

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FOURTH QUARTER
2017

Amazon Monster Devouring Everything in its Path: No Retail Shall Survive!

Much was written and said about the state of retail in 2017. A new headline appeared almost every day reminding us that retail is dead, dying, or somehow otherwise a train wreck. While we are the first to acknowledge that the retail real estate sector is different than it was ten years, five years, or even just one year ago, we do think that the news about the imminent collapse of the retail sector has been a bit hyperbolic.

Amazon and the exponential growth of online sales is quickly and dramatically impacting the traditional brick and mortar retail sector. In addition, the rapid expansion of retailers over the last 20 years left an oversupply of shopping centers and the stores that fill them. In 2016, Macy's CEO Terry Lundgren pointed out that the US has 7.3 square feet of retail space per capita, versus 1.7 square feet per capita in Japan and France. Even in a world without the internet, we overdid it. Air needed to be let out of the bubble, and the emergence of the internet and Amazon has proven to be one heck of an accelerant.

In a culture where we like to pick winners and losers, "traditional" retail is the loser. Retailer bankruptcies and store closings were at an all-time high in 2017 and will continue. Increased numbers of shopping centers will become distressed, and we are likely to see a rise in foreclosures (particularly in a rising interest rate environment).

...Hey wait, this sounds pretty bad. You promised this wasn't all so bad....

It's not. Brick and mortar retail sales in 2017 still accounted for roughly 91% of total retail sales. Overall retail sales in 2017 were up 4.2% from last year. It's true store closures were at an all-time high, but at the end of the day there were more retail openings than closings in 2017. Holiday sales in particular, rose 4.9% over 2016, the greatest year-over-year jump since 2011. Furthermore, ICSC reported that more people visited shopping centers for their holiday shopping this year than last: 72% versus last year's 70%. The fact is, online sales are still growing, but that exponential rate is beginning to stabilize. We've heard the easy answers: despite all our technological advances, you still can't get a hair cut online, go out to eat, or meet a number of other everyday needs. Beyond that though, consumer surveys continue to provide reasons that brick and mortar retail is here to stay. Shoppers like to touch and feel products, we like to leisurely browse for something we don't know we want, we like to walk out of the store with our items in hand, and sometimes, we just want to get out of the house. We remain social creatures who enjoy entertainment and recreational experiences, shopping included.

The true retail winners in 2017, and looking forward, are the ones recognizing that the most successful online strategies are those that are married to smart

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 2016 & 2017- percentages. ²Emarketer.com. ³Future year data based on forecasting. 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. ⁸Home Builders Association of Greater Kansas City. Total units YTD as of December 2017.

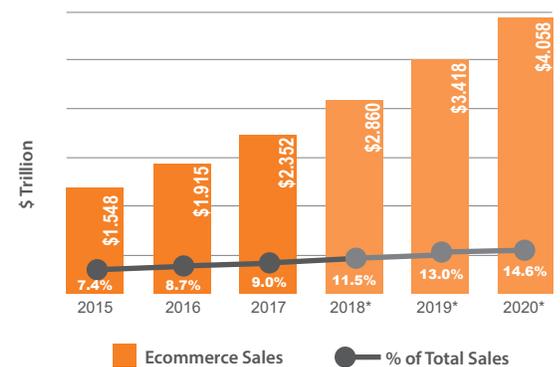
Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail ¹			
	Q4 2016	Q4 2017	% Chg
Total GLA (s.f.)	113,412,016	133,004,904	17.28%
Avg. Lease Rate	\$12.95	\$12.97	0.15%
Avg. Occupancy Rate	93.8	94.7	0.96%

KC's Largest Retail Lease Signings - 2017 Year End ¹		
Submarket	Tenant	Size (sf)
North Johnson County	Lowe's	165,000
Northeast Johnson County	Floor & Décor	81,322
South Kansas City	Discount Groceries and More	69,000

Avg. Total MSA Vacancy ¹		
Period	Vacancy Rate	Lease Rate
Q4 2017	5.3	\$12.97
Q4 2016	6.2	\$12.95
Q4 2015	7.7	\$12.56
Q4 2014	8.0	\$12.24

Retail Ecommerce Sales Worldwide²



National & Regional Trends

U.S. Food & Retail Sales ³		Business Conditions Index ⁴			
Period	In Millions	2017	Oct.	Nov.	Dec.
Q4 2017	\$1,478,492	Missouri	53.8	59.2	55.3
Q4 2016	\$1,401,443	Kansas	63.4	58.0	62.0
Q4 2015	\$1,351,881	Mid-America	58.8	57.2	59.0
Q4 2014	\$1,321,825				

