

YARDI[®] Matrix

New Life For Kansas City

Multifamily Summer Report 2016

City Strives for Live-Work-Play

Renter-by-Necessity Segment Grows by 5.3%

Investment Market Reaches Cycle Peak

Market Analysis

Summer 2016

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Revitalization Drives New Activity

Kansas City might not be the first metro that comes to mind when the topic of urban living comes up, but revitalization projects are luring residents and developers downtown and breathing life into a slow-moving Midwestern market. Millennials and empty nesters are choosing to rent in the metro's center. The city is paving the way, with a downtown streetcar transit system and approval of redevelopment projects to help create a live-work-play lifestyle and boost demand for apartments. The trend is set to continue, since more than 6,300 units are currently under construction and another 16,000 are on the drawing board.

Though the metro is trailing the nation in job growth, it is a regional center for business services, trade and health care. The local economy is expected to improve further, as large employers such as Cerner Corp. and United Parcel Service have announced significant expansion plans.

Transaction volume rose last year, with investors attracted by steady fundamentals and the potential for higher yields. Last year, volume increased by more than 50% to a record high of \$800 million. We expect demand to remain healthy, which, along with steady job creation and increasing supply, will generate a moderate rent growth of 3.1%.

Recent Kansas City Transactions

Willow Creek



City: Kansas City
Buyer: Landmark Realty
Purchase Price: \$79 MM
Price per Unit: \$97,621

Lodge of Overland Park



City: Overland Park, Kan.
Buyer: Mandel Corp.
Purchase Price: \$49 MM
Price per Unit: \$88,504

Village West



City: Kansas City
Buyer: JVM Realty
Purchase Price: \$48 MM
Price per Unit: \$156,863

Haven at Prairie Trace

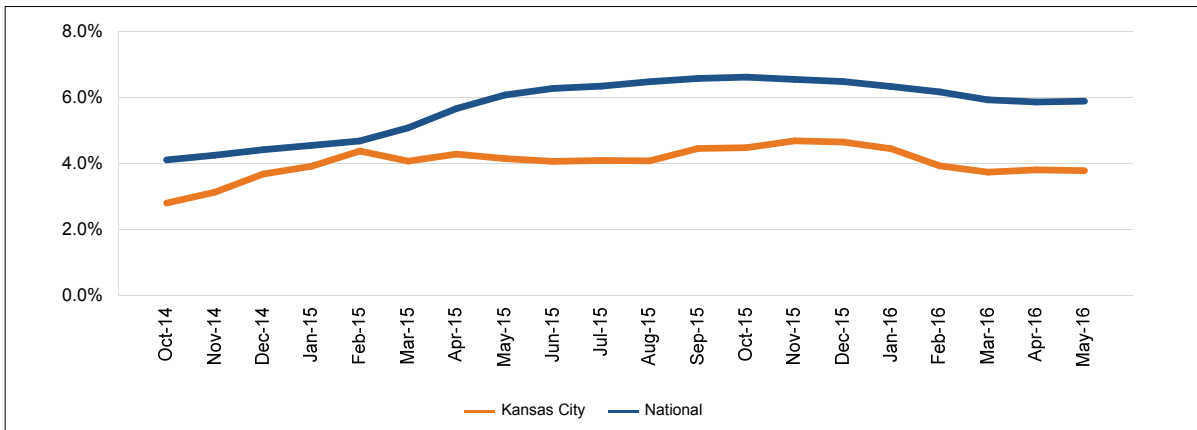


City: Overland Park, Kan.
Buyer: MAA
Purchase Price: \$45 MM
Price per Unit: \$159,107

