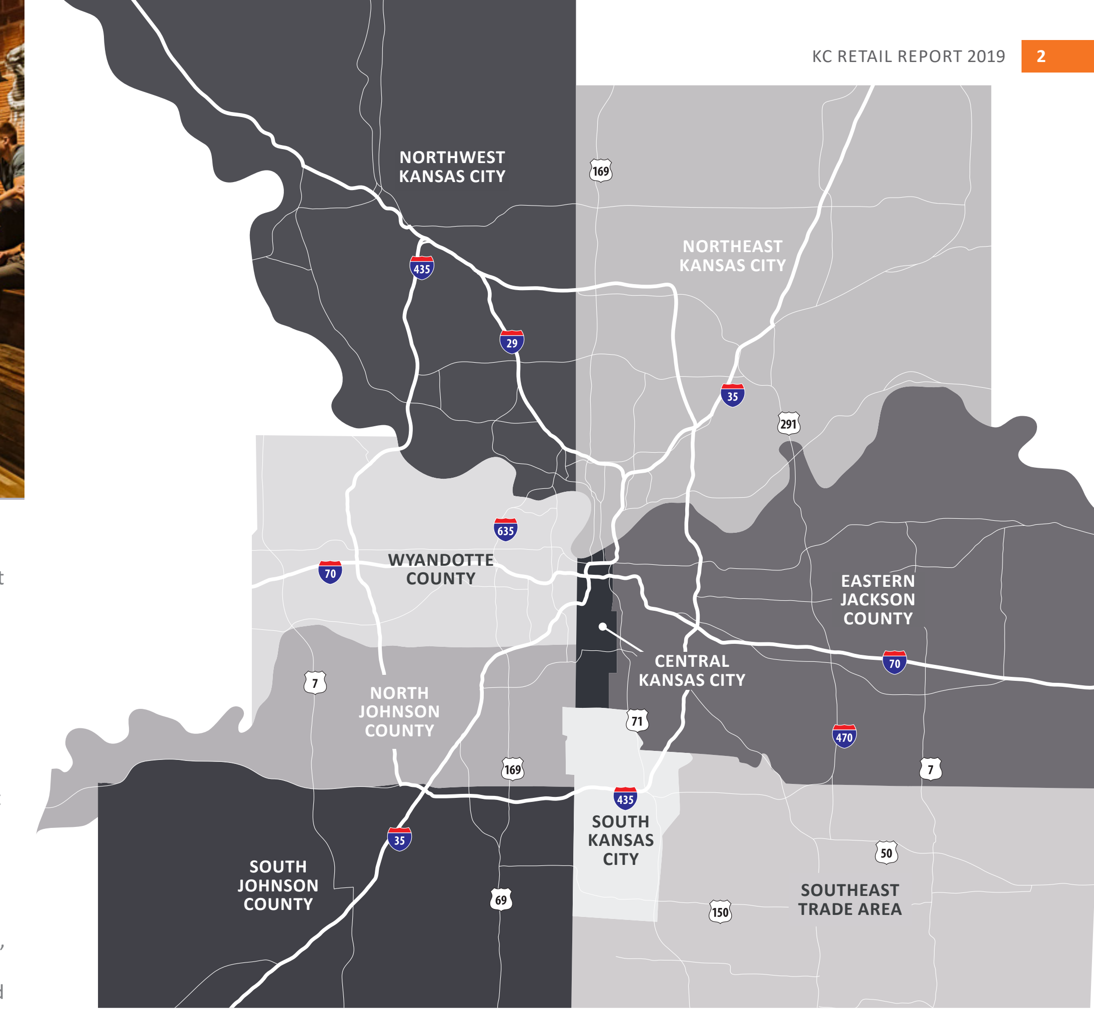
2019
KANSAS CITY RETAIL REPORT

LANE4
PROPERTY GROUP

Nordstom announced plans to close their store at Oak Park Mall in Overland Park and reopen their only store in the market on the iconic Country Club Plaza. Image Credit: Nordstrom

Kansas City's first food hall, Parlor, opened in September in the Crossroads District.



RECENT SUBMARKET ACTIVITY

The Kansas City retail market was steady in 2018 and is projected to continue to remain so in 2019. The near absence of new completions combined with the redevelopment of some functionally obsolete retail properties served to limit new supply. The total inventory of retail square footage increased by less than 0.5%.

The lack of new supply is serving to counteract the ongoing headwinds facing brick and mortar retail. Despite some store closings, the key fundamentals did not deteriorate in 2018, and, in fact, most key metrics improved marginally.

