2010 | KANSAS CITY RETAIL REPORT

LANE4
PROPERTY GROUP

Although no sector of the Kansas City Metropolitan Area has been immune to the significant headwinds buffeting the national retail economy, certain submarkets are faring better than others. New retail development has slowed to a crawl throughout the metro, yet projects that commenced in more optimistic times continue to come on line with mixed results. On the other hand, healthy retailers are seizing a rare opportunity to either improve their cost structures at existing locations or improve their positions in the market at affordable rates. If anything, the current retail turmoil has solidified and possibly improved the standing of well located and fundamentally sound centers that already serve stable, dense residential populations.

The decreased availability of credit to both landlords and tenants continues to play an increasingly important role in the retail landscape. Because financing hurdles make new construction difficult, even with significant pre-leasing, retailers are hesitant to commit precious opening slots in new projects that may not be deliverable—thus exacerbating the problem. Small shop leasing has been particularly hard hit because of lack of credit available to franchisees and smaller, local tenants—once the lifeblood of this segment. Even relatively healthy retail centers with owners that are current on mortgage payments can be put into distress when increasing cap rates and low comparable sales cause the appraised value of these centers to fall below the loan amount.

NORTHWEST KANSAS CITY

The Northwest Kansas City trade area encompasses the area west of Highway 169 and north of the Missouri River. After successfully leasing their anchor spaces, the most recent projects in this submarket—Zona Rosa's second phase (anchored by Dillard's) and Cousins' Tiffany Springs MarketCenter (anchored by Target, JC Penney, Home Depot, Best Buy, Sports Authority and PetSmart)—are pushing hard to lease their remaining small shops. Aggressive lease deals are allowing local tenants and startup retailers to join these premier centers that formerly were the exclusive haunt of national credit tenants. The Northwest Kansas City trade area has been mostly spared from the glut of vacant boxes left in the wake of retail bankruptcies and retrenchments. Occupancy levels at Class A centers remain healthy.

NORTHEAST KANSAS CITY

Newer developments in this trade area, specifically those near the Interstate 35 and Highway 152 intersection, continue to exhibit strength. Construction of the Hy-Vee supermarket at Liberty Triangle has started, while several new restaurants including Chick-fil-A and Culver's have opened with record-breaking sales. One disappointing note in this otherwise healthy sector is the closing of Circuit City with no immediate prospects for re-tenanting. Meanwhile, older portions of the trade area, especially those near the Metro North Mall, are showing signs of accelerated decline. This sector is exhibiting distress after losing major tenants in the past several years (including Dillard's, JC Penney, Circuit City, Linens n' Things, Dick's, Ultimate Electronics and Steve & Barry's) with no reported backfill activity. The planned redevelopment of the former Antioch Center regional mall appears to be stalled after previously receiving approval for public incentives.

CENTRAL KANSAS CITY

The downtown Kansas City Power & Light District continues to add tenants, especially in the entertainment and food service categories. A major addition to the district was the Cosentino's Market, Kansas City's first modern downtown supermarket, which reports guest counts and traffic at or above projections. While there are many other success stories in the project that revitalized a major portion of Kansas City's downtown, there have been signs of distress as certain tenants have had trouble paying for tenant finish work and below average sales have resulted in their closure. By most accounts, leasing to traditional retailers in the district has lagged projections. The Country Club Plaza, Kansas City's premier shopping district, has also suffered due to a series of high profile retail bankruptcies including Sharper Image, Z Gallerie, Mark Shale and Harold's. Forever XXI has started construction of a multi-level large format store on the Plaza that will open in spring 2010.

SOUTH KANSAS CITY

Although the location of a new stadium for The Wizard's—Kansas City's Major League Soccer franchise—may shift away from its original South Kansas City location, development work continues on the accompanying office and retail project. The development group has acquired more than 200 acres surrounding the site, completely demolished Bannister Mall, and leasing efforts are now underway for more than 600,000 square feet of retail space and a one million square foot office campus. The Target and Dillard's anchored Ward Parkway Center serves as an example of how relatively healthy centers can be negatively affected by the financial markets. The center was acquired by its lender in 2009 despite remaining well occupied with successful tenants (Steve & Barry's being the only major tenant loss at that time). The balance of this submarket, which primarily consists of well established neighborhoods, has seen little additional retail activity.

