

# Wichita

2006 Commercial Real Estate Forecast



**Grubb & Ellis**<sup>®</sup>

Property Solutions Worldwide

Martens  
Commercial  
Group, LLC

*Independently Owned and Operated*

# Letter from the CEO



I am pleased to introduce the most recent edition of our Commercial Real Estate Forecast. The forecast is an important element of the exceptional research and analysis for which Grubb & Ellis is known and respected.

Our research department monitors the Wichita commercial real estate market, and analyzes a broad array of transactions, availabilities, characteristics, prices and other essential data. We maintain an exhaustive database of active properties throughout the market. We currently track over 1,400 commercial properties in the area. Our superior research capabilities support these efforts by providing market surveillance that assures first-hand knowledge of, and insight into, market activities that may affect commercial property throughout the area.

We remain convinced that 2006 will offer both significant opportunities and challenges. I offer this market intelligence to you with pride, pleasure and a reminder that we are here to help in any way we can as you improve, position or reposition your business to meet today's challenges and take hold of tomorrow's opportunities.

To that end, I sincerely hope you find this report, our sixth comprehensive forecast, a valuable and strategic resource.

Sincerely,

A handwritten signature in black ink, which appears to read "S. Martens". The signature is fluid and cursive.

Steven J. Martens, CPM, CCIM  
President and Chief Executive Officer

# TABLE OF CONTENTS

<b>Office Market Forecast .....</b>	<b>3</b>
<b>Retail Market Forecast .....</b>	<b>5</b>
<b>Industrial Market Forecast .....</b>	<b>7</b>
<b>Investment/Multi Housing Market Forecast .....</b>	<b>9</b>
<b>Brokerage Staff.....</b>	<b>11</b>
<b>Appraisal Staff.....</b>	<b>12</b>
<b>Appraisal Department .....</b>	<b>13</b>
<b>Company Profile .....</b>	<b>14</b>

Wichita 2006 Commercial Real Estate Forecast is a report published annually by Grubb & Ellis|Martens Commercial Group. To obtain additional copies or other Grubb & Ellis|Martens Commercial Group publications, please contact:

**Cory von Leonrod**

*Director of Business Operations/Marketing*

Grubb & Ellis|Martens Commercial Group

435 South Broadway

Wichita, KS 67202

Phone: 316.262.0000

E-mail: [cory.vonleonrod@grubb-ellis.com](mailto:cory.vonleonrod@grubb-ellis.com)

Internet: [www.buildingkansas.com](http://www.buildingkansas.com)

*Independently Owned and Operated*

Sources: G&E|Martens Commercial Group, LLC, The Martens Companies, Grubb & Ellis Company, CTR Database, Savage Report, LoopNet, Wichita Eagle, Wichita Business Journal, RE Capital Analytics, Wichita State University--Center for Economic Development and Business Research and the Census Bureau. Van Akkeren, Marco. "Economic & Real Estate Trends." PMI Mortgage Insurance Co. (Winter 2005). Longhofer, Stanley D. "Wichita Housing Market 2006." Center for Real Estate - Wichita State University. Longhofer, Stanley D. "WSU Center for Real Estate Releases its 3rd Quarter 2005 Home Price Index Figures" Center for Real Estate - Wichita State University. Press Release. (December 8, 2005): 1. Inside cover photo of Steve Martens courtesy of East Wichita News.

Note: Year-end 2005 numbers include estimates for the fourth quarter that were derived in November. Final published numbers may vary slightly. Totals may not add precisely due to rounding of numerals.

Reproduction in whole or part is permitted only with the written consent of Grubb & Ellis|Martens Commercial Group. Some of the data in this report has been gathered from third party sources and has not been independently verified by Grubb & Ellis|Martens Commercial Group. Grubb & Ellis|Martens Commercial Group makes no warranties or representations as to the completeness or accuracy thereof.

Look for the continued migration of professional businesses from the core area to the Northeast suburban markets-more specifically, the miracle mile from the WaterFront to Oak Creek. The three to five year supply of available land will continue to fuel the migration throughout the upcoming years.

The site for the new downtown arena has been identified. Groundbreaking is scheduled to start in 2007, with an anticipated completion in 2009. This location will have a positive impact on the surrounding areas; look for the Old Town district to benefit strongly from the residual affects.

