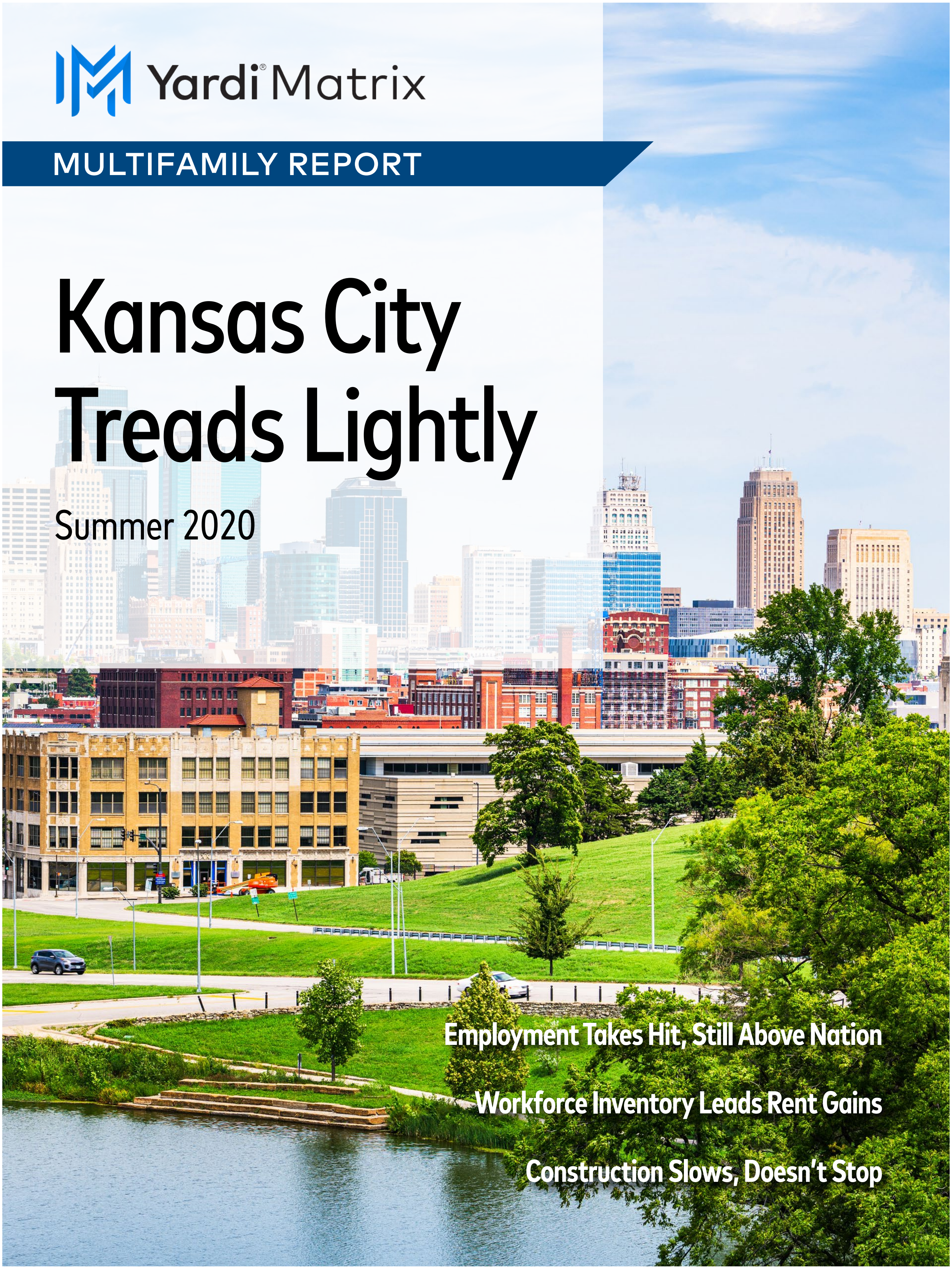
Yardi Matrix

MULTIFAMILY REPORT

# Kansas City Treads Lightly

Summer 2020



Employment Takes Hit, Still Above Nation

Workforce Inventory Leads Rent Gains

Construction Slows, Doesn't Stop

# KANSAS CITY MULTIFAMILY

Yardi Matrix

# Rent Expansion Powers Through

The Kansas City multifamily market proved resilient during the second quarter of 2020. Amid consistent demand, the impact of the health crisis was relatively mild when compared to coastal and leisure-oriented metros; this difference helped maintain positive rent performance. The average Kansas City rent climbed 0.2% on a trailing three-month basis through June. In the meantime, the U.S. average slid 0.3%.

