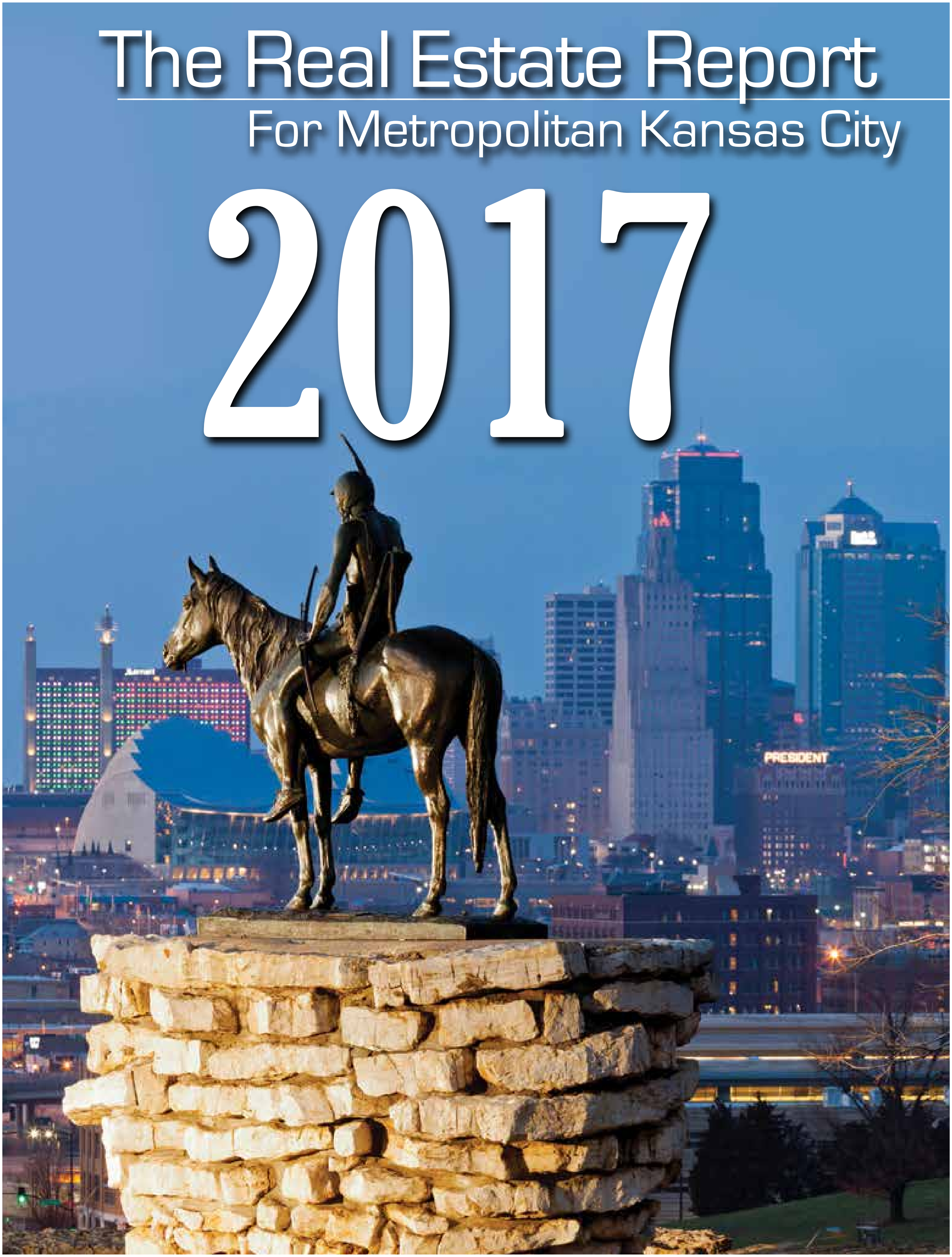
The Real Estate Report

For Metropolitan Kansas City

2017



Block Real Estate Services, LLC (BRES) Highlights of 2016

Transactions

BRES completed the year with total sales and leasing transactions in excess of $879 million.

Property Management

BRES commercial management portfolio reached 38.95 million of commercial square feet and over 7,500 multifamily units at year-end.

Construction

Block Construction Services (BCS) managed renovation and development projects exceeding $323 million. Projects included work in all sectors, including: office, industrial/ warehouse/distribution, multifamily, retail and medical.

Investment Syndication

BRES completed over $215 million in investment sales and raised over $75 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 firms in St. Louis, with over three 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 7,500 units. Projections point toward 8,500 units by year-end 2017.

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BLOCK
REAL ESTATE SERVICES, LLC

Real Estate. Real Strategies. Real Success.®

Success Abounds In Kansas City

BRES treated its employees to a company picnic at Kauffman Stadium in May. Employees from the different Kansas City office loctions enjoyed watching the Royals take on the Boston Red Sox.

Although 2016 brought no new crowning sports triumphs, Kansas City still excelled. Several notable achievements and exciting events occurred that bode well for the future of the metropolitan area and its ability to sustain growth, support business success and enhance a lifestyle that has attracted significant attention to the region.

Many of these highlights will be discussed in detail within the pages of this report. Some of the factors driving growth in the Kansas City Metropolitan area, include:

- The significant growth in e-commerce operations. Leading that charge was Amazon.com, which announced its fourth and fifth area facilities this past year. The facilities include the development of an 855,000 square foot fulfillment center and the occupancy of an existing 446,500 square foot facility for the Amazon Prime Pantry Kansas City operations.
- The significant growth in technology companies was reflected in Cerner Corporation's $4.5 billion expansion and the expected addition of 16,000 jobs.
- The continued expansion of residential opportunities and growth in entertainment venues in the Central Business District.
- The implementation and success of the Kansas City streetcar starter line, which enhanced the attraction of the urban core and improved the likelihood of a comprehensive streetcar system.
- The rapid growth in Kansas City's median household income (6.0%), which ranked sixth highest in the United States in 2015, with indications of continued strong growth in 2016.

All things considered, the outlook for Kansas City in 2017 and beyond is extremely promising for economic expansion and a stable and attractive quality of life.

Through the ever-evolving environment of commercial real estate challenges and opportunities, the Block Real Estate Services, LLC (BRES) team of seasoned professionals has continued to adapt and maintain its position as a leader in the industry.

BRES was recognized by the following journals and publications this year:

Kansas City Business Journal

- No. 1 commercial real estate property manager in Kansas City—managing over 37 million gross leasable square feet of office, industrial, medical and retail space and over 7,500 multifamily units
- No. 1 most-active commercial real estate firm with 723 transactions
- No. 2 commercial real estate company with 66 active real estate agents

Commercial Property Executive

- Ranked 18th top property manager in the country
- Ranked 20th top development firm
- Ranked 19th most powerful brokerage firm

Midwest Real Estate News

- Ranked 5th in top owners in the Midwest
- Ranked 12th in top property management in the Midwest
- Ranked 17th in top brokers in the Midwest

Ingram's

- No. 1 top Kansas City commercial real estate company for $879 million gross sales
- No. 1 top area commercial real estate company for square footage managed, sold and leased

BRES has a history of leading the Kansas City market in most commercial real estate benchmarks. This leadership is not by chance but rather a concerted effort by the firm to recruit the most knowledgeable and professional real estate strategists, brokers, managers, accountants, maintenance and support staff in the industry.

BRES continually creates incentives for these individuals to exceed the expectations of our investors and stakeholders. Of the 66 agents and 78 full-time employees, more than half hold some type of professional designation or degree. They actively seek to improve their skills from industry trade associations, including the Society of Industrial and Office Realtors (SIOR), Certified Commercial Investment Member (CCIM) Institute, Institute of Real Estate Management (IREM), Building Owners and Managers Association (BOMA) International and many others.

In addition, BRES and Block Multifamily Group (BMG) are accredited management organizations (AMO) through IREM. The AMO accreditation is the only recognition of excellence given to real estate management firms and puts BRES among the top professional management organizations with unmatched expertise and ethics. According to IREM, each firm with the AMO designation today has been in the business for more than 25 years and 80% of these firms have been in the business for more than a decade.

Over the years, many BRES employees have been inducted into the Midwest Real Estate Hall of Fame, most recently Brian Beggs. We also have several team members who serve on local and national boards of leading industry associations, such as the Kansas City Regional Association of Realtors and CCIM.

Achieving this recognition was possible because of our dedicated team of individuals who are driven in the pursuit of their clients' goals and push themselves to be the most knowledgeable, educated and professionally engaged team in the market.

PROPERTY AND ASSET MANAGEMENT SERVICES TEAM

BRES' portfolio continues to grow in all commercial avenues, industrial, retail, office and high-end mixed-use projects, thanks to partnerships with new and returning investors. The emphasis continues to be on tenant service and satisfaction, while maintaining the properties to meet our investors' needs.

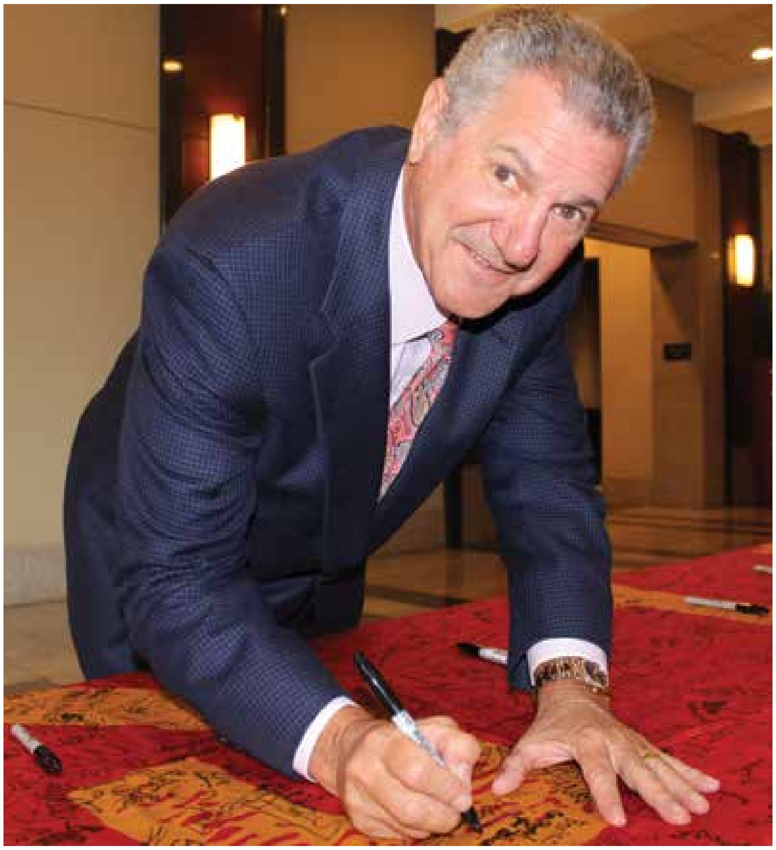
BRES continues its efforts in energy savings and efficiencies and has the largest number of Energy Star-certified properties in the Kansas City Metro area and in the state of Kansas. By striving for energy efficiencies in the buildings, BRES is ensuring resourceful use of investors' capital and reducing tenants' daily operating costs.

By using Building Engines, a building systems management software to streamline processes, engineers and technicians are able to spend additional time at each property, which has resulted in more personalized contact with our tenants and enhanced management opportunities. By tailoring services to each property and each tenant's needs, BRES is able to ensure a continued commitment to tenant satisfaction. By having a more active management approach, operating costs are reduced for tenants and efficiencies are improved for investors, allowing BRES to maximize property value and investor's return on investment. Providing better experiences for tenants also furthers the investors' goal of increasing retention.

Additionally, BRES property managers are connected to their properties and tenants 24/7. Not only do managers have access to email via cell phones and laptops, but they also have connectivity anytime anywhere. Building Engines allows them to log on from any computer, laptop or mobile device and provides instant access to documents and tenant correspondence. This application also provides instant text notification to keep tenants up to date during emergency situations. Constant connectivity for tenants and owners allows BRES' managers to be on the cutting edge of industry technology.

BLOCK MAINTENANCE SOLUTIONS

Block Maintenance Solutions (BMS) continues to provide a hands-on approach to our customers' success. An example of this strategic initiative is the team's commitment to energy conservation. Through benchmarking efforts and low- or no-cost environmental cost management measures, we successfully gained Energy Star certification for two million square feet of office space in 20 buildings. This is an achievement that sets us apart from our local competitors. We have a fiduciary responsibility to our clients to ensure operating costs are minimized where possible. As the cost of utilities continues to rise, we are working as a team to ensure our customers' money goes towards strengthening their businesses and not toward wasted utility consumption.



This year, BRES employees were invited to sign the largest Chiefs Kingdom flag for Red Friday to benefit the Ronald McDonald House Charities of Kansas City. Since the inception of Red Friday, Chiefs flags, newspapers and magazine sales have raised hundreds of thousands of dollars for local charities, with an emphasis on assisting youth in need.

BMS has also led the effort to purchase third-party, deregulated natural gas where possible. By negotiating annual fixed rate pricing, we are limiting clients' exposure to the volatility of the market. Our drive to make a difference in our clients' bottom line has led us to work with several consultants and providers to achieve continued success.

As always, BMS strives to provide services that limit the need for outside contractors. We have been successful in managing operating costs by utilizing a maintenance team with many years of combined experience. In addition to our team of building engineers, we round out our group with a master locksmith/electronic security engineer, a master electrician and a master plumber. Our experienced and skilled team allows us to complete more repairs and installations "in-house" at a substantial savings over market rates.

BLOCK CONSTRUCTION SERVICES

In 2016, Block Construction Services (BCS) had another successful year of managing ground-up construction and renovation projects. The construction services group managed a total volume of $313 million in development projects (a growth of about 40% from 2015) and a total of $10.5 million in tenant improvement projects.

Development projects in 2016 included over 3 million square feet of retail, office, industrial and distribution center space and over 1,100 Class A multifamily units.

Notable projects of 2016 include:

- The Royale at CityPlace consisting of 344 multifamily units totaling 329,978 square feet in the first phase of the CityPlace development in Overland Park, Kansas
- EdgeWater at City Center consisting of 276 multifamily units totaling 334,417 square feet in the second multifamily development at City Center in Lenexa, Kansas
- WaterSide Residences on Quivira consisting of 377 multifamily units totaling 473,379 square feet in Lenexa, Kansas
- 531 Grand consisting of 185 multifamily units and 10,000 square feet of retail space for a total of 221,425 square feet in the River Market area of Kansas City, Missouri
- Two buildings in Lenexa Logistics Centre—Building 7 in the south park, a 401,098 square foot distribution facility, and Building 1 in the north park, a 635,800 square foot distribution center
- Riverside Logistics Centre, a 245,343 square foot distribution center in Riverside, Missouri
- Nall Corporate Centre II, a 153,884 square foot office building with a two-story garage in Overland Park, Kansas
- Roe Medical Centre, a 77,987 square foot medical office building in Overland Park, Kansas

The construction services group is currently in the planning stages of a 200-acre, mixed-use development located in Omaha, Nebraska. The Avenue One project in Omaha is

Over 600 teams competed in the 2016 American Royal World Series of Barbecue located at the Kansas Speedway. BRES teamed up with Siegfried Bingham and the Kansas City Chiefs to host a tent with nearly 1,500 guests.

anticipated to generate an economic impact of over $1.28 billion for the Omaha region.

More information on these exciting projects can be found inside this report.

BLOCK MULTIFAMILY GROUP

Block Multifamily Group (BMG) continued to grow in 2016 with additional management of acquisitions and new developments. They will start 2017 with over 7,500 multifamily units consisting of BRES-owned assets and third-party management service contracts.

Communities new to BMG's management this year include:

- Trinity Bell Gardens, 240-units, Fort Worth, Texas
- The Park at Eagle Creek, 240-units, Indianapolis, Indiana
- Village at Juban Lakes, 144-units, Denham Springs, Louisiana
- The Royale at CityPlace, 344-units, Overland Park, Kansas
- EdgeWater at City Center, 276-units, Lenexa, Kansas
- WaterSide Residences of Lenexa, 377-units, Lenexa, Kansas

Although much of our growth has been outside the Kansas City region, we are especially proud of three new developments opening in 2016 in the Kansas City metro area:

- The Royale at CityPlace is part of the 90-acre, mixed-use development located 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 six acres and 140 senior living units. The Royale at CityPlace will offer residents an incomparable apartment living experience with modern floor plans, unparalleled amenities and first-rate customer service. Phase one opened in December 2016.
- EdgeWater at City Center is a multifamily development consisting of 276 luxury units near the new Lenexa City Center area at Renner Boulevard and 87th Street. EdgeWater's amenities include everything from distinctive exterior architecture to the exquisite classically designed interiors created for comfort and convenience. The community amenities aim to please and include a resort-style, saltwater heated pool, extensive sundeck with towel service, private poolside cabanas, tanning and massage therapy services and a 24-hour extensive fitness room with personal training services. The property welcomed its first residents in August 2016.
- WaterSide Residences on Quivira is a multifamily development located on an infill site. The development initially consists of 304 luxury units. WaterSide boasts similar floor plans, amenities and services as EdgeWater at City Center and welcomed its first residents in December 2016.

In 2016, BMG continued 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 Indiana. BMG uses state-of-the-art iPad software for instant reporting, complete with photos and details.

BLOCK TECHNOLOGY SOLUTIONS

Block Technology Solutions (BTS) completed 98 installations with Google Fiber to bring low-cost, high-speed gigabit Internet into several properties within the Kansas City metropolitan area. BTS serviced approximately 18 million square feet of space in 2016, totaling approximately $550,000 in sales volume, a 165%-plus increase from 2015.

Continuing to employ the most current and high-level IT developments available, BTS uses its own drone technology to provide cost-effective, timely solutions to present video and photographs to its property owners. Through its drone technology, BTS can provide 360-degree exterior building views. This has proven to be a powerful marketing tool for the commercial real estate industry.

In 2017, BTS will continue to leverage the Internet Of Things technology. We are currently focusing on a facilities management software program that would allow property owners the ability to connect all of their internal building automation devices. The information would be compiled on a single, web-based program, allowing owners to look deeper into the building's heartbeat and see exactly how energy, water and gas are being used down to the faucet, light switch and sprinkler level. We will also continue to provide low-voltage phone and data installations as well as building, server and desktop support to tenants who do not have local IT support services.

BLOCK HAWLEY

Block Hawley Commercial Real Estate Services (BH) continued to produce strong results in the St. Louis industrial real estate market, which has seen overall occupancy rise to 94.4% in light of the addition of 6.9 million square feet of new construction. The office closed approximately 65 transactions totaling $30.1 million in 2016.

BH's team of seasoned market experts leveraged the current market energy to produce these results, achieving its strongest performance since its inception in 2008 and making it among the largest industrial real estate firms in St. Louis.

In a market that exhibits no signs of slowing, the BH team foresees an exciting year ahead. Our 2017 strategies include adding industrial brokers and an office division.

For more information on the St. Louis metropolitan market, please visit BH's website at www.blockhawley.com.

BLOCK HEALTHCARE

In 2016, Block Healthcare Development (BHD) continued to see growth through both the acquisition of Class A medical office buildings (MOB) and the development of medical-related properties. BHD continued to source opportunities to acquire and develop so that investors yield stable returns with annual growth through long-term, fully leased properties. At the close of 2016, BHD completed over $48 million in acquisitions, with plans to announce an additional $12 million-plus in developments.

One highlight of 2016 was the acquisition of the Physicians' Primary Care of Southwest Florida portfolio (PPC). The PPC transaction was a record acquisition for BHD at $28.5 million. The six properties, which are located in the Cape Coral-Fort Myers region, were part of a sale-leaseback with the physician group. At the closing of the acquisition, the group re-entered a 10-year lease in each of the six buildings, which are all located in close proximity to the region's leading medical centers.

BHD will continue to look for long-term leased, Class A MOB acquisitions, while also working with local physician groups and entities on ground-up developments. The American Hospital Association has recently released data that has shown declining inpatient admissions and significant growth in outpatient visits over the past five years. It is this continuing trend that leads us to believe that 2017 will be another top-performing year for BHD.

BHD was also very busy during the year finding many off-market, sale-leaseback transactions and acquiring medical buildings with long-term leases by very large hospital systems. These opportunities allow us to execute our investment strategy of finding quality real estate below replacement-cost prices. This strategy also allows us to provide our investors with an excellent cash-on-cash return while at the same time paying down a significant amount of debt over the 10-year hold period.

THE BLOCK REAL ESTATE INVESTMENT TEAM

Commercial real estate continued to be a favorite investment for many high net-worth investors, keeping the Block Real Estate Investment Team very busy in 2016. Fueling this trend was the continued low-interest-rate environment, which allowed real estate investments to produce a higher yield than other types of investments. This year, the team raised $75,706,188, which was invested in nine transactions totaling $215,501,699 in acquired assets.

Block Income Fund I, which launched in 2004, is in the process of divesting all of its assets. The last asset will be sold in 2017. Block Income Fund II is in the midst of selling its portfolio with plans for full liquidation by the mid-2018.

The Block Funds Investment Portal was in full swing and had many high net-worth investors register for full access. The site continues to be updated with all of our new acquisitions and provides our current investors with the ongoing information they may need about their investments.

The fund managers of Block Industrial Income Fund I are currently working with an entity and expect to get a commitment for half of the total equity requirement in 2017.

DISPOSITIONS/ACQUISITIONS

In 2016, BRES sold multiple properties under our management, including:

- The College Boulevard Office Portfolio, which totaled 806,864 square feet in the 7101 Tower, both Commerce Plaza buildings and all four Financial Plaza buildings
- An industrial portfolio consisting of 1,184,028 square feet in 24 buildings
- Individual building sales of both Mission Corporate Centre and Six Pine Ridge Plaza

These property sales demonstrated a strong demand for well-positioned single and multitenant office assets in the local marketplace.

In 2017, BRES plans to sell multiple properties in its office and industrial portfolios. Many properties coming to the end of their hold periods are in a good position to sell, and with the positive market feedback on current and recent sales, it's time to take advantage at this point in the market cycle. These dispositions, along with other third-party disposition work, will keep the BRES dispositions team busy in 2017.

BRES MARKETING SERVICES GROUP

In 2016, the marketing department continued to serve the needs of BRES and its affiliates through printed material, events, and digital and public relations campaigns. The newest endeavor was a digital campaign for Block Funds, which helped bring additional investors to existing and future deals through email, search engine advertisements and a retargeting advertising campaign.

This year, the BRES marketing department was involved in the marketing of five local multifamily communities, five out-of-state multifamily communities, and several local industrial, office and medical office facilities. For the first time, BRES

BRES is proud to support local charitable organizations such as Hot Stiletto, the Alzheimer's Association, Big Brothers Big Sisters of Greater Kansas City, and The Salvation Army to name a few.

was represented at the Think Realty Global Conference in San Francisco, featuring a new booth and with three of our agents in attendance. In 2017, the marketing department's core focus will be to continue the growth of BRES and its affiliates through improved processes, teamwork and close relationships with our colleagues.

PHILANTHROPY

BRES has always been deeply involved in giving back to the Kansas City community. This year was no different. We are proud to announce that Big Brothers Big Sisters of Greater Kansas City has named Kenneth G. Block, Managing Principal of BRES, "Man of the Year."

This year, BRES was also proud to contribute and sponsor many organizations and events, including: The Salvation Army, Harvesters, Alzheimer's Association, Hot Stiletto, Special Olympics, the Wounded Warrior Project, Treads and Threads, Jazzoo, Operation Breakthrough, Hope House, American Royal, Boys & Girls Clubs of America, The Nelson-Atkins Museum of Art, Signature Healthcare Foundation, University of Kansas Cancer Center, Children's Mercy Kansas City, Village Shalom, Kansas City Art Institute and many more. As always, we continue to encourage our associates' participation in local charitable organizations of their choice and support their efforts through a matching-gift program.

BRES will remain focused on our goal of being the top, single-source provider of commercial real estate investment, development and support services to our clients and investors in the Kansas City metropolitan area. This goal, in conjunction with intense focus on our mission to enhance financial outcomes for our clients, enables us to deliver the results that have earned our clients' trust and their continued commitment to the services and opportunities presented by our team of industry-leading professionals.

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 insights and analyses 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 2017.

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

Kenneth G. Block, SIOR, CCIM
Managing Principal

Harry P. Drake, CPM, CCIM
Executive Vice President & COO

Global, U.S., Kansas City Overview

In December of 2016 President Obama accused Russia of hacking into the Democratic National Committe. He used this as an opportunity to expel 35 suspected Russian intelligence operatives from the United States and to place sanctions on two of their leading intelligence organizations.

Both the global and U.S. economies showed some signs of strengthening during 2016, but it was clear that there were still enormous threats, risks and concerns to each that remained. Some of them included:

- **Terrorist Activity:** In 2016, terrorist activity increased substantially with attacks throughout the world and on U.S. soil in an attempt to change the average person's way of life. Outside the U.S., major attacks occurred in Brussels, Belgium; suicide attacks in Pakistan; bombings that killed 80 people in Magnanville, France, a suburb outside Paris; an attack at Istanbul Ataturk Airport that killed 40; multiple terror attacks in Germany with several by Syrian refugees; the killing of a priest, two nuns and two parishioners in Normandy, France; an attack on the American University of Afghanistan where 13 people were killed; and recent attacks in Istanbul, Turkey and Egypt. The increase in terror attacks, primarily by the Islamic State of Iraq and the Levant (ISIL), an extremist jihadist rebel group, shows that they have continued to expand both their numbers and their ability to inflict harm and damage throughout Europe and the Middle East.

  In the U.S., ISIL inspired, lone-wolf attacks occurred in multiple locations around the country, including: St. Cloud, Minnesota, Orlando, Florida, and San Bernardino, California. These attacks, and a host of others, show that lone-wolf inspired attacks are becoming a key method for ISIL to inflict terror.
- **Iran Nuclear Deal:** In January 2016, the United Nations, the U.S. and many European nations lifted nuclear-related sanctions against Iran. The long-standing sanctions, both financial and oil-related, were lifted after inspections proved that Iran had dismantled its weapons as agreed upon in the nuclear deal. Approximately $100 billion of Iran's assets were also released after inspections by international representatives were completed. Coincidentally, the release of these assets and sanctions came hours after a prisoner swap between the U.S. and Iran. Later in the year, President Barack Obama's administration admitted that a $400 million

cash payment related to a 1970s military equipment deal was paid to Iran, but it was contingent on the release of four American citizens held by Iran. Critics called this a ransom payment.

- **Brexit**: A referendum set in motion the United Kingdom's exit from the European Union, nicknamed Brexit. Prime Minister David Cameron, a big supporter of staying in the European Union, agreed to resign. The decision to leave the European Union was necessary, according to supporters, to protect and restore the country's identity, culture, independence, and place in the world and to reign in immigration policies that provided open borders to refugees.
- **China**: The Chinese military continued to build up defenses on the disputed islands in the South China Sea, with evidence that anti-aircraft missiles had been put in place. Also, China increased its tough rhetoric in response to President-elect Donald Trump's comments on potential sanctions against China due to unfair trade practices and currency fixing.
- **Zika Virus**: The Zika virus, a mosquito-borne illness that can cause severe brain malformations and birth defects, continued to spread in the U.S. Cases were reported in numerous states, including Florida, New York and Texas. The Centers for Disease Control and Prevention began extraordinary measures to defeat this dangerous virus.
- **Israel**: The U.S. agreed to provide Israel $38 billion in military aide over the next 10 years.
- **Russia**: During, and after, the U.S. presidential election, accusations against Russia for tampering with the presidential election and hacking emails concerning Hillary Clinton's campaign continued. Obama directed the intelligence community to conduct a full review of what happened during the 2008, 2012 and 2016 elections to determine whether Russia interfered.
- **Syria**: Russia continued to support President Bashar al-Assad's regime as the U.S. appeared to be shrinking its presence in the region. Turkey became the most important force in the region working towards a negotiated peace between the rebels and Bashar al-Assad's regime.

GLOBAL RISK

The global economy and the U.S. economy are closely linked. Any global risk will have a negative impact on the U.S. economy at some point. 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. These global risks can change from year to year. The 10 highest risks for 2017 include the following:

- Terrorism
- Weapons of mass destruction
- Cyber security
- Instability in the governments of foreign nations
- Underemployment or unemployment
- Large-scale, involuntary migration by refugees

2016 saw multiple terrorist attacks in the United States. One of the worst was an attack in the Pulse nightclub of Orlando, Florida on June 12. A self-radicalized gunman killed 49 patrons and injured another 53 before being killed in a stand off with SWAT team members..

- Water scarcity
- Failure to adapt to climate change
- Profound social instability
- Interstate conflict

Currently, terrorist activities have the most immediate effect on the global economy. It is clear that debtor fraud and cyber threats are on the rise and will have an increasingly large effect on the stability of the economic and financial fabric of society. Countries are expected to spend substantially more of their economic output on protecting themselves from all sorts of cyber-terrorism and other forms of terrorist activity in the years ahead.

However, international forecasters now fear additional risks in 2017 beyond those stated, including:

Protectionism: Maurice Obstfeld, Chief Economist of the International Monetary Fund (IMF), warned that turning back the clock on trade can only deepen and prolong the world's economic doldrums. IMF Managing Director Christine Lagarde described policies that restricted trade as a form of "economic malpractice" that could choke growth, jobs and wages, and further weaken the global outlook. Trump indicated that he is going to withdraw from the Trans-Pacific Partnership (TPP) because he feels that the trade policies are unfair to the U.S. The TPP encompasses 12 pacific countries, including the U.S., Japan and Canada, but does not include China.

Quantitative easing policies: After eight years of quantitative easing, the balance sheets of the world's four largest central banks have increased from $6 trillion to $18 trillion dollars, with most of the increase coming from their own governments' bonds. Speculation is already mounting that the European Central Bank and Bank of England may be prepared to tighten monetary policy, which could immediately dampen the fiscal prospects for 2017.

Weak global commodities market: Economic growth in Brazil, Russia, Nigeria, and other rising economies slowed in 2016 due to low commodity prices. Economists expect only a modest recovery in 2017. Softer commodity prices have hurt emerging economies, which have disproportionately contributed to global economic growth in recent years. Therefore, 2017 is likely to be yet another challenging year for the world economy.

GLOBAL ECONOMY

The IMF expects the overall world economy to expand in 2017 by 3.6%, up from the 3.1% growth projected for 2016. Both advanced and emerging economies will contribute to the improvement. While Europe is slated for moderate growth again at 1.9%. Asia, for the second year in a row, will affect the world economy with India's growth at 7.5% and China's at 6.7%.