Across all of the shopping center types—community, lifestyle, neighborhood, power, and strip centers—occupancy rates ended the year hardly fluctuated from Q4 2017 figures. In fact, vacancy did not increase by more than 0.1% in any one of these center type so where there were some changes in occupancy, they were generally improvements in market conditions. The same is true of rental rates, which increased in every property type except for power centers.

The dynamics of power center fundamentals are particularly interesting. These centers are primarily occupied by soft goods retailers who are are particularly vulnerable to growing competition from online sales. Since 2017, occupancy rates improved from 94.1% to 94.5% but average lease rates collapsed nearly 20%. In 2018, power centers remained occupied and viable but decreasing rents contributed to deterioration of their values. Power centers are right on the fault lines of the retail disruption. It appears that they are adapting and surviving, but certainly not immune to the forces reshaping the retail world.

In 2019 and beyond, we expect this dynamic to continue. Demand is high for the best retail properties, from neighborhood centers to lifestyle. Obsolete centers—those located mid-block, poorly designed, or simply located in oversaturated areas—will continue to be redeveloped (in whole or in part) for alternative uses such as multifamily, office, medical and storage.

The biggest piece of retail news in 2018 was the announcement of Nordstrom's upcoming relocation from Oak Park Mall to the Country Club Plaza. This will simultaneously breathe new life in to the Plaza and pose a potentially existential threat to the future of Oak Park Mall. At its peak, there were eight enclosed malls in the Kansas City market. With Independence Center going in to special servicing in 2018, the last two survivors are both facing major crossroads.

As with so many things in our hyper-competitive economy, technology is forcing retail to become leaner and more efficient. The winners will continue to perform, but inefficient retailers and shopping centers will continue to struggle. The challenge for retailers, investors, developers and cities alike is sorting out which are which.

RELATIVE CHANGE FROM PRIOR YEAR	
OR OR	LR LR
OCCUPANCY RATE	LEASE RATE

NORTHWEST KANSAS CITY

OR -0.5% LR 10.3%

While the Northwest submarket maintains a healthy occupancy rate, a few more large big box spaces just hit the market . Hen House recently closed their 62,000 store at I-29 & 64th Street. Kmart closed their 84,000 sf store at 72nd & I-29 right after the first of the year. The Marshall's/HomeGoods space at Zona Rosa remains vacant as well.

Zona Rosa itself has been an interesting case to watch recently. Last year, we reported that the lifestyle center was showing continued signs of stress. Those struggles led to Olshan Properties defaulting on debt obligations in 2018. As a result, Fort Worth based Trademark reportedly purchased the 1M sf property in September. Originally opened in 2004 with an occupancy rate of over 85%, the centers vacancy rate was near 35% by some reports over the last year.

Zona Rosa is fundamentally good real estate (strong location at I-29 & Barry Road in a solid trade area). The challenges going forward for the new owners include overcoming changing consumer buying patterns, low occupancy and ever-increasing competition, both online and traditional. Trademark is an experienced owner/operator of mixed use developments and will likely add a hotel and multi-family component to the project along with additional retail and restaurant offerings.

NORTHEAST KANSAS CITY

OR 1.0% LR 18.6%

Similar to its western counterpart, Northeast Kansas City has a handful of vacant boxes of its own. Toys R Us, Babies R Us, Sears, Kmart, and Dick's Sporting goods all sit vacant through out this submarket.

The Twin Creeks development at the NWC of Hwy 169 & Barry Road continues to gain momentum. Ross Stores opened 25,000 sf in October followed by ULTA with 10,000 sf in November. Petco & Spectrum Communications will open in the spring. A multi-tenant outparcel building is under construction and slated for completion in the late summer. Developers are hoping to announce additional new tenants soon, including a restaurant and new junior anchors.

A "short drive" away, ground has been broken for T-Shotz – a 50,000 sf state of the art driving range, restaurant and entertainment facility on the former Metro North Mall site. Additional phases of the project include 250 market rate apartments and 30,000 sf of retail space.

The Liberty, MO submarket remains one of the strongest in the metro. Liberty based B&B Theaters opened a 56,000 sf 12-screen high tech theater in June, which includes a full-service restaurant featuring live jazz six days a week. Liberty remains an incredibly hard market to enter due to sheer saturation. A new project is underway by locally based Star Development. The Valley View Shoppes, located across Hwy 152 from Sprouts Farmers Market, will include several multi-tenant retail buildings and outparcels. Two of the larger vacancies in Liberty were quickly backfilled in 2018, Gordman's at Liberty Commons and the former Fresh Market at Hwy 152 & Flintlock were re-leased to Hobby Lobby & Lukas Liquor, respectively.

