NAI Martens
2014 Forecast

#ICT

Economy

If we were all uncertain before, what are we today? The debt ceiling and new fiscal cliff are approaching exactly when Obamacare begins. In the end there will be another continuing resolution but the sequester will continue. That said, inflation will likely be on the rise as a result of pressure from the increasing federal deficit, rising rents, future quantitative easing by the Federal Reserve and a troubling national debt. With home prices expected to rise by 5-6% in 2014 that once again makes real estate a solid hedge against inflation. The unemployment rate has fallen as the number of employed has risen slightly and the labor force has shrunk. The labor force participation rate fell by 0.1 percentage point to 63.4%, slightly above a decades-long low. Still, the economy is creating just enough jobs to keep the recovery going. The U.S. economy will post GDP growth near 2% for all of 2013 and improve on that performance in 2014. Growth isn't booming but momentum is gaining, as business and consumer confidence strengthens.

We are at a point where we can see an upturn in the real estate cycle. Companies are becoming more confident in making real estate decisions. Certain commercial sectors are doing well such as the multi-family sector, which continues to thrive along with "big box" distribution-center space, high-end office space, creative office space and medical office buildings in certain markets. Then there are the Baby Boomers who are hitting the age in which they need increased medical attention causing a higher demand for medical office space. Today's workplace is increasingly focused on mobility, wireless office spaces, communal work areas and creative space. Properties that can help companies go wireless and set up non-traditional workspaces are doing so well in this recovery. And why are most downtown areas hot today while suburbs are cool? Younger people are drawn to urban lifestyles.

On a local and regional basis, mixed economic performance among various industries has resulted in a continuation of the status quo. Total employment in Wichita hovers around 285,000 and the unemployment rate is approximately 6.5%. None of those indicators are expected to change significantly over the next 12-18 months. Only modest gains are forecasted for employment growth over the next year resulting in limited increases in household formation and incomes. Retail sales growth has been moderate with the exception being automobile and home sales; both up significantly over last year.

While the traditional economic engine of aircraft manufacturing has yet to recover to pre-recession employment levels, the overall economy has held its own. The future requires a plan to aggressively sustain the long established manufacturing base and enthusiastically support the transition to more of a research, engineering and technology transfer based economy. Higher paying professional and technical job growth is essential for the long term. The market continues to transition from the dominance of aircraft OEM's. The future requires a plan of aggressively sustaining the long established manufacturing base of the economy and enthusiastically supporting the transition to more of a research, engineering and technology transfer based economy.

Retail

The days of putting retail on green fields after green fields are essential gone. Despite an improving retail market, large scale development in suburban markets will be the exception rather than the norm. Retail vacancy rates on national basis are forecast to decline from 10.6% in the third quarter of this year to 10.0% in the third quarter of 2014 with net absorption of retail space projected at 11.8 million square feet in 2013 and 18.2 million in 2014. Rents should increase 1.5% and 2.3% in the next two years.

The retail market continues to be a bright spot in the overall Wichita market. Occupancy rates are increasing and rental rates are improving slightly and are expected to continue to do so in 2014. Towne East and Towne West malls are performing well and have continued to attract new upscale tenants in addition to compatible non traditional users. Bradley Fair, the market's premier lifestyle center, is reshuffling its tenant roster to make room for new upscale stores and New Market Square is moving forward with its final phase. Both are approaching 100% occupancy. The Wichita market continues to be attractive for home goods, sporting goods, off price merchandisers, health food and vitamin stores and other retailers expanding into secondary markets. A growing trend is for many retailers to offer smaller stores that fit specific market segments – because of this, Wichita will benefit.

Following major retailer migration to the market in 2012 and 2013, including CVS with four locations, a new Menard's site in Derby and a Sam's Club north of New Market Square, Cabela's, Marshals, Academy Sports among others, Wichita continues to be an attractive market for other retailers expanding into secondary markets. PetsMart is opening in One Kellogg Place, Sears Outlet is going in on Rock Rd. and more are on the way!

