

1.0 Kansas City Metro Area Office Market

Kansas City's regional office market consists of nine (9) submarkets according to CB Richard Ellis and CoStar, a national real estate research reporting group. They break these submarkets down into the following Kansas City locations: Downtown (CBD), Midtown, South Kansas City, North of the River, East Jackson County, South East Jackson County, South Kansas City, Kansas City, Kansas, North Johnson County, and South Johnson County. The following table shows these markets and their real estate statistics. The office market is generally broken down into classes with Class A properties being in the best physical condition, larger buildings with many amenities and commanding the highest lease rates. Class B properties are typically mid-size, "no frills", but functional buildings. Class C properties are typically older/outdated assets with physical limitations for users. All Kansas City metro submarkets include approximately 89,123,457 SF of office space with approximately 12,573,231 of vacant office space. Table 1.1 includes regional market statistics. In recent years, namely, 2000, a citywide boom in office space lent itself to an all-time peak in vacancy rate in 2005, topping out at 18.7%. As a result, building has slowed, and in 2006, only 425,000 square feet of space was constructed, and the net absorption rate has been forecasted at 800,000. As a result, a steady decline in the vacancy rate points to a 2010 prediction of 11.00%. Metro rental growth can be described as relatively 'flat' in the Kansas City market, on a per-square-foot basis, the 2006 average asking rents were \$.74, a penny increase over 2005. The recent past has made tenants rate sensitive; since vacancies are generally high, it has been difficult for landlords to justify rent growth with so many options for tenants to choose.

In the table below (Table 1.1), the Kansas City Metro office market is defined by submarket then sorted by class.

Information is derived from CoStar end-of-year 2006 real estate information.

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Table 1.1

Kansas City Metro Area Office Market					
Sub Market	Class	Buildings	Total Rentable SF	Available SF	Vacancy Rate
<i>Downtown CBD</i>	A	23	7,533,138	1,364,586	18.1%
	B	123	10,944,881	1,535,690	14.0%
	C	131	3,888,457	757,726	19.5%
	Subtotal	277	22,366,476	3,658,002	16.4%
<i>Midtown</i>	A	10	2,009,817	155,963	7.8%
	B	91	3,661,741	573,252	15.7%
	C	165	2,464,521	261,793	10.6%
	Subtotal	266	8,136,079	991,008	12.2%
<i>South Kansas City</i>	A	8	1,543,406	382,773	24.8%
	B	82	3,418,525	828,925	24.2%
	C	69	670,106	38,294	5.7%
	Subtotal	159	5,632,037	1,249,992	22.2%
<i>North of the River</i>	A	4	493,435	3,682	0.7%
	B	165	5,593,795	1,269,282	22.7%
	C	155	1,754,499	165,202	9.4%
	Subtotal	324	7,841,729	1,438,166	18.3%
<i>E. Jackson County</i>	A	5	348,646	101,729	29.2%
	B	172	3,581,036	539,025	15.1%
	C	264	2,989,672	424,150	14.2%
	Subtotal	441	6,919,354	1,064,904	15.4%
<i>SE Jackson County</i>	A	5	177,353	27,631	15.6%
	B	68	1,261,687	223,265	17.7%
	C	78	622,498	72,331	11.6%
	Subtotal	151	2,061,538	323,227	15.7%
<i>Kansas City, Kansas</i>	A	5	401,530	30,155	7.5%
	B	40	1,022,928	156,781	15.3%
	C	88	1,564,340	155,753	10.0%
	Subtotal	133	2,988,798	342,689	11.5%
<i>North Johnson County</i>	A	7	728,903	63,624	8.7%
	B	214	7,300,348	805,480	11.0%
	C	237	2,130,015	249,044	11.7%
	Subtotal	458	10,159,266	1,118,148	11.0%
<i>South Johnson County</i>	A	36	4,772,367	668,307	14.0%
	B	344	16,811,417	1,568,985	9.3%
	C	165	1,434,376	149,803	10.4%
	Subtotal	545	23,018,160	2,387,095	10.4%
Total Market	A	103	18,008,595	2,798,450	14.9%
	B	1,299	53,596,358	7,500,685	15.2%

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C	1,352	17,518,484	2,274,096	13.7%
TOTAL	2,754	89,123,437	12,573,231	14.1%

The following table (Table 1.2) 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.

