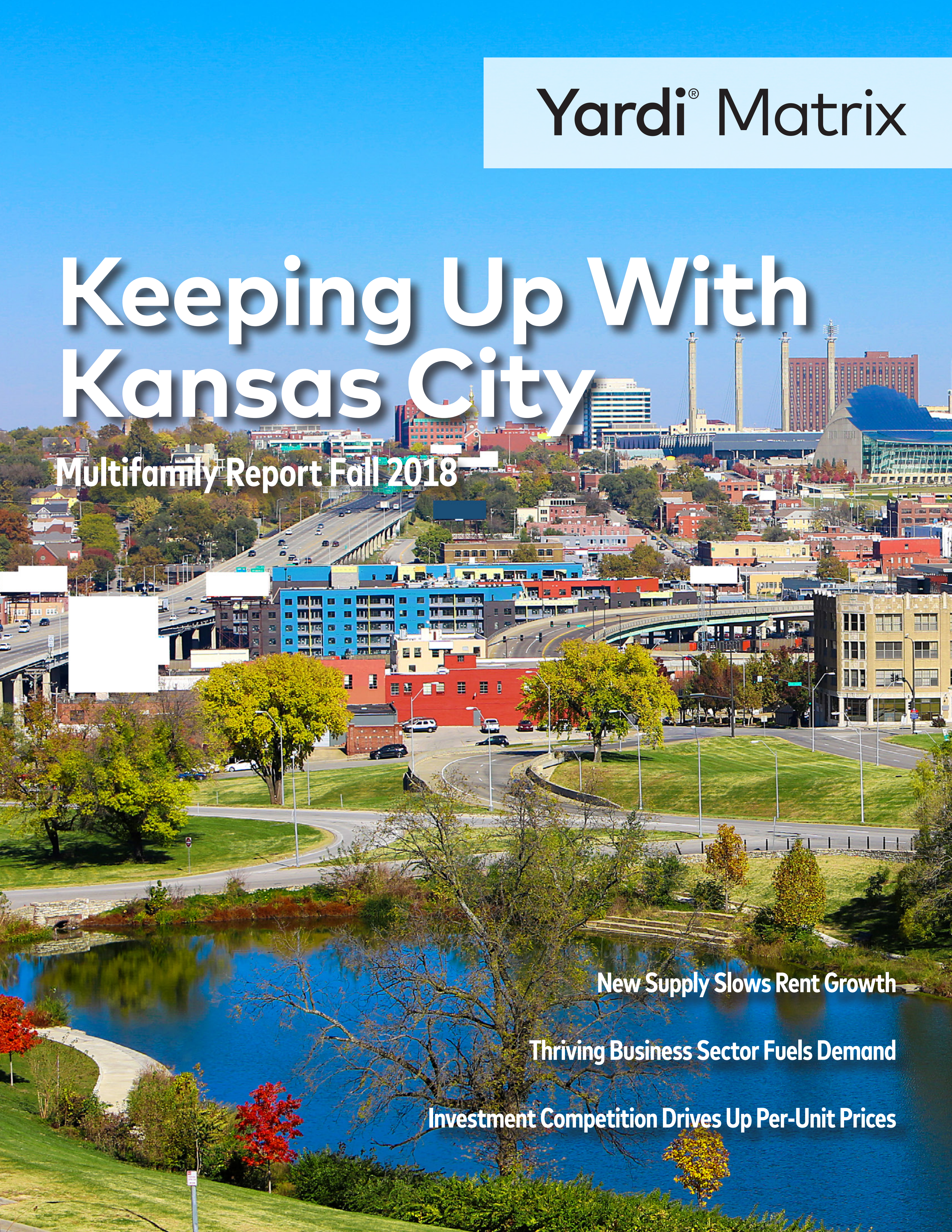
Yardi® Matrix

Keeping Up With Kansas City

Multifamily Report Fall 2018



New Supply Slows Rent Growth

Thriving Business Sector Fuels Demand

Investment Competition Drives Up Per-Unit Prices

Market Analysis
Fall 2018

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KC Poised for More Growth

Kansas City's new rental housing stock has led to a slowdown in rent growth, but the addition of high-earning jobs should lead to quick absorption of the high-end units slated to come online. The metro's downtown is seeing the most development activity, followed by surging construction activity in Johnson County. The two submarkets account for roughly half of the 8,200 total units now underway.