Occupancy has increased at a number of previous Class C properties with the addition of Wal-mart Neighborhood Grocers. While Wal-Marts have helped stabilize the properties, they've also served as a catalyst for the possibility of additional renovations and leasing. Suburban markets are seeing more activity with Wal-Mart opening in Augusta and Goddard and a freestanding Wal-Mart Neighborhood Market in Derby.

Absorption will continue to be seen in suburban strip centers and anchored community centers primarily for those with "main and main" locations. There has been no large scale retail development and little is anticipated in the future until such time as the existing inventory of platted developable property is absorbed and the economy supports more rooftops in key submarkets.

The proposed Caban Marketplace in Bel Aire has plans for a water park, sports complex and aquarium but nothing concrete has emerged. The large mixed use projects of Echo Hills at 55th St. N and I-35 and Southfork at I-35 and 47th St. S continue to plod along. The developers continue to be optimistic despite the fact that no major tenant announcements have been made. Hotspots through 2014 will be the 21st and Greenwich intersection as Regency Lakes fills out with the opening of the new Hobby Lobby, Slawson continues to market their two mixed use projects and the Wheeler Kelly & Hagney property sees the completion of the new Holiday Inn Express and G21 strip center. At K-96 and Greenwich, the $100 million GoodSports complex is nearing final funding approval and will further transform that submarket area. The 60,000 SF sports venue and adjacent hotel will serve as a catalyst for additional development. We can expect some continued growth along 21st from K-96 to Andover Road as opportunities continue to emerge. The next phase of Waterfront is under construction with Bread & Circus (Whole Foods) and Equity Bank being the first tenants. There will continue to be infill development through the northeast and southeast submarkets. With New Market Square as the anchor, activity will continue along Maize Road north to the K96 intersection. Ridge Rd and Tyler Rd north of 21st St. will see limited activity. It will be interesting to watch activity at Kellogg and Webb Rd. where it’s rumored that Costco has purchased property. Car sales have been brisk and east Kellogg auto dealerships are relocating and expanding. The Scholfield dealerships have continued to build around 13th and Greenwich and the future of their previous locations will be interesting to watch.

Fast-casual restaurants continue to lead the industry in growing traffic and unit count in an otherwise soft restaurant environment. Lenders have grown more aggressive in financing the franchisees of these and fast food restaurant brands. New nationals continue to enter the market such as Freebird’s Burritos and Firebird’s Steakhouse in the former Brooks Brothers space in Waterfront. Home goods retailers are benefiting from an increasing demand for furnishings as homeownership rates fall and consumers look to furniture and accessories to give rentals a more permanent feel. The wave of health food and vitamin stores, juice bars, boba bars, e cigarette shops will continue. Downtown has not been a competitive retail center since the out migration of the 1980’s. However, the restaurant and entertainment segment and small start up retail businesses seems to be flourishing. A combination of local owners, national franchises and company owned stores are continuing to fill up space in Old Town, the Delano District, Douglas Design District, Commerce St. and other locations. The food truck businesses is bringing a fresh alternative to the market and has venue expanded with retail sales trucks emerging. Downtown is now the place to be just about every weekend and on many days throughout the week. The list of destination events, activities and entertainment and dining venues continues to grow. The growing number of new housing alternatives are starting to provide a more stable customer base. The market is eagerly awaiting additional announcements on the future of Union Station now that tenants have been secured for the old depot building. Good things are happening.

Rental rates have increased slightly and are expected to continue to do so through 2014. However, Wichita’s average triple net rent of $15/SF for Class A doesn’t quite approach New York City's Fifth Avenue with an average asking rent of $3,050/SF, a new high for the shopping district. Newer retail spaces in key locations demonstrate mid $20/SF rental rates on a triple net basis and in some cases have exceeded $30/SF. The shift to e-commerce has big-box stores struggling, continuing a trend over the last few years. However, if the “bricks and mortar” locations will not suffer in the foreseeable future. A growing trend is for many “big box” retailers and others such as DSW and Office Max, to offer smaller stores that fit specific market segments or are more compatible secondary and tertiary markets.

