

THE POST-PANDEMIC OFFICE MARKET

HOW THE SHIFT TO WORKING FROM HOME MAY AFFECT THE NEED FOR TRADITIONAL OFFICE SPACE

Our previous Orange Report described COVID-19 as the 'Great Accelerator' of commercial real estate trends. Before most of us had heard the term 'coronavirus,' Chipotle was adding drive through lanes exclusively for online orders, warehouse inventory was struggling to keep pace with an increasingly online consumer base, and companies like Zoom were anticipating that video would be the future of workplace communication. The common thread between these accelerated trends is the abandonment of face-to-face interaction in favor of digital platforms. Prior to COVID, this was happening due to demand for convenience. After COVID, it was out of necessity.

Working from home may be the trend that experienced the most dramatic acceleration. Though it was practiced prior to 2020, the pandemic forced an immediate and large-scale shift to this model. This unplanned 'experiment' has forced companies to deal with the ups and downs of the practice, resulting in a reimagining of how future workplaces might operate. The results of this experiment are still being debated and will continue to be for the foreseeable future, however the upshot seems to be a dramatic decrease in the stigma of working from home. So where does that leave the great inventory of existing and planned office space in this country? Does the 'digitization' of communication among office workers reduce the need for office space in the same way the rise of e-commerce shrunk the need for traditional retail? Or, do we feel differently about the need to connect with our peers and mentors than we do about connecting with the staff at our local Target?

Working from home affords many obvious and immediate benefits to employees. Employees often enjoy greater balance between work and professional life. They are understandably happy to avoid the cost and hassle of a daily commute. On the employer side, many executives found that the changes have been more tenable than previously imagined. According to research by PricewaterhouseCoopers, 83% of employers claim that the shift to remote work has been successful for their company, and a stark minority desire to return to the office exactly as it was pre-pandemic. A full 13% say they are prepared to go completely remote in the future.

Nonetheless, it's highly unlikely that the traditional workspace will become obsolete. After a full year of large-scale remote work, there is increasing research showing that the psychological and social effects of working from home are significant. Microsoft completed a Work Trend Index in early 2021 highlighting several of the trends seen after a year like no other. Among their most notable: even where productivity has shown to be stable or increased, it can come at the cost of innovation, creativity and employee engagement. Social capital is extremely hindered in a remote environment, and the long-term consequences on both employees and businesses may outweigh the initial rise in productivity. Generally speaking, working remotely leads to a more siloed workforce. The casual interactions and unplanned gatherings that occur in an office environment are nearly impossible to recreate in a remote setting.

Some employees are affected more significantly than others by a work-from-home situation. Certain individuals simply do not enjoy working from home, citing the erosion of boundaries between work and personal life or feelings of isolation. Younger employees can suffer professionally due to lack of exposure to their more experienced colleagues and living arrangements that are less conducive to a comfortable and efficient home office. Career-oriented individuals will often choose to work in a shared environment due to fear of missing out on opportunities presented to colleagues with proximity to higher-ups. Experienced employees who focus on solo projects tend to do the best

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KANSAS CITY SALES & LEASING DATA

KC MSA RETAIL STATISTICS¹



Total GLA (s.f.) ▲ 0.44%		Avg. Lease Rate ▲ 0.84%		Avg. Occupancy ▼ 0.40%	
Q1 2021	162,403,703	Q1 2021	\$13.25	Q1 2021	94.3%
Q1 2020	161,684,649	Q1 2020	\$13.14	Q1 2020	94.7%

LARGEST RETAIL LEASE SIGNINGS - Q1 2021¹



Submarket	Tenant	Size (sf)
4901 Johnson Dr, Mission, KS	Cynergy Cinemas	90,000
11300 W 80 th St, Lenexa, KS	Magic Kitchen	12,890
4622 Pennsylvania Ave, Kansas City, MO	Ocean Prime	10,440

AVG. VACANCY AND LEASE RATE BY TYPE¹



RETAIL



OFFICE

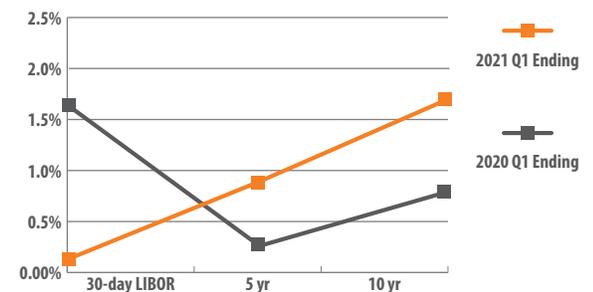


INDUSTRIAL

Avg. Lease Rate ▲ .84%		Avg. Lease Rate ▲ 2.84%		Avg. Lease Rate ▲ 2.98%	
Q1 2021	\$13.25	Q1 2021	\$21.71	Q1 2021	\$4.49
Q1 2020	\$13.14	Q1 2020	\$21.11	Q1 2020	\$4.36
Avg. Vacancy ▲ 0.40%		Avg. Vacancy ▲ 0.90%		Avg. Vacancy ▼ 0.30%	
Q1 2021	5.7%	Q1 2021	7.9%	Q1 2021	4.4%
Q1 2020	5.3%	Q1 2020	7.0%	Q1 2020	4.1%

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE²



US FOOD AND RETAIL SALES (IN MILLIONS)³

\$1,762,390			
2021 Q1			
\$1,542,087	\$1,482,162	\$1,420,107	\$1,352,012
2020 Q1	2019 Q1	2018 Q1	2017 Q1

UNEMPLOYMENT RATE⁴

Month	2021	2020
March	4.9%	3.6%
Midwest	6.2%	3.5%

CONSUMER PRICE INDEX⁴

Month	2021	Jan.	Feb.	March
Midwest	242.552	244.477	246.246	
U.S. City Avg	261.852	263.014	264.877	

THE ORANGE REPORT

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

FIRST QUARTER 2021

CONTINUED....

working remotely, but productivity seems to suffer amongst inexperienced employees and employees engaged in high-level collaboration.

