

Vacancy dips, even as new units continue to come online

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **6,143**

UNITS DELIVERED **3,094**

MARKET FUNDAMENTALS



VACANCY RATE **5.1%**

YEAR-OVER-YEAR CHANGE **+0bps**

ASKING RENTS **\$1,171**

YEAR-OVER-YEAR CHANGE **+2.8%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$113,500**

HIGHLIGHTS

- The Kansas City multifamily market posted a solid third quarter, as the vacancy rate continued to trend lower while asking rents inched higher. Developers have been active, bringing roughly 3,100 units online year to date.
- The vacancy rate declined by 20 basis points for the second consecutive quarter. Area vacancy currently sits at 5.1 percent, unchanged from one year ago.
- Asking rents ticked higher by 0.5 percent during the third quarter, reaching \$1,171 per month. Local rents advanced 2.8 percent from one year ago.
- Multifamily sales activity was light in recent months, lagging levels from the first half of the year. Transaction volume to this point in 2023 is down 45 percent from levels recorded last year. The median price to this point in 2023 is \$113,500 per unit.

KANSAS CITY MULTIFAMILY MARKET OVERVIEW

A tightening vacancy rate supported the Kansas City multifamily market during the third quarter. Vacancy is now at its lowest point since 2020, highlighting the continued renter demand for units. Lower vacancy levels have prompted construction in recent years, and developers accelerated the pace of deliveries during the last three months, pushing the year-to-date total to approximately 3,100 units. The Outlying Jackson County submarket has recorded the largest concentration of deliveries, accounting for more than 30 percent of the completions thus far in 2023. With demand elevated, operators were able to tick rents higher during the third quarter, offsetting a modest dip in the prior three months.

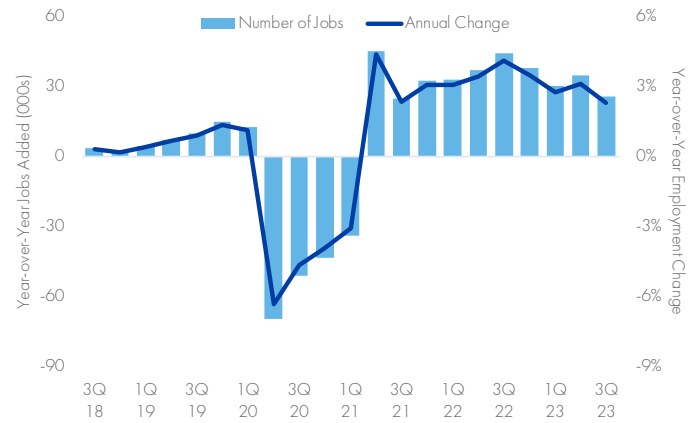
A challenging borrowing environment dragged on multifamily sales activity during the third quarter, as transaction volume was limited. Kansas City is typically one of the more active investment markets in the Midwest, but only a handful of properties changed hands in the quarter, after greater sales volume at midyear. The total number of sales thus far in 2023 fell 45 percent from the same period last year. The sale of Class A assets has been light to this point in the year after upper-tier assets made up 45 percent of the total sales in 2022. The shift in the transaction mix towards Class B and Class C properties put downward pressure on overall prices. The median sales price year to date is \$113,500 per unit.

EMPLOYMENT

- Employment growth in Kansas City slowed in recent months after posting solid gains in the previous quarter. Area employers added 25,600 workers in the past 12 months, expanding the local labor market by 2.3 percent.
- Recent job growth has been well-dispersed across a variety of industries in the employment market. The leisure and hospitality sector posted the greatest expansion, adding 4,900 positions during the past year, a gain of 4.3 percent.
- The locally operated bio-tech company, MilliporeSigma, recently invested \$25 million into a 98,000-square-foot expansion at the company’s facility in Lenexa. The added space is expected to create 60 new jobs, building on an existing local workforce of 300 employees.
- **FORECAST:** Growth in the local labor market is expected to return closer to long-term average in 2023, following elevated gains in 2021 and 2022. Area employers are forecast to add 18,000 workers this year, an annual increase of 1.6 percent.

Area employers added 25,600 workers in the past 12 months.