OFFICE MARKET – MACRO & MICRO VIEWS

Table 1.2

KCI AREA		NORTH OF RIVER		KCMO		METRO	
Bldgs.	SF Base	Bldgs.	SF Base	Bldgs.	SF Base	Bldgs.	SF Base
43	2,511,611	324	7,841,729	914	44,231,339	2,754	89,123,437

The chart below, Table 1.3, indicates the relative size of office markets for ten (10) regional markets with which Kansas City often competes for business and real estate development projects. The Kansas City markets fits roughly in the middle of these ten regional markets. Kansas City will have to continue to use all of its market, incentive and life style advantages to increase its growth in relation to the upper tier competing markets.

Table 1.3 Office Bases – Multi-City Comparisons

Office	Base/ Square Foot
Chicago	378,531,746
Dallas/Ft. Worth	278,675,004
Denver	160,456,071
Detroit	159,487,099
St. Louis	105,490,568
Kansas City	89,123,437
Columbus	78,711,775
Indianapolis	70,497,302
Nashville	50,055,679
Memphis	33,339,431

NORTHLAND OFFICE SUBMARKET

Northland Office Submarket Overview

Our primary focus area for the Kansas City International Airport is located in the North of the River/Northland submarket. This market is made up of 2 counties; Clay County to the Northeast and Platte County to the Northwest. This submarket contains approximately 7,841,729 SF of office space with approximately 1,438,166 SF vacant. That is an overall market vacancy rate of 18.3%.

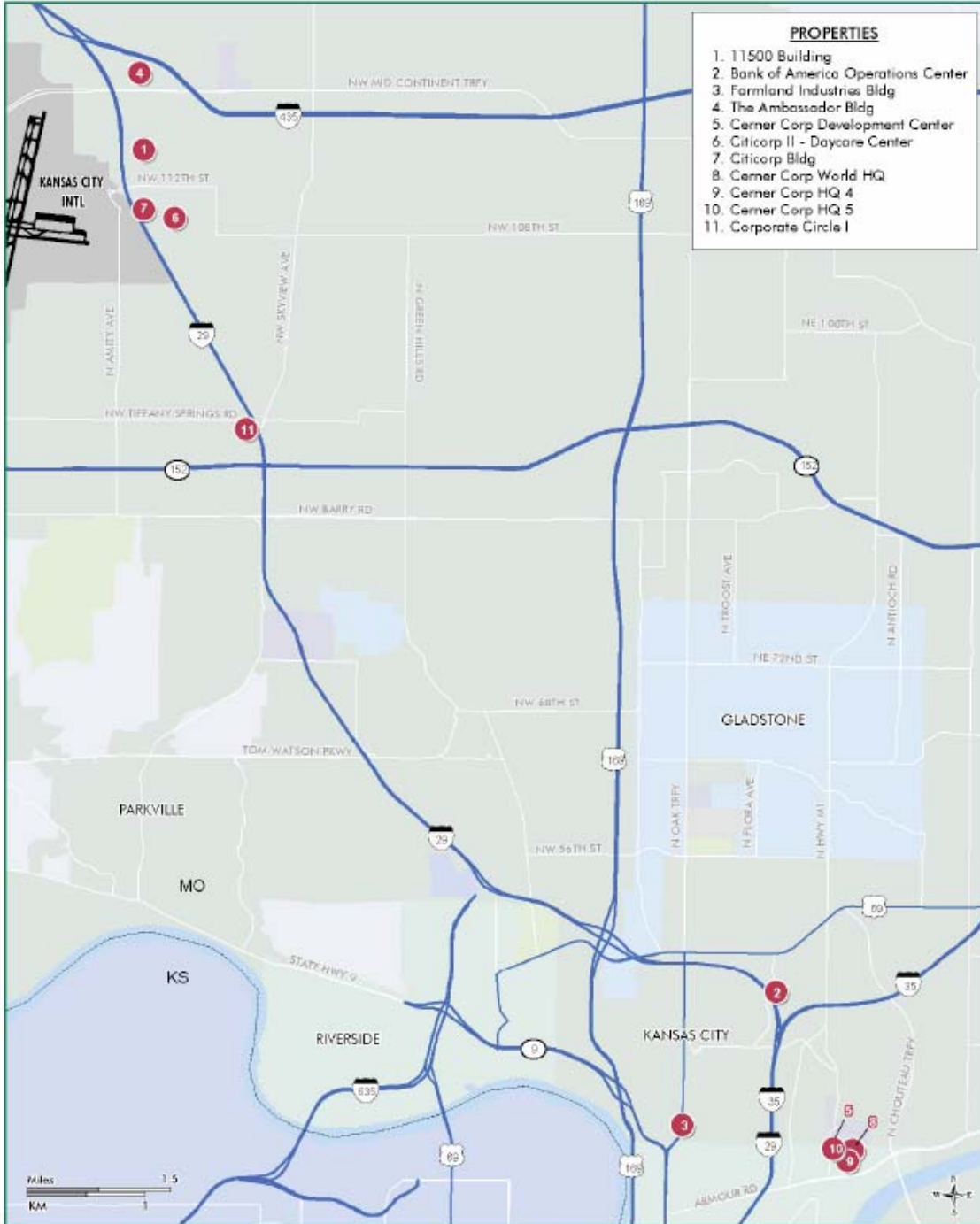
While the Kansas City International Airport serves the entire Kansas City Metro area and beyond, the economic impact of new office space creation in this submarket will primarily serve the North of the River submarket.

