Yardi® Matrix

Kansas City's Transition Continues

Multifamily Report Winter 2018

Rent Growth Decelerates

Downtown Supply Expands

Office Job Gains Boost Demand

Market Analysis

Winter 2018

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Supply Surge Dampens Rent Growth

Kansas City is beginning to fit in as a business-oriented metro with a significant supply of new multifamily stock in core submarkets, ready to meet the needs of young professionals moving into the area. With consistent population growth in the past five years and a favorable Midwestern location, along with a developing transportation system, Kansas City continues to attract large employers and consolidate its status as a destination for travel and investment.

The metro maintained its unemployment rate below 4.0% and added more than 12,000 jobs in high-earning, office-using sectors in the 12 months ending in September 2017. In addition to new companies moving to Kansas City, existing employers are relocating downtown and expanding. Insurance broker Spring Venture Group will move from Crown Center to the central business district, with plans to add about 700 employees over the next four years. Kansas City's industrial market continues to rise, with strong fundamentals and numerous speculative developments. Build-to-suit projects account for a significant part of new industrial supply, with CVS Health and Garmin facilities underway. In addition, more than 1,200 guestrooms are expected to come online in the downtown area by 2020.

The development boom has led to a rent growth slowdown—at 1.7% year-over-year as of November—with another 2,200 units slated to come online in the next couple of months. The trend is expected to continue in the first part of 2018.

Recent Kansas City Transactions

The Residences at Prairiefire

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

Corinth Communities

City: Prairie Village, Kan.
Buyer: JDC
Purchase Price: $49 MM
Price per Unit: $142,533

Sandstone Creek

City: Overland Park, Kan.
Buyer: DRA Advisors
Purchase Price: $48 MM
Price per Unit: $132,143

Kenilworth

City: Prairie Village, Kan.
Buyer: JDC
Purchase Price: $41 MM
Price per Unit: $167,008

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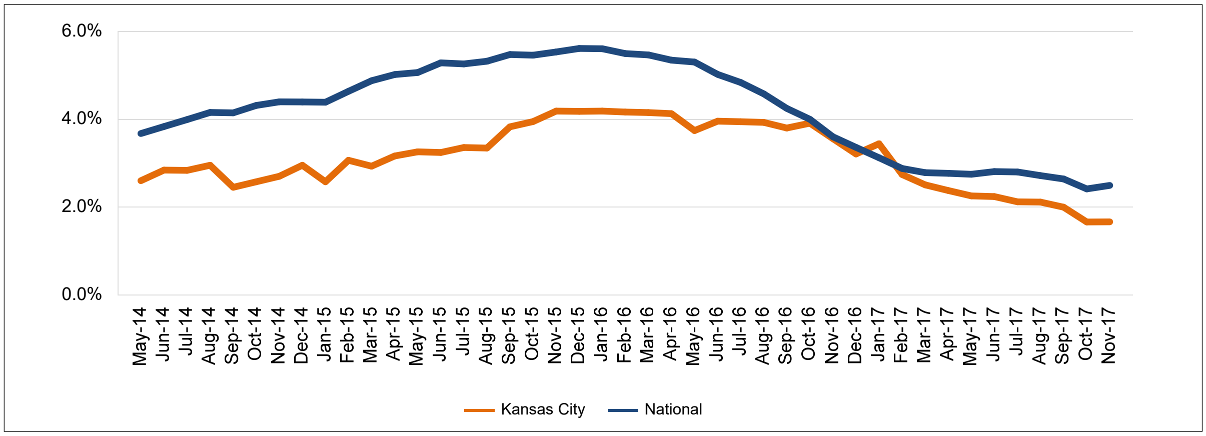
Rent Trends

- Rent growth in Kansas City slowed down to 1.7% year-over-year through November 2017, below the 2.5% national rate. The average rent rose to $918, far behind the national rate of $1,358. Occupancy in stabilized properties stood at 95.1% as of October 2017, down 20 basis points in 12 months but still holding up to the expanding supply. New units coming online are located mostly in the metro's downtown and cater to Millennials, who are attracted by the tech-oriented businesses in the area.

