

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

THIRD QUARTER
2017

Co-working: Transforming the Office Real Estate Industry

You have likely read in numerous reports how technology is disrupting and transforming the traditional retail real estate industry. What hasn't been as well reported is how "the gig culture" is beginning to disrupt and reshape the traditional office real estate industry. In the retail marketplace, the disruption occurred with consumers rapidly accepting online shopping as an alternative to visiting a physical store. In the office space market, the disruption occurs as technology continues to empower an increasingly mobile workforce, which enables the rapid acceptance of co-working spaces as an alternative to a private office. In other words, technology is not only transforming how we *shop* but also how we *work*.

Co-working space describes a membership-based model offering a shared office environment. The co-working operator does not lease exclusive-use spaces and collect rents, but instead collects fees for managing a service. Typically, co-working facilities feature high levels of design, open floor plans, hip furniture, gigabit speed internet, coffee bars, access to conference rooms and private offices, networking events, and the use of printers, scanners, and other business tools. Use of the facility is available to anyone who pays a monthly membership fee.

Co-working spaces appeal especially to the growing cohort of free lancers, consultants and start-ups seeking flexible and affordable places to work, other than their kitchens or Starbucks, without having to sign long-term leases. The U.S. Bureau of Labor Statistics estimates that self-employment will grow from 30% to 40% of the total workforce within the next five years. More significantly, larger enterprises are utilizing the plug and play aspect of co-working space as an integral part of their company's space needs. The model allows companies to immediately set up business units to create fast-scaling project teams while dodging the time delay of finding, building out, and furnishing office space, along with avoiding the liability if their product fails to succeed. Co-working is also cost effective since it provides flexibility without having to determine space needs five years or more down the road.

HSBC recently staffed 300 employees inside a space operated by WeWork, whose membership roster also includes significant business units from the likes of Microsoft, GE, Dell, SalesForce, and Deutsche Bank. Start-up company WeWork, the largest operator of co-working facilities globally, is now valued at \$20 billion. The company has grown from 1,000 members in two locations in 2010 to over 130,000 members in 163 locations today, including a recently opened 40,000 sf space in the Crossroads Arts District in Kansas City.

Continued on the next page.

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 2016 & 2017- percentages. ²Emergent Research. ³U.S. Census Bureau: Estimated monthly. 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. ⁷Home Builders Association of Greater Kansas City. Total units YTD as of September 2017.

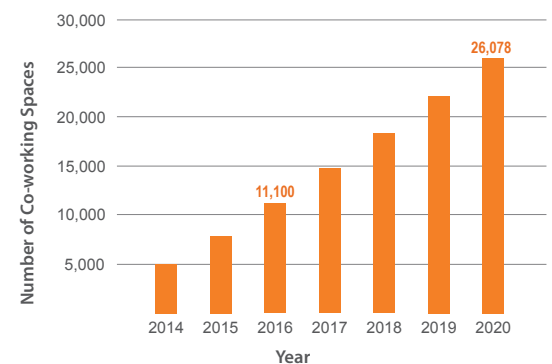
Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail ¹			
	Q3 2016	Q3 2017	% Chg
Total GLA (s.f.)	112,806,715	134,647,876	19.36%
Avg. Lease Rate	\$12.83	\$12.93	0.78%
Avg. Occupancy Rate	94.0	94.3	0.32%

KC's Largest Lease Signings - 2017 YTD ¹		
Submarket	Tenant	Size (sf)
Northeast Johnson County	Floor & Décor	81,322
1-29 Corridor	Hillcrest Thrift Shop	42,500
I-35 Corridor	Concordia Pharmaceuticals	26,594

Avg. Total MSA Vacancy ¹		
Period	Vacancy Rate	Lease Rate
Q3 2017	5.7	\$12.93
Q3 2016	6.0	\$12.83
Q3 2015	7.6	\$12.52
Q3 2014	8.0	\$12.24

Global Co-working Forecast²



National & Regional Trends

U.S. Food & Retail Sales ³		Business Conditions Index ⁴			
Period	In Millions	2017	July	Aug.	Sept.
Q3 2017	\$1,437,126	Missouri	52.3	61.1	63.9
Q3 2016	\$1,383,247	Kansas	45.9	42.8	43.6
Q3 2015	\$1,348,491	Mid-America	56.1	57.5	58.2
Q3 2014	\$1,313,929				

Unemployment Rate ⁵			Consumer Price Index ⁵			
Sept.	'16	'17	2016	July	Aug.	Sept.
Midwest	4.7	4.2	Midwest	229.8	230.4	231.0
U.S.	4.9	4.2	U.S. City Avg	244.8	245.5	246.8

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Continued....

