

# THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

THIRD QUARTER  
2014

## Fresh, Natural, Booming. The New Wave of Grocery

Astute observers of trends in consumer behavior have long-noted the changing preferences of today's grocery shopper toward more natural, organic, locally grown and fresh products in their food choices. We have all seen the result of this trend in the aisles of our neighborhood supermarkets as the operators remodel stores with expanded produce offerings, dedicated sections for natural and health foods, and more fresh prepared foods. We have also seen this trend result in the appearance of new grocery stores dedicated exclusively or substantially to natural, organic and fresh merchandise. Whole Foods was the early adopter of this concept of grocery store marketing and has thrived by rapidly growing into a 375+ store national chain with annual revenue now topping \$13 billion.

Early in its growth cycle, Whole Foods located its stores in densely populated, urban areas with demographics featuring a high percentage of well-educated young professionals. This demographic was proactive in demanding food choices that responded to their desire to live a healthier, more sustainable lifestyle; foods that were less processed, organically grown, and sold closer to where they were sourced. At that time, essentially the only stores offering natural and organic food were the local cooperative and the local farmer's market. However, as the consumer demand for local, natural and organic foods became more mainstream, grocery stores with this merchandising concept could be successfully operated in trade areas with broader demographics. Hence, we now see Whole Foods opening new stores in suburban neighborhoods.

Witnessing the enormous success of Whole Foods, the industry has seen several new start-ups emerge to capitalize on this demand. Seeing an opportunity, investors, entrepreneurs, and established grocery retailers began to develop new retail store concepts to meet this demand. These companies began with one or two test stores to prove the concept. Once proved, they began the rapid roll out stage of growth. These stores have several features in common; they are typically smaller in size than traditional supermarkets, feature a farm-to-market branding approach, offer an easy to shop floor plan, a bright, airy atmosphere and knowledgeable staff. Sensing that their market opportunity might not last long given the number of entrants into the field, these companies are now rapidly rolling out their stores in attempt to be first in a market and gain a competitive position.

In addition to Whole Foods, companies in this category that are currently in the roll-out stage include Sprouts Farmers Market, The Fresh Market, Lucky's Market, Natural Grocers, Fairway Market and Mrs. Green's Natural Market among others. Other, more established companies, have re-invented their stores and several large established companies have even developed new store concepts to capture their part of this new market. Meijer, for example, the large privately held operator of large format supercenter stores in the Midwest, has launched its version of the concept, dubbed Fresh Thyme Farmers Market.

*Continued on the next page.*

Sources: <sup>1</sup> CoStar: Total existing space, for all retail and office types, including direct and sub-lease. Change for Average Vacancy Rate represents the difference between 2013 & 2014 percentages. <sup>2</sup> Shopping Center Database, Inc.: PlainVanillaShell.com, Copyright 2014 <sup>3</sup> U.S. Census Bureau: Estimated monthly. <sup>4</sup> Creighton 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. <sup>5</sup> U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. <sup>6</sup> Kansas City Regional Association of Realtors. Average sales price of new & existing homes. <sup>7</sup> Home Builders Association of Greater Kansas City. Residential Building Permit Statistics: Single and Multifamily Units Year-to-Date

## Kansas City Sales & Leasing Data

KC MSA Total Retail Market Statistics <sup>1</sup>			
	Q3 2013	Q3 2014	% Chg
Total GLA (s.f.)	108,830,457	109,780,093	1%
Avg Lease Rate	\$ 12.38	\$ 12.39	0%
Avg Occupancy Rate	91.5%	91.5%	0%

KC's Largest Lease Signings - 2014 YTD <sup>1</sup>		
Location	Tenant	Size
Independence, MO	Drive Time	31,041 sf
West Park Shopping Center	Johnson County Community College	29,000 sf
Wyandotte Plaza Shopping Center	Marshall's	21,581 sf

Avg. Shopping Center Vacancy <sup>1</sup>	
Period	Rate
Q3 2014	11.9%
Q3 2013	11.4%
Q3 2012	12.5%
Q3 2011	13.4%

## Retail Snapshot

Natural Grocery Store Concepts		
Retailer	Current # of Stores	Preferred GLA
Whole Foods Market	385	18,500 - 80,000 sf
Sprouts Farmers Market	182	27,000 - 30,000 sf
The Fresh Market	150	18,000 - 25,000 sf
Natural Grocers	110	5,000 - 16,000 sf
Mrs. Green's Natural Market	22	7,500 sf
Fairway Market	17	35,000 sf
Lucky's Market	13	20,000 - 30,000 sf
Fresh Thyme Farmers Market	10	24,000 - 28,000 sf

## National & Regional Trends

Period	U.S. Food & Retail Sales <sup>4</sup> In Billions	Business Conditions Index <sup>5</sup>			
		2014	July	Aug	Sept
Q3 2014	\$1,328.3	Missouri	59	59.2	57.7
Q3 2013	\$1,271.2	Kansas	57.2	63.8	69.7
Q3 2012	\$1,217.9	Mid-America			
Q3 2011	\$1,162.3		57	57.2	54.3

