



YARDI[®] Matrix

Kansas City's New Look

Multifamily Report Spring 2017

Rent Growth Stays Modest

Construction Activity Surges

Investors Target Overland Park

Market Analysis

Spring 2017

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A Feeling We're Not in Kansas Anymore

Kansas City is in the midst of a transformation, growing as a financial and research center, with increased investment in infrastructure, all of which support multifamily fundamentals. Demand is healthy as young professionals move into the city, although a wave of new supply is expected to moderate rent growth.

The metro is consolidating its status as a financial services hub. The sector added 4,500 jobs over the past year, leading all employment segments. Kansas City is also seeing a growth in tech-oriented businesses, the most notable being Cerner's Innovations Campus, which just completed the construction of its first two towers. The metro's central location and its status as one of the biggest rail centers in the U.S. attracted large e-commerce and distribution companies. In the past year, Amazon and Spectrum Brands leased a total of roughly 1.8 million square feet in Logistics Park Kansas City.

The vibrant and diverse economy is drawing in investors, which pushed the total transaction volume for multifamily properties to more than \$800 million in 2016. Rent growth will continue to be moderate. Demand should remain high—particularly in the urban core—but with 6,200 units under construction, new supply will dampen rent growth to 3.1% in 2017.

Recent Kansas City Transactions

Coach House



City: Kansas City
Buyer: Aragon Holdings
Purchase Price: \$75 MM
Price per Unit: \$93,416

ARIUM Overland Park



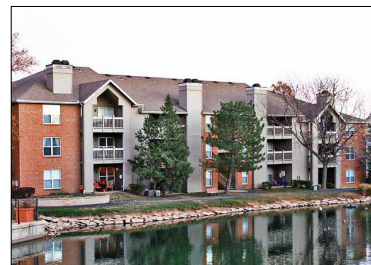
City: Overland Park, Kan.
Buyer: Carroll Organization
Purchase Price: \$69 MM
Price per Unit: \$17,064

Cambridge Square



City: Overland Park, Kan.
Buyer: Fogelman Properties
Purchase Price: \$62 MM
Price per Unit: \$150,980

Northland Passage



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

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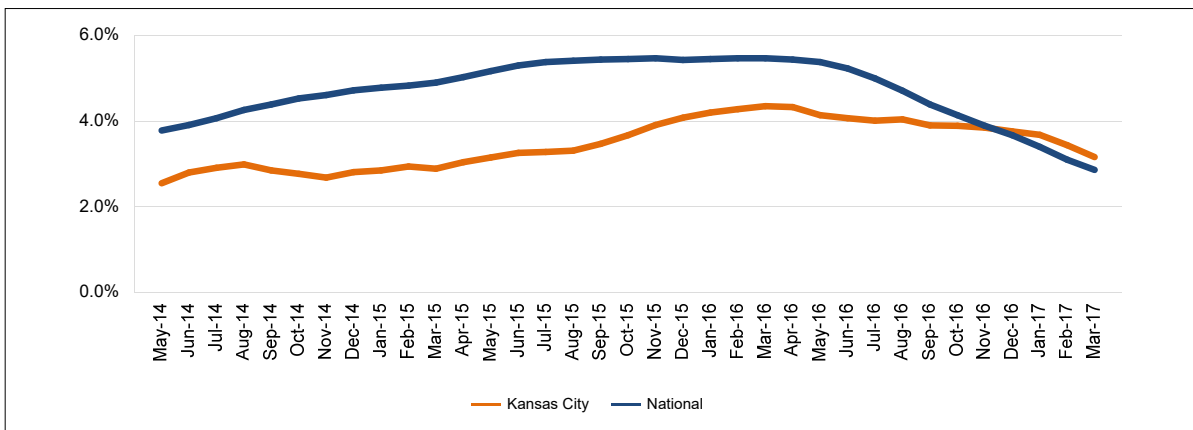
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Rent Trends