The high vacancy and tenant turnover in the Central Business District has created a significant buying spree. The Minnesota based Real Development Corp. is acquiring downtown property, and now owns around 15 percent of the total Central Business District inventory. Marketplace Properties, the primary developer for Old Town, continues to develop new properties, including high-end loft condominiums.

As new construction continues in the suburban markets, tenants will have an opportunity to secure Class B building space at a favorable rate. The migration to the suburban submarkets is creating large blocks of affordable space in the core area. Rental rates for class A space will increase in 2006, due in part to the increasing costs of construction. Look for the new threshold to be in the \$22 to \$25 per square foot range.

In 2006, the low rents and aggressive tenant improvement allowances will keep tenants at an advantage when negotiating for existing space; this is especially true for credit tenants. Rents will remain low until vacancy drops. Concessions for tenants will remain prevalent throughout 2006, thus offering positive net migration opportunities.

In today's realm of investments, the office market doesn't fair as well as the others, which is predominantly due to the costs of tenant improvements that come with having to re-tenant an older property. As a general rule, office investors in this market come

## Market at a Glance

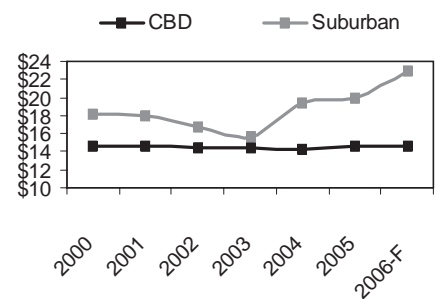
2005 Year End

	CBD	Suburb.	Total
<b>Rentable*</b>	<b>3,815</b>	<b>4,072</b>	<b>7,887</b>
<b>Vacant**</b>	<b>926</b>	<b>619</b>	<b>1,546</b>
<b>Vacancy Rate</b>	<b>24.3%</b>	<b>15.2%</b>	<b>19.6%</b>
<b>Class A</b>	<b>\$14.59</b>	<b>\$22.00</b>	<b>\$16.30</b>
<b>Class B</b>	<b>\$9.83</b>	<b>\$13.16</b>	<b>\$11.28</b>

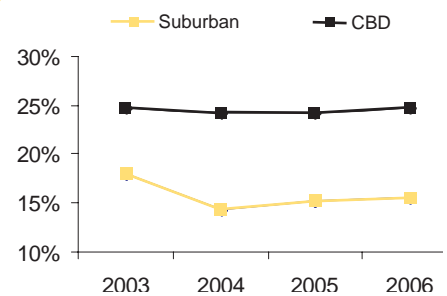
\* Square feet in thousands; excludes owner-occupied, medical, government  
 \*\* Weighted average asking rent/SF/year Full Service

## Class A Asking Rental Rates

\$/SF/Yr. Full Service, Year End

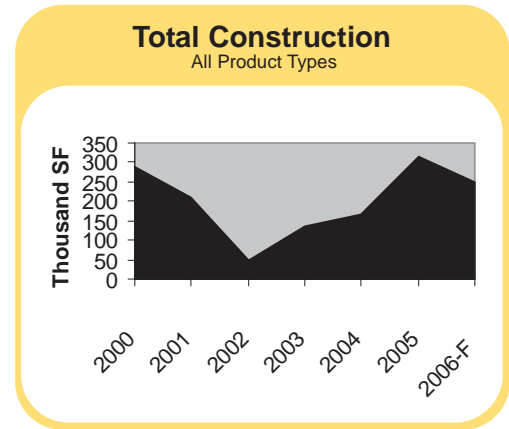


## Vacancy Rates



from outside of Wichita. Look for renewed interest in existing space as interest rates and construction costs continue to rise.

Perhaps the most intense segment of the Wichita office market is medical office space. 2005 marked the completed expansion of Wesley Hospital, the building purchase for the Wesley emergency/diagnostic center at 13th Street and Tyler Road and the completion of the Wichita Clinic facility at K-96 and 21st Street. Now under construction is the Kansas Orthopedic Center at K-96 and Ridge Road. Planned for 2006 are the expansions of both Galichia Heart Hospital and the Kansas Heart Hospital. Laham Development and Ritchie Associates plan to anchor the Cornerstone development at 21st & Andover Road, with the Kansas Medical Center, whose facility will be completed in 2006.



