

Greater Kansas City Multifamily




After an Active Year of Development, Supply Growth Slated to Slow in 2021

Highlights

- > The Kansas City multifamily market posted a year of elevated supply and demand in 2020. Vacancy rose, but rents also crept higher for the year.
- > Apartment vacancy ended 2020 at 4.9 percent, up 40 basis points from one year earlier. The rate inched up 10 basis points during the fourth quarter.
- > Asking rents ended 2020 at \$984 per month, up 2.1 percent year over year. Rents contracted slightly during the fourth quarter.
- > Projects totaling approximately 1,000 units were delivered in the fourth quarter, and more than 5,600 units came online in 2020. Apartment construction should return closer to recent levels beginning in 2021; currently, more than 4,200 rental units are under construction.
- > Sales of multifamily buildings gained momentum in the second half of the year, with the most activity occurring during the fourth quarter. The median price in 2020 was approximately \$75,600 per unit, while cap rates compressed to 5.2 percent.

Kansas City Multifamily Market Overview

New apartment construction in the Kansas City market reached its highest annual total in nearly 30 years in 2020. Vacancies, however, remained near recent ranges despite the inventory growth and economic disruption due to the COVID-19 outbreak. Healthy levels of absorption kept the market-wide vacancy rate below 5 percent, or nearly identical to the figure from two years ago. Rents posted modest increases in 2020, even after inching lower during the fourth quarter. Looking ahead, the pace of new development is expected to cool in 2021, which should allow for some easing of supply-side pressures.

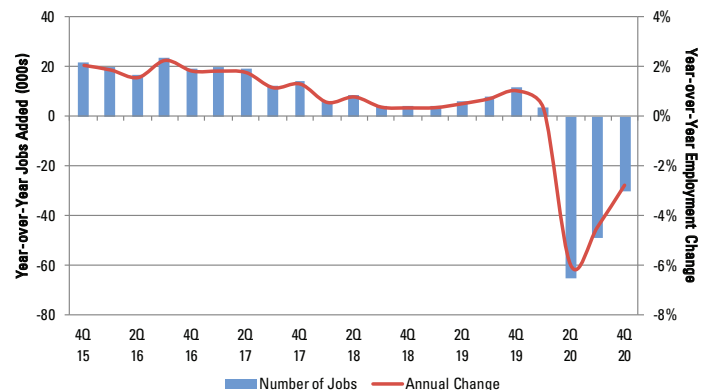
Q4 Snapshot	Kansas City Market
	Market Fundamentals
	Vacancy 4.9%
	- Year Over Year Change +40 bps
	Asking Rent \$984
	- Year Over Year Change +2.1%
	Transaction Activity*
	Median Sales Price Per Unit (YTD) \$75,600
	Cap Rates (Avg YTD) 5.2%
	Construction Activity
	Units Under Construction 4,234
	Units Delivered YTD 5,647
	<small>*In transactions where pricing is available</small>

The local multifamily investment market recorded a surge in transactions during the fourth quarter. Sales occurred across the quality spectrum during the fourth quarter. A handful of Class A properties sold, with per-unit prices in the \$200,000 range. Investors also found several opportunities in 1970's-vintage properties where the median price was closer to \$70,000 per unit. Cap rates compressed at the end of the year and vary by Class. In Class A properties, cap rates averaged approximately 4.5 percent, Class B buildings traded at nearly 5 percent, and cap rates in Class C properties were generally near 5.5 percent in the fourth quarter.

Employment

- > Local employers brought back workers at an accelerating pace in the fourth quarter, while gains slowed at the national level. Employers in Kansas City added back nearly 25,000 jobs in the fourth quarter, building on a gain of approximately 19,000 jobs in the third quarter.
- > In 2020, area employment contracted by 2.8 percent with the loss of approximately 30,400 jobs. The local pace of job losses was less than half as severe as the national rate of contraction.
- > The Kansas City area's trade, transportation, and utilities sector expanded by 3.4 percent in 2020, with the addition of 7,700 net new jobs. Since 2015, the sector has added approximately 20,000 jobs. More growth is likely on the way; during the second half of 2020, Urban Outfitters announced plans to create 2,000 jobs at a new distribution center near the Kansas Speedway.
- > **Forecast:** Area employment should bounce back in 2021, with businesses forecast to add 20,000 jobs. Gains in 2021 are forecast to total approximately 1.8 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employment should bounce back in 2021, with businesses forecast to add 20,000 jobs

Vacancy

- > Vacancy rose 10 basis points in the fourth quarter, with the rate reaching 4.9 percent. The rate declined a bit in the first half of the year before creeping higher in the second half, as elevated construction activity continued.
- > In 2020, the vacancy rate rose 40 basis points. The increase in 2020 offset a decline from the previous year. The current vacancy rate is 10 basis points lower than the rate from 24 months earlier.
- > The impact of new construction is being demonstrated in the Class A segment of the market. Vacancy in Class A units rose 110 basis points in 2020, ending the year at 6.5 percent.
- > **Forecast:** Vacancy is forecast to rise 40 basis points in 2021, with the rate expected to reach 5.3 percent. Renter demand is expected to remain healthy, but a second consecutive year of active development should push the rate higher.