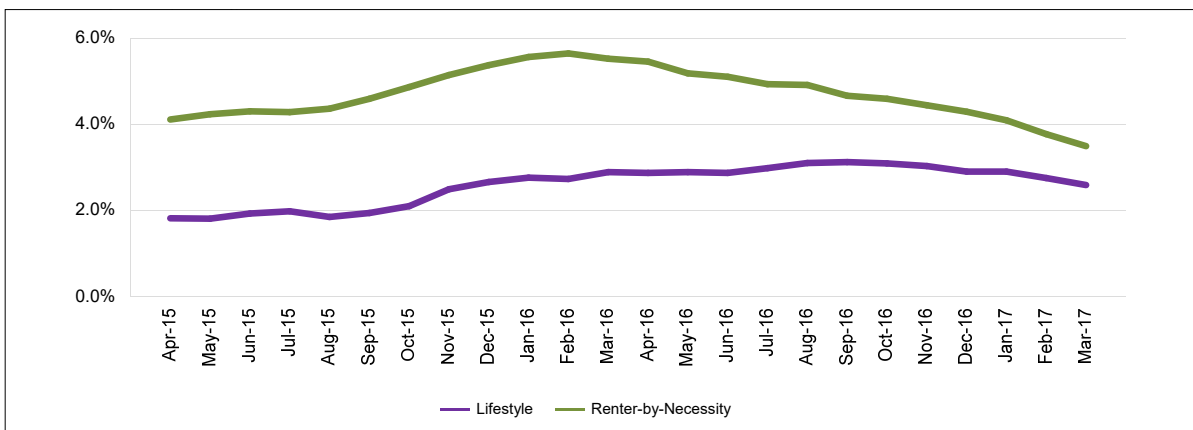
- Rent growth in the metro has slowed down in the past year, with a 3.2% increase year-over-year through March, above the national average of 2.7%. Average rent rose slightly in the same period, to \$882, behind the national level of \$1,312.
- Gains were led by the Renter-by-Necessity segment, which grew by 3.5% year-over-year through March to \$771. Development in the segment took off in recent years, with a record number of units expected to come online this year. Rents in the Lifestyle sector have been steady in the 12 months ending in March, jumping 2.9% to nearly \$1,100.
- The submarkets with the highest year-over-year rent increases were Muncie (12%), Leavenworth (8.2%), Crossgates (5.6%), Kansas City–Southeast (5.4%) and Independence–East (5.3%). Downtown Kansas City remained the most sought-after area to live in, with renters paying an average monthly rent of roughly \$1,250, followed by Kansas City–South and Overland Park.
- Although demand is expected to remain strong, with young professionals moving into the city center, we expect that the heavy supply pipeline should moderate rent growth to 3.1% in 2017.

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)

