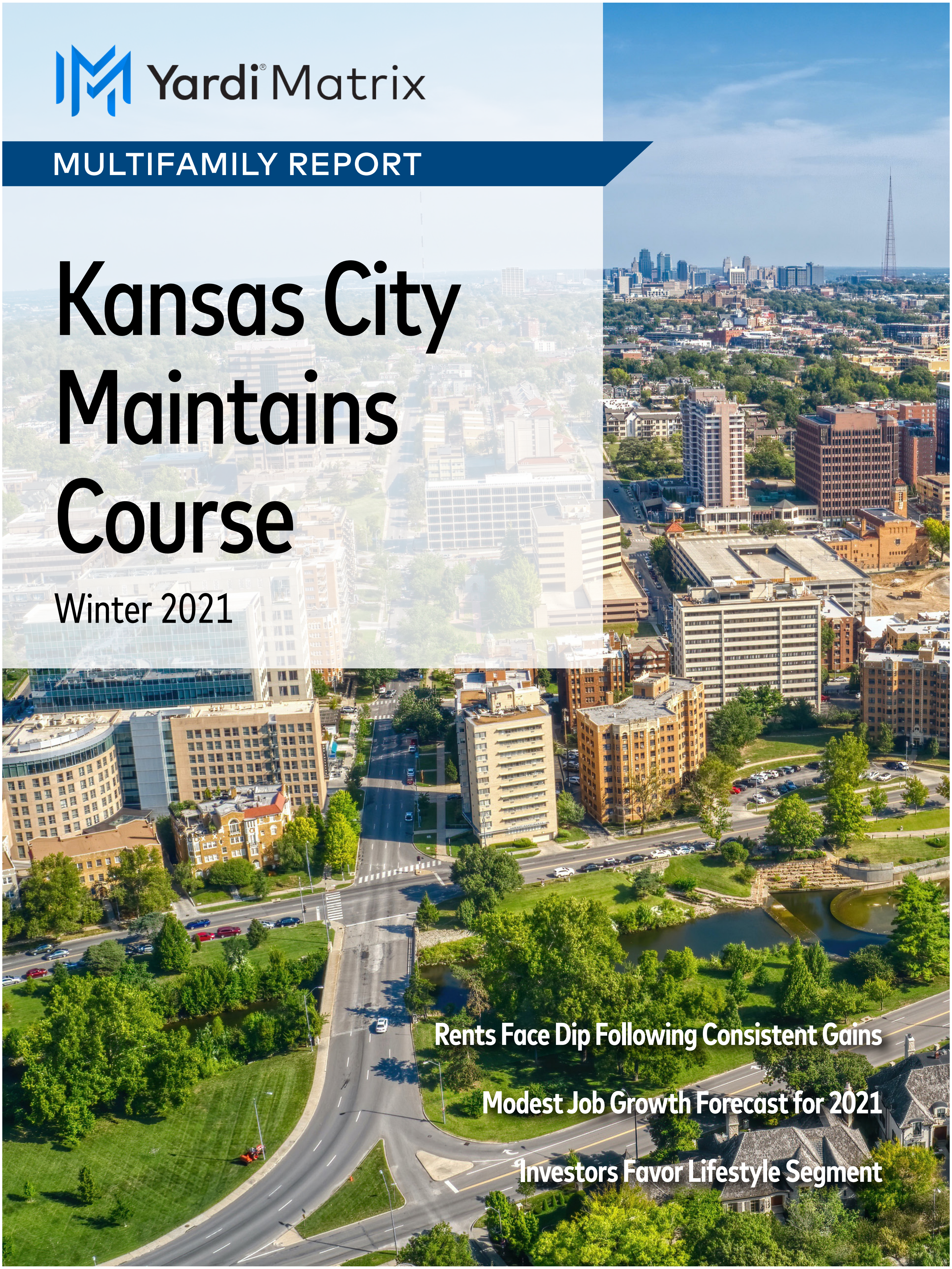
MULTIFAMILY REPORT

Kansas City Maintains Course

Winter 2021



Rents Face Dip Following Consistent Gains

Modest Job Growth Forecast for 2021

Investors Favor Lifestyle Segment

KANSAS CITY MULTIFAMILY

Yardi Matrix

Slow-Paced Recovery Expected for Metro

As vaccine distribution efforts gradually move forward, Kansas City is preparing for a much-anticipated recovery, contingent on a host of factors including federal financial assistance and an abatement in new coronavirus cases. While the metro's rental market endured and expansion was consistent through most of 2020, the effects of economic hardship started to manifest at the end of the year and carried over into 2021. Rents were down 0.2% to $1,008 on a trailing three-month basis as of January, below the $1,466 U.S. average.

