

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

SECOND QUARTER
2014

The Next Frontier: Urban Infill

In the 2013 Q2 Orange Report, we reported on the trend of retailers looking to urban areas for the next wave of commercial development. This trend is progressively growing, and retailers are increasingly thinking “outside the box” from the typical power center lineup commonly seen in the suburbs and rural retail markets.

Urban Markets are not conducive to the prototypical plans of retailers, which are designed to fit ‘box’ style retail centers with plenty of vacant land for developers to work with. Strong and growing daytime and nighttime population densities are driving retail demand in urban areas that rarely have convenient access to low cost ‘daily needs’ products. Retailers are showing signs that they are more and more willing to alter their traditional (suburban) prototype in order to work within the tight constraints that many infill sites face.

Urban core sites often come with a whole new set of challenges that green-field locations do not have to contend with. Finding a location is often de-railed due to high development costs, inability to acquire a large enough site, and operational challenges for the retailer, to name a few.

Structured parking is not usually something retailers are excited to incorporate into their site design, but it is often necessary to make the site plan work on lots that are constrained by neighboring structures. Large format retailers need large parking fields, and parking garages are roughly 10x more expensive to build than a typical lot.

Despite these challenges, some retailers like Walmart and Target have been experimenting with smaller store sizes, non-traditional layouts, and even being located under high density residential complexes. Walmart opened two stores under residential space in Washington DC earlier this year, each occupying about half the space of a traditional store. Target is also working on a prototype with a much smaller footprint, TargetExpress will be just larger than the average Walgreens and CVS at 20,000 sf.

One of the easiest ways for retailers to cut down on space is to reduce the amount of storage at each location. Retailers continue to compete against online retailers, like Amazon, who are accelerating their delivery times, and have already responded by improving transportation networks and increasing the amount of localized storage facilities. This strategy has had a positive effect on urbanizing retail because retailers are able to respond quicker to supply needs, despite having less storage space within their actual retail locations.

Local governments have a lot to gain from this increased retailer interest in the more ‘difficult’ urban markets. In many cities, Kansas City included, there are very few places to get reasonably priced daily needs products, and many urban markets are ‘food

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Sources: ¹CoStar: Total existing space, for all retail and office types, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2013 & 2014 percentages. ²The New York Times United States of Subsidies: Explore the Data. December 2012 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. ⁷Home Builders Association of Greater Kansas City. Residential Building Permit Statistics: Single and Multifamily Units Year-to-Date

Kansas City Sales & Leasing Data

KC MSA Total Retail Market Statistics ¹			
	Q2 2013	Q2 2014	% Chg
Total GLA (s.f.)	108,478,617	109,087,621	1%
Avg Lease Rate	\$12.34	\$12.60	2%
Avg Occupancy Rate	91.3%	91.5%	0.2%

KC's Largest Lease Signings - YTD ¹		
Location	Tenant	Size
Lenexa Point	Sprouts Farmers Market	27,000 sf
Broadway Valentine SC (Midtown)	Stanford's Comedy Club	20,000 sf
Blue Springs	ReStore	15,000 sf

Avg. Shopping Center Vacancy ¹	
Period	Rate
Q2 2014	11.8%
Q2 2013	11.6%
Q2 2012	12.9%
Q2 2011	13.4%

National & Regional Trends

Business Incentives Awarded by State		
	Total	Per Capita
U.S. Combined	80.4 billion	-
Missouri	96.5 million	\$16
Kansas	1.01 billion	\$355
Highest Total - Texas	19.1 billion	\$759
Lowest Total - South Dakota	27.8 million	\$34

U.S. Food & Retail Sales ³		Business Conditions Index ⁴			
Period	In Billions	2014	April	May	June
Q2 2014	\$ 1,150.4	Missouri	54.8	57.7	59.3
Q2 2013	\$1,204.4	Kansas	61.0	62.9	59.4
Q2 2012	\$ 1,258.6	Mid-America	60.4	60.5	60.6
Q2 2011	\$ 1,315.4				