Kansas City job growth turned negative in April, when stringent stay-at-home measures curtailed economic activity. As of May, employment had contracted by 105,900 positions on a year-over-year basis. Construction was the only sector to add jobs during the pandemic, with development deemed an essential service. In a few quick months, unemployment went from a tight 3.5% in March to 11.3% in April, before a slight rebound to 10.8% in May. While the metro's economy was initially impacted less than many coastal cities, the evolution of the pandemic and the continued fluctuation in the number of coronavirus cases remain deciding factors.

Year-to-date through June, some 774 units were completed in the metro and another 7,700 apartments were underway. Following last year's cycle high of $941 million in transactions, sales volume amounted to only $159 million in the first two quarters of 2020, marking a 63% drop compared to the same interval last year.

## Market Analysis | Summer 2020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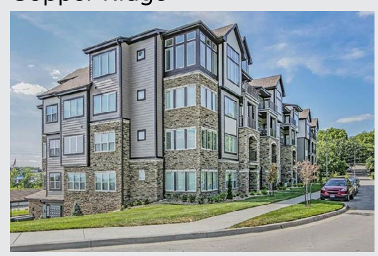
On the cover: Photo by Sean Pavone/iStockphoto.com

### Recent Kansas City Transactions

The Sovereign at Overland Park

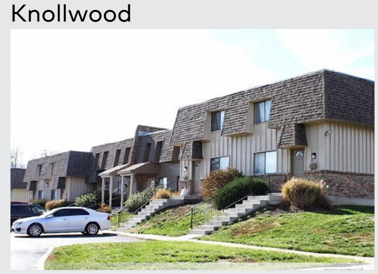
City: Overland Park, Kan.
Buyer: Sherman Residential
Purchase Price: $43 MM
Price per Unit: $170,667

Copper Ridge



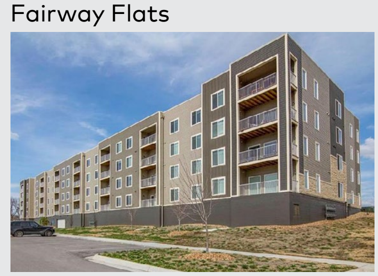
City: Liberty, Mo.
Buyer: Justus Cos.
Purchase Price: $33 MM
Price per Unit: $113,128

Knollwood



City: Kansas City, Mo.
Buyer: Brookhaven Property Group
Purchase Price: $31 MM
Price per Unit: $98,624

Fairway Flats



City: Lawrence, Kan.
Buyer: Bridge Partners
Purchase Price: $28 MM
Price per Unit: $169,159

## RENT TRENDS

- Kansas City's rents were up 0.2% on a trailing three-month basis through June, while the national price contracted 0.3%. The metro's average rate clocked in at $997, well below the $1,457 U.S. overall figure.

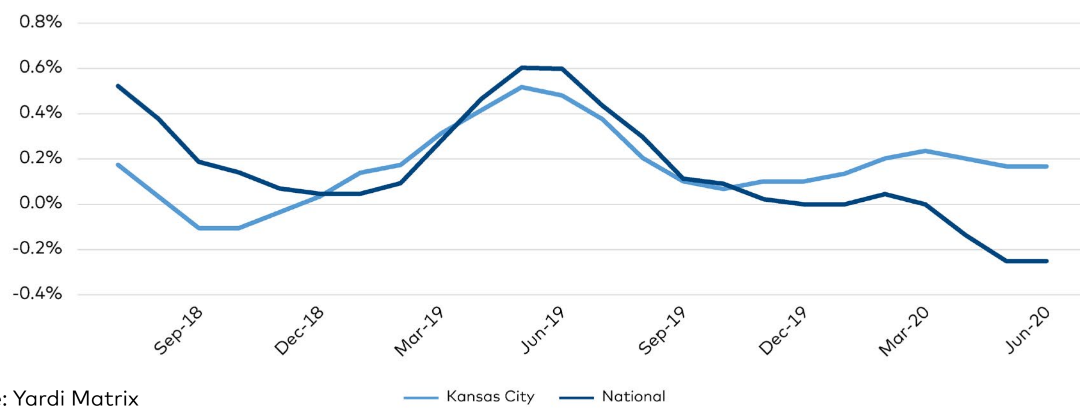
- Rent growth was even across the quality spectrum, with rates in both the working-class Renter-by-Necessity and Lifestyle segments up 0.2%, to $847 and $1,230, respectively.

