THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

SECOND QUARTER 2013

The Evolving American City and its Effect on Retail

American cities, like living organisms, have lifecycles that are affected by many outside influences. For the first time in history, many cities are making a monumental transition from outward sprawl to inward-focused redevelopment that will have a dramatic effect on their residents' lifestyle choices.

When President Eisenhower signed the Federal-Aid Highway Act in 1956, a traditional single-family home in a quiet subdivision became the new American standard. For several decades this led to a rapid outward expansion of our cities' footprints and a decrease in density. Recently however, we have noticed a societal shift, as the younger generation prefers more compact and efficient living over the traditional suburban lifestyles of their parents. Although the younger generation's shift was somewhat expected, the recent recession and rising fuel costs have created a paradoxical effect where the preferences, demands, and tendencies of two very different generations (baby boomers and their children/grandchildren) are beginning to align.

According to a May, 2013 study by the Urban Land Institute, more than half of both the Generation Y and the Baby Boomer generation now prefer smaller homes, shorter commute times, more walkability, and access to public transportation. This phenomenon is expediting a revolution in city growth patterns, witnessed by a dramatically increased pace of redevelopment and new development in older, more established areas. Walkability, density, and daytime populations are typically missing from suburban developments, but are attractive reasons for retailers, developers, and residents to consider a site elsewhere. This trend has been putting our very first suburbs and other established areas back on the drawing board, creating new real estate opportunities in many big ways:

The Retailer: The push towards sustainability combined with new technology is leading retailers to take bold moves to reduce their footprints and operating costs. Large retailers like Target, 7Eleven, Best Buy, and Walmart are creating new store formats to fill much smaller spaces and to cater to more specific demographics.

Brick-and-Mortar chains are now embracing and capitalizing on internet technology, rather than trying to compete with it, through innovative concepts that have combined the two. Retailers like Macy's, Burberry, Nordstrom, Staples Omni Channel, and Walmart now offer interactive in-store technology and same-day delivery.

These new technologically advanced concepts are lessening the need for large format stores and changing where they locate. With smaller footprints, many major retailers are scouting sites in areas they did not previously consider and were not previously planned for retail development, driving up the demand for new "top-grade" locations in untapped areas.

Continued on the next page.

Sources: [1]CoStar: Total existing space, for all retail and office types, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2012 & 2013 percentages. [2]Urban Land Institute. Where Americans Want To Live: New ULI Report, America in 2013. [3]National Real Estate Investor: Big-Box Giants Downsize to Drive Productivity with Smaller, Urban Stores. Chain Store Age: Best Bye? By Jeff Green. [4]U.S. Census Bureau: Estimated monthly. [5]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. [6]U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. [7]Kansas City Regional Association of Realtors. Average sales price of new & existing homes.

Kansas City Sales & Leasing Data

KC MSA Total Retail[1]			
	Q2-12	Q2-13	% Chg
Total GLA	103,544,540	104,065,672	0.50%
Avg Lease Rate	$12.40	$12.32	-0.64%
Avg Occupancy Rate	90.5%	91%	0.5%

KC's Largest Lease Signings - Mid Year[1]		
Location	Tenant	Size
Prairiefire at Lionsgate	The Fresh Market	24,434 SF
North Kansas City, MO	AV Corp	20,000 SF
Independence, MO (23rd St. Station)	Nuts & Bolts	20,000 SF

Shopping Center Vacancy[1]	
Period	Rate
Q2 - 2010	13.8%
Q2 - 2011	14.2%
Q2 - 2012	13.3%
Q2 - 2013	12.1%

National & Regional Trends

Where do Americans Want To Live in 2013?[2]	
	%
Smaller home with shorter commute	61%
Close to Shopping	53%
Mixed-Income Housing	52%
Near Public Transportation	51%

Emerging Smaller Format Concepts[3]	
Retailer	Avg. Square Feet
Walmart Express	15,000 SF
Best Buy Mobile	1,200 SF
CityTarget	80,000 SF
Office Depot	5,000 SF

U.S. Food & Retail Sales[4]	
Period	In Millions
Q3 - 12	$1,222.5
Q4 - 12	$1,240.0
Q1 - 13	$1,252.8
Q2 - 13	$1,262.9

Business Conditions Index[5]			
2013	April	May	June
Missouri	52.8	54.6	54.7
Kansas	52.3	53.1	58.6
Mid-America	56.8	56.2	55.6

Unemployment Rate[6]		
June	'12	'13
Midwest	7.5	7.3
U.S.	8.2	7.6

Consumer Price Index[4]			
2013	April	May	June
Midwest	221.9	223.0	223.8
U.S. City Avg	232.5	232.9	233.5

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

SECOND QUARTER 2013

The Broker: With developers and retailers shying away from greenfield developments, brokers have to be more creative than ever before -- not only in finding, but also creating "A" grade sites for retailers. Brokers must be more proactive by convincing current (and often long-time) property owners to sell or redevelop, buying out or re-negotiating old leases, or shifting existing retailers to make space for new ones. In many ways, the brokers' role has expanded to the point where they must almost act like a developer.

