2015

KANSAS CITY RETAIL REPORT

LANE4 PROPERTY GROUP

IKEA
Merriam, KS

Metcalf South Shopping Center (circa 1980)
Overland Park, KS

RECENT SUBMARKET ACTIVITY

2014 was a year characterized by 'cautious optimism' from retailers who are trying to maximize their returns from brick-and-mortar locations. Slow but steady economic conditions are reflected in the retail market, with some key areas experiencing growth, while most markets remain stable.

In 2014, the occupancy rate for the entire Kansas City Metro decreased only one tenth of a percent from 89.9% to 89.8%. Lease rates also remained relatively stagnant while dropping from an average of $12.88 PSF to $12.85 PSF. Regardless of the lackluster statistics, the general market pulse is increasing as retailers continue to eye new opportunities in well-established markets.

Various data measures consumer confidence at its highest point since 2007-2008. This is a strong indicator of an improving economy, which will likely translate into increased consumer spending, providing an optimistic landscape for retail sales.

Top-tier locations with strong demographics, visibility, and access continue to lead the way. With very few of these spots available, they command premium rental rates. Meanwhile, the future direction of retail is uncertain, making ever-moving targets out of expansion models as technological advances and e-commerce continue to have an impact on consumer trends.

An active 2014 retail investment sales market led to a significant increase in transaction volume, fueled by low interest rates and pent up demand from both buyers and sellers. Institutional buyers interested in well-established markets with stabilized shopping centers invested heavily in the Kansas City Metro throughout the year. Notable shopping center sales include First Washington Realty, Inc.'s purchase of 130,000sf of retail and office space in the Brookside Shopping Center, located just south of the Country Club Plaza, as well as BIG Shopping Center USA's purchase of Creekwood Commons at the SWC of Englewood Road and North Oak Trafficway in North Kansas City. Expect to see local and institutional buyers continue along the same path in 2015, as the investment market volumes bounce back after the recession.

From a retailer perspective, some of the most active users included specialty grocers, fitness centers, and fast casual restaurants. There is one common theme between these retailers that should be noted – they are all 'internet-proof'. These users are expected to continue to be active in the coming year as their business models prove effective.

With the exception of several key infill parcels, new retail development opportunities are likely to remain low in volume until rental rates increase enough to justify the high cost of new construction. In the meantime, expect to see more redevelopment and revitalization of existing retail shopping centers.

"*Consumer confidence is at it's highest since 2007-2008, a strong indicator of an improving economy that will translate into increased consumer spending.*"

RELATIVE CHANGE FROM PRIOR YEAR

OCCUPANCY RATE	LEASE RATE
OR OR	LR LR

NORTHWEST KANSAS CITY

OR 0.5% LR 2.2%

Due to its location at a highly regional intersection, the Northwest submarket of Kansas City has been a consistently stable retail market. Centered at Interstate 29 & Barry Road, many retailers continue to see strong sales despite the fact that access to most regional centers at this intersection is less than ideal.

In 2012, work began on a $40 million sewer project in the area north of 152 Highway, between I-29 and 169 Highway. Serving as a catalyst to residential growth, this sewer project will open up approximately 13,000 acres for development in the coming years. As the population base fills in areas previously void of rooftops, this area will become one of the hottest "future" residential areas in the Kansas City Metro.

NORTHEAST KANSAS CITY

OR -2.3% LR 8.5%

The Northeast submarket, which is highlighted by the strength of the City of Liberty at Interstate 35 & 152 Hwy, remains a top market in the metro and is almost always targeted by national retailers looking to expand. On the horizon for the City of Liberty is the redevelopment of the former Kmart anchored center at I-35 and 152 Hwy, into Liberty Commons. This development will create new prime retail locations in Liberty, where only secondary and tertiary spaces have been available for a number of years.

