

# THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

NOVEMBER 2012

## Interest Rates & Lender Analysis of the Current Market

In September 2012, the Federal Reserve announced its plan to stimulate the US economy in an effort to produce jobs and decrease the national unemployment rate. The QE3 plan, also known as quantitative easing, is an unconventional stimulus tool in which the Federal Reserve plans to reduce short term interest rates in order to spark more lending and spending practices throughout the country.

This is the third time in the past four years that the Federal Reserve has attempted to dig its way out of the US financial crisis. The first time was back in 2008 when the Fed bought nearly \$2.1 trillion worth of mortgaged-backed securities. Then, in August of 2010, Ben Bernanke & the Federal Reserve continued its buying practices to ensure the Fed's balance sheet. Bernanke's intentions for QE3 2012 are to reduce the cost of borrowing and decrease the housing mortgage crisis by lowering rates thus increasing wealth for many Americans with the hope that spending will increase in other sectors of the economy. Currently, the Federal Reserve plans to continue its purchasing power of QE3 through the end of 2012.

LANE4 Property Group visited with several prominent leaders in the Kansas City market to gauge how QE3 is affecting the market, and what sage advice they may offer as we move forward. According to Seth Lindsey of UMB, "If we are to assume inflation will remain low for a prolonged period (through 2015) and the unemployment rate will hover near 8%, the Federal Open Market Committee reasons that rates will be substantially low for the next two and half or three years." UMB is currently the lender for 39Rainbow Phase II, a \$35,000,000 project being developed by LANE4. When asked of Seth's opinion from a local standpoint he offered, "I see increasing demand both in business and real estate loan requests. On the local commercial construction front, there seems to be a year-over-year uptick in new starts. However, UMB remains cautious with respect to balance sheet stability of sub-contractors."

"There hasn't been a lot of new construction in any one property type category over the past several years. However, at the present time, we are seeing pockets of activity within each segment, particularly multi-family and single tenant leased retail. We are seeing a greater number of financial institutions getting back into the commercial real estate market, and rates have become more and more competitive as a result. Good deals are financeable in the market by a greater number of bank participants," said Charles Gonzalez of Citizens Bank and Trust. Particularly in secondary markets such as Kansas City, new housing starts are on the rise. Developers are borrowing at low interest rates therefore yielding a high return on their investments. Until recently, investors and their lenders had been reluctant to put their finances at risk outside of the multi-family sector.

However, projects garnering interest, must inherently be "very financeable" featuring strong sponsorship groups and sound business fundamentals. LANE4 has seen increased lender interest as indicated above, however our organization is cautious to pursue any projects that do not pass a very simple lender test: good debt service coverage ratio, reasonable loan-to-value, reasonable loan-to-cost.

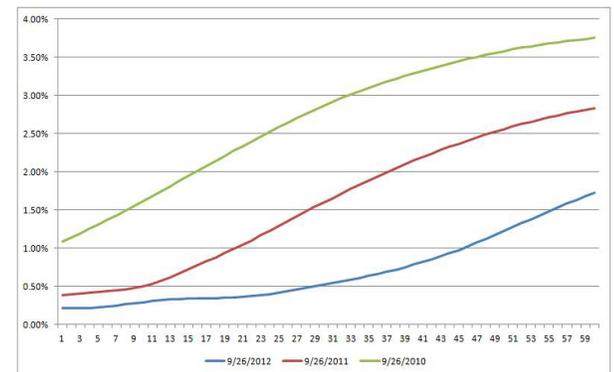
*Continued on the next page.*

Sources: <sup>1</sup> <http://www.forecasts.org/prime.htm>. <sup>2</sup>Bob ARTHUR, COMMERCE BANK. <sup>3</sup>CoStar: Total existing space, for all retail and shopping centers, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2011 & 2012 percentages. <sup>4</sup>U.S. Census Bureau: Estimated monthly. <sup>5</sup>U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. <sup>6</sup>Creighton 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. <sup>7</sup>Kansas City Association of Realtors. <sup>8</sup>Kansas City Association of Homebuilders.

## Prime Interest Rate

Historical Rates <sup>1</sup> - 10 Year Period for October											
Year	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12
Rate (%)	4.75	4	4.75	6.75	8.25	7.75	5	3.25	3.25	3.25	3.25

## LIBOR Bellwether<sup>2</sup>



## Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail <sup>3</sup>			
	Q3-11	Q3-12	% Chg
Total GLA	65,381,007	62,814,559	-3.92%
Avg Lease Rate	\$12.56	\$11.88	-5.41%

Shopping Center Vacancy <sup>3</sup>	
Period	Rate
Q1-12	14.6%
Q2-12	14.0%
Q3-12	13.7%

