Yardi® Matrix

Kansas City Shines Brighter

Multifamily Report Summer 2018

Rent Growth Rebounds

Per-Unit Prices Inch Up

Affordable Housing Takes a Blow

Market Analysis

Summer 2018

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KC Grows From the Core

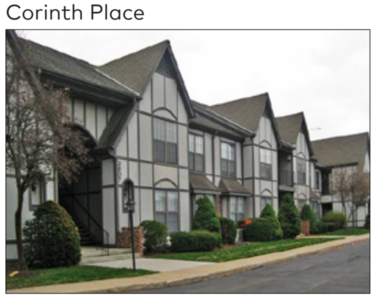
Young professionals continue to fuel multifamily development in Kansas City, with rent growth registering a slight rebound in the first part of 2018. The metro is adding a shiny layer of attractive and modern businesses over its manufacturing base, as new coworking and collaborative spaces located across downtown are opening their doors. In fact, 41% of the 22,000 residents in the city center are part of Generation Y, according to a report by the Downtown Council and MySidewalk.

Financial activities and professional and business services accounted for more than half of the 17,900 jobs that Kansas City added in the 12 months ending in February. With growing demand for both urban and suburban office space, new projects are rising across the metro. The 350,000-square-foot Overland One and the multi-phase, 600,000-square-foot CityPlace Corporate Center are both under construction in Overland Park. On the downside, however, is the manufacturing sector: Harley Davidson and Procter & Gamble announced the shutting down of Kansas City facilities, impacting more than 1,000 workers.

Transaction volume sank, but high competition for assets continued to push up per-unit prices. As more than 7,000 units are underway across the metro, we expect rent growth to decelerate to 2.0% for the whole of 2018.

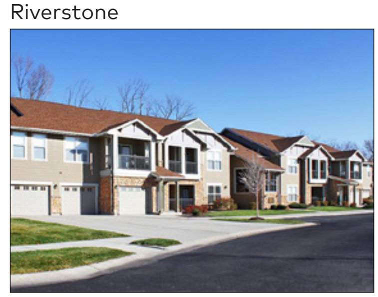
Recent Kansas City Transactions

Corinth Place



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

Riverstone



City: Kansas City
Buyer: White Oak Partners
Purchase Price: $45 MM
Price per Unit: $137,222

Kenilworth

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

Haven

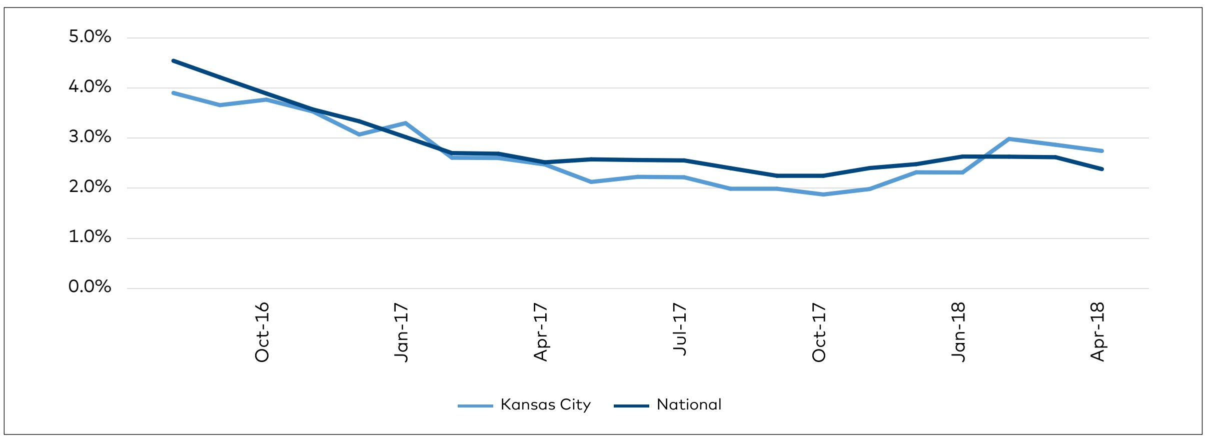
City: Kansas City
Buyer: Inco Real Estate
Purchase Price: $39 MM
Price per Unit: $99,409

