

OFFICE AND HOTEL MARKET UPDATE
FOR
DOWNTOWN WICHITA, KS

Submitted To:

Wichita Downtown Development Corporation

Submitted By:

W-ZHA, LLC

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INTRODUCTION

STUDY PURPOSE

This Office and Hotel Market Analysis is an update of the Office and Hotel Market Analysis conducted in 2008 to inform the Downtown Wichita Master Plan process. The Market Analysis summarizes office and hotel development potential over the next 10 years and the conditions necessary to capture the market opportunities.

PROCESS

Three sources of information were applied in the market analyses. The first source was W-ZHA fieldwork where existing supply and competitive market area evaluations took place. Data from third party sources was used to understand existing conditions and future opportunities. The major sources of this information were as follows:

- Employment Trends and Projections by Industry: Moody's Analytics and County Business Patterns
- Office Supply Data: NAI Martens; JP Weigand & Sons, Inc.
- Hotel Performance Data: Visit Wichita; Smith Travel Research

In addition to analyzing market data, W-ZHA conducted interviews with real estate brokers, property managers, land owners, and developers. These person-to-person and telephone interviews provided valuable insights into the nuances of the office and hotel markets.

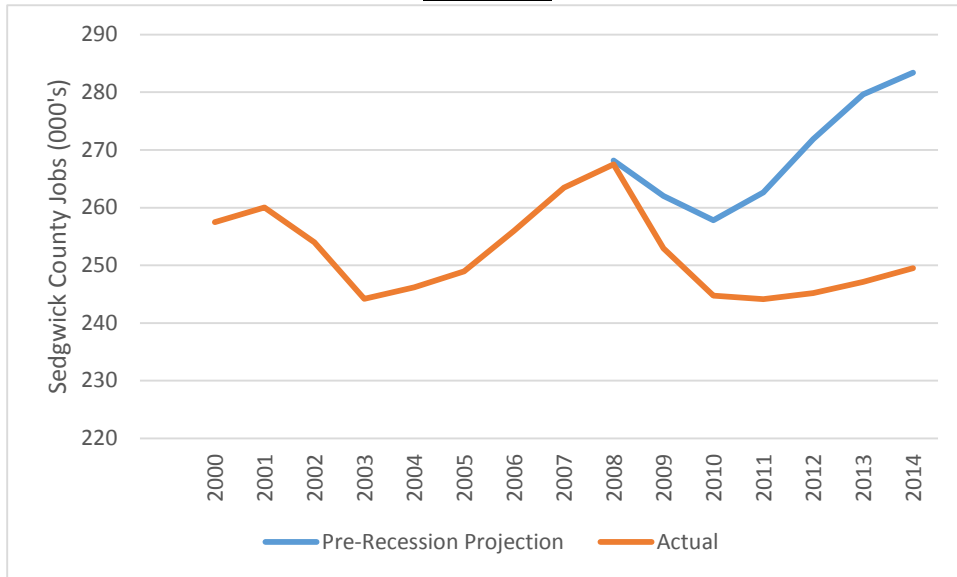


WHAT HAS CHANGED

THE SEDGWICK COUNTY ECONOMY

Figure 1

**At-Place Employment
Sedgwick County
2000-2014**



Source: Moody's Analytics

The last Office and Hotel Market Analysis was completed in 2008 before the Great Recession impacted the Wichita economy. The graph above illustrates actual employment trends from 2000 to 2014 and the employment projected at the time of the Market Analysis in 2008. Sedgwick County lost 7,970 jobs between 2000 and 2014 and the number of jobs have yet to rebound to Year 2000 levels.

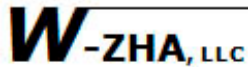


Table 1

Employment Trends Sedgwick County 2000, 2010, 2014 (000's)							
	2000	2010	2014	2010-2014		2000-2014	
				#	CAGR	#	CAGR
Total Nonfarm	257.50	244.75	249.53	4.78	0.5%	-7.97	-0.2%
Natural Resources & Mining	0.91	0.76	0.86	0.11	3.3%	-0.05	-0.4%
Construction	12.81	11.48	12.59	1.11	2.3%	-0.22	-0.1%
Manufacturing	66.82	47.04	45.49	-1.55	-0.8%	-21.33	-2.7%
Wholesale	10.70	8.88	8.40	-0.49	-1.4%	-2.31	-1.7%
Retail	26.99	26.35	28.30	1.95	1.8%	1.31	0.3%
Trans, Warehsg & Util	6.71	7.76	8.54	0.78	2.4%	1.82	1.7%
Information	5.59	5.07	4.28	-0.78	-4.1%	-1.31	-1.9%
Financial Activities	10.95	9.41	9.36	-0.05	-0.1%	-1.59	-1.1%
Professional & Business Services	26.26	27.14	31.85	4.72	4.1%	5.59	1.4%
Education	3.65	4.93	5.03	0.10	0.5%	1.38	2.3%
Health Services	26.55	30.88	32.05	1.17	0.9%	5.50	1.4%
Leisure & Hospitality	22.82	23.84	25.25	1.41	1.4%	2.43	0.7%
Other Service (except Public Admin)	9.10	9.60	8.36	-1.24	-3.4%	-0.74	-0.6%
Government	27.66	31.62	29.18	-2.44	-2.0%	1.52	0.4%
All Industries Except Manufacturing	190.68	197.71	204.03	6.33	0.8%	13.35	0.5%

Source: Moody's Analytics; W-ZHA

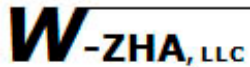
It is important to note that most of the jobs lost between 2000 and 2014 were in the manufacturing industry. This industry lost over 21,000 jobs between 2000 and 2014. Manufacturing went from 26 percent of the County's jobs to 18 percent in 2014.

Excluding manufacturing industry jobs, Sedgwick County's jobs increased between 2000 and 2014. The greatest employment gains occurred in the Professional and Business Services and Health Services industries.

THE DOWNTOWN ECONOMY

Significant changes have occurred in Downtown Wichita since the 2008 Market Analysis. Highlights include the following:

- INTRUST Arena opened and has averaged 100 event days per year attracting over 400,000 annually to Downtown Wichita. The Arena has had a positive impact on eat/drink establishments and the hotel market Downtown.
- The Kansas Leadership Center and Kansas Health Foundation Conference Center opened on Douglas Avenue. The Kansas Health Foundation Conference Center accommodated approximately 8,000 visitors in 2015, many of which stay overnight and patronize Downtown establishments.



- Two new hotels have opened Downtown, the Fairfield Inn and the Ambassador Hotel. Together these hotels contain 248 rooms. Both hotels are affiliated with Marriott and benefit from its robust loyalty program.
- While not only a Downtown benefit, a Tourism Business Improvement District was established that provides a dedicated revenue stream to support Visit Wichita's marketing efforts. This is expected to have a beneficial impact on Century II and Wichita's tourist economy.
- Union Station is being redeveloped into a major mixed-use project.
- There has been some movement in the Downtown office market with the adaptive re-use of the Lux for mixed-use including state-of-the-art office, the renovation of the former Merrill Lynch building into the CorTen building with state-of-the-art office space, the purchase of the 125 North Market and its renovation to "first generation" office space and the adaptive re-use of Union Station buildings into Class A office space. In each of these cases, the rents achieved at these newer projects are higher than the average Class A rental rate Downtown.
- As of 2015, there were approximately 1,900 people living Downtown and there are over 800 new residential units under construction Downtown.
- The Exchange Place and Biting Buildings on Douglas Avenue have been purchased and are being redeveloped into residential with commercial on the ground floor. This project will complement the Ambassador and Kansas Leadership Center in bringing an 18-hour cycle of activity to this part of Downtown.

These revitalization investments are bringing Downtown Wichita to life. Each of these investments contribute to creating a vibrant, mixed-use core. Downtown Wichita is getting closer to offering the urban amenity package many people and businesses desire.