As of December, the unemployment rate was 3.8% in Kansas, 5.8% in Missouri and 4.9% in metro Kansas City. In the 12 months ending in November, the metro lost a combined 44,600 jobs. Recovery is expected to advance at a slow pace, with 1.3% of employment growth forecast for 2021, according to the Center for Economic Development and Business Research. On Feb. 11, Gov. Mike Parson signed a bill to provide more than $324 million in federal funding to Missouri renters and landlords.

Kansas City had 7,177 units under construction as of January, 93% of which are aimed at high-income renters. The largest share—76%—of the pipeline is set to deliver during 2021. Investment sales were off to a strong start in 2021, as two assets traded for $87 million in January.

Recent Kansas City Transactions

Prairie View at Village West

City: Kansas City, Mo.
Buyer: Avanti Residential
Purchase Price: $62 MM
Price per Unit: $198,862

The Reserve at South Pointe

City: Kansas City, Mo.
Buyer: Hudson Equities Management
Purchase Price: $25 MM
Price per Unit: $82,569

The Arbors of Grandview

City: Grandview, Mo.
Buyer: Monarch Investment and Management Group
Purchase Price: $22 MM
Price per Unit: $73,154

Westowne

City: Liberty, Mo.
Buyer: Harris Investment Group
Purchase Price: $15 MM
Price per Unit: $104,434

Market Analysis | Winter 2021

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

RENT TRENDS

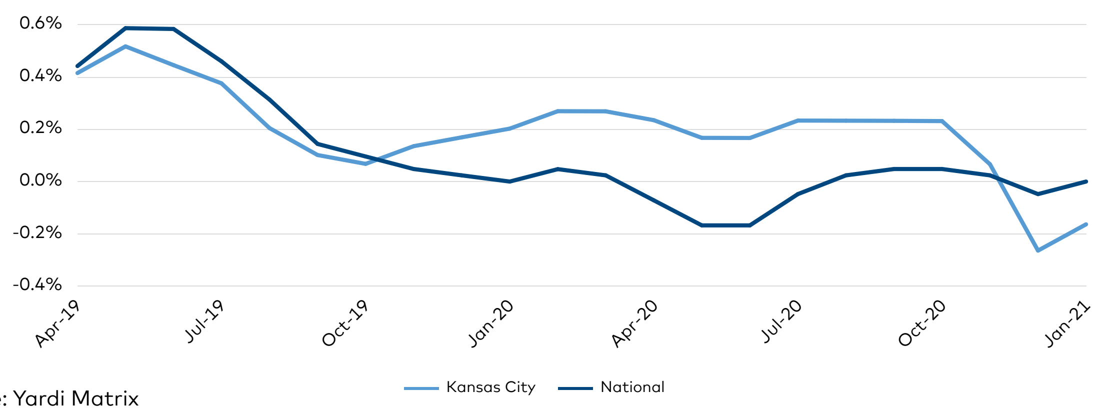
- Kansas City rents slid 0.2%, on a trailing three-month (T3) basis, as of January, while the national rate improved 0.2%. The metro's average stood at $1,008, below the $1,466 U.S. average. Although rent expansion was consistent through most of 2020, the economic volatility's effects started to manifest at the end of the year, with rent growth turning negative in December (-0.3%). Kansas City prices were actually up 2.5% year-over-year.

- Rent evolution was even across the quality spectrum—rates in both the upscale Lifestyle segment and the working-class Renter-by-Necessity segment were down 0.2%, to $1,236 and $856, respectively. While rent movement for Lifestyle and RBN assets slipped into negative territory in December, both segments enjoyed continued growth in the 22 months leading up to the decline.

- Independence–West (7.6% to $810), Liberty (7.2% to $1,064) and Lenexa (6.1% to $1,165) led rent gains in the 12 months ending in January. Rates in Downtown Kansas City—the most expensive submarket—slid 2.1% to $1,336.

