Forecast 2015

MARTENS COMPANIES

NAI Martens · HUFFMAN CORRIDOR CONSULTING LLC · MARTENS APPRAISAL · RECEIVERSHIP SERVICES CORPORATION · HOSPITALITY MANAGEMENT LLC

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BUILDINGKANSAS.COM

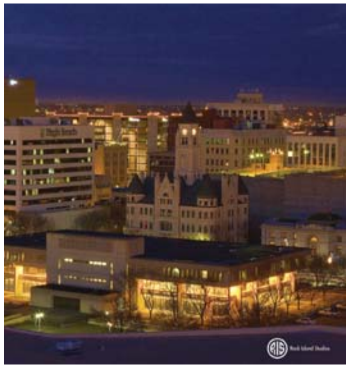
2015 Forecast

Wichita, Kansas

NAI Martens

We're not just a
commercial real estate company...

We're a "know more about the market" company.



Why is that important? Our job is to provide the information required to assist our clients in making informed real estate decisions. Our brokerage, appraisal and support staff recognize that the only constant in the commercial real estate business is change. We have a shared purpose to stay on top of property and financial markets, economic data and demographics as they continue to evolve. Ours is not a static, once a year survey of the market, it is a real time database that is constantly updated as market conditions change.

As 2014 comes to a close, we are extremely optimistic. We see real estate values rising at a modest to moderate pace depending on the industry sector that could be tempered by rising interest rates. The local economy is recovering and there are several innovative opportunities on the table that give rise to optimism. There is relatively little new supply coming to market which will put most landlords in a good position for increasing rental rates.

Through our relationship with NAI Global, we worked with dozens of out of state users and investors this past year; all looking for opportunities in the Kansas market. With over 375 offices and 6,700 professionals worldwide, our NAI Global connection enables us to serve our clients who have multi-market commercial real estate requirements. Just as important, the networking opportunities and the sharing of best practices has made us a better company. We look forward to strengthening our relationships with existing clients and exploring ways that we can help new clients with their needs. If you require detailed information on any aspect of the Wichita market or in any other city, please do not hesitate to give us a call or visit our website at buildingkansas.com.

Thanks for the opportunity to be of service.

Steven J. Martens CCIM, SIOR, CPM
CEO

J. Thomas Johnson CRE
President

2015 Forecast

2015

Investment.

The performance of commercial real estate investment properties continues to be positive. Demand for quality asets is strong while the availability is tight. Considerable equity is looking for opportunities and financial institutions are aggressively competing for loans. Interest rates are likely to be pushed higher in 2015. Some cap rates may increase but not enough to make a difference in deal flow or confidence. Accelerating growth coupled with improving employment will place downward pressure on overall vacancy rates. Most sectors are benefiting from a lack of construction. However, office and industrial are lagging due to modest rent growth. Retail is performing well and there is an insatiable appetite for quality, well located multifamily properties. Interest from regional and national investors will increase and owners will begin to recognize that now is the time to sell in order to realize maximum value.

Multifamily Property Demand is Strong

Duplex developments, traditional apartments and manufactured housing communities are all experiencing demand that is outpacing the supply. Cap rates will be very competitive through next year. Despite a significant number of new apartment projects entering the market, occupancy and rental rates will increase as the economy continues to support new household formations.

Retail Demand is Strong

Single tenant net leased properties are in high demand with competitive cap rates... even some sub 5-6% deals have been done in larger markets. There have been limited sales of traditional anchored shopping centers and even fewer in suburban strip centers. Demand is strong but will be challenged by a lack of quality inventory. Consumer confidence should enhance market fundamentals.

Office Trails Other Segments

Office properties have seen stable rents and occupancy rates. There has been little if any net absorption. Most leasing activity has been the result of tenant relocations with little expansion. Several suburban and CBD properties have sold at 8.5-10% cap rates. Most downtown buildings are net operating income challenged. Rents remain insufficient to support new construction.