- Submarkets with significant workforce inventory led rent growth in the 12 months ending in June 2020, including Lee's Summit (average rate up 10.5% to $1,120) and Raytown (7.7% to $675). Downtown Kansas City was the priciest submarket as of June ($1,401), followed by Kansas City-South ($1,181) and Overland Park-Southeast ($1,173).

- In line with most U.S. metros, Kansas City's occupancy rate in stabilized assets declined, reaching 94.3% as of May. That marked a 50-basis-point drop since January and a 70-basis-point slide compared to 12 months prior.

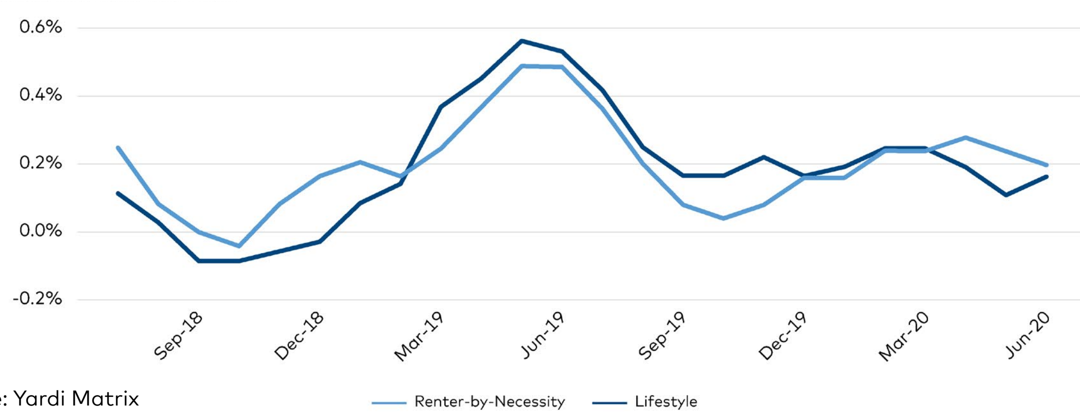
- While the full effects of the health crisis continue to unfold, we expect Kansas City market conditions to soften during the second half of the year, leading to rent contractions. Yardi Matrix expects the average Kansas City rent to drop 3.3% in 2020.

**Kansas City vs. National Rent Growth** (Trailing 3 Months)




Source: Yardi Matrix

**Kansas City Rent Growth by Asset Class** (Trailing 3 Months)




Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- As of June, unemployment stood at 7.9% in Missouri, at 7.5% in Kansas and 7.9% in metro Kansas City, according to preliminary data from the U.S. Bureau of Labor Statistics. All three figures marked rebounds from previous months and were below the 11.1% U.S. figure, providing a silver lining for the metro's economic prospects.

- In line with the national pattern, employment growth in Kansas City turned negative in April (-1.1%), when sweeping lockdown measures curtailed economic activity. The contraction continued in May, reaching 2.8%, but outperforming the U.S. average by 50 basis points.

- As of May, all but one employment sector had already felt the full effects of the health crisis. Jobs were down by a combined 105,900 compared to 12 months prior. With development forging ahead despite pandemic-induced restrictions, the construction sector added 3,400 jobs for a 6.4% uptick.

- Unemployment claims peaked at 104,230 in Missouri and at 55,428 in Kansas at the end of March. As of July 18, weekly Missouri claims were down to 12,134 and the Kansas figure had hit just 10,260, according to the Regional Workforce Intelligence Network of Greater Kansas City.