Expected to open in early 2015, the new Sam's Club on the west side of I-35 just off of Flintlock Road is near completion. This will be Sam's Club's seventh location in the Kansas City Metro and will be the first large format wholesale retailer in the Liberty market.

CENTRAL KANSAS CITY

OR 0.9% LR -9.0%

The Central Kansas City submarket has been a bright spot for both residential and commercial growth recently. The Plaza, Westport, Crown Center, and the Power and Light District have all benefitted from the steady increase in residential density driven by the robust multi-family market.

Perhaps most notably, the locally owned and beloved Hall's Department Store expanded their existing store in Crown Center, which is part of Hallmark's world headquarters, after closing their location on the Country Club Plaza. Future redevelopment of the former Plaza location will likely include dividing the large space to fit smaller format retailers and offices.

SOUTH KANSAS CITY

OR 0.4% LR -1.1%

The South Kansas City trade area is set for an exciting decade of growth, spurred by the development of a new $4.45 billion Cerner Corporation campus. Located on a 290-acre site, the 16 building, 47 million square-foot office development received $1.47 billion in incentives and will be one of the largest economic development projects in the state of Missouri ever. The 16,000 new health information jobs projected to be created over the next ten years will likely have a positive impact on the trade area, which is in need of rejuvenated retail after Bannister Mall went dark and was subsequently demolished on the current site. Some retail is expected as part of the development plan, but details on project scope and prospective tenants are yet to be determined.

Ward Parkway Shopping Center, located at 87th Street & State Line Road, has sustained another strong year after a successful renovation. Yet to be developed is the now empty pad lot on the south end of the center, where the former Dillard's building was razed. Due to the strength of the area neighborhoods, it is likely that plans for an additional development are in the works.

In the heart of Grandview, along Interstate 49, Truman Corners Shopping Center awaits redevelopment into Truman's Marketplace. Notable additions TJMaxx and Petco will join existing anchors Burlington Coat Factory and Price Chopper. After multiple delays, the project is expected to commence construction in 2015.

SOUTHEAST TRADE AREA
(LEE'S SUMMIT, RAYMORE, BELTON)

OR 1.8% LR 1.8%

Lee's Summit's retail market is dominated by two regional shopping centers, Summit Woods and Summit Fair, both at the intersection of Interstate 470 and 50 Highway. Summit Woods, located on the southwest quadrant of the intersection, has been nearly 100% leased for the last several years. On the adjacent quadrant, Summit Fair is reportedly at 95% occupancy, it's highest rate since opening in 2009. Expect announcements about more retail openings at Summit Fair in 2015.

Summit Place, a proposed shopping center anchored by Sam's Club just north of Summit Fair, is still in the development phase but will likely receive a boost from a recently approved incentive package.

Fueled by strong schools, population growth and solid demographics, retailers have increasingly regarded the "up and coming" Belton/Raymore market as a target market for expansion. Academy Sports + Outdoors was among the notable retailers to open in 2014 in the City of Belton, which predominantly lies on the west side of I-49. Menards plans to start construction soon across the street from Academy, on the newly improved interchange at I-49 and Y Highway.

EASTERN JACKSON COUNTY

OR 1.2% LR -9.7%

The Eastern Jackson County trade area is home to Independence Center, Kansas City's second best performing indoor mall (in terms of sales PSF). This mall and the peripheral power centers remain a very strong market where retailers continue to post healthy sales.

Gaslight Shopping Center was demolished in 2013 to make way for a new Walmart Neighborhood Market at the northeast corner of 35th Street and Noland Road in Independence. This is Walmart's seventh Neighborhood Market in the Kansas City Metro, three of which opened in 2014.

In Blue Springs, look for redevelopment this year of White Oaks Shopping Center at the intersection of Highway 40 and Highway 7. This proposed $50 million development will reportedly be anchored by a new 85,000sf Price Chopper grocery store.

