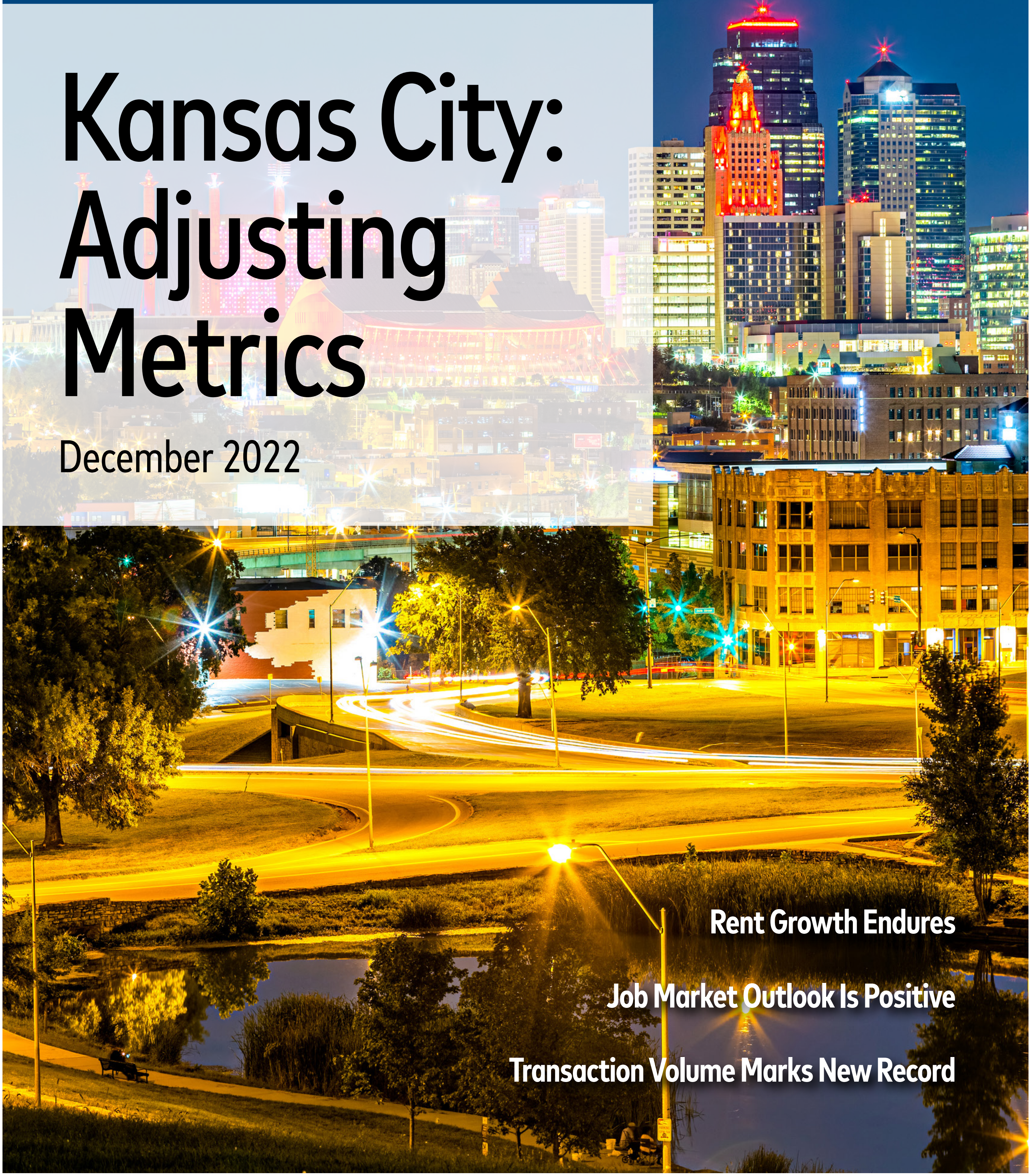
Yardi Matrix

MULTIFAMILY REPORT

Kansas City: Adjusting Metrics

December 2022



Rent Growth Endures

Job Market Outlook Is Positive

Transaction Volume Marks New Record

KANSAS CITY MULTIFAMILY

Yardi Matrix

Limited Supply Keeps Rent Gains Healthy

Kansas City's multifamily market continued to display steady fundamentals, despite national and macroeconomic challenges. With deliveries lagging, rent growth remained above the U.S. rate, rising 0.6% on a trailing three-month basis, to $1,218, but still affordable compared to the $1,727 U.S. figure. The occupancy rate slid by only 10 basis points in the 12 months ending in September—at 95.5%—sustained by the upscale segment.

