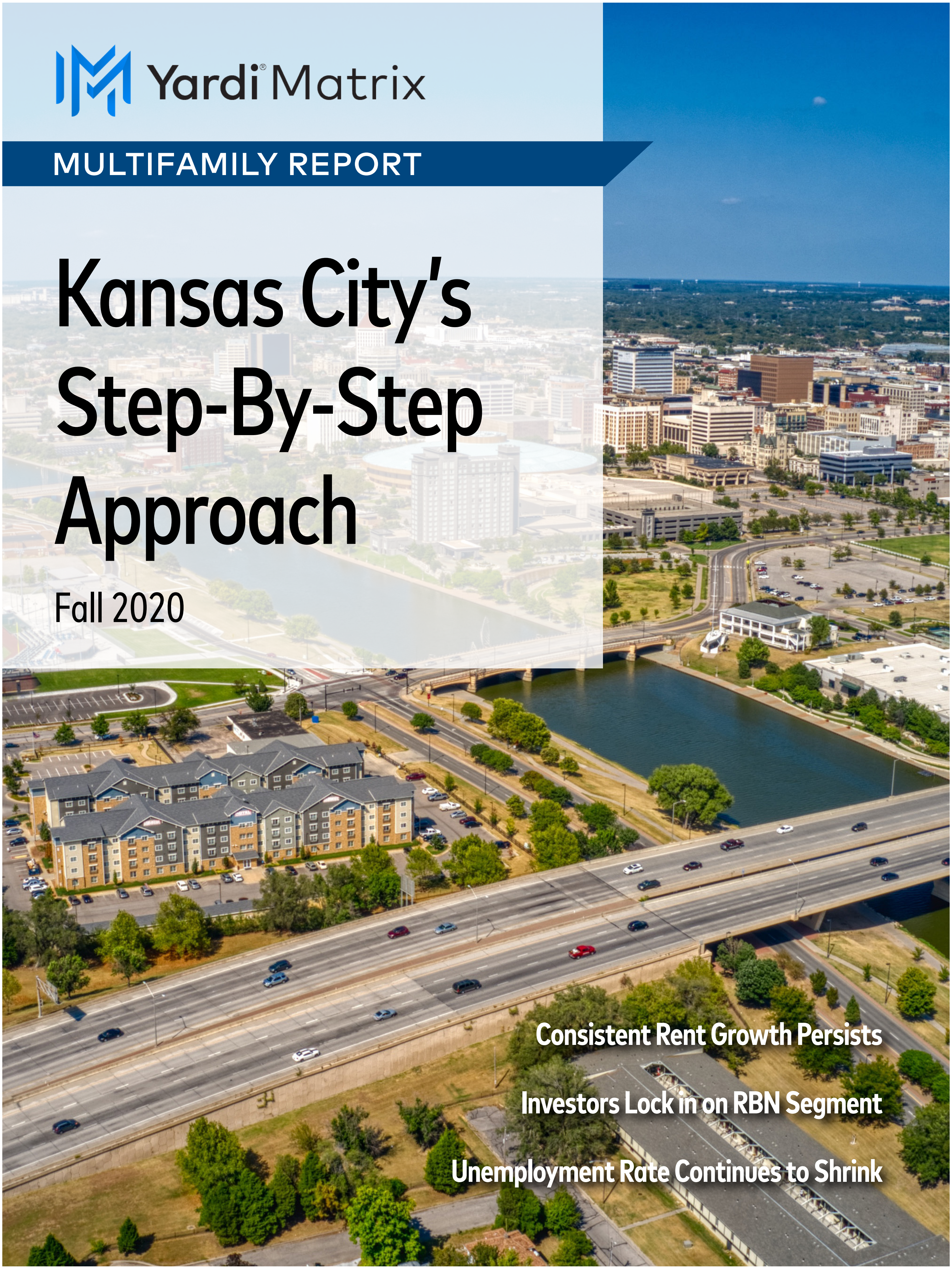
Yardi® Matrix

MULTIFAMILY REPORT

Kansas City's Step-By-Step Approach

Fall 2020



Consistent Rent Growth Persists

Investors Lock in on RBN Segment

Unemployment Rate Continues to Shrink

KANSAS CITY MULTIFAMILY

Yardi Matrix

Underlying Fundamentals Sustain Multifamily Sector

Several months into the economic deceleration, the national pattern of lower-cost metros outperforming primary markets is becoming apparent in Kansas City. While the crisis has undeniably impacted the metro's economy, Kansas City's multifamily fundamentals have endured, with overall rents up 0.4% to $1,011 on a trailing three-month basis as of October, below the $1,464 national average.

