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The President's Message



Bill Early, CCIM
Senior Vice
President,
JLL

Grab a CCIM and get disruptive

DISRUPTION — innovation that fundamentally alters a concept to create an entirely new business or industry — is driving significant change in commercial real estate, making the value that CCIM designees deliver increasingly vital to clients in Kansas City and abroad.

Kansas City serves as the backdrop for the technology-fueled industrial revolution that is fueling a “sharing economy” as more and more consumers seek less expensive goods and services with shorter terms. Airbnb, WeWork and Amazon’s technology to enhance and expedite the retail experience and distribution are a few examples of disruption.

Others include Kansas

“Kansas City serves as the backdrop for the technology-fueled industrial revolution that is fueling a ‘sharing economy’ as more and more consumers seek less expensive goods and services with shorter terms.”

City’s distribution centers, which continue to impress retail providers expanding efficient and innovative logistics solutions. Mobile work and the “internet of things” are reducing the relevance of brick-and-mortar offices in the war for talent — just ask a UMKC student or visit the collaborative workspaces that increasingly attract millennials across Kansas City and along the street-car line.

An easy and immediate step to mitigate the risk related to technological,

political and economic disruption is to demand that your commercial real estate providers hold the CCIM designation. The thought leadership demonstrated in this supplement displays how CCIM designees own a proven core competency in investment analytics, answer to a global network that demands the highest ethical standards and share unparalleled technology and data related to local markets, demographics, labor analytics and feasibility methods

— all tools that help you successfully recognize and capitalize on opportunities created through disruption and other trends.

Local membership to CCIM is open to all, and earning the coveted CCIM designation is NOT a requirement. Attend one of our monthly breakfast meetings or many networking events to find out how CCIM can enhance your business relationships and opportunities.

Please visit ccimkansascity.com for more information and to find a directory of CCIM designees and sponsorship opportunities. Thanks to all of the sponsors, members and designees who make the Kansas City CCIM Chapter the greatest CCIM chapter in the world!

Bill Early leads JLL's Integrated Portfolio Services (IPS) business from the Kansas City office. IPS can 1) coordinate corporate real estate strategy and 2) develop real estate technology to improve operating margin in innovative ways. You can reach Bill at 913-469-4652 or bill.early@am.jll.com.

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Surf's up Downtown: 2017 development update



E. Gibson Kerr, CCIM
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 & Wakefield**

First came the residential wave. Then the hotel wave. Is the office wave next?

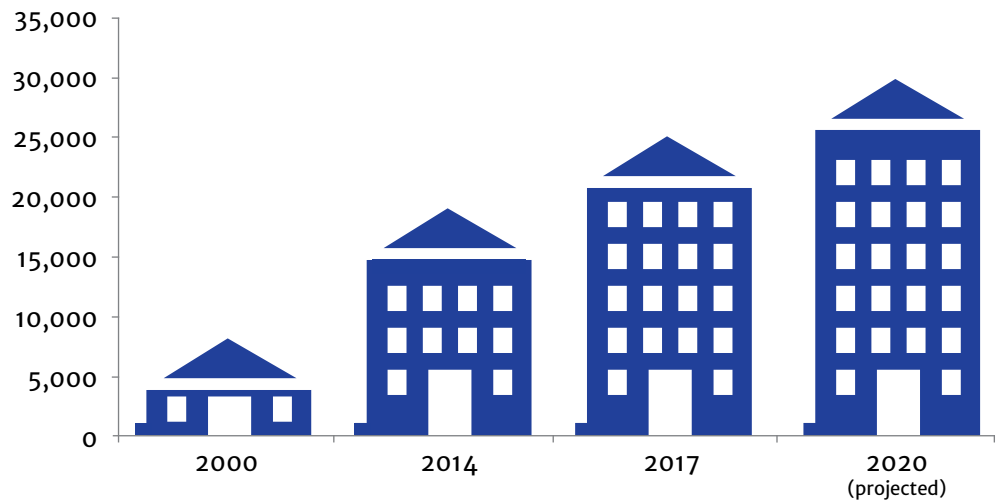
Over the past 15 years, Downtown's residential population surged from about 8,000 to nearly 25,000 people. With over 5,000 new apartment units in the pipeline, Downtown will pass 30,000 people by 2020. (See graph.) As the residential base grows, more and more employers will opt to locate closer to the talent pool of millennials, techies and creative types who typically gravitate to the urban core.

Meanwhile, a growing number of tourists and business travelers are rediscovering Downtown. The area's hotel industry languished for decades until the Kansas City Power & Light District, the Sprint Center, the Kauffman Center for the Performing Arts and other cultural amenities made Downtown an exciting alternative to the Country Club Plaza and suburban locations. Now, more and more visitors choose to stay Downtown. And they have a plethora of great new options.