- Gains were led by the working-class Renter-by-Necessity segment, which saw rents up 3.0% year-over-year through November 2017, reaching $793. Rent growth in the high-end Lifestyle sector was 0.8%, with the average rent at $1,132. The metro's outer suburbs have seen the most significant rent growth, due to new supply being concentrated mostly in core submarkets and the dynamic Johnson County. Rates in De Soto were up roughly 10.0%, followed by Harrisonville (7.8%), Platte City (7.1%) and Park Farms (5.2%).

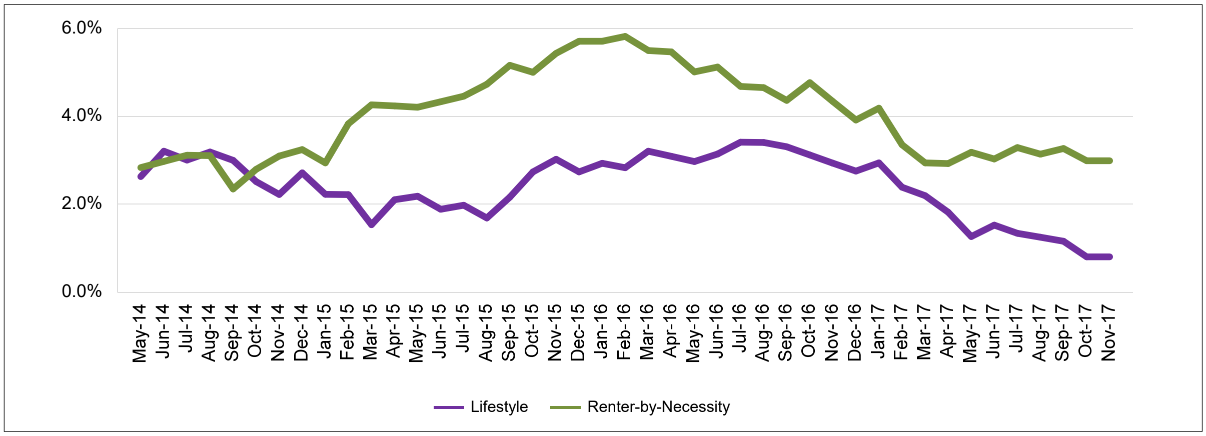
- Demand is expected to stay strong, as the metro continues to add jobs in high-earning sectors, maintaining unemployment rates at historic low levels. Young professionals continue to look for modern apartments in central areas, with easy access to the district's expanding amenities and the new streetcar line connecting the City Market and Crown Center.

