THE MIDWEST'S REAL ESTATE SOURCE

# HEARTLAND REAL ESTATE BUSINESS™

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## RETAIL ON THE HORIZON

**Heartland Real Estate Business *takes a look at the efforts of Midwest cities to attract retail development.***

Coleman Wood

For smaller cities, especially those located outside metropolitan areas, attracting business can be a challenging task. Many businesses, especially retailers, would much rather go to bigger population centers. So how does a city located on the fringe of a larger city or in a middle market attract the hottest national retailers? There are many different answers, but it all starts with having a plan.

Aksarben Village, a 72-acre mixed-use development located in Omaha, Nebraska, will contain approximately 100,000 square feet of retail.

### MENTOR, OHIO

A lot of the work involved with an economic development plan has to do with marketing the town. A retailer does not want to locate to a town that it has never heard of. So, many cities such as Mentor, Ohio, take their time in developing a marketing strategy to approach retailers.

Mentor is a city located near the shores of Lake Erie, approximately 20 miles northeast of Cleveland. The city has a past as a manufacturing center, but switched its focus to retail in the 1980s when many of its biggest factories left town. Mentor rode the wave of a surging economy, especially in the retail sector, in the late 1990s, but now is seeking a more mature approach to the development of the city.

"[Back in the 1990s], we may have even been so cocky as to proclaim, 'If you can't buy it in Mentor, it's not worth having,'" says Ronald M. Traub, director of economic development for the city. "Now, I think we recognize that retail is certainly a critical component of our economic well-being and needs to be nurtured, as does the industrial sector."

For all intents and purposes, Mentor's retail sector appears to be doing well. Vacancy ranges from 3 to 5 percent according to Traub, and the city was ranked sixth in the state in terms

*SEE CITIES, PAGE 34*

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## A BALANCING ACT

***The challenges in the financial sector may lead to volatile, though relatively healthy, conditions in 2008.***

Sean O'Malley

Much of 2007 was marked by turmoil in the global capital markets and commercial real estate. People with limited commercial real estate experience might think the year was disastrous. Those that have a longer commercial real estate history have seen much worse, particularly markets in which commercial real estate collateral suffered significant defaults and delinquencies.

O'Malley

Hype aside, the primary result of 2007's volatility and ensuing correction is largely a return to the underwriting fundamentals of a stable commercial real estate market — one characterized by a variety of lenders, more realistic standards, stable, albeit wider spreads, and the ability to finance sound deals in every property sector across the Midwest and the United States.

*SEE FINANCE, PAGE 38*

### NORTHWEST INDIANA CAPITALIZES ON CHICAGOLAND'S EXPANSION

The Northwest Indiana market is in the midst of a commercial real estate renaissance, as the continued expansion of the Chicago metropolitan market drives industrial and retail activity into the region, which is located approximately 30 miles southeast of Chicago.

*For more on Northwest Indiana, see page 37*

Oak Street Commons is an $80 million, 600,000-square-foot lifestyle center underway in the city of Schererville in Northwest Indiana.

# KANSAS CITY — CITY HIGHLIGHTS

Kristy Main, Paul Licausi, Jeffrey Berg and Brent W. Roberts

Each month, *Heartland Real Esate Business* asks local experts to contribute to a City Highlight focusing on a region in the Midwest.

## Kansas City Multifamily Market

The Kansas City multifamily market is stable, with projections expected to be steady locally. However, widening the scope of comparison for a real estate market during periods of capital market change can be an eye-opener.

Kansas City's multifamily sector outlook considers the standard measures for commercial investment property — such as job growth, occupancy and rent growth — thus, providing a significant amount of information about the market. However, in these times of capital market change and down-turned housing markets, additional data considered should include investor funding capability and a review of the local market as compared to other regions. An expanded view of any market is helpful most anytime, but it is critical for both buyers and sellers of multifamily in today's market turmoil.

Nationally, economists report that the overall effect of the down-turned housing markets and resulting reduction in home values will have less impact than the loss of jobs in housing construction and retail. Torto Wheaton Research reports that, while the current housing market would normally cause a greater drag on the economy, the increased business-to-business spending, evidenced by "persistent office-occupancy services growth," has compensated for the difference. The research concludes that, when coupled with the low and steady unemployment and increasing consumer spending, indicators have begun to point to a correction in motion.

