

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FIRST QUARTER
2016

LESSONS FROM A CHAMPION

Spring is in the air, and in Kansas City these days, spring means baseball season. After winning back-to-back American League pennants and taking home the 2015 World Series Championship, Major League Baseball teams everywhere are looking to the Royals for a lesson or two on success. Baseball teams aren't the only ones taking notes on the Royals' well-run organization—in fact, at LANE4 we strive every day to operate more like our boys in blue. Whether it's the search for potential developments and acquisitions for ourselves and for clients or working with our retailers in their site selection efforts, LANE4 aims to be like the 2015 World Series Champions in the effort toward excellence.

Find Your Niche

Every industry has its New York Yankees: those who are going to throw their weight around and pay top dollar for A+ real estate in A+ locations, regardless of other factors. The Apple Store is always going to sit at the corner of Main and Main. Big REITs and institutional investors are prepared to pay record prices and accept historically low yields for trophy properties and well-located net-leased assets with strong credit. For the rest of us, we need to find the model that works for us and commit to it. The Royals can't afford a lineup full of home run hitters and Cy Young winning pitchers, but they were able to build a championship team around defense, a power bullpen, and an undeniable passion for the game. In an environment where the low-hanging fruit is already picked by the "Yankees," we, like the Royals, are looking to find our niche in other places. Which areas have strong demographics that will respond to investment in existing real estate that is not currently being used to its full potential? Which neighborhoods will continue to strengthen in the next five, ten, and twenty years? Asking ourselves these questions and working toward the answers helps us to battle competitively with our game-winning lineup.

Trust the Process

Not too long ago, the Royals management was mocked as they asked Kansas City to "trust the process" (after 30 years of losing, the cynicism was admittedly well-earned). When today's Royals leadership team assumed power in 2007, they found their niches, and most importantly, committed to them. Just like baseball, results in real estate are not always immediately apparent. Something we need to know from ourselves, our clients, and our investors is whether or not they are committed for the long haul.

Don't Let Perfect Get in the Way of Great

"I tell our people all the time that it's our job to LIKE players."—Dayton Moore, Royals General Manager

Just like a baseball player makes an out much more often than he gets a hit, many real estate deals that we evaluate end up in the "dead deals" file and not in a closed

Continued on the next page.

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 2015 & 2016 percentages. ⁴U.S. Census Bureau: Estimated monthly. ⁵Creighton 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. ⁶U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. ⁷Kansas City Regional Association of Realtors. Average sales price of new & existing homes.

Kansas City Sales & Leasing Data

KC MSA Total Retail Market ¹			
	Q1 2015	Q1 2016	% Chg
Total GLA (s.f.)	113,370,257	113,179,057	-0.17%
Avg Lease Rate	\$12.19	\$12.58	3.2%
Avg Occupancy Rate	91.8%	92.6%	0.08%

KC's Largest Lease Signings - Q1 ¹		
Location	Tenant	Size
Ward Parkway Center	Ross	34,990 s.f.
Corbin Park	Dave & Busters	30,400 s.f.
Summit Fair	H & M	20,000 s.f.

Avg. Shopping Center Vacancy ¹		
Period	Rate	Avg. Lease Rate
2013	11.3%	\$11.47
2014	11.4%	\$11.78
2015	11.6%	\$11.70
2016 - YTD	11.5%	\$11.99

Total Retail Market Statistics ¹			
KC Submarkets	Total GLA	Vac %	Quoted Rates
Downtown	3,176,003	4.4%	\$14.42
East Jackson County	22,962,550	6.7%	\$10.15
Kansas City, KS	9,318,566	4.1%	\$11.63
Midtown	5,601,692	5.9%	\$11.83
North Johnson County	19,414,279	9.3%	\$11.92
North of the River	18,882,588	8.2%	\$12.54
South Johnson County	19,658,875	6.9%	\$17.85
South KC	8,379,786	11.5%	\$10.65
Southeast Jackson County	5,784,718	6.1%	\$13.85
Totals	113,179,057	7.4%	\$12.58

National & Regional Trends

Period	U.S. Food & Retail Sales ⁴ In Billions	Business Conditions Index ⁵			
		2016	Jan	Feb	Mar
'13 - Q1	\$1,244,592	Missouri	47.7	52.3	49.9
'14 - Q1	\$1,272,152	Kansas	50.7	52.3	49.5
'15 - Q1	\$1,307,450	Mid-America			
'16 - Q1	\$1,342,157		48.3	50.5	50.6

