

A nighttime photograph of the Kansas City skyline. In the foreground, a large, well-maintained green lawn is visible. A circular fountain with multiple jets of water is illuminated with purple and blue lights. Behind the fountain, a large, ornate building with arched windows and a prominent entrance is lit up. The background is filled with various skyscrapers and office buildings, many of which have their lights on, creating a vibrant cityscape against a dark, twilight sky.

Yardi® Matrix

Good Times Are Rolling In Kansas City

Multifamily Report Winter 2019

Per Unit Prices
Reach New Peak

Demand for Housing
Remains Strong

Professional, Business
Services Lead Job Growth

Market Analysis

Winter 2019

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Employment Gains Boost Demand

Despite tepid rent gains in 2018, the Kansas City multifamily market is in good shape, boosted by strong economic and demographic trends. Some 18,000 rental units have been delivered across the metro since 2014, with completions picking up throughout the second part of the cycle. Kansas City's assets continued to provide ample value-add appeal to investors, pushing the average per-unit price to \$100,000.

Kansas City's economy is improving at a strong rate, with the professional and business services sector accounting for one-third of all jobs added in the 12 months ending in October. Construction followed closely, with 4,700 jobs, for the largest year-over-year increase among all sectors: 9.3%. The metro's office and industrial sectors continued to have a sizable impact on the local economy, as more than 2.7 million square feet of industrial space was underway at the end of 2018, as were several office projects.

New multifamily units, located mostly in the urban core, are quickly being absorbed by young professionals drawn to the city's job market. Despite the aforementioned uptick in deliveries this cycle, demand for apartments is robust, which is reflected by a high occupancy—94.9% as of November. With roughly 3,000 units expected to come online this year, rent growth will likely continue at a good pace. We expect rents to rise 2.3% in 2019.

Recent Kansas City Transactions

Summit Ridge



City: Lee's Summit, Kan.