While the Midwest investment market is considered more stable than the coasts, it is occasionally overlooked due to slower growth. In reality, Kansas City has exceeded Torto Wheaton's expectation for office-occupying jobs and is ranked among the top 15 positive revisions, alongside markets such as New York and San Francisco. This year, employment growth is expected to increase 1.2 percent to 14,000 total employed, with a related improvement in personal income, which is consistent with national expectations. New apartment completions in Kansas City, at 2,402 units, should mirror that of other national markets in keeping with the employment growth trend. An increase of 1 percent, in apartment unit absorption, is predicted.

Vacancy and rent growth are very similar to actual and forecast national data, with continued stabilized vacancy increasing marginally by 0.8 percent by fall 2008. Also, rent growth is expected to hold steady at 2.2 percent, with the rent index projections at $714.78 per unit. Current third-quarter 2007 Kansas City market reports reveal that absorption is much greater in the Olathe, Kansas, and the outer Johnson County submarkets, while rents are highest in three submarkets: central Kansas City, south Overland Park and Mission/Prairie Village, Kansas. The greatest rent growth occurred in north Overland Park, along with a surprising increase in Wyandotte County, Kansas.

Nationally, a shift in buyers shows an increase in institutional and private clients. Data from Real Capital Analytics' November 2007 Apartment Capital Trends Monthly shows institutional buyers almost doubled market share nationally from January-August 2007 data compared with September-November 2007. CBRE's Capital Market data confirms this volume trend in multifamily sales when comparing 2007 year-to-date to the same period in 2006. Capital efficient buyers with less reliance on CMBS conduits will more often be able to maintain expected returns. This is confirmed with CBRE Capital Market data that shows life, pension fund and advisors (LPFA); equity/opportunity funds; and foreign and private client buyers of multifamily assets are more often winning the business for which they bid with greater ability now than a year ago.

Interestingly, the Midwest has the highest percentage of institutional buyers compared with any of the other markets. Among the 10 primary Midwest markets, Kansas City, at 41 percent, is second only to Chicago (52 percent) for the amount of institutional investors active in the market. While these are certainly interesting trends, we can't overlook the rest of the data. Kansas City has the lowest price per unit among all of the 59 markets surveyed by Real Capital Analytics' as of November 2007, and reveals that while Kansas City doesn't have the highest cap rate, it does rank toward the top at 7.3 percent on 2007 sales and appraisals. These facts together indicate a greater buying power in the Kansas City market, and capital efficient buyers have the greatest ability to take advantage of that in light of current lending trends.

The Kansas City and Midwest multifamily markets provide a compelling story, not only locally but more importantly, from the national viewpoint. Consistency and stability look the same now as last year to Midwesterners while changes in other factors, such as the capital markets, have provided certain investors with greater incentive to consider assets within this region. Buyers typically dependent on CMBS conduits will be less likely to compete on pricing in these regions compared with those that don't. Informed sellers also benefit from understanding why certain investors shop Kansas City markets. Sellers aware of property types appealing to today's buyers are enabled to make better decisions on pricing, marketing and buyer selection.

*— Kristy Main is an investment properties broker, specializing in multifamily assets in the Kansas City, Missouri, office of CB Richard Ellis.*

## Kansas City Office Market

Is the Kansas City office market recession proof? Despite national reports showing a slow down in office absorption rates in 2007 and further reduction in 2008, Kansas City seems to be headed in the opposite direction.

The office market in Kansas City showed positive absorption of more than 1.5 million square feet in 2007 — more than one-third of this absorption was in the Class A product sector.

Colony Realty Partners is continuing to look at increasing its suburban Class A office holdings. In 2005, the company purchased 7101 Tower on the southwest corner of College Boulevard and Metcalf Avenue in Overland Park, Kansas, for approximately $94 per square foot. This Class A property totals approximately 230,000 square feet. In June of last year, Colony also acquired Financial Plaza, a Class A office development on the northeast side of College and Metcalf. This 292,000-square-foot multi-building development set a high watermark of $154 per square foot for the market. Recent information has Colony as a finalist for acquisition of Commerce Plaza I and II, a 280,000-square-foot, Class A office complex near the northwest corner of College and Metcalf.

