

THE ORANGE REPORT

THIRD QUARTER 2022

YOUR SOURCE FOR KANSAS CITY COMMERCIAL PROPERTY INFORMATION

TODAY'S ECONOMIC PANDEMIC

How rising interest rates are affecting today's commercial real estate market

Not many would have guessed we would see a surging commercial real estate market while facing the most severe economic pandemic we have seen in generations... for many industry professionals it defied all logic.

We are just beginning to see the potential long-term effects of economic policy related to the response to the pandemic. While economic policies like low interest rates and PPP loans helped keep the commercial real estate market afloat during uncertainty, the impact of COVID has created ripples in every facet of the world, including the economy.

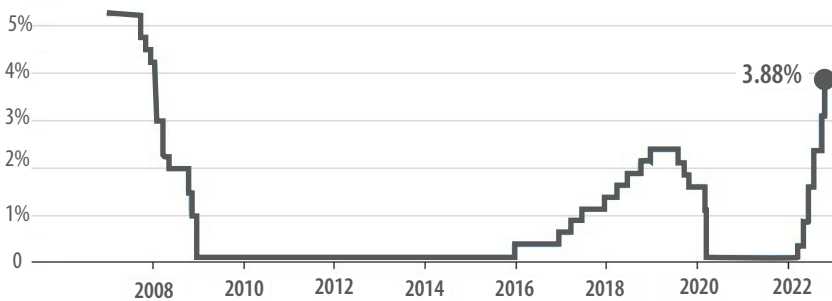
The impact of these policies will continue to drive market conditions into the future. Interest rate hikes are aimed at curbing inflation, which is the highest it has been since the 1980s, will undoubtedly have a direct impact on the commercial real estate industry. Commercial real estate is known for its slow reaction to market trends; the reaction to interest rate hikes will be no different.

It takes months, sometimes years, from the time an investment opportunity is identified to when the transaction is closed. Meanwhile, pricing expectations of buyers and sellers grow wider by the day as cash flows are constricted by higher borrowing costs. It is expected that transaction volumes will slow significantly as many investors play the waiting game.

When compared to historical interest rates shown on the graph below provided by the Federal Reserve Bank of New York, our current rates are approaching pre-financial crisis levels.

FEDERAL FUNDS EFFECTIVE RATE⁷

Source: The Federal Reserve Bank of New York



Currently we are getting back in line with historical averages in terms of interest rates but only time will tell where the rates peak. While it is not expected that we will see rates increase to record levels, we are entering uncharted territory as the Federal Reserve reacts to a unique set of market conditions including supply chain issues, labor shortages, conflict abroad, low unemployment, and inflation.

Typically, there is a direct correlation between borrowing costs and property values. Over the last 10 years we have seen capitalization rates - a calculation that indicates an investor's potential return on an asset before debt service - have steadily dropped.

This trend was aided by low borrowing costs. As interest rates rise, capitalization rates will likely rise as well as investors look to maintain adequate cash flows. This means property values are likely to drop as increased debt service eats away at investor returns.

Continued on the next page.

KANSAS CITY SALES & LEASING DATA

KC MSA RETAIL STATISTICS¹



Total GLA (SF) ▲ 0.15%	
Q3 2022	164,128,999
Q3 2021	163,884,237

Avg. Lease Rate ▲ 7.13%	
Q3 2022	\$14.27
Q3 2021	\$13.32

Avg. Occupancy ▲ 1.16%	
Q3 2022	95.8%
Q3 2021	94.7%

LARGEST RETAIL LEASE SIGNINGS - Q3 2022¹



Submarket/ Location	Tenant	Size (SF)
6715 Blue Ridge Rd, Raytown, MO	Surplus Sales Outlet	59,000
1610-1670 E 63rd St, Kansas City, MO	Metro Thrift Way	33,000
4420-4486 S Noland Rd, Independence, MO	Great American Archery	14,587

AVG. VACANCY AND LEASE RATE BY TYPE¹



RETAIL



OFFICE



INDUSTRIAL

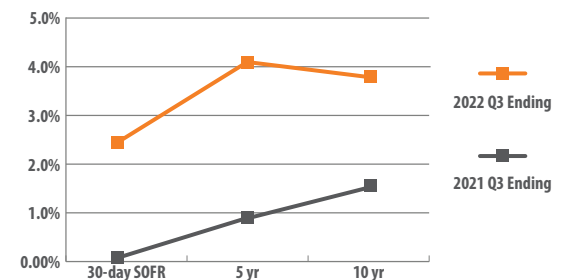
Avg. Lease Rate ▲ 7.13%	
Q3 2022	\$14.27
Q3 2021	\$13.332
Avg. Vacancy ▼ 1.10%	
Q3 2022	4.2%
Q3 2021	5.3%

Avg. Lease Rate ▼ 0.18%	
Q3 2022	\$21.75
Q3 2021	\$21.79
Avg. Vacancy ▲ 0.10%	
Q3 2022	8.20%
Q3 2021	8.10%

Avg. Lease Rate ▲ 9.36%	
Q3 2022	\$5.14
Q3 2021	\$4.70
Avg. Vacancy ▼ 0.50%	
Q3 2022	3.50%
Q3 2021	4.00%