**Kansas City Employment Share by Sector**

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 15 | Mining, Logging and Construction | 56 | 5.4% |
| 50 | Information | 15 | 1.4% |
| 55 | Financial Activities | 75 | 7.2% |
| 80 | Other Services | 39 | 3.7% |
| 90 | Government | 162 | 15.6% |
| 65 | Education and Health Services | 153 | 14.7% |
| 30 | Manufacturing | 68 | 6.5% |
| 60 | Professional and Business Services | 186 | 17.9% |
| 40 | Trade, Transportation and Utilities | 214 | 20.6% |
| 70 | Leisure and Hospitality | 73 | 7.0% |

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- The metro has added 144,617 residents over the past decade for a 7.2% increase, 110 basis points above the national average.

- In 2019, Kansas City gained 14,339 residents. That marked a 0.7% uptick, more than double the U.S. figure.

**Kansas City vs. National Population**

| | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| National | 323,071,342 | 325,147,121 | 327,167,434 | 328,239,523 |
| Kansas City | 2,106,882 | 2,127,259 | 2,143,651 | 2,157,990 |

Sources: U.S. Census, Moody's Analytics

## SUPPLY

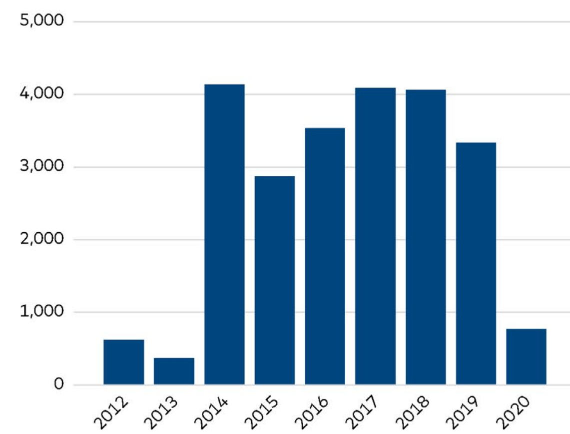
- Kansas City had some 7,700 multifamily units under construction as of June, more than 90% of which were in Lifestyle developments. After peaking in 2014 at 4,139 units, rental deliveries remained relatively consistent in the metro, with nearly 18,000 apartments completed between 2015 and 2019. Year-to-date through June, just 774 units had come online. That accounted for 0.5% of total stock, only half the national rate.

- Officials deemed construction an essential service in the metro once stay-at-home orders were imposed in March, and developers managed to mostly stay on track. However, delays are still likely due to supply chain disruptions and strict social distancing requirements, as some developers temporarily shut down sites to avoid health risks. Construction starts over the first two quarters of 2020 were down by 60% (692 units) compared to the same interval last year (1,473 units).

- As of June, one-third of the construction pipeline was clustered in Downtown Kansas City (2,318 units), with the majority of apartments aimed at high-income residents. Overland Park-Southeast (975 units) and Overland Park-Southwest (618 units) rounded out the top three.

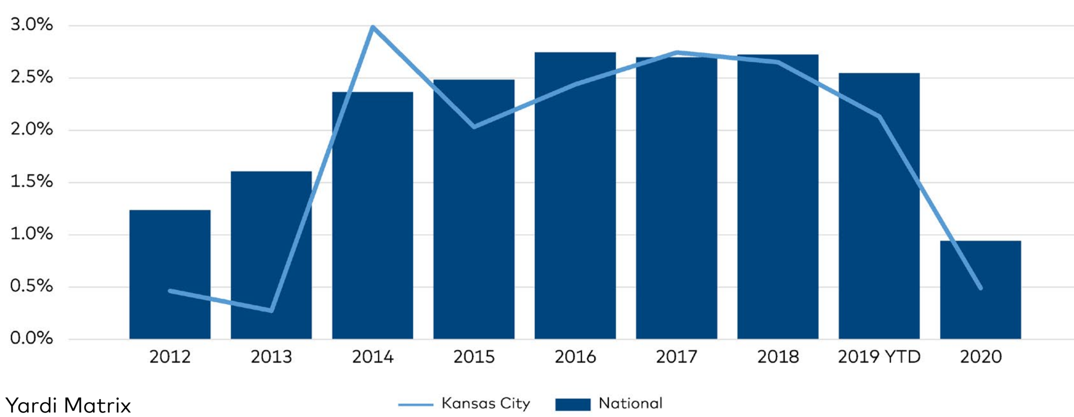
- The Yards, a 232-unit downtown development by Flaherty & Collins Properties, marked the metro's largest completion of the first two quarters. Downtown Kansas City is also home to one of the metro's largest projects underway, the 361-unit Gallerie, which is being constructed by Milhaus Development and UC-B Properties close to Crown Center mall and Union Station.

