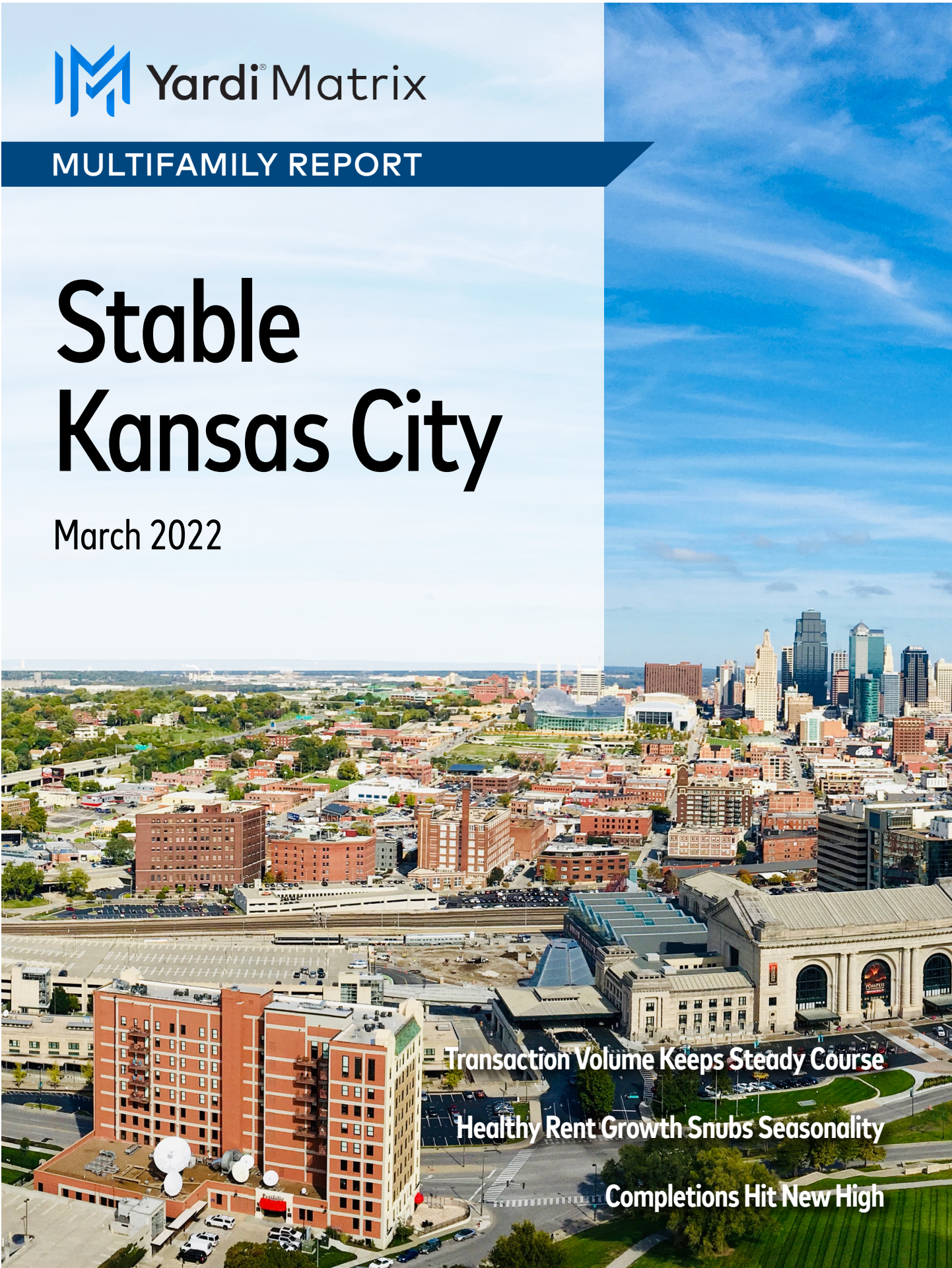




MULTIFAMILY REPORT

Stable Kansas City

March 2022



Transaction Volume Keeps Steady Course

Healthy Rent Growth Snubs Seasonality

Completions Hit New High

KANSAS CITY MULTIFAMILY



Development Heightens Amid Sustained Demand

While lacking the headline-making fluctuations that coastal markets went through during recent years, Kansas City rentals continue to display solid fundamentals. With rents up 7.2% year-over-year and occupancy rising 120 basis points to 95.6%, the metro stepped into 2022 on the right foot, albeit lagging Sun Belt cities and gateway metros where recovery is reaching full velocity.

