

Market Insights

Greater Kansas City Multifamily 3Q 2022



Construction Activity



5,213

Units under construction

3,026

Units delivered (YTD)

Market Fundamentals



5.1%

Vacancy

-40bps

Year over year change

\$1,139

Asking Rent

+8.4%

Year over year change

Transaction Activity



\$197,200

Median sales price per unit (YTD)

Sales of Class A Properties Push Prices Higher

Highlights

- Property performance metrics strengthened during the third quarter, as the vacancy rate improved, and asking rents trended higher. The improving operational performance is being fueled by continued health in the local labor market.
- Vacancy fell to start the second half of the year, dipping 10 basis points in the last three months to 5.1 percent. Year over year, local vacancy dropped 40 basis points.
- Rent growth accelerated in the third quarter; asking rents advanced 2.3 percent in the period, reaching \$1,139 per month. Year over year, rents are up 8.4 percent.
- Sales velocity during the third quarter closely tracked levels posted in the previous period. The median sales price is \$197,200 per unit to this point in the year, up considerably from 2021. Cap rates averaged 4 percent in the last three months.

Kansas City Multifamily Market Overview

The Kansas City multifamily market improved in the third quarter with local vacancy trending lower and the pace of rent growth accelerating. After falling substantially in the previous period, the vacancy rate continued to inch lower, supported by gains in the local employment market and continued strength in renter demand, particularly in suburban submarkets. In response to tighter vacancy conditions, operators continued to implement rent gains, with the pace of growth accelerating from the second quarter to the third quarter. These strong operating conditions continue to spur development with projects totaling roughly 4,500 units slated to come online in 2022.

The multifamily investment market remains healthy despite showing some signs of cooling during the third quarter. Transaction volume in the last three months closely tracked levels recorded in the previous period, and the pace of sales to this point in 2022 is up roughly 5 percent from the same period last year. Prices have pushed higher this year as Class A properties have accounted for roughly half of the transactions that have closed year to date. The median price in Class A sales reached approximately \$255,000 per unit, about twice as high as the combined median price for Class B and Class C units. Cap rates averaged nearly 4 percent in the third quarter, 20 basis points higher than in the first half of the year.

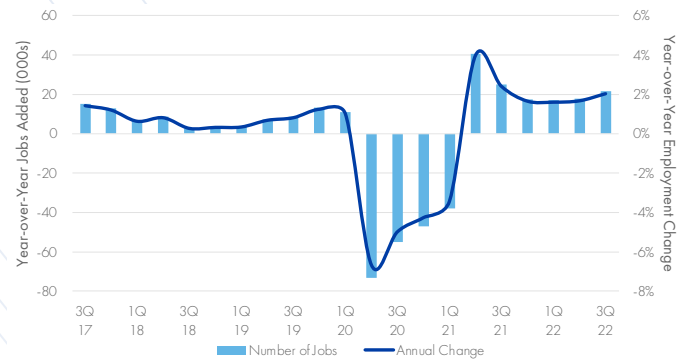
Employment

- Employment growth has been healthy in Kansas City in recent periods. Year over year through the third quarter, total employment increased by 21,600 workers, a 2 percent gain.
- The professional and business services sector has been one of the region's top-performing industries during the past 12 months. In the past year, nearly 5,000 professional jobs have been added, a 2.7 percent expansion.
- Panasonic Energy recently broke ground on a new electric vehicle battery plant in De Soto, in western Johnson County. The company is investing \$4 billion into the expansion, making it the largest economic development project in state history. The expansion is expected to be completed in 2025, and the move should result in more than 4,000 net new jobs.
- **Forecast:** Area employers are expected to continue adding jobs during the remainder of the year. Local businesses are forecast to expand payrolls by 21,100 workers in 2022, an annual increase of 2 percent.