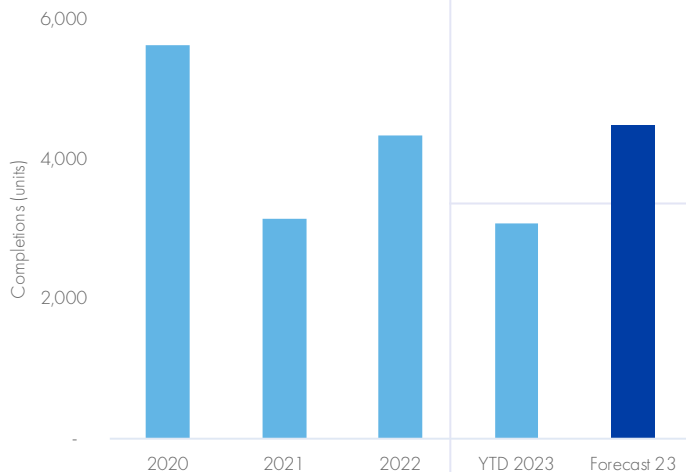
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers delivered nearly 3,100 units year to date.

DEVELOPMENT TRENDS



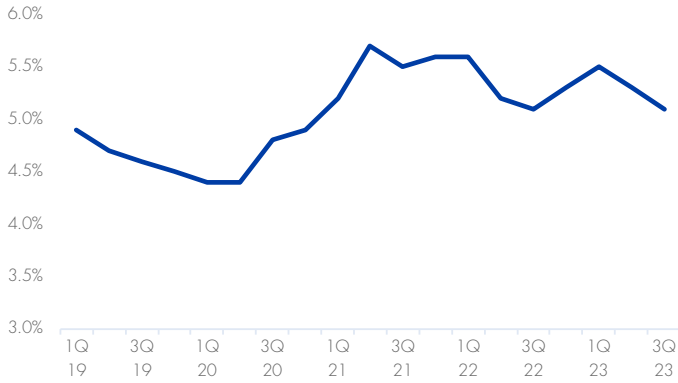
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- The pace of multifamily completions accelerated in recent months, as 1,380 units came online during the third quarter, up from roughly 380 units in the previous quarter. Developers delivered projects totaling nearly 3,100 units year to date, similar to levels during the same period in 2022.
- Projects totaling roughly 6,150 units are currently under construction in Kansas City, up 18 percent from one year ago. Some of the most active areas for new construction are counties on the Missouri side of the market, including Jackson County and Clay County.
- Permitting levels dipped in recent months. Developers pulled permits for approximately 765 multifamily units in the last three months, down 16 percent from the previous quarter.
- **FORECAST:** The pace of deliveries is expected to continue to accelerate in the closing months of 2023. Projects totaling 4,500 units are forecast to come online this year, a slight increase from the annual delivery total in 2022.

Local vacancy dipped 20 basis points in the third quarter.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

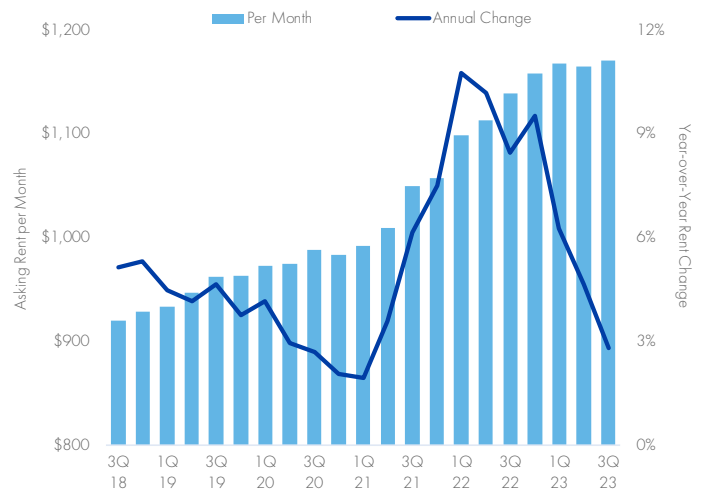
- Vacancy continued to tick lower in recent months. The rate dipped 20 basis points in the third quarter to 5.1 percent. Year over year, vacancy is unchanged.
- The region’s largest submarket, Overland Park South, posted substantial vacancy improvement in the past year. During the past 12 months, the vacancy rate in this submarket fell 90 basis points to 6.6 percent. Additionally, vacancy in the neighboring Overland Park North submarket declined by 50 basis points in the past year to 3.8 percent.
- Vacancy for Class A properties continues to improve even as developers have been actively delivering new units. The vacancy rate in top-tier assets declined 40 basis points during the past 12 months to 6.5 percent. From 2019 to 2022, Class A vacancy averaged 6.8 percent.
- **FORECAST:** The vacancy rate is projected to rise in the final months of the year, as multifamily completions accelerate. Area vacancy is expected to finish 2023 at 5.4 percent, up 10 basis points for the full year.

