Northmarq

MARKET INSIGHTS

With renter demand steady, deliveries continue

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,865
UNITS DELIVERED	1,333

MARKET FUNDAMENTALS

VACANCY RATE	5.5%
YEAR-OVER-YEAR CHANGE	-10bps
ASKING RENTS	$1,168
YEAR-OVER-YEAR CHANGE	+6.3%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$100,200

Kansas City Multifamily
1Q 2023

HIGHLIGHTS

- The Kansas City multifamily market posted a mixed performance in the last three months, as asking rents ticked higher, but the vacancy rate rose. Development activity has remained consistent with approximately 1,300 units coming online during the first quarter.
- The vacancy rate inched higher, increasing 20 basis points in the first quarter to 5.5 percent. Despite vacancy conditions softening slightly in recent months, the rate improved by 10 basis points year over year.
- Asking rents rose modestly during the first quarter, climbing 0.8 percent to $1,168 per month. Year over year, rents advanced by 6.3 percent.
- Transaction volume in the multifamily investment market fell during the first quarter, and sales were limited to a handful of Class B and Class C properties. The median sales price in the first quarter was $100,200 per unit, while cap rates are ranging between 4.75 percent and 5.5 percent.

KANSAS CITY MULTIFAMILY MARKET OVERVIEW

Multifamily property fundamentals have generally performed fairly consistently in recent periods, a trend that continued during the first quarter of this year. Vacancy trended a bit higher for the second quarter in a row, but this followed a period where the rate had tightened throughout most of 2022. Rents continued to rise, although the annual pace of increase has been trimmed nearly in half since peaking in the first half of last year. One reason for the consistent property performance has been the steady pace of new inventory growth. Developers are actively bringing new projects to the market to meet demand, but average completions have largely remained in a range between 4,000 units to 5,000 units per year since 2017.

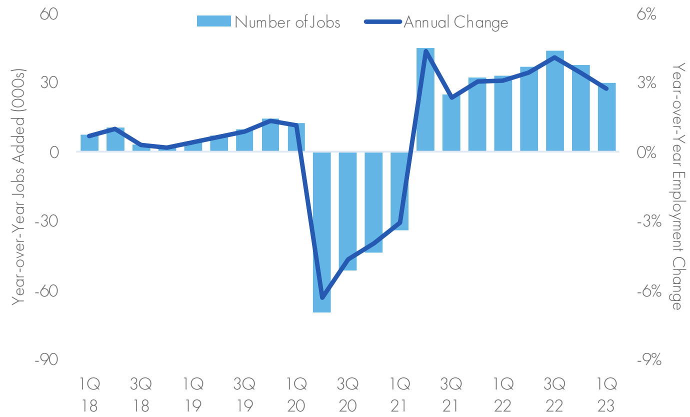
The Kansas City investment market recorded a slowdown at the start of 2023, following an extremely active period for multifamily transactions in 2022. Sales volume dipped during the first quarter to its lowest level of activity in more than a year, as high borrowing costs and a gap in buyers' and sellers' pricing expectations continue. The sale of Class A properties was light during the first quarter, after trading at an elevated rate in 2022. Class B and Class C buildings made up nearly the entirety of the transaction mix in the last three months, with investors showing a preference for garden-style apartments. Without Class A properties trading at the high-end of the pricing range, the median price in properties that did sell was considerably lower than in 2022.

EMPLOYMENT

- Year over year, area employers have expanded payrolls by 2.7 percent with the addition of 30,000 workers. The bulk of the growth in Kansas City was recorded at the end of 2022; gains during the first quarter were modest.
- The education and health services sector was one of Kansas City's top-performing industries in the past year. This sector added 6,800 positions during the last 12 months, expanding by 4.3 percent.
- Lifestyle retail corporation URBN recently announced plans to build a new fulfillment center in Raymore for its clothing rental brand Nuuly. The company will invest $60 million to develop a 640,000-square-foot facility at the Raymore Commerce Center. Upon completion, the new site is expected to accommodate up to 750 additional workers.
- **FORECAST:** Following strong employment growth in 2021 and 2022, the local labor market is projected to add jobs at a slower pace in the coming periods. Area employers are forecast to hire 11,500 new workers in 2023, increasing local employment by 1 percent.

Year over year, employers expanded payrolls by 2.7 percent.

