

Greater Kansas City Multifamily

Rents and Vacancies Both Tick Higher to Close 2018

Highlights

- > The Kansas City multifamily market recorded mixed performance during the fourth quarter and for the full year of 2018. Vacancy inched higher, but rents posted strong gains and absorption was healthy. Apartment builders were active, creating some supply-side pressures in a few submarkets.
- > Vacancy ended 2018 at 5 percent, up 60 basis points from one year earlier. The vacancy rate rose 20 basis points in the fourth quarter.
- > The past year proved to be a particularly strong period for rent growth, with asking rents advancing by 5.2 percent to \$929 per month. Class A properties recorded an average annual rent increase of 5.4 percent.
- > Sales of apartment buildings were largely consistent in 2018. Activity was steady from quarter to quarter, although the overall number of properties sold in 2018 was a bit lower than in 2017. Class A and Class B cap rates compressed slightly, averaging 5.5 percent for the year. Cap rates in Class C buildings have remained above 6 percent.

Kansas City Multifamily Market Overview

The Kansas City multifamily market generally strengthened in 2018. Rents advanced by more than 5 percent in 2018, matching gains from 2016 as the strongest annual increases in more than two decades. There was a modest uptick in vacancy, but that rise was attributable to a fairly active period of new construction and not a drop-off in demand. Net absorption of units has been consistent in the past three years, following the expansion trends in the local labor market. Looking ahead to 2019, the pace of job growth will likely slow a bit, keeping consistent with forecasts for the national economy. This could cause fewer apartments to be absorbed, but the pace of new development is also expected to level off, which should allow for vacancy to remain near the current rate of 5 percent.

Market Indicators

	4Q/2018
Vacancy	↑
Rents	↑
Transaction Activity.....	→
Price Per Unit.....	↓
Cap Rates.....	→

Summary Statistics

Kansas City Market

Vacancy Rate.....	5.0%
- Change from 4Q 2017 (bps).....	+60
Asking Rents (per month).....	\$929
- Change from 4Q 2017.....	+5.2%
Median Sales Price (per unit YTD).....	\$78,600
Average Cap Rate (Class A & B YTD).....	5.5%

Kansas City Multifamily Market Overview (cont.)

The investment market remained healthy throughout 2018, with a steady pace of activity without many peaks or valleys. Activity was very consistent from quarter to quarter, although the mix of assets that sold skewed to older, Class C buildings in the second half of the year. As a result of the changing

composition of property sales, the median price per unit dipped in 2018. Cap rates compressed, ranging from the low- to mid-5-percent range for Class A buildings to above 6 percent for Class C properties.

