THE ORANGE REPORT

THIRD QUARTER 2019

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

"DOUBLE WHAMMY"

The following article was written by our X Team Retail Advisors partner, John Cumbelich & Associates, and explains the inevitable changes the shopping center business faces in today's market.

The suburban shopping center business is not in crisis.

But the simultaneous presence of two unsettling dynamics in the industry are unraveling once proven assets, and stunting new development.

The first of these ailments is the interruption (or is it the termination?) of the anchor tenant roll-outs that were the single most important catalyst to new shopping center development over the past forty-plus years. For decades, wave after wave of anchor tenant concepts across an array of retail categories emerged and expanded both regionally and nationally.

First there was Target, and then The Home Depot, and then WalMart, then Lowes, then Best Buy, Kohls and other major anchors. These brands ranged from 50,000 to 150,000 SF each, and created the opportunity for 10 to 50-acre sites in communities across the nation to be developed as shopping centers. Accompanying these primary anchor expansions were the lesser stars in the retail galaxy, such as the office products, pets, crafts, and sporting goods sub-anchors, among others.

The ripple effects that were caused by the expansion of these brands are too many to count. Anchor tenant expansion created enormous business opportunities for developers, contractors, sub-contractors, architects, engineers, brokers, consultants, lawyers, marketing and advertising firms, sign companies, landscapers, and countless other private sector firms and entrepreneurs. Likewise, city and county governments were enriched with sales tax revenues, as well as an array of services, place-making dynamics and employment opportunities that benefitted cities, school districts and the myriad public agencies funded through those tax receipts.

Today, none of the aforementioned brands are expanding, but for isolated relocations and much smaller test concepts. The conspicuous absence of the next big retailer roll-out is sending shockwaves through an industry long accustomed to building around catalyst anchors. Today's most active anchors are internet-resistant theatres and fitness concepts, or rent-sensitive brands such as Hobby Lobby, TJ Maxx and Burlington, most of which seek to backfill second generation boxes, such as those abandoned by those once expanding brands above.

As if all of this were not bad enough, a second growth-killing reality to the current environment is the constant and merciless elimination of traditional retail anchors from the marketplace. Gone are Toys"R"Us, Orchard Supply Hardware, HH Gregg, The Sports Authority, Shopko, Sport Chalet, and others.

The math here is simple. And chilling. As more anchor and sub-anchor space continues to be vacated in an environment in which fewer expanding brands are poised to absorb that inventory, supply will begin to swamp demand. This sobering dynamic is already playing out in markets across the country, but the worst is yet to come.

Answers about how to respond to this unfolding squeeze are hard to define, as owners and developers feel that the ground is moving under their feet every day, and the rules of this new game in retail real estate are yet being written. The embrace of mixed-use solutions to formerly retail-only assets is clearly a part of the answer. And the present boomlet of expansion by theatres, health clubs, entertainment and food uses can only put a dent in spiking inventories of big box space.

While not everyone is ready to admit it, clearly suburban shopping centers are heading down a path

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KANSAS CITY SALES & LEASING DATA

KC MSA RETAIL STATISTICS[1]

GLA

Total GLA (s.f.) ▲ 0.05%	
Q3 2019	160,333,735
Q3 2018	160,257,214

$

Avg. Lease Rate ▼ 1.65%	
Q3 2019	$13.14
Q3 2018	$13.36

%

Avg. Occupancy ▼ 0.2%	
Q3 2019	94.5%
Q3 2018	94.7%

AVG. VACANCY AND LEASE RATE BY TYPE[1]

RETAIL

Avg. Lease Rate ▼ 1.65%	
Q3 2019	$13.14
Q3 2018	$13.36
Avg. Vacancy ▲ 0.2%	
Q3 2019	5.5%
Q3 2018	5.3%

OFFICE

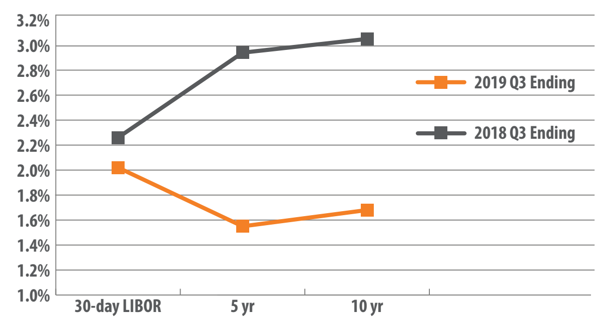
Avg. Lease Rate ▲ 2.5%	
Q3 2019	$20.06
Q3 2018	$19.57
Avg. Vacancy ▲ 0.4%	
Q3 2019	6.3%
Q3 2018	5.9%

INDUSTRIAL

Avg. Lease Rate ▲ 0.23%	
Q3 2019	$4.37
Q3 2018	$4.36
Avg. Vacancy ▲ 0.3%	
Q3 2019	4.8%
Q3 2018	4.5%

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE[2]



US FOOD AND RETAIL SALES (IN MILLIONS)[3]

$1,565,941
Q3 YTD 2019

$1,515,548	$1,436,781	$1,379,895	$1,3348,769
Q3 YTD 2018	Q3 YTD 2017	Q3 YTD 2016	Q3 YTD 2015

UNEMPLOYMENT RATE[4]