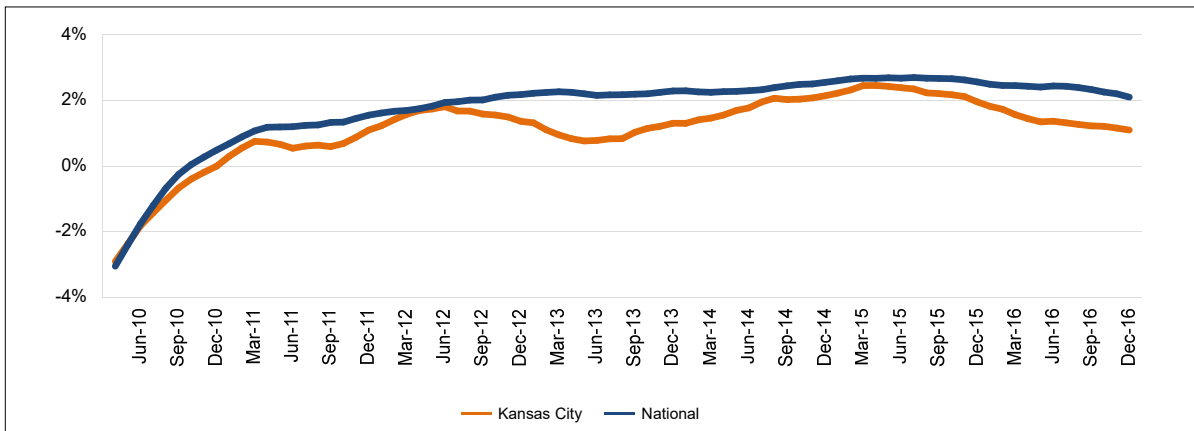


Source: YardiMatrix

Economic Snapshot

- Kansas City added roughly 14,000 jobs in 2016, a growth rate of only 1.1%, trailing the national average of 2.1%. Gains were led by professional and business services (4,800), financial activities (4,500), and education and health services (3,500).
- The metro's downtown office vacancy rate dropped to 14% as a result of new leases and conversion projects. The city's core has seen a strong demand from companies looking to relocate, with AutoAlert signing a 45,000-square-foot lease at the former Kansas City Southern Railway headquarters building and WeWork leasing 44,000 square feet at Corrigan Station.
- Kansas City is among the top-performing industrial markets in the U.S. In the past year, Amazon and Spectrum Brands leased 1.8 million square feet of space in Logistics Park Kansas City, bringing the total net absorption of industrial space to a record 6.1 million square feet in 2016, according to Colliers International.
- The hospitality segment added only 300 jobs, but prospects are optimistic, considering new projects such as the \$310 million development of the 801-key Hyatt Regency Hotel, which is expected to break ground this summer.

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	%
60	Professional and Business Services	193	17.5%	4,800	2.5%
55	Financial Activities	79	7.1%	4,500	6.0%
65	Education and Health Services	159	14.4%	3,500	2.3%
90	Government	166	15.0%	600	0.4%
70	Leisure and Hospitality	108	9.8%	300	0.3%
30	Manufacturing	76	6.9%	100	0.1%
15	Mining, Logging and Construction	46	4.2%	-300	-0.6%
80	Other Services	41	3.7%	-300	-0.7%
40	Trade, Transportation and Utilities	219	19.8%	-1,200	-0.5%
50	Information	18	1.6%	-1,300	-6.7%

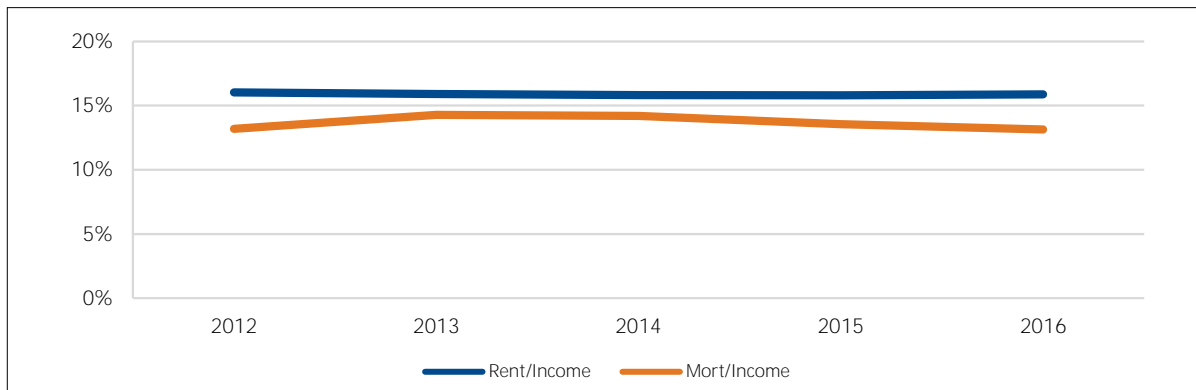
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

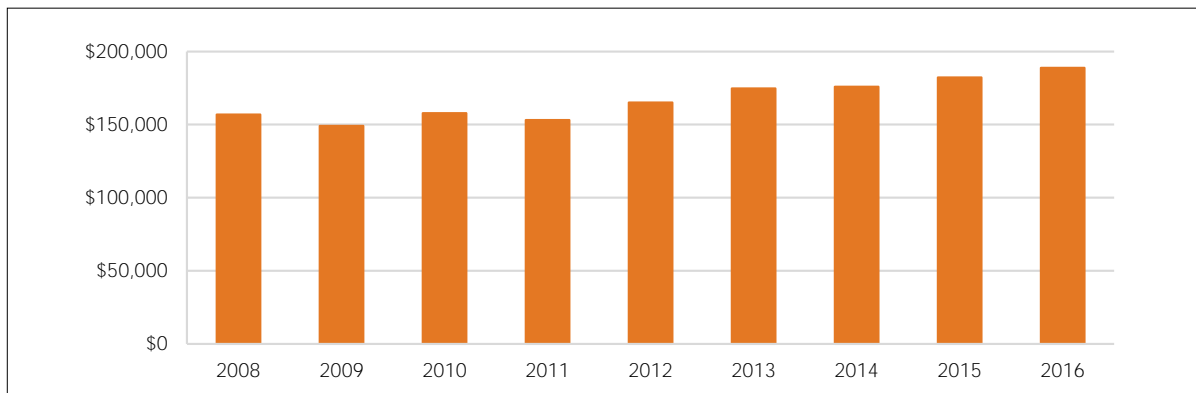
- Kansas City's vibrant growth hasn't affected affordability, as the cost of living remains below the national average. The median home price rose to \$188,943 in 2016, a peak for this cycle and a 27% increase compared to 2009, which marked the lowest point in the market.
- Homeownership is more affordable than renting, with a mortgage accounting for 13% of the area's median income, compared to 16% for renting. The ratio could change if the metro's economic growth leads to higher wages, while rent growth is expected to moderate due to new supply.

