

### PAYROLL JOB SUMMARY

Average Payrolls	1,073.9m
Annual Change 1Q17	28.3m (2.7%)
RCR 2017 Forecast	22.9m (2.1%)
RCR 2018 Forecast	18.5m (1.7%)
RCR 2019 Forecast	13.3m (1.2%)
RCR 2020 Forecast	9.0m (0.8%)
RCR 2021 Forecast	9.1m (0.8%)
Unemployment (NSA)	3.9% (5/17)

### 1Q17 PAYROLL TRENDS AND FORECAST

The pace of payroll expansion accelerated during the first quarter, producing Kansas City's largest and fastest quarter of job growth since 1998. Establishments added payroll employees at a 28,300-job, 2.7% annual rate, comparing favorably to 2.2% and 2.3% year-on-year advances during the prior and penultimate quarters, respectively. Constructive headcount gains were recorded in every super-sector save information, which hemorrhaged workers for the 17th consecutive quarter. Service industries exhibited the strongest forward momentum, collectively recording an 18,600-job, 3.9% advance, up from 2.6% in 4Q16. Professional and technical services expansion was particularly notable as headcounts increased at a 5,800-job, 6.5% y-o-y pace, up from 4Q16's 5,300-job, 5.7% performance.

Seasonally-adjusted data indicate that 1Q17 net job growth (9,700) was the largest quarterly gain since 1990. But preliminary data suggest 2Q17 was weaker: May payrolls dropped -8,000 jobs sequentially, according to this source.

RED Research's KC payroll model projects slower job creation in 2017 and 2018. The 94.8% adjusted-R<sup>2</sup>(SE=0.35%) model uses the rate of change of US job growth, personal consumption expenditure growth<sub>t-2</sub> and the Baa bond/10-year UST credit spread as independent variables. The model forecasts annual adds of 22,900 jobs for FY17, and 18,500 jobs during 2018 under the most probable macroeconomic outcome. Job creation is expected to decelerate materially in 2019, consistent with national trends.

### OCCUPANCY RATE SUMMARY

Occupancy Rate (Reis)	95.5%
RED 51 Rank	29 <sup>th</sup>
Annual Chg. (Reis)	-0.7%
RCR YE17 Forecast	94.8%
RCR YE18 Forecast	95.0%
RCR YE19 Forecast	95.1%
RCR YE20 Forecast	95.4%
RCR YE21 Forecast	95.5%

### 1Q17 ABSORPTION AND OCCUPANCY RATE TRENDS

First quarter space demand was constructive but moderately weaker than the post-Recession winter quarter average. Tenants occupied a net of 280 vacant units (Reis), up from 257 in 4Q16, but substantially fewer than the 588-unit average of the previous six calendar first quarters. Developers completed 536 units, causing occupancy to decline -20 basis points sequentially (-70bps year-on-year) to 95.5%. Occupancy fell sharply in Midtown and Shawnee submarkets, where supply levels were heavy recently.

On 94.3%, classes-A and -B posted highest May occupancy; class-C lowest on 93.1%. Submarket performance varied as Overland Park No., Downtown/East and Mission, KS topped 96%, while four submarkets were less than 93%.

Surveys of 264 stabilized, same-store properties by Axiometrics recorded 93.6% and 94.1% occupancy rates in 1Q17 and May, respectively, down -30 and -60bps y-o-y.

Inventory growth is expected to remain elevated through 2018. RCR's occupied stock model indicates that demand will struggle to keep pace for the next four or five quarters, causing metro occupancy to decline about -80bps by MY18. But supply will recede in 2019, and return to levels in line with historical norms. Absorption is expected to moderately overbalance supply, returning occupancy above 95% by the second half of the forecast interval.