Buyer: JVM Realty

Purchase Price: \$65 MM

Price per Unit: \$149,382

The Landing at Briarcliff



City: Kansas City

Buyer: JVM Realty

Purchase Price: \$55 MM

Price per Unit: \$160,784

Summit on Quality Hill



City: Kansas City

Buyer: JVM Realty

Purchase Price: \$51 MM

Price per Unit: \$202,380

909 Walnut St.



City: Kansas City

Buyer: Worcester Investments

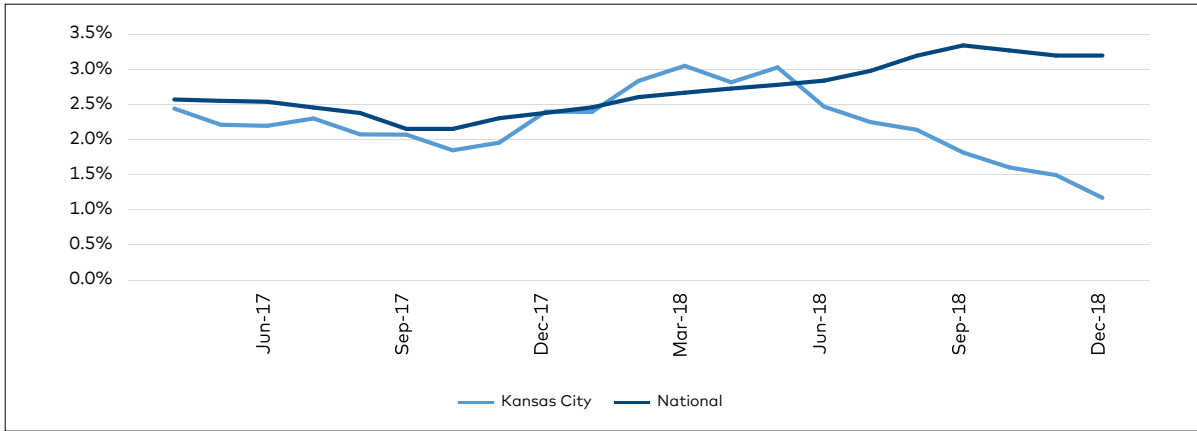
Purchase Price: \$40 MM

Price per Unit: \$263,157

Rent Trends

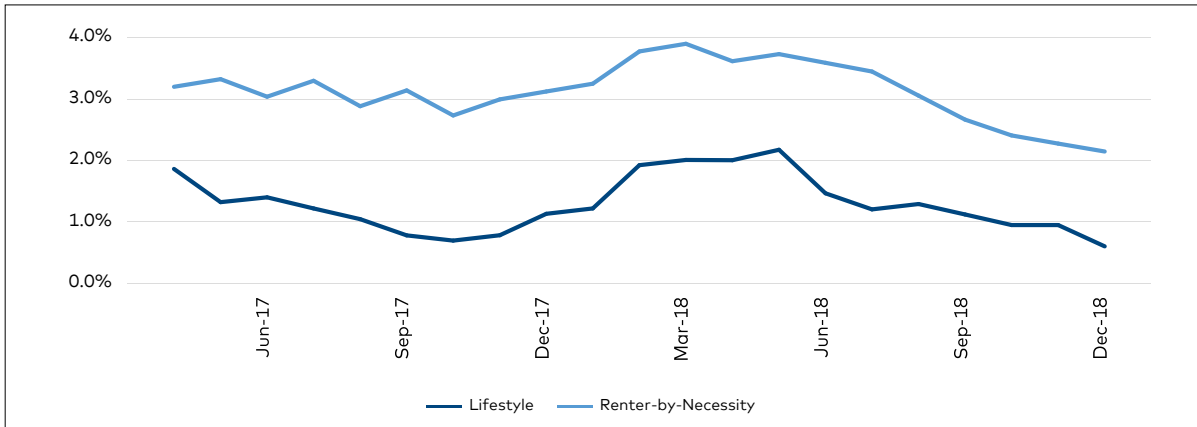
- Rents in the metro rose 1.2% year-over-year through December, below the 3.2% national average. Average rents have risen throughout the past two years, reaching \$950, still well below the \$1,419 national average.
- Rents in the Renter-by-Necessity segment led gains, improving 2.1%, to an average of \$810. Rents in the high-end Lifestyle segment appreciated at a slower pace—up 0.6% year-over-year, to \$1,168. The lack of affordable housing stock is expected to keep demand high.
- While Downtown Kansas City remained the most expensive submarket in the metro—\$1,322 as of December—submarkets on the western end of the market such as Edwardsville/Bonner Springs (up 8.8% year-over-year) and Victory Hills (7.7%) grew at the fastest rates.
- Due to the metro’s strong job market led by office-using sectors, coupled with an increase in population, demand for housing—especially affordable stock—is expected to remain elevated. With more than 3,000 units slated for delivery this year, rent growth in the metro is anticipated to increase by 2.3% for the whole 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)