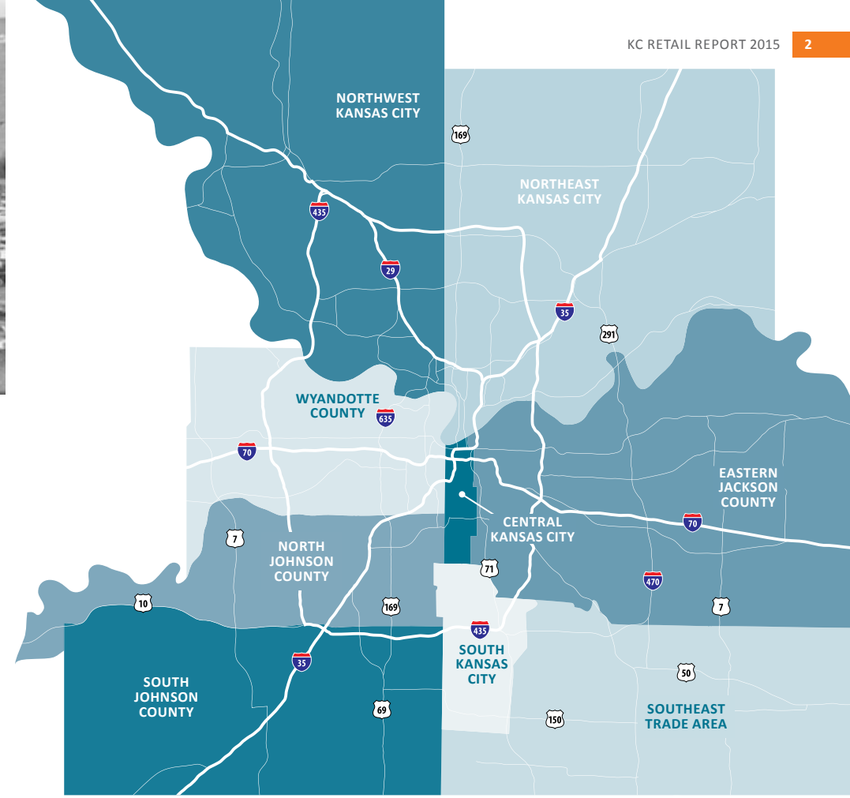
NORTH JOHNSON COUNTY

OR -1.6% LR -3.4%

In September, IKEA opened its doors to the Kansas City Metro, arguably the most notable retail opening of 2014. The Swedish retailer sits just south of Merriam Town Center on the former site of Merriam Village, a shopping center that was built and never leased after Circuit City declared bankruptcy in 2008. Hobby Lobby is planning to open a new location adjacent to the IKEA in 2015.

One of the interesting stories of 2015 will be LANE4's partnership with The Kroenke Group and their pursuit to redevelop two prominent retail shopping centers at the intersection of 95th Street and Metcalf Avenue, totaling approximately 60 acres of land. Sitting in the heart of Overland Park, Metcalf South Mall and the former Kmart center are ripe for a change after years of decay. The development team is planning a retail and mixed-use project, and expects to present preliminary redevelopment plans to the city in the first quarter of 2015.

Further west on 95th Street, Oak Park Mall continues to be the highest performing enclosed mall in the Kansas City market (based on sales PSF). On the NW corner of 95th Street & Quivira Road, a long vacant gas station and several neighboring properties were developed into a high profile, 10,500sf retail center with tenants paying rates among the highest PSF in the entire metro.



RECENT SUBMARKET ACTIVITY *(continued)*

This again demonstrates that the properties at 'Main & Main' continue to command premium rates.

The Mission Gateway project at Shawnee Mission Parkway and Johnson Drive has remained on-hold as development plans are once again revised. Current plans call for a Walmart Supercenter anchored center that also includes a 150-room boutique hotel and an 8,000sf strip center.

A new project at the southwest corner of Shawnee Mission Parkway and Mauer Road called Shawnee Landing was recently announced; however the major tenants remain undisclosed. Due to the large amount of retail projects in the works for North Johnson County, this submarket will be one to watch over the next couple years for retail growth.

