

Strong fundamentals supported investment market in 2022

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **4,637**

UNITS DELIVERED **4,353**

MARKET FUNDAMENTALS



VACANCY RATE **5.3%**

YEAR-OVER-YEAR CHANGE **-30bps**

ASKING RENTS **\$1,159**

YEAR-OVER-YEAR CHANGE **+9.5%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$183,900**

HIGHLIGHTS

- The Kansas City multifamily market recorded a strong year in 2022. Apartment development activity accelerated in 2022, as both completions and permitting activity surpassed levels recorded during 2021.
- Vacancy tightened by 30 basis points in 2022, ending the year at 5.3 percent. While the rate fell for the full year, vacancy ticked up 20 basis points during the fourth quarter.
- Area rents continued to rise at a healthy pace during the fourth quarter; average rents increased by 1.8 percent in the last three months, reaching \$1,159 per month. Asking rents advanced by 9.5 percent in 2022.
- The multifamily investment market remained active throughout 2022. Sales activity gained momentum, and prices pushed higher. The median sales price was \$183,900 per unit in 2022, considerably higher than in the preceding year. Cap rates trended higher in the fourth quarter.

KANSAS CITY MULTIFAMILY MARKET OVERVIEW

After a very strong first nine months of the year, apartment fundamentals in Kansas City showed signs of leveling off during the last three months of 2022, as vacancy trended higher, and the pace of rent growth was more modest. Still, operating conditions remain solid heading into 2023. While vacancy inched higher in the fourth quarter, the rate still posted an annual decline in 2022, finishing the year at 5.3 percent. Rents continued to push higher in recent months, although the pace of rent growth slowed slightly from the third quarter to the fourth quarter. The prevailing conditions have been supporting construction of new units for the past several years, and developers have delivered an average of more than 4,000 units per year since 2020.

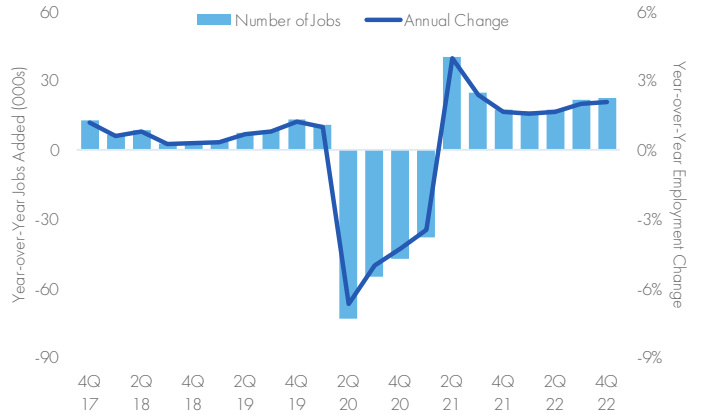
The Kansas City multifamily investment market closed the year on a relatively high note, as both transaction volume and sales prices rose in recent months. Sales velocity accelerated by 40 percent in the last three months of 2022, despite economic concerns and rising borrowing costs. The local investment market outperformed many other metro areas in recent quarters, as annual transaction activity in Kansas City increased 16 percent from 2021 to 2022. Investors gravitated toward Class A assets in 2022, with upper-tier properties accounting for nearly half of the sales in the past 12 months. As activity picked up in the sale of Class A properties, prices pushed higher. The median sales price was \$183,900 per unit in 2022, while the median price in Class A assets reached \$250,000 per unit.

EMPLOYMENT

- The local labor market continues to add jobs at a healthy pace. Total employment expanded by 22,500 positions in 2022, an annual increase of 2.1 percent. Nearly 7,000 jobs were added in the fourth quarter.
- Professional and business services recorded a consistent pace of expansion in 2022. Employment counts in the sector expanded by 3.5 percent in the past year with the addition of 6,300 new workers.
- Shawnee-based contract research organization, KCAS Bioanalytical & Biomarker Services, opened a 70,000-square-foot laboratory in Olathe’s Kansas Bioscience Park campus during the fourth quarter. The company plans to more than double its existing workforce by adding 175 new jobs.
- **FORECAST:** Following above-trend gains in 2021 and 2022, the Kansas City labor market is expected to grow at a more modest pace in 2023. Area employers are projected to add approximately 11,000 workers during the next 12 months, raising local employment by 1 percent.

