

Greater Kansas City Multifamily

With Demand Consistent, New Development Gains Momentum

Highlights

- > Multifamily development in Kansas City has been active in 2020, offsetting healthy levels of renter demand. Vacancy rose, but rent growth accelerated and investment activity gained momentum after a lull in the second quarter.
- > Vacancy rose during the third quarter, reaching 4.8 percent. The rate is up 20 basis points year over year.
- > Fueled by healthy absorption levels, asking rents rose more than 1 percent from the second quarter to the third quarter, reaching \$989 per month. During the past 12 months, local asking rents have increased 2.7 percent.
- > Sales of apartment properties regained momentum during the third quarter after a slow start to the year. In sales that have closed thus far in 2020, the median price has reached approximately \$74,400 per unit, while cap rates have compressed to 5.3 percent.

Kansas City Multifamily Market Overview

The Kansas City apartment market has been in a high-supply, high-demand cycle to this point in 2020. Developers have been active in bringing new units to the market, increasing local inventory levels by more than 3 percent. Renter demand has been strong but has not quite kept pace with the additions to inventory, causing the vacancy rate to creep higher during the third quarter. Rent growth has been outpacing the national rate of expansion as rents have been pushed higher by the combined forces of consistent demand and an influx of new, high-end units into the local inventory.

Q3 Snapshot

Kansas City Market



Market Fundamentals

Vacancy	4.8%
- Year Over Year Change	+20 bps
Asking Rent	\$989
- Year Over Year Change	+2.7%



Transaction Activity*

Median Sales Price Per Unit (YTD)	\$74,400
Cap Rates (Avg YTD)	5.3%



Construction Activity

Units Under Construction	5,814
Units Delivered YTD	4,190

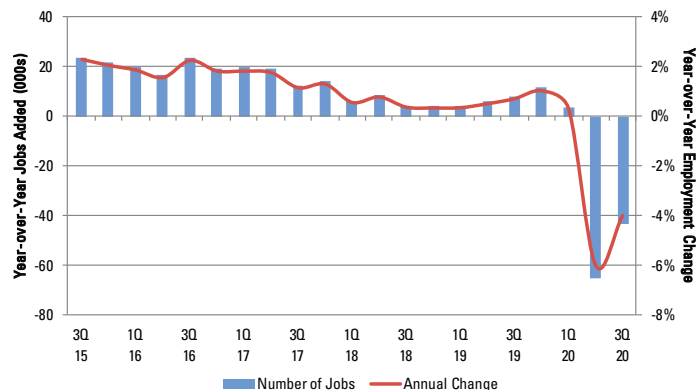
*In transactions where pricing is available

The local multifamily investment market gained momentum during the third quarter after transaction activity was limited in the first half of the year. Investors have moved off of the sidelines and resumed acquisition activity. During the third quarter, a few properties changed hands in the Overland Park area at elevated per-unit prices, while several other Class B and Class C complexes traded at values below the area median. After holding steady for most of the past two years, cap rates have compressed slightly in 2020, averaging approximately 5.3 percent year to date.

Employment

- > Local employers have begun to bring back workers after sharp layoffs during the second quarter. Employment growth in the third quarter totaled 24,100 jobs, following cuts totaling nearly 65,000 jobs in the preceding three-month period.
- > Year over year through the third quarter, total employment in Kansas City has declined by approximately 4 percent with the loss of 43,400 jobs.
- > While several industries—led by leisure and hospitality—have contracted in the past year, retail employment has posted some modest increases. Year over year, retail employment has expanded by 1.9 percent with the addition of 2,000 net new jobs.
- > **Forecast:** All major markets are forecast to record job losses in 2020, but contraction in Kansas City is expected to be less severe than across much of the rest of the country. Total employment in the Kansas City area is forecast to decline by approximately 4 percent in 2020.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employment growth in the third quarter totaled 24,100 jobs

Vacancy

- > After vacancy held steady during the first half of the year, the rate has pushed higher in recent months as construction activity has ramped up. The rate rose 40 basis points in the third quarter, reaching 4.8 percent.
- > Year over year, the local vacancy rate has inched up 20 basis points. This marks the first annual vacancy increase in Kansas City in more than a year.
- > Vacancy in Class A apartments ended the third quarter at 6.2 percent, 90 basis points higher than one year ago. The rate has risen in response to new development. In Class B and Class C units, vacancy averages less than 3.5 percent.
- > **Forecast:** Renter demand is expected to remain healthy in the next few months, but the continued supply growth should put some upward pressure on the local vacancy rate. Vacancy is forecast to end 2020 at approximately 5.2 percent, similar to the year-end 2018 figure.