**Kansas City Completions** (as of June 2020)




Source: Yardi Matrix

**Kansas City vs. National Completions as a Percentage of Total Stock** (as of June 2020)

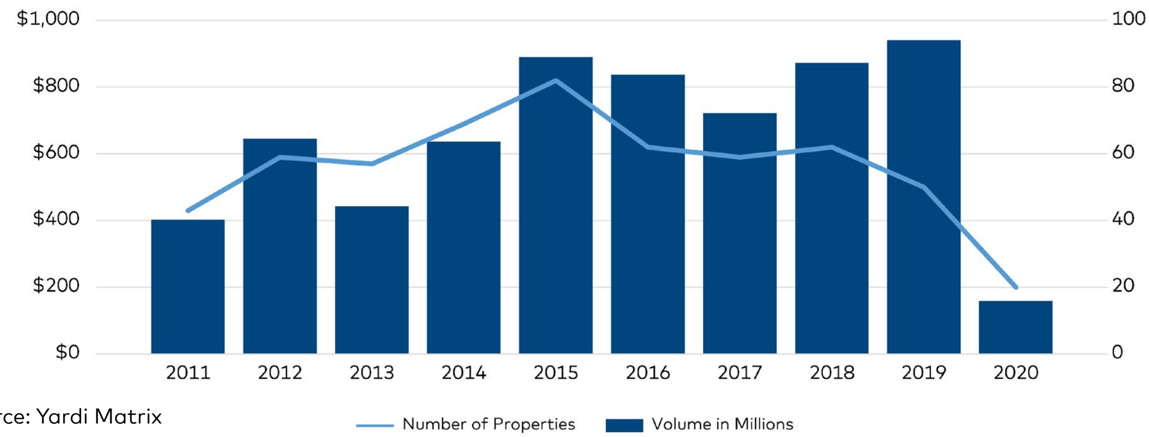



Source: Yardi Matrix

## TRANSACTIONS

- Following last year's cycle peak for transactions, when $941 million in multifamily assets traded in the metro, sales volume for the first half of 2020 amounted to just $159 million. That marked a 63% drop from the same interval last year, with the slowdown largely due to the COVID-19 outbreak. In fact, the bulk of Kansas City sales completed during the first half of 2020 were closed in the first quarter, before the pandemic-induced lockdowns.
- The average per-unit price had a five-year upward run, peaking at $112,079 in 2018. The ensuing gradual drop-off pushed prices down to an average of $96,071 for the first half of this year.
- In the 12 months ending in June, Kansas City Northwest/Riverside ($89 million) topped the list for transaction volume, followed by Gladstone ($86 million) and Lawrence ($83 million).

**Kansas City Sales Volume and Number of Properties Sold** (as of June 2020)




Source: Yardi Matrix

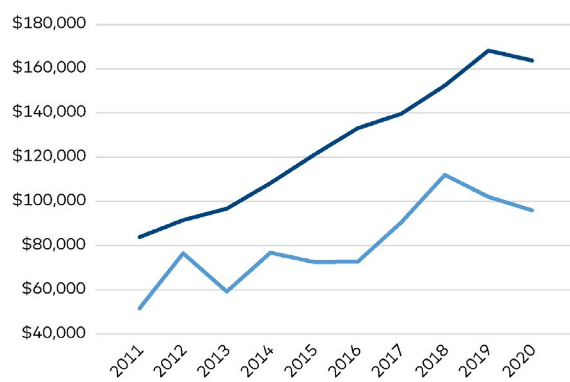
### Top Submarkets for Transaction Volume[1]

| Submarket | Volume ($MM) |
|---|---|
| Kansas City Northwest/ Riverside | 89 |
| Gladstone | 86 |
| Lawrence | 83 |
| Lenexa | 53 |
| Overland Park-North | 52 |
| Olathe | 50 |
| Overland Park-Southwest | 43 |