CENTRAL KANSAS CITY

OR 0.6% LR 26.3%

The biggest news to hit central Kansas City, and arguably the entire metro, was the announcement of Nordstrom moving from its longtime home at Oak Park Mall to the space occupied by Cinemark theatres and what is currently a parking garage at the iconic Country Club Plaza. The new store will be smaller, totaling 122,000 sf. Expected opening for Nordstrom is 2021 and requires quite a bit of shuffling other stores to make room including relocating Tesla, Capital Grill, Bank of America and the customer service office to other spaces on the Plaza. The Jack Henry Building, located on the Plaza but under separate ownership, was sold and a major redevelopment is planned. At more than 60,000 sf, this project represents the largest retail centric redevelopment not owned by the Macerich/Taubman partnership which controls the Plaza. Other new tenants to the Plaza in 2018 include Shake Shack, Made in KC Marketplace, Baldwin Market, True Foods Kitchen, Alter'D State, and Untuckit. Conversely, some long-time plaza retailers have shut their doors including Williams Sonoma, Zoom Toy Store, The Gap, Burberry, Plaza III, and St. Johns.

The Crossroads district continues its booming growth with new multifamily and hotels popping up faster than one can count. Kansas City's first food hall, Parlor, opened with a bang in the East Crossroads as one of many new restaurants added to the urban core. All this activity is triggering strong property value appreciation and high barriers to finding new development opportunities. Because of this new supply, multifamily and hospitality occupancy and rental rates are seeing softness in the Crossroads/Downtown area for the first time since emerging from the recession.

The approved extension of the street car from the Crossroads to the Plaza will help bring vibrancy to the midtown corridor which has not seen the same amount of development experienced over the past decade as other parts of Kansas City. Streetscape improvements and new retail and restaurants are already starting on this stretch of Main Street in hopeful anticipation of more traffic when the expansion is completed in 2023.

SOUTH KANSAS CITY

OR -0.1% LR 0.0%

Cerner continues to develop its $4.45 billion expansion of the Innovations Campus located at I-435 & Bannister Road, drawing positive growth for this previously blighted area and stimulating additional investment into the submarket.

Redevelopment of infill shopping centers has been successful in this sector with examples like Red Bridge Shopping Center, State Line Shopping Center and the continued transformation of Ward Parkway Center.

The redevelopment of Red Bridge Shopping Center was completed in 2017 and continues to expand it's tenant line up. Occupancy was at 45% in 2017, and is now near 95%. Blue Moose, Crow's Coffee, and Caleb's Kitchen all opened in 2018, and Brookside Barrio announced plans to open this coming year. Wonderscope Children's Museum is in the midst of a capital compaign to fund the new facility planned for Red Bridge, and hopes to open by the end of 2019. What once was a tired old shopping center is now a hub for neighbors and nearby employees to gather.

State Line Shopping Center, a formerly drab strip center at 103rd and State Line Rd., has been given new energy with the addition of a high-end electric car dealership (in a creative reuse of the Office Max space), Chipotle & Panera Bread. The entire center has been renovated and refaced and will be completed in early 2019.

Though the majority of Ward Parway's transformation took place several years ago, the new restaurant pavilion portion was completed and opened in late 2017/early 2018. The unique take on a common, outdoor space shared by a handful of cohesive restaurant concepts seems to be doing well so far. Restaurants include Charleston's, The Garage, Midici Pizza and most recently opened Hurts Donuts.

Finding investment opportunities will continue to be a challenge in this submarket. Ask The Barstow School, who announced that they will purchase the former Hy-Vee grocery store at 12200 State Line Road, which they intend to use as an additional campus space. A creative way to accomplish expansion in a generally tight part of town.

SOUTHEAST TRADE AREA

OR -1.0% LR 6.5%

The established Lee's Summit trade area continued to grow in 2018 and has a couple of exciting new projects on the horizon. The intersection of MO-291 and I-470 has been firmly established as the epicenter for retail in this market, thanks to the twin projects of SummitWoods Crossing and Summit Fair that were developed in the mid-2000s. It's not surprising that the two most ambitious upcoming projects will flank this area on the east and west.

