THE ORANGE REPORT

FOURTH QUARTER 2020

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

COVID-19: THE GREAT ACCELERATOR

How the pandemic expedited the pace of change around us

The COVID-19 crisis accelerated many trends in the commercial real estate industry that were impacting the ways in which we use physical space even before the world turned upside down in March 2020.

Throughout this last economic cycle (2010-2019), businesses were discussing remote work and how a hyper-connected world may change the way we use office space. Distributors were grappling with last mile logistics and warehouse space was proliferating at a breakneck pace to keep up with shifting consumer demands. In the retail sector, where the impacts of the internet age were already being felt disproportionately relative to other property types, the acceleration of these trends hit abruptly and with more force than anywhere else.

The mandatory shutdowns beginning in March sent a shockwave through the retail world. As we all hunkered down in our homes, businesses suffered. However, the Paycheck Protection Program provided a lifeline to many, and as restrictions on businesses lifted later in the spring, we witnessed a remarkable wave of adaptation and resilience in the face of 2020's challenges.

Retailers were not blind-sided by customer demands for convenience and seamless synergies between their online and physical platforms; retailers have been adapting to these demands for the past decade. Many of the ones that saw success this year are the ones who were proactive in building the infrastructure needed to be responsive to these trends.

Throughout the year, headlines warned of catastrophic damage within the retail sector. "Retail rent collection plunges to 58%," and "Countless retailers sink into pandemic bankruptcy," are just a few examples. However, many of these news stories failed to differentiate between the neighborhood and convenience-based retail properties where tenants have mostly held strong, and other property types like power centers and enclosed malls, which were struggling to find their footing even before COVID-19.

Properties and retailers that were already adapting to changing consumer demands fared decently, if not well, after a period of transition. Those catastrophic headlines were, in many cases, accelerated by COVID-19's effects, but not caused by them.

As we emerge from the pandemic, centers that continue to adapt to the changing environment will perform well. Those struggling before COVID-19 but who skate through, will continue to face the pressures of obsolescence once the crisis subsides. The key to the challenges they face are adaption. Those same challenges that were accelerated in 2020 could also compel the acceleration of their re-birth.

Continued on the next page.

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.

KANSAS CITY SALES & LEASING DATA

KC MSA RETAIL STATISTICS[1]

Total GLA (s.f.) ▲ 0.26%	
Q4 2020	161,682,809
Q4 2019	161,256,042

Avg. Lease Rate ▲ 1.85%	
Q4 2020	$13.22
Q4 2019	$12.98

Avg. Occupancy ▼ 0.8%	
Q4 2020	93.9%
Q4 2019	94.7%

LARGEST RETAIL LEASE SIGNINGS - Q4 2020

Location	Tenant	Size (sf)
14680 S Flaming Rd, Olathe, KS	Red Tag	49,495 sf
3503 S Noland Rd, Independence, MO	Morefield's Supersaver	14,935 sf
1310 NE Coranado Dr, Blue Springs, MO	Dollar Tree	11,575 sf

AVG. VACANCY AND LEASE RATE BY TYPE[1]

RETAIL

Avg. Lease Rate ▲ 1.85%	
Q4 2020	$13.22
Q4 2019	$12.98
Avg. Vacancy ▲ 0.80%	
Q4 2020	6.1%
Q4 2019	5.3%

OFFICE

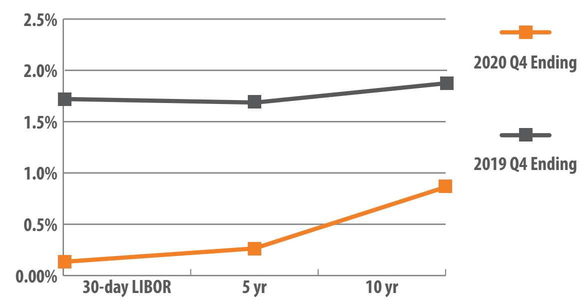
Avg. Lease Rate ▲ 3.69%	
Q4 2020	$21.07
Q4 2019	$20.32
Avg. Vacancy ▲ 1.70%	
Q4 2020	7.7%
Q4 2019	6.0%

