

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

THIRD QUARTER
2018

The Evolving Shape of the Restaurant Industry A Guide for Retail Property Investors

Restaurants, in some form, date back to ancient China and the Roman Empire. Their modern incarnation can be traced back to eighteenth century France. Today, they are a staple of everyday life and one of the world's most competitive industries. In May of 2015, US restaurant sales overtook grocery sales for the first time ever, a trend that has continued into 2018 according to the National Restaurant Association.

Like any highly competitive marketplace, evolution and change is the norm. Savvy retail property investors would do well to stay ahead of the trends shaping the future of the restaurant industry. These highly sought-after tenants give life and personality to a retail development. A good restaurant or two is the difference between a shopping center that is regarded as "part of the neighborhood," or merely a pitstop on the way to somewhere the consumer would rather spend their time.

Though restaurants have fared better in the digital age than their neighbors in the hard goods sector, restaurants are not immune to changing consumer preferences created by technology. Accordingly, the industry is finding innovative ways to keep up with ever-increasing consumer expectations for both convenience and quality, as well delivering a memorable "experience" to the consumer.

"Experience" is a word that you will hear thrown around a lot in any discussion of current day retail trends. Everyone from financial planners to department stores are striving to convince you, the consumer, to spend your precious time in their establishment instead of on your couch in front of your iPad. Full-service restaurants have a leg up here – a quality "experience" driven by excellent food, décor, and customer service has always been the core of their business model. While these fundamentals remain paramount, dine-in restaurants are competing harder than ever against a myriad of quick and convenient options. So how do these establishments convince consumers to dine at the real estate these restaurants pay so dearly for, instead of in front of Netflix in their living rooms?

Some ideas being implemented include open kitchens that let guests see how their food is being prepared, self-serve craft beer taps that give customers more control over their experience, and interior design elements that incorporate local flavor. Consumer demand for memorable experience is also fueling growth of certain restaurant archetypes. Catering to the public's growing embrace of "foodie culture," food halls offer patrons a variety of local dining options in a fun, social atmosphere with a common seating area. After gaining initial momentum in the nation's largest metros, these venues are now spreading to secondary and tertiary markets. Experts estimate over 200 total food halls to be in operation by the end of 2019. Forward-thinking developers are using food halls, both to anchor new projects, and to reinvigorate existing ones. Social dining is another growing restaurant format. Aimed at encouraging social interaction with strangers through elbow-to elbow seating in a communal setting, this model is finding a home in local, chef-driven eating establishments..

While some restaurants focus on "experience," much of the industry is being pulled in the opposite direction by ever-increasing expectations of convenience. The same consumers who seek a novel experience on Friday evening, are looking for the most convenient possible option on their Tuesday evening commute. Drive-thru, delivery,

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 2017 & 2018- percentages. ²Tracxn Food Tech Startup Landscape, July 2016 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

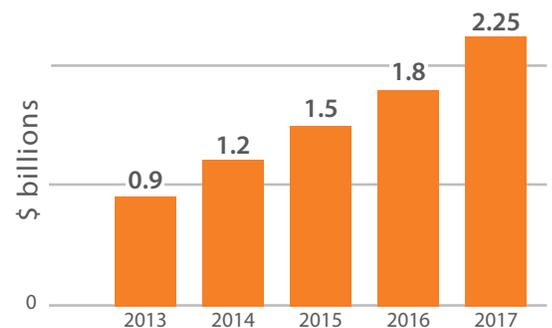
Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail ¹			
	Q3 2017	Q4 2018	% Chg
Total GLA (s.f.)	159,438,578	158,984,201	-0.28%
Avg. Lease Rate	\$12.37	\$13.55	9.54%
Avg. Occupancy Rate	93.8	94.7	0.96%

KC's Largest Retail Lease Signings - 2018 YTD ¹		
Submarket	Tenant	Size (sf)
95Metcalf South	Lowe's	165,000
3102 Prospect Avenue	Sunfresh	38,000
Twin Creeks Shopping Center	Ross Stores	25,243

Avg. Total MSA Vacancy and Lease Rate ¹		
Period	Vacancy Rate	Lease Rate
Q3 2018	5.3%	\$13.55
Q3 2017	6.2%	\$12.37
Q3 2016	6%	\$12.83
Q3 2015	7.6%	\$12.52

US DIGITAL FOOD ORDERS ANNUALLY² (\$, in billions)



National & Regional Trends

U.S. Food & Retail Sales ³		Business Conditions Index ⁴			
Period	In Millions	2018	July	Aug.	Sept.
Q2 2018	\$ 1,525,785	Missouri	56.4	56.5	54.8
Q2 2017	\$ 1,440,240	Kansas	60.5	60.2	56.9
Q2 2016	\$ 1,382,260	Mid-America	57.0	61.1	57.5
Q2 2015	\$ 1,349,162				

Unemployment Rate ⁵			Consumer Price Index ⁶			
September	'17	'18	2018	July	Aug.	Sept.
Midwest	4.1	3.6	Midwest	233.9	235.1	235.5
U.S.	4.2	3.7	U.S. City Avg.	250.5	251.6	252.0

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

THIRD QUARTER

2018

Continued....

and carry-out have all existed for decades, but they are only becoming more popular, aided in large part by modern technology.