Until recently, the last new hotel built Downtown was the Marriott in 1984. (I actually helped build it as a summer laborer for JE Dunn Construction after my junior year in college). Last year, 328 new hotel rooms were delivered. Over 300 additional hotel rooms are under construction, with 1,350 more in the pipeline. Most notable among these new hotels is the 800-room

Downtown Kansas City Residential Population

The number of people living Downtown will continue to grow.



Hyatt convention center hotel, which is scheduled to break ground later this year.

In addition to new hotel construction, the existing Marriott and the Hotel Phillips were extensively renovated and the Savoy Hotel is undergoing a \$48 million historic conversion to an upscale 21c Museum Hotel. With these improved facilities, Downtown will soon have a vastly expanded inventory — over 3,000 new or improved hotel rooms — which will provide an enormous boost to Kansas City's convention industry.

A major factor in all of this development activity has been the new streetcar line, which opened in May 2016. The streetcar was an immediate success, providing over a million rides in its first six months of operation. Downtown retailers are reporting dramatic increases in sales. More important, the streetcar has helped spur roughly \$1.8 billion in new

development projects.

A study is now under way to extend the streetcar to Berkley Riverfront Park, and residents in Midtown will vote this summer on a possible extension of the streetcar to the Plaza and the University of Missouri — Kansas City. If these extensions are approved, expect a flurry of activity in Midtown and on the Riverfront as transit-oriented developers pursue new opportunities.

The hottest buzzword for developers these days is "walkability." Residents, tourists and office tenants — especially the more environmentally conscious millennials — are placing a much greater emphasis on ditching cars and having amenities and necessities all within walking distance. Over half of the employees of at least one Downtown tech company walk, ride their bikes or take public transit to work. As we lessen our dependence on cars, development will require less structured parking, thus becoming more economically feasible.

Office space: urban vs. suburban

Does this mean that office tenants will all abandon suburbia and move en masse to Downtown? No, but a growing percentage of them will. The undeniable trend sweeping America is for companies to locate Downtown. We have seen numerous examples of that recently here in Kansas City with companies, such as

DSI (60,000 square feet in the Town Pavilion), Google Fiber (20,000 square feet in 908 Broadway), Hollis + Miller (30,000 square feet in Corrigan Station), WeWork (44,000 square feet in Corrigan Station) and Holmes Murphy (11,000 square feet in Corrigan Station). As I write this, I am aware of several significant pending lease transactions that will bring hundreds more new office workers Downtown.

Ten years ago — heck, even five years ago — it was almost unheard of for companies to relocate from their suburban offices to Downtown. Now it has become commonplace. In the years to come, it could morph into a boom.

Corrigan Station was the first speculative office building delivered to the market in over 25 years. The building is approaching full occupancy and is achieving the highest rental rates in Downtown. Still, due to the high cost of structured parking and historic construction, the project required historic tax credits and tax abatement in order to pencil out.

Over 2.2 million square feet of functionally obsolete office buildings have been (or will be) converted to alternative uses in the past three years. (See table.) With virtually no remaining historic buildings available, almost all future development will be new construction.

Downtown Office Conversions, 2013-2017

| Building | Square Feet | New/Future Use |
|--|------------------|---------------------|
| Argyle Building | 120,000 | Apartments |
| Power & Light Building | 285,000 | Apartments |
| Mark Twain Tower | 200,000 | Apartments & Hotel |
| Traders on Grand | 275,000 | Apartments |
| Former Federal Reserve Bank, 925 Grand | 300,000 | Hotel |
| Flashcube Building, 720 Main | 210,000 | Apartments |
| Brookfield Building | 100,000 | Apartments & Hotel |
| Commerce Tower | 450,000 | Apartments & Office |
| Board of Education Building | 260,000 | Hotel |
| Total | 2,200,000 | |

SOURCE: Cushman & Wakefield

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The workplace REIMAGINED:

Spaces that inspire collaboration and productivity



Patrick Meraz, CCIM
Vice President
JLL

The workplace is not just where work happens; it's how work happens. It defines the "employee experience." It's where your business strategy and your workforce come together. So how can you use your workplace as a tool, as a magnet to bring people to the office, help them connect with each other and be more productive?

The end user — the employee — wants to have an experience at the office when they show up to work. In the future, I see going to the office as a privilege. Employees get to go to the office to add value to the business and improve their performance. As a manager or business owner, the idea is to understand what you should

do with your workspace for your organization and align it strategically with your business goals and objectives. These could include finding ways to increase revenue or decrease operating costs and keeping the business agile to better respond to changes in the workforce and markets.

That is the value of the workplace.

Employee engagement has become a top business priority for senior executives. This all starts with the type of building and physical design of the office space. Smart buildings will lead to smart workplaces and adaptive design strategies. We will see the need for new types of space, such as incubators and innovation and

co-working labs, and the importance of connectivity will become a new utility like energy. Companies will view the workplace as a service or an experience to enable productivity and attract and retain talent.