The global gross domestic product (GDP) was nearly $89.6 trillion in 2016. The U.S. continued to rank first with nearly $21 trillion in GDP followed by China, Japan and Germany. According to the forecast for 2030, this ranking will be shaken up significantly, since emerging countries, such as China, India, Russia and Brazil, are growing substantially faster than industrialized states.

As recently as 2000, the U.S. produced nearly three times as much as China. In 2014 China became the leading export country in the world with nearly $2.3 trillion, followed closely by the U.S. It is important to note that China is growing dramatically in its trade relationship with the U.S., which now has a $350 billion trade deficit with China that represents nearly half of the total U.S. trade deficit for the year. Expect Trump to address this deficit as he specifically called out China for "currency manipulation" many times during his campaign.

As it relates to global trade, the TPP appears dead in the water. The Regional Comprehensive Economic Partnership (RCEP), which includes China, India, Japan, and Southeast Asia and covers nearly a third of the world economy, appears to still be intact. However, the RCEP is far less ambitious, focusing only on the basic business of cutting tariffs, rather than more complex regulations that were proposed with the TPP.

Economists are undecided whether Trump will be the best or worst thing to happen to the global economy in 2017 and 2018. He has stated that he would renegotiate the North American Free Trade Agreement (NAFTA) by adding tariffs or even threatening to withdraw to renegotiate it completely. On the downside, a very protectionist stance on trade and jobs might spark a trade war with Asia, Mexico, China, and Latin America. The proposed 35% to 45% trade tariffs on Mexico and China in 2017, as well as tariffs on South Korea and Taiwan, could negatively affect the global economy. On the other hand, Trump's expansionist fiscal policy is set to stimulate U.S. economic growth, which in turn would help the global economy. If Trump cuts personal income and corporate taxes, and creates jobs by implementing a public infrastructure investment plan of at least $250 billion, the U.S. economy will grow quickly, which will increase global economic growth.

U.S. ECONOMY

The federal deficit increased to $552 billion on total revenues of $2.99 trillion in 2016. On average, the budget deficit was larger during Obama's administration than during any other presidential administration. The U.S. debt nearly exceeded $20 trillion at the end of 2016. Federal debt is now more than two times higher than when Obama took office in 2008 and is now the highest in the history of the country. What's more important is that the U.S. total debt, counting all deferred obligations for Social Security, Medicare and other entitlements, exceeded $67 trillion at the end of 2016.

While GDP growth in the U.S. is expected to be 2.1% in 2017, new regulations, or changes made by the Trump administration, could have an upward effect on GDP. The Federal Reserve Board currently projects the GDP to grow in 2018. The Congressional Budget Office (CBO) also expects the rate of inflation to stay below the Federal Reserve's goal of 2% now through mid-2018.

At the end of 2016, the Federal Open Markets Committee (FOMC) increased the federal funds rate a quarter point to 0.75%. In 2017, the federal funds rate is forecasted to increase three times to finish between 1.5% and 2.0%. The terminal rate, or where the Fed will stop hiking rates during this cycle, is forecasted to be 2.48% and to occur in late 2018 or early 2019. While Trump has in the past openly criticized Federal Reserve Chief Janet Yellen, he currently has toned down his comments. However, in the short run, he can impact the FOMC by filling seats on the board of governors and impact the direction of the Fed to speed up economic growth.

The CBO reported that debt held by the public amounted to nearly 77% of GDP at year-end 2016 ($14 trillion), or three percentage points higher than last year and its highest ratio since 1950. It should be noted that by 2026, public debt will be 86% of GDP or a total of $23 trillion. Such high and rising debt will have serious negative consequences for the budget and the nation, as it will cause federal spending on interest payments to increase substantially as interest rates rise, and it will give lawmakers less flexibility to use tax and spending policies to respond to unexpected challenges.

JOB MARKET

The job market tightened substantially during 2016 with an average of 180,000 new jobs added per month. However, expect employment growth in 2017 to drop to an additional 160,000 jobs per month unless new programs put in place by the Trump administration change the current direction. The reason for this change is a smaller pool of workers to choose from. Many people have left the labor force and are not interested in coming back while many more, who might have interest in participating, simply do not have the skills necessary to qualify for the available jobs.

At the end of 2016, the unemployment rate ticked down to 4.6%. It is projected that the unemployment rate will fall to 4.5% in 2017. This is not, however the true indicator of the employment market. The U-6 measure for employment was near 10% throughout 2016 and is considered a more complete measure of unemployment, as it includes "discouraged workers," or those who have formally stopped searching for work.

The labor market shed about 8.5 million jobs from peak to trough during the last recession. The losses for full-time employment were more severe at 11.9 million jobs. The total employment in the U.S. today is about 5.2 million jobs above the pre-recession peak, but full-time employment is only 2.7 million above the previous peak. The number of employees who are working part-time for economic reasons remains far too high for an economy nearing full employment.

The CBO anticipates that over the next year and a half the rate of labor force participation will stay the same at 62.7%. It is projected to decline by roughly two and a half percentage points over the next seven to 10 years. The prevailing decline in the labor force participation rate reflects underlying demographic trends and, to a smaller degree, federal policies. More specifically, the factors that are contributing to that decline include the continued retirement of baby boomers, reduced participation by less skilled workers and the lingering effects of the recession and a weak recovery.

There are also underutilized resources, or "slack," in the labor market. The CBO bases that assessment on its analysis of the employment shortfall, various other measures of underutilized labor and such indicators as the growth in compensation and rates of hiring and quitting. The major source of slack is an unusually large percentage of part-time workers who would prefer to work full-time. About 4% of all workers, or about 6 million people, were employed part-time for economic reasons, or because employers were offering them part-time jobs, even though they would have preferred full-time jobs. The CBO projects the actual labor force participation rate will further decline to 61.5% by the end of 2017.

PRESIDENTIAL ELECTION

The 2016 presidential election was like nothing the country has seen before. On the Republican side, a total of 17 candidates vied for the job of representing the Republican Party. Eventually, Trump emerged as the candidate for the Republicans. On the Democratic side, while there were several early candidates, it became a race between U.S. Senator Bernie Sanders, representing the millennials, and former U.S. Secretary of State Hillary Clinton, representing the establishment. Clinton was eventually chosen as the first woman candidate for the office of the president after becoming the Democratic Party representative.

The CBO reports that currently public debt amounts to nearly 77% of GDP at year-end 2016 ($14 trillion), or three percentage points higher than last year and its highest ratio since 1950.

There were more twists and turns during the 2016 presidential race than many can even remember, but some of the top moments included: the Hillary Clinton email scandal, the Donald Trump 2005 sex tape, Clinton's health problems, the WikiLeaks dump of emails regarding the Clinton campaign, Russian hacking accusations and a host of others. While projections appeared consistently in favor of Clinton, on Tuesday, November 8, 2016, Donald J. Trump won the Electoral College with 306 votes, even though Clinton won the popular vote by over 2.5 million votes. With President-elect Trump set to take office on January 20th, all eyes are on his selections for cabinet members, his projected plans for his administration and expected changes for the direction of the country.

Several areas economists predict Trump's administration will change direction from the current Obama administration include:

Personal and corporate tax reform: On the corporate side, the current 35% tax rate (the highest in the industrialized world) is seen as an obstacle to job growth. During the campaign, Trump proposed lowering the top corporate tax

In November 2016, Donald Trump won the United States Presidential election with his Vice Presidential candidate Mike Pence. They beat out Hillary Clinton and Tim Kaine with 306 electoral votes. On January 20, 2017 he will be inaugurated as the 45th President of the United States.

rate to 15% by eliminating loopholes. He has also proposed repatriation measures to return more than $2 trillion of overseas money back to the states in an effort to create more jobs and opportunities for the middle class. Currently, this repatriation concept seems to have bipartisan support. While on personal tax reform, Trump said he would like to simplify the tax code by creating three tax brackets instead of the current six and eliminating loopholes. Personal tax reform will be a more difficult task than corporate tax reform, but both appear to be on the agenda for 2017.

Trade: Trump has been critical of China, Mexico and other countries with trade practices that undercut U.S. manufacturing and cost the U.S. jobs. He has spoken continuously of enacting tariffs or other measures against these countries while also clearly stating his opposition to the TPP which appears to be dead going forward. In addition to the TPP, Trump has voiced strong disagreement with the terms of NAFTA and supports major changes that would be more equitable to the U.S.

Looser monetary policy: Trump and Congress will likely turn from a monetary policy that relies on the Federal Reserve Board to keep interest rates low, to a fiscal policy designed to stimulate growth. Trump has made it very clear that he also thinks America's infrastructure badly needs an overhaul. Therefore, expect large scale public works projects that will create jobs to be on his agenda.

National defense: Obama signed off on a $607 billion increase in defense spending for the 2016 fiscal year. Trump has made it clear that he wants to support the military by building up the military and modernizing equipment, but he also intends to focus on abusive spending practices and plans to improve negotiations with suppliers.

Immigration: Trump has talked in detail about strengthening U.S. immigration policies and protecting U.S. borders through the addition of border patrol officials and building a wall that Mexico pays for. He's also talked about deporting illegal immigrants that have committed crimes and stopping illegal immigration. He wants to stop immigration from those countries that foster terrorists. His team is already working on a program that would track immigrants traveling to the U.S. from high-risk countries and a program similar to the National Security Entry-Exit Registration System (NASEERS) program that was initiated after 9/11.

Executive orders: Trump plans to eliminate all executive orders put in place by Obama.

Obamacare: The Trump administration wants to repeal and replace the Affordable Care Act (ACA), commonly known as Obamacare.

Business growth: The Trump administration is expected to be good for business and job growth. In particular, Trump has said his administration would reform the entire regulatory code and potentially ease barriers to mergers and acquisitions. This could be good for companies like T-Mobile and others that were interested in merging to expand their market share. The Trump administration has already met with SoftBank Chief Executive Officer Masayoshi Son, and SoftBank has indicated it would increase its U.S. presence through the addition of jobs.

Jobs: Trump has said he wants to provide more jobs, and he has already taken actions to make it clear to large companies, like Carrier Corp., that moving jobs out of the U.S. will become costly. Recently, Carrier agreed to keep 1,000 of the 2,000 jobs it planned to move overseas in Indiana after Trump reached out to the company's leadership.

The premiums for insurance under the ACA have continued to sky rocket across the country with an estimated increase in premiums ranging from 25% to 100% for 2017. This has followed several years of rate increases under the program. With major insurance companies, such as Aetna, UnitedHealthcare and Humana, pulling out of the exchanges, the ACA was already facing a death knell. Expect the Trump administration, together with the support of a Republican-controlled House and Senate, to push for a more competitive, comprehensive health care program that retains some of the popular planks of Obamacare. It remains to be seen how the process will go, but most people expect that a new insurance act will be in place late 2017.

U.S. PROPERTY SECTORS AND MARKETS

For the seventh consecutive year, the Urban Land Institute (ULI) and PriceWaterhouseCoopers, LLC in their joint publication *Emerging Trends in Real Estate* 2017 have indicated that U.S. property sectors and markets will continue to be the top choice for investment dollars, although they expect a more steady market as compared to a high growth market. The current real estate cycle has continued for 85 months and is the fourth longest in U.S. history. Most investors describe the cycle being "in the mature phase," but there is still plenty of opportunity. A major factor that could affect the cycle's length is the difficulty of securing construction financing, which could effectively keep oversupply from occurring. Oversupply was typical of the last cycle as some developers were being priced out of the market.

However, the volume of available capital that continues to seek "core properties" has pushed pricing past prior peaks in many markets. There has also been reduced debt leverage, thereby shifting more risk toward the equity investor and pushing some buyers out of the market. While there are still plenty of buyers, acquisitions are becoming more selective, with cap rate compression having now spread into secondary markets over the last two years. While most buyers expected cap rates to rise, it now appears that such a move is not likely in the near term and, in fact, there may be a further decline in cap rates for core properties in core markets. While short- and long-term interest rates are projected to increase later in 2017, in the near term it will still have minimal impact on real estate investment. Growth has continued in all property sectors and interest rates still remain historically low.

In 2017, the industrial sector will again continue to lead all investment categories, followed by medical and multifamily. Both the office sector and retail sectors are improving but

Tensions between President Barack Obama and Rusian President Vladimir Putin have continued to rise throughout 2016. After the United States Presidential election, President Obama accused Rusia of hacking the election to help Donald Trump win.

each face specific problems. In the retail sector, e-commerce continues to grow and take market share, thereby making investing in retail much more driven by location and use. While grocery-anchored retail continues to be strong, even that market is now potentially going to face a shift as Amazon gets into the grocery industry with their AmazonFresh and Amazon Prime Pantry divisions. The office sector is still strong, but new development is slow due to meager job growth and technology changes that reduce the need for office space.

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However, office projects in prime locations in 18- and 24-hour cities have an even higher infusion of capital from foreign sources that simply have no place to put their money except in the extremely strong U.S. market. Health care, financial services and technology will continue to lead job growth, and this may spur more office development. Medical developments, particularly urgent care facilities and hospital-backed projects, will lead the office sector.

In 2017, real estate assets will continue to command an attractive spread over fixed-income investments, although as interest rates rise, competition will increase. Investors will sell existing bonds if interest rates rise. Higher interest rates will make new bonds more attractive, but still not nearly as attractive as real estate. Stronger economic growth will work in favor of commercial real estate leasing markets, but rising interest rates will work in the opposite direction by putting upward pressure on cap rates. A slow increase in rates would likely work in favor of commercial real estate and give the industry time to adjust.

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. In the past, a majority of investment capital was deployed in big employment and tech centers in the south, southwest and coastal cities; however, institutional and foreign investors will begin to look at the middle of the country for opportunities.

The top trends in real estate for 2017, according to Emerging Trends include:

- **Optionality:** Optionality will continue to grow as users' space needs vary in terms of size, location and use. Properties that were once considered only suitable for one use will be modified for others. In particular, older warehouses and shopping centers that have been deserted will find reuse through optionality.
- **Transformation through location choice:** CEO's now speak of the "triple bottom line" of financial, social and environmental success. Cities that have not been in demand such as Detroit, Las Vegas, Cleveland and Oakland will see increased investment as economic incentives become a factor.
- **Recognizing the role of small entrepreneurial developers:** Today's environment seems to conspire against the small developer with risk-adverse capital favoring the most-expensive locations and the most-experienced developers. It's difficult for a 30-year-old developer to become successful anymore as capital is too hard to come by. However, smaller firms may see increased activity in 2017 if bank deregulation occurs and small loans are more obtainable.
- **Scarcity of labor affects construction costs:** Baby boomers continue to retire and the millennials who are entering the labor force are not looking at construction jobs. As more young people go after higher education and stay out of the workforce, finding labor has become more difficult. The labor shortage is having a significant impact on the construction market and is pushing up the development time on projects, increasing costs and cutting into returns. In essence, millennials are not interested in construction work, or the skilled-crafts industries, and this trend will require immigrants to fill these spots or costs will go through the roof.
- **Housing affordability:** Local governments are becoming more aggressive in providing incentives to the private sector to meet a shortage of housing. Cities are encouraging developers to create below-market rental apartments or homes for sale in older urban areas in an attempt to bring people back into the city.
- **Gaining entry beyond the velvet rope:** NIMBY, short for Not In My Backyard, sentiment is becoming more pronounced. Downtowns of cities are becoming hollowed out, and in certain suburbs, it has become very difficult to do new developments because of the pressure from neighborhood organizations.
- **The connectedness of the city:** The Internet of Things (IoT), the interconnectedness of physical devices, is the new phenomenon. The number of connected devices is expected to triple from 10 billion in 2015 to 34 billion in 2020. The seven smartest cities in the U.S., Seattle, San Francisco, Boston, New York, Washington D.C., Portland and Chicago, continue to attract the majority of millennials seeking connected activities.
- **Ready for augmented reality:** Virtual tours are becoming the norm and have become a definite enhancement to marketing tools. Customized "tours" can bring shoppers

to the stores by using GPS technology. Retail real estate is likely to become more of an entertainment experience in the future.

- **Blockchain for 21st Century Real Estate**: Blockchain is the record-keeping technology functioning as an encrypted register of digital data. Proponents argue that blockchain technology is ideal for tracking high-value assets and creating an "inerasable history".

As always, the human touch will remain important. Management of real estate will continue to be intensely active as investors expect operational efficiencies to strengthen real estate investment returns. Those brokerage and management companies that have mastered the art of management will see continued growth and prosperity.

To be successful in the real estate industry over the next three to five years, it will be important for investors to follow several real estate trends:

- Critical care will be driven by health monitoring via bio-connective data and advancements in nanotechnology and DNA mapping. Expect new care centers to open where patients live.
- Available online retail sales could reach $4.3 trillion by 2025. Owners of retail real estate should be prepared to reinvent and/or repurpose their product.
- The movement of goods and the accessibility of services will create an incredible demand for new forms of warehousing and distribution. Even demand for warehouse distribution facilities of 50,000 square feet or less will improve.
- The U.S. will shift to a renter-based society. Watch for the overall percentage of home owners to drop to the high-50 percentile from the current level of 63%. As baby boomers retire, retirement or age-restricted communities will expand. Over 59% of all new households formed between 2010 and 2030 will be renters.
- Nearly 9.2 billion tons, or 70%, of America's freight moves over the road in more than three million vehicles. An expected shortage of 240,000 drivers by 2020 will increase the use of rail to move goods.
- Crowdfunding for real estate ventures in public stock for individual real estate assets will become more popular. Crowdfunding in the real estate industry reached nearly $2.5 billion in 2015 but will grow to between $50 and $75 billion over the next 10 years.
- Rental communities will require owners, developers and operators to provide dedicated parking spaces for Zipcar-like services, racks for shared bikes and parking spaces dedicated for "just in time" deliveries.

KANSAS CITY ECONOMY

In 2016, the Kansas City economy increased its growth rate over its strong growth rate in 2015. Some of the same employment sectors continued to drive activity in 2016 including the automobile industry, IT, health services, technology and financial services. Employment growth was also seen in leisure and hospitality, manufacturing, trade transportation, utilities and professional services. In addition, the influence of both e-commerce and intermodal activity in the Kansas City area continued to increase during the last two years, making Kansas City one of the top e-commerce cities in the country.

In 2016, the hospital sector continued to grow. Major projects continued with the University of Kansas (KU) Hospital, HCA Midwest Health, Shawnee Mission Health and the Saint Luke's Health Systems. KU Hospital's new 118,000 square foot facility at 107th Street and Nall Avenue commenced and should be completed by the end of 2017. HCA continued to expand at all of its area hospitals and enhanced its presence in the I-435 corridor to keep pace with its competitors. Finally, Saint Luke's continued to develop a number of new urgent care centers in multiple locations throughout Johnson County.

The U.S. will shift to a renter based society as homeownership shifts to home rentership. Watch for the overall home ownership percentage to drop to the high 50's from the current level of 63%.

Cerner continues to expand at its new $4.45 billion Innovations Campus, formerly known as Three Trails, at the former location of the Bannister Mall. The first two towers of the sprawling 290-acre, 10-building campus will be completed in the next couple of months with employees beginning to move in at the start of 2017. The campus in south Kansas City, Missouri, will eventually support 16,000 workers and will feature a fitness center, a wellness clinic, a dining hall and a host of other amenities. The entire project is expected to take 10 years to complete and will be the largest economic development project in Missouri's history.

There are a host of other major development projects or announcements that occurred in 2016 worth mentioning. The Sprint Corp. has announced that it is expanding its 3rd Generation Partnership Projects (3GPP) standards for 2.5 GHz spectrum that will boost uplink and improve service. At the same time the company made two separate announcements concerning the Sprint campus. The first was the company's intention to make available for lease 284,000 square feet of space in two buildings created by workforce reductions, 14,500 to only 6,000 employees. Second, the company said it would consider selling portions of its campus.

The Kansas City Streetcar Authority opened the streetcar system on May 6, 2016, and Kansas City Mayor Sly James said that building owners and developers have completed, started or announced more than $1.6 billion in construction in the Kansas City Streetcar District since the route was announced three years ago. Kansas City is now working on two different legs of the streetcar system, which could possibly link areas north and south of the Country Club Plaza, and the Berkley Riverfront Park, with the current system that ends at Union Station.

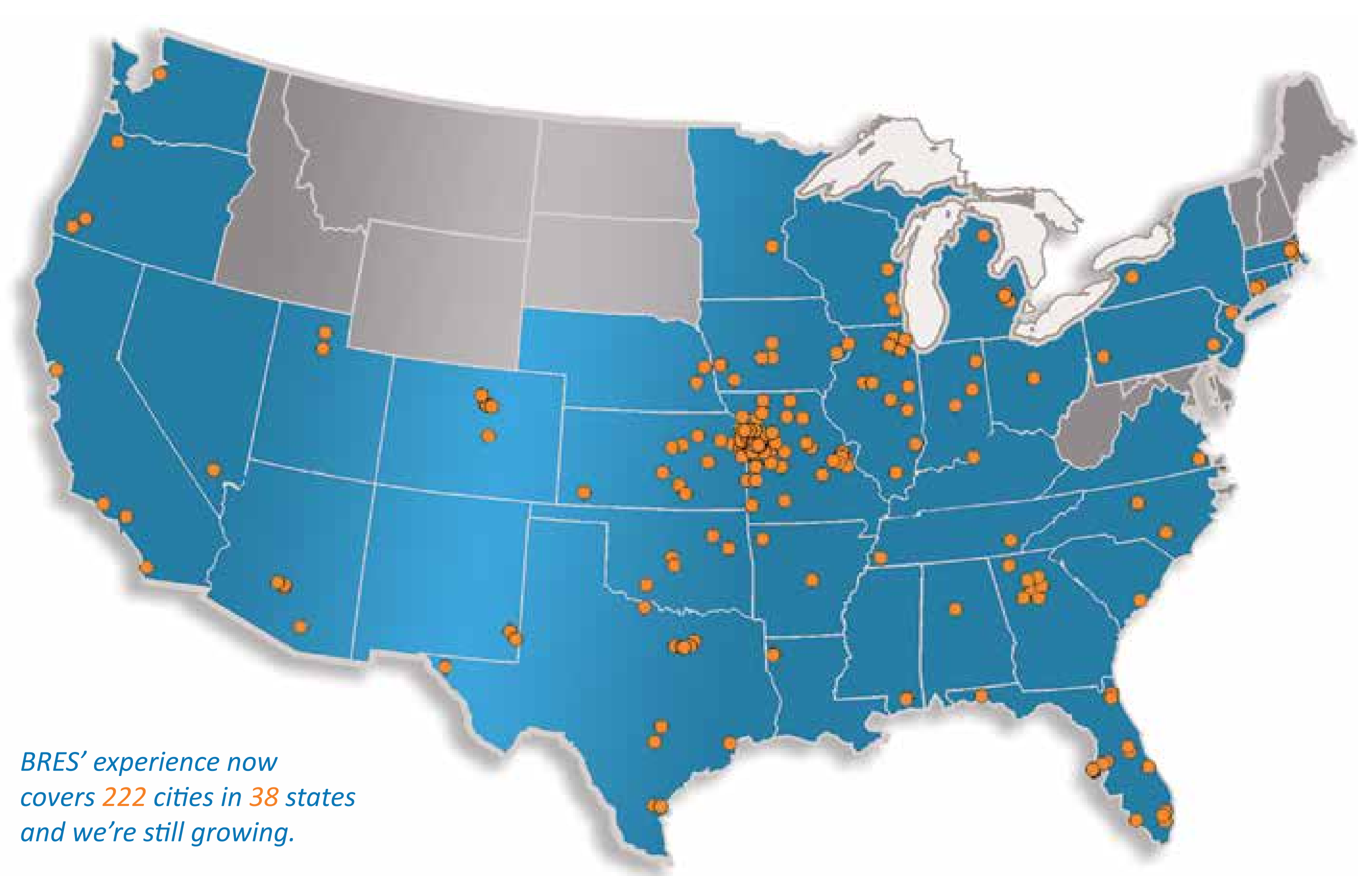
The new KC Rise Fund, which hopes to raise $20 million in the near term, is sponsored by KC Rising with a 20-year vision to encourage "a cycle of prosperity" where industries work together to ensure success and create a means for current business leadership to focus on opportunities for the next generation. The main theme of this group is sustainability.

KCP&L continued to expand its Clean Charge Network, which now consists of over 1,000 electric vehicle charging stations, making the Kansas City region one of the best places to own an electric vehicle. KCP&L is gaining a reputation for innovation, increasing and attracting electric car owners and reducing carbon emissions.

Also, the American Royal Association, which has been located in the West Bottoms for 117 years, announced it will move to new facilities which will be constructed at the Village West retail and entertainment district in Kansas City, Kansas, in Wyandotte County. The project is expected to cost $160 million and occurred because Kansas City, Missouri officials dragged their heels two years ago on the original $60 million American Royal proposal to raze Kemper Arena and replace it with a smaller events center. Kansas Governor Sam Brownback's office confirmed that Kansas sales tax revenue, or STAR Bonds, would be used as the primary economic development tool for the project.

In other major deals, Highwood's Properties Inc. sold the Country Club Plaza for $660 million to a joint venture between Taubman Centers, Inc. and the Macerich Company. The portfolio consisted of 18 properties encompassing 804,000 square feet of retail space and 468,000 square feet of office space, which included the 10-story Valencia Tower and 205,000 square feet of second-story retail offices. Also, the Legends Outlets Kansas City, a 1.2 million square foot destination retail center in Wyandotte County's Village West district, was sold for the second time in three years to a fund managed by Walton Street Capital. Other big announcements in 2016:

- Burns & McDonnell unveiled its new world headquarters totaling 310,000 square feet at 9450 Ward Parkway.
- The Olathe City Council worked to create a giant STAR bond district for their 110-acre The Great Mall of the Great Plains site at 151st Street and I-35 before the STAR bond legislation expires on June 30, 2017. At this time, there are no specific plans for the site.
- The former Kemper Arena secured historic preservation status and will be renamed Mosaic Arena under a sponsorship with the chain of health clinics. It is expected to be redeveloped as a regional amateur youth, adult and family sports center.
- Kansas City continued to solidify its claim as the "Soccer Capital of America" with the announcement that the national training and coaching development center for U.S. Soccer, which will cost $62 million, was expected to be completed in November 2017.



BRES' experience now covers 222 cities in 38 states and we're still growing.

- CVS announced a new health distribution center development (named Project Toto) totaling 850,000 square feet on a 67.38-acre tract of ground at 108th Street and Congress Avenue in Kansas City, Missouri.
- AMC Entertainment Holdings Inc., based in Leawood, Kansas, acquired Carmike Cinemas Inc. in a $1.2 billion deal, which makes AMC the nation's largest movie theatre chain.
- In not-so-good news, the Kansas City Council delayed the Kansas City International (KCI) Airport terminal redevelopment plan, which was to be voted on in an August special ballot, because it determined that nearly 60% of the Kansas City Metro public lacked interest in the project.

Several big projects are expected to change Kansas City in 2017 and beyond. Amazon has quietly expanded its presence in Kansas City: two buildings in 2012; a 260,707 square foot sortation center at Lenexa Logistics Centre in 2014; and a 446,500 square foot distribution center for Amazon Prime Pantry, and an 822,000 square foot large-item fulfillment center at Logistics Park Kansas City during the last two years. Currently, Amazon is building an 856,000 square foot fulfillment center, which expands to over 2.3 million square feet with mezzanines, for small and mid-size items. In 2017, announcements are expected about the expansion of Amazon Direct, AmazonFresh and other Amazon ventures in the area.

However, two major projects experienced serious or near fatal delays. The Mission Gateway project, originally proposed as a $190 million mixed-use project anchored by Walmart, potentially shut down forever in August 2016 when the Mission City Council voted to reject the latest plan. The second was the massive mixed-use project totaling nearly five million square feet on the former Brookridge Golf and Fitness site, which requires significant STAR bonds and other economic incentives to be successful.

Good news came at the end of 2016 for the former Bannister Federal Complex when $200 million in federal funding was obtained to do the cleanup of the site so it can be transferred to CenterPointe Properties for a proposed industrial park. Many more exciting projects are planned for 2017 and beyond, thereby increasing interest by institutional and foreign investors in the Kansas City marketplace.

KANSAS CITY REGION

The region's gross regional product (GRP) grew at an annual rate of approximately 2.0%, which was less than the original projection of 2.7% in 2015. The region's GRP is expected to remain steady at 2.0% in 2017 and decline slightly to 1.9% in 2018.

Employment growth will remain strong relative to labor supply growth, putting downward pressure on unemployment and upward pressure on wages. In 2015, there were 21,300 new jobs in the Kansas City Metro area compared to 20,100 new jobs in 2016. Job growth is expected to pull back slightly to 19,300 in 2017. As in the past, medical services, technical, scientific and professional service industries added the most new jobs, while declines continued in retail, communications, manufacturing and government employment. The construction sector remained strong again in 2016 and is expected to remain strong in 2017.

As of October 2016, Kansas City's unemployment rate remained below the national average at 4.1%, mostly unchanged from 4.0% in October 2015. Additionally, Kansas City's real median household income increased 6% in 2016 and the trend is expected to continue into 2017.

One of the most impressive things about Kansas City is its economic strength compared to other large metropolitan cities. Economic strength rankings are created by POLICOM Corp. to study the characteristics of strong and weak economies, and determine which ones have rapid consistent growth in both size and quality and for an extended period of time. In these rankings, Kansas City continued to rank reasonably high at number 18, up 10 spots from its ranking of 28 in 2015.

In 2017 employment growth will remain strong relative to labor supply growth, putting downward pressure on unemployment and upward pressure on wages.

The Kansas City metropolitan area is now considered to be on the cusp of having primary city status versus its long-time status as a secondary city. This ranking improvement is due to the increased real estate activity in all property sectors together with its emergence as a stable investment market. Multifamily has certainly been a strong sector with over 2,782 units now underway or planned in the downtown market and over 6,922 units in all the suburban markets. Additionally, industrial growth has been as active as any time in the history of Kansas City with current projects totaling 6.4 million square feet. The continued growth in the intermodal, automobile and e-commerce sectors will make Kansas City one of the most sought-after industrial locations in the country in the coming years.

KANSAS CITY'S LOCATION

Kansas City has a long list of strong attributes but it continues to benefit from its location in the middle of the country and in the central time zone, which allows it to attract a constant influx of visitors from a multitude of small communities in the surrounding seven states. Kansas City is within a four-hour drive of over 8.81 million people in Kansas, Missouri, Nebraska, Illinois, Oklahoma, Iowa and Arkansas, and it continues to be a tourist destination for these communities.