Source: Yardi Matrix

[1] From July 2019 to June 2020

### Kansas City vs. National Sales Price per Unit




Source: Yardi Matrix

LISTICLE

MULTI-HOUSING NEWS

data by Yardi Matrix

# Top 5 Midwestern Markets for Multifamily Development

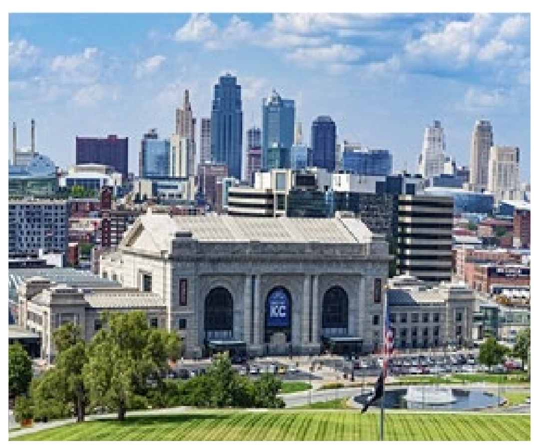
By Jeff Hamann

As the COVID-19 pandemic presents larger challenges for all real estate asset types, development in the Midwest's multifamily sector continues to move forward. Although fewer new projects are breaking ground and construction timelines are being prolonged, more than 85,000 units—3.7 percent of existing inventory—were underway as of mid-June, Yardi Matrix data shows. While this falls short of the national rate of 5.3 percent, development activity in the Midwest is fairly concentrated.

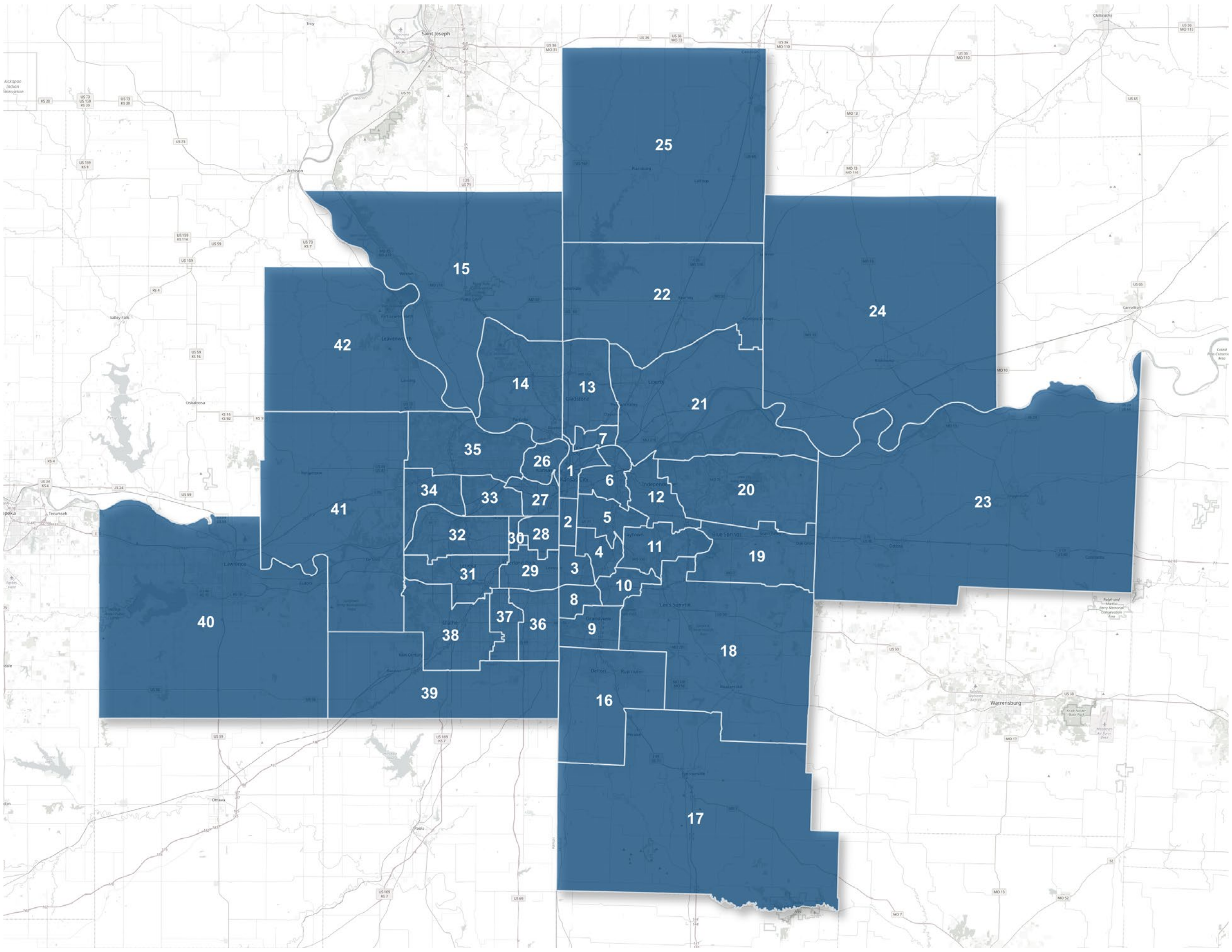
| Rank | Market | Units Underway | Projects Underway | % of Stock |
|---|---|---|---|---|
| 1 | Chicago | 18,287 | 88 | 5.2% |
| 2 | Twin Cities | 14,308 | 94 | 6.8% |
| 3 | Kansas City | 7,755 | 41 | 4.9% |
| 4 | Columbus | 7,195 | 47 | 4.1% |
| 5 | Detroit | 4,930 | 30 | 2.3% |