Employment growth was strongest in professional and business services, as companies expand or relocate to the metro. Shamrock Trading Corp. is looking to consolidate its presence in the Midwest by building three new office towers in Overland Park. More than 1,000 employees are expected to join the company in the next five years. Kansas City's industrial sector is also thriving. CVS Health opened a new retail distribution center that will house 360 employees once fully operational, while Kubota Tractor Corp. will build two logistics facilities totaling 2 million square feet in Phase II of Logistics Park Kansas City in Edgerton.

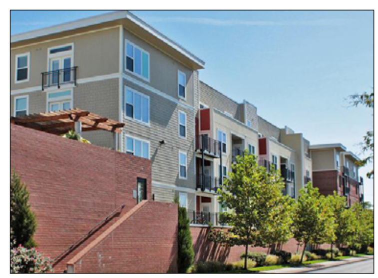
Significant job gains—27,400 in the 12 months ending in June—draw a consistent number of young professionals looking for well-positioned rental units. With roughly 2,400 units anticipated for completion, rent growth in the metro is expected to come in at about 2.2% for the whole year.

Recent Kansas City Transactions

The Landing at Briarcliff

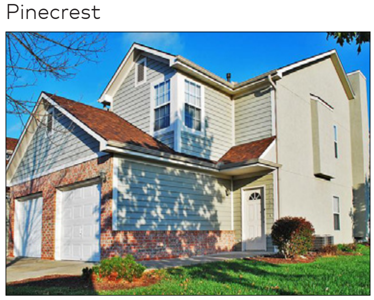
City: Kansas City
Buyer: JVM Realty
Purchase Price: $55 MM
Price per Unit: $160,784

45 Madison



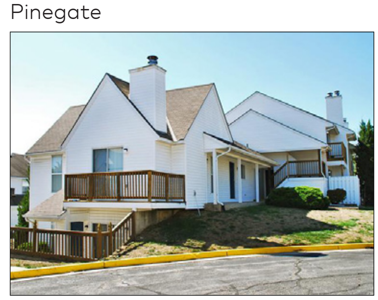
City: Kansas City
Buyer: PRG Real Estate
Purchase Price: $26 MM
Price per Unit: $197,980

Pinecrest



City: Olathe, Kan.
Buyer: Block Real Estate Services
Purchase Price: $23 MM
Price per Unit: $160,833

Pinegate



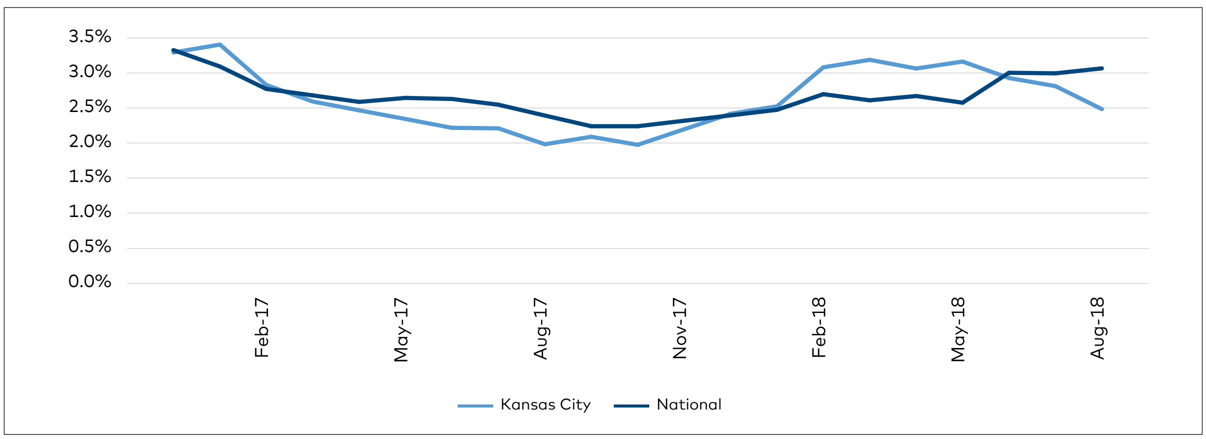
City: Merriam, Kan.
Buyer: Apartment Management
Purchase Price: $23 MM
Price per Unit: $102,378