In addition to these changes impacting the Downtown economy, a new terminal recently opened at Wichita's Dwight D. Eisenhower National Airport. The \$225 million, state-of-the-art terminal is an impressive gateway to the City and will likely improve Wichita's image. Reportedly, the new terminal was a factor the NCAA considered when it awarded Wichita the first and second rounds of the 2018 NCAA basketball tournament.¹

¹ Ksn.com, "Wichita Selected to Host the NCAA Tournament in 2018", November 17, 2014



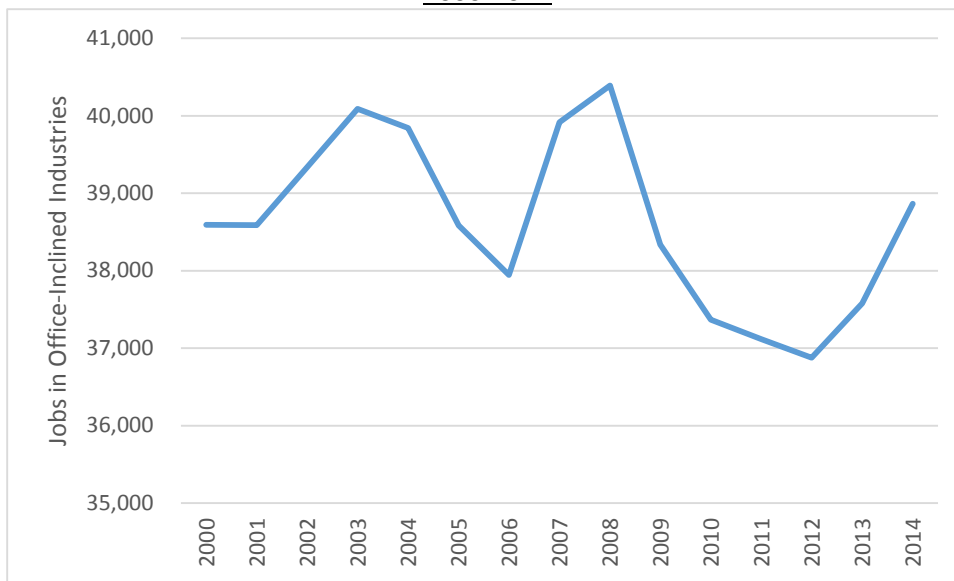
OFFICE MARKET

MARKET CONTEXT

The Recession and Office-Inclined Industries

Figure 2

**Office-Inclined Employment
Sedgwick County
2000-2014**



Source: Moody's Analytics; W-ZHA

The number of jobs in the industries that typically occupy multi-tenant office space (information; financial activities; professional, scientific and technical services; management of companies; administration support industries; and, doctors' offices) have yet to rebound to 2008 employment levels. Many office brokers remark that there has not been net new growth in the office economy.

Nonetheless, there has been a recent employment rebound among industries that typically occupy office space. Most recent brokerage reports acknowledge that the office market, particularly the Class A market, is performing better. The J.P. Weigand & Sons "2016 Forecast" notes, "The year-end statistics don't accurately reflect the activity in the Wichita office market in 2015. The market actually showed more vitality than has been seen in several years." According to data provided by J.P. Weigand, between 2014 and 2016 the amount of occupied Class A and B space in the overall market increased by 500,000 square feet.

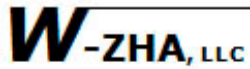


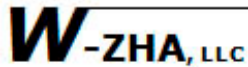
Table 2

Occupied Office Space in Downtown and Overall 2014, 2015, 2016				
Year	Downtown		Overall Market	
	Total Sq Ft	Occupied Sq Ft	Total Sq Ft	Occupied Sq Ft
2014	3,724,100	2,897,400	9,612,100	7,891,036
2015	3,960,100	3,168,500	10,243,700	8,521,827
2016	3,971,300	3,188,600	10,230,700	8,425,883
Change 2014 - 2016	247,200	291,200	618,600	534,847

Source: J.P. Weigand & Sons; W-ZHA

Not only is the overall market experiencing office activity, but the Downtown market is as well. Data provided by J.P. Weigand & Sons indicates that Downtown absorbed over 290,000 square feet of office space between 2014 and 2016. Downtown’s increase in occupied space represented over 60 percent of all new occupied space in the market between 2014 and 2016.

The Weigand “2016 Forecast” states, “The Central Business District was especially active...The refurbishing and conversion of older vacant properties has created excitement in the city’s core and is causing more businesses to consider locating to the area.” The NAI Martens “2016 Forecast” acknowledges “Net absorption was limited but there were positive signs as deal flow was higher. Office building sales, particularly downtown, are on the rise...”



Employment Projections

Table 3

Employment Projections Sedgwick County 2015, 2020, 2025 (000's)									
	2015	2020	2025	2015-2020		2020-2025		2015-2025	
				#	CAGR	#	CAGR	#	CAGR
Total Nonfarm	251.15	280.99	289.91	29.84	2.3%	8.92	0.6%	38.76	1.4%
Natural Resources & Mining	0.69	1.02	1.02	0.34	8.3%	0.00	0.0%	0.34	4.1%
Construction	13.59	15.99	16.48	2.41	3.3%	0.49	0.6%	2.89	1.9%
Manufacturing	45.53	48.79	47.85	3.26	1.4%	-0.93	-0.4%	2.32	0.5%
Wholesale	8.57	8.84	9.02	0.27	0.6%	0.19	0.4%	0.45	0.5%
Retail	28.05	30.79	31.72	2.74	1.9%	0.92	0.6%	3.67	1.2%
Trans, Warehsg & Util	8.71	9.19	9.40	0.49	1.1%	0.21	0.4%	0.69	0.8%
Information	4.27	4.51	4.59	0.24	1.1%	0.08	0.3%	0.32	0.7%
Financial Activities	9.41	10.29	10.69	0.88	1.8%	0.40	0.8%	1.28	1.3%
<i>Finance & Insurance</i>	6.07	6.71	7.13	0.64	2.0%	0.42	1.2%	1.06	1.6%
<i>Real Estate</i>	3.35	3.58	3.56	0.24	1.4%	-0.02	-0.1%	0.22	0.6%
Professional & Business Services	32.01	40.94	43.84	8.94	5.0%	2.90	1.4%	11.84	3.2%
<i>Prof, Scientific & Technical</i>	9.59	11.67	11.85	2.09	4.0%	0.17	0.3%	2.26	2.1%
<i>Mgmt of Companies</i>	2.72	2.87	2.85	0.15	1.1%	-0.02	-0.2%	0.13	0.5%
<i>Admin Sup, Waste Mgmt & Remed</i>	19.70	26.40	29.15	6.70	6.0%	2.75	2.0%	9.45	4.0%
Education	5.59	6.08	6.13	0.49	1.7%	0.05	0.2%	0.54	0.9%
Health Services	32.22	36.55	38.89	4.33	2.6%	2.34	1.3%	6.67	1.9%
Leisure & Hospitality	26.07	29.33	30.69	3.25	2.4%	1.36	0.9%	4.61	1.6%
<i>Arts, Entert & Rec</i>	5.60	6.48	6.55	0.88	0.03	0.07	0.2%	0.95	1.6%
<i>Accommodation & Food Serv</i>	20.48	22.85	24.14	2.38	0.02	1.29	1.1%	3.66	1.7%
Other Service (except Public Admin)	8.20	9.27	9.50	1.07	2.5%	0.23	0.5%	1.30	1.5%
<i>Relig, Grant, Civic, Prof Org</i>	1.49	1.66	1.68	0.17	0.02	0.02	0.3%	0.19	1.2%
Government	28.25	29.39	30.08	1.15	0.8%	0.69	0.5%	1.83	0.6%
All Industries Except Manufacturing	205.62	232.21	242.06	26.59	2.5%	9.85	0.8%	36.44	1.6%
Office-Inclined Jobs + Medical ^{1/}	38.58	44.81	46.67	6.23	3.0%	1.85	0.8%	8.08	1.9%

1. Office-inclined industries include information, financial activities, professional, scientific and technical services, management of companies, administrative support, and religious, grantmaking and professional organizations. Administration support is based on County Business Patterns 2014 sub-sector industry data. It is conservatively assumed to account for 30% of the administrative support, waste management and remediation industry sector total. Doctors office employment is based on County Business Pattern 2014 sub-sector industry employment data where doctors offices accounted for 15% of total health services employment.

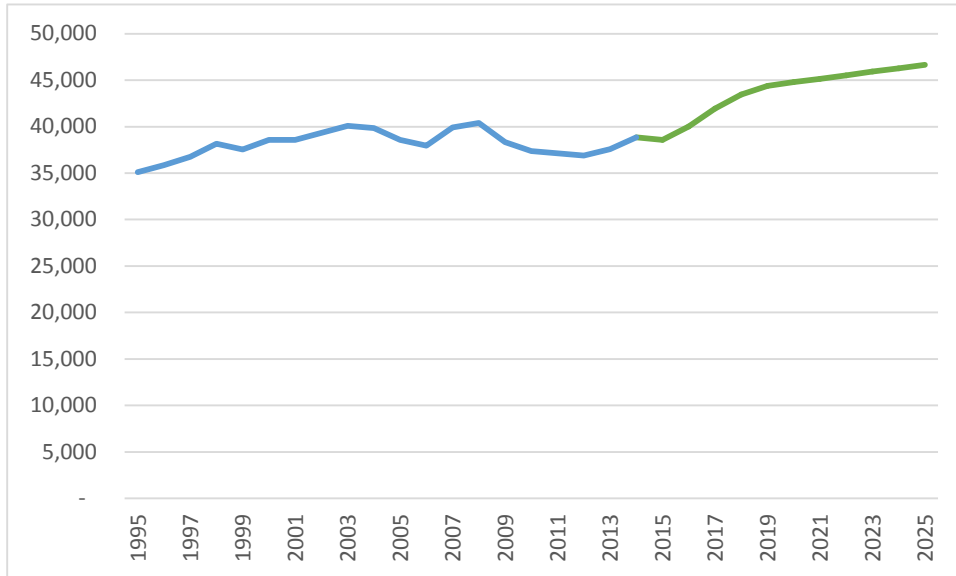
Source: Moody's Analytics; W-ZHA

Moody's Analytics, a national economics firm, projects at-place of work employment by county. Moody's projects that there will be job growth in Sedgwick County over the next 10 years. Total jobs are projected to increase at a compound average annual growth rate (CAGR) of 1.4 percent per year.



