

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

AUGUST 2011

Flight to Quality

As the commercial real estate market continues to distance itself from the sharp declines of 2009, certain retail assets are holding their values better than others. First-tier (Class A) locations with strong fundamentals command starkly different values than secondary (Class B & C) locations which tend to be mid-street or lacking high profile anchor tenants. A significant trend in commercial real estate today is a 'flight to quality' by retailers and investors who are looking to reposition their portfolios to higher quality assets. We believe this trend will continue until lease rates for first-tier locations edge back toward pre-recession levels. Until that happens, landlords holding Class B & C properties will likely continue to struggle to re-tenant their vacancies because of competition with assets that are better positioned within their trade area.

With a recent recession on the nation's mind, retailers and investors are looking for safe bets. They are more likely to avoid taking chances on secondary locations, even if a significant price advantage exists. Recent transaction volumes evidence this trend as almost four out of every five commercial real estate sales in May of 2011 was an investment grade (Class A) property. While an increase in sales for secondary properties also occurred, the sheer volume of investment grade sales significantly outweighs that of Class B & C sales¹.

Similar to the investment sale market, vacancy rates in Kansas City shopping centers also reflect a 'flight to quality' in the retail market. In the first quarter of 2008, vacancy rates for class B & C strip centers in the Kansas City metro were about 13.3% while Class A regional centers were 11.6% vacant -- a 1.7% spread between the two. Tellingly, data from the second quarter of 2011 shows that Kansas City metro strip center vacancy has increased to 15.6% while regional center vacancy has decreased to 9.7% vacancy on average². The former 1.7% vacancy spread has now increased to a 6.9% spread in favor of Class A regional centers. This considerable shift provides a clear picture of how regional centers have been able to endure the economic turbulence by securing tenants who are looking for stability in strong commercial districts.

Looking forward, optimists view Class B & C properties as having potential for significant returns when the economy recovers. However, returns could likely be delayed for quite some time until the commercial real estate market hedges back toward pre-recession rates. Until then, we believe the market will continue to see a gradual reduction in vacancy rates led by the centers that are best positioned within the strongest markets.

Brandon Buckley, LANE4 Associate

Sources: ¹CoStar (2011). *Rising Sales Volume, Deal Volume Show Continued Investor Faith in CRE.*
²CoStar Source.

Sources: ¹Kansas City Regional Association of Realtors. *Average sales price of new & existing homes.*
²U.S. Census Bureau: *Estimated monthly, new privately-owned units.* ³Kansas City Regional Association of Realtors. *Total new & existing inventory per quarter.*
⁴Kansas City Regional Association of Realtors. *Supply is a monthly average for the quarter. 5-6 months supply represents a balanced market.*
⁵U.S. Bureau of Labor Statistics, *State and Metro Area Employment. Data not seasonally adjusted.*

Kansas City Housing

Average Home Price ¹			
County	Q2-10	Q2-11	% Chg
Cass County, MO	\$150,970	\$142,061	-5.9%
Clay County, MO	\$158,900	\$137,143	-13.7%
Jackson County, MO	\$125,755	\$116,556	-7.3%
Platte County, MO	\$204,058	\$190,355	-6.7%
Johnson County, KS	\$241,325	\$243,082	0.7%
Leavenworth County, KS	\$169,663	\$157,059	-7.4%
Miami County, KS	\$173,900	\$154,117	-11.4%
Wyandotte County, KS	\$90,218	\$68,320	-24.3%
Kansas City Region	\$170,024	\$161,280	-5.1%

Residential Building Permits ²			
County	Q2-10	Q2-11	% Chg
Cass County, MO	34	42	23.5%
Clay County, MO	43	30	-30.2%
Jackson County, MO	120	449	274.2%
Platte County, MO	34	43	26.5%
Johnson County, KS	235	265	12.8%
Leavenworth County, KS	31	47	51.6%
Miami County, KS	10	10	0.0%
Wyandotte County, KS	40	56	40.0%
Kansas City Region	617	981	59.0%

KC MSA Home Sales ³			KC MSA Housing Inventory ⁴		
	New	Existing		# Homes	Supply
Q2-11	479	6,153	Q2-11	52,155	9.7
Q2-10	740	7,381	Q2-10	50,953	7.5
% Chg	-35.3%	-16.6%	% Chg	2.4%	28.8%

KC MSA Employment by Industry (Job counts in 1,000s) ⁵			
	Q1-10	Q1-11	% Chg
Food Service	198.2	200.3	1.1%
Healthcare & Social Assistance	330.7	335.9	1.6%
Government	462.9	467.1	0.9%
Education & Health Services	386.7	393.2	1.7%
Financial Activities	213.2	208.0	-2.4%
Leisure & Hospitality	261.1	259.4	-0.7%
Professional, Tech, Scientific	202.6	196.8	-2.9%
Retail Trade	300.7	308.2	2.5%
Trade, Transportation, Utilities	571.6	577.4	1.0%
Manufacturing	216.8	218.1	0.6%
Mining, Logging, Construction	103.7	99.8	-3.8%

