

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FIRST QUARTER
2015

Understanding the Benefits of Public-Private Partnerships

Financial Incentives granted by municipalities for real estate projects have often been misunderstood by the general public and the subject of much debate as they relate to the building or renewing of our cities. Frequently, two differing sides form in a public hearing to argue for and against the use of incentives and the value that they bring or do not bring in forming a partnership between a city, county or state and a real estate developer on a project specific basis.

Having a base knowledge of how development incentives work is crucial to understanding the arguments for the use of them on a project by project basis. While there are a myriad of incentives that are available under state or local statute, this article will focus on the most frequently used and discussed tools that bind private projects with a public partnership. Perhaps one of the easiest to understand is a self-levied and imposed sales tax on a project or district such as a Community Improvement District or CID. Community Improvement Districts are designed to help improve the community by bettering conditions for existing businesses, and attracting new growth. Community safety, beautification, business retention, economic growth, and capital improvements are all domains in which CIDs can help improve business-minded communities. Different CIDs have different focuses, depending on the needs of the community they serve. In Kansas City, the Downtown and River Market CIDs, for example, employ Maintenance or Safety Ambassadors that patrol the areas offering directions, information, help with bus routes, or even an escort to your car³. Additionally, Developers can utilize a CID to reimburse the project for extraordinary project costs that relate to site-work, parking, landscaping or other building and hardscape improvements. For example, if a Developer seeks and is granted approval for a .5% CID and the existing sales tax rate is 8%, consumers will be charged 8.5% when purchasing an item that is taxable and the .5% will be rebated back to the project for the approved uses described above.

Tax Increment Financing, or TIF, is another tool that creates a public-private partnership and is often the subject of much debate on development projects. Tax Increment Financing pledges future tax gains (both real estate as well as sales) to finance the improvements which will result in those gains. TIF is designed to channel funding toward improvements in areas where development/redevelopment may not otherwise occur. When an area is developed or redeveloped, there is an increase in the value of the property itself or sales taxes generated from businesses on the property. The increased site value and investment creates more taxable property, which increases tax revenues. The increased property tax or sales tax revenues are the "tax increment." TIFs pledge the future increased revenue for repayment of eligible costs associated with the improvements⁴. The important word to understand is increment. The municipality granting a TIF will continue to receive the base property and sales tax that existed prior to the property being approved. The Developer will capture only the incremental increase between this base amount and the sales and property taxes generated by the project. More often, the developer and municipality will arrange to share this increment between themselves. But for the new project and investment by the developer, the community would likely continue to receive only the base tax amount, often with little hope for increase. It is also important to note that TIFs themselves do not result in-

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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 2014 & 2015 percentages. ²Kansas City Area Development Council. ³City of Overland Park, Kansas. 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.

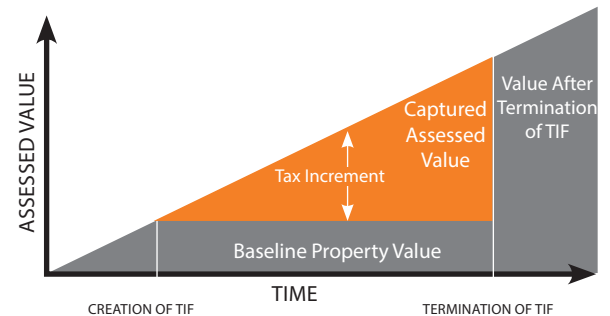
Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail ¹			
	Q1 2014	Q1 2015	% Chg
Total GLA (s.f.)	108,277,196	110,364,847	2%
Avg Lease Rate	\$12.58	\$12.29	-2%
Avg Occupancy Rate	91.4%	91.7%	0.3

KC's Largest Lease Signings 2014 ¹		
Location	Tenant	Size
14401 W Metcalf Ave	Boundless	36,284 sf
Colonnade Shopping Center	This, That & the Other Thrift Store	12,000 sf
7251-7279 W 105th St	Desi Fresh, Inc.	10,808 sf

Avg. Total Retail Vacancy ¹		Avg. Lease Rate ¹	
Period	Vacancy Rate	Lease Rate	
Q1 2015	8.3%	\$12.29	
Q1 2014	8.3%	\$12.54	
Q1 2013	8.8%	\$12.43	
Q1 2012	9.0%	\$12.45	

