

A nighttime photograph of a city skyline, likely Kansas City, Missouri. The sky is a deep blue, and the city lights are glowing. In the foreground, a river flows through a park-like area with trees and streetlights. The overall scene is a mix of urban development and natural greenery.

Yardi® Matrix

# Midwestern Moderation in KC

Multifamily Report Summer 2019

**PPU Hits Cycle High**

**Development Surge Continues**

**Workforce Rents Drive Improvement**



## Market Analysis

Summer 2019

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## Rent, Employment Growth Wind Down

While employment and rent growth in Kansas City have shifted down through the start of 2019, the overarching trends remain positive. Rental development continues to hang around the national average, especially as a positive demographic tide continues to generate solid demand in the metro. The market is generally outperforming other comparable Midwestern metros such as St. Louis and Oklahoma City, where rents and home prices are significantly lower.

Kansas City gained 9,700 jobs in the 12 months ending in March for a 0.8% year-over-year expansion. While several sectors contracted, the market's main economic drivers—education and health services, the public sector, manufacturing and professional and business services—all expanded. AdventHealth Shawnee Mission is lined up to open a \$150 million expansion at AdventHealth South Overland Park, a 193,000-square-foot hospital facility that will create 200 full-time jobs upon completion.

Investment activity has been consistent in Kansas City throughout the second half of the cycle, averaging \$825 million per year since 2015. Per-unit prices have hit a new cycle high of \$114,032, although deals have skewed to value-add assets. Developers had 5,656 units underway as of May, pointing to continued stock expansion in the upscale segment.

## Recent Kansas City Transactions

Clear Creek



City: Overland Park, Kan.  
Buyer: Nitya Capital  
Purchase Price: \$45 MM  
Price per Unit: \$156,250

The Connection at Lawrence



City: Lawrence, Kan.  
Buyer: University Partners  
Purchase Price: \$43 MM  
Price per Unit: \$131,942

Cornerstone



City: Independence, Mo.  
Buyer: Hamilton Zanze & Co.  
Purchase Price: \$42 MM  
Price per Unit: \$100,610

Boulders at Overland Park

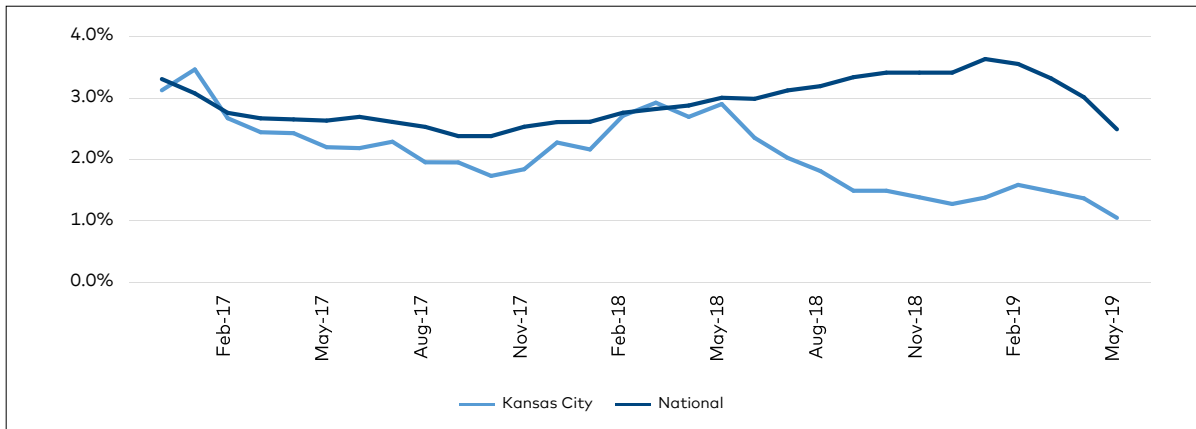


City: Overland Park, Kan.  
Buyer: Hamilton Zanze & Co.  
Purchase Price: \$40 MM  
Price per Unit: \$149,630