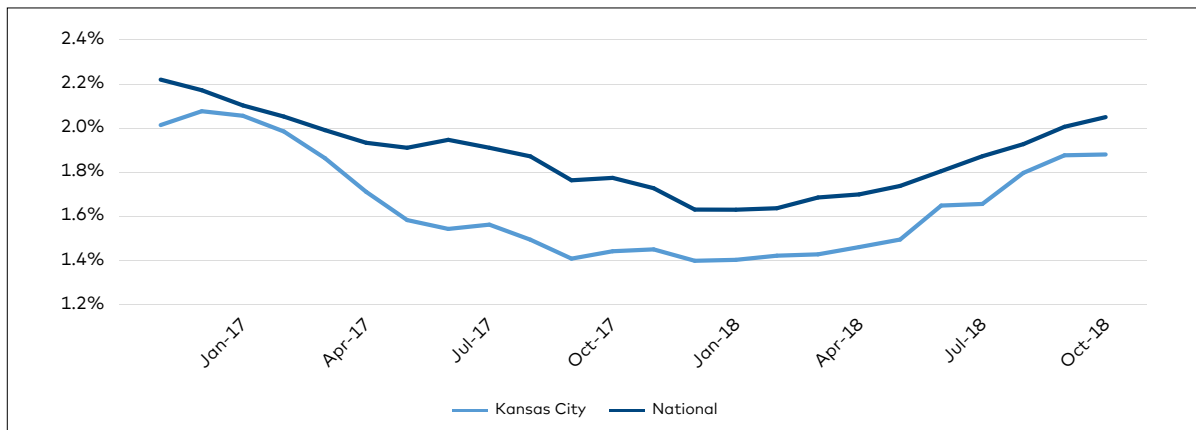


Source: YardiMatrix

Economic Snapshot

- Kansas City added 17,900 jobs in the 12 months ending in October, an employment growth rate of 1.9% year-over-year. That's 20 basis points below the national average. As a result, the unemployment rate dropped to an all-time low of 2.7% as of October.
- The professional and business services sector led employment growth. Multiple corporate firms expanding or relocating to the metro created 5,100 jobs, a 2.5% year-over-year expansion. With 4,700 new jobs, the mining, logging and construction sector saw the largest year-over-year increase, at 9.3%, as of October. Kansas City's solid office-using economy is attracting young professionals in search of high-paying jobs, further increasing the need for housing.
- The metro's healthy industrial market has attracted national companies looking to establish major distribution centers. More than 2.7 million square feet of industrial space was underway as of December, mostly concentrated in the Northland Park submarket. Plans for a \$132 million, 25-story office tower downtown were recently approved, as the building is set to become the area's first new multi-tenant office development since 1991. The project, which will be built above an existing retail structure, is estimated to create more than 1,000 permanent jobs.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	206	17.8%	5,100	2.5%
15	Mining, Logging and Construction	55	4.7%	4,700	9.3%
90	Government	175	15.1%	4,300	2.5%
40	Trade, Transportation and Utilities	228	19.7%	3,100	1.4%
55	Financial Activities	82	7.1%	1,500	1.9%
70	Leisure and Hospitality	118	10.2%	400	0.3%
80	Other Services	44	3.8%	200	0.5%
30	Manufacturing	76	6.6%	100	0.1%
65	Education and Health Services	159	13.7%	-700	-0.4%
50	Information	17	1.5%	-800	-4.6%

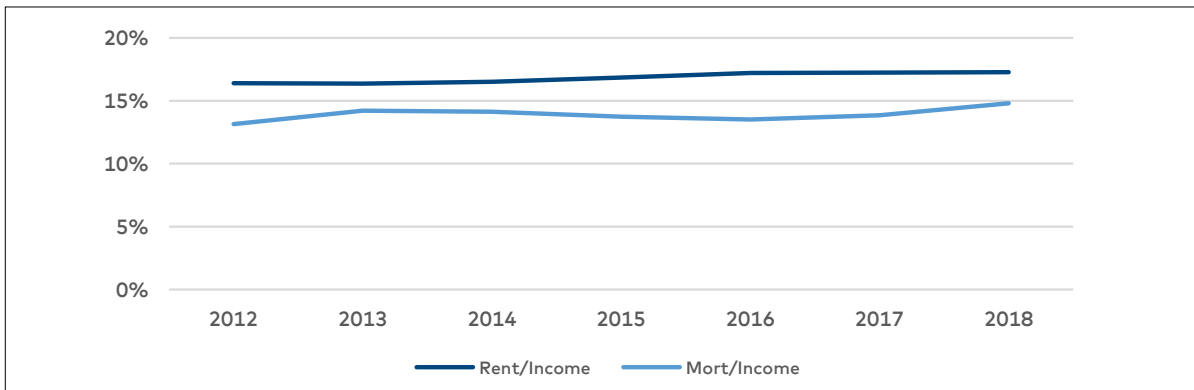
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