Total employment expanded by 22,500 positions in 2022.

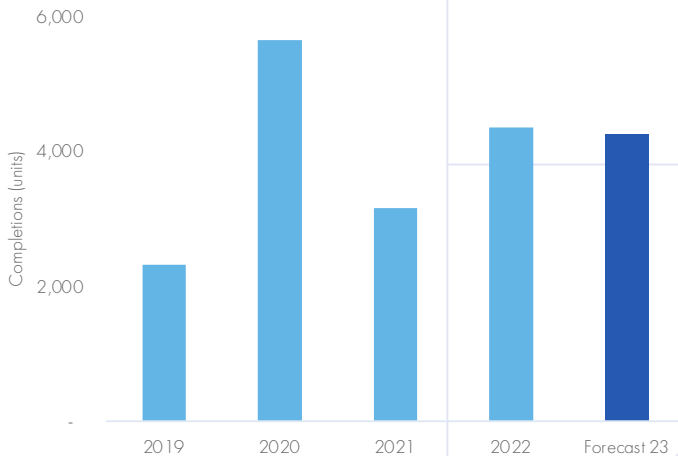
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling roughly 4,350 units were completed in 2022.

DEVELOPMENT TRENDS



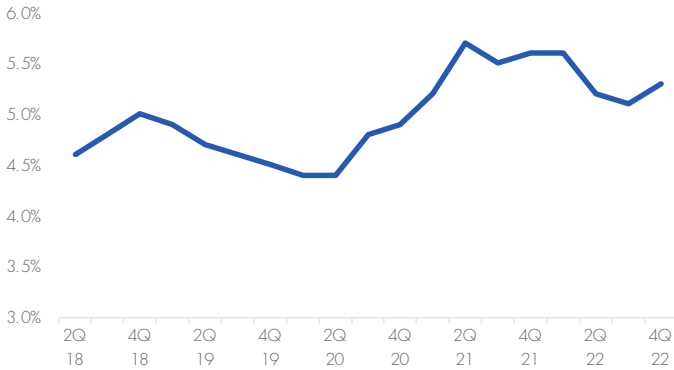
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Multifamily developers continue to deliver projects with approximately 1,325 apartment units coming online during the fourth quarter. Projects totaling roughly 4,350 units were completed in 2022, up 38 percent from the total in 2021.
- Apartment development will continue at a rapid pace, as projects totaling more than 4,600 units were under construction at the end of 2022, up 8 percent from one year earlier. The most active areas for new development are in Downtown Kansas City and Johnson County.
- Multifamily permitting slowed in recent months, as developers pulled permits for nearly 760 units during the fourth quarter, down 56 percent from the previous period. Despite cooling at the end of the year, permits were issued for more than 5,500 multifamily units in 2022, a cyclical high in Kansas City. From 2017 to 2021, the market averaged roughly 3,730 permits annually.
- **FORECAST:** The pace of multifamily deliveries in the next 12 months is projected to closely track levels recorded in 2022. Projects totaling more than 4,250 units are forecast to come online in 2023.