The Kansas City metropolitan area is home to over 2.51 million people and continues to be home to a number of corporate headquarters, including AMC Entertainment

The United States took home 46 gold and 121 total medals this year at the 2016 Summer Olympics in Rio de Janeiro, Brazil. The next closest was Great Britain with 27 golds and China with 70 total medals. Michael Phelps won five gold and one silver medal. He is the most decorated Olympian of all time with 28 medals, 10 more than second place.

Holdings Inc., American Century Investments, Bats Global Markets Inc., Black & Veatch, Burns & McDonnell, DST Systems Inc., Commerce Bank, Garmin International Inc., Great Plains Energy Inc., H&R Block Inc., Hallmark Cards Inc., Westar Energy Inc., YRC Worldwide Inc., Lansing Trade Group LLC, Seaboard Corp., JE Dunn Construction, Cerner, UMB Financial Corp. and many others.

A significant number of major universities are located in and near Kansas City, and because of this, 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 Kansas (KU) and the University of Missouri (MU) offer professional degrees in law, medicine, dentistry and pharmacy. The Kansas City University of Medicine and Biosciences offers degrees in osteopathic medicine. Kansas State University offers bioscience and biotechnology degrees. The Lewis White Real Estate Center at the University of Missouri-Kansas City (UMKC) Bloch School of Management continues to rank as one of the premier master programs in real estate in the country.

A host of other colleges and universities can be found in and around Kansas City, including DeVry University-Missouri, Kansas City Art Institute, Ottawa University, MidAmerica Nazarene University, Missouri Western State University, Avila University, Cleveland Chiropractic College, Rockhurst University, University of Phoenix, Webster University and William Jewell College.

APPRECIATION FOR CULTURAL ARTS

Kansas City is known nationally and internationally for its art and culture and has a multitude of amazing venues to enjoy arts and cultural events. Some of these venues include the Nelson-Atkins Museum of Art, the American Royal Museum and Visitor's Center, Kansas City Symphony, Folly Theatre, Starlight Theatre, Kansas City Ballet, Kansas City Chamber Orchestra, Lyric Opera of Kansas City, Kansas City Repertory Theatre, National World War I Museum, American Jazz Museum, Airline History Museum, Negro Leagues Baseball Museum and Nerman Museum of Contemporary Art. Of course, Kansas City is known for the renowned Kauffman Center for the Performing Arts, which is ranked among the top three performance halls in the world. With all of these great artistic venues, Kansas City ranks number one in the country based on the number of cultural venues compared to population and is now ranked in the top five cultural art destinations in the country.

SPORTS AND ENTERTAINMENT

Kansas City ranks as one of the top sports and entertainment cities in the country. A number of well-known professional teams call Kansas City home, including the Kansas City Chiefs, Kansas City Royals, Sporting Kansas City, Kansas City Storm, Missouri Mavericks, Kansas City Comets, Kansas City T-Bones and Kansas City Renegades. Also Kansas City residents get to enjoy outstanding college athletics, too, from several area schools like the University of Kansas and UMKC. The Kansas City Chiefs, Kansas City Royals and Sporting

Kansas City have all reached the pinnacle in their sports in the past and have brought national visibility to Kansas City in the sports arena.

Kansas City also, due to its location in the center of the country, is home to a wide variety of entertainment venues, including Worlds of Fun, Oceans of Fun, the Kansas City Zoo, Union Station, Community America Ballpark, Schlitterbahn Vacation Village, the Kansas Speedway, Sea Life Aquarium, Legoland Discovery Center, Silverstein Eye Centers Arena, City Market, the American Royal Barbeque and Rodeo, Topgolf and six area casinos. In addition to these exciting venues, the Overland Park Arboretum and Botanical Gardens, Powell Gardens, the 18th & Vine Jazz District, Snow Creek Ski Resort, Plaza Art Fair, Westport Art Fair, Wyandotte County Fair, Kansas City Renaissance Festival and many other venues provide a variety of entertainment options in Kansas City.

TRANSPORTATION: RAIL, TRUCKING AND AIR

Kansas City continues its ranking as one of the strongest distribution centers in the country. It has the number one ranking by rail freight volume and the number two ranking of largest rail centers in the U.S. behind Chicago. Kansas City's new rail intermodal hubs, one by Burlington Northern Santa Fe Railroad Co. and one by Kansas City Southern railway, joined 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.

Four interstates, I-70, I-35, I-29, and I-49, serve the Kansas City Metropolitan community. The metro area has four additional interstate linkages, including I-635, I-470, I-670, and I-435. Kansas City is also served by 10 federal highways, providing a superior traffic system in the metropolitan area. And finally, I-35, known as the NAFTA highway, which stretches from Mexico to Canada, bisects the Kansas City Metro area and continues to enhance and expedite the distribution of products throughout the metropolitan area and the U.S., making Kansas City a highly sought-after trade route.

More than 10 million passengers flew in and out of KCI during 2016, an increase of 5.4% from 2015. And more than 190 million pounds of air cargo, which consisted of both freight and mail transported by air, went through KCI in 2016, up 10% from 2015. Kansas City's new air modal center, adjacent to KCI, continues to strengthen cargo shipment capabilities and distribution opportunities together with the several intermodal locations throughout the community. Because of this, Kansas City is recognized as one of the top four cities in the nation for cargo distribution.

CITY RANKINGS:

The Kansas City Area Development Council, ranked the number one regional economic development team in the U.S. in the 2014 Winning Strategies report, continues to do an amazing job promoting Kansas City. The organization helps sell companies on Kansas City when they are evaluating relocation options.

Kansas City continues to perform well in a host of rankings, including number three in the 10 best U.S. cities for real estate investors, number 16 in *Travel+Leisure* magazine's America's best cities for hipsters, number eight top city for tech start-ups by Entrepreneur.com, number seven best place to retire, number six for young entrepreneurs, number 11 for America's best downtowns, a top-10 travel destination for 2016, number 26 in the country for young brain power, number 11 for best parks systems in the nation, number 14 best city in America, number 11 for female entrepreneurs, a top-10 coolest city in the midwest, a top-three most philanthropic communities in the country, number 10 on the list of America's smartest cities by USA Today, a top-10 romantic city by Livability.com and number eight overall best city in America to raise a family by Parenting magazine.

With a multitude of intermodal locations, Kansas City has been recognized as one of the top-four cities in the nation for cargo distribution.

Also, the Sprint Center continues its ranking as the second-busiest venue in the U.S. and the eighth-busiest venue in the world. Kansas City continues its ranking as the number one city in the country for barbeque and hosts the largest barbeque event in the country with the American Royal barbeque. Kansas City also ranks number 18 as the overall strongest metropolitan area in the country. It also ranks number two as best city for women in tech, the number one soccer city in America, the number three best job market according to U.S. Census Bureau American Community Survey, a top-five affordable city for millennials according to Zillow, a number two best city for jobs according to Glassdoor, number four greenest city according to *Travel+Leisure*, number three most cultured city in America according to *Travel+Leisure*, number seven on *Travel+Leisure's* list of 20 coolest cities in America and number two on the top-10 budget destinations for travelers according to ShermansTravel blog. Starlight Theatre was voted the third-best outdoor music venue in the nation by USA Today. Other Kansas City rankings include: fourth most-friendly city in America according to *Travel+Leisure*, sixth best city in the country for new start-ups and first in the country in affordability by *Travel+Leisure*.

KANSAS CITY ANIMAL HEALTH CORRIDOR

Kansas City Animal Health Corridor, which stretches from Manhattan, Kansas, to Columbia, Missouri, continues its long-term growth while representing nearly 34% of sales in the global animal health market, which now totals in excess of $22.65 billion. More than 300 animal-related companies operate in the region, including Bayer HealthCare Animal

In October, the American Royal Association announced they will leave the West Bottoms after 117 years in favor of new facilities in a $160 million complex being developed in the Village West neighborhood development in Wyandotte County, Kansas.

Health, Boehringer Ingelheim Vetmedic Inc., Nestle Purina 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 U.S. Animal Health Association.

Kansas City Area Life Sciences Institute Inc., together with major life science partners, including the Kansas Bioscience Authority, Kansas City Animal Health Corridor, Midwest Research Institute, the National Bio and Agro-Defense Facility, Kansas City University of Medicine and Biosciences, and the Stowers Institute for Medical Research, have continued to propel Kansas City forward as one of the top-five national life sciences cities in the country. In Kansas City alone, the life sciences industry has spent more than $1.6 billion in research during the last 13 years, which puts it among the top-three areas in the country for life sciences research. And with the Stowers Institute, MRI and others searching for more top leaders in the life sciences sector, Kansas City is expected to continue to excel in life sciences.

KANSAS CITY METRO RECAP

In 2016, major real estate projects continued to be announced at an escalating rate. The economy remained strong and grew at a steady pace in all sectors. Right now, Kansas City is considered one of the best places in the country for real estate investments, capital returns and long-term yields. It should continue to be one of the top cities for several years, and this ranking is bringing more institutional and foreign investors to the Kansas City market.

The multifamily sector in 2016 continued the strong growth of 2014 and 2015, with over 2,800 units now under construction or planned. Another 4,200 units are expected to be under construction in 2017, and the multifamily sector is expected to continue to thrive for the next two to three years based upon demand, growth in the community and affordability.

On the industrial side, speculative development has reached the highest square footage in Kansas City's history with over 6.4 million square feet under construction at the end of 2016, much of it being speculative mid-bulk and bulk industrial properties. While in 2016 over 6.4 million square feet of development occurred, we expect this to continue to increase in 2017, and we believe the industrial market will continue to be quite strong for the next few years.

The retail and office sectors have been improving, but due to the lack of jobs and true growth in the economy, the office sector has lagged both the multifamily and industrial sectors. We expect niche retail projects to be very successful. But with the ongoing transformation in the retail sector, particularly with e-commerce and online acquisitions, and now with the introduction of Amazon into the grocery business, as an example, future projects in this sector will require very careful and cautious analysis of sites and benefits.

Again, the health care sector is one of the strongest in the metropolitan area with over $1.4 billion dollars in new health care development underway in 2016 by area hospitals, medical developers and health service providers. We see this sector of the market continuing to be strong in 2017 as the current needs in the Kansas City community increase.

All in all, more than $5.9 billion of residential, commercial and industrial construction is planned or underway in the metro area. This is an increase over 2015 and 2014, and it appears the Kansas City community should do well for the next few years as economic growth continues. However, there are warning signs on the horizon including the following:

- The border war between Kansas and Missouri continues with companies relocating from one state to the other.
- The FOMC raised the fed funds index in December 2016 to 0.75% for only the second time in seven years. Interest rates are also expected to rise two or three times to between 1.50% and 2.0% in 2017. These increases could detrimentally affect the development community by increasing the cost and decreasing the availability of construction financing. Should that occur, it could slow this community's strong economic growth engine of the past several years.
- Neighborhood groups are becoming more empowered, and NIMBY sentiment is increasing. Plus, Kansas City Council recently moved to cap all economic incentive programs at 75% tax abatement and a coalition desires to drop it further to 50%. Together, these actions could not only slow but actually stop the economic engine that has been so instrumental in Kansas City's growth.

Business and government leaders need to understand that they must work together consistently to promote the Kansas City Metro area as a united community that desires new business from both inside and outside the community. There needs to be a strong public-private partnership in all 50 separate communities that make up the Kansas City Metro area to encourage increased investment and development activity. There needs to be a strengthening of area sentiment toward development, and people need to understand that the development community provides capital for new development projects, which in turn creates new employment opportunities and a host of other benefits to the community.

When developers are not willing to put their capital at risk, communities will not see the continued impressive growth that has been clearly visible in Kansas City over the last several years. All citizens and all community leaders need to work closely with real estate leaders to provide a solid foundation that can support good development and attract new companies to the entire Kansas City Metropolitan area. Kansas City is truly one of the greatest places to live and work. With diligent and focused leadership, our community will continue to grow and remain a great city economically, culturally and socially.

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

In 2016 the United Kingdom voted to leave the European Union. Nicknamed Brexit, its supporters believed it to be necessary in order for them to protect and restore the country's identity, culture, independence, place in the world and to reign in immigration policies that provided open borders to refugees.

Kansas City Downtown Development

BRES and Cornerstone Associates, LLC are partners in the development of 531 Grand. The $24.3 million project will include 185 apartments and over 10,000 square feet of retail space in the Kansas City River Market. 531 Grand is expected to be completed in early 2018.

With cranes in the skyline, 2016 proved to be yet another phenomenal year for construction in downtown Kansas City. The new free-to-ride Kansas City streetcar officially opened in May and runs through the heart of downtown.

The streetcar is considered the first step in a long-range plan to create a regional, integrated transit system for the Greater Kansas City area. It is anticipated to bring new investments, increased property values and a substantial economic impact to downtown.

Downtown consists of several submarkets, 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. The overall downtown submarket includes data for office, industrial, retail, residential and specialty real estate. Vacancy for all real estate categories continued on a positive trajectory for 2016. In particular, residential rents were $1.27 per square foot at the end of 2016 compared to $1.20 per square foot at the same time in 2015. This was a 5.8% increase and a 21% increase from 2014 when rents were $1.05 per square foot.

RESIDENTIAL

Dominating downtown development were numerous residential projects, as the adaptive reuse of existing office buildings continued to drive the residential movement downtown. At the end of 2016, there was nearly $900 million in residential and mixed-use developments in both the construction and planning stages. Overall, the year ended with residential occupancy in the submarket at about 97%. The new projects will add 3,600 residential units to a downtown submarket that has a low supply but high demand. Some prime examples of these projects are:

One Light Luxury Apartments, a new residential high-rise located in the vibrant Kansas City Power & Light District, celebrated its grand opening in December 2015 and is now fully leased. This 25-story building at 50 E. 13th St. was the first new building in 40 years created expressly for residential use, and it boasted 80% occupancy at the grand opening. The Cordish Companies has already started development on

DOWNTOWN DEVELOPMENT

a second phase, called Two Light Luxury Apartments, which is slated for completion in 2018. Furthermore, the developer announced plans for a third and fourth phase to be constructed in the future.

Located in the heart of downtown, the Commerce Tower was touted as "a city within a city" when it opened in 1965, offering a bank, a barbershop, a drugstore, a post office and restaurants to complement its office space. Fittingly, efforts began to renovate the now mostly vacant tower and transform it into a "vertical neighborhood," offering apartments, office space, educational facilities and retail. With final completion expected in August 2017, the project will cost approximately $139 million and will be supplemented by tax credits, tax increment financing and a full property tax abatement over 10 years.

Plans for ARTerra 21, the Crossroads Art District's first high-rise apartment project, were first announced in 2015 but were delayed due to rising construction costs. This 12-story, mixed-use development will be located at 2100 Wyandotte St. and will feature 2,000 square feet of retail space and 126 high-end units expected to rent for $2 per square foot. Developers hope to secure additional incentives on the $41 million project to move forward with the estimated March 2017 start date.

The outstanding opportunity associated with downtown residential development has not gone unnoticed by Block Real Estate Services, LLC (BRES), which began construction on 531 Grand, a Class A+ mixed-use development located in Kansas City's River Market neighborhood. The project, which is projected to be completed in early 2018, will offer 185 apartments and over 10,000 square feet of retail space. BRES also gained approval for a large-scale renovation of the historic Traders on Grand building located at 1125 Grand Blvd. The renovation, which will include 203 residential units and over 12,000 square feet of retail space when completed in late 2018, will offer a high-quality product in an irreplaceable urban core location just a few blocks from the Sprint Center, Power & Light District and new streetcar line.

HOTEL & OFFICE

Plans were announced in 2015 to convert the Corrigan Building at 1828 Walnut St. to luxury apartments. With the strength of the residential market in the downtown submarket, this project has now evolved into a $50 million redevelopment of the 10-story historic building for continued office use. The Corrigan Station project also calls for an additional 30,000 square feet of new office construction directly adjoining the existing 144,000 square feet. Slated for an early 2017 completion date, Corrigan Station has early commitments from Hollis + Miller Architects and Holmes Murphy & Associates.

At the end of 2016, the 25-story, 525,000 square foot proposed Class A office building located on 13th St. and Grand Blvd. was still in the approval process. The $200 million project, which was originally conceived in 2006, is shovel-ready and expected to start when and if an anchor tenant is secured.

In an effort to market Kansas City as an attractive destination for convention business, the city approved various incentive plans to bring roughly 1,800 brand new and fully-renovated hotel rooms to the area. Hyatt Hotels Corp. led the others in city incentives, with more than half the costs financed by the city in a complex package that will help fund the $311 million project. Proposed last year, the Hyatt in downtown will bring 800 rooms northwest of 17th St. and Baltimore Ave. Groundbreaking will begin in the first quarter of 2017 with completion estimated for summer 2019.

The Kansas City Marriott Downtown, currently the city's largest convention hotel, announced plans to extensively renovate its 980 guest rooms over the next two years, and the city agreed to finance half the costs through community improvement district tax programs. With the addition of the pending Hyatt development, these renovations will be paramount to ensuring Kansas City can competitively host major conventions with first-class hotel rooms.

Other hotel projects include the announcement of plans to convert the former Federal Reserve Building at 925 Grand Blvd. into an Embassy Suites Hotel by Hilton. The $100 million conversion of the 21-story historic structure will be the ninth hotel development in Kansas City's downtown submarket. The $6 million conversion of the Gumbel Building at 8th and Walnut streets to a Hampton Inn. A Home2 Suites by Hilton at 20th and Main Streets that includes 114 rooms and 9,000 square feet of retail space on the first floor.

In fall 2016 the Courtyard Marriott and Residence Inn, a combined project totaling 261-rooms at 16th St. and Baltimore Ave. was completed. It is one of the few projects that is not seeking tax incentives. As illustrated in the various development sectors, 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 as reasons projects are financially unviable without the assistance of entitlements.

Contributors: Chip Chalender and Connor Childress, Financial Analysts

In March 2016, the 261-room hotel complex at the corner of 16th and Main streets was completed. The 190,000 square foot, 10-story building contains a Courtyard Marriott and a Residence Inn hotel and 5,000 square feet of retail.

Kansas City

Office Market

BRES represented the owner of Six Pine Ridge Plaza in the $13.46 million sale to Uhlig Consulting & Engineering. The 77,828 square foot, three-story building is located at 8455 Lenexa Dr. in Lenexa, Kansas and is part of Pine Ridge Business Park.

The United States office market vacancy rate fell to 9.9% in 2016, down from 10.6% at the end of 2015. During the past year, the market absorbed 88 million square feet of office space. The 4.9% U.S. unemployment rate, the country's lowest since 2009, no doubt contributed to the overall good health of the office market.

Nationally, the office market landscape continues to see an increase to more open, creative work space options to accommodate a more dense employment population. The continued transition from a baby boomer workforce to a millennial workforce is driving this trend. Millennials are further shaping the future through the startup scene by using and developing new technology, working remotely and demanding increased workplace amenities.

New development and the integration of multi-use options, the combination of retail, multifamily and office space, is on the rise. The urban core is being revived by increased mass transit options, the farm-to-market culinary scene and more available extracurricular activities.

Again in 2016, the office market nationally saw a positive trend for the average rental rate, following improved absorption rates. National rates increased to $23.97 per square foot across all classes.

Growth in the Kansas City market saw increases in both the rental rate as well as year-to-date (YTD) absorption. With increased leasing activity, the market saw rental rates increase to $18.07 per square foot, the first time we have seen overall rates above $18 since the recession. Additionally, the market saw positive absorption of nearly 1.5 million square feet across all classes.

Class A outpaced Class B YTD absorption with Class A properties seeing a net absorption of 665,639 square feet. This positive absorption was led by the delivery of Burns & McDonnell's corporate expansion in the South Kansas City submarket. New Class A development has helped increase rental rates to $21.02 per square foot.

The North of the River and South Kansas City markets led Class B net absorption in 2016 with 276,730 total square feet. Reflective of the climbing average rental rate of Class A properties, Class B saw a sizable increase to $17.53 per square foot in 2016.

New deliveries countrywide, and especially in the Kansas City market, will help drive increased rental rates into 2017. We will be watching to see how new government leadership will shape the country in terms of interest rates and the ability to keep the strong tide moving in the direction of increased development.

> New Class A office development has helped increase the rental rates to $21.02 per square foot, while Class A continued to outpace Class B in absorption YTD.

SOUTH JOHNSON COUNTY

At the end of the third quarter of 2016, the South Johnson County submarket consisted of about 28.87 million square feet in all building classes. Of that, 2.66 million square feet were available, including sublease space, which equated to an overall vacancy rate of 8.0%, slightly down from 8.6% during the same period in 2015.

Significant office leases in the South Johnson County submarket completed in 2016 included:

- Physicians Office Partners, 52,000 square feet at the Sprint Campus
- SouthLaw, 30,001 square feet at 13160 Foster Street
- AMC Theatre Support Center, 27,931 square feet at 11550 Ash Street
- Apria Healthcare, renewed 122,000 square feet at the Sprint Campus
- Asurion, 18,939 square feet at Pinnacle III

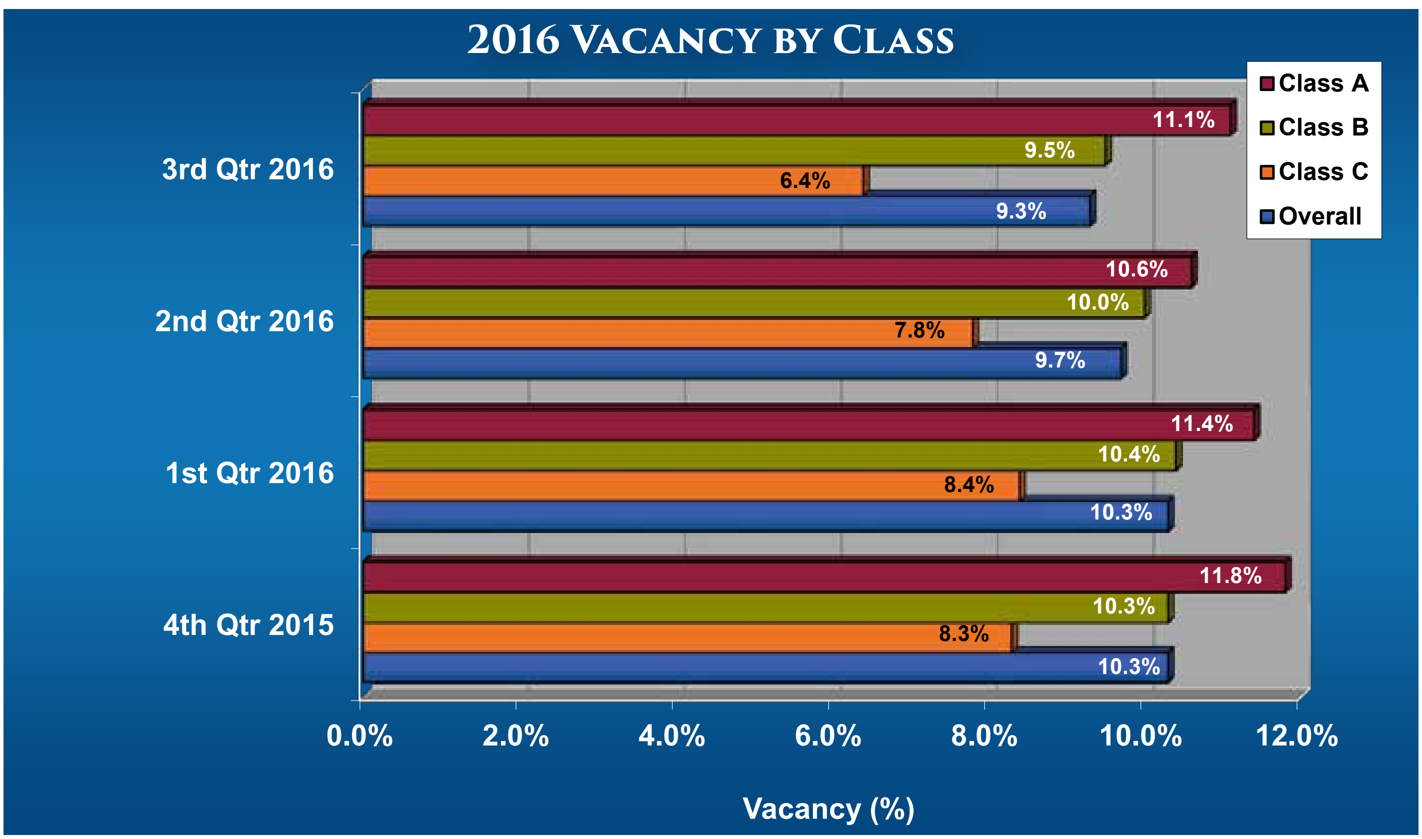
Building classes A, B and C reported a total of approximately 2,695 square feet of net absorption during the third quarter of 2016, which includes about 383,679 square feet of new construction delivery. Current construction activity includes:

- Overland Park XChange at 6800 West 115th Street
- 101,000 square foot exterior renovation at 6601 College Boulevard
- Nall Corporate Centre II, a new 149,389 square foot office building
- 79,000 square foot medical office building at 6650 College Boulevard with delivery in June 2017

Overall, vacancy decreased from 8.6% at the end of the third quarter of 2015 to 8.0% during the same period in 2016. The overall average asking rate increased from $20.17 per square foot at the end of the third quarter of 2015 to $20.78 per square foot at the end of the third quarter of 2016. This reflected the higher demand for quality office space in the area. This submarket continues to be one of the strongest markets in the metropolitan area.

For Class A properties:

- Vacancy stood at 8.0% inclusive of sublease opportunities.
- The average asking rate for direct deals and subleases was $23.19 per square foot at the end of the third quarter.
- YTD deliveries totaled zero square feet for the South Johnson County submarket with a positive net absorption of about 14,726 square feet in 2016.



eScreen, an employment screening service, moved into their new headquarters at 8140 Ward Parkway. The company will occupy 75,000 square feet across two floors in the 220,000 square foot building.

For Class B properties:

- Vacancy stood at 9.1% inclusive of sublease opportunities.
- The average asking rate for direct deals and subleases was $19.52.19 per square foot at the end of the third quarter.
- YTD deliveries totaled zero square feet for the submarket with a negative net absorption of about 74,742 square feet in 2016.

For Class C properties:

- Vacancy stood at 7.8% inclusive of sublease opportunities.
- The average asking rate for direct deals and subleases was $16.13 per square foot at the end of the third quarter.
- YTD deliveries totaled zero square feet for submarket with a positive net absorption of about 48,758 square feet in 2016.

NORTH JOHNSON COUNTY

At the end of 2016, the North Johnson County submarket consisted of about 12.34 million square feet of office space across 662 properties in all building classes. About 1.03 million square feet remained available, including sublease space. This equated to an overall vacancy rate of 8.3%.

Building classes A, B and C reported a total of about 191,700 square feet of net absorption during 2016 with no significant new deliveries. The overall vacancy rate decreased significantly from 9.9% at the end of 2015 to 8.3% at the end of 2016.

The overall effective asking rate including subleases increased from $19.04 per square foot to $19.39 per square foot for the same period, which is to be expected with a decrease in vacancy. Despite recent renovations to properties along Shawnee Mission Parkway last year, this submarket has historically struggled to maintain existing tenants and fill vacancies in predominately older product.

For Class A properties:

- Vacancy stood at 11.9% inclusive of sublease opportunities.
- The effective asking rate for direct deals and subleases was $26.03 per square foot at the end of 2016, which was down from $28.03 per square foot at the end of 2015.
- Net absorption for 2016 was approximately 57,264 square feet.

For Class B properties:

- Vacancy stood at 8.2% inclusive of sublease opportunities.
- The effective asking rate for direct deals and subleases was $18.39 per square foot at the end of 2016, which was up from $17.02 per square foot at the end of 2015.

- Net absorption for 2016 was approximately 76,606 square feet.

For Class C properties:

- Vacancy stood at 5.7% inclusive of sublease opportunities.
- The effective asking rate for direct deals and subleases was $15.34 per square foot at the end of 2016, which increased from $15.07 per square foot at the end of 2015.
- Net absorption for 2016 was approximately 57,833 square feet.

CENTRAL BUSINESS DISTRICT AND SURROUNDING SUBMARKETS

The Central Business District (CBD), River Market, Crown Center, Freight House/Crossroads and West Bottoms areas make up the overall Downtown submarket. Combined, these areas totaled 27.2 million square feet and had an overall vacancy rate of 11.5% at the end of 2016, down significantly from 12.9% in 2015. The total available space for the Downtown submarket was 3.12 million square feet, which included 82,729 square feet of sublease space.

Overall, Class A properties saw the highest vacancy rate of 17.3% or 1.44 million square feet. However, most of the positive trend in overall Downtown vacancy was a result of the positive absorption of 258,052 square feet of Class A property. This was a slight decrease from 333,937 square feet in 2015. The largest single contributor to this absorption is Corrigan Station, the new 140,000 square foot office project being led by Copaken Brooks, who signed 100,000 square feet of new leases in 2016.

