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MARKET OVERVIEW

We are pleased to present J.P. Weigand & Sons’ nineteenth annual Forecast publication, the most comprehensive analysis of real estate in the greater Wichita area. Our management and staff have diligently researched more than 1,000 properties totaling close to 30 million square feet of commercial space creating a publication that is highly sought after because of its thoroughness and accuracy.

Overall 2008 was a good year for the commercial real estate market in Wichita. The momentum of the strong economy in 2007 carried over through most of the year. There was significant activity in all sectors of the market, and as you will see in the data provided in this publication, vacancy rates and values were similar to what they’ve been in recent years. The residential market saw a decrease in sales activity but the market fundamentals remained strong with values increasing and foreclosure rates staying near historic averages. Wichita continues to be recognized as a great place to work and live. In 2008 MSN Real Estate named Wichita “The Most Livable City in the U.S.” and The American Planning Association ranked the Old Town Historic District “One of the Top 10 Neighborhoods in the Country.”

Our market began seeing a slowdown in the second half of the year related to the national and global financial crises. There was some negative activity with a few national retailers closing local stores, but most of the slowdown was due to investors and business owners taking a “wait and see” approach before making purchase and expansion decisions. Layoffs were announced at some of the major aircraft companies late in the year and in early 2009 which is always a concern, but most economic projections indicate Wichita will fare better during the slow economy than many other areas of the country.

Like the rest of the world we have questions and concerns about what 2009 will bring. We are optimistic, however, that Wichita is in a good position to survive any downturns that may occur and will be in a great position to move forward when the national economy improves. We wish you the best as you go through these uncertain times and thank you for continuing to use J.P. Weigand & Sons for your real estate requirements.

Sincerely,
Nester R. Weigand, Jr.
Chairman/CEO
Roger Weast
President
Jerry Gray
Vice President/General Manager

WICHITA MSA

Population: 596,542
Median Household Income $43,215
Civilian Labor Force 322,065*
Total Wage & Salary Employment 301,900*
Unemployment Rate 4.7%*
*Numbers as of November, 2008. Source Kansas Department of Labor.

WICHITA REAL ESTATE MARKET AT A GLANCE

Industrial Sector
Market Size (sf) 9,876,618
Overall Vacant Space (sf) 980,439
Overall Vacancy Rate 9.9%
Overall Rental Rate (Industrial Gross) $4.99

Office Sector
Market Size (sf) 9,833,550
Overall Vacant Space (sf) 1,688,328
Overall Vacancy Rate 17.2%
Overall Rental Rate (Full Service) $11.96

Retail Sector
Market Size (sf)* 9,260,990
Overall Vacant Space (sf)* 1,228,552
Overall Vacancy Rate 13.3%
Overall Rental Rate (Triple Net) $9.61
*Does not include regional malls and “big box” space in excess of 20,000 square feet.

Residential Market
Total number of homes sold 10,039
Average sales value $139,847
Total number of housing starts* 1,725
The office market continues to be one of the most active sectors of the Wichita commercial real estate market. The class A market remains strong with overall vacancy rates around 10% and asking rates holding steady. The class A market in the Central Business District (CBD) continues to have few vacancies with a vacancy rate that lowered slightly to 6.2%. The asking rate for these properties was $14.86 per square foot, which is essentially the same as it has been for several years. The substantial amount of vacant space in the class B sector continues to force landlords to keep their rates attractive to maintain tenants and to attract businesses looking to move up.

New construction is pushing vacancy rates upward in the northeast sector which has been the destination of choice for office users for several years. Two major new properties opened in 2008, the Hartman Oil Building at Berkeley Square and The Northrock office building in the former Northrock Cinemas. Both properties have substantial space available as does the Northrock Place Office Building which lost a large tenant to The Northrock. Suburban office parks in other areas of the city reported good activity and few large vacancies. There were very few office construction starts anywhere in the city.

The class B market didn’t improve as much as expected. Several buildings lost tenants during the year and some anticipated leasing activity didn’t materialize. The Bitting Building in the CBD was purchased by Real Development who has plans to convert it to residential use along with the former Exchange Place office building across the street.

DBSI, a large Real Estate Investment Trust, declared bankruptcy in late 2008 creating some uncertainty about the future of the properties they have owned in the Wilson Estates Office Park and the Northrock Office Building. These are all well located buildings and should be attractive to office investors and tenants when the bankruptcy proceedings are finalized.

**FORECAST**

- Minimal new office construction is expected.
- Leasing activity is expected to slow due to ramifications from the slowing economy.
- The class B market should stabilize as tenants with concerns about the economy decide to stay in their current locations rather than look for opportunities to relocate.