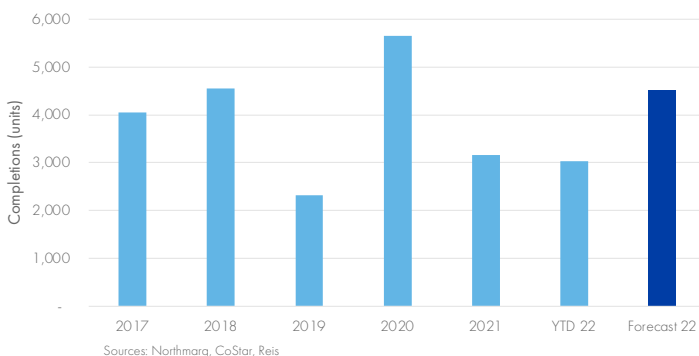
Year over year, total employment increased by 21,600 workers.

Employment Overview



Projects totaling nearly 1,270 units came online during the third quarter.

Development Trends



Development and Permitting

- The pace of apartment completions remains elevated as projects totaling nearly 1,270 units came online during the third quarter. To this point in the year, 3,026 units have been delivered, up from about 2,000 units during the same period in 2021.
- Multifamily developers are active in Kansas City with projects totaling approximately 5,200 units currently under construction, up about 30 percent from one year ago. The new development is heavily concentrated near Downtown, but projects are dispersed throughout the region. New projects broke ground in Overland Park and Cass County in recent quarters.
- Permits for approximately 1,740 multifamily units were pulled in the last three months, up 45 percent from the previous quarter. Developers have pulled permits for nearly 4,550 units year to date, up significantly from the market's average annual total of about 4,000 permits.
- **Forecast:** Multifamily developers will continue to bring projects online in the coming months, as roughly 4,500 apartment units are slated to be delivered in 2022.

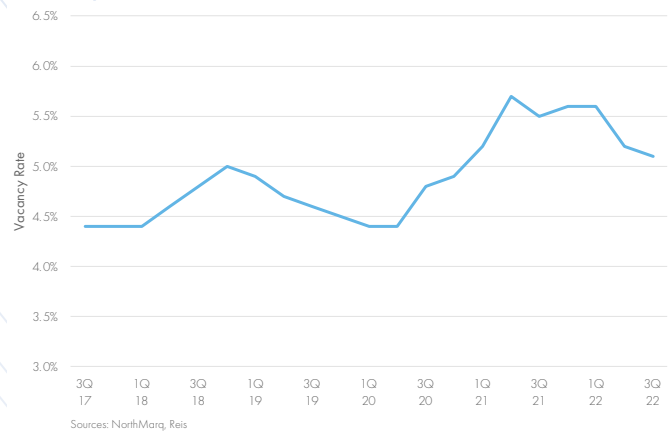
Vacancy

- Vacancy continued to trend lower, following improvement in the first half of the year. Local vacancy improved by 10 basis points during the third quarter, reaching 5.1 percent. Year over year, the vacancy rate dropped 40 basis points.
- Vacancy in the Downtown/East KC submarket fell 370 basis points to 9.7 percent. The rate in the submarket had trended higher in previous years in response to the delivery of more than 5,000 units from 2017 to 2021.
- Vacancy trends have been mixed across asset classes with upper-tier properties recording the most improvement. Year over year, the vacancy rate in Class A properties tightened by 130 basis points, reaching 6.2 percent. The combined vacancy rate for Class B and Class C units is 4 percent, but that is up 60 basis points in the past year.
- **Forecast:** Local vacancy is projected to inch higher to close out the year. The vacancy rate is expected to finish 2022 at 5.2 percent, higher than the current figure, but down 40 basis points for the year.



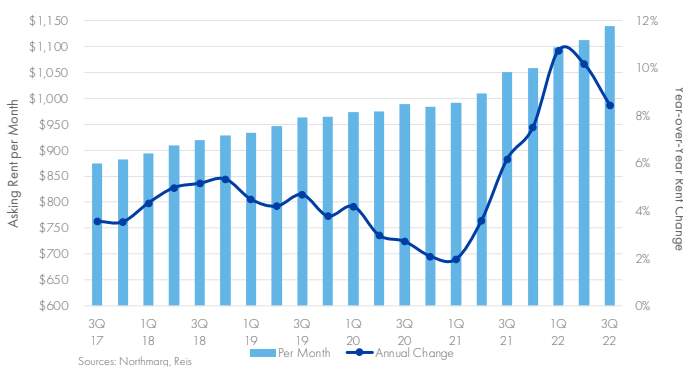
Year over year, the vacancy rate dropped 40 basis points.

