

YARDI[®] Matrix

Kansas City's Revival

Multifamily Winter Report 2017

Rent Growth Follows National Trend

New Development Targets City Core

Property Values Continue Upward Trend

Market Analysis

Winter 2017

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Transformation Underway

Kansas City is straining to transform from its staid Midwestern heritage into a metro more suitable for modern urban living. The downtown is seeing a historical restructuring, as abandoned office buildings are converted into apartments and hotels. Local authorities are continuing revitalization investments with an \$800 million comprehensive capital improvements program to be implemented in the next 20 years, impacting the entire city.

The metro's economy is also slowly shifting from manufacturing, making room for financial, health-care and technology businesses. In 2017, the first phase of Cerner's \$4.5 billion Innovations Campus will be inaugurated, and Sprint and Techstars announced programs for supporting startup companies. In the past year, Kansas City's industrial market has had impressive results, with recent deliveries and positive absorption figures surpassing previous record highs. This has been mostly fueled by the intense activity at Logistics Park Kansas City, where Amazon and Triumph Group opened new facilities.

The transactions volume decreased to \$667 million year-to-date, after peaking at nearly \$819 million in 2015, but these are still high numbers compared to the first years of recovery after the crash. Rent growth caught up with the national average at 4.4%, but as supply reached a peak for this cycle, with roughly 3,000 units coming online in 2016, growth is expected to moderate in 2017.

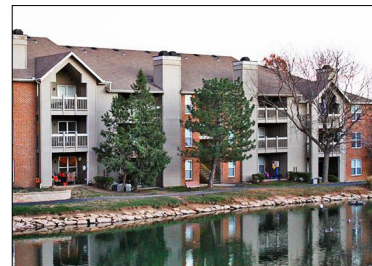
Recent Kansas City Transactions

ARIUM Overland Park



City: Overland Park, Kan.
Buyer: Carroll Organization
Purchase Price: \$69 MM
Price per Unit: \$170,647

Northland Passage



City: Kansas City, Mo.
Buyer: Hayman Co.
Purchase Price: \$61 MM
Price per Unit: \$101,678

Stonebriar



City: Overland Park, Kan.
Buyer: Price Brothers
Purchase Price: \$49 MM
Price per Unit: \$114,776

The Lodge of Overland Park

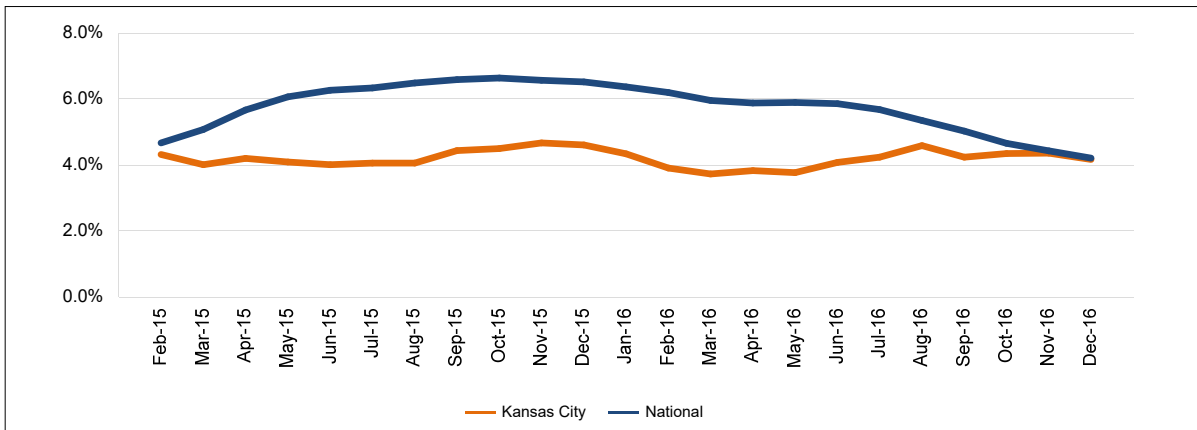


City: Overland Park, Kan.
Buyer: Mandel Group
Purchase Price: \$49 MM
Price per Unit: \$88,504

