

2.0 Kansas City Metro Area Industrial Market

Kansas City's regional industrial market consists of nine (9) metro area submarkets plus two outlying counties for a total of (11) eleven submarkets according to CB Richard Ellis and CoStar, a national real estate research reporting group. These submarkets break down into: Downtown, East Jackson County, Midtown, Midtown South, North Johnson County, North of the River, South Jackson County, South Johnson County and Wyandotte County plus two outlying counties. Table 2.1 below indicates the submarkets and their individual market figures.

The Kansas City metro industrial base totals 235,663,432 sq. ft. based on 5,124 buildings surveyed. Vacancies in the reported study at end of year 2006 show overall vacancy of 7.7% with 18,341,206 sq. ft. vacant. Under construction buildings at end of year 2006 were reported at 1,737,022 sq. ft. for a total of 30 buildings. Rental rates have remained relatively flat through 2006 with lower absorption than the previous year of 2005. Only limited speculative construction has occurred although at the beginning of 2007, there are numerous large, big box buildings in discussion, but yet to be formally announced or committed.

Air freight and air cargo operations are not addressed in this report as they are the subject of a comprehensive report prepared by a separate subcontractor.

(Table 2.1) **Kansas City Metro Industrial Market**

Sub Market	Buildings	Total Rentable SF	Vacant SF	Vacancy Rate	U/C	U/C Buildings
<i>Downtown Market</i>	569	19,587,317	1,290,159	6.6%	0	0
<i>East Jackson County</i>	928	58,997,026	5,472,208	9.3%	189,394	4
<i>Midtown</i>	202	5,137,230	484,720	9.4%	0	0
<i>Midtown South</i>	77	3,058,334	219,387	7.2%	0	0
<i>North Johnson County</i>	647	23,521,441	1,819,965	7.7%	0	0
<i>North of the River</i>	745	42,353,429	3,583,931	8.5%	710,050	2
<i>South Jackson County</i>	413	17,573,160	1,139,336	6.5%	28,000	1
<i>South Johnson County</i>	712	25,405,525	1,983,632	7.8%	809,578	23
<i>Wyandotte County</i>	778	39,114,868	2,200,012	4.9%	0	0
<i>Cass County</i>	40	699,618	140,856	20.1%	0	0
<i>Lafayette County</i>	13	215,484	7,000	3.2%	0	0
Market Total	5124	235,663,432	18,341,206	7.7%	1,737,022	30

The following table (Table 2.2) lays out, in simple fashion, the relative size of the KCI submarket as it relates to the Northland, Kansas City, Missouri proper, and the metro area for Flex, warehouse and all industrial properties.

INDUSTRIAL MARKET – MACRO & MICRO VIEWS

	KCI Area		North of River		KCMO		Metro	
	Bldgs.	SF Base	Bldgs.	SF Base	Bldgs.	SF Base	Bldgs.	SF Base
Flex	16	964,918	36	1,660,608	100	3,786,816	398	11,524,868
Warehouse	52	3,285,097	709	40,692,821	209	20,600,629	570	47,667,478
Total Industrial	68	4,250,015	745	42,353,429	1,683	87,445,336	5,124	235,663,432

The chart below, Table 2.3, indicates the relative size of industrial markets for ten regional markets with which Kansas City often competes for business and real estate development projects. The Kansas City markets fits in the middle of these ten regional markets. The growth potential for industrial projects as Kansas City fulfills its directions as an Inland Port as noted within this report can allow greater increases in our industrial base compared to some of the subject competing markets.

