

# 2017 Forecast


**NAL**Martens

WICHITA

# INTRODUCTION

The last couple of years have seen significant advances in the regional economy, economic development efforts and numerous milestone commercial projects. While total employment still lags behind pre-recession totals, manufacturing has stabilized and solid gains have been made in professional and business services, health services, leisure & hospitality and the unemployment rate hovers around 5%. Commercial construction activity in 2014 and 2015 increased significantly; equaling the total square footage of new projects started between 2009 and 2013. 2016 appears to be continuing the trend.

As the market continues to improve, we remain focused on delivering services that create value for our clients and the community. This focus led to the introduction of CRE CheckUp, a no cost proprietary program designed to assist the owners and users of commercial property in evaluating, managing and optimizing their real estate.

 Beginning October 10th, we continue to expand our thought leadership role with the launch of Mondays with Martens. Based on feedback from CRE CheckUp clients, each Monday we'll provide the best and most detailed answers to questions we hear from our customers and stakeholders. Mondays with Martens is presented in a

variety of entertaining formats from videos, animation, white papers and by-lined articles. A simple straight forward reminder that the commercial real estate business is much more than just transaction services.

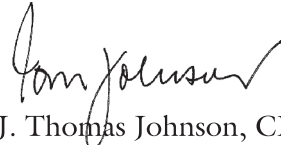
We trust you will find this year's Forecast of value. NAI Martens, and its sister companies under The Martens Companies umbrella, continues to be the market knowledge leader. Our full-time research staff provides real time decision-making information. Not just a once-a-year snapshot of rent and vacancy trends but a quarterly report on changes in all aspects of the market.

If you have any questions or require more detailed market information, please don't hesitate to let us know.

Respectfully,



Steven J. Martens, CCIM, CPM, SIOR  
CEO - The Martens Companies



J. Thomas Johnson, CRE  
President - NAI Martens



Steve Martens and Tom Johnson

*Steve Martens and The Martens Companies received NAI Global's Pillar of the Community Award for personal and company dedication to philanthropic efforts that benefit a number of organizations.*

**NAI Martens was named one of the top commercial firms of 2015 by the Wichita Business Journal.**

**The Martens Companies was a finalist for the Wichita Chamber of Commerce's Small Business of the Year Award.**

We've Got You  
**COVERED**

# Being different in ways that our customers value.

*National and international reach providing client centric best practices*

*Full-time research staff providing stakeholders with real time decision-making information*

*Advisors offering solutions to our client's requirements, not just transaction brokers*

*Unmatched local expertise with a national/global perspective.*

**NAIM**Martens

435 S. Broadway  
Wichita, KS 67202  
316.262.0000  
[buildingkansas.com](http://buildingkansas.com)

# OFFICE

There has been significant activity in the office market over the last year. Unfortunately, most of it will not result in any net absorption of space. The 80,000 sq. ft. Hinkle Law Firm building in the Waterfront will open this fall. American Ag Credit is nearing completion of its new 35,000 sq. ft. headquarters on North Ridge Road. The Grand Hotel at Union Station is fully leased as is the renovated CorTen building in the CBD. Cargill is actively pursuing development alternatives to replace its 110,000 sq. ft. existing headquarters in the CBD. Additionally, Viega announced earlier this year they will be vacating their 32,000 sq. ft. headquarters downtown and moving to Denver in 2017.

While there has been consistent leasing activity, little net absorption has occurred in available Class A or Class B space in the CBD. Class A rents in the CBD are the same as they were in 2008. Class A space, and to a certain extent Class B, in the northeast should fare well as rents and occupancy rates will increase. Tenants looking to relocate in 2017 should have attractive options.

Financial services and medical office will be at the forefront of new user buildings with multi-tenant projects such as Cranbrook filling the void for smaller tenants. The northwest sector has never been a strong office submarket. Characterized by smaller users, developers are offering building sites supporting spaces between 5,000 to 20,000 sq. ft. and the area should see growth over the next 12-18 months.

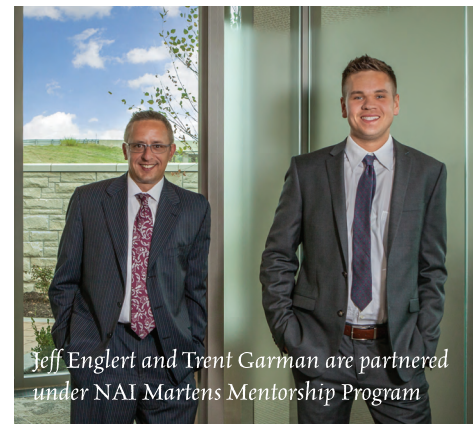
Until recently, there has been little employment growth in office inclined employment industries; not enough to drive any real demand for space. In recent years, entrepreneurial businesses in technology, advertising, media and information services have been primarily responsible for the absorption of the new “cool space” in the CBD and are contributing to changes in office space design.