On the cover: Photo by TriggerPhoto/iStockphoto.com

Rent Trends

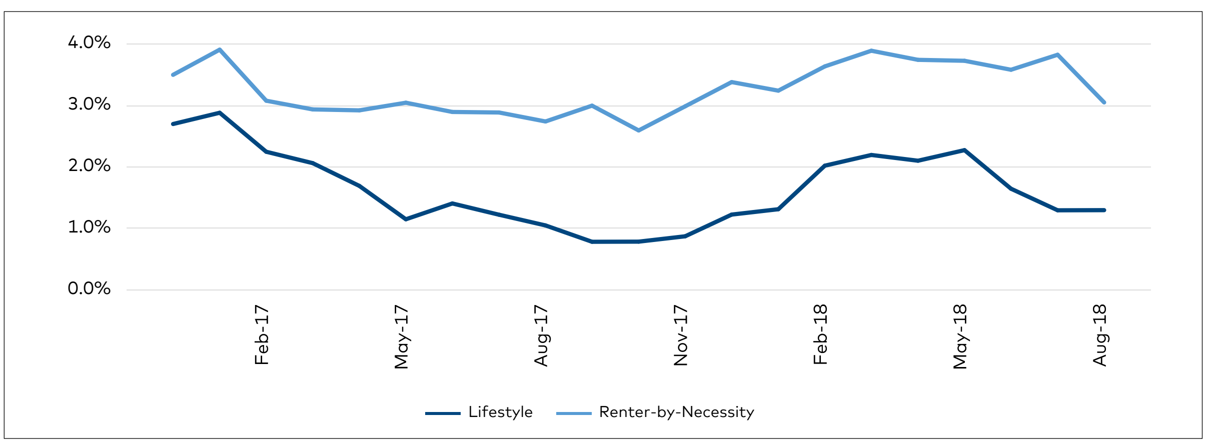
- After a strong start to the year, rent growth in Kansas City fell to 2.5% year-over-year through August, below the 3.1% national average. The average rent was $949, around the average rent for major metros in the Midwest but still far below the $1,412 national value.
- Rents in the working-class Renter-by-Necessity segment led growth, up 3.0% year-over-year, to $811. The metro's growing supply of Class A product has led to a notable decline in rent gains for Lifestyle units—1.3% as of August, compared to rates above the 2.0% threshold in the first quarter. Consistent job gains and population growth have boosted demand for well-positioned units. The metro's Downtown continues to command the highest rents, with an average monthly rate of $1,329, followed by Kansas City–South ($1,158), Lenexa ($1,121), Overland Park–Southeast ($1,106) and Lee's Summit ($991). The most affordable submarkets are Edwardsville/Bonner Springs, Kansas City–Northwest, De Soto, Smithville/Excelsior Springs and Raytown, with average monthly rents ranging between $543 and $672.
- With more growth expected in high-earning, office-using sectors and favorable demographic trends, demand for rental units is anticipated to maintain its pace, particularly in core submarkets. However, with multifamily deliveries peaking in Kansas City—8,200 units are currently under construction—rent growth should decline slightly to 2.2% 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

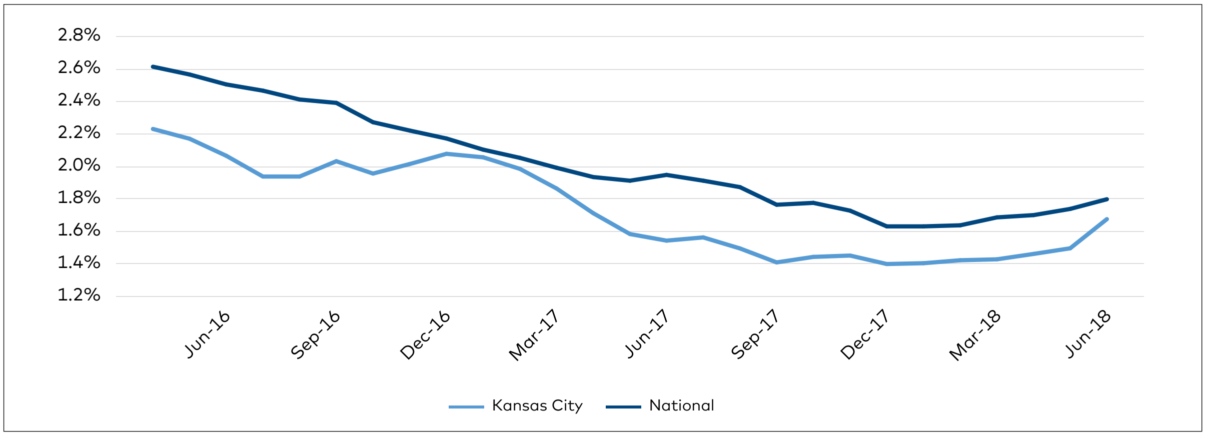
Economic Snapshot

- Kansas City added 27,400 jobs in the 12 months ending in June, a 1.7% rise, in line with the national rate of 1.8%. Gains were led by professional and business services (5,500) and trade and transportation (5,500), followed by leisure and hospitality (4,400), government (4,400) and education and health services (3,900).