Table 2.3 Industrial Bases – Multi-City Comparisons

Market	Base/ Square Foot
Chicago	1,039,400,842
Dallas/Ft. Worth	640,051,214
Minneapolis	320,092,976
Denver	226,818,867
Kansas City	224,536,997
St. Louis	222,737,272
Indianapolis	211,053,374
Columbus	200,455,573
Nashville	152,044,489
Memphis	103,998,602

Undergrounds—Kansas City’s Unique Industrial Option

The Kansas City metropolitan area has a unique feature to its industrial real estate component. As a result of the underlying geological formations in Kansas City with 5 layers of limestone, significant areas have been mined for road bed aggregate and other construction materials. In the late '60's and early '70's, secondary uses for the mined out areas began, and changes were made in the mining procedures to allow for more orderly use of the vacated mined out areas. At present, the Kansas City metropolitan area has a leasable square footage base of approximately 23 million square feet of this space located predominantly in 11 facilities spread throughout the metropolitan area. The largest of these is the Hunt Midwest real estate owned SubTropolis, which occupies approximately 4.8 million square feet of leasable space. The only other underground in the northland area is a much smaller facility of less than 1/4 of a 1 million square feet owned by Park University. A significant portion of this is used by the university's facilities, with some spaces leased out to third parties.

These underground areas have the potential capacity to virtually double their base in the coming years if market demands. These spaces serve as a lower end alternative for industrial users, which keeps a cap on the lower end of the market, and in some cases, reduces the amount and opportunities for new construction of modern state of the art space. At present, there is an approximate 15% vacancy factor on the developed leasable underground square footage.

Table 2.4

Metro KC Undergrounds	
Project Name	Total Leasable SF
Park University	247,000
Downtown	800,000
Meritex	1,650,000
Winchester	520,000
SubTropolis	4,800,000
Rush Creek	40,000
Carefree	4,000,000
Commercial Distribution Center	1,200,000
Geospace	4,700,000
Interstate	3,000,000
Space Center Summit	1,500,000
TOTAL	22,457,000

Kansas City Metro-- *Inland Port of the Future*

As we have been predicting over many quarters through these newsletters from various different angles, Kansas City's industrial market has reached new levels of stature on the national marketplace. Kansas City is now known as a solid second or third tier market (depending on points of view and definition of terms) for institutional industrial investment acquisition, corporate users of industrial space, in particular, retail and manufacturing companies, distribution center locations, and finally, from national/regional industrial developers. A significant portion of the shift is based on changes in logistics and supply chain patterns dictated by the increasing flow of imports into the United States from around the World, but predominantly from Asia. Certain sources are indicating that U.S. imports will rise from roughly \$8 trillion dollars to \$9 trillion dollars in the next five years. Traditional U.S. ports of entry, predominantly L.A./Long Beach and Newark, are stressed and crowded for capacity. Alternate locations to disperse both the present and projected growth and to spread the risks associated with concentrations of product coming into a narrow funnel have caused major retailers, shippers and others involved in the supply chain patterns to explore multiple expansion opportunities to move the logistic solutions into the 21st century. The 2002 Longshoremen's Union slow down in L.A./Long Beach was one of the key factors that triggered Wal-Mart and other retailers to begin this process. Kansas City has in the past one to three years become increasingly looked at as a beneficiary of both this strategy and an outlet beneficiary of the congestion that is occurring as too much product tries to flow into Chicago. The final force of opening Kansas City as a logical outlet market are the changes in trucking regulations that shorten the effective distance that truckers can move product from point to point in any one working day.

As a result of all of these issues, thoughtful planning by the railroads has stirred projects for increased traffic via intermodal logistics parks around the country and now impacting the Kansas City industrial market. Two major projects will come to fruition in Kansas City during the period of 2007 to 2008.

The first one announced was the Kansas City Southern/CenterPoint project focused on approximately 1,000 – 1,300 acres of redevelopment site on the former Richards-Gebaur air base in southeast Kansas City. As a result of the Kansas City Southern acquisition of a Mexican railroad, this intermodal terminus allows Kansas City Southern to bring product, not only from U.S. Gulf port locations from Mississippi to Texas, but importantly from the

expanding Pacific Gulf port of Lázaro Cárdenas which is in the process of being expanded from its present load of 750,000 TEUs (20 ft. equivalent units – the standard industry term for measurement of sea worthy cargo containers coming in for import into the United States) to up to 2.5 million TEUs per year.