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

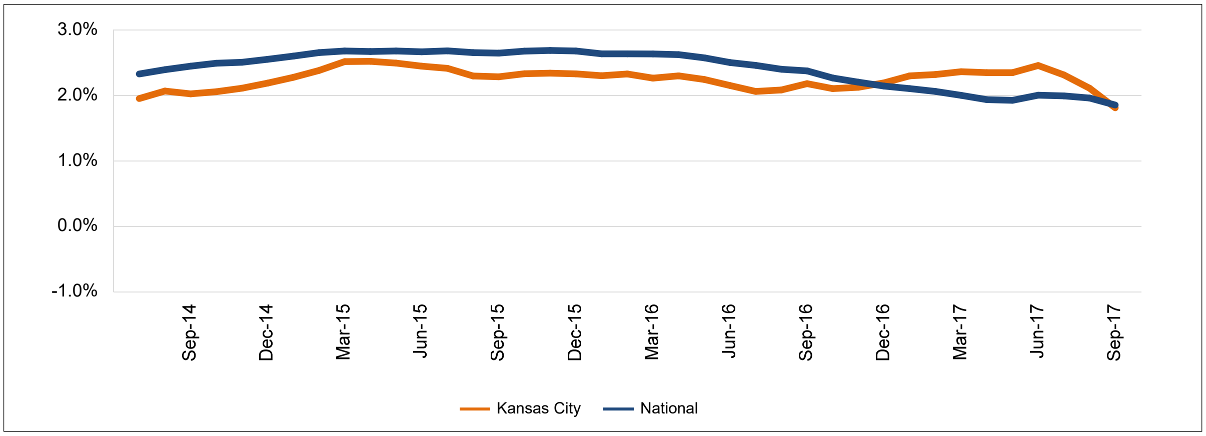
Economic Snapshot

- Kansas City added 17,600 jobs year-over-year through September 2017, with more than half in high-paying sectors. The rise marked a 1.8% year-over-year increase, in line with the national growth rate. The metro managed to maintain its unemployment rate under the 4% threshold. Job gains were led by professional and business services (8,800), trade and transportation (2,600), leisure and hospitality (2,300), and education and health services (2,100). Kansas City saw significant job cuts in construction (-3,500) and manufacturing (-1,100).

- Growth in office-using sectors has led to increased demand for well-located assets. Insurance broker Spring Venture Group announced its relocation from Crown Center to downtown, where it will occupy 130,000 square feet in the 18-story 12 Wyandotte Plaza. The company also plans to add roughly 700 employees in the next four years. Rental rates for office properties have seen continued growth since 2013, which also sparked investor interest. One of the largest office transactions that closed in 2017 was Group RMC Corp.'s acquisition of the 2.2 million-square-foot Corporate Woods in Overland Park for $295 million, according to Newmark Knight Frank.

- The hospitality sector is expected to continue its expansion. More than 1,200 guestrooms are anticipated to open in downtown alone by 2020, including the 800-key Loews convention center hotel, a 301-key Embassy Suites and a 120-key boutique property in the building of the former Savoy Hotel.

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	205	18.1%	8,800	4.5%
40	Trade, Transportation and Utilities	221	19.5%	2,600	1.2%
70	Leisure and Hospitality	118	10.4%	2,300	2.0%
65	Education and Health Services	157	13.8%	2,100	1.4%
55	Financial Activities	81	7.1%	1,400	1.8%
80	Other Services	43	3.8%	500	1.2%
90	Government	169	14.9%	-	0.0%
30	Manufacturing	77	6.8%	-700	-0.9%
50	Information	18	1.6%	-1,100	-5.8%
15	Mining, Logging and Construction	46	4.1%	-3,500	-7.0%

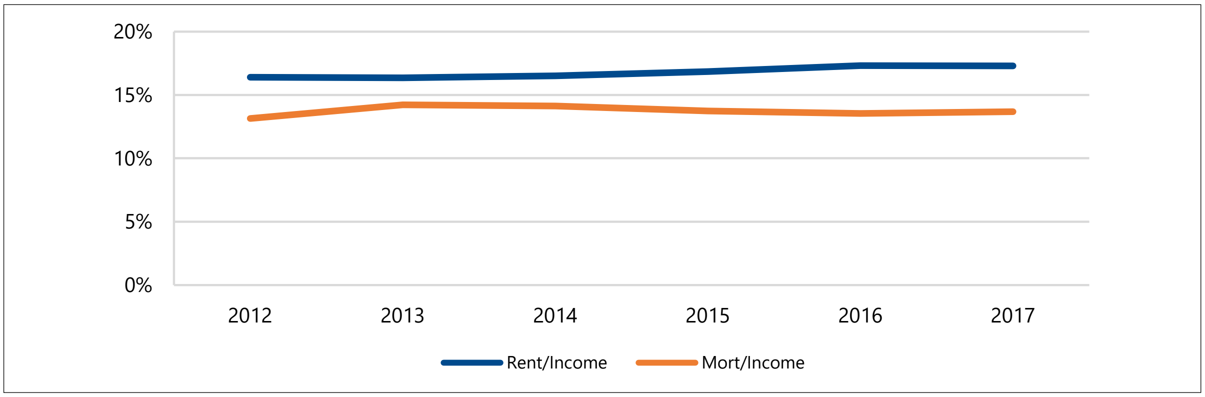
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

