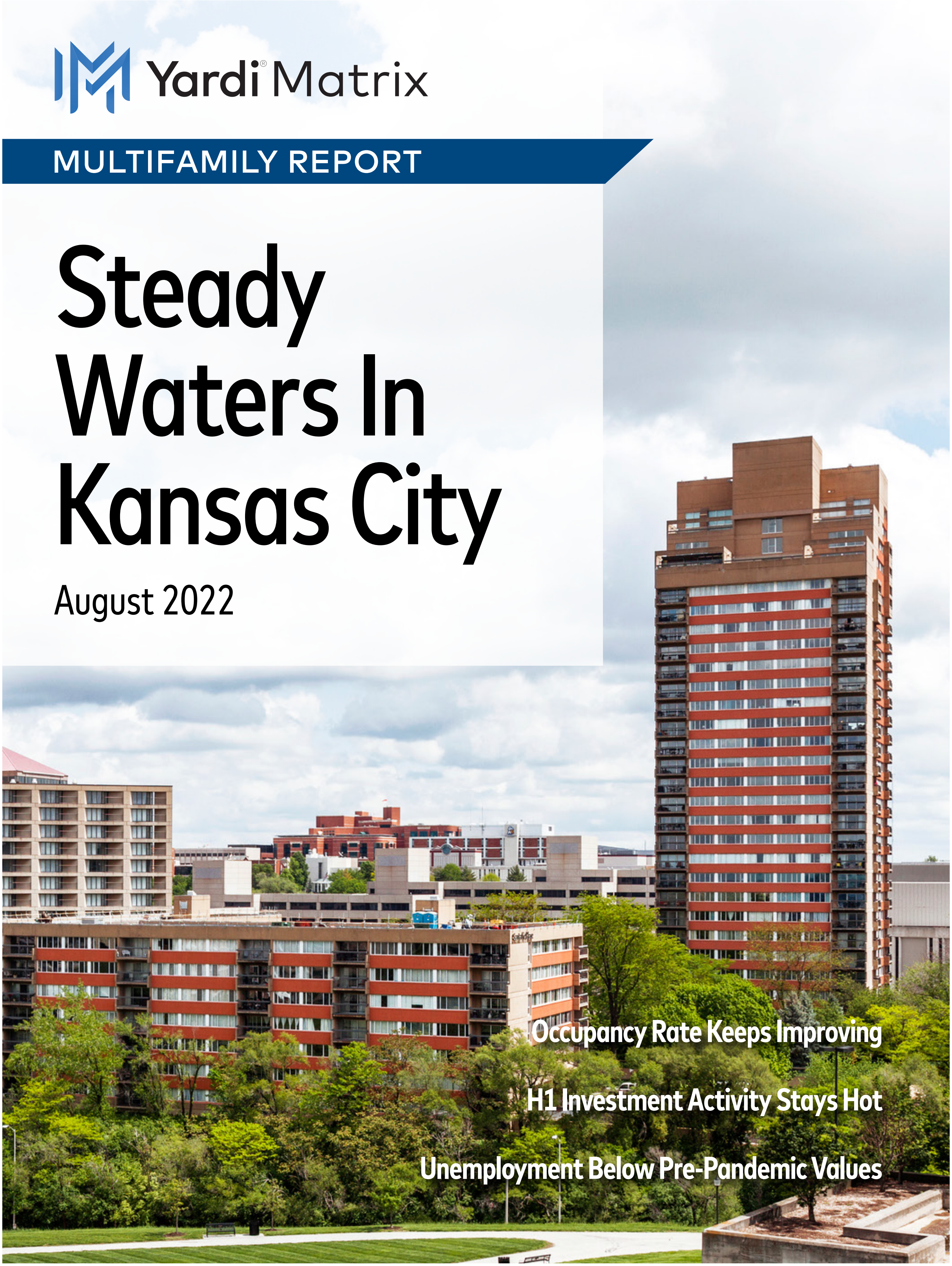
Yardi Matrix

MULTIFAMILY REPORT

Steady Waters In Kansas City

August 2022



Occupancy Rate Keeps Improving

H1 Investment Activity Stays Hot

Unemployment Below Pre-Pandemic Values

KANSAS CITY MULTIFAMILY

Yardi Matrix

Deliveries Soften, Investments Accelerate

Due to demographic expansion and affordable living costs relative to other Midwestern metros, Kansas City's rental market remained competitive in the first half of the year. At 1.2% in the second quarter, rent expansion was slightly above the U.S. level (1.1%), while rates in the metro remained $521 below the national average of $1,706.