Rent Trends

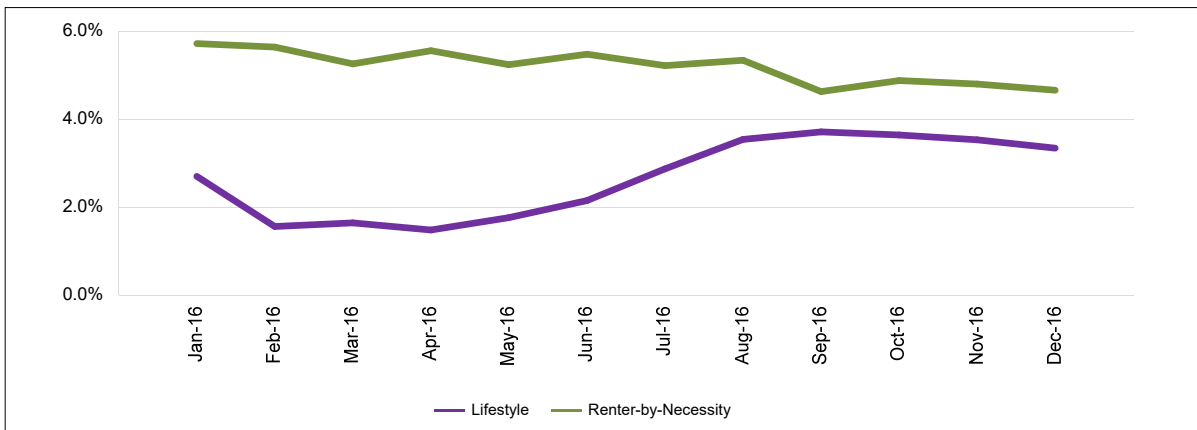
- Multifamily rents have been steady for the past year, and were up 4.4% year-over-year through November, roughly on par with the national average. Rents in the metro stood at \$844, still well below the national average of \$1,214.
- Rent growth was led by the Renter-by-Necessity segment, which rose by roughly 5% to \$761 year-over-year, compared to the 3.5% growth for Lifestyle rents, to an average of \$1,008. Demand is concentrated in the city's central business district (CBD), which is transforming into a residential neighborhood appealing to high-earning Millennials. Job growth in high-paying sectors is expected to foster demand for such units and fuel further rent growth. Considering the lack of consistent affordable housing projects, the Renter-by-Necessity sector will continue to lead the rent growth charts.
- Submarkets with the highest rent increase are Park Farms (14.9%), Kansas City—East (12.2%), Belton/Raymore (11.1%) and Kansas City—West (9.2%). These are well-positioned, amenity-rich submarkets with little to no new supply but with high demand from young professionals. We expect continued demand, with rents tempered by rising amounts of new supply, producing another year of steady but moderate rent growth, at 3.5%.

Kansas City vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Kansas City Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