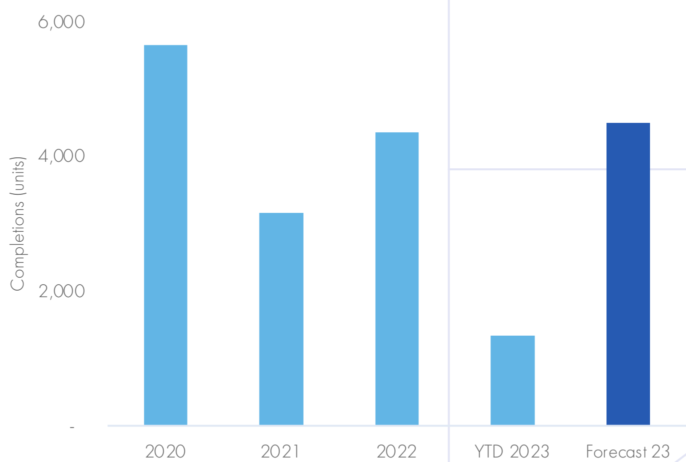
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Approximately 1,300 units were delivered at the start of 2023.

DEVELOPMENT TRENDS



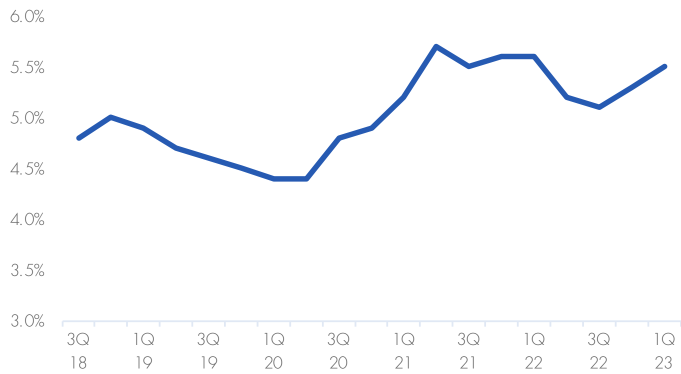
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Multifamily developers in Kansas City continue to bring new projects online at an active pace. Approximately 1,300 units were delivered at the start of 2023, closely tracking levels recorded in the final quarter of last year.
- The multifamily pipeline has continued to expand. Projects totaling nearly 5,900 units were under construction at the end of the first quarter, up roughly 30 percent from one year ago.
- Permitting slowed significantly at the start of 2023. Developers pulled permits for fewer than 50 multifamily units during the first quarter, down from roughly 750 permits in the preceding period.
- **FORECAST:** Developers are expected to maintain a steady pace of deliveries for the remainder of the year. Projects totaling 4,500 units are forecast to come online in 2023, slightly outpacing the annual delivery total in 2022.

The vacancy rate improved by 10 basis points year over year.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

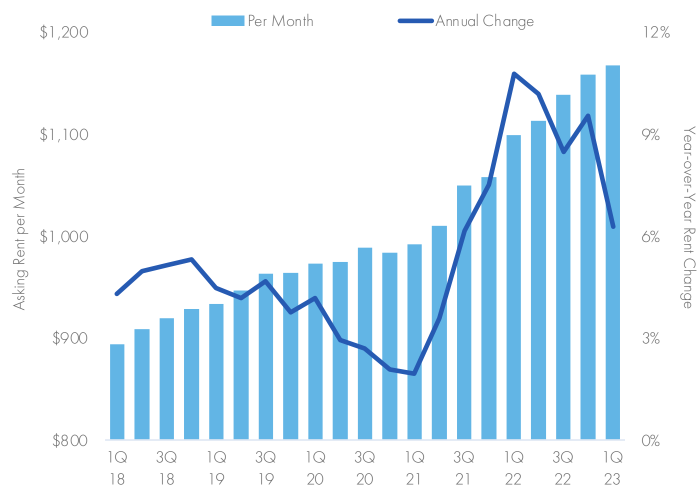
- The local vacancy rate rose 20 basis points during the first quarter, reaching 5.5 percent. This marked the second consecutive quarterly increase after the rate improved throughout much of 2022.
- Despite some uneven quarterly performance trends, the vacancy rate in Kansas City improved by 10 basis points year over year. The Downtown/East KC submarket recorded the largest annual declines. Vacancy in this submarket fell 290 basis points in the past year to 8.7 percent.
- Renter demand has been strongest for Class A properties in recent periods. The Class A vacancy rate improved during the past 12 months, dropping 160 basis points to 6.4 percent.
- **FORECAST:** Vacancy is forecast to inch higher through the end of the year. The rate is expected to rise 40 basis points in 2023 to 5.7 percent. The current rate is higher than the market's long-term range; since 2015, vacancy has averaged 4.7 percent.

