2012

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 under development and continue to rapidly expand throughout the United States.

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Country Club Plaza Media Gallery

LANE4 Property Group
4705 Central Street
Kansas City, MO 64112
P: 816.960.1444
F: 816.960.1441
www.lane4group.com

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LANE4 PROPERTY GROUP

Walmart Supercenter

Zona Rosa
Kansas City, MO


Trader Joe's
Kansas City, MO

RECENT SUBMARKET ACTIVITY

The Kansas City metro retail market is continuing a long and potholed road to recovery that started in 2011. Instead of a hard landing and a steady climb, the market bumped along the bottom for so long that most observers can't pinpoint a specific time or reason for the rebound… it just happened.

Gains are hard fought – one deal, one lease and one sale at a time. The trend most identified last year, a flight to quality, is continuing apace. The best quality centers are filling vacancies and maintaining proforma rents better than during the past several years. Discount retailers are leasing some of the vacant boxes; although their deals aren't pretty, their strong credit brings welcome stability. While not enjoying the heady peaks of 2007, most owners of well-positioned, attractive centers can now relax and breathe a bit easier.

Many retail projects are still in precarious condition – especially those with developers that bet on continued residential growth in outlying areas or those that are not anchored by a top-tier retailer. Retailers remain leery of outlying or unanchored centers and often can't be lured at any rent – forcing owners to seek alternate uses for vacant space. Many service providers (medical, financial, etc.) that traditionally located in office settings are filling these former retail spaces. Owners of troubled secondary centers may continue to hold on if they have large cash equity positions and/or long-term stable financing. However, even historically low interest rates cannot save owners who need to refinance "at-risk" centers. They are often required to come to the table with a substantial cash infusion, and after several years of weakness they may be out of reserves. We predict a sizeable number of secondary centers will return to lender control in 2012.

Although improving, most retail lease rates are not yet high enough to justify major new development and construction. Thus, even with only moderate retailer expansion expected in 2012, we predict a notable decrease in vacancy rates and a corresponding increase in rental rates at existing centers. In fact, retailers who demand only A+ real estate are now stymied by lack of available space and are pushing lease rates to pre-recession levels and sometimes generating build-to-suit and redevelopment opportunities.

We expect that Kansas City's 2012 retail landscape will witness prime trade areas and centers climbing toward a healthier norm. The recovery may still be tenuous and inconsistent, but it is certainly a welcome improvement.

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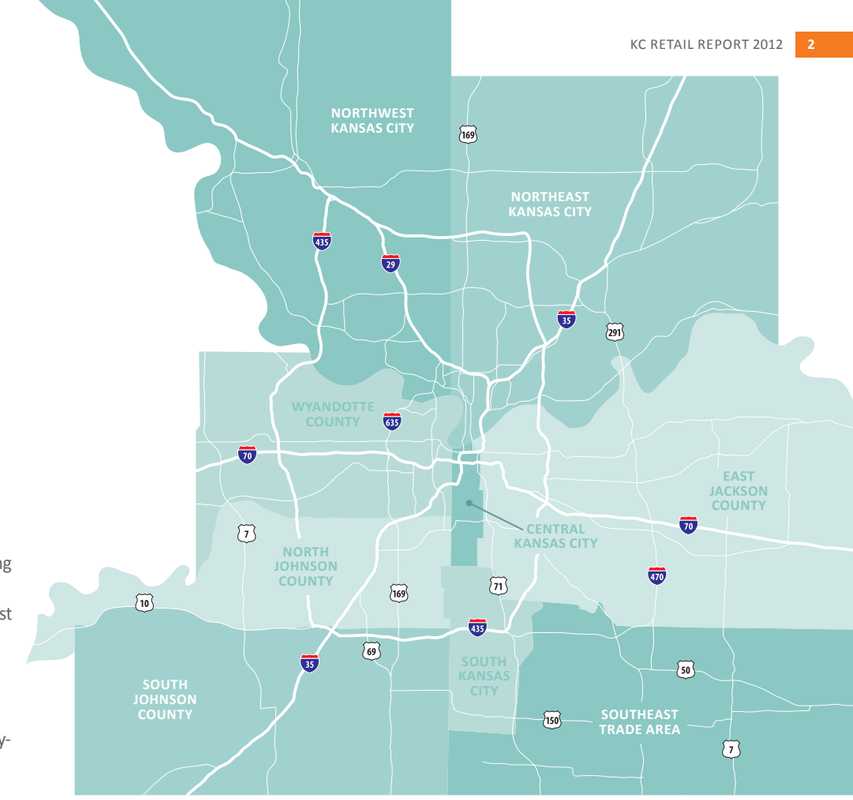


