

Yardi® Matrix

MULTIFAMILY REPORT

Kansas City's Next Move

Winter 2020



Occupancy Rates Still Robust

Average Rent Nears \$1K Mark

Developers Target Upscale Segment

KANSAS CITY MULTIFAMILY

Yardi® Matrix

Demand Exceeds Supply

Kansas City's multifamily market continued its momentum last year, with rents increasing at a healthy rate, coupled with robust investment activity and a healthy job market. Developers were mostly focused on delivering upscale assets—2,855 of the 2,993 units that came online were in the Lifestyle segment. The metro's downtown saw the highest activity (2,675 units underway), followed by the Overland Park-Southeast submarket (1,176 units).

In the 12 months ending in November, the metro gained 15,500 jobs, up 1.5% year-over-year. The education and health services sector led employment gains by adding almost half of all new jobs (7,100). The largest year-over-year increase was seen in the mining, logging and construction sector—9.4% as of November. Kansas City's industrial and office markets are expanding exponentially, with Walmart's \$200 million distribution center in Topeka contributing to the construction sector's growth.

Deliveries in 2019 were lower than the previous three-year average, but development remains strong, as more than 7,800 units were underway as of December. As new inventory slowed, occupancy in stabilized properties leveled off, at 94.8% as of November.

Market Analysis | Winter 2020

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Recent Kansas City Transactions

Barrington Park Townhomes



City: Lenexa, Kan.
Buyer: Block Real Estate Services
Purchase Price: \$53 MM
Price per Unit: \$130,718

Altitude 970



City: Kansas City
Buyer: Sherman Residential
Purchase Price: \$49 MM
Price per Unit: \$167,604

The Lennox of Olathe



City: Olathe, Kan.
Buyer: Briar Capital Management
Purchase Price: \$44 MM
Price per Unit: \$115,111

Perry 81

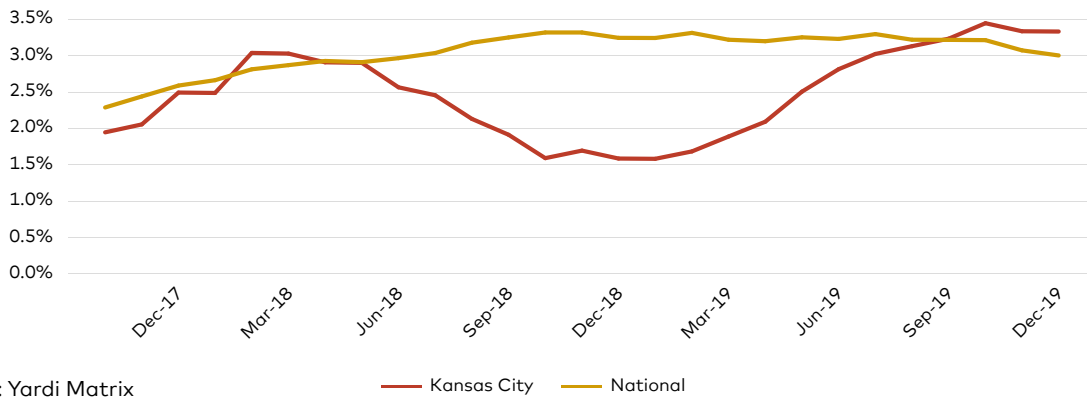


City: Overland Park, Kan.
Buyer: Cohen-Esrey
Purchase Price: \$43 MM
Price per Unit: \$121,904