Office

Office vacancies haven't declined much because total jobs today are still below that of the pre-recession level in 2007. On a national basis, the office sector is expected to see the vacancy rate decline from a projected 15.7% in the third quarter of 2013 to 15.5% in the third quarter of 2014. When it comes to rent growth in the other sectors, office rents are expected to increase 2.5% this year and 2.8% in 2014

Not unlike other segments of the Wichita market, office has essentially remained unchanged since the start of the recession. Construction activity has been limited to small suburban partially preleased projects and owner occupied free standing buildings. However, Koch began construction on a three-story, 210,000 SF office building, located on their 37th & Oliver campus. The new addition to their headquarters is expected to be completed by mid-2015. The occupancy rate still hovers around 20% for the overall market. The central business district and the northeast submarket are the dominate office markets in the city and comprise the bulk of the Class A space and the more successful Class B property. The concentration of office space in the southeast quadrant is in smaller Class B buildings serving the needs of the service sector and a certain segments of the medical office market. The former "Office This" development on East Harry snagged two significant leases with the opening of the 50,000 Starwood Call Center and the 31,000 SF space for St. Francis Community Services. The three-building 600,000 SF complex that Boeing recently vacated is the elephant in the closet. While not included in market statistics, it could have a significant impact, particularly if an out of market user were to occupy the space. Two 100,000 SF spaces adjacent to the Boeing property are currently being marketed as well as the U.S. Postal Service vacating their processing center on South Oliver in the future. These properties represent an opportunity for future call center locations. The downside is that these locations lack employee amenities and dining options. Northwest continues to see office users absorbing space in traditional retail properties and 5-10,000 SF office buildings with good accessibility and visibility. New and existing medical office and free standing properties have emerged along west 21st Street and north of 21st along Maize Road and Tyler Road.

Older northeast office parks such as Polo and Tallgrass have seen a little churn over the last year but are well occupied with stable rents. There are few free standing Class B buildings with above average vacancies. Those tenants looking for quality Class A space will find large blocks hard to come by even though there are opportunities for those looking for smaller space. With Northwestern Mutual moving to the Hartman office building, they only have approximately 5,000 SF available and the 11,728 SF Keller Williams space in Waterfront's Adams Jones building is available. Overall Class A rents are in excess of $20/SF full service and the occupancy rate above 90%. There is no shortage of development land with sites available in and around Waterfront, Cross Creek and other platted and unplatted locations including future availabilities at Murfin's Beech Lakes property. The only new non-owner occupied development underway is Cranbrook which has been successful in leasing two 10,000 SF buildings with a third to start pending preleasing. Cross First Bank and Equity Bank are building at 13th and Webb and Clark Development's new offices are about complete in Waterfront. The 32nd St/Cypress Ct. corridor has been fairly successful with recent development focusing on governmental agencies which has tempered private sector interest to a limited degree. Vantage Point Properties reacquired the three building, 106,000 SF Wilson Estates property for $8.8 million at auction after the previous owners defaulted. This puts the property back in stable hands and it remains one of the premier office locations in the market. The future of the Premier Office Park (previously Thorn America) is still cloudy as the ownership remains in bankruptcy. LNR, one the countries largest loan servicers, has taken over ownership of Brittany I & II (along with Epic Center) from its owners.

Downtown remains the most interesting market. The ripple effect of the Real Development's investment in the core area continues to be felt. Two of their properties, the Landmark Square and the Farmers and Banker's buildings were recently sold at auction for less than $10/SF and their centerpiece, the Wichita Executive Center, has been taken back by the lender, Security National. The bank is aggressively marketing the property, promising improvements to the HVAC systems, elevators and a parking garage, along with other cosmetic upgrading. The U.S. Immigration Service and the IRS have relocated to 555 N. Woodlawn, leaving vacant their previous location on W. 3rd Street, south of City Hall.