In line with national trends, leisure and hospitality was the most impacted sector in the metro, down 21,800 positions in the 12 months ending in September. Job gains occurred in construction and government, with the sectors adding a combined 3,800 positions. According to a forecast from the Center for Economic Development and Business Research, employment is projected to gradually rebound for the remainder of the year and into 2021. Contingent on national patterns and the pandemic's evolution, Kansas City is forecast to add 14,500 jobs through 2021, with leisure and hospitality expected to lead job gains.

As of October, 7,204 units were underway, with the bulk of those targeting high-income renters. Developers added 2,872 units to inventory year-to-date, accounting for 1.8% of existing stock. Some $471 million in assets traded in 2020 through October. While deal velocity slowed, investors continued to deploy capital, with a strong focus on the Renter-by-Necessity segment.

Market Analysis | Fall 2020

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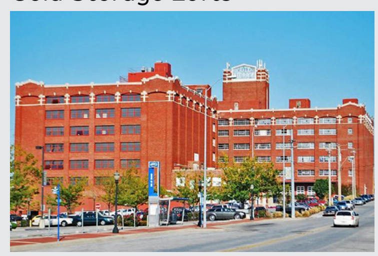
On the cover: Photo by Jacob Boomsma/iStockphoto.com

Recent Kansas City Transactions

Coach House

City: Kansas City
Buyer: Landmark Realty
Purchase Price: $82 MM
Price per Unit: $100,991

Cold Storage Lofts



City: Kansas City
Buyer: CLK Properties
Purchase Price: $32 MM
Price per Unit: $140,797

Town Center

City: Overland Park, Kan.
Buyer: Town Management
Purchase Price: $29 MM
Price per Unit: $184,961

The Hudson

City: Independence, Mo.
Buyer: Belmont Development Co.
Purchase Price: $13 MM
Price per Unit: $49,939

RENT TRENDS

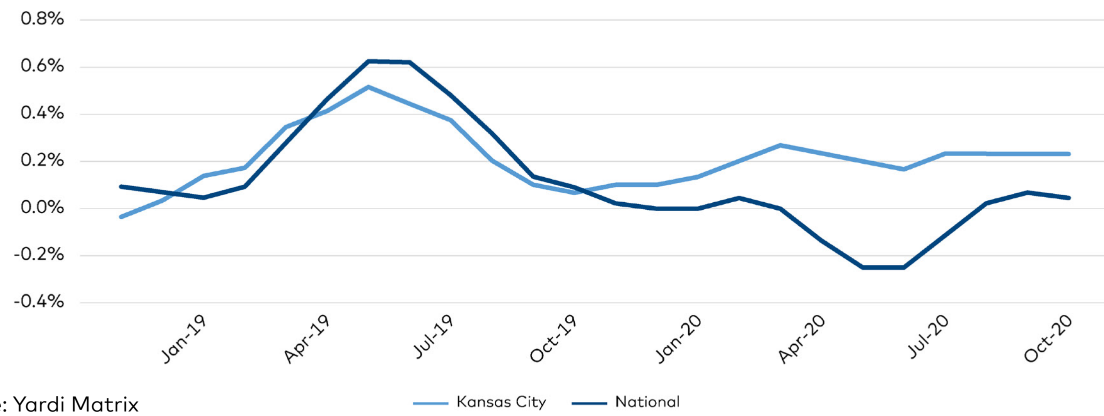
- Kansas City rents were up 0.4 percent on a trailing three-month (T3) basis as of October, while the U.S. figure remained flat. The metro's average stood at $1,011, below the national average of $1,464. Gains have been consistent over the past two years, and rates have been on a positive trajectory despite the economic volatility. Year-over-year, Kansas City rents improved by 2.5%.

- Rent evolution was uneven across the quality spectrum: Rates in the working-class Renter-by-Necessity segment were up 0.4% on a T3 basis, to $860, while rates in the Lifestyle segment improved by 0.1% to $1,241. The inconsistency in rent evolution is due to an oversupply in underway upscale inventory, with 90% of the metro's development pipeline targeting high-income renters.