Unemployment Rate ⁵			Consumer Price Index ⁵			
December	'16	'17	2017	Oct.	Nov.	Dec.
Midwest	4.7	4.0	Midwest	230.7	231.1	230.5
U.S.	4.7	4.1	U.S. City Avg	246.7	246.7	246.5

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brick and mortar strategies. While headlines about Amazon drones and blimps dropping packages on your doorstep offer exciting solutions to “last mile” logistical challenges, it is Amazon’s acquisition of Whole Foods that serves as an acknowledgement that even they need a brick and mortar presence. Across the Pacific, Alibaba, “the Chinese Amazon,” has invested as much as \$8 billion in brick and mortar retailing, acquiring stakes in everything from local supermarket chains to luxury malls. The largest brick and mortar retailer in the world, Walmart, parlayed its acquisition of jet.com in 2016 to 63% growth in online sales in a single year since the transaction. Whether it’s Amazon, Walmart, Alibaba or others, leading retailers seem to not be settling for “black” or “white” but instead finding a balance somewhere in the gray area that marries physical and online platforms.

When the dust settles, there will be no shortage of casualties in the retail sector. As with any change, some players will be affected more than others; some will adapt to the changes and emerge even stronger. While many of our shopping centers will be redeveloped, others will thrive as they offer the right kinds of solutions in a new shopping landscape. Some are yelling that the sky is falling while others are whistling past the graveyard and both are mistaken. Retail is not dead, but this is not business as usual; the truth is somewhere in the middle. As the new landscape comes into focus, here are the questions that we are working to answer: Who is going to survive and thrive? What can a shopping center do to ensure their seat at this table? How can properties that are functionally obsolete be redeveloped? What new uses can be introduced? In every disruption, there is opportunity.

Michael Berenbom, Vice President

This article was originally included in the 2018 Kansas City Retail Report published by LANE4. To download the full Retail Report, [click here](#).

Giving Back

For the third year in a row, LANE4 adopted three families from a nearby elementary school and surprised a total of seven children with bundles of gifts. These families were identified by school staff members who knew they could use a helping hand this holiday season.

LANE4 employees teamed up to purchase clothing, toys, games, and other items for the children and sent the gifts, along with stockings and giftcards for each of the families, to the school just in time for the holiday break.

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.

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.

Kansas City Housing

Average Home Price ⁶			
County	Dec. '16	Dec. '17	% Chg
Cass County, MO	\$193,991	\$229,893	18.5%
Clay County, MO	\$197,111	\$209,802	6.4%
Jackson County, MO	\$168,418	\$184,786	9.7%
Platte County, MO	\$255,346	\$282,938	10.8%
Johnson County, KS	\$306,494	\$323,058	5.4%
Leavenworth County, KS	\$212,505	\$200,983	-5.4%
Miami County, KS	\$215,914	\$268,284	24.3%
Wyandotte County, KS	\$127,332	\$133,978	5.2%
Kansas City Region	\$213,913	\$229,525	7.3%

Residential Building Permits - Year End ⁷			
County	2016	2017	% Chg
Cass County	598	687	15%
Clay County	1,548	1,144	-26%
Jackson County	2,311	2,085	-10%
Platte County	962	747	-22%
Johnson County	3,461	3,285	-5%
Leavenworth County	246	261	6%
Miami County	260	120	-54%
Wyandotte County	272	323	19%
Kansas City Region*	9,658	8,652	-10%

For. Your. Information.

2018 XTeam International Conference

in Denver, Colorado

Each year, the LANE4 brokerage team travels to the Xteam International Real Estate Conference. Hosted by rotating members, this year’s conference was held in Denver, Colorado and included firms from over 25 US and Canadian markets.

The conference includes speakers, open sessions, and presentations from various individuals representing different markets and aims to educate participants on trends and topics affecting real estate across the nation.

X Team is an international alliance of retail real estate specialists with offices located in major cities throughout the U.S., Canada and Europe. X Team partners average more than 20 years of industry experience, with expertise in major markets worldwide, specializing in tenant, property and developer/ landlord representation, workout services, property dispositions and retail investments. X Team services include transaction negotiation, portfolio analysis, lease valuations, acquisitions, and asset assessment and valuation. For more information, please visit www.xteam.net.



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