### EFFECTIVE RENT SUMMARY

Mean Rent (Reis)	\$811
Annual Change	4.0%
RED 51 Rent Change Rank	17 <sup>th</sup>
RCR YE17 Forecast	1.9%
RCR YE18 Forecast	1.7%
RCR YE19 Forecast	1.5%
RCR YE20 Forecast	2.4%
RCR YE21 Forecast	3.4%

### 1Q17 EFFECTIVE RENT TRENDS

Rent growth stalled over the winter, according to Reis. Average metro rent advanced \$1 (0.1%) sequentially to \$811, representing the smallest quarterly percentage gain in seven years. Rent growth expressed on a year-on-year basis plunged from 4Q16's robust 5.3% level to 4.0%, the largest single-quarter decline posted since 2008. Class-B&C properties were harder hit as asking rents dipped sequentially, while class-A units managed a 0.7% increase.

properties gained 2.8%. Popular and affordably-priced Midtown bucked the trend in 1Q17: the six assets in this sample notched an 8.6% average gain. Likewise, Overland Park North posted a healthy 6.8% advance. Trends were lackluster elsewhere, especially in lower rent Mission and Southwest KC submarkets; rents in each fell -0.6%.

Rent growth in the Axiometrics same-store sample also was slower. Rents increased 3.2% and 2.2% y-o-y in 1Q17 and May, respectively. Classes-A and -C were most effected, inching ahead at only 0.7% rates in May. Class-B

RCR's KC rent model projects sluggish rent growth through 2019. Job and inventory growth both are statistically significant and neither figures to be constructive. Rent growth is likely to languish at 2% or less until the coming supply wave is fully digested. Faster gains are likely to evolve late in the forecast interval.

### 4TRADE & RETURN SUMMARY

\$3mm+ 80-unit+ Sales	23
Estimated Proceeds	\$450mm
Average Cap Rate (FNM)	5.7%
Average Price / Unit	\$88,328
Expected Total Return	6.3%
RED 49 ETR Rank	35 <sup>th</sup>
Risk-adjusted Index	4.91
RED 49 RAI Rank	11 <sup>th</sup>