Rent Trends

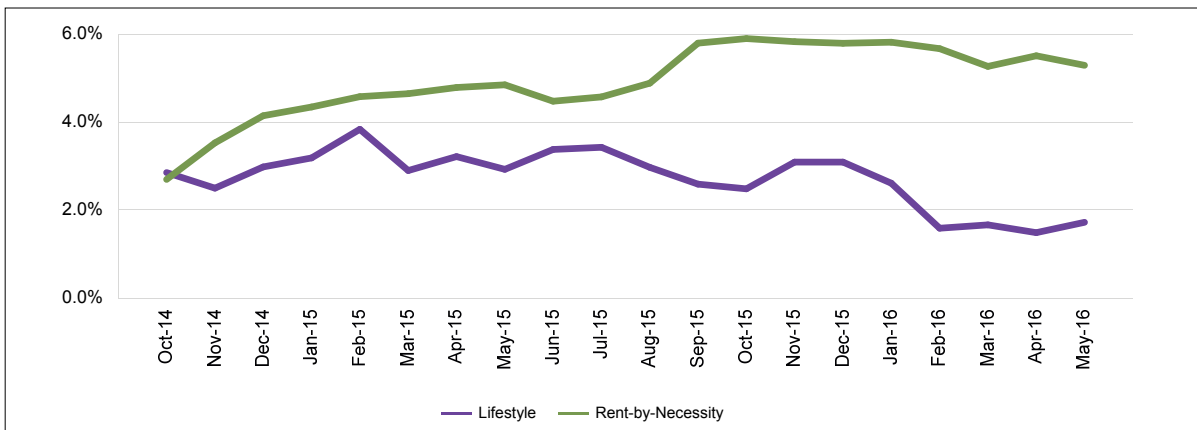
- With demand for multifamily units on the upswing, the metro produced rent growth of 3.8% year-over-year through May, still below the 6% national growth rate, according to Yardi Matrix. Kansas City's average rent of \$821 continues to trail behind the \$1,204 national average. Rent growth was led by the Renter-by-Necessity segment, which advanced 5.3% year-over-year to \$740, while Lifestyle rents rose to \$980, up 1.7%.
- Leasing activity is strong, particularly as Millennials and empty nesters move into downtown submarkets. That has brought the metro's occupancy to 95.1%, and absorption should keep pace with current supply levels. The redevelopment of downtown, along with the launch of a streetcar system, is part of a plan to double the existing downtown population within the next decade.
- Submarkets with the highest rent increases include Park Farms (15.4%), Kansas City – East (10.6%), Belton/ Raymore (7.8%), Liberty (5.4%) and Kansas City – West (5.3%). Only five submarkets showed growth below 1%. Most large increases occurred in core, amenity-heavy submarkets, which are taking advantage of the city's reputation as an affordable hub for Millennials.
- Fundamentals are good, but the metro's location in the Midwest will moderate rent increases to 3.1% in 2016.

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)