## KANSAS CITY

Kansas City's 7,755 units underway placed it third on our list. The metro's urban core has been the primary site for development, with nearly one-third of apartments underway in the downtown area. The market has seen fairly rapid development in recent years—nearly 12 percent of Kansas City's multifamily inventory was constructed in the past five years. Davis Development's 380-unit Cyan Southcreek, located at 13220 Foster St. in Overland Park, Kan., is the metro's largest project underway.



# KANSAS CITY SUBMARKETS




| Area No. | Submarket |
|---|---|
| 1 | Downtown Kansas City |
| 2 | Kansas City–South |
| 3 | Marlborough Heights |
| 4 | Park Farms |
| 5 | Kansas City–Southeast |
| 6 | Kansas City–East |
| 7 | Kansas City–North |
| 8 | Calico Farms–Bridlespur |
| 9 | Grandview |
| 10 | Crossgates |
| 11 | Raytown |
| 12 | Independence–West |
| 13 | Gladstone |
| 14 | Kansas City Northwest–Rivers |

| Area No. | Submarket |
|---|---|
| 15 | Platte City |
| 16 | Belton–Raymore |
| 17 | Harrisonville |
| 18 | Lee's Summit |
| 19 | Blue Springs |
| 20 | Independence–East |
| 21 | Liberty |
| 22 | Smithville–Excelsior Springs |
| 23 | Lafayette County |
| 24 | Ray County |
| 25 | Clinton County |
| 26 | Kansas City–Northwest |
| 27 | Kansas City–West |
| 28 | Mission |

| Area No. | Submarket |
|---|---|
| 29 | Overland Park–North |
| 30 | Merriam |
| 31 | Lenexa |
| 32 | Shawnee |
| 33 | Muncie |
| 34 | Edwardsville–Bonner Springs |
| 35 | Victory Hills |
| 36 | Overland Park–Southeast |
| 37 | Overland Park–Southwest |
| 38 | Olathe |
| 39 | Gardner |
| 40 | Lawrence |
| 41 | De Soto |
| 42 | Leavenworth |

## DEFINITIONS

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter-by-Necessity households** span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also June span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which June barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, June extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

| Market Position | Improvements Ratings |
|---|---|
| Discretionary | A+ / A |
| High Mid-Range | A- / B+ |
| Low Mid-Range | B / B- |
| Workforce | C+ / C / C- / D |

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.