Kansas City unemployment dropped to 2.2% in September, according to preliminary data from the Bureau of Labor Statistics, outperforming the U.S. (3.5%), Missouri (2.6%) and Kansas (2.8%). While the market had more employees going into 2022's third quarter than it did right before the pandemic started, job growth has lagged lately. In the 12 months ending in August, employment improved by just 1.4%, or 9,700 jobs, but has good prospects, thanks to several projects underway. These include Panasonic's $4 billion plant in De Soto and Meta's data center in Golden Plains Technology Park.

Developers delivered just 1,932 units in 2022 through October and had an additional 7,247 units underway. Construction starts dropped to 1,178 units in 2022. Meanwhile, investors traded $1.3 billion in assets—a new record for the metro—but quarterly volumes are declining. The price per unit posted a remarkable annual performance, rising by a hefty 49.5%, to $172,682.

Market Analysis | December 2022

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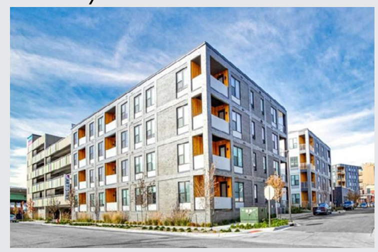
Recent Kansas City Transactions

Artistry KC



City: Kansas City, Mo.
Buyer: Avanti Residential
Purchase Price: $75 MM
Price per Unit: $220,528

Park Edge

City: Lenexa, Kan.
Buyer: Cohen-Esrey
Purchase Price: $62 MM
Price per Unit: $240,000

The Element

City: Kansas City, Mo.
Buyer: Timberland Partners
Purchase Price: $52 MM
Price per Unit: $188,005

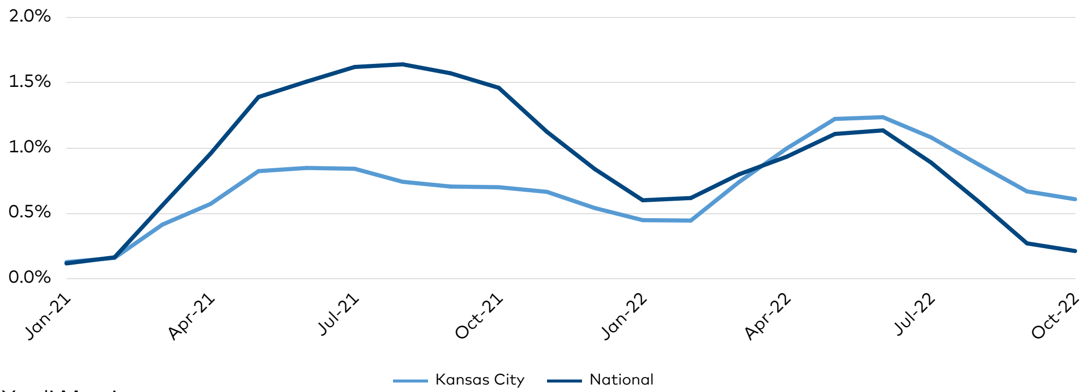
Greenwood Reserve

City: Lenexa, Kan.
Buyer: 29th Street Capital
Purchase Price: $51 MM
Price per Unit: $222,672