## National & Regional Trends

U.S. Food & Retail Sales <sup>4</sup>		Business Conditions Index <sup>6</sup>			
Period	In Billions	2012	July	Aug	Sept
Q4-11	\$1,191.8	Missouri	50.2	53.9	51
Q1-12	\$1,211.4	Kansas	47.8	48	47.3
Q2-12	\$1,208.4	Mid-America	48.7	49.7	50.4
Q3-12	\$1,244.7				

Unemployment Rate <sup>5</sup>			Consumer Price Index <sup>4</sup>			
Sept	'11	'12	2012	July	Aug	Sept
Midwest	8.7%	7.4%	Midwest	219.9	220.4	221.1
U.S Avg	9.1%	7.8%	U.S City Avg	229.1	230.5	231.4

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Bob Arthur of Commerce Bank, a veteran of the Kansas City development and construction lending industry offered his perspective and a rational long term look at lending rates. "We are seeing pockets of activity within each segment, particularly multi-family and single tenant leased retail. We are seeing a greater number of financial institutions getting back in the commercial real estate market, and rates have become more competitive as a result. Good deals are financeable in the market by a greater number of participants." Bob indicated that the bellwether was the 10-year treasury rate dating back to 1962, which historically has been the long term interest rate that real estate rates are tied to. Prior to 2008, the rate was typically between 4 and 8% which generally meant that permanent loan rates were between 6 and 10% (a 200 basis point spread). "As can be seen by the current 10 year rate of 1.81%, we are in uncharted territory. Immediate funding loans today are written in 4-5% range with some Fannie/Freddie agency loans for multi-family in the upper 3% range."

LANE4 was very encouraged to hear from the lenders interviewed that the competitive nature of the industry is back and therefore offering competitive rates on projects. However as evidenced, testing of higher interest rates in forthcoming years of a project being constructed is highly advisable given the uncertainty that exists. In addition, a conservative underwriting of projects being considered is still widely favored by lenders.

*Hunter Harris, Director of Development, LANE4 Property Group*

## Giving Back

For the 2012 Holiday Season, the LANE4 team has adopted a family from The Children's Place. Since 1978, The Children's Place has been committed to meeting the developmental and mental health needs of the very youngest survivors of abuse, neglect, and other trauma. The organization is recognized as a leader in the prevention and treatment of child abuse and neglect. For more information please visit [www.tcpc.org](http://www.tcpc.org).

## About LANE4 Property Group

LANE4 Property Group, a Kansas City based commercial real estate company that specializes in project leasing, tenant representation, development, investment sales, property management, research, and marketing services. Our success is based on an unwavering commitment to streamlining processes and optimizing our client's objectives by providing in-depth knowledge and experience, attention to detail, creativity, and passion in every project we tackle. Today we have a multitude of mixed-use, office, retail, and hospitality projects and continue to rapidly expand throughout the United States. LANE4 is a proud partner of X Team International, a leading retail real estate brokerage alliance serving the world's premier tenants, landlords, developers and investors throughout the retail and real estate industry.

[www.lane4group.com](http://www.lane4group.com)

## Kansas City Housing

Average Home Price <sup>7</sup>			
County	Aug '11	Aug '12	% Chg
Cass County, MO	\$135,932	\$132,334	-2.65
Clay County, MO	\$126,040	\$138,866	10.1
Jackson County, MO	\$106,201	\$121,892	14.78
Platte County, MO	\$162,759	\$183,578	12.8
Johnson County, KS	\$236,589	\$241,508	2.08
Leavenworth County, KS	\$130,840	\$134,213	2.56
Miami County, KS	\$152,478	\$148,595	-2.55
Wyandotte County, KS	\$70,166	\$66,751	-4.87
<b>Kansas City Region</b>	<b>\$151,089</b>	<b>\$161,473</b>	<b>6.89</b>

Residential Building Permits: Kansas City MSA -YTD <sup>8</sup>			
Month	2011	2012	% Chg
January	90	188	108.9 %
February	121	182	50.4 %
March	180	270	50.0 %
April	210	277	31.9 %
May	230	293	27.4 %
June	262	265	1.1 %
July	204	288	41.2 %
August	205	260	26.82 %
September	202	379	87.6 %
<b>Total</b>	<b>1704</b>	<b>2402</b>	<b>41.0 %</b>

## For. Your. Information.

**Holiday Retail Outlook - 2012:** The National Retail Federation, the nation's largest retail trade group, expects that this season's holiday shopping will increase 4.1% over the past two years. These projections, indicate important sales outlooks for retailers that depend on as much as 40% of their annual revenue to come from the last quarter of sales during the 2012 holiday season.

### Grand Re-Opening of Corinth Square

October 18th, 2012

On October 18th, LANE4 Property Group hosted a grand re-opening party of the newly renovated Corinth Square shopping center in Prairie Village, Kansas. We would like to thank all of our tenants and guests for making the event a success! Thank you!

*All information furnished is from sources deemed to be reliable, but no warranty or representation is made as to the accuracy thereof and the same is subject to errors, omissions, changes, or other conditions.*



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