The entire commercial real estate market is still rebalancing after a difficult 2020. The office market in particular saw leasing activity decrease by nearly 50% nationwide in the midst of pandemic-related uncertainty. The road to recovery is now obfuscated by the possibility of fundamental changes to workplace communication. But how dramatic will this change be? The consensus at this moment seems to be that few major companies will go completely remote, but a large number will attempt a hybrid model in the short-term, maintaining their offices but allowing employees to come and go more frequently. Additionally, factors like density, reliance on public transportation and various industry specific factors will affect how certain markets and certain asset classes are impacted differently.

Due to the prevalence of long term leases and other factors, changes to the office market generally lag other sectors of the market. That said, while many employers are working on some variation of a hybrid model, we are optimistic that as the effects of 2020 fade, employees will head back into the office. The in-person office environment is where culture is built and without culture, you lack loyalty, impromptu creative moments, or the ability to effectively train new employees. Our belief is that as a society, we have short memories and tend to crave social interaction. These virtues of human nature will drive people back into offices once again. It will just take some time.

Weston Buckley
Vice President

For. Your. Information.

This quarter we're thrilled to welcome two new faces to the LANE4 team, Mike Levitan and Adam Abrams!

Mike Levitan, Senior Vice President

Recognized as one of the foremost office brokers in the Kansas City area, Mike joins LANE4 with over 16 years of commercial real estate experience. Mike has completed countless transactions throughout his career, most notably a 200,000+ sf built-to-suit for Freightquote, a 154,000 sf built-to-suit for TEVA Neurosciences, and a 100,000+ sf built-to-suit for Dairy Farmer's of America.

Adam Abrams, CCIM, Senior Vice President

Adam brings over 17 years of commercial real estate experience to LANE4, with over 500 completed transactions, specializing in office and medical leasing and landlord representation. A Kansas City native, Adam has devoted his entire career to the betterment and economic development of the Metro. He is actively involved in the Kansas City CCIM Chapter, serving as the Secretary and Treasurer, and was named a CoStar Power Broker in 2017 and 2020.

[Download Adam's VCard here](#) | [Download Mike's VCard here](#)

Mike and Adam will specialize in real estate investment, development, acquisition and disposition services, tenant and landlord representation, consulting, and market analysis.

In-Text Sources: ¹Prosper Insight and Analytics ²The Harris Poll: Covid19 Tracker ³Restaurant Business Online ⁴Ernst and Young ⁵AMC Global Research ⁶Edelman Trust Barometer

Real Estate and Economic Trend Data 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.

RESIDENTIAL AND MULTIFAMILY

KC MSA MULTIFAMILY STATISTICS⁵



1 BED



2 BEDS



3 BEDS

Total Units		Total Units		Total Units	
Q1 2021	90,980	Q1 2021	93,306	Q1 2021	22,782
Q1 2020	88,263	Q1 2020	91,929	Q1 2020	22,508
Avg. Lease Rate/SF ▲ 1.64%		Avg. Lease Rate/SF ▲ 1.96%		Avg. Lease Rate/SF ▲ 2.27%	
Q1 2021	\$1.24	Q1 2021	\$1.04	Q1 2021	\$0.90
Q1 2020	\$1.22	Q1 2020	\$1.02	Q1 2020	\$0.88
Avg. Vacancy ▲ 1.50%		Avg. Vacancy ▲ 0.80%		Avg. Vacancy ▼ 0.40%	
Q1 2021	8.6%	Q1 2021	7.9%	Q1 2021	6.3%
Q1 2020	7.1%	Q1 2020	7.1%	Q1 2020	6.7%

RESIDENTIAL BUILDING PERMITS YEAR TO DATE⁶

County	Single Family	Multifamily	2021 Year to Date	2020 Year to Date	% Chg
Cass County	78	49	127	204	▼ -38%
Clay County	214	0	214	483	▼ -56%
Jackson County	316	0	316	341	▼ -7%
Platte County	95	0	95	111	▼ -14%
Johnson County	535	44	579	796	▼ -27%
Leavenworth County	105	0	105	64	▲ 64%
Miami County	35	0	35	20	▲ 75%
Wyandotte County	46	0	46	84	▼ -45%
Kansas City Region*	1,424	93	1,517	2,103	▼ -28%

Giving Back

LANE4 makes a priority of supporting our employees and the causes they care about.

This past quarter, we started a new tradition to celebrate our staff's birthdays. On their special day, LANE4 gives back to a charity of their choice. Donations were made to various charities including the Juvenile Diabetes Research Foundation, Harvesters, and Operation Breakthrough.

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.

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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