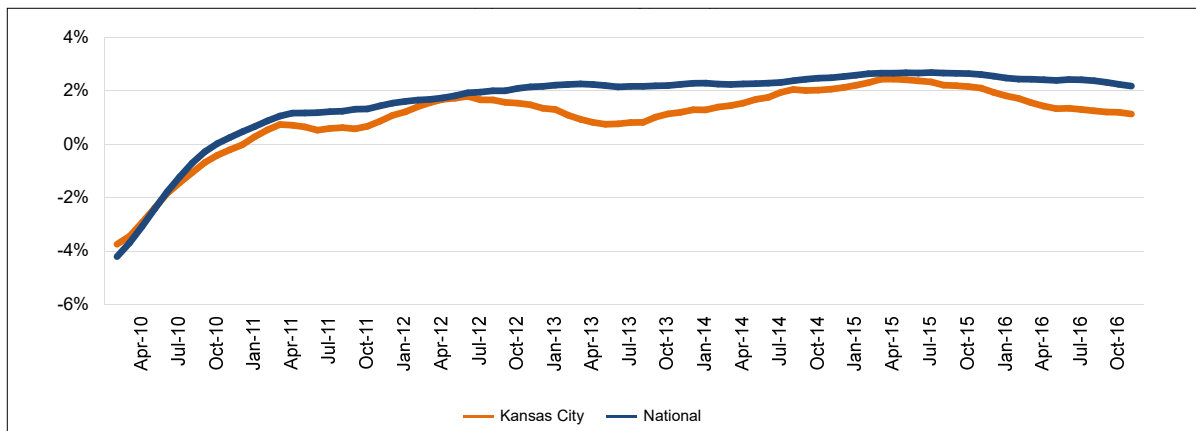


Source: YardiMatrix

Economic Snapshot

- Kansas City added only 13,600 jobs in the year ending in September, a 1.2% year-over-year increase that was behind the 2.3% national growth rate. Job gains were led by high-earning sectors such as education and health services, which added 4,300 jobs, followed by finance (3,800) and professional and business services (2,300).
- Kansas City has been hit by job cuts in trade, transportation and utilities (-1,200 jobs) and information (-1,500), largely due to layoffs at telecom companies Sprint Corp. and CenturyLink. However, improvement is on the horizon, as both Sprint and Techstars, a startup accelerator, announced the implementation of programs to encourage and support new businesses.
- Following the national trend, the metro's office market performed well in 2016, with vacancy rates declining and rent rates increasing. This is particularly due to the fact that speculative office development is scarce in Kansas City, as most new construction in this sector is build-to-suit projects. Two major office developments now underway are the \$4.5 billion Cerner Innovations Campus in south Kansas City and Dairy Farmers of America's new headquarters.
- More than 7 million square feet of newly constructed industrial/warehouse space came online in 2016, as the metro is a hub for distribution in the Midwest.

Kansas City vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Kansas City Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
50	Information	19	1.7%	-1,500	-7.5%
40	Trade, Transportation and Utilities	213	19.3%	-1,200	-0.6%
80	Other Services	41	3.7%	-400	-1.0%
15	Mining, Logging and Construction	47	4.3%	300	0.6%
30	Manufacturing	76	6.9%	500	0.7%
70	Leisure and Hospitality	112	10.2%	800	0.7%
90	Government	168	15.2%	1,600	1.0%
60	Professional and Business Services	193	17.5%	2,300	1.2%
55	Financial Activities	80	7.3%	3,800	5.0%
65	Education and Health Services	156	14.1%	4,300	2.8%

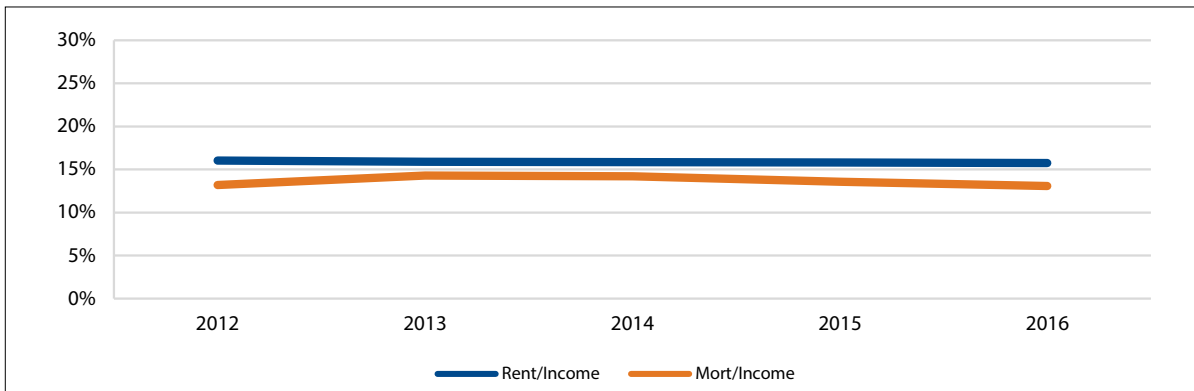
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