Vacancy Trends



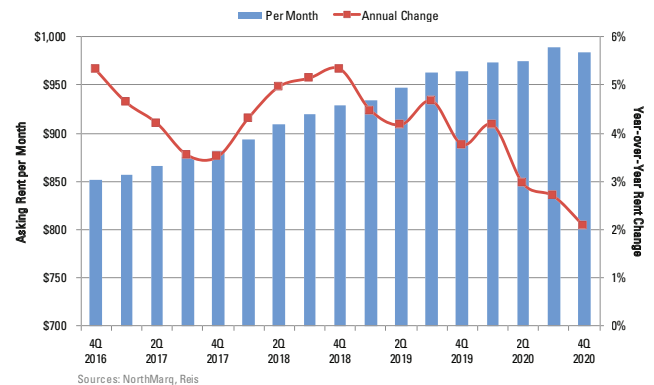
Sources: NorthMarq, Reis

Vacancy rose 10 basis points in the fourth quarter, reaching 4.9 percent

Rents

- > Rents dipped a few dollars per month in the fourth quarter, but the Kansas City market still posted an annual rent increase for the year. Asking rents ended 2020 at \$984 per month, up 2.1 percent year over year.
- > Net absorption totaled approximately 4,600 units in 2020, highlighting the renter demand in the market and supporting rental rates. As the competitive impact of new units eases in 2021, the pace of rent increases should gain momentum.
- > Rents in Class A units slipped at the end of 2020, declining 0.7 percent in the fourth quarter to \$1,179 per month. Class A asking rents posted a gain of 1.6 percent in 2020, following average annual increases of 4.6 percent during the previous five years.
- > **Forecast:** The pace of rent growth should return closer to recent averages in 2021. Asking rents are forecast to advance 3.5 percent in the year ahead, reaching approximately \$1,020 per month.

Rent Trends

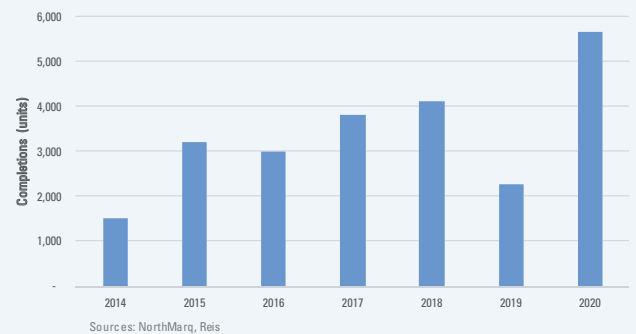


Net absorption totaled approximately 4,600 units in 2020, highlighting the renter demand in the market

Development and Permitting

- > Projects totaling nearly 1,000 units came online during the fourth quarter, and more than 5,600 units came online in 2020. This marked the strongest year of new construction in the current cycle; completions had averaged 3,300 units per year since 2015.
- > The development pipeline includes more than 4,200 units currently under construction. Approximately 850 units are under construction in Overland Park, while nearly 700 units are under way in the Downtown/East Kansas City submarket.
- > Permitting activity slowed in the fourth quarter, with developers pulling permits for fewer than 400 multifamily permits in the final three months of the year. In 2020, permits for 3,950 multifamily units were issued, closely tracking levels from the preceding two years.
- > **Forecast:** After a spike in new construction in 2020, the pace of deliveries is forecast to slow to approximately 3,700 units in 2021.

Development Trends



The pace of deliveries is forecast to slow to approximately 3,700 units in 2021

Multifamily Sales

- > After rising during the third quarter, multifamily property sales accelerated again in the fourth quarter. Sales velocity doubled from the third quarter to the fourth quarter. While total sales velocity for the year was down, transaction counts in the second half of 2020 were nearly identical to levels from the second half of 2019.
- > The median sales price in 2020 was approximately \$75,600 per unit, although there were several properties that traded considerably higher than the median price. In the fourth quarter alone, one-third of closed transactions sold for more than \$100,000 per unit, with approximately 15 percent of transactions closing at or above \$200,000 per unit.
- > Cap rates compressed throughout 2020, averaging 5.2 percent for the year and approximately 5 percent during the fourth quarter. Cap rates declined approximately 30 basis points from the averages recorded in 2018 and 2019.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Sales velocity doubled from the third quarter to the fourth quarter