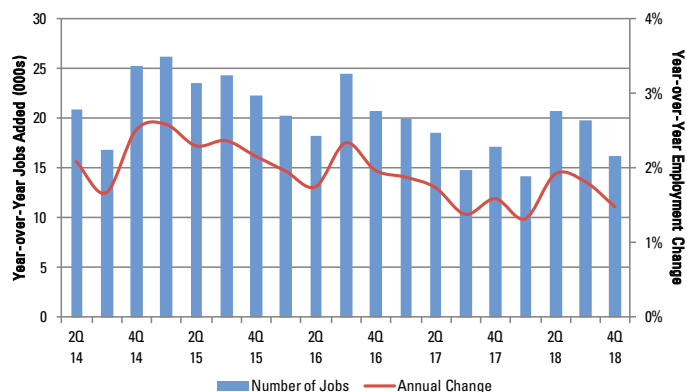
Submarket Statistics

Submarket Name	4Q 2018 Vacancy	4Q 2017 Vacancy	Annual Vacancy Change (BPS)	4Q 2018 Rents	4Q 2017 Rents
Olathe	2.3%	2.6%	(30)	\$865	\$839
Raytown	2.5%	2.6%	(10)	\$779	\$768
Merriam/Mission/Prairie Village	3.0%	1.7%	130	\$922	\$847
Southwest Kansas City	3.0%	10.1%	(710)	\$696	\$658
Wyandotte	3.3%	3.2%	10	\$742	\$721
Independence	3.7%	3.9%	(20)	\$739	\$720
North Kansas City	3.8%	3.7%	10	\$750	\$726
Grandview/Far South	4.0%	4.2%	(20)	\$788	\$771
Overland Park North	4.5%	3.6%	90	\$997	\$924
Gladstone/Liberty	4.7%	4.5%	20	\$780	\$760
Midtown	4.9%	5.0%	(10)	\$734	\$702
Shawnee/Lenexa	5.1%	4.9%	20	\$988	\$957
Overland Park South	5.4%	5.3%	10	\$1,179	\$1,166
Platte	5.5%	4.2%	130	\$952	\$861
Lee's Summit	5.9%	4.1%	180	\$931	\$939
University/Plaza	8.4%	4.6%	380	\$1,098	\$1,024
Downtown/East Kansas City	13.1%	6.9%	620	\$1,248	\$1,078

Employment

- > Employers in Kansas City expanded payrolls by 1.5 percent in 2018, adding 16,200 jobs. Growth has averaged approximately 1.7 percent per year since 2016.
- > While total employment moderated a bit in 2018, growth in blue-collar sectors such as construction, manufacturing, and warehousing gained momentum. These sectors combined to expand by 2.7 percent in 2018, following an increase of 2.1 percent in 2017.
- > The health care and social assistance sector has been a steady source of growth for the past several years. In 2018, the sector expanded by 1.7 percent with the addition of 2,300 positions. In the past five years, the health care and social assistance sector has grown by nearly 14,000 jobs.
- > **Forecast:** Employers in Kansas City are forecast to add approximately 15,000 jobs in 2019, representing payroll growth of 1.4 percent.

Employment Overview



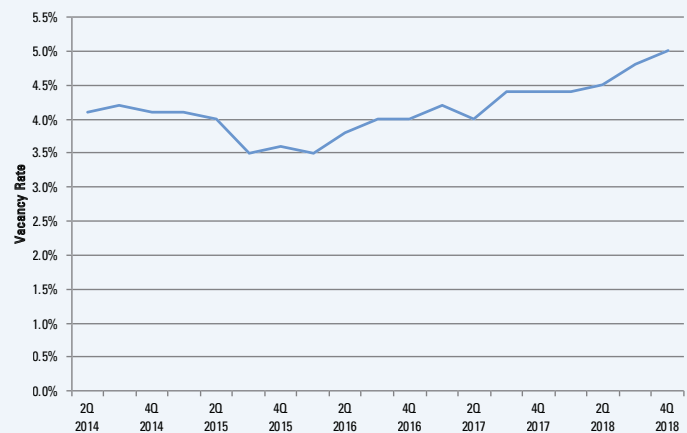
Sources: NorthMarq, Bureau of Labor Statistics

Growth in blue-collar sectors gained momentum

Vacancy

- > Vacancy ticked up 20 basis points to 5 percent during the fourth quarter. The rate had remained within the mid-3 percent to high-4 percent range since 2013 before edging higher in recent quarters.
- > Vacancy rose 60 basis points in 2018, following an increase of 40 basis points in the preceding year. The rate has been pushed higher by the development of new units, where inventory levels have increased by 2.7 percent per year in each of the past two years.
- > Vacancy in Olathe has remained consistently low over the past several years. In 2018, vacancy in the Olathe submarket fell 30 basis points to 2.3 percent.
- > **Forecast:** Vacancy is forecast to inch higher in 2019. The rate is expected to tick up 10 basis points in the year ahead to 5.1 percent.