The second announced project was by the Burlington Northern Santa Fe to take approximately 1,000 acres of greenfield sites in rural southwestern Johnson County. Those properties are now optioned or owned by the BNSF and are soon to likely be incorporated into the City of Gardner, Kansas to move forward into a similar logistics oriented intermodal park. The Allen Group has been selected to develop this project for and with the BNSF.

Both of these parks will incorporate up to 300 to 350 acres of rail intermodal sites with the balance allocated to predominantly big/box state of the art distribution centers, moving product from rail to later be trucked out or potentially broken down and reshipped by rail to other U.S. population centers.

All of this bodes well for the continued growth of the Kansas City industrial market and its rising status as a strong inland port location for new industrial development and investment dollars.

Industrial Development Incentives—Metro Kansas City Area

There are multiple incentive programs available to industrial projects in the metro area, both under local and Missouri or Kansas programs. As Exhibit A to all three memos Office, Industrial and Retail, the incentives available to development projects are summarized. While the majority of this are most beneficial to industrial projects, to some degree they can also apply to office and retail developments.

One incentive program that the Aviation Department could be able to use to their advantage for the development of KCI excess parcels is its authority to offer tax abatement competitive with or greater than those abatements offered in the marketplace i.e. generally 50% over 10 years for metro projects and sometimes in outlying areas as great as 75 to 100%.

See separate Exhibit A "Incentives" for the summary of programs available.

THE NORTHLAND INDUSTRIAL SUBMARKET

Northland Industrial Submarket

The northland reins as the second largest industrial submarket in the Kansas City Metro area. The North of the River submarket includes 745 industrial properties with a total rentable area of over 42,353,429 SF. The vacancy rate for this market holds around 8.5% which totals about 3.6 million sq. feet.

The Airport/North Platte market encompasses the area generally surrounding the Kansas City International Airport. Within this secondary market are a total of 68 industrial buildings with a total rentable area of 4,250,015 SF. The vacancy rate for this area is 12.4% or 380,795 SF. This figure remains slightly above Kansas City's overall industrial vacancy average of 7.7%.

Northland Flex Properties

Flex properties are typically light industrial properties that are used for technology space or office uses with minimal warehouse areas, generally less than 20%. The North of the River industrial market contains 36 industrial flex Properties with a rentable area of 1,660,608 SF. The area also has a total vacancy of 306,186 SF or a vacancy rate of 18.4% which is about 50% greater than the Kansas City Metro area's flex property vacancy rate of 13.7%. The average market rate for this flex property market is around \$7.92 PSF. This also falls slightly below the Kansas City MSA average of \$8.18 PSF. Currently, the year to date absorption for this market is a negative 16,494 SF.

There are 16 flex properties within the Airport/North Platte market alone, which totals around 964,918 SF in rentable flex space. The vacancy rate for this area remains quite high at 29.7% or a total of 286,322 SF. The year to date absorption figure for the airport market is a negative 24,548 SF. Average market rates for flex properties in this area are \$8.65 PSF, slightly higher than metro averages due generally to the new age of the product in this submarket.

Northland Warehouse Properties

The North of the River warehouse market is rather large in comparison to other submarkets in Kansas City's overall MSA. The warehouse inventory consists of 709 buildings with a total RBA of 40,692,821 SF. The vacancy rate for this market holds at 8.1% with a total vacancy SF at 3,277,745 which is only slightly higher than Kansas City's average of 7.3%. Typical market rates for this market are around \$3.60 PSF. That number only slightly falls below the Kansas City MSA warehouse property average market rate of \$3.83. The majority of these are located at the south end of the Northland, closer to the Missouri River and KCMO CBD.

There are a total of 52 industrial warehouse buildings within the Airport/North Platte market that make up 3,285,097 SF of space. The warehouse market does significantly better than flex property in this area and holds a low vacancy rate at 7.3%, or a total of 239,532 SF. Average market rates for warehouse properties in this area are \$5.86 PSF.