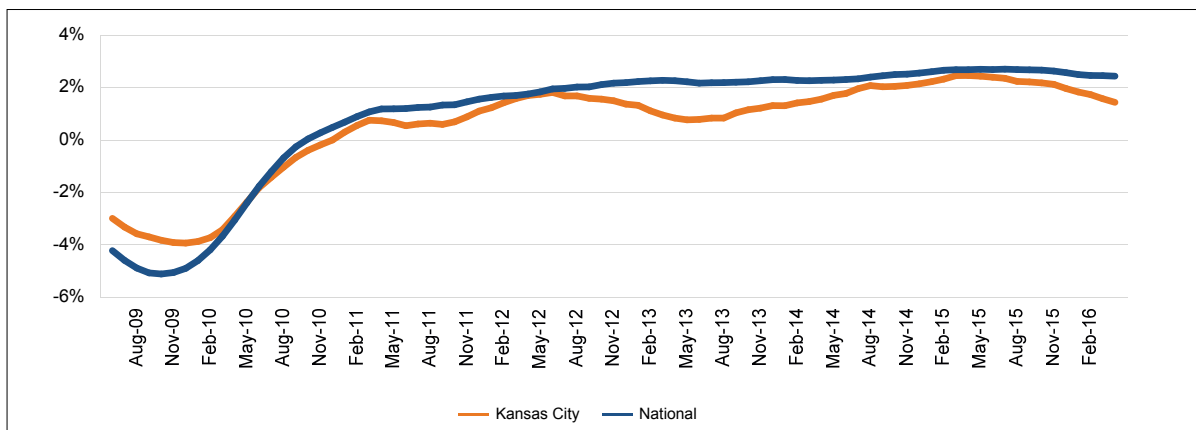


Source: YardiMatrix

Economic Snapshot

- Kansas City added a disappointing 16,100 jobs in the year ending in February, a 1.6% year-over-year increase. That represented a decline in the rate of growth, due in part to staff cuts at telecom giant Sprint. Professional and business services led employment growth with 3,400 positions.
- Corporate expansions include major projects such as the \$4.5 billion Trails Campus, which will encompass 4.7 million square feet of office space in 16 buildings and create 16,000 jobs when finished. The first two phases are slated for completion in 2017, when 3,500 employees will move in.
- The trade, transportation and utilities sector (which gained 2,200 jobs) is boosted by the metro's central location and proximity to four national interstate highways and five major railways, as exemplified by the growth at the master-planned Logistics Park of Kansas City. Additionally, the mining, logging and construction sector added 1,800 jobs, mainly because of growth in the construction subsector.
- After declining for most of the 2000s, the manufacturing sector has started to recover. Most of its increase of 1,700 jobs was in the automotive parts manufacturing industry, which serves once-again-thriving automakers such as Ford and General Motors.

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	188	17.3%	3,400	1.8%
40	Trade, Transportation and Utilities	212	19.5%	2,200	1.0%
55	Financial Activities	77	7.1%	2,200	2.9%
15	Mining, Logging and Construction	45	4.1%	1,800	4.1%
30	Manufacturing	76	7.0%	1,700	2.3%
65	Education and Health Services	152	14.0%	1,600	1.1%
90	Government	168	15.5%	1,400	0.8%
70	Leisure and Hospitality	108	9.9%	1,100	1.0%
80	Other Services	41	3.8%	200	0.5%
50	Information	19	1.7%	-1,800	-8.6%

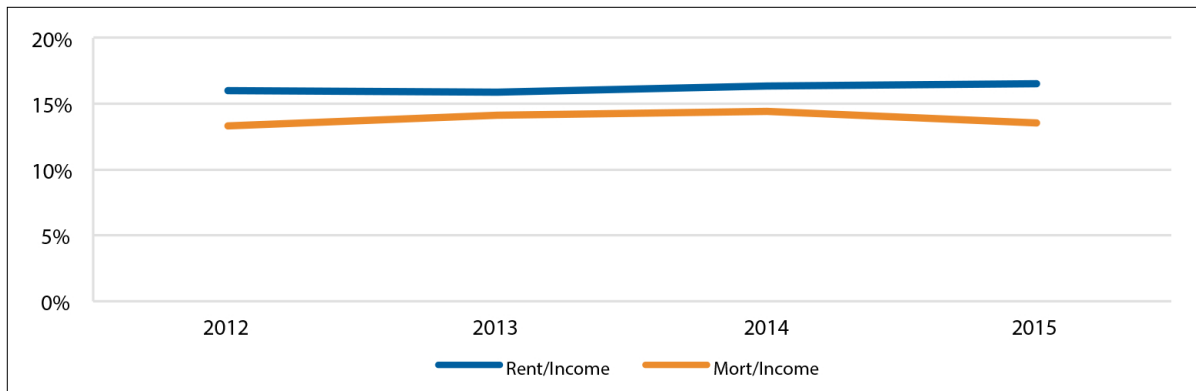
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

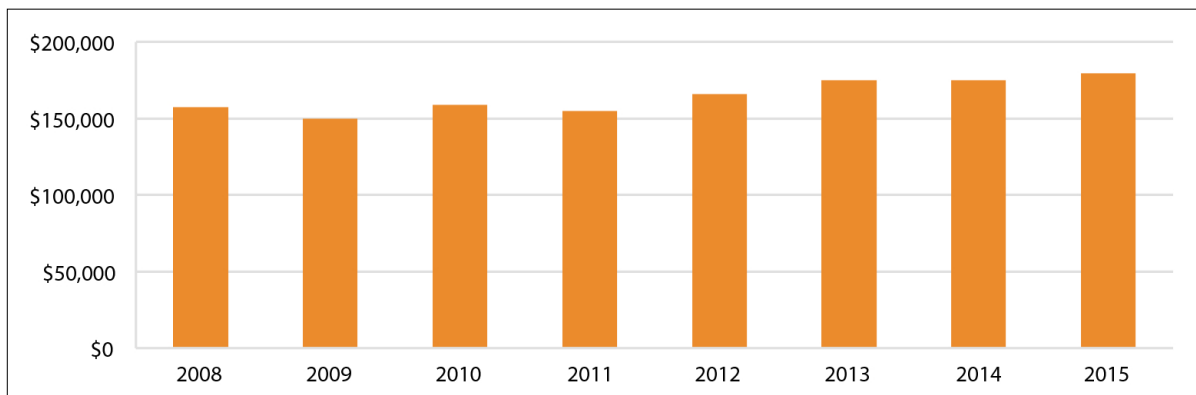
- Even though home prices have been rising in Kansas City over the past few years, a mortgage accounts for only 14% of the area's median income of \$58,886. The median home price progressed to \$179,287 in 2015, a 14% increase since 2008.
- Renting is less affordable than owning across the metro, with the average rent accounting for 17% of the area's median income. However, affordability varies widely, depending on the submarket.

