

THE ORANGE REPORT

FIRST QUARTER 2019

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

THE "CANNABIS CRAZE"

How the legalization of marijuana and hemp are affecting Retail and Commercial Real Estate

CBD, THC, marijuana, hemp, cannabis, medical marijuana—What is the difference? And how will they each affect retail consumer shopping going forward? The legalization of marijuana in various forms is spreading across the United States, this we know. Since 2014 and the legalization of cannabis in Colorado, 33 states have legalized cannabis for medical use and another ten states plus the District of Columbia have followed suit by legalizing it for recreational use as well. However, it remains illegal to buy, sell or distribute cannabis on a federal level. December 2018 marked another "marijuana milestone," when legislation passed the Agriculture Improvement Act, legalizing hemp nationwide.

Cannabidiol, better known as CBD, is the non-psychoactive ingredient found in cannabis plants. CBD has recently been found to have analgesic, anti-inflammatory and anti-anxiety properties, without any psychoactive side effects. Tetrahydrocannabinol, or THC on the other hand, is the psychoactive ingredient which gives users an altered state of mind when ingested or inhaled into the body. Both hemp and marijuana are part of the cannabis family, however hemp is derived from a completely different species of plant and offers almost no THC. The uses of hemp are numerous, and none of them involve getting you high. At last count, hemp was known to have over 25,000 possible applications ranging from automobile and construction to dietary supplements and skin products.

So, while the uses of each of these products, and the laws which govern their use vary state to state, one thing is certain: these products are, and will continue to, create astronomical sales revenue that is hard to match by traditional merchandise. Wall Street has estimated that the cannabis industry will generate \$50 to \$75 billion in sales by the end of the next decade.

CBD is the simpler of the products on the market for the time being; as long as it is derived from hemp, it is legal to sell in all 50 states. But CBD isn't just popping up in dedicated brick-and-mortar stores, we're seeing it in many other uses. Lotions, creams, drinks, snacks, cosmetics, and massage oils are just a few of the products being infused with CBD. Domestic consumer interest in all products containing CBD is estimated at roughly 40% of adults age 21 and over, according to the Cannabis Times. Consumers previously unaware of CBD are rapidly developing interest in its vowed help to relieve symptoms associated with seizures, anxiety, pain, depression, sleeplessness and countless additional conditions. It's important to note that while supporters believe CBD may be the answer to so many ailments, there still is fairly little evidence to support its remedial claim.

Simon Property Group, the largest mall owner in the country, announced in February that they'll be partnering with a marijuana company based in Ohio to open 108 locations within their malls to sell CBD products, calling this a "cutting-edge new concept." Pharmacy giants Walgreens and CVS have both stated they will begin selling CBD products including creams, patches and sprays, in a combined 2,300+ stores across the United States within the year. The demand for CBD infused products is so high, landlords who previously would not have given a serious thought to these enigmatic tenants in their shopping centers are now forced to rethink their position.

In 2018, Missouri approved the distribution and regulation of marijuana for medical use, putting us, like so many others, in the midst of navigating the logistics of creating

Continued on the next page.

Sources: ¹CoStar Property: Analytic History. Retail and industrial lease rates based on quoted all service types. Office lease rate based on quoted full-service lease type. ²30-day LIBOR: Intercontinental Exchange. Based on USD. US Interest rates: US Dept. of Treasury Daily Yield Curve. Based on last business day of quarter. ³U.S. Census Bureau: Estimated monthly. ⁴U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. ⁵CoStar Property: Analytic History. Lease rate/Sf based on quoted rates. ⁶Home Builders Association of Greater Kansas City.

KANSAS CITY SALES & LEASING DATA

KC MSA RETAIL STATISTICS¹

GLA

\$

%

Total GLA (s.f.) ▲ 0.25%		Avg. Lease Rate ▲ 2.69%		Avg. Occupancy = 0.0%	
Q1 2019	160,118,751	Q1 2019	\$13.00	Q1 2019	94.7%
Q1 2018	159,719,501	Q1 2018	\$12.66	Q1 2018	94.7%

LARGEST RETAIL LEASE SIGNINGS - Q1 2019



Submarket	Tenant	Size (sf)
Northeast Kansas City	Catholic Charities	41,919 sf
North Johnson County	Lenexa Point Tenant	38,000 sf
Lawrence, KS	Crunch Fitness	32,000 sf

AVG. VACANCY AND LEASE RATE BY TYPE¹



RETAIL



OFFICE

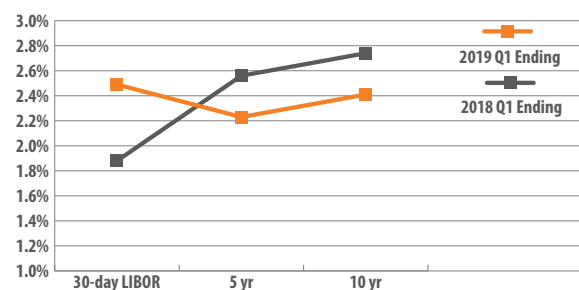


INDUSTRIAL

Avg. Lease Rate ▲ 2.69%		Avg. Lease Rate ▲ 2.17%		Avg. Lease Rate ▼ 13.94%	
Q1 2019	\$13.00	Q1 2019	\$19.74	Q1 2019	\$4.32
Q1 2018	\$12.66	Q1 2018	\$19.32	Q1 2018	\$5.02
Avg. Vacancy = 0.0%		Avg. Vacancy ▲ 0.1%		Avg. Vacancy ▼ 0.2%	
Q1 2019	5.3%	Q1 2019	6.5%	Q1 2019	4.6%
Q1 2018	5.3%	Q1 2018	5.4%	Q1 2018	4.8%