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Local Commercial Developments

LEAWOOD, KS & KANSAS CITY, MO

Trader Joe's, one of the nation's hottest retailers, made its debut in the Kansas City area in July, opening a store on both sides of the state line. Averaging 12,000 square feet, the Leawood, Kansas store is located at 119th Street and Roe Avenue in the One Nineteen center. The Kansas City, Missouri store is at 8600 Ward Parkway in the Ward Parkway Center.

KANSAS CITY, KS

Sporting Kansas City opened its state-of-the-art, \$200 million Livestrong Stadium in June with a kick-off match against rival ChicagoFire. The 342,105 square foot facility seats 18,467, with capacity to expand to 25,000 for concerts.

OVERLAND PARK, KS

Groundbreaking took place in May on a \$32M, upscale multi-family community at 105th & Mission Road. The Village of Mission Farms in Overland Park, Kansas will support 212 residential units within a four-story, 258,845 square foot complex, with retail space available on the ground floor.

Giving Back

LANE4 was happy to participate in the 8th annual Heartstrings In Bloom, dinner, dance and auction on Saturday, April 30, 2011 at the Indian Hills Country Club in Mission Hills, KS. In addition to event sponsorship, LANE4's Marketing Department contributed creative design for the event and membership drive. Over \$70,000 was raised to help Heartstrings Community Foundation® employ adults with developmental disabilities in the community.

LANE4 Property Group

LANE4 Property Group specializes in tenant representation, project leasing, property management, incentive services, receivership, development, project management and investment sales throughout the Midwest. Visit our website for up-to-date information on our current projects and services.

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Sources: ⁶CoStar: Total existing space, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2009 & 2010 percentages. ⁷U.S. Census Bureau. Data not seasonally adjusted. ⁸U.S. Census Bureau. Data seasonally adjusted. ⁹Creighton Economic Forecasting Group. Survey ranges from 0-100 with a score of 50 considered growth neutral. Under 50 indicates a contracting economy for the next three to six months. Mid-America survey states are Kansas, Missouri, Arkansas, Iowa, Minnesota, Nebraska, North Dakota, Oklahoma and South Dakota. ¹⁰U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. CPI for all urban consumers, not seasonally adjusted. ¹¹U.S. Bureau Of Labor Statistics. Total nonfarm employment. Data not seasonally adjusted.

Kansas City Leasing Data

KC MSA Shopping Center Retail ⁶			
	Q2-10	Q2-11	% Chg
Total GLA	64,818,264	64,912,272	0.1%
Avg Lease Rate	\$13.01	\$12.56	-3.5%
Avg Vacancy Rate	11.9%	11.8%	-0.1%

KC MSA Office ⁶			
	Q2-10	Q2-11	% Chg
Total GLA	107,492,418	107,658,797	0.15%
Avg Lease Rate	\$18.05	\$17.23	-4.54%
Avg Vacancy Rate	13.4%	13.3%	0.1%

National & Regional Trends

Housing Starts & Completions (1,000s) ⁷			
	Q2-10	Q2-11	% Chg
Housing Starts			
U.S.	172.0	165.2	-4.0%
Midwest	30.9	32.0	3.6%
Completions			
U.S.	194.1	134.3	-30.8%
Midwest	32.7	24.7	-24.5%

Period	In Billions	Business Conditions Index ⁹			
		2011	Apr	May	Jun
Q2-08	1130.4	Missouri	57.2	57.4	54.5
Q2-09	1010.4	Kansas	58.4	59.2	52.7
Q2-10	1079.9	Mid-America	57.7	60.2	54.9
Q2-11	1162.7				

June	Unemployment Rate ¹⁰		Consumer Price Index ¹⁰			
	'10	'11	2011	Apr	May	Jun
Midwest	9.5%	8.3%	Midwest	214.5	215.9	216.0
U.S.	9.5%	9.2%	U.S. City Avg	224.9	226.0	225.7

Job Openings & Turnover ¹¹			
Midwest (1,000s)	Q1-10	Q1-11	% Chg
New Hires	2,426	2,496	2.9%
Job Openings	1,559	1,858	19.2%
Total Separations	2,300	2,428	5.6%
U.S. (1,000s)	Q1-10	Q1-11	% Chg
New Hires	10,567	10,961	3.7%
Job Openings	7,670	8,963	16.9%
Total Separations	10,648	10,688	0.4%