Although four out of the 10 employment sectors are still contracting, Kansas City unemployment has been steadily improving. As of April, the jobless rate was 2.4%, with the metro adding 16,300 jobs in the 12 months ending in May. The economy seems to be on the right track to full recovery, as large investments were announced all over the metro. Panasonic plans to spend $4 billion on a battery plant in DeSoto, Ryan Cos. intends to build a $5 billion mixed-use campus in south Kansas City, and Meta has confirmed an $800 million data center investment in Northland.

Following the addition of a record 5,378 units to the metro's stock in 2021, deliveries slowed down significantly, with only 996 apartments coming online in the first half of 2022. But transaction activity kept gaining momentum—more than $753 million in multifamily assets changed hands in Kansas City, almost double the volume recorded over the first half of 2021. It remains to be seen if multifamily investors' buying spree will hold through the remainder of the year, considering rising inflation and increasing interest rates.

Market Analysis | August 2022

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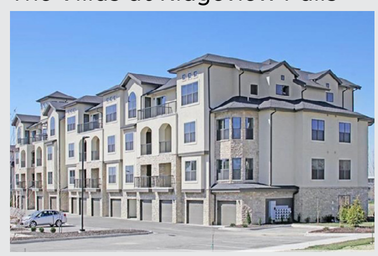
Recent Kansas City Transactions

Meadowood

City: Kansas City, Mo.
Buyer: Lexington Realty International
Purchase Price: $68 MM
Price per Unit: $293,706

The Villas at Ridgeview Falls



City: Olathe, Kan.
Buyer: Capital Square
Purchase Price: $66 MM
Price per Unit: $276,793

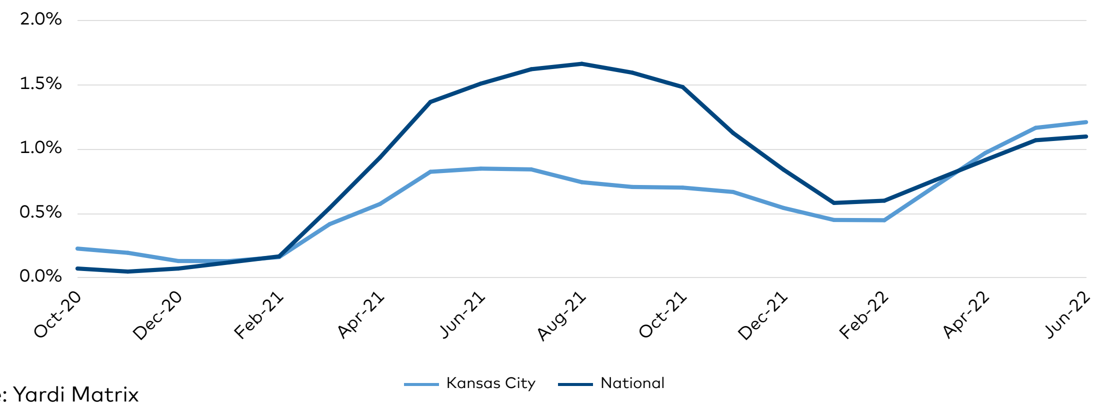
The Landing at Savannah West

City: Kansas City, Mo.
Buyer: A&C Ventures
Purchase Price: $38 MM
Price per Unit: $188,066

