2011 KANSAS CITY RETAIL REPORT

A SNAPSHOP OF THE KC METRO MARKET

LANE4 PROPERTY GROUP

Power and Light District
Kansas City, MO

Briarcliff Village
Kansas City, MO

New Longview
Lee's Summit, MO

TRADE AREA OVERVIEW

Landlords, tenants, developers, investors and financiers who were looking for a "reset" year in 2010 will have to wait a while longer. Instead of hitting bottom, cleaning out the system of weak assets, establishing more workable cost basis platforms and beginning a strong financial climb, Kansas City retail real estate continues to follow the national trend of "extend and pretend." Although the decline in property values and rent rates appears to have slowed, there are still enough imbalances in the system (tenants that can achieve historically low rents vs. landlords who are able to hang on to their properties but cannot afford to lock into long-term, low lease rates) to prevent a quick rebound to healthy levels. As such, new development and construction has virtually halted.

Retail activity in most sectors of the Kansas City Metropolitan Area involves completing and filling already existing projects. Flight to quality continues, as the best positioned and most attractive centers still command nearly pre-recession lease rates and occupancy levels; while centers that might miss the mark by only a few blocks struggle to retain existing tenants and find it difficult to attract new retailers. We are experiencing heightened activity generated by retailers who are new to or expanding within the Kansas City metro, leading to fierce competition between landlords and developers to capture A+ opportunities.

Emblematic of the development slowdown in 2010-2011, a local champion of new commercial construction, Overland Park, has recently reduced two planning commission meetings per month to one.

Credit for landlords is easing somewhat; but similar to the leasing market, there is a continued flight to quality among lenders. Well positioned and stable centers can take advantage of extremely low interest rates and loan-to-value ratios that are significantly higher than last year. For lesser centers, loans may only be refinanced at their expiration with major injections of equity coupled with substantial rate increases.

With the notable exception of "A" quality projects (many of which are described here), Kansas City's retail landscape in 2011 will continue to include a majority of centers with higher vacancy and lower rents than had become the norm over the past decade, coupled with the challenges of financing, upkeep, and tenant mix that follow such an imbalance of market forces. Many of today's successful projects were brought to fruition with the assistance of substantial public incentives—a trend we see not only accelerating, but also becoming the "new normal" for future development. To illustrate this point, we highlight centers in this report that utilize some form of public incentives with an asterisk (*).