Figure 3

**Office-Inclined Employment Trends and Projections
Sedgwick County
1995 - 2025**



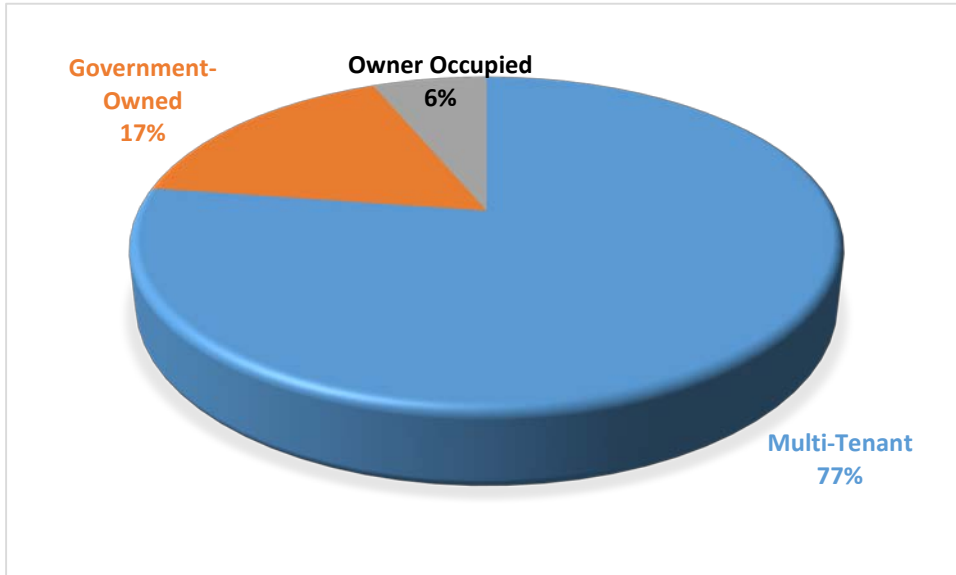
Source: Moody's Analytics; W-ZHA

The employment projections indicate that employment in office-inclined industries will increase by 1.9 percent annually or over 8,000 jobs over the next 10 years. Given the national trend toward more space efficiency per worker, it is likely that a portion of this new demand will be accommodated in existing leased space. Otherwise, this growth should contribute to new construction and/or lower office vacancy.

OVERVIEW OF EXISTING MARKET CONDITIONS

Figure 4

**Office Space by Type
Downtown Wichita
2016**

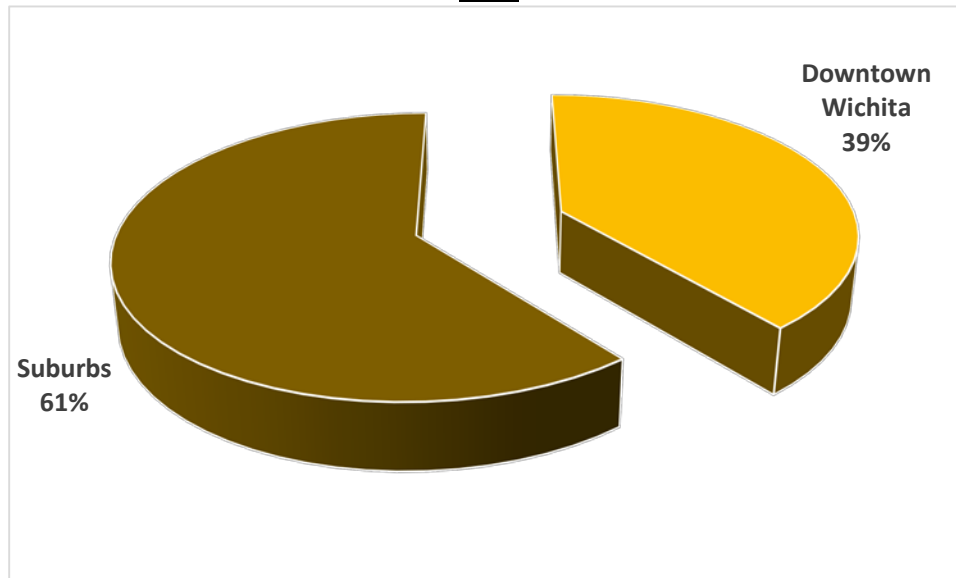


Source: Wichita Downtown Development Corporation; NAI/Martens

Downtown contains approximately 5 million square feet of public and private office space. Downtown is the government center for the Wichita region and is one Wichita's largest multi-tenant office submarkets. Approximately three-quarters of the Downtown office space is for-rent office in multi-tenant buildings. Owner occupied office space represents 6 percent of the office supply with the remaining office government-owned.

Figure 5

**Multi-Tenant Office Space Supply
Suburban Market and Downtown
2015**



Source: NAI Martens; W-ZHA

According to data provided by NAI Martens, Downtown Wichita contains approximately 3.54 million square feet of private, Class A and Class B multi-tenant office space. This represents 39 percent of the multi-tenant office supply in the overall Wichita office market.

Table 4

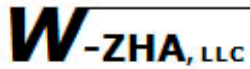
**Vacancy Rate Among Class A and Class B Offices
Downtown Wichita, Suburban Market and Total Market
2015**

	Downtown		Suburban		Total	
	NAI Martens	J.P. Weigand	NAI Martens	J.P. Weigand	NAI Martens	J.P. Weigand
Overall Vacancy Rate	21.8%	16.1%	17.9%	15.3%	19.4%	15.6%

Source: NAI Martens, "2016 Forecast: Wichita"; J.P. Weigand & Sons, Inc., "Wichita Kansas 2016 Forecast"; W-ZHA

NAI Martens "2016 Forecast" quotes a Central Business District office vacancy rate of 21.8 percent, a Suburban office vacancy rate of 17.9 percent and a Wichita market vacancy rate of 19.4 percent. NAI Martens tracks Class A and Class B office space only.

J.P. Weigand & Sons "2016 Forecast" provides occupancy data for Class A, B, and C office products. To be consistent, W-ZHA analyzed data for Class A and B office buildings only. Net of Class C buildings, the Weigand data indicates a Central Business District office vacancy rate of 16.1 percent, a suburban vacancy rate of 15.3 percent and a Wichita market vacancy rate of 15.6 percent.



J.P. Weigand & Sons “2016 Forecast” indicates that Class A office Downtown is only 12.8 percent vacant. NAI/Martens estimates that the Downtown Class A market is 18.8 percent vacant. In Downtown settings with a broad mix of Class A office product-types, a 10 percent vacancy rate is considered stabilized.

Table 5

**Comparative Class A Office Indicators
Downtown Wichita and Suburban
1st Quarter 2016**

	Downtown ^{/1}	Suburban
Class A Sq Ft	1,063,000	2,127,686
Vacant	18.6%	16.5%
Occupied Sq Ft	864,774	1,776,523
Avg. Lease Rate	\$15.25 - \$17.00	\$19.00 - \$28.00

1. Downtown Class A office supply is defined as space in the Farm Credit Building, Ruffin Center, EPIC Center, Riverview and River Place buildings.

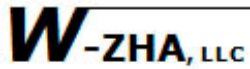
Source: J.P. Weigand & Sons, Inc.; W-ZHA

Historically there were five buildings that were considered the premiere Class A buildings Downtown. These buildings include the Farm Credit Building, the Ruffin Center, the Epic Center and the Riverview and River Place buildings. Together these buildings total 1.06 million square feet. Where in 2008 vacancy among these buildings stood at 5.6 percent, today 18.6 percent of the space in these buildings is available for-lease. These buildings are designed for large-scale office tenants.

Today’s lease rates in these Downtown buildings are essentially the same as they were in 2008. According to Weigand & Sons data, gross lease rates in these Class A buildings generally range from \$15 to \$17 per square foot. Class A buildings in the suburbs command gross rents in excess of \$20 per square foot.

Whereas in 2008 the Downtown had rarely achieved rents in excess of \$20.00 per square foot, some recent office rehabilitation projects Downtown have pierced this price point. Owners of these office buildings claim that the tenants are more sensitive to the office space product than the rental rate.

Vacancy among Class B buildings remains essentially the same as 2008. Class B office space in Downtown is 19 percent vacant and in the suburban markets it is 14 percent vacant. As in 2008, the overall Class B office market has a 16 percent vacancy rate.



MARKET CONSIDERATIONS

The following describes market trends that impact the Wichita office market and the Downtown office market.

Wichita’s Occupied Office Space per Employee Has Recently Grown

Nationally, the amount of occupied space per employee has been declining. One reason for this is that office layouts are growing more efficient with more flexible space and fewer dedicated private offices. Other contributing factors include telecommuting and flexible work hours which reduce office space demand per employee.