## Medical Office

Medical office will continue to flourish given the growth in consumer friendly outpatient clinics and sustained mergers and acquisitions. The vacancy rate for Wichita properties is 6.5% with an average asking rent of \$15.09 psf. Lease rates for well located, quality facilities run \$22-\$24.00 psf and \$12-\$15.00 psf in secondary locations. CBC Real Estate Group announced construction of the \$45 million Rock Regional Hospital and Wesley Medical Center will build a \$10 million emergency room facility; both in Derby. Wesley Hospital recently completed its \$28 million dedicated children’s hospital.



*The first two buildings at WSU’s Innovation Campus, the Experiential Engineering Building and the first partnership building housing Airbus Wichita’s engineering center, will be completed this fall. A third building, The Law Enforcement Training Center will be a collaboration of the city of Wichita, Sedgwick County and the WSU Criminal Justice Department.*



# New high quality multi-tenant and owner-occupied office projects are in development or under construction while non-competitive second generation space continues to struggle.

During 2014, there were 34 properties permitted totaling 423,320 sq. ft. and in 2015, 32 properties totaling 329,255 sq. ft. were permitted in the metro area. Almost 60 percent were located in the north and northeast submarkets. Both years were well ahead of the 190,000 sq. ft. average between 2009 and 2013.

Over 150 properties with a value in excess of \$175 million were sold in the Wichita market during the last five years.

## Market Trends

Build out in traditional buildings can often be more expensive than building new... lots of glass and light, creating open space, drop in space, meeting space, some offices.

According to a recent survey, on a typical day office desks are in use only 47 percent of the time and meeting rooms are only in use between 50 and 60 percent.

More and more evidence is turning up that some of the new dense space configurations are less productive than those with more focus and privacy.

More companies now view real estate as an asset that drives business and is important in recruiting and retaining talent.

Call centers continue to be the bright spot in the market representing some of the largest leases.

FORCAST

Absorption  
Vacancy Rate  
Asking Rents

21.3%

Overall Vacancy Rate

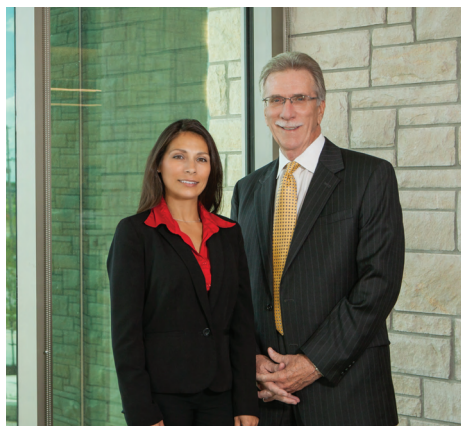
\$19.07

Class A

Asking Rent

### Noteworthy Transactions:

- Logit Group leased 40,000 sq. ft. in former Circuit City for a call center.
- Better Homes and Gardens to renovate the former Ciao Italian Kitchen in Waterfront.
- NORC has opened a 14,000 sq. ft. call center in New Leaf Plaza.
- Woolsey Energy, Oxford Senior Living and New York Life renewed leases totaling 38,000 sq. ft. in the 125 N. Market Building.
- Vincent Oil leased 7,500 sq. ft. in the Garvey Center.
- Woodspring Hotels is expanding into second floor Hinkle Law space in Wilson Estates.
- Sedgwick County purchased the 20,000 sq. ft. former Dillon's for the new tag office.
- High Touch is purchasing the adjacent 41,000 sq. ft. Sterling building.



# RETAIL

With consumer confidence and optimism continuing its upward trend, retail development and construction in Wichita continues to accelerate. Activity in the northeast quadrant remains robust with Bed Bath & Beyond, BuyBuy Baby and World Market opening in Greenwich Place along with the 150,000 sq. ft. Wichita Sports Forum. Under construction or coming soon are DSW, Ulta Beauty, Mardels, Home Goods, Cavenders, Ross Dress for Less and a La Quinta del Sol hotel.

The Wichita Luxury Collection has recently sold to a large Minnesota automotive group and is finishing their new upscale dealership facilities at 13th and Greenwich Rd. Regency Lakes replaced World Market with Tuesday Morning. Initial absorption of retail strip centers along Greenwich Rd. north of 21st St. N. was very good. However, leasing has slowed and the current vacancy rate is around 50%. Bradley Fair should fill the former Bed, Bath & Beyond and Fresh Market spaces. Pottery Barn will open soon and J. Crew Mercantile has joined the tenant mix.