RELATIVE CHANGE FROM PRIOR YEAR

OCCUPANCY RATE	LEASE RATE
OR OR	LR LR

NORTHWEST KANSAS CITY

OR -0.4% LR 0.5%

This trade area is healthy, stable and looks very much the same as it did last year. Anchor spaces at the area's top centers (including Zona Rosa, Tiffany Springs MarketCenter and BarryWoods Crossing) are, or will soon be, almost completely filled. Small shop vacancy continues to be whittled down deal-by-deal, but remains higher than necessary to demand new growth. Two large-format retailers have been actively searching for development parcels along the Hwy-152 corridor in this trade area and are expected to announce development plans this year.

NORTHEAST KANSAS CITY

OR -1.1% LR -1.4%

The Northeast trade area is one of the few in the Kansas City metro that continues to generate new development. Dick's Sporting Goods and Hy-Vee recently joined the Liberty Triangle, while additional restaurants, shops and junior anchors will be added in 2012. A large-format retailer is expected to announce plans for a store near the I-35 and Hwy-152 intersection later this year.

CENTRAL KANSAS CITY

OR 2.8% LR -19.8%

The jewel of Kansas City's Central trade area – the Country Club Plaza – is coming off a banner leasing year that replaced an atypical number of vacancies with highly desired tenants and major expansions. H&M, Michael Kors, Kate Spade, Sperry Topsider and Sur la Table are among several new retailers joining the nationally recognized center. The already strong Plaza restaurant scene attracted Seasons 52 and Coal Vines, along with highly acclaimed local concepts Gram & Dun and Zocalo Mexican Cuisine. Last year's momentum is expected to carry forward through 2012 with additional newsworthy tenant announcements.

SOUTH KANSAS CITY

OR 0.8% LR 7.6%

South Kansas City's Ward Parkway Center serves as a good example of retailers regrouping in well-anchored centers located in older, stable and attractive trade areas. Trader Joe's 2011 opening spurred not only huge crowds but also renewed leasing interest in the former enclosed mall that was reformatted and later anchored by Target. Marshall's HomeGoods is expected to fill one of the few remaining vacancies in 2012, while AMC Theatres renewed its lease and will undertake a major remodeling. The former Dillard's center has been demolished and will likely be replaced with several prominent retail concepts. Elsewhere, the City of Grandview reports promising activity in its lengthy quest to redevelop the Truman Corners shopping center that serves as the retail hub for this older suburb.

SOUTHEAST TRADE AREA

(LEE'S SUMMIT, RAYMORE, BELTON)

OR -1.9% LR -13.0%

In the larger, newer centers, vacancies are being rapidly absorbed as tenants seek out the above average incomes and steady growth in this trade area. Summit Fair, the market's last major construction project, reduced its inventory of vacant shop space by adding specialty retailers including Christopher & Banks, Maurices and Children's Place to its Macy's and JCPenney anchors. Similarly, major box vacancies in the more outlying suburbs of Raymore and Belton have largely been filled, and even more telling – a new grocery anchored center will open in Belton during 2012.

EAST JACKSON COUNTY

OR 1.7% LR 8.0%

As predicted last year, Independence – the regional retail hub of East Jackson County – witnessed a flurry of activity as major tenants relocated within the trade area and their resulting vacancies were backfilled. Bed, Bath & Beyond jumped ship to the formerly dormant Pavilions at Hartman Heritage, and brought its sister concept, Buy Buy Baby, along for the ride. Bed, Bath's former space is expected to be backfilled with a prominent discount retailer. The vacant and highly visible former Circuit City has been re-leased to Chuck E. Cheese's and a locally-owned sporting apparel store, while the Simon-owned Independence Center Mall continues to post strong numbers. Although not officially announced, a major large-format retailer is expected to land in the

Livestrong Stadium
Kansas City, KS

Nordstrom Rack
Lenexa, KS

RECENT SUBMARKET ACTIVITY *(continued)*

Bass-Pro anchored Falls at Crackerneck. In Blue Springs, anchor and junior box space at the Adams Dairy Landing power center will be filled with the 2012 openings of Ross, TJMaxx, HomeGoods, Charming Charlie and Ulta.