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's population has been increasing steadily.
- In 2014, the metro added nearly 16,000 residents, almost a 0.8% year-over-year increase, on par with the national rate.

Kansas City vs. National Population

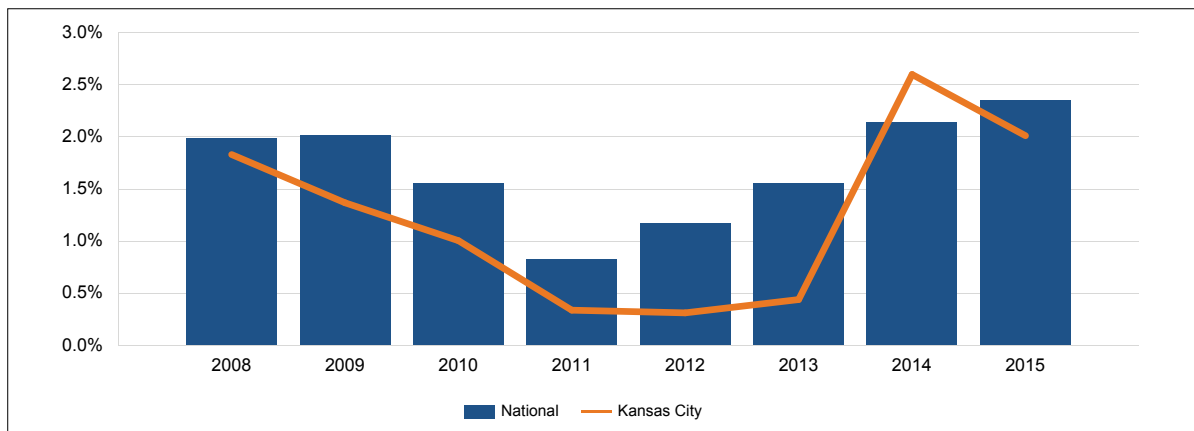
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Kansas City, MO-KS Metro	2,013,651	2,025,003	2,039,213	2,055,351	2,071,133

Source: U.S. Census

Supply

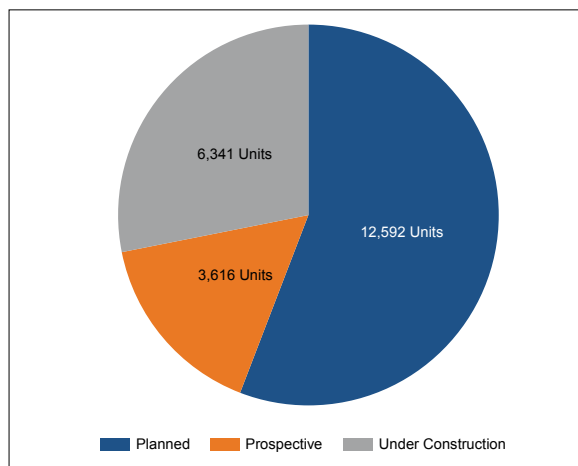
- Multifamily development in the Kansas City area slowed down in 2015, when about 2,800 units came online. This will add 2.0% to the stock, not too far behind the 2.3% national growth rate. Even so, supply has risen from the trough levels of 2011-2013, when less than 0.5% was added to stock annually.
- The development pipeline encompasses approximately 22,500 units, with more than 6,300 units currently under construction. The metro's rising renter population, paired with a steady job market and rising payrolls, is expected to produce positive absorption of the new inventory.
- Most of the development is occurring in Downtown Kansas City (1,843 units) and in nearby submarkets such as Lenexa (1,075), Olathe (360), Overland Park – North (359) and Lawrence (351). Some of the largest projects include Waterside Residences on Quivira (380 units), The Royale at City Place (344 units), Prairies View at Village West (311 units), The Residences at New Longview (309 units) and Two Light (296 units).
- In addition to new construction, developers are increasingly renovating older, Class B and C units in order to bring rents closer to market levels.