Table 6

**Occupied Office Square Feet Per Employee
Total Non-Farm and Office-Inclined Workers
Wichita
2000 - 2014**

Year	Occupied Square Feet Per Job	
	All Non-Farm Jobs	Office-Inclined Jobs
2000	20	128
2001	20	128
2002	23	140
2003	26	156
2004	26	161
2005	25	162
2006	23	148
2007	22	137
2008	23	147
2009	24	150
2010	27	168
2011	27	168
2012	26	164
2013	29	179
2014	27	163
<i>Avg Pre-Recession</i>	23	145
<i>Avg Post-Recession</i>	27	165

Source: NAI Martens; W-ZHA

According to data provided by NAI Martens, in the Wichita office market, occupied office space per worker has actually been increasing over time. This may be an indication that tenants in existing leases may have more space than they need. As leases expire this “bloat” will likely be corrected.



Downtown's Declining Market Share

Table 7

**Share of Class A and Class B Office Supply
Downtown and Suburban Markets
1991, 2000, 2008, 2015**

Year	Downtown	Suburban
1991	63.5%	36.5%
2000	49.5%	50.5%
2008	42.4%	57.6%
2015	39.0%	61.0%

Source: NAI Martens; W-ZHA

Downtown's share of the market's Class A and B office supply has continued to decline with time. Today the share of office space in the Downtown versus the suburban markets has essentially flipped from the early 1990's. In 1991, over 60 percent of the office space was Downtown. By 2015, over 60 percent of the office supply was in the suburban markets.



Table 8

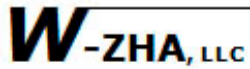
**Class A and B Office Supply
Downtown, Suburban and Overall Market
2000 - 2015**

Year	Square Feet in 000's			Downtown's Share of Office Space
	Downtown	Suburban	Total	
2000	3,409	2,892	6,301	54.1%
2001	3,228	3,246	6,474	49.9%
2002	3,576	3,816	7,392	48.4%
2003	3,960	4,060	8,020	49.4%
2004	3,973	4,036	8,009	49.6%
2005	3,815	4,072	7,887	48.4%
2006	3,486	3,804	7,290	47.8%
2007	3,247	3,815	7,062	46.0%
2008	3,133	4,251	7,384	42.4%
2009	3,280	4,274	7,554	43.4%
2010	3,654	4,604	8,258	44.2%
2011	3,687	4,586	8,273	44.6%
2012	3,609	4,616	8,225	43.9%
2013	3,544	5,375	8,919	39.7%
2014	3,541	5,527	9,068	39.0%
2015	3,541	5,527	9,068	39.0%
Change 2000-2015 (000's)	132	2,635	2,767	-15%

Source: NAI Martens; W-ZHA

Since 2000, almost all of the new office supply has been developed in the suburban markets, particularly the northeast. Overall, the supply of office space has changed little in the Downtown market since 2000.

No new Class-A office buildings have been built in the Downtown since 1987. There is some question as to whether Downtown's competitive position is masked by the fact that there is no state-of-the-art Class A space available in the Downtown. Would tenants move to the Downtown if competitive space were available?



Recent Trends in the Office Industry

According to research conducted by TIAA-CREF², in the past, 75 percent of office demand was driven by the FIRE (finance, insurance and real estate) and professional and business service industries. More recently, the technology, advertising, media, and information (TAMI) industries account for a majority of office demand.

According to data from County Business Patterns, in Wichita the TAMI industries have gone from accounting for 40 percent of the office-inclined employment in 2010 to 46 percent (almost half) in 2014. If Wichita follows national trends, the share of TAMI within the office-inclined industries will continue to grow.

Today it is estimated that the TAMI industries account for approximately 1.6 million square feet of office demand in Wichita. The TAMI industries rely on young knowledge workers and, as such, select locations that satisfy this workforce's preferences.

The young "knowledge worker" is mobile, well-educated, predominantly female and more likely to be from an ethnically or racially diverse background. Young knowledge workers are digitally savvy and expect employers to have seamless technological integration between devices and locations. These workers are Millennials and, as such, are much more likely than prior generations to live in the urban center or a near-in neighborhood.

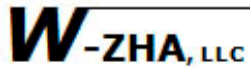
While the economy is changing the profile of the office worker, the internet and telecommunications technology has changed the way the office worker works. Telecommunications has untethered the employee from the desk. With so much work location flexibility, there was concern that the value of office space would diminish precipitously. Instead, recent research indicates that the opposite is true; there is a significant correlation between face-to-face interactions and productivity and innovation. Thus, while technology allows for employee autonomy, office employers must encourage face-to-face interaction among the workforce to maximize productivity and innovation.

To do this, employers are working hard to make the physical office a place that workers want to be. Today, state-of-the-art offices are designed around how people work, with plenty of space allocated to enabling interactions. Companies are looking to mixed-use urban environments to provide the "live, work, and play" lifestyle the knowledge worker seeks.

In sum, the office market is changing and with it office design and location criteria. Very little of Wichita's office supply either Downtown or in the suburbs is really state-of-the-art for TAMI industries. Downtown is well-positioned for the TAMI market because it increasingly offers the amenities young knowledge workers demand.

The older Downtown office supply, however, is not competitive for most TAMI companies. These companies tend to start small, require flexible space, and consider their office space a reflection of their "brand". The corporate office of the 1970's and 1980's does not fit well with TAMI criteria. This may

² TIAA-CREFF Asset Management, "Shopping for Suburban Office Investments", September 2015.



very well be why vacancy in the older, historically “premiere”, Downtown Class A buildings has increased since 2008.

The opportunity Downtown is in either new construction or adaptive re-use. The success of CorTen, the Lux, Union Station and other adaptive re-use office projects demonstrates the potential. The managers of these buildings are achieving rents well in excess of the \$15.00 to \$17.00 per square foot rents quoted in most broker reports. These adaptive re-use projects are achieving rents from \$19.00 to the mid-\$20’s. Managers of these buildings suggest that the tenants are less price-sensitive than they are interested in the location and the look and feel of the space. This is consistent with national trends.

Competitive Market Factors

In seeking to increase Downtown office tenancies, the following factors play key roles:

Urban Environment: As seen across the country, vital urban environments are attractive to many segments of the office market. To realize Downtown’s full potential, additional retail, hotel, residential and entertainment uses should be encouraged. If a vibrant, diverse urban environment is realized, Downtown will be able to offer an office product not replicable in the suburban markets.

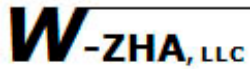
Quality of Supply: While not a lot of square feet, recent adaptive re-use projects Downtown demonstrates that when “coolspace” is made available the market absorbs the space. Additional state-of-the-art office space with natural light, high ceilings, and floorplates that allow for flexible office layouts is necessary for Downtown to effectively compete for the tenants that would naturally be attractive to an urban environment.

Price: Traditional Class A office will require a minimum rent of \$25 per square foot. State-of-the-art office space Downtown is commanding such a rent level. How deep the market is for the “right” space Downtown at \$25.00-plus in rent is unknown.

Regardless, it is important to understand that there are office products that can be developed for far less cost than the traditional Class A office building. A less expensive office product is typically 1 to 3 stories with few permanent walls and minimal tenant fit-out. Depending on land value, Developers can make an adequate return on the less expensive office product with average rents below \$25 per square foot.

Labor Proximity/Downtown’s Central Location: Wichita’s upscale suburban neighborhoods are located primarily in its eastern and (increasingly) western suburban areas. Office development has followed the labor market to the suburbs. As the labor market has spread across the metro market to both the east and the west, Downtown’s central location is a major market advantage.

Parking: Parking is required to support office tenants. The City has made significant strides in developing central, public parking. Maintaining a healthy supply of convenient public parking is very important to office tenants and investors. As the Downtown matures into a true urban



center where people can obtain goods and services without getting to their cars, the sensitivity to parking location will be less acute.

OFFICE MARKET OUTLOOK AND PROJECTION

Employment growth will drive the Wichita office market.

Moody's Analytics projects employment by industry. Overall, Moody's projects that the total number of jobs in Sedgwick County will increase by 1.4 percent per year between 2015 and 2025. Moody's employment projections indicate that office-inclined employment will grow by 1.9 percent per year over the next ten years. Office-inclined industries are projected to represent a greater share of Wichita's employment over the next ten years³.

In many markets, the appropriate employment indicator focuses on the region's "office-inclined" industrial sectors, which include categories such as financial activities, professional services, management and doctors' offices. In the past, Wichita's office market has not closely tracked employment in these industries, instead it has tracked with overall employment. However, interviews with brokers suggest that they consider companies in the office-inclined industries the bulk of the market. Both overall employment growth and office-inclined employment growth form the basis of the office projection.