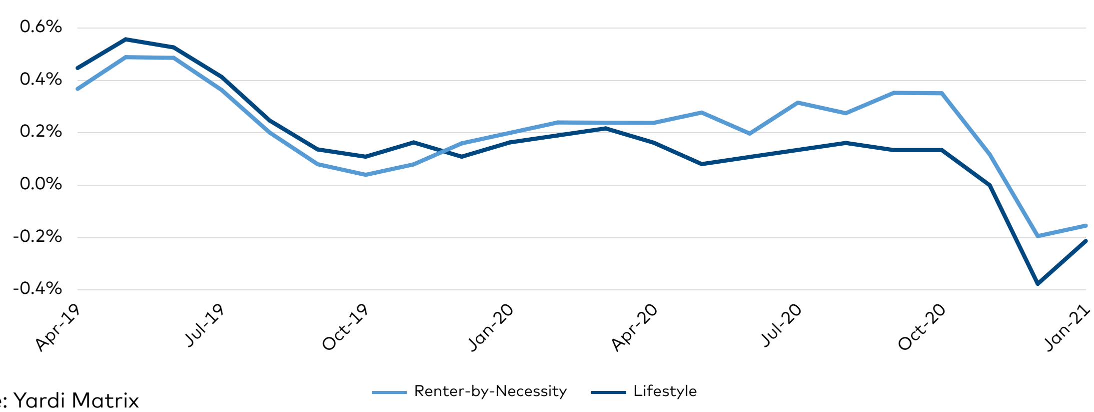
- The Kansas City area is set to receive $30 million in rental relief, which is part of the $25 billion federal rental assistance package passed in December. While the current administration extended the Centers for Disease Control and Prevention eviction moratorium through March 31, 2021, eviction filings and hearings have continued in Kansas City, as tenants must file CDC declaration forms in order to be covered.

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 December, the unemployment rate was 3.8% in Kansas, 5.8% in Missouri 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 the previous month and were below the 6.7% December national rate.

- In the 12 months ending in November, the metro lost a combined 44,600 jobs, with the leisure and hospitality sector contracting by 21,900 jobs or 18.5%. While most sectors saw employment numbers tumble, there were two that actually posted gains—construction added 3,700 jobs (up 6.8%) and transportation gained 600 jobs, up 0.6%. Recovery is expected to advance at a slow pace, with 1.3% of employment growth (more than 14,100 jobs) forecast for 2021, according to the Center for Economic Development and Business Research.

- After undergoing a software security upgrade at the end of January, the Kansas Department of Labor began distributing payments as part of the Continued Assistance for Unemployed Workers Act of 2020. The act reauthorizes the Federal Pandemic Unemployment Compensation program with an additional $300 weekly benefit, starting with the week ending Jan. 2 through the week ending March 13, 2021.

Kansas City Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	58	5.2%
40	Trade, Transportation and Utilities	231	20.8%
50	Information	15	1.4%
80	Other Services	42	3.8%
55	Financial Activities	76	6.9%
30	Manufacturing	75	6.8%
65	Education and Health Services	160	14.4%
90	Government	164	14.8%
60	Professional and Business Services	190	17.1%
70	Leisure and Hospitality	97	8.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Kansas City gained 144,617 residents over the past decade, for a 7.2% increase, 110 basis points above the 6.1% U.S. rate.

- Mostly fueled by natural population growth and domestic net migration, expansion in the metro has been moderate yet steady since 2010.

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

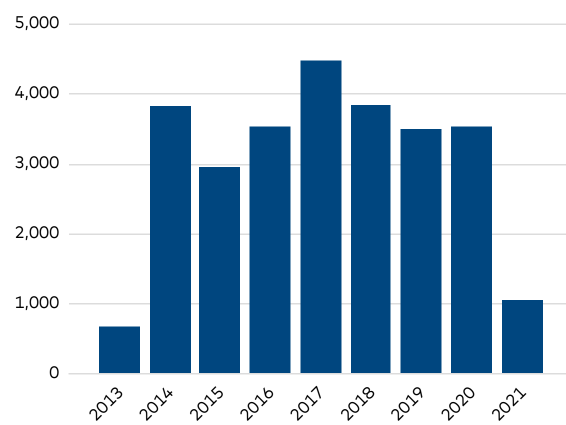
- Kansas City had 7,177 units under construction as of January, 93% of which cater to high-income earners. The largest share—76%—of the pipeline is expected to come online this year, with the remainder expected to deliver in 2022. As multifamily fundamentals have mostly withstood the crisis-generated headwinds, developers are planning ahead—another 26,000 units were in the planning and permitting stages as of January.