New Market Square, in the northwest submarket, exhibits solid occupancy with the exception of the closed Sports Authority. New Market North will add

21,400 sq. ft. in its first phase and up 120,000 sq. ft. when complete. Cadillac Lake will soon break ground on 130,000 sq. ft. of office, retail, entertainment and hospitality space. N. Maize Rd. and N. Ridge Rd. continue to anchor the northwest submarket.

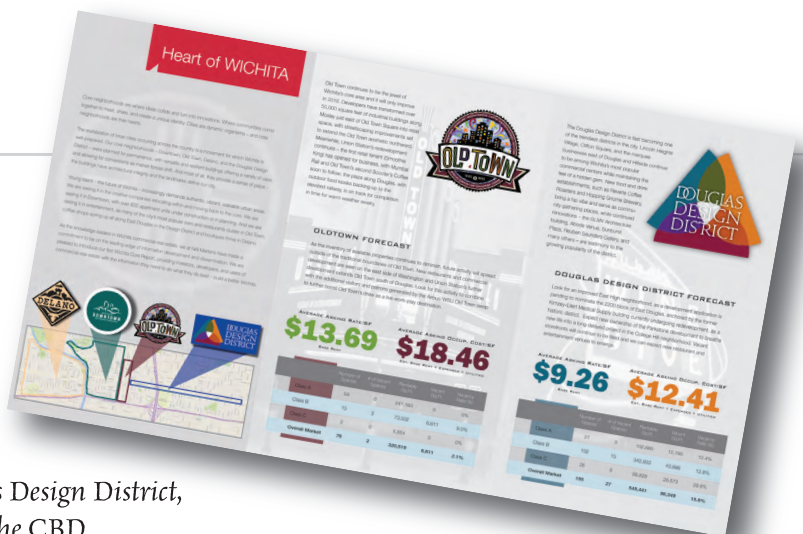
Derby remains a strong suburban sub-market given its housing growth and an increasing trade area. Anchored by Derby Marketplace, it offers a diversity of retail and service options with an appetite for more. Hobby Lobby, Aldi, TJ Maxx, Hardee's, among others, have opened in the last year.

Urban entertainment and retail in Old Town, Delano and the Douglas Design District are performing well. Community inspired retail, reflecting local culture and carrying local products, comprises a significant percentage of new businesses in the core area. Restaurants, in all categories, along with specialty shops and ever expanding craft breweries will increasingly be looked upon to create ambiance for retail centers.



Alex Pemberton and Drew Gannon

Alex and Drew are the authors of the Core Area Report, the first in-depth look at the retail market in Delano, Douglas Design District, Old Town and the CBD.



# Retail rents and occupancy rates are increasing and junior box and national franchise retail development continues to emerge in the northeast, northwest and Derby growth areas.

During 2015, 81 permits were issued for 930,124 sq. ft of retail space. Forty-six percent were located in northeast Wichita and seventeen percent were in Derby. During the last two years, there was 1.9 million sq. ft. of retail permitted: more than the 1.3 million sq. ft. built between 2009 and 2013.

Over the last five years, retail sale transactions averaged 53 per year with a value of \$63.7 million. Approximately 50 percent of that activity occurred in 2014 and 2015.

## Market Trends

A few “main and main” properties are achieving rents in excess of \$35 NNN per sq. ft.

Rents will increase marginally as landlords may wait to push rents until the economy is on firmer footing.

Watch for the introduction of “food halls” these multi-faceted, typically indoor markets showcasing a variety of local food vendors and artisans are a growing phenomena.

Food is password for millennials and boomers alike. Both spend a lot of their income on food. Chefs are now celebrities!

It's not just food... but personal services (massage, dental, discount haircuts, chiropractors, yoga, fitness centers and entertainment).

Braeburn Square, a 20-acre project reserved for restaurants, shops and lodging, is proposed for WSU's Innovation Campus.

FORCAST

Absorption  
Vacancy Rate  
Asking Rents

\$10 Bil.

Estimated Retail Sales

15%

Overall Vacancy Rate

\$11.13

Average Asking Rent



Nathan Farha CCIM, John O'Rourke and Troy Farha - NAI Marten's Retail Team

### Noteworthy Transactions:

- Tuesday Morning leases former World Market space in Regency Lakes.
- HomeGoods opening in Central Park Place next to Academy Sports.
- Lululemon opening next to Whole Foods in Waterfront Plaza.
- Xtreme Racing has leased the former Hobby Lobby location in Brittany Center.
- J. Crew Mercantile has opened in Bradley Fair.
- Pottery Barn under construction at Bradley Fair.
- Metro PCS entering the market with 25 to 30 locations.
- Sprouts soon to open in former Piccadilly Market.