Table 9

**Office Demand Projection Using Non-Farm Employment Growth
Sedgwick County
2015 - 2025**

Existing Occupied Competitive Office Space (Sq Ft)	6,900,000
Non-Farm Employment Compound Average Growth Rate Projection	1.45%
Net New Office Space Demand (Sq Ft)	1,060,000

Source: Moody's Analytics; NAI Martens; W-ZHA

The first approach applied to project office demand is to use overall non-farm employment as a predictor of office demand. This approach acknowledges that Wichita's tenants include a relatively high representation of corporate businesses that do not fall within "office-inclined" categories. For instance, major lease transactions involving companies such as Airbus, Cargill, and High Touch. Applying the 1.4 percent compound average annual growth rate to existing occupied space results in new demand for approximately 1 million square feet.

³ Moody's Analytics' projection indicate that office-inclined industries (with doctors' offices) contain approximately 15% of all jobs in 2015 and are projected to represent 16% of all jobs in 2025.

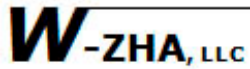


Table 10

**Office Demand Projection Applying Office-Inclined Employment Growth
Sedgwick County
2015 - 2025**

Existing Occupied Competitive Office Space (Sq Ft)	6,900,000
Office-Inclined Employment Compound Average Growth Rate Projection	1.9%
Net New Office Space Demand (Sq Ft)	1,400,000

Source: Moody's Analytics; NAI Martens; W-ZHA

The second approach applied to project office demand is to use office-inclined growth as a predictor of office demand. Employment among office-inclined industries is projected to grow at a faster rate than overall employment. Applying the 1.9 percent compound average annual growth rate to existing occupied space results in new demand for approximately 1.4 million square feet.

Table 11

**New Office Demand
Wichita
2015 to 2025**

	Employment Projection	
	Lower Growth Rate	Higher Growth Rate
Office Demand (Square Feet)	1,060,000	1,400,000

Source: W-ZHA

Based on the range of supportable square feet given different employment projections and our understanding of the Wichita market, over the next ten years it is reasonable to assume that there will be demand for between 1.06 and 1.4 million square feet of office space in the Wichita market. This amounts to between 106,000 and 140,000 of average annual absorption. According to occupied space data provided by NAI Martens, the market absorbed an average of 116,000 square feet annually over the fifteen year period between 2000 and 2015.

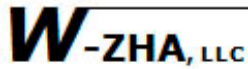


Table 12

**Net New Office Demand
Wichita
2015 to 2025**

	Employment Projection	
	Lower Growth Rate	Higher Growth Rate
Office Demand (Square Feet)	1,060,000	1,400,000
Less: Existing Occupancy Bloat @ 5% ^{/1}	(346,000)	(346,000)
Less: Existing Excess Vacancy ^{/2}	(261,000)	(261,000)
Office Development Potential	453,000	793,000

1. Assumes that 5% of existing occupied space is absorbed by new employees. This assumption reflects the office trend toward increased space efficiency. Without rounding there is a total of 6,923,000 square feet of occupied office space.

2. Based on an assumption that stabilized Class A occupancy is 90% and Class B 85%.

Source: W-ZHA

Given that the Wichita market has experienced an increase in occupied space per worker, it is likely that there is “bloat” in the existing occupied office space. Therefore, some of the new office demand will likely be absorbed in existing leased space that is either under-utilized or reconfigured to be more efficient. The assumption is that 5 percent of all existing occupied space will be used to accommodate additional office demand.

To be conservative, it was assumed that all excess vacant space will be absorbed by the new office demand. Net of excess vacancy, employment projections indicate that the market can support an additional 453,000 to 793,000 of office space over the next 10 years. As a point of reference, between 2005 and 2015 Wichita office supply increased by 1.16 million square feet.

With the revitalization that has been occurring Downtown, it is reasonable to assume that Downtown can capture a portion of this net new market demand. To determine the appropriate capture rate, demand from those industries most likely to demand a Downtown location is analyzed. These industries include the technology, advertising, media, and information (TAMI) industries as well as design industries like architecture and engineering.

Technology, Advertising, Media, and Information Industries Potential

Sub-sector industry at-place of work employment data is available for Sedgwick County from County Business Patterns, a United States Census product. According to this data, as of 2014 in Sedgwick



County there were 10,760 jobs in the technology, advertising, media, and information (TAMI) industries as well as design. (2014 is the most recent year for which sub-sector employment data is available.)

Table 13

Technology, Advertising, Media, Information and Design Industries Employment Projections and Space Needs 2015 - 2025			
	2014	Office-Inclined Employment Growth Rate	2025
TAMI and Design Employment	10,760	1.9%	13,049
Net New Jobs 2014-2025			2,289
TAMI Office Space Demand @ 150 Sq Ft /Employee			343,000

Source: County Business Patterns; Moody's Analytics; W-ZHA

At an average of 150 square feet of office space per employee the TAMI and design industries likely occupy 1.6 million square feet of office space in the Wichita market. Applying a conservative assumption that employment grows in these industries at the same rate projected for all office-inclined industries, there will be approximately 2,290 new jobs in these industries. At 150 office square feet per employee, this amounts to new demand of approximately 343,000 square feet. Given the location and character of the existing office supply, this demand may not be easily accommodated in existing office space.

With the adaptive re-use of existing Downtown buildings into “cool space” or the construction of new office space, the Downtown is well-positioned to capture a significant share of TAMI and design industry office demand. The introduction of new space tailored to the “high tech” office tenant will also make Downtown competitive for existing TAMI office tenants located in the suburban markets.

Conclusion

The Downtown’s ability to capture office space will largely depend on the office supply available Downtown. With new supply targeting the “high tech” tenant in the technology, advertising, media, and information and design industries, the Downtown will be far more competitive.



Table 14

Downtown Wichita Office Potential 2015 to 2025		
	Employment Projection	
	Lower Growth Rate	Higher Growth Rate
Net Office Development Potential (Sq Ft)	453,000	793,000
Downtown Capture	25%	25%
Downtown Office Potential (Sq Ft)	113,000	198,000

Source: W-ZHA

Assuming new space is developed via adaptive re-use of existing buildings to “cool-space” or new construction, a capture rate of 20 percent of net new market demand is not unreasonable. This amounts to 113,000 to 198,000 square feet of new office and/or adaptively re-used “cool-space” between 2015 and 2025.

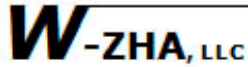
DOWNTOWN OFFICE PRODUCT CONCLUSIONS

To capture this potential will require that office buildings be properly sited and scaled to the target market. The following paragraphs summarize market conclusions with regard to product.

1. Modest Scale – New office buildings will likely range from 20,000 to 60,000 square feet. It will be difficult to achieve the pre-leasing thresholds required by lenders for buildings much larger in scale. Buildings 5-stories or less can be “stick-built” which is less expensive than mid- and high-rise construction. With lower cost comes lower rent.
2. CoolSpace – CoolSpace is office space located in older buildings that are architecturally distinct and within walking distance to restaurants. A share of the office market will locate in these types of buildings. Developers can often take advantage of historic tax credits as a tool to reduce the cost of rehabilitating older buildings to office space.

In an effort to keep rents low, some newly constructed office space may be wise to adopt the hard loft concept where large, flexible, high-ceilinged, well lit space can be marketed with the option of minimal tenant finish.

3. Price Point – Particularly as it relates to the TAMI and design industries, it is the space, not necessarily the rent, which attracts these tenants. While rents need to be reasonable, there is considerable national evidence that TAMI and design tenants are willing to pay market rents for spaces that work for them.



4. Parking – Like rents, the TAMI and design industries will require parking, but are typically more flexible than traditional finance, insurance, and real estate tenants. Once again, the TAMI and design industries prioritize the space and location over other factors.
5. In or Immediately Adjacent to Mixed-Use Districts – To capture the TAMI and design office demand, Downtown must offer a distinctly “urban” office product. As such, office buildings should not be developed in the middle of a surface parking lot away from the street. Office buildings must be developed in (or adjacent to) those Downtown districts that offer restaurants, entertainment, services and housing within easy walking distance.

HOTEL MARKET

WICHITA LODGING MARKET OVERVIEW

Performance

The Wichita lodging market is defined as all hotels in Sedgwick County. Wichita lodging industry occupancy had exceeded the national average from 2006 to 2010. Since 2010, Wichita’s average occupancy has fallen below the national average. In 2015, Wichita’s occupancy rate was 61.1 percent, while the average occupancy nationwide was 65.6 percent.

Table 15

Lodging Market Occupancy Rates United States and Wichita 2010 - 2015		
	U.S.	Wichita*
2010	57.3%	58.0%
2011	59.9%	58.8%
2012	61.3%	59.2%
2013	62.3%	60.6%
2014	64.4%	61.5%
2015	65.6%	61.1%

* All reporting hotels in Sedgwick County.

Source: Smith Travel Research; Statista; W-ZHA

Despite the decline in hotel occupancy, the Wichita lodging market has grown over the last six years.