- Independence–West (9.2% to $819), Liberty (8.0% to $1,076) and Kansas City–East (7.4% to $785) led rent growth in the 12 months ending in October. Rents in Downtown Kansas City—the most expensive submarket—slid 0.1% to $1,342.

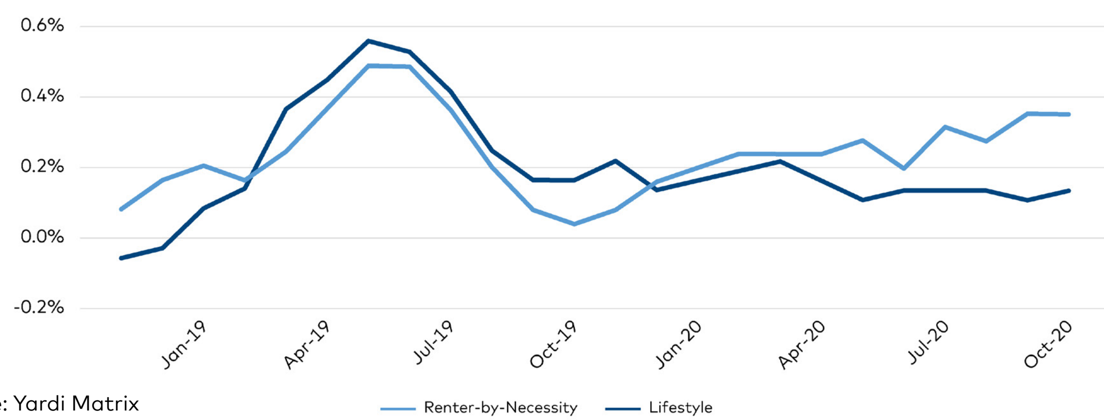
- In a continued effort to offset financial hardship due to COVID-19, a new Kansas program provides eligible tenants and landlords up to $5,000 in rental assistance. The measure is part of the Kansas Eviction Protection Program, which received $35 million in federal coronavirus relief funding. Kansas' eviction moratorium has been extended through Jan. 26, 2021, while Missouri is still subject to The Centers for Disease Control and Prevention's national moratorium, effective through Dec. 31, 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 September, the unemployment rate was 4.9% in Missouri, 5.9% in Kansas and 4.9% in metro Kansas City, according to preliminary data from the U.S. Bureau of Labor Statistics. All three figures marked improvements from previous months and were below the 7.7% national rate.

- In the 12 months ending in September, the metro lost a combined 44,000 jobs. Leisure and hospitality was the most affected sector, down 21,800 positions, followed by professional and business services, down 9,200 jobs. Along with government, the construction sector also recorded gains—3,100 jobs were added, equal to a 5.7% increase. In terms of job creation, Amazon plans to add 500 jobs to its new fulfillment center in Kansas City, while FedEx intends to grow its workforce in the metro by 1,300 employees.

- Employment started to rebound in May, and the trend is expected to persist through 2021, according to a forecast from the Center for Economic Development and Business Research. Depending on national trends and the pandemic's evolution, the metro's economy is projected to improve by 1.4% and add more than 14,500 jobs through 2021. The hardest-hit service sector's slow improvement is projected to continue, with leisure and hospitality to lead recovery—the sector is expected to add 5,300 positions, for a 5.9% uptick.

Kansas City Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	58	5.3%
90	Government	167	15.2%
40	Trade, Transportation and Utilities	224	20.4%
50	Information	15	1.4%
80	Other Services	42	3.8%
30	Manufacturing	74	6.7%
55	Financial Activities	74	6.7%
65	Education and Health Services	158	14.4%
60	Professional and Business Services	189	17.2%
70	Leisure and Hospitality	99	9.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Kansas City gained 144,617 residents over the past decade, for a 7.2% uptick, slightly above the 6.1% national rate.

- The metro's steady expansion has been primarily bolstered by natural population growth and domestic net migration.