- With the metro's development boom across all the main sectors—multifamily, office and industrial—the construction industry has seen the most significant year-over-year jump at 5.2%, followed by hospitality with 3.7%.

- Growth in the metro's office-using sectors will drive further job growth. Operations management and analytics company EXL Service opened a new center in Lee's Summit. The new location is anticipated to support 250 employees by the end of the year. Long-term growth is expected from auto insurer GEICO, as the company is set to open a new operations center in Lenexa and add 500 new associates over the next five years. In Overland Park, Shamrock Trading Corp. will develop three towers that will hold more than 1,000 employees, while global engineering firm Burns & McDonnell will add a $42 million, four-story office building to its existing campus.

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	%
40	Trade, Transportation and Utilities	227	19.6%	5,500	2.5%
60	Professional and Business Services	202	17.5%	5,500	2.8%
70	Leisure and Hospitality	125	10.8%	4,400	3.7%
90	Government	169	14.6%	4,400	2.7%
65	Education and Health Services	159	13.8%	3,900	2.5%
15	Mining, Logging and Construction	54	4.7%	2,700	5.2%
55	Financial Activities	83	7.2%	2,500	3.1%
80	Other Services	44	3.8%	100	0.2%
30	Manufacturing	77	6.7%	-700	-0.9%
50	Information	17	1.5%	-900	-5.0%

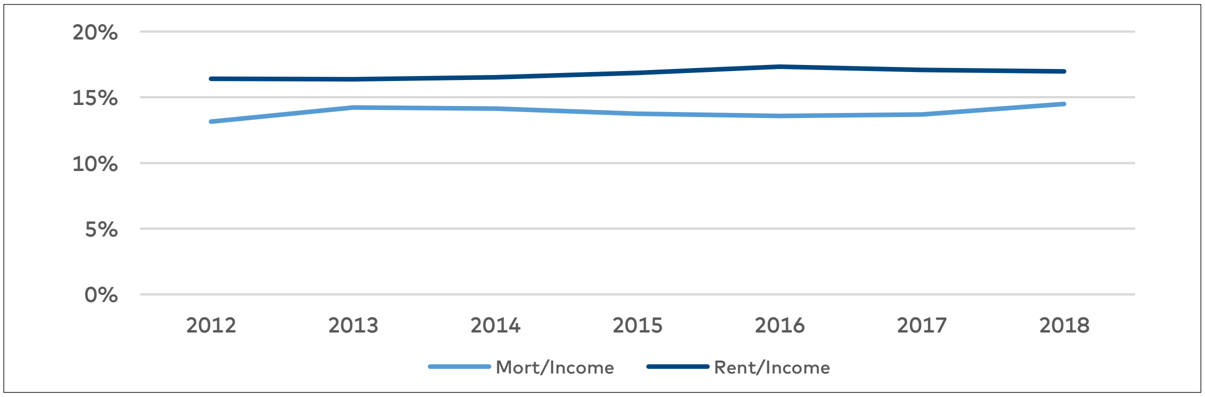
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

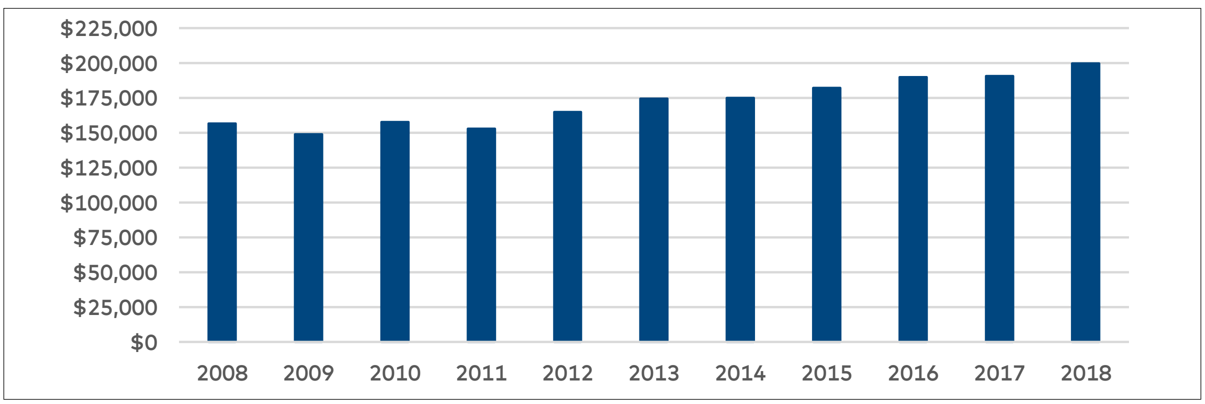
- The median home price in Kansas City continued to rise to $199,549, a cycle peak, up 5% for the year and a 21% increase compared to 2012, when the market effectively plateaued. Affordability rates in the metro have remained flat since 2014, as renting continues to be costlier than ownership. The average mortgage accounts for 14% of the area's median income, while rents equate to 17%.
- The City Council recently defined affordable housing as units with rents that are at most 30% of the median income ($1,100/month) in an effort to clarify which developments will benefit from tax incentives going forward.

