

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

AUGUST 2010

Tenant Retention Through Management

Finding new tenants can be a slow and expensive process in these tough economic times. Tenant retention, considered the ideal situation in the past, has become the key to survival as occupancy always directly impacts rental income and the value of property.

According to the Kingsley Index, the largest and most comprehensive industry benchmark for measuring real estate performance, satisfied tenants are approximately 3.5 times more likely to renew than unsatisfied tenants. Areas most heavily correlated with tenants' overall satisfaction are management related. These include the manager's professionalism, accessibility and responsiveness as well as the ability to resolve problems, communicate, and accommodate special requests. When a tenant's overall satisfaction is high, they are more likely to renew, recommend the property, and be more tolerant of potential rent and CAM increases.

It is tempting for a commercial real estate firm to reduce costs by lowering the quantity or quality of their property management team. The value of a management team should be measured by tenant retention in addition to the department's profitability. Owners must have enough qualified people to provide their tenants with top-notch customer service to increase the tenant retention rate and thus improve profitability.

Having a team of customer-focused managers trained to respond quickly and professionally to all tenant calls is the first step to increasing tenant loyalty. To surprise the tenant with service, proactive communication is added, including formal tenant meetings, emails from management, walking the property and drop-in visits to stores and managers. While Kingsley reports most office tenants prefer to be contacted quarterly, locally owned retail tenants prefer contact at least once a month.

Frequent, meaningful interactions with their property management team help build relationships. These relationships allow the landlord to stay on top of the tenant's business status, which is even more critical in the current business climate. This also allows the landlord to resolve issues before they escalate. Michael Schrage of Fortune Magazine writes, tenants who experience problems that are politely and quickly resolved will rate their service higher than tenants who had no problems at all.*

Weak space demand and declining rents make tenant retentions critical for maintaining asset value. An assertive property management team who listens closely to tenants' needs and offers professional, rapid attention when addressing those needs is essential in keeping tenants satisfied and in place.

*BOMA Education—The Road to Renewals

By Gwen Locher, LANE4 Vice-President of Property Management

Sources: ¹Kansas City Regional Association of Realtors. Average sales price of new & existing homes. ²U.S. Census Bureau: Estimated monthly, new privately-owned units. ³Kansas City Regional Association of Realtors. ⁴Kansas City Regional Association of Realtors. Total new & existing inventory per quarter. Supply is a monthly average for the quarter. 5-6 months supply represents a balanced market. ⁵U.S. Bureau of Labor Statistics, State and Metro Area Employment. Data not seasonally adjusted.

Kansas City Housing

Average Home Price ¹			
County	Q2-09	Q2-10	Change
Cass (MO)	\$150,062	\$150,970	0.6%
Clay (MO)	\$147,877	\$158,930	7.5%
Jackson (MO)	\$122,622	\$126,755	3.4%
Platte (MO)	\$189,700	\$204,058	7.6%
Johnson (KS)	\$245,554	\$241,325	-1.7%
Leavenworth (KS)	\$158,758	\$169,663	6.9%
Miami (KS)	\$159,133	\$173,900	9.3%
Wyandotte (KS)	\$76,104	\$90,218	18.5%
Kansas City Region	\$163,756	\$170,024	3.8%

Residential Building Permits ²			
County	Q2-09	Q2-10	Change
Cass (MO)	37	34	-8.1%
Clay (MO)	95	43	-54.7%
Jackson (MO)	121	120	-0.8%
Platte (MO)	24	34	41.7%
Johnson (KS)	210	235	11.9%
Leavenworth (KS)	54	31	-42.6%
Miami (KS)	13	10	-23.1%
Wyandotte (KS)	26	40	53.8%
Kansas City Region	615	617	0.3%

KC MSA Home Sales ³		
	New	Existing
Q2-09	671	6,271
Q2-10	740	7,381
Change	10.3%	17.7%

KC MSA Housing Inventory ⁴		
	#Homes	Supply
Q2-09	50,238	7.8
Q2-10	50,953	7.5
Change	1.4%	-3.4%

KC MSA Employment by Industry (job counts in 1,000s) ⁵			
	Q1-09	Q1-10	Change
Food Service	204.3	201.7	-1.3%
Healthcare	320.3	326.6	2.0%
Government	466.5	459.1	-1.6%
Education & Health	374.5	383.8	2.5%
Financial	210.6	206.5	-1.9%
Leisure & Hospitality	270.6	267.8	-1.0%
Professional, Tech, Scientific	209.2	193.1	-7.7%
Retail Trade	306.5	302.0	-1.5%
Trade, Transport, Utilities	594.2	576.9	-2.9%
Manufacturing	225.7	214.3	-5.1%
Mining, Logging, Construction	128.8	115.5	-10.3%

Local Commercial Developments

KANSAS CITY, KS

Construction is ahead of schedule on the 365,000 square foot, 18,500 seat Wizard's Soccer Stadium in Village West. The multi-use venue, scheduled to open in June of 2011, will include 34 suites and a bluegrass natural turf playing field with a SubAir heating and moisture management system.