Corbin Park
Overland Park, KS

Walmart Neighborhood Market Grand Opening
Kansas City, KS

SOUTH JOHNSON COUNTY

OR -0.2% LR 4.2%

The largest submarket in terms of total leased square feet, South Johnson County continues to add new retail developments. Between Nall and Lamar on 135th Street, the 60-acre Prairiefire mixed-use development opened with noticeable success in 2014. Anchored by Cinetopia movie theatre, a $28 million Natural History Museum, Pinstripes Bowling and Bocce, REI and The Fresh Market, Prairiefire looks to launch Phase II to accommodate large-scale offices as well as additional retail space. Multi-family development on the periphery of this development has also been active, bringing increased residential density through high-end apartment units. Prairiefire has been successful in bringing 'first-to-market' retail concepts and unique attractions to the 135th Street corridor.

Just to the west of Prairiefire on 135th Street, the formerly stalled Corbin Park lifestyle center continues to grow and gain significant momentum. Scheel's All Sports will add a substantial regional draw for shoppers, with plans to open their 220,000sf sports superstore in the summer of 2015.

The City of Olathe remains one of the most active trade areas in the Kansas City Metro. Healthy residential growth and strong demographics make this a first-tier trade area for most retailers. One notable addition to this submarket is a Whole Foods at 119th Street and Black Bob Road, expected to open in the first quarter of 2015.

The area in south Olathe along 135th Street also benefits from the solid school system and strong demographics that have helped to maintain this market as a valuable trade area. An announcement of a new anchor tenant in the former Kmart box on 135th Street at Lindenwood Drive is likely in the near future, due to its prime location and proximity to I-35.

WYANDOTTE COUNTY

OR 0.9% LR 8.0%

The Village West development, located in the northwest quadrant of Interstate 435 and Parallel Parkway, continued its upward trend of retailer sales in 2014. This can be attributed to the presence of larger, more traditional anchors, such as Nebraska Furniture Mart, Cabela's, Walmart, Target, and Sam's Club, as well as less conventional sources, such as Sporting Park (MLS soccer) and the Kansas Speedway. The Legends Outlets KC also hosts multiple prominant outlet retailers, including Saks Fifth Avenue OFF 5TH, Brooks Brothers Factory Store, Coach, Gap Outlet, Banana Republic Factory Store, Forever 21, Under Armour, Nike Factory, and Adidas Outlet.

Mirroring the Village West development to the east of I-435, multiple projects have been announced and are expected to add to the rapidly growing economy in this area. Most notably, a $75 million U.S. National Soccer Training and Coaching Development Center is expected to open in the summer of 2016. The facility will house an elite athlete training and performance analytics campus and national youth soccer development programs, and will incorporate high-performance, next generation technology making it a world class facility like no other. The project is anticipated to have an economic impact of over $1 billion, and further establish Kansas City as the soccer capital of the nation. Adjacent to the soccer facility, developers have begun construction on the Legends Auto Plaza, a 45+ acre project which will be home to up to seven car dealerships, restaurants, and other pad users. Additional investments in this rising corridor are expected in the near future.

The University of Kansas Hospital and KU Medical Center Campus continues to be a beacon of prosperity in the trade area just west of the Country Club Plaza, at the intersection of 39th Street & Rainbow Boulevard. LANE4 recently completed Phase II of the 39Rainbow project, with 100% of the medical office space leased and more retail tenant openings expected over the next few months. The University of Kansas Hospital and the KU Medical Center have announced plans for two major projects on the campus to be completed within the next several years, totaling over $350 million.

One noteworthy opening in the Wyandotte County submarket was the Walmart Neighborhood Market in the Argentine District at 24th Street and Metropolitan Avenue. Once deemed an EPA Superfund Site due to the after effects of hosting a silver-smelting and steel fabrication facility, the EPA razed the site in 1993, and provided remediation to clean up the contaminated soils. The completed project received a L.E.A.F.S. Award from the EPA, recognizing the highly successful transformation and re-use of a once severely contaminated site.

