

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FOURTH QUARTER
2018

2019 Retail Trends

A LOOK AT THE FACTORS AFFECTING THE RETAIL INDUSTRY IN THE COMING YEAR

THE RETAIL "APOCALYPSE"

"When is the retail apocalypse coming?" you ask. Keep waiting. Many of the news outlets are citing the end of retail as we know it, and they are right in many respects. Only, it's not dying...the retail industry is getting smarter and that is ultimately being driven by the consumer. There may not be as many large-scale, ground-up retail developments under construction as there were before the recession, but there is still a very active retail market. In this case the revival is being driven by technology, and the repurposing of older buildings in infill markets.

Over the last few years the most active tenants backfilling vacancies have been restaurants, fitness/wellness uses, entertainment venues, financial services, and medical/urgent care facilities. The common thread to these categories is that they are internet-resistant in many respects.

As we find ourselves entering a new year, the following topics are sure to be storylines into 2019 and beyond.

TECHNOLOGY'S IMPACT

Retailers and landlords alike are looking for new ways to differentiate themselves from their competition, and one of the best ways to accomplish that today is embracing new technologies. Obviously, the internet has had a tremendous impact on consumer habits, but the influence of technology goes way beyond online sales. Quite simply, there is more data out there today to help influence smarter decisions. Real estate investors have become accustomed to, and expect, more data to prove an investment thesis. Retailers are changing the ways they appeal to consumers based on massive amounts of consumer data, and consumers expect a combination of experience and convenience provided by new emerging technologies.

A direct result of the rise in internet sales, retailers have been reducing their footprints for a more efficient use of space. This has affected how landlord's plan their investment strategies, and how tenants define their real estate criteria. Over the last few years, retailers have been forced to decide between investment in technology to increase their web presence, versus investment in their brick and mortar stores.

We will continue to see the use of apps and other marketing tools to improve in-store and online experiences to solidify market share. While the internet has pulled sales away from brick-and-mortar locations, other technologies have improved sales by providing better in-store experiences, rapid pick-up, and 'last mile' deliveries. This combines the ease of internet shopping with the experience provided by a physical location.

DAVID VS GOLIATH

In the battle between publicly traded retailers, and small 'mom and pop' tenants,

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. ²Emarketer.com. *Future year data based on forecasting. 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 December 2017.

Kansas City Sales & Leasing Data

KC MSA Shopping Center Retail ¹			
	Q4 2017	Q4 2018	% Chg
Total GLA (s.f.)	159,446,972	160,243,685	0.50%
Avg. Lease Rate	12.38	\$12.96	4.68%
Avg. Occupancy Rate	94.7%	94.7%	0.00%

KC's Largest Retail Lease Signings - 2018 Year End ¹		
Submarket	Tenant	Size (sf)
North Johnson County	Lowe's	165,000 sf
Northeast Johnson County	Hobby Lobby	68,971 sf
South Kansas City	Sunfresh	38,000 sf

Avg. Total MSA Vacancy ¹		
Period	Vacancy Rate	Lease Rate
Q4 2018	5.3%	\$12.96
Q4 2017	5.3%	\$12.38
Q4 2016	6.2%	\$12.95
Q4 2015	7.7%	\$12.56

Average Lease Rate by Submarket			
Submarket	2017	2018	% Change
Northwest Kansas City	\$14.55	\$16.06	10.38%
Northeast Kansas City	\$12.42	\$14.74	18.68%
Central Kansas City	\$12.44	\$15.72	26.37%
South Kansas City	\$12.52	\$12.52	0.00%
Southeast Trade Area	\$13.15	\$14.01	6.54%
Eastern Jackson County	\$11.30	\$10.93	-3.27%
North Johnson County	\$12.53	\$13.98	11.57%
South Johnson County	\$16.67	\$16.30	-2.22%
Wyandotte County	\$8.35	\$7.91	-5.27%
KANSAS CITY MARKET	\$12.66	\$13.57	7.23%

National & Regional Trends

U.S. Food & Retail Sales ³		Business Conditions Index ⁴			
Period	In Millions	2018	Oct.	Nov.	Dec.
Q4 2017	\$1,529,642	Missouri	52.5	54.7	53.9
Q4 2016	\$1,475,273	Kansas	51.4	51.6	49.7
Q4 2015	\$1,396,309	Mid-America	54.9	54.1	55.2
Q4 2014	\$1,348,620				

Unemployment Rate ⁵			Consumer Price Index ⁵			
December	2017	2018	2018	Oct.	Nov.	Dec.
Midwest	3.8%	3.7%	Midwest	235.7	234.3	233.5
U.S.	4.1%	3.9%	U.S. City Avg	252.0	252.2	251.2

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Continued....

the tables have been leaning in favor of the latter for the last couple years after decades of control by the 'big guys'. We are seeing an equilibrium as it is common to see more local tenants opening for business in centers that have traditionally been occupied by tenants with corporate credit. Landlords have found value in the unique experiences provided by mom and pop retailers to shake up a center's tenant mix.