NORTH JOHNSON COUNTY

OR 0.8% LR 2.6%

Continuing the inbound migration trend, retail activity is surging in this long established, densely populated trade area. The long dormant East Gateway in Mission, Kansas (formerly the Mission Mall), was jump started by Walmart's announcement of a Supercenter as part of the mixed use project, which is also expected to include an aquarium, hotel and a host of retail components. Construction is also underway at Mission Crossing, the west gateway project featuring several national restaurant and retail concepts. After being completely vacant for several years, the former Circuit City center in Merriam is under serious consideration for redevelopment by more than one large-format retailer, and the never-developed Merriam Pointe is now home to a new Toyota dealership and potentially another auto sales facility. The Oak Park Mall area continues to exhibit strength as one of the metro's strongest retail hubs. Nordstrom Rack joined the relocated Steinmart at Orchard Corners, while the former Stein Mart will be demolished to make way for new junior anchors and shops.

SOUTH JOHNSON COUNTY

OR 2.4% LR -9.7%

The biggest news in South Johnson County is a local developer's purchase of the bankrupt Corbin Park, renamed Aspen Square, a planned 1.1 million square foot regional center located at the prime intersection of 135th Street and Metcalf Ave. in south Overland Park. Von Maur, JCPenney and Lifetime Fitness opened before construction was halted in 2009. The current developer is finishing the partially completed shop buildings and infrastructure, and will develop the remainder of the project as demand warrants. The upscale shopping node centered around 119th and Roe exhibits robust fundamentals, and should fully realize its potential as the economy improves. Leasing activity has surged at the mixed-use Park Place, located at 117th and Nall, which has been buoyed by several major office relocations to the project. Food Network chef, Aaron Sanchez, opened his Mestizo restaurant at Park Place, joining Gordon Biersch and 801 Chophouse at the project. One Nineteen added Trader Joe's, Le Crueset, Fo Thai, Standard Style and several others to the upscale tenant mix.

WYANDOTTE COUNTY

OR 5.4% LR -4.0%

The area surrounding the Kansas Speedway again dominates Wyandotte County's retail scene. The Legends shopping center, although suffering financial difficulties, has nearly completed its successful transformation to an entirely outlet format, landing tenants such as Polo and Sak's OFF 5TH. Plaza at the Speedway's previously announced Sam's Club will open in 2012 along with several restaurants and shops. The Hollywood Casino at the Kansas Speedway opens in early 2012, joining the well received and attended new stadium for Major League Soccer's Sporting Kansas City. The east side of Wyandotte County is getting some much needed retail development as the 39Rainbow project, adjacent to the rapidly expanding University of Kansas Hospital, adds several restaurants and retailers.

LOOKING FORWARD TO 2012

2012 will likely follow 2011's path of slow, steady improvement. Deals may not be fun or lucrative, but at least they happen and will likely occur with more frequency. The void between Class A centers and the rest of the pack will continue to grow. Solid centers are poised to benefit from constricting cap rates, historically low interest rates, increasing tenant demand and lack of new competition. The lower-tier centers will struggle, as both tenant leasing and financing become more selective. Discount retailers will drive new leasing, and a significant amount of retail vacancy will be replaced with service providers rather than traditional tenants.