LEE'S SUMMIT, RAYMORE, BELTON

The biggest news in this trade area, located in the southeastern portion of the metro, is the opening of the Summit Fair lifestyle center in Lee's Summit. Macy's and JC Penney opened as scheduled in fall 2009, but many of the small shop and junior anchor retailers delayed signing leases or taking occupancy until after the anchor openings. Much of the center's physical infrastructure was completed before the end of 2009 and tenants will occupy space at various times throughout 2010. New development in the rest of this trade area is virtually non-existent—a major change for these formerly fast-growing suburban communities. Because of limited existing and new retail product, the occupancy rate for this trade area has remained relatively healthy and there have been few major retail closings or relocations.

EAST JACKSON COUNTY

The Independence portion of East Jackson County serves as a regional retail hub anchored

KANSAS CITY SHOPPING CENTER SURVEY

SUBMARKET	TOTAL SF	% OF TOTAL SURVEYED AREA	AVERAGE LEASE RATE	VACANT SF	VACANCY RATE
Northwest Kansas City	3,167,628	7%	$20.24	139,147	4.4%
Northeast Kansas City	5,223,128	12%	$10.46	505,858	9.7%
Central Kansas City	2,832,395	7%	$16.65	196,106	6.9%
South Kansas City	3,185,893	8%	$9.15	674,924	21.2%
Lee's Summit/Raymore/Belton	3,017,582	7%	$14.29	149,593	5.0%
East Jackson County	6,519,235	15%	$9.78	514,388	7.9%
Northern Johnson County	8,149,040	19%	$11.04	701,326	8.6%
Southern Johnson County	7,698,757	18%	$17.85	595,317	7.7%
Wyandotte County	2,649,743	6%	$10.80	685,976	25.9%
TOTAL SURVEYED AREA	42,443,401	100%	$12.13	4,162,635	9.8%

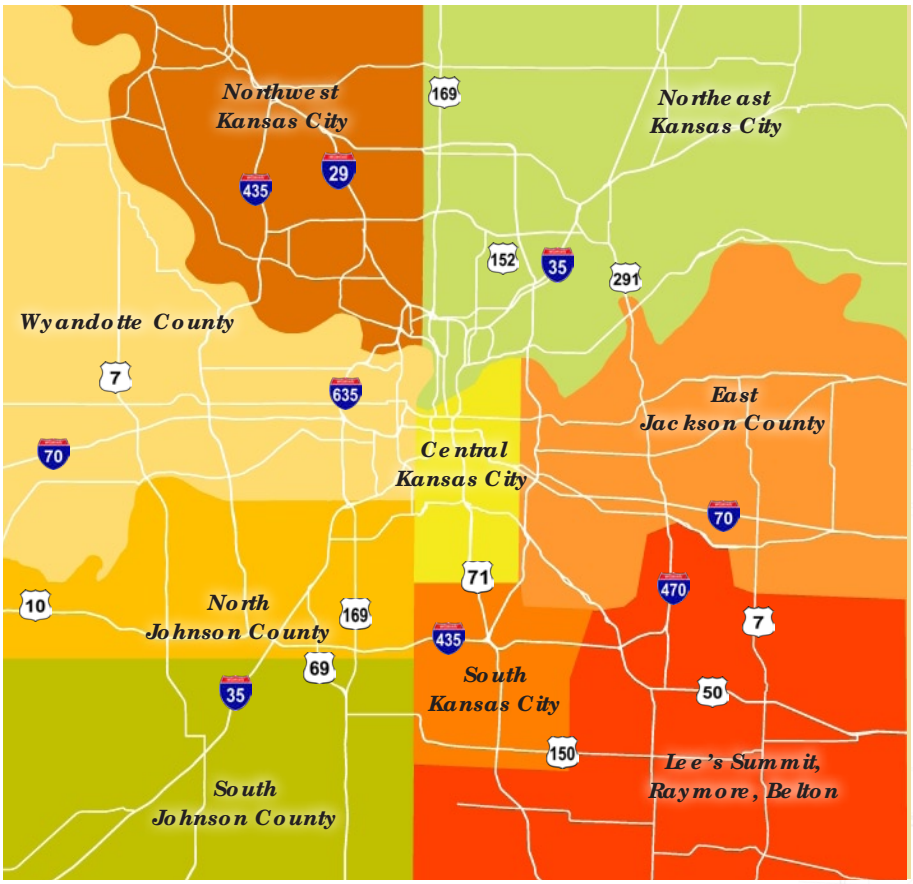
Data provided by IANEA Research and third-party sources. Survey includes retail space located in shopping centers with a minimum GLA of 50,000 square feet. Lease rates represent average quoted pricing per designated trade area in the Kansas City Metropolitan Market. SF = Square Feet