In the next decade, the workplace will not be a traditional office environment as we know it, and the physical real estate will change to reflect this. Processes, tools, routines — every facet of the office environment will also adapt to the reimagined workplace:

Workplace

The workplace is morphing into a collection of resources instead of a status hierarchy. Fewer closed offices, more flexible furnishings and

collaboration spaces are becoming the norm. This requires offering choices to suit the needs and preferences of different generations. Settings appropriate for mixed uses, such as drop-in or informal meeting areas and huddle, team and conference rooms, can satisfy multiple functions and diverse age groups.

Work practices

Each generation has different modes for getting work done, but unless they are clearly identified, misunderstandings can occur, impacting output and productivity. In designing a workspace, make sure multiple stakeholders have input on the design and flow of the office space to

See REIMAGINED, Page 5

Patrick Meraz, CCIM, vice president at JLL, assists companies to make informed real estate decisions. You can reach Patrick at 913-469-4622 or Patrick.Meraz@am.jll.com.

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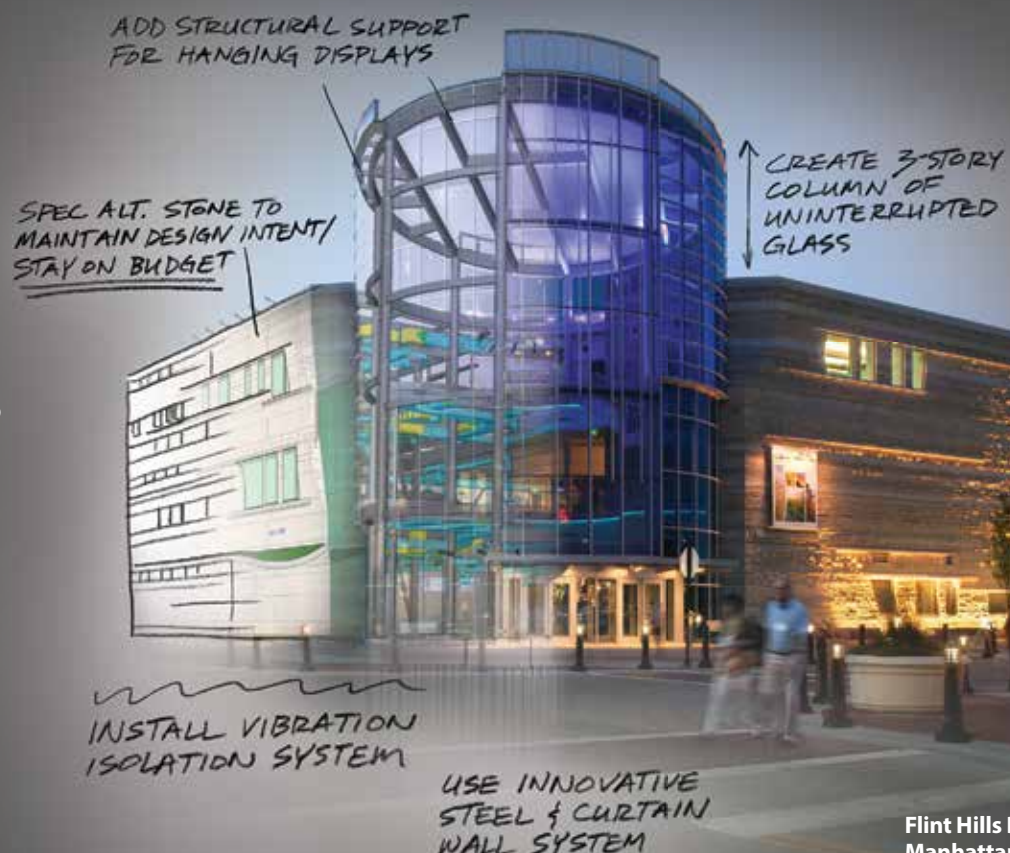
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Industrial market continues to score big



Joseph D. Orscheln,
SIOR, CCIM
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Kansas City is maturing into a major national player as a distribution hub. With access to four Class I railways, four major interstates and a 500-mile population of 67 million, the city presents logistics opportunities that are necessary for markets driven by e-commerce, the automotive industry and third-party logistics providers.

Although Kansas City is the country's 17th largest industrial market by square feet, it boasted the seventh largest volume of construction deliveries in the United States in 2016. This figure was second only to Chicago in the Midwest. Of the total 8,830,058 square feet, only 784,957 square feet was for build-to-suit projects — the remaining 8,045,101 square feet was built on spec. The emergence of spec development has been a turning point in the market and a perfect illustration of investor and user confidence.