On the positive side, the overall Class A market and those better maintained and well located Class B properties are enjoying fairly good occupancy. The Epic Center, Bank of America, Farm Credit Bank and Riverview buildings all are doing well. River Park Place continues to be competitive with new ownership making improvements to the riverfront. There have been and continue to be a number of exciting development going on downtown that help the viability of the office market. The completion of Block I with the new Ambassador Hotel, the stunning Kansas Leadership Center and Health Foundation buildings and the adjacent parking garages a great addition to the CBD. Airbus' continued expansion in Old town. As noted in other sections of the report, retail, entertainment, restaurant, housing and public venues all help to support the office market. Union Station has he potential to bring additional space to the market and will be a solid competitor to the existing office market for the right tenant.

Outside of a number of government agency leases, such as the Defense Contract Audit Agency and the Defense Contract Management Agency have moved to the Lux (former Protection One building) there have been few, if any, large private sector CBD leases in the last year. Activity may pick up as there are a number of large downtown tenants with leases expiring in the next few years. Options may be limited in existing buildings. This same scenario occurred several years ago and many of the tenants opted for new build to suit and build to own options in the suburbs. Compounding this situation Kansas Department of Family and Children Services and Workforce Alliance have issued RFPs to relocate from their downtown locations.

The challenge for downtown remains the bulk of the Class B property and the glut of Class C buildings that suffer with economic and functional obsolescence and a lack of parking. Even if a portion of the available space could be brought back to marketable condition, there are not enough potential tenants to full the space. Unfortunately, we see a continuation in the decline of many of the marginal properties and the loss of available parking in garages due to structural deterioration. These are eyesores on the façade of downtown and will continue to exacerbate the situation.

The national outlook calls for vacancy rates in the office sector to decline from a projected 15.7% in the third quarter to 15.5% in the third quarter of 2014. Rents for office space are expected to increase about 2.5% in 2013 and 2.8% in 2014. In Wichita, the current Class A occupancy rate of 87% in the CBD and 92% in the primary northeast market will see some improvement over the next 12-18 months. While there will be rent increases in selected buildings, the current average asking rents of $15.50 and $19.50 respectively will not increase. The Class B market in the northeast market will firm slightly with rents and occupancy rates increasing moderately. We expect no improvement in the Class B market in the core. In fact, the occupancy rate could decrease pending the relocation of tenants in select buildings. There will be no new speculative construction outside of additional space in buildings that are at least 50% preleased at start of construction. Owner occupied construction will continue in key locations but generally will be less that 20,000 SF.

Medical Office Space

Medical office space seems poised for continued growth. Fueled by an aging population and a strong system of public, private and university hospitals, healthcare expansion continues to be an economic heavyweight. One of the most noteworthy medical real estate trends is consolidation. Whether through mergers, acquisitions or strategic alliances, hospital systems and healthcare networks across the Midwest and the nation are coming together to form larger entities at a rate never before seen in the industry. Via Christi, recently acquired by Ascension Health, and Wesley (HCA), which recently acquired the Warren Clinic and the Galichia Heart Hospital, have excess space and are not anticipated to expand in the near future. Medical office space is not just getting bigger—it is also getting smaller. At the same time that large new specialty centers are on the rise, we are seeing a corresponding increase in much smaller spaces focusing on convenience and access. These locations—which are typically in the 4,000 to 5,000 SF range—are frequently located in strip malls and existing retail centers and focus on providing a specific medical service such as dialysis, physical therapy or pain management. Franchise and privately owned chiropractic, dental, urgent care centers and after-hours clinics are the fastest growing category of small-scale medical office space. There is a synergy here between these small sites and the new consolidated medical facilities: smaller offices that are affiliated with larger networks can funnel patients to the larger centers and also serve as a kind of brand ambassador—expanding and extending a hospital’s visibility within the community.

Industrial

Unemployment remains higher than historical averages and job growth is sluggish. Surprisingly, this hasn't slowed the demand for industrial warehouse space and modern distribution centers across the first tier markets in the Midwest and the nation. Industrial vacancy rates on a national basis are estimated to fall to 8.7% in the fall of 2014. Net absorption of industrial space nationally is anticipated at 102.0 million SF in 2013 and 105.8 million SF in 2014. Rents increases are anticipated at 2.4% this year and 2.6% next year. The lowest industrial vacancy rates are all in coastal areas.

