BOOM TOWN!

Defying what is happening in other parts of the country, the Wichita economy had another strong year of economic growth in 2007 and projections are for the growth to continue in 2008.

IT'S ABOUT JOBS

Due to the steady improvement of the economy there are 30,000 more people working in Wichita today than there were at the end of 2003. Close to 11,000 new jobs were created in 2007 and the Center for Economic Development and Business Research at Wichita State University predicts there will be an additional 6,000 jobs added in 2008. The strong job market was rated as “One of the top 10 markets in the country,” by Forbes Magazine.

A major factor in the job growth is the demand for employees at all four of the major aircraft manufacturers. Driven by sales in foreign markets the manufacturers and their sub-contractors continue to expand operations to meet record orders for new aircraft. Other areas of the economy are also doing well creating new jobs at many of the different service businesses.

New home in the Reed’s Cove subdivision.
SIGNS OF PROSPERITY

The strength of the local economy can be seen throughout the area. The long dormant Central Business District has become one of the most vibrant parts of the city. The struggling office market had a very productive year dropping the vacancy rate for class A properties to 6.5%. This is the lowest level the market has seen in several years. Construction has started on the Sedgwick County Arena and on two projects at the Waterwalk Development.

Elsewhere, the industrial market continues to expand with vacancy rates at record lows. Oil and gas production is strong and in 2007 farm income went to a record $7.5 billion dollars.

NO HOUSING BUBBLE

Supported by the strength of the economy housing sales in 2007 remained solid at levels comparable to the record sales the market experienced in 2006. With strong market fundamentals and the good economy, housing sales should remain at similar levels in 2008.

It’s a Great Time to be Doing Business in Wichita!

Hartman Oil Building in the new Berkeley Square Development.

New construction in the WaterWalk Development.

New Barnes & Noble in the Bradley Fair Lifestyle Center.
Quick Reference
• Very active market.
• Class A vacancy dropped dramatically in the CBD.
• Class B market remained steady.

2007 was a very good year for the local office market. The Central Business District was particularly active as new tenants in the Bank of America Building and the Epic Center helped reduce the vacancy rate for class A properties in the area to 6.5%, down from 17.5% a year ago. The overall vacancy factor for class A properties was 8.5% compared to 15% in 2006. This is the lowest number the market has seen since 1998.

The GREAT news is that the improvement in the class A market came from growth and expansion! Most of the large vacancies created by relocations were filled. The class B market remained steady at 14.6% and the class C properties actually saw improvement as the vacancy factor dropped from 37.4% to 30.9%.

The average lease rate for class A properties increased to $17.25. It remained steady at $14.29 in the Central Business District as landlords aggressively pursued new tenants. As vacancy rates remain below 10%, landlords will gradually be able to start getting higher rents. This is true throughout the market as vacancies become increasingly harder to find, especially for spaces larger than 5,000 square feet.

Announcements were made late in the year of more than 80,000 square feet of space being leased to new tenants in class B properties in the Central Business District. The vacancy rate for this sector will drop to around 10% when these tenants occupy their new offices in 2008.
VACANCY VS. LEASE RATES

CLASS A

ASKING RATE  VACANCY RATE

30%  
25%  
20%  
15%  
10%  
5%  
0%  

$20.00  
$15.00  
$10.00  
$5.00  
$0.00  

2002  2003  2004  2005  2006  2007  

FORECAST

• Market will continue to be active.

• Significant improvement in the CBD class B sector.

• Close to 100,000 square feet of space will come on the market in the northeast sector.

• Market will continue to be active.

• Significant improvement in the CBD class B sector.

• Close to 100,000 square feet of space will come on the market in the northeast sector.
The retail market in 2007 was basically a continuation of what was experienced in 2006. The overall market conditions continue to be good with very little movement in the vacancy factors throughout the city.

Existing class A properties have few vacancies, especially for larger spaces. The Bradley Fair Lifestyle Center at 21st and Rock filled the small spaces they had and started construction on a new 28,500 square foot Barnes & Noble. New Market Square, on the west side, is also close to 100% occupancy.

Suburban communities continue to attract new retailers. This is especially true in Derby where developers have been successful in attracting retailers to new developments near “big box” tenants such as Lowes and Target. Pre-leasing activity has been successful at these centers with lease rates in the upper $20 range.

The activity among national retailers continues to be slow and the market saw some closures from companies that closed stores across the country. This trend is expected to continue in 2008 due to issues with the national economy.