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 23,000 residents in 2017, the most significant expansion of the past five years.
- The metro's population expansion rate of 1.1% is well above the national rate of 0.7%.

Kansas City vs. National Population

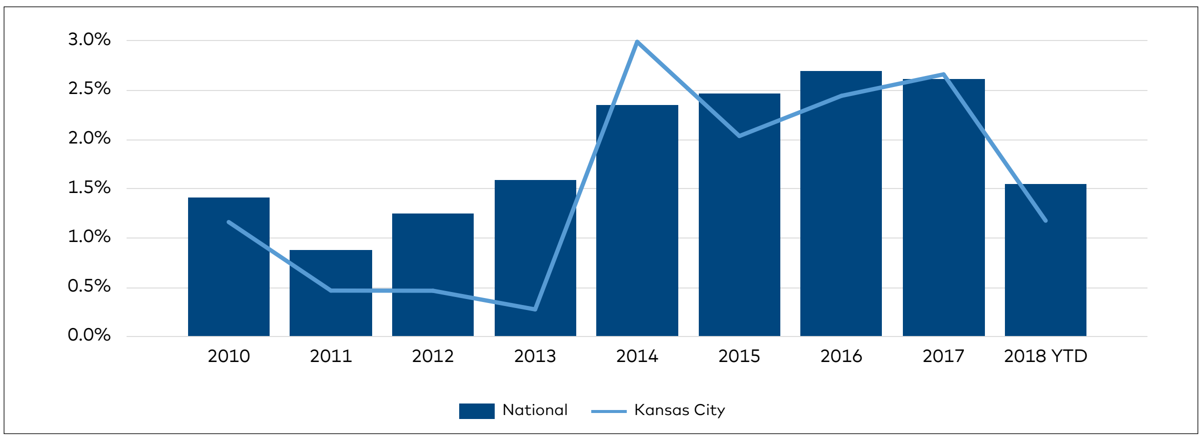
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Kansas City Metro	2,054,039	2,069,602	2,085,221	2,106,382	2,128,912

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

Supply

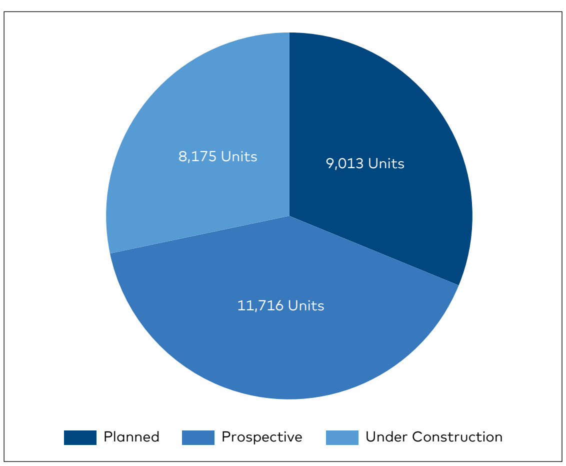
- More than 1,500 units came online in Kansas City in 2018 as of August, following the roughly 4,000 units delivered in 2017. All deliveries were in upscale product, mostly located in Downtown Kansas City, the most active submarket in terms of rental development. Construction of new apartments is expected to continue, with approximately 8,200 units underway and more than 2,400 units anticipated to be completed in 2018.
- The metro's dynamic economy has fueled demand and led to the absorption of 2,732 apartments in the 12 months ending in August, eliminating fears of oversupply. Kansas City's healthy market is also reflected in the occupancy rate for stabilized properties, down 10 basis points year-over-year through August to 95.4%.
- With close to 29,000 apartments in various stages of development, the metro is counting on positive demographic trends and more job gains for a fast absorption, particularly in central areas. More than 1,400 units are now under construction in Downtown Kansas City alone. The 361-unit Gallerie is the largest project under construction in the metro.