Following are listed the larger office buildings, office parks and major employers currently serving this submarket.

Northland Office Properties larger than 100,000 Square Feet
Table 1.4

Building Address	Building Name	Class	City	County Name	Year Built	Rentable Building Sq Ft
11500 NW Ambassador Dr	11500 Building	B	Kansas City	Platte	1972 Remodled in 2006	456,000
2001 NE 46th St	Bank of America Operations Center	B	Kansas City	Clay	1982	319,000
3315 N Oak Tfwy	Farmland Industries Bldg	B	Kansas City	Clay	1956	265,000
12200 NW Ambassador Dr	The Ambassador Bldg	B	Kansas City	Platte	2001	240,000
2902 Rock Creek Pky	Cerner Corp Development Center	A	Kansas City	Clay	2003	200,390
7925 NW 110th St	Citicorp II - Daycare Center	B	Kansas City	Platte	1995	140,185
11100 NW Ambassador Dr	Citicorp Bldg	B	Kansas City	Platte	1994	132,000
2850 Rockcreek Pky	Cerner Corp World HQ	A	Kansas City	Clay	2003	132,000
2800 Rock Creek Pky	Cerner Corp HQ 4	B	North Kansas City	Clay	1980	119,966
2900 Rock Creek Pky	Cerner Corp HQ 5	B	North Kansas City	Clay	1983	119,966
7300 NW Tiffany Springs Rd	Corporate Circle I	B	Kansas City	Platte	1988	117,440

North of the River Office Properties larger than 100K



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Northland Major Office Parks

Tiffany Springs/Northpointe – located within three miles southeast of the airport, and home to Citicorp and the world headquarters of Farmland Industries, amongst several others.

Zona Rosa – a mixed use, retail, office & residential space, developed and built within the past 4 years, catering to the Parkville & Northland residential consumer with a heavy national-chain retail blend flavor, including Dick's, Barnes & Noble, Hereford House, DSW, Gap, Marshall's and Abuelo's. Condo, office & villa availability offers variety in use of space. Second phase planning is currently in progress, involving computer-monitored parking garages and higher-end big-box placement.

RockCreek, Cerner Campus – Single-company campus stretched over four buildings, and over 732,000 square feet of rentable building area.

Briarcliff- heavily upscale office space catering to the higher-end master planned developments within the 1-to-3 mile radius – see buildings.

Tuileries- Boutique style office space with a European flavor boasting old-world replicas of famous monuments, landscape architecture and a high-end retail component.