Companies have been looking to fulfill their national distribution needs in Kansas City for some time now, and this interest shows no signs of slowing down. Changes in trucking regulations, among other adjustments, have altered national distribution maps, revealing the advantages of

Kansas City. But in the past, their required property type hasn't been readily available.

Fortunately, large spec projects have sprouted up all over the metro area and these projects are filling quickly. A sizeable 11.1 million square feet of speculative space has been completed since the beginning of 2015.

E-commerce users, intermodal facilities and manufacturing commitments from Ford and GM are some of the major catalysts for the growth in the industrial landscape.

Several development projects illustrate just how great of an impact the industrial growth is having throughout the region:

Lone Elm 716 and 515:

This is a VanTrust Real Estate spec development with two buildings totaling 1.2 million square feet in Olathe with excellent interstate access and proximity to the BNSF Intermodal.

KCI Intermodal BusinessCentre:

Trammell Crow Company along with its partners, Clarion Partners and the Kansas City Aviation Department, are developing 800 acres into an industrial park

with interstate and airport access and the potential to deliver 5.4 million square feet of space. Trammell Crow recently delivered a 432,640-square-foot spec building — the third building Trammell Crow has completed at the project.

56 Commerce Center:

Opus Development is building a three-building industrial complex with potential for 505,000 square feet on 53 acres in Olathe. The first building, a 205,000-square-foot spec project, was completed in March 2017. This is geared to address gaps in the market by catering to the 24,000- to 205,000-square-foot users.

HMBC Logistics:

This complex currently comprises over 400,000 square feet of spec development in two buildings with great interstate access and proximity to the railroad and the Ford F-150 and Transit plants. Hunt Midwest's master plan includes up to 8 million square feet of industrial space at the 692-acre site.

Logistics Park Kansas City: This 1,700-acre project with rail and interstate access has the potential to deliver 17 million square feet of space. The park recently filled a 927,112-square-foot building built on spec, the largest spec development in Kansas City's history.

The market still has room to grow. Current construction activity as of the fourth quarter of 2016 was over 7.5 million square feet in 16 buildings. Absorption numbers broke records in 2016 with 5.8 million square feet of net absorption. Nearly 4.6 million square feet of net absorption came from modern bulk warehouse properties. In the fourth quarter of 2016 alone, 2 million square feet of absorption was posted.

Industrial development in 2017 will match, if not exceed, development in 2016 with 6.8 million square feet already under way and several projects expected to break ground in the first half of the year. Of these deliveries, 4.5 million square feet is speculative and 2.3 million square feet is build-to-suit.

Will the 2017 absorption rate match or exceed 2016? We would bet on it!

Joe Orscheln has extensive knowledge of the Kansas City industrial market and specializes in representing clients with acquisition or disposition needs and structuring lease transactions for both tenants and landlords. You can reach Joe at 816-968-5861 or joseph.orscheln@cbre.com.

Austin Baier joined CBRE in 2013. His main focus is advising industrial clients with both acquisitions and dispositions of industrial space through sales and leasing, along with assisting in industrial investment transactions throughout the Kansas City metro and surrounding areas. You can reach Austin at austin.baier@cbre.com.

REIMAGINED, from Page 4

develop and share protocols for collaboration, decision-making, meetings, employee and manager accessibility, performance measurement and mentoring.

Technology

Even technology preferences are generational. The younger generations prefer tools, such as instant messaging and texting,

which offer more flexibility and mobility. Define and provide technology tools and guidelines that identify tools appropriate for specific activities and environments. Use it to discover new ways to improve collaboration, innovation and performance.

Create a vision for the future

Socrates said, "The secret to change is to focus all of your energy not on

fighting the old but on building the new." Today's companies are looking to their physical office as a strategic way to engage and recruit talent, cultivate personality and maximize productivity. A workplace that encourages knowledge transfer and mentoring will help ensure an employment pool that supports your business goals.

Today's workplace can no longer be defined by a "one size fits all" solution.

This is why the real estate "design" process that supports the workplace experience is imperative to success. Organizations need to create a work environment in which all employees collectively work successfully together. A good workplace design equals increased performance, productivity and innovation. Successful workplaces will make going into the office a privilege rather than a necessity.

Preparing for the future BOOM: S



Matt Ledom, CCIM
Vice President
Block Real Estate
Services, LLC

Baby boomers aren't getting any younger. If you disagree with that statement, it's probably time for you to consider memory care as one of your living options in a continuing care retirement community (CCRC). The need for long-term care options will only increase during the next few decades, creating many opportunities for real estate developers and investors. As someone in his mid-twenties with a long career ahead, I am looking forward to helping improve the lives of seniors through the development of quality

senior living communities. Here are some statistics to help you understand what is about to happen during the next few decades. Baby boomers started turning 65 years old in 2011 at a rate of 10,000 per day, and in 2029, when the last of them turns 65, they'll represent more than 20 percent of the total U.S. population of 325 million people. Today, 65-plus-year-olds represent 15 percent of the total. Maybe I'm delusional, but 20 percent of 325 million — 65 million — seems like a lot to me. Even though today's population has better treatments,

medicine and longer life expectancies than ever before, 70 percent of the 65-plus population require some sort of long-term care, according to the U.S. Department of Health and Human Services. Creating options and opportunities
What does this mean? A lot of people will need some sort of assistance in their lifetime. Generally, that assistance is with basic personal tasks, which are called activities of daily living (ADLs) in the senior hous-

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Senior living options play key role

industry. Medical care is another obvious form care service. So, if a lot of seniors are going to need assistance, people are living longer, going to need many senior housing options to care of them.

