

THE ORANGE REPORT

THIRD QUARTER 2020

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

THE RAPID DIGITIZATION OF GROCERY SHOPPING

How the inevitable shift in eCommerce has left grocers to re-strategize their online presence

Online grocery shopping may be old news to retailers and the broader consumer community; however, the current pace of investment and innovation is quite unprecedented.

Not that long ago, neighborhood grocery stores were considered one of the last segments of retail to resist the dramatic shift to eCommerce that significantly reduced traffic and sales at brick and mortar stores. The present climate and state of our world has impacted consumer behavior in ways that seem to be changing radically.

In the wake of the pandemic, over 40% of U.S. online grocery sales came from first time users. This shift in the business environment that we expected to take as many as five years, instead occurred in five short months.

The COVID-19 induced change in consumer's grocery shopping behavior is startling. Every major supermarket chain in the U.S. has reported three all too similar results:

1. In-store customer visits are fewer
2. In-store sales are way up
3. eCommerce sales are way, way up

Consider the most recent quarterly numbers from the three largest pure play grocery retail operators in the country:

- Kroger which operates 2,800 supermarket across the U.S. (including Dillon's and Gerbes in the Midwest) saw identical store (ID) sales increase 15% from prior year, while eCommerce jumped 127%.
- Albertsons, operator of 2,250 national supermarkets, reported ID sales increased 14% while eCommerce skyrocketed 243%.
- Ahold Delhaize, operator of 2,000 supermarkets in the Northeast, had a 16.5% increase in ID sales and a 115% increase in eCommerce.

Yet all three reported decrease in number of in person shopping visits.

"We are seeing customers continue to come to our stores less often, but they are buying much larger baskets, including new categories as we fill their one-stop shopping needs." Vivek Sankara, Albertsons CEO said. "Many have chosen to use our eCommerce offerings, both home delivery and curbside pickup, and overall have increased their household spending with us. This enduring secular shift in shopping habits is confirmed daily, despite the economy opening in most parts of the country."

The role of the neighborhood supermarket as a key omnichannel retailer pre-pandemic was first capitalized by Amazon's high-tech grab-and-go grocery concept, Amazon Go Grocery. Their brick and mortar entry debuted in October with two 40,000 square-foot stores in Washington, with hundreds more

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



Total GLA (s.f.) ▲ 0.21%		Avg. Lease Rate ▲ 1.32%		Avg. Occupancy ▼ 0.5%	
Q3 2020	161,283,310	Q3 2020	\$13.06	Q3 2020	94.4%
Q3 2019	160,937,795	Q3 2019	\$12.89	Q3 2019	94.9%

LARGEST RETAIL LEASE SIGNINGS - Q3 2020



Location	Tenant	Size (sf)
11750 Strang Line Rd, Olathe, KS	Dick's Sporting Goods	48,744 sf
10500 Parallel Pkwy, Kansas City, KS	Spirit Halloween	46,539 sf
13001 E US Hwy 40, Independence, MO	Undisclosed	30,854 sf

AVG. VACANCY AND LEASE RATE BY TYPE¹



RETAIL



OFFICE

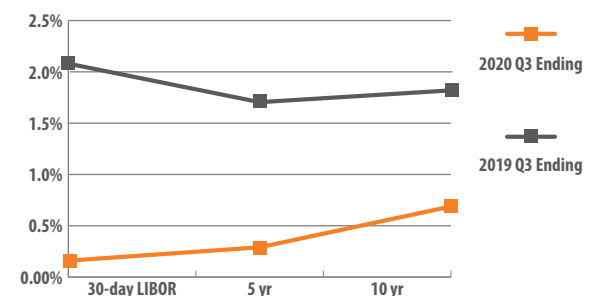


INDUSTRIAL

Avg. Lease Rate ▲ 1.32%		Avg. Lease Rate ▲ 5.1%		Avg. Lease Rate ▲ 2.2%	
Q3 2020	\$13.06	Q3 2020	\$20.66	Q3 2020	\$4.46
Q3 2019	\$12.89	Q3 2019	\$19.66	Q3 2019	\$4.36
Avg. Vacancy ▲ 0.5%		Avg. Vacancy ▲ 1.6%		Avg. Vacancy ▲ 0.1%	
Q3 2020	5.6%	Q3 2020	8.3%	Q3 2020	5.2%
Q3 2019	5.1%	Q3 2019	6.7%	Q3 2019	5.1%