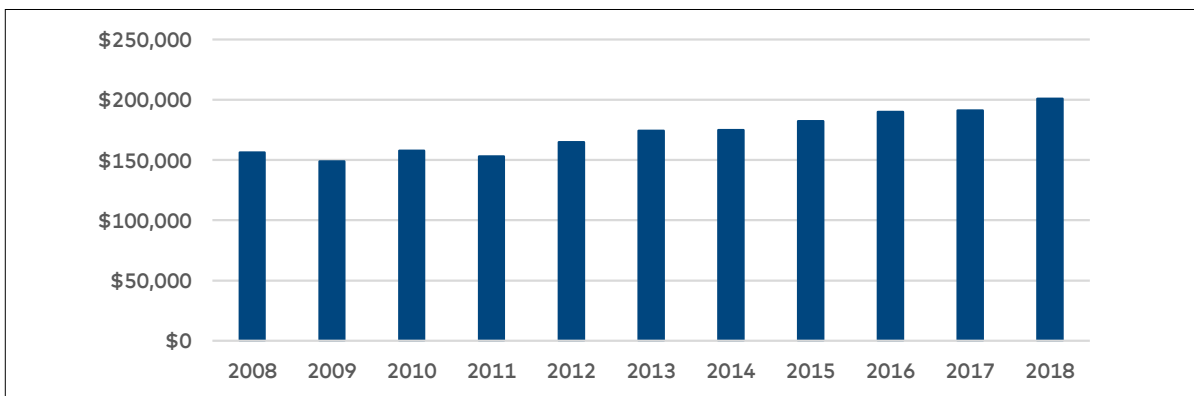
- The median home price in Kansas City rose 5.2% in 2018, reaching a new cycle peak of \$200,977. The cost of homeownership increased by 100 basis points, but continues to be more affordable than renting. The average mortgage accounted for 15% of the median income, while rents equated to 17%.
- In order to curb Kansas City's affordability issues, city officials plan to add 5,000 single-family homes, to create a \$75 million housing development trust fund to rehab existing housing units and to increase the required percentage of affordable housing in new developments from 10% to 15%.

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 added 22,530 residents in 2017, a growth rate of 1.1%, 40 basis points above the national average.
- Since 2012, the metro added 90,411 residents, a 4.4% population growth rate.

Kansas City vs. National Population

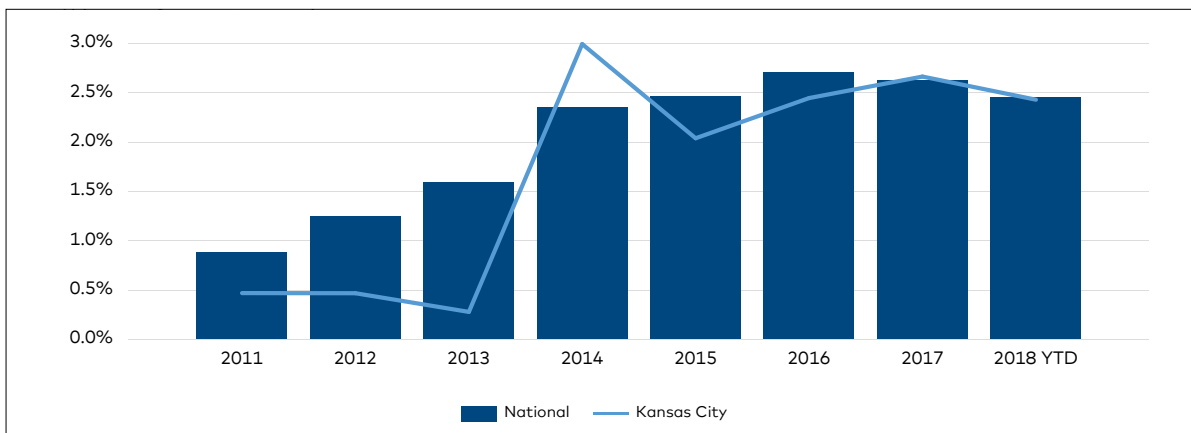
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Kansas City Metro	2,054,039	2,069,602	2,085,221	2,106,382	2,128,912