RENTS

- Asking rents trended higher in recent months, after a dip in the second quarter. Area rents rose 0.5 percent during the third quarter to \$1,171 per month. Following rapid rent growth in 2021 and 2022, rent gains have been modest to this point in 2023. Year over year, apartment rents in Kansas City advanced 2.8 percent.
- Rents rose in nearly every submarket throughout the market in recent periods. The Shawnee/Lenexa submarket is posting some of the steepest rent increases throughout the region. In the past 12 months, rents in this submarket advanced 4.7 percent to \$1,281 per month.
- Rent growth in top-tier properties has tapered off in recent periods. After rising 20 percent from the beginning of 2021 to the end of 2022, asking rents for Class A properties rose just 2.4 percent during the past year to \$1,441 per month.
- **FORECAST:** Local rents are expected to record steady gains in the last few months of 2023. Asking rents are forecast to finish the year at \$1,185 per month, advancing 2 percent.

Year over year, apartment rents in Kansas City advanced 2.8 percent.

RENT TRENDS



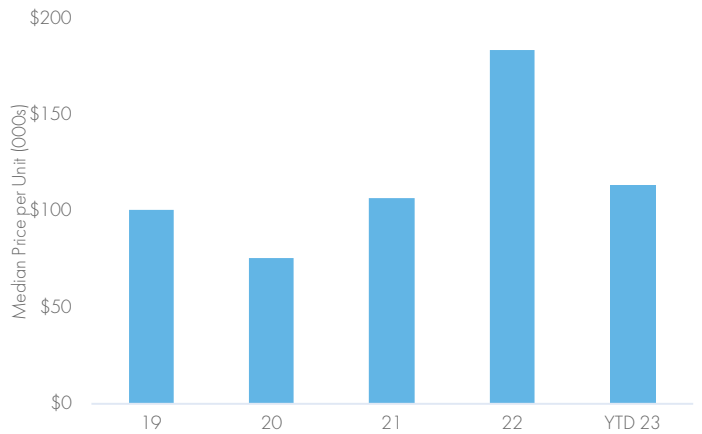
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Transaction volume in the Kansas City multifamily investment market slowed during the third quarter. The total number of sales to this point in the year is down 45 percent from levels posted one year ago.
- Following peak pricing last year, sales prices thus far in 2023 have returned closer to the region’s historical norms. The median price to this point in the year is \$113,500 per unit, down 38 percent from last year.
- The transaction mix to this point in 2023 has included almost exclusively middle-tier and lower-tier properties after Class A assets accounted for roughly 45 percent of sales in 2022.
- Cap rates continued to rise in recent months. Cap rates averaged 6.25 percent during the third quarter, up approximately 25 basis points from levels posted in the preceding quarter.

The median price during the last nine months is \$115,300 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

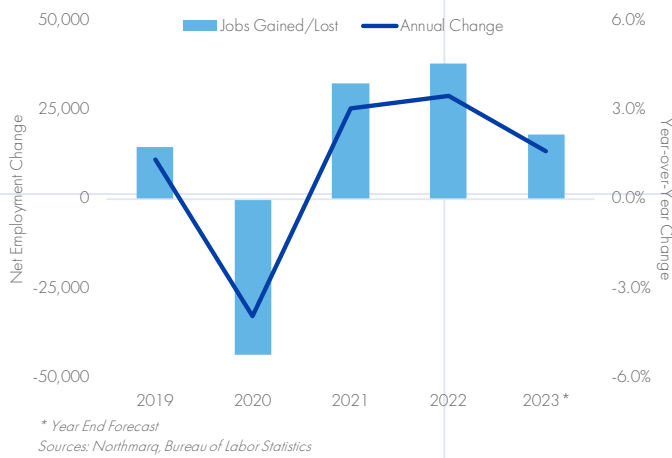
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Lennox of Olathe	1890 N Lennox Drive., Olathe	384	\$61,500,000	\$160,156
Hunter's Pointe	9800 W 118th St., Overland Park	333	\$58,600,000	\$175,976
Fairways Apartment Homes	3460 NE Akin Blvd., Lee's Summit	274	\$48,000,000	\$175,182
Timber Lakes Apartment	11201 Montgall Ave., Kansas City	322	\$42,000,000	\$130,435