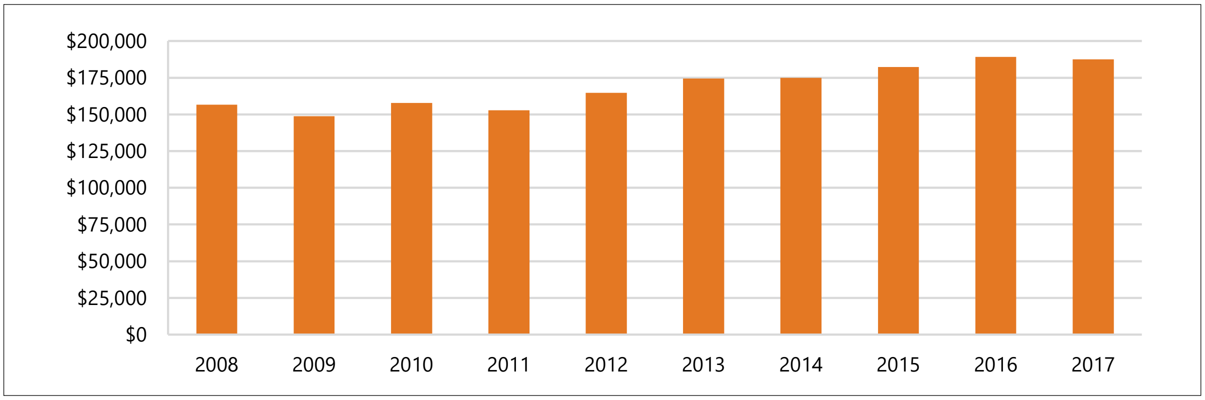
- The median home price in Kansas City was $187,453 in 2017, almost on par with the previous year's cycle peak of $189,202. The metro's growth and economic development have led to an increase in average wages, maintaining a flat affordability since 2012. Homeownership remains more affordable than renting, as the average mortgage payment accounted for 17% of the metro's median income, while renting comprised 14%.
- Affordable housing development in Kansas City is scarce and challenging. The State of Missouri's annual $150 million Affordable Tax Credit Program faced backlash at the end of 2017, when affordable housing developers were forced to postpone their projects until a final resolution on the matter was approved.

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, with more than 20,000 added in 2016.
- Kansas City grew by almost 1.0% in 2016, some 30 basis points above the national average rate.

Kansas City vs. National Population

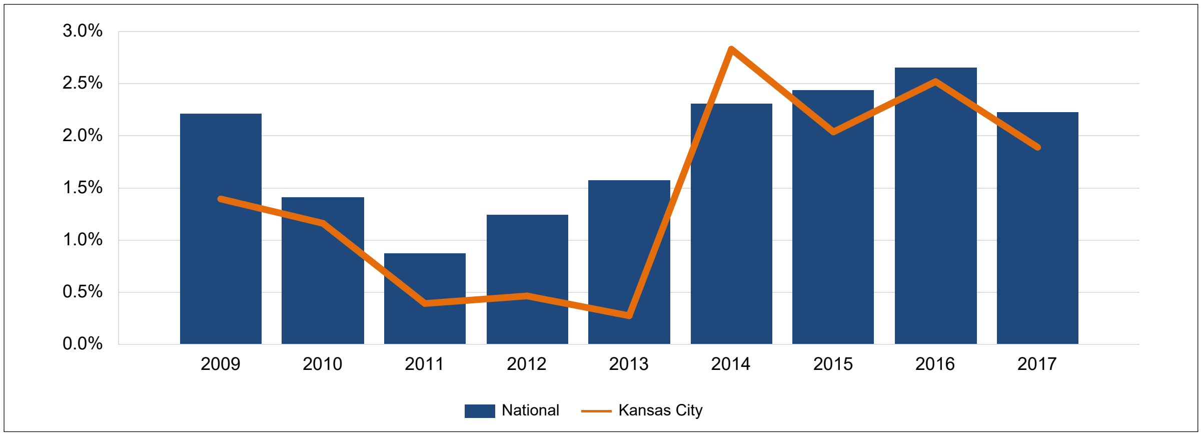
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Kansas City Metro	2,038,675	2,053,766	2,069,314	2,084,464	2,104,509