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

NORTHWEST KANSAS CITY

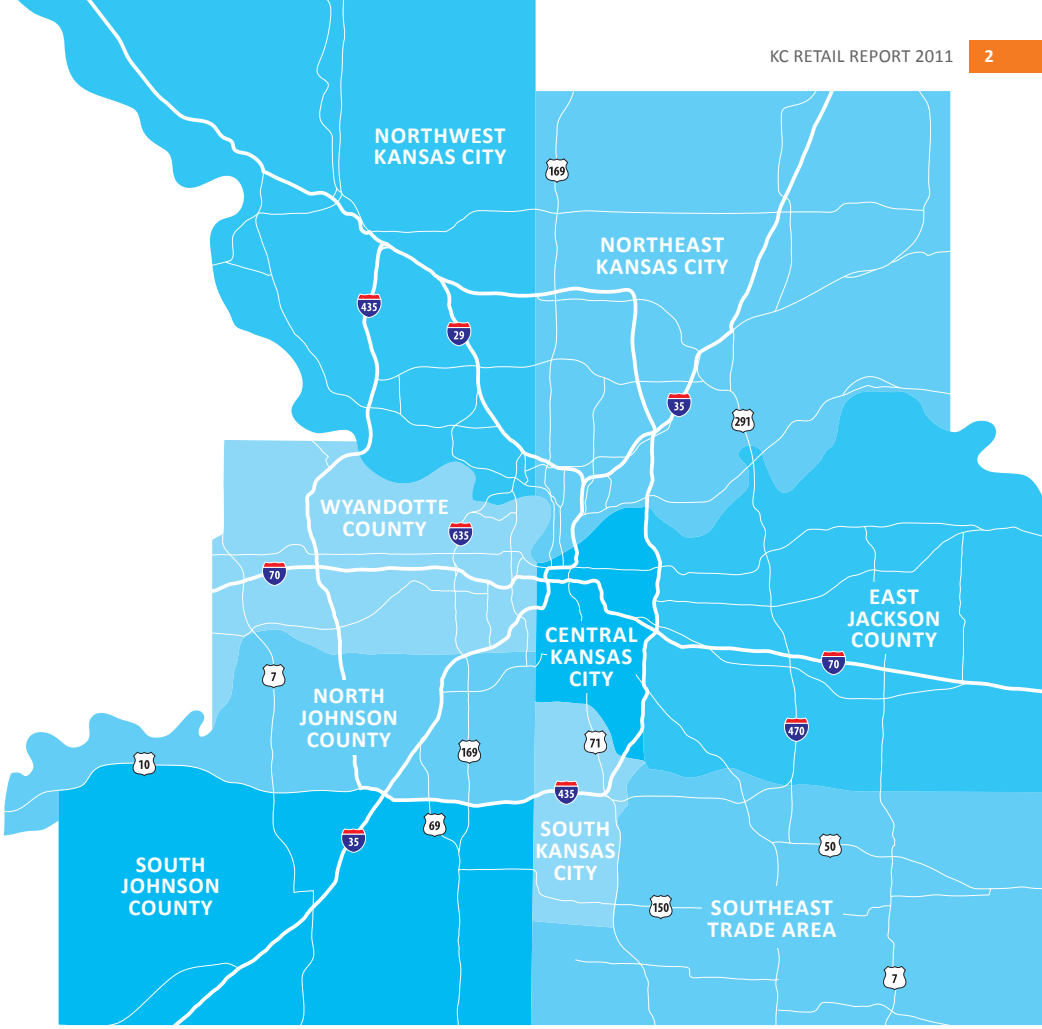
OR -1.4% LR -0.1%

The Northwest Kansas City trade area encompasses the area west of Highway 169 and north of the Missouri River. The newest products in the market—Zona Rosa* (lifestyle center anchored by Dillard's, Dick's Sporting Goods and Barnes & Noble) and Cousins' Tiffany Springs MarketCenter (power center anchored by Target, JC Penney, Home Depot, Best Buy, Sports Authority and PetSmart)—are noting an accelerated leasing pace as new and expanding retailers take advantage of attractive deals and face a more limited number of options caused by the dearth of new construction. Second tier centers in the market are seeing their price advantage narrow and their leasing opportunities will be more sporadic until the most attractive vacancies at the Class A centers are filled.

NORTHEAST KANSAS CITY

OR +0.3% LR -4.1%

The flight to quality is clearly evident in the Northeast Trade Area. Liberty Triangle* continues to lease new shops and at least one major junior anchor is expected to open



in 2011, joining a new Hy-Vee supermarket and several new restaurants. The other major retail centers at the intersection of Highway 152 and Interstate 35 continue to retain most of their tenants and snag new retailers as opportunities arise. Meanwhile, the owners of the Metro North Mall have begun work on a major city incentive-backed redevelopment project in order to reverse a decline that has affected not only the mall but also the shopping centers in the surrounding area. The "Metro North" portion of the trade area is one of the hardest hit by bankruptcies and major tenant defections to newer centers, and most of those box vacancies still await replacements that may be lured by the prospect of the mall redevelopment. In one example of the importance of being able to "reset" an unsustainable cost basis, the long-stalled redevelopment of the former Antioch Center* regional mall appears to be back on track after being re-acquired by the lender and sold to a local developer with a strong history of turning around distressed properties.

CENTRAL KANSAS CITY

OR -0.6% LR -7.3%

The downtown Kansas City Power & Light District*, a Cordish project developed with municipal assistance, is engaged in an aggressive push to add more soft goods and traditional retailers to their successful entertainment and dining venues. One example is the Power & Light's Garment District—a collection of unique, home grown boutiques that share a common space and create a synergy that would be difficult to replicate with individual leases or premises.