RENT TRENDS

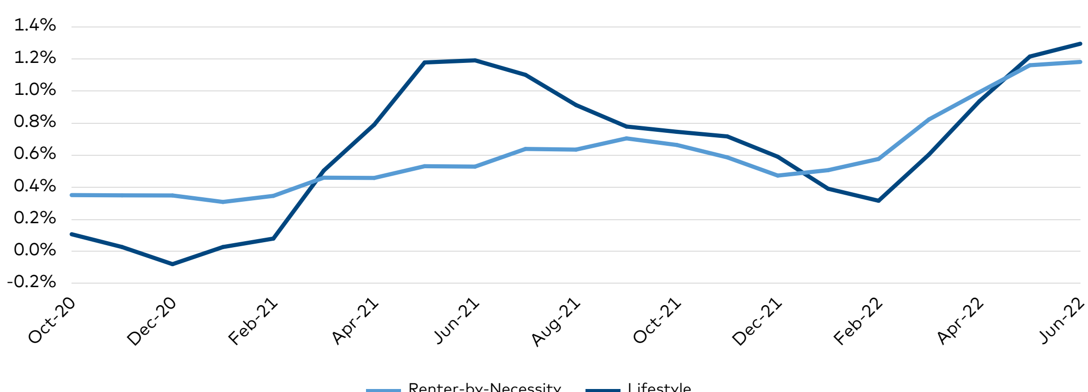
- Kansas City rates rose 1.2% in the second quarter of the year, to $1,185. Meanwhile, the average U.S. figure hit a record $1,706, up 1.1%. On a year-over-year basis, rents in the metro grew by 9.9%, trailing the 13.7% national figure.
- Although the new supply that came online in the past few years heavily targeted upscale properties, the Lifestyle segment led rent development in Kansas City, up 1.3% in the second quarter, to $1,453. Growth in the working-class Renter-by-Necessity segment followed closely, with rates improving by 1.2%, to $982.
- Despite the addition of 21,862 units in the five years ending in 2021, the occupancy rate in stabilized properties continued to rise. As of May, occupancy clocked in at 95.4%, a 20-basis point, year-over-year improvement. The national rate hit 96.0%.
- Year-over-year through June, rents grew at the fastest rates in Overland Park-Southeast (17.9% to 1,448), while Downtown Kansas City ($1,525) remained the only submarket where figures surpassed the $1,500 mark.
- Local authorities teamed up with community groups to launch the Imagine DowntownKC 2030 Strategic Plan at the beginning of the year. The plan ensures that affordable housing in this urban core area is built and preserved. The plan recommends incentives for market-rate projects that comply with the city's affordable housing set-aside policy.

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

- At 2.4% as of April, unemployment in Kansas City was well below pre-pandemic values.
- The metro added 16,300 positions in the 12 months ending in May, a 2.0% rate of growth and 270 basis points below the national figure. Four sectors were still losing jobs, including financial activities (-2,100 jobs) and government (-1,300 jobs). The federal government is the largest employer in Kansas City.
- Following nationwide patterns, the leisure and hospitality sector led job growth, adding 8,300 positions. Professional and business services, and mining, logging and construction also added 4,200 jobs each. In fact, the construction sector is bound to improve further, as several large developments were announced in the metro. Panasonic is set to invest $4 billion in a lithium-ion battery plant in DeSoto, a city in the metro's western area. Creating up to 4,000 jobs at the site, the facility will supply Tesla's Giga plant in Texas, among others. Meanwhile, in south Kansas City, Ryan Cos. is planning a $5 billion, 325-acre mixed-use campus called The Glade.
- In Northland, Facebook parent company Meta intends to invest some $800 million in a 1 million-square-foot hyperscale data center in Golden Plains Technology Park. The net-zero carbon facility is set to be operational in 2024.

Kansas City Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	114	10.1%
60	Professional and Business Services	192	17.1%
15	Mining, Logging and Construction	60	5.3%
40	Trade, Transportation and Utilities	225	20.0%
50	Information	16	1.4%
80	Other Services	41	3.6%
65	Education and Health Services	163	14.5%
30	Manufacturing	78	6.9%
90	Government	162	14.4%
55	Financial Activities	77	6.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Kansas City was the fastest-growing large city in Missouri, gaining 5,912 residents last year, a 0.3% demographic expansion. Meanwhile, St. Louis lost 8,968 residents, a 0.3% year-over-year contraction.
- The U.S. gained 392,665 residents in 2021, a 10-basis-point uptick.

