

Greater Kansas City Multifamily

Vacancy Ticks Lower, Rents Rise to Start 2019

Highlights

- > The Kansas City apartment market began 2019 on an upswing, with vacancy tightening, rents rising, and property sales prices pushing higher.
- > Vacancy dipped 10 basis points during the first quarter, reaching 4.9 percent. Despite the modest decline, the rate is up 50 basis points compared to one year ago.
- > Asking rents reached \$934 per month in the first quarter, 4.5 percent higher than one year earlier.
- > Quarterly sales velocity was consistent throughout 2018, and transaction counts in the first quarter of this year matched levels from prior periods. The median price pushed up to approximately \$120,500 per unit in the first quarter, with cap rates averaging 5.6 percent.

Kansas City Multifamily Market Overview

The Kansas City multifamily market strengthened during the first quarter, supported by a slower rate of inventory growth than in recent periods. Deliveries of apartments during the first quarter were limited, but there are several projects currently under construction, particularly in Downtown Kansas City and in Overland Park. As supply growth slowed in the first quarter, vacancy ticked lower, dipping below 5 percent. The rate is expected to rise in the second half of the year as competition from new units gains momentum. Rents have increased at a healthy pace in the past year, but the first-quarter advance was modest, suggesting a slowdown is likely in 2019. Areas where construction is limited will likely maintain fairly stable vacancies and could record above-average rent increases.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	↓
Rents	↑
Transaction Activity.....	→
Price Per Unit.....	↑
Cap Rates.....	↑

Summary Statistics

Kansas City Market

Vacancy Rate.....	4.9%
- Change from 1Q 2018 (bps).....	+50
Asking Rents (per month).....	\$934
- Change from 1Q 2018.....	+4.5%
Median Sales Price (per unit YTD).....	\$120,500
Average Cap Rate (YTD).....	5.6%

Kansas City Multifamily Market Overview (cont.)

The local investment market was very consistent throughout 2018 and the consistency carried over into the beginning of this year. A similar number of properties have sold from quarter-to-quarter since 2018. While the number of sales has been consistent, there was a change in the mix of properties that

sold at the beginning of this year, with Class A and Class B properties accounting for more than half of the sales during the first quarter. This pulled the median price higher, even though the average cap rate in the properties that sold stayed fairly consistent in the mid-5-percent range.

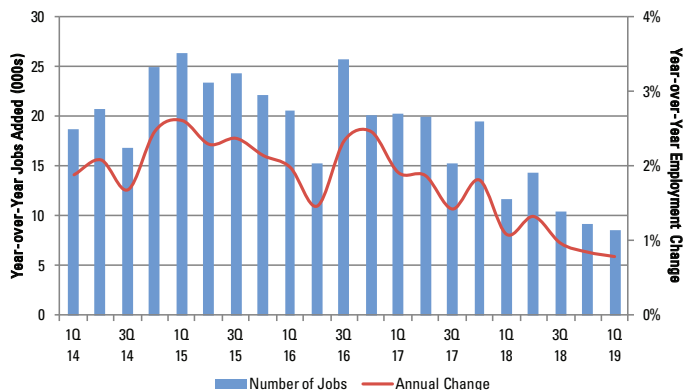
Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
Olathe/Gardner	2.2%	2.6%	(40)	\$874	\$847
Raytown	2.3%	2.5%	(20)	\$778	\$775
Southwest Kansas City	2.8%	8.7%	(590)	\$699	\$687
Merriam/Mission/Prairie Village	3.1%	1.8%	130	\$913	\$856
Wyandotte	3.3%	3.1%	20	\$752	\$728
Grandview/Far South	3.7%	4.2%	(50)	\$795	\$770
Independence	3.7%	4.0%	(30)	\$739	\$722
North Kansas City	3.9%	3.4%	50	\$756	\$733
Midtown	4.1%	4.2%	(10)	\$734	\$707
Gladstone/Liberty	4.5%	4.1%	40	\$775	\$766
Overland Park North	4.5%	4.7%	(20)	\$1,003	\$969
Shawnee/Lenexa	5.1%	4.8%	30	\$1,016	\$965
Platte	5.2%	4.2%	100	\$936	\$883
Overland Park South	5.3%	5.3%	-	\$1,179	\$1,174
Lee's Summit	5.8%	3.1%	270	\$1,007	\$911
University/Plaza	7.7%	4.8%	290	\$1,095	\$1,032
Downtown/East Kansas City	13.5%	8.0%	550	\$1,241	\$1,104