The Country Club Plaza*, Kansas City's premier shopping district, has added XXI Forever, a large format and differentiated version of the traditional Forever XXI store, along with an expanded and upgraded Helzberg Collections store and several other tenants. There are still several notable vacancies remaining at the Plaza, which is rare for the center that traditionally maintains nearly full occupancy. The Polsinelli Shughart law firm has announced plans to locate their national headquarters on the Plaza. Once built, the new office building is expected to support nearly 500 employees, which will add to the continued success and daytime traffic of the Country Club Plaza.

SOUTH KANSAS CITY

OR -0.2% LR -3.2%

Ward Parkway Center, yet another example of activity focusing on the better located centers, is making several new moves after being acquired by its lender in 2009. In 2011, Trader Joe's will open one of its first two Kansas City metro stores at the center. Dillard's within the center closed last year and is expected to be redeveloped to feature either another soft goods department store or a combination of several junior anchor stores.

Redevelopment planning continues at the site of the former Bannister Mall* and the surrounding area. A revised master plan shows a major office campus along with more than 600,000 square feet of retail space to be anchored by a major discount retailer. Most of this trade area, which also encompasses the city of Grandview, is proceeding at the status quo with little new activity, but also few signs of obvious distress.

SOUTHEAST TRADE AREA

OR -2.3% LR -6.3%

Continuing with the theme of a flight to quality, leasing at Summit Fair* in Lee's Summit—built and opened during the worst part of the retail recession—is picking up steam as retailers realize that for many years there will be limited first-class options to serve this attractive trade area. For the same reason, the adjacent SummitWoods Crossings, a mature Class A power center, has escaped tenant defections and has been able to maintain a strong lineup of new and existing retailers. The Raymore and Belton portions of this trade area remain stable. Because of limited existing and new retail product, the occupancy rate for this trade area has remained relatively healthy and there have been few major retail closings or relocations.

EAST JACKSON COUNTY

OR -1.1% LR -1.0%

Independence, the regional retail hub of East Jackson County, may experience some tenant shuffling and new absorption as several major centers jockey for renewals and new leases. Independence Commons, the traditional heavyweight power center in the market, competes with the Inland-owned Pavilions at Hartman Heritage—a well located center that is attractive, but currently sits mostly vacant and is the target of an aggressive leasing program. The Simon-owned Independence Center mall continues to thrive, posting the second highest enclosed mall sales per square foot numbers in the metro. In Blue Springs, the Adams Dairy Landing* power center has reached critical mass with the 2010 openings of Kohl's, Gordmans, Staples and Petco, while new shops and restaurants are signing leases at a healthy pace for 2011 openings.

Public incentives utilized

Oak Park Mall
Overland Park, KS

TRADE AREA OVERVIEW *(continued)*

NORTH JOHNSON COUNTY

OR -0.3% LR +4.3%

Not much has changed from last year in this traditionally attractive trade area. Last year we mentioned three major development projects scheduled to open in 2009 that remained un-built or partially constructed and unoccupied. These projects would have comprised more than one million square feet of gross leasable area, but each remained stalled throughout 2010. One of these projects, The Gateway* in Mission, Kansas, backed by STAR Bonds, has announced a shift in focus toward office space leasing, offering specialty retail to serve the relatively affluent trade area consumers. The Oak Park Mall area, one of the most productive retail sectors in the Kansas City metro, has seen brisk activity with some of the vacant junior anchors being filled or under serious negotiations. Oak Park Mall* itself scored a major coup when American Girl opened its ninth U.S. store at the 1,600,000 square foot CBL property in September 2010. The owners of the once-thriving Metcalf South Mall have announced a major redevelopment initiative that could begin as early as 2011. The investment of private equity and public support into the 95th and Antioch intersection is emblematic of the focus on A+ real estate yoked with incentives.