Kansas City vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Kansas City	2,147,602	2,161,639	2,193,578	2,199,490

Source: U.S. Census

SUPPLY

- Kansas City had 7,269 units under construction as of June, with the bulk of new development aimed at high-income renters. Most new rental apartments are slated for completion in suburban areas that are adjacent to the downtown area and more affordable.

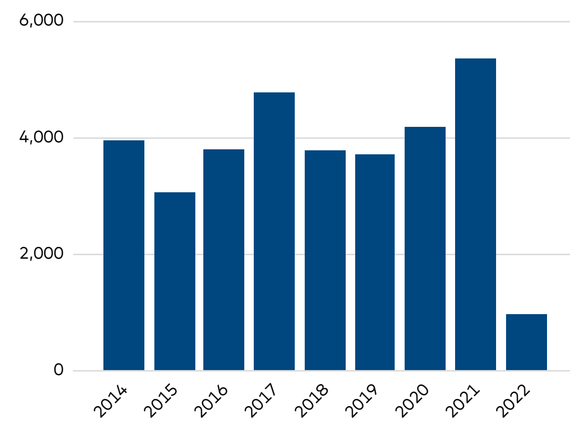
- In the first half of 2022, only 996 units came online. That accounted for 0.6% of total stock, 30 basis points below the national rate. Compared to previous years, inventory expansion softened due to rising construction costs and inflation, labor shortages and an overall greater economic volatility. This year, a total of only 3,167 units are expected to be delivered, which is a far cry from the 5,378 units completed in 2021, and well below the 4,057-unit average of the previous 5 years.

- The slowing construction activity is also visible in the number of projects that developers broke ground on. A 184-unit development in Lee's Summit is the only project that developers started work on during the first half of the year. Over the same interval in 2021, starts equaled 3,142 units across 13 projects.

- Downtown Kansas City was the only submarket where development crossed the 1,000-unit threshold—1,190 units underway as of June. Two southern suburbs—Overland Park-Southeast (934 units under construction) and Belton/Raymore (628 units)—rounded out the top three submarkets for construction activity.

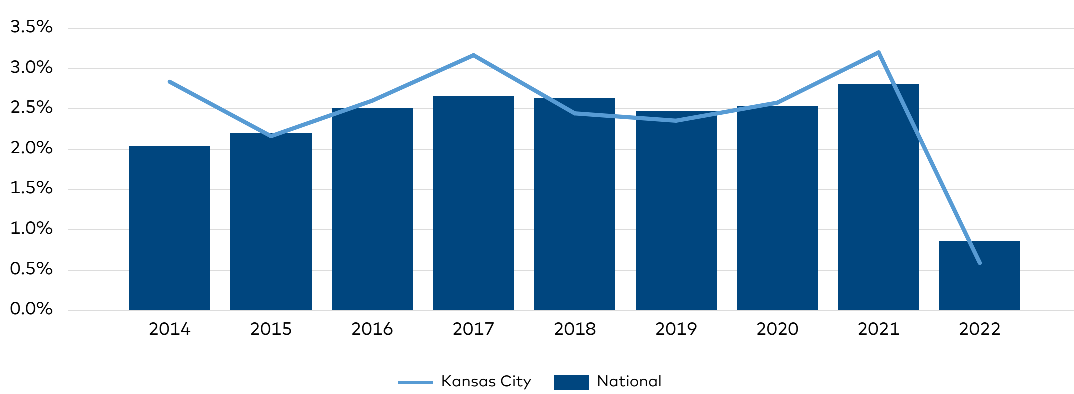
- With 500 units, Sorrento Place was the largest project underway as of June. Price Brothers is developing the age-restricted project in Overland Park, Kan., using a $71 million construction loan funded by Commerce Bank.