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE²



US FOOD AND RETAIL SALES (IN MILLIONS)³

\$1,527,390 Q1 2019			
\$1,484,587 Q1 2018	\$1,416,563 Q1 2017	\$1,350,092 Q1 2016	\$1,311,818 Q1 2015

UNEMPLOYMENT RATE⁴

December	2017	2018
Midwest	3.8%	3.7%
U.S.	4.1%	3.9%

CONSUMER PRICE INDEX⁴

2018	Oct.	Nov.	Dec.
Midwest	235.7	234.3	233.5
U.S. City Avg	252.0	252.2	251.2

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CONTINUED....

a brand-new industry. Although Missouri's Sunflower State neighbor remains committed only to the non-THC form of cannabis (CBD), Missouri will issue 192 medical marijuana dispensary licenses by 2020, 60 licenses for cultivation & another 86 for facilities making marijuana-infused products. Missouri's initial "draft rules" for these uses set varying zoning requirements. Cultivation will be considered agriculture and non-urban, both infused products and medical testing will be considered manufacturing, and dispensaries will follow the same regulations as pharmacies. All will be responsible for following the "buffer rule" and must remain 1,000 feet away from churches, day cares or schools. Suppliers are on the search for traditional brick-and-mortar stores. As a commercial real estate broker, if you've not already been contacted by a dispenser inquiring about availability, it's coming.

Missouri estimates it will receive 10 times the number of applications to distribute marijuana than licenses available. One stipulation of the process requires applicants to have their real estate for their proposed location under control prior to submitting for a license. One can see how this could quickly cause a spectacle of sorts, leaving droves of landlords and property owners holding spaces for a tenant that may have to walk away from their lease if they are unable to procure a license.

Regardless of solidifying a location and its specific use, perhaps the biggest challenge is between state and federal law. While many states have approved the use and sale of marijuana for various purposes, it remains federally illegal. As the real estate industry begins to open its mind to these non-traditional uses, the banking and insurance industries are not as willing or able to assume the risk. Funding for these facilities is extremely difficult, and federally insured banks are prohibited from dealing with proceeds from controlled substances. Landlords could run into similar issues with their own financing and insurance policies by allowing these uses in their properties.

Changes in consumer behavior have always been the driving force behind upheaval in the retail world, and this latest movement is no exception. The uniqueness of a growing industry that is technically illegal, at least on a federal level, however, leaves us with more questions than answers. Is this a fad that will ultimately be brought down federal regulation and potentially outlawed? Or could CBD & marijuana be the key, internet-proof products that landlords are so desperately searching for to bring more foot traffic into our shopping centers? One thing we know for sure is that the "Cannabis Craze" is broadening consumer choice and disrupting the real estate world, and that is not something to cough at.

Brooke Schwob, Associate

Giving Back

Above all else, LANE4 values team. We strive to partner with our clients, vendors, employees and friends beyond the confines of the conference room. This year, LANE4 sponsored one our of our long-time Architecture and Engineering partners, Davidson Architecture and Engineering in their participation with Harvesters' CANstruction Kansas City event. In this annual event, teams of Kansas City architects, engineers, and contractors compete to create amazing structures using canned foods. All food and proceeds are donated to Harvesters Community Food Bank and distributed to hungry families, children and seniors in our community.

Harvesters is a 501c(3) non-profit organization. For more information, visit www.harvesters.org/canstruction-kc

About LANE4 Property Group

LANE4 provides our clients the best position from which to succeed. We offer 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 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.

RESIDENTIAL AND MULTIFAMILY

KC MSA MULTIFAMILY STATISTICS⁵



1 BED



2 BEDS



3 BEDS

Total Units		Total Units		Total Units	
Q1 2019	84,957	Q1 2019	89,509	Q1 2019	19,977
Q1 2018	82,994	Q1 2018	88,130	Q1 2018	19,880
Avg. Lease Rate/SF ▲ 2.63%		Avg. Lease Rate/SF ▲ 2.15%		Avg. Lease Rate/SF ▲ 2.41%	
Q1 2019	\$1.17	Q1 2019	\$0.95	Q1 2019	\$0.85
Q1 2018	\$1.124	Q1 2018	\$0.93	Q1 2018	\$0.83
Avg. Vacancy = 0.0%		Avg. Vacancy ▼ 0.6%		Avg. Vacancy ▼ 1.1%	
Q1 2019	7.0%	Q1 2019	6.8%	Q1 2019	6.4%
Q1 2018	7.0%	Q1 2018	7.4%	Q1 2018	7.5%

RESIDENTIAL BUILDING PERMITS YTD⁶

County	Single Family	Multifamily	Total 2019	Total 2018	% Chg
Cass County	48	0	48	117	▼59%
Clay County	112	240	352	233	▲51%
Jackson County	239	299	538	400	▲35%
Platte County	58	0	58	147	▼61%
Johnson County	284	199	483	431	▲12%
Leavenworth County	36	0	36	58	▼38%
Miami County	11	108	119	22	▲441%
Wyandotte County	36	0	21	45	▼53%
Kansas City Region*	809	846	1,655	1,453	▲14%

For. Your. Information.

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Join LANE4 at the Xteam International Booth
South Upper Hall #276R || Corner of R Street and 27th
Ave.

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