

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FIRST QUARTER
2017

Retail is a Changin'

Bob Dylan may have said it best, "...the times... they are a changin'." This is especially true in retail. Pick up any paper (or far more likely, check your online newsfeeds from your favorite publications), and just about every day you can find stories about how retail is struggling, stores are closing, or major brands are declaring bankruptcies: JCPenney, Gordmans, Radio Shack, Macy's, Bebe, Rue21, HHGregg, Sears, Wet Seal, BCBG, etc. There is no doubt, the retail industry is going through a very challenging time.

That being said, this is nowhere near the first challenging time we've faced. Anyone even remotely familiar with the retail industry from a historical perspective will remind you this is the nature of the beast. Retail and shopping trends are constantly changing and if you don't find a way to keep up, you will eventually lose your swagger and die. Think about some of the past "retail stars" who are now gone or on their way to being so:

County Seat, Deb, Woolworth, Fashion Bug, Kids R-Us, Kenny Shoes, The Limited, Mervyns, Drug Emporium, Skaggs, Loehman's, Silo, Circuit City, Ultimate Electronics, TG&Y, Montgomery Ward, Heilig-Meyers, Linens and Things, Rhoades Furniture, Hinky Dinky, Builders Square, Home Quarters, Border's Book, Hollywood Video, Waldenbooks, Payless Cashways, Hastings, Circuit City, Sharper Image... The list goes on.

Walmart entered the national retail picture in the early 1970's and changed "Main Street" forever. In the 80s, indoor malls were all the rage but soon were replaced by "Lifestyle Centers" that held all the same stores but put parking close to the door, and added dramatic landscaping and a walkable outdoor design. Next came power centers with extremely easy access and brand-name products at a deep discount which have put America's traditional department stores on high alert.

Today, the retail world is changing at perhaps its swiftest rate ever. Of course much of this is due to on-line and digital sales, but most likely combined with the oversupply of retail space built in the last 40 years as well.

Technology is changing our lives in many different ways at a faster pace than ever. This changing lifestyle presents opportunities and challenges to a retail world that is directly linked to the changing trends, experiences, and priorities of our society. Historically, retail has invested heavily in displaying and delivering their products through physical stores which rely on traffic counts and co-tenancy with an anchor box and other like-minded retailers. Online retail marketing puts this system to the test and capitalizes on the idea that it's easier, more convenient, and saves your precious time to do your shopping right from your couch.

No question, there are segments of the brick and mortar retail mix that will and already do suffer because of this. Regular, convenience-based items like Windex, diapers, milk, paper clips, and ground coffee are easy and practical to purchase from Amazon. You know you need them, you know what brand you like, and you know what a reasonable price is: there is no need to put in any more effort than clicking the "purchase" button. Shopping online for clothing has its benefits as well. You can browse as long as you like without judgment, try

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. ²Clarks.com; Mike Timmermann. May 9, 2017 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 December 2016.

Kansas City Sales & Leasing Data

| KC MSA Shopping Center Retail ¹ | | | |
|--|-------------|-------------|-------|
| | Q1 2016 | Q1 2017 | % Chg |
| Total GLA (s.f.) | 113,781,265 | 114,224,045 | 0.39% |
| Avg. Lease Rate | \$12.52 | \$13.28 | 6.07% |
| Avg. Occupancy Rate | 92.80 | 93.90 | 1.19% |

| KC's Largest Lease Signings - 2017 YTD ¹ | | |
|---|-----------------|-------------|
| Location | Tenant | Size (s.f.) |
| South Johnson County | HomeGoods | 24,367 |
| I-29 Corridor | Tuesday Morning | 16,500 |
| Northwest Johnson County | C&R Enterprises | 13,440 |

| Avg. Total MSA Vacancy ¹ | | |
|-------------------------------------|--------------|------------|
| Period | Vacancy Rate | Lease Rate |
| 2017 | 6.1 | \$13.28 |
| 2016 | 7.2 | \$12.52 |
| 2015 | 8.1 | \$12.19 |
| 2014 | 8.0 | \$12.24 |

2017 Store Closure Announcements

| Announced Closures ² | # Stores |
|---------------------------------|----------|
| American Apparel | 110 |
| BCBG | 120 |
| Bebe | 180 |
| Crocs | 160 |
| CVS | 70 |
| GameStop | 150+ |
| hhgregg | 220 |
| JCPenney | 138 |
| Macy's | 68 |
| Payless ShoeSource | 400 |
| RadioShack | 552 |
| Rue21 | 400 |
| Sears/ K Mart | 150+ |
| Staples | 70 |
| The Limited | 250 |