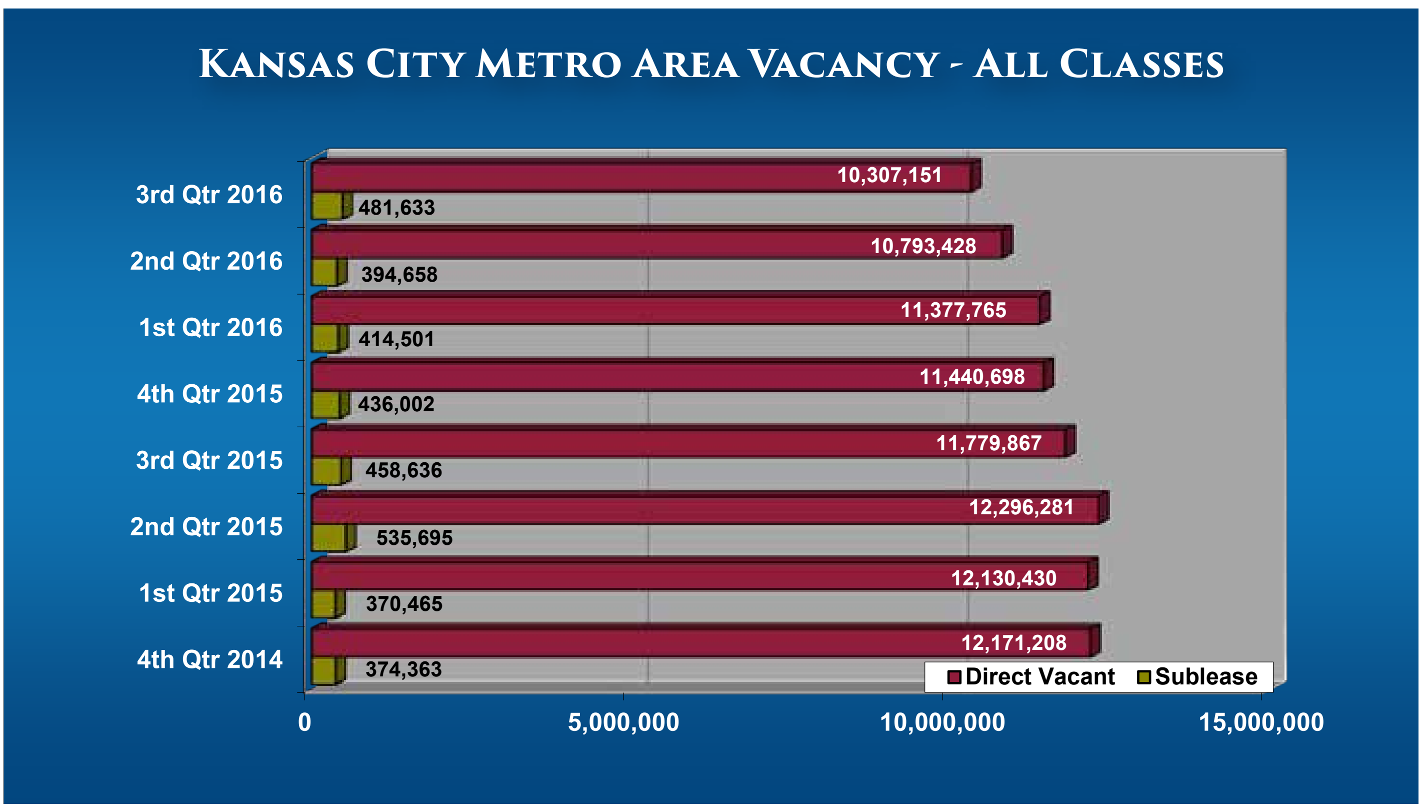
The vacancy rate for Class B properties decreased to 10.0% from 11.2% a year earlier. YTD absorption was slightly negative. However, apartment conversion projects continued to bring overall vacancy down. The Class B market was made up of 192 buildings and 13.85 million square feet. Class C properties had absorption of 66,665 square feet and a vacancy rate of 5.6%.

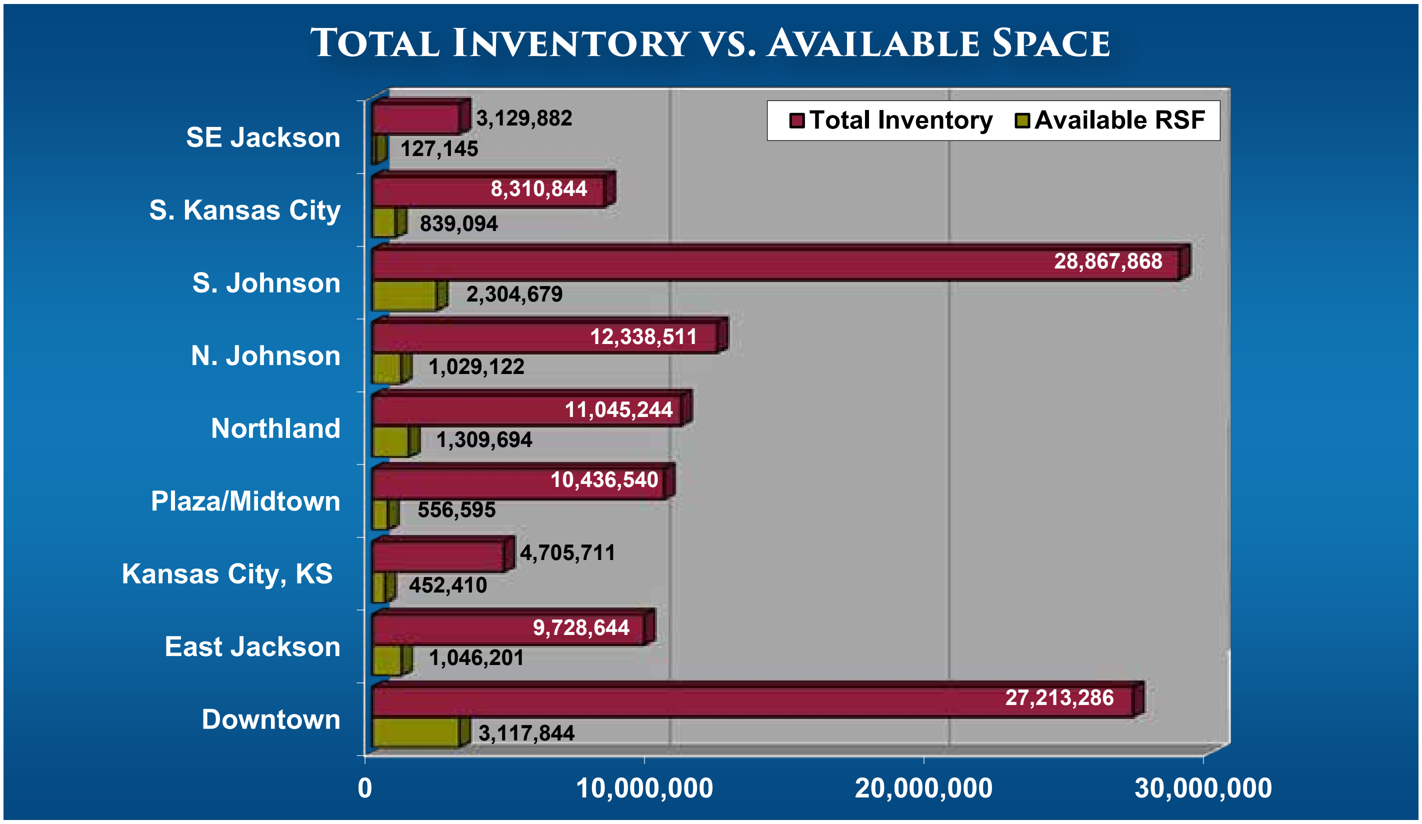
Consisting of 17.5 million square feet, the CBD reported an overall vacancy rate of 12.1%, which was down from 14.3% at the end of 2015, and enjoyed positive absorption of 249,848 square feet. Class A buildings saw the highest vacancy rate for the end of 2016 at 18.2%, lower than the 21.3% vacancy rate reported at the end of 2015.

Class B properties in the CBD consisted of 103 buildings and 9.1 million square feet, nearly one million square feet less than in 2015. These properties experienced a reduced vacancy rate of 10.8% and positive absorption of 28,997 square feet. The Class C submarket consisted of 66 buildings and 2.8 million square feet. Class C properties reported a vacancy rate of 3.8%. Overall rental rates in the CBD ended the year up nearly $0.65 at $17.50 per rentable square foot.

The Crown Center submarket consisted of 66 buildings totaling 6.17 million square feet. The vacancy rate at the end of 2016 was 9.8%, which was nearly flat to 2015 at 9.7%. The eight Class A buildings in this submarket experienced a vacancy rate of 11.9%, or 294,240 square feet, with positive absorption of 31,739 square feet. BNIM's decision to relocate to Crown Center was the biggest contributor to this absorption.

Within the 26 Class B buildings, the vacancy rate increased from 4.1% in 2015 to 6.5% at the end of 2016, losing just under 70,000 square feet of space.





PLAZA/MIDTOWN

The Country Club Plaza continued to demand the highest rental rates in the city at an average quoted rate of $23.12 per square foot, up $0.30 per square foot over 2015. When combined with the Midtown and Brookside submarkets, the area included over 10 million square feet and boasted a vacancy rate of 5.4%, 3.9% lower than the city average.

Options for large users wanting a Plaza address continue to be limited. Vacancies of at least 20,000 square feet can be found in only three buildings, one of which is targeted for redevelopment.

The Country Club Plaza market consisted of 119 class A, B and C buildings. These buildings had a 4.6% overall vacancy, down from 7.2% a year ago, and boasted an average quoted gross rent of $23.12 for all building classes, making it the most expensive submarket in the city.

The Plaza experienced YTD absorption of 40,000 square feet attributable to numerous small and midsize deals.

The Brookside and Midtown portions of the submarket offered 306 buildings with a combined total of 5.3 million square feet. Midtown accounted for 4.6 million square feet of that total. Midtown's 3.8% vacancy rate, the 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 includes 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 submarket consisted of approximately 8.3 million square feet in 247 buildings.

At the end of 2016, the overall vacancy rate for the South Kansas City submarket was 10.1% or 839,094 square feet (including sublease space). The 10.1% vacancy rate was slightly down from 10.9% in 2015. The Class A properties, totaling 2.9 million square feet throughout 15 buildings, saw a vacancy rate of 13.4% at the end of 2016.

Class A properties saw positive absorption of 208,857 square feet. Class B properties, consisting of 4.3 million square feet and 97 buildings, ended 2016 with a vacancy rate of 9.2%, which was lower than the vacancy rate of 11.7% at the end of 2015. As with the Class A properties, Class B properties saw positive absorption of 139,593 square feet for 2016. Class C properties posted the lowest vacancy rate of 2016 at 3.8% throughout 951,681 square feet over 135 buildings. Positive absorption of 25,083 square feet was achieved throughout the Class C properties. Overall, the South Kansas City submarket saw positive absorption of 373,533 square feet.

Burns & McDonnell moved into its new 311,000 square foot headquarters in the second quarter of 2016. Construction continues on Cerner's new Three Trails Campus. In addition, Fishtech Labs is currently building a 20,000 square foot building with completion scheduled for the second quarter of 2017. Although Applebee's vacated approximately 121,000 square feet, much of that space was backfilled by eScreen's lease of 75,000 square feet.

The overall rental rate of $17.75 per rentable square foot for the South Kansas City submarket at the end of 2016 was an increase from $17.14 per rentable square foot at the end of 2015. Given its proximity to retail amenities and its accessibility to I-435 and State Line Road, the South Kansas

Highwoods Properties sold two Plaza area office buildings in 2016; Park Plaza and Plaza West. Plaza West, the 16-story, 261,980 square foot office building prominently located at 4600 Madison, sold for $33 million.

City submarket continues to attract companies both large and small.

NORTH OF THE RIVER

Defined as the portion of the Metropolitan Statistical Area (MSA) north of the Missouri River, this submarket includes both Platte and Clay counties in Missouri. Geographically, it is one of the largest submarkets in the metropolitan area and the fourth largest submarket in terms of total square footage, exceeding 11 million square feet across all classes.

The submarket has historically underperformed compared to most other submarkets in the MSA, despite its size, proximity to the Kansas City International Airport, well-developed interstate system and price value. It has shown slow but steady absorption over the last several years. Through the third quarter, the submarket has experienced positive net absorption of approximately 216,000 square feet. This represents the third consecutive year of positive net absorption for this submarket.

In 2016, the inventory in this submarket included more than 11 million square feet in 551 buildings (A, B and C). It had a 12.4% vacancy rate as of the third quarter of 2016, compared to 14.2% during the same period in 2015. The average quoted rate was $16.26 per square foot, up slightly from $16.20 in the third quarter of 2015.

The average quoted rents for Class A buildings were $19.07, and Class B rates averaged $15.76. Actual effective rents in Class B buildings were significantly less than quoted rates, as landlords continued to offer incentives to compete for tenants.

The relative age of the product in this submarket is a factor in the high vacancy and low rents, with essentially all buildings in the submarket being Class B and C buildings. The limited number of Class A properties in this submarket had a vacancy rate of 19.5%. This is due almost exclusively to the JWilliams Technology Centre with a vacancy of over 197,000 square feet. Excluding this property, the Class A sector is performing well.

The significant new office lease transactions in 2016 included Datamatics Global Services at 31,000 square feet, USA 800 at 13,700 square feet and Gridliance at 12,000 square feet. Value buyers remained active in 2016 with several vacant buildings changing hands along the I-29 corridor, including 7310 NW Tiffany Springs Parkway (59,000 square feet) and Ambassador I and II (135,000 square feet combined). Buyers were either owner/users or planned to repurpose the properties for other uses.

Looking forward into 2017, we expect the market to continue to be an attractive alternative for value-driven tenants and buyers. 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. There are currently seven blocks of available space in the submarket that are 50,000 contiguous square feet or larger compared with eight blocks 12 months earlier.

EAST JACKSON COUNTY

The Eastern Jackson County submarket was able to make the list of top deals in 2016 with the second largest lease in the Kansas City metropolitan area, the State of Missouri leasing 63,900 square feet in the third quarter. The submarket, which consists of Eastern Kansas City, Independence and Blue Springs, Missouri, also was able to make the list with a 10,220 square foot deal in the second quarter.

Class C office space had a total vacancy of 228,359 square feet and a vacancy rate of 9.3%. Consisting of 343 buildings and 2,446,121 rentable square feet, Class C saw a positive absorption of 18,328 square feet.

The State of Missouri leased 63,900 square feet, giving East Jackson County the second largest Kansas City lease of 2016.

The Class B market took another step backwards in 2016 with the largest vacancy rate of 17.1%. This class consisted of 3,304,677 square feet with 565,799 square feet available. We are pleased to see a net absorption of 94,180 square feet in 2016.

The Class A market improved, holding the lowest vacancy rate of just 1.5%, down from 4.4% last year. Only 3,766 of 257,822 square feet of Class A office space in the market is available.

The Eastern Jackson County submarket consisted of 6,008,620 square feet in 560 office buildings. The vacancy rate rose 2.1% to 13.2% in 2016. At the end of the year, Eastern Jackson County had 797,904 square feet available for lease at an average of $15.10 per square foot.

SOUTHEAST JACKSON COUNTY

Southeast Jackson County consists of parts of Lee's Summit and Grandview. With only 255 office properties, this is the smallest submarket in the Kansas City metropolitan area.

Southeast Jackson County saw a decrease in overall office product vacancy, ending 2016 with just a 4.1% vacancy rate. Of the 3,129,882 square feet in the submarket, only 127,154 square feet was available. The average rental rate was $16.96 per square foot, up $0.25 per square foot from 2015.

Class C product had incredible growth in 2016 in this submarket. With 148 buildings, totaling 752,275 square feet, Class C had only 27,963 square feet available at the end of the year. The vacancy rate fell from 5.4% in 2015 to 3.7%. Additionally, the asking rate increased $0.86 to $14.14 per square foot.

With a total of 105 buildings consisting of 2,274,165 square feet, Class B product had 94,764 square feet available at the end of the year with an average asking rate of $17.80 per square foot, up $0.11 per square foot over 2015. Class B product in the submarket continued to hold a strong vacancy rate with just 4.2%.

The Southeast Jackson County submarket had only 103,442 square feet in two buildings classified as Class A. With only 4,418 square feet available, Class A had a low vacancy rate of 4.3%.

Burns & McDonnell's headquarters expansion at 9450 Ward Parkway was completed in February 2016. The new four-story building cost $85 million and has a total of 310,000 square feet.

KANSAS CITY, KANSAS

Kansas City, Kansas (KCK) is the third largest city in the state of Kansas. KCK is a member of the Unified Government of Wyandotte County along with the cities of Bonner Springs and Edwardsville.

The KCK office real estate sector was comprised of 272 properties with 4,705,711 rentable square feet. As 2016 came to a close, the KCK office market had 452,410 square feet available, at a 9.6% vacancy rate.

Two buildings totaling 660,000 square feet were classified as Class A space. Both buildings were part of a build-to-suit campus for Cerner Corporation.

With a total of 51 buildings consisting of 1,190,155 square feet, Class B product had 48,506 square feet vacant with an average asking rate of $15.74 per square foot. Class B product in the submarket continued to hold a strong vacancy rate of just 4.1%.

Class C product continued in a positive direction in 2016. With 156 buildings totaling 1,196,442 square feet, Class C had just 39,744 square feet available. The vacancy rate fell to 3.3%, and the asking rate increased to $12.67 per square foot.

KCK is excited about the completion of a 100,000 square foot building that will house the Dairy Farmers of America. The property is expected to be completed in the first quarter of 2017.

NEW DELIVERIES

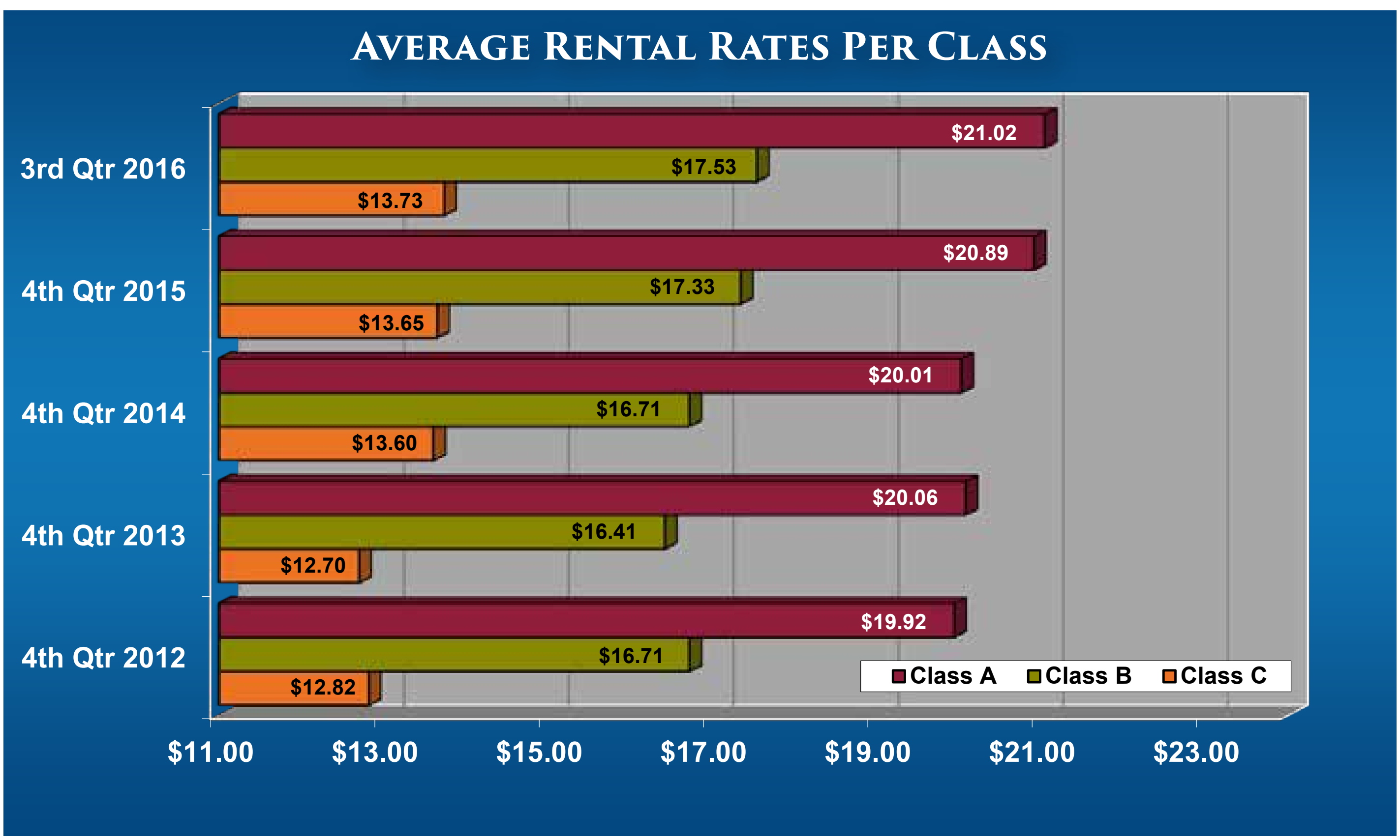
Burns & McDonnell increased its corporate investment in the South Kansas City submarket, providing the most square feet this year. Burns & McDonnell completed a 311,000 square foot building expansion adjacent to its existing corporate headquarters.

The second largest delivery of office space in 2016 occurred North of the River with the completion of the five-story, 90,000 square foot Northland Innovation Campus. The Northland Innovation Campus was a public-private partnership between the City of Gladstone and developer CarrBaierCrandall (CBC) Real Estate Group. The project garnered more attention when Northwest Missouri State University became a major tenant and created an off-campus location.

NEW DEVELOPMENT

New office development will come into play in 2017 in a big way, as the following eight projects are in various phases of construction and are expected to be completed.

- Cerner Corporation will expand its South Kansas City submarket footprint with the completion of two towers, totaling 805,000 square feet.
- Dairy Farmers of America is scheduled to move into its new Kansas City, Kansas submarket headquarters, a brand-new, Class A property of 100,000 square feet.
- VanTrust Real Estate will open its new Class A medical office property in South Johnson County. The project will consist of 76,196 square feet and was 57% leased when construction started.
- Block Real Estate Services, LLC will continue to increase its footprint in the South Johnson County submarket with Nall Corporate Centre II, a 147,463 square foot Class A building.



Price Brothers acquired Park Plaza, an 82,365 square foot building located at 801 W. 47th Street on the Country Club Plaza from Highwood Properties at a price of $14.2 million.

RENTAL RATES

Real estate trends can be identified by looking to the past to help predict the future. After a four-year decline in Kansas City office market rental rates, which culminated in 2012, the market has swung around and produced positive square footage absorption for the past 18 quarters, leading to increased rental rates.

Rates increased in all three classes: Class A to $21.02 per square foot, Class B to $17.53 per square foot and Class C to $13.73 per square foot.

CLIMATE FOR CRE

Nationally, 2016 continued with the positive direction of job creation and lower unemployment rates. Our country saw a 0.4% decrease in unemployment rates, ending the year at 4.6%. Unfortunately for Kansas City residents, we saw an increase from 4.2% in 2015 to 6.3% at the end of 2016.

President Elect Donald Trump vows to bring overseas jobs back to the mainland, but the lack of qualified high-skilled manufacturing employees continues to shrink. The increased implementation of automated technology onto the assembly floor creates even more competition for U.S. citizens.

The U.S. Federal Reserve Bank believes the country is headed in the right direction. The Fed raised the federal interest rate from 0.5% to 0.75%, the first time they have raised the rate since December 2015, and only the second time in the past 10 years. Our industry will keep a close eye on these developments as much of the CRE development and investment have been helped by low interest rates and access to capital. The Federal Reserve has additionally hinted at more increases in 2017.

On a positive note, the GDP grew at the rate of 2.9% in 2016 with U.S. exports growing by 10% in the third quarter alone.

The shift of generations, baby boomers (ages 51-69) to millennials (ages 18-34) continues to drive employers' future office space plans for the increased demand of technology, urban core, mass transit, and flexibility. More and more employers are opting to upgrade office environments to attract and retain skilled employees.

Kansas City had just under two million square feet under construction, with net absorption just over 1.5 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.

Construction costs continue to stay high with new Class A building rental rates falling in line. The market for existing office space will continue to see low vacancy rates as tenants needing more space continue to opt for existing space whenever possible.

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

Kansas City Industrial Market

Construction wrapped up on BRES' Riverside Logistics Centre building, a $15 million, 245,343 square foot cross-dock distribution project at 41st Street and Mattox Road in Riverside, Missouri.

Did you receive a package from Amazon, UPS, the U.S. Postal Service or FedEx this morning? Many of you probably did, which is why e-commerce is one of the biggest drivers of industrial construction in the Kansas City metro area.

Way back in the early 2000s, no one had any idea the huge role e-commerce in general, and Amazon.com in particular, would play in the region's emergence as a top U.S. logistics hub. Currently, e-commerce tenants account for more than four million square feet in the Kansas City market. But Seattle-based Amazon is leading the way and will soon eclipse 4.2 million square feet in the market on its own!

U.S. online sales topped $100 billion in 2006, according to Forrester Research, and continue to climb rapidly. Online sales reached nearly $340 billion in 2015 and are expected to exceed $530 billion by 2020. Amazon itself accounted for more than 60% of U.S. online sales growth in 2015 and exceeded $100 billion in revenue last year.

More development of bulk industrial buildings is likely as e-commerce increases and more retailers learn the logistics process, which Amazon has perfected. Though the demand for these buildings is primarily for e-commerce, other segments are also pushing demand, including third-party logistics (3PL), consumer goods and other large distributors. This is part of a continuing structural change to the economy as people want and expect more for less and faster.

A retailer usually has from one to three centralized distribution centers located across the country to provide the two- to three-day deliveries that consumers demand. Transportation of goods is typically the largest cost for any company, and Kansas City's infrastructure provides some of the lowest transportation costs in the nation. At the crossroads of North America, distributors can enjoy the advantage of reaching 85% of the U.S. population by truck within two days or less.

Amazon Logistics' "last mile strategy" is the company's next step in Amazon's e-commerce growth, and as a result, the company is looking at urban cores and getting involved in the logistics of both aircraft and trucking delivery which is in direct competition with companies like UPS and FedEx. Amazon Logistics is rumored to be looking for delivery service centers in multiple locations throughout the metro area to implement this strategy. What once served as a distribution center for a single vendor or product is now often converted to an e-commerce fulfillment center when that industrial space is not immediately available.

Local Effects of E-Commerce

As e-commerce sales continue to increase, major retailers are seeking larger spaces that make possible one- to two-day deliveries to the majority of the U.S. population. This has driven demand for new industrial real estate over the last five years. The result: an overall Kansas City market vacancy rate of 6.0% in 2016, the lowest in years which is expected to remain stable and low in 2017. Net absorption has continued to outpace the growth and supply of industrial real estate even as new construction has picked up within the last 24 months.

In 2012, Kansas City saw about three million square feet of new industrial construction, and by 2016 the average moved up to six million. In 2012, online sales made up about 5% of total retail sales. Now it's over 8% and is expected to continue growing as millennials who have grown up with smartphones continue to go online to make their purchases.

What makes distribution of cargo the king in Kansas City? Being served by five of the seven Class I railroads in the U.S. that provide connections to major seaports. Add in Kansas City's transportation infrastructure of four interstate highways (I-35, I-70, I-29 and I-49), waterway and airway infrastructure and over 13 million people within a 250-mile radius, which jumps to 18 million within 300 miles of Kansas City, and you can see why the distribution network is growing.

Kansas City is number one in the U.S. for rail by tonnage and is located at the heart of a rail corridor spanning coast to coast and extending from Canada to Mexico (NAFTA Corridor). With the number three trucking center and more Foreign-Trade Zone space than any other city, Kansas City will continue to grow its distribution center reputation. Kansas City International Airport (KCI) moves more air cargo than any other air center in a six-state region and the city is located on the nation's largest navigable inland waterway (Missouri/Mississippi).

In addition, the looming shortage of drivers in the trucking industry, coupled with rail's higher efficiency, is causing logistics and transportation providers to turn their focus to intermodal solutions. Intermodal rail carload has grown faster than other types of rail freight movement, driving investments into inland logistic centers like BNSF's Logistics Park Kansas City and several others.

Other industrial trends include just-in-time manufacturers increasingly needing to locate adjacent to or near major manufacturers like the General Motors (GM) Fairfax Assembly Plant, Ford's assembly plant in Claycomo and Harley-Davidson's assembly plants. As we came out of the recession, many auto supply companies decided they were too far from the plants. Now Kansas City is really seeing this part of the business grow while the manufacturers continue to outsource work to become more efficient.

Demands from the auto industry and e-commerce have pushed developers of the big-box industrial buildings to use higher quality designs to upgrade aesthetics and provide more curb appeal. Column spacing has increased and lighting is brighter and more efficient while providing a larger footprint and heavier floor loads for the tenants. With increased truck traffic, these buildings are providing all-sides access along with increased parking for trailers. In addition, automobile parking is being increased to handle the larger workforces in these facilities. Often, there is increased office square footage and redundant power options as well.

The 6.0% industrial market vacancy rate for Kansas City is the lowest in years and there is nearly 6.4 million square feet currently under construction.

Taller is the norm in these fulfillments centers, with heights on new speculative buildings going from 32 feet in 2015 to 36 feet and higher in 2016. These taller buildings are allowing the e-commerce shippers to store more of their products vertically, thus reducing the overall footprint square footage. As a part of this transformation, developers are installing more dock equipment, including heavier capacity pit levelers, in these buildings.

It wasn't that long ago when there were concerns about how much space the Kansas City market could absorb, and new tenants who wanted to set up a distribution center in the market had a tough time finding large spaces above even 100,000 square feet. Now, tenants looking for 100,000 to 900,000 square feet have a variety of options. The availability of these options has allowed more national tenants to come into the Kansas City market. As of the second quarter of 2016, Kansas City ranked seventh in the country in terms of square footage of industrial space under construction.

In the third quarter of 2016, nearly 6.4 million square feet of industrial space was under construction in the Kansas City Metro area.

New bulk construction delivered in 2016 by submarket, as of the second quarter of 2016:

Johnson County	4,282,000 square feet
Wyandotte County	427,000 square feet
North Kansas City/Riverside	736,000 square feet
KCI/Airworld	432,000 square feet
East Jackson County	816,000 square feet
Total	**6,693,000 square feet**

Inside the Numbers

Asking rates for the new bulk space have remained strong overall and are starting to stabilize even though the competition among developers to secure the high-quality, long-term leases with credit-worthy tenants has remained fierce. On the other hand, locally owned companies that are looking for space from 20,000 to 100,000 square feet continue to look at purchasing a building, as their square footage needs are relatively stable, rather than continuing to lease.

The vacancy rate will continue to fluctuate in 2017 as new spaces are completed and tenants move in, making absorption a more important statistic than the vacancy rate itself. Overall, industrial lease rates continued to rise, but only slightly despite the huge influx of bulk construction, due to the pace at which space was being gobbled up. By mid-fourth quarter of 2016, there had been over seven million square feet of net absorption in the industrial/flex market in Kansas City, while the vacancy rate had only increased marginally from 5.7% to 6.0% year-to-year. The overall industrial lease rates were up between $0.10 and $0.15 per square foot.

As new buildings have been completed, the vacancy rate has had some swings, but for the most part it has stayed in a narrow range, varying no more than 1.5% during the past three years. As of the mid-fourth quarter of 2016, new industrial bulk buildings throughout the Kansas City Metro area that were available for occupancy or tenant finish totaled over 3.8 million square feet but with lots of prospect activity.

One potential concern could be Class B warehouse space, which has had negative absorption of 225,000 square feet as of late 2016. More often than not, the users filling up the new modern bulk inventory have been companies adding new operations in the Kansas City market. However, some of those tenants have moved to these new facilities at the expense of the Class B space. Class B and C industrial space was generally stable as noted, but some of the spaces have not been successful in backfilling, thus the slightly negative net absorption.