In recent years, developers have caught on to what has turned out to be a huge market for senior housing. There are new CCRC developments as well as conversions of older buildings, turning them into places all over

Kansas City. A CCRC refers to a property that offers independent living, assisted living and some sort of nursing care. Essentially, the residents can "age in place" so they won't have to move again.

Tutera Group has several CCRCs under development, including Tiffany Springs Senior Community, which will add 300 new units in the Northland. DAMCO is developing St. Anthony's, a 222-unit CCRC created from the conversion of the former

Highlands Professional Tower in Brookside. CA Ventures recently completed Travense Living at Olathe, a redevelopment of the former Holiday Inn at I-35 and 151st Street to 132 units of assisted living and memory care. CA Ventures also developed The Sheridan at Overland Park, a 116-unit assisted living and memory care facility in CityPlace, a Block Real Estate Services mixed-use development.

I've traveled throughout the country to attend conferences and expos and have visited senior housing communities from South Florida

to Chicago and Denver to Phoenix. I want to learn as much as possible about the industry and what developers are doing to plan for the future.

In addition to the new senior living developments becoming available, owners of completed and stabilized properties are also figuring out ways to add more units to help meet demand. Over the next decade, we'll be able to see how quickly these new units are absorbed. It will be a true indication of just how much development will be required for many years to come.

Matt Ledom has been involved in the sale or development of deals with Matt at 816-412-8452 or mledom@blockllc.com.



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Local multifamily market continues to attract investors



Bob Galamba, SIOR, CCIM
Senior Vice President
Colliers International



Gabe Tovar, CCIM
Associate
Colliers International

It's no secret: The multifamily real estate sector has performed well in this cycle, and the capital markets show opportunity remains for continued success. Interest rates and public policy are always a topic of conversation, but at this stage, the investment and development community seems to be focused on three themes: the search for yield, the development pipeline and the "Big Two," generations, that is.

Chasing yield

Kansas City receives significant attention from its local base of investors and developers, but new entrants to the market are proving to be serious competitors. More capital is chasing fewer opportunities, and some investors are adjusting their strategies as the market shifts.

One strategy in the market comes from yield investors who are looking for assets with healthy operations and a stable cash flow they can bet on. Many of these groups are coming from gateway markets, driven by the desire to beat a 3- or 4-percent return they face on the coasts. Kansas City is a secondary market in the eyes of the investment community. However, its diversified economy and prospects for growth are driving it onto the acquisitions list for yield investors throughout the country.

Another strategy comes

from value-add investors who are looking for assets that have an in-place cash flow with opportunities to improve the property, achieve higher rents and generate an increased asset value. Numerous value-add deals have traded in the past few years, and you will start to see some of these flipped to the yield investors as this cycle continues.

There's no question pricing has reached record levels. As some investors stretch their assumptions in underwriting, others have turned to or focused on development to create yield. These developments range from new construction and conversions of older buildings to a mix of the two in both suburban and urban locations. With any strategy, it is clear that if you want to participate in this stage of the cycle, you either have to dig for the opportunities or be willing to compete.

Development pipeline

As new development projects continue to be announced, spectators are asking whether the market can bear such an increase in supply. Without dusting off the chalkboard and constructing a few supply-and-demand graphs, our short answer is: not yet. The apartment inventory in Kansas City has averaged an annual growth of 2.1 percent throughout the past three years. In that same time period,

occupancy has averaged a healthy 95.2 percent. As of the fourth quarter of 2016, we saw supply outpace demand, equating to a drop in occupancy by a few basis points but still considered strong compared to other secondary markets.

Metro-wide apartment inventory is forecasted to grow at a rate of 3.4 percent in 2017, a relatively strong number compared to the metro's five-year average of 2.1 percent. Although Kansas City continues to see positive job growth, pent-up demand is a piece of the absorption developers are betting on. Simply put, existing renters relocating from one submarket or property to another and those who will move from their homes to an apartment will drive growth. For us, it's the ever popular discussion of millennials and boomers.