Vacancy improved by 30 basis points in 2022.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

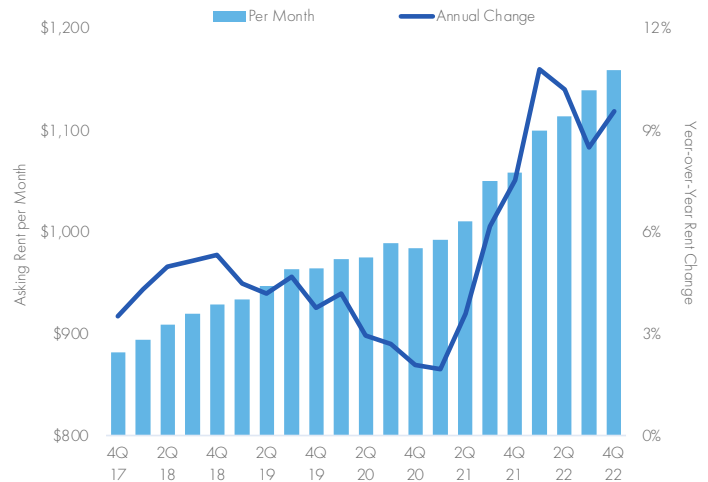
- After trending lower for two consecutive quarters, vacancy ticked higher during the final three months of the year. The rate rose 20 basis points in the fourth quarter, reaching 5.3 percent.
- The vacancy rate in Kansas City improved by 30 basis points in 2022, with the largest declines located in the Downtown/East KC submarket. The vacancy rate in this submarket dropped 390 basis points in the past year, finishing 2022 at 9.3 percent. The rate had trended higher in recent years as a flurry of projects were delivered.
- While vacancy trends were mixed across the different asset classes during the last 12 months, the rate fell in Class A properties. Vacancy in upper-tier units dropped 150 basis points in 2022 to 6.3 percent. With completions likely to be elevated again in 2023, the Class A rate may tick higher if absorption slows.
- **FORECAST:** Vacancy is forecast to rise 40 basis points in 2023, finishing the year at 5.7 percent. Area vacancy has remained in the low- to mid-5 percent range since early 2021.

RENTS

- Asking rents in the Kansas City region continued to record gains late in the year, rising 1.8 percent in the fourth quarter to \$1,159 per month. For the full year, rents spiked by 9.5 percent.
- Asking rents pushed higher across all of Kansas City’s submarkets in 2022, with the Lee’s Summit area posting the largest annual gains. Asking rents in this submarket increased by 12.7 percent during the past 12 months, reaching \$1,310 per month. Vacancies in the submarket improved in 2022 after rising in the preceding year. As conditions have tightened, operators have pushed rents higher, particularly in Class B and Class C properties.
- Upper-tier units recorded the steepest rent increases during the past year. Rents for Class A properties climbed 10.8 percent in 2022, reaching \$1,421 per month. The sharp upward momentum in Class A asking rents reflects the influx of newer, more expensive units into the inventory in recent years, as well as the strengthening local economy.
- **FORECAST:** After maintaining elevated levels of rent growth in 2021 and 2022, asking rents are forecast to advance at a more traditional pace in 2023. Local rents are expected to rise 3.2 percent in 2023 to nearly \$1,200 per month.

For the full year, rents spiked by 9.5 percent.

RENT TRENDS



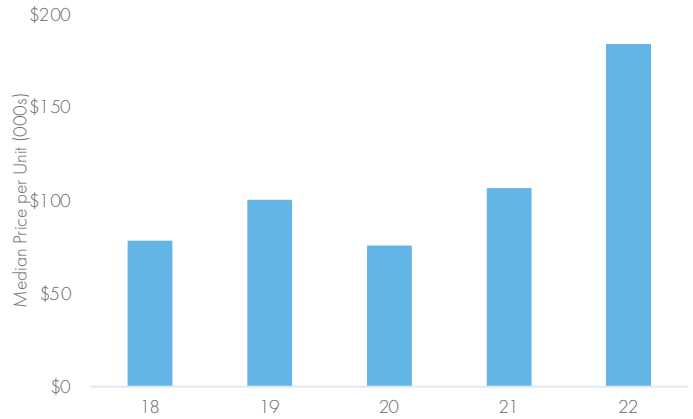
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily investment activity increased in recent months, as transaction volume rose 40 percent from the third quarter to the fourth quarter. While the pace of deals slowed across most major markets in the past 12 months, sales velocity in Kansas City rose 16 percent from levels recorded in 2021.
- Prices pushed higher in 2022, although the highest prices were recorded in the first half. The median sales price for the full year in 2022 was \$183,900 per unit. In properties that changed hands during the fourth quarter, the median price was \$157,100 per unit.
- Some of the pricing trends can be attributed to an increase in the number of transactions of Class A buildings. Investment activity picked up in Class A assets in 2022, and top-tier properties accounted for more than 45 percent of the region’s annual sales in 2022. The median price in Class A property sales reached \$250,000 per unit.
- Rising interest rates continue to push cap rates higher. Cap rates averaged 4.5 percent during the fourth quarter, up roughly 70 basis points from the previous period.