INDUSTRIAL

Avg. Lease Rate ▲ 2.98%	
Q4 2020	$4.49
Q4 2019	$4.36
Avg. Vacancy ▼ 0.90%	
Q4 2020	3.1%
Q4 2019	4.0%

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE[2]



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

$1,637,749
Q4 2020

$1,574,702	$1,514,048	$1,470,279	$1,394,310
Q4 2019	Q4 2018	Q4 2017	Q4 2016

UNEMPLOYMENT RATE[4]

December	2019	2020
Midwest	3.5%	5.7%
U.S.	3.6%	6.7%

CONSUMER PRICE INDEX[4]

2020	Oct.	Nov.	Dec.
Midwest	240.4	238.7	241.4
U.S. City Avg	260.3	260.2	260.5

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Once the pandemic subsides, we expect to see both experiential opportunities and mixtures of uses introduced to these struggling properties because of their typical locations at highly desirable intersections which draw from a regional radius. This means apartments and office buildings where big boxes and malls sit today. It means entertainment and community-focused uses where soft good have traditionally been sold.

"Experiential retail" was the hot topic pre-COVID-19. After 18+ months of being told to distance ourselves and stay home, our social nature is starved for togetherness when it is safe once again. Experiences, community, and excuses to gather, balanced with convenience and service, will once again drive the trajectory of retail and real estate.

Even before COVID-19 introduced itself, we knew that the world around us was changing at a breakneck pace. "Exponential growth" was something associated with COVID-19 transmission and spread, but it is a concept that can be applied to the pace of change all around us. The most successful businesses will be the ones that embrace this dynamic and adapt to changing circumstances. The plexiglass, the curb side pick-up, and other changes that we quickly rolled out in 2020 are symbolic of how nimble we all must continue to be.

The three primary real estate principals continue to hold true: Location, location, location. When those can be combined with the creativity and adaptability required in a post-COVID-19 world, there exists an incredible opportunity to re-create, re-imagine, and re-develop our physical spaces to meet the demands of a changing world.

Michael Berenbom
Vice President- Investments

This article was originally included in the 2021 Kansas City Retail Report published by LANE4 Property Group.
To download the full report, click here.

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			
Q4 2020	90,769	93,701	22,585
Q4 2019	87,997	91,716	22,193
Avg. Lease Rate/SF	▲ 0.80%	▲ 1.0%	▲ 2.30%
Q4 2020	$1.22	$1.01	$0.89
Q4 2019	$1.21	$1.00	$0.87
Avg. Vacancy	▲ 1.7%	▲ 0.70%	▼ 1.20%
Q4 2020	9.0%	8.1%	6.1%
Q4 2019	7.3%	7.4%	7.3%

RESIDENTIAL BUILDING PERMITS YTD[6]

County	Single Family	Multifamily	Dec. 2020 YTD	Dec 2019 YTD	% Chg
Cass County	497	401	898	413	▲ 117%
Clay County	809	315	1,124	866	▲ 30%
Jackson County	1,129	566	1,695	2,397	▼ 29%
Platte County	487	0	487	766	▼ 36%
Johnson County	1,802	1,001	2,803	2,567	▲ 9%
Leavenworth County	291	3	294	186	▲ 58%
Miami County	120	0	120	213	▼ 44%
Wyandotte County	231	6	237	230	▲ 3%
Kansas City Region*	**5,366**	**2,292**	**7,658**	**7,638**	▲ **0.3%**

For. Your. Information.

Did you catch our 2021 Kansas City Retail Report?

Each year we're proud to present a comprehensive look at the KC retail market by diving into the latest retail happenings across the Metro.

Released in the beginning of 2021, the comprehensive report provides an update on retail and mixed-use development projects, and includes current lease and vacancy rates, and retailer expansions and closures throughout the Kansas City metropolitan area.

Overall, the Kansas City retail market prevailed despite the COVID-19 crisis and effects on the retail market nationwide. While some types of retail centers struggled, others adapted and endured.

Follow the link below to view the full report.

2021 Kansas City Retail Report