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

Supply

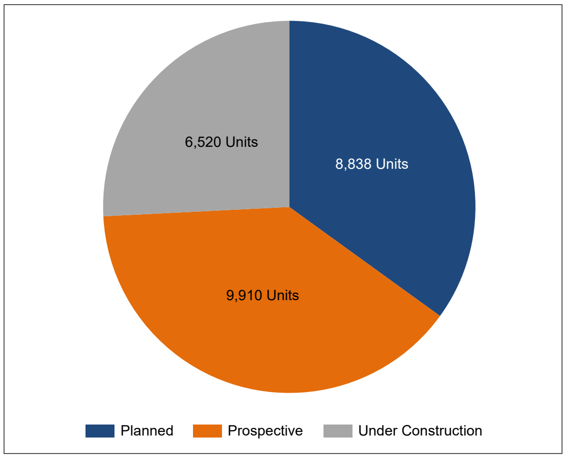
- Kansas City added roughly 2,800 units in 2017 through November, a 30% drop compared to the 3,910-unit cycle high of 2014. About 2,200 more apartments are expected to come online in the next few months.
- New supply is expected to grow as 6,520 units were under construction and roughly 19,000 were in the planning and permitting stages. The majority of the new units are rising in downtown Kansas City (2,078 units) and Johnson County (2,700 units), the metro's multifamily development hotspots.
- Office and business development in Johnson County, as well as the mix of schools and employers located in and around Overland Park—Sprint, Kiewit Engineering, Black & Veatch—are attracting residents and increasing rental demand. Overland Mayor Carl Gerlach's favorable development incentive policy has also contributed to the surge. The 420-unit Promontory development in Overland received $19 million in tax incentives and is scheduled for completion by November 2018.
- Oversupply is not likely to become an issue in the foreseeable future, as net absorption in the 12 months ending in October 2017 was 2,453 units. The largest project underway is The Links at Lawrence, a 600-unit community that will include a nine-hole golf course and is scheduled for completion in January 2019.

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



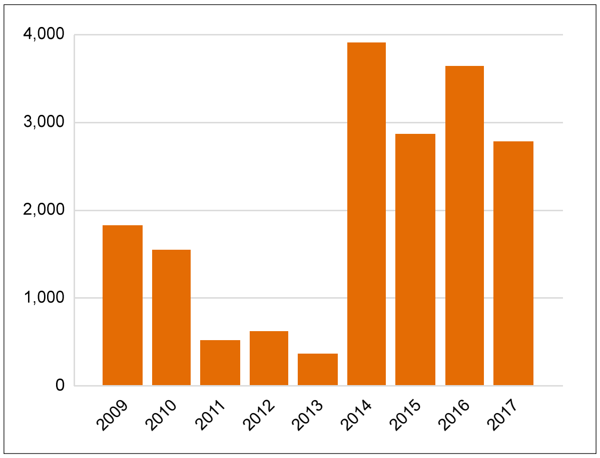
Source: YardiMatrix

Development Pipeline (as of November 2017)



Source: YardiMatrix

Kansas City Completions (as of November 2017)