Vacancy Trends



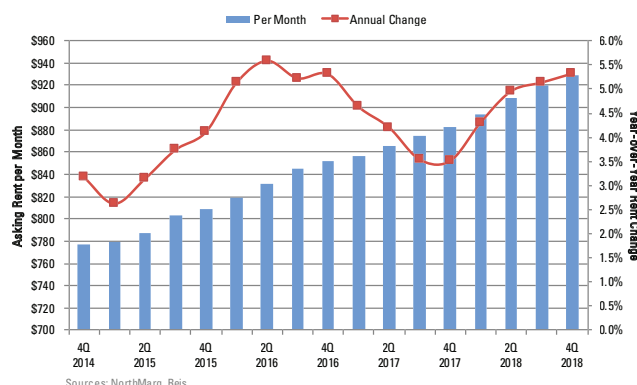
Sources: NorthMarq, Reis

Vacancy ticked up 20 basis points to 5 percent during the fourth quarter

Rents

- > Asking rents in Kansas City rose by 5.2 percent in 2018, reaching \$929 per month. This annual increase was an acceleration from the pace recorded in the preceding year. Asking rent growth has averaged 4.3 percent annually during the past five years.
- > Class A properties recorded the strongest rent growth in 2018, advancing by 5.4 percent to \$1,103 per month. Asking rents in Class A properties topped \$1,000 per month in mid-2016 and have expanded at an average annual pace of nearly 5 percent in the subsequent periods.
- > More than 3,000 units have come online in the Downtown/East Kansas City submarket since 2017, which has caused vacancy in the area to rise, but the development of new, high-end units has also pushed rents higher. Asking rents in the submarket spiked by more than 10 percent in 2018, reaching \$1,189 per month.
- > **Forecast:** After posting gains in excess of 5 percent in two of the past three years, asking rents are expected to rise by approximately 4 percent in 2019. Asking rents are forecast to end 2019 at \$966 per month.

Rent Trends



Class A properties recorded the strongest rent growth in 2018

Development and Permitting

- > Developers delivered nearly 3,700 apartments in 2018, an increase of about 5 percent from 2017 construction levels.
- > Approximately 3,800 apartment units were under construction at the end of 2018, with several projects likely to be delivered in 2019. More than 1,400 units are under construction in Overland Park, with another 950 units under way in Downtown.
- > After a slow start to 2018, multifamily permitting picked up in the second half of the year. Approximately 3,700 multifamily permits were pulled in 2018, including permits for more than 1,200 units issued during the fourth quarter.
- > **Forecast:** Developers are forecast to deliver approximately 3,200 apartment units to the Kansas City market in the year ahead, down about 15 percent from the 2018 completions total.

Development Trends



After a slow start to 2018, multifamily permitting picked up in the second half of the year

Multifamily Sales

- > Sales activity during the fourth quarter was nearly identical to levels from the third quarter. The mix of assets that changed hands in the final three months of the year was somewhat different, however, with Class C properties accounting for more than half of the total transactions during the fourth quarter.
- > Sales of older Class C buildings caused the median price of complexes sold during the fourth quarter to dip, after increasing during the first nine months of the year. The median price for all properties sold in 2018 was approximately \$78,600 per unit. The median price in sales of Class A buildings was \$137,000 per unit in 2018, while the median price in Class B buildings was \$84,500 per unit.
- > Cap rates for Class A and Class B buildings averaged approximately 5.5 percent in 2018, compressing slightly from 2017 levels. Cap rates in Class C buildings have remained above 6 percent.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Sales of older Class C buildings caused the median price of complexes sold during the fourth quarter to dip

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

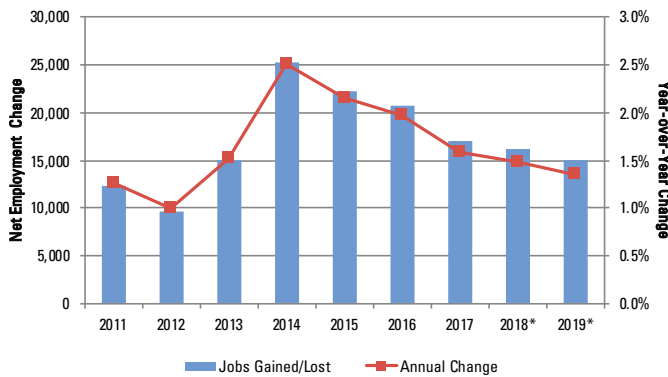
Property Name	Street Address	Units	Sales Price	Price/Unit
Arium Overland Park	12800 W 134th St., Overland Park	402	\$73,915,000	\$183,868
Signature Place	9251 W 121st Pl., Overland Park	232	\$27,550,000	\$118,750
View High Lake	10708 E 98th Ter., Kansas City	309	\$25,800,000	\$83,495
Retreat of Shawnee	11128 W 76th Ter., Shawnee	342	\$25,000,000	\$73,099
Ridge at Chestnut	8701 Chestnut Cir., Kansas City	388	\$23,100,000	\$59,536

