

Greater Kansas City Multifamily




Vacancy Improved in all Four Quarters of 2019

Highlights

- > The Kansas City multifamily market closed 2019 with healthy conditions prevailing. Vacancy dipped throughout the year, fueled by continued renter demand and a slower pace of supply growth.
- > Vacancy dipped 10 basis points during the fourth quarter, ticking down to 4.5 percent. The rate improved in all four quarters of the year; vacancy fell a total of 50 basis points in 2019.
- > Asking rents rose 3.8 percent in 2019, ending the year at \$964 per month.
- > Sales activity in 2019 outpaced levels from 2018, and prices rose. The median price reached approximately \$100,500 per unit for the year, and cap rates have averaged 5.5 percent. Total transaction activity for the year topped \$1 billion, the first time on record where sales exceeded that total.

Kansas City Multifamily Market Overview

The Kansas City apartment market had a strong 2019, with the vacancy rate trending lower at a consistent pace throughout the year, rents recording fairly steady gains, and new units being delivered at a slower pace than in recent years. Renter demand outpaced supply growth in 2019, supported by an accelerating pace of employment growth during the course of the year. While the pace of supply growth cooled in 2019, there are several projects already under construction and slated for delivery in 2020.

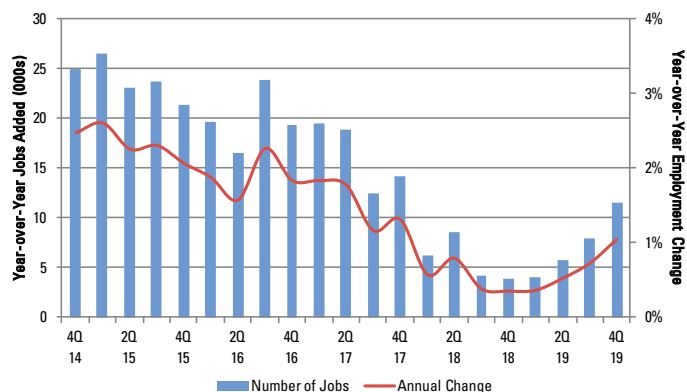
Q4 Snapshot	Kansas City Market
 Market Fundamentals	Vacancy 4.5%
	- Year Over Year Change -50 bps
	Asking Rent \$964
	- Year Over Year Change +3.8%
 Transaction Activity*	Median Sales Price Per Unit (YTD) \$100,500
	Cap Rates (Avg YTD) 5.5%
 Construction Activity	Units Under Construction 4,465
	Units Delivered YTD 1,994
*In transactions where pricing is available	

The investment market has been healthy, with more properties changing hands in 2019 than in 2018 and prices pushing higher. The mix of assets changed a bit in 2019, with fewer Class A properties selling than in either 2017 or 2018. While activity at the top end of the market slowed, activity accelerated in both the Class B and Class C properties. Prices in Class B assets rose as the market strengthened. The median price in Class B property sales topped \$117,000 per unit in 2019, with cap rates averaging approximately 5.3 percent.

Employment

- > Employers expanded payrolls by approximately 1.1 percent in 2019, adding 11,500 net new jobs. While growth slowed in many markets, employment gains in Kansas City in 2019 were stronger than the additions that the market recorded in 2018.
- > The local manufacturing sector has been a steady source of additions in recent years. In 2019, 1,500 new manufacturing jobs were added, matching the positions created in the sector in 2018. This represents annual growth of 1.9 percent in the manufacturing sector, a faster pace of expansion than is being recorded in the market as a whole.
- > During the fourth quarter, local technology company Homebase announced plans to dramatically expand the company's Kansas City workforce in the coming years. The company, which sells smart building management software, is planning to add approximately 300 new jobs in the coming years, including growth of 50-60 workers in 2020.
- > **Forecast:** Local employment in Kansas City is forecast to end 2020 close to levels recorded at the end of 2019. There could be some contraction in the first few quarters of the year, followed by resumed growth by the end of 2020.

