

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

THIRD QUARTER
2016

THE NEXT BIG CHANGE IN CRE: AV?

Lately there has been a lot of discussion in Kansas City about the impact the new streetcar system will have on commercial real estate, as well as the impact that building a new airport could have on attracting investment and new companies to our city. But it's a different form of transportation that is truly on the verge of revolutionizing real estate and development in Kansas City and beyond: driverless cars.

The technology is here. Both the federal government and Fortune 500 firms are investing heavily in Automated Vehicles (AV). It may look nothing like the Jetsons, but the once far-fetched future will likely be ubiquitous by 2040. Whether we are ready or not, the future is here. What does this mean for commercial real estate?

It is difficult to grasp releasing control of a vehicle and relaxing in the backseat as you are maneuvered toward your destination. Over the next few years it will become easier and more natural, resulting in an increase in the number of car trips. Three major benefits of AV will cause an overall increase in the number of automobile trips per person. 1) The ease of being driven to your destination while you are working, eating, sleeping, watching a movie or otherwise not worrying about actually driving. 2) Eliminating the need to find a parking spot, as the car will find one for itself after dropping you at the door. 3) Increased mobility for the elderly, the disabled and the young, who may otherwise not be out on the roads.

Arguably the biggest impact of AV on commercial real estate is *the diminishing importance of easy, convenient parking*. There are two differing scenarios the prevalence of driverless cars could lead to and, interestingly enough, both would support the notion that convenient parking will play a far smaller role in real estate development than it has thus far.

If our love of cars and autonomy continues and we all soon own our own driverless car, congestion will increase. The simple answer here is to add parking, often, in structured or underground parking garages. While Kansas City residents tend to dislike structured parking and prefer to shop at stores that allow you to park right up front (think of the number one shopping destination, Town Center or any local grocery store center), a car that can park itself after you go in the store could easily park in an underground or offsite garage and then reemerge when you leave the store.

If the current trend of ride-share continues to grow, we won't all own our own car but rather will share in fleets of constantly available AV. Under this scenario, we have much fewer cars on the road, and in turn, in parking lots or garages. An added advantage to this option: reduced energy consumption and pollution.

In either of these situations, the lack of focus on convenient parking opens many doors for real estate developers. A study of 41 major CBD in the U.S. found that on average, 31% of space is devoted to parking. According to a recent article in the Cornell Real Estate Review, the maximum potential reduction in parking space is 42%, *that's 61 billion square feet of space to redevelop*³.

Even in existing centers, the reduction of prime parking areas could free up acres of prime space and allow more outparcel development.

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. ²Professor Jeffrey Funk, National University of Singapore. From his course entitled Analyzing Hi-Tech Opportunities. 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.

In text citations: ⁸Henderson, J., & Spencer, J. (2016). Autonomous vehicles and commercial real estate. *Cornell Real Estate Review*, 14(1), 44-55. ⁹Shenke, Jarred. (2016) *The Future Intersection of Driverless Cars and CRO*. Bisnow Special Report Aug. 31, 2016. Retrieved from <https://www.bisnow.com/national/news/technology/how-will-driverless-vehicles-affect-real-estate-64660>. ¹⁰Sayles, Ben. (2016) *Self-Driving Cars: A Game Changer for Commercial Real Estate?* Retrieved from <http://theadvisor.hfflp.com/blog/driverless-cars-a-game-changer-for-commercial-real-estate> Retrieved from <http://scholarship.sha.cornell.edu/crer/voll4/iss1/14>

Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail ¹			
	Q2 2015	Q2 2016	% Chg
Total GLA (sf)	113,984,746	112,806,715	-1.03%
Avg Lease Rate	\$12.52	\$12.83	2.48%
Avg Occupancy Rate	92.4	94	1.6%

KC's Largest Lease Signings - YTD ¹		
Location	Tenant	Size
South Johnson Conuty	Menard's	149,567
BluHawk	Cosentino's Market	55,000
Burlington Plaza	Zone 6 Fitness	46,866

Avg. Total Retail MSA Statistics ¹		
Period	Vacancy Rate	Lease Rate
Q3 2016	6.0%	\$12.83
Q3 2015	7.6%	\$12.52
Q3 2014	8%	\$12.24
Q3 2013	8.4%	\$12.15

The Future of AV

A look at the history and projected direction of AV ²	
2012	Google Driverless car project test fleet of self-driving vehicles
2014 - 2015	Mercedes, Cadillac, BMW, Audi, Nissan models include autonomous steering, braking, acceleration, parking lane guidance, accident avoidance, and driver fatigue detection.
2018	Google's fleet of fully autonomous Toyota Prius hybrids will be released.
2020	Volvo, GM, Audi, Nissan and BMW have fully autonomous cars.
2020 +	Autonomous cars significantly disrupt the conventional car industry.
2040 +	Autonomous cars are readily available and ubiquitous in the modern world.