## Featured Clients



Delta Dental Plan of Kansas



Cox Communications



Franchise Services Corporation



Wichita Clinic

Consumers have demonstrated a willingness to continue spending during 2005, although at varied levels. The retail market is expected to remain on solid ground.

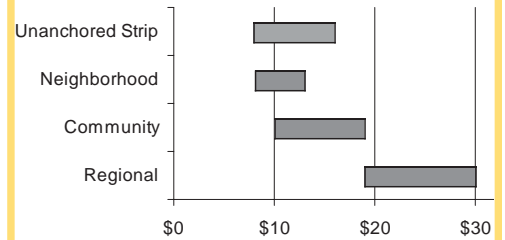
When complete, the 500,000-square-foot Regency Lakes development, located at K-96 and Greenwich, will offer a total of 12 to 16 restaurants and retailers. Super Target anchors the center, World Market is open for business and work is currently underway on the Chili's restaurant. Emprise Bank has purchased land at Regency lakes; at this time, no plans have been announced. The retail development at One Kellogg Place is nearing completion. Sportsman Warehouse purchased some of the remaining land, and will open for business in the Spring of 2006.

INTRUST Bank has purchased land at Oak Creek, located at 21st and Greenwich. Granite City Food and Brewery at 21st and Webb, B.G. Bolton's second location at 13th and Greenwich and Chester's Chophouse, located at the WaterFront (13th and Webb) opened for business in 2005. The success of the Granite City at 21st and Greenwich has led to the addition of a second location at New Market Square. The opening of Johnston's Clothiers at K-96 and 21st Street is significant as it is the first retailer to move east of K-96. Cross Pointe, located at 21st Street and K-96, has announced its first three tenants, which are two restaurants and one bank branch. Fritz Co. Grille is now open next to Johnny Carino's and Ted's Montana Grill at Fountain Square (K-96 and Webb Road).

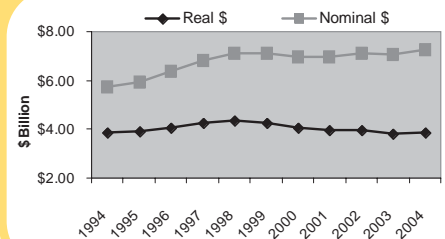
Famous Dave's opened its second location at New Market Square, located at 21st Street and Maize Road. T.G.I. Friday's announced that their first entry into the market would also be located in New Market Square. Texas Roadhouse made its first entry into the market with a west side location along Kellogg Avenue. Slumberland Furniture has opened both east and west side locations. Also announced was the relocation and expansion of the Harley Davidson dealership at 53rd Street North and I-135.

The success of the current developments underway will stimulate additional retail developments in adjacent sites that include free-standing restaurants, other big box retailers and even some strip or community centers. Look for spec development for small strip and

**Rent Range by Center Type**  
In-Line Shop Space, \$/SF/Yr. NNN



**Taxable Retail Sales**



neighborhood centers, and build-to-suits for national tenants to continue through 2006. The Northeast and Northwest quadrants will continue to expand.

Wichita has gained the attention of outside investors who are looking for good credit investments with higher cap rate returns. Wichita consistently offers attractive opportunities, and this trend is expected to continue.

Existing retail centers in the older parts of town are becoming less desirable to smaller tenants as is evidenced by the increased concessions offered for Class B and C space. Tenants seem to prefer the new centers where traffic counts are increasing. National retailers seeking space in the newer centers can anticipate a rise in asking rental rates, as well located strip centers often see asking rents in the \$25 per square foot range.

## Featured Clients



Granite City



BeautyFirst



Great Clips



Men's Wearhouse

Steady aircraft orders from private users and small commercial carriers, combined with the completion of the Boeing sale, have contributed to the 100-basis point decrease in market vacancy since year end 2004.

2005 was a unique year for Wichita, with few major sales occurring. However, the news was the sale of the Boeing commercial division. The sale included between 10 and 11 million square feet of manufacturing, office and warehouse buildings. In terms of gross square footage, this was one of the largest real estate transactions in Wichita's history.

Fueled by the health of Wichita's aircraft manufacturers, the leasing market stabilized in the second quarter of 2005. Average rent for warehouse space increased 4 percent, from \$3.54 to \$3.68 Industrial Gross per square foot. Wichita's industrial market is now in the expansion stage. For 2006, landlords should look for around 5 percent rent growth in quality Class B space.