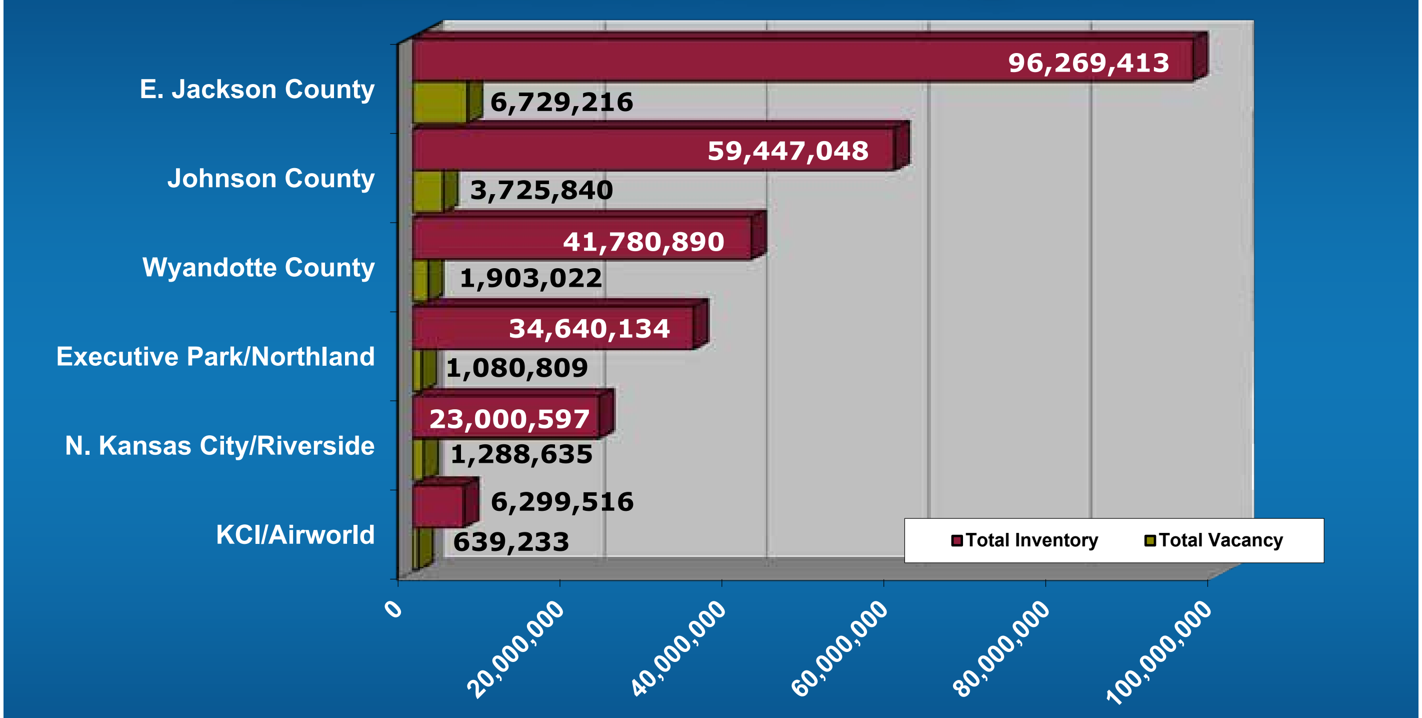
On the other hand, the light industrial/flex segment had a good year in 2016, with a net absorption of 250,000 square feet with a drop in overall market vacancy that rivaled the warehouse/bulk space at 5.7%. However, because the flex segment only accounts for 5% of the total inventory in the market, their effect on vacancy, absorption and overall rates are not that impactful.

With net absorption of 250,000 square feet in 2016, the light industrial/flex segment had a good year, but had little impact on vacancy and absorption for the total market as it accounts for only 5% of the available square footage.

One of the unique characteristics of the Kansas City market and one that has a rate-inhibitive effect on lease rates, especially for the Class B and C space, is the 27.4 million square feet of space in the underground market. This segment accounts for about 10% of the total industrial market. Because it offers lower lease rates than above-ground facilities, lower utility costs and constant temperature and humidity levels, the underground market has made a great place for overflow warehouses, long-term storage, data centers, food distribution centers and other uses. In 2016, we saw net absorption of 367,000 square feet with a vacancy rate of 5.6%.

Another large segment of space is manufacturing, which typically is in buildings with heavy power capacities and lower ceiling heights of 18 feet or less. With 68 million square feet,

Total Inventory and Vacancy (Square Feet)



Lone Elm Logistics Center, an Odyssey Real Estate Capital of Las Vegas project totaling 496,150 square feet was sold to Stag Industrial Holdings for $23.194 million. The building, located at 16231 Lone Elm Road in Olathe, Kansas, was sold without any tenants upon completion of construction.

it accounts for nearly 25% of the total inventory but has a vacancy rate lower than 6.0% as well.

Outlook

Speculative construction continues on an aggressive pace, but spaces have generally secured tenants prior to completion, which has encouraged developers to continue their blistering pace of new construction.

JOHNSON COUNTY, KANSAS

The term BIG has taken on all-new dimensions in this submarket. The trend that started in 2013, bulk industrial development, has continued with strong demand in 2016, and all signs point to this remaining the case in 2017.

More than half of all bulk distribution inventory is now in Johnson County along with approximately 60% of the new inventory under construction. Block Real Estate Services, LLC (BRES) is developing a 635,800 square foot, 36-foot clearance building in Lenexa Logistics Centre (LLC) North on College Boulevard just west of Renner Boulevard. This site is across College Boulevard from the 260,707 square foot LLC South 4 building leased by Amazon in 2014 and the 354,055 square feet LLC South 5 building which is fully leased. LLC South 7, a 401,098 square foot, 36-foot clearance building, is also right on its heels. Between the two LLC sites, nearly three million square feet of industrial buildings can be developed. In the fast-moving world of e-commerce, one of the best ways to attract and obtain new tenants is, borrowing an adage from the “Field of Dreams” movie, build it and they will come. This location is close to high-end office developments, has great access to I-35 and I-435 and is near one of the largest UPS distribution facilities in the country.

In Edgerton, NorthPoint Development of Riverside, Missouri, has developed the 822,104 square foot Inland Port XIV, which was leased by Amazon. At the end of 2016, NorthPoint Development was completing the 765,927 square foot Inland Port XXXII and the 927,112 square foot Inland Port XXXIII. These speculative buildings are located in the 1,700-acre Logistics Park Kansas City (LPKC) adjacent to BNSF’s intermodal hub, which continues to grow quickly.

With the development of Lenexa Logistics Centre and Lenexa Logistics Centre North, nearly three million square feet will enter the market.

VanTrust Real Estate of Kansas City, Missouri, has a two-building development ready for occupancy. One building has 718,068 square feet and the other 515,132 square feet. They are located at 167th Street and Lone Elm Road in Olathe. This project received a 10-year, 50% real estate tax abatement.

Odyssey Real Estate Capital of Las Vegas completed construction of the 496,150 square foot Lone Elm Logistics Center just north of VanTrust’s development at 159th Street and Lone Elm Road.

Sun Life Financial Inc. of Toronto expanded with the purchase of 134 acres at its I-35 logistics park and now has the capacity to build up to 4.7 million square feet.

The Numbers

This submarket has a total inventory of 67,860,468 square feet and includes almost four million square feet of new product delivered to the market over the last eighteen months. Overall occupancy is 93.6% compared to 93.8% at this time in 2015, virtually unchanged. Representing one-fourth of the overall Kansas City industrial market, Johnson County continues to be the most dynamic, with the highest amount of new construction, highest net absorption rate, lowest vacancy rate and highest overall rents per square foot.

Notable Leasing And Sales Activity

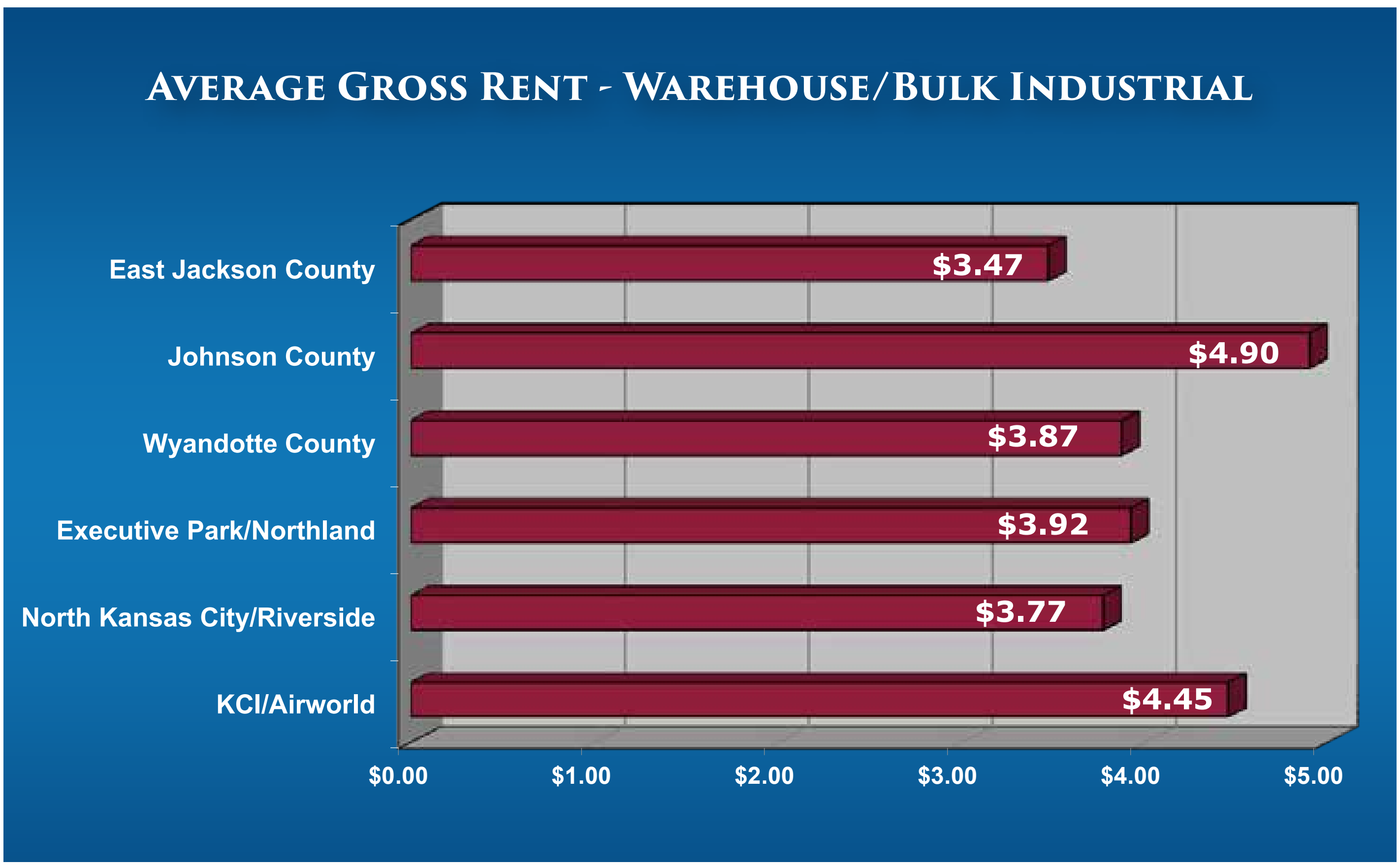
Online retailer Jet.com, based in Hoboken, New Jersey, leased an additional 431,178 square feet while Excel Industries, a mowing equipment manufacturer based in Hesston, Kansas, increased its leased space from 345,706 to 655,485 square feet. Smart Warehousing of Edgerton, Kansas, recently took another 534,000 square feet at LPKC, increasing its total footprint to 1.1 million square feet.

Another addition was Flexsteel Industries, one of the nation's oldest and largest furniture manufacturers based in Dubuque, Iowa, which purchased a 500,150 square foot building at Inland Port I. Kubota Tractor Corp., a lawn and garden equipment manufacturer based in Torrance, California, leased 765,160 square feet and Triumph Group of Berwyn, Pennsylvania, leased 156,000 square feet at LPKC. Amazon signed for 446,500 square feet at the New Century AirCenter in Gardner, Kansas, which will facilitate its upcoming Amazon Prime Pantry and AmazonFresh endeavors.

Other notables were Excel Industries' lease of 345,705 square feet in LPKC and Lenexa-based Regal Distribution Co.'s 117,000 square foot lease at LLC 5. XPO Logistics, a 3PL company based in Greenwich, Connecticut, leased about 500,000 square feet at LPKC, while 1A Auto of Pepperell, Massachusetts, expanded by 158,517 square feet at I-35 Logistics Park. One of the biggest downsides was Silpada designs going out of business and vacating its 149,834 square foot Lenexa headquarters.

For locally headquartered firms, the own-versus-lease question was a more frequent consideration in 2016. Flex buildings, for both lease and sale, still show signs of sluggishness, but industrial leasing and sales have been brisk. The submarket shows continued net absorption increases, which is another positive indicator for continued growth. The prospective buyers are also helping to reverse any notion that the market is still lagging from the past recession.

Tenants are seeing fewer choices to lease and higher rental rates. Buyers, using low interest rates and less available product for acquisition, are pushing sale prices up while helping to maintain the low vacancy rates. The absorption of new and existing industrial product in the submarket has created more confidence among landlords and sellers at the same time that the tenants and buyers are experiencing increased confidence in their own businesses, leading to higher prices. Johnson County's forward progress is a consistent force of market growth, while e-commerce, manufacturing and logistics industries are continuing to stimulate the submarket.



EXECUTIVE PARK AND NORTHLAND PARK

Executive Park and Northland Park are two of the major industrial parks in the Kansas City Metro area. Both lie adjacent to the Missouri River, on the south and north side respectively. Both offer the usual mix of flex and warehouse space in addition to the modern bulk space. This submarket consists of 35,484,929 square feet in a total of 401 buildings. Of the total, just over 500,000 square feet is flex space, with the balance in warehouse and distribution.

Executive Park is still a mainstay for companies looking to stay centrally located on the Missouri side of the metro area and enjoy relatively modern buildings at lower occupancy costs. Executive Park is the most developed industrial park within Kansas City, Missouri, and is almost fully developed. Located along Front Street between I-35 on the west and I-435 on the east, it has tremendous access to the balance of the Kansas City 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 well. As a newer development, Northland Park often attracts 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 Kansas City Metro or need close proximity to the Ford assembly plant in Claycomo, to which many of the users' businesses are tied.

Another six million square feet of distribution space is situated in underground developments, which are unique to Kansas City and provide room to expand by another eight million square feet. With consistant temperature and humidity, and low stacking heights, underground developments are well-suited for assembly, light manufacturing, records storage, data centers and food distributors. The existence of the underground development does create a kind of "governor" effect on the rental rates for the above-ground buildings that have lower ceiling heights. This is felt not only in this submarket but throughout the Kansas City market, keeping rental rates on larger lower-ceiling buildings lower than they would be in a market without such competition.

Lease rates for industrial warehouse space for 2016 averaged $3.70 per square foot, while flex spaces averaged $5.50 per square foot, the lowest rate for each segment in the Kansas City market. The combined average is only $3.74 per square foot, which again provides a compelling reason to lease in this submarket in the very competitive marketplace.

New development and construction

Due to the growing demand in distribution for automotive supply, e-commerce and data centers, developers working in this submarket have been much more active this year than in the past. NorthPoint Development announced a $250 million development on 88 acres in Northland Park along Missouri Highway 210, three miles east of I-435 and adjacent to Norfolk Southern's Kansas City Intermodal Terminal. The plan includes nine to ten Class A bulk industrial buildings to be built over the next seven years, all of which are anticipated to receive a 10-year, 100% real estate tax abatement. The first phase includes a 342,160 square foot bulk distribution facility, along with a 25,000 square foot office building, with both scheduled to be completed in early 2017.

Hunt Midwest Enterprises of Kansas City, Missouri, delivered a 200,582 square foot, 32-foot clear building. When it is leased, the company will start on another 200,000 square foot building. To prepare for the continued surge in bulk warehouse users, they plan to add a 425,000 square foot and an 886,000 square foot building in the park as part of a longer-term expansion of the Hunt Midwest Business Center. During the next 25 years, the expansion is expected to add eight million square feet of space on its 692 acres.

With an average lease rate of $3.74 per square foot, lowest in the Kansas City market, there is a compelling reason to rent industrial and flex space in Executive Park and Northland Park.

Notable Leasing Activity

On the positive side, The Knapheide Manufacturing, Inc. of Quincy, Illinois, tripled its footprint above ground by acquiring 23-acres in the Hunt Midwest Business Center. The expansion will allow for the staging of up to 2,600 Ford F-150 trucks and transit commercial vans for custom vehicle modifications at its 100,000 square foot underground facility.

Spartan Logistics, a 3PL provider based in Columbus, Ohio, and new to the market, leased 120,500 square feet at 4700 Deramus, and Lucky International Trading purchased the former 64,075 square foot Boulevard Brewing Co. distribution facility at 1325 N. Topping, both in Executive Park. UPS Supply Chain Solutions based in Alpharetta, Georgia, leased 36,000 square feet in SubTropolis and TCi Tire Centers of Duncan, South Carolina, relocated from the East Bottoms to Executive Park and leased 39,900 square feet.

On the negative side, Malt-O-Meal closed its 226,576 square foot cereal distribution operation at 1508 N. Chouteau Trafficway and S.P. Richards Company vacated over 141,542 square feet at Front Business Center as part of its relocation to Three Trails Industrial Park.

NORTH KANSAS CITY/RIVERSIDE

North Kansas City and Riverside together create a submarket, which is located directly north of, and along, the Missouri River. Both communities are central to the Kansas City Metro, while offering close proximity to transportation infrastructure and major manufacturing.

Industrial building inventory in North Kansas City primarily consists of older, but mostly functional, office/warehouse and manufacturing facilities developed between the 1940s and the 1970s. New development opportunities in North Kansas City still exists, but they are primarily infill or demolition and redevelopment projects.

Riverside experienced a significant industrial expansion in the 1980s and early 1990s. However, a 500-year flood event in 1993 temporarily slowed new construction starts. By the mid-1990s, Riverside used new casino gaming revenue to begin construction of the L-385 levee system. This new levee system protected most of the existing buildings while offering up hundreds of acres of level, centrally located land for new development. Strong market demand for metropolitan infill development has reinvigorated the Riverside industrial market over the last six years.

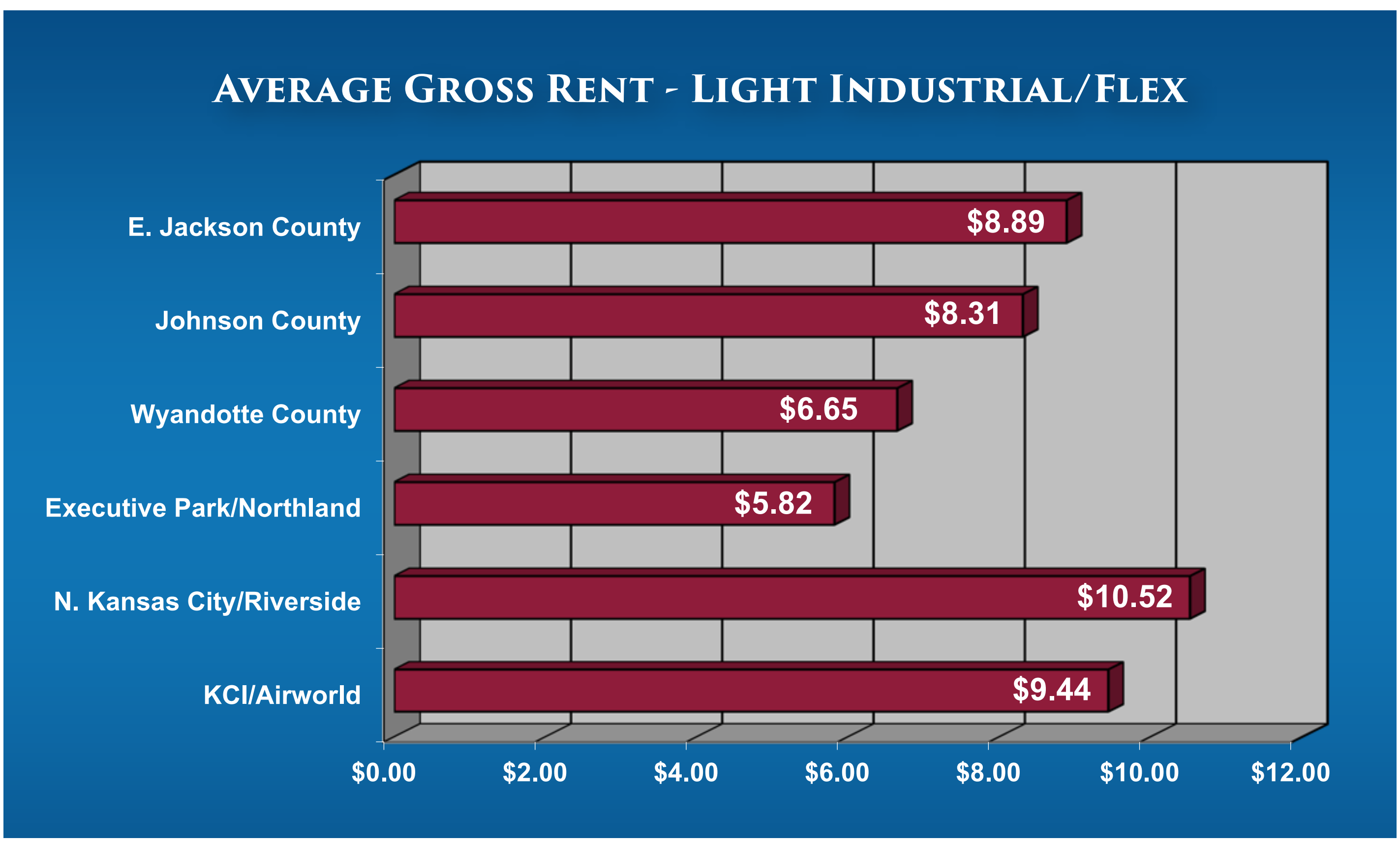
Easy access to I-70, I-29, I-35 and I-635, which passes through, makes this submarket attractive to users who need to reach all areas of the metro and beyond. The submarket competes favorably with other centrally located submarkets that have adverse conditions ranging from higher crime to higher taxes. 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.

The combined North Kansas City/Riverside submarket continued to strengthen throughout 2016. Despite systemic downward pressure on rates caused by older building stock in North Kansas City, average lease rates increased by $0.47 per square foot. The submarket exceeded 20 million square feet in total inventory in 2016 and realized nearly 250,000 square feet of net absorption, despite adding almost 750,000 square feet of new inventory. The submarket vacancy rate at the end of the year was 8.8%.

Strong demand in the automotive sector should aid submarket absorption and continue to push rates up as new inventory contributes to a growing portion of total leased space. New users from outside of the market and submarket will also reduce the availability of older, functional building stock, pushing rates up in all building classes.

Notable transactions in Riverside

- NorthPoint Development delivered Riverside Horizons V, a 491,448 square foot speculative bulk distribution building. It has been divided for three midsized office/warehouse users. Victaulic of Easton, Pennsylvania, relocated and expanded its operation from Northland Park and now distributes its line of specialized pipe fittings in 68,948 square feet. Berlin Packaging of Chicago relocated from North Kansas City to occupy 55,129 square feet where it will distribute its line of plastic containers. International Food Product Corp., a food ingredients formulating company based in Fenton, Missouri, leased 54,327 square feet, relocating from nearby Executive Park.
- Block Development Company delivered Riverside Logistics Centre, a speculative 245,343 square foot bulk distribution center, and was negotiating with several tenants to fill the building at the end of the year.
- After expanding its facility by nearly 120,000 square feet last year, Minneapolis-based Premium Waters



Smart Warehousing expanded and leased an additional 534,000 square feet of industrial space at Logistics Park Kansas City in Edgerton, Kansas. Smart Warehousing now leases 1.1 million square feet in LPKC.

Inc., subleased an additional 118,994 square feet in NorthPoint's Horizon IV building, previously occupied by M & M Quality Solutions of Kansas City, Missouri.

Notable transactions in North Kansas City

- At the end of 2016, Metro Park Warehouses Inc., a 3PL company in Kansas City, Missouri, was completing a 349,000 square foot bulk distribution building at 1411 Quebec Street for its own occupancy. Metro Park demolished its existing building to construct this new, functionally modern building in an infill location.
- North American Safety Valve Industries (NASVI) Inc. of North Kansas City, Missouri, broke ground on a new 80,000 square foot distribution facility at 1600 Warren Street that it plans to occupy. The new facility will replace the company's existing North Kansas City facility at 1500 Iron Street.
- Minneapolis-based Murphy Warehouse Company, a 3PL company, leased 80,000 square feet at 1233 Quebec Street.

KANSAS CITY INTERNATIONAL AIRPORT/ AIRWORLD CENTER

The KCI/Airworld submarket is the smallest and most distinct in the Kansas City Metro market with only 6,837,753 square feet in 79 buildings. Of the total square footage, over 6.2 million is bulk industrial with the balance of nearly 600,000 square feet in the much maligned flex space. KCI/ Airworld's biggest asset is its proximity to Kansas City International Airport (KCI), which is the preferred location for regional air-cargo transporters.

This submarket will likely see some significant future growth in square footage of new product due to the availability of large tracts of industrially zoned land as well as land areas that are appropriate for industrial and distribution development. The location also provides excellent highway access, with I-29 bisecting and I-435 looping through the submarket. However, its lack of rail availability and its distance from the center of the city could limit its overall growth.

The combined overall industrial and flex occupancy rate for 2016 was 90.7%, with average rental rates at $4.88 per square foot at the end of the year. This submarket has taken a bit of a dip in occupancy this year as compared to the same period in 2015. In a large part, this is likely due to the new 432,000 square foot facility, Logistics Centre IV, at the KCI Intermodal, which was completed in 2016. At the end of the year, this building remained unleased.

Air transit and logistics-minded tenants, who lease space in this submarket, are typically there for access to KCI. These include some suppliers for the GM Fairfax assembly plant, Ford's assembly plant in Claycomo and Harley-Davidson assembly plants located in the metro area. Bulk industrial had a vacancy rate of nearly 10% in 2016 whereas the flex market was just shy of a 4% vacancy rate, its lowest in years.

Highlights in 2016

In November 2016, CVS Pharmacy of Woonsocket, Rhode Island, announced plans to construct a 752,000 square foot facility on 72 acres at Northwest 108th Street and North Congress Avenue in the Skyport Industrial Park for retail distribution. The land site was purchased last year by NorthPoint Development for future speculative industrial development. The requirement, coined as "Project Toto," during its search, considered both Kansas and Missouri options. CVS intends to develop the building itself, and the plan calls for potential expansion of the facility to exceed one million square feet.

CVS intends to develop a 752,000 square foot building in Skyport Industrial Park with the potential to expand to one million square feet.

The Skyport Industrial Park is home to Pure Fishing of Columbia, South Carolina, which occupies a 400,000 square foot building, and St. Louis-based Bunzl Distribution, a large grocery/retail supplier, occupying a newer 158,000 square foot building. Going forward, developers hope to continue to attract larger users who can take advantage of KCI and its Foreign-Trade Zone status, along with the lack of congestion on I-29 and I-435. Exide Technologies of Milton, Georgia, leased 187,600 square feet in the Airworld Distribution Center as an additional location to support manufacturing operations in Fairfax.

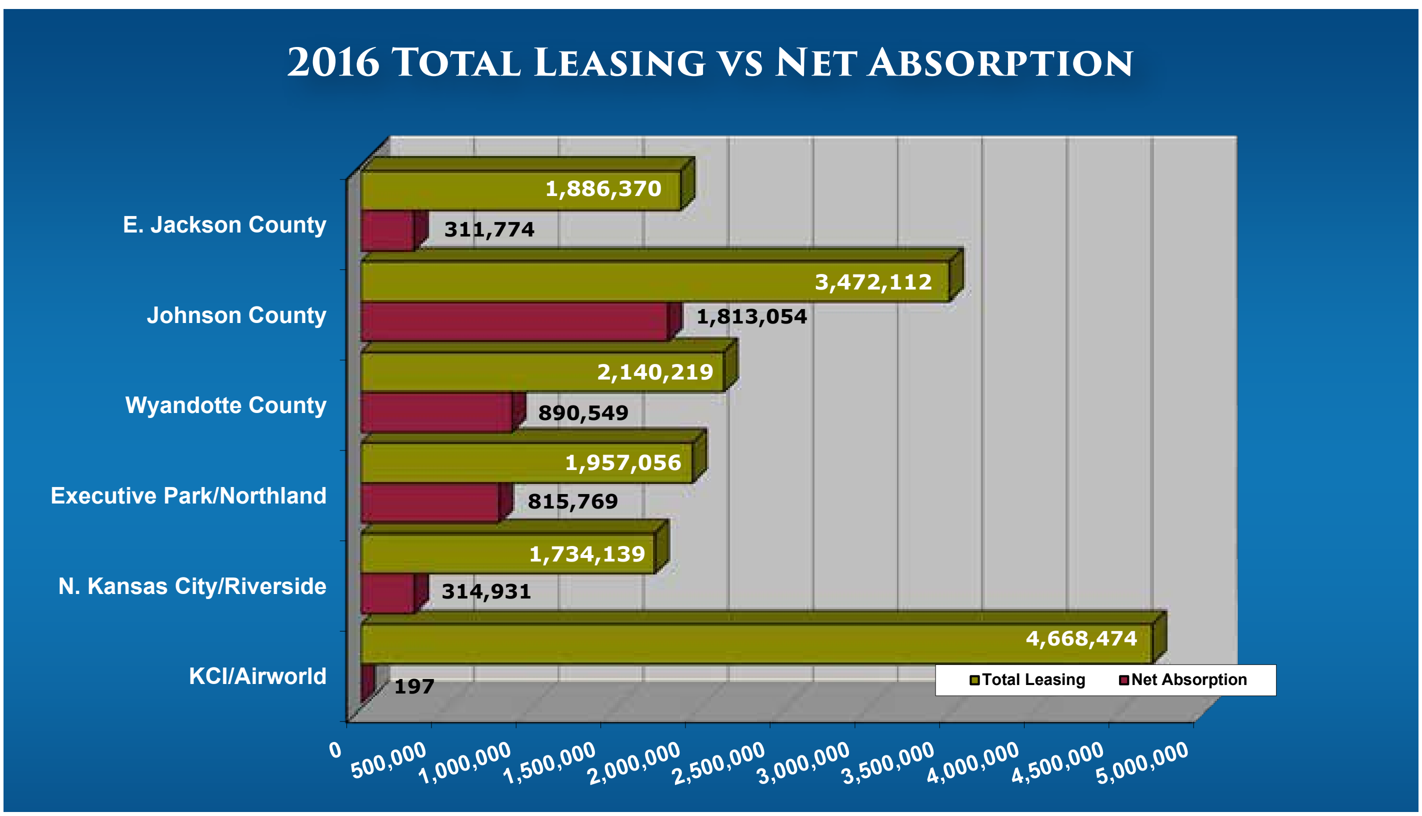
WYANDOTTE COUNTY

Industrial development in Wyandotte County, while migrating west to the Turner diagonal near U.S. Highway 24 and I-70, is also seeing some continued redevelopment in the Armourdale and Fairfax industrial districts. There is still a significant focus on activity in Fairfax, which traces its development roots to 1923 when the Kansas City Industrial Land Company, a subsidiary of the Union Pacific Railroad, purchased nearly 1,300 acres of former floodplain land and launched a multimillion dollar infrastructure improvement to create the Fairfax Industrial Park with rail access and multiple spurs and sidings.