> *"Obsolete centers - those located mid-block, poorly designed, or simply located in oversaturated areas - will continue to be redeveloped for alternative uses..."*

Summit Orchards is planned at a site just east of Summit Fair along Chipman Road. The new project is separated from Summit Fair only by the Summit Technology Campus, which houses nearly 5,000 employees and students. The new retail development will feature 117,500 sf of leasable square footage in a traditional power center layout anchored by several junior boxes. Current site plans show HomeGoods, Aldi, Ross, and Five Below as anchors. Buffalo Wild Wings, First Watch, Lion's Choice, and Raising Cane's are planned outparcel tenants. Groundbreaking is expected in 2019.

To the west of SummitWoods Crossing, on the southwest quadrant of I-470 and Pryor Road, developers are busy planning a 68-acre mixed use project called "The Streets of West Pryor." A 63,000 sf McKeever's Market and Eatery will anchor this ambitious project, along with two planned hotels, a proposed medical office building, and approximately 385 market rate and age-restricted apartment units. The site will offer approximately 60,000 sf of restaurant/retail located on the development's several pad sites, in addition to several retail spaces on the first floor of the planned apartment buildings.

In 2018, the Belton/Raymore submarket witnessed five new junior box openings. Marshall's, Petco, Party City, and Five Below all opened their doors last March at the second phase of the Belton Gateway project, followed in July by Ross. The new tenants join Belton Gateway phase 1 anchors Academy Sports and Hobby Lobby at the power center located off the highway interchange of I-49 and Hwy Y. Elsewhere in Belton, a 50,000 sf Furniture Deals held its grand opening in September on the Southwest corner of Hwy 58 and I-49.

Independence Center in Independence, MO faces an unclear future as new owners take over, but reports of financial troubles still loom.


Avenue80 was the first of several new mixed-use developments to open in the downtown Overland Park area.

EASTERN JACKSON COUNTY

OR 0.2% LR -3.2%

The fate of Independence Center, Independence's regional indoor mall, remains uncertain after title was transferred from Simon Property Group to a special servicer in February of 2018. Since coming on board, Independence Center's new operator, Pacific Retail Capital Partners has been working to revitalize the enclosed mall. Pacific's plans to rejuvenate the center include bringing back community engagement events and a focus on leasing to local tenants. However, it was reported that the appraisal value for the collateral underlying the mall's loan dropped again in fall of 2018. The mall, anchored by Macy's, Dillard's, Sears, and Dick's Sporting Goods, is one of only two remaining true indoor malls in the Kansas City Metro. Directly across the street, Independence Commons continues to thrive in an open-air power center format, featuring anchors Kohl's, Best Buy, Barnes & Noble, and AMC theatres.

After opening in 2017, the Menard's on the Northwest corner of Little Blue Parkway and I-70 has witnessed significant activity on its pad sites over the past year, including a couple of new-to-market concepts. Lion's Choice, a fast food concept out of St. Louis specializing in roast-beef sandwiches, joined QuikTrip and DQ Grill and Chill at this location in November of 2018. Another new-to-market concept, Black Bear Diner, is planning a late 2019 opening. Black Bear Diner serves comfort food in a family-oriented sit-down environment and has 118 locations nationwide.

NORTH JOHNSON COUNTY

OR -3.9% LR 11.5%

Johnson County, both North and South, have been a hotbed for development and activity for many recent years, and especially so in 2018. Much of the development in North Johnson County has come in the form of infill development and redeveloping older retail centers. Mixed-use and multifamily projects are leading the charge in the area, and despite common themes of development delays and friction with the governing municipalities, quite a few projects made significant progress in 2018. Notably, the long-awaited Mission Gateway project at Shawnee Mission Parkway and Johnson Drive finally began construction in October after nearly a decade of delays and difficulties. The first phase featuring 170 market rate apartments and retail space is slated for completion in spring of 2020. Additional phases will include two hotels, a 75,000 sf office building and a food hall concept by celebrity chef Tom Colicchio.

Several mixed-use and multifamily projects are also in various stages of development in Downtown Overland Park: Avenue 80 is now open; The Market Lofts, The Vue, and Avenue 81 are under construction. The Edison and 82 Metcalf, both office with retail projects, are under construction as well. In total, the new developments bring over 625 residential units and 160,000 sf of office space to the Downtown area in under two years. Just south of Downtown, the first phase of the Promontory was completed, featuring 290 residential units. In total, the project will include 420 residential units and over 153,000 sf of retail and restaurant space, replacing the tired retail center that currently sits on the site.