Northland Industrial Parks

The North of the River industrial submarket maintains a few large industrial parks. These are highlighted within table 2.3 below.

(Table 2.5)

Industrial Park	Buildings	RBA	Vacant Land (Acres)	Proposed
Northland Park	14	3,042,180	140.8 (Initial Phase)/ 500+ (Future Phases)	504,000
Heartland Meadows	8	2,342,334	45	---
Platte Valley Ind. Center/ RDV	21	1,578,776	---	---
AirWorld/Congress Corp/Harley	36	2,642,160	65	---
Subtropolis (underground)	27	4,923,047	---	---
Hunt Midwest Business Center	16	613,420	37(Present Phase)/ 200+(Future Phase)	---
Paseo Industrial	65	6,167,331	---	---
NKC Cluster	293	12,175,798		

Northland Planned/Proposed Industrial Parks

Riverside/Horizons Parkway Industrial Park

This proposed development could incorporate as much as 800 acres in the former Quindaro Bend area of Riverside, now protected by an industrial levy. While this will likely be a mixed-use development, market conditions dictate that the majority of the acreage will be allocated for industrial flex, light industrial office-warehouse and the bulk warehouse uses. The projected development could potentially incorporate as many as 5-8 million SF of improved industrial in these various categories.

Congress Business Park

This 160± acre development that was announced in the summer of 2006 is located on the east side of I-29, just east of AirWorld. It is designed for a mix of industrial uses that could ultimately incorporate 3+ million SF.

Northland Large Single Tenant Industrial Operations

In the Northland alone, there are several large-scale industrial operations that employ local residents as well as help with enhancing the area's economy.

(Table 2.6)

Northland's Largest Single Tenant Industrial Operations			
<i>Rank</i>	<i>Corporations</i>	<i>RBA (SF)</i>	<i>Employees</i>
1	Ford Motor Company	2,440,433	6,000
2	Hallmark Cards (total operations)	1,920,000	2,000
3	Grainger, Inc.	1,435,000	500
4	Wagner Industries, Inc.	495,418	200
5	Harley Davidson Vehicle and Powertrain Operations	330,000	225
6	Penske Logistics & Supply Chain Solutions	289,000	200
7	Amerisource Bergan	285,000	-
8	TAMKO Roofing Products	250,000	10
9	Henry Wurst, Inc.	232,000	250
10	Tenemec	224,058	150

Northland Industrial Under-Construction

One of the largest projects under construction in the Kansas City Metro area is wrapping up in the North of the River submarket. The Musicians Friend Distribution Center is a single tenant, build-to-suit project due to be complete during the first quarter 2007. Completed, it adds 702,000 SF of industrial warehouse space to the Northland's submarket with expansion capabilities up to one million SF.

Northland/KCI Industrial Market- Outlook

As previously stated the majority of industrial development in the Northland during the period up to the 1970's and early 80's was focused along the Missouri River and the southern portions of Clay and Platte counties. Since that time, remaining industrial sites closer to the river have been balanced by competing Northland development in two pockets, i.e. Liberty (predominantly in Heartland Meadows Hallmark development) and the KCI area predominantly in two parks, AirWorld and Congress Corporate Center.

With the increased expansion of residential, retail and office developments throughout the Northland, there will be the support for additional development and growth of the Northland industrial market over the next 5 to 20 years. The logical pockets for that development will be three primary areas and one secondary area. The primary areas would include the KCI submarket, the Riverside submarket and the Hunt Midwest/Northland Park submarket. The secondary area would be Liberty

and Kearney in the northeast quadrant of the Northland area. The Northland market will continue to have to compete with the momentum of established development south of the river on both the Missouri and Kansas side. This competition will be strengthened in the southwest and southeast quadrant of the metro area with the two intermodal expansion projects announced in 2005 and 2006. CenterPoint, a Chicago based industrial REIT, in conjunction with the Kansas City Southern Railroad, will be creating a 1,300 acre intermodal logistics park on the former Richards-Gebaur airbase based on contracts anticipated to be executed with Kansas City, Missouri's Aviation Department in early 2007. This project could bring on line approximately 10 to 15 million SF of industrial space based on traffic moving in from the Gulf Coast and the Pacific Coast of Mexico via Kansas City Southern Rail. In the southwest quadrant The Burlington Northern/Sante Fe's 1,300 acre intermodal logistics park being developed by The Allen Group, will have a similar impact for products being brought in through various West Coast ports along the BNSF lines.