Co-working operators are taking advantage of the downsizing retail real estate market. For example, WeWork is in the process of purchasing the iconic Lord and Taylor department store on Fifth Avenue in New York City and will lease back the lower two floors to the retailer while converting the upper floors to co-working space. Furthermore, Lord and Taylor's parent company, Hudson's Bay Company, has reached deals to put WeWork into the upper floors of its stores in Vancouver, Toronto and Frankfurt, Germany. According to Richard Baker, Chairman of Hudson's Bay, "The co-working operator will drive those young, millennial, WeWork members through our retail stores for them to have beautiful office space – with high ceilings and big windows – and it's a real win-win."

Currently, co-working space represents only 1% of commercial office space across the country, but it's poised for exponential growth. A recent global co-working study expects the industry to grow by 22% next year and expand to 13,800 locations. In the U.S. where there are currently 400,000 to 500,000 co-working members, the market potential is huge as there are already 17 million Americans taking on independent full-time work.

Let me remind you that it was just a few short years ago that e-commerce represented only 1% of retail sales in the U.S. That number is now up to 10%, and look at how it has changed the landscape for traditional retailers and property owners. Can we expect similar consequences for commercial office building owners as co-working continues to displace the demand for traditional office space? This question needs attention, but one thing is clear: co-working is here to stay.

Patrick Peery, Senior Retail Specialist

Giving Back

This quarter, LANE4 sponsored Tour de BBQ, which is all about combatting cancer and having fun! Participants choose between three non-competitive bike routes and enjoy samples from some of Kansas City's famous barbeque restaurants at each rest stop. Kansas City's "tastiest event on two wheels" donates all proceeds to the University of Kansas Cancer Center and Children's Mercy Hospital to benefit pediatric oncology patients as they transition to adult care.

Tour de BBQ was pioneered by a group of young, local professionals in 2009 and has since donated nearly \$500,000 to fight cancer in Kansas City. To learn more about Tour de BBQ and its mission, please visit www.kc.tourdebbq.com.

About LANE4 Property Group

LANE4 provides its clients the best position from which to succeed. The firm offers an 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 ⁶			
County	Sept. '16	Sept. '17	% Chg
Cass County, MO	\$212,274	\$206,984	-2.5%
Clay County, MO	\$198,896	\$208,370	4.8%
Jackson County, MO	\$179,749	\$188,621	4.9%
Platte County, MO	\$261,805	\$264,046	0.9%
Johnson County, KS	\$295,799	\$306,343	3.6%
Leavenworth County, KS	\$176,190	\$197,312	12.0%
Miami County, KS	\$194,649	\$166,491	-14.5%
Wyandotte County, KS	\$131,214	\$139,970	6.7%
Kansas City Region	\$206,322	\$209,767	1.7%

Residential Building Permits-YTD ⁷			
County	Sept. '16	Sept. '17	% Chg
Cass County	495	513	4%
Clay County	1,336	920	-31%
Jackson County	1,570	1,679	7%
Platte County	733	368	-50%
Johnson County	3,061	2,232	-27%
Leavenworth County	181	186	3%
Miami County	205	82	-60%
Wyandotte County	210	280	33%
Kansas City Region*	7,791	6,260	-20%

*The Kansas City Region total decline reflects a major drop in multifamily housing permits from 3,531 units YTD in September 2016 to 1,621 units YTD in September 2017.

For. Your. Information.

LANE4 Continues to Grow

Welcome Monita Ireland, R.A.

Monita joined the development team as a new Project Manager and will oversee the management and coordination of all LANE4 and third-party development project activities.



XTEAM

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