RENT TRENDS

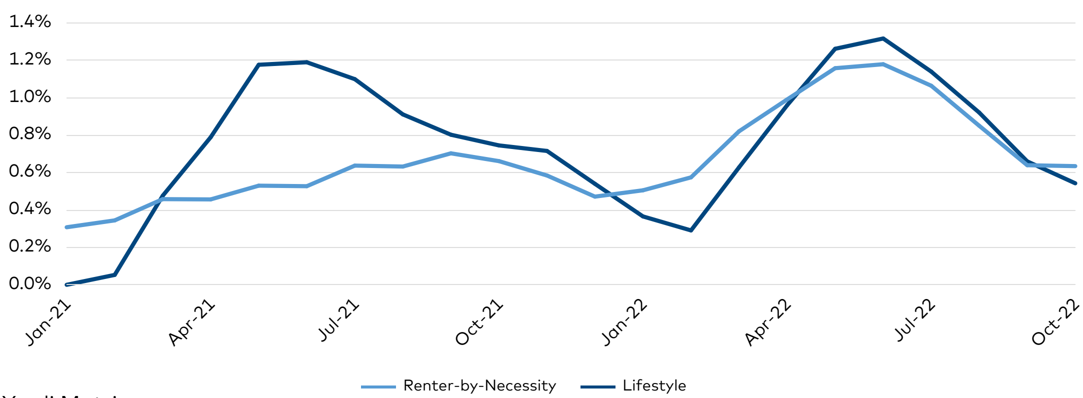
- Kansas City rents were up 0.6% on a trailing three-month (T3) basis through October, outperforming the U.S. rate by 40 basis points. Following slower gains throughout 2021, rents picked up and growth has been topping the national rate since April 2022. Still, at $1,218, the average asking rent in Kansas City was well below the $1,727 U.S. figure. On a year-over-year basis, rates in the metro advanced 9.8%, above the 8.2% U.S. figure.
- Rent growth was fairly balanced across quality segments, up by 0.6% on a T3 basis in the Lifestyle segment, to $1,489, and by 0.5% in the working-class Renter-by-Necessity segment, to $1,010. Interestingly, the occupancy rate in stabilized properties in the upscale segment rose by 10 basis points in the 12 months ending in September, to 96.0%, while in the working-class category it dropped 30 basis points, to 95.1%. Overall, occupancy in the metro stood at 95.5%, following a 10-basis-point decrease.
- Of the 39 submarkets tracked by Yardi Matrix, 22 posted double-digit increases year-over-year, bringing the number of submarkets with an average rate above the $1,000 threshold to 26, from 20 a year ago. The most expensive areas were Downtown (9.1% to $1,566), Overland Park–Southeast and Overland Park–Southwest (both up 14.2% to $1,486 and $1,446, respectively).
- The single-family rental market continued to grow, with rents up 8.9% year-over-year through October. The occupancy rate posted a 0.9% decline in the 12 months ending in September.

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

- Kansas City unemployment dropped to a record low of 2.2% in September, according to preliminary data from the BLS, outperforming the nation (3.5%), Missouri (2.6%) and Kansas (2.8%).

- Despite the tight job market, job creation in the metro has lagged as of late. And while Kansas City recovered the bulk of positions lost in the early stages of the pandemic, the employment growth it registered throughout 2022 was at or below the 2.0% mark. In the 12 months ending in August, the local economy expanded by just 1.4%, or 9,700 positions, significantly lagging the 4.3% U.S. rate. The financial activities and government sectors lost 4,900 jobs combined.

- The leading sectors in job growth were education and health services (4,500 jobs) and mining, logging and construction (4,400 jobs). Both are poised for sustained growth, as several projects have been announced, including the University of Missouri-Kansas City's $100 million interprofessional health sciences building in the UMKC Health Sciences District and Meta's $800 million hyperscale data center in Golden Plains Technology Park—slated for completion in 2024.

- Panasonic broke ground on the $4 billion electric-vehicle battery plant in De Soto, where 4,000 new jobs will be filled. Hiring is expected to begin in mid-2023.

Kansas City Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	167	14.8%
15	Mining, Logging and Construction	62	5.5%
60	Professional and Business Services	193	17.1%
30	Manufacturing	81	7.2%
40	Trade, Transportation and Utilities	225	19.9%
70	Leisure and Hospitality	113	10.0%
80	Other Services	42	3.7%
50	Information	16	1.4%
90	Government	154	13.6%
55	Financial Activities	76	6.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Kansas City added 5,912 residents in 2021, up 0.3%, three times the national growth rate.

- The metro's population has steadily increased every year since the 2010 census, up 9.2% during the period, above the 7.3% U.S. rate.

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

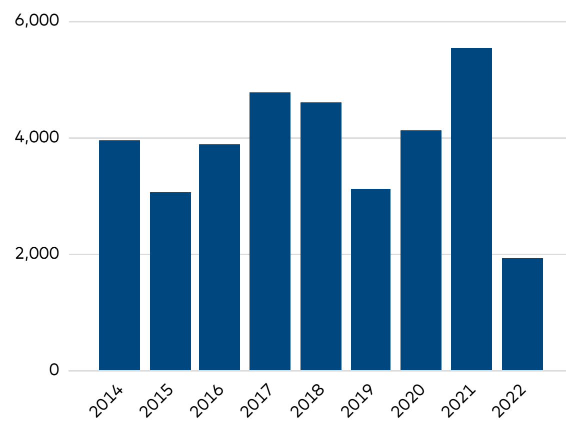
- Development moderated considerably in 2022, which helped keep rent expansion in check, while in other parts of the country it fell into negative territory. Developers delivered just 1,932 units through October, the equivalent of 1.1% of existing stock and 60 basis points below the U.S. rate. All deliveries were Lifestyle projects. Last year during the same period, more than 4,400 units were added to the inventory.