Unemployment Rate ⁵			Consumer Price Index ⁵			
June	2013	2014	2014	April	May	June
Midwest	7.3%	5.9%	Midwest	226.2	226.4	227.5
U.S.	7.5%	6.1%	U.S. City Avg	237	237.9	238.3

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deserts'. By working with retailers who serve the needs of consumers within the urban core and have a proven track record of sales, local governments can greatly increase their tax bases by attracting development to these blighted areas. Development in these areas usually requires a high degree of public/private cooperation to help overcome some of the obstacles in urban development.

By coordinating efforts and providing incentives to these retailers and developers, the municipalities can spark resurgence in their communities. Not only does the city benefit from increased sales tax generated by the retailer, but also by continued developments following the first. Retailers want to be around other retailers, businesses want to be located in developed areas that their employees are happy to work in, and individuals like to live near their workplace. By offering incentives, the city is setting itself up for continued growth in their community, bringing new tax income, new jobs, and new residents.

Today we are seeing a trend of retailers positioning themselves to serve the dense urban markets despite many barriers to entry. The retailer(s) who can most efficiently adapt their prototype to respond to the challenges of urban development will unlock a large under served market. Whether these dense urban trade areas truly become the 'next frontier' for retailers is yet to be seen, but one thing is for sure; opportunity awaits.

Brandon Buckley, Associate

Giving Back

The **Rosedale Development Association** is a 501(c)3 not-for-profit community development corporation, serving the Rosedale area of Kansas City, KS and Wyandotte County. RDA's mission is to work in partnership with residents, businesses, and institutions to build a strong and healthy community and to improve the quality of life for those who live, work, and play in Rosedale.

LANE4 is pleased to support the Rosedale neighborhood and the RDA in many ways. In May, we were proud to sponsor the Grand Opening of the Rozarks Nature Trails. The trails were created to bring additional visitors to the Rosedale Arch, a memorial to Rosedale veterans constructed in 1924, and to provide a car-free environment for walking and biking in the neighborhood. Rosedale Development Association strives to create an environment that promotes health and physical activity.

More than 170 volunteers have put in 739 hours of work to construct the natural surface trails in the park since September 2013.

About LANE4 Property Group

LANE4 provides its clients the best position from which to succeed. The firm offers a competitive advantage in 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 the 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 ⁶			
County	June '13	June '14	% Chg
Cass County, MO	\$166,550	\$171,078	3%
Clay County, MO	\$170,194	\$174,873	3%
Jackson County, MO	\$151,312	\$149,493	-1%
Platte County, MO	\$228,340	\$229,309	0%
Johnson County, KS	\$262,751	\$279,948	7%
Leavenworth County, KS	\$184,408	\$165,872	-10%
Miami County, KS	\$194,548	\$170,866	-12%
Wyandotte County, KS	\$95,399	\$104,059	9%
Kansas City Region	\$195,999	\$201,807	3%

Residential Building Permits - YTD ⁷			
County	June '13	June '14	% Chg
Cass County, MO	92	115	25%
Clay County, MO	305	486	59%
Jackson County, MO	717	1,338	87%
Platte County, MO	179	542	203%
Johnson County, KS	1,860	1,636	-12%
Leavenworth County, KS	78	100	28%
Miami County, KS	27	24	-11%
Wyandotte County, KS	390	95	-76%
Kansas City Region	3,648	4,336	19%

For. Your. Information.

LANE4 WELCOMES NEW VICE PRESIDENT

Devin Schuster

This quarter, we welcomed Devin Schuster to the LANE4 sales team. Devin is a KU graduate, with over five years of experience in commercial real estate and a proven track record of successful dealmaking. Devin specializes in tenant representation, and represents several national retailers.

His energy, drive, and dedication make him a great fit for the LANE4 team, and we are excited to have him on board.

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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