One of Kansas City's brightest spots is its economy, with unemployment at a very tight 2.5% as of December according to preliminary Bureau of Labor Statistics data, and total employment already surpassing pre-pandemic levels. However, while leisure and hospitality (16,000 jobs), trade, transportation and utilities (13,200) and professional and business services (13,100) registered strong gains, two sectors contracted. This was the case for information, which lost a relatively low 700 positions, as well as financial activities, which contracted by 4,000 jobs.

Development is firing on all cylinders across Kansas City, with 5,048 units completed last year. An additional 7,331 were underway at the start of 2022, nearly 4,000 of which are expected to come online this year. Meanwhile, \$936 million in rental assets traded in 2021, in line with the metro's five-year average.

Market Analysis | March 2022

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Recent Kansas City Transactions

Village West



City: Kansas City, Kan.
Buyer: Avanti Residential
Purchase Price: \$65 MM
Price per Unit: \$212,418

Mayfair

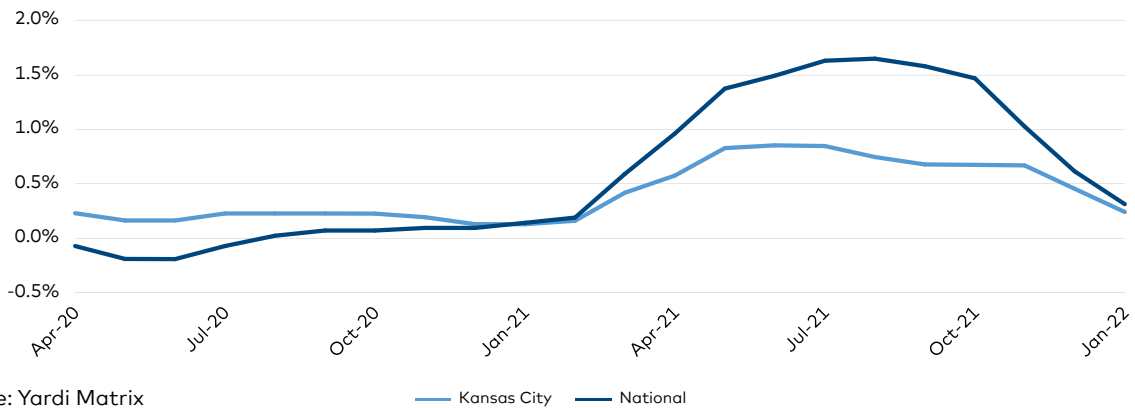


City: Kansas City, Mo.
Buyer: LEDG Capital
Purchase Price: \$3 MM
Price per Unit: \$42,373

RENT TRENDS

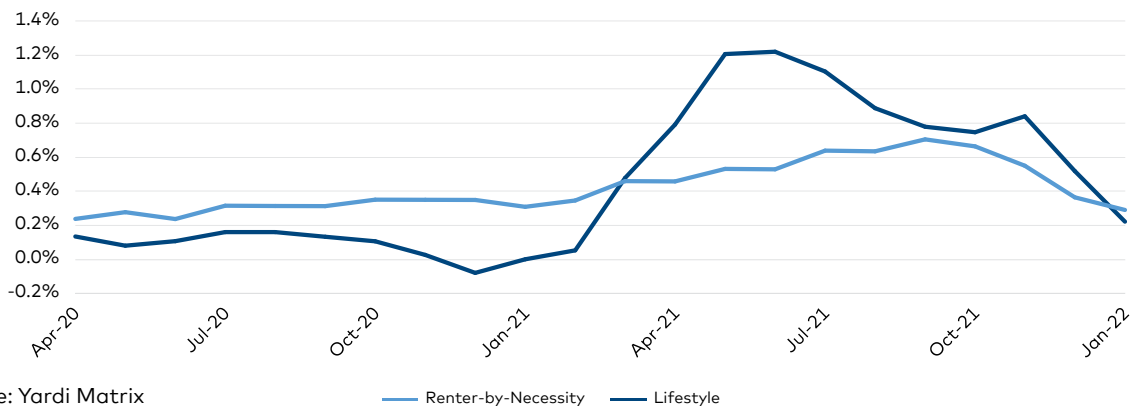
- ▶ Kansas City rents were up 0.2% on a trailing three-month (T3) basis as of January, close to the 0.3% national average. While this marked a clear deceleration from the consistent gains of the first three quarters of 2021, the figure remained more than healthy considering that seasonality usually takes its toll on rents in the winter months. As of January, the average Kansas City rate hit \$1,111, significantly below the \$1,604 national figure, sustaining the metro's affordability.
- ▶ In the context of double-digit year-over-year rent growth across most major U.S. metros, Kansas City rates advanced a more modest 7.2%. However, the increase is only modest in context, as it would have been considered exceptional for any Midwestern city prior to the pandemic.
- ▶ Following some oscillation over the past year and a half, there was little difference between quality segments going into 2022. As of January, the average rent for working-class Renter-by-Necessity units was up 0.3% on a T3 basis, reaching \$924. Meanwhile, Lifestyle rates were up 0.2%, to \$1,367.
- ▶ Steady rent gains are being mirrored by the evolution of occupancy rates. Kansas City occupancy in stabilized properties was up 120 basis points as of January, reaching 95.6%. Considering the metro's fundamentals and the likely nationwide deceleration, Yardi Matrix expects the average Kansas City rent to grow 3.6% this year.