- Developers had 7,247 units under construction and another 45,000 in the planning and permitting stages. Of these, 1,178 broke ground in 2022, a substantial drop from the 4,488 units that started construction during the same period last year. Similar to recent deliveries, the construction pipeline consisted of mostly Lifestyle projects (92%).

- Construction activity was spotty across the map, with 21 of the 39 submarkets tracked by Yardi Matrix having at least 50 units underway. Hot spots for development are Downtown Kansas City (1,190 units underway) and Overland Park–Southeast (934 units). The latter also houses the largest project currently under construction—the 500-unit Sorrento Place. The asset is an age-restricted community built by Price Brothers with aid from a $71 million construction loan originated by Commerce Bank.

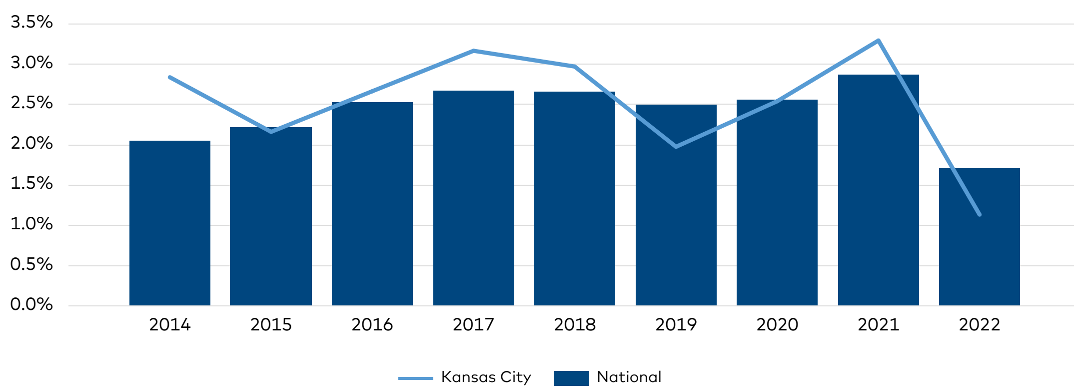
- The largest project to reach full completion in 2022 through October was 97@ North Oak, a 350-unit Lifestyle property in Gladstone. Case & Associates built the community using a $28.6 million construction loan taken out in 2019.

Kansas City Completions (as of October2022)