Vacancy Trends



Year over year, asking rents advanced by 8.4 percent.

Rent Trends



Rents

- Average rents continued to rise during the third quarter, and the pace of growth accelerated from the previous period. Rents rose 2.3 percent in the last three months, reaching \$1,139 per month. Year over year, asking rents advanced by 8.4 percent.
- While rents are climbing across the entire region, the Platte submarket recorded the steepest growth. Average rents in this submarket increased 12.5 percent in the past year to \$1,215 per month.
- Rent increases in Class A properties continue to outpace growth in Class B and Class C units. In the last 12 months, average rents in Class A properties rose 10 percent to \$1,388 per month.
- **Forecast:** While the pace of rent growth will likely slow in the coming months, annual rent growth is projected to be elevated in 2022. Asking rents are expected to increase more than 8 percent this year to \$1,145 per month. This follows an increase of 7.5 percent in 2021.

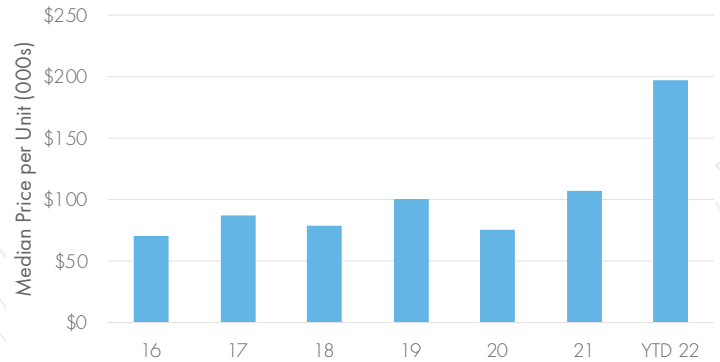
Multifamily Sales

- Multifamily sales velocity held fairly steady from the second quarter to the third quarter. Thus far in 2022, transaction volume is up about 5 percent from the same period last year.
- The median sales price to this point in 2022 is \$197,200 per unit, up nearly 85 percent from last year's figure. Class A property sales have accounted for approximately half of all closed transactions through the first three quarters of this year, pushing prices higher. The median price in sales of Class A apartments is over \$255,000 per unit.
- Cap rates during the third quarter averaged approximately 4 percent, up about 20 basis points from levels in the preceding quarter. Cap rates are expected to trend higher through the end of the year as interest rates rise.



The median price in Class A apartments is over **\$255,000 per unit.**

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

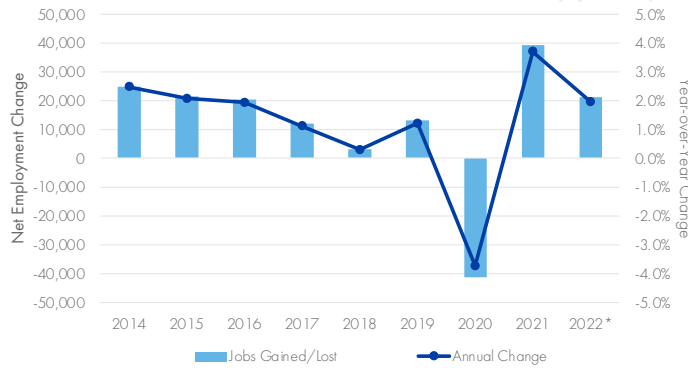
Property Name	Street Address	Units	Sales Price	Price/Unit
West End City Center	17410 W 86th Ter., Lenexa	309	\$69,400,000	\$224,595
Hunters Glen	6201 NW 70th St., Kansas City	253	\$24,055,555	\$95,081
Arbor Square	7613 Flint St., Shawnee	195	\$21,100,000	\$108,205
University Villa	2966 Francis St., Kansas City	108	\$14,500,000	\$134,259
Antioch Crossing	8700 W 106th Ter., Overland Park	90	\$10,000,000	\$111,111