The median price in Class A sales reached \$250,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

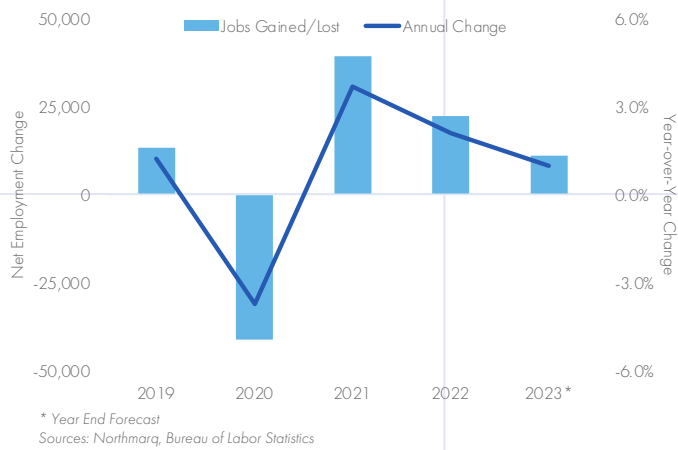
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Artistry KC	1918 Locust St., Kansas City, MO	341	\$94,000,000	\$275,660
The Wilder	9670 Hasley St., Lenexa, KS	510	\$73,000,000	\$143,137
Park Place	5251 115th Pl., Leawood, KS	258	\$66,500,000	\$257,752
The Village at Mission Farms	4080 Indian Creek Pkwy., Overland Park, KS	212	\$65,200,000	\$307,547
Dunes at Falcon Valley	19501 W 102nd St., Lenexa, KS	208	\$45,400,000	\$218,269

LOOKING AHEAD

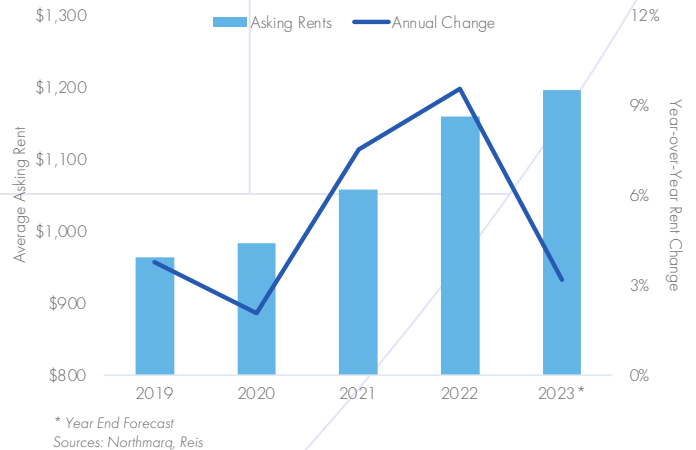
Operating conditions will likely soften slightly in the coming quarters, as vacancy inches higher, and rent growth returns closer to historical averages, following two straight years of rapid gains. Against this backdrop, apartment property fundamentals should remain fairly strong in 2023. Elevated multifamily permitting levels are a leading indicator that suggests the next two years will remain active ones for new construction. Projects totaling more than 4,250 units are slated to come online during 2023, similar to levels recorded in 2022. The volume of new units will likely outpace absorption in the coming year, resulting in a forecast vacancy increase across much of the region.