## Rent Trends

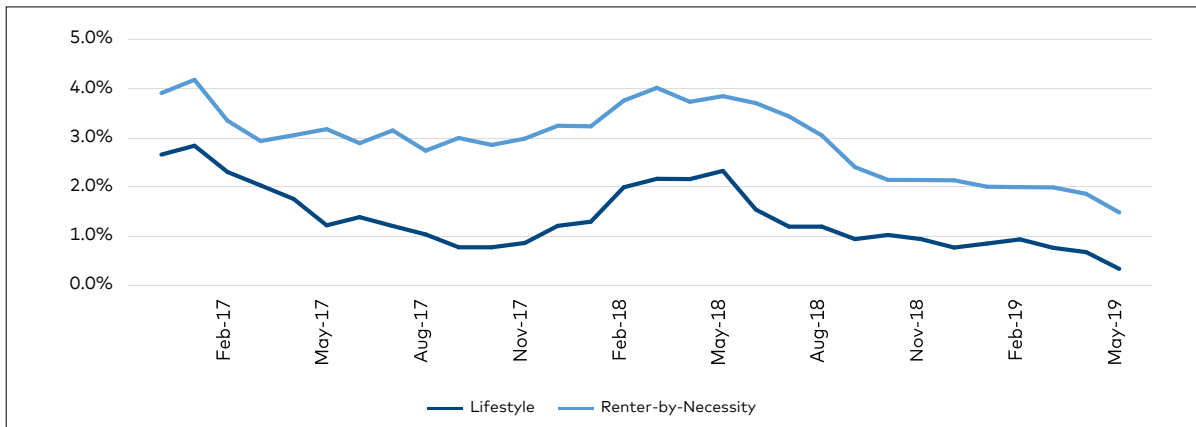
- Rents in Kansas City rose 1.0% year-over-year through May, with growth still heavily trailing the national appreciation rate. Growth has significantly slowed down over the past three months, with only Dallas seeing lesser rent improvement among major markets. The overall average rent was \$968, nearly \$500 lower than the national rate.
- Rent growth was primarily driven by Renter-by-Necessity assets, which saw the average rate rise 1.5% year-over-year, to \$822. Average Lifestyle rents reached \$1,191, up 0.3% year-over-year. With development favoring more cost-effective Lifestyle assets, rents will likely continue to be middling as inventory expands.
- The average overall occupancy rate in stabilized properties in Kansas City was 94.4%, as strong delivery rates throughout the second half of the cycle have largely led to shrinking rates.
- Rents were highest in downtown Kansas City (\$1,368), Kansas City–South (\$1,161), Overland Park–Southeast (\$1,131), Overland Park–Southwest (\$1,129) and Lenexa (\$1,109). These areas also recorded some of the highest development and transaction activity levels, as the city’s urban areas are most attractive for relocations and young professionals taking jobs in Kansas City.