SOUTH JOHNSON COUNTY

OR +1.0% LR +2.3%

The South Johnson County spotlight is shining brightly on Corbin Park*, a planned 1.1 million square foot regional center located in south Overland Park. Although Von Maur, JC Penney and Lifetime Fitness opened at the project, the developer declared bankruptcy before completing the remaining shop space. The property is now being marketed to developers who can presumably take advantage of a lower cost basis to re-start the project and complete some, if not all of the original plans. Another strong southern Johnson County retail node, 119th Street and Metcalf Avenue, has seen some encouraging absorption with Golfsmith, Pro Golf Discount and Buy Buy Baby taking significant vacancy off the market. The 119th and Roe intersection also has seen renewed vigor with the announced 2011 opening of Trader Joe's and several desirable tenants at One Nineteen*, along with continued leasing at the quadrant's other shopping centers. Olathe's retail crossroads at 119th Street and Blackbob is holding steady, while redevelopment of the Great Mall of the Great Plains in south Olathe is still being planned. Many secondary centers in the South Johnson County trade area continue to suffer from an oversupply of shop space and unsustainable rents, even though these centers may be only a block or two removed from the top intersections.

WYANDOTTE COUNTY

OR -0.3% LR -5.9%

Fueled by a progressive STAR Bond program, the area surrounding the Kansas Speedway again dominates Wyandotte County's retail scene and remains a shining star in the Kansas City metro. The Legends, originally built in a lifestyle format with a combination of discount, full price and entertainment tenants, is in the middle of a conversion to a full outlet

KANSAS CITY METRO SHOPPING CENTER SURVEY

SUBMARKET	% OF TOTAL SURVEYED	TOTAL SQUARE FEET		OCCUPANCY RATE		AVERAGE LEASE RATE	
		2009	2010	2009	2010	2009	2010
Northwest Kansas City	6%	4,342,901	4,342,901	91.6%	90.3%	$17.30	$17.28
Northeast Kansas City	11%	7,684,685	7,684,685	89.7%	90.0%	$12.57	$12.06
Central Kansas City	9%	5,812,230	5,812,230	92.3%	91.7%	$29.17	$27.05
South Kansas City	8%	5,269,720	5,269,720	81.7%	81.6%	$11.56	$11.19
Southeast Trade Area	8%	5,085,666	5,085,666	91.2%	89.1%	$15.14	$14.19
East Jackson County	15%	10,056,847	10,136,847	88.1%	87.1%	$9.91	$9.81
North Johnson County	18%	11,952,851	11,952,851	87.7%	87.5%	$11.64	$12.14
South Johnson County	20%	13,101,860	13,158,633	87.9%	88.8%	$16.61	$16.99
Wyandotte County	6%	3,710,376	3,710,376	80.3%	80.0%	$11.35	$10.68
TOTAL SURVEYED	**100%**	**67,017,136**	**67,153,909**	**88.0%**	**87.8%**	**$14.69**	**$14.45**

Data provided by LANE4 Research and third-party sources, current as of October 2010. Survey includes retail space located within a shopping center and covers all shopping center types. Lease rates represent average quoted pricing per designated trade area in the Kansas City Metropolitan Market. SF = Square Feet.

The Legends at Village West Kansas City, KS

center featuring luxury and new-to-Kansas City retailers. In addition to its successful Walmart and Kohl's openings in 2010, Plaza at the Speedway* will add Sam's Club and several restaurants and shops in 2011. Major League Soccer's Sporting Kansas City will open their stadium and tournament complex in June 2011 and a new $386 million hotel and casino project will open in 2012—both of which are already solidifying the demand for retail and dining venues in the Village West/ Kansas Speedway area.

LOOKING FORWARD TO 2011

Although there is solace in greater leasing activity and the solid performance of top quality centers, the hoped-for sharp correction in the general retail market did not occur during 2010. The overall Kansas City metro market certainly stabilized and appears to be headed for a modest recovery in 2011, but there is still substantial pressure on vacancy and rental rates. The flight to quality will continue, which—when coupled with increased tenant demand and the dearth of new retail construction—means that existing space in desirable centers will become more valuable. We expect absorption and lease rates to accelerate for those A+ centers.

Eventually demand will also revive for secondary centers and/or secondary trade areas in the metro but probably not in 2011 and not in time for some owners to be able to retain control of their properties. Low interest rates are helping some owners retain control of troubled properties that will become vulnerable if rates rise.