RENTS

- Rents continued to increase during the first quarter, marking more than two straight years of steady gains. Asking rents rose by 0.8 percent during the last three months to $1,168 per month. Year over year, rents are up 6.3 percent.
- Asking rents advanced in all of Kansas City's submarkets during the past 12 months, highlighting the region's overall improvement. In the Overland Park South submarket, rents rose 6 percent in the past year, reaching $1,515 per month, one of the highest average rental rates in the market.
- Rent growth continues to be strongest in Class A properties. Asking rents in upper-tier units advanced by 7 percent in the last year, reaching $1,431 per month. In Class B and Class C properties, annual rent increases averaged approximately 4.5 percent.
- **FORECAST:** Apartment rents are forecast to rise at a modest pace in 2023, following rapid gains in the last two years. Area rents are projected to advance 3.3 percent this year to nearly $1,200 per month.

Year over year, rents are up 6.3 percent.

RENT TRENDS



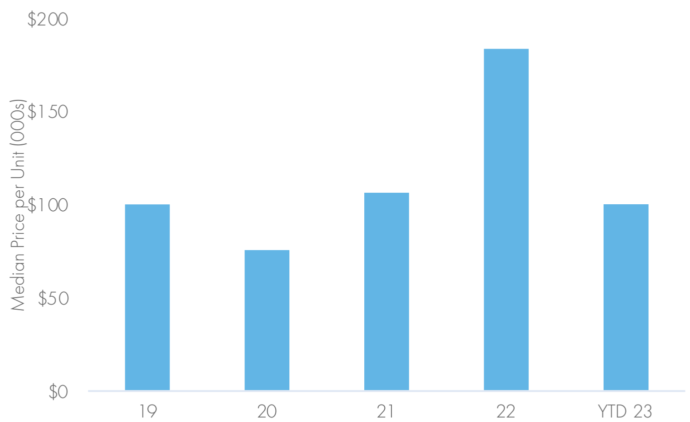
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily sales velocity slowed in recent months, as transaction volume in the first quarter declined 50 percent from levels at the end of last year. Despite the recent slowing, Kansas City remains one of the more active markets in the Midwest for apartment sales.
- The median sales price to this point in 2023 is $100,200 per unit, down approximately 45 percent from the median price last year. Activity picked up in the sale of Class B and Class C properties during the first quarter, after Class A assets traded at an elevated clip in 2021 and 2022.
- There has been a wide trading range depending upon property class. In sales of Class B properties, the median price is approximately $160,000 per unit year to date, about 5 percent lower than the 2022 median. In Class C properties, the median price is $66,500 per unit, reflecting a sharp decline from year-earlier levels.
- Cap rates in properties that have sold have remained relatively low, although the bid-ask spread between buyers and sellers is likely restricting deal flow. In the handful of transactions that have closed in recent quarters, cap rates have ranged between 4.75 percent and 5.5 percent.

The median sales price to this point in 2023 is $100,200 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

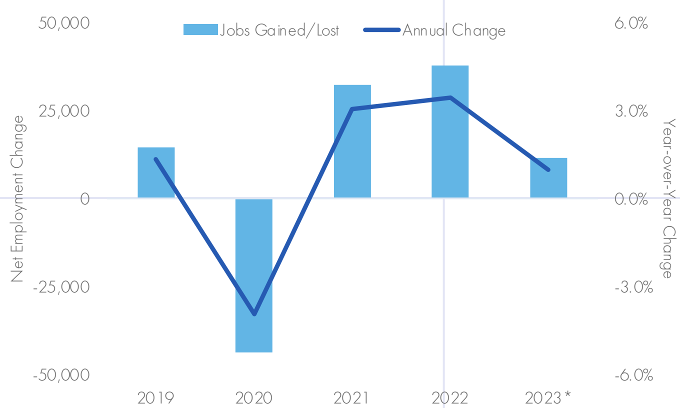
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Rosehill Pointe	12701 W 88th Street Cir., Lenexa	498	$80,250,000	$161,145
Timberlane Village	8803 Newton Ave., Kansas City	456	$45,700,000	$100,219
Province of Briarcliff	1282 NW Vivion Rd., Kansas City	120	$23,800,000	$198,333
Suntree Apartments	3040 Suntree Plz., Kansas City	216	$14,715,000	$68,125
The Drake	4341 Mercier St., Kansas City	71	$10,500,000	$147,887