On the cover: Photo by Davel5957/iStockphoto.com

Rent Trends

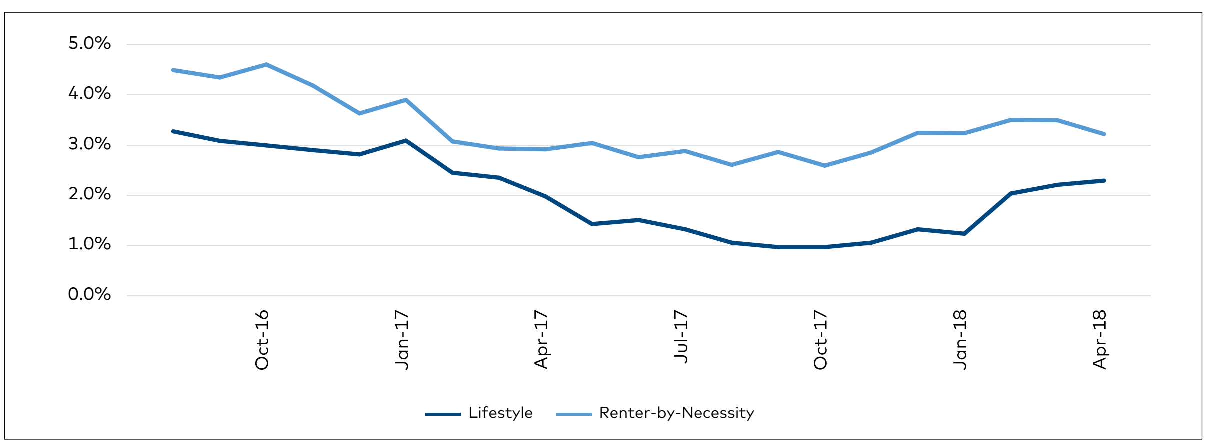
- After decelerating alongside the national average in the second half of 2017, Kansas City rent growth picked up steam early this year. Rents in the metro rose 2.7% year-over-year through April, outpacing the 2.4% U.S. rate. The average Kansas City rent was $937, far below the $1,377 national figure.
- The working-class Renter-by-Necessity segment led growth, with rents rising 3.2% to $801. Lifestyle rents increased 2.3%, to $1,160. Downtown Kansas City and Overland Park, areas registering intense economic activity, remain the most expensive, with average rates across submarkets ranging from $1,000 to $1,300. The small De Soto submarket continues to register the highest year-over-year growth (11.0%), followed by Park Farms (6.9%), Kansas City Northwest (6.7%) and Platte City (5.4%). Meanwhile, rents are depreciating in several non-core areas, such as Gardner (-6.3%), Harrisonville (-2.2%), Grandview (-1.3%) and Crossgates (-0.9%).
- Demand is expected to stay strong due to significant job growth in high-earning sectors, which are attracting graduates and young professionals to the metro's revived downtown area. However, new apartments coming online—particularly in core submarkets—should temper rent growth. Yardi Matrix expects rents to appreciate 2.0% in 2018.