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 long-term population growth exceeds the Midwest average. The metro added 62,400 residents between 2011 and 2015. The 3% growth rate in that period is in line with the national trend.

Kansas City vs. National Population

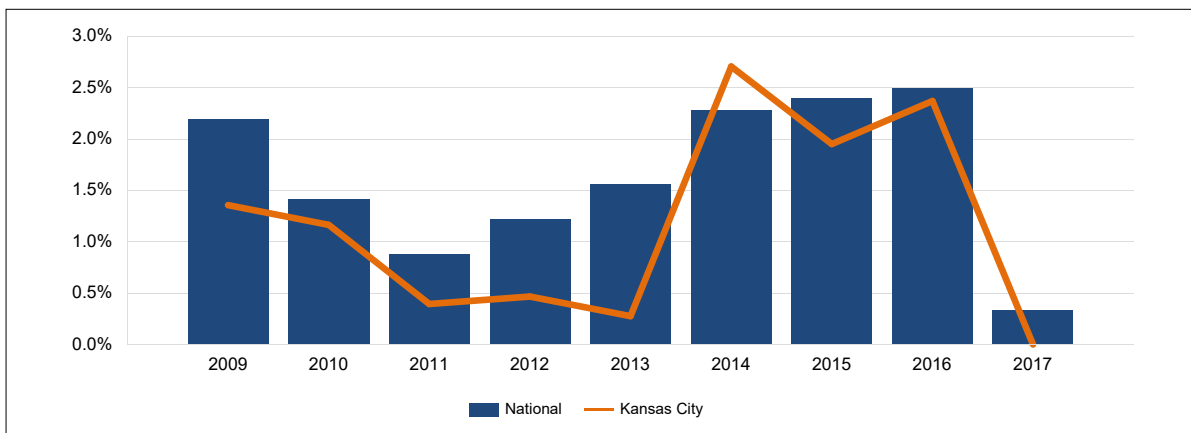
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Metropolitan Statistical Area	2,025,082	2,039,356	2,055,178	2,071,283	2,087,471

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

Supply

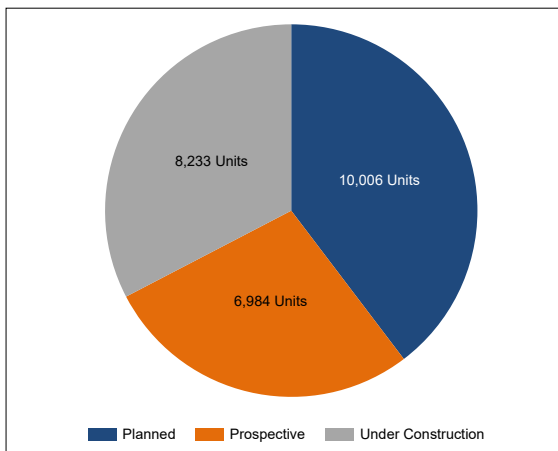
- Development activity is heating up, and we expect about 4,000 units to come online this year, close to the cycle high levels of 2014. More than 3,400 units came online in 2016, adding nearly 2.4% to the total stock.
- Kansas City's development pipeline remains robust, with more than 6,000 units under construction and over 25,000 in various stages of development. The metro is adapting to the wave of young professionals moving into the area, looking for walkability and quick access to amenities and large employers. The micro-apartment trend is in full bloom in the metro, with several projects underway in core areas.
- New supply is concentrated in downtown Kansas City, with more than 3,000 units under construction. Midtown is also seeing a wave of redevelopment and mixed-use projects.
- Gladstone, Lenexa and Overland Park are also very active submarkets, with more than 3,400 units under construction. The Promontory, a \$98 million mixed-use development in Overland Park, will replace old retail structures with 420 residential units and a modern shopping center.