Kansas City vs. National Completions as a Percentage of Total Stock (as of May 2016)



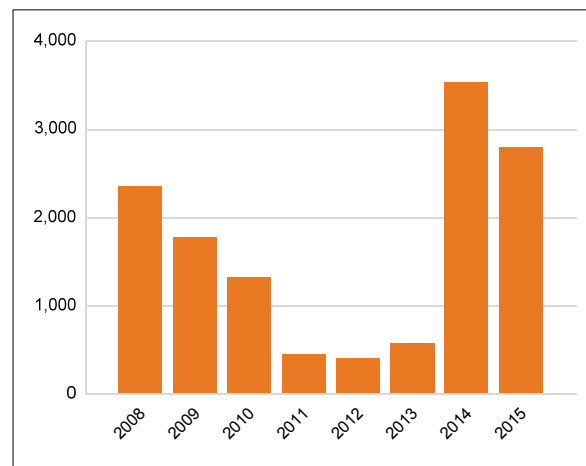
Source: YardiMatrix

Development Pipeline (as of May 2016)



Source: YardiMatrix

Kansas City Completions (as of May 2016)

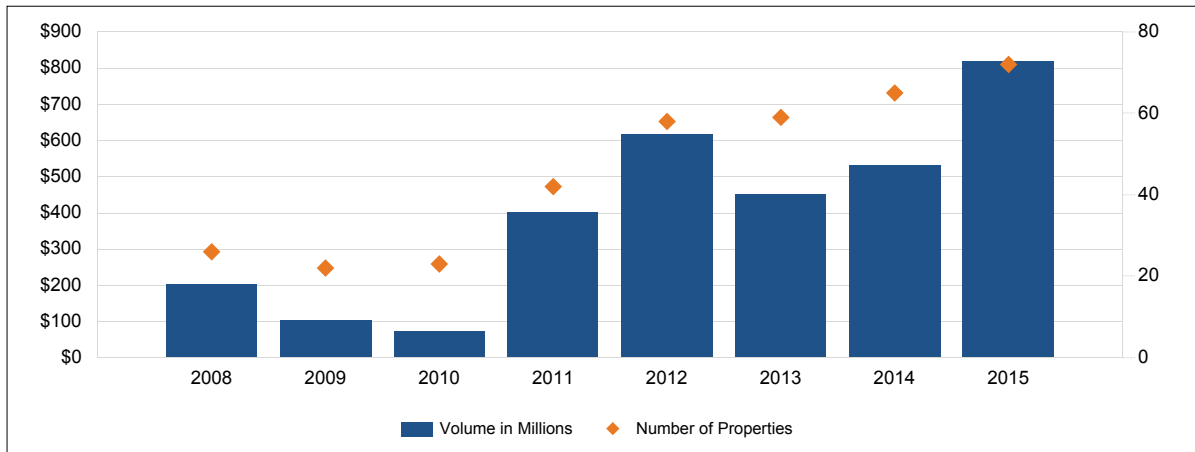


Source: YardiMatrix

Transactions

- More than \$800 million worth of properties changed hands in the Kansas City metro in 2015, marking a peak in the current cycle and up 54.5% from 2014. Although investors are scouring secondary markets for higher yields, many remain reluctant to bet on the Midwest.
- The average price per unit rose to \$86,616 in 2015, still far behind the national average of nearly \$118,000.
- Submarkets with the highest activity were Marlborough Heights, Overland Park – North, Lawrence, Victory Hills and Gladstone. The \$78.5 million acquisition of Willow Creek by Landmark Realty ranked as Kansas City’s largest multifamily transaction in 2015, followed by Mandel Group’s acquisition of Lodge of Overland Park, JVM Realty’s purchase of Village West and MAA’s \$44.5 million acquisition of Haven at Prairie Trace.

