

THE ORANGE REPORT

SECOND QUARTER 2020

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

INVESTING IN THE MIDST OF CHAOS

Staying open to opportunity through the fog of uncertainty.

Commercial real estate is an industry that thrives on change, but 2020 has been a wild ride that has left many wondering, "Where do we go from here?" Real estate visionary, Sam Zell, said it best when he said, "Real estate isn't just about buildings as inanimate objects. It often reflects the pulse of the nation." As it stands today, the pulse of our nation lacks a clear path for stakeholders to follow and has created a very unique and challenging environment that even Zell, an industry thought leader who is always two steps ahead, is hesitant to advise jumping into for now. So where DO we go from here? Should real estate professionals and investors just all go on a long vaca...err... stay-cation?

'THE BID-ASK GAP' – VALUING COMMERCIAL REAL ESTATE DURING A CRISIS

From an investment standpoint, the current 'wait and see' attitude from buyers and investors has caused a major dip in activity in the second quarter. According to data provided by CoStar, second quarter investment sale transactions were down 48% nationally over Q2 2019. Moreover, pricing and cap rates have stayed relatively stagnant, indicating sellers are sticking to their valuations despite a major drop in demand. The sharp and sudden decline in sales volume likely points to significant pent-up demand in the future.

Buyers who are closing deals today are generally looking for one of two things: essential businesses that remain strong, or the ability to purchase an asset at a discount. However, most landlords are reluctant to bring their property to the market under the current conditions. It's possible that some will be forced to the market in distressed sales, but foreclosures have yet to bubble to the surface and probably won't for some time. The direction of the market will largely depend on a number of factors including the prospect for additional federal relief, and the duration of the pandemic.

MAINTAINING VALUE

Preserving a stable tenant mix in existing holdings is essential to keeping balanced portfolios and freeing up capital to pursue opportunities as impacts of the COVID crisis begin to subside. Even in normal times, open lines of communication between landlord and tenants may be one of the most important aspects to maintaining healthy investments and business relationships. Each business has a unique set of circumstances to deal with stemming from the pandemic, and they need to be addressed and understood accordingly. In addition to tracking empirical data like sales volume, it is important to explore innovative measures to prepare for the future as the virus isn't likely to disappear in the short term.

In worst case scenarios, some businesses may be too far underwater to make it to the other side of the pandemic. In those cases, it is very helpful for landlords to know who their struggling tenants are before it's too late. If there is

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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



Total GLA (s.f.) ▲ 0.01%		Avg. Lease Rate ▲ 1.39%		Avg. Occupancy ▼ 0.2%	
Q2 2020	128,689,411	Q2 2020	\$13.13	Q2 2020	94.6%
Q2 2019	128,572,830	Q2 2019	\$12.95	Q2 2019	94.8%

LARGEST RETAIL LEASE SIGNINGS - Q2 2020



Location	Tenant	Size (sf)
2008 W 103rd Terr., Leawood, KS	ABS Volleyball	21,000 sf
The Hampton at City Center Lenexa	Advent Health	10,566 sf
Summit Shopping Center, Lee's Summit, MO	Undisclosed	10,166 sf

AVG. VACANCY AND LEASE RATE BY TYPE¹



RETAIL

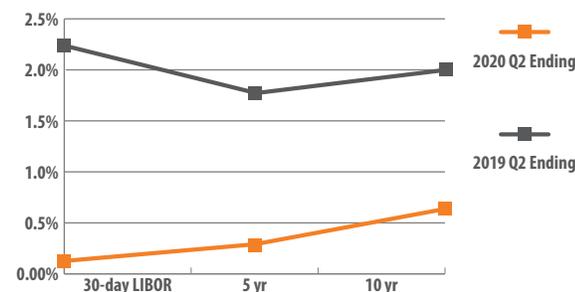
OFFICE

INDUSTRIAL

Avg. Lease Rate ▲ 1.39%		Avg. Lease Rate ▲ 2.58%		Avg. Lease Rate ▲ 0.5%	
Q2 2020	\$13.16	Q2 2020	\$20.67	Q2 2020	\$4.46
Q2 2019	\$12.95	Q2 2019	\$20.15	Q2 2019	\$4.44
Avg. Vacancy ▲ 0.2%		Avg. Vacancy ▲ 1.3%		Avg. Vacancy ▼ 0.6%	
Q2 2020	5.4%	Q2 2020	8.1%	Q2 2020	4.4%
Q2 2019	5.2%	Q2 2019	6.8%	Q2 2019	5.0%