Northland Major Employers

MetLife – Insurance firm employing over 100, using a 10-year lease in over 40,000 square feet in the Briarcliff office park.

ADT Security Services, Inc. – Personal security services and home systems with over 150 employees, the company owns the property in which it does business. The office space encompasses roughly 85,000 square feet near the airport.

Valentine-McCormick- Ligibel, Inc. – With over 200 employees on the Richards Road location, the business services firm has a ten-year lease expiring in 2007.

Cerner Corporation – Data processing & computer systems company which owns several office spaces, which add up to over 500,000 square feet in the Rock Creek office park campus.

Capgemini – In the center of the Northland, midway between the airport and the Liberty border of the KC suburban limits. This business services group occupies over 13,000 square feet on North Oak Trafficway, the bisector of the Northland region, but has recently announced a relocation to Lee's Summit, MO.

Park Hill School District – The district's physical address is 7703 NW Barry Road. The district owns 1.5 million square feet of buildings and is one of the largest physical businesses in the Northlands.

Ferrell Gas – This utility is wholesaler and retailer of various energy services. It occupies roughly 28,000 square feet of owned space with 300 employees, situated at the northeast portion of the Northland, Liberty.

Northland Medical Office Market

The North of the River submarket contains a total of 47 medical facilities that are strictly utilized for medical purposes. Medical properties have approximately 1,079,783 SF with 170,330sf vacant, which is a vacancy rate of approximately 6.3%.

There are currently five (5) hospitals that serve the Northland; North Kansas City, Liberty, Children's Mercy and two Saint Luke's locations (Barry Road and the second in Smithville)

North Kansas City Hospital is located in North Kansas City on a 72-acre campus. The hospital is home to 550 physicians and 45 medical specialties.

Liberty Hospital employs more than 1,400 people and includes more than 350 physicians, covering all medical specialties. Liberty Hospital is also one of five, Level II Trauma Centers in the greater Kansas City area. The campus includes over 350,000 square feet of space.

Children's Mercy Hospital – Northland Branch is located near Metro North Mall (currently under redevelopment) situated conveniently to service the areas accessing 152, 169, North Oak Trafficway and Highway 29.

St. Luke's Barry Road employs over 500 and is located at the intersection of I-29 and Barry Road. The hospital is the Northland's newest general acute care hospital. Over 40 physicians representing many different medical specialties have offices on the Barry Road campus, which encompasses 83,000 square feet of space.

St. Luke's Smithville was founded by Dr. Arch E. Spellman in 1938, the Smithville campus is the Northland area's first hospital. It is located at MO 92 and US 169. facility has over 50 physicians on staff. The campus space consists of 157,200 square feet.

NORTHLAND HOTEL DEMAND

A recent feasibility study, "Feasibility Study, Proposed Full-Service Hotel, Kansas City, Missouri" was prepared for a proposed north of the river Briarcliff location. The study prepared by HVS International, Division of DFW Hospitality Consulting, LLC provided the following information about hotel market demand in this category:

Historical Supply and Demand Data

Smith Travel Research (STR) is an independent research firm that compiles data on the lodging industry; its published data is routinely used by typical hotel buyers. STR has compiled historical supply and demand data for a group of hotels considered applicable to this analysis for the proposed subject property. This information is presented in the following table, along with the market-wide occupancy, average rate, and room revenue per available room (RevPAR). RevPAR is calculated by multiplying occupancy by average rate, and provides an indication of how well rooms revenue is being maximized.