# INDUSTRIAL

Wichita has historically been an industrial market with an emphasis on aircraft manufacturing facilities. While aircraft still dominates the market, there are signs of diversification following the recession. Warehousing and distribution have traditionally played a supporting role. However, that is evolving as new speculative construction increasingly focuses on warehousing facilities with most user construction being manufacturing buildings.

Wichita has not participated in the eCommerce fulfillment boom to the degree that other larger markets have in the Midwest and probably won't to any significant degree. As eCommerce sales continue their robust growth, manufacturers, transportation providers, distribution and fulfillment center operators and retailers are all being pressured to modify the retail logistics chain. It's doubtful Wichita will be a significant participant in the near term but as logistical requirements change, opportunities will materialize. The market will continue to support the facility requirements of the area's advanced manufacturing, advanced materials research, development and production and aircraft manufacturers and suppliers.

The industrial market remains steady as quality properties are quickly absorbed. The supply of mid-sized, high ceiling buildings with larger storage yards

and efficient dock configurations is limited and the need for additional inventory continues to grow. The market is seeing some owner-occupied construction but new speculative projects are limited. A number of developers continue to wait on the sidelines for opportunities. With current rental rates in the mid to upper \$4 per sq. ft. (industrial gross) range, there remains a hesitancy to bring product to the market at supportable triple net rents. While these are positive signs, rental rates remain below that required to support non-incentivized development.

The most active submarkets continue to be southwest along the West St. corridor, in Comotara and along K-96 with new development popping up in Bel Aire, along I-135 from 29th to Park City and in the Maize Industrial Park. Demand is strong across the board for functional buildings from 5,000 sq. ft. to over 75,000 sq. ft. and availability is limited. The market is littered with functionally obsolete properties that remain in the mix due to lower rental rates. Leasing activity is anticipated to be steady in 2017 with limited speculative development.



NAI Martens Industrial Specialists,  
David George and Scott Salome, SIOR.

*\$267 million is being invested at McConnell AFB in anticipation of the arrival of the new KC-46A Pegasus. As the main refueling tanker operating base, it will be an economic driver for the economy for decades to come.*

*Emerald Aerospace, an aircraft interiors completion business, has occupied 200,000 sq. ft. in the Air Capital Flight Line.*



*Grant Glasgow and Kris Wessel have recently listed the former 134,000 sq. ft. Valassis facility for lease.*



# The industrial market remains firm. Limited availability of quality functional space and increasing rents has led to an increase in new user construction and modest speculative investment.

New industrial and warehouse construction totaled 3.15 M sq. ft. in 2014 and 2015; eclipsing the total for the previous five years. Approximately 28% was in north/northeast Wichita, 29% in the southwest corridor and 30% in suburban communities led by Bel Aire.

Between 2011 and 2015 there was an average of 69 industrial transactions representing 1.6 M sq. ft. per year. Sales in 2014 and 2015 represented 50% of all sales over the five year period.

## Market Trends

The average building clear height used to be around 28 feet. Now the height for new properties is pushing 30 feet or more.

The market will gradually accept higher priced product as the availability of existing space is absorbed.

As the market tightens, owners who have held rents artificially low will capitalize on increasing demand.

The supply of mid-sized high ceiling buildings with larger storage yards and efficient dock configurations is limited.

Users will gradually expand to new facilities as the inventory of lower price alternatives diminishes.

New manufacturing and distribution technologies continue to reduce square footage requirements in select industries.

FORCAST

Absorption  
Vacancy Rate  
Asking Rents

9.6%

Overall Vacancy Rate

36.5

Million SF Surveyed  
(Non Aircraft)

\$4.58

Weighted Average  
PSF Asking Rent

### Noteworthy Transactions:

- The investment sale of the recently completed 182,000 sq. ft. FedEx facility in Park City for \$9.9 million.
- Great Plains Ventures renovated a 1930's vintage warehouse and is offering a quality reconditioned 56,000 sq. ft. building at a competitive price point.
- Schimberg leased 67,377 sq. ft. in Comotara north of K-96.
- The 57,000 sq. ft. K42 & West Business Park sold to a local investor for \$5.7 million.
- The completion of the Air Capital Delivery & Warehouse's 250,000 sq. ft. speculative warehouse at 77th St. N and I-135.

