MARKET REPORT | 2Q/2020

Greater Kansas City Multifamily

Vacancy Holding Steady, Supporting Ongoing Rent Gains

Highlights

- Despite some extreme economic volatility, the Kansas City multifamily market recorded stable performance in the first half of this year. The vacancy rate ticked lower, while rents rose modestly.
- Local vacancy ended the second quarter at 4.4 percent, down 10 basis points year to date, and 30 basis points lower than the rate one year ago.
- Rents in Kansas City inched higher in both the first and second quarters. Asking rents ended the first half at $975 per month, up 3 percent year over year.
- Sales of apartment properties slowed during the first half of this year, mirroring trends recorded across the industry. In deals that have sold, the median price was $79,900 per unit, while cap rates averaged approximately 5.3 percent.

Q2 Snapshot	Kansas City Market
Market Fundamentals	
Vacancy	**4.4%**
- Year Over Year Change	**-30 bps**
Asking Rent	**$975**
- Year Over Year Change	**+3.0%**
Transaction Activity*	
Median Sales Price Per Unit (YTD)	**$79,900**
Cap Rates (Avg YTD)	**5.3%**
Construction Activity	
Units Under Construction	**3,977**
Units Delivered YTD	**401**

*In transactions where pricing is available

Kansas City Multifamily Market Overview

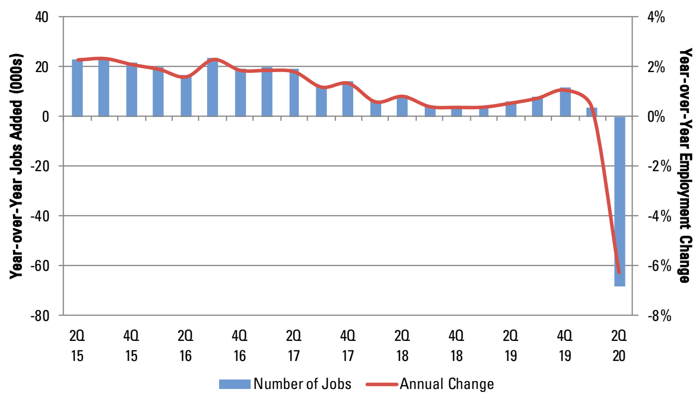
Following a year in which the vacancy rate improved steadily in 2019, the Kansas City multifamily market has continued to post healthy performance even during a time of extreme economic volatility in 2020. Vacancy has inched down through the first half of this year, although the rate will likely creep higher in the second half as new construction gains momentum. With vacancy ticking lower thus far in 2020, Kansas City has outperformed the national multifamily market. Another metric where Kansas City fares well is rent growth. Rents have inched higher in each of the first two quarters, while rents fell nationally during the second quarter.

Similar to nearly all markets in the country, investment activity in Kansas City in the first half of 2020 was modest, with only a handful of properties changing hands. This came after a four-year run of steady transaction volume. The factors that fueled investment activity in recent years are still largely in place, and more properties should transact as the uncertainty that hindered market activity in the first half of the year dissipates. While fewer transactions have occurred, cap rates have followed interest rate trends by compressing, averaging 5.3 percent in the first half of 2020.

Employment

- Local net job losses in March and April combined to total more than 125,000 positions, temporarily wiping out gains from the past several years. Conditions have begun to improve, with businesses adding back 46,800 jobs in May and June.
- Year over year through the second quarter, total employment in Kansas City has contracted by 6.2 percent with the loss of approximately 68,000 jobs. While the pace of job cuts is extreme, contraction in Kansas City is actually less severe than the pace of losses recorded at the national level.
- While most sectors of the economy have contracted, the construction industry has continued to expand. Construction employment in Kansas City has grown by more than 5 percent in the past year, with the addition of approximately 3,000 new positions.
- **Forecast:** All major markets in the country are forecast to record job losses in 2020, but the pace at which jobs will be brought back is uncertain. In Kansas City, employers have added back nearly 40 percent of the jobs that were originally cut, and that figure could rise to as high as 65 percent by the end of the year.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Construction employment in Kansas City has expanded by more than 5 percent in the past year

Vacancy

- Vacancy held steady at 4.4 percent during the second quarter, after the rate dipped 10 basis points in the first three months of the year.
- Vacancy has trended lower in recent quarters, as competition from new supply growth has eased. The current vacancy rate is 30 basis points lower than one year ago and down 60 basis points since the beginning of 2019.
- Vacancy in the Class A segment of the market climbed above 6 percent in 2018 after a few years of strong construction activity, but the rate has improved in subsequent periods. Vacancy in Class A properties ended the second quarter at 5.4 percent.
- **Forecast:** While the local vacancy rate has been steady in recent quarters, increases are likely in the second half of the year as job losses linger and more projects work through the development pipeline. Vacancy is forecast to rise 80 basis points in 2020, ending the year at 5.3 percent.