Employment

- > Employers in Kansas City added 8,500 net new jobs during the past 12 months, an expansion of 0.8 percent. This is a slightly slower pace than was being recorded one year ago when the annual growth rate was 1.1 percent.
- > Expansion has been concentrated in the health care and social assistance sector, which has expanded by more than 5 percent in the past year, adding 7,000 jobs.
- > One area where employment growth has gained momentum is in the manufacturing sector, which added 2,000 jobs in the past year, a 2.6 percent expansion.
- > **Forecast:** Employers in Kansas City have been in expansion mode for the past several years, although the pace of additions slowed in 2018. This year, employers are expected to expand payrolls by 1.4 percent with the addition of approximately 15,000 jobs.

Employment Overview



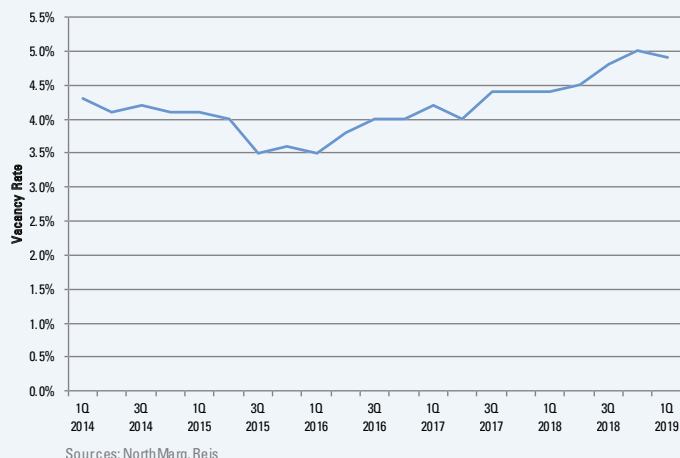
Sources: NorthMarq, Bureau of Labor Statistics

Expansion has been concentrated in the health care and social assistance sector

Vacancy

- > Vacancy dipped 10 basis points in the first quarter, falling to 4.9 percent. Vacancy has averaged 4.5 percent since 2017.
- > Year over year, the vacancy rate has crept up 50 basis points. Nearly all of the rise occurred during the second half of 2018, when approximately 1,650 units came online.
- > Vacancy in Overland Park has been mostly steady in recent quarters. The rate in the Overland Park North submarket dipped 20 basis points during the past year, while vacancy in the Overland Park South submarket was flat year over year.
- > **Forecast:** Vacancy should tick higher as the pace of construction accelerates in the coming quarters. The vacancy rate is forecast to rise 30 basis points in 2019, ending the year at 5.3 percent.

Vacancy Trends



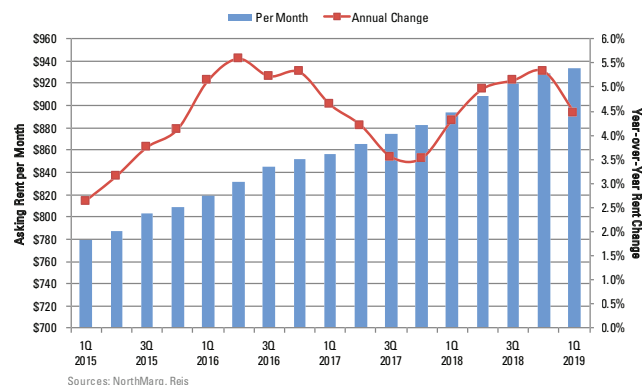
Sources: NorthMarq, Reis

Vacancy has averaged 4.5 percent since 2017

Rents

- > Asking rents in Kansas City have been posting steady gains in recent years, although the pace of growth slowed a bit during the first few months of 2019. Asking rents ended the first quarter at \$934 per month, 4.5 percent higher than one year earlier.
- > Rent growth in the Class A segment of the market has led the way, as the delivery of new, more expensive buildings has pulled rents higher. During the past 12 months, asking rents in Class A properties have advanced 4.6 percent, reaching \$1,109 per month as of the first quarter.
- > The Shawnee/Lenexa and Merriam/Mission/Prairie Village submarkets have been posting above-average rent growth in recent years. During the past 12 months, asking rents in Shawnee/Lenexa have gone up by more than 5 percent, while rents in the Merriam/Mission/Prairie Village submarket have spiked by nearly 7 percent.
- > **Forecast:** Following a slower start to the year, asking rents are forecast to rise approximately 3.5 percent in 2019, ending the year at \$962 per month.