by the Independence Center regional mall. Although Independence Center and the adjacent Independence Commons power center remain extremely productive, other major projects are underperforming. Chief among them are The Pavilions at Hartman Heritage—a well located, well designed center that has lost more than 50% of its occupancy due to retailer-specific weakness, and the Bass Pro anchored Falls at Crackerneck Creek which is building momentum with a new Hobby Lobby and Mardel's, both opening in 2010. In Blue Springs, the Adams Dairy Landing power center was successfully launched with the opening of Target in fall 2009. Other major tenants that will open in 2010, include Lowe's, Kohl's, Gordmans, Staples, Petco and Books-A-Million.

NORTH JOHNSON COUNTY

The North Johnson County market has traditionally provided a strong lure to retailers and developers because of its dense population and above average incomes. However, during the past year the trade area's draw led to both major successes and notable problems. One of the nation's largest retail transactions in 2009 occurred when a group of local investors purchased three North Johnson County grocery-anchored centers that were prized for their unique ability to serve the strong local demographics. On the other hand, three major new development projects that were scheduled to open in 2009 remain un-built or partially constructed, but unoccupied. These projects, which would have comprised more than one million square feet of gross leasable area, suffer from lack of retail demand and/or difficult financing and face uncertain prospects for a 2010 turnaround. The Oak Park Mall remains the most productive regional mall in the Kansas City metro and maintains a high occupancy rate.

