

# Steady rent increases recorded in 2023, likely in 2024

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **6,138**

UNITS DELIVERED (2023) **4,360**

## MARKET FUNDAMENTALS



VACANCY RATE **5.5%**

YEAR-OVER-YEAR CHANGE **+20bps**

ASKING RENTS **\$1,190**

YEAR-OVER-YEAR CHANGE **+2.7%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$128,600**

## HIGHLIGHTS

- Despite a modest vacancy uptick at the end of the year, the Kansas City multifamily market posted a healthy performance in 2023. Construction has been above the region's long-term trend but has been consistent in each of the past two years.
- Asking rents rose 1.6 percent in the fourth quarter to \$1,190 per month. Area rents advanced 2.7 percent in 2023, following steeper increases in the previous two years.
- Transaction volume in the Kansas City multifamily market was light in 2023, with the steepest activity declines recorded in the Class A segment. Total sales velocity was trimmed approximately in half from 2022 to 2023, and the median price during the past 12 months was \$128,600 per unit.
- Vacancy conditions softened in the final months of the year after improving in the preceding two quarters. The vacancy rate rose 40 basis points in the last three months and ended the year at 5.5 percent.

## KANSAS CITY MULTIFAMILY MARKET OVERVIEW

The Kansas City multifamily market concluded a very steady 2023 with a modest vacancy increase during the fourth quarter. Vacancies had tightened in each of the prior two quarters, but the rate rose in the final few months of the year. The modest quarter-to-quarter fluctuations should not mask the overall stability in the market. Vacancy in Kansas City has not dipped below 4.4 percent or topped 6 percent at any point during the past five years. Operators have benefitted from this predictability in renter demand, increasing rents at a healthy pace in 2023 following stronger gains in each of the prior two years. Supply conditions have also reflected the stability in the market; developers delivered projects totaling approximately 4,350 units in 2023, nearly identical to the completions total in the previous year. Similar levels of construction are expected in the coming year.

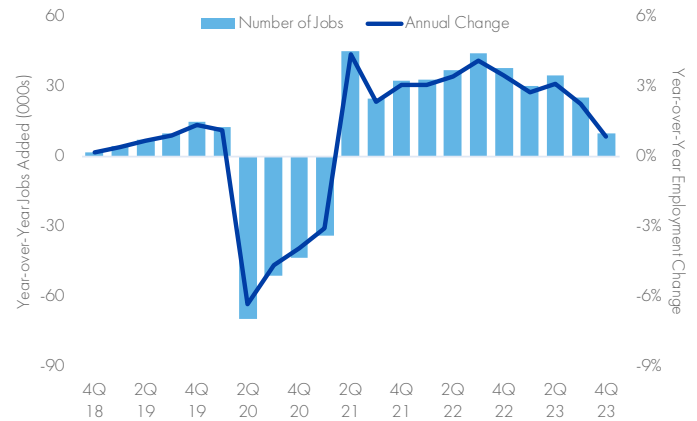
While stability prevailed throughout much of the operational performance in 2023, the investment market lagged. About half as many properties traded in 2023 as changed hands in the prior year, with a steep decline in the number of Class A sales. With Class B and Class C assets accounting for the bulk of the transactions, prices fell, but trends were mixed. Class B properties built in the 1990s traded for approximately \$167,000 per unit, nearly identical to 2022 levels. Pricing in the Class C segment was harder hit, with most of these properties trading within a range of between \$75,000 per unit and \$96,000 per unit, after several older assets sold for more than \$100,000 per unit in 2022. Cap rates rose by more than 100 basis points in 2023, with most properties selling with cap rates near 4.75 percent at the beginning of the year and closer to 5.75 percent in the second half.

## EMPLOYMENT

- The pace of job growth slowed in 2023 following a rapid rebound in prior years. Area employers added 9,900 workers to payrolls in 2023, a 0.9 percent annual gain.
- The bulk of the market’s employment gains were concentrated across a handful of industries during the past year. The healthcare and social assistance sector posted the greatest gains in the region, growing by 2.1 percent with the addition of more than 3,000 jobs in 2023. More than 20,000 healthcare jobs have been added in Kansas City since 2015.
- Eastern Airlines is relocating its headquarters from Pennsylvania to a facility near the Kansas City International Airport. The company has had a presence in Kansas City since 2021, and this move is expected to result in the creation of 165 new jobs in the area.
- **FORECAST:** Area employers are forecast to continue to add workers in 2024, with growth likely to occur across a greater number of industries in the coming year. Total employment is expected to expand by 1 percent in 2024, with the addition of about 11,500 net new jobs.

Area employers added 9,900 workers to payrolls in 2023.