National & Regional Trends

U.S. Food & Retail Sales ⁴		Business Conditions Index ⁵			
Period	In Billions	2016	July	Aug.	Sept.
Q3 2016	1,374.65	Missouri	52.3	48.5	47.3
Q3 2015	1,342.71	Kansas	47	47.6	43.9
Q3 2014	1,311.96	Mid-America	47.6	47.8	45.5
Q3 2013	1,252.75				

Unemployment Rate ⁶		Consumer Price Index ⁶				
Sept.	'15	'16	2016	July	Aug.	Sept.
Midwest	4.7	4.6	Midwest	226.8	227.1	227.6
U.S.	5.1	5.0	U.S. City Avg	240.6	240.8	241.4

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For nearly a century, the biggest constraint on CRE development has been the parking ratio requirements. The size and density of a project was determined by how many parking spots were needed. Bigger building = more parking required. In mixed-use design the complicated formula has even more drawbacks.

According to Jonathan Levine, the Emil Lorch Collegiate Professor in Architecture and Urban planning at the University of Michigan, the future autonomous vehicle world may mean a transition to *no* parking requirements. Parking requirements make development in a high-density area very expensive. Policymakers need to see that the best solution may be to let a developer decide for themselves, Levine argues. "We should say to the developer, 'You know, *you* figure out how much parking to provide."

Even without fleets of autonomous vehicles, Los Angeles and other cities eager to encourage development, without giving tax incentives, are considering this option^b.

Other major changes that the firm National Real Estate Advisors prophesized are^b:

- 1) Job losses in industries like auto insurers and brokers.
- 2) An explosion in urban greenspace.
- 3) Data centers and creative office space will flourish with decreased parking ratio.
- 4) Many of the US's 125,000 corner gas station/convenience stores could become obsolete, opening even more prime real estate to redevelopment.
- 5) Long term boon to the suburbs

For retail development, a segment already in great transition, automated vehicles and the fading need for vast parking are likely to impact the design of retail properties in the following ways: grocery anchored stores will likely see the size of their parking lots shrink as more customers arrive in one AV, shop and are driven away by another. Likely new neighborhood retail centers will be built closer to the road.

Depending on which expert you believe, driverless cars will either create a transportation ride-share nirvana or congested roads causing more pollution than ever. Both scenarios have a huge impact on CRE as the need for prime parking is diminished. Though to many it may still seem like a cartoon version of the future, the reality of AV is quickly approaching. In the long-term, non-liquid world of real estate investment, its impending effects are even closer, and investors must begin to take these realities into consideration.

Gwen Locher, Managing Partner

Giving Back

LANE4 strives to support the causes and organizations that are important to our employees. Thanks to two of our employees, LANE4 was made aware of a need for Newhouse Shelter for abused women and children. While the kitchen at the shelter was being remodeled, LANE4 answered a call to provide lunches for residents. We rolled up our sleeves and hand-packed 50 nutritious lunches to deliver to the shelter.

Newhouse now has a renovated commercial kitchen to continue to serve the needs of the families who call Newhouse home. For more information on Newhouse and how you can help, please visit www.newhouseshelter.org.

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			
September	2015	2016	% Chg
Cass County, MO	\$187,899	\$211,883	13%
Clay County, MO	\$170,866	\$199,657	17%
Jackson County, MO	\$157,219	\$181,188	15%
Platte County, MO	\$240,095	\$262,764	9%
Johnson County, KS	\$298,293	\$298,416	0%
Leavenworth County, KS	\$184,196	\$178,022	-3%
Miami County, KS	\$202,487	\$193,641	-4%
Wyandotte County, KS	\$108,990	\$129,022	18%
Kansas City Region	\$201,718	\$216,451	7%

Residential Building Permits- Year To Date ⁸			
September	2015	2016	% Chg
Cass County, MO	227	495	118%
Clay County, MO	1,189	1,336	12%
Jackson County, MO	1,448	1,570	8%
Platte County, MO	345	733	112%
Johnson County, KS	2,392	3,061	28%
Leavenworth County, KS	159	181	14%
Miami County, KS	80	205	156%
Wyandotte County, KS	131	210	60%
Kansas City Region	5,971	7,791	30%

For. Your. Information.



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



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