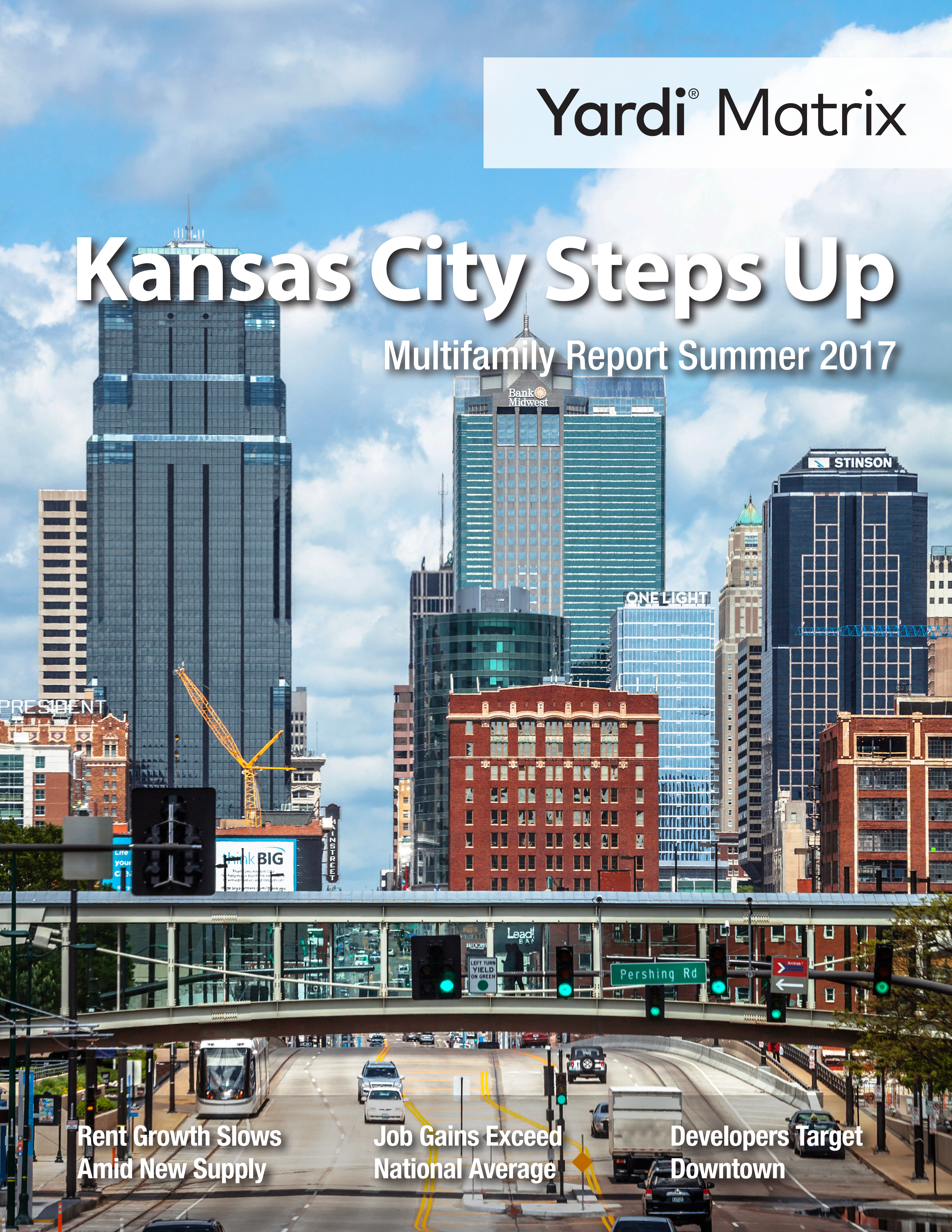
Yardi® Matrix

Kansas City Steps Up

Multifamily Report Summer 2017



Rent Growth Slows Amid New Supply

Job Gains Exceed National Average

Developers Target Downtown

Market Analysis
Summer 2017

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Upgraded Version Now Installing

Kansas City continues to show signs of growth and modernization, with more tech-oriented businesses and Millennials settling in the Midwestern metro. Investments in public transportation and road infrastructure, coupled with the city's location, have contributed to pushing the unemployment rate below the 4.0% mark. Job growth has exceeded the national average and helps maintain a robust demand for apartments.