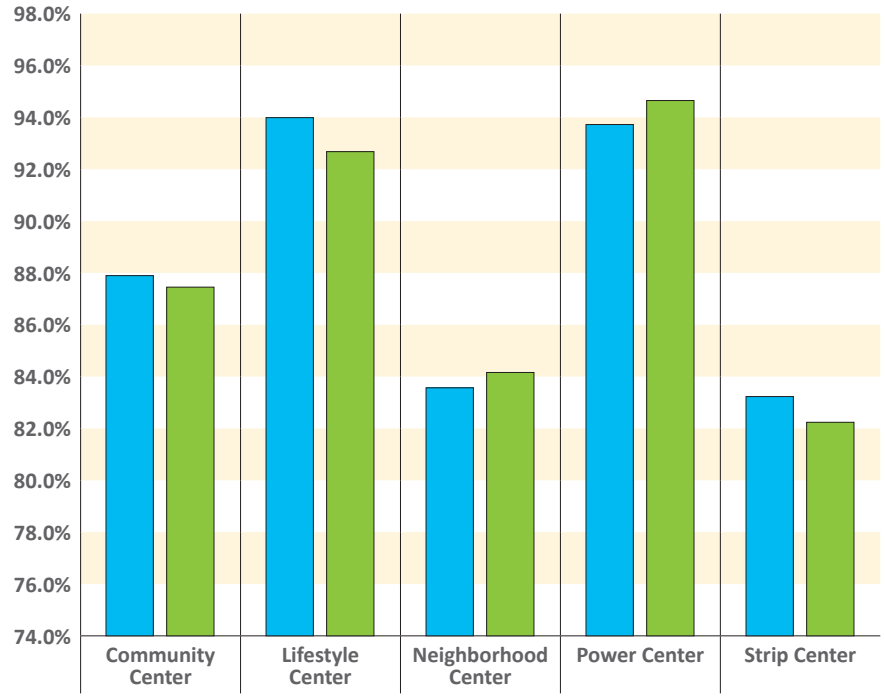
In summary, what appeared last year to be an opportunity to take advantage of a major reset in the market may turn out to be a slow, gradual climb to health. Quality properties in well located areas will be the first to benefit from the rebound, while other properties may need to change formats or their cost basis in order to survive this trek.

**Public incentives utilized*

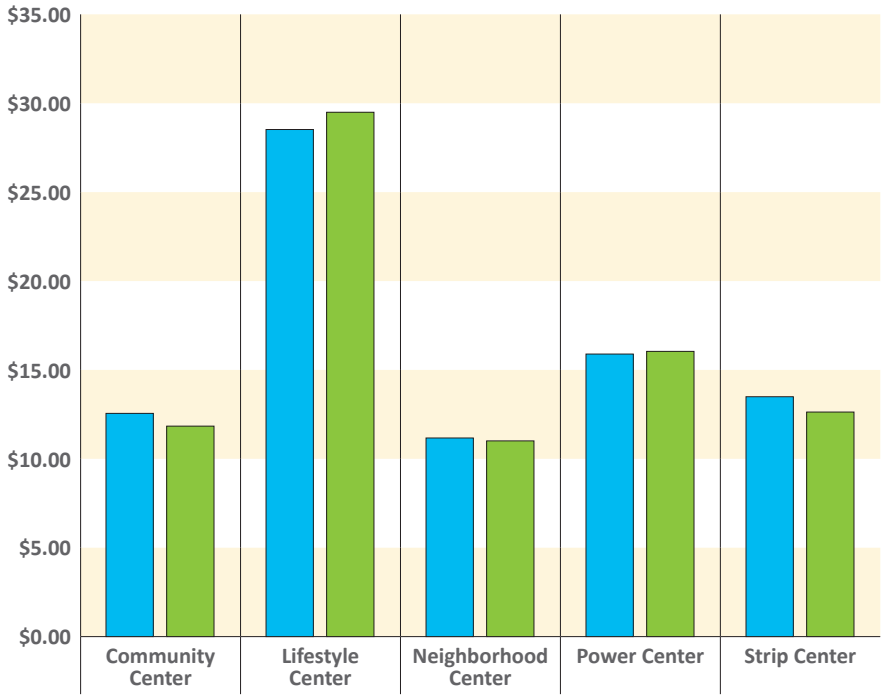
KANSAS CITY METRO SHOPPING CENTER PERFORMANCE

Q4-2009 Q4-2010 QTD

OCCUPANCY RATES BY SHOPPING CENTER TYPES



LEASE RATES BY SHOPPING CENTER TYPES



Data provided by LANE4 Research and third-party sources, current as of October 2010. Survey includes retail space located in specified shopping center type.