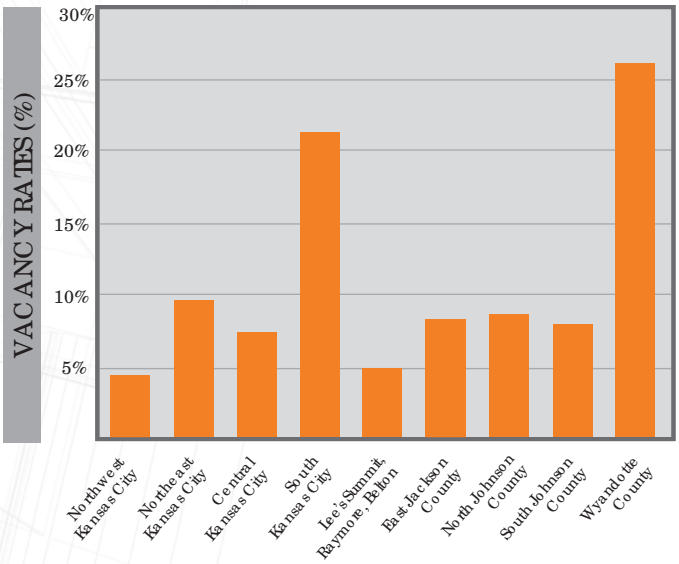
SUBMARKETS WITHIN THE GREATER KANSAS CITY AREA

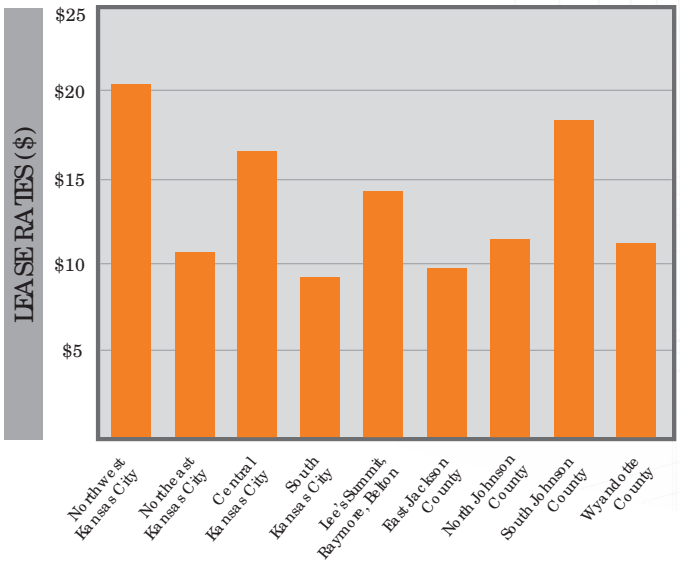


SOUTH JOHNSON COUNTY

No trade area in the Kansas City metro better symbolizes the problems in the national retail economy than the South Johnson County submarket. Once the City's poster child for seemingly limitless upscale residential and commercial development, the area now faces challenges, including stalled projects,

VACANCY AND LEASE RATES BY SUBMARKET





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centers that were built or bought based on unsustainable rent expectations and planned projects that are curtailed or indefinitely shelved. At Corbin Park, a 1.1 million square foot regional center located in south Overland Park, the completion date and tenant mix for the rest of the project are uncertain following the 2008 openings of anchors Von Maur and Lifetime Fitness. Vacancy is also at an all time high in South Johnson County's retail epicenter, 119th Street and Metcalf Avenue. The retail reversal is occurring despite the fact that the area's underlying fundamentals—great schools, high incomes, and a solid residential base—remain almost exactly the same as they were several years ago. This sharp market correction will eventually lead to a better balance of supply and demand, and the inevitable project failures will lead to a resetting of previously unsustainable rent bases.

WYANDOTTE COUNTY

Wyandotte County's retail activity continues to revolve around the Kansas Speedway and adjacent areas that, if anything, may be bucking the trend and enjoying notable success. Walmart and Best Buy have opened and Kohl's will join the Plaza at the Speedway power center. The adjacent Legends at Village West shopping center features a mix of entertainment, value and specialty retailers along with several traditional box retailers. Plans for a nearby hotel and casino project on the grounds of the Kansas Speedway have been revised several times, but the project appears to be heading for a 2010 construction start. The first phase of Schlitterbahn's Vacation Village has opened, although some consider the future of the proposed adjacent retail and the bulk of the water park to be uncertain. Most intriguingly, The Wizards are proposing to construct their soccer stadium in a centrally located tract, which, coupled with the announcement of 4,000 possible jobs in a nearby office campus, would sustain and continue to grow the Speedway area.

LOOKING FORWARD TO 2010

Although the current retail market correction is both inevitable and healthy in the long term, there is no sugarcoating the fact that 2010 will be a difficult year on many fronts. Perhaps most unsettling is that there is not yet a clear understanding of the road to recovery. The problems of non-functioning financial markets and poor retail sales have been clearly diagnosed, but the timing and form of the cures are not yet known.

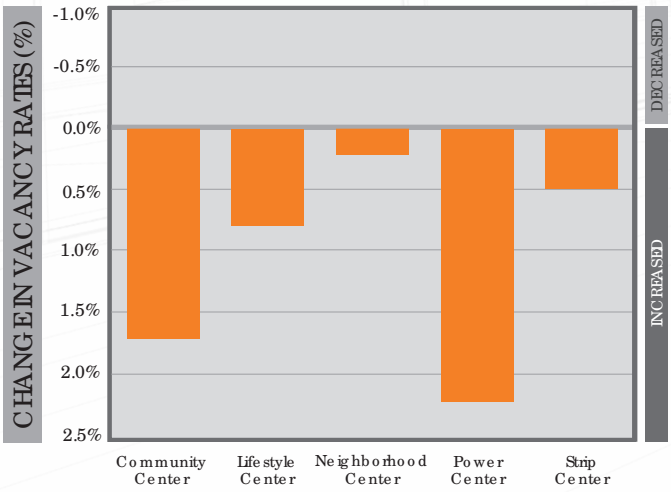
Despite this, there are a few bright spots that we hope will form the basis for building a recovery. Construction costs are dropping and rents are resetting to the point where retailers may soon regain health and ramp up their expansion plans. The failure of old retail concepts provides an opportunity for newer startups to take root. Retailers that continually maintained their stability are able to expand into new territory. Borrowers will default and properties will be taken or re-directed by lenders, which will lead to the restarting of otherwise sound projects that had been crushed by the burden of their unsustainable cost basis. Where there is chaos, there is also opportunity. In hindsight, we expect that 2010 will be viewed as the year when incredible opportunities were first created. ■

