015 by area hospitals, medical developers and health service providers. And, both the office and retail sectors are beginning to show signs of development activity with expectations that 2016 will see more speculative office development and several new retail developments break ground.

The key to continued development activity will be interest rates. The FOMC's recent increase by 25 basis points in the Fed's Fund Index in December 2015 was the first time in seven years that interest rates increased. The key will be how gradual future increases occur because any sudden rise in interest rates could, in very short order, slow development and construction activity. The community needs to continue to focus on growing the current 21,000 daily population in Downtown to 40,000 to have a self-sustaining population in the urban core.

In addition, nearly $4.2 billion of residential, commercial and industrial construction was completed or was underway in 2015. This huge investment in development shows that Kansas City has become a focal point not only of the strong local development community but of those regional and national developers who see the area economy as a stable and predictable growth center.

The Kansas City Area Development Council (KCADC), which was led for the last 25 years by Bob Marcusse, will now be under the new leadership of Tim Cowden. But we expect it to continue to rank a "best in class" regional economic development council, to follow its No. 1 ranking in the 2014 Winning Strategies report. However, it is important for community leaders to understand that the vast majority of development that has occurred over the last several years is due to a host of economic incentive packages that have been provided to local and regional developers. The corporate community has become substantially more sophisticated and is now represented by professional advisors who understand the importance of economic incentives and the need to seek out incentive packages from multiple competing cities. Therefore, Kansas City as a whole needs to understand that economic incentives are essential in attracting new business to this community and without aggressive pro-development leadership at community levels, Kansas City and the entire SMSA cannot continue to be competitive against other competitive regional cities, such as Dallas, Chicago, Atlanta and Denver.

The Kansas City community is considered one of the best places in the country for real estate investments, capital returns and long-term yields.

Business and government leaders should continue to work together consistently to promote the Kansas City Metropolitan area as a united community that desires new business from both inside and outside the community. Also important is a solid public/private partnership in all 50 separate communities making up the metropolitan area to encourage increased investment and development activity. Investors and area leaders need to strengthen area sentiment toward development and understand that the development community provides the capital for the construction of new projects,which provides new employment opportunities.

However,without developers putting their capital at risk, the community will not see the continued impressive growth that it has had over the last several years. So, real estate companies need to continue to provide a solid foundation to attract new companies to the entire Kansas City metropolitan area. By working together in 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

The geographic definition of downtown Kansas City can vary significantly. In this report, downtown Kansas City is defined as the area from the Missouri River to 31st Street and from the Kansas/Missouri state line to Troost Avenue.

Downtown consists of several submarkets which include the Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads, West Side and West Bottoms and extends to the northern border of what is known as 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. Vacancy for all real estate categories continues on a positive trajectory. Asking rents are improving in across the board as well. In particular, residential rents have increased as much as 22 percent in the last year. Current residential rents are $1.20 per square foot, up from $1.05 on average in 2014.

Developer Wayne Reeder acquired the 158,000 sq. foot, 12-story Scarritt Building located at 818 Grand Blvd. The developer plans to convert the building into offices with a 10,000 sq. foot event space.

Cranes on the skyline and cones in the streets have been the atmosphere. It has been a phenomenal year for construction in downtown Kansas City. Our new light rail system is scheduled to open in 2016 and hospitality and residential projects are dominating downtown development. One Light celebrated a grand opening in December of 2015. The adaptive reuse of existing office buildings has driven the residential movement downtown. This 25-story luxury apartment building at 50 East 13th Street is the first new building created expressly for residential use in 40 years. The property was able to boast 80 percent occupancy at the grand opening, and a sister tower is to be constructed in 2016.

The Westside is known for great views of downtown, restaurants and some of Kansas City's oldest housing stock intermingled with modern, avant-garde residential infill. Westside will have a new mixed use development start in 2016 at 17th and Madison. The $14 million dollar project includes 60 market rate apartments, several three-story town homes and 12,000 square feet of commercial space.

In 2015, vacancy for all real estate categories in Downtown dropped to 9% from 11.9% from 2014.

Two new medical facilities have come to downtown. Truman Medical Center opened a $30 million dollar, 90,000 square foot outpatient specialty care center in October and a mental health triage center is scheduled to open in 2600 E. 12th Street in a rehabilitated facility already owned by The Missouri Department of Mental Health. This project, by Ascension Health, LLC will be funded through the $20 million dollar sale of two facilities in suburban locations.

Plans were announced last year to convert the Corrigan Building at 1828 Walnut to luxury apartments. As strong as the residential market is in this submarket, that project has now evolved into a $22 million update of the 10 story historic building for continued office use. In a similar evolution of plans, the residential conversion of the Scarritt Building and the Scarritt Arcade has been scrapped, and the 12 story structure built in 1907 at 818 Grand Boulevard will remain an office and event space.

The former Federal Reserve Building at 925 Grand Boulevard is to be converted into an Embassy Suites Hotel by Hilton. This $100 million dollar conversion of the 21 story historic structure will be the 9th hotel development in Kansas City's downtown submarket. Others include the Gumbel Building at 8th and Walnut, undergoing a $6 million dollar conversion to a Hampton Inn. Hilton Home2 Suits is beginning a hotel project at 20th and Main. This will entail 114 rooms and 9000 square feet of retail space on the first floor. The Court Yard Marriot and Residents Inn, a combined project totaling 261 rooms at 16th and Baltimore is one of the few projects with a developer not seeking tax incentives.

Cranes and cones remained part of the Downtown atmosphere in 2015 as the phenomenal amount of construction continued.

Tax incentives have long been a driving force in the downtown submarket. Developers assert the high cost of land acquisition, negotiating with multiple ownership groups, aging infrastructure and the need for structured parking drives costs to the point where projects are not financially viable without the assistance of entitlements. This year, low voter turnout for the reelection of popular mayor, Sly James, has had significant consequences.

The number of petition signatures for referendum or initiatives by citizens is based upon election turnout. The number was dropped to +3500 signatures based upon the low turnout in the last election. This has opened the door for organized special interest groups to disrupt any developer seeking tax incentives. The BNIM project, a $13 million dollar office conversion proposed for an obsolete warehouse building at 1640 Baltimore won all necessary municipal approvals for tax abatement. The project was and is considered by elected officials and the economic development organizations to be worthy of such incentives. However, special interest groups who, regardless of merit, are now opposing tax abatement for any project in what they consider to be more developed areas, largely west of Troost Avenue, have mounted a successful petition drive to challenge the project. This will bring the approved tax abatement to a city-wide vote in the spring of 2016. Though the vote may indeed favor the project, the additional time will be problematic to this project and potentially, others coming up in the submarket. Navigating this new special-interest driven obstacle will require some additional consideration going forward.

Contributor: Matthew L. Levi, CCIM, Vice President

Copaken Brooks recently partnered with an investor group led by developer Vince Bryant on the $40-million project to transform the 10-story Corrigan Building into new offices. Originally, the 144,000 square foot building was set to be redeveloped into luxury apartments.

Kansas City Office Market

Corporate Woods, comprised of 22 office buildings and a 2.2 million sq. foot park recently hit the market. The business park, marketed by Holliday Fenoglio Fowler LP, is expected to sell for over $300 million.

Vacancy rates fell and rental rates rose, making 2015 another strong year for the Kansas City office market. The strong employment growth and economic expansion that started in 2014 continued, and Kansas City emerged as a major player for recruiting the back office operations of national firms looking to lower overhead costs.

The Kansas City Metro boasted a 4.2% unemployment rate at the end of 2015, 80 basis points better than the national average. With rapid growth in the health services and financial activities sectors, the office market vacancy rate was at 10.6% at year-end, down from 11% at the close of 2014. The decline in vacancy represents the year-to-date (YTD) absorption of more than 1 million square feet of office properties across all classes, with most of that coming from Class A properties.

On a national basis, the end of 2015 saw the third-highest level of quarterly absorption in the current real estate cycle, behind the third and fourth quarters of 2014. The full-year absorption was the second highest in five years. Nearly 60% of all large-block leasing activity was in the expansionary category, demonstrating the confidence companies have in their near-term outlooks. Financial activities sectors led the way for leasing activity locally and nationally. The majority of all YTD absorption took place in suburban markets versus central business districts (CBD), with large gains coming from suburban Atlanta, Dallas, Phoenix and the Raleigh-Durham area of North Carolina. However, only six suburban markets reported single-digit vacancy rates whereas more than 25% of CBD reported vacancy rates of less than 10%, with tech hubs in CBD reporting the biggest gains.

Nationally, the office market saw the average rental rate rise, closely corresponding with improved absorption rates. National rates increased from $22.38 per square foot a year ago to $23.09 per square foot at the end of 2015, better than the $.63-per-square-foot increase that occurred between 2013 and 2014. The Kansas City office market continued to see lower than average rental rates, which was consistent with historical trends.

Continued office building construction seemed to support expectations of an improved market. The U.S. office market delivered 55 million square feet of new space, much of which was preleased, showing the demand for new Class A office space.

Mid-year construction volume across the country was up nearly 17% over 2014 to almost 93 million square feet. This was the highest level during this market cycle, but below the peak of 108 million square feet in 2007.

Overall, the Kansas City market saw improvements both in rental rate increases as well as YTD absorption. Leasing activity rose and rental rates increased from $17.12 to $17.68 per square foot. Additionally, the market saw a positive absorption of nearly 1.1 million square feet across all classes.

Nearly 60% of all large-block leasing activity was in the expansionary category, demonstrating the confidence companies have in their near-term outlooks.

Class A space outpaced Class B space in YTD absorption. Although down from 2014, Class A properties still saw a net absorption of 409,512 square feet. This positive absorption was led by the Crown Center and CBD submarkets where several national companies relocated significant back office operations. The Country Club Plaza saw absorption of 150,000 square feet mostly attributable to CBIZ backfilling the Polsinelli vacancy at Plaza Steppes. This, however, negatively affected the College Boulevard submarket, which saw negative absorption in Class A properties of 130,000 square feet.

The CBD and College Boulevard corridor led Class B in 2015 net absorption, with 131,567 square feet and 99,227 square feet respectively. The net absorption for the year stood at 359,455 square feet. While still positive, this figure was down significantly from 2014 during which 943,145 square feet was absorbed.

Following in the footsteps of the higher average rental rates of Class A properties, Class B properties saw a healthy increase from $16.71 per square foot in 2014 to $17.07 in 2015.

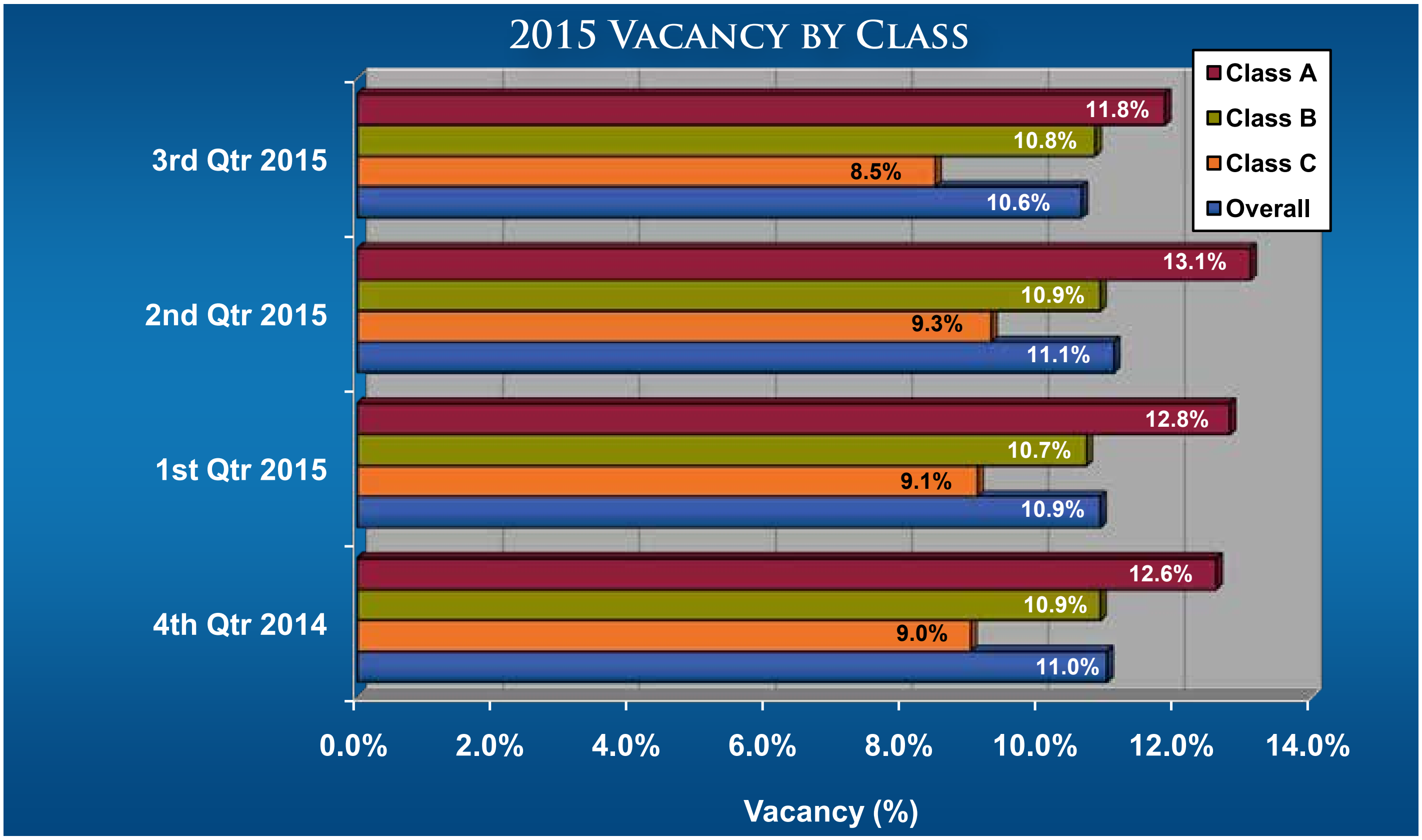
The net absorption of Class C office space decreased to 260,893 square feet in 2015, down from a net absorption of 362,389 square feet in 2014.

Bucking the trend set by both class A and B properties, Class C saw a $.18-per-square-foot decrease in the average rental rate, falling from $13.60 per square foot to $13.42 per square foot. This followed the significant increase of $.90 per square foot from 2013 to 2014.

The Kansas City office market saw only a 0.5% decrease in its vacancy rate compared to 2014. Large scale deliveries and companies taking advantage of state tax incentives for jumping the state line were factors that contributed to the small decrease. Rental rates continued their steady growth with an uptick of $.52 per square foot in 2015.

SOUTH JOHNSON COUNTY

At the end of 2015, the South Johnson County submarket consisted of about 28.67 million square feet of all building classes. Of that, 2.46 million square feet were available, including sublease space, which equated to an overall vacancy of 8.6%, a level slightly down from 8.9% at the end of 2014.



OFFICE MARKET

Westbrook III was sold in June by LIT Industrial LP to Founders for $14,075,000 at a cap rate of 8.72%. The 98,507 square foot property is located at about 81st Street and Interstate 35, in Lenexa, Kansas.

Significant office leases completed in 2015 included:

- Ascend Learning, 83,037 square feet.
- Home Credit U.S., 34,656 square feet.
- South & Associates, 30,001 square feet.
- Rhythm Engineering, 16,962 square feet.
- Dex One Corporation, 16,664 square feet.
- Genesis, 16,346 square feet.
- POWER Engineers 11,894 square feet.

Building classes A, B, and C reported a total of approximately 234,000 square feet of net absorption during 2015, which includes about 135,000 square feet of new construction delivery.

Overall, vacancy decreased from 8.9% at the end of 2014 to 8.6% at the end of 2015. Additionally, the overall average asking rate increased from $19.14 per square foot in 2014 to $20.15 per square foot in 2015. This reflected the higher demand for quality office space in the area. This submarket continued to be one of the strongest markets in the metropolitan area.

For Class A properties:

- Vacancy stood at 7.3% inclusive of sublease opportunities.
- The average asking rate for direct deals and subleases were $22.58 per square foot at the end of 2015.
- YTD deliveries totaled 67,928 square feet, with a negative net absorption for 2015 of about 129,000 square feet.

For Class B properties:

- Vacancy stood at 9.2%.
- The average asking rate for direct deals and subleases was $18.89 per square foot at the end of 2015.
- YTD deliveries totaled 66,400 square feet, with a positive net absorption for 2015 of approximately 155,000 square feet.

For Class C properties:

- Vacancy decreased from 17.17% in 2014 to 10% at the end of 2015.
- The average asking rate for direct deals and subleases were $16.02 per square foot at the end of 2015.
- Net absorption for 2014 was approximately 208,563 square feet.

NORTH JOHNSON COUNTY

The North Johnson County submarket included about 12.3 million square feet of office space in 660 properties. At the close of 2015, the North Johnson County submarket consisted of about 12.3 million square feet in all building classes, with about 1.23 million square feet available, including sublease space. This equated to an overall vacancy of 9.9%.

Significant office leases completed in 2015 included: WireCo WorldGroup, 48,000 square feet; Kiewit, 18,600 square feet; and UKHA, 17,000 square feet.

Building classes A, B and C reported a total of about (18,600) square feet of net absorption during 2015, with no significant new deliveries. The overall vacancy rate increased slightly from 9.5% at the end of 2014 to 9.9% at the end of 2015.

Despite the slight increase in vacancy, the overall effective asking rate including subleases increased from $17.75 per square foot to $19.04 per square foot for the same period. The effective rate increase was due solely to the newly renovated buildings at 1900 Shawnee Mission Parkway ($31.25 per square foot) and 2000 Shawnee Mission Parkway ($28.50 per square foot). Again, this submarket struggled to maintain existing tenants and fill vacancies in predominately older product.

For Class A properties:

- Vacancy stood at 12.1% inclusive of sublease opportunities.
- The effective asking rate for direct deals and subleases was $28.30 per square foot at the end of 2015.
- Net absorption for 2015 was approximately (17,000) square feet.

For Class B properties:

- Vacancy stood at 9.6% inclusive of sublease opportunities.
- The effective asking rate for direct deals and subleases was $17.02 per square foot at the end of 2015.
- Net absorption for 2015 was approximately 16,500 square feet.

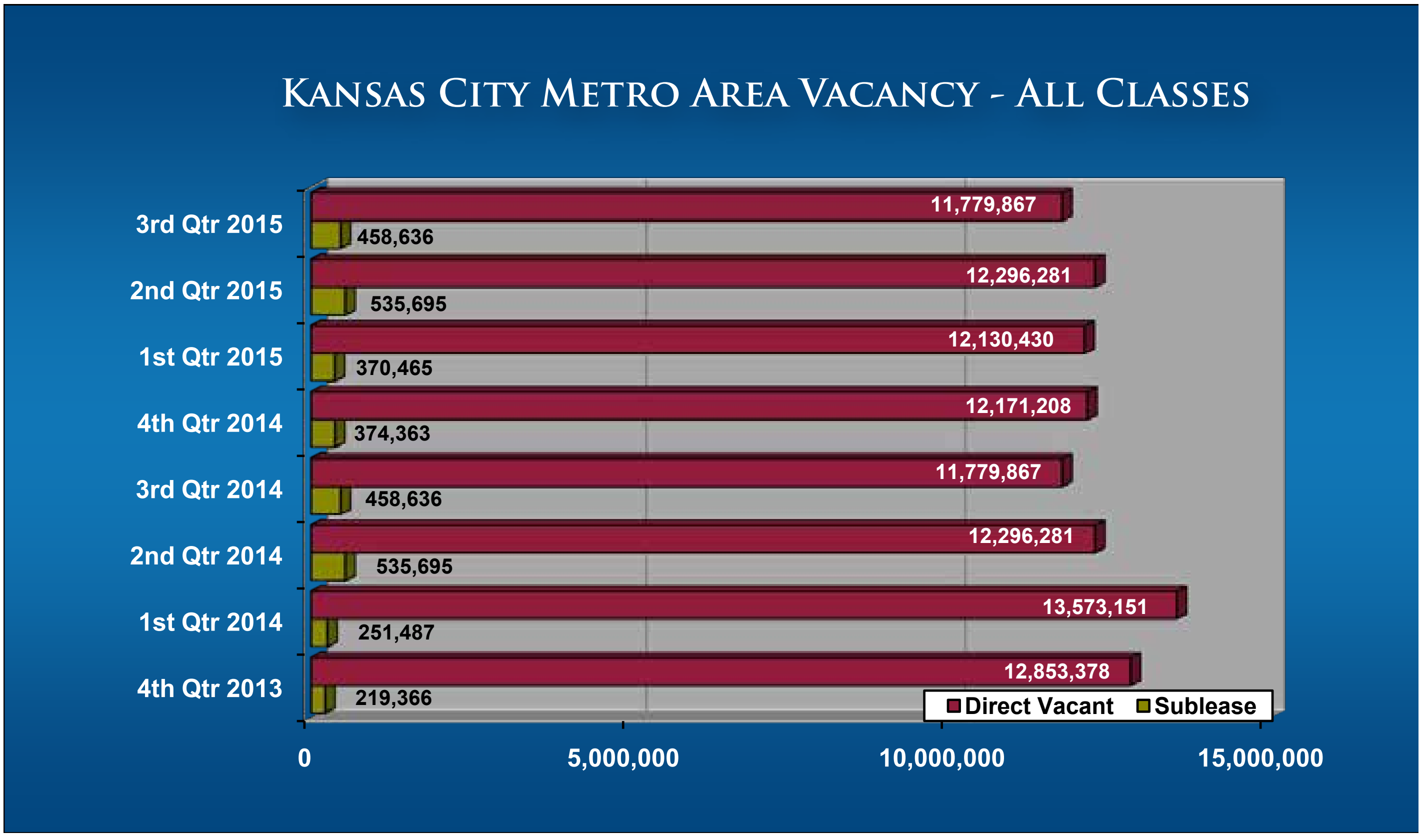
For Class C properties:

- Vacancy stood at 9% inclusive of sublease opportunities.
- The effective asking rate for direct deals and subleases was $15.07 per square feet at the end of 2015.
- Net absorption for 2015 was approximately (18,100) square feet.

CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The CBD, River Market, Crown Center, Freight House/Crossroads and West Bottoms areas make up the overall downtown submarket. These areas included a total of 27.4 million square feet and an overall vacancy of 12.9% at the end of 2015—a significant drop from 14.2% in 2014. The total available space for the downtown submarket was 3.53 million square feet, which included 111,884 square feet of sublease space.

Overall, Class A properties saw the highest vacancy rate of 19.2% or 1.55 million square feet. However, most of the positive trend in overall downtown vacancy was a result of Class A absorption. Class A properties reported positive absorption of 333,937 square feet, a substantial increase from 3,352 square feet in 2014. The largest driver of this absorption: several companies relocating their back office operations to Kansas City from elsewhere in the country.



The vacancy rate for Class B properties decreased from 11.7% in 2014 to 11.2% in 2015. Several apartment conversion projects contributed to the positive absorption of 175,501 square feet. The Class B market consisted of 193 buildings and 14.67 million square feet. Class C properties had absorption of 55,570 square feet and a vacancy rate of 6.9%.

Central Business District. The CBD consisted of 17.6 million square feet and reported an overall vacancy rate of 14.3%, which was down from 14.9% at the end of 2014. The area enjoyed a positive absorption of 250,471 square feet. The Class A buildings saw the highest vacancy rate of 21.3% at the end of 2015. That was lower than the 23.1% vacancy rate reported at the end of 2014 and higher than the rate of 20.6% in 2013.

Class B properties in the CBD consisted of 107 buildings and 10.1 million square feet and experienced a reduced vacancy rate of 12.9% and positive absorption of 131,567 square feet.

The Class C submarket consisted of 66 buildings and 2.3 million square feet. Class C properties reported a vacancy rate of 4.4% and the absorption of 25,996 square feet. Overall, rental rates in the CBD ended the year at $16.85 per rentable square foot, up nearly $.26 from 2014.

Crown Center. The Crown Center submarket included 70 buildings totaling 6.22 million square feet. The vacancy rate at the end of 2015 was 9.7%, which was considerably lower than the 13.5% vacancy rate reported at the end of 2014.

The eight Class A buildings in this submarket experienced a vacancy rate of 14.6%, or 369,227 square feet, with positive absorption of 234,512 square feet. This can be attributed to Littler Mendelson, PC and Sedgwick, LLP relocating back office functions from elsewhere in the country.