Rent Trends

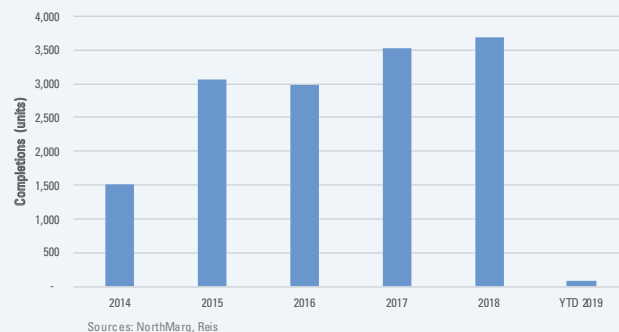


During the past 12 months, asking rents in Class A properties have advanced 4.6 percent

Development and Permitting

- > After nearly 3,700 apartment units were delivered in 2018, fewer than 100 units came online during the first quarter. This marked the lowest level of deliveries for a single quarter in more than five years, but the construction pace is likely to pick up in the coming quarters.
- > Projects totaling nearly 4,000 units are under construction, with more than half of these developments scheduled to be delivered this year.
- > Permitting gained momentum during the first quarter, with developers pulling permits for nearly 1,200 multifamily units to start the year. This is a 15 percent increase from the fourth quarter last year.
- > **Forecast:** Apartment deliveries have averaged 3,300 units per year from 2015 to 2018 and a similar amount of construction is anticipated this year. In 2019, developers are forecast to complete approximately 3,000 units in the Kansas City market.

Development Trends

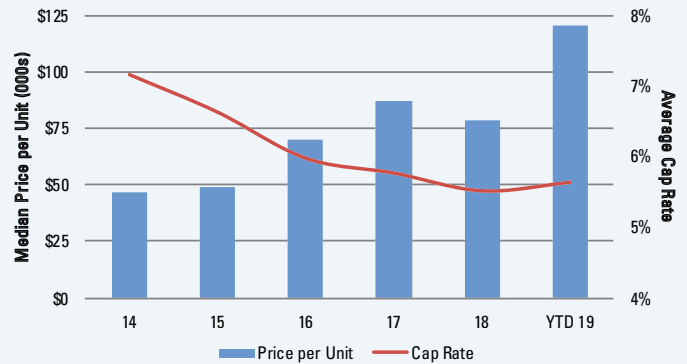


Projects totaling nearly 4,000 units are under construction

Multifamily Sales

- > Quarterly sales activity was very consistent throughout 2018, and that trend continued in the first three months of this year. Transaction activity was fairly evenly split across Class A, Class B and Class C properties during the first quarter.
- > Prices rose at the start of the year. The median price in sales during the first quarter was approximately \$120,500 per unit, a significant spike from the median price in 2018. The median price in transactions of Class A properties was \$150,000 per unit, up nearly 10 percent from the median price in 2018.
- > Cap rates averaged approximately 5.6 percent during the first quarter, up slightly from the average in 2018. Cap rates in Class A sales averaged close to 5 percent, while Class B buildings were selling with cap rates in the mid-5-percent range.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Transaction activity was fairly evenly split across Class A, Class B and Class C properties