Several of the new strip centers that have come out of the ground in the past 12 months are having difficulty filling vacancies. The struggles are due to the slow down among the national retailers and the fact that the high cost of new construction and high property taxes make them difficult for local businesses to afford. Fortunately, there haven’t been a large number of these centers built and they are typically 10,000 square feet or less so they haven’t had a substantial impact on the market.
FORECAST

• Development activity will slow.

• May see increased closings by national retailers.

• Local economy will be good enough to keep vacancy factors at reasonable levels.
Quick Reference

- Vacancy rate is at a 7 year low.
- Vacancy rates have dropped 75% since 2003.
- Market conditions favor owners.

The industrial market is as active as it has been at any time in the past 25 years. The overall vacancy rate dropped for the fourth consecutive year. The 6.7% rate for all industrial properties is the lowest the market has seen in the past seven years. It represents a drop of 75% from the 28.3% vacancy factor the market experienced in 2003. The actual vacancy rate is under 5% when the functionally obsolete and special use buildings are taken out of the data base. Quality manufacturing space is literally not available.

Rents have increased as the vacancy rates have dropped. There has been a 55% increase in asking rates since 2003 and the market saw a 16% increase just in the past year. The low number of quality vacancies will create opportunities for owners to continue to increase rates when vacancies do occur.
With the dwindling supply of industrial space, users are being forced to consider new construction. Escalating rents combined with financing at good terms makes ownership a more affordable alternative. The market will also start to see more speculative construction in 2008.

Land prices are starting to increase, particularly in areas with good highway access and utilities nearby. The most popular locations continue to be in the southwest quadrant and in the area of K-96 and Greenwich Road in the northeast. Land in these areas is becoming more difficult to find.

**FORECAST**

- Market will stay strong.
- Lack of inventory will drive new construction.
- Lease rates and land prices will increase.
INVESTMENTS

Quick Reference
• Still a strong demand for quality properties.
• Strengthening office and industrial markets have made ownership more profitable.
• Demand by out-of-state buyers for smaller investment properties declined.

The strong local economy has protected the investment market from the problems experienced in other parts of the country. Demand for quality properties remains strong among local as well as national investors.

The continued decreasing of capitalization rates in recent years has caused buyers to be cautious about the values of some of the properties on the market. The market hasn’t softened enough to cause sellers to make reductions in their asking prices creating a stalemate. Sellers will have to make adjustments if they want to move their properties in a timely manner.

Local capitalization rates are similar to what they have been in recent years with most transactions being done in a range of 8% to 12%. These are expected to rise slightly in 2008.

Tenant in Common transactions were not a factor in the local market. Financing, at good terms, is still available for credit worthy buyers.

Demand for smaller multifamily and residential investments saw a decline. Some of this was due to problems in real estate markets in other areas, particularly California. It is also becoming more difficult for these types of investors to secure financing.

The volume of transactions dropped significantly in the second half of the year as quality investment properties are increasingly hard to find. This is causing potential sellers wanting to do 1031 exchanges to sit tight. The same is true for many investors who purchased properties in the past two years.

FORECAST
• Good quality investments will be hard to find.
• Capitalization rates will see a modest increase.
• Local fundamentals will stay strong.
Strong demand for farm commodities from a variety of sources and a good fall harvest caused farm incomes to surge in 2007. Global prosperity and the weak dollar generated increased demand for commodities from foreign markets while at the same time livestock producers and bio fuel producers continue to use large quantities of grain for their operations.

Prices for livestock are up from a year ago, led by higher prices for poultry and dairy products. Profits for livestock producers are limited, however, by the high grain prices.

Land values continue to increase. The average value of all farmland and buildings in Kansas rose to $1,090 per acre, an increase of 16% over the previous year. Irrigated cropland continues to bring the highest value at an average of $1,410 per acre.

There is still demand for agriculture land by recreational users and people wanting a rural lifestyle.

The winter wheat crop was mixed as a late freeze and heavy rains caused problems for farmers in the central and eastern parts of the state. Although the harvest was much more successful in western Kansas there is still a concern about the quality of seed that is available for planting for the spring crops in 2008.

The development of ethanol plants is slowing due to overbuilding and water issues.

Quick Reference

- Strong demand for goods caused farm incomes to grow to a record $7.5 billion.
- Land values continue to increase.

FORECAST

- Demand for grain will keep farm incomes strong.
- Land values will continue to increase.
Quick Reference

• Vacancy rates continued to drop.
• Rent rates are gradually increasing.
• Little new construction.