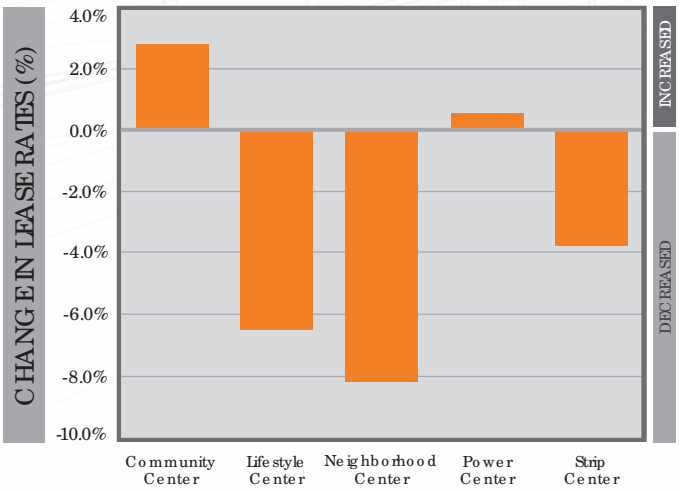
KANSAS CITY MSA SHOPPING CENTER PERFORMANCE

CENTER TYPE	VACANCY RATE			LEASE RATE		
	Q3-08	Q3-09	CHANGE	Q3-08	Q3-09	CHANGE
Community Center	7.2%	8.9%	1.7%	$13.87	$14.24	2.7%
Lifestyle Center	5.6%	6.4%	0.8%	$22.80	$21.31	-6.5%
Neighborhood Center	14.4%	14.6%	0.2%	$11.12	$10.21	-8.2%
Power Center	5.0%	7.2%	2.2%	$16.39	$16.44	0.3%
Strip Center	15.7%	16.2%	0.5%	$14.59	$14.02	-3.9%

CHANGE IN LEASE & VACANCY RATES BY SHOPPING CENTER TYPE

THIRD QUARTER 2008 TO THIRD QUARTER 2009





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RETAIL TRENDS

It should come as no surprise that the healthiest retailers have products and services that cater to budget and necessity spending. Consumers' conservative spending patterns are fueling demand for everyday consumables, with luxury items being sacrificed. Consequently, some of the most active retailers in the metro are discounters, drug stores, and consignment or second-hand retailers.

Value retailing is now the trend as retailers seek various ways to motivate frugal shoppers with price incentives. As the "Cash for Clunkers" program proved, consumers are willing to spend, given the right incentive. Additional trends include "Pop-Up" stores where retailers temporarily open to test markets, new products, or new concepts without fully committing to permanent locations.

Financially healthy retailers are taking advantage of the opportunities left open from companies that have gone bankrupt or reduced operations. Active retailers are looking to fill the voids left in the market from former competitors, choosing to expand and enter markets previously unavailable. In addition, prime real estate, which would have been very difficult to access in better economic climates, is now accessible.