Limited Deal Flows in Industrial

The industrial segment is challenged by artificially low rents; despite a strengthening economy and a shortage of property with competitive features. Speculative space will come on the market with absorption expected at moderate pace. With low rents, relatively short leases and limited product, industrial property will lag behind the overall market. Properties that overcome market challenges will enjoy good investor demand. Build to Suit opportunities will emerge as companies grow and face limited expansion options.

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Industrial.

The industrial market shows slow improvement but the wild card remains the future of the aircraft manufacturers and the strength of the overall economy. While the supply chain has diversified, many companies are still heavily dependent on general aviation. There have been several local manufacturing and distribution firms sold to national and international buyers. This trend should continue and its overall impact on the market will be positive. Wichita is a manufacturing based economy compared to other regional markets that have a higher percentage of distribution companies. As a result, the inventory skews to more flexible properties that can accommodate alternative uses. Areas north and east of the K96 corridor and the traditional southwest industrial area will remain strong

Pricing and Vacancy Rates

Vacancy and rental rates have held steady over the last several years. The current rental rate for manufacturing space is under $4.00 per sq. ft. industrial gross while flex space is averaging over $8.00. Speculative space is $5-6.00 per sq. ft. on a triple net basis. Low rental rates limits the feasibility of much new construction. Rents will increase slightly for quality, well located properties. With moderate demand, the vacancy rate will hold steady at around 10%.

Development and Construction Activity

The inventory of speculative space is slowly being absorbed. New construction will continue to be sluggish due to the rental rate and development cost imbalance. The majority of new activity will be owner occupied. There will be some Build to Suit construction as opportunities arise. Available flex space is limited and projects with bays of less than 2,500 square feet should see positive response. For those companies with available land, expansion will be a viable alternative as interest rates remain low and the cost of moving can be daunting for some firms. Land development will be sluggish due to a significant supply, marginal demand and issues with entitlements and approvals.

Trending in 2015

The overall demand for manufacturing space has been reduced by technology as equipment has downsized and the need for manpower is lessened. Buildings with poor functionality and marginal locations will struggle. Quality Class B second generation space with market pricing will see solid demand as will 10 - 40,000 sq. ft. buildings. Class A, high ceiling properties with above average site areas with good access are always in demand.

Supporting,
diversifying, innovating and growing…

Places become what people make of them.

Wichita's economy has yet to fully recover from the recession. There has been little growth in GDP. The community's showcase manufacturers demonstrate a degree of uncertainty in employment forecasts, outsourcing and consolidation going into 2015. Don't expect a breakout year but there will be improvement within the context of an improving national economy and increasing consumer confidence. Manufacturing is the foundation of the regional. Business services, agricultural markets, oil and gas production and medical services, along with increasing retail sales and an improving housing market, should set the stage for above-average employment and economic growth.

Supporting, diversifying, innovating and growing the major underlying economic foundations of the MSA economy and nurturing the quality of life and educational resources necessary to attract and retain talent is Wichita's challenge and opportunity. The competition in economic development has always been intense. Studies have shown that relocations account for less than two percent of employment change. If such a small percent of jobs comes from a particular strategy, how much emphasis should it be given? This suggests rather strongly that efforts should be focused on Wichita's viable economic drivers; those that Wichita leadership can cultivate and promote.

Led by aviation engineering and manufacturing, agriculture and oil and gas production, Wichita ranks third in the nation in both the percentage of GDP in international trade and the percentage of engineers in the labor force.

The healthcare industry directly or indirectly employs 71,000 and contributes $2.5 billion to Wichita's GDP.

McConnell AFB contributes over $600 million to the area's economy and $200 million is being invested in new support facilities.

Wichita State University ranks 3rd among all U. S. universities for aeronautical and astronautical engineering research dollars. The university's bold vision for an innovation campus is underway. The first piece is an 180,000 SF, $40 to $50 million "Experiential Engineering" building.

The Kansas oil and gas industry supports 67,000 jobs and more than $3 billion in family income and its impact on Wichita is substantial.

Travel and tourism generates almost $1 billion for the Wichita economy. Expanded offerings focusing on its western heritage, local, regional and national sporting events, aviation and aerospace, performing and cultural arts and agribusiness could pay huge dividends.