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

Supply

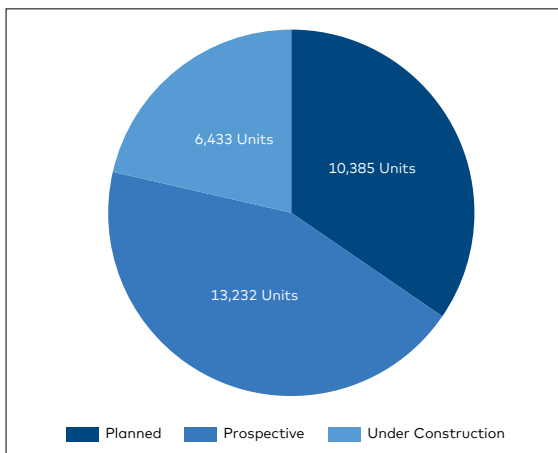
- Apartment deliveries reached 3,429 units in 2018, accounting for 2.4% of total stock, on par with the national rate. Despite a small decrease in completions compared to 2017's cycle peak, when 3,959 units came online, the metro's economy, coupled with an above-trend increase in population, has kept demand robust. Deliveries are projected to hit 3,060 units in 2019, 2.0% of total stock.
- The city's development pipeline remained healthy, as 6,433 units were under construction as of December and more than 23,000 were in the planning and permitting stages. Downtown Kansas City continued to be the most sought-after submarket by developers, with 1,612 units underway, 997 of which are slated for delivery by year's end.
- The occupancy rate in stabilized properties is high, decreasing by only 10 basis points as of November, which indicates that the need for housing remains strong. The largest project underway was Milhaus Development's Gallerie, a five-story, 361-unit community slated for completion later this year. The company began pre-leasing the property in October 2018.

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



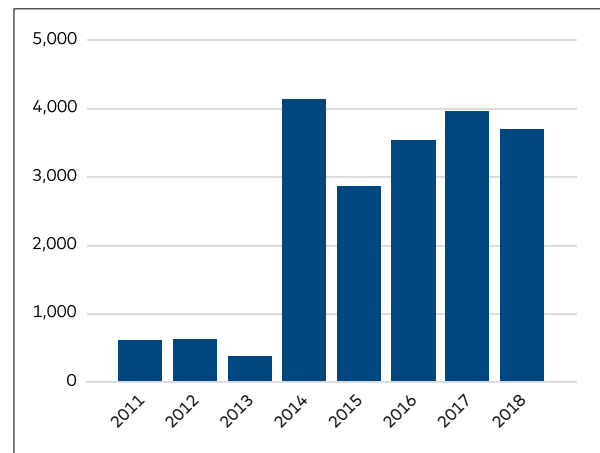
Source: YardiMatrix

Development Pipeline (as of December 2018)



Source: YardiMatrix

Kansas City Completions (as of December 2018)