The healthiest submarket is the southwest quadrant, which absorbed over 135,000 square feet of vacant space in 2005. In contrast, absorption was negative in the northeast quadrant where many properties were built before the 1940s and suffer from significant functional obsolescence.

New construction in the market will be limited mainly to owner-built properties. However, well located speculative developments with flex space in the 1,500 square foot range can still attract tenants out of older locations. For developers, a key index to watch in 2006 will be non residential construction prices, which were up 6.5 percent in the 12-month period ending in November 2005. That increase reflects some, but not all of the increased demand for construction materials caused by the hat trick of hurricanes, which bombarded the Gulf States since late August.

Currently, industrial property sales to investors are almost non-existent, but not due to a lack of demand. Wichita still has a shortage of quality buildings with medium to long term leases.

## Market at a Glance

2005 Year End

	Standard Industrial	R&D Flex	Total
<b>Total*</b>	<b>22,722</b>	<b>904</b>	<b>23,626</b>
<b>Vacant**</b>	<b>2,973</b>	<b>157</b>	<b>3,207</b>
<b>Vacancy Rate</b>	<b>12.4%</b>	<b>17.4%</b>	<b>12.6%</b>
<b>Rental Rate</b>	<b>\$3.68</b>	<b>\$10.03</b>	<b>\$4.02</b>

\* Square feet in thousands; includes owner-occupied

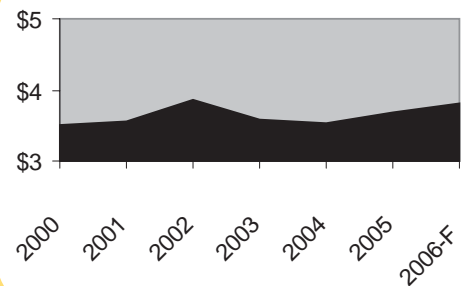
\*\* Weighted average asking rent/SF/year Industrial Gross

\*\*\* Total square feet does not include aircraft manufacturers campus space

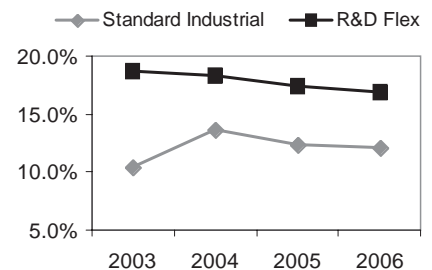
## Asking Rental Rates

\$/SF/Yr. Industrial Gross, Year End

\*\* Warehouse-Distribution Space



## Vacancy Rates



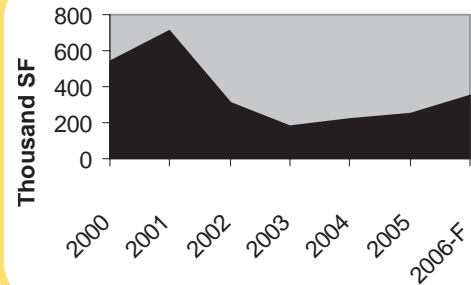


A big challenge for the industrial market is the limited supply of quality 15,000 - 40,000 square foot space. Availabilities for these types of properties have been limited, and the available inventory is mainly older, less functional space.

Overall, the industrial market has a positive outlook for 2006. Expectations are that the primary source for tenants and buyers will be service businesses as well as manufacturing & support companies for the aircraft industry. The most popular segment for new construction should be 10,000 to 30,000 square foot warehouses and office/warehouses.

## Total Construction

All Product Types



## Featured Clients



Sprint



iStar



USF Dugan



Protection One

# INVESTMENT & MULTI HOUSING

As apartment vacancies decrease throughout Wichita, local properties are now coming on the market in greater numbers than last year. After a stagnant 2003 and 2004, there were four Wichita multi-family transactions in 2005 with sale prices greater than \$5 million.

As shown in the chart to the right, Wichita is a price leader in the Midwest, offering the highest investment yields and the lowest acquisition cost per unit. For landlords, this means that when offered for sale, Wichita's apartment properties have a very strong appeal to out-of-town investors.

On a national level, average cap rates for apartment properties plunged to just 6.0% through October, as eager investors have found no shortage of available capital at low interest rates. With interest rates expected to increase in 2006, look for stabilizing cap rates and purchase prices.

The coming year will mark the return of new construction to the market. Wichita should expect new units built using the aid of low-income housing tax credits (LIHTC's). Furthermore, with the 1.5-year trend of declining market vacancy, construction of a sizable market rate property is also a possibility.