The 'Big Two'

There is no question millennials have changed the game. This cohort is willing to dedicate a greater portion of its income to rental housing, and while sometimes it's because a down payment for a home is beyond their reach, other times it's simply because they can. However, they're not just shelling it out without expecting something in return. Many times, they are paying more for building amenities, but more often, they are paying more for the location — so they can

walk to a nearby restaurant or the streetcar can take them to work. The appeal of a dense, walkable environment is the amenity package.

History would suggest most of these "tenants" will get married and start families, and in doing so, their housing preferences will shift. But statistics show many are delaying those decisions. No matter the label you feel inclined to give millennials, you have to acknowledge the impact they have.

While millennials are still developing their palette, the boomers have lived long enough to know what they want. They are downsizing and starting to embrace a new "lock and leave" lifestyle. Yard work is a distant memory, and maintenance is only a click away. This generation is moving for the freedom an apartment offers, but not without the benefits of a resort-style setting. Salt-water pools, yoga studios and movie theatres are becoming standard in luxury developments. With 10,000 people a day turning 65, the boomer generation is a major influence on the changing dynamics in apartment living.

Despite the differences between these generations, demands for amenity-rich product and an appetite for live/work/play environments will continue to shape the decisions of investors and developers alike.

Bob Galamba, SIOR, CCIM, and Gabe Tovar, CCIM, advise investors and developers with the acquisition, disposition and development of multifamily assets throughout Kansas City. They are partnered with 14 offices at Colliers International as part of the Multifamily Advisory Group. Bob can be reached at 816-556-1152 or bob.galamba@colliers.com and Gabe can be reached at 816-556-1161 or gabe.tovar@colliers.com

Finance: Let the good times roll!



Frank Sciara, CCIM
Vice President
Grandbridge
Real Estate
Capital

The capital continues to flow! 2016 was another record year for funding commercial and multifamily real estate, and there have been few to no signs of a slowdown in 2017. Together, Fannie Mae and Freddie Mac produced a record \$112.1 billion in loans nationwide in 2016, and they increased their loan targets for 2017. Life insurance companies also had a record year, originating \$77.5 billion in loans in 2016, and increased allocations for 2017. Despite falling short of expectations, the commercial mortgage-backed securities (CMBS) market still registered a solid year in 2016 with \$75.9 billion in securitized loans. The Mortgage Bankers Association projected that originations of commercial and multifamily mortgages would grow by 4 percent to \$537 billion in 2017.

Despite all the positive momentum, lenders are cautiously optimistic about the future, which should prove to be positive for the market. To avoid the pitfalls that contributed to the last financial crisis, lenders are staying prudent in their underwriting with a focus on in-place cash flows versus projected rents. Additionally, banks have slowed construction lending, which should hold supply in check.

The three major lending sources for long-term, fixed-rate, non-recourse financing are: agency (multifamily lending through Fannie Mae, Freddie Mac and FHA/HUD), portfolio lenders (life insurance companies) and CMBS/securitized

lending sources play an important role in an efficient permanent market.

Agency lenders

They lend exclusively against multifamily properties, including market rate, student, affordable, senior housing and mobile home communities. Both Fannie Mae and Freddie Mac continue to expand product offerings to increase ever-expanding portfolios. New products include:

- lease-up programs for new construction
- modification/rehab programs for value-add opportunities
- credit facilities for more active, institutional buyers

Each agency also is pushing new green initiatives by offering significant rate reductions for qualifying properties.

In addition to multifamily, FHA/ HUD will lend against health care facilities. With the recent pullback by banks on multifamily construction lending, HUD has become a more attractive option for both new construction and major redevelopments. HUD also works particularly well for historical rehab projects.

HUD offers two main loan programs: 1) construction/perm with leverage up to 85 percent, a 40-year fully amortizing loan structure and rates in the low 4-percent range, and 2) acquisition/refinance with leverage up to 85 percent, a 35-year fully-amortizing structure and a rate in the mid-3-percent range. Grandbridge has a Bridge-to-HUD loan program that can help facilitate these opportunities.

Portfolio lenders

Life insurance company lenders continue to focus on core Class A and B assets in the four major property types. Their underwriting tends to be slightly more conservative than agency and CMBS lenders; however, life insurance companies offer greater flexibility. Portfolio lenders can provide fixed-rate loan terms up to 40 years with the most competitive interest rates. Portfolio lenders are also expanding their offerings with more construction/permanent, bridge and joint-venture equity


programs.