According to a recent report, an estimated 40% of existing U.S. warehouse space is old enough to be considered functionally obsolete. Not surprisingly, the available inventory in the Wichita market is much the same. A lack of sprinkler systems, higher ceiling heights and limited parking and drive areas all limit the depth of potential users.

The Wichita market is improving as 2012 saw the largest volume and square footage of sales since 2007. This trend has continued through 2013. The overall vacancy rate for general industrial/manufacturing, warehouse and distribution and Flex/R&D space continues to hover around 8% despite the number of less than competitive properties. However, good quality, well located properties are doing well with low vacancies and above market rental rates. The predominate submarket areas are the northeast and southwest with demonstrated vacancy rates of less than 10% for manufacturing and warehouse space. Flex and R&D space is performing a little below the market with vacancy rates of 15-19%. Rental rates continue to be depressed with essentially no movement since the start of the recession. Even though market conditions have improved and there is a shortage of competitive properties, owners are hesitant to raise rents. Smaller properties are pushing the high $5/SF range and larger properties in the mid $3/SF. The market average is around $3.75/SF on an industrial gross basis. Flex space is offered at an average on $9/SF with quality properties on the market at $9 to $17/SF triple net, depending on the size, finish and use of the space.

There continues to be acquisitions, consolidation and mergers in the industrial sector. Not just with original equipment manufacturers (OEM) but among their vendors and suppliers. Regional and out of state companies have targeted local firms with a strong track record and have found ownership willing to sell their companies. After years of successfully building their businesses, many owners find that today is an ideal time to cash out as values are the highest they have been in years. This will create opportunity as some of these companies consolidate creating new available space or expand creating additional demand. Also, a number of these companies and others in the market are looking at sale-leaseback options to generate funds for operations and expansion or to take advantage of market values based on today's rate of return.

The recent relocation and layoff announcements at the major aircraft manufacturing firms will have little impact on the industrial sector. The companies in their supply chain have diversified their business since the start of the recession and are less dependent on the OEM manufacturers. Additionally, vacated properties on their campuses have not had an impact on the market as they either have not been brought to the market, have been absorbed for industrial or alternative uses or are specialized space that will require a unique user. Most manufacturers and suppliers who have had space requirements have relocated to the few available for lease properties, expanded their existing building or in some situations bought land and built new facilities. Additionally, their space requirements are a little less than previously required as technology has reduced both manpower and floor space requirements – doing more with less. Wichita has never been a strong warehouse and distribution market. A number of major manufacturers who required material storage or completed inventory storage have now gone to more just in time delivery or have transitioned to other markets. One sector which has experienced increasing demand is public storage warehousing. Several owners have looked at expansion but have backed off due to the costs associated with new construction and their lack of confidence in the longevity of the current demand cycle.

The northeast and southwest submarket areas will continue to be the hotspots for industrial activity. Higher quality buildings are in short supply in each area. The northeast K-96 corridor and the Comotara area to the north will remain a desirable submarket. The Northrock Business Park has built out its available land inventory with the completion of a new 17,000 SF speculative building and the developer has recently acquired additional land. There has been a little activity in the Bel Air Industrial Park and that will probably continue. Park City will see consistent interest in available property along I-35. The southwest quadrant, particularly along West St and K-42 will maintain its reputation as a desirable area. Speculative properties have merged along West St. including a 90,000 SF building with approximately one-third leased and a 20,000 SF property that has been on the market pushing a year. The MacWest Business Park location is in development and will offer 28 acres of industrial land.

There has been little to no speculative construction; just over 100,000 SF since the start of the recession. Those few buildings which have been brought to the market face occupancy challenges due to their above market rents. Several projects remain on the drawing board, some as long as four years, waiting for an improving economy and/or an anchor tenant. Under the assumption that economy continues to improve and the resulting increase in demand should result in higher rents and increased speculative development.