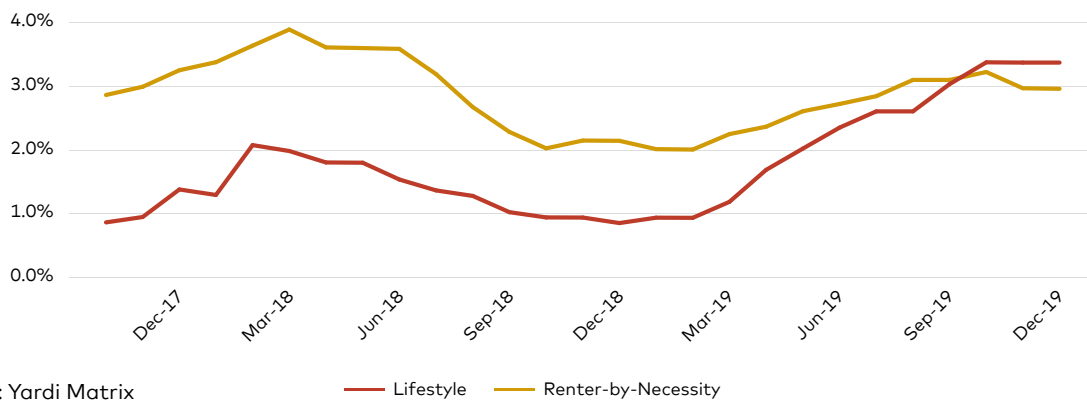
RENT TRENDS

- Rents in Kansas City rose 3.3% year-over-year through December, 30 basis points higher than the national average. Prices increased at a higher rate during the second half of 2019, reaching an average of \$992, well below the \$1,474 national average.
- Recent multifamily deliveries have been geared to high-income residents. Despite a surge in high-end completions, Lifestyle rentals led growth (3.4% to \$1,227), while rents in the working-class Renter-by-Necessity segment rose 3.0% to \$835. Average occupancy in stabilized assets for both quality segments did not fluctuate much year-over-year as of November—with Renter-by-Necessity at 94.8% and Lifestyle at 94.7%.
- The metro's core submarkets continue to command the highest rents, with Downtown Kansas City (\$1,396) at the top, followed by eight submarkets with an average rent above the \$1,000 mark. The submarkets driving growth include Lee's Summit (8.8%), Independence-East (6.6%) and Merriam (5.9%). Meanwhile, rents fell in Edwardsville/Bonner Springs (-8.4%), Smithville/Excelsior Springs (-4.4%) and Leavenworth (-1.9%).
- Kansas City's population continues to expand rapidly. This along with the metro's strong and diverse economy is expected to keep demand robust and maintain stable rent growth.

Kansas City vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



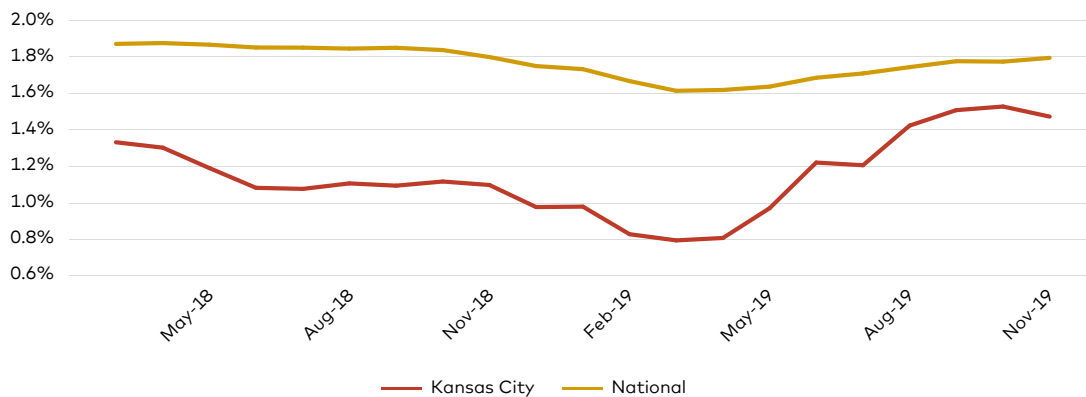
Kansas City Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)



ECONOMIC SNAPSHOT

- ▶ In the 12 months ending in November, Kansas City gained 15,500 jobs, a 1.5% expansion and 30 basis points below the national rate. As a result of continued job increases, the unemployment rate fell to one of the lowest levels in the metro's history—2.7% as of October.
- ▶ The education and health services and government sectors led growth with the bulk of new positions—13,600 jobs. AdventHealth South Overland Park, a \$150 million, 85-bed hospital project, is driving expansion in the health sector. The mining, logging and construction sector saw the largest year-over-year increase, up 9.4% as of November. The industrial market is also booming across the Midwest. Walmart will build a \$200 million distribution center in Topeka, slated to bring 300 jobs. In addition, the office construction market is bolstering the construction sector, with more than 2.5 million square feet underway.
- ▶ The trade, transportation and utilities sector contracted by 4,500 jobs, but is expected to bounce back this year, as taxable retail sales are set to improve modestly, according to a Wichita State University report. The manufacturing sector also saw layoffs at Harley-Davidson, Nestle, Pepsi and Haldex that impacted Kansas City's economy.

