

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

SECOND QUARTER

2016

SMALL. SHOP. LEASING.

These three little words invoke a broad spectrum of reactions, depending on who you are talking to. To the rookie leasing agent: opportunity. To the veteran broker: cringe worthy. In the most basic terms, commercial property owners have spaces from which they need to receive income; tenants need a space to do their business, and must pay for that space. In a perfect world, all vacant spaces would be filled with financially and professionally qualified tenants who would pay fair market rents with more than enough cushion for them to make money. Sounds simple and boring, eh? Luckily for this rookie leasing agent, the reality is that there is always too much vacancy, and often prospective tenants are a country mile from qualified, leaving the world of small shop leasing an entertaining, educational, and profitable place to call home.

My first year of leasing is now in the rear view, and it's truly amazing how much I've picked up from clients, customers, fellow brokers, and most of all, personal experience. The new guy seems to always take on the small shop leasing and I'm grateful for that. My first few months were loaded with showing spaces to prospective tenants that had no idea what type or how much space they were interested in. I was oblivious to this fact, and just excited to get them in the door and start negotiating! The ability to qualify a prospect in a matter of a few minutes on the phone is an underappreciated skill that is necessary for optimal time management. Some key questions to ask the prospective tenant on the phone are: Are you an existing business? Do you have a business plan and financial statement I can review? Are you planning on taking the space as-is? The answers to these questions can give you immediate insight into whether this tenant is ready to make a deal.

Qualifying a tenant's credit is a huge part of pitching the deal to the Landlord. If it's a tenant with corporate credit and an impressive track record, we can get more aggressive with lease rate and opening the checkbook for a TI allowance. If the prospective tenant is a "Mom & Pop" business with questionable credit, we are more likely to push for an as-is deal, possibly throwing in some free rent at the beginning instead of monetarily contributing to the buildout costs. It's all about how much confidence the Landlord has in the tenant's ability to keep the store open and pay rent for the duration of the lease.

I've learned to hold my ground on asking lease rates. The amount of times I've heard a form of 'that's too expensive' is uncountable, and the key is not letting them convince me that's true. The Landlord has hired me to not just fill vacant space, but

Continued on the next page.

Sources: ¹CoStar: Total existing space for all retail, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2015 & 2016 percentages. ²CoStar: Small shop data based on spaces less than 5,000 SF in multi-tenant buildings and shopping centers. 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. Total units YTD as of June 1, 2016.

Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail ¹			
	Q2 2015	Q2 2016	% Chg
Total GLA (sf)	113,755,211	113,324,221	-0.38%
Avg Lease Rate	\$12.40	\$12.56	1.29%
Avg Occupancy Rate	92.4%	93.1%	0.7%

KC's Largest Lease Signings - YTD ¹		
Location	Tenant	Size
Ward Parkway Center	Ross Dress for Less	34,990 SF
Corbin Park	Dave and Busters	30,400 SF
875 S Parker St, Olathe	Maj R Thrift	24,104 SF

Avg. Total Retail MSA Statistics ¹		
Period	Vacancy Rate	Lease Rate
Q2 2016	10.9%	\$12.56
Q2 2015	11%	\$12.40
Q2 2014	11.8%	\$12.52
Q2 2013	11.3%	\$12.15

Small Shop Snapshot

Small Shop Leasing Statistics ²			
Period	Lease Rate	Vacancy Rate	# Deals Completed
2016 - YTD	\$12.74	17.8%	157
2015	\$12.93	17.0%	316
2014	\$12.71	16.8%	337
2013	\$12.42	17.1%	340

National & Regional Trends

U.S. Food & Retail Sales ⁴		Business Conditions Index ⁵			
Period	In Billions	2016	April	May	June
Q2 2016	1,364.73	Missouri	57	57	54
Q2 2015	1,329.63	Kansas	49.7	49.7	48.4
Q2 2014	1,302.83	Mid-America			
Q2 2013	1,243.58		50.1	52.1	50.1

Unemployment Rate ⁶		Consumer Price Index ⁶				
June	'15	'16	2016	April	May	June
Midwest	4.8	4.7	Midwest	225.6	226.5	227.8
U.S.	5.3	4.9	U.S. City Avg	239.3	240.3	241

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Continued....

also get the best return possible from the tenants. Of course there is usually a little bit of wiggle room, but that's a call for the owner to make, not me. If the tenant likes the property and sees it as a profitable location, let's get into serious discussions. I've also made the mistake of having a mildly fluctuating asking price, and the prospective tenant or tenant rep broker doesn't brush it off so lightly. If they think I'm trying to sneak something by them to pay higher rent, the deal becomes toxic and hard to recover from.

The world of brokerage is basically a calculated game of probabilities and chances. There's always a chance that a follow-up call will result in a long and lucrative relationship with the hottest new tenant in the market. An unofficial motto at LANE4 is, "Have as many balls in the air as possible." In the end, anything can happen in real estate, so the more opportunities you have running around, the better. And while you're juggling those potential deals, crank up your speed from a walk to a distance-pace run. Time kills deals, so strike while the iron is hot.

Why I Come Back For More...

Like a perfect drive on the eighteenth hole at the end of a long round of golf, one successful negotiation whets the appetite for more deals. Receiving a commission check at the end of a tough deal is fantastic, but the best part is the relationships solidified with the client and counterpart broker. A "little" 1,200 sf deal at \$12/sf NNN in a big shopping center adds roughly \$175,000 of value to the center. The owners and brokers that give small shop leasing the time and respect it deserves will end up wealthier and wiser.

Patrick Flynn, Associate

Giving Back

LANE4 recently completed our "Summer of Giving" campaign at our 39Rainbow project. Each month April - July, LANE4 and 39Rainbow partnered with a local charity organization to support the needs of our community. A portion of proceeds from 39Rainbow tenants IHOP, Subway, Five Guys, and Topp'd Pizza + Salads were matched and donated to the organizations.

Since April, 39Rainbow has donated **nearly \$20,000 to local non-profit organizations** in the community, recognizing jazz in Kansas City with (KC Jazz ALIVE), first responders and veterans suffering with Post-Traumatic Stress (Warriors' Ascent), pets in need (KC Pet Project), and the importance of children's literacy (Reach Out and Read KC). For more information on any of these organizations, please visit www.lane4group.com/about/affiliations.

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 Sale Price ⁷			
June	2015	2016	% Chg
Cass County, MO	\$180,171	\$233,493	30%
Clay County, MO	\$189,248	\$198,565	5%
Jackson County, MO	\$170,406	\$185,339	9%
Platte County, MO	\$238,174	\$259,869	9%
Johnson County, KS	\$293,205	\$314,412	7%
Leavenworth County, KS	\$198,579	\$192,180	-3%
Miami County, KS	\$215,095	\$207,857	-3%
Wyandotte County, KS	\$112,748	\$149,083	32%
Kansas City Region	\$212,129	\$228,951	8%

Residential Building Permits- Year To Date ⁸			
June	2015	2016	% Chg
Cass County, MO	126	256	103%
Clay County, MO	785	673	-14%
Jackson County, MO	715	1157	62%
Platte County, MO	202	610	202%
Johnson County, KS	1,592	1,704	7%
Leavenworth County, KS	107	127	19%
Miami County, KS	65	46	-29%
Wyandotte County, KS	84	117	39%
Kansas City Region	2,148	2,793	30%

For. Your. Information.

LANE4 | CELEBRATING
PROPERTY GROUP | 10 YEARS

LANE4 is proud to celebrate 10 years of business, providing your competitive edge in commercial real estate.



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