National & Regional Trends

| Period | U.S. Food & Retail Sales ³ In Billions | Business Conditions Index ⁴ | | | |
|---------|--|--|------|------|-------|
| | | 2017 | Jan | Feb | March |
| 2017 Q1 | \$1,415.8 | Missouri | 53.7 | 66.8 | 66.6 |
| 2016 Q1 | \$1,346.1 | Kansas | 53.2 | 61.5 | 52.2 |
| 2015 Q1 | \$1,309.9 | Mid-America | | | |
| 2014 Q1 | \$1,273.6 | | 54.7 | 60.5 | 60.1 |

| Period | Unemployment Rate ⁵ | | Consumer Price Index ⁶ | | | |
|---------|--------------------------------|-----|-----------------------------------|-------|-------|-------|
| | '16 | '17 | 2016 | Jan | Feb | March |
| March | 4.7 | 4.3 | Midwest | 228.3 | 228.6 | 228.8 |
| Midwest | 4.7 | 4.3 | Midwest | 228.3 | 228.6 | 228.8 |
| U.S. | 5.0 | 4.5 | U.S. City Avg | 242.8 | 243.6 | 243.8 |

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FIRST QUARTER

2017

Continued....

everything on in the comfort of your own home, and simply send back anything that's not perfect, not to mention the idea that there is ALWAYS a sale online. Many of yesterday's apparel merchant darlings are struggling to differentiate themselves on style, price, or value and are losing to new specialized on-line merchants.

But what about the *opportunities* these current changes bring? Since many "garden variety" items are predictable and can easily be ordered on-line, does this create an opportunity for an existing grocery store to devote more store space to organic, locally sourced foods? Can this grocer now allot a larger part of the store to prepared foods at a lower price? Maybe the 35,000 square foot grocer competing against the 70,000 square foot grocer just got an advantage: A smaller space concentrating on perishables, organic, local and prepared foods ... Go ahead and let Amazon handle the rest.

Another niche of retailers have been successful in competing against on-line value by offering economical pricing for designer brands that change often, thus luring the customer back to the store for the "scavenger hunt" experience. Marshalls, TJ Maxx, Tuesday Morning, Ross and others have honed in on the bargain savvy customers and capitalized on the idea that you can find a true steal in their selection, and more importantly, it may not be here tomorrow!

Additionally, there are just certain things the internet can't do. The internet will never be able to cut your hair, strengthen your abs, or serve you a piping hot gourmet meal on dishes you don't have to clear away. Therefore, retail developers are beginning to seek tenant mixes that focus on "internet-proof" tenants like restaurants, hair salons, fitness centers, services and even medical or dental practices to bring people to their centers.

In the end, just like in every transition period before, retailers must continue to change and adapt to the desires of their customers. Ironically, this goes for on-line retailers as well. Many of the early on-line success stories are now seeking brick and mortar locations to supplement and enhance their brand and presence. Meanwhile, brick and mortar retailers must either create an incredible experience or incredible convenience (or both) to remain relevant in the existing climate.

When will this all end? Technology and innovation will forever continue to surprise us, changing our expectations and blowing our minds, delivering items and making our lives "easier" in a way we can't even begin to contemplate. So when will this all end? *It won't.*

Owen Buckley, President

VISIT LANE4 at ICSC ReCON!

South Upper Hall #276R • Corner of R Street and 27th Ave.
• In the XTEAM Booth •

May 22 - 24, 2017 • Las Vegas

About LANE4 Property Group

LANE4 provides its clients the best position from which to succeed. The firm offers an 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 | March '16 | March '17 | % Chg |
| Cass County, MO | \$175,679 | \$206,544 | 17.6% |
| Clay County, MO | \$186,387 | \$192,341 | 3.2% |
| Jackson County, MO | \$164,985 | \$180,760 | 9.6% |
| Platte County, MO | \$237,496 | \$287,627 | 21.1% |
| Johnson County, KS | \$279,852 | \$308,510 | 10.2% |
| Leavenworth County, KS | \$202,020 | \$197,002 | -2.5% |
| Miami County, KS | \$219,646 | \$186,512 | -15.1% |
| Wyandotte County, KS | \$121,398 | \$129,171 | 6.4% |
| Kansas City Region | \$200,189 | \$217,014 | 8.4% |

| Residential Building Permits-YTD ⁷ | | | |
|---|--------------|--------------|-------------|
| County | March '16 | March '17 | % Chg |
| Cass County | 53 | 122 | 130% |
| Clay County | 254 | 323 | 27% |
| Jackson County | 537 | 378 | -30% |
| Platte County | 180 | 132 | -27% |
| Johnson County | 1034 | 717 | -31% |
| Leavenworth County | 45 | 67 | 49% |
| Miami County | 62 | 18 | -71% |
| Wyandotte County | 23 | 137 | 496% |
| Kansas City Region | 2,188 | 1,894 | -13% |

Giving Back

LANE4 makes a priority of supporting our employees and the causes they care about. This quarter, one of LANE4's employees chaired the American Cancer Society's First Annual Trivia Fundraiser at The Alamo Drafthouse. Thanks to a sold out crowd, the event raised over \$5,500 towards the fight against this devastating disease. LANE4 was proud to be a presenting sponsor of the event and looks forward to continuing to support this cause, as well as our employees.

The American Cancer Society is a nationwide, community-based voluntary health organization dedicated to eliminating cancer as a major health problem. Global Headquarters are located in Atlanta, Georgia, with regional and local offices throughout the country to ensure a presence in every community.

For more information about the American Cancer Society, visit www.cancer.org. For local happenings, check out our Facebook page at www.facebook.com/ACSKansasCity.


XTEAM
©2017 LANE4 Property Group, Inc.

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.