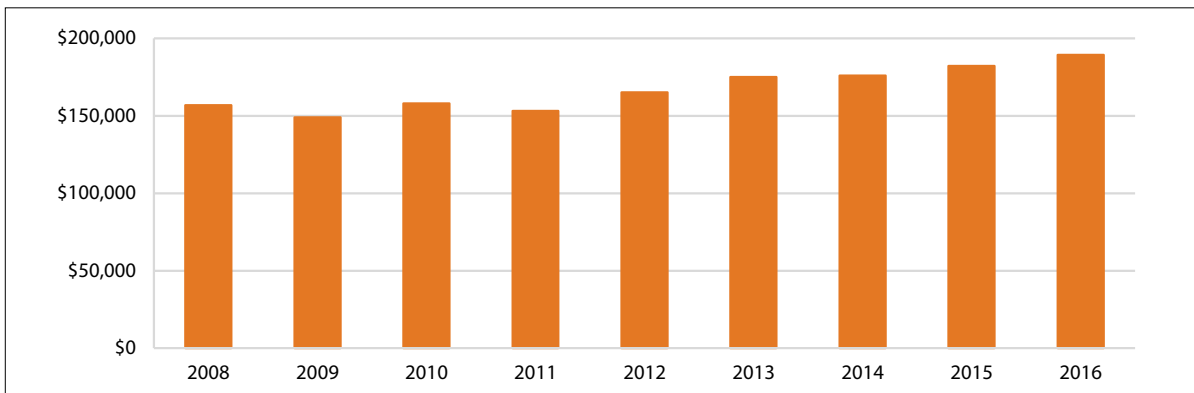
- The median home price in Kansas City rose to \$189,410 in 2016, up 4% for the year and 20% compared to 2010.
- As wages also progressed steadily, affordability rates have remained at moderate levels. Homeownership is still more affordable than renting, a trend that has been maintained since 2012. Mortgages account for 13% of the median income, while rents equate to 16%, although that number could increase if rents continue to rise.

Kansas City Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Kansas City Median Home Price



Source: Moody's Analytics

Population

- Kansas City's population is increasing slowly but steadily.
- The metro added 74,000 residents between 2010 and 2015, up 3.6%, close behind the national rate of 3.9% for the same period.

Kansas City vs. National Population

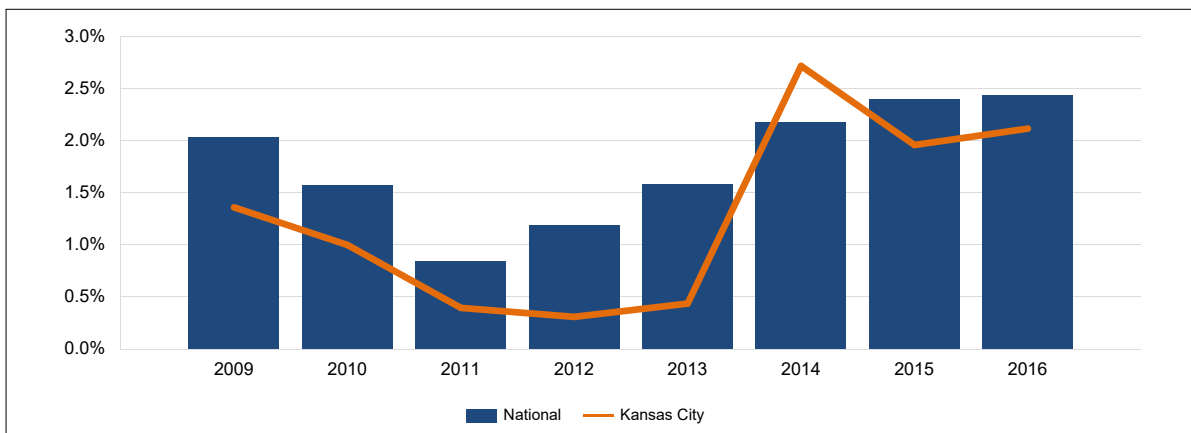
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Kansas City, MO-KS Metropolitan Statistical Area	2,025,082	2,039,356	2,055,178	2,071,283	2,087,471