KANSAS CITY METRO SHOPPING CENTER SURVEY

SUBMARKET	% OF TOTAL SURVEYED	TOTAL SQUARE FEET*		OCCUPANCY RATE		AVG LEASE RATE	
		2017	2018	2017	2018	2017	2018
Northwest Kansas City	6%	4,400,458	4,400,458	94.9%	94.4%	$14.55	$16.06
Northeast Kansas City	10%	7,210,069	7,309,769	91.3%	92.3%	$12.42	$14.74
Central Kansas City	13%	9,539,006	9,584,006	96.5%	97.1%	$12.44	$15.72
South Kansas City	6%	4,396,933	4,369,933	86.5%	86.4%	$12.52	$12.52
Southeast Trade Area	8%	5,750,752	5,750,752	94.1%	93.1%	$13.15	$14.01
Eastern Jackson County	16%	11,083,125	11,083,125	90.2%	90.4%	$11.30	$10.93
North Johnson County	17%	11,633,478	11,820,500	94.3%	90.4%	$12.53	$13.98
South Johnson County	19%	13,252,928	13,292,928	92.6%	94.4%	$16.67	$16.30
Wyandotte County	5%	3,775,172	3,775,172	94.4%	94.1%	$8.35	$7.91
TOTAL SURVEY AREA	**100%**	**71,041,921**	**71,386,643**	**92.9%**	**92.7%**	**$12.66**	**$13.57**

**Trade area definitions may have changed from previous year.*
Source: Data provided by LANE4 Research and third-party sources, current as of December 2018. Survey includes all retail space located within a submarket and covers all shopping center types. Lease rates represent average quoted pricing per designated trade area in the Kansas City Metropolitan Market.

One of the area's well-known retail centers, Ranchmart North, is set to be redeveloped at 95th and Mission. Some of the existing structure will remain, while other parts are being demolished to make room for two new commercial buildings with second story office. Incentives will be needed to make the project sustainable, and Price Chopper has announced it will stay as the center's anchor. To the west, at 95th and Metcalf, Lowe's Home Improvement opened on the former site of Metcalf South Mall. Additional development on the site is under construction including small shop retail buildings and an announced Andy's Frozen Custard. Developers are also moving forward with plans for a 134-unit independent senior living concept on the back portion of the site. Major news was made on the northeast corner of the intersection when Shamrock Trading Corp. purchased 34 acres and announced plans to expand their world headquarters and add over 1,000 jobs in the next five years.

Lenexa City Center, substantially completed in 2017, continues to attract additional development to the area. Sonoma Plaza is well underway on the southeast corner of I-435 and 87th street, filling in the last vacant quadrant of the intersection. A McKeever's grocery store has begun construction on the site, and additional retailers are expected to be announced soon. The development will also bring 320 residential units in multiple buildings.

Oak Park mall remains the dominant of the two indoor malls left in the Kansas City market. The mall is reportedly performing well, despite news that major anchor Nordstrom will be leaving in 2021 when it moves it's only store in the market to the Country Club Plaza. More activity seems to be occurring in the area surrounding the mall rather than inside. Orchard Corners has been a desired location for national junior box tenants at the intersection of 95th & Quivira for some time. In 2018, Michaels signed a long-term lease relocating their 95th and Metcalf location to the former Gordman's space. It joins TJMaxx and HomeGoods, which both opened late last year.