Vacancy Trends



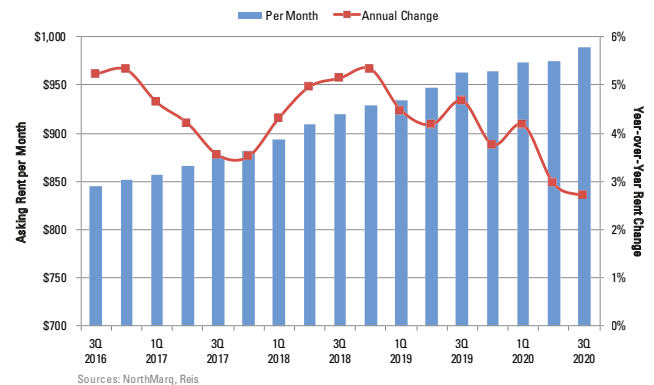
Sources: NorthMarq, Reis

In Class B and Class C units, vacancy averages less than 3.5 percent

Rents

- > After remaining essentially flat during the second quarter, rents rose in the third quarter as the economy regained momentum. Asking rents rose more than 1 percent from the second quarter to the third quarter, reaching \$989 per month.
- > Absorption of units has been steady in each of the past two quarters, combining to total nearly 1,200 units and supporting local rents. Asking rents are up 2.7 percent year over year.
- > Class A properties continue to record the strongest rent gains in the market as newer, more expensive units are delivered. Year over year through the third quarter, Class A asking rents have risen 3.1 percent, reaching \$1,187 per month.
- > **Forecast:** Rents in the Kansas City market are expected to rise by more than 3 percent in 2020, ending the year at approximately \$995 per month. Rent growth has averaged nearly 4.5 percent per year since 2015.

Rent Trends

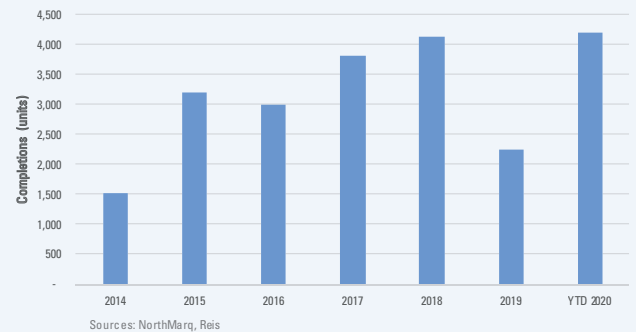


Absorption of units has been steady in each of the past two quarters, supporting local rents

Development and Permitting

- > Thus far in 2020, projects totaling more than 4,600 units have been completed, more than double the total number of units that came online during the first three quarters of last year.
- > Projects totaling more than 5,800 units are under construction, up 32 percent from the figure one year ago. Approximately 1,300 units are under construction Downtown, while the bulk of the projects in development are located in suburban areas including Overland Park, Olathe, and Lee's Summit.
- > Permitting activity gained momentum during the third quarter when developers pulled permits for nearly 2,100 multifamily units. Through the first three quarters of the year, more than 3,500 multifamily permits have been issued, a 40 percent increase when compared with the same period in 2019.
- > **Forecast:** Apartment construction is expected to remain active through the remainder of this year and into 2021. Deliveries are forecast to total approximately 6,300 units in 2020, nearly matching the combined total for the past two years.

Development Trends



Projects totaling more than 5,800 units are under construction

Multifamily Sales

- > Sales activity gained momentum in the third quarter. Transaction volume in the third quarter outpaced the total activity in the first half of the year. Despite the increase in recent months, sales velocity thus far in 2020 is down approximately 50 percent from 2019 levels.
- > Transaction prices occurred at both ends of the pricing spectrum during the third quarter. A few transactions occurred at prices above \$150,000 per unit, while other projects sold for less than \$60,000 per unit. The median price in sales year to date is approximately \$74,400 per unit.
- > Cap rates have compressed in 2020, averaging 5.3 percent. Cap rates are down approximately 25 basis points from the averages recorded in 2018 and 2019.