Source: Yardi Matrix

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

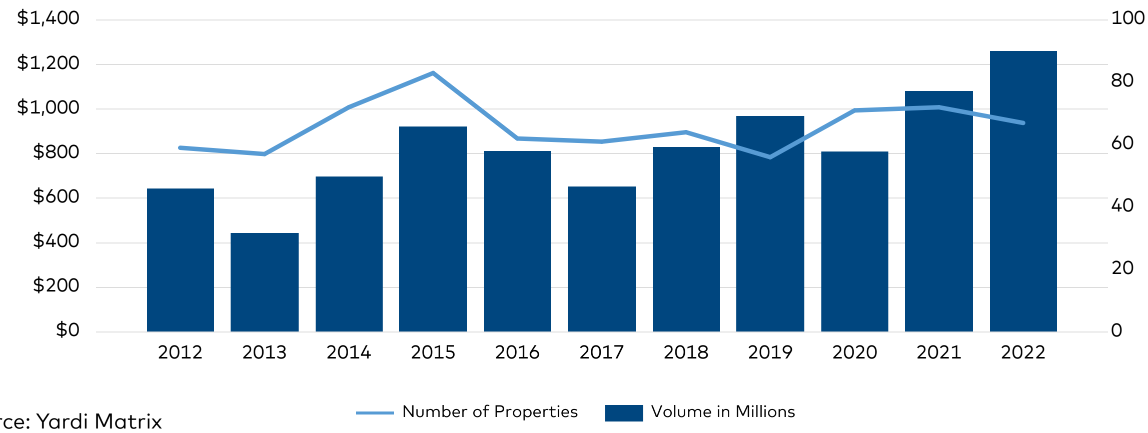


Source: Yardi Matrix

TRANSACTIONS

- Investors traded $1.3 billion in multifamily assets through October, surpassing last year's total of $1.1 billion. Kansas City's newfound allure made 2022 a record year for transactions, an achievement that won't be surpassed any time soon, as current economic challenges make investors more cautious and soften activity in the upcoming months. A gradual moderation in sales was noticeable on a quarterly basis, from $580 million in the first quarter, to $385 million in the second and $229 million in the third quarter.
- Although sales composition was slightly tilted toward the Renter-by-Necessity segment (56.7% of sales), the price per unit marked a substantial 49.5% increase year-over-year through October, to $172,682. Despite the remarkable appreciation, it still trailed the $215,939 U.S. average.
- One recent large deal was Avanti Residential's $75 million acquisition of Milhaus Development's 341-unit Artistry KC with aid from a $56 million loan.

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



Source: Yardi Matrix

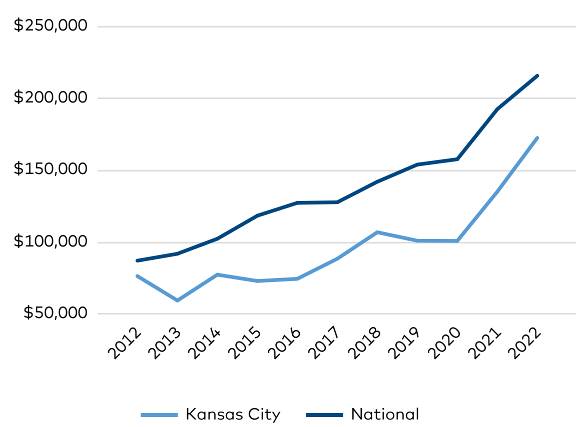
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Downtown Kansas City	263
Lenexa	193
Gladstone	177
Crossgates	139
Overland Park-North	131
Lee's Summit	120
Kansas City-South	108

Source: Yardi Matrix

[1] From November 2021 to October 2022

Kansas City vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

The Midwest Is Attracting Record-High Capital. Here's Why

By Beata Lorincz

The currently volatile state of the economy—with rising inflation and escalating interest rates—will most likely start to take its toll on the multifamily sector's high-paced expansion soon. But the Midwest multifamily market poses some distinct advantages compared to other U.S. regions. Jeff Lamott, managing director at Northmarq, explains what is fueling the Midwest multifamily market's performance and shares his predictions for the immediate future.

Which are currently the hottest markets for multifamily development in the region?

The Midwest has not been subject to overbuilding the past several years, which has kept vacancy rates stable. While early 2022 got off to a slow start, Kansas City, Mo.; Indianapolis; St. Louis; Cincinnati, Ohio, and Chicago are some of the leading markets for deliveries. Many developers still find acquiring land in the Midwest easier than in gateway markets, with the permit process for a building to go vertical done in a timelier manner.

How did vacancy rates change through 2022?

In recent quarters, resumed hiring has led to a release of pent-up demand fueling tightening vacancy conditions and rapid increases in rental rates. A return to more normalized property performance has been seen throughout the mid-markets in 2022.

Chicago and Kansas City saw vacancies average around 5 percent, with a surge in some urban

development adding more units to absorb. Milwaukee; Omaha, Neb.; Cincinnati; Indianapolis and St. Louis were in the 4 percent vacancy range, with less fresh supply coming online in early 2022.

Where are the hottest Midwest areas for multifamily investment?

Most Midwest markets recorded significant per-unit pricing increases in 2021, averaging $139,000. Kansas City saw prices spike at the outset of the year with median sales rising to $250,000 per unit, up from about $107,000 per unit in 2021.

Is now the right time for investors to buy into the region?