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

Supply

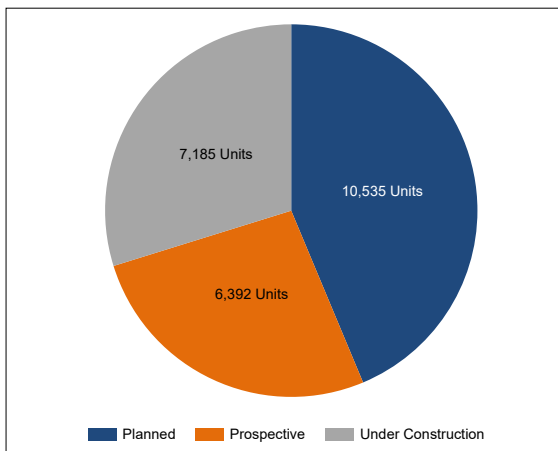
- Roughly 3,000 units came online in 2016, adding nearly 3% to the total stock, or slightly above the national average. Development has cooled off since peaking at nearly 4,000 units in 2014.
- The development pipeline is healthy, encompassing more than 25,000 units, with 11,211 units under construction. Some 4,500 units are scheduled to come online in 2016. Demand should remain healthy, as wages are increasing and the comprehensive renewal projects in Kansas City attract new residents. Net absorption in 2016 through October stood at 1,900 units, according to Yardi Matrix.
- New supply is concentrated in the core markets, with roughly 2,800 units under construction in downtown Kansas City and more than 1,100 units underway in Gladstone.
- Southwestern submarkets such as Lenexa (872) and Lawrence (713) are also seeing a large number of units under development. Residents benefit from access to large employers in Logistics Park Kansas City and the nearby Overland Park. The largest development project underway is the 377-unit WaterSide Residences on Quivira in Lenexa.

Kansas City vs. National Completions as a Percentage of Total Stock (as of January 2017)



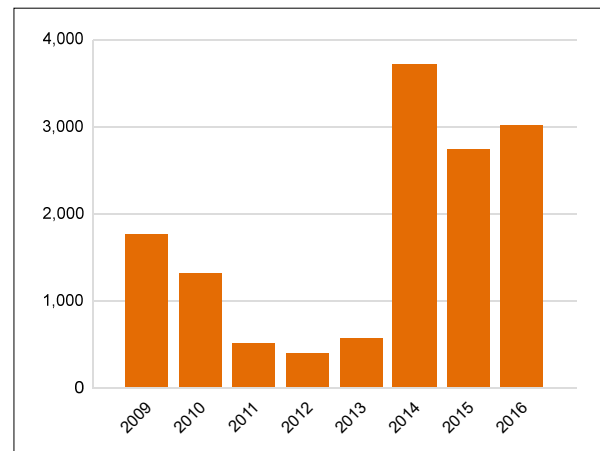
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Kansas City Completions (as of January 2017)