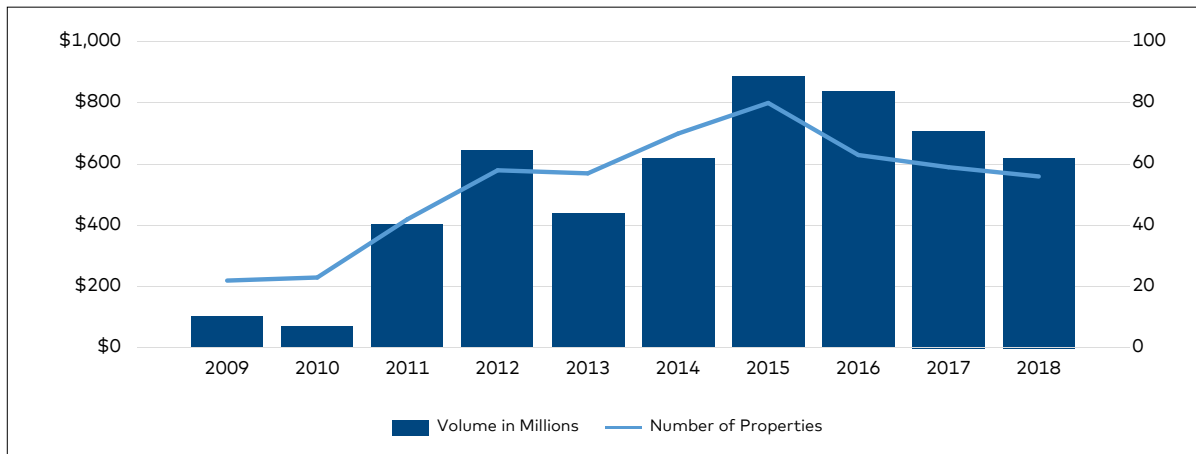


Source: YardiMatrix

Transactions

- Investment volume decreased to \$620 million in 2018, down 14.5% since 2017 and \$265 million less than the 2015 cycle peak. Some 56 properties changed hands at an average price of nearly \$100,000 per unit, a new post-recession high. Despite the decrease, investors remain interested in Kansas City assets, due to the metro's relatively lower prices compared to other U.S. markets.
- Value-add investors were drawn to Class B/C assets with value-add potential and higher acquisition yields, standing in the 8% range. Investment activity was concentrated in properties located in the city's urban core, with downtown Kansas City leading the way (\$173 million). JVM Realty was the year's most active buyer, trading more than \$197 million in assets. The company's \$65 million acquisition of the 432-unit Summit Ridge community ranked as the metro's largest deal in 2018. The Milestone Group sold the asset for a per-unit price of \$149,533.

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



Source: YardiMatrix

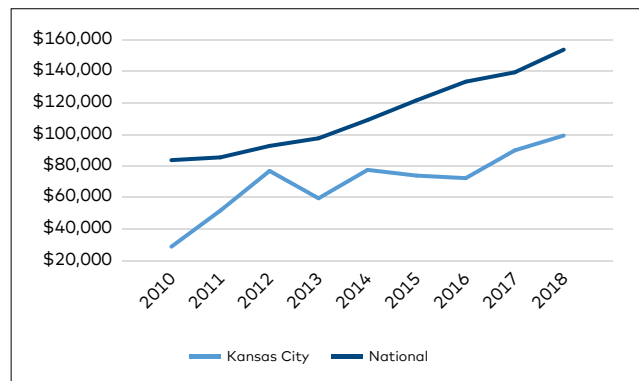
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Downtown Kansas City	173
Lee's Summit	86
Olathe	61
Belton/Raymore	33
Kansas City—South	31
Crossgates	28
Kansas City—West	24
Overland Park—Southwest	23

Source: YardiMatrix

¹ From January 2018 to December 2018

Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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Marcus & Millichap Brokers KC Sale

Nick Fluellen, Bard Hoover and Max Helgeson represented both the seller and the buyer in the deal for the 309-unit lakeside community.



Affordable Community Trades in KC

CBRE Capital Markets provided more than \$11 million in Fannie Mae financing to the buyer, Peak Capital Partners, for the acquisition of the 260-unit multifamily asset.



Simbol Commercial Sells Kansas City High-Rise

Arbor Commercial Funding provided the buyer with \$30 million in Fannie Mae acquisition financing for the purchase of the 35-story tower.



Luxury Community Changes Hands in KC

Union Berkley Riverfront Park includes 407 units and 12,400 square feet of retail space. Flaherty & Collins Properties broke ground in 2016 and completed the project in 2018.

Top 10 Multifamily Completions In the Midwest in 2018



By Roxana Baiceanu

data by
Yardi Matrix

The Midwest wrapped a very busy 2018 for multifamily completions, with more than 35,000 units delivered last year. Several high-profile projects were added to the market's inventory, especially in cities like Chicago and Minneapolis. Also on the list were Kansas City and Columbus, which grew both demographically and economically throughout the year.