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



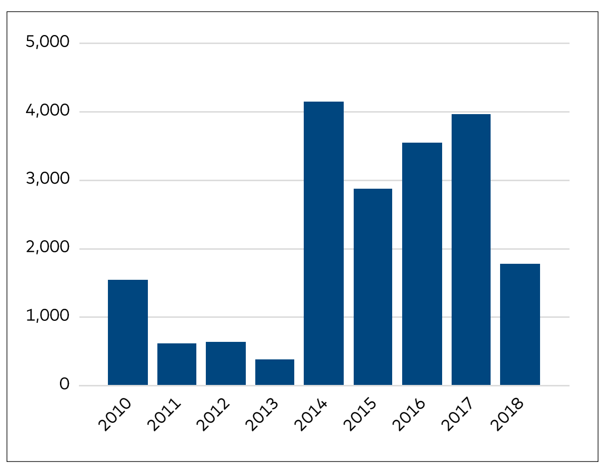
Source: YardiMatrix

Development Pipeline (as of August 2018)



Source: YardiMatrix

Kansas City Completions (as of August 2018)



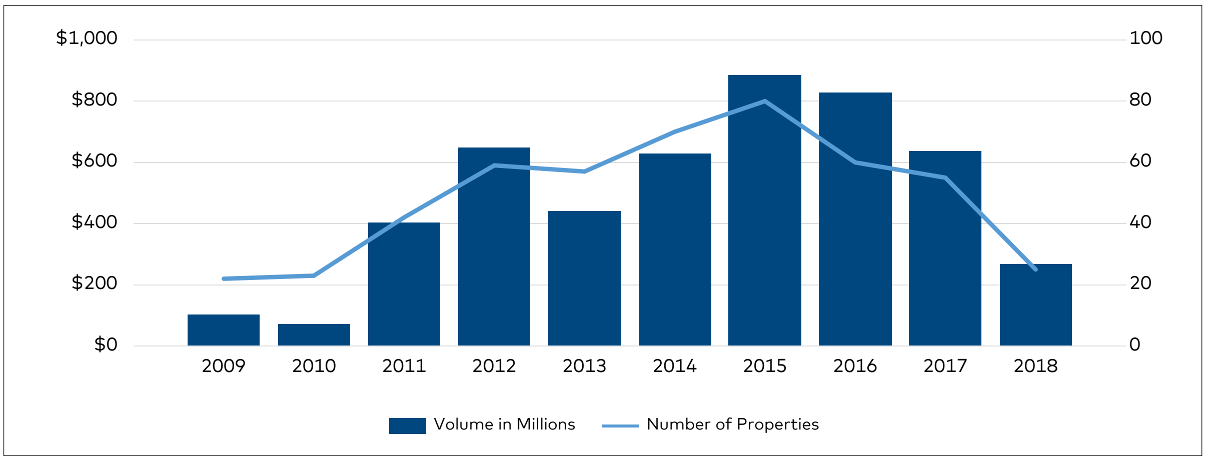
Source: YardiMatrix

Transactions

- Investment activity continues to be tepid in Kansas City, with 25 properties changing hands in the first seven months of the year—seven luxury assets and 18 Renter-by-Necessity communities. Investment sales totaled roughly $270 million. Transaction volumes began to decline after peaking in 2015, when 80 assets were sold for a total of $885 million. Despite the deceleration, competition drove per-unit prices to a record value of $95,244, triple the average in 2010.

- Investors mostly target Class B product, suitable for value-add opportunities, as they look for higher returns. Acquisition yields were in the 5.0% range for luxury properties and fluctuated between 5.5% and 6.5% for Class B and C properties. South Johnson County ($151 million) and Downtown Kansas City ($55 million) have seen the most transaction activity in the 12 months ending in July. JVM Realty's purchase of the 340-unit The Landing at Briarcliff was the largest deal closed over that interval.