LANE4 PROPERTY GROUP

Town Center
Leawood, KS

RETAIL TRENDS

Retailers were better off than a year ago yet still faced a bumpy road throughout 2010. A focus on improving business efficiencies, controlling operational expenses and adopting a conservative attitude has helped them position for recovery and acclimate to the reset in consumer confidence and shopping behaviors.

Consumer spending, although slowly improving, remains radically altered from pre-recession exuberance. During that freewheeling period, shoppers spent without fear. Today consumer spending is reserved, with careful consideration given to value and service, especially for non-necessity items. This change is forcing retailers to look for ways to create unique shopping experiences while delivering quality and superior service at a lower cost.

Driven by a more environmentally conscious younger generation and the potential for lower costs, more retailers are starting to pursue energy efficient technologies. A cost savings practice, which also plays up to environmental responsibility, is the trend to go with smaller store formats. This smaller platform reduces overall operating expenses, including leasing and energy costs, providing both financial and "green" cost control solutions.

There has been exponential growth in the number of retailers harnessing technology and social media to lower costs and increase profits. Retailers have embraced mediums such as Facebook, Twitter, blogging and additional e-commerce platforms as an affordable and powerful force for connecting and selling to their customers.

2011 will see an expansion of value retail and a continual thinning of discretionary spending. High-end fashion, sit-down restaurants, fancy home furnishings, and jewelry will take a back seat as discounters, outlets, fast-casual, and fast-food establishments rule the market. In order to adjust, retailers will continue to search for competitive practices to lower costs, increase exposure, and enhance consumer shopping. The adoption of technology to stay abreast of technically savvy advertising and purchasing trends will become even more of a necessity. Additionally, "Going Green" will continue to be popular for both its cost-savings and socially responsible imaging.