**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)

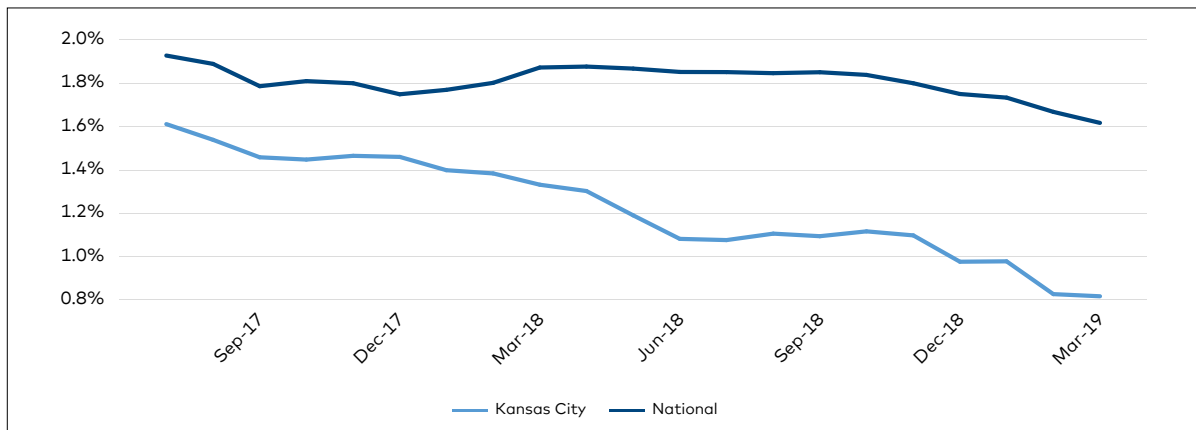


Source: YardiMatrix

## Economic Snapshot

- Kansas City gained 9,700 jobs in the 12 months ending in March, a 0.8% rate of employment growth year-over-year, roughly half the U.S. figure.
- One of the metro's main economic drivers, education and health services, added the largest number of jobs—7,100—and had the highest rate of growth year-over-year, at 4.4%. With AdventHealth South Overland Park expanding this year into a \$150 million, 85-bed hospital, the sector will add another 200 full-time jobs as a result.
- The U.S. Department of Agriculture recently announced the relocation of two of its agencies to the Kansas City area. The Economic Research Service and National Institute of Food and Agriculture's relocation to the area is set to translate into the addition of 500 jobs. The USDA is looking for a 120,000-square-foot office space in the area. The public sector added 5,000 jobs through the interval, and the department's announcement should further push improvement.
- Employment growth has taken a significant tumble since the winter, as job gains halved. With major area employees such as State Street and Sprint hinting at layoffs across their operations, Kansas City's job market may be lined up for another slowdown.

### 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	%
65	Education and Health Services	167	14.7%	7,100	4.4%
90	Government	177	15.6%	5,000	2.9%
30	Manufacturing	78	6.9%	1,800	2.4%
60	Professional and Business Services	198	17.4%	1,700	0.9%
40	Trade, Transportation and Utilities	221	19.4%	800	0.4%
80	Other Services	42	3.7%	200	0.5%
70	Leisure and Hospitality	113	9.9%	-1,000	-0.9%
50	Information	16	1.4%	-1,400	-8.0%
15	Mining, Logging and Construction	46	4.0%	-2,100	-4.4%
55	Financial Activities	78	6.9%	-2,400	-3.0%

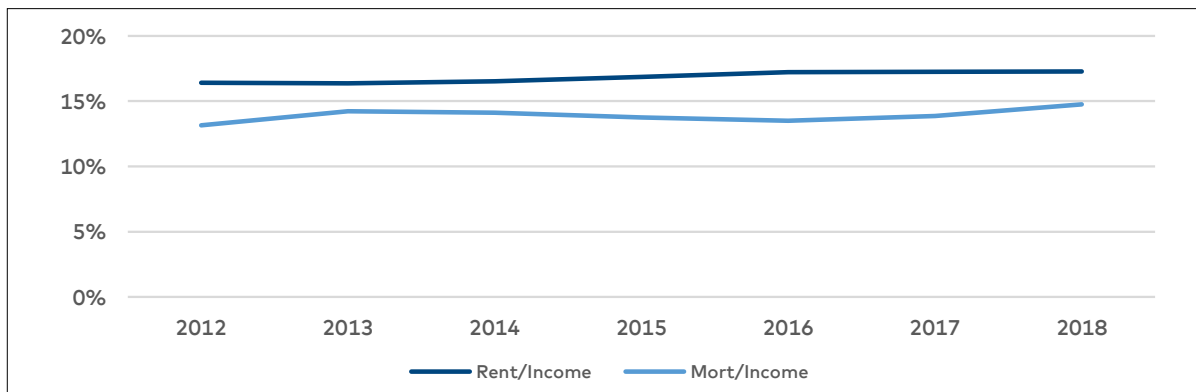
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

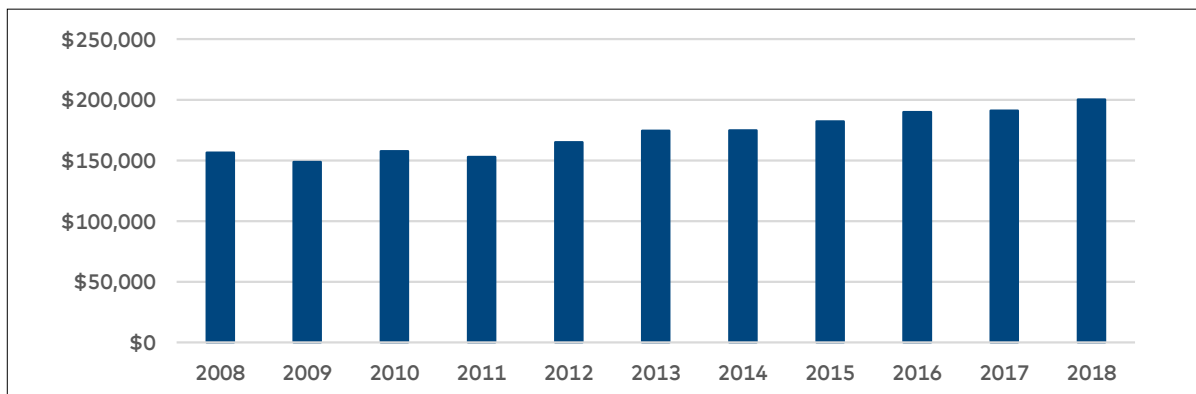
- Kansas City's median home price crossed the \$200,000 threshold in 2018, marking a \$52,000 uptick since its cycle low point a decade ago. Increased development activity in rentals and a general pivot to household formation in apartment living, coupled with labor shortages and the issue of tariffs, have contributed to a slowdown in single-family homebuilding. As a result, mortgages comprised 15% of incomes in 2018, trailing the impact of the average rent by 200 basis points.
- Rents have exceeded those in nearby Midwestern metros such as Oklahoma City and St. Louis as of late. With rental deliveries mostly in Lifestyle-rated assets, affordability may become a larger issue.