2005 investment activity was not as brisk for all property types, but not due to lack of demand. Nationwide, real estate is a hot commodity, which has pushed sale prices to record levels. Although investors are not shunning the Air Capital, one of Wichita's limiting factors is the insignificant supply of quality industrial buildings with middle to long-term leases.

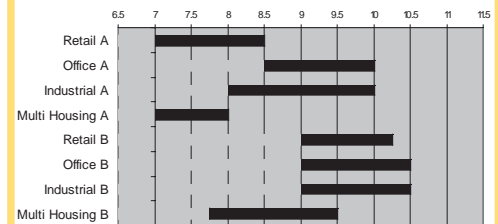
Due to a spongy leasing market and aggressive leasing concessions, office investment properties are a tough sell when competing with triple-net leased retail buildings. However, owners of underperforming properties can take solace in the quantity of outside investors entering the Wichita market to escape sub-six-percent cap rates found on the west coast. For 2006, expect out-of-towners to be a leading buyer type for office investment properties.

## 2005 Apartment Sales

Market	Average Cap Rate	Average Price per Unit
Wichita	8.7%	\$ 29,905
Columbus	8.3%	\$ 48,771
Detroit	8.2%	\$ 55,731
Cleveland	8.1%	\$ 52,158
Indianapolis	7.7%	\$ 70,627
Milwaukee	7.5%	\$ 60,263
Tertiary Midwest	7.2%	\$ 56,489
Cincinnati	6.9%	\$ 73,793
Kansas City	6.7%	\$ 47,106
St. Louis	6.5%	\$ 68,162
Chicago	6.0%	\$ 124,406
Minneapolis	6.0%	\$ 92,800

\*Transactions of \$5 million or greater  
National & Regional Data from RE Capital Analytics

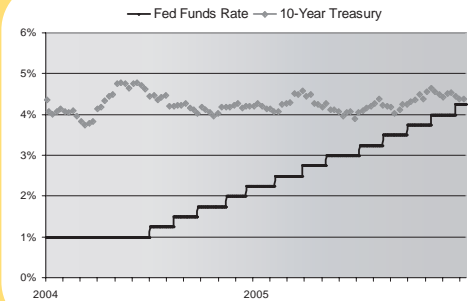
## Cap Rate Range by Market Sector/class



Although Wichita's retail market is nearing the summit, do not expect buyers to retreat down the mountain anytime soon. National retailers continue to make first appearances in the local market, and triple-net leased retail buildings are an attractive investment because of the strong leasing market and easier management relative to other property types.

An investment vehicle which has seen extensive coverage by national real estate publications is tenant-in-common (TIC) ownership structures, which allow multiple investors to purchase fractional ownerships in the same property. This makes real estate more affordable to the smaller investor. While this investment could find buyers in our market, you will see few, if any, Wichita properties sell to TIC sponsors, as these deals typically require a transaction size of \$10 million or greater.

## Fed Funds/10-Year Treasury



## Wichita Housing Market Update

### Wichita Housing Market

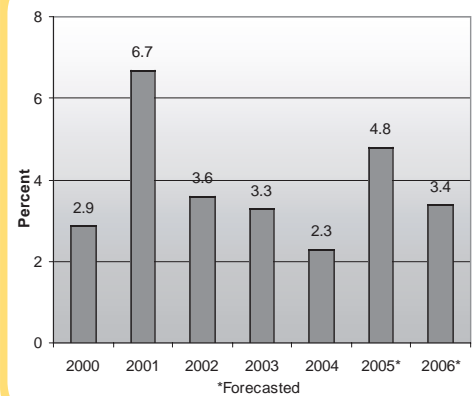
Primary Source: 2006 Wichita Housing Market Forecast, Center for Real Estate at Wichita State University

Most recent statistics through the third quarter of last year show strong numbers for Wichita's single-family housing market. Existing home sales jumped an estimated 5.2% in 2005, and new home sales were projected at 2,618, just below the 2004 level. Indications are that the new home buying spree that began in 2001 is slowing and new home sales should ease by another 1.6% in the coming year.

Perhaps the most comforting news is that there is little evidence of a "housing bubble" in Wichita, as home price appreciation has averaged 4.0% over the past five years. This is in sharp contrast to west coast markets that saw an average appreciation greater than 20% in 2004. Two other warning signs which remain in check locally are the use of interest-only mortgages the sales of new homes to investors who intend to resell quickly for a profit.