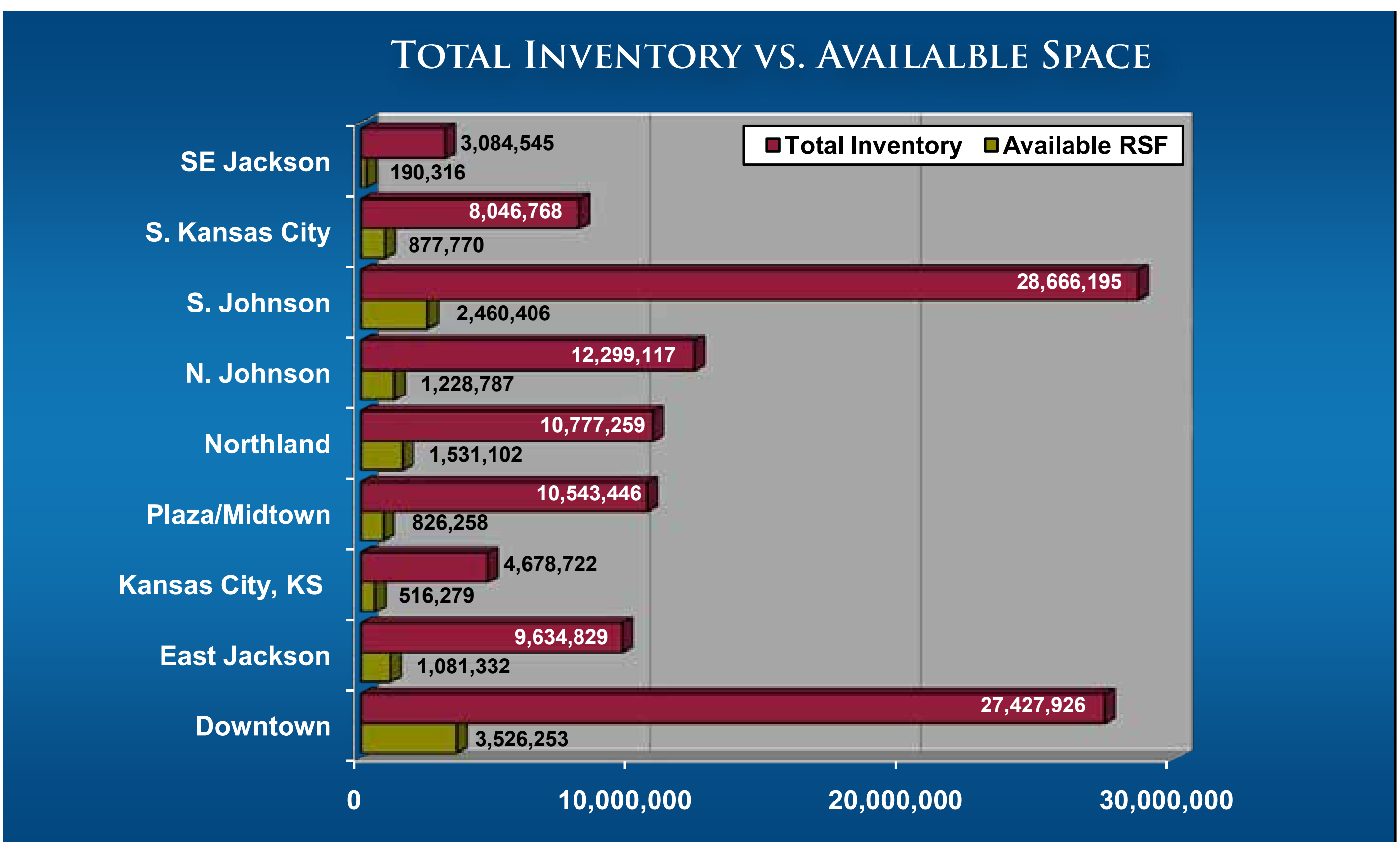
Within the 26 Class B buildings, vacancy rates were down to 4.1% with absorption of 29,870 square feet at the close of 2015.

PLAZA/MIDTOWN

The Country Club Plaza continued to demand the highest rental rates in the city at an average quoted rate of $22.82 per square foot in 2015, up $.10 per square foot over 2014. When combined with the Midtown and Brookside submarkets, the area included over 10 million square feet and had a vacancy rate of 7.8%, 2.8% lower than the city average. Options for large users wanting a Plaza address continued to be limited. Only five buildings had vacancies of at least 20,000 square feet. One of these buildings was still under renovation at the end of 2015, and two were targeted for redevelopment.

The Country Club Plaza market consisted of 118 class A, B and C buildings. These buildings had a 7.2% overall vacancy, down from 9.5% a year ago, and boasted an average quoted gross rent of $22.82 for all building classes.

The biggest contributor to the Plaza's absorption was the relocation of CBIZ back to the Plaza from Kansas, which came with $26 million in incentives from the state of Missouri. CBIZ signed a 15-year lease for 120,000 square feet at 700 W. 47th St., backfilling the space vacated by Polsinelli two years earlier when the law firm moved its headquarters to the Plaza Vista office tower.



Mariner Holdings Inc. will be relocating their headquarters to Nall Corporate Centre II, a new five-story 150,000 square foot office building at College Boulevard and Nall Avenue in Overland Park, Kansas. The $34 million project will be developed and managed by BRES and will be completed Fall 2016.

Also contributing to the positive absorption was NCM Associates' move across the state line to 4717 Grand Ave., taking over 36,000 square feet of space.

The Brookside and Midtown portions of the submarket offered 306 buildings with a combined total of 5.4 million square feet. Midtown accounted for 4.8 million square feet of that total. Midtown's 5.7% vacancy rate, second lowest in the city, attests to the desirability of its central location and proximity to the Plaza.

SOUTH KANSAS CITY

The South Kansas City submarket included approximately 8 million square feet throughout 253 buildings. The area included buildings along Ward Parkway from Wornall Road north to 75th Street, the buildings surrounding Holmes and I-435 as well as the Cerner complex at I-49 and I-435.

The overall vacancy rate for the South Kansas City submarket decreased from 11.7% at the end of 2015 to 10.9% at the end of 2014. Consisting of 2.6 million square feet over 14 buildings, the Class A properties posted a vacancy rate of 10.2% at the end of 2015. Class B properties posted the highest vacancy rate within the submarket at 11.7%. The Class B properties are made up of 99 buildings spread over 4.3 million square feet. The lowest vacancy rate for 2015 was reported in the Class C properties. Class C properties, which consist of 990,000 square feet and 140 buildings, ended 2015 with a vacancy rate of 9.4%. The South Kansas City submarket experienced a negative absorption of 17,568 square feet at the end of 2015.

The two main players in the South Kansas City market, Cerner and Burns & McDonnell, continue to work on their new projects as they expand their workforces. Cerner expects to deliver its first building at its Trails Campus in late 2017. Burns & McDonnell expects to deliver its headquarters expansion along Ward Parkway in late 2016.

The South Kansas City market posted an average rental rate of $17.14 per square foot at the end of 2015 compared to $17.05 per square foot at the end of 2014. Rental rates ranged from $19.19 per square foot in Class A buildings to $12.63 per square foot in Class C buildings. The South Kansas City market continues to lure tenants because of its accessibility and proximity to I-435 and the Kansas state line.

NORTH OF THE RIVER

Defined as that portion of the Metropolitan Statistical Area (MSA) north of the Missouri River, this submarket includes both Platte and Clay counties in Missouri and is geographically one of the largest submarkets in the metropolitan area and the fourth largest submarket in terms of total square footage, exceeding 10.7 million square feet across all classes. Despite several positive attributes—its size, proximity to the Kansas City International Airport, a well-developed interstate system and price value, the submarket has historically underperformed most other submarkets in the MSA. The North submarket did, however, experience positive net absorption in 2015 of nearly 125,000 square feet through the end of the third quarter. This represented the second consecutive year of positive net absorption for this submarket.

The 535 buildings (classes A, B and C) that make up the inventory in this submarket in 2015:

- Total over 10.7 million square feet.
- Experienced 14.2% vacancy as of the third quarter of 2015 compared to 13.5% in the fourth quarter of 2014.
- Reported an average quoted rate of $16.20 per square foot.

Average quoted lease rates in the submarket were $16.20 per square foot, full-service, compared to $16.04 in the end of 2014. Average quoted rents for Class A buildings were $18.54 and Class B rates averaged $15.97. Actual effective rents in Class B buildings were significantly less than quoted rates, as landlords continue to offer significant incentives to qualified tenants.

The relative age of the product in this submarket was 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 reported a vacancy rate of 22.3%. This was due almost exclusively to the former CitiBank Center that had a vacancy of over 197,000 square feet. Excluding this property, the Class A sector performed well.

Several companies signed significant new office lease in 2015, including Tri West Healthcare (66,000 square feet) and GSA/ATF (31,000)—great positives for the submarket. These positive transactions, however, were tempered by several major tenants announcing they were relocating outside of the submarket. These included Wire Co and Dairy Farmers of America, both taking advantage of relocation incentives offered by the State of Kansas.

In 2016, value-oriented users are expected to acquire additional space though purchases or landlord-incentivized leases. The availability of large blocks of space, including a number of full buildings, should start to attract the attention of large users in an otherwise tight market in the Kansas City MSA. At year-end, only eight blocks of available space—50,000 contiguous square feet or larger—were available in the submarket.

EAST JACKSON COUNTY

East Jackson County continued to grow in the residential and retail sectors in 2015, but the area continued to lag in the office saturation and development. This submarket comprises East Kansas City, Independence and Blue Springs, Missouri.

The East Jackson County submarket consisted of 747 office buildings and 9,634,829 square feet. As 2015 came to a close, it had a vacancy of 11.2%, which was flat from a year prior. Going into 2016, this submarket had 1,081,332 square feet available for lease.

Although East Jackson County took a step back in 2015 in terms of net square footage absorption by nearly 80,000 square feet, the submarket was able to see an increase in average quoted rental rates from $15.20 in 2014 to $15.19 in 2015.

This submarket's vast majority of office product was in the class B and C markets, but Class A held the lowest vacancy rate at just 4.4%. Only 15,507 square feet of the 353,372 square feet Class A office space in the market were currently available at year-end.

East Jackson County's Class B market continued to struggle in 2015 with its largest vacancy rate of 14.2%—723,473 square feet of the 5,100,559 square feet in the Class B market were available. The market's one positive outcome in 2015 was its net absorption of 21,215 square feet.

Class C office space included 4,180,898 square feet. Of that, 342,352 square feet were vacant—a vacancy rate of 8.2%. Class C saw a turn in absorption this year compared to 2014, with a negative 8,324 square feet.

The delivery of a 10,283-square-foot Class B building was one highlight in East Jackson County in 2015. Another was a 5,100-square-foot building currently under construction with a first quarter 2016 delivery date.

> Office markets across the metropolitan area experienced increases in occupancy and rental rates which was directly related to the lack of new office construction.

SOUTHEAST JACKSON COUNTY

Southeast Jackson County consists of parts of Lee's Summit and Grandview. It was the smallest submarket in the Kansas City MSA in 2015 with only 238 office properties.

For the third consecutive year, overall office product vacancy decreased in Southeast Jackson County. It ended 2015 with a 6.2% vacancy. Of the 3,084,545 square feet in the submarket, only 190,316 square feet were available and averaged $16.71 per square foot.

The Southeast Jackson County submarket had only 103,442 square feet classified as Class A in two buildings. With just 4,418 square feet available, Class A had a low vacancy rate of 4.3% and an asking rate of $24.50 per square foot.

Class B product in the submarket held a strong vacancy rate as well, just 5.4%. It comprised 104 buildings with 2,278,095 square feet of Class B product and had a vacancy of 122,006 square feet. The average asking rate was $17.69 per square foot.

Class C product helped hold back the Southeast Jackson County submarket in 2015, with 63,892 square feet available of the total 703,008 square feet and a vacancy rate of 9.1%.

Additionally, the asking rate averaged only $13.28 per square foot.

The Southeast Jackson County submarket did see a new lease of 9,000 square feet signed by American Family Insurance. Several companies renewed sizable leases in 2015: Diodes Inc. with 73,785 square feet, American Century Services Corp with 30,000 square feet and Capgemini America with 18,000 square feet.

KANSAS CITY, KANSAS

The Kansas City, Kansas, submarket saw considerable growth in recent years with new investment coming from The Legends, the University of Kansas Hospital, Cerner Corp. and, more recently, commercial developers at 39th Street and Rainbow Boulevard. But the submarket as a whole continued to struggle.

The submarket's vacancy rate increased from 10.8% in 2014 to 11.0% at 2015 year-end, with 516,279 square feet available. This continued the regression seen between 2013 and 2014. A summary by class:

- Class A office properties, which included 934,574 total rentable square feet of space, continued to struggle within the submarket and had no YTD net absorption. This submarket currently had a vacancy rate of 21.8%.
- Class B properties held the largest amount of square feet in the submarket with 2,005,003 total rentable square feet. The vacancy rate increased from 10.3% in 2014 to 10.4% in 2015.
- Class C properties held the second largest amount of square feet with 1,739,145 total rentable square feet. This class also saw increased vacancy—6.0% at the end of 2015 up from 5.4% a year earlier.

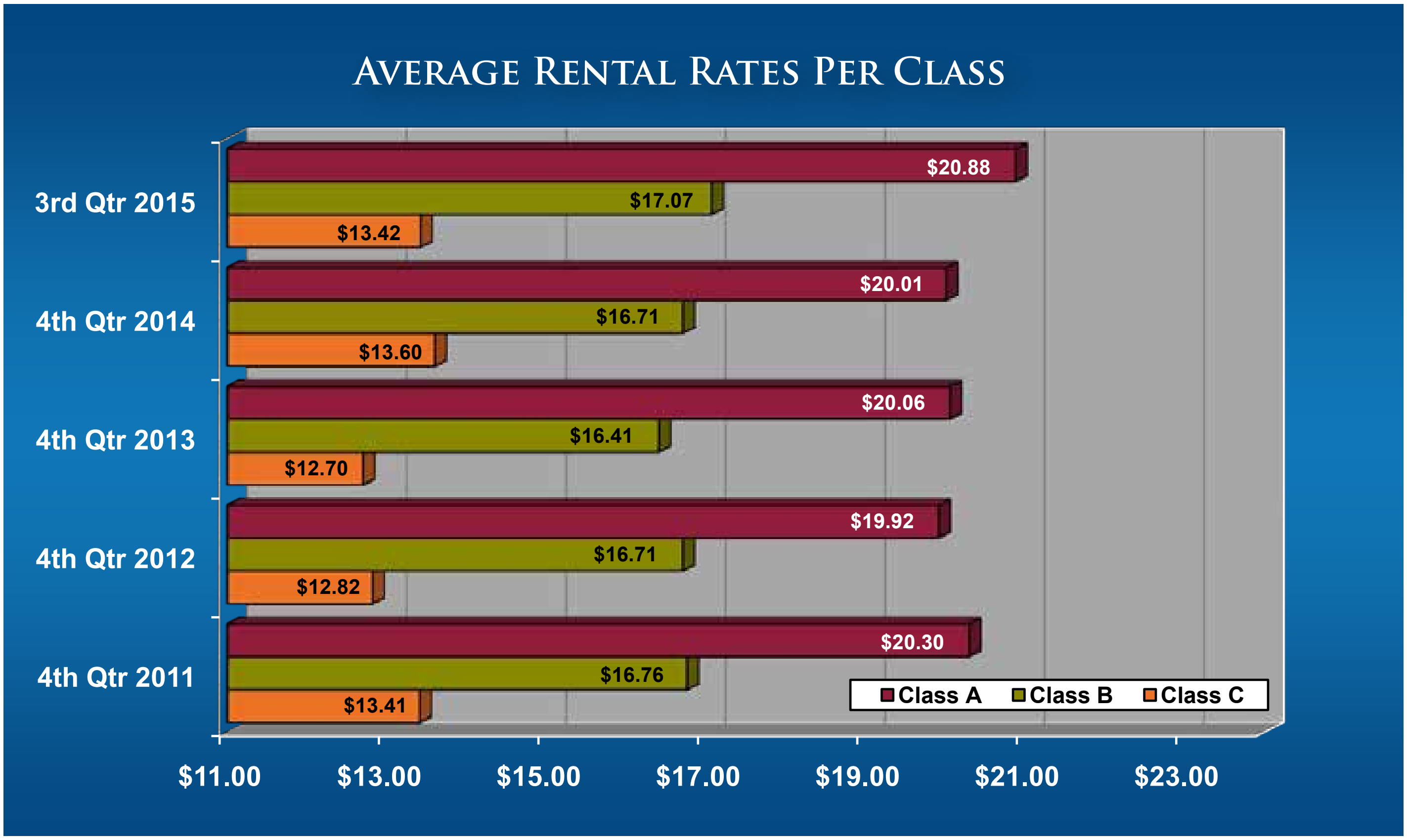
Two highlights in Kansas City, Kansas, in 2015 were the announcement that Dairy Farmers of America planned to build a new global headquarters in the expanded Village West area, bringing 325 employees from across the state line, and the University of Kansas Hospital breaking ground on its new, seven-story, $280 million Cambridge North Patient Tower at 39th Street and Cambridge.

NEW DELIVERIES

Class A deliveries in South Johnson County led the way in 2015. Mazuma Credit Union delivered a 60,000-square-foot building in early 2015 while Block Real Estate Services (BRES) delivered Pinnacle Corporate Centre V in September of 2015. Pinnacle Corporate Centre V consists of over 71,000 square feet of Class A space along Tomahawk Creek Parkway.

NEW DEVELOPMENT

Dairy Farmers of America announced plans to move its headquarters from Missouri to Kansas and build a 100,000-square-foot building in Village West. The three-story building is slated for completion in late 2016. Cerner Corp. and Burns & McDonnell continue to work on their new projects as they prepare to expand their workforces. Cerner expects to deliver its first building at its Trails Campus in late 2017 while Burns & McDonnell expects to deliver its headquarters expansion along Ward Parkway in late 2016. Meanwhile, BRES announced that it will commence construction of Nall Corporate Centre II in 2015. Nall Corporate Centre II will be



located at College Boulevard and Nall Avenue and will consist of 150,000 square feet of Class A office space over five stories. The building will be anchored by Mariner Holdings, LLC in 59,780 square feet.

RENTAL RATES

After a four-year decline in Kansas City office market rates culminating in 2012 , average asking rental rates continued to rise as the Kansas City office market posted its 14th consecutive quarter of positive net absorption. A summary by class:

- Class A quoted rates increased from $20.01 per square foot in 2014 to $20.88 per square foot in 2015.
- Class B properties quoted rates in 2014 were $16.71 and increased to $17.07 per square foot in 2015.

FAVORABLE CLIMATE FOR CRE

The gradual improvement in the U.S. economy during the past several years continued at its modest pace in 2015 by adding 1.1 million workers and decreasing the unemployment rate from 5.6% at the end of 2014 to 5.0% in 2015. The rate is projected to further decrease to 4.7% in 2016. Kansas City experienced the same trend with unemployment falling from 5.3% in 2014 to 4.2% at the end of 2015.

At the same time, GDP grew at the rate of 2.2% in 2015 and the Federal Reserve projected continued growth in 2016 at the rate of 2.6%. This combination of decreasing unemployment and an improving business climate was already being felt by employers who were finding it increasingly difficult to hire skilled and, in some cases, unskilled employees.

This trend is likely to continue as employers experience increased demand and are forced to hire additional employees, which will eventually result in the need for more office space. More and more employers are opting to upgrade office environments to attract and retain skilled employees.

For the first time in a long time, both the Kansas City and national office markets experienced the same 10.6% vacancy rate, a direct result of the delivery of new construction lagging behind demand in virtually all markets. While Kansas City had a little over 1.2 million square feet under construction, net absorption was over 1 million square feet. That's good news for the landlords of existing buildings. As the availability of office space tightens, concessions are likely to decrease and rents are likely to increase.

As the increasing cost of new construction drives rents higher, the market for existing office space will tighten further as tenants needing more space continue to opt for existing space whenever possible. Employers needing substantial amounts of space will be forced to consider build-to-suit opportunities.

Contributors include: Matthew Spachman, Senior Vice President; Estel Hipp, Senior Vice President; Don Maddux, Senior Vice President; Hunter Johnson, Vice President; Bruce Johnson, Vice President; Josh Gabriel, Vice President; Mike Comiskey, Sales Associate; and Max Wasserstrom, Sales Associate.

The Renaissance III building at 7045 College Blvd in Overland Park was purchased for $42 million at a 7.80% cap rate by St Paul Fire and Marine, a subsidiary of The Travelers Cos. Inc. The 233,820 square foot building is 100 percent occupied by Zurich American Insurance Co. and Intouch Solutions Inc.

Kansas City
Industrial Market

Flexsteel Industries Inc. recently purchased their 500,000 square foot, build-to-suit building at the Logistics Park KC located near 191st Street and Waverly Road. This building is a part of over 3.6 million feet built in Logistics Park KC over the last three years.

Kansas City's industrial market is exploding with new Class A bulk distribution buildings. And the market shows no signs of slowing down.

During the past 36 months, more than 11.6 million square feet of industrial space has been built. Most of it has been speculative and in bulk distribution, cross-dock buildings, and most of these projects were successfully leased before or shortly after shell construction was completed. An additional 6+ million square feet is under construction, with about 4 million square feet of that expected to be delivered by mid-2016. Another 3+ million square feet is scheduled to break ground in the next six months. This is more than triple the historic average rate of construction of about 1.6 million square feet in the Kansas City area. The Kansas City Metro area ranks sixth most active for industrial real estate construction activity in the United States, according to CoStar, a comprehensive commercial real estate database.

With a current overall industrial vacancy rate of just 5.9%, further construction and rent growth is inevitable. New development in 2016 should double the average again, based upon the projected construction starts. With the decreasing vacancy rate over the past several years, average effective rental rates have increased. The continuous vacancy decline coupled with the increase in rates has helped spur additional construction.

The Kansas City Metro area ranks sixth most active for industrial real estate construction activity in the United States, according to CoStar, a comprehensive commercial real estate database.

Vacancy for Class A bulk industrial properties is now near 5%, and even with this seeming glut of new space coming to the market, the historic vacancy rate has dropped from 7.1% at year-end 2014 to the current level. The region's absorption rate, which is the net square footage filled after new vacancies are subtracted from sales and leases that have taken place, has run about 1.9 million square feet per year. But in 2014, it dramatically increased to 4.4 million square feet, and in the second quarter of 2015 alone, nearly 1 million square feet of additional space was absorbed.

The features that seem to be most in demand in these new modern facilities are cross-dock (dock door loading on both sides), 36-foot ceiling clear height and at least one dock door for every 10,000 square feet of building space. Typically, these facilities also have a trailer drop area located across from the loading docks, along with features that make them more energy efficient, such as windows to aid in lighting, LED lighting, and better insulation.

What is leading Kansas City's growth?

Kansas City is benefitting from the shift to e-commerce. Online sales make up about 7% of all retail sales currently but are continuing to grow at a rate of 15% per year. Ultimately, e-commerce is expected to account for about 50% of all retail sales.

Kansas City's central location, great labor force and affordable lease rates offer an exciting value proposition for businesses and savings in transportation costs. About 85% of the United States is accessible via two-day shipping by truck from Kansas City, making it an ideal place for e-commerce companies to locate their fulfillment and distribution centers. Kansas City is also the largest rail hub in the nation, in terms of rail tonnage moved, and has the rail lines that provide coast-to-coast and Mexico-to-Canada corridors right through the city. It is the No. 2 trucking center in the United States, providing more freeway miles per capita than any other major city.

Several factors make Kansas City a very competitive environment for logistics and freight movement:

- More Foreign Trade Zone space than any other city in the United States.
- An airport that moves more air cargo than any other airport within a six-state region.
- A location central to the country and at the intersection of four major interstates.
- Service from five of the seven Class I railroads in the United States.

Even though the tractor-trailer remains king of the U.S. shipping sector, getting containers from the coasts inland by rail is much more economical and efficient than trucking them in and then moving them by truck from the heart of the country.

> Kansas City's central location, great labor force and affordable lease rates offer an exciting value proposition for businesses.