Food delivery is evolving dramatically with the recent rise of mobile-app-based delivery services such as GrubHub, Door Dash, Uber Eats, Postmates, and a handful of others. A natural extension of ride-sharing services like Uber and Lyft, these apps are expanding delivery far beyond the world of pizza and Chinese food. In 2017, fast food titan McDonald's began testing delivery at 200 restaurants in Florida. Today, through partnership with Uber Eats, they offer delivery at 5,000 US locations and 12,000 locations worldwide – though they are reportedly having issues keeping fries warm. Similarly, Chipotle partnered with Door Dash in April to offer delivery at 1,500 of its 2,500 locations. Papa Murphy's, the bake-it-yourself pizza chain has been experimenting with delivery over the past 18 months and now offers delivery at over 400 locations, through a combination of third-party and in-house delivery.

Drive-thrus are only gaining relevancy and should be a top consideration when planning pad-site development. Long a staple of the fast-food franchise, more and more fast casual players are getting into the drive-thru game. Concepts such as Panera, Jimmy John's, and Starbucks are increasingly locating, and relocating, at sites that accommodate their drive-thru model. Starbucks recently reported plans to build out 80 percent of its 600 planned 2019 locations with drive-thrus. Many won't even have interior seating. The coffee giant reports that drive thru locations have 25-30% higher sales volume than those without. Fast casuals such as Raising Caine's and Potbelly have fully embraced the drive-thru concept as well. Even Chipotle, with its intense counter Q & A, is rolling out drive-thru prototypes; however, these drive-thrus will only accommodate meals that are pre-ordered through the chain's mobile app. The Mexican fast-casual leader is now prioritizing leases in spaces that can be adapted for drive thru use in the future, even if it is not part of the initial design.

Take-out service is on the rise as well. Most chain restaurants now have apps that allow customers to pre-order their food and either jump to the front of the line, or have their food brought out to their car. More and more restaurant leases contain provisions reserving parking spaces for "take-out only" customers.

As demand for delivery, take-out, and drive-thru service rise, restaurants can do more with less square footage. In the case of delivery, visibility and access become less important as well. This is bad news for landlords who, in recent years, have benefitted from intense competition among a wave of new fast casual concepts all vying for the same high-rent outparcels along busy corridors.

Moving forward, evolving consumer demands will have a polarizing effect on restaurant operations. On one end of the spectrum, full service restaurants have to become even more compelling destinations in order to compete for consumer's time. This translates into increased experimentation with restaurant layouts and formats, and higher demand for restaurant space in atmospheric and walkable neighborhoods. On the other end of the spectrum, many establishments will ramp up efforts to cater to convenience-oriented diners, resulting in a decreased demand for large foot-prints and increased demand for drive-thru capability and take-out accessibility.

Weston Buckley, Associate

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	Sept. 2017	Sept. 2018	% Chg
Cass County, MO	\$206,148	\$240,691	17%
Clay County, MO	\$207,437	\$222,036	7%
Jackson County, MO	\$188,458	\$191,319	2%
Platte County, MO	\$262,819	\$279,899	6%
Johnson County, KS	\$303,957	\$315,779	4%
Leavenworth County, KS	\$199,073	\$206,199	4%
Miami County, KS	\$166,491	\$231,161	39%
Wyandotte County, KS	\$140,236	\$151,354	8%
Kansas City Region	\$221,781	\$226,830	2%

Residential Building Permits - June YTD ⁷			
County	2017	2018	% Chg
Cass County	513	409	-20%
Clay County	920	736	-20%
Jackson County	1,675	2,335	39%
Platte County	366	405	11%
Johnson County	2,250	2,709	20%
Leavenworth County	186	211	13%
Miami County	82	82	0%
Wyandotte County	279	160	-43%
Kansas City Region*	6,271	7,047	12%

For. Your. Information.

ICSC Heartland Ideas Exchange

January 31, 2019 | Kansas City

Join us at the Sheraton Crown Center in Kansas City for this year's ICSC Heartland Ideas Exchange.

[CLICK HERE TO REGISTER](#)

Giving Back

LANE4 was proud to support Christmas in October this year. The mission of Christmas in October is to bring volunteers and communities together to improve the homes and lives of low-income, elderly, disabled and veteran homeowners.

Christmas in October started in 1984 with 200 volunteers working on 20 houses. Now in its 35th year, the event in Kansas City will work on 450 houses with more than 6,000 volunteers. Organizers say they are proud of and inspired by the volunteers who have responded with their time, talent and financial support to neighbors in need. In 1988, there were 13 programs like this one in the country. This year there will be more than 350, but Kansas City's is the largest program by far.

For more information, visit: www.christmasinOctober.org

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.



©2018 LANE4 Property Group, Inc.