For 2006, look for another good year in the single-family market - if last year was an "A", then this one will be a "B+". The series of rate increases by the Federal Reserve are starting to push mortgage rates slightly higher. However, through the end of this year, rates will still be very low relative to historical levels, which will keep housing affordable. Sales of existing homes should increase about 1.5%, and overall price appreciation should be a respectable 3.4%.

## Single Family Homes Annual Appreciation & Forecast



# WICHITA'S LEADING COMMERCIAL REAL



Steven J. Martens  
CPM, CCIM  
President, CEO



L. Robert Boyd, SIOR  
Corporate Services



Scott Salome  
Industrial Advisor



Patrick Ahern  
Office Advisor



Troy Farha  
Retail Specialist



BJ Sheu  
Commercial Specialist



Jeff Englert  
Commercial Advisor



Grant Glasgow  
Commercial Specialist



Rodger Arst  
Facility Consultant



Jeff Walenta  
Commercial Specialist



Jim Zuperku  
Land Specialist



Josie Thompson  
Commercial Specialist



Andrew Braun  
Director of Property  
Services



Cory von Leonrod  
Director of Business  
Operations/Marketing



Dianna Schreiman  
Compliance Administrator



Nathan Farha  
Brokerage Assistant



Lee Whyte, MAI  
State Certified Appraiser



LeAnn Adams  
State Certified Appraiser



Steve Adams  
State Certified Appraiser



Kathryn Lammers, MAI  
State Certified Appraiser



Brian Klahr  
State Certified Appraiser



E. Carter Girrens  
State Certified Appraiser



Lenny Buchanan  
Staff Appraiser



Mark Lamendola  
Staff Appraiser



Kris Wessel  
Research Coordinator



Nimfa Niquette  
Vice President/  
Controller



Lanette Belton  
Appraisal Department  
Administrator



Ukpe Unuigbe  
Staff Appraiser



Brady Miller  
Appraisal Assistant



Christopher Johns  
Appraisal Assistant



Jonathan Berry  
Appraisal Assistant



Joshua Adamson  
Appraisal Assistant

# APPRAISAL DEPARTMENT

Founded in 1948, The Martens Companies has gained a regional reputation for excellence in appraisal, investment analysis, and an array of strategic services including market research, forecasting, site selection and feasibility studies. Currently we have offices in the following locations:

Corporate Office  
435 South Broadway  
Wichita, KS 67202  
Ph. 316.262.0000

Lawrence Office  
544 Columbia Drive, Suite 3A  
Lawrence, KS 66049  
Ph. 785.838.3557

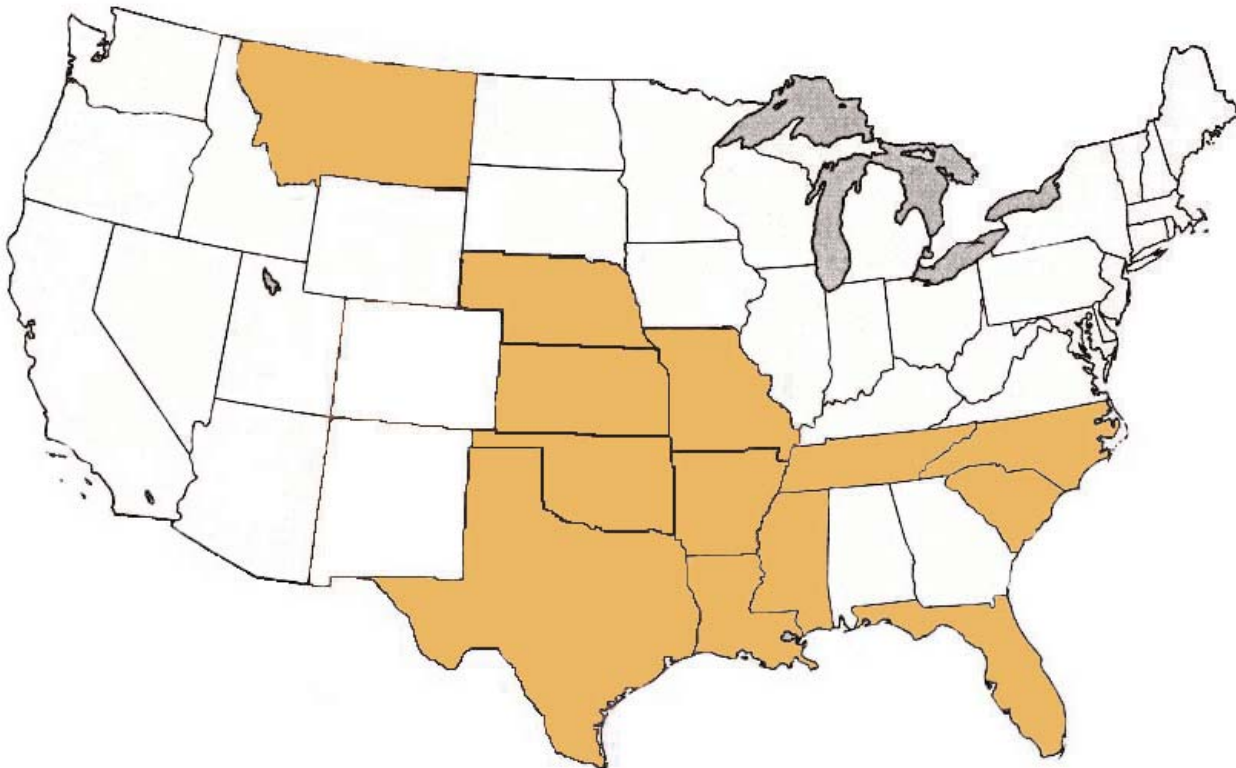
Overland Park Office  
9400 Reeds Rd, Suite 210  
Overland Park, KS 66207  
Ph. 913.322.0300