*Briarcliff Development is building the 220,000-square-foot Hilltop at Briarcliff just north of downtown Kansas City.*

Is Colony trying to corner the Class A suburban office market? Probably not — at 800,000 square feet of Class A office space, the company's portfolio would still lag behind Stoltz Real Estate Partners/Urdang Capital Investment's investment in the 2.2 million-square-foot, Class A Corporate Woods office park, which is located a mile west of College and Metcalf. Stoltz acquired Corporate Woods in December 2006 for $128 per square foot.

These are high per square foot numbers for this suburban Kansas City market. With fewer landlords to compete with, expect to see Colony and Stoltz push lease rates higher this year. The average Class A rate is approximately $21.50 per square foot, still well below the $23.50 averages from 2000, before the tech crash. Lighton Plaza, which is owned by NewTower Multi-Employer Property Trust, is nearly 95 percent leased, and has the highest lease rate in College Boulevard corridor at $23.50 per square foot.

The other major Class A suburban office project under way is the Hilltop at Briarcliff office building, which is being developed by Briarcliff Development Company. The 220,000-square-foot, speculative development is located in the suburban market directly north of Kansas City's downtown. Currently under construction, this building will deliver in July. The speculative building is currently 55 percent pre-leased, and may soon have as much as 85 percent of the space pre leased with 8 months remaining on construction. This continues to show the market's support for quality product.

With lease rates moving upward and strong positive absorption, Kansas City's 2008 Class A office market appears to be bucking the national trend.

*— Brent W. Roberts is a first vice president in the Kansas City, Missouri, office of CB Richard Ellis.*

# Kansas City Industrial Market

What's the cause of all the buzz about Kansas City? We are seeing story after story in the national press and numerous trade magazines — so, why all the hoopla? The short answer is that there's a lot going on in the Kansas City real estate market that is worth talking about.

For those not familiar with Kansas City, here are some quick facts about this market that make it an advantageous place in which to do business: Kansas City is located in the center of the United States, at the crossroads of both Interstate 70 (a major national east/west highway) and Interstate 35 (a major national north/south road that is classified as the NAFTA highway). This market has significant transportation infrastructure including superior highway service, significant air cargo service, major rail service (the second-largest rail hub in the nation) and major barge service on the Missouri River. The metro area MSA population has now exceeded 2 million people and is one of the fastest-growing metropolitan areas in the Midwest.

These attributes are a prime contributor to how well the industrial real estate market has been performing over the last several years. While other parts of the county are experiencing economic challenges, the Kansas City metro area continues to remain stable and experience continued growth. The industrial sector contains roughly 241 million square feet of manufacturing, warehouse/distribution and flex product.

The market is very stable, with vacancy rates averaging approximately 8 percent and positive absorption activity for the last several quarters. The development community has been very conservative during the last 36 months, and speculative development has occurred at a more measured pace. This has kept the supply and demand factors in balance. Lease rates have remained stable, but we are starting to see some upward movement in lease rates for both flex and distribution product. However, this increase is minimal and has not had any material effect on demand.

Having said that, some exciting things are about to happen that will change the playing field in Kansas City's industrial market. Burlington Northern Santa Fe Railway, which announced recently the development of a new logistics park in Gardner in southern Johnson County, Kansas, is moving quickly to start construction for this facility and has indicated that it intends to have it operational by mid-2009. The entire project covers approximately 800 acres, with the BNSF intermodal facility occupying more than 350 acres of the project. The remaining 450 acres will be developed by The Allen Group as the Logistics Park-Kansas City, and will include facilities with dedicated rail service as well as medium and large box distribution and manufacturing facilities.

Along with this major investment in the community by BNSF and The Allen Group, interest in the market from other large corporations has been growing. Kansas City is now consistently on the list for companies searching the Midwest for a location for a major distribution facility. The momentum has been growing; there is a steady stream of large user requirements circling the metro area at any given time. Some notable recent activity in the large box arena includes Musician's Friend's 702,000-square-foot project, Pacific Sunwear's 440,000-square-foot deal, CNH 500,000-square-foot transaction and Kimberly-Clark 446,000-square-foot facility.

To date, large box development has occurred primarily on a build-to-suit basis, and speculative development of large box facilities has been slow to occur. However, that is about to change. Three speculative large box projects will come online this year and in 2009, including Midwest Commerce Center in Gardner. LS Commercial Real Estate, in conjunction with USAA Real Estate Company, is developing this 151-acre planned business park. Construction will be underway in early spring on the first building within the park, which will be a 520,000-square-foot spec distribution facility. The park will contain five buildings totaling more than 2.2 million square feet when fully developed.