INFILL MARKETS

Infill markets, which are located in built-up areas with few large tracts of developable land, will continue to see activity in 2019 and beyond as they have over the last few years. The central Kansas City submarket has seen a significant amount of growth led by ground up multifamily developments which are, in turn, strengthening retail opportunities. This trend is consistent across the county in second tier cities as residents look to move out of major metropolitans like NYC, San Francisco, and LA, into more affordable urban areas that host the amenities of a big city, but on a much smaller scale.

'CAUTIOUS PESSIMISM?'

In direct opposition to previous Retail Reports that cited 'cautious optimism,' we are now seeing 'cautious pessimism' to a certain degree. Rather than seeing investors trickle back into the retail markets as we pulled out of the Great Recession, real estate professionals are now starting to feel that we may have reached the top of an economic cycle. Transaction volumes remain strong, but many decision makers are waiting to see how interest rates and rising construction costs will squeeze profit margins.

With three interest rate increases in 2018, and the expectation for more in 2019, most investors are preparing for the impending hikes and a softening of the economy. Depending on the asset class, cap rates are generally starting to increase to absorb the higher cost of capital.

Brandon Buckley, Vice President

This article was originally included in the 2019 Kansas City Retail Report published by LANE4. To download the full report, [click here](#).

Giving Back

This year, LANE4 continued its tradition of adopting families from a nearby elementary school, surprising a total of eight children with bundles of gifts. These families were identified by school staff members who knew they could use a helping hand this holiday season.

LANE4 employees teamed up to purchase clothing, toys and games for the children and sent the gifts, along with stockings and giftcards for each of the families, to the school just in time for the holiday break. Our team has come to enjoy and value this relationship with the local elementary immensely and looks forward to continuing to work with them in the future.

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.

All information furnished is from sources deemed to be reliable, but no warranty or representation is made as to the accuracy thereof and the same is subject to errors, omissions, changes, or other conditions.

Kansas City Housing

Average Home Price ⁶			
County	Dec. '17	Dec. '18	% Chg
Cass County, MO	\$227,767	\$225,451	-1.02%
Clay County, MO	\$210,087	\$217,688	3.62%
Jackson County, MO	\$183,604	\$199,584	8.70%
Platte County, MO	\$287,537	\$277,601	-3.46%
Johnson County, KS	\$322,472	\$346,922	7.58%
Leavenworth County, KS	\$198,947	\$225,421	13.31%
Miami County, KS	\$267,894	\$287,122	7.18%
Wyandotte County, KS	\$134,038	\$159,395	18.92%
Kansas City Region	\$229,043	\$242,398	5.83%

Residential Building Permits - Year End ⁷			
County	2017	2018	% Chg
Cass County	687	511	-26%
Clay County	1142	953	-17%
Jackson County	2081	2574	24%
Platte County	745	520	-30%
Johnson County	3282	3795	16%
Leavenworth County	253	283	12%
Miami County	119	97	-18%
Wyandotte County	322	185	-43%
Kansas City Region*	8,631	8,918	3%

For. Your. Information.

2019 X Team Retail Advisors Conference

in Newport Beach, California

Each year, the LANE4 brokerage team travels to the Xteam Retail Advisors Real Estate Conference. Hosted by rotating members, this year's conference was held in Newport Beach, California and included firms from over 25 major US and Canadian markets.

The conference includes speakers, open sessions, and presentations from various individuals representing different markets and aims to educate participants on trends and topics affecting retailers and real estate across the nation.

XTeam Retail Advisors is an international alliance of retail real estate specialists with offices located in major cities throughout the U.S., Canada and Europe. XTeam partners average more than 20 years of industry experience, with expertise in major markets worldwide, specializing in tenant, property and developer/landlord representation, workout services, property dispositions and retail investments. XTeam services include transaction negotiation, portfolio analysis, lease valuations, acquisitions, and asset assessment and valuation. For more information, please visit www.xteam.net.



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