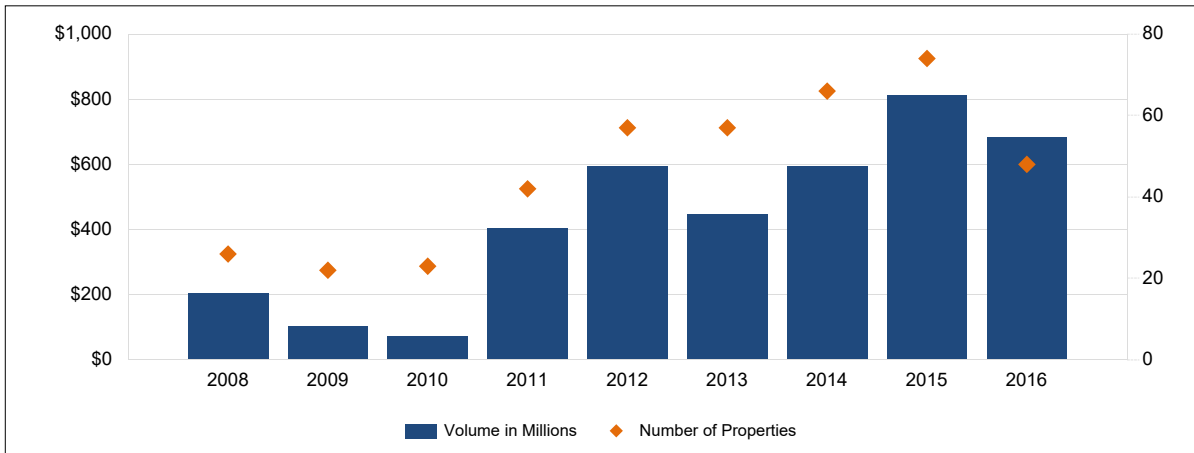


Source: YardiMatrix

Transactions

- Investment volume in Kansas City decreased to \$667 million in transactions year-to-date through November, after peaking at nearly \$819 million in 2015. Kansas City's investor base remains concentrated among regional and local buyers, as institutions still largely avoid the slow-growing Midwest because of traditionally slow rent growth and lack of liquidity. Still, the potential for growth as the metro reinvents itself and its higher yields compared to primary markets make Kansas City attractive to value-add investors.
- In 2016, the price per unit increased slightly to \$74,771, compared to 2015's \$73,657. However, the metro still lags the national average, which is following an upward trend after peaking at \$122,352 in 2015.
- Overland Park (a combined \$234 million from two submarkets) led in transaction volume, followed by Kansas City Northwest/Riverside (\$122 million).

Kansas City Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

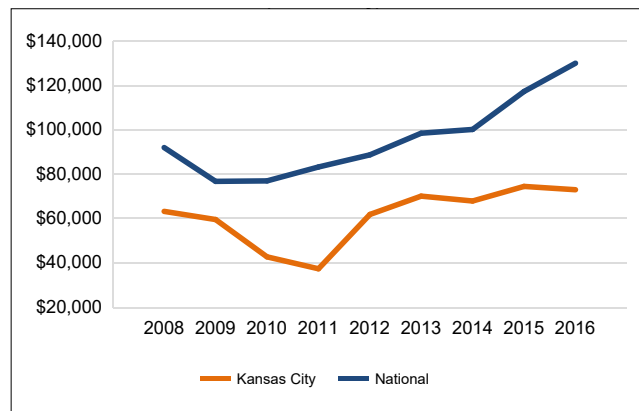
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Kansas City Northwest/Riverside	122
Overland Park—Southwest	117
Overland Park—North	117
Marlborough Heights	49
Liberty	49
Lawrence	37
Kansas City—Southeast	36
Lenexa	26