EXAMPLE TIF MODEL



National & Regional Trends

U.S. Food & Retail Sales ⁴		Business Conditions Index ⁵			
Year	In Billions	2015	Jan	Feb	Mar
Q1 2015	\$ 1,318.5	Missouri	56.1	56.8	52.1
Q1 2014	\$ 1,289.6	Kansas	53.8	52.7	50.7
Q1 2013	\$ 1,254.2	Mid-America			
Q1 2012	\$ 1,204.8		54.8	57	51.4

Unemployment Rate ⁶		Consumer Price Index ⁶				
Month	'14	'15	2015	Jan	Feb	Mar
Midwest	6.6	5.5	Midwest	221.5	222.3	223.6
U.S.	6.3	5.0	U.S. City Avg	233.7	234.7	236.1

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creased property tax rates or increased sales tax rates. Frequently developers will propose projects that may be funded by the use of special obligation bonds or on a pay-as-you-go basis, therefore they take the risk of the future increments created and financing of same.

Only a small portion of real estate developments require the use of CID, TIF or other development incentives that require municipal approvals. These tools are reserved for projects that require the financial assistance necessary to make them a reality-- often a gap in extraordinary project costs or removal of blight to create dynamic new areas in communities. The result of successful use of public incentives is growth in an area that may not have otherwise been developed. The benefits are exponential, as the improved commercial areas feed the value of the surrounding community, and the growing community feeds the success of the commercial areas.

Polsinelli Law specializes, among other things, in Economic Development, Infrastructure, and Public Private Partnerships. Shareholder Korb Maxwell often describes the use of incentives as instrumental to economic development. "TIF, CID, tax abatements and tax credits can be invaluable tools not only for the developers trying to complete projects and the municipalities trying to spark development or redevelopment, but also the communities and neighbors of these projects."

For example, a CID was formed for the Corinth Shopping Center in Prairie Village, Kansas which allowed for a substantial renovation and beautification of the center. The city found that home values in and around the property have increased as a direct result of this. Additionally, the center is featured by realtors as a benefit when selling or buying a home due to the proximity to quality shops and restaurants that are now there but would not have been attracted to the center prior to the renovation. The shops and restaurants continue to thrive as their base of customers continues to grow. The use of incentives is, and should be, truly viewed as a partnership between developers, municipalities, and the community. When utilized correctly, the benefits are reciprocated to all involved.

Hunter Harris, Partner

VISIT LANE4 at ICSC ReCon 2015

South Upper Hall #276R
Corner of R Street and 27th Ave.

LANE4 Property Group will be located within the X-Team International booth at the ICSC ReCon in Las Vegas from Sunday, May 17 - Wednesday, May 19, 2015.

We hope to see you there!

About LANE4 Property Group

LANE4 provides its clients the best position from which to succeed. The firm offers a competitive 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 ⁷			
County	Mar. 2014	Mar. 2015	% Chg
Cass County, MO	\$148,459	\$186,222	25%
Clay County, MO	\$172,780	\$172,409	0%
Jackson County, MO	\$140,038	\$145,149	4%
Platte County, MO	\$221,718	\$233,099	5%
Johnson County, KS	\$258,822	\$280,094	8%
Leavenworth County, KS	\$164,697	\$160,970	-2%
Miami County, KS	\$143,571	\$189,507	32%
Wyandotte County, KS	\$78,406	\$103,194	32%
Kansas City Region	\$175,631	\$194,600	11%

Residential Building Permits- Year To Date ⁸			
March	2014	2015	% Chg
Cass County, MO	51	54	6%
Clay County, MO	153	535	250%
Jackson County, MO	341	396	16%
Platte County, MO	85	71	-16%
Johnson County, KS	961	560	-42%
Leavenworth County, KS	44	38	-14%
Miami County, KS	47	10	-79%
Wyandotte County, KS	13	17	31%
Kansas City Region	1697	1681	-1%

Giving Back

This quarter, LANE4 employees volunteered to help facilitate the 22nd Annual SAFEHOME Golf Tournament, benefitting SAFEHOME: Support for Survivors of Domestic Violence.

SAFEHOME provides a healing atmosphere where survivors of domestic violence can gain inner strength, build self-esteem, explore options, and establish a life free of violence. Through SAFEHOME's shelter and community services, approximately 7,500 individuals each year receive the support they need to lead healthy, independent lives.

For more information about SAFEHOME, visit www.safehome-ks.org.

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