- Developers completed 1,061 units in the first month of 2021, 0.7% of total stock and 40 basis points above the U.S. figure. New deliveries—consisting of four communities—exclusively favored the Lifestyle segment. Construction in the metro has been steady over the past decade—since 2013, developers have added an average 3,700 apartments per year to inventory, with completions peaking at 4,469 in 2017.

- Despite widespread challenges, construction activity in Kansas City picked up steam in 2020. Last year, developers broke ground on 3,900 units across 21 properties, accounting for more than double the total construction starts for 2019. That year, developers broke ground on 1,925 units in eight communities.

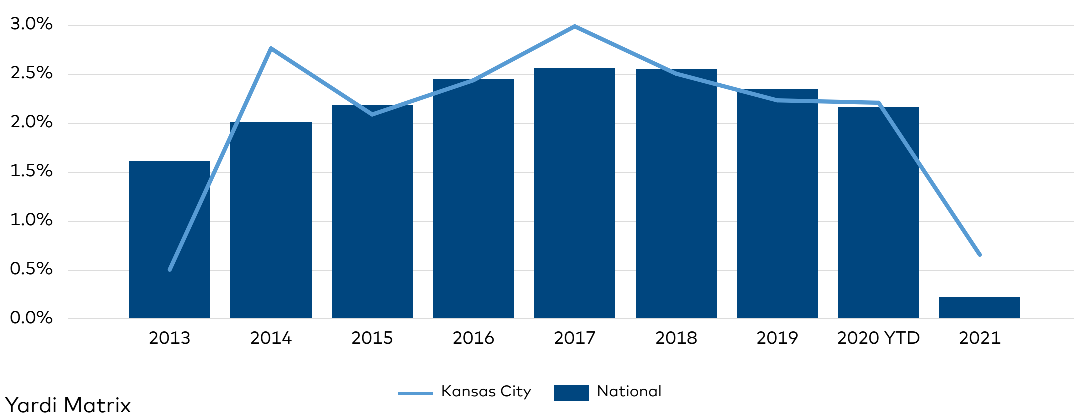
- As of January, Downtown Kansas City (1,776 units) led development, accounting for a quarter of the total pipeline. Lenexa (873 units) and Kansas City–South (690 units) rounded out the top three. Block Real Estate Services' 370-unit The Apex at CityPlace in Overland Park–Southwest, slated for delivery this summer, was the largest development underway.

Kansas City Completions (as of January 2021)



Source: Yardi Matrix

Kansas City vs. National Completions as a Percentage of Total Stock (as of January 2021)



Source: Yardi Matrix

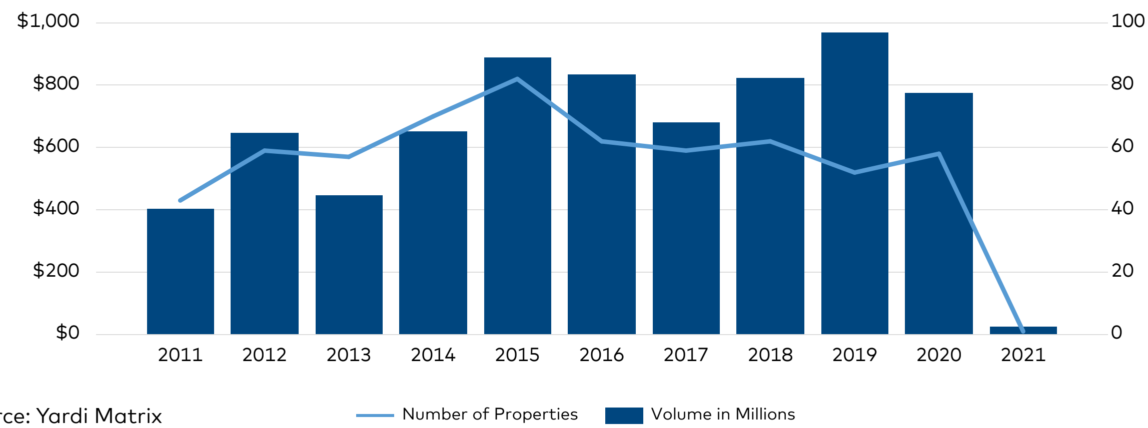
TRANSACTIONS

- Multifamily sales reached $774 million in 2020, a 20% drop compared to 2019. While the health crisis has inhibited investor interest, 2020 proved a strong year for multifamily, with last year's total exceeding the decade's yearly average since 2011—$704 million—by 10%. Deal velocity has been consistent over the past decade, with transaction volume peaking at $967 million in 2019.