### 1Q17 PROPERTY MARKETS AND TOTAL RETURNS

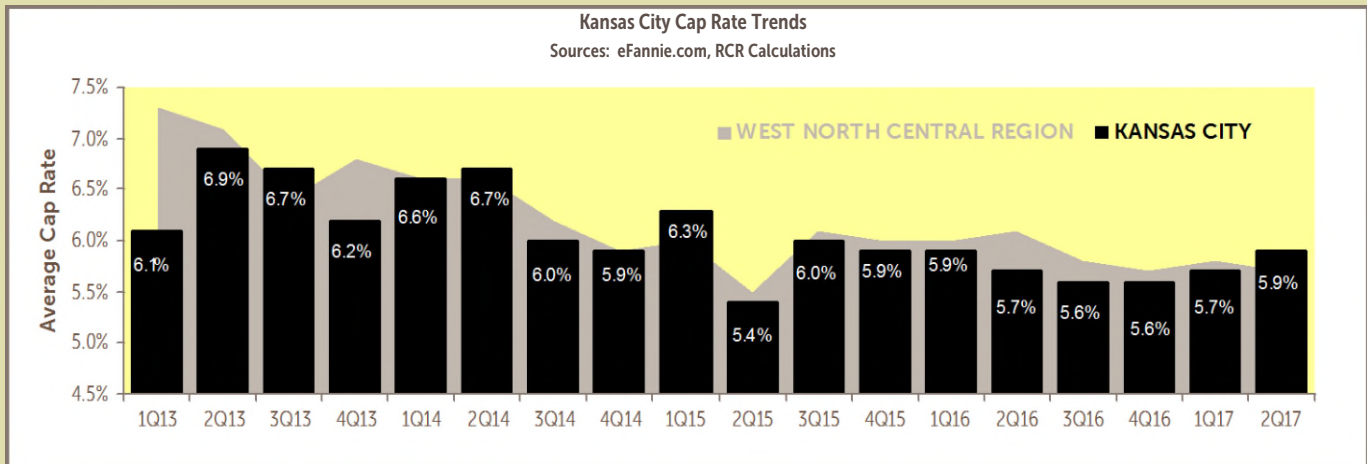
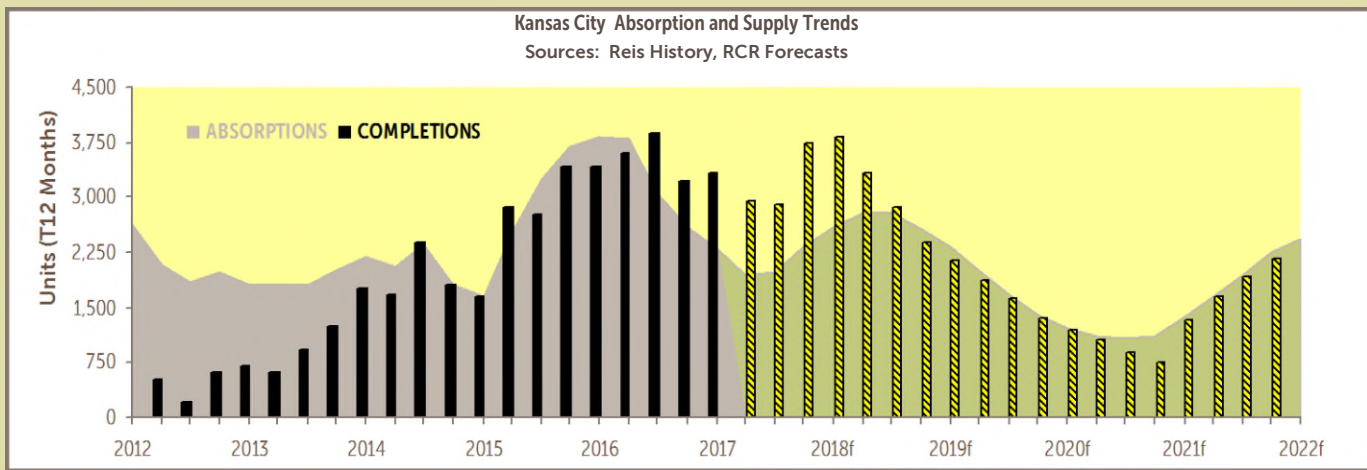
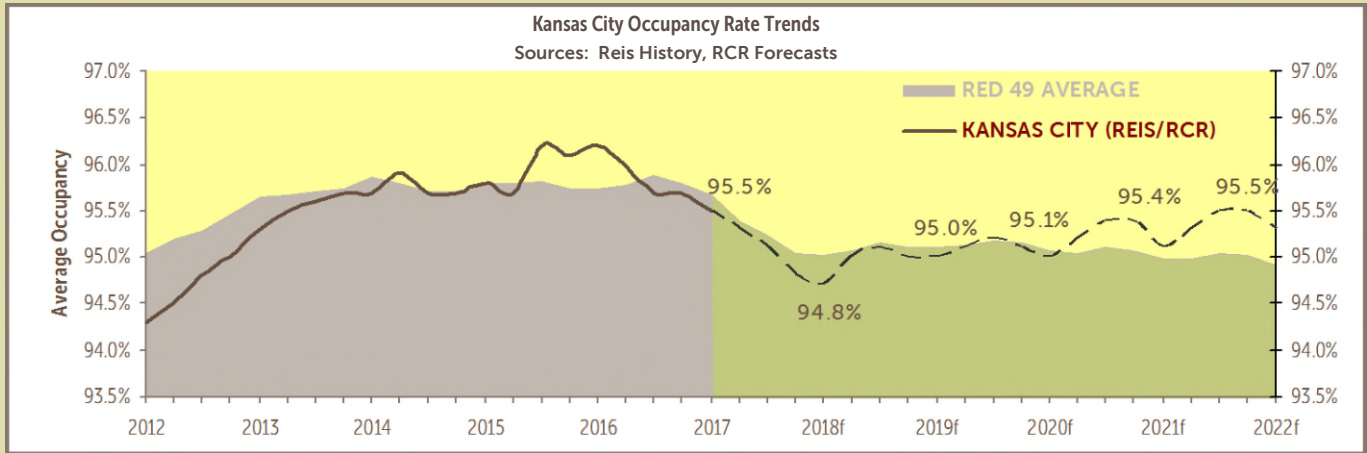
A total of 23 large apartment sales (CoStar) were completed during 1Q17, the fastest velocity by 64% observed in a January through March period in the history of the KC market and the third most active quarter ever. Full pricing information is publicly available for only four transactions, but we estimate that gross proceeds approached \$450mm, likely the second highest quarterly volume in series history.