Investment

On a national basis, sales of major properties (over $2 million) advanced 24% on a yearly basis during the first half of this year. Most property types registered double-digit growth rates, signaling strong investor interest in commercial assets. Sales of properties at the lower end of the price range (mostly below $2 million) increased 12% on a yearly basis. Portfolio sales made up a significant part of transactions and hotels were another major component of the top portfolio transactions. In line with growing demand for properties, prices rose 8% on a yearly basis. Prices rose the most for apartments (15%) and retail buildings (13%). Office buildings were up 7% year-over-year. Industrial properties saw a 5% decline from a year ago. Cap rates inched up 17 basis points, to an average 7% nationally across all property types. Cap rates in the Wichita region run 100 to 150 basis points higher. For lower priced properties (below $2M), prices increased 2% year-over-year. Investor interest in secondary and tertiary markets continued in the first half of this year as options in tier one markets dwindled.

For the smaller, single-tenant NNN deals, interest rate movement hasn't created too much turmoil. This is due in part to many of these assets being purchased all cash through 1031 exchanges or with capital that has been sitting on the sidelines. Demand remains strong for credit tenant investments as buyers seek a stable return. Thus far into 2013, sales of single-tenant properties have increased roughly 10% year-over-year, and the average cap rate remains around 7%.

Distressed properties accounted for $118 billion nationally and across all property types in the first half of the year but have not been a factor in the local market. A few properties acquired at inflated values prior to the recession, such as Wilson Estates, have worked their way through the system and others are in bankruptcy or being managed by special servicers. Many local and regional investors who waited on the sidelines for distressed properties to emerge are still there as the 'extend and pretend' policies of lenders allowed the borrower to retain their position. New commercial distress is on a downward trend, as asset values continue to rise.

While demand remains high, Wichita remains somewhat under the radar screen for institutional investors. Challenged by the lack of investment grade property and ownership that is content to hold investments that generate solid cash flow, activity remains limited and is not expected to increase in the near future with few Class A properties coming to the market. The only offerings are the Stinson Morrison Building in Waterfront and the Riverview Building in the CBD. River Park Plaza, also in the CBD, sold earlier this year at $55/SF. The sale at auction of Wilson Estates at $86/SF was rumored to be around an 8% deal. There have been very few sales in the retail or industrial investment market and those that have sold were smaller deals such as the lender owned Bristol Square in Derby. The exception may be the Derby Marketplace sale also in Derby. Local and out-of-state investor appetite is strong for all types of properties with reasonable cash flow and upside including mobile home parks, Class B and C multifamily and other deals that normally occur on an off market basis.

Here's the good news/bad news scenario. Consumer confidence is at its highest point since 2007 and an overall economic recovery is in place. The stock market has been labeled over-bought by many and could be facing its own correction. If that happens, investors may flee to hard assets. While cap rates might rise, a major correction in the immediate future is not foreseen. Equity and funding for the bulk of possible local investment properties isn't an issue.

Investors historically have been willing to trade return for safety, and we expect that to be the case moving into 2014. We're optimistic that the logjam of investors holding properties will ease next year and deal flow will increase across the board. Local and out-of-state investor appetite is strong for all types of properties with reasonable cash flow and upside.

Demand remains strong for triple net credit tenant investments as buyers seek a stable return. Our recommendation for sellers is to take hard look at their assets and opportunities to move their money as values for most properties are currently at their highest. Our forecast is for interest rates and cap rates to rise through 2014 and values for most properties are currently at their highest. Interest rates have been held artificially low by the Fed's quantitative easing. Last August, yields on 10 year Treasury notes climbed above 2.8% for the first time in two years.

Multifamily

Nationally, multifamily housing is expected to see an increase in vacancy rates of only 0.1 percentage point, moving from 3.9% in the third quarter of 2013 to 4.0% in the same quarter next year with construction rising to meet increased demand. Net absorption of multifamily housing is projected at 266,700 units in 2013 and 259,800 units in 2014. NAR said that a vacancy rate below 5% is considered a landlord's market where demand justifies higher rents. Consequently average apartment rents are expected to rise 4.0% in both 2013 and 2014. However, with new construction rising to meet increased demand in the multifamily sector, it will likely see vacancy rates edge up only slightly. Multi-family is doing well in part because Millennials — residents who are 20 to 35 — are entering their prime rental years.