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

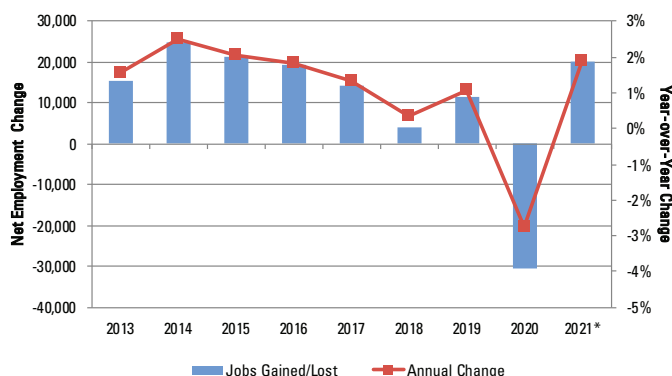
Property Name	Street Address	Units	Sales Price	Price/Unit
Fountain View on the Plaza	4800 Oak St., Kansas City	398	\$87,000,000	\$218,593
Prairie View at Village West	11200 Delaware Pky., Kansas City	311	\$62,000,000	\$199,357
Reserve at South Point	8900 Old Santa Fe Rd., Kansas City	301	\$23,000,000	\$76,412
Arbors of Grandview	6731 E 119th St., Grandview	298	\$21,800,000	\$73,154
Westowne Apartments	1136 W College St., Liberty	144	\$10,800,000	\$75,000

Looking Ahead

The Kansas City multifamily market posted healthy performance in 2020, and strong renter demand for units is forecast to continue in 2021. While it may take a few more quarters to fully absorb the new inventory delivered to the market in 2020 and 2021—particularly in high-growth submarkets such as Overland Park and Downtown—the bulk of the market is forecast to record healthy absorption and rising rents.

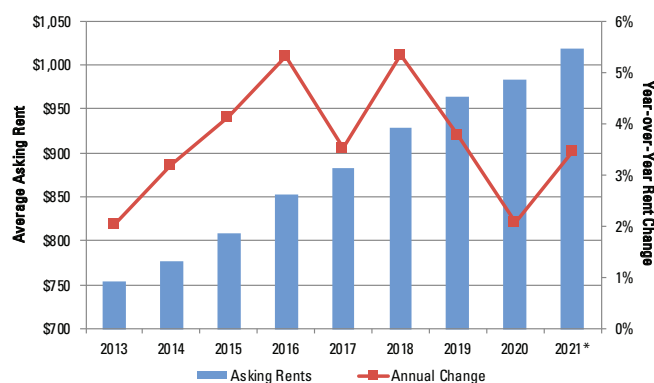
The local investment market is expected to remain active in 2021. Multifamily sales velocity has been active for the past few years, with the exception of the first half of 2020 when the COVID-19 outbreak delayed transactions. Investors returned to the market in the second half of last year, and that momentum is expected to be sustained into 2021. Cap rates have been gradually creeping lower, a trend that could continue if interest rates remain near current levels.

Employment Forecast



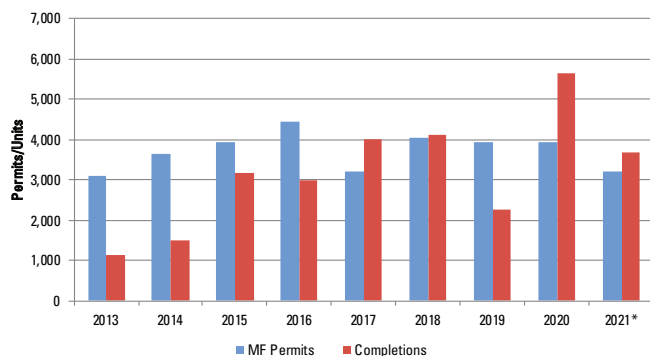
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



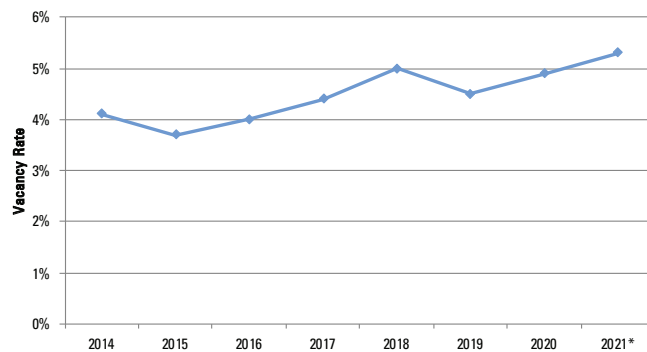
* Year End Forecast
Sources: NorthMarq, Reis

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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