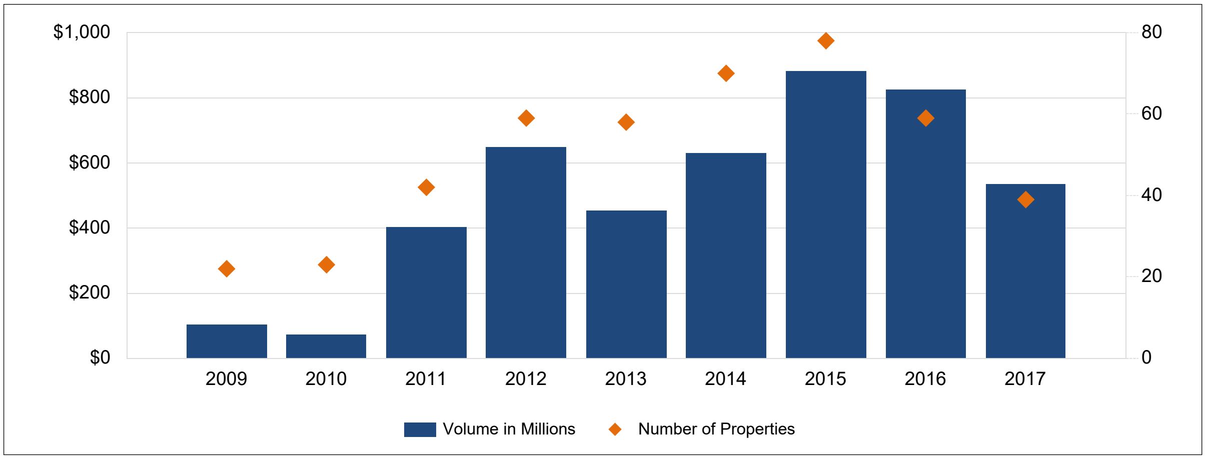


Source: YardiMatrix

Transactions

- Investment activity in Kansas City rebounded in the second half of 2017 after a slow start, with 39 transactions totaling $536 million closing last year through October. The slowdown in rent growth has somewhat discouraged investors, after more than $1.6 billion in multifamily assets traded during the previous two years. Nonetheless, investor appetite remained fairly strong and per-unit prices continued to grow, reaching $94,507 as of October, up roughly 30% compared to 2016 and triple the value of 2010. However, Kansas City prices still lag way behind the $136,099 U.S. average.
- Properties located across the southern suburbs attracted most investors looking for more substantial yields. Deals that closed in Johnson County and the surrounding submarkets accounted for about 60% of the total sales volume in the 12 months ending in October. Multifamily transactions in Overland Park stood at $200 million, followed by Calico Farms/Bridlespur ($75 million), Shawnee ($75 million) and Olathe ($46 million).

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



Source: YardiMatrix

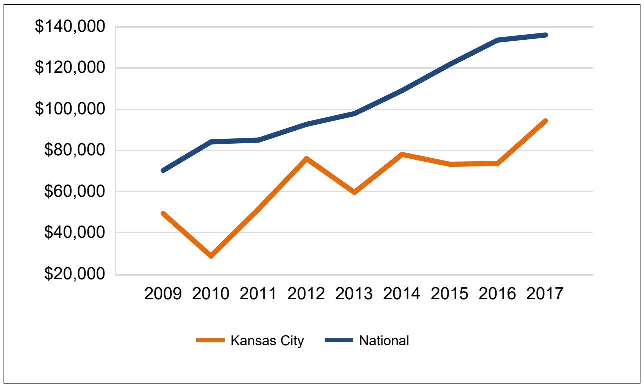
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Overland Park - southeast	110
Overland Park - north	90
Calico Farms/Bridlespur	75
Shawnee	75
Olathe	46
Crossgates	39
Marlborough Heights	35
Lee's Summit	34

Source: YardiMatrix

[1] From November 2016 to October 2017

Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!