### 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 gained 22,530 residents in 2017, expanding its population by 1.1% in the process, significantly higher than the national rate.
- Kansas City is one of the fastest-growing metros in the Midwest.

### Kansas City vs. National Population

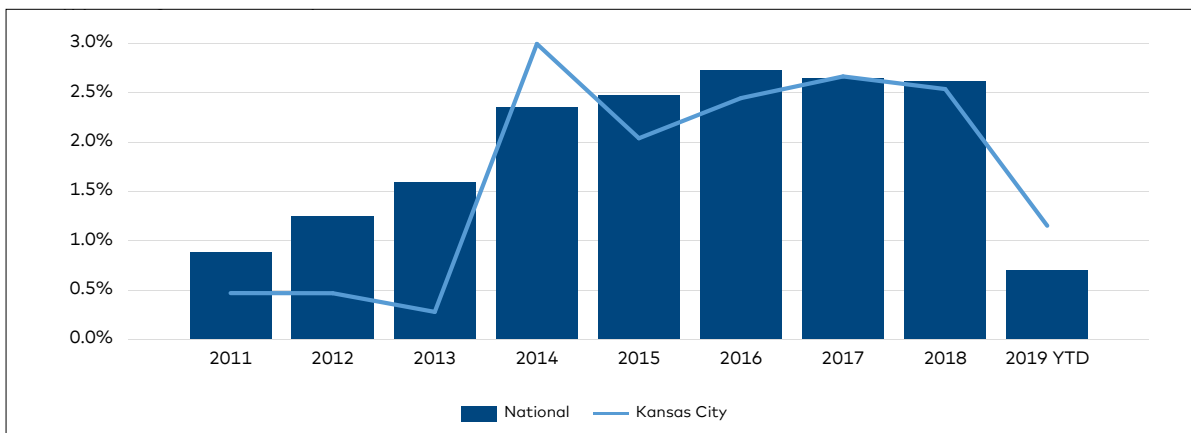
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Kansas City Metro	2,054,039	2,069,602	2,085,221	2,106,382	2,128,912

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

## Supply

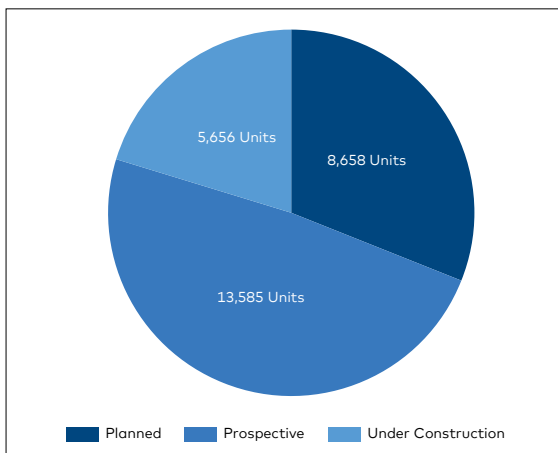
- Kansas City developers had 5,656 units under construction as of May, continuing the market's good development run. Deliveries across the metro totaled 1,722 units through the year's first five months, representing 1.2% of total stock. The rate of delivery for rental stock has been right around the national figure for the past six years—through that time, deliveries averaged 2.5% of total stock each year, while the nationwide figure stood at 2.6%.
- Another 22,000 rental units are in the planning and permitting stages, pointing to continued inventory growth, should market fundamentals hold steady.
- Developers continued to target the metro's largest urban submarkets, with downtown Kansas City (1,506 units under construction) leading development activity, while Overland Park, the second-largest city in the metro area, had 1,461 units underway. These urban nodes also led investment activity and had some of the highest rents, meaning that these are the areas of interest as they pertain to investors, developers and renters alike.