The Great Recession and beyond

The growth in Kansas City's industrial market started in late 2011 and early 2012. During the recession, construction of new facilities in the industrial sector continued, even though most of it was primarily for build-to-suit projects. However, compared to many other parts of the country, where construction of industrial buildings had stopped, Kansas City was very busy. Even when Wall Street was in complete disarray, companies were still willing to make major capital commitments for distribution centers located in the Kansas City market.

Since the recovery began, Kansas City has absorbed more than 5 million square feet of industrial space. For a long time, Kansas City had "big-box envy." Memphis, Indianapolis, St. Louis and Columbus, Ohio, were all getting the type of big-box activity that Kansas City sought. All of that has changed. As companies started looking more closely at Kansas City, they realized that Kansas City had become a good logical choice.

It really becomes clearer when you look at Kansas City's sweet spot for distribution companies. When a company wants a single industrial facility, or if they have a distribution center within three major hubs, Kansas City fits in well for one of those hubs. This is also true for companies that want to set up a network of five or more distribution centers. Companies that are looking for two or four major facilities usually aren't going to consider Kansas City. They will typically put one facility on each coast and a facility in Chicago and/or Dallas. UPS (United Parcel Service) has three facilities here, including the company's largest in the nation, and FedEx now has five facilities because it can reach 85% of the U.S. population within a two-day drive. Both companies are increasing their infrastructure in the city because of the growth of e-commerce.

Kansas City is also performing well, as are other industrial markets that are located near inland distribution channels, which include river navigation, rail, trucking and air cargo. Manufacturers and distributors that use trucking, intermodal and seaports need strategies to manage tight trucking capacity and rising prices associated with today's challenging transportation landscape. The Kansas City area is able to handle the increased e-commerce capacity with intermodal and/or air cargo operations.

Benefits of a diverse economy

Kansas City has always been a center of national commerce in some form. In recent years, it has emerged as the go-to site for logistics, expansion and modernization efforts. Some of the factors that work in various combinations to foster new opportunities for the region include the continuing rise of e-commerce, the increase in companies outsourcing their transportation function, near-shoring with business in Mexico, improvements in the just-in-time supply chain management, a shortage of truck drivers nationwide, advances in intermodal rail operations and new technology and the rise of Big Data.

Auto suppliers are another reason for Kansas City's growth. That industry has leased more than 2.2 million square feet in the last three years alone. Expect new waves of development as automakers continually modify models every few years and as more European parts suppliers open locations in the United States. Ford's manufacturing of its transit commercial van in Kansas City has helped the automotive sector thrive.

Auto suppliers, e-commerce, food, animal health and manufacturing distributors—the growth in many industries in this region is fueling the demand. Officials at KC SmartPort say that tenants are currently looking for more than 2.5 million square feet of space in the Kansas City area. This is in addition to the 2.1 million square feet already occupied by e-commerce distributors in the past two years. As other markets like Chicago, Dallas, Indianapolis and Memphis become congested and more people recognize Kansas City's logistical advantages, demand is expected to continue.

As more bulk warehouse buildings are nearing completion and tenants are being secured to move in as soon as they are finished, asking rates for these buildings have remained stable. But because a premium is placed on securing new tenants prior to completion, the developers for new construction projects may consider offering improved tenant incentives, which could push the effective rental rates lower. With all of the new construction being offered on a net basis (tenants pay taxes, insurance and common area maintenance) as compared to the older gross lease basis, at first glance rental rates may not appear to show any overall growth. But when investors factor in these net costs, they realize that Kansas City is having good, solid rent growth.

About 85% of the United States is accessible via two-day shipping by truck from Kansas City, making it an ideal place for e-commerce companies to locate their fulfillment and distribution centers.

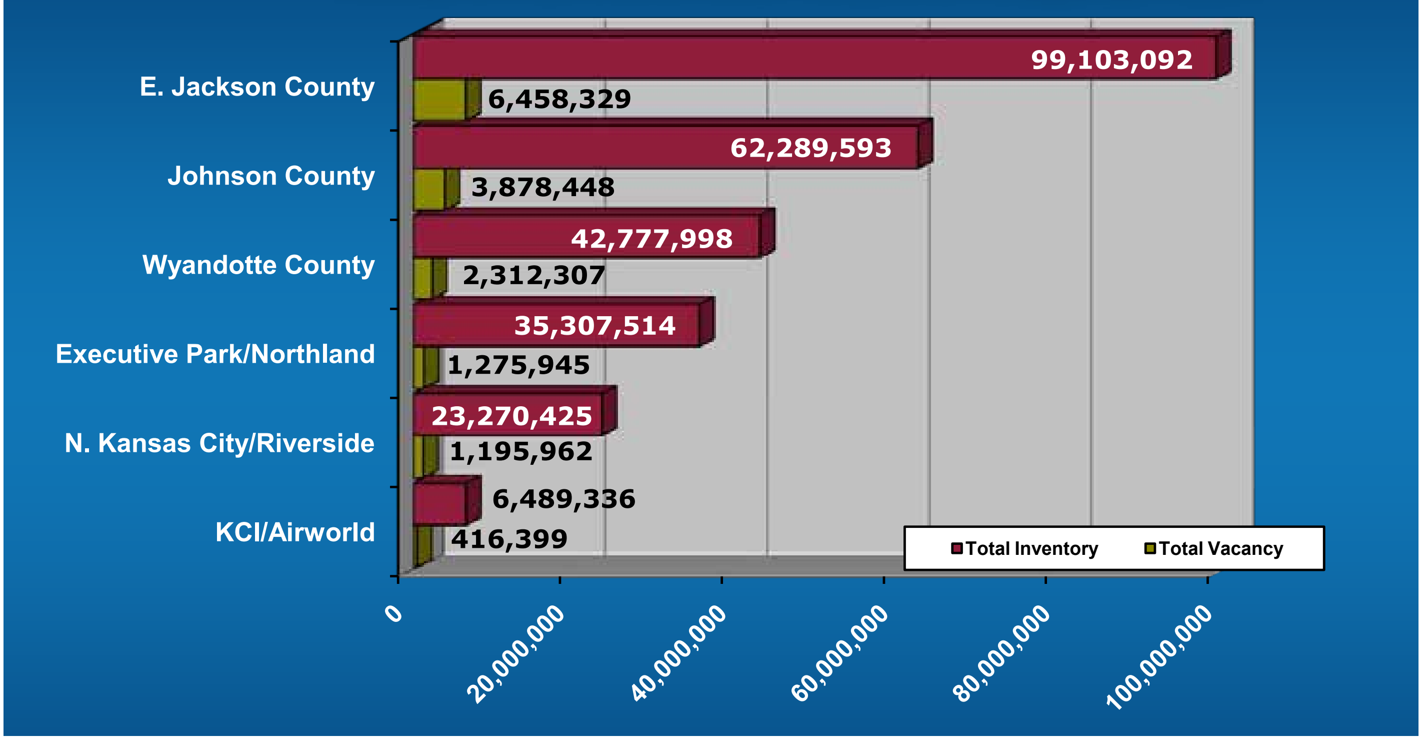
Continued strength and performance

Enthusiasm in the market remains high as more speculative buildings are being announced. Based on the absorption that is occurring, some people ask if the existing space in the industrial market is enough to meet demand. Overall, the Kansas City industrial market continues to show incredible strength and performance. The market is in the expansion stage. Moderate to high levels of new construction, high absorption, decreasing vacancy rates and medium to high rental rate growth are expected.

Today's large industrial space users are now requiring 36-foot ceiling clearance as well as cross-dock building designs, which is driving demand for these modern buildings. In addition, the decision-making timeframe for most companies prohibits a build-to-suit project and is thus pushing the speculative construction market. E-commerce tenants often require new distribution facilities to be ready to occupy within seven months of a location decision, which makes speculative construction crucial to signing these users. Many corporations have extensive decision-making processes. When they are finally ready to make the commitment, they usually prefer to move into existing, speculative-built construction.

Kansas City is finally in that position of having speculative construction, which includes having multiple buildings of over 600,000 square feet, to provide these large distribution companies the space they need, when they need it. High tenant demand, strong market fundamentals and affordability all contribute to the consensus that Kansas City will continue to attract regional and national distributors.

Total Inventory and Vacancy (Square Feet)



INDUSTRIAL MARKET

JOHNSON COUNTY, KANSAS

Demand for bulk industrial development in Johnson County remained strong in 2015, continuing a trend that started in 2013. All signs point to this remaining a hallmark of the submarket in 2016.

The primary growth in the metropolitan area—in population and in economic and industrial development—continued to be in the west and southwest portion s of the Metro area, along the I-35 corridor. Economic incentives by the state and local municipalities further fueled development. "Bigger" turned "huge" in large-scale, multi-building projects in Johnson County. More than half of all bulk and modern distribution inventory in the Metro area is now in Johnson County.

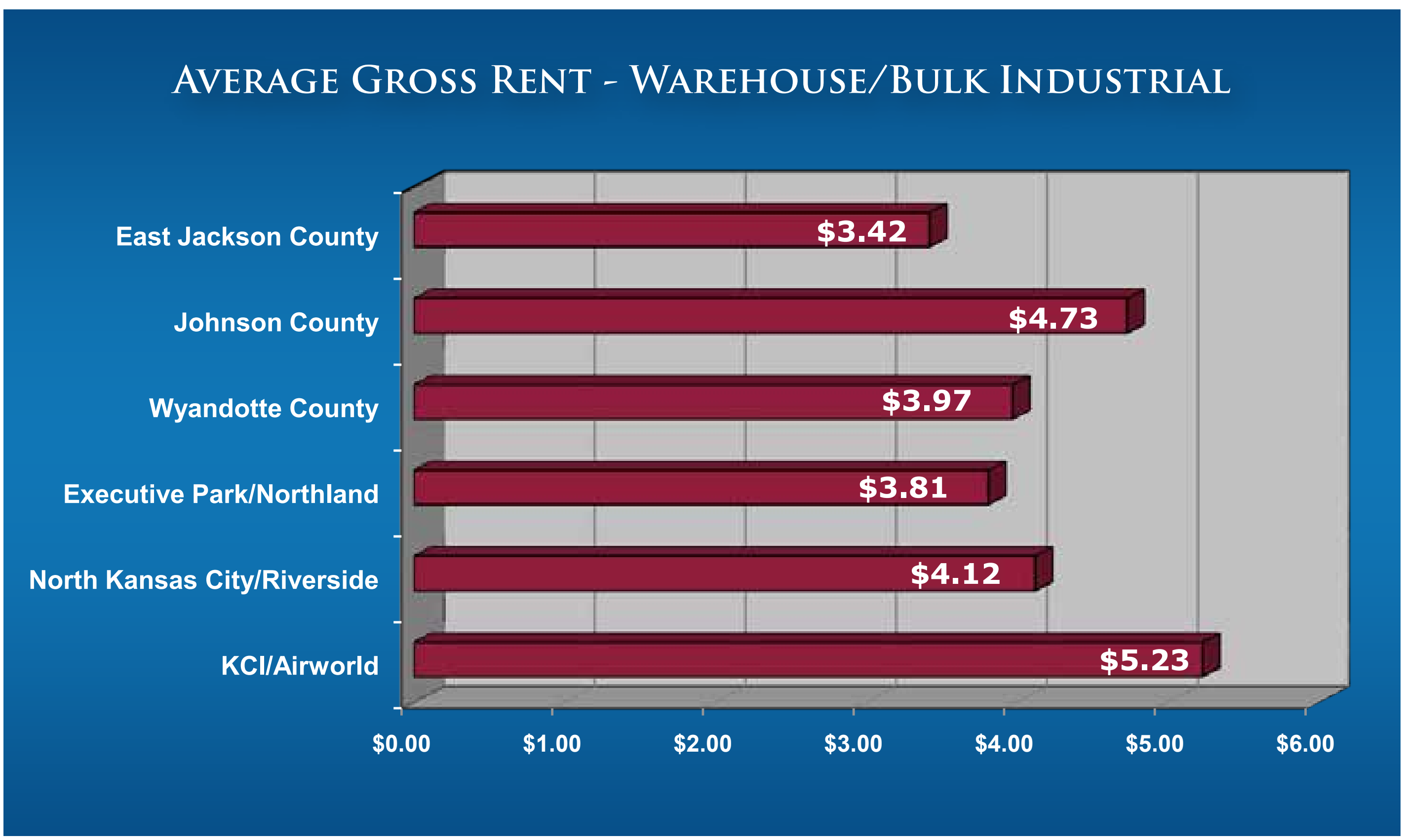
Representing
23.4% of the overall Kansas City
industrial market, Johnson County continued to be
the second-largest and most dynamic of the
K.C. submarkets.

In 2015, BRES focused on leasing and sales for three developments in Lenexa: the118-acre Lenexa Logistics Centre at 113th Street and Renner Boulevard, with 685,000 square feet of 1.7 million square feet already constructed, the 83-acre Lenexa Logistics Centre North, just north of College Boulevard and west of Renner Boulevard, that will provide another 1.36 million square feet, and College Crossing at I-35 and College Boulevard, with new buildings I of 77,038 and J of 147,246 square feet respectively.

NorthPoint Development of Riverside, Missouri, began work on the largest speculative industrial building in Kansas City history. Inland Port XIV includes 822,104 square feet at Logistics Park Kansas City (LPKC) in Edgerton and is the market's first speculative building to feature a 36-foot clear height. It reportedly will be fully leased by a well-known company, thus leading to the start of the next speculative Inland Port building of 548,333 square feet.

LPKC is expected to have approximately 3.6 million square feet of new buildings completed by year-end, in a park that currently will support up to 17 million square feet, and continues to attract new tenants. Inland Port XII, a 657,000-square-foot speculative building, was completed during the third quarter of 2014. Online retailer Jet.com and mowing equipment manufacturer Excel Industries Inc. already occupy a combined 573,000 square feet. VanTrust Real Estate, LLC of Kansas City, Missouri, is developing a 719,000-square-foot industrial facility at the northeast corner of 167th Street and Lone Elm Road in Olathe. Like the other new developments, property tax abatements are in place.

Construction has also begun on the new 496,150-square-foot speculative building under construction by a joint venture between Las Vegas-based Odyssey Real Estate Capital and Artemis Real Estate Partners of Chevy Chase, Md., which entered the market in 2014 with their acquisition of the Lenexa Industrial Park. The building, known as the Lone Elm Logistics Centre, will be a cross-dock facility at the southeast corner of 159th Street and Lone Elm Road in Olathe. This will be the first of many of the new institutional-grade facilities that feature the 36-foot clear height. It is scheduled to be



LogisticsCentre IV will consist of 432,640 square foot Class A light manufacturing/warehouse/distribution space situated on approximately 26 acres at KCI Intermodal BusinessCentre. The 687-acre business park is located on city-owned land adjacent to the Kansas City International Airport.

delivered in July 2016 with asking rental rates of $4.25 per square foot on a net basis.

Municipalities throughout the submarket are participating in the industrial development growth and are offering businesses multiple incentives to bring growth into this submarket. New sewers and improvements to a key stretch of 159th Street between I-35 and Old U.S. Highway 56 will open 1,700 acres in Olathe for development—all in advance of industrial development of several large tracts while providing east-west access to the I-35 and Lone Elm Road interchange. Existing projects that will also benefit include New Century AirCenter near Gardner, the adjacent Midwest Commerce Center and I-35 Logistics Park in Olathe.

In addition, Garmin was cleared to start the expansion of its Olathe facility by 712,842 square feet.

The Numbers

This submarket had a total inventory of 62,289,593 square feet as of the end of the third quarter of 2015, which included almost 4 million square feet of new product delivered to the market over the 18 months. Overall occupancy was 93.8% compared to 93.7% at this time in 2014. For a third year in a row, the total occupancy dipped, just marginally, and was certainly attributable to the large increase in the market supply and not necessarily a sign of lack of demand.

Representing 23.4% of the overall Kansas City industrial market, Johnson County continued to be the second-largest and most dynamic of the K.C. submarkets. Johnson County continues to lead the way with the lowest vacancy rate and highest overall rents on a per-square-foot basis.

Notable Leasing And Sales Activity

Significant new leases and renewals during the year included:

- Excel Industries of Hesston, Kansas, leased 345,705 square feet in LPKC Inland Port XII in Olathe.
- Edgerton-based Smart Warehousing expanded by 221,940 square feet to total of 575,000 square feet at LPKC at 18905 W. 191st.
- Rally House / Kansas Sampler of Lenexa subleased 120,000 square feet from Ash City, USA that moved to larger quarters in Edwardsville in 2014
- Quidsi Logistics of Jersey City, NJ, leased 101,740 square feet at the former Corporate Express Building in Lenexa.
- Lenexa-based Regal Distributing Co., Inc.on leased 94,343 square feet at Lenexa Logistics Centre's new Building 5.

Leasing continued to outpace owning in 2015. Potential buyers are slowly reversing the impression that the market is still depressed from the recession as actual conditions demonstrate otherwise. A few notable owner-occupant purchase transactions of the year include:

- Flexsteel Industries Inc., based in Dubuque, Iowa, bought a 500,150-square-foot building at Inland Port I in Edgerton.
- The 276,219-quare-foot Westlake Ace Hardware building in Lenexa was sold to STAG Industrial Management, a Boston-based real estate investment trust, for Realty Income Corp.

HSA Commercial Real Estate reached a deal with fellow Chicago-based firm Quadrangle Development Co. to acquire the Renner Commerce Center in Lenexa, Kansas.

EXECUTIVE PARK AND NORTHLAND PARK

Executive Park and Northland Park are major industrial parks in Kansas City. Both are located adjacent to the Missouri River, on the south and north sides respectively. They offer the usual mix of flex and warehouse space in addition to the modern bulk space.

Executive Park is almost fully developed, but it is still a mainstay for companies wanting to stay on the Missouri side of the metro area and enjoy relative modern buildings at lower occupancy costs. It is the most developed industrial park located within Kansas City, Missouri. From its location—between I-35 on the west and I-435 on the east and along Front Street, companies have tremendous access to the rest of the metro area.

Located just northeast of Executive Park, Northland Park is newer and contains versatile buildings that offer reasonable lease rates along with excellent highway access. As a newer development, Northland Park is often appealing to 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. Its close proximity to the Ford's Kansas City Assembly Plant in Claycomo is advantageous to many of its users as well.

Demand goes underground

This submarket consists of 35.3 million square feet in 395 buildings, above ground. Of that, over 34 million square feet is distribution-oriented warehouses or modern bulk industrial space. In addition, the submarket includes another 28.6 million square feet across 53 underground properties. 5 million square feet of which is distribution space. These underground developments offer a controlled climate but much lower stacking heights.

Underground developments appeal to businesses in assembly, light manufacturing, records storage, data centers and food distribution and storage. The existence of the underground development creates a kind of "governor" effect on the rental rates for above-ground buildings that have lower ceiling height in this submarket as well as other submarkets throughout Kansas City.

Lease rates for industrial warehouse space for 2015 averaged $3.81 per square foot, while flex spaces averaged $5.81 per square foot, the lowest averages for each, such in the Kansas City market. The combined average equaled $3.86 per square foot, which is very competitive in Kansas City.

New development and construction

Because of the growing demand in automotive supply, e-commerce and data centers developers working in the Executive Park submarket have been much more active this year than in previous years. The Universal Land Development Co. of Kansas City, Missouri, has a 60-acre site with frontage along the east side of I-435 and just south of the Missouri river levee. The first of four buildings in the $52 million development will be a 250,000-square-foot Class A industrial facility. Construction is expected to start in early 2016 and be on a speculative basis. All four buildings planned to be completed in 2020 and will have tax abatement of 100% for the first 10 years and 50% for the next 15 years.

The submarket includes another 28.6 million square feet across 53 underground properties. 5 million square feet of which is distribution space. These underground developments offer a controlled climate but much lower stacking heights.

Hunt Midwest Enterprises (HME) in Kansas City, Missouri, another active developer in the submarket, plans to start on a 200,000-square-foot bulk distribution center in 2016. HME has completed a 126-acre expansion of its surface business park in Kansas City, a likely result of growing demand from the automotive supply and data center industries. The company's Hunt Midwest Business Center offers 2 million square feet of warehouse and distribution space in a location that is just south of Ford's Claycomo assembly plant. The site also is adjacent to the Norfolk Southern intermodal facility and one of Kansas City's FedEx ground hubs and has direct access to I-435.

The site will include buildings designed for single-tenant and multitenant users, ranging in size from 200,000 to 875,000 square feet. The development has 50% tax abatement for 10 years for buildings over 100,000 square feet. HME says that they will consider options for companies locating on the site, including land purchase, build-to-suit and lease options.

Highlights on 2015

Activity in larger spaces during 2015 was strong and should carry over into 2016. Overall, the vacancy rate decreased from the 4% at the end of 2014 to 3.6% in 2015.

Notable activity in this submarket Executive Park included:

- Murphy Logistics of Kansas City, Missouri, added 150,000 square feet at 6000 Stilwell St.
- 24/7 Express Logistics of Kansas City, Missouri, leased 111,821 square feet at 5400 Deramus Ave.
- Wellco Holdings Inc. of Chesterfield, Missouri, leased 75,000 square feet at 6010 Equitable Rd.
- Black & McDonald of Kansas City, Missouri, purchased a neighboring 55,000-square-foot building for expansion at 6001 Front St.

NORTH KANSAS CITY/RIVERSIDE

The North Kansas City/Riverside submarket consists of two smaller Missouri communities that offer the most centralized industrial location in the metro area. The submarket is north of and adjacent to the Missouri River and directly across the river from the downtown Kansas City business core.

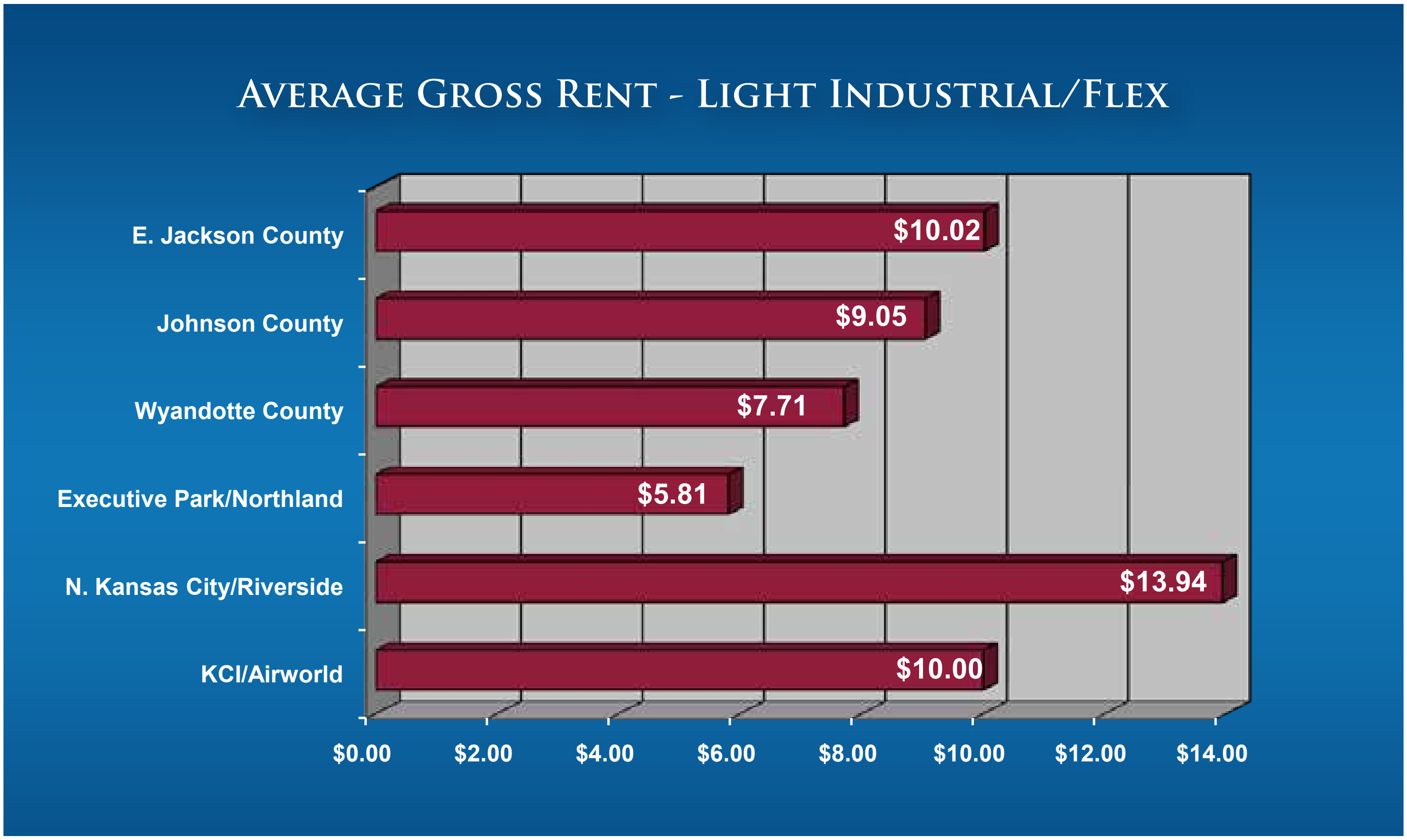
While both municipalities include industrial buildings in all quality classes, North Kansas City has abundant class B and C inventory developed in the 1940s through the 1970s. Riverside accumulated most of its building stock throughout the 1980s and early 1990s. Flooding in 1993 slowed industrial development, but a new Riverside levee system and market demand for metropolitan infill development have reinvigorated the Riverside industrial market over the last five years.

