

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FEBRUARY 2011

Deal Making Strategies in a Tough Economy

The economic recession has forced everyone to become more creative over the past few years. Businesses of all types are trying to create their own opportunities, refine their development strategies, and rethink their entire platforms. The retail real estate market has been one of the most affected industry sectors. Yet, if you look around at the overall market in Kansas City, it certainly is not void of retailer expansion. A major factor is the trend towards creative deal making, including the below alternatives:

Abating Rent in Lieu of Tenant Improvements (TI): Overall tenant activity has not fully rebounded to the level predating the recession, but many of the tenants actively expanding are doing so because they are relatively well capitalized and want to take advantage of the market. Therefore, in many cases the tenant has better access to capital than a landlord who may be facing pressure from a lender. In tough negotiations, landlords have “bridged the gap” with tenants by lowering the rental rate or giving an extended rental abatement period in lieu of contributing to their build-out costs (known as “TI”).

The Return of Percentage Rent: A great way for landlords and tenants to work in concert during this sluggish economy is by implementing percentage rent into leases. While landlords aren’t likely to make exorbitant discounts to rental rates in favor of percentage rent, adding it could help get a lease past the finish line. Percentage rent clauses do not apply until tenants have passed a certain sales breakpoint, therefore paying extra rent only if they are successful. In return, the landlord gets a chance to earn extra revenue while also having a hedge against inflation.

Focus on Tenant Retention: Many shopping centers appear to have remained perfectly healthy, but in reality landlords are working very hard to keep their tenants’ businesses viable. This includes becoming more involved in merchants associations, planning special events for shopping centers, and leasing space to temporary stores. In some severely troubled centers, landlords might consider renegotiating leases, providing rent reductions, or allowing rent deferrals.

Buying Out of a Problem: In rare cases (e.g. stalled large-scale retail developments), tenants have been enticed to sign leases at extraordinarily tenant-favorable terms, enabling landlords to avoid negative repercussions from other tenant leases. Most anchor tenant leases include co-tenancy provisions that reduce rent substantially if the developer hasn’t met a certain occupancy level. Sometimes a developer has so much to lose with this issue looming, that it makes financial sense to structure a lease with another retailer at unimaginable terms in order to resolve the matter.

Shifting to Value-Oriented/Daily Needs: Value-oriented and daily needs retail has gained a significant share of disposable income, spurring landlords to capitalize on this uptick in demand by replacing struggling tenants or filling vacant space with this retail type.

When considering alternative strategies in tough economies, it is important to partner with a market-savvy, real estate professional to ensure a win-win situation for both landlords and tenants.

Justin Kaufmann, LANE4 Senior Associate

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. ⁴Kansas City Regional Association of Realtors. Total new & existing inventory per quarter. 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	Q4-09	Q4-10	% Chg
Cass County, MO	\$154,008	\$143,732	-6.7%
Clay County, MO	\$151,335	\$142,623	-5.8%
Jackson County, MO	\$125,278	\$117,140	-6.5%
Platte County, MO	\$179,986	\$202,152	12.3%
Johnson County, KS	\$236,836	\$247,881	4.7%
Leavenworth County, KS	\$156,818	\$150,806	-3.8%
Miami County, KS	\$144,270	\$134,350	-6.9%
Wyandotte County, KS	\$88,035	\$82,022	-6.8%
Kansas City Region	\$157,155	\$158,163	0.6%

Residential Building Permits ²			
County	Q4-09	Q4-10	% Chg
Cass County, MO	53	29	-45.3%
Clay County, MO	30	33	10.0%
Jackson County, MO	559	209	-62.6%
Platte County, MO	23	35	52.2%
Johnson County, KS	696	218	-68.7%
Leavenworth County, KS	44	37	-15.9%
Miami County, KS	11	10	-9.1%
Wyandotte County, KS	41	86	109.8%
Kansas City Region	1504	700	-53.5%

KC MSA Home Sales ³			KC MSA Housing Inventory ⁴		
	New	Existing		# Homes	Supply
Q4-09	651	6,067	Q4-09	43,964	6.9
Q4-10	400	4,557	Q4-10	48,436	8.3
% Chg	-38.6%	-24.9%	% Chg	10.2%	20.8%