**MARKET SUMMARY**

- The overall vacancy rate of 17.2% was just slightly higher than last year’s 16.3%.
- The average overall asking rate increased by $1.01 to $11.96 per square foot.
- The segments with the lowest vacancy rates were the class A sector in the CBD at 6.2% and 6.1% in the class B segment of the southeast sector.
- The sector with the lowest overall vacancy rate was the southeast sector at 9.2%.
- New construction raised the vacancy rate to 13.5% in the northeast class A market.
- The highest average asking rates are $21.35 in the northeast class A market.
- The CBD and the Northeast sectors account for almost 72% of the office market inventory.
- The only significant new construction in the market in recent years has been in the northeast sector.
- The former SC Telecom building in the CBD has successfully attracted new tenants and is getting a face lift to give it a more modern presence.
There was very little new activity in the retail market during 2008. Overall, the market is in good condition with vacancy rates and rents remaining at numbers similar to 2006 and 2007. The exception in the market is vacant big box locations where closings by national retailers are having an impact. Closings in this category in 2008 included two Pep Boys stores, Comp USA, Linens and Things, and Steve & Barry’s. Barnes & Noble relocated a store to new construction at Bradley Fair creating a vacancy that was occupied by a local liquor retailer which left another vacancy at their former location on north Rock Road.

There was considerable activity in the grocery sector with Food-4-Less closing more stores, two of which were occupied by Dillon’s (Kroger). Dillon’s continues to be active in the market. In addition to taking over the vacant Food-4-Less stores they are constructing new “super stores” in the Andover and Derby markets. These stores will open in 2009 and will leave 50,000 square foot vacancies in both markets when Dillon’s relocates. They also closed three older stores in 2008 leaving 45,000, 25,000 and 12,000 square foot vacancies in those locations.

Despite the big box and grocery closings, the Wichita retail market is very solid. National closings of smaller in-line spaces have been limited and the overall vacancy rate for class A properties remains well below 10%. Bradley Fair and New Market Square have few vacancies. The only sector of the market that is over built are the smaller strip centers that were developed in 2007 and early 2008. Leasing activity continues to be slow at these centers and landlords will need to become more aggressive to attract tenants to their properties.

**FORECAST**

- The market will continue to be slow with limited relocations and expansions.
- More national retailers will close their local stores.
- The fundamentals of the market will remain strong and with the exception of the vacant big boxes, vacancy rates won’t be significantly impacted.
- Development activity will be minimal throughout the market.

**MARKET SUMMARY**

- The market’s overall vacancy rate was 13.3% in 2008 compared to 13.9% in 2007.
- The overall average asking rate was $9.61 compared to $9.62 in 2007.
- The class A segments in the northeast and northwest have the lowest vacancy rates at 6.2% and 4.5% respectively.
- The highest average asking rate is $20.10 in the northeast sector.
- Derby Marketplace continues to be an attractive location for national and local businesses.
- New national and regional restaurants entering the market included Jimmy’s Egg, Smashburger, Hu Hot Mongolian Grill, Genghis Grill and Bar Louie.
- PetCo and Lowe’s opened new stores near 21st and Maize.
- Cymboree and Barnes & Noble opened stores in the Bradley Fair.
- Hospitality activity was good with construction starting on new properties for Springhill Suites, Staybridge Suites and Hampton Inn all located in the northeast sector on Greenwich Road.
INDUSTRIAL

INDUSTRIAL SPACE BY SUB-MARKET

Supply: 9,876,618 sq. ft.

CBD 4%
Northeast 39.7%
Northwest 4%
Southeast 22.2%
Southwest 30.1%

After robust activity the past five years the industrial market slowed down in 2008. Concerns about the national economy and uncertainty about the impact on the local aviation manufacturers caused businesses to postpone expansion and relocation plans until the economic situation becomes clearer.

Vacancy rates and asking rates were similar to what they were at the end of 2007. New construction was a factor in the increase in the overall vacancy rate increasing from 7.7% to 9.9%. This rate is still indicative of a strong industrial market considering it was close to 30% as recently as 2003.

Although vacancies are limited, landlords are going to have to be aggressive when trying to attract new tenants. The reduced number of prospects is going to level the market from what has been a strong landlord’s market in recent years. Owners of functionally obsolete properties are going to have to be creative and consider alternative uses to fill their empty spaces.

Industrial land prices are holding steady. Locations with good highway access continue to bring prices around $1.50 per square foot while prices in other areas are closer to $0.75 per square foot.

The industrial market overall is in very good shape and will be able to withstand the expected slow down without creating a crisis atmosphere. The market isn’t overbuilt and the majority of the owners are experienced real estate developers who have endured fluctuating markets in the past and are capable of weathering “the storm.”