Kansas City vs. National Employment Growth (Year-Over-Year)



Sources: Yardi Matrix, 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	172	14.7%	7,100	4.3%
90	Government	182	15.6%	6,500	3.7%
15	Mining, Logging and Construction	55	4.7%	4,700	9.4%
70	Leisure and Hospitality	117	10.0%	2,900	2.5%
60	Professional and Business Services	205	17.5%	1,900	0.9%
80	Other Services	43	3.7%	100	0.2%
55	Financial Activities	79	6.8%	-400	-0.5%
50	Information	15	1.3%	-1,300	-7.8%
30	Manufacturing	77	6.6%	-1,500	-1.9%
40	Trade, Transportation and Utilities	227	19.4%	-4,500	-1.9%

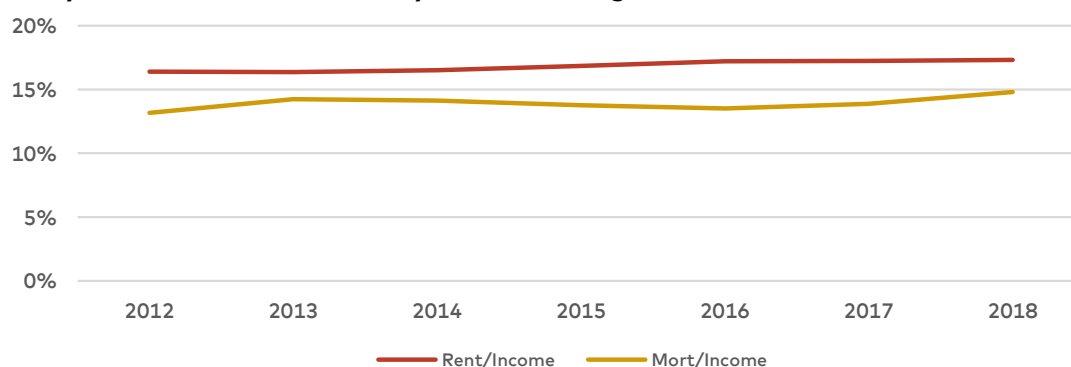
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

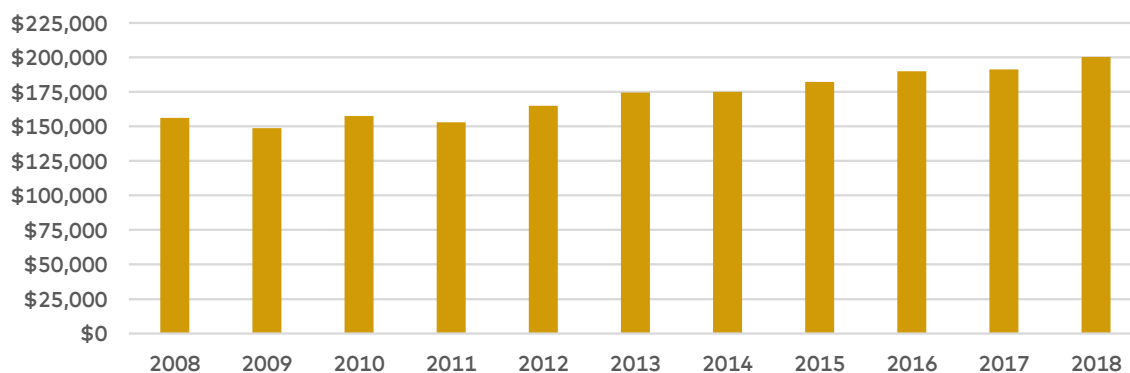
- Home prices have continued to rise in Kansas City over the past five years. In 2018, the median home value reached a new peak of \$200,492, up 4.8% for the year. Despite the rising cost of homeownership, the median home price is lower than other major Midwestern metros such as Chicago (\$235,080) and Detroit (\$245,479).
- Although housing costs have steadily risen throughout the metro's expansion, owning continues to be the more affordable option, accounting for 15% of the median income, while rents—near the \$1,000 mark—equates to 17%.

Kansas City Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Kansas City Median Home Price



Source: Moody's Analytics

Population

- The metro gained 16,392 residents in 2019—up 0.8% year-over-year and 20 basis points higher than the national average.
- Kansas City's population is poised to increase due to the metro's strong economy.