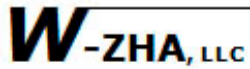


Table 16

Wichita Lodging Market Indicators All Reporting Hotels in Sedgwick County 2010 - 2015						
Year	Occupancy	ADR	RevPAR	Rm Supply	Rm Demand	Rm Revenue
2010	58.0%	\$72.75	\$42.22	2,871,116	1,666,427	\$121,229,040
2011	58.8%	\$75.62	\$44.45	2,932,081	1,723,276	\$130,318,966
2012	59.2%	\$77.26	\$45.72	2,980,543	1,763,941	\$136,281,454
2013	60.6%	\$77.68	\$47.11	2,992,017	1,814,472	\$140,943,770
2014	61.5%	\$80.90	\$49.79	2,932,568	1,804,613	\$146,000,962
2015	61.1%	\$82.94	\$50.66	3,036,365	1,854,733	\$153,829,263
CAGR	1.0%	2.7%	3.7%	1.1%	2.2%	4.9%

Source: Smith Travel Research; W-ZHA

Over the last six years room revenues have grown at an annualized rate of almost 5 percent per year. This growth incorporates increases in room supply (1.1 percent per year) and revenue per available room (RevPAR), which increased by 3.7 percent per year. This has occurred when employment grew at an average annual rate of 0.5 percent per year and population 0.4 percent per year between 2010 and 2015.

A number of interviewees remarked that there has been considerable hotel development in the Wichita market. The data suggest that the market has been strong enough to accommodate new development. Revenues per available room have continued to increase even with room supply growth.



Table 17

Midscale and Upscale Hotels Wichita Lodging Market 2010 - 2015		
Year	Room Supply	% of Total Rm Supply
2010	1,755,280	61.1%
2011	1,816,704	62.0%
2012	1,883,675	63.2%
2013	1,938,212	64.8%
2014	1,980,648	67.5%
2015	2,085,330	68.7%
% Growth 2010-2015	18.8%	
CAGR	3.5%	

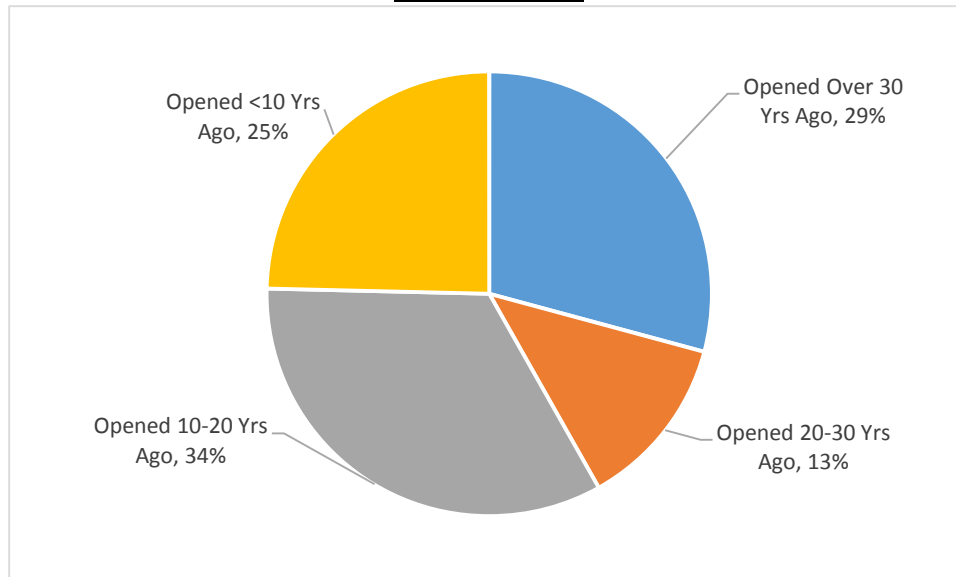
Source: Smith Travel Research; W-ZHA

The data indicate that the growing room supply has been replacing older, less competitive hotel stock. The total number of rooms classified by Smith Travel Research as midscale or upscale increased by almost 20 percent (18.8 percent) between 2010 and 2015. The share of hotel rooms classified as midscale and upscale went from 61 percent of total hotel room supply in 2010 to 69 percent in 2015. As the quality of the Wichita market's hotel stock has improved, so have revenues per available room.

Age

Figure 6

**Year the Hotel Building Opened
Wichita Market**

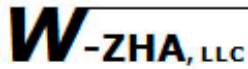


Source: Smith Travel Research; W-ZHA

This process of replacing older product with newer, more competitive hotel product is typical in the hotel industry. In the Wichita market today, 3-out-of-10 hotel rooms are in hotel buildings over 30 years old. While some of these older rooms are in attractive, historic properties, the vast majority are simply old. These older hotel rooms will be vulnerable to new competition.

Location

Suburban Wichita contains 83.5 percent of the regional room supply, which is essentially the same share as 2008. Recent hotel development has occurred in the suburbs, but also in and around Downtown Wichita. Of the 821 rooms opened in the Wichita market since 2010, approximately half (47 percent) of these rooms were either in or near Downtown Wichita. The new hotels in and around Downtown include the Fairfield Inn (131 rooms), the Ambassador hotel (117 rooms), and Waterwalk Hotel and Apartments (134 rooms).



DOWNTOWN LODGING MARKET OVERVIEW

Supply

Table 18

Downtown Wichita Hotels 2015				
Name	Type	Class	Flag/Affiliation	Rooms
Drury Plaza Hotel Broadview Wichita	Full Service	Upper Midscale	Drury	200
Hyatt Regency Wichita	Full Service	Upper Upscale	Hyatt	303
Hotel @ Old Town	Limited Service	Upper Upscale	Independent	115
Courtyard Wichita @ Old Town	Limited Service	Upscale	Marriott	128
Fairfield Inn @ Suites	Limited Service	Upper Midscale	Marriott	131
Autograph Collection Ambassador	Full Service	Upper Upscale	Marriott	117
Total Rooms				994

Source: Smith Travel Research; W-ZHA

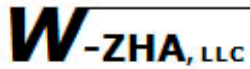
The competitive set of Downtown Wichita hotels contains six properties containing approximately 994 rooms.⁴ These include the Drury Plaza, the Hyatt Regency, the Hotel @ Old Town, the Courtyard, Fairfield Inn and the Ambassador Hotel. All of the hotels in the Downtown competitive set are classified as midscale or upscale by Smith Travel Research. The Ambassador Hotel is the state’s only AAA Four Diamond hotel.

The Fairfield Inn opened in 2011 and the Ambassador opened in 2013. Downtown’s supply of hotel rooms increased by one-third or 248 rooms between 2010 and 2015. During this same timeframe, Downtown’s average revenue per available room increased by 19 percent.

Over 60 percent of Downtown hotel rooms are in full-service hotels with approximately 38 percent in limited service hotels. Among the competitive set, the Drury, the Hyatt Regency, and the Ambassador are full-service properties. The supply of hotel rooms Downtown is dramatically different than the overall market where 60 percent of the rooms are limited service. There are no extended stay or suite products in the Downtown competitive set.

Three of the six Downtown hotels participate in Marriott’s robust hotel loyalty program. The Hyatt benefits from the Hyatt loyalty program. There is not a single Hilton hotel or InterContinental Hotel Group hotel in the Downtown even though these brands are available in the suburban market.

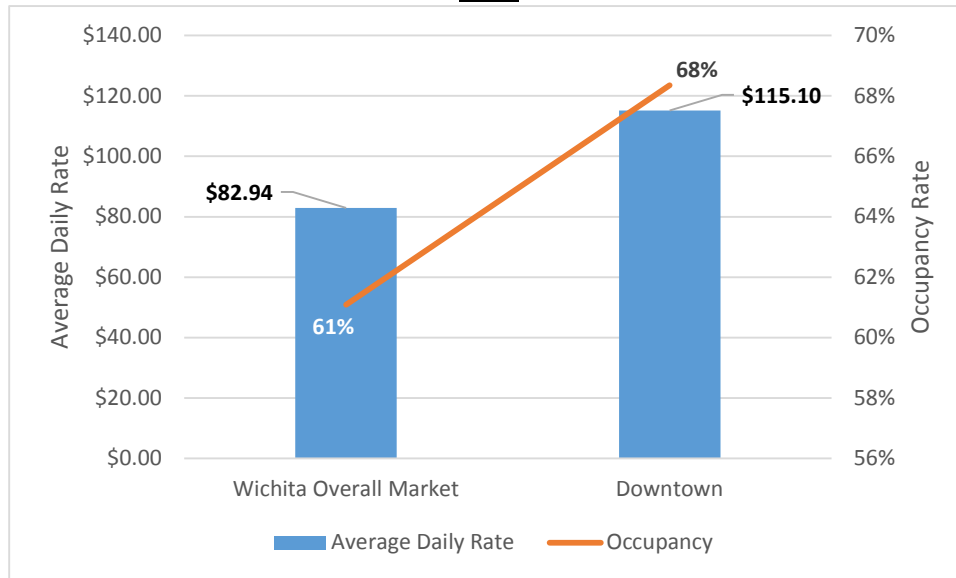
⁴ This list excludes three hotels that are near the Downtown: the Hotel at Waterwalk, the Wyndham Garden Wichita and Waterwalk Hotel and Apartments. The Hotel at Waterwalk and the Wyndham Garden hotel are located outside of the Central Business District across West Kellogg Avenue. Average daily rates at these hotels are consistently well-below the six hotels in the Downtown. Smith Travel Research does not have performance data on the Waterwalk Hotel and Apartments.