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE²



US FOOD AND RETAIL SALES (IN MILLIONS)³

\$1,624,158 Q3 2020			
\$1,567,643 Q3 2019	\$1,509,116 Q3 2018	\$1,436,754 Q3 2017	\$1,379,494 Q3 2016

UNEMPLOYMENT RATE⁴

September	2019	2020
Midwest	3.6%	7%
U.S.	3.5%	7.9%

CONSUMER PRICE INDEX⁴

2020	July	Aug.	Sept.
Midwest	240.4	241.3	241.8
U.S. City Avg	259.1	259.9	260.2

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promised across major U.S. cities.

The million dollar question(s) seems to be, what does this mean for grocery operators? For their landlords? For ownership of the neighborhood strip shopping centers in which many of them are located?

For the grocery operators, investments must be made promptly in these areas: improved online shopping portals, ensured order accuracy, increased delivery speeds, and strategically placed store layouts for those that offer “buy online, pick up in-store”.

Operators who had been on a path to make these adjustments gradually over time must accelerate these investments immediately. Those that do not, or cannot afford to do so, risk losing market share to competitors that are on top of the inevitable eCommerce shift.

For the landlord of a single tenant occupied grocery stores that has successfully shifted to an omnichannel retailer, congratulations! You now own one of the most coveted types of commercial real estate out there.

The same is true for owners of shopping centers anchored by a successfully transitioned omnichannel grocery store. Even though traffic to the center will fall due to fewer visits by grocery shoppers, the value of grocery-anchored centers will remain strong while asset values of all other multi-tenant retailers have fallen. But that will only continue to so long as your center’s grocery store has successfully transitioned to remain a relevant omnichannel experience.

Because of the drastic impact technology has left on society, the shift to online grocery shopping was likely inevitable, but slow to take hold. Consumers were not ready to fully surrender their ability to choose their own food products. The pandemic’s radical effect on consumer behavior accelerated this shift seemingly overnight. If there is one thing to take away from this year, it is the need for business owners of all types to be adaptive and responsive to rapidly changing conditions.

Pat Peery

Senior Retail Specialist
LANE4 Property Group

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	
Q3 2020	74,709	Q3 2020	92,519	Q3 2020	17,858
Q3 2019	71,949	Q3 2019	90,509	Q3 2019	17,524
Avg. Lease Rate/SF ▲ 0.83%		Avg. Lease Rate/SF ▲ 2.0%		Avg. Lease Rate/SF ▲ 2.3%	
Q3 2020	\$1.22	Q3 2020	\$1.00	Q3 2020	\$0.88
Q3 2019	\$1.21	Q3 2019	\$0.98	Q3 2019	\$0.86
Avg. Vacancy ▲ 18.6%		Avg. Vacancy ▲ 11.4%		Avg. Vacancy ▼ 0.06%	
Q3 2020	8.3%	Q3 2020	7.8%	Q3 2020	6.3%
Q3 2019	7.0%	Q3 2019	7.0%	Q3 2019	6.7%

RESIDENTIAL BUILDING PERMITS YTD⁶

County	Single Family	Multifamily	Sept. 2020 YTD	Sept. 2019 YTD	% Chg
Cass County	390	396	786	309	▲ 154%
Clay County	642	315	957	689	▲ 39%
Jackson County	806	532	1,338	1,666	▼ 20%
Platte County	356	0	356	268	▲ 33%
Johnson County	1,300	883	2,183	1,894	▲ 15%
Leavenworth County	218	2	220	150	▲ 47%
Miami County	76	0	76	86	▼ 12%
Wyandotte County	199	0	199	183	▲ 9%
Kansas City Region*	3,987	2,128	6,115	5,245	▲ 17%

For. Your. Information.

LANE4 is hiring! We're on the hunt for a go-getter Sales Associate to join our dynamic team.

At LANE4 Property Group, you will have the opportunity to jump-start and grow your commercial real estate career while working closely with our team of experts to develop your own client base and business.

The right candidate for this position will be part client whisperer, part sales strategist, and a full-time goal crusher. Did we just describe you? Or someone you know?

View the full job description and application process [here](#).

Real estate experience is a plus, but not required.

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