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

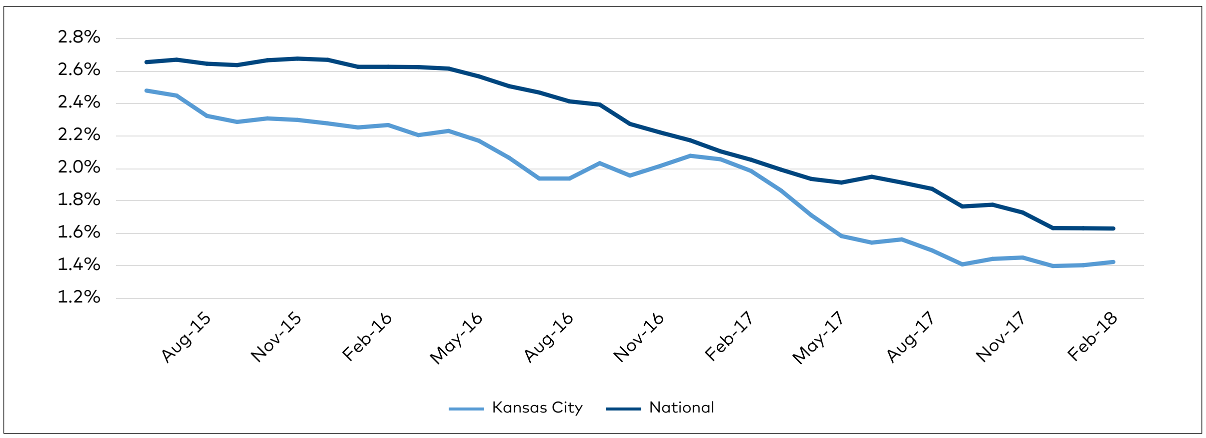
Economic Snapshot

- Kansas City added 17,900 jobs year-over-year through February—a 1.4% increase but trailing the 1.6% national rate—with more than half of the expansion coming from high-earning sectors. Professional and business services led growth (6,900 jobs), followed by government (4,800); trade, transportation and utilities (3,700); and financial activities (800).

- The metro registered significant job cuts in information (-800), manufacturing (-400), and leisure and hospitality (-200). These numbers are expected to increase, as Harley Davidson announced the closing of its motorcycle assembly plant, relocating operations to York, Pa. The move is set to impact 800 workers. Procter & Gamble is also shutting down its Kansas production unit, laying off 280 employees. However, 2018 is expected to remain an overall good year for Kansas City's industrial sector. Automotive technology company Faurecia announced it will open a 250,000-square-foot facility in Blue Springs, creating more than 300 jobs. Total investment is expected to exceed $60 million.

- The metro's office market shows signs of strength, too, both in core submarkets and suburban areas, with decreasing vacancies and increasing rental rates sparking the interest of both local and out-of-state investors. In one of the largest recent deals, Kiewit Corp. acquired a 250,000-square-foot, 2013-built office property in Lenexa, where it plans to relocate.

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	197	17.5%	6,900	3.6%
90	Government	172	15.3%	4,800	2.9%
40	Trade, Transportation and Utilities	223	19.8%	3,700	1.7%
65	Education and Health Services	157	14.0%	800	0.5%
55	Financial Activities	80	7.1%	800	1.0%
15	Mining, Logging and Construction	48	4.3%	700	1.5%
80	Other Services	43	3.8%	200	0.5%
70	Leisure and Hospitality	111	9.9%	-200	-0.2%
30	Manufacturing	76	6.8%	-400	-0.5%
50	Information	17	1.5%	-800	-4.4%

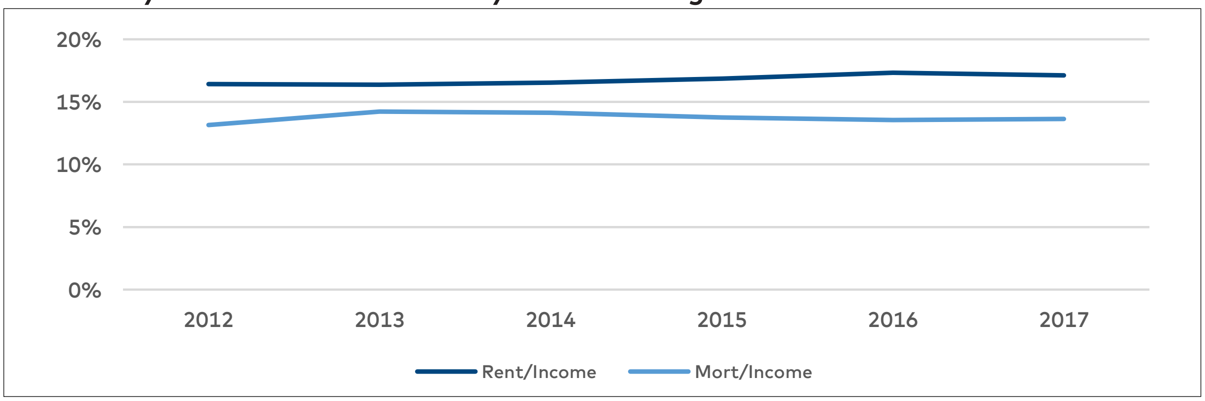
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