ed in the 5% to 5.25% range Standard class-B and value-add gardens were valued at prices equating to 5.5% to 6% going-in yields. Class-C assets may yield 7% or more.

Second quarter velocity was considerably weaker. Only seven sales transactions were recorded (CoSar/RCA) for total sales proceeds of approximately \$125mm (RCA).

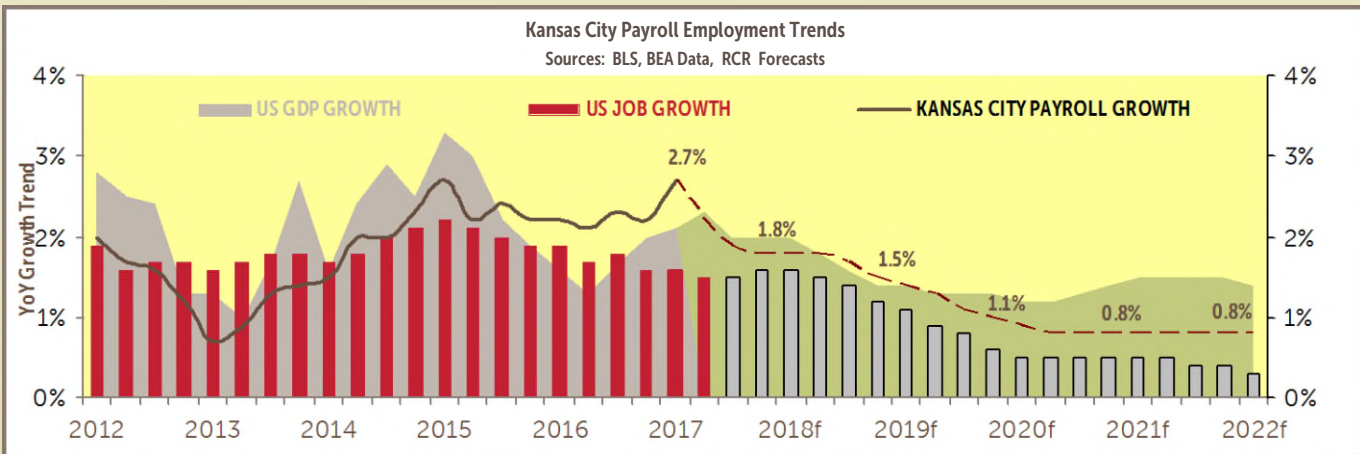
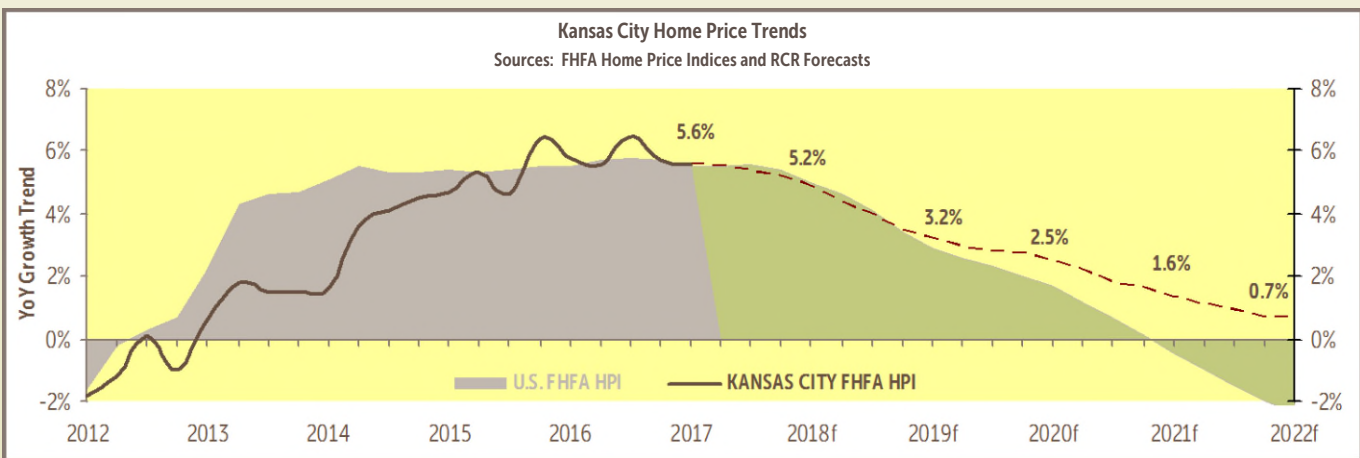
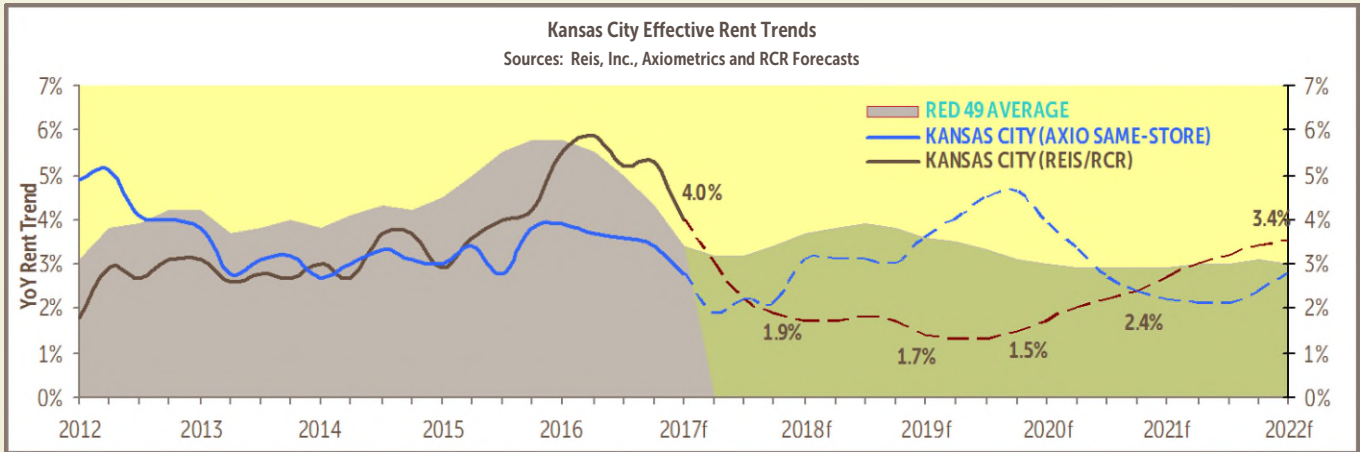
RCR chose to leave the KC purchase cap rate proxy unchanged on 5.7%. Using a terminal cap of 6.3%, and model derived rent and occupancy point estimates we calculate that an investor making a 1Q17 purchase would expect to earn a 6.3% unlevered annual return over a 5-year hold. Among the RED 49 peer group, this ranked 35<sup>th</sup>, constrained by the metro's below average rent prospects. Low rent and occupancy volatility enhances NOI stability, however, boosting the risk-adjusted index to RED 49 #11.