**Kansas City vs. National Completions as a Percentage of Total Stock** (as of May 2019)



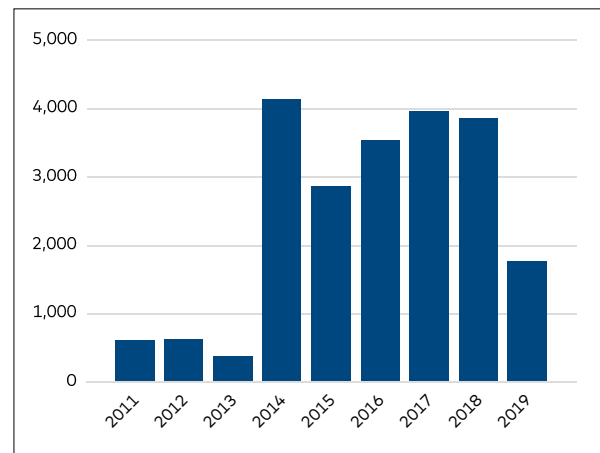
Source: YardiMatrix

**Development Pipeline** (as of May 2019)



Source: YardiMatrix

**Kansas City Completions** (as of May 2019)

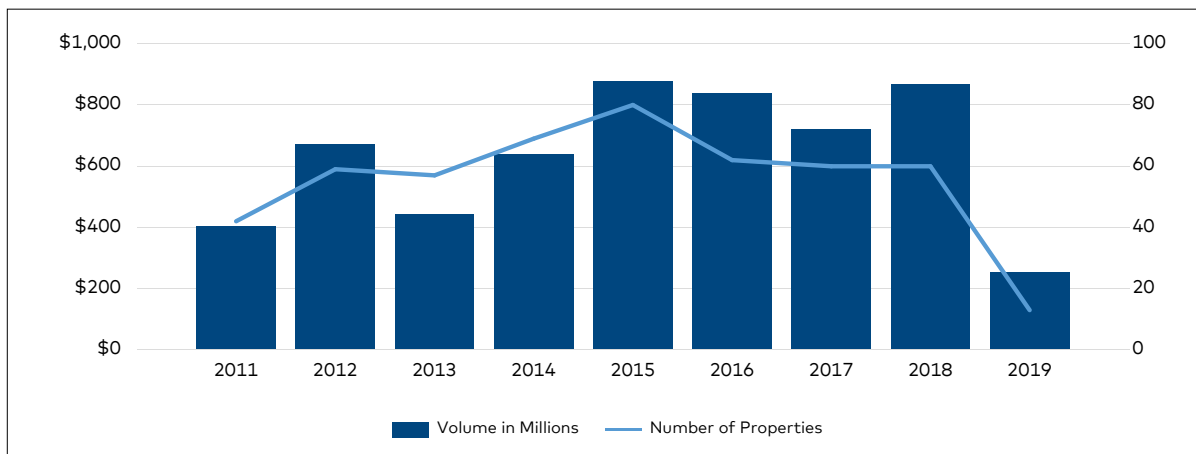


Source: YardiMatrix

## Transactions

- Investment volumes in Kansas City have been solid throughout the second half of the cycle, with an annual average of \$825 million in multifamily assets trading in the market since 2015. The year started relatively strong, with \$254 million in confirmed deals through May.
- Per-unit prices climbed to \$113,247 in 2018, although the bulk of deals consisted of value-add plays for Renter-by-Necessity assets. Prices effectively climbed in the first five months of 2019, on similar deal distribution, to an average of \$114,032, some \$42,000 behind the national average.
- Acquisition yields for Kansas City assets are some of the lowest among comparable markets, specifically for Class B/C value-add properties, roughly in the 5.8% to 7.0% range.

**Kansas City Sales Volume and Number of Properties Sold** (as of May 2019)



Source: YardiMatrix

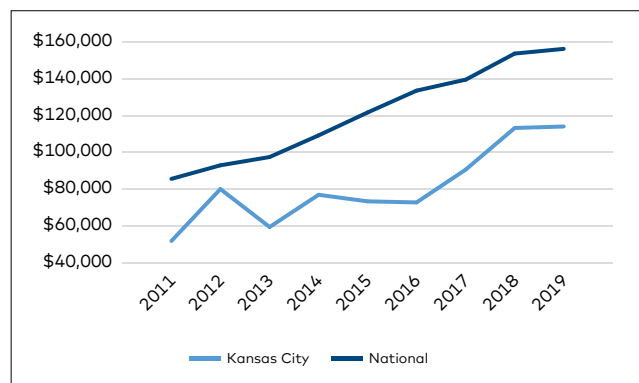
**Top Submarkets for Transaction Volume<sup>1</sup>**