Easy access to I-70, I-29, I-35 and I-635 makes this submarket attractive to users who need to reach all areas of the metro and beyond. The submarket competes favorably with other centrally located submarkets that have adverse conditions ranging from higher crime to higher taxes. In Kansas City, Missouri, submarkets like Executive Park and Northland Park, employees and corporations are subject to a 1% earnings tax. In the Kansas submarkets of Wyandotte and Johnson counties, property taxes significantly exceed those in other metro submarkets.

In the Riverside portion of the submarket, development within the Riverside Horizons industrial park continues to drive growth in the overall submarket, which now consists of over 23 million square feet. Industrial vacancy was 5.10% at the end of 2015, down more than 2% from 2014. Lease rates for bulk industrial warehouse space for 2015 averaged $4.12 per square foot while flex spaces averaged $13.94 per square foot. Combined, the average rent was $4.18 per square foot, due to the disproportionate amount of bulk industrial inventory versus flex space and the reduced demand for class B and C flex inventory, which resulted in higher rates but fewer leases in that product segment.

Notable transactions in Riverside

- Two companies serving the automotive industry signed leases at Riverside Horizons IV—a 341,760-square-foot speculative bulk distribution building developed by Riverside-based NorthPoint Development and delivered in late 2014. M&M Quality Solutions Inc. of Kansas City, Missouri, signed a lease for 118,994 square feet in the first quarter and US Farathane Corp. of Auburn Hills, Mich., for 222,766 square feet in second quarter.
- NorthPoint broke ground on Riverside Horizons V, a 491,448-square-feet speculative bulk distribution building that is scheduled to deliver at the end of the first quarter of 2016.
- Block Development Co. broke ground on Riverside Logistics Centre, a speculative cross-dock bulk distribution center of 245,343 square feet, scheduled to deliver at the end of the first quarter of 2016.
- Block Funds also acquired a 275,560-square-foot, build-to-suit manufacturing and distribution building for Ontario-based Martinrea International Inc., which produces metal parts, assemblies and modules focused primarily on the automotive sector.
- NorthPoint also delivered a 29,000 square foot, build-to-suit, temperature-controlled warehouse and processing building to Kansas City-based Seattle Fish Company in Riverside Horizons.



Block Real Estate Services, LLC just recently completed construction on College Crossing Buildings I and J adding 77,038 and 147,246 square feet respectively. College Crossing is a 773,848 square foot business park in Lenexa, Kansas which caters to the light industrial users in Johnson County.

- Premium Waters Inc., based in Minneapolis, expanded its water treatment facility serving the bottled and filtered water and coffee industries. The project included a 105,000-square-foot building expansion and trailer storage lot.
- ORR Safety of Louisville, Kentucky, leased 45,000 square feet of Class B office/warehouse space.

Notable transactions in North Kansas City

- Star Pipe Products of Houston leased 115,000 square feet, Atlanta-based HD Supply leased 101,499 square feet, and CEVA Logistics of the Netherlands leased 34,286 square feet, all in the Paseo Industrial District.
- MXD Group of New Albany, Ohio, leased 78,897 square feet. Essendant of Deerfield, Illinois, previously known as United Stationers, leased 56,056 square feet, and Carpet Cushions & Supplies leased 36,960 square feet, all in North Kansas City.

KANSAS CITY INTERNATIONAL AIRPORT/ AIRWORLD CENTER

The submarket of Kansas City International Airport (KCI) and AirWorld Center is the smallest industrial submarket in the Kansas City area with about 6.5 million square feet in just 79 buildings. Of the total square footage in this submarket, over 5.7 million square feet is bulk industrial and nearly 800,000 square feet in flex space.

KCI/AirWorld's biggest asset is its close proximity to KCI, which is the preferred location for regional air-cargo transporters. It is also one of the submarkets that will likely see significant growth because of the availability of industrial-zoned large tracts or appropriate sites. Its location also provides excellent highway access, with I-29 bisecting and I-435 looping through the submarket. However, its lack of rail access and its distance from the center of the city will limit the submarket's growth.

The flex challenge

This submarket has been fairly stable during the last year. The combined overall industrial and flex occupancy for 2015 was 93.6%, with average rental rates at $6.33 per square foot at the end of 2015.

The flex portion, which mostly consists of smaller spaces, has been and continues to be the main drag on occupancy, with nearly 32% of it vacant. These smaller spaces have low ceilings and high percentages of office space—hindrances to most users who want to use the space for distribution. Another reason for the high vacancy rate is that its users are usually small and local and often prefer to be closer to the heart of the city and/or the southern suburbs along the I-35 corridor.

The bulk industrial portion of the submarket traditionally maintains higher occupancy due to the proximity to KCI and its air-cargo capabilities. Air-transit-minded and logistics tenants, who lease space in this submarket, are typically there for the access to KCI. These include some suppliers for the General Motors, Ford and Harley-Davidson assembly plants. The bulk industrial sector—mostly Class B buildings located along the east side of I-29—had a vacancy rate of 6.4% in 2015. However, four new Class A distribution facilities have been built in the submarket in the past four years.

The KCI Airport/Airworld submarket will likely see significant new growth because of the availability of industrial-zoned large tracts.

Highlights in 2015

The most notable transaction in 2015 was the expansion of Challenge Manufacturing at the KCI Intermodal BusinessCentre. Its building footprint went from 350,000 to 432,600 square feet. New York City-based Clarion Partners, LLC in conjunction with Dallas-based Trammel Crow Co. developed the building. Challenge Manufacturing is a Michigan-based automotive assembly company and is the second tenant at the park, joining Blount International of Portland, Oregon.

The park also plans to deliver another 432,000-square-foot facility in early 2016. The developers hope to continue to attract larger users who can take advantage of KCI and the Foreign Trade Zone status, which can greatly reduce costs on imported goods.

NorthPoint Development of Riverside, Missouri, purchased a 67-acre tract of land at 108th Street and Congress Avenue at Skyport Industrial Park, just east of I-29 and very close to KCI. The developer initially has stated it will not build a facility on a speculative basis. The park is home to Pure Fishing, Inc., an Iowa-based fishing company equipment company that occupies a 400,000-square-foot building, and Bunzl Distribution USA Inc., a large grocery and retail supplier based in St. Louis, occupying a new 158,000-square-foot building.

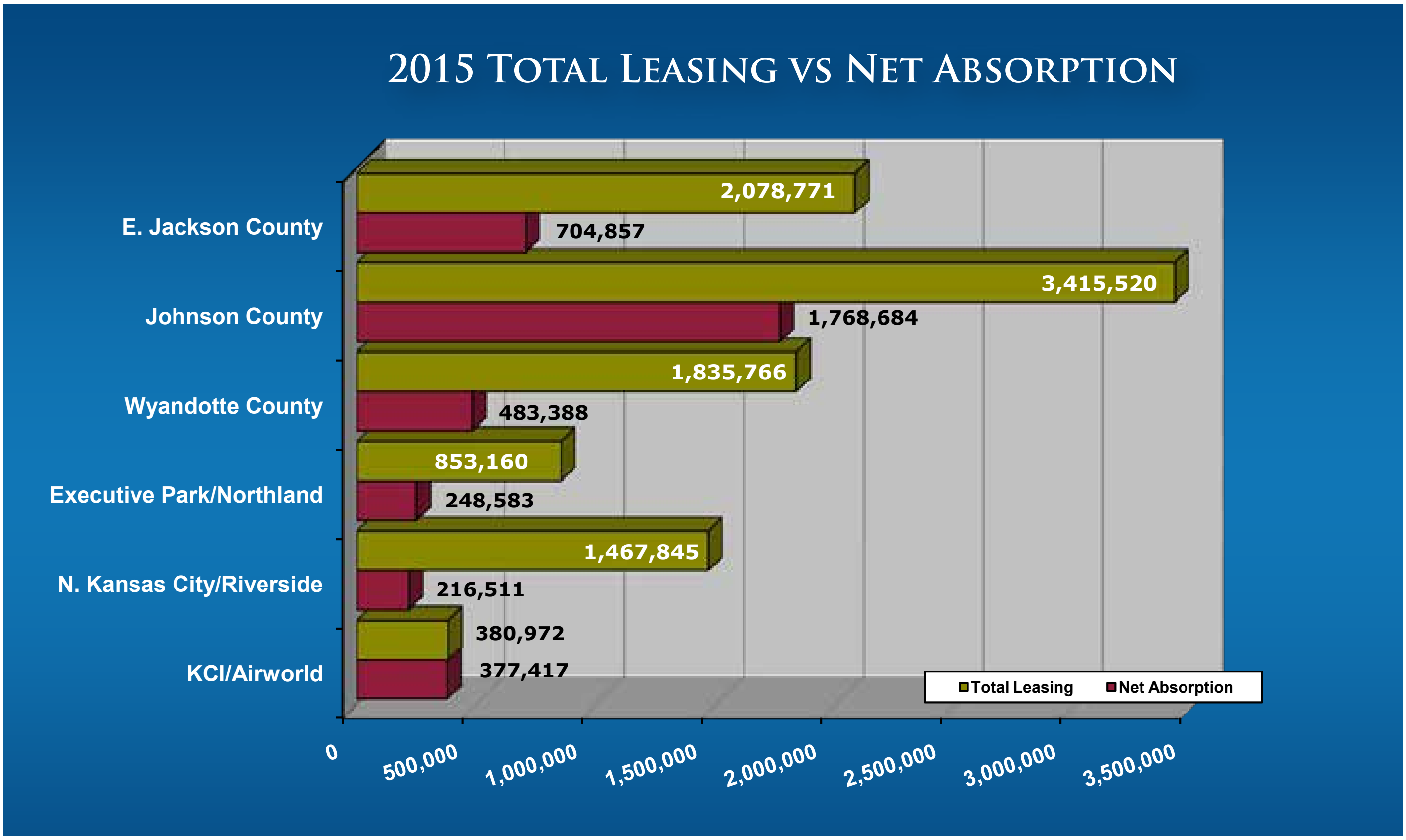
WYANDOTTE COUNTY

Industrial development in Wyandotte County started and remains predominately focused on activity in the Fairfax Industrial District (Fairfax). Fairfax's development traces its roots to 1923 when the KC Industrial Land Company, a subsidiary of the Union Pacific Railroad, purchased nearly 1,300 acres of former flood-plain land and launched a multimillion infrastructure improvement to create Fairfax with rail access and multiple spurs and sidings. That 1923 investment is equivalent to a $46 million investment today.

Currently, Fairfax and the central part of Wyandotte County's industrial development comprises almost 15 million square feet. Fairfax is in the heart of Kansas City. Wyandotte County's central location in the Kansas City Metro and 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.

Public Levee makeover

After a couple of misfires with out-of-town entities, the Unified Government of Wyandotte County/Kansas City, Kansas



(UG) teamed up with NorthPoint Development of Riverside, Missouri, to redevelop the buildings in the old Public Levee portion of the district. The result is the brand-new Kaw Point Industrial Park, consisting of a 369,000-square-foot, modern distribution building, which is 46% leased. Central Industrial Park, the 74 acres previously owned by the RACER Trust, is also ready for building development. Many of the interested users are suppliers and manufacturers of the adjacent General Motors plant.

Wyandotte County's only drawback is its lack of ready-to-develop tracts of land for industrial development projects.

CarterEnergy Corp., a division of World Fuel Services Corp. of Miami, acquired and demolished a 93,844-square-foot building at 401 Kindleberger, which was an older manufacturing/industrial warehouse with low ceiling height, situated on 5.85 acres. The company opened a compressed natural gas (CNG) service center. The facility, which opened in September of 2015, will provide one of the first Cardlock systems for customers and fleets utilizing CNG.

After leasing Woodend I to one tenant, VanTrust Real Estate of Kansas City, Missouri, developed its second building in the Woodend Industrial Park in Edwardsville. Woodend II is a 270,000-square-foot, front-loaded distribution building on Woodend Road at I-435. Georgia-based WEG Electric Corp., the first tenant in the new building, relocated and expanded from 41,000 square feet in Shawnee to 80,000 square feet here.

Prime Investments Inc., which has a large footprint in both the Armourdale District as well as Executive Park, gambled big and redeveloped part of the former Graham Ship By Truck Co.'s property into a 170,000-square-foot modern distribution center built on a speculative basis. It paid off with 100% occupancy shortly after completion.

By the numbers, Wyandotte County experienced a slight increase in vacancy during 2015, with the current industrial vacancy rate at 5.15%, up from 4.4% at the end of 2014. However, total leasing volume for 2015 was 1,835,766 square feet, which represents a 75% increase over leasing in 2014. Increased lease activity normally does not push vacancy rates up, but the slight increase in vacancy is due to the large amount of activity in speculative construction of the aforementioned buildings.

Keep in mind that the 5.15% vacancy is really showing up because of the inherent functional obsolescence of some of the older product, mostly in Fairfax. In effect, this market is running at full occupancy when stripping out the obsolescent product. 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.

Renner Commerce Center is a two-building, 157,144-square-foot industrial complex located at 10801 Renner Blvd. in the Olathe Industrial submarket. HSA Commercial Real Estate reached a deal with fellow Chicago-based firm Quadrangle Development Co. to acquire the Renner Commerce Center in Lenexa, Kansas for $13.15 million, or approximately $84 per square foot.

Construction began on Lenexa Logistics Centre North, the new 80-acre, $82-million industrial park northwest of College and Renner boulevards. The first of two 635,000 sq. foot industrial buildings is now under construction by BRES and is slated for year-end 2016 occupancy.

Notable transactions

- U.S. AutoForce of Chicago and Burlington Mattress leased 96,939 and 72,639 square feet, respectively, in Armourdale.
- North Kansas City-based Industrial Hardware Distributors Inc. leased 113,000 square feet in Fairfax.
- Kansas City Steak Co., which is owned by National Beef Packing Co., leased 110,000 square feet in the Turner Industrial District.
- Georgia-based Pratt Industries Inc. leased 106,188 square feet.
- Jakobe Furniture of Kansas City, Kansas, purchased 95,732 square feet.
- Blackjack Tire leased 71,817 square feet.
- Plastic Packaging, OHL of Brentwood, Tennessee, and Vitex Inc. of Sacramento, California, leased 56,834, 56,200 and 56,000 square feet respectively at Kaw Point.
- XenoTech of Kansas City, Kansas, leased 45,000 square feet in a freestanding building in Cambridge Circle.

Wyandotte County's only drawback is its lack of ready-to-develop tracts of land for industrial development projects. Most of the Central Industrial/Fairfax, Armourdale and Turner industrial districts are fully developed, leaving all future development to creatively re-capture existing developed sites. Edwardsville offers limited opportunities, so in the future, as these sites are built-out, Wyandotte County may consider providing incentives for the redevelopment of older, functionally obsolete properties.

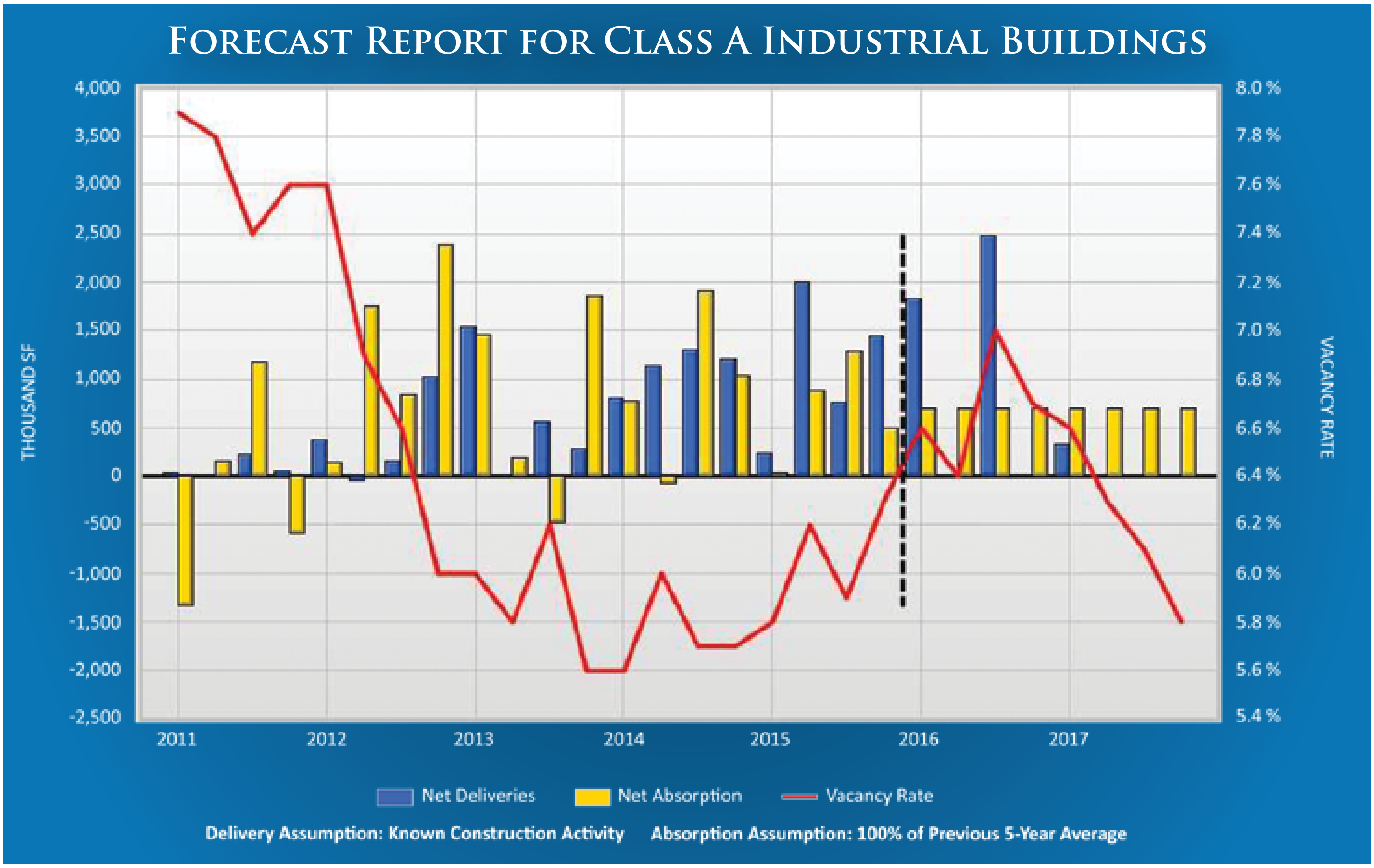
With all of the newer developments being leased, Wyandotte County has a healthy economic outlook based on its great employment base, central geographic location and strong manufacturing presence. It is poised for another good and stable run in 2016.

EAST JACKSON COUNTY

In 2015, the East Jackson submarket is the largest submarket in the metro area, with 99,103,092 square feet in 2,815 buildings located in Independence, Lee's Summit, Blue Springs, Grandview and eastern Kansas City, Missouri. This submarket performed well with an overall occupancy of 93.5%, and quite impressively, it has remained stable for the past several years with a 6.5% vacancy rate. Year-to-date (YTD) total net absorption was 704,857 square feet. CenterPoint-Kansas City Southern (KCS) Intermodal Center has spurred much of the current industrial activity in that area.

One of the key benefits this submarket offers is access to a well-skilled and an affordable workforce. Another is its excellent highway access: I-35, I-49 and I-70 as well as loops I-435, I-470, I-670 and Missouri Highway 291. At year-end, East Jackson County was poised for growth, particularly along I-49 in and near the CenterPoint Intermodal Center and the Three Trails development.

The CenterPoint Intermodal Center – Kansas City was developed on the former Richards-Gebaur Air Force Base. This



has proved effective for companies that move product north and south through the Mexican seaport of Lazaro Cardenas. KCS was the primary service provider for freight moving through Houston, Kansas City and Chicago.

CenterPoint Properties, based in Oak Brook, Illinois, developed the infrastructure of this 1,310-acre industrial park surrounding the intermodal to accommodate industrial users from 50,000 to 1.5 million square feet. The first speculative building in the park, a 300,000-square-foot building, was 100% leased at the end of 2015. The second speculative modern bulk cross-dock distribution center was expected to be delivered in the first quarter of 2016. This building will include 450,660 square feet and has 50% tax abatement for 10 years.

NorthPoint Development of Riverside, Missouri, obtained development rights on the 465-acre former rock quarry located on 87th Street between I-49 and I-435 and named this site Three Trails Industrial Park. The new Kansas City campus of Cerner Corp. is located nearby on the site of the former Bannister Mall. Directly north of Three Trails, a partnership led by Jim Stowers III is developing a 350-acre research and biotech park known as Oxford on the Blue.

Three Trails has the capacity for up to 1.5 million square feet of buildings. Two buildings were under construction at the end of 2015. Three Trails I, a 364,015-square-foot, bulk cross-dock distribution building, was 75% leased and nearly finished by the end of 2015. Three Trails II, a 331,280-square-foot, bulk cross-dock distribution building, was under construction. Both of these buildings received 20-year property tax abatement, with the first 10 years at 100% abatement and the second 10 years at 50%.

Notable transactions in 2015

- Sioux Chief Manufacturing Co., a family-owned plumbing supply firm currently based in Peculiar, Missouri, purchased land and was preparing to break ground for a $40 million, 596,000-square-foot facility at CenterPoint. The building can be expanded to 1 million square feet.
- Fike Corp. based in Blue Springs, another privately held manufacturing company, purchased a 30-acre-site in Lee's Summit, with plans to construct a 426,350-square-foot office and manufacturing/distribution facility.
- Boulevard Brewing Company of Kansas City, Missouri, leased 182,000 square feet at Three Trails I.
- Commonwealth Inc., a Cincinnati-based third-party logistics company new to the Kansas City market, leased 101,584 square feet at Three Trails I.
- ReallyGoodStuff.com, an online retailer based in Monroe, Connecticut, leased 130,000 square feet at CenterPoint.
- Universal Forest Products of Grand Rapids, Michigan, leased 66,000 square feet at CenterPoint.

Contributors include: Michael R. Block, Principal; Lou Serrone, Sr. Vice President, Zach Hubbard, Vice President; Gene Elsas, Sr. Vice President; Chris Cargill, Sales Assoiate.

Kansas City
Retail Market

Inland Real Estate Acquisitions Inc recently acquired the retail portion of The Village at Burlington Creek in Parkville from NorthPoint Development. The sale included 160,000 sq. feet of retail space and sold for over $30 million.

The Kansas City retail real estate market took solid strides forward in 2015; investment sales, development projects and retailer expansion are all on the rise.

Gas prices remained low all year allowing consumers to spend more on other items. Retail sales grew 2.4% in 2015. Holiday sales were estimated to make up 19% of the retail industry's annual sales and, once again, they were predicted to increase. The National Retail Federation predicted an increase of 3.7%, substantially higher than the 2.5% 10-year average. Online sales were expected to increase by 6% to 8%.

Housing starts through the first three quarters of 2015 included 3,450 single-family building permits throughout the eight-county metro. Of those, 40% were issued in Johnson County.