LOOKING FORWARD TO 2015

As more and more retail projects evolve from blueprints to fruition, expect the steady pace of economic growth to increase in 2015. Underperforming and undervalued retail centers should find new purpose and direction in the coming year, as the trend of revitalizing once neglected shopping centers continues to gain momentum. The high cost of new construction, paired with the potential to add value to these existing centers through tenant mix improvement and new rental propositions, will maintain this redevelopment option as an attractive alternative to new development.

Expect specialty grocers, fast casual restaurants and fitness centers to lead the retail segment as they continue to be active throughout the market over the next year. Given success in 2014, these new retailers have proven to be a trend likely to press on. In addition, look for at least one new large-format retailer to enter the market this year, despite this segment being largely inactive in recent years.

One major trend to watch for on the investment side of the commercial real estate industry will be the potential rise in interest rates. The subsequent effect on cap rates could affect shopping center values. This story will play out in response to the federal government's indication that interest rates could start seeing a moderate uptick in 2015.

Above all, one thing seems to remain constant in real estate: change. Each of the developments, announcements and trends we've mentioned, plus those yet be discovered, will surely keep us on our toes in 2015.

KANSAS CITY METRO SHOPPING CENTER SURVEY

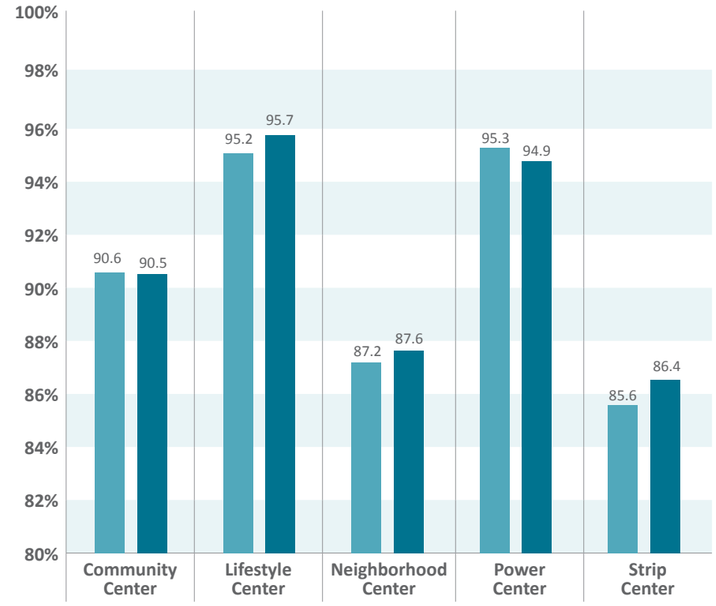
SUBMARKET	% OF TOTAL SURVEYED	TOTAL SQUARE FEET*		OCCUPANCY RATE		AVG LEASE RATE	
		2013	2014	2013	2014	2013	2014
Northwest Kansas City	6%	4,153,016	4,161,866	94.2%	94.7%	$13.39	$13.68
Northeast Kansas City	13%	8,267,335	8,308,515	92.0%	89.7%	$10.82	$11.74
Central Kansas City	3%	2,283,462	2,283,462	95.1%	96.0%	$18.63	$16.95
South Kansas City	8%	4,891,595	4,891,595	88.2%	88.6%	$11.48	$11.35
Southeast Trade Area	8%	5,324,042	5,332,542	89.6%	91.4%	$11.53	$11.74
East Jackson County	17%	11,049,234	11,090,234	90.3%	91.5%	$10.97	$9.91
North Johnson County	18%	11,734,861	11,734,861	89.8%	88.2%	$12.35	$11.93
South Johnson County	20%	13,025,177	13,315,169	90.1%	89.9%	$15.64	$16.30
Wyandotte County	7%	4,328,405	**4,440,405**	80.3%	81.2%	$11.13	$12.02
TOTAL SURVEY AREA	**100%**	**65,027,445**	**65,556,940**	**89.9%**	**89.8%**	**$12.88**	**$12.85**