Kansas City Sales Volume and Number of Properties Sold (as of May 2016)



Source: YardiMatrix

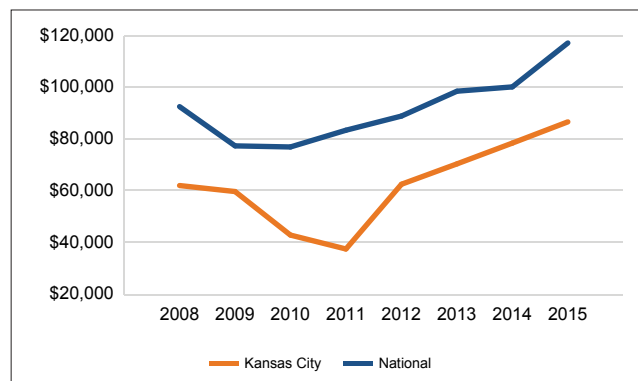
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Marlborough Heights	112
Overland Park - North	78
Lawrence	74
Victory Hills	55
Gladstone	53
Overland Park - Southeast	44
Kansas City Northwest/ Riverside	39
Independence - West	37

Source: YardiMatrix

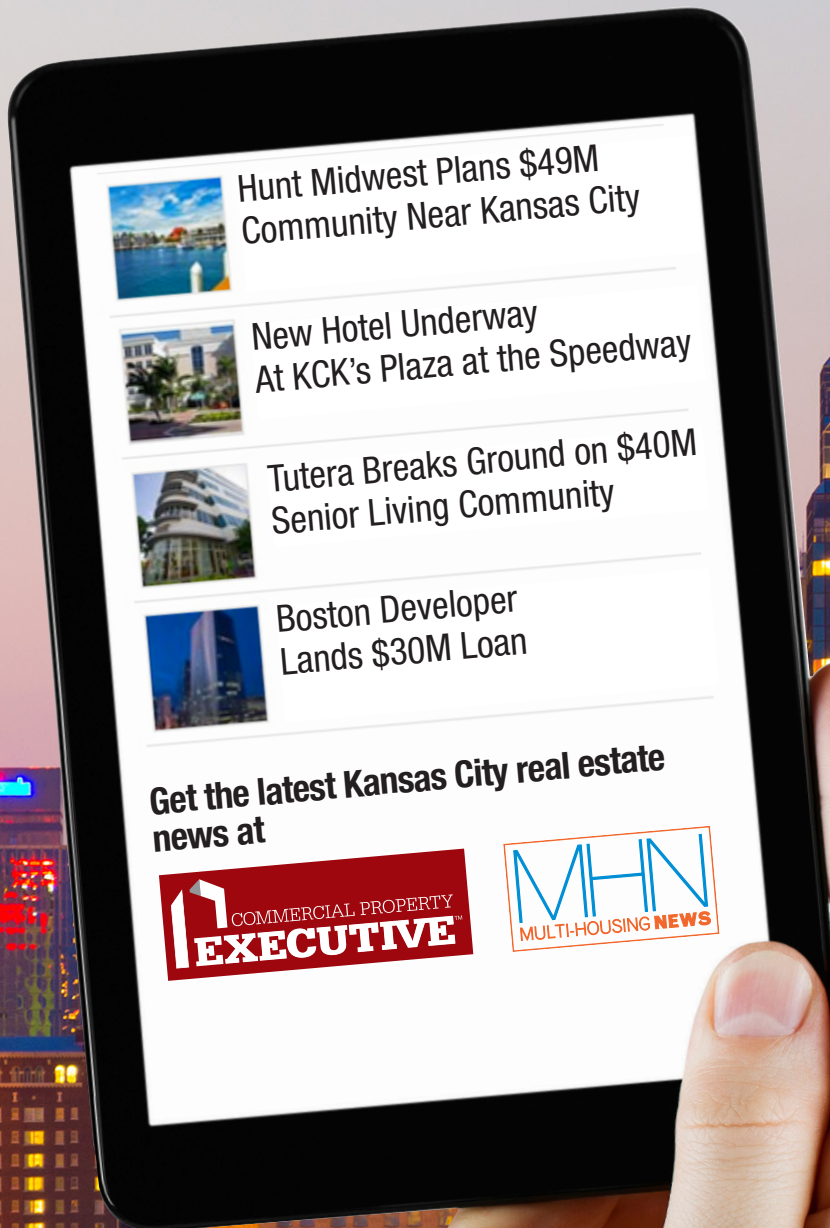
¹ From June 2015 to May 2016

Kansas City vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Hunt Midwest Plans \$49M
Community Near Kansas City