Employment Overview

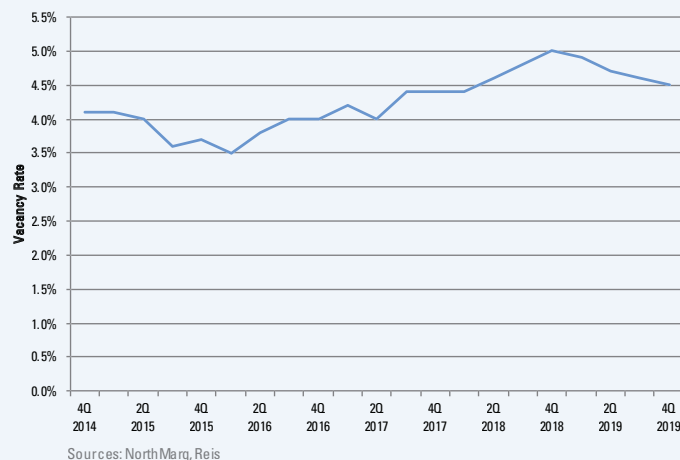


Employment gains in Kansas City in 2019 were stronger than additions in 2018

Vacancy

- > Vacancy fell 10 basis points from the third quarter to the fourth quarter, with the rate dipping to 4.5 percent.
- > Vacancy inched lower in each of the four quarters in 2019. For the full year, vacancy retreated 50 basis points, after three consecutive years of increases.
- > The combined vacancy rate in Class B and Class C units has been trending lower since the end of 2018. Vacancy in Class B and Class C units averaged 3.4 percent at the end of 2019, 30 basis points lower than one year earlier.
- > **Forecast:** Apartment deliveries are forecast to accelerate in 2020, and the uptick in supply is expected to put pressure on the local vacancy rate. Vacancy is forecast to rise 60 basis points in 2020, ending the year at 5.1 percent.

Vacancy Trends

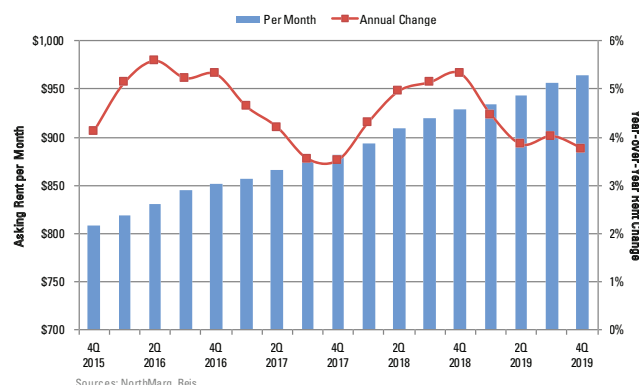


Vacancy inched lower in each of the four quarters in 2019

Rents

- > Asking rents rose 0.7 percent during the fourth quarter, ticking up to \$964 per month. After a slower start to the year, rent growth was strongest during the second half of 2019.
- > Asking rents rose 3.8 percent in 2019, following a 5.3 percent spike in 2018. The more modest pace of annual rent increases is likely to persist in 2020.
- > Rents in Class A apartments rose 3.7 percent during the past 12 months, ending 2019 at \$1,154 per month. Class A rents spiked more than 6 percent in 2018, when nearly 4,000 new, more expensive units were delivered.
- > **Forecast:** Asking rents are forecast to rise approximately 2.5 percent in 2020. Rents are expected to end the year at nearly \$990 per month.

Rent Trends



Asking rents rose 3.8 percent in 2019

Development and Permitting

- > Developers delivered nearly 2,000 new apartment units to the local market in 2019, nearly half the annual total from 2018. The pace of deliveries is expected to regain momentum in 2020, with several projects slated to come online in the spring and summer months.
- > Projects totaling nearly 4,500 units were under construction as of the end of 2019, up more than 15 percent from the total one year earlier.
- > After accelerating during the third quarter, permitting for multifamily units rose again in the fourth quarter. Developers pulled permits for nearly 3,900 multifamily units in 2019, with 2,300 permits issued during the second half of the year.
- > **Forecast:** Projects totaling approximately 3,500 units are slated to come online in 2020. This represents a rise from 2019 levels but is comparable to annual averages recorded from 2015-2018.

Development Trends

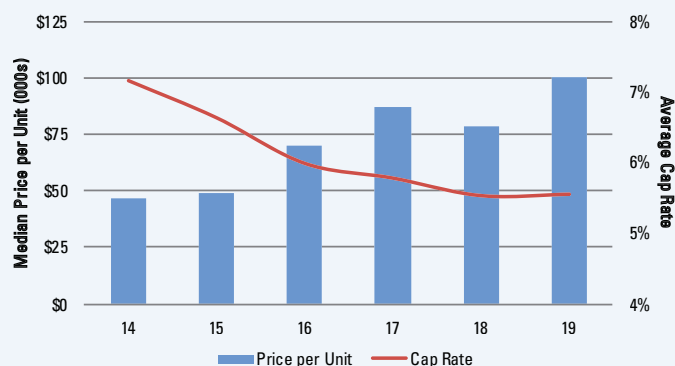


Nearly 4,500 units were under construction as of the end of 2019

Multifamily Sales

- > In 2019, transaction activity was strongest in the second and third quarters, with fewer transactions occurring at the beginning and the end of the year. While there was some quarterly volatility, transaction activity in 2019 totaled more than \$1 billion and was up more than 15 percent from 2018 levels.
- > The median price during the fourth quarter was approximately \$92,000 per unit, and the median price for the full year was \$100,600 per unit. The combined median price in Class A and Class B buildings was approximately \$120,000 per unit, while the median price in Class C properties was approximately \$54,000 per unit.
- > Cap rates in 2019 closely tracked levels from the previous two years. The average cap rate in 2019 was approximately 5.5 percent. Cap rates for Class A properties averaged below 5 percent, while cap rates for Class B properties averaged approximately 5.3 percent.