The metro is adding jobs in office-using segments such as professional and business services, which gained 12,000 positions in the year ending in June. Appealing workplaces, such as WeWork, are opening in Kansas City's core submarkets, attracting young professionals to live-work-play environments akin to those of larger metros. Public authorities are doing their share, with massive investments in infrastructure—such as the $800 million comprehensive capital improvements program launched this year—while also offering incentives for new developments. The metro also continues to see high demand for industrial space. BMS Logistics Inc. leased 432,000 square feet at KCI Intermodal Business Centre.

Rent growth dipped to 1.8%, mostly due to new supply, as more than 4,200 units are slated to come online this year, marking an expected cycle high. Employment growth, the dynamic economy and investments in modernization will help the rate bounce back. We expect a 2.6% rent growth for the full year.

Recent Kansas City Transactions

Coach House

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

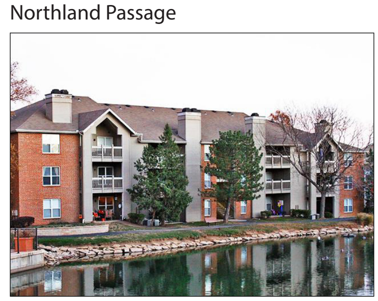
Residences at Prairiefire

City: Overland Park, Kan.
Buyer: CRES Management
Purchase Price: $62 MM
Price per Unit: $206,573

Cambridge Square

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

Northland Passage



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

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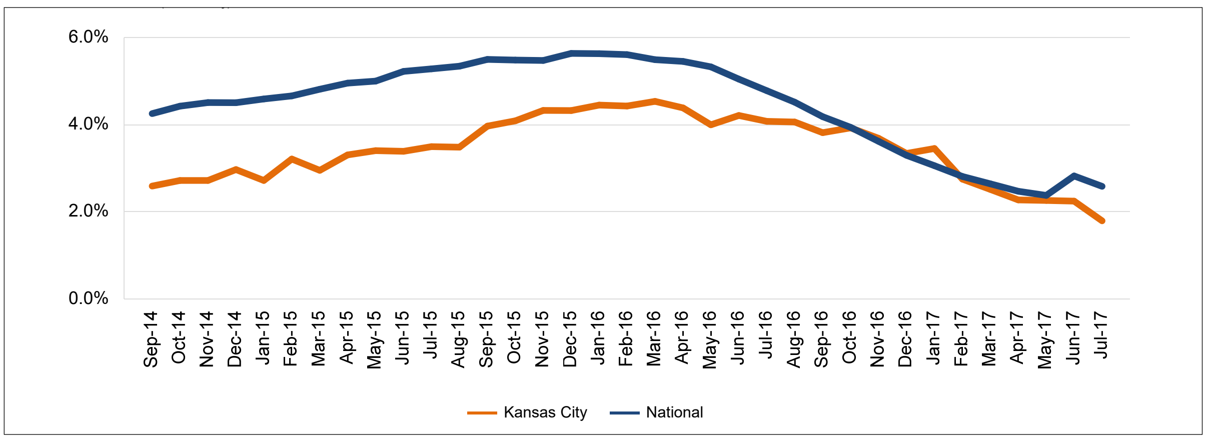
Rent Trends

- Rent growth in Kansas City has decelerated, falling to 1.8% year-over-year through July, well below the 2.6% national average. The average rent rose to $910, lagging the $1,350 U.S. average. The occupancy rate in stabilized properties was 95.2% as of July, down 30 basis points in 12 months, but still holding up to the growing supply. New completions, concentrated mostly in downtown Kansas City, are absorbed rather quickly by young professionals attracted by tech-oriented businesses in the area.

- Gains were led by the working-class Renter-by-Necessity segment, where rents were up 2.8% year-over-year through July, to $784. With a mere 0.9% growth, the average rent for the high-end Lifestyle sector stood at $1,131. Downtown Kansas City remains the most expensive district, with rents averaging $1,256. Submarkets with the highest rent growth rates were scattered across the map, with the list including De Soto (10.8%), Platte City (7.4%) and Harrisonville (7.4%).