March	Unemployment Rate ⁶		Consumer Price Index ⁶			
	'15	'16	2016	Jan	Feb	Mar
Midwest	5.0	4.8	Midwest	223.3	223.2	224.6
U.S.	5.5	5.0	U.S. City Avg	236.9	237.1	238.1

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transaction. Every deal has risks. We try to focus first on identifying the positive attributes that we like to see in a deal, and then we determine if those risks can be identified and mitigated. As we witness many deals fall through the cracks, it is easy to be discouraged and immediately latch on to why it will likely end in failure. Only rarely does the perfect deal fall into your lap. The rest of the time, we work to identify the opportunity and manage the risks prudently. Just like every baseball player this side of George Brett has a hole in his game, every real estate deal has its "hair," and its "warts." Just like the Royals focus on the attributes of their players that they like, we focus on the parts of the deal that work. It's our job to LIKE real estate, to believe in our projects, and to believe in Kansas City and the Midwest markets.

Team Chemistry

Baseball and Wall Street analysts alike stick their noses up at the idea of "team chemistry." In their minds, baseball stats, balance sheets, and operating statements can tell you everything you need to know. When assessing real estate, there is so much more to the deal than rental rates and net operating income. For retail clients, a center with bad chemistry can easily trend in a negative direction over the term of a user's lease. When looking at acquisitions, it is important to recognize opportunities to rekindle the chemistry. Positive momentum can be a powerful force in the retail sector and we are constantly seeking ways to generate the much needed energy. This lesson can also be applied on a human level. Despite what a player does on the field, the Royals have prioritized drafting and acquiring good teammates that buy in to the way the team wants to play baseball and are pleasant to be around. At LANE4, we work hard to hire the right people and to work with clients whose company we enjoy. Maybe the analysts are right and team chemistry is a myth, but at least we will still get to work every day with people we like!

Mike Berenbom, Vice President - Investments

Giving Back

LANE4's mixed-used Parisian-inspired center, 39Rainbow, is partnering with Kansas City Jazz ALIVE in celebration of National Jazz Appreciation Month for the entire month of April. A portion of any purchase made from tenants Subway, IHOP, Five Guys Burgers and Fries, Topp'd Pizza + Salads, and 7-Eleven from April 1 through April 30 will be donated to KC Jazz ALIVE, a local non-profit organization focused on promoting jazz throughout the metro. These donations will benefit Kansas City Jazz ALIVE's Charlie Parker Celebration, the nation's largest celebration of the jazz legend. 39Rainbow will host live performances from local jazz musicians every Saturday evening in April from 4-6pm as a part of the celebration.

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 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 ⁷			
County	Mar '15	Mar '16	% Chg
Cass County, MO	\$184,558	\$177,257	-3.9%
Clay County, MO	\$173,811	\$185,245	6.6%
Jackson County, MO	\$145,247	\$164,716	13.4%
Platte County, MO	\$235,197	\$239,094	1.7%
Johnson County, KS	\$124,364	\$164,367	32.2%
Leavenworth County, KS	\$160,721	\$203,439	26.6%
Miami County, KS	\$189,356	\$217,930	15.1%
Wyandotte County, KS	\$102,811	\$117,881	14.7%
Kansas City Region	\$193,998	\$199,281	2.7%

Residential Building Permits-YTD ⁷			
Month	March '15	March '16	% Chg
Cass County, MO	54	53	-1.9%
Clay County, MO	535	254	-52.5%
Jackson County, MO	396	357	35.6%
Platte County, MO	71	180	153.5%
Johnson County, KS	560	1034	84.6%
Leavenworth County, KS	38	45	18.4%
Miami County, KS	17	62	264.7%
Wyandotte County, KS	10	23	130%
Kansas City Region	1,681	2,188	30.2%

For. Your. Information.

VISIT LANE4 at ICSC ReCon 2016

South Upper Hall #276R
Corner of R Street and 27th Ave.

LANE4 Property Group will be located within the X-Team International booth at the ICSC ReCon in Las Vegas from Sunday, May 22 - Wednesday, May 26, 2016.

We hope to see you there!

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