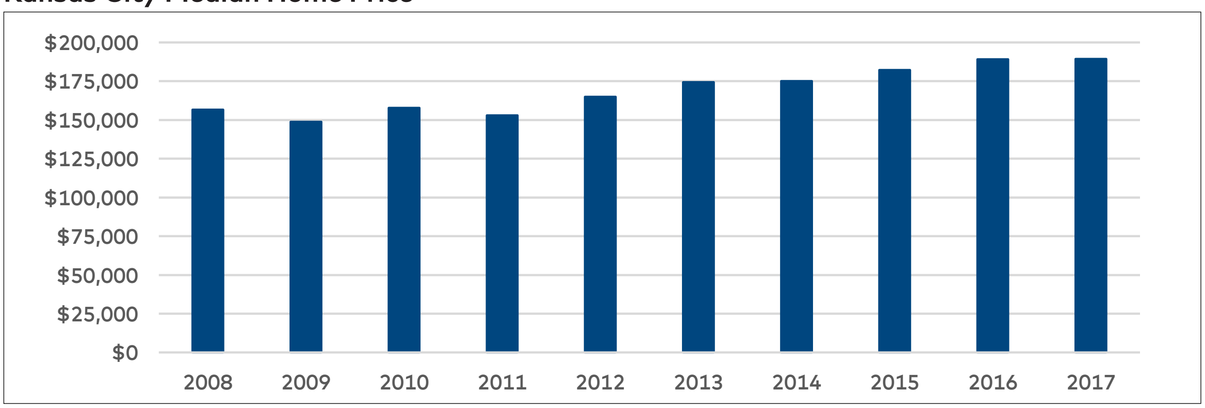
- The Kansas City median home price reached $189,329 in 2017. The metro's economic and demographic expansion has led to flat affordability rates since 2014: Owning remains more affordable, with the average mortgage payment taking up 14% of area income, compared to 17% for the average rent.
- Affordable housing will be a hot topic for Kansas City in the year ahead, as the Missouri Housing Development Commission voted against using state money to match $140 million in federal low-income housing tax credits. Competition for funding such projects will surely intensify, as developers will have to consider larger loans due to the shrinking capital pool.

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 added roughly 23,000 residents in 2017 and more than 90,000 over the past five years.
- The metro's population expanded by 1.1% in 2017, outpacing the 0.7% national average.

Kansas City vs. National Population

	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Kansas City Metro	2,054,039	2,069,602	2,085,221	2,106,382	2,128,912