The strong local economy continues to benefit the apartment market as vacancy rates dropped for the fourth consecutive year. The 6.6% vacancy factor at the end of 2007 was the lowest since 1998. All of the areas in the city had vacancy rates of 10% or less with the lowest being 4.5% in the northeast. The largest decline was also in the northeast dropping from 8.9% in 2006. The local job growth and tighter credit conditions for first time home buyers should insure continued low vacancy rates through 2008.

Rents continued to show modest increases, continuing the trend that started last year. According to Savage, Inc., 65% of the apartment communities raised rents by an average of 3.1%. Among the different property types, rent for town homes had the largest increase at 5%.

Building activity was modest in 2007 as developers take a cautious approach, waiting for rents to increase to a level that makes new construction feasible. The most significant new construction was the 196 new units at the Villas at Waterford complex on East 29th, adding to the 232 units that came on the market in 2006.

Larger apartment complexes continue to be attractive to investors. That trend is expected to increase due to the strength of the local market and lack of other attractive investment opportunities. The demand from investors for smaller properties slowed dramatically due to economic problems in other areas of the country and heightened credit requirements by lenders.

FORECAST

• Economic conditions will continue to benefit the multifamily market.
• Rents will continue to increase.
• The tight market may trigger announcements of new developments.
Quick Reference
• Another good year for residential sales.
• Sales of new homes declined.
• Average sales prices increased.

HOUSING MARKET REMAINS STRONG
Sales of new and existing houses remained at near record levels in 2007. The 11,918 units sold represented a 3.4% decline from the all time record high in 2006. Sales of existing homes remained strong at 10,098 units, which was essentially the same as the previous year. The number of homes sold in Sedgwick County increased by 12% to 162 units. New home sales were off 16.4% from 2006. The 1,820 new homes sold were the lowest number of sales since 2003.

Average sales prices increased for both existing homes and new homes. The combined average sales price went up to $132,100 from $128,635. The average price for new homes was $211,628 compared with $117,766 for existing homes.

The decline in new home sales was reflected in the number of new housing starts in 2007. The 2,316 houses started were 8% less than the 2,515 in 2006. The Wichita Area Builders Association predicts the level of housing starts to be similar in 2008.

The flat level of sales of existing homes and the decline in new home sales are not cause for alarm. The inventory of new homes for sale and the foreclosure rates are both similar to what they have been in recent years. The housing market, in general, will continue to be very good.

FORECAST
• The strength of the local economy will support another good year for residential sales.
• Financing will be more difficult to obtain for buyers with marginal credit.
• Housing starts and new home sales will be similar to 2007.
J.P. Weigand & Sons continues to be the leading commercial real estate company in Kansas. 2007 was the best year in the history of our Commercial Division and for the third consecutive year our real estate professionals completed more than 300 transactions with a value over $110 million. These transactions covered all aspects of the commercial real estate industry and involved properties throughout Kansas.

J.P. Weigand & Sons’ continued success is due to the commitment to give our clients the most comprehensive real estate services with the highest level of professionalism and integrity. Collectively, our associates have professional designations from every national commercial real estate organization and they work together to be sure their clients get the benefit of an expert for their particular transaction.

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- Farm & Ranch Sales
- Land Sales

Herb Krumspick, Senior Vice President, received the Howell Watson Distinguished Service Award from the Society of Industrial and Office Realtors. Herb was recognized for his service to the organization and is only the 10th SIOR to receive the meritorious award.

The data included in Forecast 2008 was compiled through surveys of the properties available for lease at the end of 2007. Properties under construction as well as those proposed for construction were not included. Sublease space was considered occupied as long as rent was still being paid to the landlord. Lease rates are weighted averages for the properties that were available. They do not reflect rates for properties that did not have vacancies and they do not reflect rates actually paid to lease space. Office rates are quoted on a “full service” basis; retail rates “triple net”, and industrial rates are quoted on an “industrial gross” basis.

The quadrant dividing lines are Broadway Avenue for east west and Douglas Avenue for north and south. The Central Business District is defined as that area bounded by Seneca, Hydraulic, Kellogg and Murdock.

J.P. Weigand & Sons would like to thank the landlords, property managers and real estate brokers who supplied vacancy information for the Forecast. We would also like to express our appreciation to the following groups for their assistance in providing information: The Center for Economic Development and Business Research; The Greater Wichita Economic Development Coalition; The Wichita Area Association of Realtors; The Wichita Area Builders Association; City of Wichita; and Savage, Inc.

All information contained in the Forecast is from sources deemed reliable, but no guarantee is made or responsibility is assumed as to its accuracy or completeness. Data in this Forecast may not be directly comparable to that presented in previous Forecasts.

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