Looking Ahead

The Kansas City multifamily market is expected to slow during the final quarter of 2022. After trending lower in the past two quarters, local vacancy is forecast to inch higher in the closing months of 2022. Despite a potential increase in the coming months, the vacancy rate is expected to finish 2022 in the low-5 percent range, lower than the 2021 year-end figure. Much of the market's rent appreciation has likely already occurred, but the region is on pace for its second consecutive year of rapid gains. Developers are projected to finish the year on a high note with more than 4,500 units slated to be delivered in 2022. Additionally, with the recent spike in permitting activity, new development should remain elevated for at least the next couple of years.

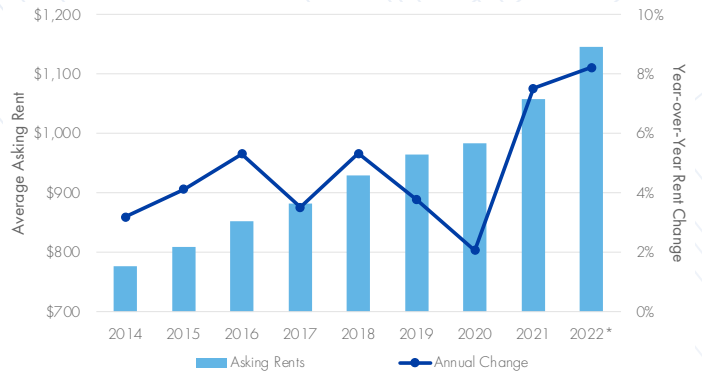
Investor demand should remain healthy during the final months of the year, as property fundamentals will continue to perform well. Sales velocity should be able to sustain the current pace but may lag transaction levels recorded in the same period in recent years, due to concerns with heightened interest rates. Cap rates are also projected to push higher and should average in the mid-4 percent range in the next few months. Per-unit pricing is expected to continue leveling off, as Class B and Class C properties should make up a larger share of deals in the closing months of the year. Lastly, investors will remain most active in Kansas City's suburban neighborhoods, fueled by the healthy operating conditions in the region's more outlying submarkets.

Employment Forecast



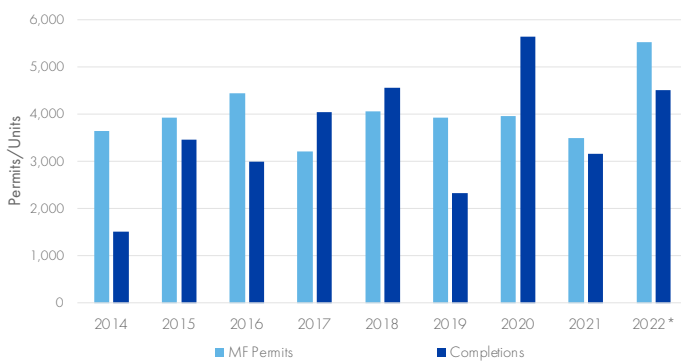
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



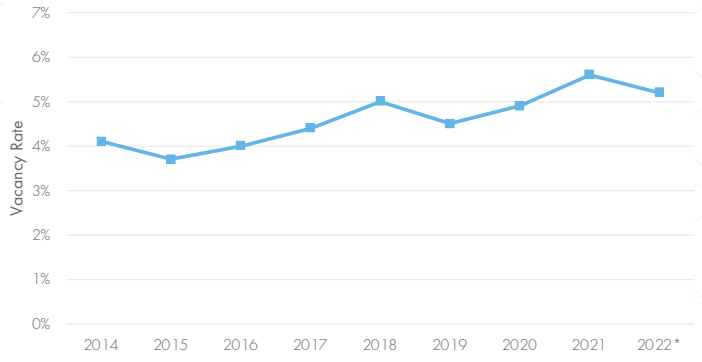
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.