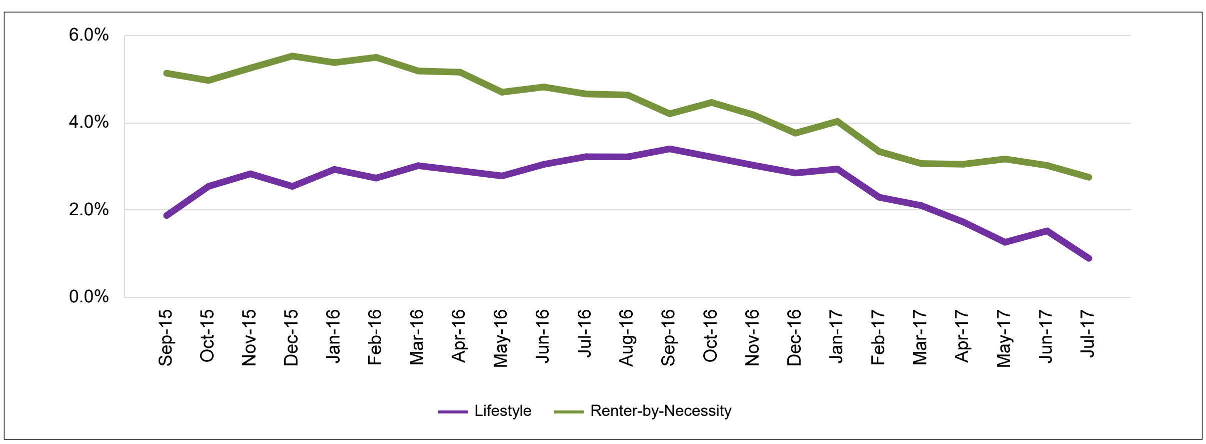
- We expect demand to remain strong, as Kansas City is adding jobs at an above-trend clip, particularly in high-earning fields. Millennials are counting the benefits of living in amenity-rich areas with new public transportation facilities and significant investments in infrastructure. Rent growth should recover and we expect a rise of 2.6% for the full year.

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

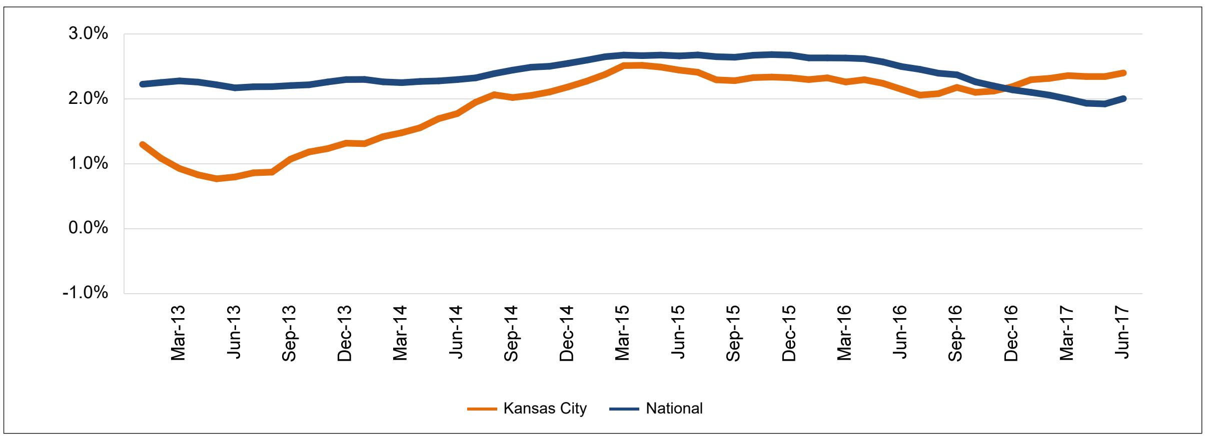
Economic Snapshot

- Kansas City added 31,000 jobs in the 12 months ending in June 2017. The metro's 2.4% employment growth rate exceeded the 2.0% national average. The metro's unemployment rate dropped 70 basis points to 3.8% over the 12 months ending in June. Job gains were led by the professional and business services (12,100), followed by trade, transportation and utilities (4,900) and government (4,900).

- Growth in high-paying employment sectors also increased demand for Class A office space, maintaining the vacancy rate at 10.0%. The influx of Millennials looking for flexible work spaces attracted co-working companies to the city's central business district. WeWork leased 44,000 square feet in the redeveloped Corrigan Station building, a speculative project in the Crossroads Arts District. Techstars also chose the building for their accelerator facility, occupying 40,000 square feet of space. The opening of Plexpod Westport Commons, located midway between Route 71 and Kansas University Medical Center, also added 160,000 square feet to the city's co-working footprint.