Kansas City vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Kansas City Metro	2,085,979	2,106,882	2,127,259	2,143,651

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

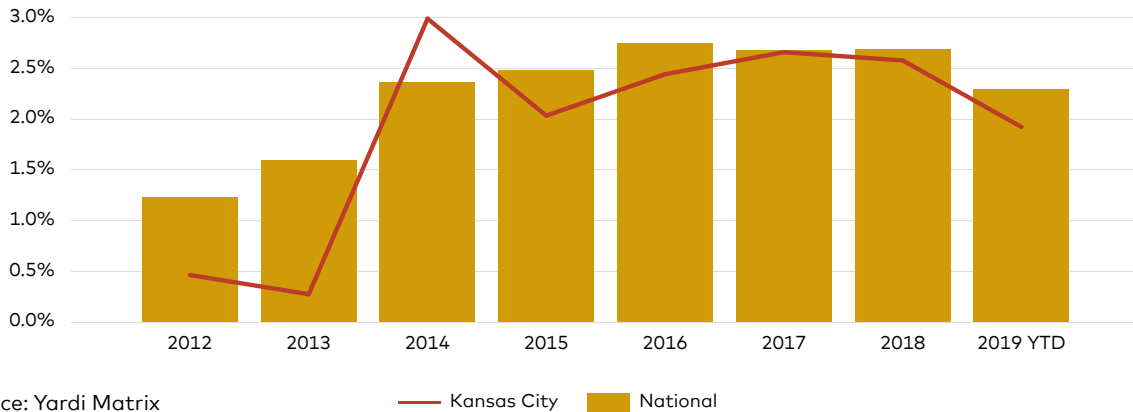
SUPPLY

- Multifamily deliveries decreased in 2019, compared to the most recent three-year average. Nearly 3,000 units were added to the metro, with the bulk of these geared to the upscale segment (2,855 units). This accounts for 1.9% of total stock, 40 basis points lower than the national rate. The average occupancy rate in stabilized properties has stayed above the 94% mark since 2015. As of November 2019, the rate was 94.8%, up 20 basis points year-over-year.
- Multifamily development in the metro remains consistent despite the downshift in deliveries; more than 7,800 units were under construction as of December and roughly 22,400 were in the

planning and permitting stages. The submarkets with the highest construction activity were Downtown Kansas City (2,675 units), Overland Park-Southeast (1,176 units) and Kansas City-South (717 units).

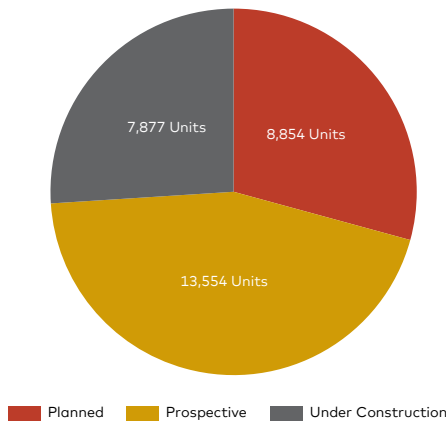
- The Overland Park-Southwest submarket followed with 655 units underway. The area was home to the metro's largest development project, Block Real Estate Services' The Apex at CityPlace, a 407-unit community slated for completion in early 2021. The metro's positive demographics trends and strong job gains have led to rapid absorption, especially in core areas.

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



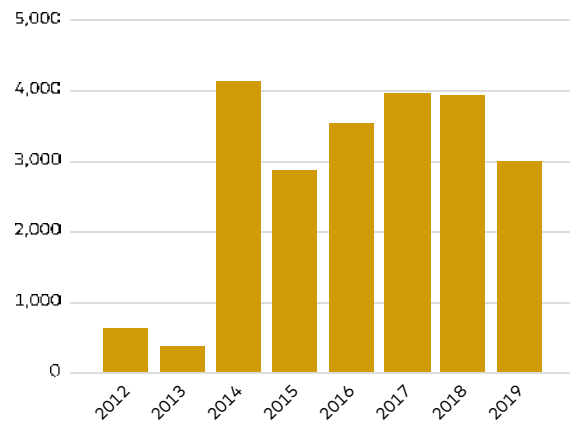
Source: Yardi Matrix

Development Pipeline (as of December 2019)