Groundbreaking took place in April on the first phase of the Hollywood Casino at Kansas Speedway. The state-of-the-art casino is expected to open the first half of 2012 featuring 28,000 square feet of restaurants, night clubs, and nightlife attractions.

KANSAS CITY, MO

Children's Mercy Hospitals and Clinics broke ground on June 18th on a \$48 million, 73-bed tower at the southwest corner of Holmes and 23rd streets in Kansas City, MO. The Elizabeth Ann Hall Patient Tower is highlighted by a new Fetal Health Center, expanded pediatric-intensive-care and oncology units, and a new Interfaith Chapel. A 2012 opening is anticipated.

MISSION, KS

LANE4 Property Group has received TIF and CID approval on a \$25 million, mixed-use project at the northeast corner of 61st Street and Metcalf Avenue in Mission, KS. Mission Crossing will feature 20,000 square feet of retail building and approximately 140,000 square feet of residential space.

Giving Back

Saturday May 1st, LANE4 participated in the "Heartstrings in Bloom" dinner, dance & auction. Over 200 people gathered at the Indian Hills Country Club for an evening of elegant dining and dancing, raising over \$56,000 to benefit the Heartstrings Community Foundation®. HCF® is a unique, non-profit organization that provides employment opportunities for adults with developmental disabilities. LANE4's Gwen Locher is a member of the Heartstrings board of directors; LANE4 is a partner with Heartstrings Community Foundation's Goody Delivery® business and Custom Gift Basket business.

LANE4 Property Group

LANE4 Property Group specializes in tenant representation, project leasing, property management, receivership, development, project management and investment sales throughout the Midwest. Visit our website for up-to-date information on our current projects and services.

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Kansas City Leasing Data

KC-MSA Shopping Center Retail ⁶			
	Q2-09	Q2-10	Change
Total GLA	63,859,153	64,536,178	1.1%
Avg Lease Rate	\$12.80	\$12.99	1.5%
Avg Vacancy Rate	11.9%	12.1%	0.2%

KC-MSA Office ⁶			
	Q2-09	Q2-10	Change
Total GLA	105,438,772	105,671,180	0.2%
Avg Lease Rate	\$17.72	\$18.01	1.6%
Avg Vacancy Rate	12.80%	13.40%	0.6%

National & Regional Trends

Housing Starts (1,000s) ⁷				Housing Completions (1,000s) ⁷			
Q2	'09	'10	Change	Q2	'09	'10	Change
U.S.	154.2	171.5	11.2%	U.S.	204.6	194.9	-4.7%
Midwest	27.6	31.3	13.4%	Midwest	29.4	33.7	14.6%

U.S. Food & Retail Sales ⁸		Business Conditions Index ⁹			
Period	In Billions	2010	Apr	May	June
Q2-07	\$1,101.8	Missouri	55.5	58.8	58.5
Q2-08	\$1,128.6	Kansas	62.1	62.3	51.1
Q2-09	\$1,019.1	Mid-America	61.7	64.2	62.5
Q2-10	\$1,088.2				

Unemployment Rate (%) ¹⁰			Consumer Price Index ¹⁰			
	July '09	July '10	2010	Apr	May	June
Midwest	10.2	9.5	Midwest	207.8	208.0	207.9
U.S.	9.5	9.5	U.S. City Avg.	218.0	218.2	218.0

Job Openings & Turnover ¹¹			
Midwest (1,000s)	Q1-09	Q1-10	Change
New Hires	2,499	3,861	54.50%
Job Openings	1,637	1,733	5.86%
Total Separations	3,366	2,683	-20.29%
U.S. (1,000s)	Q1-09	Q1-10	Change
New Hires	11,258	11,319	0.54%
Job Openings	8,277	8,345	-25.87%
Total Separations	14,614	11,986	-17.98%

Sources: ⁶CoStar: Total existing space, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2009 & 2010 percentages. ⁷U.S. Census Bureau. Data not seasonally adjusted. ⁸U.S. Census Bureau. Data seasonally adjusted. ⁹Creighton 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. ¹⁰U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. CPI for all urban consumers, not seasonally adjusted. ¹¹U.S. Bureau of Labor Statistics. Total nonfarm employment. Data not seasonally adjusted.