Despite American frugality, consumers are showing interest in healthy, sustainable, and environmentally friendly products and retail supporting social responsibility. Time will tell if this is a short-lived fad or if consumers are willing to pay the price for green retailing. Regardless of consumer demand, the savings in operating expenses touted in recent studies may motivate tenants and landlords to pursue sustainable programs. In addition, it is anticipated that government mandates and incentives will drive eco-friendly development and innovation in commercial real estate. ■

TAXABLE SALES

CHANGE FROM PREVIOUS QUARTER				
	Q3-08	Q4-08	Q1-09	Q2-09
Douglas County, KS	-1.0%	1.2%	-5.8%	-5.8%
Johnson County, KS	0.3%	2.5%	-16.1%	8.1%
Leavenworth County, KS	-3.6%	-1.0%	-8.4%	9.9%
Miami County, KS	-2.7%	-2.3%	-10.7%	10.3%
Wyandotte County, KS	3.7%	-2.2%	-13.9%	6.2%
Cass County, MO	0.7%	-3.6%	-8.4%	5.3%
Clay County, MO	-2.7%	-0.2%	-13.3%	7.7%
Jackson County, MO	-1.0%	1.8%	-10.9%	4.6%
Platte County, MO	0.3%	-1.7%	-15.2%	12.6%
Totals	**-0.3%**	**1.1%**	**-13.1%**	**6.3%**

Kansas Department of Revenue and Missouri Department of Revenue.

RESIDENTIAL REAL ESTATE PERFORMANCE

Monthly Average Number of New Privately-Owned Housing Units

SUBMARKET	2005	2006	2007	2008	2009*	% Change 2008-2009	5 Year Monthly Average
METROPOLITAN STATISTICAL AREA							
Kansas City, MO-KS MSA	1,268.2	1,100.4	677.4	441.7	242.7	-45.0%	871.9
COUNTIES							
Johnson County, KS	371.3	312.6	215.9	80.2	108.4	35.2%	245.0
Wyandotte County, KS	56.3	39.9	37.1	15.0	10.2	-32.0%	37.1
Clay County, MO	48.3	36.8	37.5	13.4	15.6	16.3%	34.0
Jackson County, MO	505.7	478.6	234.1	60.8	50.7	-16.5%	319.8
Platte County, MO	31.3	38.0	21.6	9.6	8.4	-12.3%	25.1
CITIES							
Lenexa, KS	40.8	39.7	35.8	31.8	3.5	-89.0%	37.0
Olathe, KS	108.9	102.6	50.8	31.7	24.1	-23.9%	73.5
Overland Park, KS	78.7	91.5	48.8	39.1	61.0	56.1%	64.5
Shawnee, KS	59.2	22.6	28.5	9.0	6.7	-25.6%	29.8
Blue Springs, MO	22.2	41.8	22.6	8.5	4.5	-47.1%	23.8
Independence, MO	34.7	50.3	17.1	8.0	3.8	-52.5%	27.5
Kansas City, MO	280.4	267.9	89.3	124.7	23.5	-81.1%	190.6
Lee's Summit, MO	95.7	68.9	64.8	12.6	8.8	-30.1%	60.5
Raymore, MO	40.6	28.8	15.5	30.0	3.5	-88.3%	28.7

** Average January - October 2009. U.S. Census Bureau. KC-MSA: New Privately Owned Housing Units Authorized, Unadjusted Units by Metropolitan Area. County and City: Monthly New Privately-Owned Residential Building Permits, Estimated units with Imputation.*

2010 KANSAS CITY RETAIL REPORT

LANE4 Property Group specializes in commercial real estate brokerage, property management, real estate consulting and development throughout the Midwest. We provide our clients an advantage in tenant representation, project leasing, property management, investment sales, receivership and project management. These comprehensive services allow our clients to streamline their time and optimize their investments. From the initial market analysis through grand opening and operation, the LANE4 team executes each step of the process with skill and professionalism. Our team has forged strong relationships with our constituents: tenants, investors, municipalities, architects, engineers, attorneys, contractors and developers. This experience, dedication and focus—combined with creativity and passion—is the LANE4 formula that maximizes our partners' results.

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Cover Photos *(from left to right) - Prairie Village Shopping Center, The Legends at Village West (photo from RED Development), Tiffany Springs MarketCenter, Summit Fair (photo from RED Development), The Country Club Plaza*
Inside Photo: *Zona Rosa*

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