Vacancy Trends

Sources: NorthMarq, Reis

The current vacancy rate is 30 basis points lower than one year ago

Rents

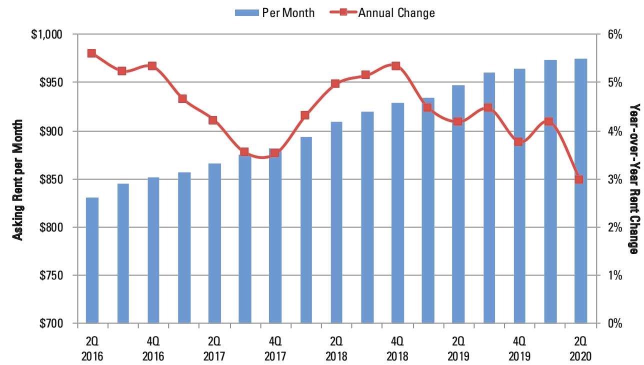
> While rents declined in most markets across the country during the second quarter, Kansas City apartment rents crept higher. Asking rents rose $2 per month on average during the second quarter, reaching $975 per month.

> Current asking rents are up 3 percent compared to one year earlier, putting Kansas City among the top markets in the country for annual rent growth. Rent growth in Kansas City has been mostly steady in recent years; since 2015, asking rents have grown at an average rate of 4.5 percent per year.

> The Class A segment is recording the strongest rent growth. Asking rents in Class A properties are up 3.7 percent year over year, ending the second quarter at $1,168 per month.

> **Forecast:** After recording modest gains in the first half of the year, asking rents in Kansas City are expected to remain essentially unchanged in the second half of the year. The modest gains should put Kansas City in the top tier for rent growth in 2020.

Rent Trends



Sources: NorthMarq, Reis

Current asking rents are up 3 percent compared to one year earlier

Development and Permitting

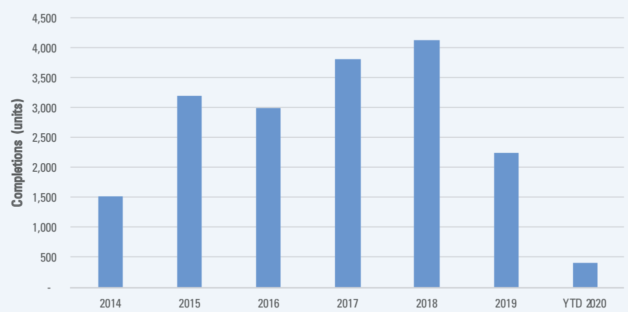
> After slowing throughout much of 2019, deliveries of apartments were once again modest during the first half of 2020. Projects totaling approximately 400 units were delivered during the first half, but construction is forecast to gain momentum in the coming quarters.

> Projects totaling approximately 4,000 units are currently under construction. This year was originally forecast to be a fairly active one for new deliveries, but it is possible that some projects may be delayed into the first half of 2021.

> Multifamily permitting activity slowed in the second quarter, but levels from the first half of this year closely tracked data from the first half of 2019. During the second quarter, developers pulled permits for approximately 500 multifamily units, bringing the year-to-date total to 1,500.

> **Forecast:** Projects totaling approximately 2,700 units are scheduled to come online in 2020, up 20 percent from the total deliveries in the preceding year. Developers have delivered an average of 3,300 new units per year since 2015.

Development Trends



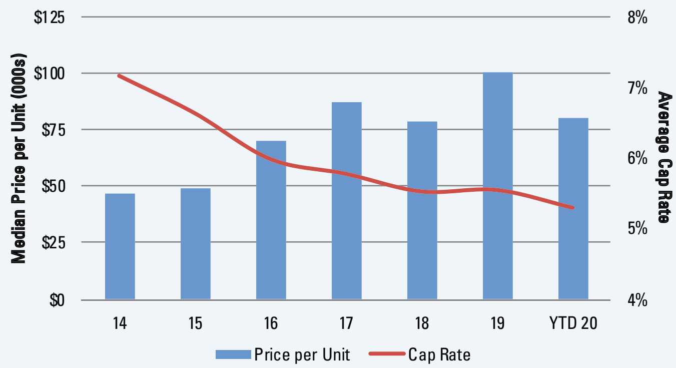
Sources: NorthMarq, Reis

Projects totaling approximately 4,000 units are currently under construction

Multifamily Sales

- Sales of apartment properties in Kansas City got off to a slow start in 2020, and then activity slowed further in the second quarter as investors waited on the sidelines. Sales velocity in the first half of this year lagged levels from the same period one year ago by approximately 75 percent.
- During the first half of 2020, the median price fell 20 percent from the median price recorded in 2019. The median price in sales year to date is approximately $79,900 per unit, although a newer Class A project sold for nearly $192,000 per unit during the first quarter.
- Cap rates have compressed in 2020, dropping approximately 20 basis points to an average of 5.3 percent. Cap rates in deals closed year to date have consistently been in the high-4-percent to low-5-percent range.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