Table 1.5 Hotel Historical Supply and Demand Trends (STR)

	2000	2001	2002	2003	2004	2005	2005*	2006+	Change 2000- 2005+
Avg Daily Room Count	3,306	3,159	3,303	3,303	3,303	3,321	3,303	3,516	
Avail Room Nights	1,206,550	1,152,864	1,205,595	1,205,595	1,205,595	1,212,198	901,719	959,868	
Change	---	(4.4)%	4.6%	0.0%	0.0%	0.5%	---	6.4%	0.1%
Occupied Room Nights	845,564	794,312	834,279	792,700	805,615	806,287	604,356	642,330	
Change	---	(6.1)%	5.0%	(5.0)%	1.6%	0.1%	---	6.3%	- 0.9%
Occupancy	70.1%	68.9%	69.2%	65.8%	66.8%	66.5%	67.0%	66.9%	
Average Rate	\$105.81	\$105.70	\$105.32	\$100.81	\$104.27	\$110.96	\$109.22	\$112.56	
Change	---	(0.1)%	(1.3)%	(3.4)%	3.4%	6.4%	---	3.1%	1.0%
Rev PAR	\$74.16	\$72.83	\$72.19	\$66.28	\$69.68	\$73.81	\$73.20	\$75.32	
Change	---	(1.8)%	(0.9)%	(8.2)%	5.1%	5.9%	---	2.9%	- 0.1%

*Average Annual Through September (2005 & 2006)

+Average Annual Compounded

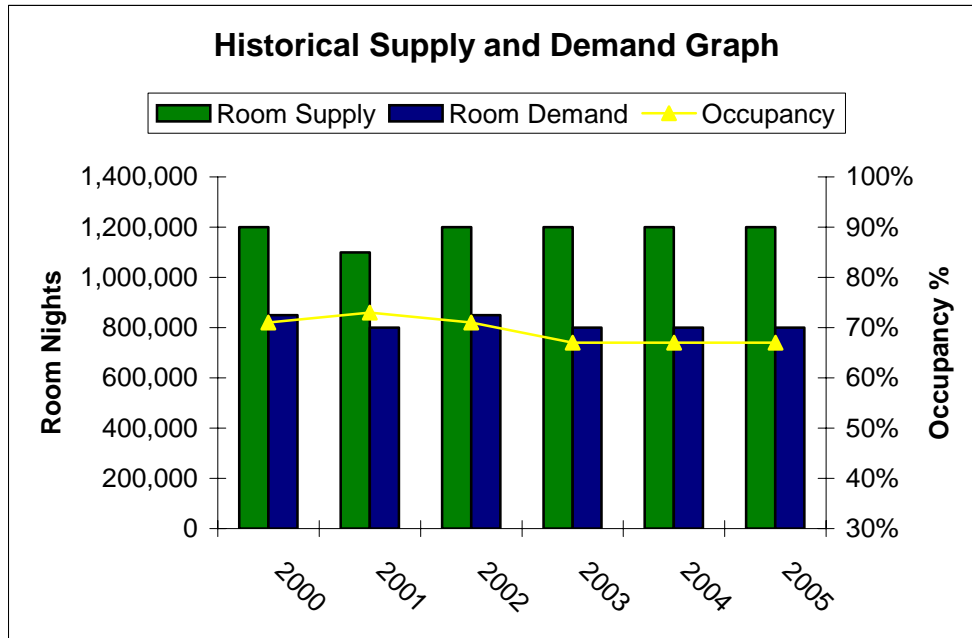
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Table 1.6 **Hotels Included for Data in Table 1.5**

Name of Establishment	City & State	Zip Code	Aff Date	Open Date	Rooms
Preferred Hotel Phillips	Kansas City, MO	64105	Sep 2001	Jun 1931	217
Hilton Kansas City President	Kansas City, MO	64105	Dec 2005	Jun 1926	213
Westin Crown Center	Kansas City, MO	64108	Jun 1973	Jun 1973	729
Hyatt Regency Crown Center	Kansas City, MO	64108	Jul 1980	Jul 1980	731
Marriott Kansas City Country Club Plaza	Kansas City, MO	64111	Aug 1999	Feb 1987	295
Inter-Continental KC	Kansas City, MO	64112	Jan 2006	Jun 1972	366
Hilton Kansas City Airport	Kansas City, MO	64153	Oct 1996	Apr 1973	347
Marriott Kansas City Airport	Kansas City, MO	64153	Sep 1984	Sep 1974	382
Embassy Suites KC Airport	Kansas City, MO	64153	Apr 1989	Apr 1989	236