Kansas City Completions (as of June 2022)



Source: Yardi Matrix

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

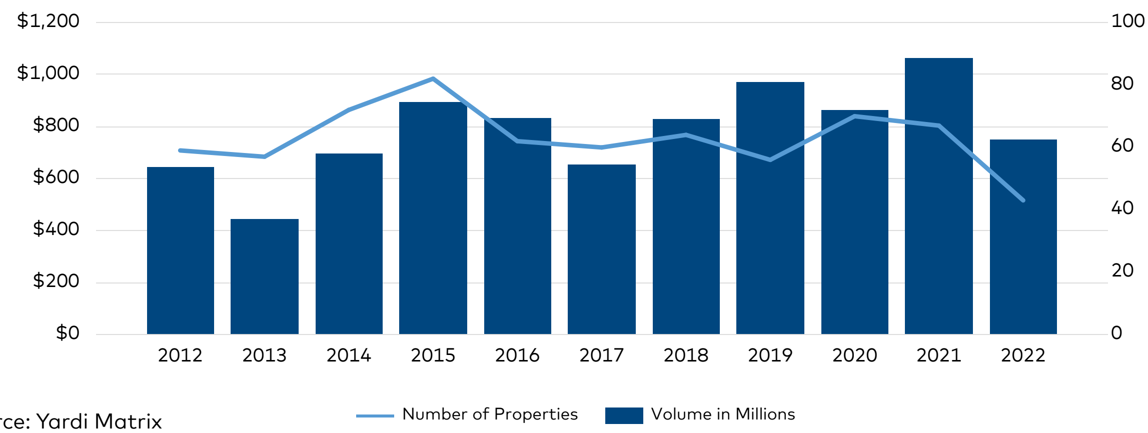


Source: Yardi Matrix

TRANSACTIONS

- Roughly $753 million in multifamily assets changed hands in Kansas City in the first half of the year, almost double the volume recorded over the same period in 2021. If investors maintain the brisk deal pace through year's end, investment activity will most likely outpace the record $1.1 billion total transaction volume recorded in 2021. But the effects of rising inflation and increasing interest rates remain to be seen.
- Although 25 of the 43 properties that traded were Renter-by-Necessity assets, the average per-unit price rose, hitting $167,558 and up 24.1% year-over-year. Meanwhile, the average price per unit in the U.S. clocked in at $217,310.
- In the 12 months ending in June, three submarkets—Gladstone, Downtown Kansas City and Crossgates—accounted for a third of the $1.5 billion deal volume. Gladstone became one of the most sought-after suburbs following the public investments in its downtown area that generated a wave of additional, private projects.

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



Source: Yardi Matrix

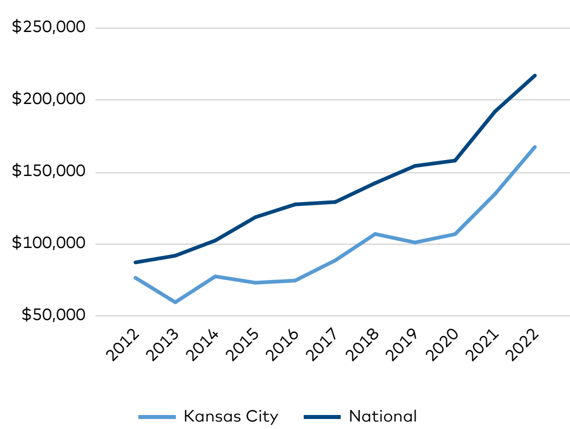
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Gladstone	205
Downtown Kansas City	170
Crossgates	139
Shawnee	121
Lee's Summit	120
Kansas City-South	108
Marlborough Heights	107