## Appraisal Department

Two designated members of the Appraisal Institute lead The Martens Companies Commercial Appraisal Department. Our staff of 14 appraisers and assistants offers expertise and specialization for all your valuation needs. We serve clients throughout the Midwest, with particular emphasis in the Kansas, Missouri and Oklahoma markets. We have also appraised properties for numerous lenders throughout the regions shown on the accompanying map. We strive to maintain reliable turn-around times and competitive pricing.

Property types we appraise include, but are not limited to:

- Offices, medical offices and specialty medical (surgical clinics, hospitals & veterinary)
- Single and multi-tenant retail, community centers, neighborhood centers
- Industrial (light & heavy, warehouses, retail combinations, distribution or storage, manufacturing facilities)
- Multi-family apartment communities, manufactured housing communities and proposed residential subdivisions
- Land (development, vacant, agricultural and leases)



 Denotes states of recent appraisal assignments

Grubb & Ellis|Martens Commercial Group is Wichita's premier commercial real estate firm. We provide comprehensive transaction and financial services, property management, appraisal services and strategic consulting to businesses, agricultural enterprises, and governmental entities throughout south central and western Kansas.

No other commercial real estate firm in Wichita has a better grasp of market and property values. We are the only real estate firm in Kansas with a commercial appraisal department; our firm conducts over 500 commercial valuations annually. The information, analysis and emerging market trends developed by this allow for a depth of knowledge that is second to none. All of which directly benefits the owner in the pricing and positioning of the property. In addition, we maintain an extensive database of active properties throughout the market. We currently track 230 office properties, 241 retail properties and 933 industrial properties in the Wichita area.

The company provides management services to multi-tenant office complexes, homeowners associations, regional shopping centers and a variety of other property types. Our expertise in the turnaround management of properties preparing for exit strategies is well known in the marketplace.

Our brokers are unparalleled in knowledge, experience and expertise in the Wichita MSA. Our past history of sales, leases and valuations provide our commercial specialists with a distinct competitive advantage in marketing your property. With over 19 credentialed professionals providing commercial real estate services on a full time basis, we provide unmatched market penetration. We utilize our entrepreneurial style, team approach and transactional expertise to provide the creative real estate solutions and value added results our clients have come to expect and demand.



**Grubb & Ellis**® | Martens  
Property Solutions Worldwide | Commercial  
Group, LLC  
*Independently Owned and Operated*

**435 South Broadway  
Wichita, Kansas 67202  
Phone: 316.262.0000  
Fax: 316.262.0235  
[www.buildingkansas.com](http://www.buildingkansas.com)**

“Our firm has had its finger on the pulse of real estate growth and trends in Wichita and south central Kansas since our inception nearly 60 years ago.”