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE²



US FOOD AND RETAIL SALES (IN MILLIONS)³

\$1,424,780 Q2 2020			
\$1,550,615 Q2 2019	\$1,499,451 Q2 2018	\$1,423,375 Q2 2017	\$1,366,805 Q2 2016

UNEMPLOYMENT RATE⁴

June	2019	2020
Midwest	3.6%	11%
U.S.	3.7%	11.11%

CONSUMER PRICE INDEX⁴

2020	April	May	June
Midwest	236.5	237.3	239.3
U.S. City Avg	256.4	256.4	257.8

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something that can be done to breathe life into a struggling business, it is far better to act now than to wait until the damage has been done to keep a property afloat.

CREATIVE COLLABORATION

In addition to regular communication with tenants, it's important to consider new ideas that could give them a competitive advantage. For restaurants, that could mean adding designated pick-up and carry-out parking, expanding patios into parking lots or sidewalks, or providing vacant space for storage for excess chairs and tables. For fitness users, that might require offering outdoor common areas to allow for social distancing during classes.

Landlords are in a unique position to observe how similar tenants are addressing the same issues and share knowledge of best practices. Foresight, research, and collaboration are needed to find reasonable solutions to keep customers safe and to keep businesses open.

WHERE ARE OPPORTUNITIES EMERGING?

It's still too early to make predictions on how long the pandemic will last, but it is not too early to begin identifying new opportunities on the horizon. Some retailers have actually seen an uptick in sales growth due to the pandemic – paint stores, auto parts, and grocery stores for example. These are “safe havens” for investors looking for stabilized assets, particularly in the short-term.

Long-term market disruption is inevitable. It is still unclear if additional federal assistance or other forms of support will help retailers to survive the impact of a prolonged battle with the virus. The most successful retailers, landlords and investors are not waiting for the problem to fix itself; they are aggressively adapting to make their businesses stronger.

If you have not already done so, roll up your sleeves and start repositioning your business, examining your investment criteria, and looking for ways to create value. You will be happy you did.

Brandon Buckley
Vice President

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	
Q2 2020	91,675	Q2 2020	91,190	Q2 2020	22,308
Q2 2019	89,843	Q2 2019	90,040	Q2 2019	21,726
Avg. Lease Rate/SF ▲ 1.7%		Avg. Lease Rate/SF ▲ 1.0%		Avg. Lease Rate/SF ▲ 2.3%	
Q2 2020	\$1.21	Q2 2020	\$0.99	Q2 2020	\$0.89
Q2 2019	\$1.19	Q2 2019	\$0.98	Q2 2019	\$0.87
Avg. Vacancy ▲ 0.6%		Avg. Vacancy = 0%		Avg. Vacancy ▼ 0.1%	
Q2 2020	7.6%	Q2 2020	7.2%	Q2 2020	7.4%
Q2 2019	7.0%	Q2 2019	7.2%	Q2 2019	7.5%

RESIDENTIAL BUILDING PERMITS YTD⁶

County	Single Family	Multifamily	June 2020 YTD	June 2019 YTD	% Chg
Cass County	319	0	319	178	▲79%
Clay County	369	315	684	544	▲26%
Jackson County	510	426	936	797	▲17%
Platte County	212	0	212	147	▲44%
Johnson County	821	506	1327	1148	▲16%
Leavenworth County	95	0	95	83	▲14%
Miami County	46	0	46	143	▼-68%
Wyandotte County	124	0	124	67	▲85%
Kansas City Region*	2,496	1,247	3,743	3,107	▲20%

For. Your. Information.

LANE4 is open, thriving, and always looking for opportunities!

As we all try to navigate the COVID19 waters, our office remains open. Our social distancing and safety protocols have made for a fair share of laugh-worthy photo ops, but we have found the camaraderie and connection in the office has done wonders to keep us creative, motivated and productive.

Our company was founded on the principle that opportunity exists in all economic climates, if you just know how to find it. Our team stands by that sentiment and has maintained strong relationships with our existing tenants, clients and investors throughout this pandemic. More than that, our team continues to seek out creative opportunities and bring new projects to life.

We're not afraid of putting in the hard work, looking at the big picture and taking chances on the right ideas. We're here when you're ready to make your next big move.

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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