FORECAST

- Activity in the industrial market will be dependent, in large part, on what the aircraft manufacturers do in 2009.

- The national economy will also temper activity as national businesses cut back and put expansion plans on hold.

- New construction will be minimal.

MARKET SUMMARY

- The overall vacancy rate for the market increased by 2.2%.

- The average overall asking rate increased by $0.11 to $4.97.

- The lowest overall vacancy rate by size segment was 6.1% for properties larger than 50,000 square feet. This segment saw an increase in vacancy rates going from 1.6% at the end of 2007.

- The southwest sector saw the largest percentage increase in vacancy rates going to 10.4% from 4.4% a year ago.

- The tightest regional sector by size is the 5,000 to 15,000 square foot segment in the southeast sector where the year end vacancy rate was 3.5%.

- The southwest and northeast sectors account for close to 70% of the total inventory for the industrial market.

- There were few investment sales of industrial properties.

- Tenants are looking for ways to reduce costs and trying to renegotiate terms with landlords.
The multifamily market had another solid year with the overall vacancy rate staying well below 10%. The year-end vacancy rate for the total market had a slight increase to 7.2% from 6.6%. These vacancy rates for the past two years are the best the market has experienced in the past ten years. The area of the city with the lowest vacancy rate was the southeast which ended the year at 6.2%.

The limited number of vacancies has allowed apartment owners to raise rents. According to Savage, Inc., 67% of the apartment communities raised rents in 2008. The average rent increase was 4.3%. Rents increased in every product type except for three bedroom units where the rents held steady. This is the second straight year that rents have increased which is a significant departure from recent years in which soft market conditions forced landlords to offer low rents and concessions to attract tenants.

Construction activity continues to be modest. While rents are starting to increase they aren’t at a level that is attractive to developers considering new projects. Two new special use projects were started this year. The Grove, a project targeted towards college students, opened at 29th and Oliver and Inwood Crossings, a restricted income property, near K-96 and Rock Road, is scheduled to open early in 2009.

Apartment complexes continue to be attractive investments, particularly for investors that have an established portfolio of similar properties. Investment activity for smaller multifamily properties has slowed, as interest from the “California” investors has gone away and financing has become more difficult to obtain.

Residential sales activity dropped substantially in 2008. There were 10,039 homes sold in the metropolitan area in 2008 compared to 11,936 in 2007. The slower sales activity was felt throughout the area with lower numbers reported in every segment of the market. The slow down in sales activity was due, in large part, to lack of consumer confidence. Financing issues, for first time buyers and those with marginal credit, was also a factor.

Home values appreciated despite the lower sales activity. The average sales price for existing homes increased 13% to $133,262 from $117,766 a year ago and the average sales price for new construction was $234,799 versus $211,628. The average sales price for all homes sold in 2008 was $139,847, an increase of $7,747 from 2007. Home prices continue to be solid because of the limited amount of inventory on the market. The supply of homes on the market at the end of the year was down close to 11% and is substantially lower than home inventories in most markets across the country.

Housing starts in 2008 were down by 20% through November and are expected to stay soft through 2009. The decline in housing starts was also across the metropolitan area, although some suburban markets such as Derby, Goddard and Rose Hill did see increased activity. The largest percentage declines in housing starts were in Andover (35%), Newton (44%) and Valley Center (47%).
The slow down in the investment market that started in the fourth quarter of 2007 continued in 2008. The slower investment sales activity was anticipated by real estate professionals across the country but most didn’t anticipate the severity of the softening market. Nationally, REIT’s and institutional investors dropped out of the acquisition business and many struggled to unload under-performing properties. Problems with national investment groups were manifested locally with the bankruptcy of DBSI which owned several office properties in east Wichita. National investors that wanted to stay active in the market found their opportunities limited because of difficulty securing financing for larger acquisitions.

Investment activity in the Wichita market was also down considerably from recent years. Financing hasn’t been a limiting factor in the local market as lenders are willing to make loans to good credit buyers for transactions valued under $5 million, which covers most local investment sales. A significant issue for the local and national markets is a large disconnect between the opinions of property values between buyers and sellers. Potential sellers believe their properties have values equal to, or greater than, their original purchase prices, while buyers feel the softening market has caused values to lower significantly. The market won’t see a substantial come back until sellers’ and buyers’ opinions become more in-line with each other. The Wichita market has also been impacted by lack of activity from out-of-state investors which have been a driving force in our investment sales in recent years.

Sales activity in the small multifamily market was off by 50% in 2008. This is one area of the market where financing is a factor. Lenders are reluctant to make loans to the “mom and pop” investors active in the market and it is especially difficult to secure financing for multiple properties. This sector of the market has been severely hurt by the lack of activity from out-of-state buyers, particularly those from California.