Kessinger/Hunter Company is at work on another large box development that will be underway early this year. The facility will contain 601,829 square feet and is being developed on a speculative basis. Additionally, Trammell Crow Company is planning a speculative big-box distribution facility containing 350,000 square feet at Kansas City International Airport. Trammell Crow is the master developer for a large distribution and air cargo park that will occupy a portion of the airport property. These facilities will give Kansas City a supply of much needed large box facilities that are ready for occupancy. The lack of large box spec product has been a limiting factor for the market, and has caused some companies that were interested in locating to Kansas City to choose other markets. The addition of these spec facilities will fuel further development of product at the larger end of the scale.

In addition to the exciting things happening in the large box arena, development of small to mid-size properties continues. Block & Company, OPUS Northwest, Watkins & Company, LS Commercial Real Estate and Prime Investments have completed new buildings within the last 12 months. New development is occurring throughout the metro area; however, parts of the community that are seeing a higher concentration of activity are southern and western Johnson County on the Kansas side, and eastern Jackson County and southern Platte County (KCI airport submarket) in Missouri. These areas are attracting attention thanks to the availability of utilities and available land that is zoned or master planned for industrial use.

As noted above, lease rates in the Kansas City market have remained fairly stable. New warehouse product coming online is being marketed at lease rates ranging from $4.50 per square foot and up, depending on bay size. There is a mix of modified gross industrial and triple-net lease structures being quoted. The market is slowly converting to a triple-net lease structure on new product. Lease rates for new flex space are averaging from $9.50 per square foot and up, again depending on the bay size. The flex market has been improving over the last 18 months and new development of this product type continues to occur.

In addition to the activity in the distribution arena, one industry has established a large-scale and very successful corridor in the market. Kansas City has become one of the top markets for companies in the animal health industry, with more than 100 animal health companies having a presence in the area. The Kansas City region is supported by some of the top animal health education programs in the nation; universities located in Missouri, Nebraska, Kansas and Iowa have some of the top animal health programs in the county. This is a noteworthy development, as the growth of the animal health industry in the region will be a catalyst for further development of warehouse and flex space.

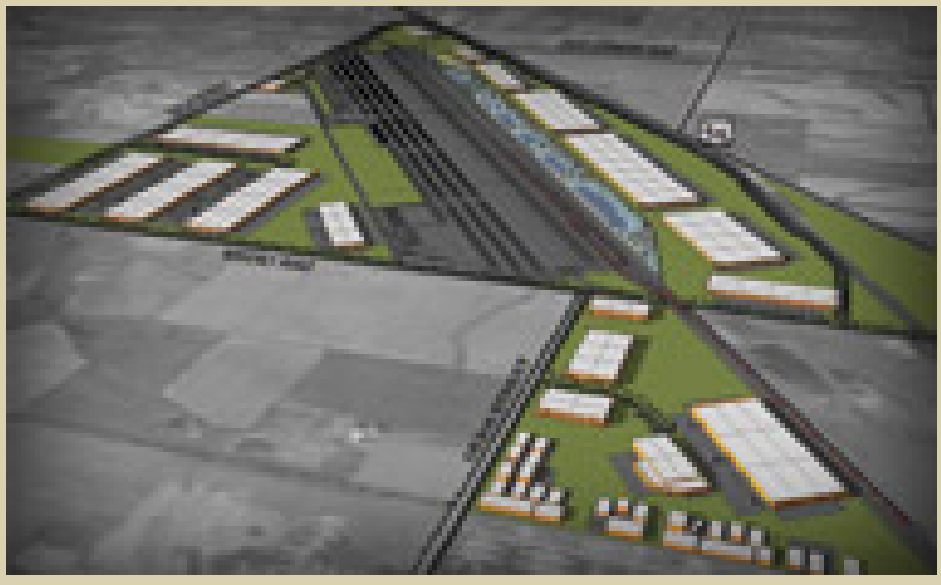
The outlook for the Kansas City industrial real estate market continues to be positive. Steady growth, low vacancy rates and continued expansion of the industrial base have established a successful recipe for a thriving industrial sector.