Submarket	Volume (\$MM)
Downtown Kansas City	242
Overland Park–Southwest	142
Lee’s Summit	86
Olathe	53
Lawrence	53
Independence–East	42
Overland Park–Southeast	40
Mission	33

Source: YardiMatrix

<sup>1</sup> From June 2018 to May 2019

**Kansas City vs. National Sales Price per Unit**



Source: YardiMatrix

## News in the Metro

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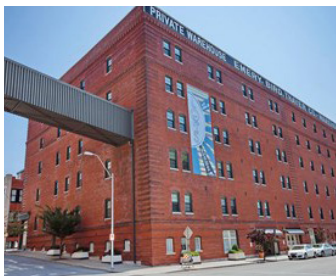
### JV Buys 624-Unit Asset in Missouri

The new owner intends to spend \$13.8 million on renovating the 1997-built community in Kansas City. GoldOller Real Estate Investments sold the property after almost seven years of ownership.



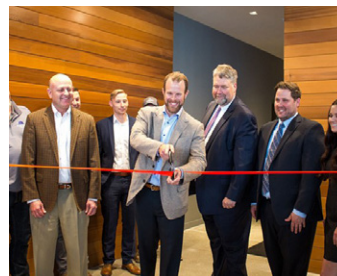
### KC Community Changes Hands

Prosperity CRE purchased an 80-unit property located some 8 miles from downtown. After renovations and upgrades, the property will be rebranded as Hidden Hills Apartments.



### Artisan Capital Group Buys Downtown KC Portfolio

Besides facilitating the sale, HFF arranged a \$51.1 million financing, which included a \$38.8 million Fannie Mae loan and \$12.3 million in joint venture equity.



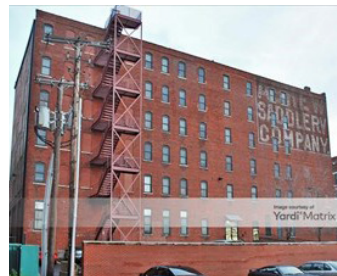
### Luxury Community Opens Downtown

Copaken Brooks and Altus Properties have finished work on Arterra, a 126-unit property in the Crossroads Arts District. The 12-story building includes 1,800 square feet of retail space.



### Hamilton Zanze Acquires MO Asset

Located in Independence, Cornerstone features 420 units and will undergo a capital improvement plan that will enhance its business center and clubhouse, as well as adding new amenities.



### Downtown Community Changes Ownership

The Landings at River Market encompasses 141 units and is located in the city's River Market neighborhood. The previous owner upgraded nearly half of the units.



# Top 5 Multifamily Developments in Kansas City



data by  
**Yardi® Matrix**

By Jeff Hamann

In the last year, developers added new rental units totaling roughly 3 percent of Kansas City’s multifamily inventory. Both rent growth and occupancy were affected by this unprecedented level of activity, but strong construction activity continues in the market’s urban areas. While roughly one quarter of the 6,000 units underway are located in downtown Kansas City, several notable suburban areas have significant developments moving forward.

Property Name	Units	Owner	Submarket	Anticipated Completion
Cyan Southcreek Apartments	380	Davis Development	Overland Park–Southeast	01/2020
Gallerie	361	Milhaus Development	Downtown Kansas City	08/2019
Sonoma Hill	322	Oddo Development	Lenexa	08/2019
Parkview Townhomes	300	Prieb Property Management	Olathe	12/2019
Promontory	291	Launch Development	Overland Park–North	07/2019

## GALLERIE

A joint venture between Milhaus Development and UC-B Properties began work on the Gallerie, a luxury community, in early 2017. The project is anticipated to deliver before the end of the summer, adding 361 units to downtown Kansas City. BMO Harris Bank provided the developers with a four-year, \$44.2 million construction loan.

The development is situated a mile south of the city center and alongside the Crown Center entertainment district, an area which has seen its share of construction in recent years. Plans call for a mix of studio, one-, two- and three-bedroom apartments, and the community’s amenity mix will include 8,000 square feet of retail space, a dog park, a catering kitchen, conference space and valet trash collection.





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## 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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Market Data & Analysis

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