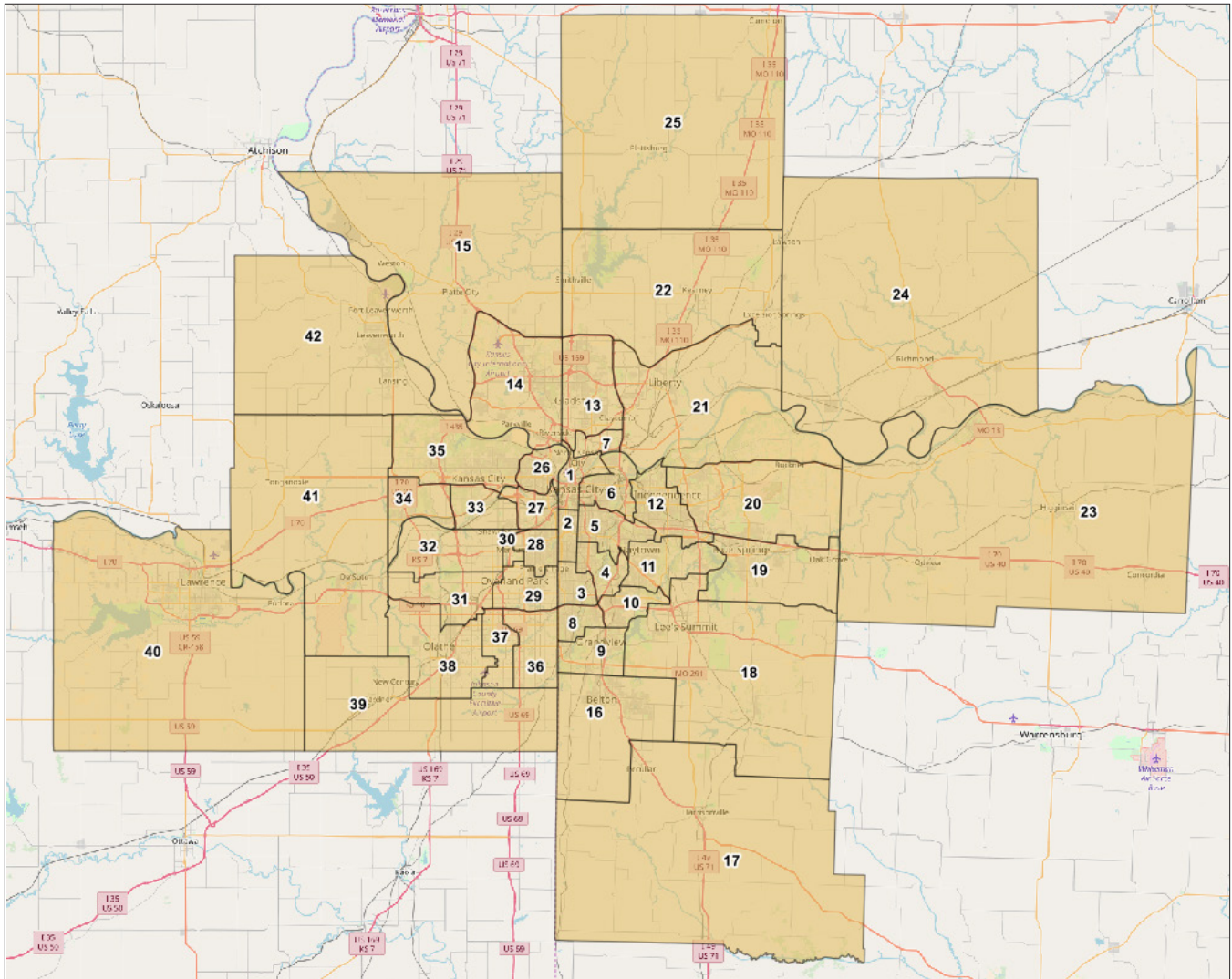
Property Name	City	Owner	Units	Submarket
Alta Roosevelt	Chicago	Wood Partners	496	Loop
The Greyson	Hilliard	Champion Real Estate Services	492	Hilliard
Optima Signature	Chicago	Optima	490	Near North Side
WaterSide Residences on Quivira	Lenexa	Block Real Estate Services	481	Lenexa
465 North Park	Chicago	Jupiter Realty	444	Near North Side
Tuller Flats	Dublin	Casto	420	Dublin
500 Station Blvd.	Aurora	JVM Realty	417	Naperville–West
The Hub on Campus	Minneapolis	Greystar	407	Minneapolis–University
Union Berkley Riverfront Park	Kansas City	Buckingham Cos.	407	Downtown Kansas City
365 Nicollet	Minneapolis	The Opus Group	370	Minneapolis–Central

WATERSIDE RESIDENCES ON QUIVIRA

The luxurious 12-building community is located at 8201 Quivira Road in Lenexa, Kan., one of Kansas City's fastest-growing suburbs. The Block Real Estate property encompasses a mix of 481 units featuring one- and two-bedroom floorplans and provides an array of high-end amenities, which include a fitness center, a resort-style swimming pool, a covered grill area, massage therapy and an outdoor game area. During the expansion project, which was finalized in 2018, Titan Built added 103 units to the existing 380 apartments.



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.

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President
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