Downtown is the gateway to the community and the almost $300 million of private sector investment over the last three years contributes to those quality of life amenities in demand by millennials of all ages.

The agriculture sector in Kansas employs more than 427,000 people and exports nearly $4.9 billion in agricultural products annually. It is estimated that it represents about 3.5% of Wichita's economy.

Retail.

No market segment has been as active as retail over the last year. Consumer confidence has increased and retail sales and demand have followed suit. High profile national retailers have entered the market and several new projects are either under construction or have been recently announced. Quality, well located properties are doing well. Those projects that continue to struggle have marginal locations or design issues. Anchored retail centers continue to outperform the market. It's going to be an exciting year for retail; expect some interesting announcements. Relocation and retrofit of restaurants will be evident and new concepts will continue to enter the market.

Pricing and Vacancy Rates

The overall vacancy rate for retail space will continue to drop and rents will increase. The lifestyle and the hybrid power centers are nearly 100% occupied. Towne East regional mall is doing well while Towne West is facing challenges. Well located Class A centers are healthy and there are virtually no vacancies among big box properties. The market wide vacancy rate is less than 15% with particular strength northwest and northeast. Overall asking rental rates average just over $14 per sq. ft. NNN and newer, well located strip centers see rents in the $20 to $24 NNN range.

Development and Construction Activity

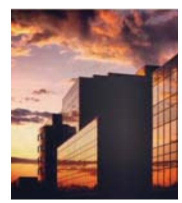
The north Maize Road corridor will be a hotspot for the foreseeable future. Developer acquisitions of additional land and the opening of west side big box retail have set the tone for continued expansion. East and northeast will continue the hot streak of the last couple of years. Proposed projects along K96 and Greenwich Rd. have taken off in the last year and new ones are expected. Single tenant construction will be dominant and new multi-tenant construction will need to be anchored.

Trending in 2015

The 29th and Maize and 21st and Greenwich intersections will be the epicenter of activity through 2015. Luxury car dealership relocations to 13th and Greenwich will transform that intersection. Obviously, Costco's entrance into the market will have a long term impact on the Kellogg corridor. Several Class B properties with the right demographics have attracted new anchors and inline tenants; a trend that is likely to continue. Neighborhood and express stores will continue to emerge. DIY and health and wellness retail will continue to grow. Mobile retail is on the rise. Watch for new retail experiences in downtown Wichita.

Office.

The office market is dependent on job growth in financial, professional, technical and information services. Unfortunately, increases in those sectors has been less than desired. Even in those sectors where there has been expansion it has not translated to new demand. Space requirements per office employee continue to trend downward and tenants are reluctant to expand. While some segments, primarily in technology, have announced employment increases, most large users such as accounting, law and oil & gas have been notably absent from the market. The most active sector has been medical where rents are generally on the higher side of the market.



Pricing and Vacancy Rates

Class A space in the suburbs is at a premium. The vacancy rate is less than 7% with asking rental rates in the mid $20 per sq. ft. for newer properties and over $17 per sq. ft. for all Class A. The CBD is a little different story as the Class A vacancy rate has crept up to over 10% with full service rents from $16 per sq. ft. Downtown Class B property remains challenged with vacancy rates at 30% and full service rents in the $10 -12 per sq. ft. range. Those buildings with stable ownership and convenient parking have a distinct advantage. Landlords have been slow to push rents and renewals have been negotiated at market or below to retain tenants.

Development and Construction Activity

Any speculative properties that come to the market will require at least 50% preleasing. Small suburban office development will continue northeast. Construction of owner occupied buildings for banks, medical and financial services will continue to materialize.

Trending in 2015

There has been relatively little tenant relocation or expansion among primary users and nothing significant is expected in 2015. There will be a continued flight to quality from Class B to Class A, particularly in the CBD. We should hear announcements about anchor tenants at Northrock 14 and Union Station. Several of the former Real Development properties will become more competitive given new owner investment. Rents should remain solid in Class A property and it is likely that some landlords may start to push rents as occupancy remains strong.