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



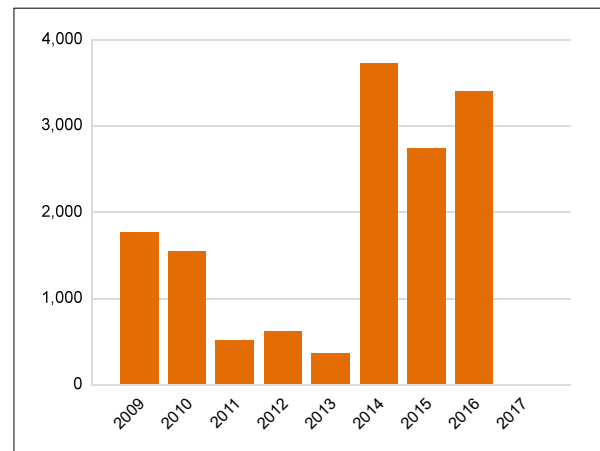
Source: YardiMatrix

Development Pipeline (as of March 2017)



Source: YardiMatrix

Kansas City Completions (as of March 2017)

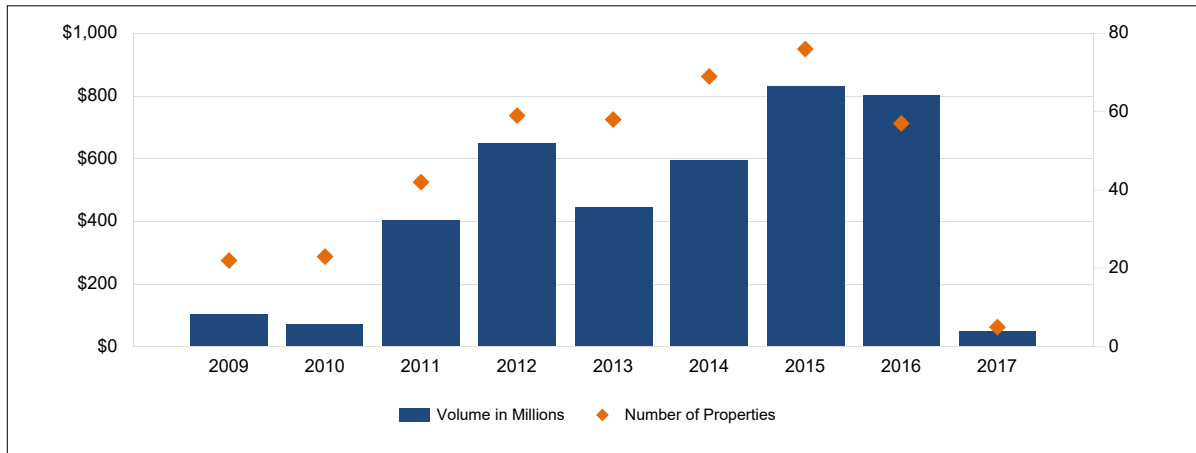


Source: YardiMatrix

Transactions

- Transaction volume in 2016 was roughly \$800 million, slightly down from the \$830 million in completed deals in 2015, but robust nonetheless. First quarter volume was \$115 million. The price per unit rose to \$75,972 in 2016, with prices flattening since peaking in 2014 (at \$76,923).
- Kansas City's multifamily market continues to attract investors due to its strong transformation and growth. Kansas City remains attractive among the Midwestern markets, with moderate growth potential and relatively high acquisition yields.
- Overland Park has been the most sought-after submarket in the past year, with \$100 million worth of completed deals, slightly more than Kansas City Northwest/Riverside (\$93 million).

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



Source: YardiMatrix

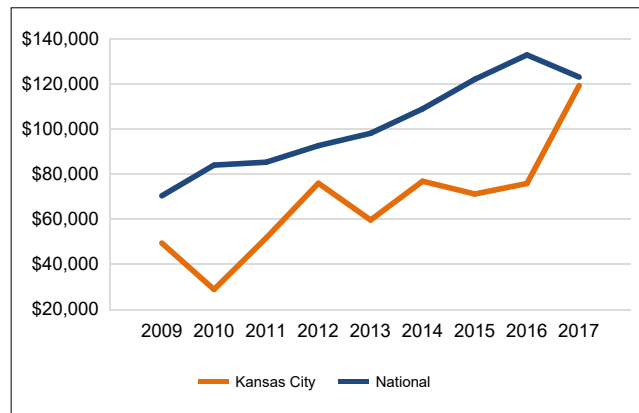
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Overland Park–North	100
Kansas City Northwest/Riverside	93
Calico Farms/Bridlespur	75
Overland Park–Southwest	69
Overland Park–Southeast	48
Lenexa	40
Lawrence	38
Marlborough Heights	36