CMBS/securitized lenders. The CMBS market is active but is navigating new risk retention rules that went into effect at the end of 2016. The rules require lenders to hold a portion of each securitization for the term of the loan, which should prevent the overly aggressive underwriting we saw before the financial crisis. CMBS lenders offer higher leverage than portfolio lenders; however, CMBS loans are less flexible and rates are higher. CMBS lenders will lend against all property types, including unanchored

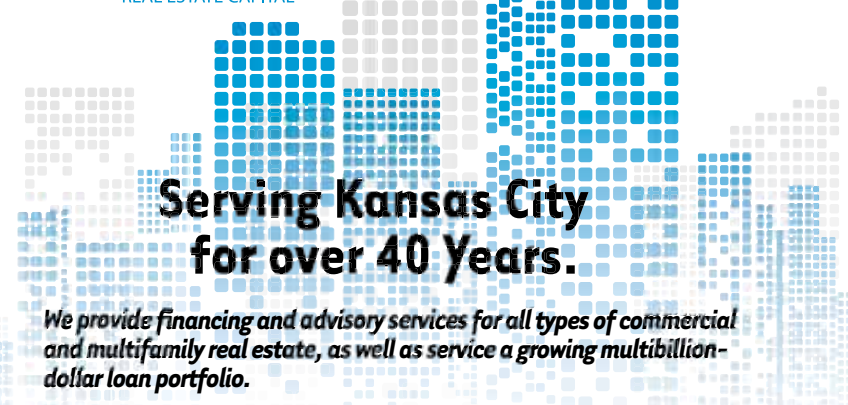
retail centers and hotels.

In summary, the capital flow into commercial real estate remains abundant, and property owners continue to enjoy historically low interest rates. Lenders continue to expand product offerings in an effort to invest more capital. Rates have increased since the presidential election but are still near historical lows. The market continues to evolve rapidly and companies like Grandbridge can assist with the changing needs of investors who use capital for commercial real estate.

Frank Sciara, CCIM, is based in Grandbridge Real Estate Capital's Kansas City office. Grandbridge is one of the largest commercial mortgage banking firms in the United States, with over \$7 billion (\$700 million in Kansas City) in transaction volume in 2016. Grandbridge's investor base includes agency lenders (Fannie, Freddie, FHA/ HUD), insurance companies, CMBS lenders, mezzanine and preferred equity providers as well as proprietary capital. Frank can be reached at 913-748-4453 or fsciara@grandbridge.com.



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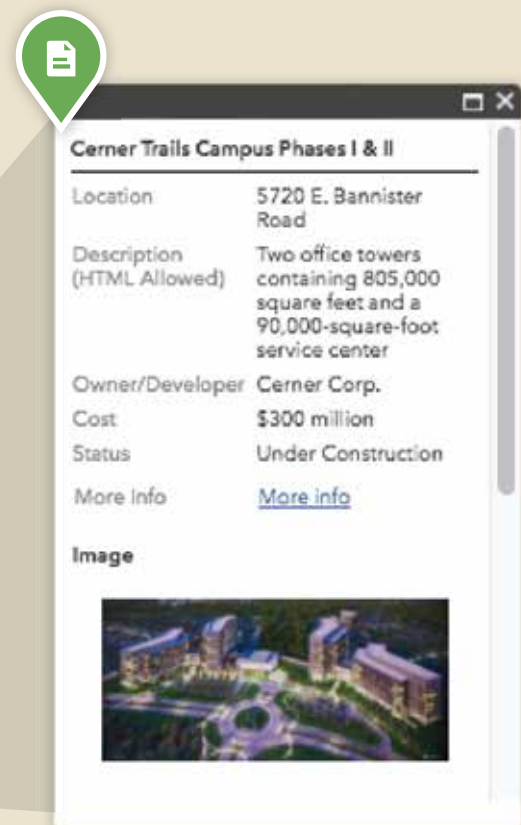
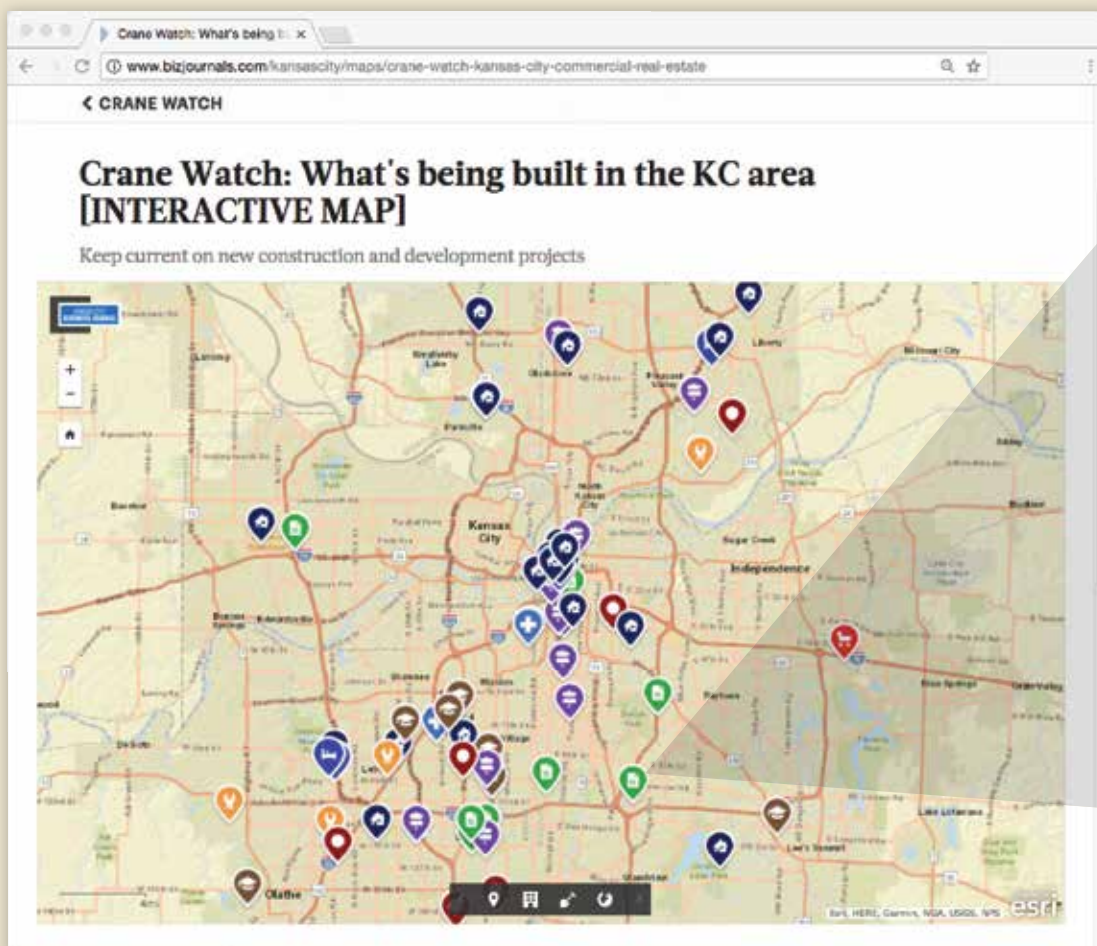
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Retail roundup:

Active 2016 for retail investment asset



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In 2016, the Kansas City retail market outpaced all other property types with over \$1 billion in assets sold and a substantial amount of new development. Among the high-profile sales and offerings were the Country Club Plaza and the mixed-use Zona Rosa project in the Northland. These projects attracted the attention of investors nationally and internationally, keeping the spotlight on Kansas City.

Beyond the large blockbuster deals, a healthy volume of neighborhood shopping centers and power centers sold as well. Many of these transactions included local entrepreneurial buyers who had the ability to take on more risk and seek higher yields. Several factors contributed to the high transaction volume of retail assets during the past year:

Entrepreneurial capital

Retail centers offer entrepreneurial investors the ability to create value through the repositioning and renovation of older assets. Often, these centers have struggled due to the loss of a major tenant, improper management or the lack of ownership capital to reinvest in the asset. Value can be created by modifying the tenant mix to better reflect market needs, renovating an exterior façade and improving landscaping and parking lots. Additional options include demolition and restoration of second- and third-generation interior spaces to white box condition

or multi-tenanting of larger, former anchor units. In some local communities, incentive programs or a community improvement district may be used to spur development.

Strong market fundamentals

The overall Kansas City retail market has tightened during the past year with an 80-basis-point drop in vacancy. Further demonstrating the strength of the local market, net absorption was over 1.9 million square feet during the past four quarters and nearly 3.2 million square feet during the past two years. The average quoted rental rate is now at \$12.89 per square foot, up \$0.11 per square foot from the previous quarter and \$0.43 per square foot higher than the prior year. With decreasing vacancy rates, substantial positive absorption and increasing rental rates, the metropolitan Kansas City retail market is well positioned going through 2017.

Ease of operation

The ease of operation and reduced operating expense risk have also contributed to the popularity of retail centers compared to other property types. Most of these assets are set up with triple net leases in which tenants are responsible for their proportionate share of real estate taxes, insurance and common area maintenance. This is attractive to investors because it helps mitigate cash flow fluctuations and also lessens the burden of landlord responsibilities.

What to look for in 2017

A major focus in Kansas City over the past year has been the continued expansion of Amazon's large e-commerce distribution centers that allow for easy deliveries at the click of a button. The continued growth of internet sales has strained larger big-box, brick-and-mortar retailers, such as Sears and Kmart, that have not

been able to adapt quickly to consumers' changing buying preferences.

Retailers who have been successful adapting to these changes have found ways to modify their business models to compete. Some retailers have created a unique shopping experience to draw consumers to their brick-and-mortar stores while also addressing the needs

of the online shopper with additional services, such as in-store pickup. As internet sales increase and consumer preferences evolve, we will continue to see investors and developers come up with innovative ways to create unique shopping environments, including mixed-use projects and stores that combine shopping with entertainment.

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