Investment Trends



Transaction activity in 2019 totaled more than \$1 billion

Recent Transactions in the Market

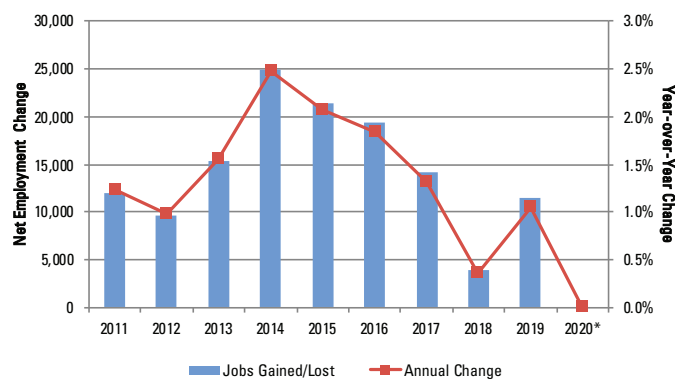
MULTIFAMILY SALES ACTIVITY				
Property Name	Street Address	Units	Sales Price	Price/Unit
Vintage at Zona Rosa	8811 N Congress Ave., Kansas City	308	\$44,200,000	\$143,506
Magnolia Parc	8000 Perry St., Overland Park	350	\$42,000,000	\$120,000
The Kings	11330 & 11420 Colorado Ave., Kansas City	408	\$32,000,000	\$78,431
Summerset	16801 Larkspur Ln., Independence	280	\$17,170,000	\$61,321

Looking Ahead

While the key themes of the 2019 Kansas City multifamily market were steady demand and modest supply growth, there should be a bit of a change of direction in 2020. Renter demand will likely cool, particularly in the first half of the year as the local labor market softens and the economy contracts. On the supply side, there are several projects slated to come online in the year ahead, although some developments could be delayed by a few quarters until demand regains momentum.

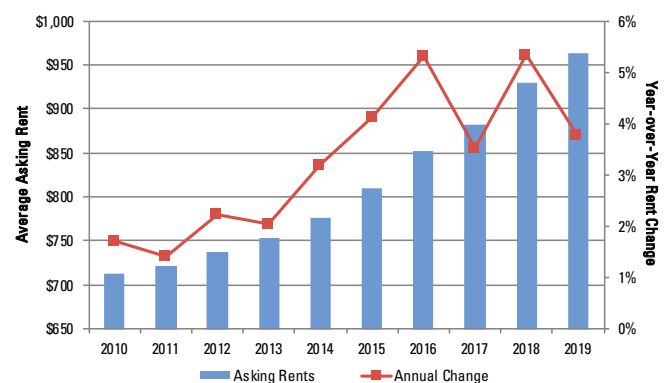
The local investment market will likely slow in the first half of 2020 before regaining momentum in the second half of the year. With the national and global economic outlooks uncertain in the near term, property sales will likely be delayed for a while until conditions stabilize. In Kansas City, the key metric to monitor will be the state of the local employment market. Modest job losses in the short term would not dramatically alter the outlook, but if cuts are more severe, that would add a degree of uncertainty to the market.

Employment Forecast



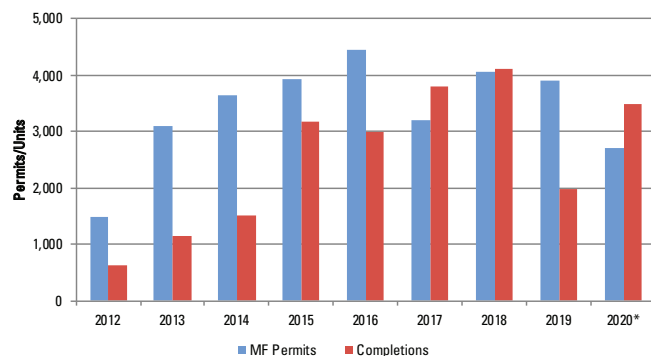
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



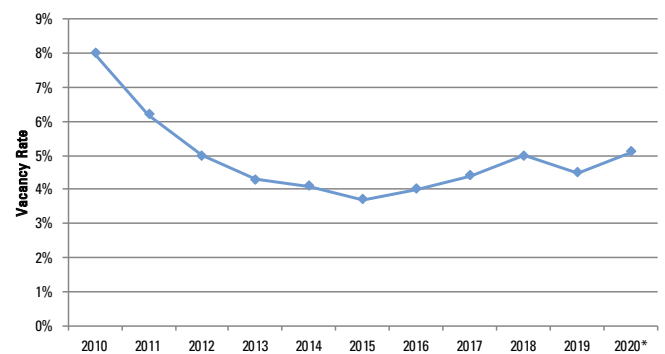
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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