Closings and openings in the retail market this year:

- RadioShack of Fort Worth, Texas, filed for bankruptcy and Sprint took over its 1,740 locations, keeping Sprint's "store within a store" concept and doubling its retail footprint.
- Bob Evans of New Albany, Ohio, closed four of its locations in the Kansas City Metro (Northland, Overland Park, Kansas, Merriam, Kansas, and St. Joseph, Missouri).
- San Francisco-based Gap announced it would be closing about 175 stores. It was unclear at year-end whether any of those closings would affect the Kansas City market.
- After the merger of Office Max and Office Depot, OfficeMax closed its store in Midtown and Lee's Summit, Missouri, and Office Depot closed its store in the Northland.
- Berbiglia Wine & Spirits, Kansas City's iconic family-owned liquor chain, closed six stores in the metro area, leaving only its 103rd Street and State Line Road location in operation.
- Simmons First National Bank, based in Pine Bluff, Arkansas, closed three of its branches in Overland Park, Kansas, Leawood, Kansas, and Olathe, Kansas.
- At Home of Syracuse, New York, opened three stores this year in Olathe, Lee's Summit and the Northland.
- Colorado-based Qdoba Mexican Eats opened in Mission and the Northland and plans to open another location in Overland Park.

- Dallas-based Main Event Entertainment LP opened a bowling-themed entertainment complex in Independence, Missouri, with two other locations planned for Olathe and the Northland.
- Raising Cane's, based in Baton Rouge, Louisiana, is building a restaurant in Westport with plans for locations in Overland Park, Blue Springs, Missouri, Belton, Missouri, and Lawrence, Kansas.

Overall, vacancies remained stable moving from 8.9% at the end of 2014 to 8.7% at the end of 2015. Citywide, average rental rates increased slightly from $12.33 per square foot at the end of 2014 to $12.54 per square foot at the end of 2015.

JOHNSON COUNTY, KANSAS

City governments in Johnson County are making it increasingly difficult for developers. In 2015, two developments tested guidelines Overland Park created for redevelopment along Metcalf Avenue. The guidelines mandate the redevelopment projects be dense, mixed-use, pedestrian-friendly.

The developer for Central Square—63 acres at 95th Street and Metcalf Avenue—pulled the plug on its $320 million plan. It went soft when the city rejected the developer's request to rezone the property, largely due to a 177,000-square-foot, big-box anchor and the expanse of surface parking on the south side of the project. More than 500,000 square feet of restaurants, retail and entertainment space would have replaced the defunct 850,000-square-foot mall and the former Kmart store.

On the other hand, the $97.5 million redevelopment of Gateway Plaza, now named The Promontory, at the northeast corner of 91st Street and Metcalf Avenue, received approval and $20 million in incentives. The site currently includes 143,518 square feet in six buildings and will be expanded to 153,944 square feet in three phases over five years. The site plans includes three pad sites, inline retail and two four-story, mixed-use buildings with 420 apartments over commercial space served by structured parking.

In an attempt to make Mission a more dense community, the city is requiring any new development along Johnson Drive to be two stories. Increasing development costs and the additional parking needed on the lot for such a requirement didn't stop a new development at Johnson Drive near Metcalf Avenue. It is now home to Colorado-based Natural Grocers, Potbelly Sandwich Shop of Chicago and Pie Five, a subsidiary of Rave Restaurant Group of Dallas.

Other developments in the county:

BluHawk at U.S. Highway 69 and 159th Street started construction on a 20-acre portion of the 300-acre, mixed-use project. BluHawk Marketplace will include 128,000 square feet of retail space, including a Cosentino's Market. Future phases will include BluHawk Village on 80 acres with unusual entertainment uses, retail and apartments and a 250,000-square-foot power center.

BRES is developing CityPlace, a 90-acre mixed-use project, under construction with its first phase of multifamily and senior living parcels. Construction of 60,000 square feet of retail is expected to begin in early 2016. When completed, the $350 million project will include 1,382 luxury apartments, 600,000 square feet of office space and a 140-unit senior living project.

Futsal City USA is a $94 million development planned for the southeast corner of Prairie Star Parkway and the future Ridgeview Road. A 128,000-square-foot national training center dedicated to futsal—a form of soccer typically played indoors and on hard courts—will anchor the 48-acre, mixed-use development. Construction is expected to start in the spring of 2016. Star bonds were won for the project. Nearby, at the southeast corner of K-10 and Ridgeview, Mill Creek Village is planned as a 685,879 square foot retail, restaurant and service development with a 200,000 square foot 10-story office building.

Brookridge Golf & Fitness Club has a $2.4 billion redevelopment plan for the 138 acres at 103rd Street and Antioch Road. The developer continues to struggle to get zoning approval from the City of Overland Park. The local neighborhoods feel the 2.2 million square feet of office space along I-435, 334,302 square feet of retail space with a movie theater and a performing arts center, 550-room hotel and 2,326 multifamily units are too dense for the area, which is surrounded by single-family homes.

Redevelopment of Mission Gateway seems closer to moving ahead. Plans for the development at Shawnee Mission Parkway and Roe Avenue have been revised many times since 2005. The new, revised plans call for a single-story, 155,000-square-foot Walmart Supercenter, a three-story parking garage, a 200-room hotel and three four-story apartments over retail buildings along with a 55,000-square-foot office building. Developer Tom Valenti, a principal with the Cameron Group LLC of Syracuse, N.Y., will finance the $145 million project without renewing a request for city-backed bonds.

In March 2015, the project developer for Shawnee Landing pulled out of the proposed 177,800-square-foot project, citing issues with the site and financing. The City of Shawnee had approved incentives for the $56 million retail development at the southwest corner of Shawnee Mission Parkway and Maurer Road. A 50,000-square-foot Dick's Sporting Goods had been announced as the anchor for the shopping center.

A marked sign of the economy's improvement is the investment seen in second-tier markets. Out-of-town and local investors are hungry for grocery-anchored as well as unanchored centers. Sales this year included:

- Corinth Square, Prairie Village and Fairway Shops.
- Quivira Crossings at 135th Street and Quivira Road anchored by Price Chopper.
- Wycliff Shopping Center at 103rd Street and U.S. Highway 69.
- Metcalf 107 at 107th Street and Metcalf Avenue.
- Regency Square North anchored by Whole Foods Market at 91st Street and Metcalf Avenue.
- Quivira 95 and Oak Park Commons at 95th Street and Quivira Road.

- Southgate Retail Center at I-35, K-7 and 151st Street.
- Santa Fe Square at Santa Fe Street and Mur-Len Road.
- Leawood Plaza at 123rd Street and State Line Road.
- Park Place, the mixed-use development near 115th Street and Nall Avenue.

Scheels, based in Fargo, North Dakota, opened a 220,000-square-foot store in Corbin Park and Urban Air Trampoline Park opened in Lionsgate at 145th Street and Metcalf. 810 Zone closed at Town Center and announced it would open in Corbin Park along with Dave & Buster's. Tilted Kilt opened at Deer Creek Marketplace in the old Wil Jenny's location. The Basha opened in Deer Creek Woods having moved from 103rd Street and Metcalf. Grimaldi's Coal Brick-Oven Pizzeria opened at Prairiefire.

Along 119th Street, Arhaus furniture store opened in a two-story 17,000-square-foot building in Town Center. Restoration Hardware is building a three-story 47,000-square-foot building at the site of the former 810 Zone. Hawthorne Plaza underwent a facelift this year and added a 24,000-square-foot The Container Store along with The Mixx. Discount Tire has been announced at Rosana Square. Camelot Court is also undergoing a facelift. Mitchell Gold + Bob Williams Signature Store opened in Town Center Crossing and features a laid-back luxe approach to everyday interiors. L.L. Bean opened a 15,000-square-foot store in the spaces formerly occupied by Charming Charlie and Z Gallerie. Lucas Liquors purchased land in Pinnacle Village Shopping Center and opened a 52,000-square-foot store there. Whole Foods Market and Five Below opened at 119th Street and Blackbob Road in Olathe Pointe. The former Famous Dave's at 119th Street and Metcalf is now K-macho's Mexican Grill and Cantina while across the street, the former Elephant Bar is now Espirito do Sol. Furniture Mall of Kansas opened in the old Benchmark Home Furnishings store at 119th Street and Renner Boulevard with five stores: Discovery Furniture, RoomMakers Furniture & Flooring, Marling's Furniture, Mattress Headquarters and Abbey Flooring Headquarters.

With entertainment being such a driving force for retail, it is no surprise that several new entertainment-based venues opened in 2015. Dallas-based TopGolf is Kansas City's newest golf entertainment scene. The 65,000-square-foot, three-story facility with 102 climate-controlled driving range bays opened in June at 107th Street and Nall. A 20,982-square-foot retail center is under construction with three retail buildings adjacent to the location. Nearby, iFly Indoor Skydiving is working to open a 6,000-square-foot facility that will provide customers with free-fall and floating skydiving experiences in a vertical wind tunnel.

Massage Heights took space in Lenexa City Center along with Saints Pub + Patio and Subway. A $60 million city civic center is anticipated to be completed in the spring of 2017. The 200,000-square-foot center will add a number of community amenities, including a public recreation center and outdoor farmer's market, fitness and aquatics facilities and a new city hall along with a five-story parking garage and a civic plaza. A 124-room, five-story Marriott Springhill Suites featuring ground-floor retail space is planned for the northwest

In Summer 2015, TopGolf, located at the intersection of 107th Street and Nall Avenue, opened its doors to the public. TopGolf sits on a 12-acre site and features 102 climate controlled hitting bays, 15,000 sq. feet of high-end restaurant space and a 4,300 sq. foot level beer garden.

corner of 87th Street and Renner. The Hyatt Place hotel and conference center opened in 2015.

Hobby Lobby closed both its Johnson Drive and Shawnee Mission Parkway stores and consolidated them into one new 55,000-square-foot store by IKEA. Planet Fitness will open soon in a portion of the Shawnee Mission Parkway location leaving room for a co-tenant.

Fire destroyed a small strip center in Olathe at 135th Street and Blackbob Road, which had been home to Fronteras Mexican Restaurant and Cantina, Sprint and KFC. The site is expected to be redeveloped but the charred remains are still on site due to legal issues. At Home took over the 104,950-square-foot building formerly occupied by Kmart in the spring of 2015.

The Great Mall of the Great Plains officially closed. Many of the tenants were able to secure other locations in Olathe.

With entertainment being such a driving force for retail, it is no surprise that several new entertainment-based venues opened in 2015.

The 1-million-square-foot enclosed mall on 110 acres at 151st Street and I-35 struggled since the day it opened in 1997. It will likely be redeveloped with only a fraction of the retail that is currently on the site.

Menards is still planning to open a location at 135th Street and Greenwood Street in Olathe but pulled out of the idea of a store at Shawnee Mission Parkway and Antioch. The Big Biscuit opened in the former CiCi's Pizza space at 135th Street and Antioch Road, and Casey's General Store opened at 135th Street and Grant Street. Incred-A-Bowl closed its site nearby.

Johnson County's vacancy rate slipped significantly from 9.8% at the end of 2014 to 10.0% at the end of 2015 due in large part to the closing of The Great Mall of the Great Plains and the inventory of Metcalf South still being on the books. The average rental rate increased from $13.43 to $14.78 per square foot from 2014 to 2015.

EAST JACKSON COUNTY, MISSOURI

Dick's Sporting Goods is relocating from Bolger Square to take space in Independence Center. Terra Health and Wellness Market opened at Pavilions at Hartman Heritage Center. Strikerz closed its 28,500-square-foot space in Eastland Center. The 167-room Stoney Creek Hotel and Conference Center and Main Event Entertainment, a 50,000-square-foot bowling-anchored venue, opened near The Falls at Crackerneck Creek. Los Cabos Mexican Grill and Cantina, a 10,000-square-foot restaurant, is under construction and expected to open in the spring of 2016.

Payless ShoeSource Superstore opened at Adams Dairy Landing along with PetSmart, Five Below, CareSpot and PepperJax Grill.

The former Sam's Club at U.S. Highway 40 and Noland Road in General's Plaza has a new occupant. It has been vacant since 2001. Bennett Packaging and Displays plans to expand its manufacturing operation in the 131,000-square-foot building and the 24,000-square-foot former Petco. The 33-acre-site was bought out of foreclosure.

Rental rates in East Jackson County have decreased from an average of $10.83 per square foot at the end of 2014 to a current average of $10.28 per square foot. Vacancy has remained stable going from 8.8% to 7.9%.

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

The Country Club Plaza is up for sale, expected to close early in 2016 with a price tag of up to $750 million. Highwoods Properties purchased the Plaza in 1998 for $544 million from J.C. Nichols Co. The 15-block shopping district has 804,000 square feet of retail space. The following retailers opened in 2015: vineyard vines, t.Loft, Madewell, Charlie Hustle, Kendra Scott, Prize Antiques, República, Warby Parker, Bluemercury, CorePower Yoga, Sephora, Tesla Motors, Vom Fass, Zoës Kitchen, Barton Perreira, Coveted Home and Mojo Cycling Studio. Minsky's Pizza and Eggtc. opened a combination restaurant, Night & Day Gourmet. Eddie V's is taking over the former Ruth's Chris Steak House. The Plaza boasts a 93.5% occupancy in its retail sector with sales averaging $560 per square foot.

Elsewhere on the Plaza, BRES plans to have 6600 square feet of retail/restaurant space available in its new 46 Penn Centre development project.

A 45,000-square-foot Whole Foods Market is under construction at 51st Street and Brookside Boulevard. The $41 million project, when completed, will have 12,000 square feet of mezzanine-level office space for the University of Missouri-Kansas City and 170 luxury apartment units on six floors.

Six restaurants totaling 31,000 square feet are slated to take the site formerly occupied by Dillard's at Ward Parkway Center. The concepts are expected to be announced at the January groundbreaking ceremony. Dick's Sporting Goods is expected to close early in 2016 and be replaced by Ross Dress for Less.

Burlington Coat Factory opened its store in Truman's Marketplace. Other retailers for the revamped center will include: Ross Dress for Less, Five Below, Shoe Carnival, T.J. Maxx, McAlister's Deli and LC's Famous Kansas City BBQ. About $34 million of the $75.7 million redevelopment came from public financing. Construction of the 554,000-square-foot project is expected to be completed by the fall of 2016. It will comprise 72 acres at I-49 and Blue Ridge Boulevard.

Gateway Sports Village is planned for Missouri Highway 150 just east of I-49 and will include 15 soccer fields including a championship stadium. The first phase will have 168,000-square-foot while the long-range plan for the $400 million project envisions a total of 400,000 square feet of retail, restaurant, hotel and field house along with apartments and a water park.

Red Bridge Shopping Center will undergo redevelopment with the help of property tax abatement from Kansas City. Goals of the $10.7 million plan for the 144,660-square-foot center at the southwest corner of Red Bridge and Holmes include restoring charm, addressing an abundance of deferred maintenance and adding pocket parks to the center anchored by Lipari's Sun Fresh grocery with CVS on a pad site. The property is currently more than half vacant.

In Lee's Summit, Price Chopper opened on Todd George Road along with Great Clips, Johnny's Tavern, Little Caesars, Summit Nails, Taco Bell and Advanced Nutrition. Frontier Justice opened a 33,000-square-foot retail firearms and archery facility, and Sky Zone Trampoline Park opened in a 28,000-square-foot building nearby. At Home opened in the 87,000-square-foot former Sears building, and Andy's Frozen Custard opened across the street. Party City relocated to occupy a new freestanding building, all along Missouri Highway 291. Sam's Club is under construction at Summit Place, a 350,000-square-foot development. Victoria's Secret, McAlister's Deli and LOFT opened in Summit Fair, and Fiorella's Jack Stack Barbeque opened SummitWoods Crossing.

Lee's Summit approved the $280 million mixed-use development Paragon Star. The KC Select Soccer Club is the first sports anchor of the development, which will be located at I-470 and View High Drive. The plan for the site includes 10 synthetic turf fields for soccer, rugby and lacrosse with additional soccer fields in a second phase along with sand volleyball courts, a 120-room hotel, a 50,000-square-foot entertainment center, theater complex and bowling alley, a 90,000-square-foot office building and 200 to 250 apartments with hiking and biking trails.

In Belton, the TIF commission approved $2.9 million in assistance towards the $12.5 million redevelopment plan for Cedar Tree Shopping Center at I-49 and Missouri Highway 58. The 92,000-square-foot center was built in 1980 and sits on 14 acres, 3 acres of which are slated for future development. Hobby Lobby is set to open next to Academy Sports + Outdoors with Heartland Dental, Fazoli's and Raising Cane's Chicken Fingers planned for the pad sites. Across the street, Menards is moving dirt in preparation for construction.

The 2.2-mile streetcar line project opened the way for more downtown redevelopment. The cars will become operational in 2016. The Kansas City Area Transportation Authority selected a developer to transform 1.8 acres at Third Street and Grand Avenue into a mixed-use development anchored by office and retail space. Several hotel developments have been announced including the Hotel Indigo at 101 W. 11th St. and Home2 Suites by Hilton, a 114-room extended-stay hotel at 20th and Main streets. Chicago-based Aparium Hotel Group purchased the Pabst and Pedergast buildings at 21st Street and Central Avenue intending to convert the buildings into a 125-room hotel with a restaurant and lounge. Hyatt is planning to open an 800-room downtown convention headquarters hotel just east of the Kansas City Convention Center in 2018. Yard House and Cleaver & Cork gastropub opened in the Power & Light District, and James Beard Award-winning Chef Celina Tio opened the Collection and Belfry restaurants at 15th Street and Grand Avenue.

Selected New Retail Construction

New Construction	Square Feet	Project Status	Tenants Announced
Village East	TBD	Under Construction	National Soccer Training Facility
BluHawk	1,000,000	Phase I, Under Construction	Cosentino's Market
Metro North Mall Redevelopment	826,175	Planning Phase	Macy's (will remain)
Truman's Marketplace	554,000	Under Construction	Burlington Coat Factory (open)
Central Square	500,000	Stalled	Sears (will remain)
Mill Creek Village	494,766	Planning Phase	N/A
Summit Place	350,000	In Development	N/A
Brookridge	334,302	Planning Phase	N/A
Liberty Commons	320,000	Under Construction	BB Theaters, Academy Sports, Natural Grocers, and others
Edgewood Farms	225,000	In Development	Main Event
Shawnee Landing	177,800	Stalled	N/A
Gateway Sports Village	168,000	Planning Phase	N/A
The Gateway	155,000	In Development	Walmart
The Promontory	153,944	In Development	Redevelopment
Village at Shoal Creek	114,500	Complete	Sprouts, Boot Barn, Old Chicago, Ted's Café (open)
Todd George Retail Center	98,000	Complete	Price Chopper (open)
CityPlace	60,000	In Development	N/A
Brookside Blvd at 51st Street	45,000	Under Construction	Whole Foods
Woodside Village	20,500	Under Construction	Blue Sushi Sake Grill, G.Berto Cucina
Total Square Feet:	*5,596,987*		

In Westport, Panera Bread and Thai Place closed their locations and the Doughnut Lounge opened. Pickleman's Gourmet Cafe, Insomnia Cookies and Qdoba will open soon. Andy's Frozen Custard opened early this year and Raising Cane's Chicken Fingers is about to begin construction.

Rental rates in this area of the metro decreased from $12.95 per square foot at the end of 2014 to an average of $12.14 per square foot at the end of 2015. The area's vacancy fell from 8.0% at the end of 2014 to 7.4% at the end of 2015.

KANSAS CITY/WYANDOTTE COUNTY, KANSAS

Utilizing STAR bond financing, Sporting Kansas City is working on developing a U.S. Soccer National Training and Coaching Development Center at 98th Street and Parallel Parkway on land donated by Schlitterbahn Waterparks and Resorts. In addition, a $100 million auto mall complex is under construction and will include seven dealerships on 60 acres. Dairy Farmers of America will build a 100,000-square-foot headquarters on land to the south, leaving 50 acres for future development.

At The Legends, the 108-room, four-story, Residence Inn opened along with a freestanding Verizon store. Fuddruckers took over the former Cheeseburger in Paradise location, Coach signed on permanently at the development, and Express Factory Outlet opened.

The 248-room hotel planned for the Hollywood Casino at Kansas Speedway postponed breaking ground and now has to pay penalties of 1% of the annual gaming revenue estimated at $1.25 million per year until the project begins. The delay is reported to be due to soft economic conditions in the region, especially in the hotel market. Nearby, Vintage Stock opened at Wyandotte Plaza along with PetSmart and Marshalls.

The 55,000-square-foot Fairway North Shopping Center sold, underwent a facelift and was renamed NorthWood Shopping Center. Close by, the first phase of the $65 million Woodside Village development is underway with 20,500 square feet of retail space. Blue Sushi Sake Grill will open in the late spring of 2016 and will also include a locally owned Bread & Butter Concepts restaurant called G. Berto Cucina.

Retail rental rates for Wyandotte County were $11.42 per square foot at the end of last year. They have increased to $11.97 per square foot at year-end. The area was experiencing 10.6% vacancy at the end of 2015, compared to 10.9% vacancy at the end of 2014.

THE NORTHLAND KANSAS CITY, MISSOURI

The developer for Liberty Commons broke ground in September on its redevelopment of the 320,000-square-foot project at I-35 and Missouri Highway 152. The $80 million project will reopen in the fall of 2016. Tenants, who have committed to 71% of the project, include Academy Sports + Outdoors, Natural Grocers, Off Broadway Shoe Warehouse, Spin! Neapolitan Pizza, Louie's Wine Dive, McAlister's Deli and a 110-room Residence Inn Marriott.

Edgewood Farms is also under construction at the southeast corner of I-29 and Barry Road. It could open by early 2017 with 225,000 square feet of retail, including several freestanding restaurants. Main Event Entertainment plans to be a part of the 52-acre project, which is located just south of BarryWoods Crossing Shopping Center.

Antioch Crossing is now home to Walmart Neighborhood Market, Vintage Stock, Gerry Optical, GNC, Firehouse Subs, Five Guys and PepperJax Grill. In April, the developer also purchased the former Metro North Mall at U.S. Highway 169 and Barry Road for $6 million. The only remaining retailers at the former mall include Macy's and three restaurants on pad sites.

The project has been approved for a $144 million tax-increment financing plan with the developer agreeing to make annual payments in lieu of taxes to the affected jurisdictions equal to 20% of the diverted property tax revenue up to $500,000 a year. Costco Wholesale and Trader Joe's are among the anticipated tenants for the project. The plan includes demolishing all but 221,175 square feet of the nearly 900,000-square-foot mall. In its final redevelopment, it is expected to have 826,175 square feet of retail space, 60,000 square feet of office space, 150 apartment units and a 100-room limited service hotel. Hoping to retain Macy's, which owns its building and 15 acres of the 92-acre site, redevelopment of would begin in the spring of 2016. A project to extend the sewer system through 15,000 acres nearby prepares the way for an additional 21,000 new homes to be built.

Elsewhere in the Northland, near Barry Road and Missouri Highway 169, At Home and Savers opened while Kmart closed at Vivion Road and Chouteau Trafficway.

Rental rates in the Northland averaged $12.28 at year-end compared to $11.87 per square foot at the end of 2014. Vacancy was 8.7% up from 8.3% at the end of 2014.

RETAIL OUTLOOK

General merchandise and dollar stores are predicted to have the highest growth in 2016 and beyond. Grocery stores are focused on natural and organic products, healthy eating and freshly prepared foods. Retail growth will also occur across the convenience, discount and general merchandise categories in 2016. Restaurant chains are facing intense competition from many different angles. Regional and national concepts are flocking to the area. Fueled by consumer concern for food safety, many chains are providing information about the sources of their local food products.

Investors will continue to seek solid opportunities for investment properties, stable income producing properties as well as those with redevelopment potential.

Some retailer fallout is always expected. Sports Authority is one of those retailers looking to sublease its area locations.

Class A properties continue to get stronger while class B and C properties experience longer vacancy times and become creative with new tenant mixes.

Contributors include: Kim Bartalos, CLS, Vice President; Stephen J. Block, Principal; Colleen Bradbury, Retail Sales Associate.

Kansas City & National Investment Market

PERG Buildings, LLC, a BRES-investment group, recently sold Five Pine Ridge, the four-story 123,788 sq. foot building at 8345 Lenexa Drive in the Pine Ridge Business Park to Henderson Engineers Inc. Henderson purchased the building for $17,116,759 to accomodate its continued growth.

With "dollars chasing deals," all indications suggest that 2016 will be another positive year driven by a slowly improving economy, sound market fundamentals and the availability of low-cost capital. The United States remains a safe haven for offshore money, further fueling demand.