The median price in sales year to date is approximately $79,900 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

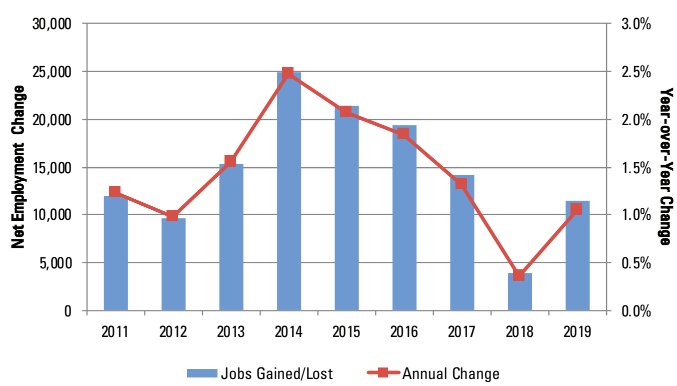
Property Name	Street Address	Units	Sales Price	Price/Unit
Lexington Farms	8500 W 131st Pl., Overland Park	404	$61,880,000	$153,168
Copper Ridge	341 N Forest Ave., Liberty	292	$56,000,000	$191,781
Knollwood	4700 N Highland Ave., Kansas City	315	$25,800,000	$81,905
Tall Oaks	7001 Chas Dr., Pleasant Valley	52	$3,927,000	$75,519

Looking Ahead

While Kansas City has posted remarkably consistent property performance to this point, the wild card in the market will be the labor market. Employers cut payrolls during the economic shutdown and have begun to bring back workers. The local apartment vacancy rate has proven to be resilient to this point in the cycle but will likely trend higher in the second half of the year as new deliveries regain momentum and the increased unemployment benefits for laid-off workers expire.

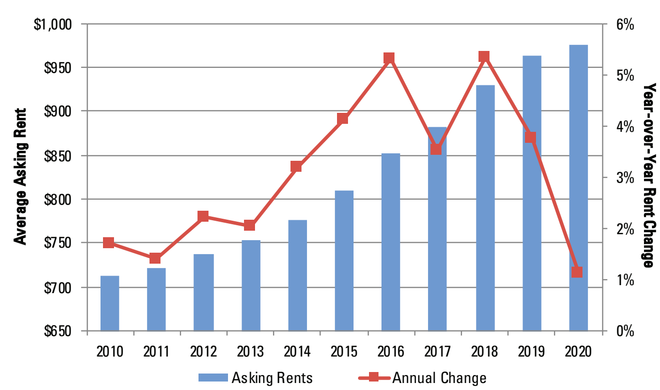
The local investment market is already showing signs of gaining momentum, and the outlook is for greater sales volume in the second half of the year than was recorded in the first half. A preliminary look shows a handful of transactions already occurring in the third quarter as investors return to the market after taking a wait-and-see approach during the COVID-19 outbreak. Assuming the market continues to record steady operations and interest rates remain low, cap rates are expected to remain near current levels.

Employment Forecast



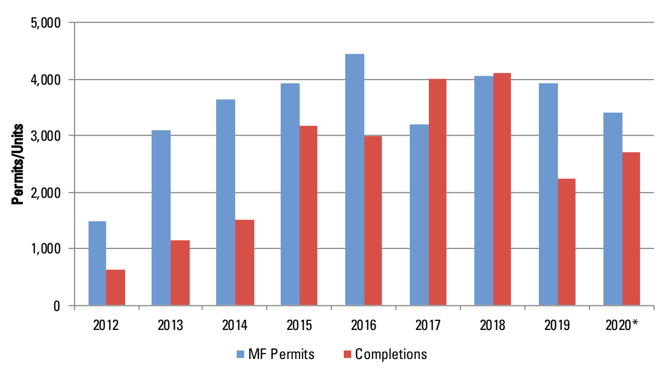
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



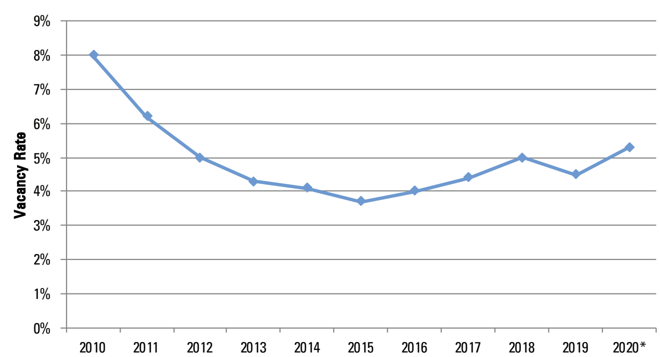
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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 more than $14 billion, loan servicing portfolio of more than $61 billion and the multi-year tenure of our nearly 600 people.

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