**Trade area definitions may have changed from previous year.*
Source: Data provided by LANE4 Research and third-party sources, current as of December 2014. Survey includes all retail space located within a shopping center and covers all shopping center types. Lease rates represent average quoted pricing per designated trade area in the Kansas City Metropolitan Market.

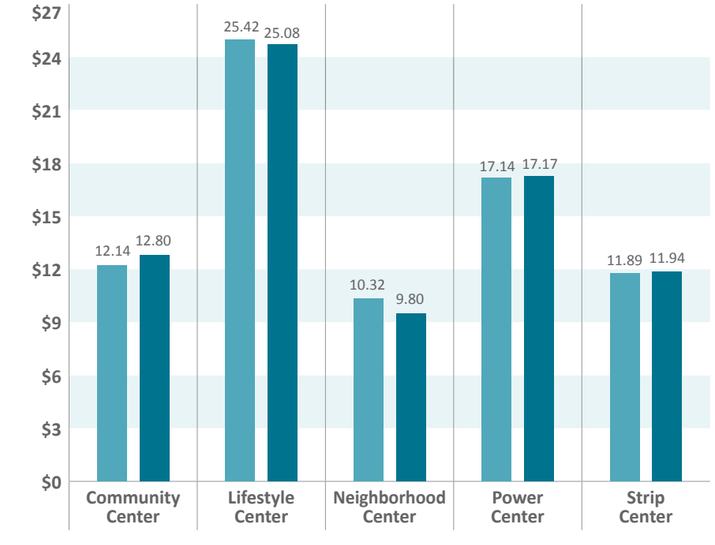
KANSAS CITY METRO SHOPPING CENTER PERFORMANCE

Q4-2013 Q4-2014

OCCUPANCY RATE BY SHOPPING CENTER TYPE



AVG. LEASE RATE BY SHOPPING CENTER TYPE



Data provided by LANE4 Research and third-party sources, current as of December 2014.
Survey includes retail space located in specified shopping center type.

LANE4

"EVOLUTION OF THE SHOPPER"

GUEST ARTICLE FROM RETAIL GURU, ANDREW SHIPGAL - MSC RETAIL, PHILADELPHIA, PA

From the Roman bazaar of Trajan's Market in 100 AD to the internet and mobile shopping of the 21st Century, technology is irrevocably changing the way we shop. Today we have multi-channel market places: in store, online, mobile, catalogue, TV, friends and family, etc. The introduction of smartphones and the apps that come with are making consumers smarter and savvier shoppers. Not only do we use our smartphones to shop online, but we also use GPS technology to provide us with store hours and the nearest location of a shop.

This is not to say that with online shopping comes the death of brick-and-mortar stores, but that the shopper experience has changed. Shopping centers will not disappear, despite changing consumer demands and an increase of online sales. While online shopping has its perks—shopper reviews, viewing relevant purchases and complimentary products, etc.—the social aspect of in-store shopping is something that cannot be artificially replicated.

Customers are using stores as a resource, not just as a place to shop, but as a place to meet with friends and be social too. Stores today are offering experiences, and as a result, shoppers are expecting to be entertained when they visit the store. There is a change in the landscape of shopping: stores are now offering special events such as fashion shows, private parties, shopping nights, workshops, wine-and-cheese gatherings, etc. Customers are looking for roomier stores with seating for friends, and they are looking for the help and approval of the in-store fashion consultants. You cannot compare online shopping with the real human interactions of in-person shopping.