OUTLOOK FOR 2016

The consensus among industry forecasters is that the commercial real estate (CRE) investment market should see at least two more years of sustainable growth, based on a combination of sound economic and property market fundamentals. Competition for core assets drove up prices and pushed 2015 sales volumes past pre-recession record levels. The 2016 market should prove to be even more competitive and crowded with well-capitalized investors. CRE sales volume is projected to climb to $500 billion in both 2016 and 2017, a 6% increase from the 2015 level, according to the ULI Consensus Survey released in mid-2015.

It may be instructive to revisit the U.S. investment market highlights from past reports. Following the 2008-2009 recession, market fundamentals and the capital markets were steadily restored. In 2010, little new development occurred. In 2011, office and industrial development was mostly consigned to build-to-suit transactions, while multifamily began ramping up in 2012. Multifamily development exploded to meet pent up, demographically driven demand as millennials began to outnumber baby boomers. Following two years of scant inventory growth, multifamily construction began in the rapidly growing gateway cities where millennials found work. Development fever quickly spread into secondary and tertiary markets like Kansas City.

In 2013, Block Real Estate Services (BRES) reported that properties were selling to investors that were "betting on the future." Market fundamentals proved those investors correct. Market fundamentals improved, mirroring the slow but steady U.S. economic recovery. Kansas City was slow to enter the recovery cycle but has steadily gained momentum. In 2014, job recovery passed pre-recession employment peaks.

In 2015, transactions were expected to increase in secondary and tertiary markets building on the already increasing sales volumes of 2014. In fact, competition for core assets made buyers pay up for value-add deals to chase yield.

For 2016, competition for core assets is likely to increase for core and value-add opportunities and drive property sales volumes and pricing to new highs. Decreasing vacancy rates and rising rents will lead to more office and industrial sector spec building along with build-to-suit construction for expanding companies.

MARKET FUNDAMENTALS

The Deloitte commercial real estate forecast for 2015 summed it up by saying "in many ways, the commercial real estate industry is on more solid footing than it has been for quite some time." For 2016, ULI and Price Waterhouse are forecasting solid market fundamentals through 2016 and 2017. Investors are expected to use this window to build new and redevelop existing inventory, capitalizing on falling vacancy rates and rising rents. Much more emphasis is being placed on sustainability measures and smart building technology to drive operational efficiency and retain tenant loyalty.

In 2015, market fundamentals improved across all asset classes—office, industrial, retail and multifamily. Vacancy continued to retreat and rents trended upward. Now, the lack of inventory is leading to a new round of spec building as demand exceeds supply—market by market, industry by industry. This is particularly true in the industrial and multifamily sectors, which are leading the way in most markets. New spec office construction is proceeding in the gateway cities and, to a lesser degree, in secondary and tertiary markets depending on what stage of recovery the local economy is in. Build-to-suit construction is robust across the board.

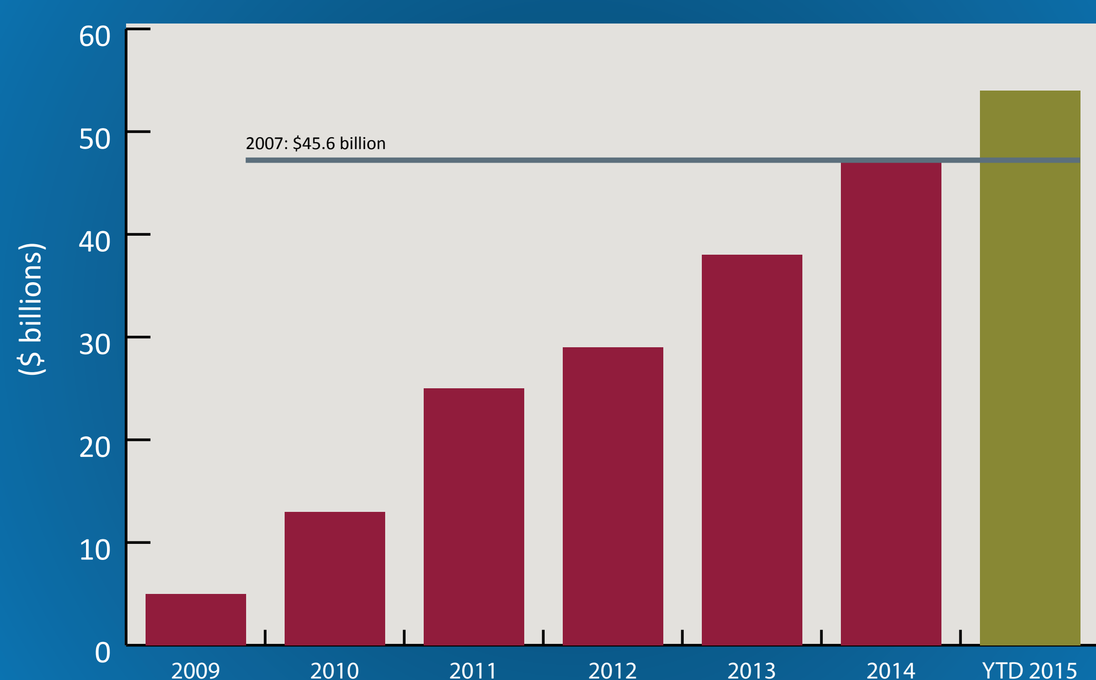
CAPITAL MARKETS

As BRES reported last year, the debt market has abundant funds to borrow at historically low rates. Reasonable underwriting standards are prevailing due, in part, to improving market fundamentals. As National Real Estate Investor (NREI) pointed out mid-year, even slight rate increases will still mean a very low cost of capital for 2016, though it marks entry into a rising interest rate environment. Like others, NREI points out there is not necessarily a 1:1 correlation between rising interest rates and decompressing cap rates. A connection exists, but the capital market forces of supply and demand are far more significant.

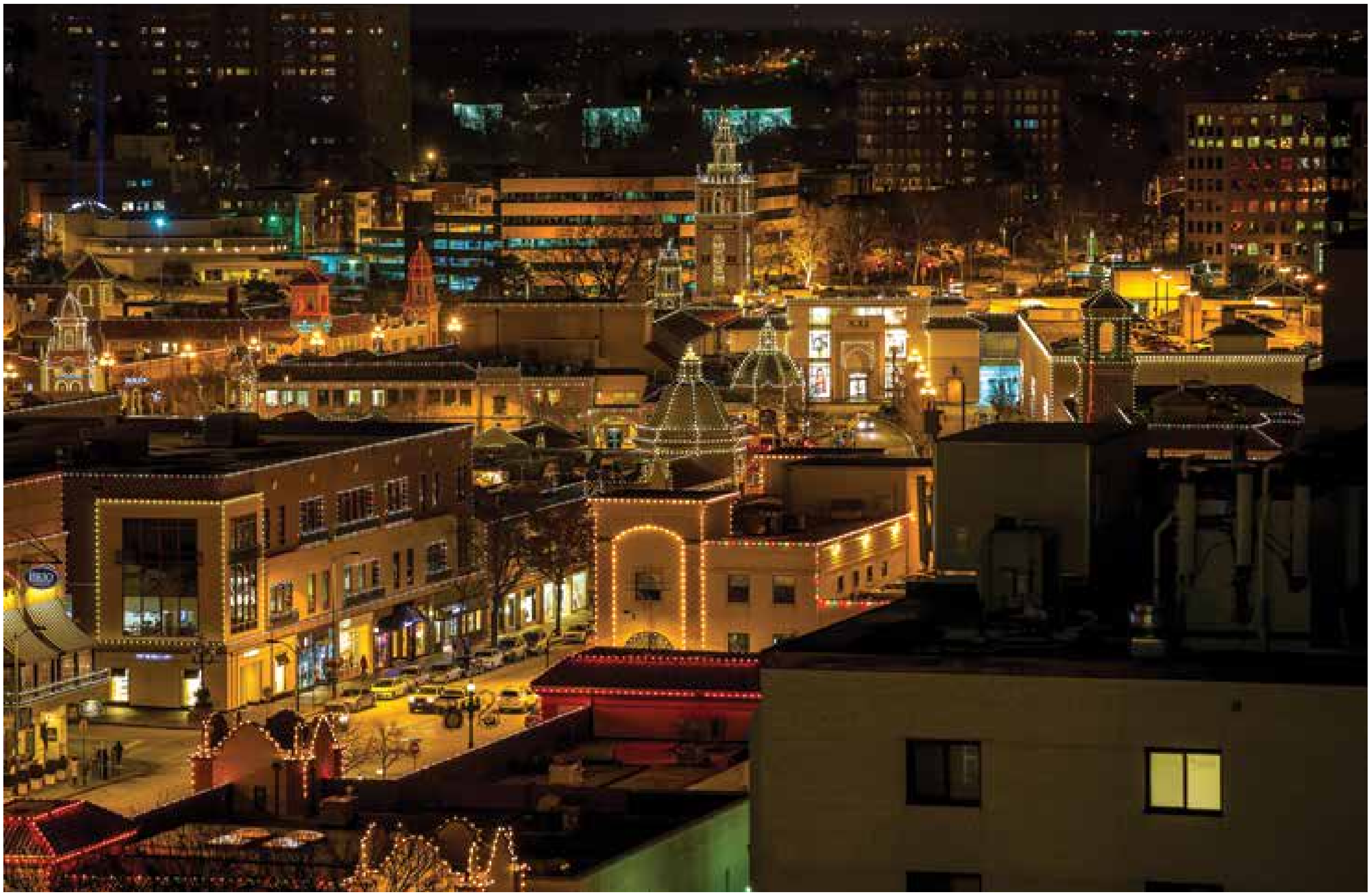
With banks, insurance companies and commercial mortgage-backed securities (CMBS) lenders all actively engaged, real estate lending should remain competitive and favorable to borrowers. ULI-PW predicts the issuance of mortgage-backed securities will rise to $133 billion in 2016 and $150 billion by 2017, up from $115 billion in 2015.

As for refinancing, National Mortgage News reports that more than $300 billion in maturing commercial mortgages underwritten between 2005 and 2007 to less rigorous standards will need to be refinanced between 2015 and 2017. That's more than 2.5 times the amount that matured from 2012 to 2014, according to Trepp Reports.

Rising Off-Shore Investment Demand Puts Upward Pressure on Prices



Source: Cross Border Capital Tracker, Real Capital Analytics, through Aug 2015



The Country Club Plaza includes 804,000 sq. feet of retail space and 617,000 sq. feet of office space. Highwoods sold the property in early 2016 for $660 million on a 4.85% Cap Rate to Country Club Plaza KC Partners LLC, a joint venture between Taubman Centers, Inc., and The Macerich Company.

THE INFLUX OF OFFSHORE CAPITAL

A key factor providing momentum for 2016 is the increasing amount of offshore capital seeking the stability offered by the U.S. markets. Inbound capital is being placed in U.S. real estate investments in record amounts and is likely to continue in the near-term.

Foreign capital is drawn to U.S. CRE investments for many reasons—predictable cash flows, transparent markets, downside risk protection and relative liquidity. Figures from Real Capital Analytics indicate about $53.1 billion in global capital has been invested in the United States through August 2015 compared to $45.6 billion for all of 2014. JLL is also predicting that the wave of foreign capital flowing into the United States is poised for another record-setting year, raising the stakes in an already highly competitive market.

Global capital is finding its way into private equity funds, and the fund advisors are discovering they can find better yield opportunities in "flyover country." The market analysts at Bentall Kennedy see rising interest in all major property types and most major markets. But they also note that "there is wide disparity in metro-level performance." According to their research, "Secondary and tertiary markets are now seeing significant inflows of capital." This proved true in Kansas City when the purchaser of the Plaza Vista office tower included a partner from Chile. Offshore money has often been embedded in private capital funds that are at work in Kansas City's multifamily value-add industry.

THE EFFECT OF INTEREST RATES

No investment market forecast would be complete without addressing the impact of the 25-basis-points increase in the federal funds index announced December 17, 2015. Here's what Moody's predicts: "The federal funds rate will increase to 1.0% by the end of 2016 and 3.0% by the end of 2017 and then settle in at 3.5%, which is considered optimal for a healthy U.S. economy." The 2016 outlook may well become "commercial real estate in a rising rate environment," but rising interest rates will not immediately threaten real estate values.

Some will say the impending change in monetary policy signals the end of the current strong cycle. This may not, however, be the case according to Ernst & Young (EY) 3Q15 Commercial Property Outlook:

1. Historically, there is no strong correlation between the 10-year treasury yield and cap rates.
2. The current spread remains wide suggesting there is room for some compression.
3. A rate hike may be the forerunner of an improving economy, improving market fundamentals.
4. Capital flowing into U.S. real estate is robust and the

federal funds rate may not substantially impact the cost of debt, at least in the near-term.

After an extended period of exceptionally low interest rates, investors, developers and lenders are rightly concerned that real estate values will be negatively affected. An uptick in rates would make it more expensive to develop new projects. For 2016, EY sees the spread between the 10-year treasury rate and CRE yields to be wide enough to allow some compression. It also states that more significant drivers may be supply and demand and economic growth.

COMMERCIAL REAL ESTATE PRICES

Supported by rising sales volumes and investor optimism, prices in the larger city markets rose by 14% in the third quarter of 2014 based on RCA's Commercial Property Price Index as reported in the National Association of Realtors (NAR) fourth quarter 2015 report. The advance was driven by strong property appreciation in prices for apartments and central business district office buildings in the gateway cities. The NCREIF REIT index rose 12.1% year-over-year in the third quarter of 2015 to its highest recorded value.

According to NAR research, prices are poised to continue their advance in the last quarter of 2015, as shortage of inventory and larger capital pools—both equity and debt—search for yield. Property prices rose significantly for Class A buildings and other trophy properties captured in the NCREIF. With cap rates already compressed to very low levels, they hint property prices may begin to decline slightly in 2016 as the Federal Reserve starts to raise interest rates.

U.S. CAP RATES

Rising treasury rates will eventually increase borrowing costs for real estate investors. However, ULI-PW Consensus Survey respondents do not expect it to substantially affect real estate capitalization rates for institutional-quality investments in gateway cities. Those rates are expected to decline slightly to 5.2% as 2015 ends and then rise to 5.3% in 2016 and 5.7% in 2017.

Compared to the first half of 2015, forecasts for 10-year treasury rates and cap rates are slightly lower. The forecast for inflation in 2015 is substantially lower than forecasted at the beginning of 2015 while the forecasts for 2016 and 2017 remain about the same. REIT analysts use NCREIF cap rates on a daily basis for comparing the values of various buildings that are bought and sold. In general, a lower cap rate indicates there is less risk associated with the investment (due to increased demand) and higher cap rates can be associated with higher-risk alternatives.

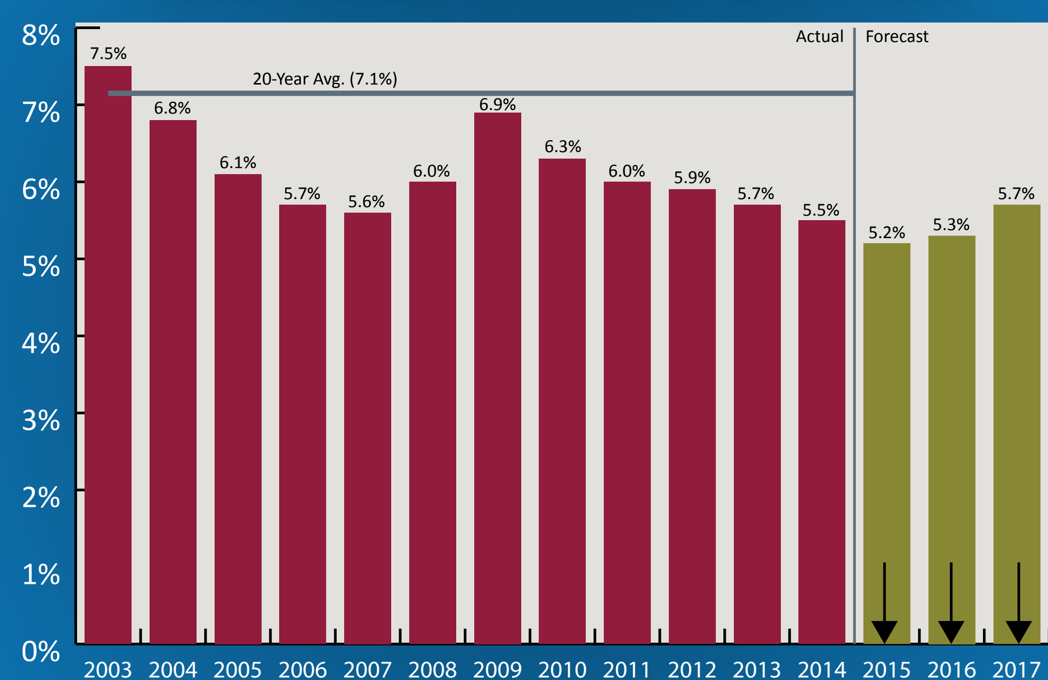
With relatively low cost debt capital available over the next few years, cap rates across all asset sectors are expected to remain stable in 2016. The U.S. CRE market continued to perform well in 2015 and attracted substantial investor interest.

THE KANSAS CITY INVESTMENT MARKET

Well-capitalized private equity and institutional investors are crowding the field, driving up prices for core assets.

Investment sales in Kansas City have been following the national trend with respect to cap rate compression and strong

NCREIF Capitalization rates for Institutional Investment Real Estate



Sources: 1995-2014, (Q4), National Council of Real Estate Investment Fiduciaries (NCREIF); 2015-2017 (YE), ULI Consensus Forecast.
Note: The previous ULI Consensus Forecast (released in April, 2015) projected 5.3%, 5.6%, and 5.9%, respectively, for 2015, 2016 and 2017.

demand for core assets along with value-add opportunities. The build-to-suite office market has been robust, but costs have constrained spec office development despite falling vacancy rates and gradually increased rents.

Kansas City's economy has gained traction and the attention of private capital investors, many with institutional partners. The market is led by a strong new supply in the multifamily and warehouse and distribution sectors.

Kansas City's economy has gained traction and the attention of private capital investors, many with institutional partners.

The national investment sales market has been accelerating with intensity over the last two years, driven by increased investment capital flowing into domestic funds and added competition from offshore investors seeking the security of the U.S. property market. Both groups are engaged in a competitive search for high-value core assets in barrier-to-entry markets. However, strong demand in the usual 24-hour cities has driven prices up in those cities and yields down. This phenomenon has prompted investors to explore secondary and tertiary markets. Therefore, it is not surprising that two of Kansas City's iconic landmark properties, the Country Club Plaza and Corporate Woods, were put on the market in the last quarter of 2015.

THE COUNTRY CLUB PLAZA

Highwoods REIT is offering to sell the nationally acclaimed shopping district referred to as the city's crown jewel—1.4 million square foot mixed-use destination of retail, entertainment and corporate offices. The package consists of 804,000 square feet of retail and 617,000 square feet of office space. Developed by J.C. Nichols, the Country Club Plaza covers 15 square blocks in the heart of the city.

CORPORATE WOODS

Corporate Woods has long been considered the suburban crown jewel of office parks in Kansas City. It consists of a 352-acre office park, including 25 office buildings with more than 2.2 million square feet of highly desirable office space.

Corporate Woods was originally developed in the 1970s in a local partnership backed by Metropolitan Life Insurance Company. The park opened in 1975 with five office buildings. It was sold to MetLife in 1987 and has changed hands about once a decade since then.

It was last sold in 2006 to a partnership of two suburban Philadelphia firms, CenterSquare Investment Management and Stoltz Real Estate Partners. They bought it from a subsidiary of the New York State Teachers Retirement System for $290 million.

The new owner also buys Corporate Woods' city-approved expansion plan that calls for three new towers of six, seven and 10 stories for a total of 510,000 square feet of new Class A space. The new owner has the option of following the current plans for mixing in 47,000 square feet of new restaurants, 12,000 square feet of retail and perhaps another hotel and fitness center to create a fresh mixed-use environment.

Other bellwether sales

In 2015, a high-rise office building at 2555 Grand Blvd. in the Crown Center headquarters complex set a price-per-square-foot benchmark for a core-plus Class A office building in this market. Hines, based in Houston, sold the 26-story building to Select Income, a Massachusetts-based REIT, for $258 per square foot. The building is 596,607 square feet and is the headquarters for the Shook Hardy & Bacon law firm.

Park Place, a 483,119-square-foot, mixed-use development near the Sprint Campus in Leawood, Kansas, sold for $126.5 million—$262 per square foot. Park Place was developed by Jeffrey Alpert and Melanie Mann in a joint venture with Cecil Van Tuyl, and then VanTrust Real Estate of Kansas City, Missouri, took over development activities as the project grew dramatically in size. The office and retail portion of the mixed-use development was sold to KBS Real Estate Investment Trust, a REIT based in Newport Beach, California, ranked as the nation's fifth largest office property owner.

On the last day of 2014, Plaza Vista, a 10-story, 253,552-square-foot office tower and garage, sold for $104 million—$410 per square foot. It was developed by VanTrust and opened in 2014. The Plaza Vista tower was purchased by Denver-based EverWest Real Estate Partners LLC and Independencia Asset Management of Chile, giving credence to the migration of offshore capital into the Midwest. The building is the headquarters for Polsinelli law firm.

Collectively, these three premium Class A properties put investors on notice that Kansas City commands much higher prices per square foot for the right asset in the right location.

WHO'S BUYING?

Blackstone, a leading global investment firm based in New York City, dominated the transaction landscape in 2015 as the most active buyer of multifamily and office and most active seller of office and industrial. Other leading buyers were Columbus-based WP Glimcher (retail) and Global Logistics Properties (industrial).

Who the buyers are for Kansas City's core properties and where they come from say something about the quality of capital investment that the Kansas City market can attract. Kansas City continues to have a large number of institutional buyers that have invested locally. Some of the larger, more recent investers in 2016 include:

- American Realty Capital
- Blackstone
- Callahan Capital
- CPRE Capital
- Cobalt Capital Partners
- Colony Realty Partners
- DDR Corp.
- Duke Realty
- ING Clarion
- Mid-American REIT
- Prologis
- Sentinel Real Estate
- TIAA-CREF
- Town Management
- Travelers
- VanTrust Real Estate

New entrants in the Kansas City market in 2015 include both Select Income REIT with the acquisition of 2555 Grand in Kansas City, Missouri, and Steadfast Companies of Irvine, Calif., with the purchase of the 298-unit Carrington Park Apartments in Kansas City, Missouri. KBS and Inland Real Estate Acquisitions made additional investments in the market with Park Place Village in Leawood and The Village at Burlington Creek in Kansas City, Missouri, respectively. Founders of Minneapolis and HSA Commercial added to their holdings in Kansas City with the acquisition of Westbrook III and Renner Commerce Center in Lenexa, Kansas.

OTHER SIGNIFICANT TRANSACTIONS

Class A office developments

Westbrook III is a 98,507-square-foot office building at 8050 Marshall in Lenexa. It was built in 2002 and sold in June for $14,075,000—$143 per square foot. It was 100% leased at closing. The seller was Lions Industrial Trust and the buyer was Founders, a Minneapolis private real estate fund with a national portfolio of 60 institutional-grade office, industrial, retail and mixed-use assets.

Renaissance III, the Zurich Building, is an eight-story, 233,820-square-foot office tower located at 7045 College Blvd. in Overland Park, Kansas. It was sold in August by local owner Copaken Brooks to St. Paul Fire and Marine Insurance Co. Inc., a subsidiary of The Travelers Cos. Inc., for $42 million—$180 per square foot at a 7.8% cap rate.

Both of these Class A assets in South Johnson County were sold to institutional investors with large, institutional-grade portfolios located across the United States. That speaks to the quality of development and desirability of the Kansas City investment market.

Class B office developments

The Leawood Executive Centre is an example of a two-building, 113,710-square-foot Class B property that is strategically located on the College Boulevard corridor in Leawood. It sold for $12,550,000—$110 per square foot—to an owner-user at a 7.7% cap rate. It was built in 1986 and was 90% occupied at the time of the sale.

Industrial developments

Ontario-based Martinrea International Inc. launched a 275,560-square-foot, build-to-suit development at 41st and Horizons Parkway in Riverside, Missouri. Martinrea is an auto parts manufacturer that produces front-end parts for the Chevrolet Malibu assembled in General Motors Fairfax plant. Block Funds purchased the new facility from the developer prior to its completion. The property sold for $19.95 million—$72 per square foot.