Investment Trends



Cap rates have compressed in 2020, averaging 5.3 percent

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

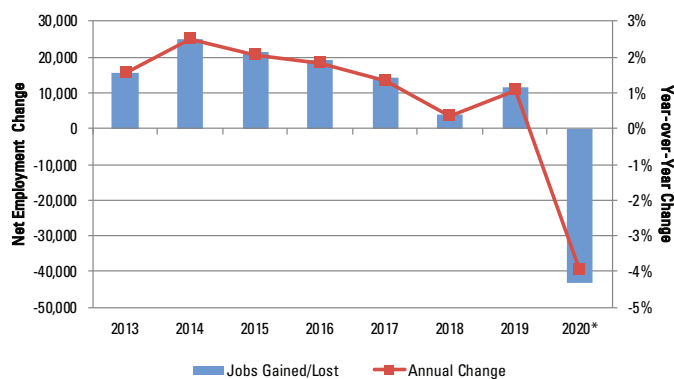
Property Name	Street Address	Units	Sales Price	Price/Unit
Coach House	655 E Minor Dr., Kansas City	807	\$81,500,000	\$100,991
Town Center	6233 W 120th St., Overland Park	156	\$28,000,000	\$179,487
Villa Medici	9550 Ash St., Overland Park	166	\$25,000,000	\$150,602
Brougham Estates II	1711 N 73rd Ter., Kansas City	180	\$9,500,000	\$52,779

Looking Ahead

The Kansas City multifamily market has been performing well in recent years, fueled by healthy levels of demand that have prompted an active period of new development. New construction is expected to be particularly active for a few more quarters, which will likely put some short-term upward pressure on vacancy. The development pipeline will eventually thin, allowing the market to return to equilibrium.

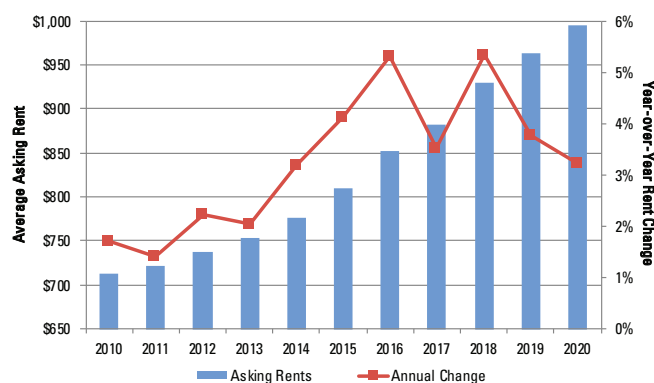
The local investment market gained momentum during the third quarter and is expected to remain active to close 2020. Factors supporting investment activity include the continued renter demand and ongoing rent growth being recorded in the local market. Rent gains are outpacing the national rate of growth, and the prospect of additional increases is supporting cap rate compression.

Employment Forecast



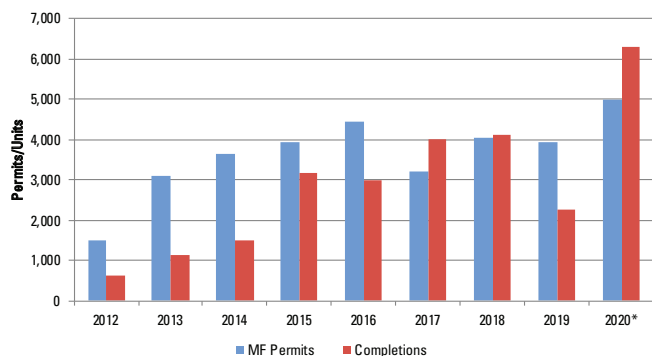
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



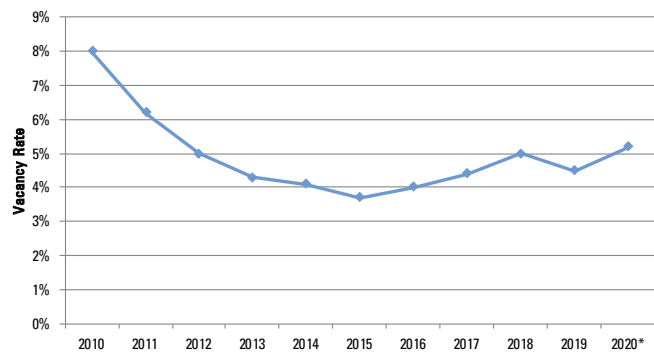
* Year End Forecast
Sources: NorthMarq, Reis

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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