*— Paul Licausi is president of Overland Park, Kansas-based LS Commercial Real Estate.*

## ALLEN GROUP, BNSF CREATING INTERMODAL OFFERING IN GARDENER, KANSAS

The Allen Group, a Prairie Village, Missouri-based industrial developer, is developing Logistics Park - Kansas City at the former Richards-Gebaur Airport in Gardner, Kansas, approximately 25 miles south of Kansas City. The locally based industrial developer is building its park on 579 acres acquired in an agreement with BNSF Railway Company, which is developing a new intermodal facility on 418 adjacent acres. The BNSF intermodal project is expected to open in 2009. Together, the two developments will comprise the KC Logistics Hub, which will help further establish the Kansas City market as one of the newest and biggest intermodal hubs in the country.

The Logistics Park - Kansas City will feature a collection of distribution and warehouse facilities, and will be built out over the course of a 20-year plan. It is projected to total more than 7.1 million square feet when complete, and will create as many as 13,000 jobs for the Kansas City area. The site is adjacent to Interstate 35 and State Highway 56, and will have access to BNSF's Transcontinental mainline.



*The Allen Group is bringing the 579-acre, 7.1 million-square-foot Logistics Park - Kansas City to the southern Kansas City submarket of Gardner, Kansas. The project is adjacent to BNSF Railway's new intermodal facility, and together the projects comprise the KC Logistics Hub.*

# Kansas City Retail Market

Kansas City retail continues to grow, but at a slower pace than at this time last year. Many new projects coming online this year and in 2009 have been in the planning stages for several years, and are now coming to fruition. It appears that the pace of major new retail centers opening in 2010 and later will taper off compared to the rush of activity experienced during the past few years.

One of this year's major new projects will be Corbin Park, a 1.1 million-square-foot outdoor regional center located in Overland Park, Kansas. Corbin Park features the first main street design in this prosperous and rapidly growing suburb. The center, being developed by Cormac Company, features several retailers making their first appearance in the Kansas City metro, including Von Maur, Lifetime Fitness (which has already opened), Sports Authority and Biaggi's, along with a high-end theater and a boutique hotel.

Cordish Company will open a significant portion of its much anticipated downtown Kansas City, Missouri, retail and entertainment complex. The Power & Light district encompasses approximately 500,000 square feet over 9 city blocks, and features a wide array of restaurant, lounge, live entertainment, neighborhood service and boutique retail venues. Construction has also commenced at the Mission Gateway, a 700,000-square-foot mixed-use redevelopment of the former Mission Mall. The Cameron Group has revised the Mission, Kansas, property substantially, adding the metro area's first public aquarium and reducing the scope of the office and residential components.

Several projects will open or expand in Kansas City's Northland submarket this year. Cousins Properties' first metro project — the Tiffany Springs MarketCenter — is located in the booming Interstate 29 Northland corridor and will open later this year. The center features Target, JC Penney, The Home Depot, Best Buy, Sports Authority and PetSmart among other retailers. Steiner will open a Dillard's department store along with Old Navy and other retailers as part of Phase II of Zona Rosa, the Northland's premier lifestyle center. Liberty Triangle continues to expand its share in the submarket with the addition of a relocated and expanded Hy-Vee supermarket.

Several projects have been pushed from this year's pipeline to 2009. Included among these is RED Development's Summit Fair shopping center in Lee's Summit, Missouri. A Macy's department store tailored to the lifestyle center format will anchor Summit Fair along with JC Penney. The redevelopment of Metcalf South Mall in Overland Park, Kansas —— a joint venture of MD Management and Alberta Development Partners — is finalizing junior anchor leasing and has been pushed back to late 2009. Similarly, Adams Dairy Landing, a joint venture between RED and Block and Company that is located in Blue Springs, Missouri, is proceeding toward a 2009 opening. That project will include a Target and Lowe's Home Improvement Warehouse. First National Development's 800,000-square-foot, Wal-Mart-anchored center near the Kansas Speedway is also finalizing its a lineup of junior anchors, including Best Buy and Office Max, and will open in 2009.

Rental rates are holding steady, with increased construction costs being partially absorbed by low cap rates, allowing developers to build with lower spreads. New small shop space leases typically run from $18 per square foot to $28 per square foot, depending on location and finish. Junior anchor lease rates are ranging from the low-to-mid teens per square foot. Landlords are reporting a noticeable slowing of demand for small shop space throughout many submarkets, leading both to increased vacancy and a slowdown in new construction.