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

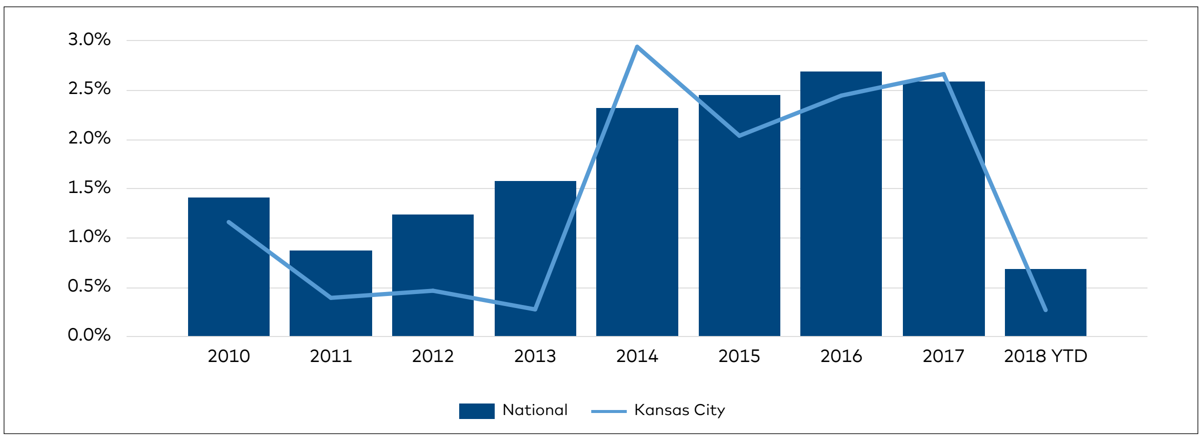
Supply

- In the first four months of 2018, new Kansas City supply totaled 400 units—all in Overland Park and Olathe. With 7,200 units underway as of April, of which 2,000 are estimated to be completed by year-end, deliveries are expected to partially balance out this year's slower start. A total of 2,400 units are expected to come online in 2018, which would represent a slowdown after four years of stronger inventory expansion: More than 14,000 units came online in Kansas City between 2014 and 2017.

- The metro's growing young population is fueling demand, lending to strong absorption of new units. In the 12 months ending in April, Kansas City saw the highest absorption of 760 apartments. However, inventory expansion has led to a dip in occupancy rates for stabilized properties—80 basis points year over year through April. With roughly 28,000 units in various stages of development, the metro is banking on job growth and more young professional in-migration to curb oversupply.

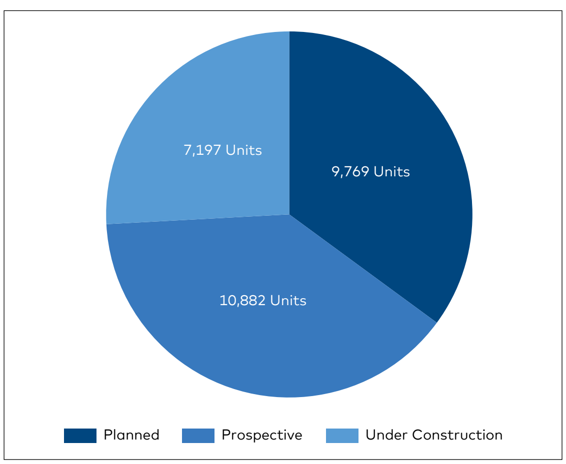
- Kansas City's downtown is the top submarket for new development, with roughly 2,000 units under construction. The list of top core projects includes Flaherty & Collins Properties' 410-unit Union Berkley Riverfront Park and Milhaus Development's 361-unit Gallerie.

Kansas City vs. National Completions as a Percentage of Total Stock (as of April 2018)



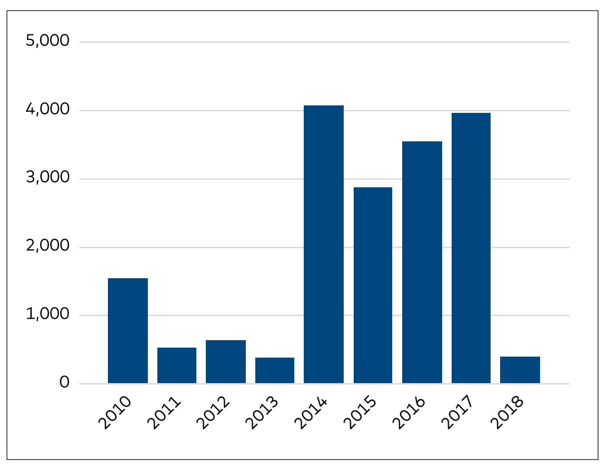
Source: YardiMatrix

Development Pipeline (as of April 2018)