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

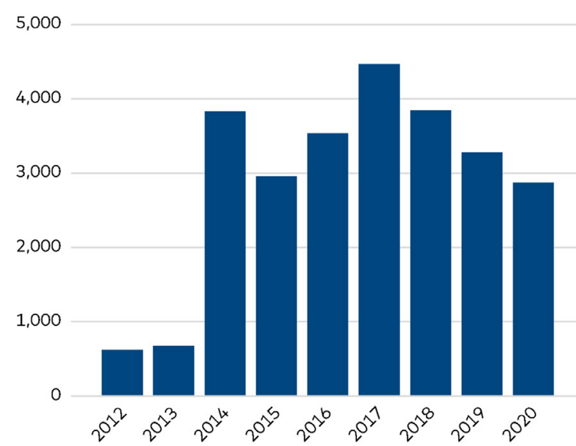
- Kansas City had 7,204 units under construction as of October, with 90% of those geared toward high-income earners. More than half of the underway units are expected to deliver by year-end, while 36% of the pipeline is scheduled to come online in 2021. Despite certain pandemic-generated setbacks including supply chain disruptions and material cost surges, developers forged ahead. As of October, some 26,500 units were in the planning and permitting stages.

- Developers completed 2,872 units year-to-date, 1.8% of total stock and on par with the national figure. New deliveries primarily favored the Lifestyle segment, comprising 98% of total stock. Since 2014, developers have added an average 3,500 apartments to inventory each year, with deliveries peaking at 4,469 units in 2017. Following that cycle high, completions have gradually moderated over the past three years.

- Developers broke ground on some 2,100 units across 12 communities this year through October. Due to consecutive years of strong deliveries and recent difficulties, construction starts dropped slightly compared to 2019, but were still just 22% below the figure recorded during the same period last year, when developers broke ground on 2,695 units in 13 assets.

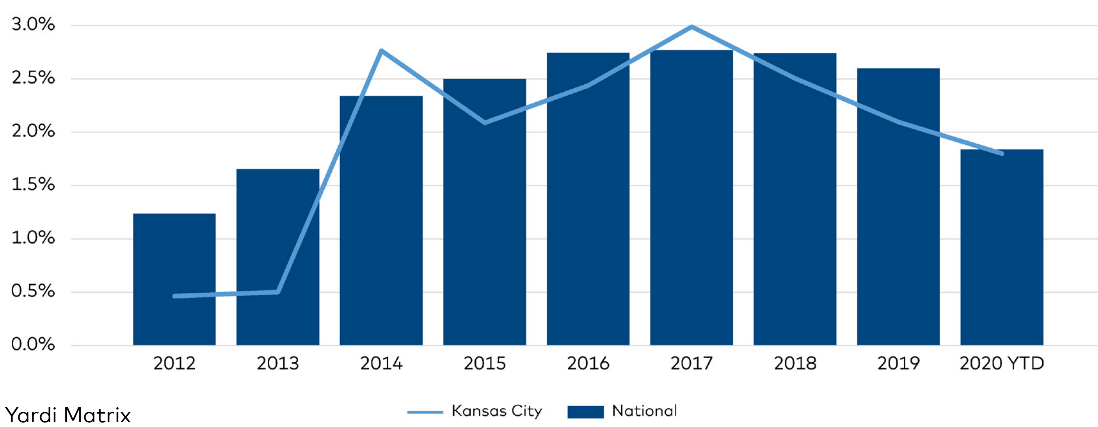
- Downtown Kansas City (1,882 units) led development as of October, accounting for 26% of the total pipeline. Overland Park–Southwest (618 units) and Kansas City–South (580 units) rounded out the Top 3. Davis Development's Cyan Southcreek (380 units) was the metro's largest development underway.

Kansas City Completions (as of October 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

