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METRO FOCUS | KANSAS CITY

Elbow room

Retail development will be hot next year in KC. But where are the tenants?

By Patrick W. Rollens

In Kansas City, it's an anchor's market for retail development. Myriad -projects—36, according to a report from Lane4 Property Group—are poised to oversaturate the market with a glut of retail space over the next three years.

Anchors away

The growth is driven almost entirely by large anchor tenants, which rely on corporate expansion plans to position themselves in the KC market. These studies call for density and transportation, both of which the city has in spades. As a result, anchor-driven retail has sprung up around the metro, both on the perimeter and in the city's core.

"You look at a map [of Kansas City], and you can go on the face of a clock and take it all the way around the city," says Dan Bourk, a senior vice president with Grubb & Ellis|The Winbury Group in Lawrence, Kansas. "I'm talking 600,000 to 700,000 square feet on each of these developments, and it is mind boggling, no doubt."

But the volume of construction announced for 2007 has some scratching their heads. Can the metro, with its modest MSA of two million, support the 36 projects on Lane4's list? The anchor tenants want the projects to go forward, to be sure, but there's more to a power center than just a strong core tenant. In-line space and outlots need to be filled, and this is where developers might run into problems in 2008 and beyond.

"The anchors drive the deal, but the small shops are the developers' moneymaker," Bourk says.

As 2007 comes to a close, some projects are in better positions than others. Most have locked in anchor tenants—like Von Maur, which signed at the 1.1 million square foot Corbin Park in Overland Park, Kansas—and all are ramping up their leasing efforts.

At this point, with the volume of proposed space quite high, developers have tried to market unique aspects of their apartment. Luckily, with lots of open space and healthy redevelopment opportunities, Kansas City offers many opportunities to build distinction into the marketplace.

In the triangle

The junction of I-435, I-470 and Highway 71 was known for years as the Grandview Triangle. However, the tangle of interstates had more in common with the Bermuda Triangle, says Owen Buckley, president of Lane4 Property Group.

"For years, people hated getting into that triangle because it was a such a huge traffic jam," he explains.

Chronic congestion spelled doom for the Bannister Mall and a nearby power center, which collectively totaled about 2.3 million square feet of retail space. The properties declined decades ago, but the traffic counts didn't; at last count, the intersection saw 250,000 cars daily and counted 236,000 people within a 10-minute drive with an average annual household income of $76,000.

These hard numbers dispel any notion that the Grandview Triangle is a low-income area, says Buckley, and it imbues the Bannister Mall site with a healthy dose of retail potential.

"There's a huge retail void in this area," Buckley says, describing the relative dearth of available space to serve the growing population near the Grandview Triangle.

To this end, Lane4 has entered the competitive market with the Three Trails development. The rather bold plan calls for the complete demolition of the Bannister Mall and the associated power center, thereby clearing 400 acres for the creation of a tournament-level soccer stadium for the Kansas City Wizards.

A soccer stadium—that's unique, to be sure, and it makes sense because the Wizards' owners are partnering with Lane4 on the project. Buckley says the 18,500-seat stadium will draw an estimated 1.6 million visitors each year—and his firm is developing as much as 800,000 square feet of retail space to capitalize on this population. About 100,000 square feet of retailing space is going to be snuggled right up against the stadium itself.

But what about the leasing efforts? Well, the Missouri Department of Transportation is currently wrapping up a project to update and expand the much-maligned Grandview Triangle, increasing capacity to 400,000 cars per day. That alone is enough to make retailers stop and look again, says Buckley.

"The retail response has been very good, and the reason it's been good is because we're completely getting rid of the Bannister stigma, if you will," he says.

Three Trails also sports a 1.5 million square foot office component, but Buckley says this phase is intended for a corporate build-to-suit; it won't go up spec.

At this point, Lane4 is finalizing its TIF arrangements for the redevelopment. With 35 separate landowners to deal with, the land-control process wasn't a walk in the park, but Buckley says everything is on track for a meeting this month with the city council for final approval. Construction begins after that, and the firm plans to have the first soccer game at the stadium in April 2010.

Strict requirements

If signed anchors are an indicator of early success in the latest round of retail developments, Kessinger/Hunter & Co. is in a good position.

The firm signed the Bass Pro Shops for The Falls at Crackerneck Creek, a 215-acre development in Independence, Missouri. The city lies about 10 miles east of Kansas City along I-70—the perfect place to attract motorists plying one of the nation's most-traveled highways.

Bass Pro is locked in and ready to open early next year—so what about the ancillary leasing? The balance of the available space totals nearly 500,000 square feet.

Audrey Navarro, director of retail brokerage for Kessinger/Hunter, acknowledges the task is challenging, especially in the current tenant's market in KC.

"We're really a regional destination, which is to our advantage," she says.

An adjacent hotel and an 18-acre landscaped lake means The Falls has earned its 'upscale' label. The development received a healthy investment from the city—some $73 million out of a total $173 million budget. But that TIF infusion came with restrictions, including one that prevents Kessinger/Hunter from attempting to lure away other established tenants in Independence.

It's clear that the community is trying to protect its growth, and Navarro says that plays right into Kessinger/Hunter's marketing plans.

"The majority of the big box players are already in [our] market," she says. "We are really emphasizing new tenants to the market. That's caused us to become a little creative."

Forecast for 2008

Just as some projects show strength and strong interest from tenants, other projects seem out of place or mistimed. Developers and brokers say 2008 might be a make-or-break year for some of the region's more risky developments.

"I think there is some concern how all these projects could happen, and there's really no way they can," says Bourk. "Some of these projects have been talked about for a couple years, and I suppose it's going to be fish-or-cut-your-bait time."

Big box retailers like Target have their local growth efforts planned out well in advance. Because of this, they've driven the creation of the latest surge of high-end retail developments. But now, with the capital markets in turmoil, they're reigning in their expansion plans and re-evaluating exactly where they need to be. As they scale back, the in-line development from smaller outlets will fizzle as well.

"Retailers [are] stepping back and being very selective on the projects they choose," Buckley says. "You need to have a strong anchor. That's the bottom line. And having three restaurants does not constitute an anchor tenant."