Source: YardiMatrix

Kansas City Completions (as of April 2018)

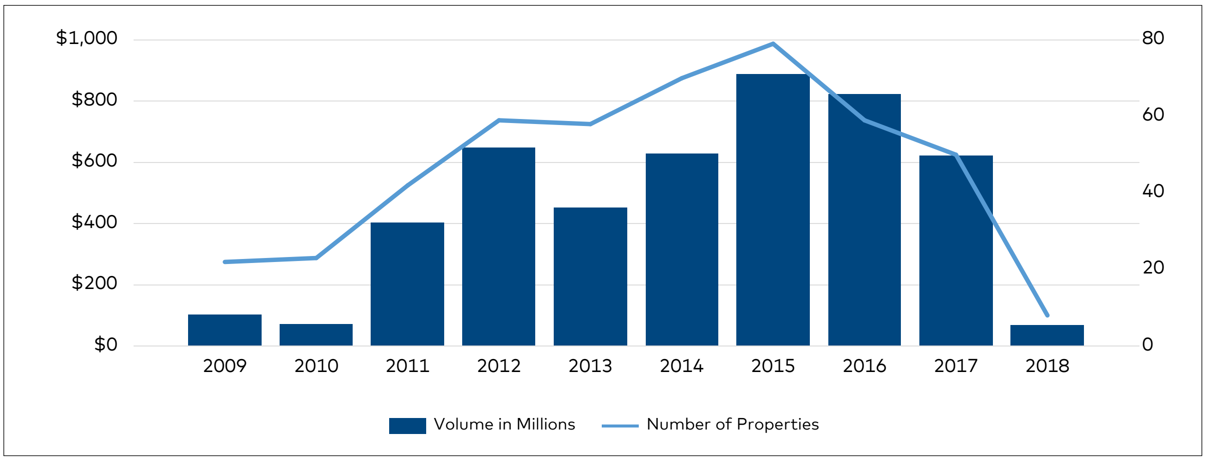


Source: YardiMatrix

Transactions

- Investment moderated in Kansas City, with roughly $69 million in multifamily assets changing hands in the first four months of 2018. After peaking in 2015 at $889 million, transaction activity slowed down, with deal volume reaching $624 million in 2017. However, competition for multifamily assets pushed per-unit prices up, with the average reaching $97,672 through April.
- A lower cost of entry and moderate risks have attracted local capital, as well as out-of-state investors looking beyond average cap rates in major metros. Acquisition yields are in the 5.0% range for high-end properties, while returns for Class B and C communities fluctuate between 5.5% and 6.0%. South Johnson County led the way in multifamily investments, with $210 million in assets trading in the 12 months ending in April. Jones Development Co. was behind two of the largest deals in the past year, acquiring a total of 588 units in Prairie Village.

Kansas City Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

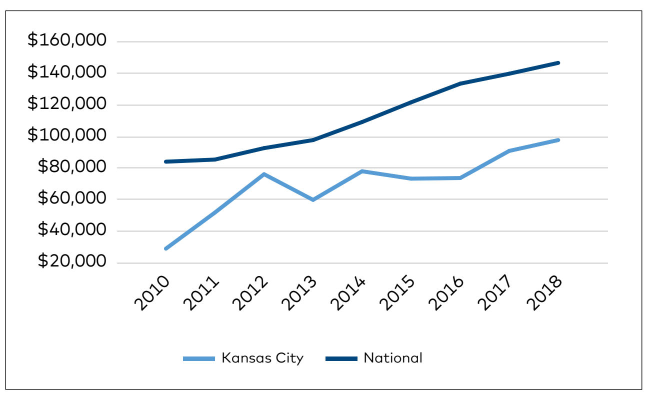
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Overland Park-North	90
Shawnee	78
Kansas City Northwest/ Riverside	51
Olathe	42
Gladstone	39
Crossgates	39
Marlborough Heights	32
Kansas City–South	32

Source: YardiMatrix

[1] From May 2017 to April 2018

Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

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MULTI-HOUSING NEWS

Cordish Cos. Completes $120M MO Community

The company launched the 296-unit Two Light, the second new construction high-rise apartment building in downtown Kansas City.