LOOKING AHEAD

Property fundamentals in the Kansas City multifamily market are forecast to remain very close to where they are now for the remainder of the year. With the local economy continuing to expand and employers adding to payrolls, multifamily developers are projected to bring new supply online at a strong, steady pace in 2023. Projects totaling roughly 4,500 units are slated to deliver this year, similar to annual totals for the past several years. Supply growth should slightly outpace renter demand in coming periods, which will apply modest upward pressure on the vacancy rate. The vacancy rate should end the year about 100 basis points higher than the region's long-term average, resulting in a more gradual pace of rent growth than has been recorded in the past few years.

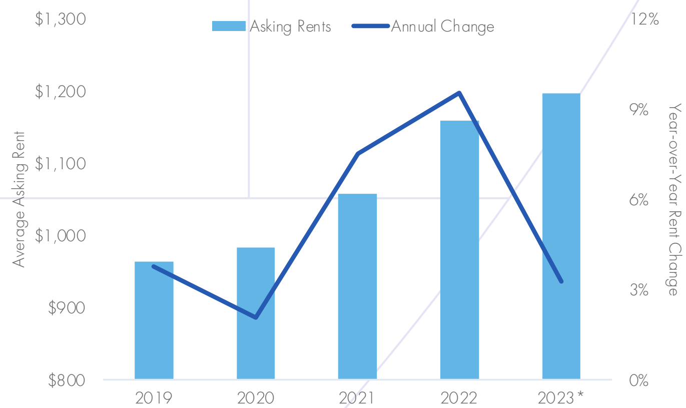
Sales activity in the local multifamily investment market is expected to remain steady in the coming months. However, activity could gain momentum in the second half of 2023 if borrowing costs level off and the expectations gap narrows. Apartment properties are changing hands, although the bulk of the activity is occurring in Class B and Class C properties, dragging on prices and creating a wider cap rate range for closed transactions. The forecast calls for a more representative mix of properties to transact throughout the rest of this year, particularly in light of the recent delivery and stabilization of properties. In recent years, an average of three to four new construction projects would sell per year, and a similar volume should be achievable in the coming quarters as the market stabilizes.

EMPLOYMENT FORECAST



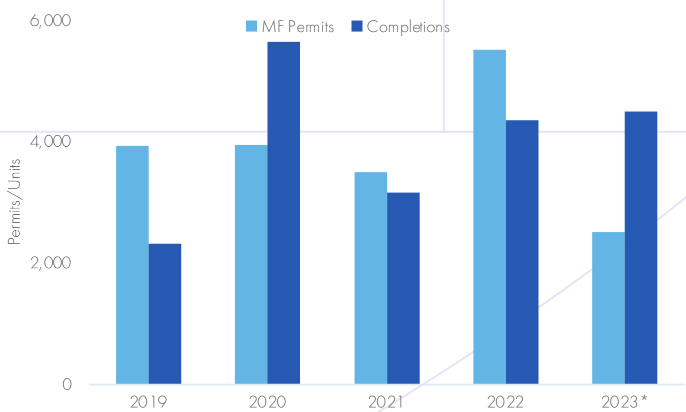
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



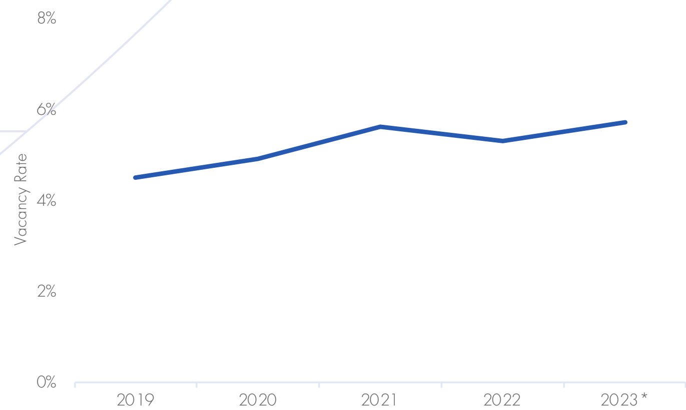
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar, Reis

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, Reis

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