Source: Yardi Matrix

Kansas City Completions (as of December 2019)



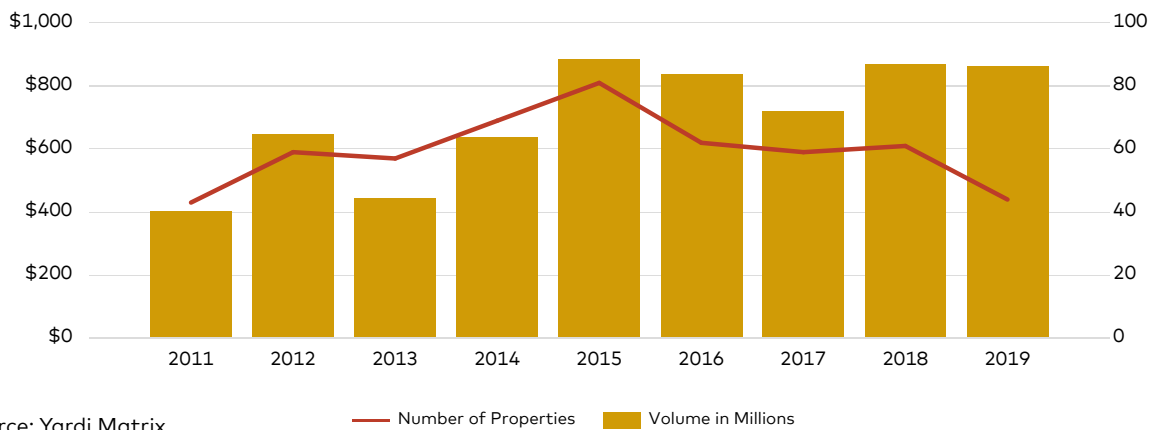
Source: Yardi Matrix

TRANSACTIONS

- ▶ Transaction volume remained strong in 2019, with some \$862 million in multifamily assets trading in the metro. Following a cycle peak in 2018 (\$112,726), per-unit prices decreased slightly last year to \$101,928, below the \$166,588 national average.
- ▶ Buyers continue to invest in Class B and Class C assets with a value-add potential and higher acquisition yields—in the low 7.0% range. In

2019, 29 deals involved value-add properties, at \$79,369 per unit, while 15 Lifestyle assets traded for \$128,676 per unit. The submarkets with the highest investment volume were Kansas City Northwest/Riverside (\$156 million) and Overland Park-Southeast (\$115 million). The largest transaction in 2019 was BH Equities' acquisition of The Crossing at Barry Road, a 624-unit property in Kansas City. GoldOller Real Estate Investments sold the asset for \$97,525 per unit.

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



Source: Yardi Matrix

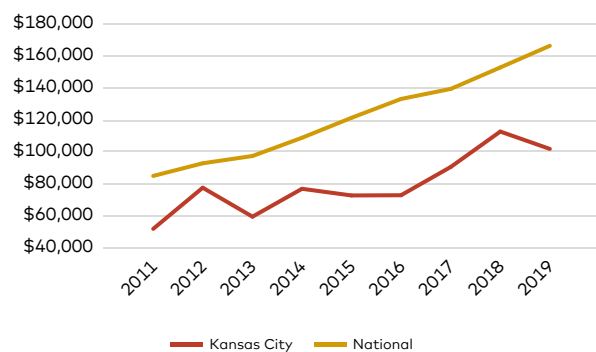
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Kansas City Northwest/Riverside	156
Overland Park-Southeast	115
Lawrence	70
Overland Park-North	59
Kansas City-West	54
Lenexa	53
Olathe	50

Source: Yardi Matrix

¹ From June 2018 to May 2019

Kansas City vs. National Sales Price per Unit



Source: Yardi Matrix



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NXT Capital Arranges Refi

The loan will be used for Promontory Apartments, which is part of a larger, redeveloped retail center in Overland Park, Kan.



Oak Residential Trades 350-Unit Community

Goldman Sachs provided the buyer with a \$32 million acquisition loan for the Class B asset.



Berkadia Facilitates \$28M Sale

Alex Blagojevich, Michael Sullivan and Brett Meinzer represented the seller, a joint venture between Sundance Bay and Drake Real Estate Partners.