Most of Wyandotte County's industrial development, like Fairfax, is positioned within the central area of the overall Kansas City Metro industrial market. Wyandotte County's industrial districts enjoy the central location along with immediate access to I-35, I-70, I-635 and the I-435 loop, which all pass through the submarket. These interstates provide tremendous benefits for companies that need to be centrally located for in-city distribution and manufacturing.

Two Household Names Make a Big Splash

Central Industrial Park in Fairfax was back in the limelight this year. The 74-acre site is adjacent to the GM Fairfax Assembly Plant and has rail service potential. The first development on the site took place in 2015 and was a 74,000 square foot manufacturing plant for Inergy Automotive Systems, which manufactures plastic fuel tank systems for GM's assembly plant. The company, which is based in Troy, Michigan, employs about 200 at this location.






BRES teamed up with CBRE in the marketing of the Colony Industrial Portfolio, a 24 building portfolio totaling 1,185,000 square feet located in Riverside, Missouri. The portfolio sold for nearly $55 million to a joint venture made up of BRES principals and an L&B Realty Advisors, LLP client.

With 63 acres remaining, late in 2016 GM announced plans to expand adjacent to its assembly plant with a new 840,000 square foot logistics center. NorthPoint Development is developing the facility for GM, one of its largest clients, under a long-term lease. GM will use the facility to manage critical and time-sensitive manufacturing components. The Central Industrial Park is set with a 10-year, 75% real estate tax abatement structure, which has helped in the development of 914,000 square feet, $55 million in new construction and jobs. This new GM logistics center will employ 500.

The Turner Diagonal is a three mile section of freeway that connects Kansas Avenue (K-32) and I-70. Turner Commerce Center, a 130-acre site, will be the home of Amazon's new fulfillment center—an 856,000 square foot site that expands to over 2.3 million square feet with mezzanines. The project has a 100% real estate tax abatement for 10 years, but it will create the economic benefits of $65 million of new construction and the potential of 1,000 new jobs for Wyandotte County.

All this new development has been the result of the very low combined vacancy rate for the 42 million square foot Wyandotte County submarket of 4.6%, which is quite healthy.

Notable transactions

Besides Amazon and GM, additional larger transactions included 50,297 square feet leased in Armourdale to LexJet Distribution Center. OHL, a 3PL company based in Brentwood, Tennessee, signed a lease for 53,000 square feet in the 396,879 square foot industrial building delivered in August 2015 at 1601 Fairfax Trafficway in Fairfax. The property is the first of four industrial buildings slated to deliver just north of Kaw Point Riverfront Park and was developed by NorthPoint Development. Other tenants in the development include Vitex Inc. of Sacramento, California, and Plastic Packaging Technology of Kansas City, Kansas.

An 840,000 square foot expansion of the GM Fairfax Assembly Plant in Fairfax, Missouri, will bring their total footprint to 914,000 square feet in the Central Industrial Park.

Jakobe Furniture, a contract manufacturer of hospitality furniture in Kansas City, Kansas, purchased a 95,732 square foot building in Fairfax while another manufacturer, AirFixture of Kansas City, Kansas, renovated a 50,000 square foot building in Armourdale.

In Edwardsville, INX International Ink Co. of Schaumburg, Illinois, completed a 37,600 square foot expansion, and Herff Jones of Indianapolis added 48,000 square feet to its plant. Wilkerson Crane of Kansas City, Kansas, acquired a 14,500 square foot building on 17 acres in Bonner Springs, Kansas, where it plans to relocate and consolidate. CSTK of Overland Park, Kansas, leased 18,000 square feet in Armourdale, and Guardian Building Products of Greer, South Carolina, leased 68,600 square feet there, having relocated from Fairfax.

Wyandotte County has a shortage of ready-to-develop tracts of land for industrial development projects. With all of the land in the existing industrial districts already being developed, this leaves future development to creatively recapture existing development sites. Wyandotte County continues to land significant projects that are providing a stable employment base in this central location that has a strong manufacturing presence.

EAST JACKSON COUNTY

Provide a 10-year real estate tax abatement and developers will come and build. Provide a 20-year abatement and they will stay and fill their buildings! Eastern Jackson County has seen a historic increase in industrial development and benefited from Port KC's unilateral authority to issue tax abatement. Port KC collects on a payment in lieu of taxes (PILOT) from each project. The amount is generally greater than the taxes currently being generated by the property. The end user, the business creating jobs and hiring workers, is exempt from paying real estate taxes. Three Trails Industrial Park, CenterPoint Intermodal Center and others have benefited from this program, and now there are developments generating jobs that create earnings taxes where none were previously.

Three Trails Industrial Park made its mark on Kansas City in 2016. The product of NorthPoint Development is on the former Rockridge Quarry site between I-49 and I-435. The first phase of the 180-acre project was River Trail I, a 364,015 square foot building. It opened in the first quarter of 2016 with two tenants, Boulevard Brewing Co. in 181,370 square feet and Commonwealth, Inc., a 3PL company based in Cincinnati, Ohio, which is new to the market, in 102,229 square feet. Between them, they occupied 78% of the space prompting NorthPoint to construct River Trail II, a 331,225 square foot building. It leases 51,322 square feet to Rensenhouse Electric Supply, which relocated from a downtown multi-story building, and 197,983 square feet to S.P. Richards, which left space in a much older facility in Executive Park.

With this great success, River Trail III, a 494,654 square foot building, was kicked off with delivery scheduled in the first quarter of 2017. Its first tenant, Shuttlewagon, a Grandview-based company that designs and manufactures mobile railcar movers for the mining and refining industries, has leased 81,997 square feet.

Three Trails at its completion will have 1.8 million square feet of Class A warehouse space. Some of its success can be traced to its 20-year property tax break with 13 years of 100% abatement and reduced abatement percentages each year after. The new Cerner campus is located nearby, while directly north of Three Trails a partnership led by Jim Stowers III is working on Oxford on the Blue, a 350-acre research and biotech park.

East Jackson County is the largest submarket in the metro area, with 100,255,869 square feet in 2,833 buildings and covers Independence, Lee's Summit, Blue Springs, Grandview and eastern Kansas City, Missouri. This submarket has performed well with an overall vacancy rate that has

Rensenhouse Electric Supply moved into 197,983 square feet of Industrial Spec Building II, a 331,280 square foot building located in the Three Trails Industrial Park in Kansas City, Missouri.

BRES and Block Development Company completed the construction of Lenexa Logistics Centre North Building 1 in Lenexa, Kansas. The 635,800 square foot bulk industrial cross-dock building sits on 30.59 acres and was built speculatively. It is the first of four buildings planned for the 82.593 acres north of College Boulevard.

remained stable for the past several years and ended 2016 with only 5.8% vacancy. Year-to-date total net absorption was 1,867,294 square feet. 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 the loops of I-435, I-470, I-670 and Missouri Highway 291.

Other major developments include CenterPoint Intermodal Center, which has proved effective for companies that move product north and south through the Mexican seaport of Lázaro Cárdenas. The first speculative 300,000 square foot building was 100% leased at the end of 2015. But the second building of 450,660 square feet sat vacant at the end of 2016, despite receiving a 12-year property tax exemption.

Another development, though in the early stages, is the Westcott Investment Group's proposed new light industrial park on 85 acres of the Exergonix site, formerly owned by Pfizer Corporation, located off Missouri Highway 291 in Lee's Summit. The site will have up to one million square feet of light industrial buildings when fully developed.

Notable transactions in 2015

- Hallmark Cards Inc., based in Kansas City, Missouri, leased additional space of 246,610 square feet in the Carefree Industrial Park after completing its new 500,000 square foot distribution center.
- HiPer Technologies, part of WELD Racing, leased 49,492 square feet at 6600 Stadium Drive, joining All Packaging Co. which leased 57,328 square feet there after relocating from a 45,000 square foot space in the West Bottoms that has been sold for redevelopment as residential condos.
- Kansas City Costume Co. purchased a 40,384 square foot building in Raytown, Missouri, relocating from the Crossroads.
- The Ohio-based maker of water management products, Advanced Draining Systems, will build a 65,000 square foot plant in Harrisonville.
- In Lee's Summit the Lakewood Spec Building, a 49,320 square foot building being developed by David Ward with 28-foot clearance, was completed in mid-2016. It is a flex building with lots of glass on the front and loading in the rear.
- Custom Truck & Equipment expanded its Kansas City headquarters with two new structures totaling 186,000 square feet.
- American Marksman plans to spend $35 million renovating and retooling a building to create an ammunition recycling business in a vacant 336,000 square foot building at Lake City Army Ammunition Plant in Independence.
- Sioux Chief Manufacturing Co. of Peculiar, Missouri, expects to complete a 596,000 square foot building in the CenterPoint Intermodal Center.

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Kansas City Retail Market

In May, Arhaus opened a new 17,000 square foot, two-story furniture store at 5300 W. 119th St., Leawood, Kansas in Town Center Plaza. The freestanding store is the 55th location for the Cleveland-based retailer.

The retail market in Kansas City is, in a word, healthy. For a second straight year, gas prices remained low and job growth continued. Consumers' confidence grew as more money flowed into their pocketbooks, allowing for more spending, saving and debt reduction. Retail sales grew 3.1% in 2016. The National Retail Federation predicted a 3.6% increase in 2016 holiday sales, substantially higher than the 10-year average of 2.5%, and an increase in online sales of 7% to 10%.

Housing starts in the MSA hit their highest point since 2007. Through October 2016, 4,732 single-family building permits were pulled compared to 3,450 in 2015. Of those, 30% were issued in Johnson County compared to 40% last year. The Clay County portion of Kansas City, Missouri, showed the strongest performance, issuing 669 permits. Johnson County issued 1,777 multifamily permits while Jackson County issued 841.

Out-of-town investors purchased a range of retail properties in the Kansas City area. Fierce competition and compressed cap rates in first-tier markets drove some of that activity and made the Kansas City community an attractive investment. One of the issues these investors may face going forward is the reality of the conservative nature of future rental rate increases that are common to the area.

Some of the notable sales in the retail sector include:

- The Country Club Plaza in Kansas City, Missouri.
- The Legends Outlets Kansas City in Kansas City, Kansas.
- Oak Park Commons and Quivira 95 shopping centers at 95th Street and Quivira Road in Overland Park, Kansas.
- State Line Station at 135th Street and Missouri Highway 150 in Kansas City, Missouri.
- Wyandotte Plaza at 78th Street and State Avenue in Kansas City, Kansas, which is anchored by a renovated Price Chopper grocery store.

Renovations on and redevelopment of older centers as well as greenfield development helped create opportunities for retailers seeking highly visible retail space in Class A properties. Two enclosed malls underwent demolition in 2016: the 700,000 square foot Indian Springs Mall at I-70 and State Avenue in Kansas City, Kansas, and the 812,000 square foot The Great Mall of the Great Plains at I-35 and 151st Street in Olathe, Kansas.

As always, several new retailers came to the metro and some left in 2016. Notable closings:

- Sweet Tomatoes closed both of its area locations as a result of its bankruptcy filing.
- Office Depot closed at Shawnee Mission Parkway and Nieman Road in Shawnee, Kansas, and OfficeMax closed

stores at 119th Street and Metcalf Avenue in Overland Park and in the Shoppes at Shoal Creek in north Kansas City, Missouri.

- Regency Beauty Institute closed its area locations.
- Logan's Roadhouse closed its three area locations as a part of its bankruptcy proceedings.
- Applebee's closed two area locations: 103rd Street in Kansas City, Missouri, and 151st Street near I-35 in Olathe.
- Sports Authority closed its two area locations after filing for bankruptcy.
- Genesis Health Clubs took over eight 24 Hour Fitness and then closed three area locations at 119th Street and Strang Line Road in Olathe, 75th Street and Metcalf Avenue in Overland Park, and North Oak Trafficway and Englewood Road in the Northland.

Notable retail openings in the area:

- Three Taco Bueno locations were converted to Popeyes Louisiana Kitchen restaurants in North Kansas City, Missouri, Olathe, Kansas, and Blue Springs, Missouri.
- Eat Fit Go opened four area locations in Hawthorne Plaza in Overland Park, Corinth Square in Prairie Village, Kansas, 4800 Main in Kansas City, Missouri, and Woodside Village in Westwood, Kansas.
- MOD Pizza opened in Olathe, Kansas and Liberty, Missouri, with locations planned for Blue Springs, Gladstone and Raymore in Missouri.
- The Big Biscuit opened locations in Raymore and Overland Park at College Boulevard and Antioch Road. Another location in Gladstone is scheduled to open soon, and the company announced plans to open an additional location in Olathe in the near future.
- Dunkin' Donuts opened locations near 119th Street and Metcalf Avenue and near 64th Street and I-29 in the Northland.
- Insomnia Cookies opened in Westport and the Kansas City Power & Light District.
- Main Event Entertainment opened at I-35 and 119th Street in Olathe and announced plans to open a Northland location in the spring of 2017.

Overall, vacancy rates fell across the metro, moving from 8.7% at the end of 2015 to 7.2% at the end of 2016. Citywide, average rental rates increased slightly from $12.54 per square foot at the end of 2015 to $12.63 per square foot at the end of 2016.

JOHNSON COUNTY, KANSAS

The mixed-use sector led the way in development in Johnson County in 2016. A mixed-use development is described as a real estate project with planned integration of retail, office, residential, hotel, recreation or other types of space. It is pedestrian-oriented and contains elements of a live-work-play environment. It maximizes space usage, has amenities and architectural expression and tends to mitigate traffic and sprawl.

Several mixed-use development projects moved forward in 2016:

- CityPlace, which is being developed by Block Real Estate Services, LLC (BRES) on 90 acres at Highway 69 and College Boulevard, features about 60,000 square feet of retail space along with multifamily, senior living and office space. The first phase of retail space will be available in late 2017.
- BluHawk is a $649 million, 300-acre mixed-use project at 159th Street and Antioch Road. The development was approved for STAR bonds and anticipates $205 million in assistance for a branch of the Cosmosphere International SciEd Center and Space Museum, based in Hutchinson, Kansas. The first phase of the development will be anchored by a Cosentino's grocery store which will open in 2017.
- The $1.8 billion redevelopment plan of the Brookridge Golf & Fitness site, located between 103rd Street and I-435 at Antioch Road, has been modified several times and now includes 368,000 square feet of retail, two million square feet of office, 2,200 apartments, two hotels with a total of 550 rooms, a 3,500-seat performing arts venue, a 40-acre park and continuation of the nine-hole golf course west of Antioch.
- Mission Gateway has been in planning for more than 10 years at Shawnee Mission Parkway and Johnson Drive. The plan has faced numerous revisions, but the first phase of the development may finally start in March 2017 with 50,000 square feet of small-shop retail space and 168 multifamily units. Walmart cancelled its plans to be part of the development.
- The Overland Park City Council approved revised plans for the 294,000 square foot 95 Metcalf South retail development, formerly named Central Square, at 95th Street and Metcalf Avenue. A Lowe's Home Improvement store will anchor the development, which is expected to open in mid-2018.
- Renovations continued at Hawthorne Plaza at 119th Street and Roe Avenue in Overland Park. The Container Store opened along with The Mixx, CorePower Yoga, Eat Fit Go and Bling.
- In Camelot Court at 119th Street and Roe Avenue, the Hen House Market was renovated and expanded by 20,000 square feet.
- The Promontory, formerly known as Gateway Plaza, wrapped up its renovations at 91st Street and Metcalf Avenue.

Notable retailer activity in Johnson County in 2016 included:

- Tilted Kilt Pub & Eatery converted to The Drawing Board Restaurant & Pub in Deer Creek Marketplace in Overland Park, but it didn't last long. Both concepts closed.
- Ingredient True Eatery closed in Park Place in Leawood, Kansas.

- The Fresh Market and Wasabi Sushi Bar, both located in Prairiefire in Overland Park, closed.
- The Drunken Fish Sushi Restaurant & Lounge closed its Town Center Crossing location in Leawood.
- Old Chicago Pizza & Taproom closed its restaurant at 119th Street and Metcalf Avenue in Overland Park.
- Joe's Crab Shack at Olathe Station closed in November and will be demolished to make way for a Chuy's restaurant.
- Several restaurants opened in the Corbin Park retail center in Overland Park: 810 Zone, YaYa's Euro Bistro, QDOBA Mexican Eats and Redrock Canyon Grill. Dave & Buster's is under construction and is expected to open in the spring of 2017.
- Arhaus and Restoration Hardware opened a location at Town Center Plaza in Leawood, Kansas
- iFLY opened at I-435 and Metcalf Avenue in Overland Park. The indoor skydiving facility features a 56-foot-tall, air-cushioned, wall-to-wall wind tunnel that allows visitors to simulate flying.
- Lukas Wine and Spirits Superstore opened in a new 52,000 square foot building at 121st Street and Blue Valley Parkway in Overland Park.
- Sprouts Farmers Market opened a store near 95th Street and Nall Avenue in Overland Park.

Johnson County's vacancy rate slipped from 10.0% at the end of 2015 to 9.2% at the end of 2016. The average rental rate increased from $14.78 to $15.04 per square foot from 2015 to 2016.

EAST JACKSON COUNTY, MISSOURI

Dealings in east Jackson County were relatively slim in 2016. Some of the more significant transactions included the sale and planned renovation of Marketplace Shopping Center at Noland Road and I-70 in Independence, Missouri. The property sold in 2016, and the American Inn was torn down to make room for retail expansion.

- Menards opened in Olathe, Independence and Belton. It plans to open locations in Shawnee and the Northland in 2017.
- Duluth Trading Co. and Los Cabos Mexican Grill & Cantina opened at The Falls at I-70 and I-470 in Independence. Both concepts are new to Kansas City. Nearby, Old Chicago Pizza & Taproom also opened.
- White Oak Marketplace in Blue Springs is a 20-acre, mixed-use development that will be anchored by a new Price Chopper grocery store, 10,000 square feet of retail shops and a 90-unit senior housing development. Demolition began in July.

Rental rates in east Jackson County decreased from an average of $10.28 per square foot at the end of 2015 to a current average of $10.71 per square foot. The vacancy rate also decreased going from 7.9% to 6.9%.

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

Youth-sports-oriented developments seem to be the name of the game in south Kansas City. Two such developments began in 2016. Construction started on Gateway Sports Village, a mixed-use project of 334,000 square feet in Grandview, Missouri. Fourteen lighted artificial turf soccer fields and an

The Container Store, located at 5001 W. 119th Street in Overland Park, Kansas, is in a 115,000 square foot facility and is located at the Hawthorne Plaza Lifestyle Center. The Container store is the nation's leading retailer of storage and organization products.

86,000 square foot multisport field house will anchor the development. The $234 million project received $78 million in incentives and is expected to include 540 hotel rooms in three hotels, one of which will be a Best Western Plus that will begin construction in the spring, and about 21,000 square feet of restaurant space. When completed in 2022, the development is expected to attract 1.8 million visitors a year.

In Lee's Summit, Missouri, Paragon Star started the first phase of a $212 million multiuse development at I-470 and View High Drive, featuring 10 artificial turf fields, a 120-room hotel, multifamily units, office space, restaurants and entertainment venues.

Planning continued for Village at View High, a $225 million mixed-use development at Third Street and View High Drive. The project includes 250,000 square feet of retail space in addition to offices, medical offices and a 13-acre gated senior living community. B&B Theatres plans to open a seven-screen theater in this development in the fall of 2017.

Redevelopment and renovations:

- Truman's Marketplace at I-49 and Blue Ridge Boulevard in Grandview underwent a $75 million redevelopment. New tenants included Burlington, T.J. Maxx, Ross Dress for Less, Petco, Shoe Carnival, rue21, Starbucks, McAlister's Deli, T-Mobile, Vintage Stock and Five Below.
- Red Bridge Shopping Center in Kansas City, Missouri, completed its renovations. Announced tenants included Euston Hardware and Blue Bicycle Health and Fitness.
- Renovations were completed on Watts Mill Shopping Center at 103rd Street and State Line Road in Kansas City, Missouri.
- Cedar Tree Shopping Center in Belton also was renovated. New tenants included Freddy's Frozen Custard & Steakburgers and Brewbakers Bar & Grill.

Restaurant expansion currently accounts for 50% of U.S. store growth. Kansas City residents' appetite for dining out fueled expansion of the industry here as well. Five new restaurants will account for 31,000 square feet of Ward Parkway Center in Kansas City, Missouri, when its $16 million expansion is completed this summer. Charleston's Restaurant, Ted's Café Escondido, The Garage Burgers and Brew, and MidiCi The Neapolitan Pizza Company have announced locations in the center's new restaurant district.

In and near the Country Club Plaza, Whole Foods Market is under construction at 51st and Oak streets in a mixed-use development near the University of Missouri–Kansas City campus that includes office space and multifamily units. It is expected to open in May 2017. Stock Hill steakhouse opened at 48th and Main streets. Eddie V's and Tervis opened locations on the Country Club Plaza. Sprint took over the former Apple store space as Apple expanded into a new location at the site of the former Halls department store. República transitioned to The Oliver.

In Lee's Summit, Dick's Sporting Goods announced it will move from SummitWoods Crossing to Summit Fair, and H&M plans to open in the spring of 2017. Price Chopper grocery closed its Pinetree Plaza location and opened at Todd George Marketplace at Highway 50 and Todd George Road along with Taco Bell, Johnny's Tavern, Great Clips, Little Caesars Pizza and others. Elsewhere, Sprouts Farmers Market opened on 291 Highway and Swann Road. QuikTrip will open a next generation format location at M-291 Highway and Mulberry Street while remodeling its two other locations. Longboards Wraps and Bowls and Massage Envy opened. The 810 Zone closed its restaurant.

In downtown Kansas City, the new streetcar system created development opportunities. Nature's Own Health Market opened a small format grocery store at 4th and Oak streets in the River Market area. Brown & Loe opened in City Market, and The Rockhill Grille opened in the building that formerly housed The Cashew. Evolve Juicery & Paleo Kitchen opened in the Crossroads, and ProteinHouse and Leinenkugel's opened in the Kansas City Power & Light District. The Garment District boutique, Plowboys Barbeque and Pickleman's Gourmet Cafe opened locations downtown. The former executive chef at The American Restaurant announced plans to open the Corvino Supper Club and Tasting Room in the Corrigan building at 18th and Walnut streets early in 2017. Chewology {Dumpling & Dough} already opened in the building. A fitness user was identified for the streetcar-oriented, bond-supported project. An 800-room Hyatt convention hotel project worth $310 million plans to open in 2019.

Notable transactions for this area of the city include:

- EBT closed its iconic restaurant at I-435 and State Line Road in Kansas City, Missouri.
- The American Restaurant in Crown Center closed at the end of the year.
- Neighborhood Cafe opened in Waldo while Summit Grill relocated to the former 75th Street Brewery site and Boru Ramen Bar will take Summit's former site. Betty Rae's Ice Cream shop also opened.
- Red Door Grill opened in the former Blue Grotto location in Brookside.
- Lukas Liquors Wine & Spirits Superstore opened Harry's Tavern and expanded its store at Highway 150 and 135th Street by 10,000 square feet, absorbing the former Party City location.
- Raising Cane's, QDOBA Mexican Eats, Pickleman's Gourmet Cafe and Sweet Siam opened in Westport.
- Texas Roadhouse opened in Belton.

Rental rates in this area of the metro decreased slightly from $12.14 per square foot at the end of 2015 to an average of $12.08 per square foot at the end of 2016. The area's vacancy rate fell from 7.4% at the end of 2015 to 5.9% at the end of 2016.

KANSAS CITY/WYANDOTTE COUNTY, KANSAS

The American Royal Association announced plans to relocate from the West Bottoms in Kansas City, Missouri, to a new site in Village West at 118th Street and Parallel Parkway in Kansas City, Kansas. STAR bonds, which will expire in June of 2017 if Kansas legislation does not renew the law that allows the incentive tool, will be used to help pay for the $160 million complex.

Planning continued for the $60 million Village South development at the southeast corner of I-70 and 110th Street in Edwardsville, Kansas. The first phase on the 17-acre site will include two hotels with 185 rooms, a 12,000 square foot conference center with a restaurant, and 25,000 square feet of additional destination retail with pad sites for fast food and convenience store operators. Completion of the first phase is expected by mid-2018.

In the Legends Outlets Kansas City, Saks Off Fifth, PacSun and Amini's announced plans to close their stores, and Aéropostale will close but rebrand its store there. Stanford & Son's Comedy Club re-opened in November in the same location it closed two years ago. Tommy Hilfiger also returned to the center, and Victoria's Secret, francesca's, Noodles & Company, Visionworks and PepperJax Grill opened. Zaxby's also opened its first Kansas City store nearby.

The new National Training and Coaching Development Center for U.S. Soccer broke ground on an 80,000 square foot facility at 98th Street and Parallel Parkway. The STAR-bond-backed project will also become the training location for Sporting Kansas City and will include 17 soccer fields. Additional users within the Schlitterbahn Vacation Village development include an eight-dealership auto mall north of the water park, Frontier Justice Retail Center and gun range, a hotel and retail shops.

Woodside Village in Westwood, Kansas, won Blue Sushi Sake Grill, another restaurant new to Kansas City. Shelby Herrick Salon relocated from Fairway, Kansas, and ULAH, a men's apparel and accessories store, opened there.

Retail rental rates for Wyandotte County were $11.97 per square foot at the end of last year. They decreased to $10.72 per square foot at end of 2016. The area had a 3.7% vacancy rate at the end of 2016, compared to a 10.6% vacancy rate at the end of 2015.

THE NORTHLAND KANSAS CITY, MISSOURI

Metro North Crossing received rezoning approval for its $187.5 million mixed-use redevelopment at Highway 169 and Barry Road, allowing demolition and construction to begin in 2017. Macy's, Olive Garden, Red Lobster and McDonald's will remain as part of the new 1.1 million square foot development, which will include 744,000 square feet of retail space, a hotel, an office building, 150 multifamily units and 66,500 square feet of new restaurant pad sites.

Edgewood Farms is under construction near I-29 south of Barry Road. The new development will be anchored by Main Event Entertainment and expects to open in the spring of 2017. It plans to have 200,000 square feet of retail space with several pad sites, one of which will be occupied by Freddy's Frozen Custard & Steakburgers.

Liberty Commons located at I-35 and Highway 152 underwent its $85 million, 315,000 square foot redevelopment and now stars Academy Sports + Outdoors, Gordmans and Natural Grocers. Marriott Hotel, SPIN! Neapolitan Pizza, HomeGoods, Petco and Louie's Wine Dive plan to open in 2017. B&B Theatres, having closed its Liberty Cinema 12 to make way for the redevelopment, is building a 14-screen flagship theater and corporate office to the east.

Costco Wholesale is under construction at Missouri Highway 152 and North Platte Purchase Drive and plans to open in the spring of 2017.

Other happenings in the northland include:

- The Heights Linden Square, a 10,000 square foot retail project surrounded by 224 apartment units, opened at

Selected New Retail Construction

New Construction	Square Feet	Project Status	Tenants Announced
BluHawk	1,000,000	Phase I, Under Construction	Consentino's
Mill Creek Village	800,000	Planning Phase	N/A
Metro North Crossing	744,000	Planning Phase	Macy's (will remain)
Brookridge Development	368,000	Planning Phase	N/A
Summit Place	350,000	Phase I, Under Construction	Sam's Club, Cabela's
95Metcalf South	294,000	Planning Phase	Sears (will remain), Lowe's
Village at View High	250,000	Planning Phase	N/A
Edgewood Farms	200,000	Phase I, Under Construction	Main Event Entertainment
Mission Gateway	160,000	Phase I, In Development	N/A
Sonoma Plaza	156,000	Planning Phase	N/A
Gateway Sports Village	107,000	Phase I, Under Construction	Multisport Field House
Todd George Retail Center	98,000	Complete	Price Chopper
White Oak Marketplace	96,000	Under Construction	Price Chopper
CityPlace	60,000	In Development	N/A
Total Square Feet:	*4,683,000*		

70th Street and North Oak Trafficway in Gladstone with Snow & Co. as the first retail tenant.

- Aéropostale closed its Zona Rosa location as part of its bankruptcy proceedings.
- The Fresh Market cancelled its opening in the Shoppes at Shoal Creek.
- Planet Fitness, Noodles & Company, First Watch and Tuesday Morning all opened new locations in the Northland this year.

Rental rates in the Northland averaged $12.41 at year-end compared to $12.28 per square foot at the end of 2015. The vacancy rate was 7.7% down from 8.7% at the end of 2015.

RETAIL OUTLOOK

2017 should be another strong year for retail properties in Kansas City. Brick-and-mortar stores will continue to dominate retail sales despite 7% to 11% of all retail sales being made online. The Internet simply can't deliver a personal experience, and the consumer cannot touch and feel what is being purchased. A continued decline in department store sales is expected. This category has been losing market share for years.

New retailers are expected to land in Kansas City in 2017. Some new-to-Kansas City restaurants planning locations in the area include Larkburger, which has a dozen locations in Colorado. A change in leadership at Larkburger delayed its expansion here, but the company now appears ready to move ahead. MAD Greens, MOD Pizza and Kneaders Bakery & Café all plan to open locations in the area next year. And, in support of our furry friends, retailers like Pet Supplies Plus and Bentley's Pet Stuff plan to open locations in the Kansas City area this year.