Renner Commerce Center is a two-building, 157,240-square-foot industrial complex in Lenexa. It was developed and owned by Quadrangle Development Co., an affiliate of Chicago-based Janko Group, from 1999 to 2014. It sold the complex in September 2015 to HSA, another Chicago-based CRE firm that manages a 16-million-square-foot national portfolio of institutional-grade office, retail, industrial and healthcare facilities. The property sold for $13.15 million—$84 per square foot—with a $9.9 million CMBS loan provided by Key Bank based in Cleveland.

Crown Center HQ, the Shook Hardy & Bacon law firm building at 2555 Grand Blvd in Kansas City, Missouri, was the area's largest sale in 2015. Hines Interests LP sold the 595,607 square foot building to Select Income REIT for $153.5 million or $257.72 per square foot and at a 7.30% cap rate.

KBS Real Estate Investment Trust III, a California-based real estate investment trust has purchased the retail and office portion of the Park Place mixed-use development in Leawood for $126.5 million. This represented a cap rate of 7.0% and a price per square foot of $261.84.

Much of the investment activity in the Kansas City marketplace has been focused on new industrial development. An unprecedented number of speculative warehouse developments ranging from 250,000 to 1 million square feet has enabled Kansas City developers and the city to capture a much larger share of fulfillment-oriented firms, like Amazon, that are adjusting their distribution patterns and supply chains in response to shifting consumer demands.

RETAIL DEVELOPMENT SALES

Early in 2015, Kansas City-based Landmark Retail Properties sold the Prairie Village Shopping Center and Corinth Square to First Washington Realty Inc., of Bethesda, Maryland. Combined, the sale totaled just over $97 million. The Prairie Village Shopping Center, located at 4160 W. 71st St. in Prairie Village, Kansas, is 196,616 square feet. Corinth Square, located at 8200 Mission Rd. in Prairie Village, is 162,239 square feet. Both properties are mostly comprised of restaurant and retail space.

The Village at Burlington Creek was purchased by Inland Real Estate Acquisitions in October by NorthPoint Development. Sprouts Farmers Market anchors the 147,722-square-foot retail portion of the mixed-use community. The center is located at NW 64th St. and Cosby Avenue in Kansas City's Northland market. The sale price was $30 million—$202 per square foot.

REDEVELOPMENT ACTIVITY

In 2016, expect to see more redevelopment that includes two of Kansas City's regional malls: Metro North and Metcalf South. Kansas City-based IAS Partners plans to demolish all but 221,175 square feet of the shuttered 896,874-square-foot Metro North Mall and add 912,500 square feet of new construction, possibly adding the Northland's first Costco. IAS Partners previously completed the Antioch Crossing and Blue Ridge Crossing redevelopment projects in Kansas City. Metro North Mall will be branded as Metro North Crossing.

The former Metcalf South Mall site at 95th and Metcalf in Overland Park was purchased by a partnership of Lane4 Property Group and The Kroenke Group. The developers and the city are weighing options that might include backfilling the existing 850,000 square feet of empty space they'd planned to replace with 570,000 square feet of new retail and office space plus 575 apartment units. Currently, plans were withdrawn by the developer, as the city wanted more adherences to the vision of the Metcalf plan.

Other planned redevelopments include the 143,171 square-foot, grocery-anchored Red Bridge Shopping Center in South Kansas City, Missouri, along with the Cedar Tree Shopping Center in Belton, Missouri. The cities involved are working with the developers on plans and incentives.

With the local economy and consumer confidence improving, retail cap rates are expected to fall below local historical averages.

Leawood Executive Centre in Overland Park, Kansas was sold by Block Funds to the Bukaty Companies who will utilize portions of the building for expansion of its growing insurance business. The 113,710 square foot property sold for $12,550,000 and a 7.7% cap rate.

MULTIFAMILY DEVELOPMENTS

The multifamily sector continues to boast the highest investment sales volume among the main asset classes. In Kansas City alone, more than $700 million in apartment sales were posted in 2015. Institutions and private capital from both coasts are chasing deals here to maintain high returns for their investors. Competition for scarce product has pushed cap rates to historic lows this year.

Examining 2015 sales, BRES found four properties that traded for over $150,000 per unit. One of them brought more than $200,000 per unit. All sale prices were over $44 million and the average cap rate was 5.35%. Highlands Lodge, a 230-unit community in Overland Park, designed by Kansas-City-based NSPJ Architects, sold for $49.9 million and set a metro area record for price per unit at $216,957 per door. Developed by VanTrust Real Estate and Land Development Strategies in 2014, the property commanded a 5.25% cap rate. It was purchased by DiNapoli Capital Partners, a privately held real estate investment firm in Walnut Creek, California.

The City of Prairie Village, Kansas, has approved VanTrust's plan to redevelop the 136-acre, former Meadowbrook Golf & Country Club. The new development will include an 80-acre park that will be purchased by Johnson County. South of the new park, VanTrust will develop 54 single-family homes, 70 townhomes, 280 market-rate apartments and a 44-room boutique hotel with supporting retail and restaurant uses. It also plans to sell 8 acres for a 330-unit senior living facility on the southwest corner of the site.

WHAT'S AHEAD FOR 2016?

It is reasonable to conclude that the Fed's initial policy adjustment to interest rates of 25 basis points as of December 17, 2015, will have only a marginal impact on CRE valuations and investment momentum. With vacancies trending down in office, retail and industrial properties and with hospitality and multifamily exhibiting increased rents, the effect on real estate values and cap rates would be minimal in the near-term, especially for investors focused on cash flows from strengthened operations.

Supply and demand remained in relative equilibrium, however, falling vacancy and tightening conditions make today's real estate market ripe for new supply. New construction is expected to drive markets over the next few years depending on where Kansas City is in its economic recovery cycle.

Given the context of the increased capital supply and strong fundamentals, commercial real estate will continue to be an attractive investment on a risk-adjusted basis when compared to alternative investment options. However, developers, lenders and investors should be judicious in underwriting trophy assets in gateway markets with new supply coming. Expect to see investors looking aggressively to primary and secondary markets to find value as U.S. CRE assets are well positioned fundamentally.

Contributors include: Grant O. Reves, MBA; Kenneth G. Block, SIOR, CCIM, Managing Principal; Bill Powell, and Matt Ledom.

Investors Chart and Sales Records

OFFICE PROPERTIES	SIZE (SF)	SALES PRICE / PER SF	CAP RATE	BUYER/SELLER
Crown Center HQ 2555 Grand Blvd, Kansas City, Missouri	595,607	$153,500,000 $257.72	7.30%	Buyer: Select Income REIT Seller: Hines Interests LP
Zurich Building 7045 College Blvd., Overland Park, Kansas	233,820	$42,500,000 $181.76	7.80%	Buyer: The Travelers Cos. Inc. Seller: Copaken Brooks
PRA International 9755 Ridge Drive, Lenexa, Kansas	142,680	$26,250,000 $183.98	N/A	Buyer: AGNL Science LLC Seller: Janko Group
Five Pine Ridge 8345 Lenexa Drive, Lenexa, Kansas	123,101	$17,116,759 $139.05	7.90%	Buyer: Henderson Engineering Seller: PERG Buildings
Leawood Executive Centre 4501 & 4601 College Blvd., Leawood, Kansas	113,710	$12,550,000 $110.37	7.70%	Buyer: Bukaty Companies Seller: Block Funds
Westbrook III 8050 Marshall Drive, Lenexa, Kansas	98,507	$14,075,000 $142.88	8.72%	Buyer: Founders Seller: LIT Industrial LP
INDUSTRIAL PROPERTIES	**SIZE (SF)**	**SALES PRICE / PER SF**	**CAP RATE**	**BUYER/SELLER**
Woodend Industrial 9525 Woodend Rd., Edwardsville, Kansas	369,000	$22,000,000 $59.62	7.06%	Buyer: EverWest Real Estate Seller: VanTrust
Martinrea International 5233 NW 41st St., Riverside, Missouri	275,560	$19,950,000 $72.40	7.90%	Buyer: Block Funds Seller: Tutera Group
Renner Commerce Center 10817 Renner Blvd., Lenexa, Kansas	157,240	$13,150,000 $83.63	7.60%	Buyer: H.S.A. Commercial Seller: Quadrangle Development
Airworld Drive Industrial Building 11201 NW Airworld Dr., Kansas City, Missouri	109,625	$4,500,000 $41.05	N/A	Buyer: Rogers Sporting Goods Seller: Jones Development Company
KC Road Business Park - McKesson & Atlas Bldg. 1671 E Kansas City Rd., Olathe, Kansas	65,100	$4,900,000 $75.27	7.50%	Buyer: Heise-Myer, LLC Seller: Equus Computer Systems, Inc.
79th & Switzer Business Park 10300 W 79th St., Shawnee, Kansas	56,377	$3,120,000 $55.34	8.50%	Buyer: Lee & Associates Seller: Peterson Brookhollow, Inc.
RETAIL PROPERTIES	**SIZE (SF)**	**SALES PRICE / PER SF**	**CAP RATE**	**BUYER/SELLER**
Park Place Village 11500 Ash St., Leawood, Kansas	483,119	$126,500,000 $261.84	7.00%	Buyer: KBS Seller: Park Place Developers, LLC
Prairie Village Shopping Center 4160 W 71st St., Prairie Village, Kansas	196,616	$54,915,000 $279.30	5.00%	Buyer: First Washington Realty Inc. Seller: Landmark Retail Properties
Corinth Square North 8200 Mission Rd., Prairie Village, Kansas	162,239	$42,140,000 $259.74	5.00%	Buyer: First Washington Realty Inc. Seller: Landmark Retail Properties
Village at Burlington Creek 5900 NW 63rd Terr., Kansas City, Kansas	147,722	$30,000,000 $203.08	N/A	Buyer: Inland Real Estate Acquisition Seller: Northpoint Development
The Shops at Boardwalk 8652 North Boardwalk, Kansas City, Missouri	122,397	$27,400,000 $223.86	7.60%	Buyer: ACF Property Management Inc. Seller: Retail Properties of America Inc.
Regency Square North 7201 W 91st St., Overland Park, Kansas	74,085	$15,850,000 $213.94	7.00%	Buyer: ACF Property Management Inc. Seller: Regency North Retail LLC
MULTIFAMILY PROPERTIES	**UNITS**	**SALE PRICE/PER UNIT**	**CAP RATE**	**BUYER/SELLER**
Highlands Lodge 5000 Indian Creek Pkwy., Overland Park, Kansas	230	$49,900,000 $216,957	5.25%	Buyer: DiNapoli Capital Partners Seller: VanTrust
RMWest Apartments 228 W 4th St., Kansas City, Missouri	137	$29,500,000 $215,328	N/A	Buyer: GFI Capital Resources Group Seller: Consolidated Development Partners
Villas at Carrington Square 9801 W 136th St., Overland Park, Kansas	278	$45,850,000 $164,928	5.35%	Buyer: Howard & Catherine Stone Seller: GFI Capital Resources Group
Haven at Prairie Trace 13601 Foster St., Overland Park, Kansas	280	$44,550,000 $159,107	5.25%	Buyer: Mid-America Apartments Seller: Launch Development
Residences at Burlington Creek 6001 NW 63rd St., Kansas City, Missouri	298	$46,980,000 $157,651	5.60%	Buyer: Mid-America Apartments Seller: Northpoint Development
Manor Homes of Arborwalk 1318 SW Manor Lake Dr., Lee's Summit, Missouri	280	$37,250,000 $133,036	5.50%	Buyer: Milestone Group Seller: Launch Development

Kansas City Multifamily Market

The Residences at Burlington Creek, located at 6001 NW 63rd Street, Kansas City, Missouri, sold for $46,980,000 or $157,651 per unit. This 298-unit multifamily property in North Kansas City was sold by Northpoint Development to Mid-America Apartments.

The multifamily market remained hot in 2015, despite some people's expectations. The apartment sector had more than $700 million in sales and added more than 3,500 units to the market while keeping vacancy rates relatively stable. Kansas City continues to have high resident demand, record low vacancies, rising rental rates, minimal concessions and low interest rates. Institutional companies from throughout the country are buying apartments in Kansas City, proving this market has become important to investors outside the metropolitan area. This year, investment groups from many gateway and other secondary markets purchased or sold an apartment complex or multiple complexes in the metro area worth more than $30 million and as high as $90 million.

Newly constructed apartment projects being taken to market are selling at what most local real estate investors would consider to be unbelievable numbers. Seeing a five in front of a Class A apartment's cap rate has become normal. Even class B and C value-add apartment deals are trading at sub-seven cap rates. Coastal and institutional investors continue to pursue Kansas City because of its strong starting capitalization rates. Many coastal and institutional investors see lower cap rates in their markets and thus lower returns on their investments.

The Kansas City apartment market grew to 132,045 units in 2015, with vacancy rates remaining stable at 4.9%. Class A average asking rent was $897 per month and class B and C average asking rents were $656 per month. Overall, asking rents increased by 3.1% in 2015, slightly less than the 4.6% rent growth experienced in 2014.

NEW DESIGN CONCEPTS AND AMENITIES

With the continuing influx of individuals, couples and families who are looking for maintenance-provided, "lock and leave" lifestyles, the apartment market has had to adapt to the varying needs of its residents. Apartment complexes used to be simply apartments. Today's newly constructed complexes are much more than that. They are quickly becoming places to live, work and play—for recent college graduates as well as those retiring and looking to simplify their lives.

Clubhouses often include full-size kitchens for classes, pool tables, game rooms, big-screen TVs and even movie theaters. Rooftop patios, resort-style pools and hot tubs, dog parks, fitness centers, tanning beds, massage therapy, and laundry, dry-cleaning and concierge services are among the new designs and amenities that are attracting more renters, giving them the opportunity to pursue this lifestyle. Based on the construction pipeline of more than 3,000 units for next year, more is on the way.

FLOURISHING AREAS IN KANSAS

South Overland Park and other smaller submarkets, such as Prairie Village, Leawood and Mission, remain the most desirable apartment locations in the Kansas City market in terms of fundamentals and the combination of current and future development. The occupancy rate for Johnson County as a whole is at 95.6% on more than 57,000 total units. The county absorbed more than 1,000 units this year and still maintained relatively stable fundamentals and 3% rent growth.

Rental rates for newly constructed multifamily properties in Johnson County continue to improve with developers regularly attaining more than $1.25 per square foot for new suburban-style communities and more than $1.65 per square foot for infill or mixed-use communities. Recently, this has attracted a significant amount of attention to the area from large, institutional investors from all parts of the United States.

Notable developments in Johnson County completed in 2015 include: The Avenues at Overland Park (402 units), Kelly Reserve (259 units), The Manor Homes of Prairie Trace (280 units), Residences at Park Place (177 units), Residences at Prairiefire Phase II (126 units), Villa Milano (290 units) and WaterCrest at City Center (306 units), a BRES development.

The Country Club Plaza is the most sought-after area in Kansas City. It boasts a 4.4% vacancy rate and the highest rent per square foot exceeding $92.00 per square foot on the newest, best-located properties.

Notable developments that are currently under construction in Johnson County include: Avenue 80 (230 units), Domain at City Center (203 units), Greenwood Reserve (228 units), Sorrento at Deer Creek (272 units), EdgeWater at City Center (276 units), and The Residences at CityPlace (344 units), both of which are BRES developments.

Parts of Wyandotte County have also flourished. The Legends has become one of the most important pieces of the economy in Kansas City, Kansas, and with the addition of Prairie View at Village West, a 311-unit complex just north of the Kansas Speedway, the area is continuing to grow and prosper. That development, Village West and The Heights at Delaware Ridge have added almost 1,000 units of Class A apartments to an area that lacked high-quality units only a short time ago. The success of these projects as well as the continued commercial growth in western Wyandotte are going to compel others to consider new development in the area.

HIGH-PERFORMING MISSOURI SUBMARKETS

Key submarkets on the Missouri side include both Downtown and the Country Club Plaza. In recent years, both submarkets have seen new development and improvements to fundamentals, such as rent, occupancy and positive absorption. These submarkets, like South Overland Park in Johnson County, Kansas, are extremely competitive and difficult to buy into.

Downtown boasts the lowest vacancy rate in the metropolitan area at 1.8%. This number may fall slightly in 2016 as One Light, Roaster's Block, Argyle on 12th, Ambassador, RMwest, Union Hill Founders Phase II, the redevelopment of the Power & Light District and others start and go through lease-up stages. With that said, the rents being projected at some of the Downtown developments are pushing $2 per square foot, which will allow for a slight drop in occupancy while being able to improve other fundamentals at the same time. With time, the Downtown area will greatly improve due to everything taking place. The Power & Light District as well as Quality Hill and the River Market have much to look forward to as construction is completed. Multiple communities will spur improvement in the retail and office sectors as well.

The Country Club Plaza is the most sought-after area in Kansas City. It boasts a 4.4% vacancy rate and the highest rent per square foot exceeding $92.00 per square foot on the newest, best-located properties. New developments like 51 Main and 46 Penn Centre are both pushing towards $2-per-square-foot rents, and with the locations they have surrounding the Plaza, tenants aren't quite as skeptical of the monthly rent amounts. With the Plaza currently for sale, the area could potentially see some new positive changes and opportunities in multifamily.

The South Kansas City submarket is improving as Cerner continues to develop its new campus in that area. Sales in South Kansas City were much higher on a per unit basis this year than in recent years, showing how important that new Cerner campus is going to be for the area. Assuming the development timeline doesn't have any hiccups, that submarket will look completely different in a few years when all of the Cerner offices are occupied.

Notable developments that were completed this year on

Haven at Prairie Trace, a 280-unit property in Overland Park, Kansas, was purchased by Mid-America Apartments for $44,550,000 or $159,107 per unit.

the Missouri side include: One Light (311 units), 51 Main (173 units), 46 Penn Centre (177 units), RMwest (137 units), Union Hill Founders Phase II (181 units), Argyle on 12th (117 units), Ambassador (115 units) and The Landing at Briarcliff (340 units).

Notable developments currently under construction on the Missouri side include: Power & Light Building (268 units), Roaster's Block (146 units), Apex on Quality Hill (138 units), Summit on Quality Hill (252 units), The Residences at New Longview (309 units), Savannah West (200 units) and The Haven at Shoal Creek (275 units).

MULTIFAMILY SALES

In 2015, Kansas City's investment sales of multifamily assets boasted a volume of over $700 million, up from $600 million in 2015. A healthy mix of class A, B and C properties sold to local, regional, national and institutional investors. Class A transactions featured an average capitalization rate near 5.5%, down from 5.95% in 2014. The average sale price of roughly $150,000 per unit represented an increase of 11% over the 2014 average.

Notable Class A transactions:

- Highlands Lodge, a 230-unit community in Overland Park, Kansas, sold for $49.90 million or $216,957 per unit.
- Villas at Carrington Square, a 278-unit community in Overland Park, sold for $45.85 million or $164,928 per unit.
- Haven at Prairie Trace, a 280-unit complex in Overland Park, sold for $44.55 million or $159,107 per unit.
- Residences at Burlington Creek, a 298-unit community located north of the river in Kansas City, Missouri, sold for $46.98 million or $157,651 per unit.
- The Manor Homes of Arborwalk, a 280-unit community in Lee's Summit, Missouri, sold for $37.25 million or $133,036 per unit.
- Carrington Park, a 298-unit community located north of the river in Kansas City, Missouri, sold for $39.48 million or $132,483 per unit.
- Summit Ridge, a 432-unit community in Lee's Summit, sold for $52 million or $120,370 per unit.
- Town Center Apartment Homes, a 156-unit community in Overland Park, sold for $18.6 million or $119,231 per unit.

The Highlands Lodge sale represented a new high for price per unit in the Kansas City metro area. Price per unit has reached new highs in each of the last three years.

The most notable Class B sales in 2015 include: Willow Creek ($78.51 million, 986 units), The Mansion ($37.42

GFI Capital Resources Group sold the Villas at Carrington Square, a 278-unit community in Overland Park, for $45.85 million or $164,928 per unit to Howard and Catherine Stone in April.

Highlands Lodge, the 230-unit luxury apartment complex at Roe Avenue and Indian Creek Parkway in Overland Park, was sold by VanTrust to DiNapoli Capital Partners for $49,900,000 at a 5.25% cap rate. The $216,957 per-unit price was the highest in the entire Kansas City market.

million, 550 units), Country Club on 6th ($16.53 million, 169 units) and Rockland West ($13 million, 172 units).

The most notable stabilized Class C sales include: Whispering Lake ($15.68 million, 384 units), The Hills ($13.8 million, 207 units) and Valencia Hills ($12.8 million, 352 units).

Financing remains readily available for multifamily investments from banks, life insurance companies, commercial mortgage-backed securities lenders and government-sponsored entities Fannie Mae and Freddie Mac. Competitive rates and terms will continue to have a positive impact on multifamily investment transactions throughout 2016. The rates are at such low levels that even small increases, which are expected, aren't going to change much in the near future. 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.

LOOKING FORWARD

After seeing how Kansas City reacted to the last couple years' worth of developments, BRES is optimistic that the metropolitan area will continue to positively absorb these units coming online in the immediate future. Some fundamentals, such as rent growth, may level off, but the market is not likely to take much of a hit, if any, this year. Last year, industry experts were worried because Kansas City hadn't seen these kinds of development numbers in over 15 years. The positive absorption of these units and the continuation of upward-moving fundamentals with new units coming online bode well for 2016.

As the market continues to move forward, the real question will be identifying winners and losers of the multifamily real estate investment game. Are millennials going to keep renting at these high-end communities? Or will a larger portion of them look at purchasing a home instead? Will Kansas City continue to expand its economy into high-growth and high-paying industries like technology and biosciences? Or will major cities catch on and start doing the same, possibly slowing Kansas City's growth in these industries and that growing piece of the housing market ? Investors will have to wait and see exactly what happens, but for now, they can enjoy the success this city is having and appreciate all of the beautiful apartment communities coming online and being built throughout the metro area.

Contributor: Matt Ledom, Investment Sales.

Block Income funds

Funds I-IV

In 2015, a BRES-sponsored investment group acquired the Martinrea building in Riverside, Missouri for $19,950,000. The 369,000 square-foot property is leased to Martinrea International, Inc. on a long-term lease.

During 2015, the Block Funds income portfolio continued to get stronger by accomplishing goals that were established in 2014. Each portfolio took advantage of the low-interest-rate environment through several loan refinances, which improved the funds' cash flow.

The sale of several buildings in 2015 allowed for big distributions to the partners or the repayment of some short-term loans. Below are the major highlights for each specific fund during 2015.

BLOCK FUND I

- One building of the two-building portfolio in Phoenix was sold.
- Leawood Executive Centre I and II were both sold.
- The fund portfolio currently has five remaining assets, which the company plans to sell during the next 12 to 14 months.

BLOCK FUND II

- Conyers Logistics Center was sold.
- FedEx in St. Louis renewed its lease for three years.
- All short-term debt obligations were paid off.
- Pine Ridge Business Park Building 21 was sold and the proceeds were traded into the Martinrea, Inc. building, which will provide the fund with an excellent cash flow.
- 3080 Northfield is currently under contract and should close in March 2016.

BLOCK FUND III

- Conyers Logistics Center was sold.
- FedEx, which occupies 110,000 square feet in Earth City, Missouri, renewed for another three years.
- Riverside Business Center filled its vacancy of 45,000 square feet with a new five-year lease for all of the space.
- The fund paid over 10% cash distributions.

BLOCK FUND IV

- This fund acquired an ownership interest in Martinrea building in Riverside, Missouri, which is leased to Martinrea International, Inc. on a 12-year lease.
- The Evermark Building Products building in Atlanta was sold.

We are also pleased to announce we are currently raising our first institutional industrial income fund with a targeted equity goal of $100 million. The fund's initial closing is expected to take place in the first quarter of 2016. More details about this exciting project will be available soon.

If you have any questions about any of the Block Income Funds, please don't hesitate to call Brian Beggs at 816-932-5568 or email him at bbeggs@blockllc.com.

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

Block Construction Services
Projects

In 2015, BCS completed its first multifamily development project, WaterCrest at City Center. This 306-unit project with six buildings and a 7,500-square-foot clubhouse, located at 84th Street and Renner Boulevard in Lenexa, represents the first "central green design" in the metro.

Block Construction Services (BCS) saw another year of record revenues. In 2015, the development team and tenant-finish divisions managed over $225 million and $148 million of construction contracts respectively.