- Due to its status as a population center in the Midwest, the metro continues to see a high demand for logistics and warehouse space. BMS Logistics Inc. leased 432,000 square feet at KCI Intermodal Business Centre in 2017's third quarter.

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)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	203	17.8%	12,100	6.3%
40	Trade, Transportation and Utilities	222	19.5%	4,900	2.3%
90	Government	167	14.7%	4,900	3.0%
70	Leisure and Hospitality	122	10.7%	3,800	3.2%
65	Education and Health Services	157	13.8%	3,000	1.9%
30	Manufacturing	79	6.9%	1,000	1.3%
55	Financial Activities	80	7.0%	900	1.1%
80	Other Services	43	3.8%	400	0.9%
50	Information	18	1.6%	-1,300	-6.6%
15	Mining, Logging and Construction	47	4.1%	-2,500	-5.0%

Sources: YardiMatrix, Bureau of Labor Statistics

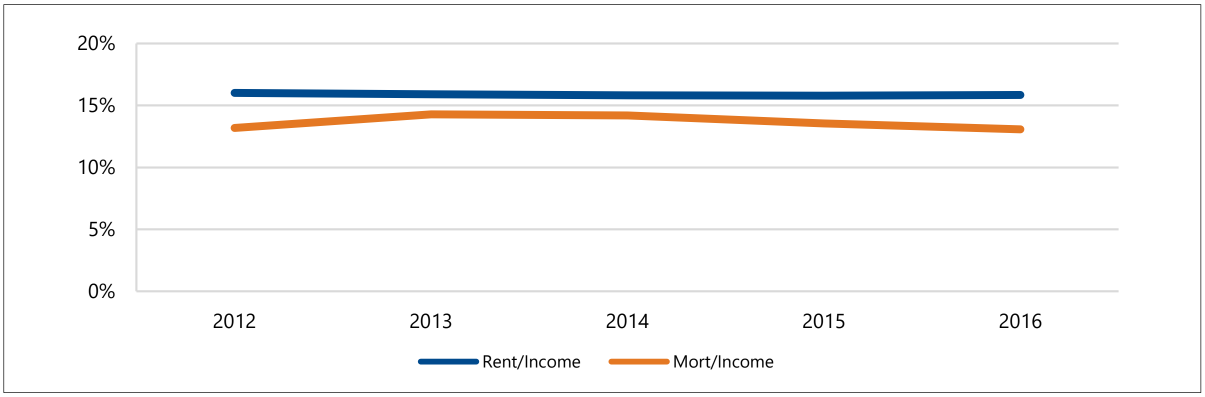
Demographics

Affordability

- The median home price in Kansas City reached a post-recession high of $188,329 in 2016. Average wages also increased, maintaining affordability flat since 2012. Homeownership continues to be more affordable than renting: The average mortgage payment accounts for 13% of the median income, a rate that has seen almost no variation for the past five years. At the same time, renting comprises roughly 16% of the same amount.

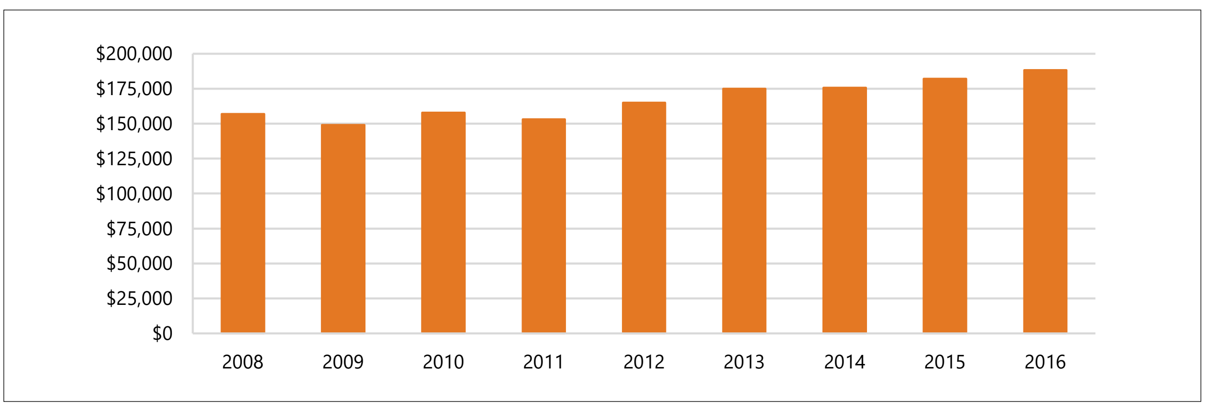
- Local authorities are working to offer high-quality affordable housing to the metro's residents. One of the most well-known initiatives is relocating hundreds of residents from Chouteau Courts, an obsolete 1960s public housing project, to new units built in Northeast and Northland.