September	2018	2019
Midwest	3.6%	3.6%
U.S.	3.7%	3.5%

CONSUMER PRICE INDEX[4]

2019	July	August	September
Midwest	238.76	238.78	238.84
U.S. City Avg	256.57	256.55	256.75

Sources: [1]CoStar Property: Analytic History. Retail and industrial lease rates based on quoted all service types. Office lease rate based on quoted full-service lease type. [2]30-day LIBOR: Intercontinental Exchange. Based on USD. US Interest rates: US Dept. of Treasury Daily Yield Curve. Based on last business day of quarter. [3]U.S. Census Bureau: Estimated monthly. [4]U.S. Bureau of Labor Statistics. Unemployment rates seasonally adjusted. [5]CoStar Property: Analytic History. Lease rate/Sf based on quoted rates. [6]Home Builders Association of Greater Kansas City.

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that is not terribly dissimilar to the regional mall. Just as big box and discount retail systematically began to dismantle the department store monopoly and menace the regional mall industry in the 1970's and 80's, the rise of e-commerce is similarly harassing the Power Center asset class.

But what we have thus far learned about regional malls, is that a relatively small core of "fortress" malls in high barrier to entry core markets have demonstrated the best prospects for survival, or reinvention. Similar real estate fundamentals centered on density and demographics will no doubt align with the Power Centers that survive. At the same time, investors, developers and lenders in the shopping center space will have to aggressively embrace mixed-use solutions, as well as the vertical densification of their core market assets, while likely shedding vulnerable assets in non-core markets.

A critical factor in the success with which the industry faces these radical and unfolding changes will be the way that municipalities embrace the need to change with the times. No doubt many city budgets are built on an old-paradigm sales tax revenue model that worked in years past. Uninformed policy makers that resist the need to allow non-sales tax generating uses into what now are retail-only assets, may fail to understand how market conditions are fast changing. Diversification of these assets with housing or office uses will lend a critical vibrancy that ever-shrinking retail choices will fail to deliver. Alignment between the industry and government policy makers is critical to finding the best way forward for both private and public sector interests.

Yet another crucial variable to these crippling changes affecting the industry is the rising cost of doing business. Fast rising construction costs and a scarcity of affordable labor are both being driven by a low unemployment environment. Changing government labor regulations and rising minimum wage laws have virtually outlawed entry-level employment. These financial pressures further complicate the math around how to make new retail development work.

The silver lining? The only constant is change, and the shopping center industry will get truckloads of it over the years to come. The workable solutions will be hard to find, and will vary from one site to the next. But the answers are out there. Fluency in housing, office and transit will increasingly become essential. As will the integration of grocery and other daily needs uses into retail developments.

Just like Sam Walton and other unorthodox pioneers who embraced change in the past, the savviest players in the shopping center industry will find opportunities in this ongoing disruption, and emerge as the new winners and leaders.

John Cumbelich
Chief Executive Officer
john@cumbelich.com

John Cumbelich & Associates

John Cumbelich & Associates is a San Francisco Bay Area based firm that provides commercial real estate services to Fortune 500 retailers and select owners and developers of retail commercial properties. The firm's expertise is in developing store networks for retailers seeking to penetrate the Northern California marketplace and the representation of premier Power Center and Lifestyle developments.

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 STATISTICS[5]

	1 BED	2 BEDS	3 BEDS
Total Units			
Q3 2019	84,940	90,276	20,946
Q3 2018	83,523	89,481	20,865
Avg. Lease Rate/SF	▲ 2.6%	▲ 2.08%	▲ 2.33%
Q3 2019	$1.18	$0.98	$0.88
Q3 2018	$1.15	$0.96	$0.86
Avg. Vacancy	▼ 0.9%	▼ 0.9%	▼ 0.4%
Q3 2019	6.5%	6.4%	6.1%
Q3 2018	7.4%	7.3%	6.5%

RESIDENTIAL BUILDING PERMITS YTD[6]

County	Single Family	Multifamily	2019 YTD	2018 YTD	% Chg
Cass County	309	0	309	409	▼ 24%
Clay County	449	240	689	736	▼ 6%
Jackson County	751	915	1,666	2,335	▼ 29%
Platte County	268	0	268	405	▼ 34%
Johnson County	1,228	666	1,894	2,709	▼ 30%
Leavenworth County	150	0	150	211	▼ 29%
Miami County	75	108	183	82	▲ 123%
Wyandotte County	86	0	86	160	▼ 46%
Kansas City Region*	**3,316**	**1,929**	**5,245**	**7,047**	**▼ 26%**

For. Your. Information.

Our office is growing... literally and figuratively!

A complete office renovation and two new hires kept us on our toes this past quarter. The office renovation (still underway) includes five new offices, an expanded kitchen and large conference room, mother's room, private phone room, and lots of space for future expansion!

As 2019 comes to a close, we'll be breaking in our new office space and looking forward to all the growth that is to come in 2020.

Welcome to the team:

Jennifer Gerlach - Project Manager

Shelly DeWoskin - Executive Director, Novel Place Senior Living

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.