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

- ▶ Metro Kansas City added 45,200 positions in the 12 months ending in November 2021. That marked a 4.7% expansion, slightly above the 4.6% national average.
- ▶ The area's economy is an outlier in the sense that it has already surpassed pre-pandemic employment levels. According to preliminary data from the Bureau of Labor Statistics, the metro had 1,124,687 employees as of December 2021, almost 20,000 positions more than in February 2020.
- ▶ In fact, Kansas City's economy recorded a swift rebound following the initial shock brought by the COVID-19 pandemic. After recording double-digit unemployment in April and May of 2020, the metro steadily recovered, reaching an impressive 2.5 percent as of December 2021, the best rate going back at least a decade.
- ▶ Nearly all employment sectors registered gains in the 12 months ending in November 2021, led by leisure and hospitality, which added 16,000 jobs for a 17.0% expansion. This is following a wider nationwide pattern: After being the hardest-hit sector in 2020, leisure and hospitality recovered relatively swiftly as local economies navigated the ups and downs of COVID-19 waves.

Kansas City Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	110	9.6%
40	Trade, Transportation and Utilities	237	20.6%
60	Professional and Business Services	204	17.8%
30	Manufacturing	84	7.3%
15	Mining, Logging and Construction	55	4.8%
90	Government	164	14.3%
65	Education and Health Services	163	14.2%
80	Other Services	41	3.6%
50	Information	14	1.2%
55	Financial Activities	77	6.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The metro gained 15,222 residents in 2020 alone, which marked a 0.7% expansion, nearly double the 0.4% U.S. rate.
- ▶ Over the past decade, Kansas City's population grew by nearly 8%.

Kansas City vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Kansas City	2,127,259	2,143,651	2,157,990	2,173,212

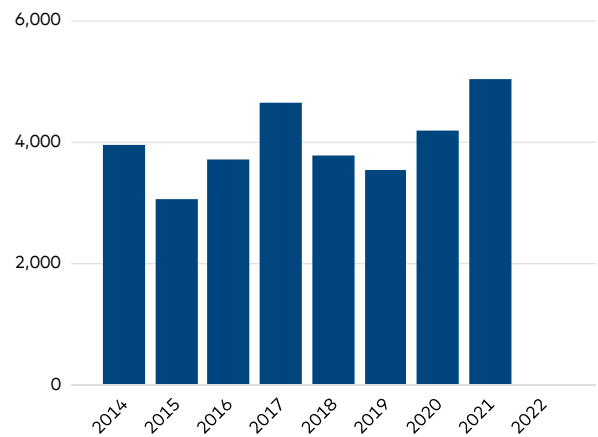
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Developers delivered 5,048 units across metro Kansas City in 2021, despite myriad challenges including rising construction costs, supply chain issues and labor availability. That's more than during any other year of the past cycle. Last year was also good for construction, with developers starting work on 4,658 apartments, a far cry from the 1,835 units registered in 2020.
- ▶ Overall, the metro had 7,331 units under construction as of January, with an additional 37,000 units in the planning and permitting stages, signaling developers' confidence in Kansas City's long-term prospects. Of the apartments underway, the vast majority continues to be in upscale projects, an ongoing nationwide trend for at least a decade.
- ▶ Downtown Kansas City led the pipeline going into 2022, with 1,188 apartments underway as of January. Lenexa (974 units under construction) and Overland Park-Southeast (934 units) rounded out the top three. While central areas continue to draw their share of renters, the metro's pipeline is more geographically diverse than it was just a few years ago. Of all units underway as of January, only a quarter were within 3 miles of downtown.