Manufactured Property Receives $16M Refi

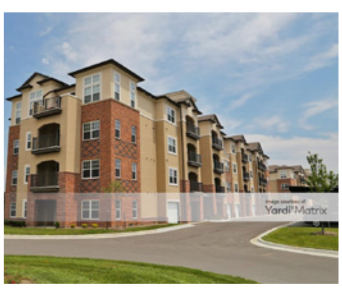
Lakeview Terrace, a recently renovated community comprising affordable mobile homes, has received $16 million in refinancing through Freddie Mac.

Flaherty & Collins Launches Riverfront Development

The $72 million mixed-use property comprises 407 luxury units and 12,400 square feet of retail space.

Prism Picks Up KC Community

The property consists of 54 three-bedroom townhome units, each containing an attached garage and more than 1,500 square feet of living space.



JVM Acquires Luxury KC Community

The 340-unit property is located near the city's Power & Light District as well as the CBD and represents JVM's ninth high-end asset in Kansas City.

Phase 2 of Multigenerational Community Opens

The Estoria features short-term recovery, rehabilitation and skilled nursing facilities in 60 residential suites.

Top 10 Apartment Owners in Kansas City

MULTI-HOUSING NEWS

data by Yardi® Matrix

By Roxana Baiceanu

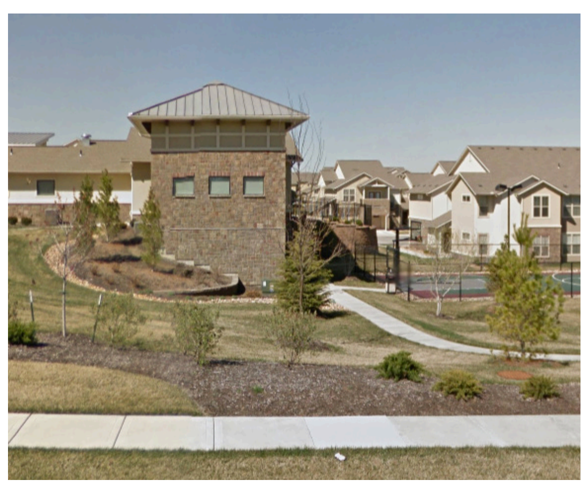
As rising apartment prices in the city's metro area have tempered investment activity in the multifamily sector, many of the top property owners continue to be local companies.

Kansas City added more than 16,000 jobs in the 12 months ending in February, keeping the employment trend steady, after a drop which spanned the last couple of years. As the city started to attract large employers and grow its population, development activity in the multifamily sector has been picking up, too. Last year was the second-best year of the past seven by number of completions, according to the most recent Kansas City Yardi Matrix report.