- A total of 8,958 units traded in 2020, with investors primarily favoring the Lifestyle segment. More than half (55%) of the units sold last year catered to high-income renters. The average per-unit price stood at $102,599, a 1.3% increase over 2019, but still below the $157,900 U.S. figure.

- Investment sales were off to a solid start in 2021, with two assets sold for a total $87 million as of January. Avanti Residential's $62 million purchase of the 311-unit Prairie View at Village West was the largest deal so far this year. Crow Holdings sold the community for $198,826 per unit.

Kansas City Sales Volume and Number of Properties Sold (as of January 2021)



Source: Yardi Matrix

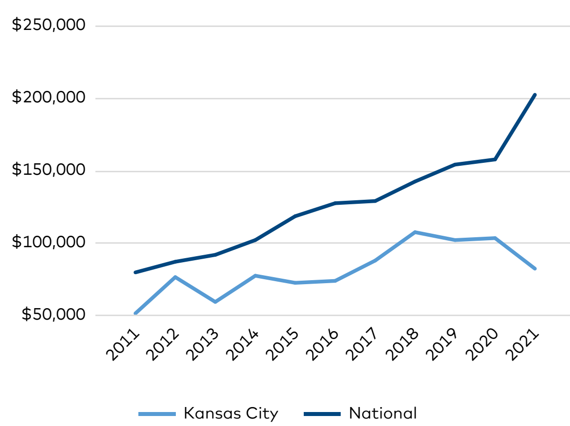
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Calico Farms/Bridlespur	86
Victory Hills	79
Kansas City Northwest/ Riverside	78
Kansas City–South	76
Overland Park–Southeast	74
Overland Park–Southwest	49
Overland Park–North	40

Source: Yardi Matrix

[1] From February 2020 to January 2021

Kansas City vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

Which Midwest Markets Are Investors Turning To?

By Laura Calugar

With few exceptions, Midwest markets have navigated pandemic-induced difficulties better than initially expected. Cushman & Wakefield Vice Chairs Hannah Ott and George Tikijian are confident about the multifamily industry's strengths in the region. The two experts reveal the reasons behind Midwest markets' appeal and discuss their strong suits and vulnerable spots.

How do you see the Midwest multifamily market now, almost a year into the pandemic?

Ott: With the exception of Chicago, Midwest multifamily markets have held up remarkably well. Chicago's issues stem from the property-tax situation there and a host of other issues—it's not just the pandemic.

How have multifamily investors across the Midwest reacted to the health crisis?

Tikijian: There's tremendous buyer demand and opportunity. Investors who previously focused on coastal markets, especially New York and New Jersey, shifted focus to more stable locales, and that's benefited markets such as Indianapolis; Cincinnati; Louisville, Ky.; Kansas City, Mo.; Columbus, Ohio, and Nashville, Tenn.

As interest rates declined, the superior yields that properties in these cities provide further propelled Midwest multifamily. Cap rates declined in 2020 and they'll continue to go down slightly in 2021. As investors grow uncomfortable with the prices in major gateway markets, the Midwest will be viewed as an attractive alternative.

Hannah Ott *(left)* and George Tikijian *(right)*

How has the Kansas City multifamily market performed in the past 12 months?