Japanese Manufacturer To Build 1 MSF Hub In KC Area

Passco Nabs 5th Property In KC Metro Area

Home2 Suites Opens Kansas City Hotel

Berkadia Completes Sale, Secures Financing For MO Property

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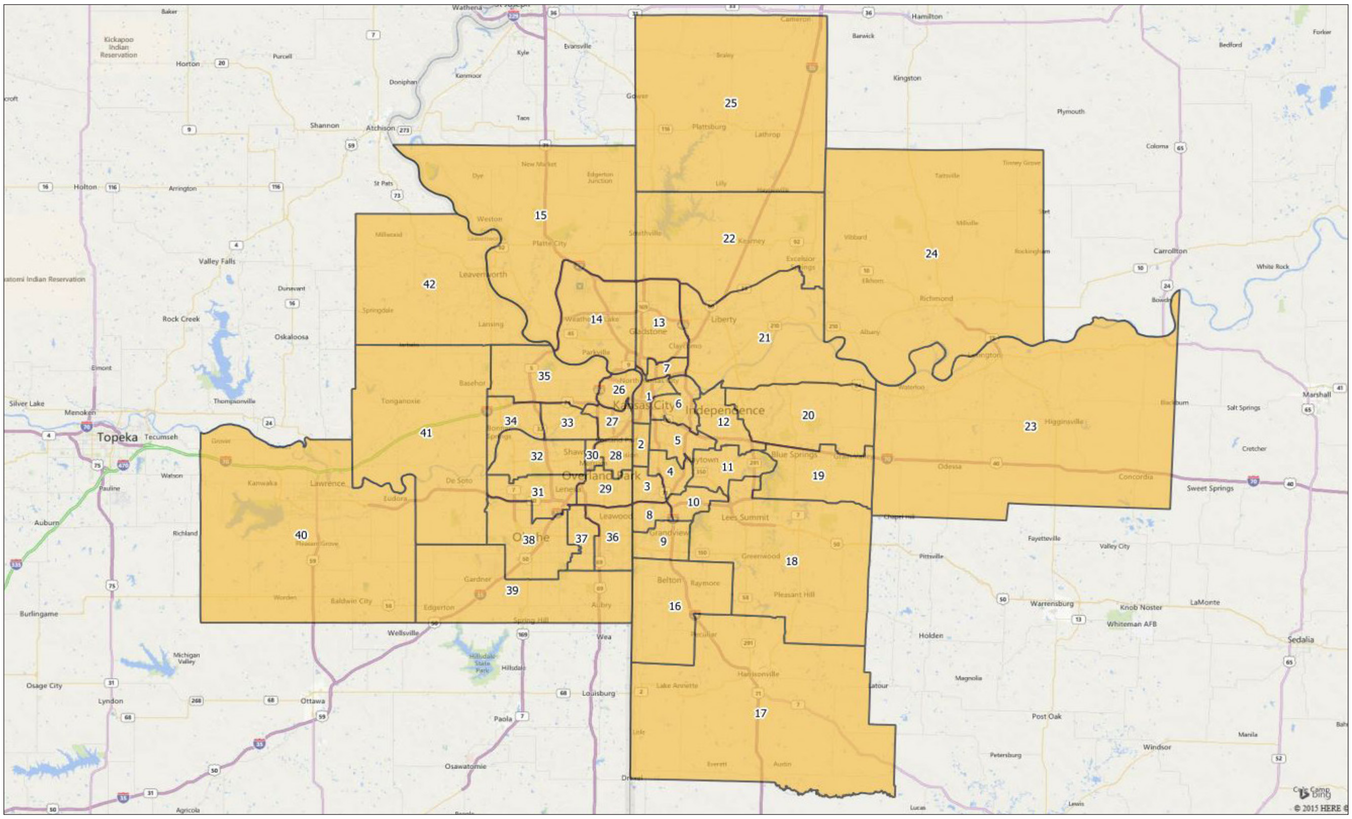
Kansas City Submarkets



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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