Many junior anchor retailers are also reporting full pipelines for 2008 and are looking only at deals for 2009 or beyond. In the restaurant sector, quick-service and fast-casual restaurants continue to seek sites at a brisk pace, but many casual dining concepts are nearly dormant.

With most major anchors, including Wal-Mart, Target, The Home Depot, Lowe's and Costco, well entrenched in the Kansas City metro area and market conditions becoming less certain, development of large new retail projects is beginning to slow. Fortunately, there are exceptions. The Three Trails project, developed by LANE4 Property Group, is a more than 400-acre mixed-use redevelopment of the former Bannister Mall site and surrounding area at the intersections of 95th Street, I-435 and Highway 71 in south Kansas City. The first phase will open in 2010, and will feature more than 700,000 square feet of retail to accompany an 18,500-seat stadium for Kansas City's professional soccer team, 12 tournament practice fields and a 650,000-square-foot office park. Cedarwood is currently leasing a Target and Lowe's-anchored center in western Lenexa, Kansas, that will open in 2010. In addition, several national retailers are entering Kansas City for the first time, including Staples and Sports Authority, which will open their first stores this year.

*— Jeffrey Berg is a vice president with Kansas City, Missouri-based Lane4 Property Group.*

*LANE4 Property Group is developing the Three Trails mixed-use redevelopment on the approximately 400-acre site of the former Bannister Mall at the intersection of 95th Street, I-435 and Highway 71 in south Kansas City.*

## KeyBank Funds New Shopping Center in Lee's Summit

KeyBank Real Estate Capital has provided two construction loans totaling more than $116 million for the development of two retail projects in Lee's Summit, Missouri. The financing package, which includes a $67 million construction loan and a $49 million line of credit, was provided to a joint venture of two local retail players, RED Development and CBL & Associates.

The financing will be used to construct a 490,000-square-foot lifestyle center and an adjoining power center on 51 acres in Lee's Summit. The project is expected to be anchored by JC Penney and Macy's, and will include an additional 24,500 square feet of junior anchor space, as well as 187,723 square feet of small shop space and 53,650 square feet of space for seven outlots.

KeyBank arranged the financing package out of its Kansas City office.

*— Kevin Jeselnik*

## Greater Kansas City, MO Retail MarketPlace

### Industry Summary

| Total Annual Retail Sales | | |
|---|---|---|
| Retail Sales | Retail Potential | L/S Factor |
| $25 Billion | $23 Billion | -3.1 |

### Industry Group

| Food Services & Drinking Places (NAICS 722) | | |
|---|---|---|
| Retail Sales | Retail Potential | L/S Factor |
| $2,808,599,953 | $3,345,130,904 | 8.7 |
| **Furniture & Home Furnishings Stores (NAICS 442)** | | |
| Retail Sales | Retail Potential | L/S Factor |
| $572,161,010 | $650,182,905 | 6.4 |
| **Food & Beverage Stores (NAICS 445)** | | |
| Retail Sales | Retail Potential | L/S Factor |
| $3,247,283,491 | $3,589,185,726 | 5.0 |

ESRI's Retail MarketPlace data provides a direct comparison between retail sales and consumer spending by industry.

This chart shows the top three retail opportunities in Greater Kansas City. The Leakage/Surplus (L/S) Factor, ranging from +100 (total leakage) to -100 (total surplus), measures the relationship between supply and demand. A positive value represents leakage (retail opportunity outside the trade area); a negative value reveals surplus (retail opportunity within the area). A market in surplus may still have opportunity for investment depending on the draw of shoppers to the area.

**Sources:** © 2008 ESRI and *info*USA®

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## *Demographic Snapshot for* Greater Kansas City, Missouri

### ESRI 2007 Demographics

| | | | |
|---|---|---|---|
| **Total Population** | 1.9 Million | **Median Age** | 36.6 Years |
| **Total Households** | 785,712 | **Median Household Income** | $59,055 |
| **2007–2012 Annual Population Growth Rate** | 1.2% | **Median Home Value** | $148,450 |
| **Dominant Tapestry LifeMode Summary Group** | *High Society* | **2007 Percentage of *High Society* Households** | 17% |

**Source:** © 2008 ESRI