The relationships BCS has created as well as its performance—consistently exceeding owners' expectations—during the past 13 years have allowed it to build a strong construction management and owners' representation firm while managing projects in many sectors, including multifamily, industrial, distribution, office, medical office and retail.

OFFICE/MEDICAL

BCS has recently completed the construction of Pinnacle Corporate Centre V, which is a new speculative, Class A office building in Leawood, Kansas, with three stories and 71,327 square feet. Major tenants include Leawood-based RiskAnalytics, Unum of Chattanooga, Tennessee, and RBC Capital Markets.

In 2016, BCS will be starting construction of Nall Corporate Centre II. This is a Class A office building with five stories and 150,000 square feet located at College Boulevard and Nall Avenue adjacent to the Teva Pharmaceuticals building in Overland Park, Kansas (which BCS completed in 2013). The building will be anchored by a financial services firm, Mariner Holdings, LLC.

BCS continues to finalize plans for 46 Penn Office Tower at 47th Street and Pennsylvania Avenue in Kansas City, Missouri. This will be a Class A, office tower on the Country Club Plaza with 200,465 square feet in eight stories and a 246,666-square-foot parking structure and a 6,728-square-foot restaurant.

INDUSTRIAL/WAREHOUSE/DISTRIBUTION

Highlights in this submarket for 2015 included:

- Completion of two new buildings in the College Crossing Business Park. Building I is 77,038 square feet and Building J is 147,246 square feet. Both are Class A, light industrial buildings.
- Completion of the second building at Lenexa Logistics Centre South (LLC South). LLC South Building 5 is a 354,055-square-foot, cross-dock, Class A, distribution facility. LLC South Building 4 was completed in 2014 and is a 260,707-square-foot, cross-dock, Class A, distribution facility fully occupied by Amazon.
- Acquisition of 82.59 acres of ground located on the north side of College Boulevard just west of Renner Boulevard, which will be called Lenexa Logistics Centre North (LLC North). BCS has four new buildings planned at this location. Two Special Benefit District projects

BLOCK CONSTRUCTION SERVICES

with the City of Lenexa have been approved and work commenced at this location in the latter part of 2015.

- The start of construction of Riverside Logistics Centre, a new speculative, 245,243-square-foot, cross-dock, Class A, distribution facility located at 41st and Mattox streets in Riverside, Missouri. It is scheduled to be completed in May 2016.
- The continued planning of BCS's first building at 175th Street Commerce Centre located at 175th Street and Hedge Lane in Olathe, Kansas This first building will be a 499,735-square-foot, cross-dock, Class A, distribution facility. BCS will also be coordinating all infrastructure work, which includes a Special Benefit District project, utility extensions, internal street system installation, water detention and improvements for a conservation easement.

MULTIFAMILY/MIXED USE

In 2015, BCS completed its first multifamily development project, WaterCrest at City Center. This is a 306-unit project with six buildings and a 7,500-square-foot clubhouse and is located at 84th Street and Renner Boulevard in Lenexa. This Class A development is the first in the area to use a "Center Green" concept, which focuses on an atmosphere of luxury, pampering and resort-style living and is pet friendly. Its amenities include a pool, spa, fitness center, yoga studio and tanning and massage services.

EdgeWater, the second phase of this multifamily development at City Center, is currently under construction. This project will consist of 276 luxury units in the heart of Lenexa. EdgeWater's amenities will include efficient, top-of-the-line apartments with access to pools, clubhouses and tanning and personal training services for residents. It is expected to be completed by early 2017.

Infrastructure construction continued at CityPlace, a 90-acre, mixed-use development that will feature four office buildings totaling 600,250 square feet on 26 acres, 1,382 multifamily units on 39 acres and 38,860 sq. feet of retail space on 6 acres. The infrastructure work includes the construction of Switzer Boulevard, Indian Creek Parkway and 113th Street, the extension and relocation of all utilities, the construction of a streamway corridor and improvements for a conservation easement.

BCS began construction of the Residences at CityPlace, a mix of an urban, high-density four-story apartment building with enclosed podium garage parking and four suburban, medium-density, freestanding apartment buildings. This development will include a "Center Green" concept with a spacious, park-like corridor with lighted extensive internal walking and campus-wide sidewalks and sculpture gardens featuring the work of local artists.

Amenities of this development include a beautifully landscaped community, decorative private gardens with fountain, artwork throughout the campus, a terraced outdoor amphitheater, reading benches along well-lit sidewalks in Center Green, a grilling cabana with table seating, pond views with a water feature, a dog run area with dog exercise equipment and a dog wash, electronic key fob security, high-speed, fiber-based Wi-Fi, and monitored indoor and outdoor security cameras.

The clubhouse at the Residences at CityPlace will feature a contemporary style, an open plan, full service concierge/valet services, an Internet café with computer workstations, a game room with individual gaming cocoons and online gaming availability, a rain-curtain water wall, a media room, a gourmet kitchen, a see-through fireplace and a fitness room with cutting-edge, resistance-training equipment.

WaterSide Residences on Quivira is BCS's newest multifamily project and consists of 380 luxury units. WaterSide's amenities will include efficient, top-of-the-line apartments with access to pools, clubhouses, and tanning and personal training services. This development is expected to be completed in August 2017.

Outside of the metro area, BCS has started planning for a mixed-use development in Omaha, known as Town Centre on West Dodge. It will also be managing improvements at two new projects in northwest Arkansas acquired by the Block Multifamily Group—The Stadium Apartments in Fayetteville and Stoneleigh Centerton Apartments in Centerton, Arkansas.

TENANT IMPROVEMENTS

Our tenant-improvement division remained extremely busy and coordinated many projects in 2015. In addition to the tenant-improvement projects at Lenexa Logistics Centre and Pinnacle Corporate Centre V, BCS managed projects for:

- South & Associates at Southcreek Corporate Centre II in Overland Park, Kansas
- Heritage College at Executive Hills
- BMO Harris Bank at Plaza Corporate Centre in Kansas City, Missouri
- Cigna at Commerce Plaza II in Overland Park
- IB Granite at College Crossing Building I in Overland Park
- Orr Safety at Riverside Business Center in Riverside, Missouri
- Kansas City Regenerative Orthopaedic Institute at Executive Hills East

GREAT EXPECTATIONS FOR 2016

BCS development projects have helped shape skylines and landscapes throughout the country. It continues to see significant growth in all market sectors and expects a backlog in 2016 and beyond. Plans for 2016 include projects in the Kansas City Metropolitan area, northwest Arkansas, Indiana and Nebraska.

The division will continue to strategically add staff and look for new development opportunities in Kansas City as well as other markets throughout the Midwest. BCS looks forward to providing accurate direction to its partners, institutional and private investors, clients and tenants.

Contributor: Brad S. Simma, CCIM, Vice President

Block Healthcare Development

The Surgicenter of Kansas City, a 23,000 square foot ambulatory surgery center, situated at the Northeast corner of Interstate 435 and Holmes Road in South Kansas City, was completed in spring 2015. BRES assisted the physician investment group on the long-term financing and deal structure.

In 2015, the health care real estate sector continued to be one of the strongest and most stable sectors of CRE. At year-end, annual sales of medical office buildings were set to eclipse $5 billion for the fourth consecutive year. According to Revista, a provider of focused health care property data, the three years leading up to 2015 showed annual, non-M&A sales volumes of $5.51 billion, and 2015 was on pace to keep that trend going.

With stable trends and a growing buyer pool in the medical office sector, concerns associated with the implementation of the 2010 Affordable Care Act, which was fully in place by 2014, have subsided. Medical office cap rates continued to face compression as the competition for these strong, long-term assets increased. Both REIT and non-REIT investors continued to show a willingness to accept lower annual returns in exchange for a "recession-resistant" property.

The challenge with the heightened competition was—and will be in 2016—the sharp increase in price-per-square-foot acquisitions. In 2009, Revista noted that the average medical office price-per-square-foot sale was $210. In 2014, that price-per-square-foot was more than 35% higher at $286 per square foot. Within the sale types—sale-leaseback, investor and developer, the developer-driven sales came at the highest price, averaging close to $320 per square foot. Much of the development in the health care sector was driven by pre-leased projects with large health systems anchoring the projects with long-term leases.

In 2016, investors need to be conscious of the pricing related to replacement value. While the lure of long-term leases in a stable health care industry is appealing to all investors, those who use debt in acquisitions face the challenge of buying the right asset, but also at a price that can be supported by comparables in the appraisal process.

In its fifth year of operation, Block Healthcare Development (BHD) has positioned itself to provide right-priced investment opportunities to its clients. BHD continued to grow in 2015 by keeping its focus on acquiring, high-quality, net-leased medical office buildings across the country, and at the same time, locally developing Class A medical offices buildings (MOB)

The Parkway Medical Plaza is a new, innovative medical-office developed by Block Healthcare Development group located in Blue Springs, Missouri. It sits adjacent to the senior living community, The Parkway, a 140-unit development that opened in May 2015.

for both national providers and local physician groups. Within each of these transactions, the strategy was to provide stable cash flows to investors using conservative debt models and buying/developing at the right price. Through these efforts, BHD's transaction volume exceeded $45 million in 2015.

As noted above, the competition has grown considerably in the quest to purchase high-quality medical office buildings and cap-rate suppression continues to occur. To mitigate the increase in the price per square foot of the properties, BHD has continued to create strong relationships with national brokerage firms and physician practice group consultants who have provided the opportunity to source acquisitions that are often off-market. By using this strategy, BHD often has the opportunity to get more favorable pricing for products that, if on the market, would create more of a cap compression bidding war.

NOTABLE ACQUISITION TRANSACTIONS

Members of ME Associates Inc. successfully acquired two off-market medical office properties—one in Massillon, Ohio, and the other in Elizabethtown, Kentucky—that totaled $20.25 million. Each property contained long-term, net leases with annual rental increases. With a combined purchase cap rate of 8.02%, the investors are expected to realize increasing cash flows on a 20-year amortization that projects an initial five-year annual cash return of over 8.4%.

From a development standpoint, BHD utilized its preferred developer status with national health care groups for both the AD Medical development in Blue Springs, Missouri, and the Richmond Dialysis development in Richmond, Missouri Both of these opportunities were created as a result of BHD's past successful developments with these firms and their desire to grow in the marketplace. Both projects were developed and delivered to the investors on time and within budget.

NOTABLE DEVELOPMENT TRANSACTIONS

One development highlight in 2015 was the repurposing of a building in Overland Park, Kansas, for the new home of Johnson County Imaging Center (JCIC), a full-service medical imaging practice. JCIC's existing lease expired at the end of 2015. Previous attempts to identify affordable land to provide for a ground-up development were not successful, so BHD and JCIC identified an existing building to repurpose.

The $3.5-million total investment was on track to be completed in December 2015. Investor returns for this project are predicted to be more than 10.5% over the length of the lease. As part of the development, the physician members of JCIC are able to participate in the ownership structure, a group goal from the inception of the project.

GROWTH IN CONSULTING SERVICES

Outside of development and acquisition services, BHD expanded its model to provide consulting services to physician clients. A highlight of these services focused on securing the debt structure for the orthopedic owners of the SurgiCenter of Kansas City. This brand-new, state-of-the-art facility located at I-435 and Holmes Road is anchored by a long-term lease with HCA. Working against a firm deadline to secure the most favorable debt pricing to the physician owners, the partners sought BHD's expertise to navigate the waters, which translated into a successful second-quarter closing that coincided with the new facility's opening.

Block Healthcare Development (BHD) continued to grow in 2015 by keeping its focus on acquiring, high-quality, net-leased medical office buildings across the country, and at the same time, locally developing Class A medical offices buildings (MOB) for both national providers and local physician groups.

2016 OUTLOOK

Looking to 2016, BHD will be keeping its focus on local development opportunities that allow physician tenants the opportunity to be part of the ownership group, while also growing our preferred developer status with national health care providers. At the same time, BHD will remain active in identifying (and purchasing) the right net-leased medical offices across the country that continue to provide long-term steady cash flows to investors.

Contributor: Stephen Bessenbacher, Vice President.

Block
Multifamily Group

Block Multifamily Group (BMG) provides multifamily management services in a wide geographic area. Decentralized management and a centralized financial center enable its staff to provide proactive property management services in a timely manner.

Effectively managing clients' needs is the focal point of BMG's operating philosophy. Covering conventionally financed multifamily assets as well as HUD-insured and Low Income Housing Tax Credit (LIHTC) properties, BMG is able to provide services for a wide client base.

BMG grew significantly in 2015. At the start of 2015, BMG managed 3,100 units. It will start 2016 with 7,000+ multifamily units consisting of Block-owned assets, third-party management services contracts, leasing and development services, and asset management services. Each of these areas requires a sophisticated and professional approach to achieve the results investors have relied on for over 40 years.

Communities new to BMG's management this year include:

- Ranch at Pinnacle Point, 392 units, in Rogers, Arkansas
- Stadium at the Park, 112 units, in Fayetteville, Arkansas
- Stoneleigh Centerton, 280 units, in Centerton, Arkansas
- Roaster's Block, 146 units, in Kansas City, Missouri

BMG's strategic alliance with Balfour Beatty Communities (BBC)—a national leader based in Malvern, Pennsylvania, with 40,000 multifamily units—grew during 2015 as well. It purchased a 392-unit property in Rogers and 1,598 units in Dallas-Fort Worth. BMG and BBC both participate in the management of these properties.

WaterCrest at City Center in the Lenexa City Center is the most recent multifamily development of BRES. Phase I of this project, consisting of 306 luxury units, opened in September 2014 and completed lease-up in October 2015.

BMG is now focused on three new developments opening in 2016 in the Kansas City Metro area:

The Residences at CityPlace is part of the 90-acre, mixed-use development located in the Overland Park, Kansas, near I-435, U.S. Highway 69 and College Boulevard. CityPlace features four office buildings totaling 600,250 square feet on 26 acres, 1,382 multifamily units on 39 acres, 38,860 square feet of retail space on 6 acres and 140 senior living units.

EdgeWater at City Center is a multifamily development in Lenexa City Center. It will consist of 276 luxury units in the heart of Lenexa. EdgeWater's amenities include efficient, top-of-the-line apartments with access to pools, a clubhouse and tanning and personal training services.

WaterSide Residences on Quivira is a multifamily development located on an infill site within Lenexa. The development will initially consist of 304 luxury units. It will also have top-of-the-line apartments and access to pools, a clubhouse and tanning and personal training services.

Block Multifamily Group expanded its role during 2015 to provide due diligence acquisition services for internal as well as third-party acquisitions. The BMG team completed six due diligence projects on properties from Seattle to Iowa to Arkansas. BMG uses state-of-the-art iPad software for instant reporting, complete with photos and details.

BMG also implements and supervises multifamily rehabilitation projects. BMG develops operational plans to help owners to achieve their tactical and strategic goals. BMG blends this specialized area with its marketing and management responsibilities to provide a complete package of services. Block Multifamily Group expanded its role during 2015 to provide due diligence acquisition services for internal as well as third-party acquisitions.

Contributors include: Bill Larson, President of BMG, Lenora Carpenter, Executive Vice President of Operations, and Justin Larson, Vice President of Operations.

BMG and Balfour Beatty Communities purchased 1,598 units in the Dallas-Fort Worth area. Both BMG and BBC participate in the property and asset management of these properties.

Kansas City
Economic Indicators

In 2015, the national economy is expected to have grown at a rate of 2.5%, putting the growth of Gross Domestic Product (GDP) for the year in line with the 2.4% growth seen in 2014. As of November 2015, year-to-date (YTD) non-farm employment was increasing an average of about 237,000 employees a month as compared to 246,000 employees a month in 2014 and 194,000 employees in 2013. Steady economic and employment growth are expected to continue in 2016 at 2.6% and with the addition of 2.4 million jobs.

As the economy continues to gradually strengthen, employees should benefit from higher wages. The national unemployment rate as of November 2015 was 5% versus 5.6% in December 2014. Unemployment is projected to continue to fall but should remain about 4.9% for 2016. Similarly, 2015 real average hourly earnings increased 1.8% over 2014. This compares to the increase in real average hourly earnings of 0.8% from 2013 to 2014.

New residential (single and multifamily) housing starts and permits are often considered indicators of the health of the U.S. economy. New housing starts as of November 2015 were at a seasonally adjusted annual rate of 1,173,000 homes, a gain in starts of approximately 16.5% over the 1,007,000 starts in 2014. New housing starts are projected to increase to approximately 1.3 million in 2016. Data on existing home sales as of November 2015 suggested home sales for 2105 would be approximately 5.3 million homes, a 7.5% increase over the 4.93 million homes sold in 2014.

Inflation in the U.S. economy has remained at or below the Fed's target of 2% since July 2012. A strong dollar and low energy prices have contributed to the low inflation, and proponents of an interest rate hike argue that an increase in the federal funds rate is necessary to bring the economy back to "normal" and that leaving rates too low for too long may contribute to bubbles. The Fed has been closely monitoring inflation, especially during 2015, and on December 16, 2015, raised interest rates by.25% and reportedly is considering additional increases in 2016.

KC ECONOMIC FORECAST

The Kansas City regional economy is finally starting to show solid recovery from the recession. Kansas City's GDP grew almost 2.7% in 2015 as compared to 2.5% for the U.S. economy, and in 2016, GDP growth for the Kansas City economy is predicted to be 3.1%.

Unemployment broke 5% for the first time since July 2007, and according to the U.S. Bureau of Labor Statistics, was at 4.2% as of October 2015. The Kansas City economy has added an average of approximately 10,000 jobs a year since 2010. As of October 2015, about 18,700 jobs were added YTD with another 25,000 projected to be added in 2016.

Speaking further to the recovery, Kansas City experienced much better wage growth than the national average. Personal income was estimated to have grown at 3.1% in 2014 with 2015 income growth projected to be 3.6%. This growth is expected to slow down in 2016 with estimates at 3.1%.

All of this positive news in the Kansas City economy comes on the heels of a variety of new developments in the local market. There is a current proposal for a new terminal at the Kansas City International Airport with estimated development costs of more than $1 billion. Kansas City's downtown streetcar initiative is a $1 billion project and will be open to the public in the spring of 2016. About 4,500 construction jobs are associated with Cerner's new $4.4 billion campus in South Kansas City. Furthermore, new industrial and multifamily construction abounds in the Kansas City market and will contribute billions of dollars of investment in the economy.

All of this new construction has contributed to a tightening of the labor market, and in turn, is driving up wages. Over the next 5 years, the construction industry in Kansas City is expected to grow at an average annual rate of 7.5%, higher than the national average of 6.3%.

STEADY ECONOMIC GROWTH IN 2016

In 2015, the U.S. and Kansas City economies continued to improve. Global economic headwinds affected the U.S. economy's return to pre-recession norms and early estimates of GDP results signaled flat economic growth compared to 2014. However, employment steadily increased and wage growth was on the rise.

Kansas City typically shadows the overall U.S. economy. But this year, the regional economy appears to be leading the national economy in terms of real economic growth, employment and wage growth. Geopolitical issues and global economic conditions may dampen the nation's—and region's—progress. For now, though, the Kansas City market appears to be somewhat insulated from a major global downturn.

In December 2015, the Federal Reserve increased interest rates for the first time in almost 10 years. Advocates and critics alike will closely monitor the impact of the rate hike over the coming months, and it will continue to be a topic of major discussion in 2016.

Sources: Bureau of Labor Statistics, U.S. Census Bureau, MARC, Greater Kansas City Chamber of Commerce 2016 Economic Forecast.

Contributor: Adam Barnard, Financial Analyst

MARKET STATISTICS Year-End 2015 Data

OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	8,089,171	25	20.0%	87,708	270,374	$18.57
East Jackson County	353,372	5	4.4%	1,783	(232)	$20.90
Kansas City, Kansas	934,574	4	20.6%	0	10,979	$20.00
Midtown	3,472,948	17	4.4%	143,618	167,157	$22.43
North Johnson County	2,246,496	20	14.5%	42,336	(69,695)	$27.77
North of the River	1,123,054	9	20.6%	97,391	90,542	$18.60
South Johnson County	10,925,089	76	7.0%	391,097	(91,616)	$22.50
South Kansas City	2,676,488	14	8.9%	0	18,617	$19.14
Southeast Jackson County	103,442	2	4.3%	0	0	$24.50
TOTAL OFFICE - CLASS A	**29,924,634**	**172**	**11.8%**	**763,933**	**396,126**	**$20.89**

OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	14,266,609	192	10.6%	304,387	102,110	$16.69
East Jackson County	5,162,644	263	14.6%	22,028	7,541	$15.56
Kansas City, Kansas	2,010,403	75	9.3%	29,664	20,381	$15.21
Midtown	4,143,574	143	7.6%	52,797	(13,412)	$19.22
North Johnson County	7,253,651	270	8.8%	240,205	69,116	$17.20
North of the River	7,471,710	272	15.0%	142,121	19,729	$16.17
South Johnson County	15,047,534	456	8.7%	467,898	270,039	$19.04
South Kansas City	4,360,123	98	10.7%	155,650	37,325	$17.80
Southeast Jackson County	2,282,295	105	5.0%	147,583	31,825	$18.41
TOTAL OFFICE - CLASS B	**61,998,543**	**1,874**	**10.3%**	**1,562,333**	**544,654**	**$17.33**
TOTAL OFFICE - CLASS A + B	**91,923,177**	**2,046**	**11.1%**	**2,326,266**	**940,780**	**$19.11**

WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	5,696,585	65	2.8%	365,337	500,717	$5.23
North Kansas City/Riverside	23,095,546	505	5.1%	1,465,413	219,176	$4.12
Executive Park/Northland	34,871,448	379	3.5%	836,460	244,593	$3.81
Wyandotte County	41,906,446	928	5.4%	1,815,941	479,638	$3.97
Johnson County	56,292,144	1,425	6.1%	3,096,895	1,624,356	$4.73
East Jackson County	94,077,752	2,628	6.5%	2,029,644	641,984	$3.42
TOTAL WH/BULK SPACE	**255,939,921**	**5,930**	**5.6%**	**9,609,690**	**3,710,464**	**$3.95**

LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	792,751	14	32.5%	15,635	(123,300)	$10.00
North Kansas City/Riverside	174,879	13	10.8%	2,432	(2,665)	$13.94
Executive Park/Northland	436,066	16	11.10%	16,700	3,990	$5.81
Wyandotte County	871,552	36	5.8%	19,825	3,750	$7.71
Johnson County	5,997,449	254	7.5%	318,625	144,328	$9.05
East Jackson County	5,025,340	187	6.5%	49,127	62,873	$10.02
TOTAL LIGHT INDUSTRIAL/FLEX	**13,298,037**	**520**	**8.7%**	**422,344**	**88,976**	**$9.34**
TOTAL FLEX + INDUSTRIAL	**269,237,958**	**6,450**	**5.8%**	**10,032,034**	**3,799,440**	**$4.22**

MARKET STATISTICS Continued

RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	Planned Development
South Johnson County	19,490,975	6.7%	1,310,321	629,234	$17.71	0
North Johnson County	19,278,661	9.2%	1,764,452	57,570	$12.11	25,332
Kansas City, Kansas	10,113,964	9.1%	923,713	40,874	$11.81	0
North of the River	18,821,297	8.2%	1,535,341	44,747	$12.57	44,313
Midtown/Downtown/Plaza	8,756,627	5.2%	456,775	(23,321)	$12.99	45,000
East Jackson County	22,809,337	6.3%	1,427,800	303,554	$10.04	6,160
Southeast Jackson County	5,632,607	5.9%	333,245	206,896	$13.86	0
South Kansas City	8,395,378	11.3%	950,180	25,931	$10.72	34,000
TOTAL RETAIL	**113,298,846**	**7.7%**	**8,701,827**	**1,285,485**	**$12.55**	**260,349**

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)	Avg. Class B/C Rent (w/out utilities)	Vacant Units
South Johnson County	44,549	4.6%	$1,004	$716	2,049
Downtown	5,544	1.8%	$979	$613	100
Plaza/Midtown	2,851	5.0%	$1,107	$773	143
East Jackson County	16,019	5.7%	$747	$644	913
Wyandotte County	10,125	5.2%	$876	$551	527
Northland	17,866	4.9%	$901	$592	875
South Kansas City	22,000	6.5%	$716	$541	1,430
North Johnson County	13,091	3.7%	$953	$819	484
TOTAL MULTIFAMILY	**132,045**	**4.9%**	**$897**	**$656**	**6,521**

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

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