Hotel development will be strong going into 2017. The $23.9 million conversion of the Loretto Academy building on 39th Street near Roanoke Road is slated for a 120-room boutique hotel and restaurant including an existing wedding and reception venue. Hotel Indigo plans to convert the Brookfield Building at 11th Street and Baltimore Avenue into a 113-room hotel with 27 luxury apartments on the upper floors of the 12-story building.

A commercial improvement district (CID) was approved in 2016 allowing the owners of InterContinental Kansas City on the Country Club Plaza to raise approximately $5 million of the $16 million renovation planned for the property. A CID was also approved to help fund a hotel development north of the Plaza, raising about $7 million for the twin tower apartment and hotel development between Wornall Road and Broadway at 46th Street.

A 124-room Marriott SpringHill Suites will open in 2017 at the northwest corner of 87th Street and Renner Boulevard. And, a 95-room Marriott TownePlace Suites is under development on Central Street just north of 40th Street and is expected to be completed by December 2017.

Service providers will continue to expand into retail locations. Pacific Dental Services has six additional stores planned for the region this year. Centra Care opened several locations in 2016 with more expected in the near future. Saint Luke's Health System plans to open a specialty clinic in Mission Farms in 2017. It opened five retail health locations in local Hy-Vee markets and plans to open another seven Convenient Care clinics in the area.

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

Legacy Development opened Truman's Marketplace in Grandview, Missouri. The $75 million retail development sits on 52 acres at the intersection of Blue Ridge Boulevard and I-49. It consists of 395,000 square feet of retailers, including: Petco, Burlington Coat Factory, Starbucks, T.J. Maxx and Price Chopper to name a few.

RETAIL MARKET

Kansas City & National Investment Market

BRES assisted Holliday Fenoglio Fowler, L.P. in the $94 million sale of the seven building, 806,864 square foot Colony Office Portfolio. The portfolio consisted of the Financial Plaza, Commerce Plaza and 7101 Tower, also known as the 'Darth Vader' building.

Nationally, investment sales volume peaked in mid-2016 and is expected to taper off by 5% to 10% at year-end. Kansas City finished 2016 with a flurry of major sales transactions. Looking ahead, Kansas City commercial real estate (CRE) prices will be driven by real rental rate growth instead of cap rate compression. Kansas City has positive momentum to carry it through 2017 as the post-election economy adjusts. Locally, cap rates should remain stable but could eventually follow interest rates and go up.

OUTLOOK FOR 2017

Elections have consequences, and most post-election commercial real estate observers favor cautious optimism. After a year that saw the volume of investment sales finally peak, 2017 may prove to be a cooling-off period to allow investors a chance to take a deep breath and reset expectations as the economy and new administration make some adjustments. Looking ahead, economists and commercial real estate industry leaders expect to see expansionary fiscal policy that will stimulate economic activity and drive real estate demand across all sectors. The CRE market can expect another good year with stable growth, both nationally and in Kansas City where some 13,000 new jobs were added in 2016, according to the U.S. Bureau of Labor Statistics.

MARKET FUNDAMENTALS

In September 2016, National Real Estate Investor (NREI) predicted the U.S. property market landscape in 2017 would be characterized by continued strong fundamentals, increased investor flows and high transaction volume. Deloitte has affirmed that "in many ways, the commercial real estate industry is on more solid footing than it has been for quite some time."

The Kansas City economy performed well in 2016. At the 2016 fall forecast meeting of the Kansas City Regional Association of Realtors, Ted Jones, PhD, chief economist for Stewart Title Guaranty Company, said that "with over 100,000 jobs added since the depths of the recession, more people are employed in Kansas City than in any time in history."

The NREI 2017 forecast went on to say that U.S. employment gains in 2016 were the economic driver for housing demand, office and retail space and new industrial and distribution facilities. In the second half of 2016, development took a breather, in most property types, giving supply and demand time to find equilibrium.

The current economic expansion began in 2009 and is in its seventh year. According to CNNMoney, the average post-WWII expansion cycle lasts about five years. While many rightly fear the end of the current cycle, the fact that the recovery was so protracted means we may have another two-plus years left, barring an unknown global catastrophe. So, even after seven years of a strong bull market, all indications are that 2017 will be another positive year for CRE, driven by sound market fundamentals, real job growth and the continued availability of capital, even though it may be slightly more expensive. An improving economy can be expected to increase rental rate growth. However, inflation could increase operating expenses and construction costs.

CAPITAL MARKETS

The U.S. capital markets environment remained relatively healthy with high levels of transaction and mortgage lending activity as well as fairly stable pricing. Yet after years of rising volumes and value growth a cooling-off period is likely as we enter 2017, according to CBRE's third quarter capital markets report. It is unclear when and how proposed policy changes will impact the financial sector.

The average post-WWII economic expansion cycle lasts about five years. The current cycle began in 2009 and is in its seventh year. Because the recovery has been so protracted we may have another two-plus years left.

One of the stated priorities of the new administration is privatization of government sponsored enterprises (GSEs), specifically Fannie Mae and Freddie Mac, where rates and spreads were inching up during the last quarter of 2016. GSEs are important sources of multifamily financing, providing $89 billion in 2015, according to the NREI. Fannie Mae and Freddie Mac's market share has declined since the end of the housing crisis but remains a critical resource for underserved segments, such as affordable, workforce and senior housing where demand is increasing.

Early in the third quarter of 2016, CoStar reported that U.S.-based banks had tightened their underwriting standards for CRE loans as they faced increased scrutiny from bank

Coach House Apartments, an 805-unit complex located at 655 E Minor Drive in Kansas City, Missouri, was sold for $70.5 million by GoldOller Real Estate Investments to Aragon Holdings. It was the largest multifamily transaction in 2016.

The Creekview and Indian Creek Portfolio, consisting of two four-story, Class A, office buildings, was sold by Normandin Investments for $33.25 million to Tower Properties. The two buildings are the Creekview Corporate Center, a 121,844 square foot structure at 12900 Foster St., and Indian Creek Campus I, a 112,172 square foot building at 10740 Nall Avenue.

examiners. Loan growth was still strong but moderating. Domestic bank loan officers reported that the standards were tighter now than they had been on average since 2005, according to the most recent Senior Loan Officer Opinion Survey issued by the Federal Reserve Board.

At the end of 2016, there remained an abundance of funds to borrow at relatively low rates, even though they were slightly higher than the historically low rates of 2016. Reasonable buyer underwriting standards still prevailed but lending standards were tightening. Tighter lender underwriting was showing up in shorter interest-only periods and lower loan-to-value ratios. Tightened lending standards returned even as banks indicated that they experienced stronger demand for all major types of CRE loans on balance during the second quarter.

THE EFFECT OF INTEREST RATES

There is no magic formula when it comes to predicting interest rates. On November 19, 2016, the Wall Street Journal observed that many economists and investors had not seen federal interest rates above 1.00% or 2.00% in their careers. The concern was that rates could rise faster than expected. With the election over, the Federal Reserve Board raised rates in December by 25 basis points (to 75 basis points) and indicated it planned to raise interest rates during 2017, noting the rise in the stock market and bond yields was too large to ignore.

In an article published on November 10, 2016, Lawrence Yun, Chief Economist of the National Association of Realtors, said: "There will no doubt be a short-term stimulus to the economy. A combination of tax cuts and government spending in the form of upgrading the nation's infrastructure and for national defense will provide a short boost to the economy in the first half of 2017. Inflation will likely kick in a bit higher from faster GDP growth and that will lead to modestly higher interest rates."

As the NREI has pointed out, a slight rate increase in the Fed rate still means a relatively low cost of capital. They went on to say 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. The commercial real estate yield comparison to the 10-year treasury rate showed a healthy spread remained as we entered 2017.

OFFSHORE CAPITAL INVESTMENT

The 2016 market for offshore capital was driven by competition from "coastal investors" for Midwest Class A and B assets that drove up asset prices and pushed cap rates into record low territory. In light of the global low-yield environment, U.S. commercial real estate continued to offer stronger yields, especially in the Heartland and rising smaller markets like Kansas City. Global capital has been involved in some of the private equity funds chasing yield in the Heartland secondary markets.

Earlier in 2016, JLL reported that nationally 60% of inbound capital was heading into office building investments at the expense of industrial asset investments in the previous year. They expected more offshore money to selectively transact in the multifamily and retail sectors, including secondary markets. They affirmed that net-leased investments would remain the gateway to the secondary markets for most foreign investment groups.

Over the balance of 2016 and into 2017, continued economic expansion, positive property fundamentals, low borrowing costs and a lack of favorable alternative asset choices should keep the level of interest in U.S. real estate at a high level.

HEALTH CARE PROPERTY INVESTMENT

The most attractive CRE investment classes in the U.S. today are health care, multifamily and industrial in that order, according to a 2016 DLA Piper survey. Health care has become the nation's number one creator of new jobs and is likely to remain strong and positive over the long term. In Overland Park, Kansas, Everest Medical Core Properties, an institutional real estate manager based in New York that focuses only on health care properties across the U.S., recently acquired the Foxhill Medical Center, a 52,153 square foot medical office building for $9 million. Foxhill Medical was Everest Medical Core Properties' first purchase in the Kansas City market.

In 2014, Jay Flaherty, then chairman and CEO of the health-care real estate investment trust HCP Inc., declared the demand for health care facilities would soon reach a point where it would outstrip supply. He pointed to the continuing shift from public ownership to private partnership opportunities to deliver better care and reduce costs. As Flaherty predicted, hospitals have begun a migration from traditional hospital campuses to neighborhoods in retail-style medical office buildings, thus creating more property investment options in the medical space.

The Federal Reserve Board raised rates in December by 25 basis points and indicated they planned to raise interest rates during 2017. Their plan is based on the performance of the stock market and bond yields.

On November 9, 2016, Kansas City-based MetroWireMedia held a health care summit at Burns & McDonnell headquarters in Kansas City, Missouri. Over 100 attendees heard panelist Jeremy Bechtold, vice president of facilities, construction and real estate for Saint Luke's Health System, describe the "hub and spoke" concept for its Kansas City-area hospitals, home care and hospice facilities, behavioral health care facilities and dozens of physician practices and retail clinics.

Saint Luke's recently partnered with Texas-based Embree Asset Group Inc. to redevelop an older retail center in north Overland Park as a "micro-hospital." The 17,140 square foot, eight-bed facility would provide 24-hour emergency care and allow for overnight stays. It is designed to fit the niche between urgent care and severe trauma and provide faster service to people with less-severe medical problems at a lower cost than an urgent care center or regular hospital.

The panel acknowledged that the aging baby boomer population was creating strong demand for skilled nursing, assisted living, memory care and independent living and post-acute rehab facilities. Vehicles for meeting the demand will include partnering with leasehold operators in real estate development.

COMMERCIAL REAL ESTATE PRICES AND CAP RATES

When sales volume peaked in the second quarter of 2016, the NREI reported that the commercial price appreciation the industry had enjoyed since 2010 might be leveling out. Moody's and Real Capital Analytics (RCA) reported that their joint commercial property price index (CPPI) increased by 0.2% in March, after declining 0.2% in February.

Moody's/RCA researchers attributed the stagnation at least partially to tightening availability of debt capital, noting that "recent turmoil in the capital markets is now being felt in the commercial property sector, consistent with reports that some acquisition prices have been negotiated lower to reflect higher cost of debt."

Although CRE pricing might be leveling out nationally, it seemed that well-capitalized private equity and institutional investors continued to drive up prices for core assets in Kansas City and in other second- and third-tier cities where yields were better and the prices were justified. As market rents in the multifamily sector continued to rise, we saw increased emphasis on repositioning Class B multifamily properties.

The multifamily market cap rates in Kansas City were roughly 25 basis points higher than the national average at the end of 2016. Although interest rates increased in the second half of 2016, a relatively low cost of debt capital was still available. While cap rates do not have a 1:1 ratio with the movement of interest rates, an increasing interest rate environment will eventually dilute investor returns.

2016 Class A Average Capitalization Rates:

Product Type	National	Kansas City
Suburban Multifamily	5.00%	5.25%
Power Centers	6.12%	6.75%
Industrial	5.49%	6.00%
Suburban Office	6.96%	7.50%

Source: CBRE CAP Rate Survey 2Q 2016

THE KANSAS CITY INVESTMENT MARKET

The 2016 investment sales market was defined by portfolio sales. There were multiple portfolios that traded in the office and industrial sectors. Pennsylvania-based Equus Capital Partners Ltd. sold a three–property, Class B apartment portfolio to Colorado-based Monarch Investment and Management Group, adding to its already substantial Kansas City holdings. In the retail sector, Kansas City's "crown jewel," the Country Club Plaza, traded hands for only the second time in its 94-year history.

Examining Kansas City's top six transactions in each property class, the 2016 sales volume was over $1.4 billion, which was up over 60% from 2015. While the national sales volume remained relatively flat in 2016, secondary markets like Kansas City picked up the slack of the slowdown in activity in gateway markets. As anticipated, capital actively sought secondary markets as pricing and competition continued to increase nationwide. This came to fruition in Kansas City with portfolio sales setting the tone.

THE COUNTRY CLUB PLAZA

Late in 2015, Highwoods Properties Inc., a real estate investment trust based in Raleigh, North Carolina, put the Country Club Plaza, a nationally acclaimed shopping district, on the market. It was developed in 1922 by J.C. Nichols and is recognized by the Urban Land Institute (ULI) as the nation's first mixed-use development. Each year ULI awards the J.C. Nichols Prize for Visionaries in Urban Development, which explains why it is referred to as Kansas City's crown jewel. The offering included 1.4 million square feet of mixed-use office and retail space, 804,000 square feet of retail and 617,000 square feet of office. The Country Club Plaza covers 15 square blocks in the heart of the city.

The bulk of the offering was sold to a partnership of Taubman Centers, headquartered in Bloomfield Hills, Michigan, and Macerich, based in Santa Monica, California. It acquired all the retail for $518 million and 468,000 square feet of the office space for $141.2 million. The cap rates achieved in the Country Club Plaza sale (4.2% for the retail and 5.8% for the office) were record-breaking and compared favorably to sales in gateway markets like New York and Los Angeles. To secure the landmark property, the retail giants Taubman and Macerich took on a large portion of the office portfolio, which was outside the core competency of each.

Two additional office properties were removed from the Country Club Plaza portfolio sale: Plaza West (261,980 square feet) and Park Plaza (82,365 square feet). Both buildings sold separately. Plaza West sold at a 7.20% cap rate and Park Plaza sold at a 6.75% cap rate. Park Plaza sold to the Price Brothers, based in Overland Park, Kansas, while Plaza West sold to Stanton Road Capital LLC, an institutional buyer from Los Angeles. Like many of the 2016 buyers in Kansas City, Stanton Road Capital was a new entrant to the market.

The Country Club Plaza, Kansas City's "crown jewel," was sold for only the second time in its 94 year history at a price of $659.2 million.

INDUSTRIAL PORTFOLIO SALES

Two industrial portfolios of over one million square feet traded hands in Kansas City in the last year. Kansas City is a tightly held industrial market where portfolio sales rarely occur. In addition to its office portfolio, Colony Realty Partners sold a large portion of its Kansas City industrial holdings. The majority of the portfolio was located in the Riverside submarket of Kansas City, which was seeing significant development activity. A Block-sponsored group teamed up with a pension fund advisor to purchase the 1.1 million square foot Riverside development for $54.8 million. The purchase price equated to a 7.56% cap rate. The well-located industrial portfolio drew the attention of numerous national investment groups, many of which were trying to enter the Kansas City market for the first time.

In the last week of 2015, DB RREEF sold its 24-building 1,080,000 square foot portfolio to Clarion Partners based in New York. The portfolio offered some leasing upside as it was roughly 87% leased at the time of the sale and achieved a 7.15% cap rate. As the Johnson County industrial market continues to tighten, Clarion anticipates pushing occupancy and increasing rents in the portfolio.

In 2016, Monmouth Real Estate Investment Corp. and Stag Industrial, both East Coast-based buyers of single-tenant industrial real estate, followed up purchases made in 2014 with two properties located in the rapidly growing south Johnson County industrial submarket.

Monmouth purchased the new 300,000 square foot FedEx Ground facility at a 6.83% cap rate, which is in excess of $100 per square foot. The building was developed by Jones Development Company, a Kansas City-based preferred developer for FedEx.

Stag Industrial purchased the newly developed 500,000 square foot warehouse at 167th Street and Lone Elm Road in Olathe, Kansas, for $23.2 million ($46 per square foot). Stag was willing to take on the leasing risk of the speculative warehouse making a bet, along with many others, on the Kansas City big-box industrial market. Since 2013, Johnson County has added eight million square feet of mid-bulk and bulk distribution space.

Another bellwether sale occurred in the expanding south Johnson County industrial market with the 260,707 square foot Lenexa Logistics Centre 4. It sold for a 6.4% cap rate or $67.13 per square foot and is one of Amazon's area fulfillment centers.

RETAIL SALES

Schottenstein Property Group Inc. of Columbus, Ohio, acquired Stateline Station, a shopping center totaling 142,000 square feet in south Kansas City, Missouri. The price tag of the transaction was $17.5 million. The shopping center was 85% leased at closing and marked Schottenstein's first acquisition in the Kansas City market. The retail center was completed in 2004 and is anchored by Marshalls and Cost Plus World Market, excluding a separately owned Target.

At the end of December 2015, Phillips Edison & Company of Cincinnati acquired the grocery-anchored Wyandotte Plaza in Kansas City, Kansas, for a 7% cap rate. The shopping center underwent a major renovation in 2015. The major tenants include Price Chopper, Marshalls and PetSmart.

Stag Industrial purchased a speculative 500,000 square foot warehouse in Olathe, Kansas. The transaction was finalized upon completion of construction with no tenant leases signed.

Metcalf 103 shopping center was another significant retail transaction in 2016 and is anchored by a Walmart Neighborhood Market. It sold to St. Louis- based The Staenberg Group at a 7% cap rate. The cap rate would have been lower except that the Walmart is on a short-term ground lease with many tenant options to extend. Other tenants include Pier 1 Imports, Buffalo Wild Wings, Subway and Jack in the Box.

MULTIFAMILY

Five of the six multifamily properties included in our Investor Chart and Sales Records traded for over $40 million with two assets trading north of $60 million. The Kansas City multifamily market saw new entrants, such as Carroll

ARIUM Overland Park, a 402-unit multifamily community at 12800 W 134th Street, Overland Park, Kansas was sold by Davis Development to Carroll Organization, a fully integrated real estate investment company, in July for $68.6 million.

Northland Passage, a 596 unit multifamily community at 6360 N London Ave., Kansas City, Missouri was sold to Hayman Company in October for $60.6 million by Abacus Capital Group.

Organization of Atlanta, and the return of Hayman Company of Southfield, Michigan.

Several buyers with long histories in the Kansas City market made significant acquisitions. Price Brothers bought the 424-unit Stonebriar Apartments in south Johnson County for $114,000 per unit. Sentinel Real Estate Corp. bought Carrington Place at Shoal Creek and The Haven at Shoal Creek for north of $165,000 per unit. Both properties are located in the Shoal Creek area.

As 2016 drew to a close, Philadelphia-based GoldOller sold the 800-unit Coach House portfolio (a former J.C. Nichols development in Red Bridge) to the Los Angeles-based Aragon Holdings for $70 million. The acquisition is Aragon's fourth and largest Kansas City apartment community. Many in the industry anticipate that Kansas City's multifamily transaction volume will be reduced somewhat in 2017 when compared to 2016. (Please refer to the Multifamily Section for more detail on recent transactions.)

WHAT IS AHEAD FOR 2017?

Most observers agree that the commercial real estate market stands to benefit from new infrastructure investment and other expansionist fiscal policy from the new Washington administration. Going into 2017, expectation of lower business taxes and fiscal stimulus to the economy added to investor optimism and confidence.

Kansas City saw investment activity rise to historic levels in 2016. There is every reason to believe that investment demand will remain strong in 2017. However, it is hard to imagine that the same number of portfolios will trade hands again in the coming year. Stricter lending guidelines are expected to keep development in check. Only the proven sponsors or premium locations will receive play in the development arena.

With development restrained, property fundamentals across all property sectors continue to be strong and further rental rate growth is anticipated. Investment volumes have leveled off, but pricing has remained resilient through 2016. It is expected that capital will continue to spill over into secondary markets, like Kansas City, for quality investments. We are not seeing signs of 2007 when capital was too aggressive. There is liquidity in the marketplace for debt and equity but without the over exuberance in past cycles. Again, the consensus says proceed with cautious optimism as 2017 unfolds.

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
Country Club Plaza - Office Portfolio Multiple - Kansas City, Missouri	468,000	$141,200,000 $301.71	5.80%	Buyer: Taubman Centers & Macerich Seller: Highwoods Properties
Colony - Office Portfolio Multiple - Overland Park, Kansas	806,864	$94,000,000 $116.50	8.90% (value-add)	Buyer: Group RMC Corporation Seller: Colony Realty Partners
Creekview & Indian Creek Portfolio Multiple - Overland Park, Kansas	234,478	$33,250,000 $141.80	7.56%	Buyer: Tower Properties Seller: Normandin Investments
Plaza West 4600 Madison Ave, Kansas City, Missouri	261,980	$33,000,000 $125.96	7.20%	Buyer: Stanton Road Capital LLC Seller: Highwoods Properties
Park Plaza 801 W 47th St, Kansas City, Missouri	82,365	$14,200,000 $172.40	6.75%	Buyer: Price Brothers Seller: Highwoods Properties
Six Pine Ridge Plaza 8455 Lenexa Dr, Lenexa, Kansas	77,828	$13,460,000 $172.95	7.50%	Buyer: Uhlig Consulting & Engineering Seller: PERG Buildings

INDUSTRIAL PROPERTIES	SIZE (SF)	SALES PRICE / PER SF	CAP RATE	BUYER/SELLER
Colony - Industrial Portfolio Multiple	1,182,285	$54,800,000 $46.35	7.56%	Buyer: Block Sponsored Entity Seller: Colony Realty Partners
Kansas City Industrial Portfolio Multiple	1,080,000	$55,350,000 $51.25	7.15%	Buyer: Clarion Partners Seller: DB RREEF
FedEx Ground Building 22525 W 167th St, Olathe, Kansas	313,763	$31,737,000 $101.15	6.83%	Buyer: Monmouth Real Estate Seller: Jones Development
Lone Elm Logistics Center 16231 Lone Elm Road, Olathe, Kansas	499,084	$23,194,000 $46.47	N/A	Buyer: Stag Industrial Holdings Seller: Odyssey & Artemis JV
Lenexa Logistics Centre Building 4 16851 W 113th St, Lenexa, Kansas	260,707	$17,500,000 $67.13	6.40%	Buyer: Block Sponsored Entity Seller: Block Sponsored Entity
Metals USA 2840 Heartland Dr, Liberty, Missouri	117,210	$6,850,000 $58.44	7.27%	Buyer: Amber Meadows LLC Seller: Krausse and Drummond LLC

RETAIL PROPERTIES	SIZE (SF)	SALES PRICE / PER SF	CAP RATE	BUYER/SELLER
Country Club Plaza - Retail Portfolio Multiple - Kansas City, Missouri	804,000	$518,800,000 $645.27	4.20%	Buyer: Taubman Centers & Macerich Seller: Highwoods Properties
Wyandotte Plaza 7646 State Ave, Kansas City, Kansas	180,062	$21,250,000 $118.01	7.04%	Buyer: Phillips Edison Seller: Legacy Wyandotte LLC
Home Depot 9600 Metcalf Ave, Overland Park, Kansas	113,969	$20,000,000 $175.49	5.70%	Buyer: Realty Income Properties Seller: Kimco Realty Corporation
Stateline Station Hwy 150 & W 135th St, Kansas City, Missouri	142,570	$17,500,000 $122.75	9.30%	Buyer: Schottenstein Property Group Seller: Retail Properties of America
Metcalf 103 10303 Metcalf Ave, Overland Park, Kansas	148,560	$16,500,000 $111.07	6.98%	Buyer: Staenberg Group Seller: Brenda-Metcalf LLC
Southridge Shopping Center 7200 W 1212st St, Overland Park, Kansas	36,150	$12,200,000 $337.48	7.34%	Buyer: HPC Metcalf Investors LP Seller: Southridge Retail Center, Inc

MULTIFAMILY PROPERTIES	UNITS	SALE PRICE/PER UNIT	CAP RATE	BUYER/SELLER
Coach House 655 E Minor Dr, Kansas City, Missouri	805	$70,500,000 $87,578	5.90%	Buyer: Aragon Holdings Seller: GoldOller Real Estate Investments
ARIUM Overland Park 12800 W 134th St, Overland Park, Kansas	402	$68,600,000 $170,647	5.50%	Buyer: Carroll Organization Seller: Davis Development
Northland Passage 6360 N London Ave, Kansas City, Missouri	596	$60,600,000 $101,678	5.40%	Buyer: Hayman Company Seller: Abacus Capital Group
Stonebriar 12490 Quivira Rd, Overland Park, Kansas	424	$48,670,000 $114,788	5.66%	Buyer: Price Brothers Seller: Resource Real Estate
Carrington Place at Shoal Creek 9300 NE 87th St, Kansas City, Missouri	270	$46,200,000 $171,111	5.91%	Buyer: Sentinel Real Estate Seller: GFI Capital Resources Group
The Ridge 3800 NW Barry Rd, Kansas City, Missouri	352	$38,760,000 $110,114	5.67%	Buyer: Landmark Realty Seller: Bridge Partners

Kansas City Multifamily Market

Construction nears completion for The Royale at CityPlace, the first of four multifamily phases at CityPlace in Overland Park, Kansas. It is a Class A+ infill development that features 344 luxury apartment units. First move-ins were in December 2016 with construction completing in early summer 2017.

Despite a slowdown of high-end Class A transactions in 2016, the multifamily market continued to soar. High-quality urban and suburban developments were completed, historic downtown buildings were revitalized, and improvements were made to older properties all around the metropolitan area.

Replacing some of the high-end Class A transaction volume from last year were many Class B and lower-end Class A sales. Most, if not all, of those properties had value-add components that new capital will be able to take advantage of in the coming years. In addition, many Class C properties located in South Kansas City traded hands as the massive Cerner development continues to move forward. This value-add investment trend in the multifamily industry is expected to continue into 2017 and beyond.

The yield in Kansas City remains higher than in primary markets and continues to attract coastal investors due to its stability. While cap rates remain low in comparison to historic averages, the upward trending value-add deals throughout the metropolitan area are causing cap rates to rise slightly from their historic lows last year in order to capture that value-add creation piece. Given this, there were still multiple Class A and B sales from 2016 with cap rates below 6%, proving that Kansas City's multifamily market remains in great shape.

FUNDAMENTALS AND STATISTICS

The Kansas City apartment market grew to 134,943 units in 2016. Vacancy rates improved slightly to 4.8% and rent increased by 3%, similar to the increase in 2015. Average asking rents for Class A properties were $925 per month and class B and C asking rents were $675 per month.

The highest rents in the metropolitan area are still located near and around the Country Club Plaza, Downtown and South Johnson County. Average Class A rents in the Plaza area are $1,140 per month. South Johnson County and Downtown aren't far behind, with average rents in Class A properties in both areas averaging more than $1,000 per month.

Rents have surpassed $2 per square foot at select properties in the metro area. One Light Luxury Apartments, a new Downtown high-rise building located in the Power & Light District, is getting over $2 per square foot on studio, one-bedroom and two-bedroom units currently. Nearby, the Power

& Light Building is receiving $2 rents on their completed units. The bottom half of the Power & Light Building is scheduled to be completed in 2017 and is expected to receive $2 rents as well. With thousands of units in the pipeline, rent growth is expected to slow down in 2017 due to absorption of new units into the market through lease-up strategies that will likely include concessions through stabilization.

DEVELOPMENT UPDATE

Over 3,000 units were delivered in 2016, making this another huge year for multifamily development in Kansas City. Those units are scattered all over the city and represent the positive fundamentals that we've seen in recent years with rent growth and low vacancies.

Select properties Downtown have surpassed $2 rents, but rent growth is expected to slow in 2017 with new units entering the market.

Notable developments completed on the Kansas side include: Domain at City Center (203-units), Greenwood Reserve (228-units), Mission 106 (141-units), Sorrento (272-units), Woodside Village North (91-units) and Prairie Creek Phase II (86-units).

Notable developments completed on the Missouri side include: Antioch Crossing (96-units), Brighton Creek (286-units), Founders Phase III (181-units),The Haven at Shoal Creek (275-units),The Residences at New Longview (309-units),The Retreat at Tiffany Woods (350-units), Roaster's Block (146-units),The Summit at Viewcrest (116-units) and Switzer Lofts (114-units).

Notable developments currently under construction on the Kansas side include: Avenue 80 (220-units), EdgeWater at City Center (276-units), The Royale at CityPlace (344-units), WaterSide Residences on Quivira (377-units), The Grand Estates on Greenwood (132-units), The Mansions at Canyon Creek (219-units), The Vue (219-units), Metcalf Village Apartments (270-units) and The Promontory (420-units).

Notable developments currently under construction on the Missouri side include: Apex on Quality Hill (138-units), Brookside 51 (170-units), CP Lofts (108-units), Commerce Tower (355-units), Crossroads West (221-units), East 9 at Pickwick Plaza (259-units), Power & Light Building (291-units), Savannah West (201-units), Steeplechase Apartments (336-units), Summit Crossing (144-units), Summit on Quality Hill (252-units), Two Light (296-units), 531 Grand (185-units), Summit Orchards (300-units), Kinsley Forest (328-units) and Forest Avenue Apartments (292-units).

MULTIFAMILY SALES

This was another solid year of multifamily sales volume in Kansas City, with more than $700 million in transactions

Two Light, a $105 million luxury apartment building, follows on the heels of the successful development of the 307-unit One Light project. The 24-story, 520,000 square foot building is being built on what was a surface parking lot at the corner of Grand Boulevard and North Truman Road in downtown Kansas City, and is the second of a planned four building development.

for the second year in a row. Although the high-end Class A sales slowed down in comparison to 2015, the Class B and lower-end Class A sales made up for it. A healthy mix of class A, B and C properties sold to local, regional, national and institutional investors. For the second year in a row, cap rates were historically low, with many deals trading at sub-6% cap rates.

2016 was the second year in a row with more than $700 million in multifamily transactions in the Kansas City market.

Notable High-End Class A Transactions:

- ARIUM Overland Park, a 402-unit community in Overland Park, Kansas, sold to Carroll Organization for $68.6 million or $170,647 per unit at a 5.50% cap rate.
- Carrington Place at Shoal Creek, a 270-unit community in Kansas City, Missouri, sold to Sentinel Real Estate for $46.2 million or $171,111 per unit at a 5.91% cap rate.
- The Haven at Shoal Creek, a 275-unit community in Kansas City, Missouri, sold to Sentinel Real Estate for $45.4 million or $165,000 per unit.