NATIONAL & REGIONAL TRENDS

TREASURY YIELD CURVE²



US FOOD AND RETAIL SALES (IN MILLIONS)³

\$2,049,072			
2022 Q3			
\$1,875,961	\$1,628,036	\$1,557,583	\$1,505,617
2021 Q3	2020 Q3	2019 Q3	2018 Q3

UNEMPLOYMENT RATE⁴

June	2021	2022
Midwest	4.7%	3.5%
U.S.	4.3%	3.4%

CONSUMER PRICE INDEX⁴

2022	July	Aug.	Sept.
Midwest	268.639	275.875	276.549
U.S. City Avg.	296.276	296.171	296.808

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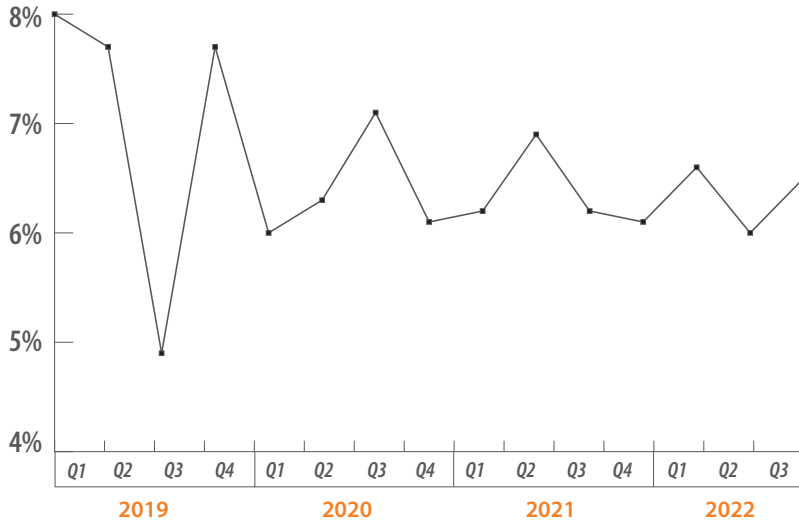
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KANSAS CITY RETAIL CAPITALIZATION RATES⁸

Source: CoStar Property Data



Market volatility is common in commercial real estate due to both micro and macroeconomic trends, but due to the unique nature of the current market investors will need to prepare accordingly.

- Plan well in advance for capital improvements. It's very likely that labor and material costs will continue to rise which will add cost to your roof replacement, HVAC replacement, parking lot mill and overlays, etc.
- Perform 'stress tests' in your project pro forma to ensure that your future cash flows will be able to absorb increased debt service.
- Be prepared to hold your assets until there is more clarity in the economy. The current gap between buyers and sellers is expected to remain wide for the next few quarters (at least). Many buyers are likely to sit on the sideline to see where the market goes, decreasing demand.
- If you are a buyer, keep looking for acquisitions even as sale volumes decrease. It may take longer for deals to transact, but 'hanging around the hoop' will likely result in opportunities as the market comes into focus.
- Stick to the fundamentals.

The economic outlook looks unfavorable in many respects, but it will likely lead to acquisition possibilities in the future. Volatility creates opportunity for those with foresight.

Brandon Buckley
Vice President

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. ⁷The Federal Reserve Bank of New York ⁸CoStar: Kansas City Retail Capitalization Rates

RESIDENTIAL AND MULTIFAMILY

KC MSA MULTIFAMILY STATISTICS⁵



1 BED



2 BEDS



3 BEDS

Total Units		Total Units		Total Units	
Q3 2022	97,605	Q3 2022	98,649	Q3 2022	22,998
Q3 2021	94,810	Q3 2021	96,960	Q3 2021	22,735
Avg. Lease Rate/SF ▲ 6.77%		Avg. Lease Rate/SF ▲ 7.21%		Avg. Lease Rate/SF ▲ 6.25%	
Q3 2022	\$1.42	Q3 2022	\$1.19	Q3 2022	\$1.02
Q3 2021	\$1.33	Q3 2021	\$1.11	Q3 2021	\$0.96
Avg. Vacancy ▼ 0.50%		Avg. Vacancy ▼ 0.40%		Avg. Vacancy ▼ 0.40%	
Q3 2022	5.9%	Q3 2022	5.7%	Q3 2022	5.2%
Q3 2021	6.4%	Q3 2021	6.1%	Q3 2021	5.6%

RESIDENTIAL BUILDING PERMITS YEAR TO DATE⁶

County	Single Family	Multifamily	2022 Total Year to Date	2021 Total Year to Date	% Chg
Cass County	461	300	761	344	▲ 121%
Clay County	587	294	881	577	▲ 53%
Jackson County	812	445	1257	1002	▲ 25%
Platte County	252	0	252	270	▼ -7%
Johnson County	1220	682	1902	1753	▲ 8%
Leavenworth County	144	0	144	230	▼ -37%
Miami County	47	0	47	96	▼ -51%
Wyandotte County	106	0	106	96	▲ 10%
Kansas City Region*	3,629	1,721	5,350	4,368	▲ 22%

September data not available at the time of release.

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.

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