### Construction Projects:

- The 101,200 sq. ft. second phase of the Crossland/Barrett warehouse on N. Ohio is under construction.
- Perfekta recently completed a 60,000 sq. ft. building at 21st and Topeka.
- Conco moved into their new 30,702 sq. ft. headquarters office at 31st N. and Ohio.

# INVESTMENT

Competition for investment property continues unabated. Given an abundance of low cost capital, local and regional investor demand and a shortage of available property, cap rates remain historically low. Single tenant retail and multifamily properties remain attractive investments. However, industrial, particularly warehouse and fulfillment centers, is now in vogue. A shortage of available inventory continues as the number one concern for investors. Activity in primary markets has compressed cap rates resulting in increasing cost and risk. Secondary and even tertiary markets are becoming more attractive.

## Apartments

Multifamily properties will continue to be an attractive investment vehicle for local and regional investors. Cap rates appear to have stabilized with Class B properties near 7.50%. Demand from out-of-state and institutional buyers remains brisk.

## Hospitality

Hotel values should continue to rise with secondary markets providing the most fertile investment landscape. Cap rates range from around 6% for full-service and luxury properties to 9-9.5% for limited service hotels as investors look for solid cash-on-cash returns.

## Manufactured Housing

Cap rates in the 7% range are possible in Wichita, though the supply of these properties is very limited. Smaller properties, those with a high percentage of park owned homes, troubled assets or those located in smaller cities see cap rates in the 10% range.

## Retail

Quality retail investment properties are difficult to find especially with long term, high credit leases. Cap rates generally range from 5-7% for single-tenant net lease deals to 6-8% for other property types. Value-add properties trade in the 10-15% range.

## Office

Virtually all of the office sales in the last few years have been to local investors. Cap rates range from 8-11% or higher based on the quality and locational characteristics of the building, tenant mix, lease terms and net operating income.

## Industrial

Investment sales are limited due to a lack of properties secured by mid to long range leases. Most transactions are user purchases or local investors buying vacant properties at value add prices. Very few single or multi-tenant investment properties change hands.



Jeff Englert and Nathan Farha, CCIM

Jeff and Nathan received the Deal of the Year and the Project of the Year award from the Wichita Business Journal. They also just published their 3rd Quarter 2016 Wichita Multifamily Report.



Grant Glasgow and Kris Wessel are serving as mentors for Alex Pemberton and Ryan Hubbard

# A shortage of available inventory continues as the number one concern for investors. Secondary markets continue to maintain solid momentum.

**1400**

New Apt. Units  
2014-15

**61.1%**

Hotel Occupancy Rate

**2206**

Apt. Units Sold  
In Last 12 Months

**6.4%**

Apt. Vacancy Rate

## Investment Prospects for Major Property Types

**Industrial/Distribution**

**3.63**

**Multifamily**

**3.5**

**Office**

**3.43**

**Hotels**

**3.42**

**Retail**

**3.19**

1

2

3

4

5

**POOR**

**EXCELLENT**

### Hotel Development

Aloft at K-96 and Oliver	127 rooms
La Quinta del Sol at Greenwich Place	118 rooms
Fairfield Inn & Suites at Kellogg and Webb	110 rooms (prpsd)
Downtown Hilton Garden Inn	120 rooms (prpsd)
Element at WSU's Innovation Campus	123 rooms (prpsd)
Cross Point/Cadillac Lake Hotels	200 rooms (prpsd)

### Notable Retail Sales

Clifton Square	27,000 sq. ft.
Mill Creek Village	20,396 sq. ft.
Madrock/Tenants Center	32,094 sq. ft.
Emerson Biggins /Tenants Center	18,850 sq. ft.

### Noteworthy Office Sales

The sale of the 300,000 sq. ft. Epic Center to Ruffin Properties.
Local investors purchased the 44,000 sq. ft. Kress Energy Center.
The 181,000 sq. ft. Wichita Eagle Building is under contract to redevelopers.



## MARTENS COMPANIES

---

**NAI**Martens



**HUFFMAN**  
CORRIDOR  
CONSULTING LLC



**MARTENS**  
APPRAISAL



**RECEIVERSHIP**  
SERVICES  
CORPORATION



**HOSPITALITY**  
MANAGEMENT LLC

435 SOUTH BROADWAY • WICHITA, KANSAS • 67202

(P) 316.262.0000 • (F) 316.262.0235

**BUILDINGKANSAS.COM**



© Copyright 2016 NAI Martens. Reproduction in whole or part is permitted only with the written consent of NAI Martens. Some of the information contained herein has been gathered from sources deemed reliable. However, NAI Martens makes no warranties or representations as to the completeness or accuracy thereof.