SOUTH JOHNSON COUNTY

OR 1.8% LR -2.2%

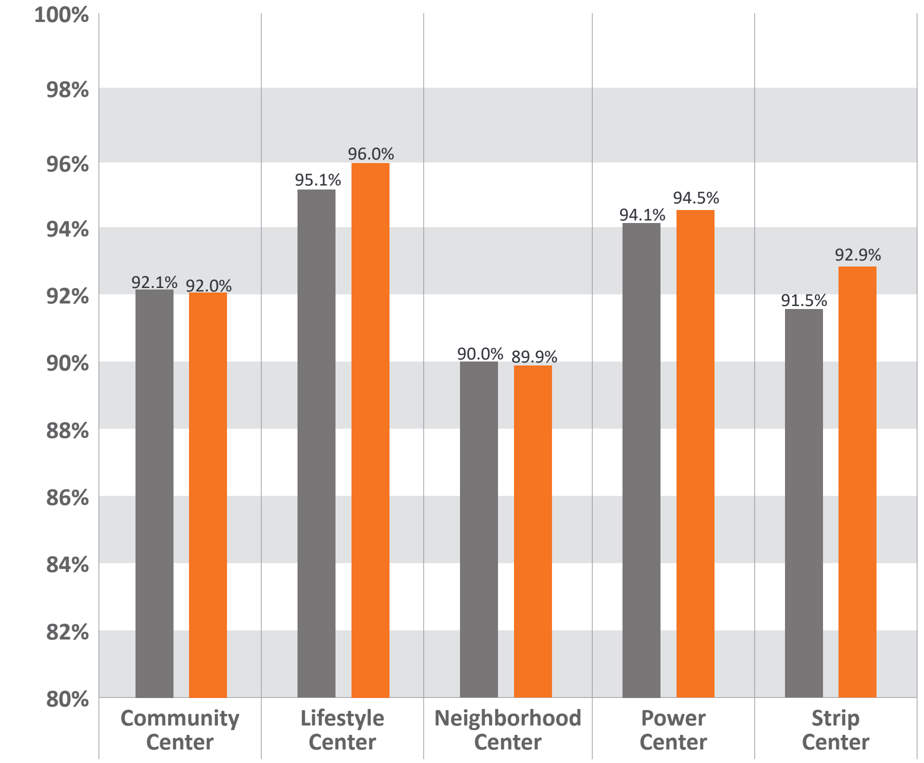
South Johnson County stands strong as the dominant retail submarket in the Kansas City Metro. The 119th and Roe intersection is arguably the number one corridor in the market, flanked by high-end shopping centers and flagship retailers on all corners. In 2018, occupancy remained exceptionally high and left little room for much tenant activity. Diamonds Direct completed construction of their 5,565 sf freestanding building on the northeast corner and opened late in the year. Dean and Deluca, the long-time occupant of a freestanding building on the northwest hard corner closed in early 2018, leaving an ultra-prime piece of real estate available. As of yet, no plans have been announced for a new tenant.

As mentioned earlier, Johnson County has seen a boom in multifamily based mixed-use projects. Galleria 115 is

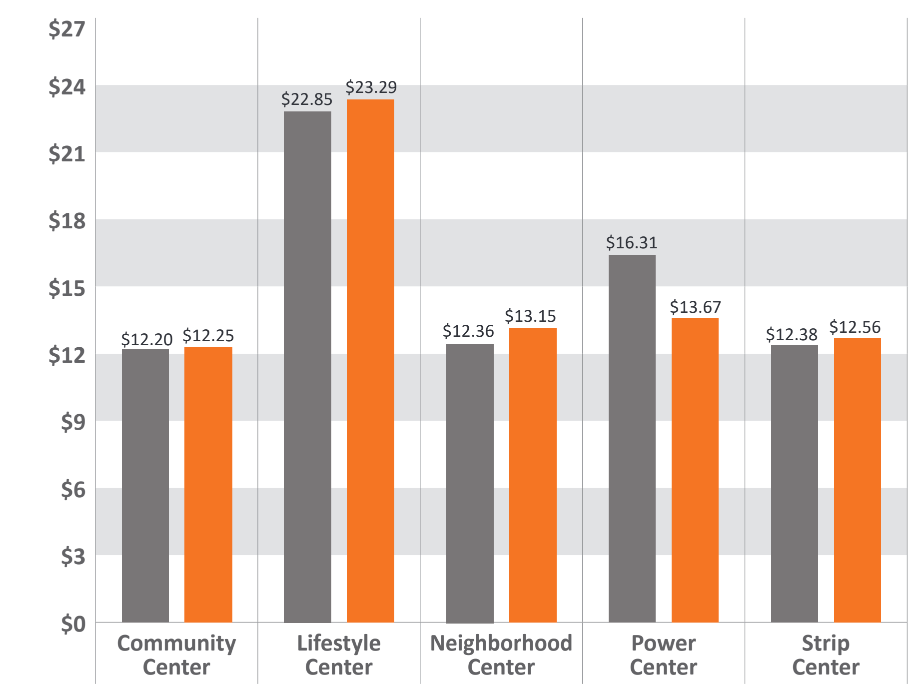
KANSAS CITY METRO SHOPPING CENTER PERFORMANCE

Q4-2017 Q4-2018

OCCUPANCY RATE BY SHOPPING CENTER TYPE



AVG. LEASE RATE BY SHOPPING CENTER TYPE



Data provided by LANE4 Research and third-party sources, current as of December 2018. Survey includes retail space located in specified shopping center type.

LANE4

Mission Gateway, at the intersection of Shawnee Mission Parkway and Johnson Drive, began construction after nearly a decade of development delays. The first phase which will feature 170 market rate apartments and retail space is slated for completion in Spring of 2019.

a prime example proposed for the northwest corner of 115th and Nall. Built in two phases, the project will include 548 luxury apartments, office space and high-end retail and restaurants. These types of projects continue to exude the live, work, play environment that municipalities seem to be pursuing.