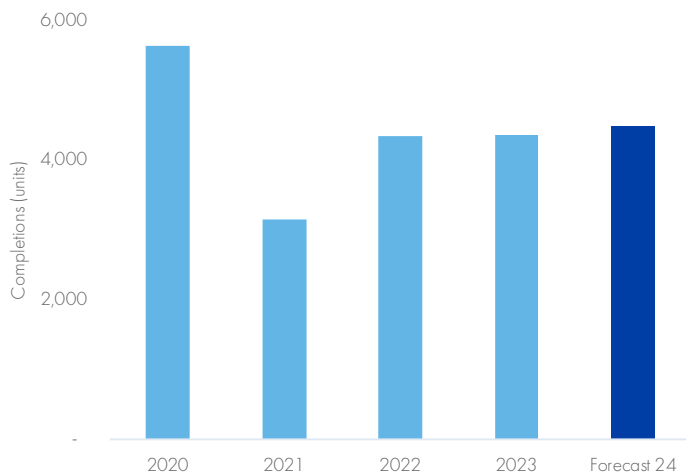
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling approximately 6,150 units were under construction.

### DEVELOPMENT TRENDS



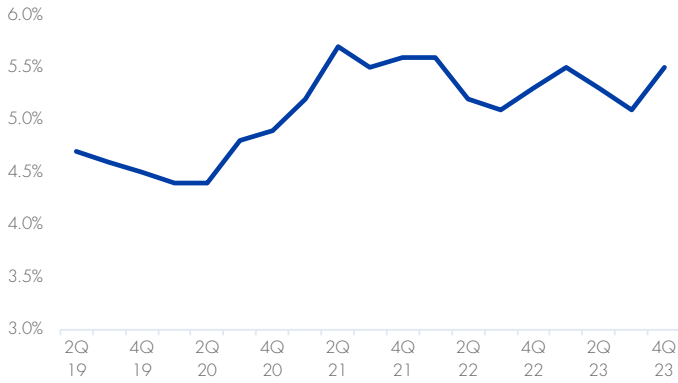
Sources: Northmarq, CoStar, Reis

## DEVELOPMENT & PERMITTING

- Developers have been completing new projects at a steady pace. During the fourth quarter, completions totaled approximately 1,250 units, slightly lower than in the prior period. For the full year, projects totaling more than 4,350 units came online, nearly identical to 2022 levels of inventory growth.
- Elevated permitting levels in 2022 resulted in a crowded pipeline throughout much of the last year. Projects totaling approximately 6,150 units were under construction at the end of 2023, similar to levels during the third quarter.
- Multifamily permitting cooled considerably in 2023 after peaking in the prior year. Developers pulled permits for more than 2,700 units in 2023; in the trailing 5-years, developers pulled permits for an average of approximately 4,150 units per year.
- **FORECAST:** Multifamily projects totaling 4,500 units are expected to come online in 2024. This would mark a third consecutive year where completions topped 4,000 units.

## Area vacancy increased by 20 basis points in 2023.

### VACANCY TRENDS



Sources: Northmarq, Reis

### VACANCY

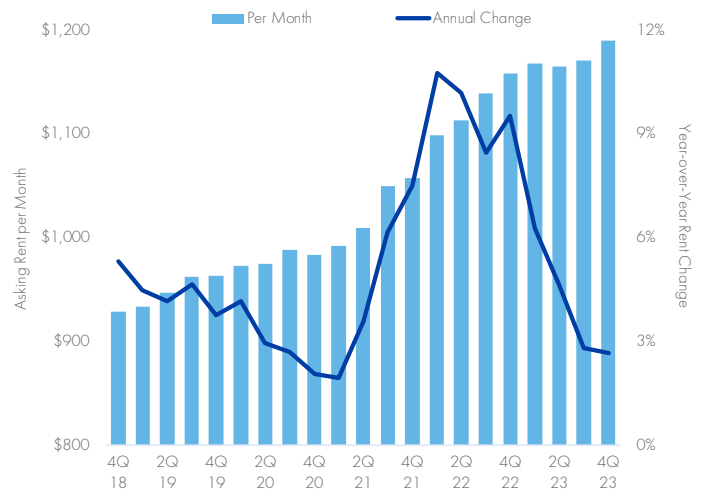
- After trending lower in the middle of the year, vacancy rose 40 basis points during the fourth quarter to 5.5 percent. Area vacancy increased by 20 basis points in 2023.
- Vacancy trends were mixed across Kansas City in 2023, with the Platte submarket posting the greatest improvement. The vacancy rate in this outlying, but well-populated submarket improved by 120 basis points in 2023 to 4.8 percent.
- While deliveries have been elevated in recent years, the Class A vacancy rate posted some modest improvement in 2023. The vacancy rate in the top tier dipped 10 basis points during the past 12 months to 6.9 percent. Further tightening is likely in the coming years; the Class A rate has historically averaged from 5.0 to 5.5 percent.
- **FORECAST:** Area vacancy is forecast to post similar performance in 2024 as it did during the prior year. The rate is forecast to inch up 20 basis points in the year ahead, reaching 5.7 percent. Vacancies in Kansas City have remained between 4.4 percent and 5.9 percent since 2018.