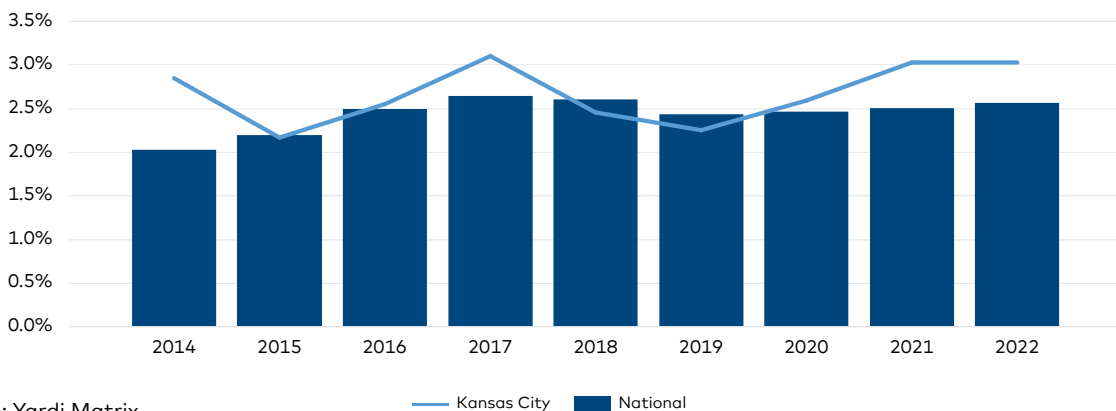
- ▶ The largest community to be completed in 2021 was the 380-unit Cyan Southcreek in Overland Park. The project by Davis Development came online with help from a \$37 million loan held by Wells Fargo.

Kansas City Completions (as of January 2022)



Source: Yardi Matrix

Kansas City vs. National Completions as a Percentage of Total Stock (as of January 2022)



Source: Yardi Matrix

TRANSACTIONS

- ▶ Kansas City multifamily transactions totaled \$936 million in 2021, which is not far from the metro's \$822 million five-year average. Pandemic-induced woes did not discourage investors, nor did they overly attract them during the bull run of last year. This is largely in line with other Midwestern cities, where the latest downturn proved less disruptive than it did in gateway markets.
- ▶ One thing that continued to appreciate, however, was the average price per unit, which clocked in at \$130,520 in 2021, up more than 20% year-over-year but still considerably behind the \$191,340 U.S. average.
- ▶ Alchemy Properties was one of the metro's most active investors of the past 12 months, having acquired 550 units across six properties. This included a four-property portfolio bought from JES Holdings in January 2022.

Kansas City Sales Volume and Number of Properties Sold (as of January 2022)



Source: Yardi Matrix

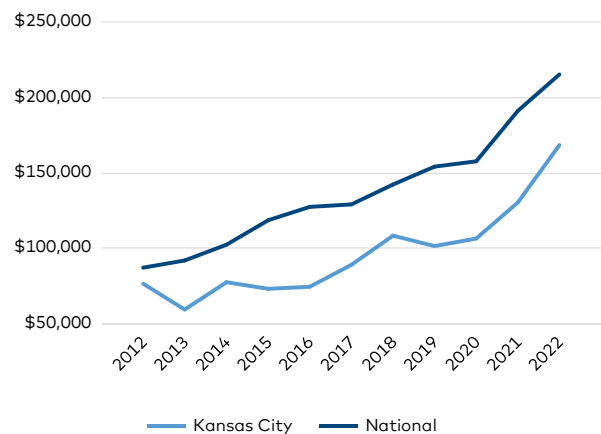
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Marlborough Heights	112
Shawnee	111
Gladstone	99
Kansas City—North	72
Victory Hills	65
Kansas City—South	62
Kansas City—West	58