The highly-regarded Sprint Campus sandwiched between the 119th corridor and Galleria 115 is adapting with the times. With 254,482 sf of office space available, they've announced that the WeWork concept will be taking a portion of their vacancy and furthering the discussion as to whether coworking spaces will continue to thrive.

Elsewhere in southern Johnson County, we've seen both execution of new mixed-use developments and discussion of proposed future projects. BluHawk, at 159th Street & Hwy 69, continues to make progress on their retail and office development; however, we have yet to see the proposed sports venue, hotel and outlet shopping components come to fruition. To the west, the planned redevelopment of the former Great Mall of the Great Plains, called Mentum, includes many of the same aspects we've yet to see at Bluhawk. It will be interesting to watch both projects in the coming year.

WYANDOTTE COUNTY

OR -0.3% LR -5.2%

Wyandotte County's largest retail district, Village West, played host to a plethora of activity in 2018. New tenants to join the Legends Outlets include HomeGoods, Kate Spade, Michael Kors, True Religion Rack Room Shoes, Journeys, and The Dapper Donut. Just south of the Legends and Village West area, Village South developers announced that a 231-room, 10-story Hard Rock Hotel will anchor the development, a change from the original two-hotel plan. The Hard Rock will include a ground floor restaurant, rooftop bar, and 39,000 sf conference center. Sporting Kansas City also continues to help shape the landscape of the Village West area, opening both the Children's Mercy Sports Medicine Center, in partnership with Children's Mercy Hospital, and the US Soccer National Development Center this year. The state of the art developments continue to spur additional retail and restaurant activity in the area.

Moving east, Wyandotte County will welcome the Kansas City area's fifth Menards store, expected to open in early 2019, at 98th and State Avenue. The Merc, a Lawrence based co-op grocer, will open a new location in downtown KCK at 5th and Minnesota. The Merc is focused on providing fresh and locally grown foods, and also offers prepared foods for breakfast, lunch and dinner.

LOOKING FORWARD TO 2019

Heading in to 2019, the biggest concern for the Kansas City retail market is the same as it is in every other corner: the overall economy and the potential for a recession. Despite continued economic growth and low unemployment in 2018, signs began to emerge in the latter half of the year that a slowdown may be forthcoming. Short of the market being impacted by these larger forces, the retail market is expected to hold steady as limited new supply and the redevelopment of obsolete retail properties offset further retail bankruptcies and limited demand from new tenants.

TAXABLE SALES BY COUNTY ($M) *(Ranked by 1st Half 2018)*

COUNTY	2016		2017		% CHANGE TOTAL YEAR '16 - '17	2018	% CHANGE 1ST HALF '17 - '18
	1ST HALF	2ND HALF	1ST HALF	2ND HALF		1ST HALF	
1. Johnson, KS	$5,296	$5,682	$5,353	$5,795	2%	$5,475	2.3%
2. Jackson, MO	$4,773	$4,986	$4,864	$4,926	1%	$4,844	-0.4%
3. Clay, MO	$1,541	$1,659	$1,589	$1,794	6%	$1,734	9.1%
4. Wyandotte, KS	$1,094	$1,190	$995	$1,229	-3%	$1,152	15.8%
5. Platte, MO	$803	$857	$824	$875	2%	$864	4.8%
6. Douglas, KS	$778	$842	$799	$854	2%	$802	0.4%
7. Cass, MO	$519	$563	$542	$558	2%	$558	2.9%
8. Leavenworth, KS	$307	$326	$317	$336	3%	$328	3.2%
9. Miami, KS	$152	$167	$155	$167	1%	$162	4.6%

Source: Kansas Department of Revenue and Missouri Department of Revenue.