Source: Yardi Matrix

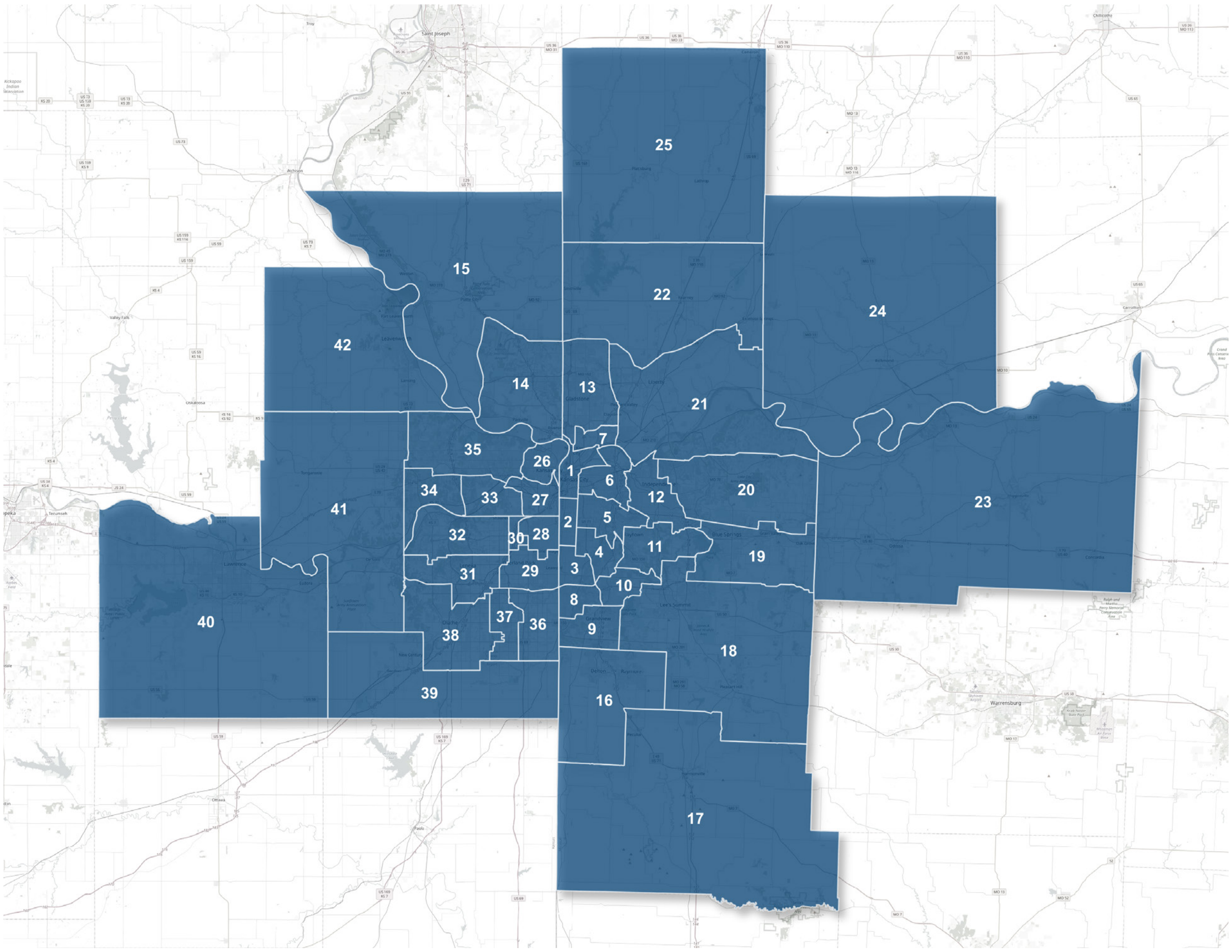
[1] From July 2021 to June 2022

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 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 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, 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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Yardi Matrix

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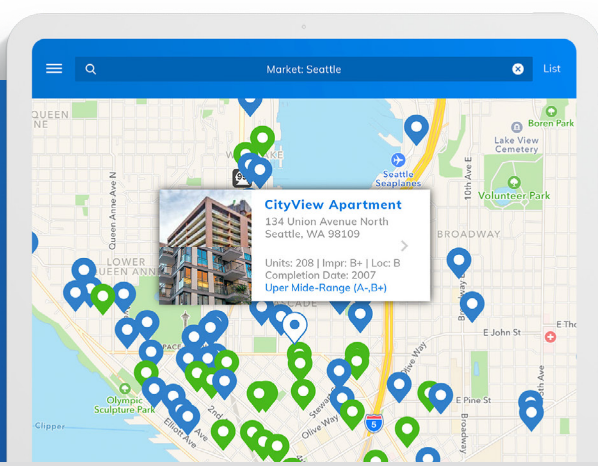
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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