We're looking forward to a few more smiles for 2012. Retail professionals who have survived the past few years should be able to conduct business knowing that the worst is over and the future looks a little more fun. ***Let's get back to normal!***

KANSAS CITY METRO SHOPPING CENTER SURVEY

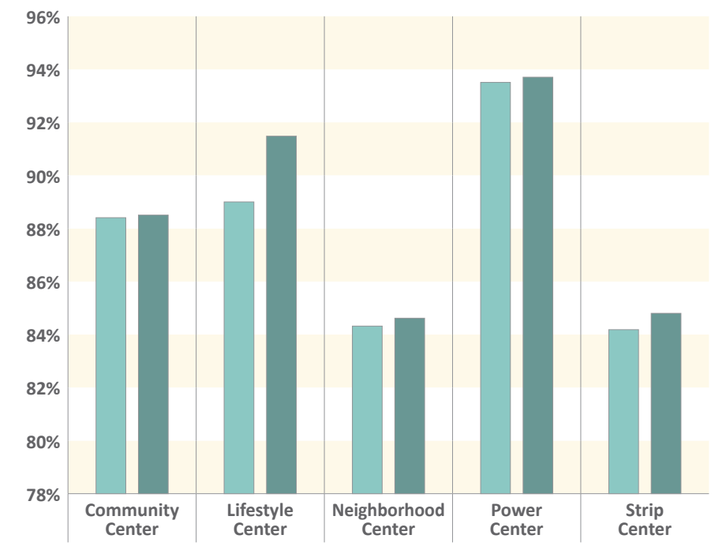
SUBMARKET	% OF TOTAL SURVEYED	TOTAL SQUARE FEET*		OCCUPANCY RATE		AVG LEASE RATE	
		2010	2011	2010	2011	2010	2011
Northwest Kansas City	6%	4,342,901	3,817,357	91.6%	91.2%	$17.28	$17.37
Northeast Kansas City	12%	7,684,685	7,684,685	89.7%	88.7%	$12.57	$12.06
Central Kansas City	4%	5,812,230	2,398,445	92.3%	94.9%	$27.05	$21.69
South Kansas City	7%	5,269,720	4,430,879	81.7%	82.4%	$11.19	$12.04
Southeast Trade Area	8%	5,085,666	5,090,015	91.2%	89.5%	$14.19	$12.34
East Jackson County	17%	10,136,847	10,622,676	88.1%	89.6%	$9.81	$10.59
North Johnson County	19%	11,952,851	11,684,557	88.1%	88.9%	$12.14	$12.45
South Johnson County	20%	13,158,633	12,392,476	87.9%	90.0%	$16.99	$15.35
Wyandotte County	7%	3,710,376	4,197,281	80.3%	84.6%	$10.68	$10.25
TOTAL SURVEY AREA	**100%**	**67,153,909**	**62,318,371**	**87.1%**	**89.7%**	**$14.49**	**$13.22**

**Trade area definitions may have changed from previous year.*
Source: Data provided by LANE4 Research and third-party sources, current as of October 2011. Survey includes all 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.

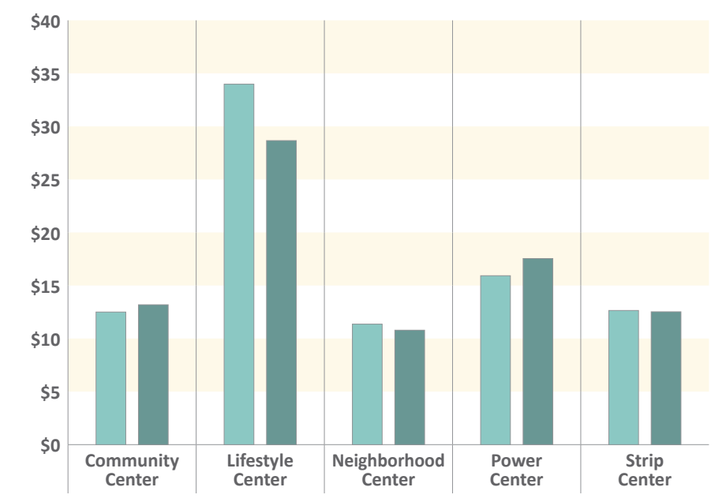
KANSAS CITY METRO SHOPPING CENTER PERFORMANCE

Q3-2010 Q3-2011

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 2011.
Survey includes retail space located in specified shopping center type.

LANE4

Orchard Corners
Lenexa, KS

RETAIL TRENDS

The internet's effect on retail shopping is manifesting itself to a greater degree than many observers previously forcast. The size and scope of this effect will continue to grow through 2012, leading to acceleration of the following trends:

1 REDUCTION IN STORE SIZE.
Big box retailers are dramatically scaling back the size of their retail formats. Internet shopping reduces the need for expansive warehouse space and requires fewer SKUs. Prototypes of junior anchors that used to average 20,000 - 25,000 s.f. now typically range from 12,000 - 18,000 s.f.