More and more, customers (mostly those in the millennial generation) are looking for a relationship with the merchant, and social media has helped to strengthen this interest. Many of those in the retail industry are creating twitter handles for business and communicating with their customers, reaching out to them for special events, to send/post pictures of new merchandise, etc.

So, instead of fearing that mobile and web shopping will end in-store shopping, consider online shopping an enhancement to the in-store experience. Retailers are simply finding new and innovative ways to engage users and bridge the gap between mobile and in-store experiences.

MSC Retail is a member of X TEAM International
For more infomation, visit MSCretail.com.

RESIDENTIAL REAL ESTATE PERFORMANCE

Number of **NEW** Privately-Owned, Housing Units *(Ranked by % Change from 2013-2014)*

MAJOR CITIES	2010	2011	2012	2013	2014*	% CHANGE 2013-2014	5 YEAR ANNUAL AVERAGE
1. Blue Springs, MO	45	80	87	139	324	▲ 133%	135
2. Lenexa, KS	67	89	288	337	756	▲ 124%	307
3. Kansas City, MO	280	509	1,061	1,530	3,119	▲ 104%	1,300
4. Lee's Summit, MO	170	165	374	334	550	▲ 65%	319
5. Shawnee, KS	66	77	140	153	229	▲ 50%	133
6. Kansas City, KS	201	62	414	451	556	▲ 23%	337
7. Olathe, KS	364	335	424	513	563	▲ 10%	440
8. Raymore, MO	48	66	69	110	107	▼ -3%	80
9. Overland Park, KS	222	736	581	1,566	1,100	▼ -30%	841
10. Independence, MO	60	197	65	175	78	▼ -55%	115
KANSAS CITY METRO	**2,714**	**3,287**	**4,981**	**7,532**	**9,178**	▲ **22%**	**5,538**

**2014 based on annualized rate through November, data is not seasonally adjusted.*
Source: US Census Bureau. Kansas City Metro: New Privately Owned Housing Units Authorized, Unadjusted Units by Metropolitan Area.
City & County: Annual New Privately-Owned Residential Building Permits, Unit estimates with imputation.

TAXABLE SALES BY COUNTY ($M)

(Ranked by 1st Half 2014)

COUNTY	2012		2013		% CHANGE '12 - '13	2014	% CHANGE 1ST HALF '13 - '14
	1ST HALF	2ND HALF	1ST HALF	2ND HALF		1ST HALF	
1. Johnson, KS	$4,591.3	$4,712.4	$4,995.7	$5,238.7	▲ 10.00%	$4,989.3	▼ -0.13%
2. Jackson, MO	$4,155.1	$4,330.7	$4,158.3	$4,345.6	▲ 0.21%	$4,337.3	▲ 4.30%
3. Clay, MO	$1,324.9	$1,396.8	$1,343.4	$1,417.7	▲ 1.45%	$1,427.4	▲ 6.25%
4. Wyandotte, KS	$951.7	$964.8	$1,036.7	$1,078.9	▲ 10.39%	$1,009.1	▼ -2.66%
5. Platte, MO	$740.7	$760.1	$742.2	$780.5	▲ 1.48%	$792.3	▲ 6.71%
6. Douglas, KS	$670.0	$675.4	$721.2	$739.5	▲ 8.57%	$700.7	▼ -2.84%
7. Cass, MO	$431.4	$453.8	$431.5	$466.4	▲ 1.43%	$477.2	▲ 10.60%
8. Leavenworth, KS	$257.0	$261.6	$274.0	$281.4	▲ 7.09%	$280.9	▲ 2.53%

Source: Kansas Department of Revenue and Missouri Department of Revenue.

Museum at Prairiefire
Overland Park, KS

2015

KANSAS CITY RETAIL REPORT

LANE4 Property Group is one of the most successful boutique commercial real estate firms in the Midwest, specializing in tenant representation, project leasing, development, investment sales, and property management. 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, retail, office and hospitality projects and continue to rapidly expand throughout the Midwest.

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