

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

MARCH 2013

Bricks vs. Clicks: Retailers battle against online consumer shopping

After many brick-and-mortar retailers reported a lackluster holiday sales season, the National Retail Federation awarded its Gold Medal to Amazon.com CEO Jeff Bezos. The NRF's bold move was startling to many retail professionals who seek this designation. Just 17 short years ago, Amazon.com's sales were roughly \$500,000. In 2012, sales were around \$60 billion with nearly 10 percent of those sales coming from mobile devices. Over the past several years, Amazon has significantly changed the face of the retail industry by diverting in-store sales from traditional retailers to its web-based platform.

Combatting online sales is one of the biggest struggles that traditional brick-and-mortar retailers face. The retail industry is already seeing long term effects from online shopping as several national retail chains have closed stores over the past year and have announced more in the coming months. These retail giants include Best Buy, Sears Holding Corp., J.C. Penney, Barnes & Noble, OfficeMax, Game Stop, and Radio Shack. However, these stores didn't just get into trouble overnight -- they are battling a struggling economy, a younger, more tech savvy consumer base, and their ability to instantly compare prices at online-only retailers such as Amazon.com before purchasing.

The Post-2012 holiday season shows that many consumers are more transfixed by their smartphones than by retail merchandising and the in-store shopping experience. With a few touches to their screen, shoppers can price match items at hundreds of retail outlets in a matter of seconds.

In a recent survey conducted by Forbes magazine, eight of the top retail CEO's weighed in on their corporate goals for 2013, and more than half of them wanted to sharpen an omni-channel focus for their consumer base. Retail giants such as Walmart and Target have begun waging a war against showrooming by luring online shoppers into brick-and-mortar stores by providing free shipping from site to store for consumers to pick up their online products. In an interview with the NY Times, Joel Anderson, U.S. CEO of Walmart.com stated, "We are living in the age of the consumer, and you can either fight these trends that are happening -- showrooming is one -- or you can embrace them. By allowing Walmart customers to pick up products with free shipping, more than half of all purchases made on Walmart.com are now picked up in stores."

As noted by the Retail Snapshot chart, large retailers can learn a thing or two from several retailers that are combatting showrooming with a better brick-and-mortar experience. These retailers aren't just picking average storefronts -- they are opening in the top Class A locations across the country. Each of these retailers sells very different products, but all have several things in common: high quality items, high quality prices, average store sizes of less than 5,000 square feet, and less than 100 stores nationwide.

Many of the retailers listed, such as Apple, Vera Bradley, and lululemon, use small shops to serve as a headquarters for branding and showcasing new products to the public, while the majority of their sales are online.

Continued on the next page.

Retail Snapshot

Top Retailers of 2012 ¹			
Retailer	Sales per SF	Number of Stores	1 Year Growth
Apple	\$6,050	372	28.9%
Tiffany & Co.	\$3,017	260	9.6%
lululemon athletica	\$1,936	189	38.6%
Coach	\$1,871	833	15.9%
Michael Kors	\$1,431	253	77.9%
Select Comfort	\$1,314	381	32.6%
True Religion	\$1,227	116	21.0%
Vera Bradley	\$1,186	70	79.2%
Birks & Mayors	\$1,082	57	5.2%

Kansas City Sales & Leasing Data

KC MSA Total Retail ²			
	Q4-11	Q4-12	% Chg
Total GLA	108,639,135	109,342,244	3.4%
Avg Lease Rate	\$12.63	\$12.44	-1.05%
Avg Occupancy Rate	90.5%	91.0%	.55%

KC's Largest Lease Signings - Year End ²		
Location	Tenant	Size
Hawthorne 40 Shopping Center	Furniture Deals	66,089 SF
Ward Pkwy Center	Home Goods	40,800 SF
Sears Grand	Sears Outlet	40,000 SF

National & Regional Trends

U.S. Food & Retail Sales ³		Business Conditions Index ⁴			
Period	In Billions	2012	Oct	Nov	Dec
Q4 - 09	\$1,081.8	Missouri	50	47.2	46.8
Q4 - 10	\$1,154.9	Kansas	47.9	51.3	46.6
Q4 - 11	\$1,237.5	Mid - America	46.5	48	49.5
Q4 - 12	\$1,289.7				

Unemployment Rate ⁵			Consumer Price Index ⁶			
December	'11	'12	2012	Oct	Nov	Dec
Midwest	7.9	7.1	Midwest	220.3	219.4	219
U.S	8.5	7.8	U.S City Avg	231.3	230.2	229.6

Sources: ¹RETAILSALES SALES REPORTS. Average sales price of new & existing homes. ²CoStar: Total existing space, for all retail and office types, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2011 & 2012 percentages. ³U.S. Census Bureau: Estimated monthly. ⁴Creighton 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. ⁵U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. ⁶Kansas City Regional Association of Realtors: Average sales price of new & existing homes. ⁷Kansas City Association of Home Builders-Monthly Reports.

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The type of products sold by a particular retailer will determine what strategies will need to be implemented to combat the rise of showrooming. Walk into any lululemon, Apple, or Vera Bradley and right away you will notice that the store experience is unlike any other. The store layout and merchandising is strategically thought out in such a way that retailers are providing customers with not just a shopping experience but a product experience as well. True to its innovative products, Apple has once again proved itself to be the retailer that everyone should be taking lessons from—those that have followed their marketing and merchandising tactics in stores nationwide have succeeded.

This simple and straightforward strategy might be the answer that many retailers are looking for as they wage the war against showrooming and other online retail trends.

Tom O'Leary, Senior Vice President

Giving Back

In the spirit of the season, the LANE4 team gave back to one Kansas City family by taking part in The Children's Place Adopt-A-Family Holiday program. Since 1978, The Children's Place has been committed to meeting the developmental and mental health needs of the youngest members of the Kansas City community. For more information, please visit www.tcpkc.org.



About LANE4 Property Group

LANE4 Property Group is one of the fastest growing commercial real estate companies in the Midwest, specializing in project leasing, tenant representation, development, investment sales, property management, incentive services, receivership, 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 expand. 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

Kansas City Housing

Average Home Price ⁶			
County	Dec-11	Dec-12	% Chg
Cass County, MO	\$147,006	\$137,833	-6.2%
Clay County, MO	\$132,844	\$150,792	13.5%
Jackson County, MO	\$110,736	\$122,876	10.9%
Platte County, MO	\$178,384	\$198,734	11.4%
Johnson County, KS	\$222,140	\$270,583	21.8%
Leavenworth County, KS	\$170,286	\$153,586	-9.8%
Miami County, KS	\$158,227	\$187,865	18.7%
Wyandotte County, KS	\$66,149	\$80,195	21.2%
Kansas City Region	\$149,454	\$177,429	18.7%

Residential Building Permits-YTD ⁷			
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	268	2.3 %
July	204	288	41.2 %
August	205	260	26.8%
September	202	379	87.6%
October	205	331	61.5%
November	185	283	53.0%
December	207	280	35.3%
Total	2301	3299	43.4%

For. Your. Information.

Heartland States ICSC Idea Exchange

January 31- February 1

More than 235 real estate professionals visited Kansas City for the Heartland States ICSC Idea Exchange. The event was chaired by LANE4's Gwen Locher and featured many presentations from members of the LANE4 team including Owen Buckley, Jeff Berg, Pat Peery, and Roxanne Elliott.

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