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

- The metro gained roughly 91,000 residents since 2010 and continues to draw young professionals, attracted by tech-oriented businesses.

- The population growth rate in 2016 was 1.0%, 30 basis points above the U.S. average.

Kansas City vs. National Population

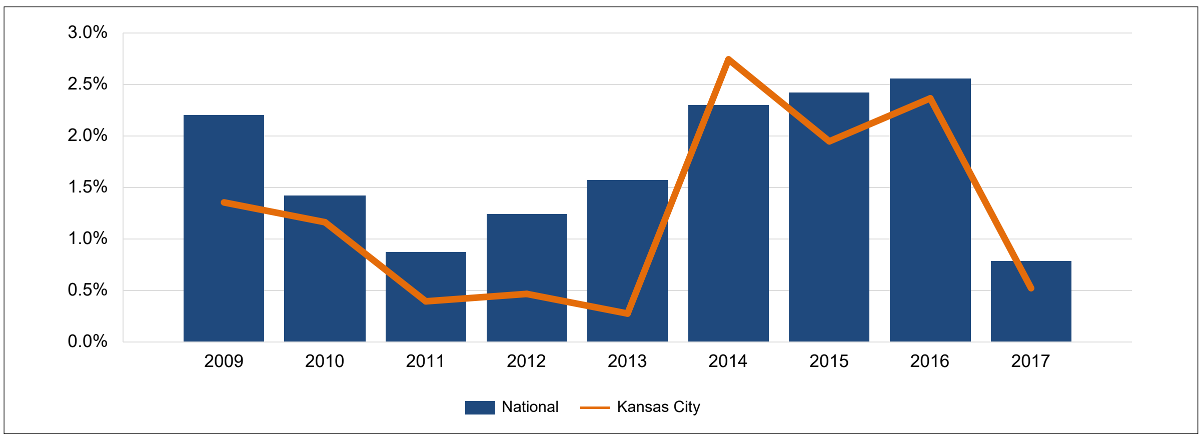
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Kansas City Metro	2,038,675	2,053,766	2,069,314	2,084,464	2,104,509

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

Supply

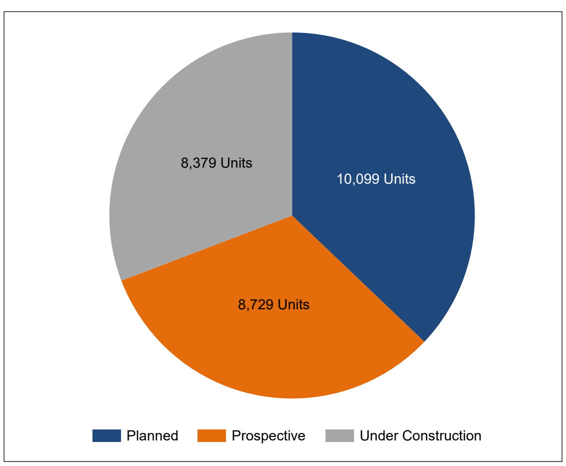
- Kansas City added roughly 760 units in the first seven months of 2017. More than 4,200 units are slated to come online this year, exceeding 2014's cycle high, when roughly 3,800 units were completed.
- High demand is spurring development, as roughly 8,400 units were under construction as of July. When taking into account planned and prospective projects, the city's total pipeline adds up to 27,200 units.
- Kansas City's wave of new supply brings a string of modern residential towers and conversions of historic buildings in core submarkets. Upcoming deliveries are particularly targeting Downtown Kansas City, with more than 3,200 units underway, followed by Lawrence (1,254 units) and Gladstone (915 units).
- Johnson County is also seeing a lot of interest from developers, as several large mixed-use projects with extensive residential components are being planned for Overland Park and Olathe. City council officials are advancing incentives to encourage developments such as the $182 million mixed-use project that will bring 548 apartments at 115th and Nall Avenue in Overland Park. The $1.8 billion Brookridge project near Interstate 435 and Antioch Road, which has a consistent residential component, is scheduled to break ground this fall.