### RENTS

- Asking rents continued to rise at a steady pace in recent months. Apartment rents in Kansas City increased by 1.6 percent during the fourth quarter to \$1,190 per month. Rents rose 2.7 percent in 2023, following steeper increases in spikes in the prior two years.
- Rents trended higher in nearly every Kansas City submarket during the past 12 months. The North Kansas City submarket posted the steepest increase, with the Shawnee/Lenexa and Raytown areas also posting above-average rent growth.
- Combined asking rents for Class B and Class C assets rose at a steady pace throughout 2023, closely tracking trends recorded for overall rent growth. Combined rents in middle-tier and lower-tier assets advanced 2.7 percent during the past 12 months to \$901 per month.
- **FORECAST:** Rent gains in the year ahead should closely track 2023 levels. Asking rents are expected to finish 2024 at \$1,225 per month, up nearly 3 percent from current levels.

## Rents rose 2.7 percent in 2023.

### RENT TRENDS



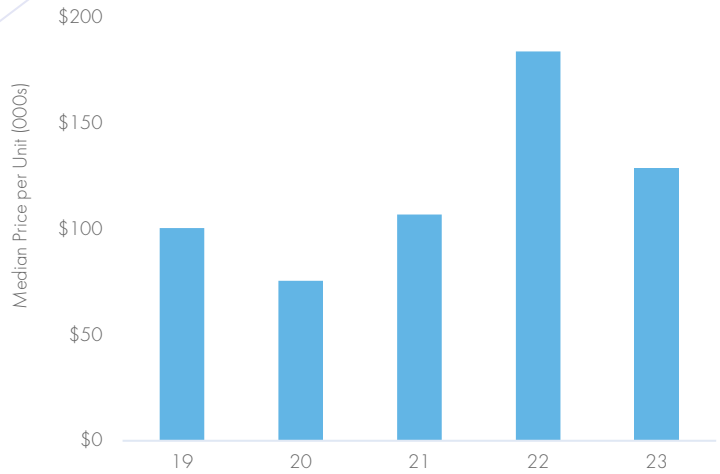
Sources: Northmarq, Reis

## MULTIFAMILY SALES

- Sales volume slowed throughout much of 2023, with transaction counts down nearly 60 percent from the first half to the second half. Annual sales in 2023 declined 53 percent from levels recorded in the prior year.
- The median price in 2023 was \$128,600 per unit, 30 percent lower than the median price in 2022. Some of the decline can be attributed to the slowing activity among Class A assets. Top-tier properties made up just 10 percent of the transactions in 2023 after accounting for more than 40 percent of sales in 2022.
- Cap rates have trended higher in recent quarters. Most properties traded with cap rates ranging between 4.75 percent and 5.75 percent in 2023. Cap rates averaged 3.8 percent for the full year in 2022.

The median price in 2023 was **\$128,600 per unit.**

### INVESTMENT TRENDS



Sources: Northmarq, CoStar

## RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

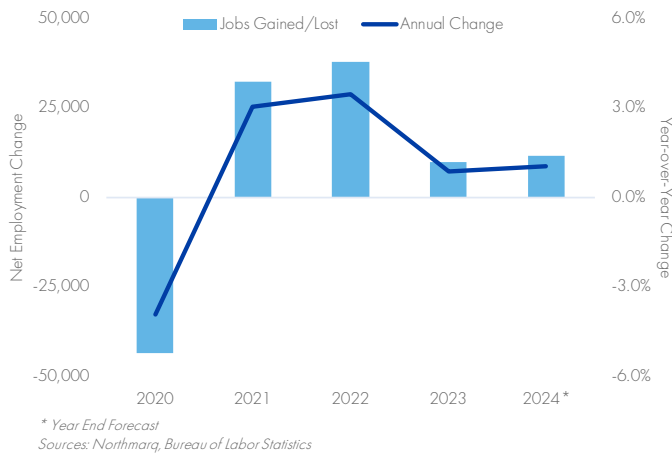
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Madison Overland Park	13900 Newton St., Overland Park	200	\$44,340,000	\$221,700
Riverside Heights	4424 NW Hon Dr., Riverside	108	\$8,850,000	\$81,944
Willowind	3927 Willow Ave., Kansas City	94	\$7,040,000	\$74,894
Chateau D'Mons	4405 NW D'Mons Dr., Riverside	60	\$4,400,000	\$73,333