Pebb Capital Sells Kansas Student Housing Property

The firm purchased the asset back in 2014 and completed major renovations to the interiors and exteriors.



Luxury Community Opens Doors

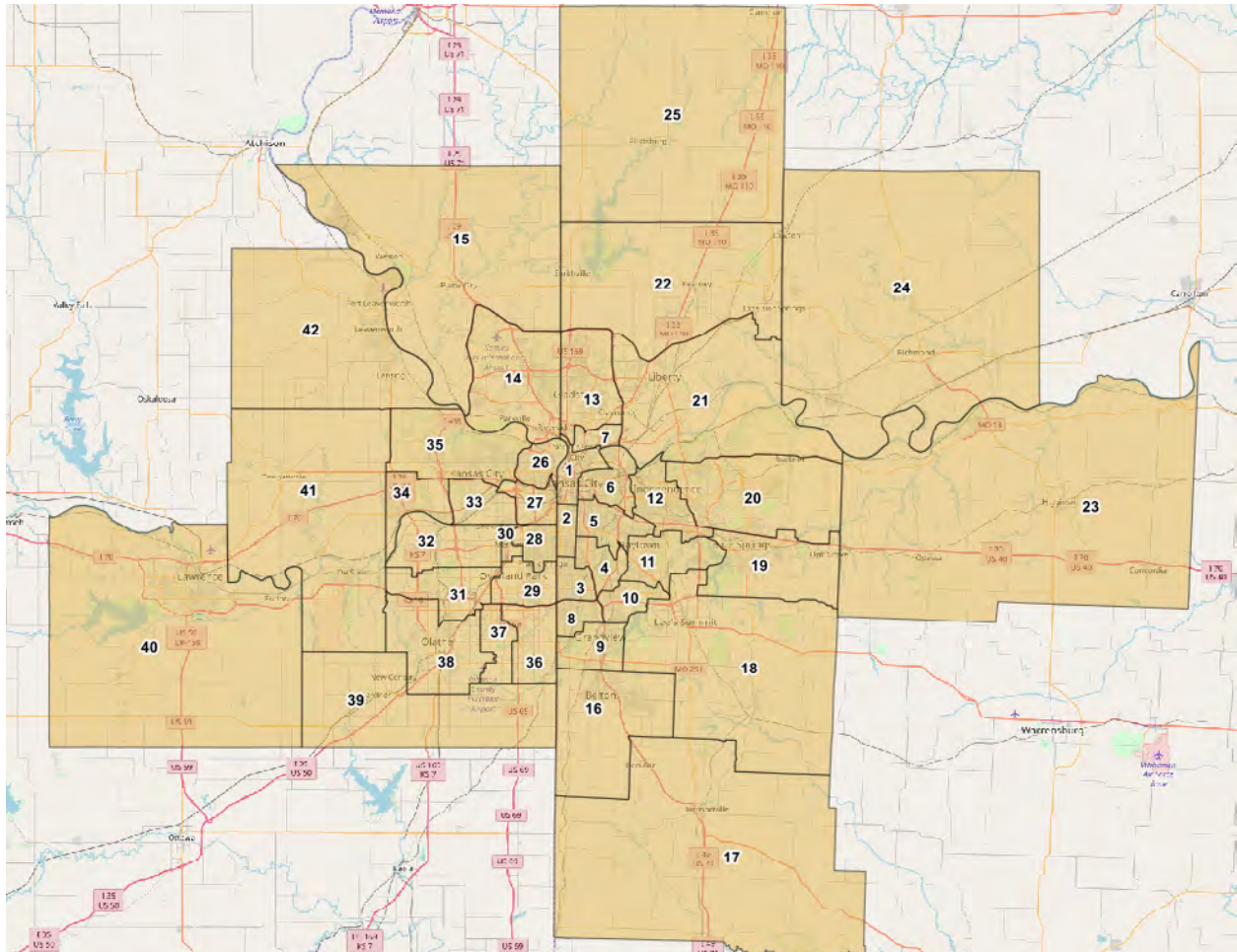
Watermark at Tiffany Springs, a 276-unit asset, is Watermark Residential's first property in the metro.



Senior Housing Project Completed

Tutera Senior Living & Health Care has opened the memory care and assisted living units of the \$55 million community.

KANSAS CITY SUBMARKETS



Area No.	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 No.	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 No.	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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