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



Source: YardiMatrix

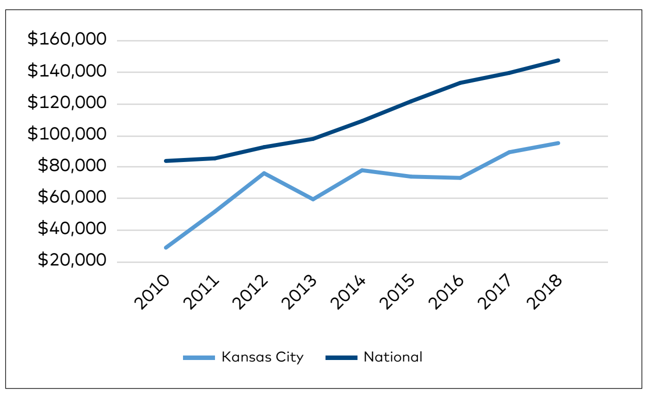
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Overland Park–North	90
Olathe	61
Downtown Kansas City	55
Kansas City Northwest/Riverside	51
Marlborough Heights	41
Crossgates	39
Lawrence	38
Kansas City–South	32

Source: YardiMatrix

[1] From August 2017 to July 2018

Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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MULTI-HOUSING NEWS

KC Portfolio Scores Acquisition Loan

The two market-rate communities located west of Kansas City add up to 132 units and last traded roughly 15 years ago. Dougherty Mortgage closed an $8.3 million Fannie Mae loan for the purchase.

City Club Apartments Breaks Ground in KC

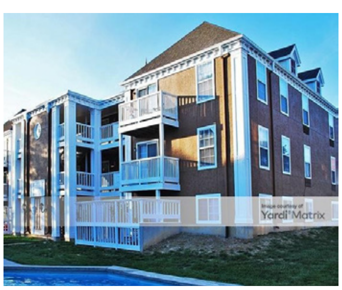
The development is in the city's Crossroads neighborhood and is set to include 283 units as well as retail and dining space. The property's units will feature design-driven interiors and terraces.

Historic Student Community Opens After Renovation

Corbin Hall at the University of Kansas, Lawrence, now offers 149 bedrooms for women. Upgrades include new mechanical systems, a new main entry and improvements to all rooms.

JVM Realty Snags Suburban KC Asset

The Milestone Group sold the community, which is 20 minutes from downtown Kansas City in Lee's Summit, Mo. JVM revealed renovation plans for the property, the company's 10th in the metro.



Cohen-Esrey Acquires 352-Unit KC Community

The previous owner of the 1986-built property invested close to $2.5 million in renovations and upgrades during the last five years. Spyglass Capital Partners sold the asset for $29.8 million.

Greystone Provides Freddie Mac Loan For Affordable Asset

Keith Hires, managing director in Greystone's Atlanta office, obtained the $4.6 million acquisition loan for Alcazar Apartments, a 142-unit community in the southern part of the city.

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Revitalizing Kansas City's Columbus Park

Known as the metro's "Little Italy," the neighborhood is one of several areas near downtown to welcome innovative redevelopment initiatives. The Columbus Park Lofts, a 108-unit low-income community located in Columbus Park, is one of the most recent and innovative developments to address the need for affordable housing around the downtown area. The five-building project is the first phase of a larger, $70 million redevelopment initiated by Columbus Park Developers, a group of companies that aims to revitalize one of Kansas City's oldest districts. Jason Lutes of architectural firm Clockwork and Kelly Hrabe of Prairie Fire Development Group spoke to Associate Editor Roxana Baiceanu and revealed how challenging it was to deliver a low-income community in a historic neighborhood.

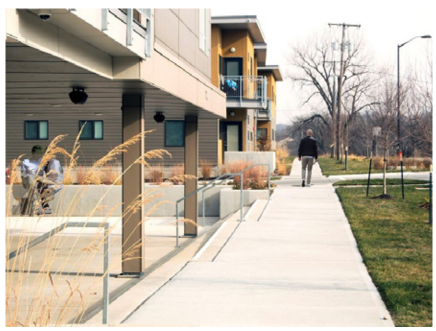
How did this project come about?

Hrabe: The housing market in Columbus Park was stable but not necessarily increasing in supply, given the lack of developable land. The neighborhood is attractive to many, but the availability of land for new development was limited.

Prairie Fire Development teamed with the master developer, CP Developers, and presented a plan to the city of Kansas City and the neighborhood to redevelop four blighted blocks at the entry of the neighborhood.

What can you tell us about the design of this community?

Lutes: The project offers standardized, flexible and efficient floor-plan layouts to appeal to a wide variety of residents, while keeping construction costs down. We were able to create a flexible-use community event space and gallery to promote civic engagement and community involvement.



The buildings offer a variety of unique attributes to each space, yet the floor plans are quite regimented for efficiency of construction, cost and time. This greatly simplified the ordering of materials and increased speed of construction.

What is the biggest obstacle in building/designing low-income, modern communities in an old neighborhood?

Hrabe: Sometimes anything "new" in an older neighborhood is met with caution from longtime residents. From a design and development perspective, we also have to be sensitive to the character of the neighborhood and make sure our project integrates accordingly.