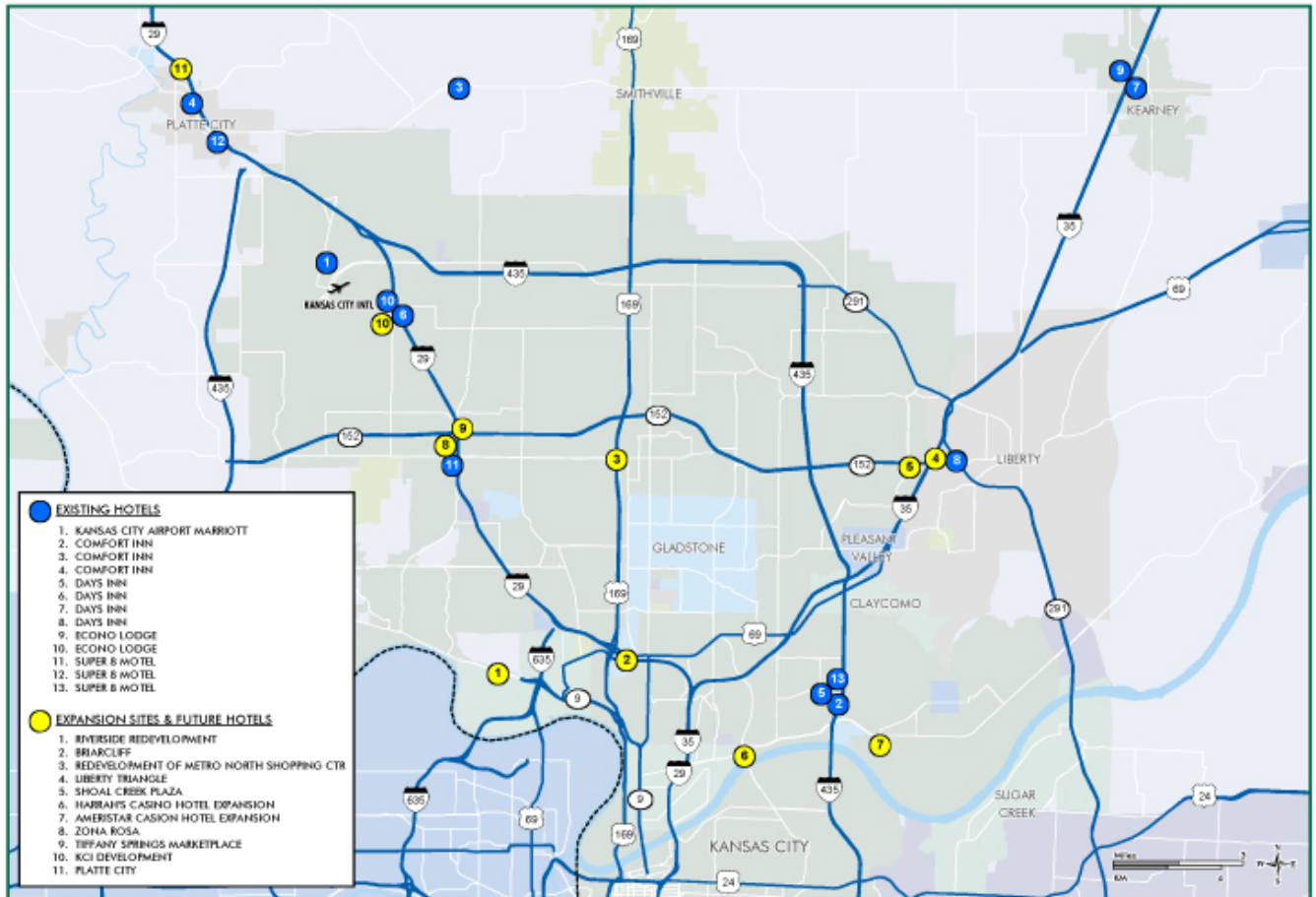
Total Properties - 9 **3,516**

Table 1.7 Historical Hotel Supply and Demand Graph



Room supply and demand have remained relatively static for the past five years, according to this report. Occupancy levels have had only moderate fluctuations from high 60's to low 70's percent. Increased development of office, retail and industrial projects in the Northland area can generate stronger demand in the future beyond the projects noted in the following map and narrative.