RESIDENTIAL REAL ESTATE PERFORMANCE

Number of New Privately-Owned, Housing Units

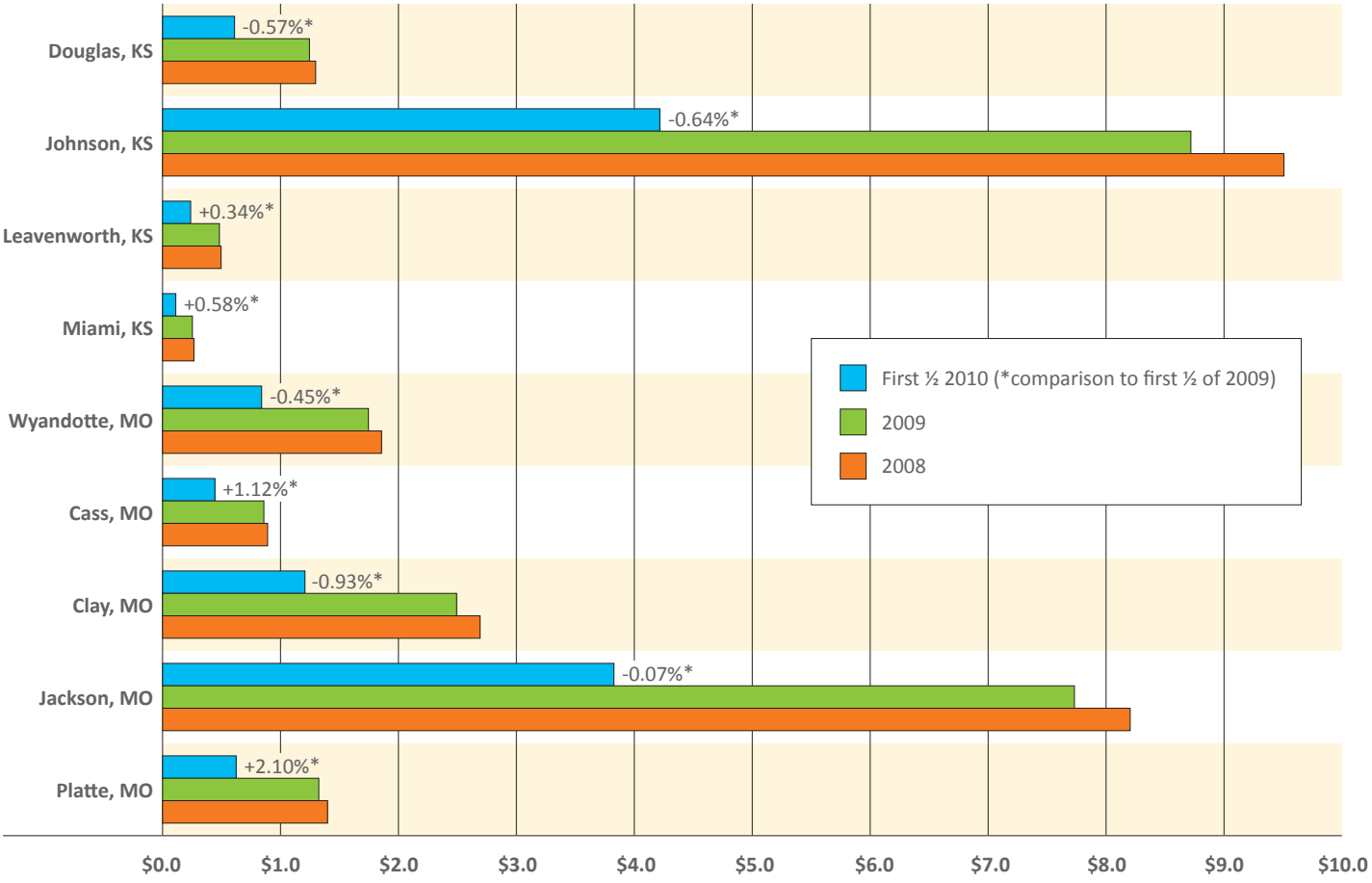
	2006	2007	2008	2009	2010*	% CHANGE 2009-2010	5 YEAR ANNUAL AVERAGE
MAJOR COUNTIES							
Wyandotte County, KS	596	445	184	115	163	41.9%	301
Johnson County, KS	3,751	2,591	1,660	1,501	920	-38.7%	2,085
Platte County, MO	456	259	154	106	127	20.0%	220
Clay County, MO	442	450	186	174	139	-20.0%	278
Jackson County, MO	5,743	2,809	2,047	959	671	-30.1%	2,446
MAJOR CITIES							
Lenexa, KS	476	429	382	37	59	58.9%	277
Olathe, KS	1,231	609	380	305	337	10.6%	572
Overland Park, KS	1,098	585	469	942	270	-71.3%	673
Shawnee, KS	271	342	108	62	73	18.1%	171
Blue Springs, MO	501	271	102	52	50	-3.1%	195
Independence, MO	603	205	96	56	65	15.7%	205
Kansas City, MO	3,215	1,071	1,496	577	268	-53.6%	1,325
Lee's Summit, MO	827	778	151	164	166	1.0%	417
Raymore, MO	346	186	360	51	55	8.2%	200
KANSAS CITY METRO	**13,205**	**8,129**	**5,300**	**3,406**	**2,543**	**-25.3%**	**6,517**

**November & December based on annualized rate through October.*
Source: US Census Bureau. Kansas City Metro: New Privately Owned Housing Units Authorized, Unadjusted Units by Metropolitan Area.
City and County: Annual New Privately-Owned Residential Building Permits, Unit estimates with Imputation.

Corbin Park
Overland Park, KS

Zona Rosa
Kansas City, MO

TAXABLE SALES BY COUNTY ($B)



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

2011

KANSAS CITY RETAIL REPORT

LANE4 Property Group is one of the fastest growing commercial real estate companies in the Midwest, specializing in project leasing, tenant representation, development, incentive procurement services, investment sales, property management, and receivership. Our success is based on an unwavering commitment to streamlining processes and optimizing our clients' objectives by providing in-depth knowledge and experience, attention to detail, creativity, and passion in every project we tackle. Today we have a multitude of mixed-use, office, retail, and hospitality projects and continue to rapidly expand throughout the United States.

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