Multifamily investors will likely take a more cautious approach in 2023, and rising capital costs should restrict activity levels in the coming year. Despite continued concerns and rising interest rates, the overall healthy operating conditions in Kansas City will support some transaction activity. One area where investment activity has been gaining momentum in recent periods has been in the top tier. More Class A properties have been trading, including a handful of newer buildings that are selling upon stabilization. With recent construction levels elevated and additional projects slated to come online, investors should find acquisition opportunities in the Class A segment.

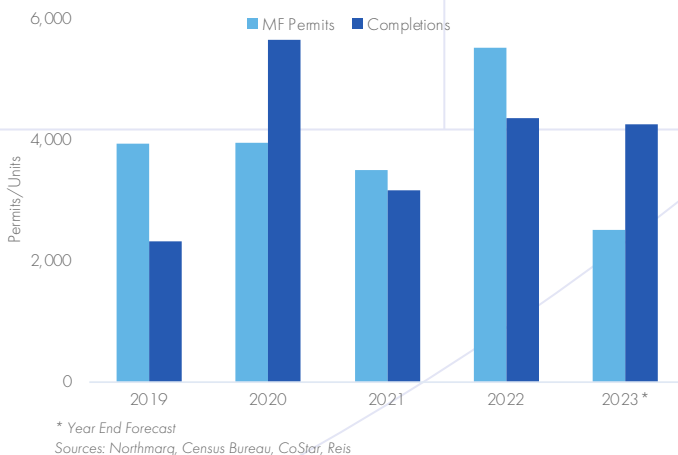
EMPLOYMENT FORECAST



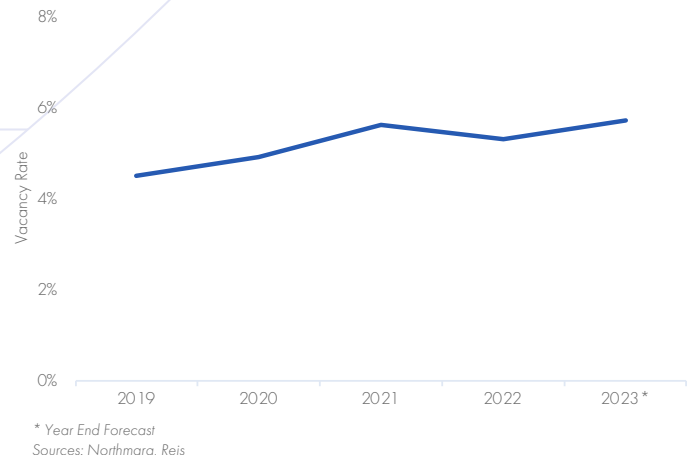
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





**FOR MORE INFORMATION,
PLEASE CONTACT:**

JEFF LAMOTT

SVP, Managing Director—Investment Sales
913.647.1640
jlamott@northmarq.com

GABE TOVAR

Senior Vice President—Investment Sales
913.647.1647
gtovar@northmarq.com

GREG DUVALL

SVP, Managing Director—Debt & Equity
913.647.1610
gduvall@northmarq.com

JOHN DUVALL

Vice President—Debt & Equity
913.647.1620
jduvall@northmarq.com

TREVOR KOSKOVICH

President—Investment Sales
602.952.4040
tkoskovich@northmarq.com

PETE O'NEIL

Director of Research
602.508.2212
poneil@northmarq.com

ABOUT NORTHMARQ

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 1,000 employees, loan servicing volume approaching \$80 billion, and \$40+ billion in transaction volume.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

© 2023. All rights reserved.

BUILT TO THRIVE®

northmarq.com