The proposed Riverside Horizons Parkway development, the Hunt Midwest Business Center and Northland Park projects all offer, or soon will offer, attractive flat sites for large industrial users with close proximity to all of the interstate systems and the central city labor forces.

NICHE RECOMMENDATIONS: KCI unimproved land offers opportunities for companies wanting proximity to both the air cargo and passenger traffic generated by KCI. These properties will continue to receive their share of the growing demand for industrial development sites both within the metro area in general and Northland submarket. The potential limitation of ground leasing requirements dictated by the FAA will restrict some users and developers for consideration of KCI owned parcels that want to be in the submarket and may choose competing developments for fee title.

While the airport area and in particular, the Aviation Department held parcels have the positive strength of the airport as an attractive and driving force for development. There are two limiting factors, the airport area must compensate for in the marketing and design of future projects. These are, one, the fact that rail service cannot be feasibly brought into the general area of the airport due to prohibitive expenses to do so based on the relative location of the existing class one main lines and the terrain of the property in that area. The second is the limited amount of large flat parcels for the development of 500,000 to 1,000,000 sq. ft. big box distribution center operations. The latter is more acute on the western portions of the aviation held land west of the north/south runways.

On the other hand, taking advantage of the extensive amount of available land, the potential drawing power of the airport and proximity for both passenger and cargo operations can open the door for particular types of development as a themed focus. As the Kansas City region attempts to position itself to magnify and expand its already presently strong position as an animal science and pharmaceutical center and its growing position as a human/life science center, opportunities need

to be explored using the above referenced advantages in the development of projects in the KCI area.

One such avenue that should clearly be explored would be the evolution that will come out of R&D work in progress for both the animal science and life science areas. Once projects like these begin to materialize into productive light manufacturing operations (like those envisioned by the new Ewing Muriel Kaufman Foundation programs), the airport area could be positioned as a logical campus area for such projects. Because these operations are of the type that can take best advantage of air cargo, i.e. lightweight, small parcels, high value parcels, and often time sensitive delivery service; these can play well into a developed theme of a bio science manufacturing/production themed park. Obviously, it will take a combination of creativity, incentives and foresight of development of the appropriate infrastructure for Kansas City to capture these types of businesses and particularly to focus their development around the KCI area.

If the Airport owned properties and the KCI area, in general, continue "business as usual", the growth in this area may be limited and slow. On the other hand, with creative use of marketing, incentives, themed development and planning, the opportunities can continue to grow. These can parallel the growth potential in the office market for back office and data centers.

The potential pull for industrial big box users for the KCI submarket will be varied. Some national and regional users will be attracted due to the proximity to the airport infrastructure and transportation needs as it relates to both passenger and air cargo. Local users would either be enticed by economic incentives, proximity to the airport services, proximity to customer base and/or proximity to decision makers' homes.

Historical land absorption in the Kansas City market for the last few years has ranged from 50 – 350 acres per year with a growing trend to higher levels due to stronger economic conditions for the region and nation, and in particular, the growing trend of Kansas City as an inland port for major facilities could dictate an average absorption of 200 – 300 acres of improved sites per annum for the metro area. If the KCI submarket receives 20% of this portion, which would be aggressive from historical patterns, total land absorption for the submarket based on the above referenced aggressive growth patterns, would equate to 40 to 60 acres per year on average. Obviously, when more big box users, who demand 40 – 100+ acre sites each, combined with other niche/new branding industrial users land in the market, there uses will begin to make major land absorption impact that can skew these historical market averages and particularly those for the Northland submarket.