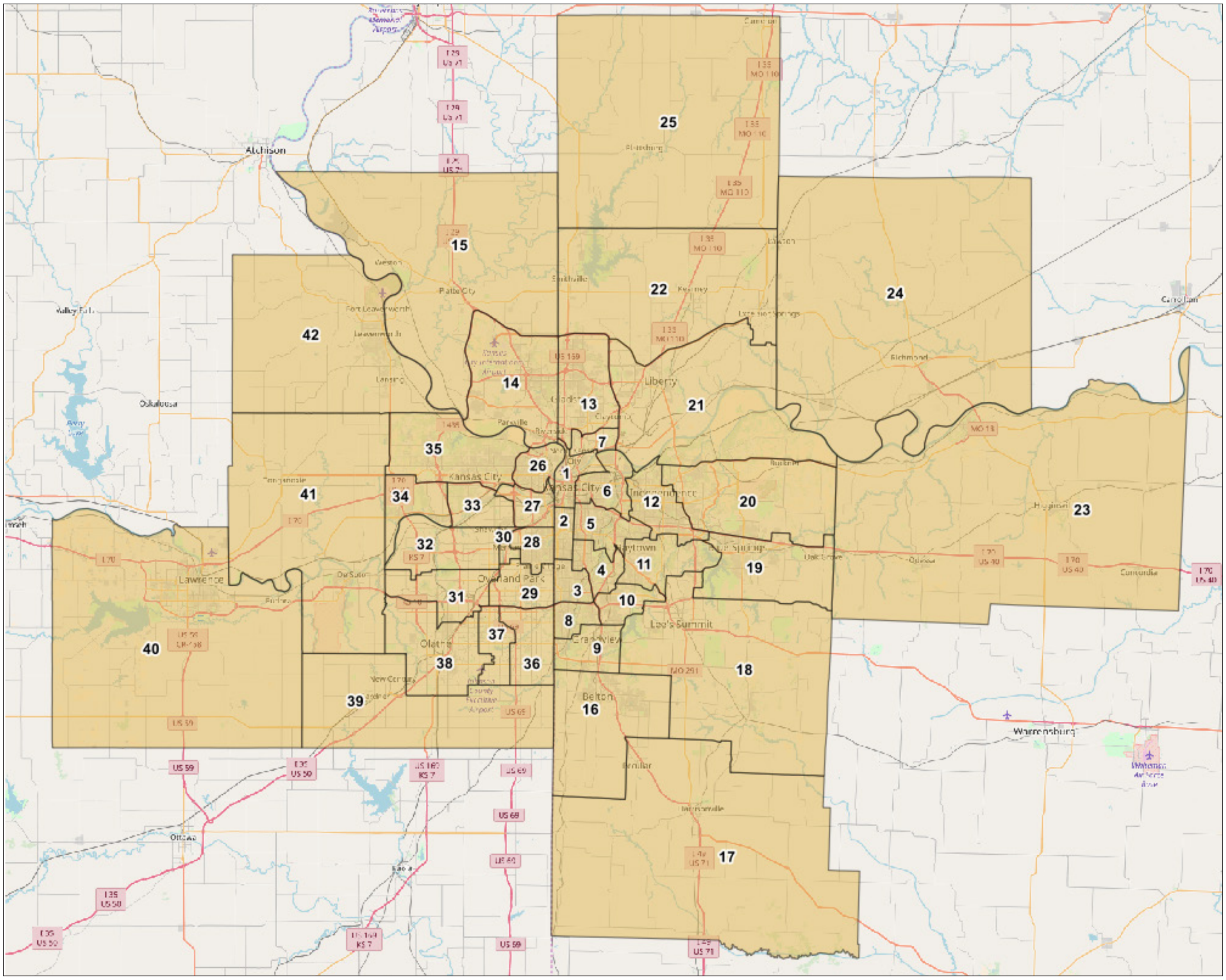
Lutes: By far the biggest challenges are staying ahead of the project metrics when you're working on a design that has so many moving parts, along with managing the goals of all the stakeholders—including the end users. Any time public money is involved in a project, the process has to meet a very specific set of procedural steps, and this project was no different.

What is the impact on the community?

Hrabe: CP Lofts had an immediate impact on the community by eliminating blight: Dilapidated buildings, vacant parcels and abandoned construction materials were all removed from the development area. In its place were five new buildings bringing more than 150 new residents to the neighborhood.

At the same time, neighboring businesses have started to make improvements to their own buildings.

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.