KC MSA Employment by Industry (Job counts in 1,000s) ⁵			
	Q3-09	Q3-10	% Chg
Food Service	210.3	208.1	-1.0%
Healthcare & Social Assistance	329.0	326.8	-0.7%
Government	444.7	432.4	-2.8%
Education & Health Services	381.6	384.1	0.7%
Financial Activities	212.4	205.8	-3.1%
Leisure & Hospitality	290.5	290.1	-0.1%
Professional, Tech, Scientific	200.6	191.7	-4.4%
Retail Trade	308.3	304.8	-1.1%
Trade, Transportation, Utilities	587.1	582.6	-0.8%
Manufacturing	219.3	211.0	-3.8%
Mining, Logging, Construction	134.2	133.4	-0.6%

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New to Kansas City Retailers

Company	Type	Location	Opening
77 South	Upscale restaurant & lounge	Leawood, KS	Winter 2010
American Girl	Specialty retail	Overland Park, KS	Fall 2010
Blue Willi's	Danish apparel	Overland Park, KS	Fall 2010
Cellar & Loft	Gourmet food & wine	Kansas City, MO	Winter 2010
Chai Shai	Café & chai house	Kansas City, MO	Summer 2010
Dog Nuvo	Gourmet hotdog restaurant	Kansas City, MO	Fall 2010
The Drunken Fish	Restaurant & bar	Kansas City, MO	Summer 2011
Fo Thai	Thai & modern Asian restaurant	Leawood, KS	Early 2011
Intentions	Restaurant & bar	Overland Park, KS	Summer 2010
Lovebird	Women's apparel & gifts	Kansas City, MO	Summer 2010
Milk	Apparel & home items	Olathe, KS	Fall 2010
Market 3	Neighborhood grocery	Kansas City, MO	Summer 2010
Market Revolution	Apparel & accessories	Merriam, KS	Summer 2010
Method	Fashion boutique & art gallery	Kansas City, MO	Spring 2010
Naartjie Kids	Children's apparel	Overland Park, KS	Winter 2010
Nordstrom Rack	Off-price apparel & accessories	Lenexa, KS	Fall 2011
Paparico's	Mexican restaurant	Kansas City, MO	Summer 2010
Tasteful Olive	Specialty foods	Overland Park, KS	Summer 2010
Trader Joe's	Specialty grocery	Leawood, KS	Fall 2011
Trader Joe's	Specialty grocery	Kansas City, MO	Fall 2011
Vintage Market	Vintage & retro retail	Kansas City, MO	Summer 2010
Westport Café	Restaurant & bar	Kansas City, MO	Summer 2010

Giving Back

In the spirit of the holiday season, the LANE4 team spent the morning of December 8th sorting and packaging food and beverages for Harvesters Community Food Network. Since 1979, Harvesters has been the clearing house for the collection and distribution of food and related household products, serving more than 620 nonprofit agencies throughout the 26-county, Kansas City service area.

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			
	Q4-09	Q4-10	% Chg
Total GLA	64,632,524	64,928,416	0.5%
Avg Lease Rate	\$12.93	\$12.62	-2.4%
Avg Vacancy Rate	12.1%	11.9%	0.2%

KC MSA Office ⁶			
	Q4-09	Q4-10	% Chg
Total GLA	105,553,541	105,577,949	0.02%
Avg Lease Rate	\$17.98	\$17.85	-0.72%
Avg Vacancy Rate	13.1%	13.0%	0.1%

National & Regional Trends

Housing Starts & Completions (1,000s) ⁷			
	Q4-09	Q4-10	% Chg
Housing Starts			
U.S.	123.4	120.5	-2.4%
Midwest	23.1	21.6	-6.5%
Completions			
U.S.	212.4	159.6	-24.9%
Midwest	34.4	30.2	-12.2%

U.S. Food & Retail Sales ⁸		Business Conditions Index ⁹			
Period	In Billions	2010	Oct	Nov	Dec
4Q-07	1130.1	Missouri	52.2	56.6	57.4
4Q-08	1039.2	Kansas	55.1	50.8	48.4
4Q-09	1056.3	Mid-America	52.3	55.9	57.5
4Q-10	1134.9				

Unemployment Rate ¹⁰			Consumer Price Index ¹⁰			
December	'09	'10	2010	Oct	Nov	Dec
Midwest	9.9%	8.8%	Midwest	208.7	208.8	209.3
U.S.	9.9%	9.4%	U.S. City Avg	218.7	218.8	219.2

Job Openings & Turnover ¹¹			
Midwest (1,000s)	Q3-09	Q3-10	% Chg
New Hires	2,923	3,114	6.5%
Job Openings	1,651	1,966	19.1%
Total Separations	3,061	3,249	6.1%
U.S. (1,000s)	Q3-09	Q3-10	% Chg
New Hires	13,210	13,754	4.1%
Job Openings	7,605	9,596	-27.4%
Total Separations	14,102	13,979	-0.9%