Performance

Figure 7

**Average Daily Rate and Occupancy Rate
Overall Hotel Market and Downtown Hotel Market
2015**



Source: Smith Travel Research

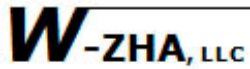
As a group, Downtown’s hotels outperformed the overall Wichita market between 2011 and 2015.

Table 19

**Wichita Lodging Market Comparisons
Overall Market and Downtown Wichita
2011 to 2015**

Year	Occupancy		Avg Daily Rate		Revenue /Available Room	
	Overall Mkt	Downtown	Overall Mkt	Downtown	Overall Mkt	Downtown
2011	58.8%	61.2%	\$75.62	\$108.36	\$44.45	\$66.37
2012	59.2%	65.2%	\$77.26	\$106.86	\$45.72	\$69.72
2013	60.6%	62.6%	\$77.68	\$107.51	\$47.11	\$67.28
2014	61.5%	66.6%	\$80.90	\$112.29	\$49.79	\$74.84
2015	61.1%	68.3%	\$82.94	\$115.10	\$50.66	\$78.67
CAGR 2011-15	1.0%	2.8%	2.3%	1.5%	3.3%	4.3%

Source: Smith Travel Research; W-ZHA



Over the last five years, Downtown hotels have consistently achieved higher occupancies than the overall Wichita market, despite charging considerably higher average daily rates (ADR) and experiencing a 33 percent increase in the number of rooms available. The average revenue per available room (RevPAR) in the Downtown competitive set has been roughly 50 percent higher than the RevPAR in the overall market.

Table 20

Downtown Hotels' Share of Room Revenue All Hotels and Midscale and Upscale Class Hotels 2012 - 2015		
Year	Downtown's Share of All Hotel Revenue	Downtown's Share of All Midscale and Upscale Hotel Revenue
2012	16.4%	22.6%
2013	17.3%	24.2%
2014	18.6%	26.2%
2015	18.6%	27.2%
<i>Downtown's Share of Rooms</i>	12.0%	17.5%

Source: Smith Travel Research; W-ZHA

Downtown's share of total room revenue has been increasing. Where Downtown hotels now account for 12 percent of all rooms in Sedgwick County, the Downtown captured 19 percent of room revenue in 2015. Where Downtown accounts for approximately 18 percent of all midscale and upscale rooms in the County, Downtown captured 27 percent of midscale/upscale room revenue. The Downtown's capture of room revenue has been increasing over time. It appears that Downtown is becoming an increasingly attractive overnight destination.

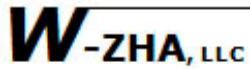


Table 21

**Downtown Hotels' Share of Occupied Room Nights
Downtown Hotels and All Hotels
2012 - 2015**

Year	Downtown's Share of Occupied Room Nights
2012	11.8%
2013	12.5%
2014	13.4%
2015	13.4%
<i>Downtown's Share of Rooms</i>	<i>12.0%</i>

Source: Smith Travel Research; W-ZHA

Downtown’s increasing share of room revenue is not just a function of Downtown’s higher average daily rates. Downtown is capturing more hotel room stays. This indicates that Downtown is becoming a more attractive overnight stay destination.

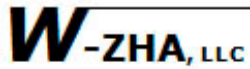
Typically, a hotel market is considered stable with occupancy levels of 60 percent or better. Markets with strong average daily rates and occupancies in excess of 65 percent are achieving more than their fair share of demand. The data indicate that the Downtown hotel market is performing very well.

Table 22

**Wichita Midscale and Higher Class Lodging Market Comparisons
2012 to 2015**

Year	Occupancy		Avg Daily Rate		Revenue /Available Room	
	Midscale+ Mkt w/out Downtown Hotels	Downtown	Midscale+ Mkt w/out Downtown Hotels	Downtown	Midscale+ Mkt w/out Downtown Hotels	Downtown
2012	60.5%	65.2%	\$83.16	\$106.86	\$50.35	\$69.72
2013	62.0%	62.6%	\$87.24	\$107.51	\$54.06	\$67.28
2014	62.1%	66.6%	\$88.45	\$112.29	\$54.88	\$74.84
2015	62.3%	68.3%	\$89.78	\$115.10	\$55.94	\$78.67
<i>CAGR 2012-15</i>	<i>1.0%</i>	<i>1.6%</i>	<i>2.6%</i>	<i>2.5%</i>	<i>3.6%</i>	<i>4.1%</i>

Source: Smith Travel Research; W-ZHA



The table above demonstrates that Downtown hotels' average revenue per available room is considerably higher than hotels of comparable quality in the suburbs. The average daily rate in Downtown hotels is 28 percent higher than the average daily rate among comparable quality hotels in the suburbs. Interviews and research suggest that the higher average daily rates Downtown are not necessarily because Downtown has a high proportion of full-service hotels. The limited service hotels in Downtown Wichita are achieving average daily rates of approximately \$115 per night, which is higher than their suburban counterparts.

The high occupancy and high average daily rates Downtown indicate that Downtown is competing successfully for the business, group and leisure markets. This is consistent with anecdotal evidence from interviews with hotel managers/owners that many business travelers choose to stay in properties located Downtown – particularly in Old Town – even when doing business in suburban locations.

The data demonstrate that Downtown's strong performance is not necessarily at the expense of hotels outside of the Downtown. Occupancy, average daily rate and revenue per available room grew in the suburban markets between 2012 and 2015. There is no indication that over-building has taken place and that new hotel projects are cannibalizing the market.

Segments

A 2012 study for Visit Wichita indicates that 42.6 percent of hotel guests in Wichita identify business as their primary reason for visiting. Approximately 37 percent identified leisure as their reason for visiting and 21 percent indicated meetings and/or group events.

In terms of room night segmentation, it varies considerably by the hotel and its location. The Drury and the Hyatt each have meeting space and are conveniently located near Century II. The market at these hotels is skewed to the meeting and group business.

The Ambassador, on the other hand, with its higher rate structure is mostly a business traveler hotel with very little business related to Century II. At this hotel the remaining room nights are related to events like weddings, Arena events, small SMERFE meetings (social, military, educational, religious, fraternal, and ethnic) and the leisure transient market.

Because of their location near shops and eat/drink destinations, Old Town hotels are attractive to business travelers and leisure transient market. Old Town hotels are particularly attractive to Arena visitors. With 10,000 square feet of meeting space, the Hotel @ Old Town experiences relatively high share of group business.

Table 23

**Downtown Hotel Market Segments
Wichita
2015**

	Segment Share
General Business Component	42%
Meeting/Group Component	35%
Leisure/Other (Arena)	23%
Total	100%

Source: W-ZHA

Through interviews with hotel managers and hotel location, W-ZHA estimates that meetings, group events and conventions account for roughly 35 percent of the Downtown lodging market, with 42 percent attributable to business transient travelers, and the remaining 23 percent attributable to leisure transient guests.

DOWNTOWN LODGING MARKET OUTLOOK AND PROJECTION

The following describes the general market outlook for the Downtown Wichita lodging market, along with a projection for supportable development over the next ten years.

Potential for New Lodging Downtown

As the local, regional and national economies recover, Downtown Wichita offers potential for new lodging development. Five considerations shape this outlook:

- Office ratios: Notwithstanding Downtown’s 39 percent share of the Wichita office market, Downtown hotel rooms account for just 12 percent of its lodging market supply.

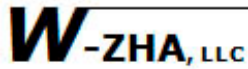


Table 24

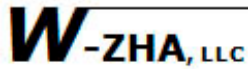
**Downtown's Share of Occupied Office Space and Hotel Rooms
Sedgwick County Market
2015**

	Downtown's Share
Occupied Office Space	
J.P. Weigand & Sons	38%
NAI Martens	39%
Hotel Rooms	12%

Source: Smith Travel Research; J.P. Weigand & Sons, "Wichita Kansas 2016 Forecast"; NAI Martens

Before even considering the influences of the Century II convention center and INTRUST Bank Arena, this may be an indication that the Downtown market is underserved.

- Convention Business: Downtown Wichita maintains the dominant position in the Wichita convention and meetings market.
- Downtown Amenities: Access between Downtown and suburban Wichita is not difficult, and Downtown's features and amenities increasingly provide compelling reasons for travelers to stay Downtown. Over the last several years, Old Town has provided the primary amenity for Downtown travelers; other amenities include the City's museums and the INTRUST Bank Arena. The importance of Downtown amenities is made clear in the previously mentioned finding that Downtown hotels attract business travelers travelling for business meetings in suburban locations (see page 27).
- Underserved Niches: Downtown Wichita contains a limited supply of properties in limited-service, middle-market and budget categories. While this is not unusual for Downtown districts, in most Downtown districts this is attributable to relatively high land costs and predominantly high-end office markets. This is not the case in Wichita, where the Downtown Class-A office market achieves lower rents than its suburban competition, and there is land available. While Downtown's full-service niche may be adequately served at this time, interviews suggest that the Hotel at Old Town (an independent hotel) and other limited service properties are performing well.