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



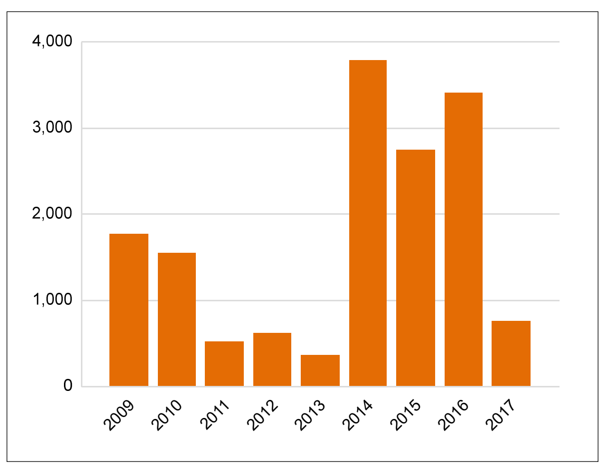
Source: YardiMatrix

Development Pipeline (as of July 2017)



Source: YardiMatrix

Kansas City Completions (as of July 2017)



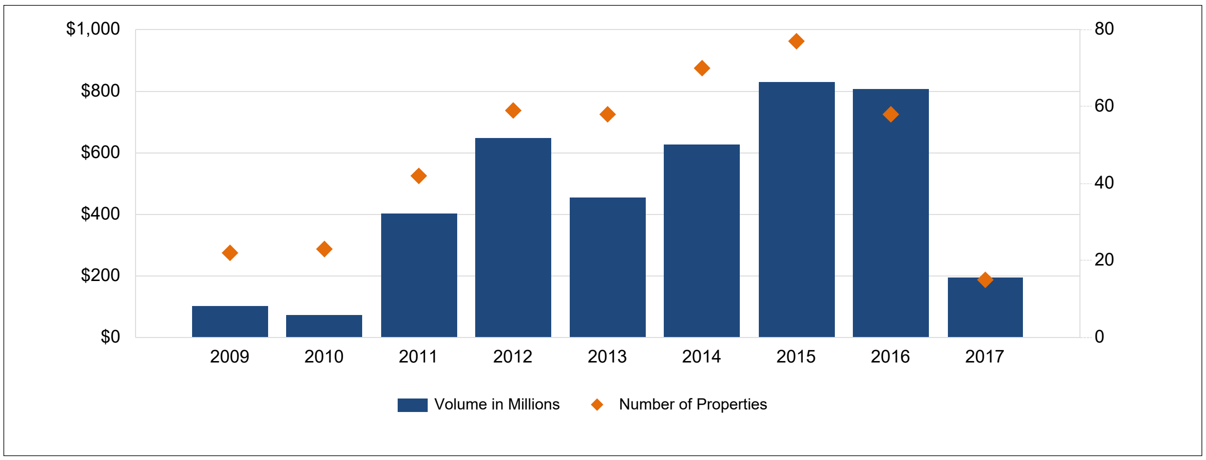
Source: YardiMatrix

Transactions

- Despite the diverse economic environment and the expected improvements in the metro's infrastructure, multifamily investment activity in Kansas City shifted down a gear. Some $195 million in assets traded in the first seven months of 2017, a significant slowdown from 2016's total of $809 million. However, improving market conditions and a high demand from investors pushed the average price per unit to $128,000 in the first half of 2017, close to the national value of $132,542 and up 70% from 2016.

- Investment activity is concentrated in Kansas City's suburban areas, where development is also surging. Meanwhile, downtown is mostly targeted by conversion projects. Overland Park is attracting the most capital, with multifamily transactions exceeding $170 million year-over-year through July. Calico Farms/Bridlespur ($75 million), Kansas City Northwest/Riverside ($72 million) and Lenexa ($39.8 million) are also among the top five submarkets in terms of total investment value.