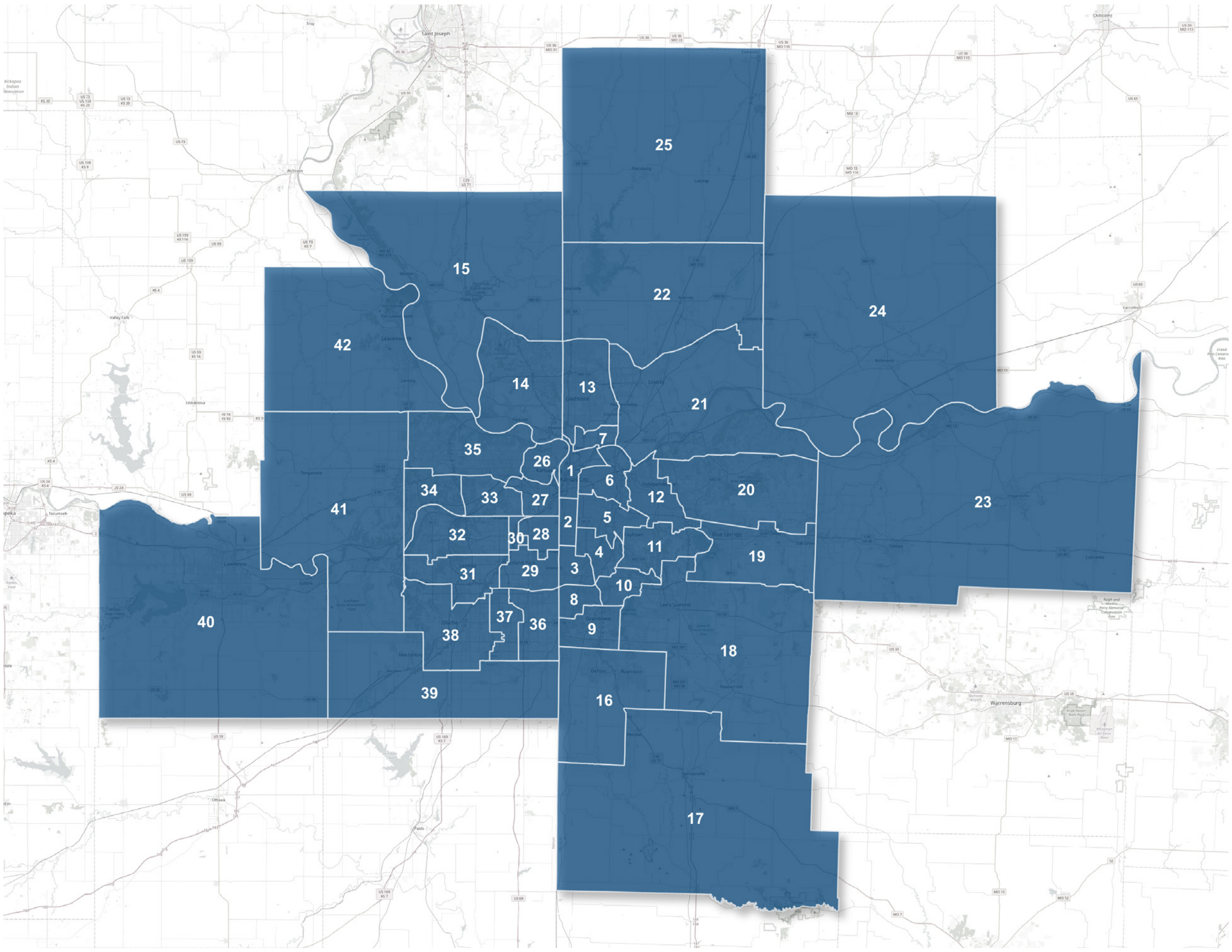
Tikijian: Kansas City fared pretty well over the past year, with 2 percent rent growth and overall strong occupancy, though vacancy did increase 10 basis points. That was largely driven by a high level of deliveries in the River-Crown Plaza and Southern Johnson County submarkets—the region's two strongest markets that accounted for 73.6 percent of new deliveries and also have the highest effective rents. A correlation between new deliveries and an increase in vacancy rates should be expected in the short term, especially amid conditions that are hardly conducive to people moving and relocating. While River-Crown-Plaza and Southern Johnson County are the backbone of Kansas City multifamily, the momentum of the Western 435 submarket is notable.

How do you expect the region's multifamily market to perform this year?

Ott: Most buyers and participants expect another year of strong performance, though many buyers are underwriting with expectations of slower rent growth. A number of potential transactions were sidelined in 2020, especially in the second quarter. That's one reason we expect more transactions in 2021, even though 2020 had considerable volume.

(Read the complete interview on multihousingnews.com.)

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 December 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 December 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, December 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.