Locally, after more than a decade of minimal multi-family construction activity, numerous developments are planned for the Wichita market. Fueled by increased occupancy rates, historically low interest rates and a demand for Class A product, over 2,500 units are in the planning, development or construction phase. With the recession following the multifamily boom, new development virtually came to a halt over the past decade. The Wichita multi-family market is currently operating at 93% occupancy with most Class A and B properties performing above market averages. Rents remain depressed compared to other markets. They have risen enough that, coupled with lower interest rates and available financing, new construction can be justified. Nearly 60% of the planned units are located in northeast submarket and are positioning themselves as Class A amenity rich developments with rental rates in the $0.95 to $1.15/SF range. Bennington Place's 138 units are complete on at Maize Rd and 21st and Chisholm Lakes has started delivering units at K-96 and Oliver. Stoney Pointe is still on the drawing board at 29th and Greenwich and SunStone is under construction at Kellogg and Andover Rd. Adding to the mix is the increasing number of duplex units proposed and/or under construction. While offered at price points significantly higher that the traditional multifamily units, these developments have proven to be very successful.

The downtown and Old Town multifamily market has continued to flourish as the urban lifestyle continues to appeal to a broad spectrum of potential renters. Over the past 20 years, warehouses and office buildings have been converted to apartments and condos. These projects have been well received and consistently operate at 98% to 100% occupied. Additionally, these units command the highest rental rates in the market, varying from $0.90 to $1.50-plus/SF. There are plans for additional "rehab" projects in the CBD, however, for the first time in over 30 years, the

CBD will experience a significant amount of ground-up development. Three projects along the Arkansas River, two of which are under construction, are Value Place, River Vista and Corner 365, adding 300 units to the market. These properties should be well received assuming rents will be close to those proposed for the new suburban projects.

It is anticipated that the market can absorb the new higher priced units assuming they come on line over a reasonable timeframe and the economy grows at a consistent rate. Existing properties, with less attractive amenity packages and locations, may feel the impact the most and will likely experience a slight decrease in occupancy leading to a period of increased use of concessions. Urban development will continue to offer a mix of distinctive loft renovations and more traditional units; continuing to add to the viability of downtown living. The new suburban properties will focus on more amenity laden properties with conventional floor plans and higher rents. In the long run these trends will result in a shift in the market creating new standards for Class A multifamily; one with a high level of amenities and increased rental rates.

The Wichita multifamily market will be very dynamic in the coming years and the demand for multifamily investment properties will continue unabated. The demand for multifamily investment properties will continue unabated. Total returns from investments in multifamily are expected to decline slightly this year and next but should still top the real estate investment list.

Manufactured Housing

Buyer interest is very strong for manufactured housing communities (MHC's). Demand for affordable housing options and financing for owners to purchase manufactured units are filling park vacancies and boosting operations throughout the country. Owners report steady demand from tenants if they have move-in ready homes within their communities. Attracting home owners to vacant pads is more challenging. Manufactured home parks in most areas of the Midwest will remain hindered by competition from affordable housing prices. However, demand, and occupancy rates are improving.

Improving operations, steady cash flow potential, and generally higher yields than offered by other investment property types are attracting investors to manufactured housing assets. Sales activity has escalated throughout most areas of the nation as more first-time and exchange buyers seek a foothold in the market. Out-of-state investors are the dominate investor type in the Wichita regional market and they are paying the strongest prices. Sales volume has already strengthened in many Midwestern markets where cap rates for quality assets are typically 150 to 300 basis points higher. The Midwest was the only region to post a gain in the median price during the past 12 months but still remains lower than the national average. Strengthening operations nationwide will likely heighten investor interest. While financing by local banks has expanded for Class A and B assets with qualified buyers, lending is a little more difficult for Class C properties where owner financing or cash sales are more prevalent.

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