2 BETTER INFORMED CONSUMERS.
The internet allows instant and more detailed research about prices and products. Customers may use the physical showroom of one retailer to gather ideas, and while there, order the product from an internet-based vendor via a smart phone. Brick and mortar based stores must focus on service and specialty items to keep the consumer purchasing in the store.

3 DESIRE FOR EXPERIENTIAL SHOPPING.
Consumers find internet shopping wonderful for fungible goods…offering convenience, price and wide selection. In order to compete, retail stores need to offer features not available over the internet – an immersive experience, personalized service, style, fun and adventure.

4 SPACES BACKFILLED WITH RESTAURANTS, SERVICE PROVIDERS.
As internet shopping grows in popularity, there are fewer traditional retailers to fill retail spaces. Retail spaces are increasingly being filled by tenants that offer products not obtainable on or suited for the internet – dining, medical services, training and exercise, education, etc.

Retail will be increasingly polarized in 2012. Discount and luxury retailers will command a larger share of leasing activity, often at the expense of "mid-tier" concepts. Ross Stores, TJ Maxx, Marshalls, Stein Mart, Dollar General, and Family Dollar, are among the discount retailers filling vacant space; while luxury retailers are reporting strong sales and generating leasing activity in top markets nationwide. Automotive-based tenants (replacement parts, tires, etc.) are very active as consumers repair their cars rather than buy new. Fast food, quick casual restaurants and fine dining continue to grow and expand, while mid-market casual dining restaurants are all but dormant.

RESIDENTIAL REAL ESTATE PERFORMANCE

Number of **NEW** Privately-Owned, Housing Units *(Ranked by % Change from 2010-2011)*

MAJOR CITIES	2007	2008	2009	2010	2011*	% CHANGE 2010-2011	5 YEAR ANNUAL AVERAGE
1. Kansas City, MO	1,071	1,496	577	193	304	57.4%	728
2. Independence, MO	205	96	56	59	78	33.0%	99
3. Lenexa, KS	429	382	37	51	61	18.8%	192
4. Overland Park, KS	585	469	942	249	238	-4.5%	497
5. Raymore, MO	186	360	51	51	42	-18.2%	138
6. Blue Springs, MO	271	102	52	49	40	-18.2%	103
7. Olathe, KS	609	380	305	309	250	-19.2%	371
8. Lee's Summit, MO	778	151	164	156	119	-23.9%	274
9. Shawnee, KS	342	108	62	68	51	-25.5%	126
10. Kansas City, KS	445	184	115	161	60	-62.8%	193
KANSAS CITY METRO	**8,129**	**5,300**	**3,406**	**2,511**	**2,659**	**5.9%**	**4401**