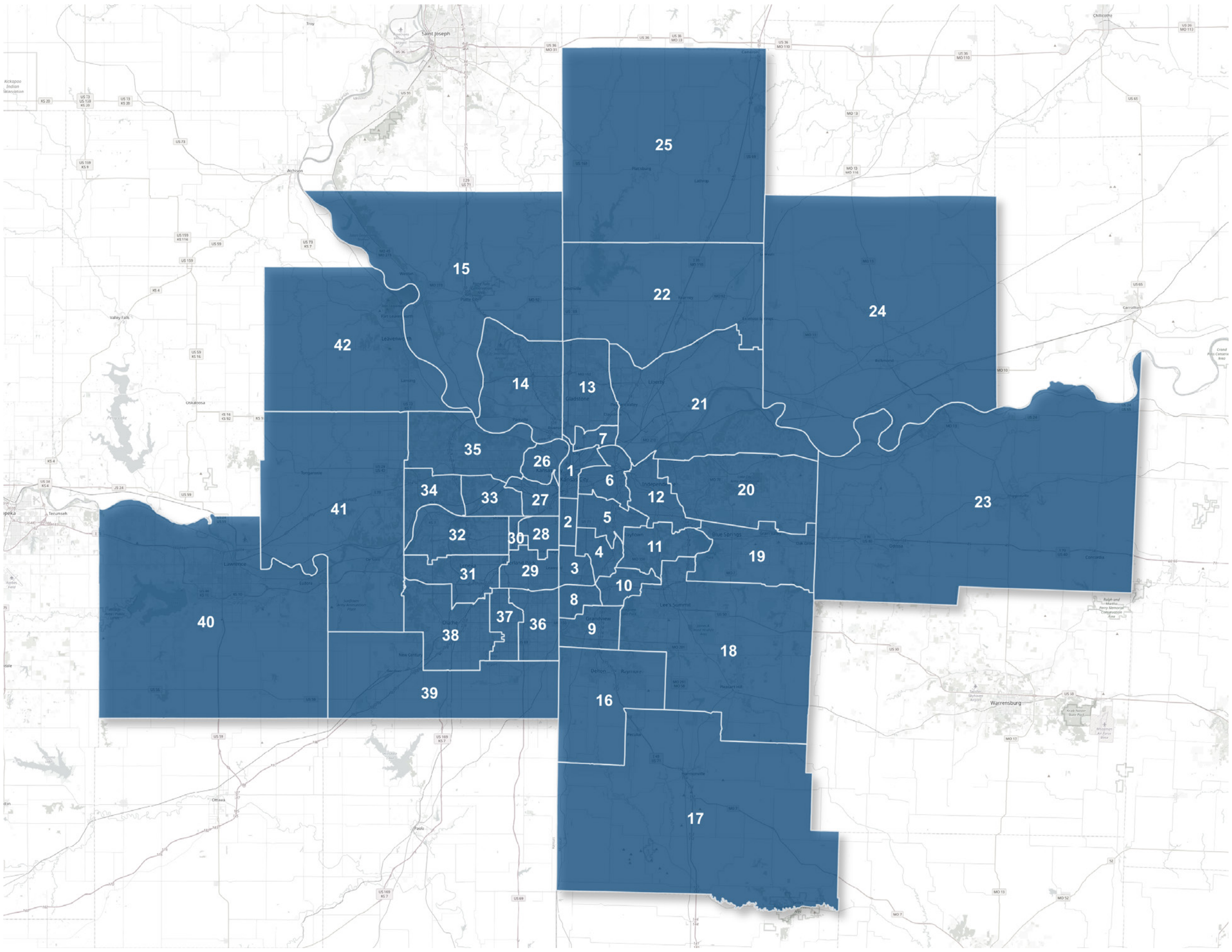
With the Federal Reserve signaling the continued increase in rates, it is still an excellent time to secure long-term financing at a favorable Midwest basis. While we might not see the continued record-high year-over-year accelerated appreciation driven by unsustainable double-digit rent growth, Midwest markets offer investors consistent appreciation, a favorable cost of living for renters and steady job growth.

What are your predictions for the market

The Midwest multifamily market continues to outperform the economy and a return to more normalized property performance is likely through the remainder of 2022. While there are many moving parts influencing multifamily markets across the country, the broad takeaway is that conditions are very strong and should remain healthy.

(Read the complete interview on multihousingnews.com.)

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.

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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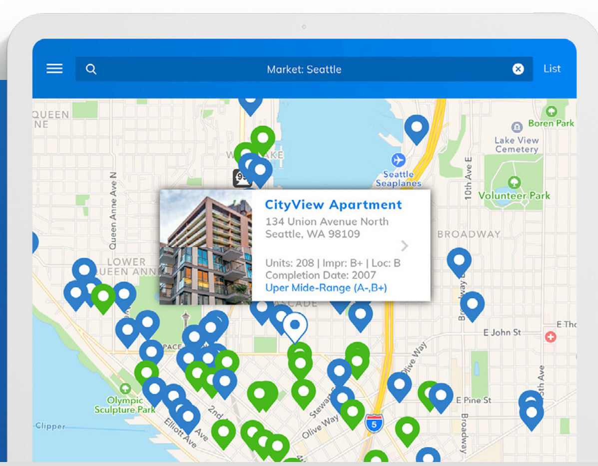
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- 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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