New Hotel Underway
At KCK's Plaza at the Speedway



Tutera Breaks Ground on \$40M
Senior Living Community

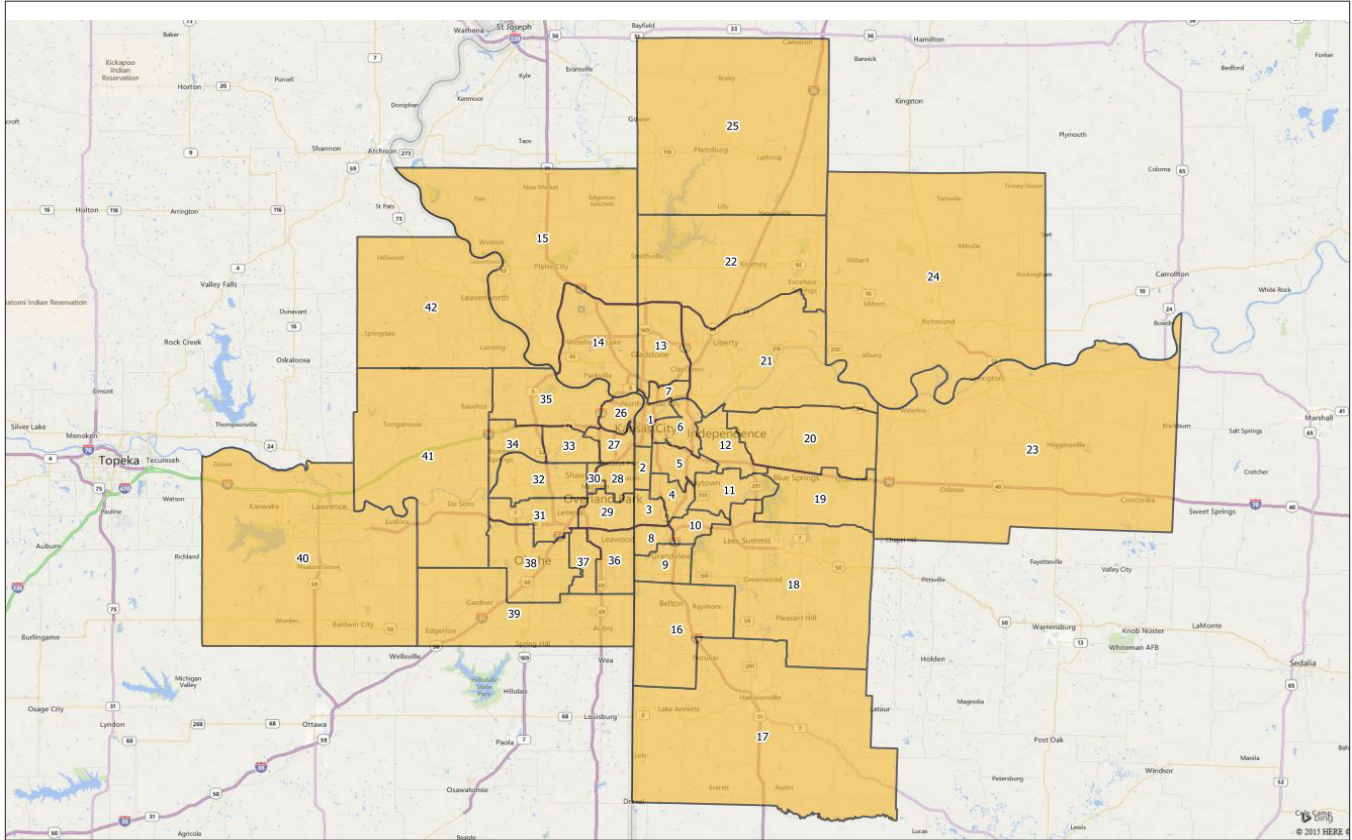


Boston Developer
Lands \$30M Loan

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Kansas City Submarket Map



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/Riverside
15	Platte City
16	Belton/Raymore
17	Harrisonville
18	Lee's Summit
19	Blue Springs
20	Independence

Area #	Submarket
21	Liberty
22	Smithville/Excelsior Springs
26	Kansas City - Northwest
27	Kansas City - West
28	Mission
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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