Expansion & Future Hotel Development Sites



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Conclusion: There is one planned budget business hotel, Holiday Inn/KCI Expo Center on Ambassador Drive in the KCI area, with a Residence Inn soon to be completed in the subject area. Additionally there is the planned full-service hotel, noted in the feasibility study quoted above. Potential for more budget and full-service hotels may grow in the future as the market matures and the KCI submarket takes on the more developed features of other larger market airport areas.

Northland Office Market- Outlook

The Northland office market has never been a stellar performer. In fact, of the office market statistics collected, they are split into nine different submarkets for the entire Kansas City Metropolitan Area. Of these nine, eight are south of the Missouri River and North of the River is one submarket. The entire market for Kansas City is 89 million square feet of office space with less than 8 million square feet located north of the Missouri River, or about 9% of the market. On top of the low percentage of the total market, one would expect higher occupancy level; however, this submarket is also the second weakest performing submarket with a vacancy rate of over 18.3%. The rest of the metropolitan is averaging 14.1%, for the end of 2006.

There are some areas of interest and success. The Zona Rosa shopping area at I-29 and Barry Road, in addition to high end retail shops, includes apartments and about 40,000 square feet of office space. The office space is currently over 85% leased at rates that are \$5 to \$6 per square foot higher than the average market rents, which are currently about \$15 per rentable square foot. Briarcliff Office Park, located at Broadway and Highway 9, has recently completed about 40,000 square feet of the retail shops known as Briarcliff Village, and opened in the summer, 2006, at 100% occupancy, at \$23 rents. Briarcliff will break ground this fall on a Class A, 210,000 square foot building. This building is expected to have pre-leasing activity of nearly 50%. It appears that if quality product is built with other nearby amenities, space will lease. However, a good portion of the leasing activity has come from other Northland buildings and has resulted in tempered positive absorption. 11500 Ambassador Drive, a 500,000 square foot building, has gone through a complete renovation. This class A building has an 85,000 square foot floor-plate and is a perfect building for the city to attract national and regional companies to the area, providing a good opportunity for positive absorption. However, the property that competes with this directly is 12200 Ambassador Drive, a 260,000 square foot building that the Aviation Department recently bought at auction, outbidding a user, Cleveland Chiropractic College. Unfortunately, for office developers, this market could have used a user to occupy and take this space off the market for some positive absorption. The city has taken a controversial position of offering 12200 at below market rents with incentives that no other landlord can offer. Cleveland Chiropractic is now focused on a building in Overland Park, Kansas, relocating from Kansas City, Missouri.

Due to the vast expanses of office vacancy in this submarket, the only true development opportunities will probably be in the build-to-suit variety. Most of the new buildings in the suburban office market of Johnson County, Kansas in the past 4 years have been build to suits, including companies such as Applebee's, Pharmaceutical Research, Quintiles, Farmer's Insurance, and Capital One. These are

the type of transactions the Northland needs to attract to spur office activity and there is plenty of land for this type of pursuit. Currently on the market are parcels over 1000 acres in Clay County (3 of them), 200 to 400 acres (7 sites), 100 to 200 acres (9 sites), 20 to 100 acres (24 sites) and 5 to 20 acres (17 sites). In Platte County, there is one site over 1000 acres, four that are 200 to 400 acres, 13 sites that are 100 to 200 acres, ten sites that are 20 to 100 acres and 2 sites in the 5 to 20 acres range. Office space leasing always follows the rooftops. The largest positive impact has been the increasing number of executive level housing in the Northland, which has resulted in increased demand for high end office space like Briarcliff and Zona Rosa.

NICHE RECOMMENDATIONS: Many airport oriented operations have chosen this submarket in the past for either data centers, back office uses, call centers or operations which are positively affected by more regular air travel of personnel. It is important that themed development is encouraged, both through incentive and planning, to bring similar high density type operations to expand office development on vacant parcels, both on Aviation Department owned land and other areas within the KCI submarket.