## LOOKING AHEAD

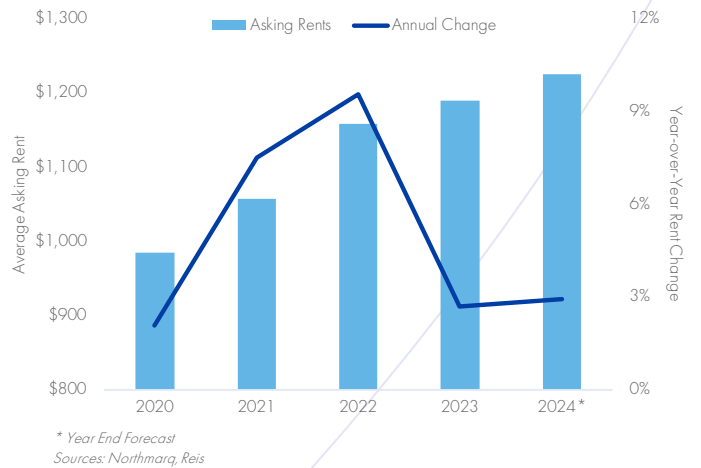
While many markets across the country are recording wild swings in operational performance, multifamily properties in Kansas City are expected to record another year of stable conditions in 2024. Developers have been bringing new units online at a remarkably consistent pace, a trend that should continue in the coming year. Deliveries in 2024 should closely track totals from prior years, and a steady pace of job growth will support new renter demand. These conditions will likely support another year of rent growth in the region. Class A properties are poised to record the strongest improvements, as continued lease-up activity and a healthy economy should allow operators to achieve elevated rental rates.

Many of the forces that should support property performance will also encourage investors to move off of the sidelines in 2024. With vacancy levels likely to remain in a tight range and rents forecast to continue to push higher, investor sentiment should brighten. Cap rates have trended higher, and with interest rates stabilizing and likely to decline in the second half of the year, more potential acquisitions should pencil. The most likely source of an increase in transactions is in the Class A space. The number of transactions involving Class A properties was down about 85 percent from average levels in 2023, and a rebound in the coming year appears likely.

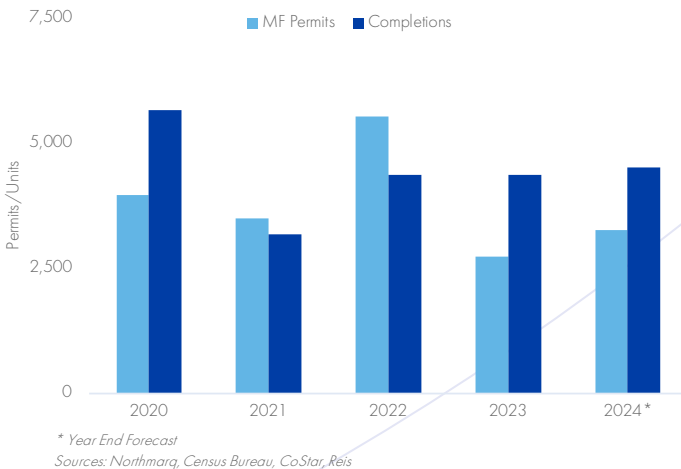
### EMPLOYMENT FORECAST



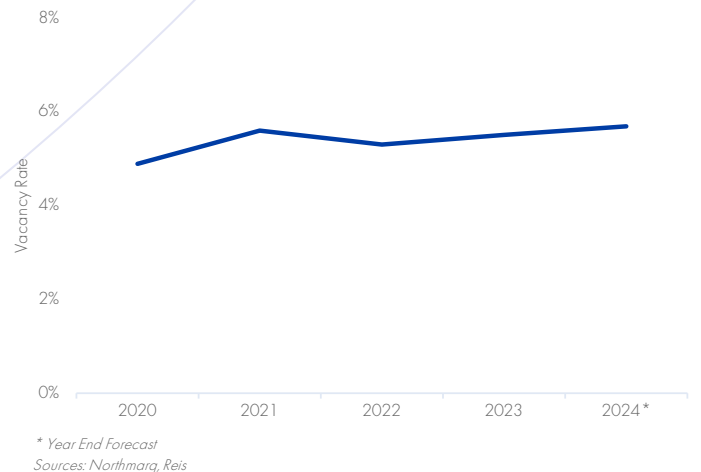
### RENT FORECAST



### CONSTRUCTION & PERMITTING FORECAST



### VACANCY FORECAST





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