LOOKING AHEAD

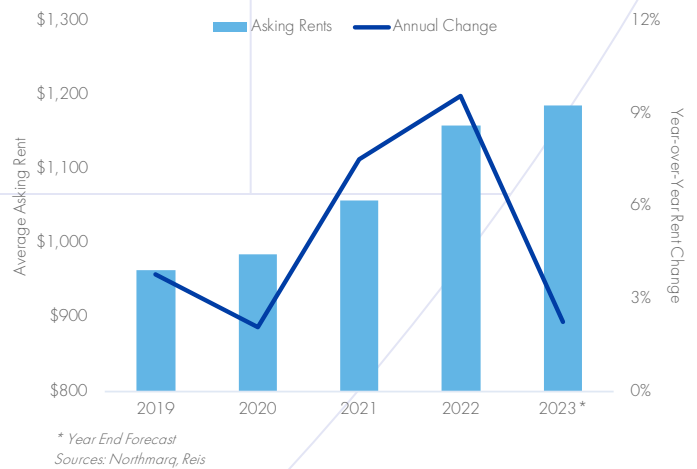
Local vacancy conditions will likely soften in the closing months of 2023, as an active pace of new supply will put some upward pressure on the rate. Developers are expected to accelerate the pace of multifamily deliveries during the fourth quarter, bringing annual completions to roughly 4,500 units, up slightly from last year's levels. Multifamily development will continue into next year, with roughly 3,500 units scheduled to come online in 2024. The vacancy rate is projected to tick up to 5.4 percent by the end of 2023, slightly higher than the region's trailing five-year average of 5.1 percent. Annual rent growth will be modest in 2023 but should trend closer to the region's long-term trend of around 3 percent to 4 percent in the coming years.

While the annual sales volume in 2023 will lag levels posted last year, Kansas City will finish the year as one of the Midwest region's most active multifamily investment markets. An early look into the fourth quarter reflects that there are already several deals under contract for larger assets of more than 200 units. This signal of investors beginning to move off of the sidelines could carry over into 2024. While Class B and Class C assets will likely continue to make up most deals in the near future, sales velocity for top-tier properties may accelerate during the second half of 2024 and into 2025 as new projects get leased up. Investors have shown a willingness to pursue top-tier assets, as Class A properties traded at an elevated clip prior to this year.

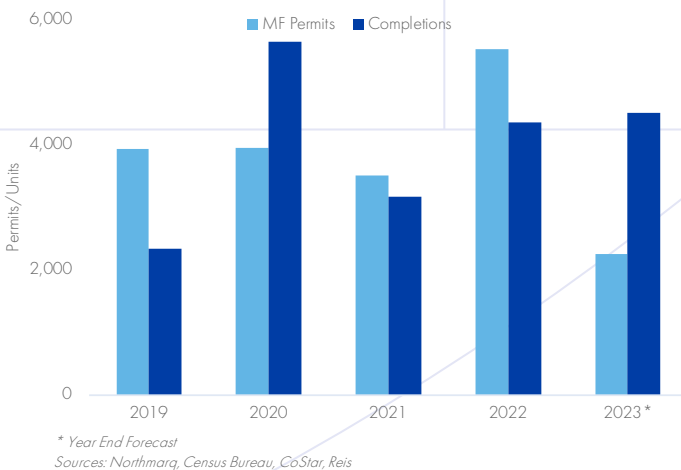
EMPLOYMENT FORECAST



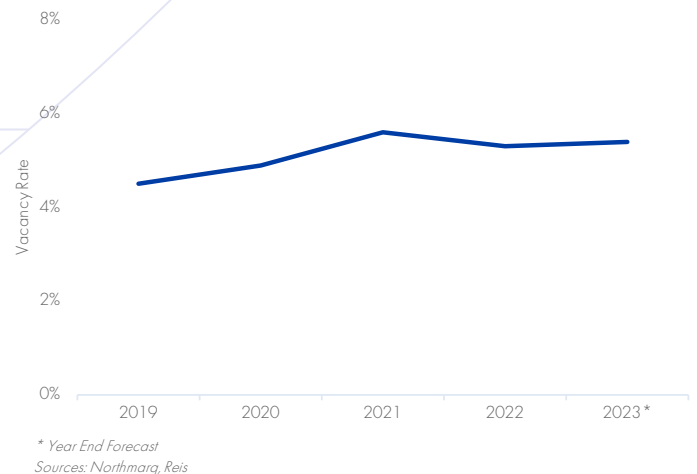
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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