Notable Value-Add Class A and B Transactions:

- Coach House, a 805-unit community in Kansas City, Missouri, sold to Aragon Holdings for $70.5 million or $87,578 per unit at a 5.90% cap rate.
- Northland Passage, a 596-unit community in Kansas City, Missouri, sold to Hayman Company for $60.6 million or $101,678 per unit at a 5.40% cap rate.
- Stonebriar, a 424-unit community in Overland Park, Kansas, sold to Price Brothers for $48.7 million or $114,788 per unit at a 5.66% cap rate.
- The Ridge, a 352-unit community in Kansas City, Missouri, sold to Landmark Realty for $38.76 million or $110,114 per unit at a 5.67% cap rate.
- A portfolio of three properties that included The Retreat at Woodlands (Kansas City, Missouri), The Retreat at Woodridge (Lenexa, Kansas) and The Retreat at Mill Creek (Lenexa, Kansas) sold to Monarch Investment and Management Group for $35 million or $72,464 per unit. The portfolio was a combined 483 units.

Notable Class C Transactions:

- Maple Hills, a 455-unit community in Kansas City, Missouri, sold to Hyde Capital Group for $24.94 million or $54,813 per unit.

JVM Realty acquired The Residences of New Longview, a newly constructed 309-unit luxury apartment community located at 3301 SW Kessler Drive in Lee's Summit, Missouri for an undisclosed amount.

The Retreat at Tiffany Woods, located at Northwest Skyview Avenue and North Ambassador Drive in Kansas City, Missouri is a 350-unit apartment complex which was completed in March 2016 by NorthPoint Development.

- Ridge at Chestnut, a 388-unit community in Kansas City, Missouri, sold to Monitor Finance for $19.33 million or $49,820 per unit.
- Lenexa Pointe, a 289-unit community in Lenexa, Kansas, sold to L5 Investments for $17.75 million or $61,419 per unit.
- Quality Hill Towers, a 295-unit community in Kansas City, Missouri, sold to Sentinel Real Estate for $12.4 million or $42,034 per unit.

THE 2017 FORECAST

It's been interesting to watch fundamentals and sales statistics improve on a consistent basis in recent years. The question is whether Kansas City can continue to improve in the coming years. Rents are already as high as they've ever been and there are many units under construction and on schedule to be completed in 2017 and 2018.

But planned developments have slowed and interest rates have risen. Could this be the top of the mountain for this real estate cycle? There's no doubt that apartment demand in urban in-fill locations is high and not going anywhere, but what about other areas that could potentially be losing tenants to the urban areas? Are those properties going to take a hit at the expense of projects being completed Downtown and in the Crossroads?

With the continually evolving market, we also have to look at the economic drivers of different resident groups. Are these mixed-use environments with over-the-top amenity packages and conveniences going to continue drawing premium rents? Or will economics play a role in residents migrating towards more affordable Class B properties. There's only so much rent that residents can handle, so where is that cap?

Years ago, many would've said that Kansas City would never see $2 per square foot rents, but here we are in 2016 with properties hitting and exceeding that number. Projects currently under development are depending on those rents as well. With the rise of construction costs, these high rents are needed to make the deals work.

Unfortunately, we don't have a crystal ball that tells us exactly what will happen in the future. For the time being, expect rents to remain steady and future construction to slow down in order for the market to absorb the new units coming online in the next couple years. At that point, we'll have a good idea of where everything stands.

Contributor: Matt Ledom, Investment Sales.

Funds I-IV

Block Funds acquired Trinity Bell Gardens, a 240-unit luxury apartment community in Fort Worth, Texas in February 2016. Block Multifamily Group took over management of the property with the acquisition.

During 2016, Block Fund I and II continued to sell portfolio assets, taking advantage of the strong seller's market. The portfolios in funds III and IV continued to get stronger, and both funds increased distributions from 2015 levels.

Major highlights for each specific fund during 2016:

BLOCK FUND I

- The last building the fund owned in Phoenix was sold, which marks the end of the fund's 12-year history in Phoenix.
- The Quidsi building in Lenexa, Kansas, was sold.
- Mountain Industrial in Atlanta was sold.
- 350 Technology Parkway in Atlanta is under contract and scheduled to close in 2017.
- 9200 Ward Parkway in Kansas City, Missouri, is the last remaining asset in Fund I, and it is currently on the market

BLOCK FUND II

- Westview Business Center in Atlanta was sold.
- 3080 Northfield in Atlanta was sold.
- Rubicon at Highlands in Atlanta was sold.
- Two Sun Court in Atlanta is currently on the market with a sale closing set for 2017.
- The goal is to sell the majority of the portfolio's four remaining assets during 2017.

BLOCK FUND III

- Rivergate Business Center in Kansas City, Missouri, is currently on the market.
- The ADS building in Lenexa is currently under contract with closing set for 2017.
- The Movius building in Atlanta is currently under contract with a sale closing set for 2017.
- The fund will try to sell individual buildings out of its Riverside Business Center portfolio during the next year.

BLOCK FUND IV

- Fund IV continues to have a very strong portfolio of long-term leases with annual rent increases.
- The fund's distributions in 2016 were higher overall than in 2015, and 2017 payments are expected to exceed those of 2016.

Our institutional industrial income fund has taken a little longer than expected to achieve its first closing, but we are excited to announce our first closing should happen during the first quarter of 2017 for a minimum of $50 million in equity. This fund will acquire quality industrial product throughout the Midwest, so we are eager to get that project off the ground.

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

Projects

EdgeWater at City Center, a 276-unit luxury apartment complex, located on Renner Boulevard north of 87th Street Parkway in Lenexa, Kansas, was completed in late fall 2016 by Block Development Company. The $40 million project joins its sister 306-unit project, WaterCrest at City Center completed 18 months earlier, to finish BRES' 582-unit complex in Lenexa City Center.

Block Construction Services (BCS) experienced another successful year managing over $313 million of development projects and $10.5 million in tenant improvement work. The relationships BCS has created over the past 14 years, as well as its ability to consistently exceed owners' expectations, has allowed it to continue building a strong construction management and owners' representation firm. Development projects under construction in 2016 included work in all sectors, including office, industrial/warehouse/distribution, multifamily and retail.

OFFICE/MEDICAL

BCS will complete Nall Corporate Centre II (NCC II), located at College Boulevard and Nall Avenue, in the first quarter of 2017. NCC II is a five-story, Class A office building with approximately 150,000 square feet and is located adjacent to the Teva Pharmaceuticals building in Overland Park, Kansas. NCC II's major tenants already include Mariner Holdings, LLC and Willis of Kansas City Inc.

In the fourth quarter of 2016, work commenced on Roe Medical Centre, a 77,987 square foot, three-story medical office building in Overland Park, Kansas. Construction is slated to be completed for the fourth quarter of 2017 with 25,000 square feet currently leased.

BCS continued to finalize plans for 46 Penn Centre 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, a 246,666 square foot parking structure and a 6,728 square foot restaurant.

INDUSTRIAL/WAREHOUSE/DISTRIBUTION

Riverside Logistics Centre (RLC) was completed in the second quarter of 2016. RLC is a 245,243 square foot, cross-dock, Class A distribution facility located at 41st Street and Mattox Road in Riverside, Missouri. The building includes 62 dock-high doors, four drive-in loading doors and dedicated parking for 46 trailers and 269 parking spaces.

In the fourth quarter of 2016, we completed Lenexa Logistics Centre North Building 1 in Lenexa, Kansas. Building 1 is a 635,800 square foot, cross-dock, Class A distribution facility. Two special benefit district projects with the City of Lenexa were also completed in 2016. These included construction of Mill Creek Road, a storm detention/conservation facility, utility extensions and other infrastructure improvements.

Construction started in late 2016 on Lenexa Logistics Centre South Building 7 in Lenexa, Kansas. Building 7 is a 401,098 square foot, cross-dock, Class A distribution facility. Completion is planned for the third quarter of 2017. This project also includes plans to form a special benefit district to complete the extension of Britton Street from College Boulevard to 113th Street.

MULTIFAMILY/MIXED USE

In early 2017, BCS will complete its second multifamily development project, EdgeWater at City Center. EdgeWater is a 276 luxury-unit project with five buildings and a 6,230 square foot clubhouse located at 84th Street and Renner

Boulevard in Lenexa, Kansas. EdgeWater is one of the first multifamily projects in the area to use a "center green" concept and focuses on an atmosphere of luxury, pampering and resort-style living.

Construction activities continue at WaterSide Residences on Quivira located at 81st Street and Quivira Road in Lenexa, Kansas. WaterSide is expected to be completed in late 2017 and consists of 377 luxury units with 10 buildings and a 7,393 square foot clubhouse.

Infrastructure construction was completed at CityPlace, a 90-acre, mixed-use development in Overland Park that will feature four office buildings totaling 600,250 square feet on 26 acres, 1,382 multifamily units on 39 acres and 66,890 square feet of retail space on 10 acres. The infrastructure work included the construction of Switzer Road, Indian Creek Parkway and 113th Street on the site, the extension and relocation of all utilities, the construction of a streamway corridor and improvements for a conservation easement.

Construction started on the first of four multifamily projects located at CityPlace. The Royale at CityPlace is an urban, high-density, four-story podium building with enclosed parking garage, an 8,456 square foot clubhouse and four freestanding apartment buildings consisting of 344 units.

531 Grand, located in the River Market area of Kansas City, Missouri, is BCS's newest multifamily project and consists of 185 luxury units and 10,000 square feet of retail space for a total of 221,425 square feet. Construction commenced on this project in the third quarter of 2016.

Outside of the metro area, BCS completed improvements at two new projects in northwest Arkansas acquired by Block Multifamily Group.

MASTER PLANNING

BCS continues to lead the planning efforts of Avenue One, an approximately 200-acre, mixed-use development located at the intersection of 192nd Street and Dodge Road in Omaha, Nebraska. The project is anticipated to generate an economic impact of over $1.28 billion for the Omaha region and Nebraska. BCS, along with the design team, are working to provide a comprehensive master site-plan to create a dense and truly mixed-use community. Mass grading efforts are planned to start in 2017.

47 Madison Avenue is a multifamily development planned for the west side of the Country Club Plaza in Kansas City, Missouri. Current plans call for approximately 260 units, structured parking and an unprecedented amenity package that includes a rooftop terrace. Designed in 1922 as the nation's first suburban shopping district, the Plaza's fountains, sculptures and murals bring the very best of the old world and the new to the heart of the city.

Traders on Grand is a historic redevelopment project located at 1125 Grand Boulevard in Kansas City, Missouri. Floors three through 20 of the 21 story property will be converted to market-rate residential apartment units (approximately 190 to 200 units) while the basement will be converted to common area/tenant amenity space. The first and second floors will be rehabilitated for commercial use and common area space. The 21st floor currently houses the building HVAC system, but will become a pool and amenity area. Construction is slated to begin in early 2017 with first occupancies in mid-2018.

Construction on The Apex at CityPlace, the next multifamily phase of the CityPlace development in Overland Park, Kansas, is planned to commence in early 2017. The Apex is a Class A multifamily project that includes 36,623 square feet of retail space and 395 multifamily units.

CityPlace Parcel VII, also part of the CityPlace mixed-use development, will include four retail buildings that total approximately 30,267 square feet. Construction is slated to start in early 2017.

TENANT IMPROVEMENTS

Our tenant-improvement division remained extremely busy and coordinated many projects in 2016 including:

- Mariner Holdings, LLC at Nall Corporate Centre II
- Willis of Kansas City Inc. at Nall Corporate Centre II
- Chicago Title Company at Financial Plaza I
- Kansas City Board of Police Commissioners at Executive Park B
- Federated Insurance at Financial Plaza III
- LabCorp at Corporate Medical Plaza II
- SouthLaw, P.C. at Southcreek
- HNTB Corporation at Mission Corporate Centre
- Keller Williams at Financial Plaza III
- Long Motor Corporation at Lenexa Logistics Centre South Building 5
- Regal Distributing Co. at Lenexa Logistics Centre South Building 5
- ProPak Logistics, Inc. at Lenexa Logistics Centre South Building 5
- Care Clinic at Financial Plaza I
- Asurion at Pinnacle Corporate Centre III
- Freepoint Commodities at Pinnacle Corporate Centre V
- Mutual of Omaha Insurance Co. at Pinnacle Corporate Centre V
- Datamax at Pine Ridge West
- Mattress Firm at College Crossing J
- Universal Hospital Services at College Crossing J
- CDM Smith at 9200 Ward Parkway
- Heartland Credit at Financial Plaza II

GREAT EXPECTATIONS FOR 2017

BCS development projects shape skylines and landscapes throughout the country. It continues to see significant growth in all market sectors and expects a backlog in 2017 and beyond. The division plans 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

Members of the Cape Coral Medical Investors, LLC closed on a $28.5 million portfolio of medical office buildings in July 2016. The six properties included in the portfolio are located in Cape Coral and Fort Myers, Florida and are 100% leased by Physicians' Primary Care of Southwest Florida.

In 2016, the health care real estate sector was once again one of the more dominant areas in the industry, as health systems and providers continued to look for ways to reduce costs, improve patient experiences and increase efficiencies. More and more health systems are applying the "hub and spoke" model to their growth, with retail and smaller, freestanding medical office buildings (MOB) being the spoke to the large hospital's hub. The approach allows the hospital to reach its goals of lower costs and efficiencies while providing better service.

With health systems continuing to implement that model across the country, MOB sales growth may be leveling off, although the overall volume is still quite impressive. According to Revista, a provider of health care property data, the 12-month period between the third quarter of 2015 and the second quarter of 2016 showed more than 40.4 million square feet of sales at a total price of $12.24 billion. Over the previous 12-month period, the total price was over $13 billion.

The leveling off is more likely a result of the cap rates stabilizing. Integrated Healthcare Investments, an affiliate of Marcus & Millichap, has shown that quarter-to-quarter over the last year, cap rates in the medical sector as a whole have been stable at 6.6%, with off-campus MOB stabilized at 6.8%. Just 2 years prior, those cap rates were 7% and 7.5%, respectively.

Block Healthcare Development (BHD) has been able to forge a name for itself inside this multibillion-dollar market, despite increasing competition from private sector buyers who now make up 20% or more of the market. In 2016, BHD successfully acquired over $52 million of Class A medical offices, all with long-term, net leases totaling over 160,000 square feet.

Part of the reason for BHD's success for its investors has been its ability 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. Each of BHD's 2016 transactions were driven by its strategy of identifying long-term, net-leased properties that provide stable cash flows to investors, while using conservative debt models and buying and developing at the right prices.

NOTABLE ACQUISITION TRANSACTIONS

In July 2016, members of Cape Coral Medical Investors, LLC closed on a $28.5 million portfolio of medical offices located in the Cape Coral- Fort Myers, Florida, market. The six-property transaction was a sale-leaseback project, in which the physicians of Physicians' Primary Care of Southwest Florida entered into a new, 10-year lease at closing. The overall capital raised for this project was just over $10 million at $105,500 per share. The purchase cap rate was 7.1%, giving investors a projected five-year, cash-on-cash return annual average of 7.97%, and 9.00% over the initial 10-year term of the lease.

In May 2016, members of BUR Investors, LLC closed on a two-property, medical office portfolio. Both properties presented opportunities to acquire Class A medical offices leased to leading health systems in the respective communities. One property, located in Bentonville, Arkansas, is occupied by

In May 2016, members of BUR Investors, LLC closed on a two-property, Class A, medical office portfolio located in Bentonville, Arkansas and Cincinnati, Ohio for $4.85 million. Tenants for the properties are Mercy Health Systems and University of Cincinnati Health System respectively.

Mercy Health Systems. The other property is a long-term lease with University of Cincinnati Health System. The overall project size of $4.85 million required capital of just under $2 million. Investors of BUR Investors, LLC are projected to receive a five-year, cash-on-cash return annual average of 7.24%, and 8.97% over the initial 10-year term.

NOTABLE DEVELOPMENT TRANSACTIONS

BHD has been working again with Fresenius Medical Care (FMC), the world's largest provider of dialysis services, on a new build-to-suit project in Olathe, Kansas. The project, which is currently in the development review process in Olathe, will be BHD's fourth build-to-suit in as many years. The project is expected to be a $2.5 million development and will include a 15-year lease with FMC.

In addition to the FMC development, BHD is working with one of the area's leading otolaryngology groups on a build-to-suit project to expand its services to a surrounding community. It is also working on another build-to-suit project with a large orthopedic group

2017 OUTLOOK

The challenges that will impact the 2017 year for BHD will be the same that will face many other sectors of commercial real estate: the rise in interest rates on long-term debt in a cap-compressed market. Over the last few years, the leading indicator for interest rates, the 10-year treasury, has been firmly planted in the mid- to upper-1% range. The range has allowed BHD, and other borrowers, the opportunity to secure long-term financing in the high-3% range on many health care acquisitions. As a result, BHD and others had the opportunity to be more aggressive in pricing while pursuing their targeted acquisitions.

However, since the 2016 election, the 10-year rate has quickly risen to the mid-2% range. As a result, buyers are likely to be more cap-rate conscious in their purchases, putting sellers in a position to reassess their aggressive sale prices if they want to create competition among the purchasers who utilize debt.

Another unknown as we enter 2017 will be the approach the Trump administration takes to the Affordable Care Act (ACA). One result of the implementation of the ACA was that many physician groups sought health system acquisitions to provide more income stability for them and their partners. Whatever the major changes are to the ACA, it is likely the trickle down to the health care commercial real estate sector won't be realized in its entirety until after 2017. However, it will be a key issue to watch.

Throughout 2017, BHD will continue to foster relationships with its off-market sources. BHD has become known across the country as a firm that can raise equity, secure debt and perform under contract. That reputation has led to significant repeat business with brokers who represent sellers and often receive first looks at properties prior to them being fully marketed. As a result of this reputation, BHD is already starting to line up a pipeline that should lead to another year of growth over the previous year for a sixth straight year and further secure BHD's place on the national stage. Acquisitions of high-quality, net-leased medical offices will continue to be one of the key focuses, as will continuing to create development opportunities with physician groups and health systems that want to expand their service footprint, all while keeping to the strategy of providing strong, long-term returns to our 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 properties, BMG is able to provide services for a wide client base.

BMG grew significantly in 2016, taking on the management of several acquisitions and new developments. It will start 2017 with over 7,500 multifamily units consisting of assets owned by Block Real Estate Services, LLC (BRES), third-party management service 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:

- Trinity Bell Gardens, 240-units, Fort Worth, Texas
- The Park at Eagle Creek, 240-units, Indianapolis, Indiana
- Village at Juban Lakes, 144-units, Denham Springs, Louisiana
- The Royale at CityPlace, 344-units, Overland Park, Kansas
- EdgeWater at City Center, 276-units, Lenexa, Kansas
- WaterSide Residences of Lenexa, 377-units, Lenexa, Kansas

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

The Royale at CityPlace is part of the 90-acre, mixed-use development located in Overland Park, 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 six acres and 140 senior living units. The Royale at CityPlace offers residents an incomparable apartment living experience with modern floor plans, unparalleled amenities and first-rate customer service. Phase one opened December 2016.

EdgeWater at City Center is a multifamily development consisting of 276 luxury units near the new Lenexa City Center area at Renner Road and 87th Street. EdgeWater's amenities include everything from distinctive exterior architecture to exquisite classically designed interiors created for comfort and convenience. The community amenities aim to please and accommodate residents with a resort-style, heated saltwater pool and an extensive sundeck with towel service, private poolside cabanas, tanning and massage therapy services, and an extensive 24-hour fitness room with personal training services. The property welcomed its first residents in August 2016.

WaterSide Residences on Quivira is a multifamily development located on an infill site within Lenexa. The first phase of the development consists of 304 luxury units and opened in December 2016. WaterSide features similar floor plans, amenities and services as EdgeWater at City Center.

In 2016, BMG continued 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 Indiana.

BMG also implements and supervises multifamily rehabilitation projects. BMG develops operational plans to help owners achieve their tactical and strategic goals. BMG blends its expertise in this specialized area with marketing and management responsibilities to provide a complete package of services.

Contributors include: Lenora Carpenter, President of BMG

Block Funds acquired The Village at Juban Lakes in August 2016. The 144 unit apartment complex is located at 11000 Buddy Ellis Road in Denham Springs, Louisiana. Block Multifamily Group continued the property management after the acquisition.

BLOCK MULTIFAMILY GROUP

Kansas City Economic Indicators

NATIONAL TRENDS

In 2016, the U.S. continued to recover from the economic downturn of the Great Recession. Several segments of the economy improved, but growth lagged in others. Job growth slowed to 180,000 employees per month versus 229,000 employees per month in 2015. It should be noted, however, that job growth in 2016 was still greater than the 150,000 average monthly jobs gained since the recovery began in July 2009. In addition to the gains in job growth, the nation saw its lowest unemployment rate since August 2007 of 4.6%, down from 5.0% in November 2015. This rate suggests the nation was at or close to full employment in the fourth quarter of 2016.

The labor force participation rate as of November 2016 was 62.7%, relatively unchanged from 62.5% in 2015. However, the participation rate was still down over 3% from pre-recessionary highs and the lowest it's been since 1977. Low wages, emerging technologies, outsourcing of skilled labor, a retiring workforce and many other factors will continue to affect the civilian labor force.

A shrinking workforce might suggest increased demand for employees, implying an increase in average wages. In fact, while 2015 enjoyed a year-over-year gain in average hourly earnings of 2.4%, year-to-date gains in average hourly earnings as of October 2016 were even higher at 2.8%. We should expect a similar pattern in 2017 with preliminary forecasts calling for wage growth of 3%.

U.S. economic growth continued a tempered trend in 2016. Members of the Federal Reserve's Federal Open Market Committee forecasted that the economy will have grown at 1.8% in 2016, with a slight bump to 2.1% expected in 2017. In comparison, Gross Domestic Product (GDP) growth was 2.6% in 2015.

While GDP contracted, housing starts moderately picked up. Considered another measure indicative of the nation's economic health, new privately owned housing starts were at a seasonally adjusted annual rate of 1,323,000 annual starts as of November 2016 as compared to 1,171,000 starts in November 2015. Existing home sales have not only seen increases in prices, but sales were also up almost 6% from a year ago, with an annual rate of 5.6 million homes sold in 2016 as compared to 5.3 million in 2015. Higher prices may ultimately slow the rate of sales; however, the demand for housing is not showing any sign of fading.

Inflation continued its trend of remaining at the Fed's target of 2% for a fifth year in a row dating back to July 2012. Factors such as shocks to commodities, trade policy and global uncertainties may contribute to fluctuations in inflation, but economists expect inflation to increase 0.5% over the next 12 months. Given the relatively stable inflation rates and positive job growth, the Fed announced at its December FOMC meeting that it will raise the target for the federal funds rate to 0.75%.

KC ECONOMIC FORECAST

Kansas City paced the national economy in 2016. Low growth in national GDP was similarly expected in Kansas City with a forecast of 2.0% for 2016 as compared to 1.5% growth in 2015. GDP growth in 2017 is estimated to remain flat at 2.0%.

As of October 2016, Kansas City's unemployment rate remained below the national average at 4.1%, mostly unchanged from 4.0% in October 2015. Job growth slightly declined from 2015 levels with gains of 20,100 in 2016 as compared to 21,300 in 2015. Job growth in 2017 is anticipated to remain steady at 19,300. Additionally, Kansas City's real median household income increased 6% in 2015 and the trend is expected to continue into 2017.

New construction in Kansas City continued to boost the local economy. Low interest rates combined with investors' yield appetite were contributing factors to this strong development trend. Multifamily projects abounded, both in suburban and infill markets. Over 3,000 multifamily units were added in 2015 and over 4,000 in 2016.

Kansas City's position on the national map gives it a distinct advantage in transportation and logistics with over 5.8 million square feet of industrial space added in 2015 and 6.4 million square feet built or currently under construction in 2016. Other projects of interest include an 800-room, $300 million convention center hotel slated to begin construction in 2016, Cerner's Trails campus opening the first two towers of a $4.45 billion campus, Amazon's announcement of a third area fulfillment center totaling 855,000 square feet and many more. This spur in development is not expected to slow much over the coming years with 6.1% average annual growth forecasted from 2016 to 2020.

SUMMARY

In both the U.S. and Kansas City economies, 2016 sustained a mix of gains and setbacks. As the economy moves to settle from the impact of the Great Recession, gains in employment and wage growth improved enough that the Federal Reserve felt confident enough to raise the federal funds rate for only the second time in a decade. Increased home prices and demand for housing were also a strong indication of positive recovery. A presidency with a to-be-determined agenda, uncertainty in financial markets, a drawn-out war on terror, and many other geopolitical and global economic issues will continue to hold the economic recovery hostage. By most accounts, however, it appears that both national and regional economies are continuing their arduous recoveries steadily.

Sources: Bureau of Labor Statistics, U.S. Census Bureau, FRED, Yardi Matrix, Aon Hewitt Salary Survey, Greater Kansas City Chamber of Commerce 2017 Economic Forecast, MARC

Contributor: Adam Barnard, Financial Analyst

MARKET STATISTICS Year-End 2016 Data

OFFICE - CLASS A

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	8,365,076	27	16.9%	38,188	288,580	$19.70
East Jackson County	353,372	5	1.1%	8,659	11,741	$25.23
Kansas City, Kansas	924,574	4	20.8%	0	0	$20.00
Midtown	3,487,526	17	4.2%	43,412	(11,693)	$22.74
North Johnson County	2,246,544	20	12.1%	10,446	52,565	$25.79
North of the River	1,213,052	9	19.0%	7,614	91,488	$19.82
South Johnson County	10,942,206	76	6.4%	13,876	52,145	$23.35
South Kansas City	3,791,712	17	8.6%	0	1,088,857	$19.69
Southeast Jackson County	103,442	2	4.3%	0	0	$0
TOTAL OFFICE - CLASS A	**31,427,504**	**177**	**10.5%**	**122,195**	**1,573,683**	**$21.62**

OFFICE - CLASS B

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Full Service Rent
Downtown	13,891,558	193	8.9%	188,304	175,727	$16.67
East Jackson County	5,301,779	270	14.7%	142,588	36,440	$16.22
Kansas City, Kansas	2,032,877	76	7.6%	8,233	34,188	$15.36
Midtown	4,147,766	144	4.6%	180,521	59,667	$19.79
North Johnson County	7,320,332	271	8.1%	70,644	90,521	$18.95
North of the River	7,674,984	281	12.9%	184,217	156,971	$15.89
South Johnson County	15,168,819	464	9.4%	195,884	(99,351)	$19.70
South Kansas City	4,377,991	98	9.9%	60,939	109,092	$17.95
Southeast Jackson County	2,274,165	105	4.5%	37,236	6,911	$18.23
TOTAL OFFICE - CLASS B	**62,190,271**	**1,902**	**9.5%**	**1,068,566**	**570,166**	**$17.76**
TOTAL OFFICE - CLASS A + B	**93,617,775**	**2,079**	**9.8%**	**1,190,761**	**2,143,849**	**$19.69**

WAREHOUSE/BULK INDUSTRIAL

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	6,275,602	68	9.9%	331,513	239,979	$4.46
North Kansas City/Riverside	23,359,623	507	7.3%	791,634	96,133	$4.22
Executive Park/Northland	34,969,896	384	3.0%	728,144	(29,770)	$3.70
Wyandotte County	41,662,633	925	4.5%	642,658	622,078	$4.24
Johnson County	61,821,972	1,469	6.4%	4,839,648	4,192,104	$5.00
East Jackson County	95,152,004	2,640	6.0%	2,067,104	1,645,225	$3.62
TOTAL WH/BULK SPACE	**263,241,730**	**5,993**	**5.7%**	**9,400,701**	**6,765,749**	**$4.13**

LIGHT INDUSTRIAL/FLEX

Market	Inventory	# of Buildings	Overall Vacancy	Leasing Activity	Net Absorption	Avg. Gross Rent
KCI/Airworld	562,151	11	3.4%	35,622	58,607	$10.10
North Kansas City/Riverside	182,079	14	9.0%	9,427	(1,342)	$10.50
Executive Park/Northland	515,033	17	9.9%	10,757	696	$5.50
Wyandotte County	862,573	35	6.5%	18,400	(10,283)	$7.80
Johnson County	6,030,321	257	8.3%	289,245	(22,733)	$9.50
East Jackson County	5,173,865	193	2.2%	148,230	225,272	$8.89
TOTAL LIGHT INDUSTRIAL/FLEX	**13,326,022**	**527**	**5.7%**	**511,681**	**250,217**	**$9.04**
TOTAL FLEX + INDUSTRIAL	**276,567,752**	**6,520**	**5.7%**	**9,912,382**	**7,015,966**	**$4.36**

MARKET STATISTICS Continued

RETAIL

Market	Estimated Inventory	Percent Vacant	Vacancy SF	Net Absorption	Avg. Rental Rate	Planned Development
South Johnson County	19,040,780	5.9%	1,121,017	(426,977)	$17.70	263,849
North Johnson County	19,473,940	8.7%	1,688,648	93,851	$13.08	34,563
Kansas City, Kansas	9,287,999	3.1%	289,771	120,367	$11.58	0
North of the River	19,107,549	6.3%	1,195,719	400,373	$12.71	342,166
Midtown/Downtown/Plaza	8,819,334	3.4%	298,642	175,356	$12.38	45,000
East Jackson County	23,421,657	5.2%	1,225,649	442,000	$10.42	112,250
Southeast Jackson County	5,851,733	5.4%	313,492	50,070	$15.07	25,360
South Kansas City	8,409,024	10.3%	870,036	62,241	$10.90	41,927
TOTAL RETAIL	**113,412,016**	**6.2%**	**7,002,974**	**917,281**	**$12.95**	**865,115**

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MULTIFAMILY

Market	Building Inventory	Unit Inventory	Overall Vacancy	Average Asking Rent	Months Free Rent
South Johnson County	159	34,362	6.4%	$995	0.68
Downtown	39	4,465	6.4%	$878	0.75
Plaza/Midtown	69	7,758	7.3%	$887	0.76
East Jackson County	77	10,782	2.6%	$749	0.44
Wyandotte County	39	5,794	9.4%	$731	0.72
Northland	151	25,380	3.1%	$740	0.78
South Kansas City	120	21,339	3.2%	$724	0.61
North Johnson County	92	17,609	1.7%	$863	0.61
TOTAL MULTIFAMILY	**746**	**127,489**	**4.4%**	**$837**	**0.69**

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

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