Cap rates applicable to top area trophy properties gravitat-



## NOTABLE TRANSACTIONS

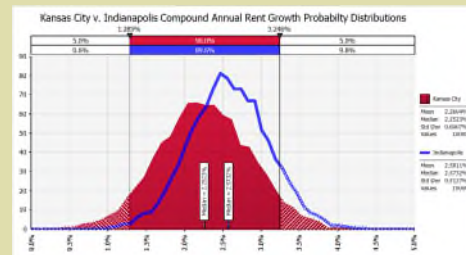
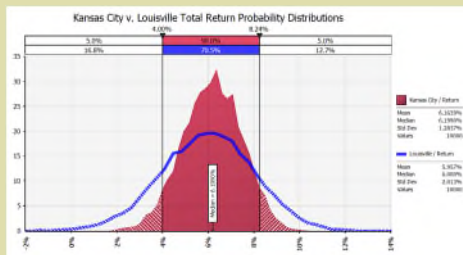
Property Name (Submarket)	Property Class/ Type (Constr.)	Approx. Date of Transaction	Total Price (in millions)	Price / Per Unit	Estimated Cap Rate
Sandstone Creek Apts. (Overland Park So./Nottingham)	B+ / GLR (2001/2014)	20-Jan-2017	\$48.1	\$132,142	5.38% (U/W)
Bridges at Foxbridge (Overland Park No / Mission)	B- / GLR (1972)	3-Feb-2017	\$28.0	\$88,328	6.19% (U/W)
Brentwood Park (Grandview-Far South / Blue Ridge)	C / GLR (1972)	16-Feb-2017	\$3.9	\$40,526	6.7%
Reserve at Berry (Platte / Saint Luke's No Hospital)	B- / GLR (1985)	6-Mar-2017	\$58.3	\$84,420	6.0%
West End City Center (Lenexa / North Village)	B+ / GLR (2009)	13-Apr-2017	\$41.2 (allocated)	\$142,887	5.2%
Carlyle (Shawnee-Lenexa / Quivira-W 75th)	C / GLR (1971)	19-May-2017	\$27.6	\$63,303	6.0%



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## SUBMARKET TRENDS (REIS)

Submarket	Reis Inventory Percent Change	Effective Rent			Physical Vacancy		Basis Point Change
		4Q16	1Q17	Change	4Q16	1Q17	
Gladstone / Liberty	0.0%	\$671	\$665	-0.9%	4.4%	4.2%	-20 bps
Grandview / Far South	0.0%	\$736	\$734	-0.2%	3.7%	3.2%	-50 bps
Independence	0.0%	\$685	\$684	-0.1%	2.5%	2.8%	30 bps
Lee's Summit	0.0%	\$902	\$896	-0.6%	2.2%	2.2%	0 bps
Merriam / Mission	0.0%	\$790	\$786	-0.5%	1.9%	2.0%	10 bps
Midtown	9.2%	\$568	\$611	7.5%	4.9%	8.0%	310 bps
North Kansas City	0.0%	\$652	\$656	0.5%	4.0%	4.2%	20 bps
Olathe / Gardner	0.0%	\$788	\$780	-1.0%	2.2%	2.6%	40 bps
Overland Park North	0.0%	\$846	\$845	-0.1%	1.9%	1.7%	-20 bps
Overland Park South	0.0%	\$1,097	\$1,098	0.1%	6.7%	6.5%	-20 bps
Platte	3.8%	\$776	\$798	2.8%	4.2%	4.1%	-10 bps
Raytown	0.0%	\$708	\$716	1.1%	2.8%	2.6%	-20 bps
Shawnee / Lenexa	2.2%	\$863	\$885	2.6%	3.6%	5.0%	140 bps
Southwest Kansas City	0.0%	\$575	\$584	1.5%	9.4%	8.8%	-60 bps
University / Plaza	0.0%	\$938	\$947	1.0%	7.2%	7.3%	10 bps
Wyandotte	0.0%	\$689	\$696	0.9%	4.5%	4.5%	0 bps
Metro	0.0%	\$810	\$811	0.1%	4.3%	4.5%	20 bps



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