September	Unemployment Rate <sup>6</sup>		Consumer Price Index <sup>6</sup>			
	'13	'14	2014	July	Aug	Sept
Midwest	7.1	5.7	Midwest	227.0	226.6	227.0
U.S.	7.2	5.9	U.S. City Avg	238.3	237.9	238.0

## Continued....

Sprouts began with a single store in 2002, and has since acquired Henrys Farmers Market in California and Sunflower in Colorado. The company expects to have 200 stores open by the end of 2014. The Fresh Market became a public company with an IPO in 2010, and now operates 170 stores in the South, Midwest and California. Fairway Market is gaining tremendous acceptance with this concept in the New York City market. Lucky's Market, based in Colorado, has stores open in 10 states. Mrs. Green's Natural Market, with a core group of stores in NYC suburbs, recently opened with strong success in Chicago. Natural Grocers, by Vitamin Cottage, has opened stores in 16 states.

The real estate landscape in cities across the country is seeing newfound demand for space from a category of retail that just a few short years ago did not even exist. We certainly see it happening in the Kansas City market. Within the past year, both Sprouts and The Fresh Market opened new stores on the 135th street corridor in Johnson County. Sprouts also opened in a former Kmart in Lenexa. Whole Foods will be opening soon in Olathe. Natural Grocers opened three stores in Johnson County within the last 12 months. Lucky's Market has opened one store in Columbia and is scouting locations in the Kansas City market. Fresh Thyme has opened several stores in St. Louis and will be opening three more next year.

The largest problem these growing retailers encounter when selecting sites for new stores is that many established retail locations already have a grocery component and are restricted from use by a competitor. The other significant issue they face is the sheer number of new competitors in this category vying for the same spaces and consumers.

What does the future of natural and organic specialty food retailers hold? The next phase of this business cycle will surely be consolidation. Which of the market participants will survive, which will be acquired and which will fail? Will the category end up being controlled by the larger full line supermarkets and supercenters? What does this mean for the future of the small neighborhood grocery store that does not offer a strong presentation of natural, organic and fresh products? These questions await to be answered in the future. For now, for real estate owners who have 25,000 to 40,000 sf spaces in a retail center that does not already contain a competing grocer, now may be the "Time for Gettin' while the Gettin's Good."

*Pat Peery, LANE4 Senior Retail Specialist*

## Giving Back

LANE4 is a regular supporter of the Mid America Chapter of the National Multiple Sclerosis Society. The National MS Society is a collective of passionate individuals who want to do something about MS now—to move together toward a world free of multiple sclerosis. MS stops people from moving. The National MS Society exists to make sure it doesn't.

For more information on the National Multiple Schlerosis Society and the Mld America Chapter, visit [www.nationalmssociety.org](http://www.nationalmssociety.org).

### 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 <sup>1</sup>			
County	Sept '13	Sept '14	% Chg
Cass County, MO	\$153,159.00	\$163,078.00	6%
Clay County, MO	\$160,875.00	\$169,908.00	6%
Jackson County, MO	\$146,280.00	\$159,172.00	9%
Platte County, MO	\$193,321.00	\$205,636.00	6%
Johnson County, KS	\$260,414.00	\$269,870.00	4%
Leavenworth County, KS	\$169,204.00	\$167,947.00	-1%
Miami County, KS	\$150,454.00	\$162,000.00	8%
Wyandotte County, KS	\$86,053.00	\$101,921.00	18%
<b>Kansas City Region</b>	<b>\$183,559.00</b>	<b>\$192,335.00</b>	<b>5%</b>

Residential Building Permits-YTD <sup>1</sup>			
County	Sept. '13	Sept. '14	% Chg
Cass County, MO	158	179	13%
Clay County, MO	494	1001	103%
Jackson County, MO	991	1402	41%
Platte County, MO	310	620	100%
Johnson County, KS	2,628	2,446	-7%
Leavenworth County, KS	134	162	21%
Miami County, KS	43	31	-28%
Wyandotte County, KS	432	453	5%
<b>Kansas City Region</b>	<b>5,190</b>	<b>6,294</b>	<b>21%</b>

## For. Your. Information.

### LANE4 Continues to Grow

*Welcomes Emilee and Skip*

LANE4 recently made two additions to the team, Emilee Weltner and Skip Rosenstock.

Emilee joins the sales team as an Associate Broker. With her experience in sales and passion for commercial real estate, Emilee is a clear fit for LANE4's sales team.

Skip Rosenstock brings over 25 years of experience to the LANE4 Property Management team as a Senior Property Manager. His years of wisdom and knowledge in managing commercial properties will allow the LANE4 Property Management department to continue its steady expansion.

*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.*

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