RESIDENTIAL REAL ESTATE PERFORMANCE

Number of **NEW** Privately-Owned, Housing Units *(Ranked by % Change from 2017-2018)*

MAJOR CITIES	2014	2015	2016	2017	2018*	% CHANGE 2017-2018	5 YEAR ANNUAL AVERAGE
1. Independence, MO	936	1,486	1,227	827	2,453	197%	1,386
2. Lenexa, KS	273	184	223	228	440	93%	270
3. Lee's Summit, MO	201	190	175	215	238	11%	204
4. Raymore, MO	2,734	3,129	3,340	2,366	2,239	-5%	2,762
5. Kansas City, KS	571	522	527	775	623	-20%	604
6. Shawnee, KS	159	141	217	281	216	-23%	203
7. Blue Springs, MO	481	154	245	297	201	-32%	276
8. Olathe, KS	502	675	790	954	644	-32%	713
9. Kansas City, MO	64	107	83	255	162	-36%	134
10. Overland Park, KS	639	289	317	836	384	-54%	493
KANSAS CITY METRO	**8,207**	**8,954**	**10,063**	**10,027**	**11,652**	**16%**	**9,781**

**2018 based on annualized rate through October, data is not seasonally adjusted. Source: US Census Bureau. Kansas City Metro: New Privately Owned Housing Units Authorized, Unadjusted Units by Metropolitan Area. City & County: Annual New Privately-Owned Residential Building Permits, Unit estimates with imputation.*

2019 RETAIL TRENDS

A LOOK AT THE FACTORS AFFECTING THE RETAIL INDUSTRY IN THE COMING YEAR

THE RETAIL "APOCOLYPSE"

"When is the retail apocalypse coming?" you ask. Keep waiting. Many of the news outlets are citing the end of retail as we know it, and they are right in many respects. Only, it's not dying...the retail industry is getting smarter and that is ultimately being driven by the consumer. There may not be as many large-scale, ground-up retail developments under construction as there were before the recession, but there is still a very active retail market. In this case the revival is being driven by technology, and the repurposing of older buildings in infill markets.

Over the last few years the most active tenants backfilling vacancies have been restaurants, fitness/wellness uses, entertainment venues, financial services, and medical/urgent care facilities. The common thread to these categories is that they are internet resistant in many respects.

As we find ourselves entering a new year, the following topics are sure to be storylines into 2019 and beyond.

TECHNOLOGY'S IMPACT

Retailers and landlords alike are looking for new ways to differentiate themselves from their competition, and one of the best ways to accomplish that today is embracing new technologies. Obviously, the internet has had a tremendous impact on consumer habits, but the influence of technology goes way beyond online sales. Quite simply, there is more data out there today to help influence smarter decisions. Real estate investors have become accustomed to, and expect, more data to prove an investment thesis. Retailers are changing the ways they appeal to consumers based on massive amounts of consumer data, and consumers expect a combination of experience and convenience provided by new emerging technologies.

A direct result of the rise in internet sales, retailers have been reducing their footprints for a more efficient use of space. This has affected how landlord's plan their investment strategies, and how tenants define their real estate criteria. Over the last few years, retailers have been forced to decide between investment in technology to increase their web presence, versus investment in their brick and mortar stores.

We will continue to see the use of apps and other marketing tools to improve in-store and online experiences to solidify market share. While the internet has pulled sales away from brick-and-mortar locations, other technologies have improved sales by providing better in-store experiences, rapid pick-up, and 'last mile' deliveries. This combines the ease of internet shopping with the experience provided by a physical location.

DAVID VS GOLIATH

In the battle between publicly traded retailers, and small 'mom and pop' tenants, the tables have been leaning in favor of the latter for the last couple years after decades of control by the 'big guys'. We are seeing an equilibrium as it is common to see more local tenants opening for business in centers that have traditionally been occupied by tenants with corporate credit. Landlords have found value in the unique experiences provided by mom and pop retailers to shake up a center's tenant mix.

INFILL MARKETS

Infill markets, which are located in built-up areas with few large tracts of developable land, will continue to see activity in 2019 and beyond as they have over the last few years. The central Kansas City submarket has seen a significant amount of growth led by ground up multifamily developments which are, in turn, strengthening retail opportunities. This trend is consistent across the county in second tier cities as residents look to move out of major metropolitans like NYC, San Francisco, and LA, into more affordable urban areas that host the amenities of a big city, but on a much smaller scale.

'CAUTIOUS PESSIMISM?'

In direct opposition to previous Retail Reports that cited 'cautious optimism,' we are now seeing 'cautious pessimism' to a certain degree. Rather than seeing investors trickle back into the retail markets as we pulled out of the Great Recession, real estate professionals are now starting to feel that we may have reached the top of an economic cycle. Transaction volumes remain strong, but many decision makers are waiting to see how interest rates and rising construction costs will squeeze profit margins.

With three interest rate increases in 2018, and the expectation for more in 2019, most investors are preparing for the impending hikes and a softening of the economy. Depending on the asset class, cap rates are generally starting to increase to absorb the higher cost of capital.

2019

KANSAS CITY RETAIL REPORT

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