Source: Yardi Matrix

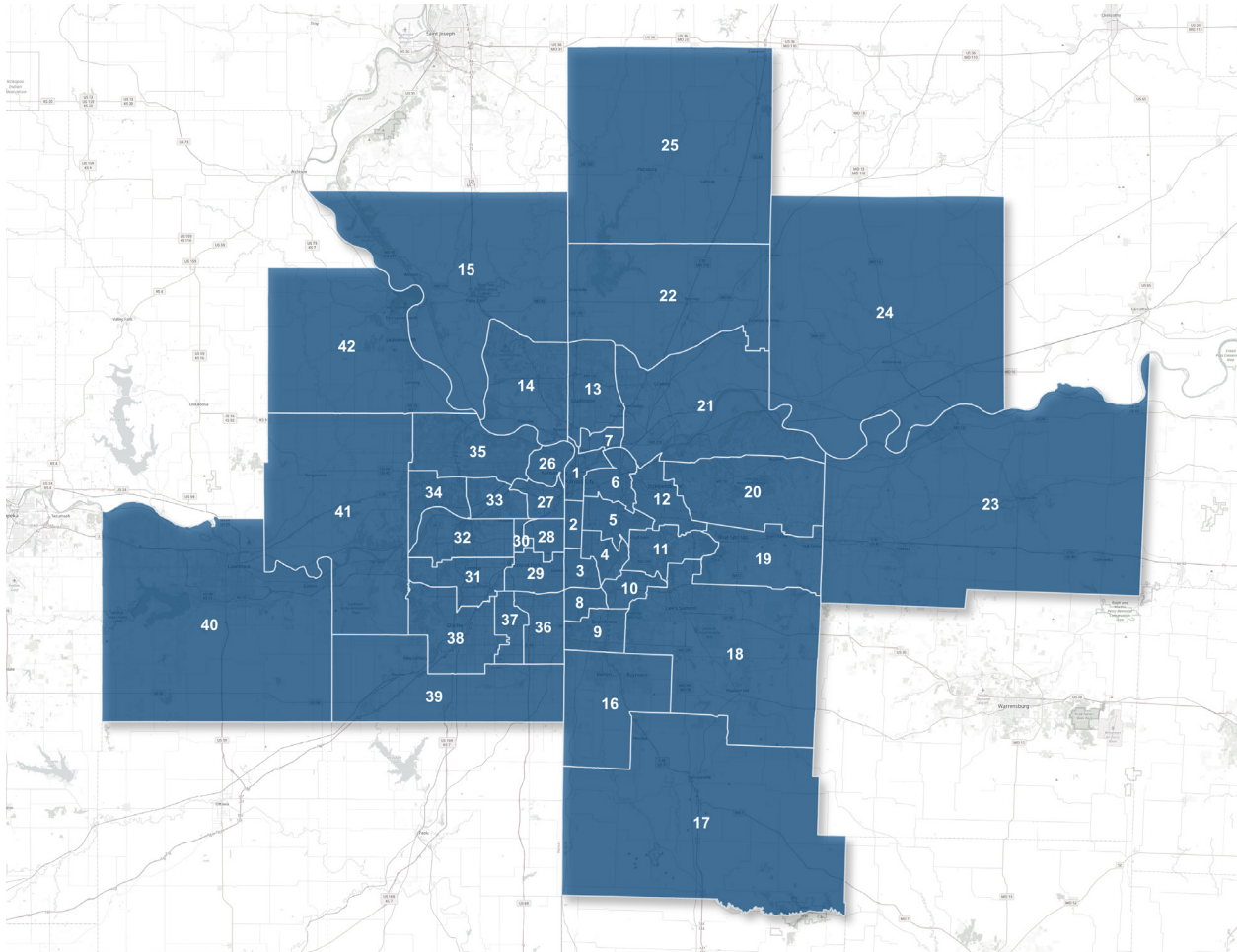
¹ From February 2021 to January 2022

Kansas City vs. National Sales Price per Unit



Source: Yardi Matrix

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.

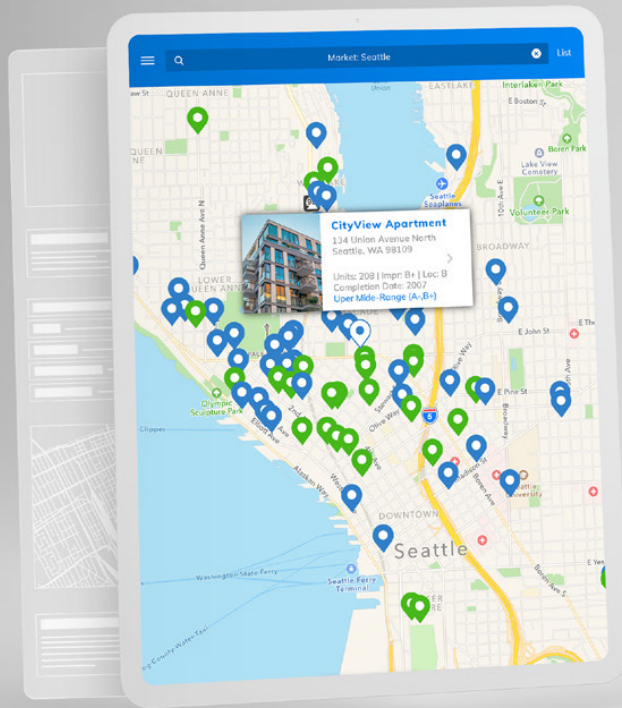
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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