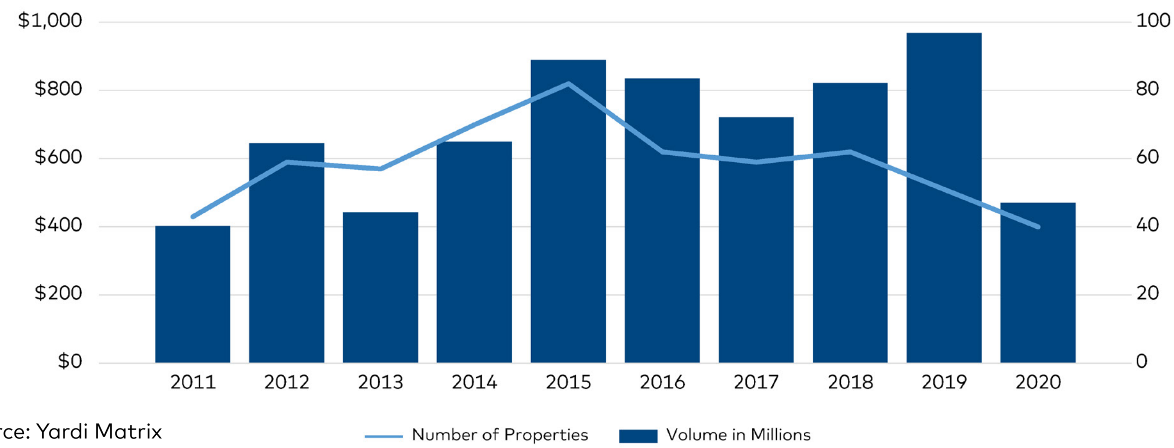
TRANSACTIONS

- Some $471 million in assets traded in 2020 through October, a 37% decline compared to the same period last year. Coupled with the recent economic slowdown, the drop in deal velocity comes on the heels of robust sales activity over the last decade, with transaction volume peaking at $969 million in 2019. Sales activity had already started to moderate in 2018 ($822 million).

- A total of 8,094 units sold at an average per-unit price of $100,145, below the $164,863 U.S. figure, and slightly under last year's average ($102,308). Of the 40 properties sold year-to-date, 31 were RBN assets. Compared to 2019, investor interest remained fairly consistent—of the 33 assets traded in the same interval, 23 were RBN.

- Landmark Realty's $81.5 million acquisition of the 807-unit Coach House closed in July and marked the largest deal in Kansas City in 2020 through October. Landmark bought the 63-building community from Harbor Group International.

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



Source: Yardi Matrix

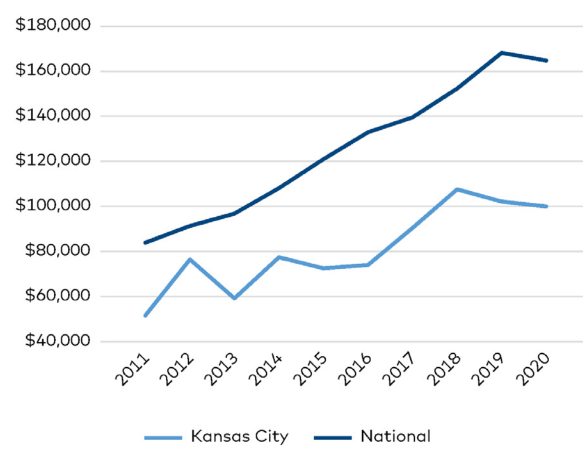
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Overland Park–Southwest	111
Calico Farms/Bridlespur	86
Gladstone	74
Lawrence	60
Kansas City Northwest/ Riverside	45
Liberty	44
Overland Park–North	43

Source: Yardi Matrix

[1] From November 2019 to October 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 Transactions

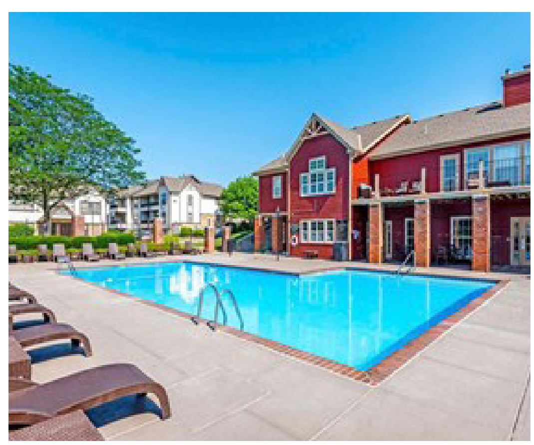
By Jeff Hamann

Multifamily transaction volume in the Midwest has slowed this year, with $4.5 billion in sales closing through October. This marks a 38.7 percent decrease compared to the same period last year, similar to the decline in activity nationwide. While fewer deals and lower price points may be unsurprising given ongoing economic volatility, investment—particularly in well-located, stabilized Renter-by-Necessity communities—still pushes on.