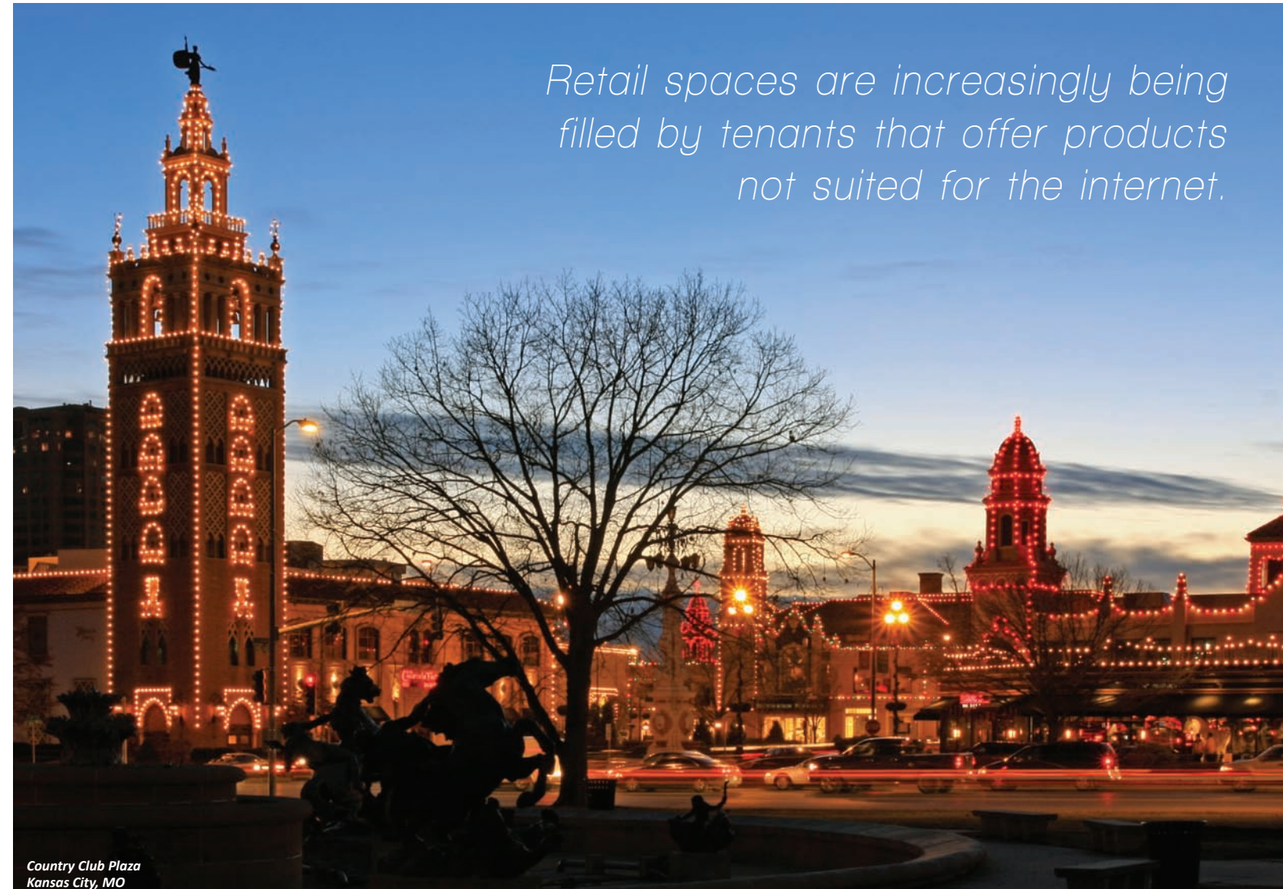
**November & December based on annualized rate through October.*
Source: US Census Bureau. Kansas City Metro: New Privately Owned Housing Units Authorized, Unadjusted Units by Metropolitan Area.
City & County: Annual New Privately-Owned Residential Building Permits, Unit estimates with imputation.

TAXABLE SALES BY COUNTY ($M)

(Ranked by 1st Half 2011)

COUNTY	2009		2010		% CHANGE '09 - '10	2011	% CHANGE 1ST HALF '10 - '11
	1ST HALF	2ND HALF	1ST HALF	2ND HALF		1ST HALF	
1. Johnson	$4,262.5	$4,497.7	$4,235.0	$4,590.7	▲ 0.73%	$4,390.8	▲ 3.55%
2. Jackson	$3,843.7	$3,935.9	$3,886.8	$4,110.4	▲ 2.50%	$3,935.7	▲ 1.70%
3. Clay	$1,233.4	$1,290.4	$1,229.5	$1,322.0	▲ 0.95%	$1,241.6	▲ 1.26%
4. Wyandotte	$851.6	$900.6	$847.8	$931.5	▲ 1.52%	$874.2	▲ 3.02%
5. Platte	$645.0	$699.3	$661.5	$709.7	▲ 1.96%	$673.0	▲ 1.71%
6. Douglas	$614.2	$649.0	$610.7	$655.4	▲ 0.23%	$621.8	▲ 1.78%
7. Cass	$424.8	$443.4	$431.3	$451.7	▲ 1.68%	$426.0	▼ -1.24%
8. Leavenworth	$241.5	$251.9	$242.4	$259.3	▲ 1.65%	$247.8	▲ 2.18%
9. Miami	$121.9	$129.0	$122.6	$131.7	▲ 1.35%	$128.4	▲ 4.54%

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



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Kansas City, MO