The Developer: Many of our cities' well-established neighborhoods are currently under-served by retail options, which makes it easier to quantify development potential. This scenario is much different than with speculative development in newer suburban markets that relied on untested growth models. Existing density makes selecting sites for demolition or adaptive reuse less speculative. Studying the activity of the immediate population for expenditures, age, and employment data helps identify missing pieces of the puzzle. Conversely, however, even if a redevelopment site's demand is quantified and proven, the development process in established areas is several magnitudes more difficult than in greenfield sites. Land assemblage and cost, infrastructure issues, and more difficult construction techniques are only a few of the perils that make infill development much more difficult than past suburban development.

As with traditional suburban development, retailers still prefer to be located near "anchors" – even in infill redevelopment. The definition of the anchor tenant is changing, however, as we now move toward identifying "100-year anchors" as an alternative to traditional retail boxes. Universities, medical centers, transit lines, and government facilities offer a long-term around-the-clock consumer base that is typically not created by traditional suburban retail anchors.

Like every evolution, changes bring both challenges and opportunities. Infill retail projects are certainly more difficult to develop and lease than the suburban greenfield projects that fed the industry during the past fifty years. However, developers and brokers must evolve to meet these challenges because the market is not going to revert to the old standard – if anything, the market's demand for quality infill commercial development will accelerate to meet the demands not only of the younger generation, but the older generations as well.

Dominic Ruiz, Intern

Dominic is a Masters Student in the Regional & Community Planning Program at Kansas State University

About LANE4 Property Group

LANE4 provides its clients the best position from which to succeed. The firm offers an advantage in marketing, tenant representation, project leasing, property management, investment sales, receivership, project management, and development. These comprehensive services allow our clients to streamline their time and optimize their investments. From the initial market analysis through the grand opening and operation, the team at LANE4 executes each step of process with skill and professionalism. Our team has forged strong relationships with our constituents: tenants, investors, municipalities, architects, engineers, attorneys, contractors, and developers. This experience, dedication, and focus – combined with creativity and passion – is the LANE4 formula that maximizes our partners' results.

Kansas City Housing

Average Home Price[7]

County	June-12	June-13	% Chg
Cass County, MO	$165,046	$166,550	0.91%
Clay County, MO	$143,267	$170,194	18.8%
Jackson County, MO	$135,766	$151,312	11.4%
Platte County, MO	$198,166	$228,340	15.2%
Johnson County, KS	$265,491	$262,751	-1.0%
Leavenworth County, KS	$161,505	$184,408	14.2%
Miami County, KS	$145,125	$194,548	34.0%
Wyandotte County, KS	$83,532	$95,399	14.2%
Kansas City Region	**$184,222**	**$195,999**	**6.4%**

Residential Building Permits[7]

County	Q2-'12	Q2-'13	% Chg
Cass County, MO	18	25	38.9%
Clay County, MO	66	38	-42.4%
Jackson County, MO	103	194	88.3%
Platte County, MO	36	28	-22.2%
Johnson County, KS	117	279	138.0%
Leavenworth County, KS	5	13	160.0%
Miami County, KS	0	2	200.0%
Wyandotte County, KS	319	6	-98.1%
Kansas City Region	**664**	**585**	**-11.8%**

Giving Back

LANE4 is a proud supporter of Higher M-Pact, a long-term mentoring program for select high-risk urban adolescents. This spring, LANE4 was honored to attend the annual fundraiser and luncheon, and meet the inspiring young individuals this organization impacts.

For. Your. Information.

LANE4 Welcomes New Associate

Mark Arensberg

This quarter, LANE4 welcomed a new Associate Broker, Mark Arensberg, to the team. Previously a Vice President at Colliers International - KC, Mark brings experience, drive, and creativity to the firm. In his short time with us, he has proven to be a hard-working and conscientious member of this team. We are excited to have him on board.

X TEAM