The weak investment market is causing capitalization rates to adjust upward. So far the increases haven’t been large enough to stimulate much activity. Many analysts believe they will need to increase 150 to 200 basis points before acquisitions become attractive to buyers. Locally, capitalization rates have also started to move upward, and similar to the national market, the movement hasn’t been sufficient enough to motivate buyers to get active in the market. Rates will probably have to get closer to 10% for quality properties before they get the attention of potential investors.

There is good news in the investment sector, particularly in the Wichita market. The local commercial real estate market is not over built and is not impacted by high vacancy rates. Financing is available at attractive rates and there are local buyers waiting for the right opportunities. These factors will limit the number of distressed sales and will make local properties attractive to investors when the market becomes more active.

**Agriculture land values continue to increase throughout Kansas. Values for all crop land increased by 15% over 2007 values and pasture land values increased by 16%. The values for all farmland and buildings increased 7% to $3,170 per acre in 2008 compared to $1,090 per acre. Irrigated acreage continues to bring the highest values at $1,860 per acre. Cash rents for agricultural land also increased in all categories with the highest being the $6.00 per acre increase ($98/$82) for irrigated crop land.**

Sales activity for farm and ranch land was good in 2008 but overall the demand was less than the markets experienced in 2006 and 2007. The weaker demand was primarily in areas closer to large cities where slow housing markets caused developers to cut back on their plans for new developments. Recreational users are still in the market for land but in smaller numbers than in the past few years.

It was a mixed year for farmers and ranchers in Kansas. The worldwide financial crisis contributed to fluctuating prices for commodities which ended the year down from a year ago. The lower prices and high input costs are putting some strain on producers’ incomes. Farmers who kept grain in storage after last year’s bountiful harvests have suffered substantial losses.

The winter wheat harvest produced various results in different areas of the state. The harvest was strong in the central and northern parts of the state with yields over 60 bushels per acre. Yields in other areas were in the 35 to 40 bushel per acre range, while some areas severely impacted by the drought didn’t produce crops.

Drought conditions are reaching a critical stage in some parts of western Kansas. Lack of quality grains and forage is causing cattle producers to reduce and, in some cases, liquidate their herds. The problems in the cattle industry are impacting feedlots causing some of them to struggle to stay in business. Governor Sebelius has petitioned the U.S. Agriculture Department to declare five western counties disaster areas because of the financial impact of the drought.
WEIGAND COMMERCIAL DIVISION & CORPORATE OFFICERS

J.P. WEIGAND & SONS: LEADERSHIP FOR 107 YEARS

It’s easy to understand why J.P. Weigand & Sons has been the leading commercial real estate company in the greater Wichita area since 1902. From the beginning we have followed our founder’s philosophy for what it takes to be successful in all aspects of the business.

COMMITMENT TO CLIENT SERVICE
- Many things have changed in the past 107 years, but one thing that has remained the same is our commitment to make our customers our primary focus. We are honored by the business relationships we have formed over the years and are gratified by the significant amount of repeat business we handle for clients.

BREADTH OF SERVICE
- We are a full service commercial real estate company offering comprehensive services in office, industrial, retail, investment, multifamily, farm & ranch, industrial, land, and auction marketing services.
- The breadth of our services include buyer/tenant representation, seller/owner representation, market research, receivership, REO dispositions, and site selection.

KNOWLEDGE AND EXPERTISE
- Our associates are committed to being knowledgeable in their market specialty and keeping informed of the latest trends in the market.
- We have more associates with professional designations from national and international real estate organizations than any other company in the area.
- Training never stops at J.P. Weigand & Sons. All of our associates participate in company sponsored education programs provided by nationally recognized commercial real estate trainers.

COLLABORATIVE CULTURE
- We are recognized by clients for our collaborative approach to servicing their real estate requirements. Each year, two or more associates team together on more than 70% of our transactions to be sure our clients are getting specialized expertise and service that meets their particular needs.
- All associates at J.P. Weigand & Sons are expected to share best practices, client solutions, and market information to better serve their clients.

The data included in Forecast 2009 was compiled through surveys of the properties available for lease at the end of 2008. Properties Under construction as well as those proposed for construction were not included. Available space was calculated on gross basis, as long as rent was still being paid to the landlord. Lease rates were weighted averages for the properties that were available. They do not reflect rates for properties that did not have vacancies and do not reflect rates actually paid to lease space. Office rates are quoted on a "full service" basis; retail rates "nude net", and industrial rates are quoted on an "industrial gross" basis.

The quadrant dividing lines are Broadway Avenue for east west and Douglass Avenue for north 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 participating brokers who supplied data for inclusion in the Forecast. We would also like to express our appreciation to the following groups for their assistance: WCREMA, CREMA, 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.

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