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



Source: YardiMatrix

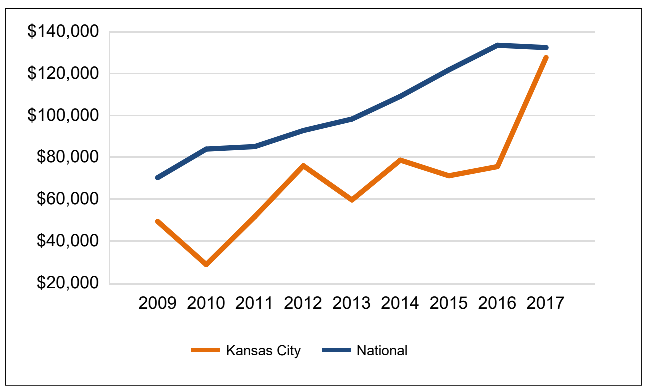
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Overland Park–Southeast	110
Calico Farms/Bridlespur	75
Kansas City northwest/Riverside	72
Overland Park–North	62
Lenexa	40
Lee's Summit	34
Mission	30
Kansas City–Southeast	27

Source: YardiMatrix

[1] From August 2016 to July 2017

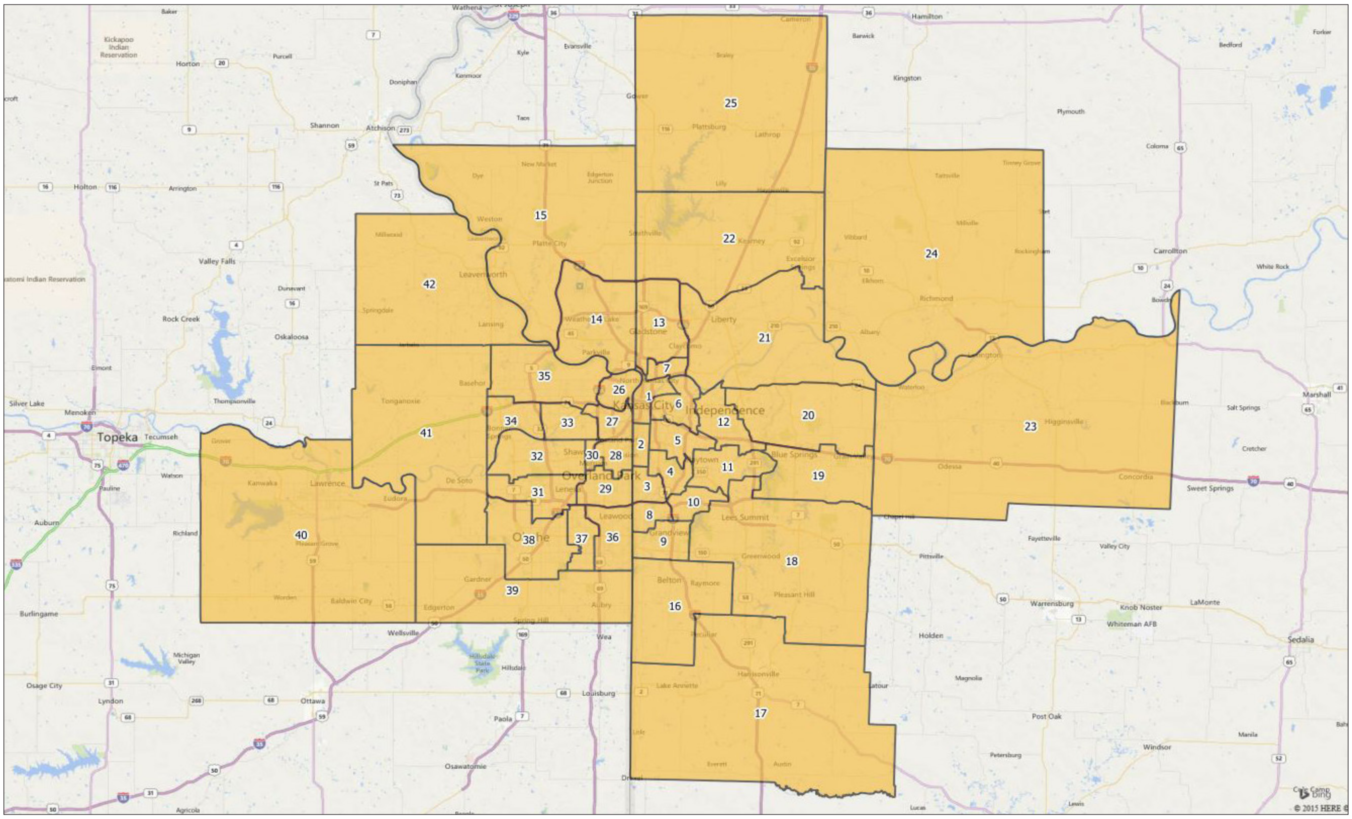
Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Trigger Photo/iStockphoto.com

Kansas City Submarkets



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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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