Looking Ahead

The outlook for the Kansas City multifamily market is mixed for 2019. Renter demand drivers are expected to remain strong, with employers forecast to continue to add workers. The pace of job growth will likely slow a bit, continuing a trend that has repeated in recent years. Job growth peaked in 2014, when more than 25,000 positions were added; the forecast for 2019 calls for gains closer to 15,000 jobs. While the rate of job growth is easing, the pace of new construction is remaining quite consistent. Deliveries averaged approximately 3,300 units per year from 2015-2018 and another 3,200 units are forecast to come online this year.

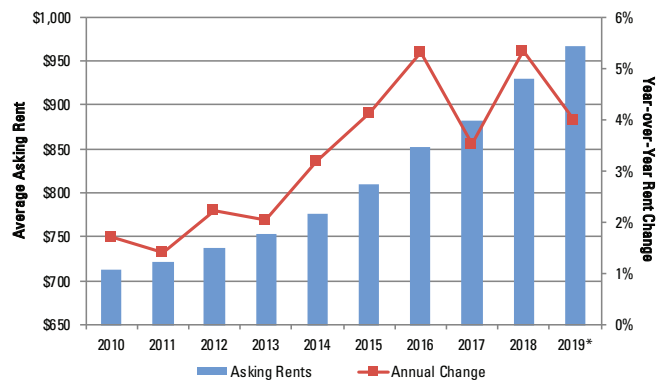
The consistency in property fundamentals is being reflected in the local investment market. The number of sales has inched lower in each of the past two years, and the mix of assets changing hands has varied, but the market is healthy and properties will continue to be acquired in the year ahead. Cap rates compressed in 2018 but may level off in the coming quarters. With sales activity picking up in Class C buildings at the end of last year, a continuation of that trend could conceivably cause the average cap rate to tick higher based solely on the mix of properties that sell.

Employee Forecast



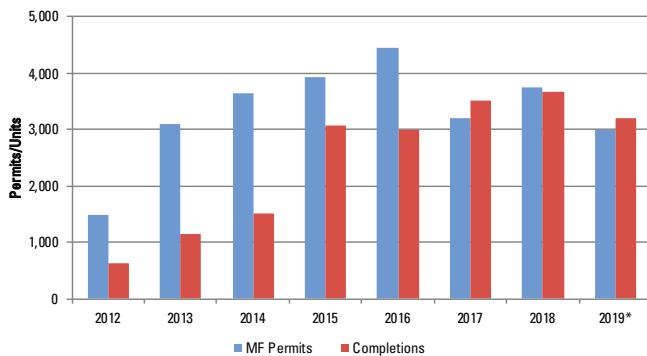
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



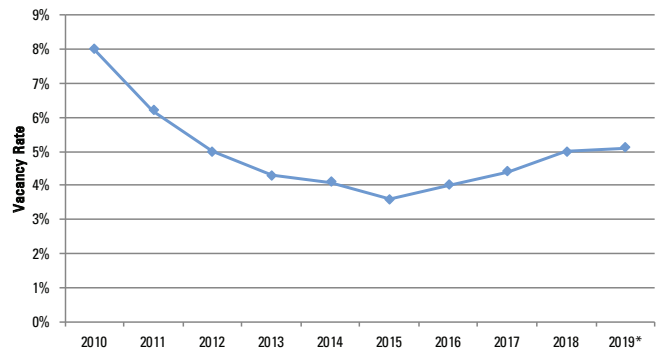
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio of more than \$55 billion and the multi-year tenure of our more than 500 people.

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