Source: YardiMatrix

¹ From December 2015 to November 2016

Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



JVM Realty Nabs
Luxury Community
In KC Suburb



CVS to Build 762 KSF
Distribution Center in KC



CBRE Kansas City Closes
5 Multifamily Sales

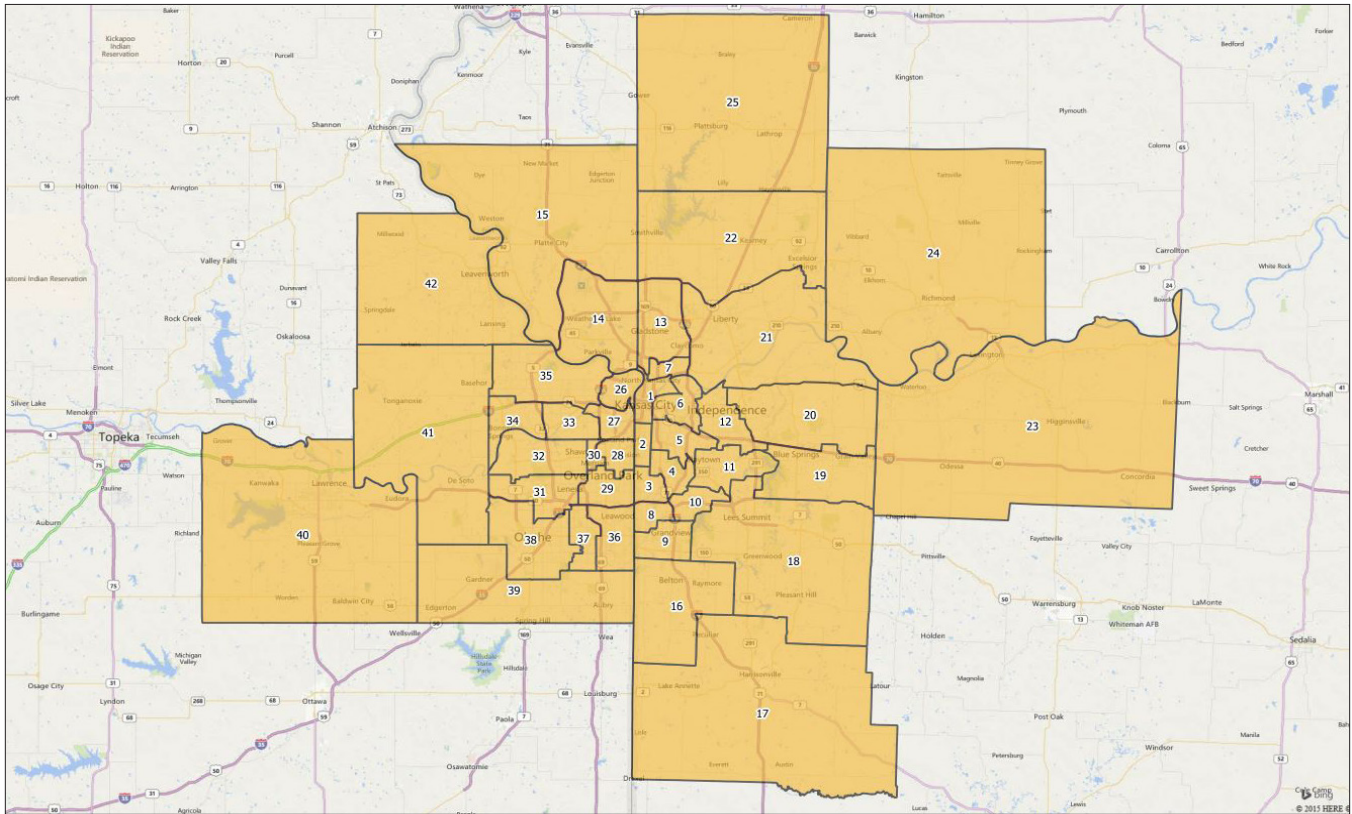


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Kansas City Submarket Map



Area #	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/Riverside
15	Platte City
16	Belton/Raymore
17	Harrisonville
18	Lee's Summit
19	Blue Springs
20	Independence

Area #	Submarket
21	Liberty
22	Smithville/Excelsior Springs
26	Kansas City - Northwest
27	Kansas City - West
28	Mission
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 may 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 may 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, may 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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