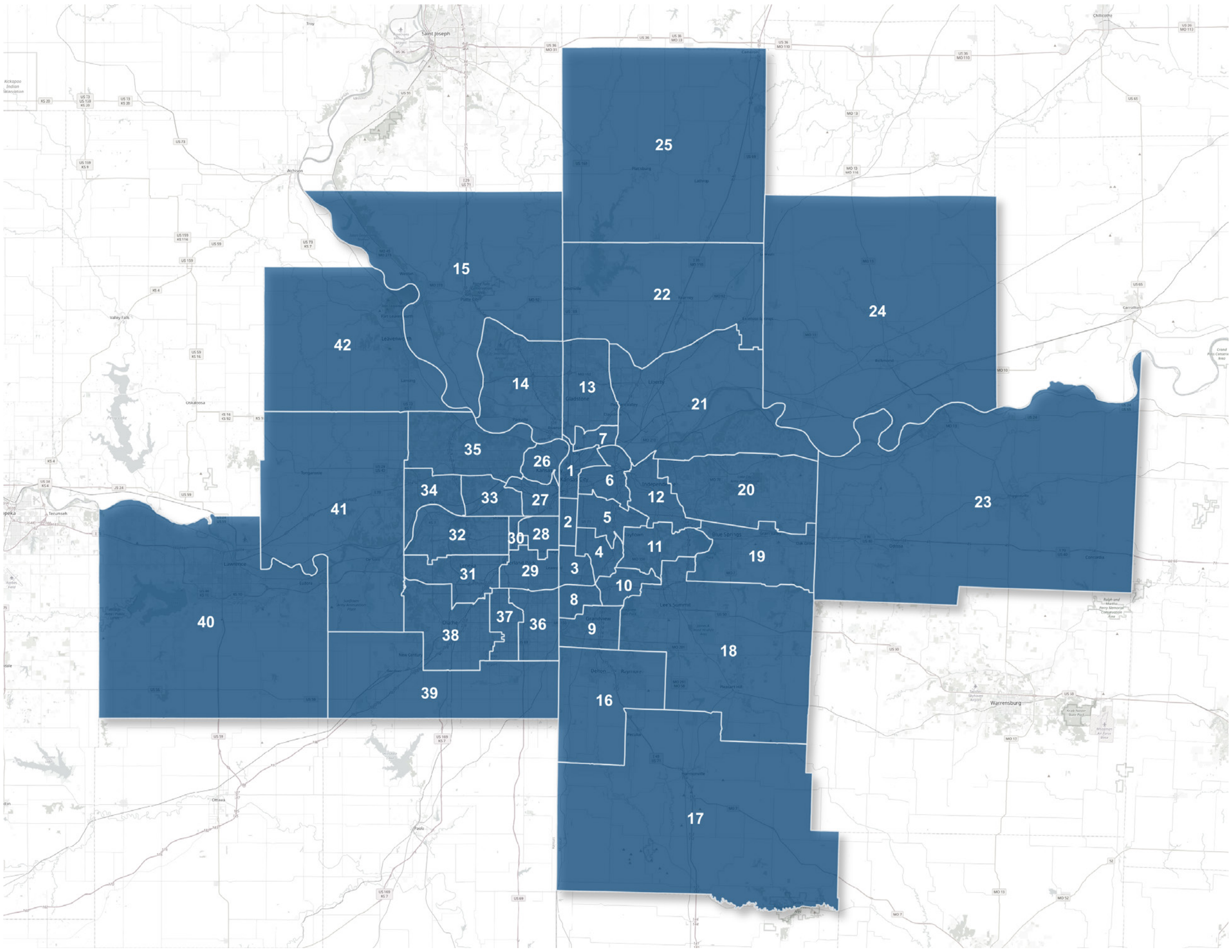
Rank	Market	Transaction Volume (MM)	Average Price Per Unit	Units Sold
1	Chicago	$1,005.5	$233,837	6,471
2	St. Louis	$531.8	$148,597	4,595
3	Kansas City	$470.9	$106,575	8,094
4	Twin Cities	$467.8	$148,836	3,319
5	Indianapolis	$423.4	$94,471	3,319

KANSAS CITY, MO.

Although more than 8,000 units changed hands through October in Kansas City—the highest among Midwest markets—lower pricing places the metro third on our list, with $470.9 million in closed deals. Kansas City's multifamily sector has proved resilient amid wider volatility, with rent growth outpacing the national rate. Landmark Realty's $81.5 million acquisition of the 807-unit Coach House was the largest multifamily transaction in Kansas City this year. Landmark assumed a $56.4 million CMBS loan from the seller, Harbor Group International.



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 October 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 October 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, October 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.