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

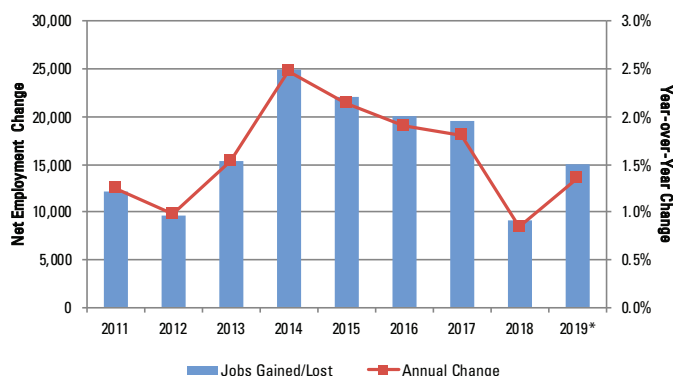
Property Name	Street Address	Units	Sales Price	Price/Unit
Corbin Crossing	6801 W 138th Ter., Overland Park	298	\$50,064,000	\$168,000
Clear Creek	13590 Earnshaw St., Overland Park	288	\$41,500,000	\$144,097
Metcalf Village	16201 Travis St., Overland Park	270	\$40,400,000	\$149,630
Silverwood	5100 Foxridge Dr., Mission	280	\$31,220,000	\$111,500

Looking Ahead

Many of the trends that have emerged in the Kansas City multifamily market in recent years should prevail again in 2018. Renter demand is expected to remain healthy as employers continue to expand. The development pipeline will also remain active; this year will mark the fifth consecutive year where developers bring approximately 3,000 units to the market. During the past few years, vacancy rates have trended higher by approximately 40 basis points per year, and a similar increase is forecast for 2019. To this point, vacancy upticks have been modest enough to continue to allow for steady rent increases.

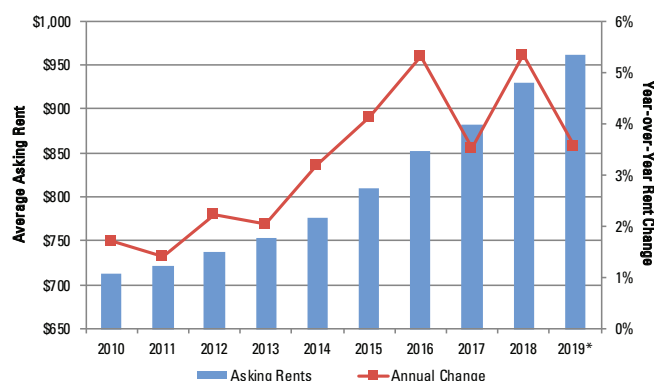
The local multifamily investment market is proving to be very stable. Properties continue to change hands at a consistent pace, although in first-quarter 2019, Class A and Class B buildings began accounting for a greater share of the total transaction activity than in earlier years. With sales activity concentrated at the higher end of the quality spectrum, the median price has trended higher. The average cap rate has settled in around the mid-5-percent range, although cap rates for Class A buildings are closer to 5 percent.

Employee Forecast



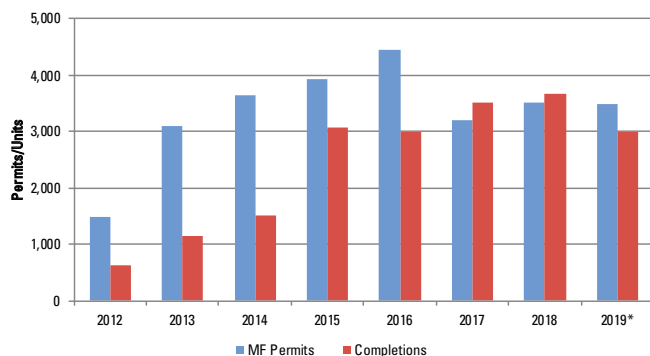
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



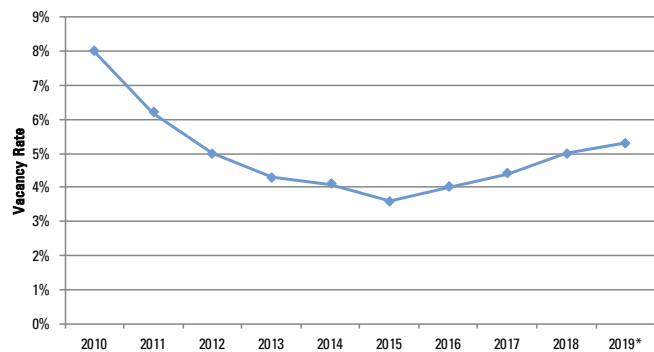
* Year End Forecast
Sources: NorthMarq, Reis

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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