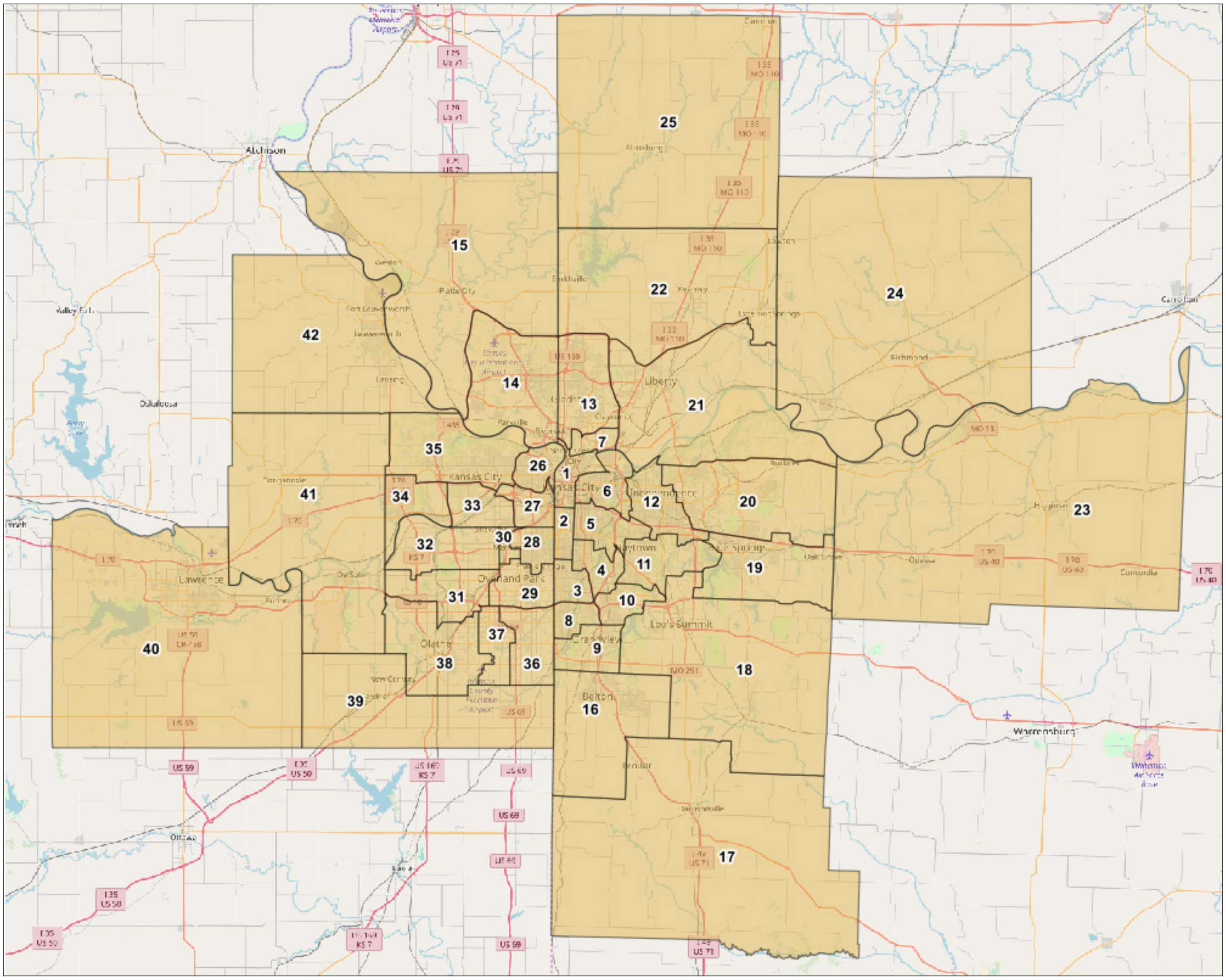
Owner	Market Properties Owner	Market Units Owner	Total Properties National	Total Units National	Total Completed
Price Brothers	33	8,430	41	10,727	32
The Peterson Companies	18	4,983	29	7,526	10
NFI Management	15	3,178	21	4,307	15
Maxus Realty Trust	10	2,734	42	10,339	6
Landmark Realty	6	2,624	12	3,168	6
Sentinel Real Estate	9	2,566	88	24,739	9
The Yarco Company	21	2,543	33	4,049	21
Prism Real Estate Services	15	2,357	15	2,357	14
Block Real Estate Services	7	2,318	18	5,656	2
Worcester Investments	16	2,317	17	2,498	14

Price Brothers

The Kansas City-based company has been operating in the field for more than a century, having developed and managed primarily residential and retail properties. Its portfolio in the metro consists of 33 properties and 8,430 units, more than half of which are high-end. The largest clusters of communities are located in Lenexa and Overland Park. In Lenexa, the company is about to finish its most recent development, Prairie Creek Phase II at 9395 Scarborough St. The community totals 75 units with an average monthly rent of approximately $1,400.



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–Rivers

Area #	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 #	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 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.