Source: YardiMatrix

¹ From April 2016 to March 2017

Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Milhaus Starts Work
On New Apartments
In Kansas City



CBRE KC Names
Bob Marcusse as SVP



PRG Lands Second KC
Multifamily Community

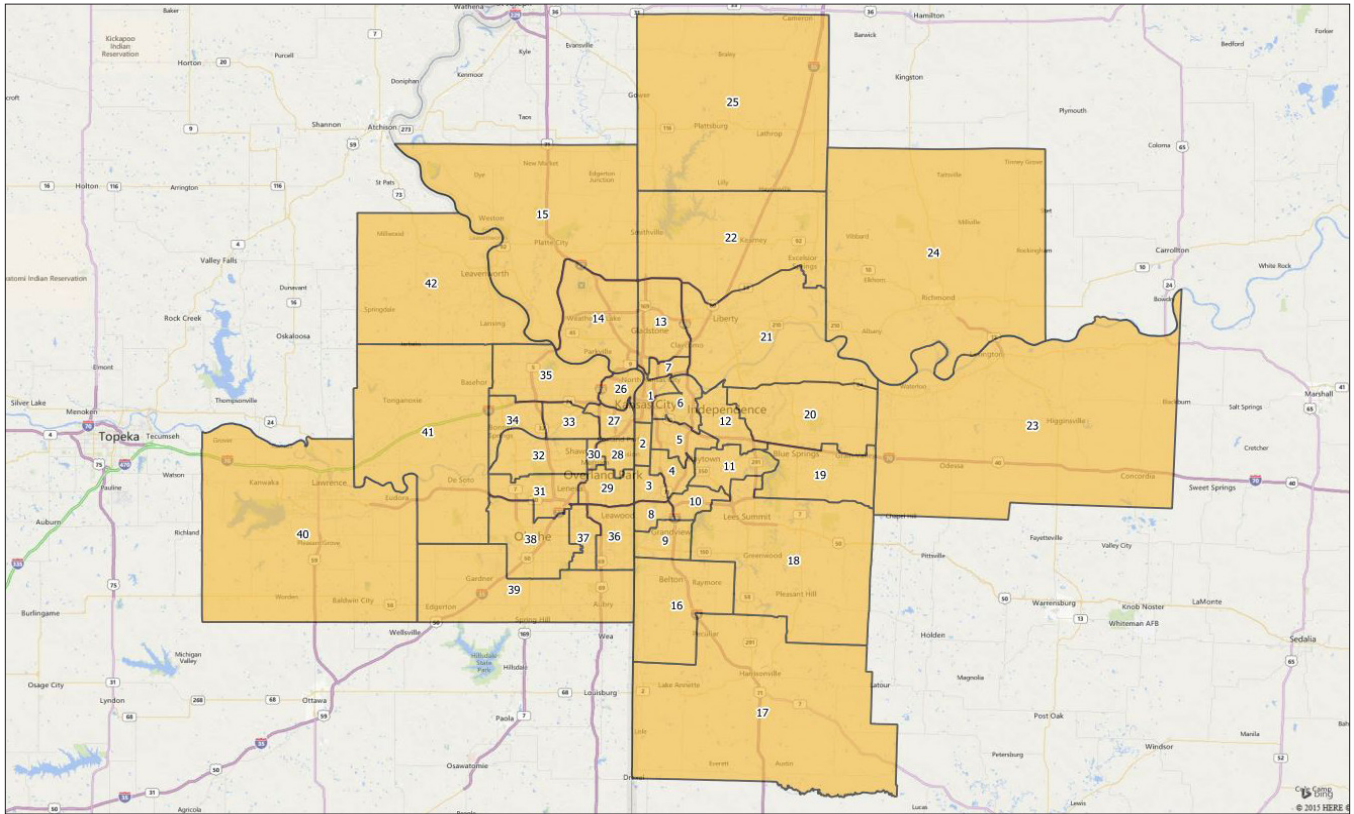


Hotel Phillips Kansas City
Reveals \$20M Restoration

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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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