- Few Brands are Represented Downtown: Marriott has a strong showing Downtown and Hyatt is present Downtown. There are no Hilton products Downtown like Hampton Inn or Embassy Suites, yet Hilton has six midscale and upscale hotels in Sedgwick County. The same is true for the InterContinental Hotel Group (Hotel Indigo and Staybridge Suites for example) where they have ten properties in the midscale and upscale class in the Sedgwick County market and no hotel presence Downtown. Given Downtown’s increasing share of the market’s hotel room revenue (see page 26) it would not be surprising for other hotel brands to enter the Downtown market.

Projected Development Potential

Based on the foregoing and market growth, there is the potential for additional hotel rooms in Downtown Wichita. The derivation of this projection rests upon the following three considerations:

- Undersupplied Convention Business: A brief investigation of other selected comparable and competitive cities shows that, relative to exhibit space, Wichita is substantially undersupplied with lodging rooms. To be conservative, this comparison includes the Wyndham Garden, WaterWalk Hotel and Apartments, and the Hotel @ Waterwalk in the total for Downtown lodging rooms.

Table 25

**Exhibit Space and Downtown Lodging
Select Cities and Wichita
2015**

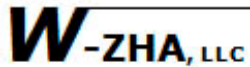
	OK City	Tulsa	Omaha	Des Moines	Average	Wichita ^{/1}
Downtown Convention Cntr Exhibit Space	100,000	102,600	194,000	150,000	136,650	195,500
Downtown Lodging Rooms	2,129	2,108	2,648	1,633	2,130	1,299
Ratio (Exhibit Space/Rooms)	47	49	73	92	64	151

1. Downtown Wichita hotels include the Downtown competitive set as well as the Wyndham Garden Hotel, WaterWalk Hotel & Apartments, and the Hotel @ Waterwalk. Century II advertises all of these hotels as available to support Century II events. Reportedly, the WaterWalk Hotel and Apartments only operates half of its 134 units as hotel rooms.

Source: www.century2.org; Google Maps; Hotel websites; Convention Center websites; W-ZHA

Among a selected sample of comparable cities, Wichita’s ratio of exhibit space to Downtown lodging rooms is over 100 percent higher than the average among these cities.

This leads to the general finding that accommodations may present difficulties for groups seeking to book Century II for large meetings. Discussions with Visit Wichita support this general finding. Additional Downtown rooms are important in attracting and retaining Downtown convention/meeting activity. To support Century II, additional hotel rooms need to be close to the convention center – reportedly Old Town and south of Kellogg Avenue are considered too remote for many groups.



The Century II convention business also demands additional rooms in *full-service* hotels near the convention center. This may be challenging given the relatively high supply of full-service rooms Downtown. For this reason, meeting growth related to Century II will likely be limited.

In addition to Century II, the Kansas Leadership Center and Kansas Health Foundation Conference Center activity generates demand for Downtown hotels. In 2015, 1,500 people participated in Kansas Leadership Center programs. The Kansas Leadership Center projects that the number of participants will increase to 2,000 in 2016. The Kansas Health Foundation Conference Center accommodated over 8,000 people in 2015. They estimate that the Conference Center generated 250 room nights in 2015. These conference attendees seek affordable Downtown hotel rooms.

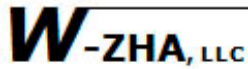
Given Downtown revitalization activities and employment growth there is likely to be some increase in meeting demand. The growth in meeting demand is projected to be modest, however, largely due to the market challenges facing Century II. A growth rate of 5 to 10 percent was assumed in the meeting market segment.

- Business Market Growth: Downtown hotels are serving the regional business market, not just the Downtown business market. Countywide employment growth will drive new demand for hotel rooms Downtown. Downtown's competitive position is evident from room revenue data.

Downtown's competitive position will likely improve as additional redevelopment projects (like Exchange Place and Bitting buildings) are completed, and Downtown's mixed-use environment becomes increasingly vibrant. It is important to note, that the Downtown environment is unique in the marketplace. There are some hotel patrons that will choose to stay in the urban center regardless of more convenient suburban hotel options.

Moody's Analytics projects that Sedgwick County non-farm employment will grow by a compound average annual growth rate of 1.4 percent per year (see Table 3 on page 7). This translates into 15 percent more jobs in 2025 than there are 2015. Office-inclined industries are projected to grow by an average compound annual growth rate of 1.9 percent per year (see Table 3 on page 7) or 20 percent over the next 10 years.

Assuming the Downtown can continue to capture its fair share of the business market, over the next ten years the general business transient segment of the lodging market should grow by 15 percent. With a revitalizing core and an attractive location for business travelers, it is not unreasonable to assume that Downtown may capture more of the business market. On the high end, business market growth of 20 percent was assumed. This is the same growth rate projected for office-inclined employment over the next 10 years. Based on the assumption that this segment accounts for roughly 42 percent of Downtown lodging occupancy, this growth would increase demand for Downtown lodging by 63 to 83 rooms.



- INTRUST Bank Arena and the Leisure Market:** Since opening in 2010, approximately 2.4 million people have visited INTRUST Arena. According to an Economic Impact Analysis for INTRUST Bank Arena conducted by Wichita State University Center for Economic Development and Business Research and as reported in the “2015 State of Downtown” report, people living 100-miles or more from Wichita accounted for 13 percent of the Arena’s ticket sales from 2010 through 2014. According to this same source, Arena visitors generated \$11.8 million in hotel spending from 2010 through 2014. Given the overall hotel market’s revenue per available room of \$50.66, the Arena generated demand for approximately 640 hotel rooms from 2010 to 2014, an average of 128 hotel rooms per year.

To date, the event type that generates the most overnight stays are concerts. In interviews with hotel managers there was agreement that INTRUST Bank Arena events, particularly concerts, have had a positive impact on the hotel market. In fact, when INTRUST Bank Arena concerts occur during typically high business occupancy days, average daily rates in Downtown spike considerably due to supply constraints. There is some question as to how many concert-related hotel night stays are lost Downtown due to Downtown’s high average room rates on certain concert nights.

According to INTRUST Bank Arena’s 2015 Annual Report, concerts accounted for 47 percent of the Arena’s total attendance and 65 percent of event income. INTRUST Arena management is interested in attracting more concerts in the future which will, in turn, generate more room night demand.

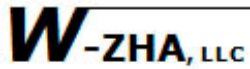
INTRUST Bank Arena was chosen to host the first and second rounds of the 2018 NCAA Basketball Tournament. This tournament is expected to bring tens of thousands of visitors to Wichita. All Downtown hotels are participating in hosting the tournament participants and the media.

As Downtown continues to revitalize and becomes more active 18-hours of the day, the leisure market will grow. Together with Arena events, it is not unreasonable to assume that the leisure transient market will grow by 15 percent to 20 percent per year. This translates in 34 to 46 rooms.

Table 26

Lodging Industry 10-Year Growth Potential Downtown Wichita						
	Segment Share	Room Supply	Growth Potential (Rooms)		Rooms	
			Low	High	Low	High
General Business Component	42%	417	15%	20%	63	83
Meeting/Group Component	35%	348	5%	10%	17	35
Leisure/Other (Arena)	23%	229	15%	20%	34	46
Total	100%	994			114	164

Source: W-ZHA



- Competitive Development Dynamics: The figures shown in the preceding table indicate that over ten years, Downtown Wichita could potentially support an additional 114 to 164 rooms based on growth assumptions.

This figure may be conservative, for it excludes considerations of competitive market dynamics. Developers and lodging companies do not develop properties simply to capture opportunities within a given market's capacity. Rather, they pursue development strategies that will enable them to capture increased market shares. This competition shapes strategies involving site selection, product niches (as where, for example, Marriott may introduce its Courtyard, Residence Inn, Fairfield Inn, Springhill Suites, TownePlace Suites, Renaissance or other products to complement existing properties in a market or Hilton will stake a position in the Downtown market where it currently has no hotel) and other issues. Where new construction exceeds the market's capacity, existing properties (either Downtown and/or suburban) may fail, but this does not deter such construction. Thus, as Downtown achieves growth and enhances its profile, its potential for additional lodging facilities may exceed the figures derived in the preceding table.

Overall, while growth indicates a potential for 114 to 164 more rooms in Downtown Wichita, a reasonable projection must consider development dynamics that will increase this potential to a range of 120 to 200 rooms – in two properties -- over the next ten years. Limited service hotels and/or a suite product by a hotel brand(s) not currently in the Downtown market are likely prospects. Another prospect may be that the Hyatt expands and further leverages its existing full-service amenities. It is unlikely that a stand-alone, new full-service hotel will be developed in the Downtown over the next ten years because of cost and the existing full-service hotel competition Downtown.