

Market Insights

Greater Kansas City Multifamily 3Q 2021



Construction Activity



4,035

Units under construction

2,014

Units delivered (YTD)

Market Fundamentals



5.5%

Vacancy

+70 bps

Year over year change

\$1,050

Asking Rent

+6.2%

Year over year change

Transaction Activity



\$93,100

Median sales price per unit (YTD)

4.5%

Cap rates (YTD)

Rent Growth Accelerates as Vacancies Trend Lower

Highlights

- The Kansas City multifamily market recorded strong improvement during the third quarter. A surge in absorption drove vacancy rates lower and the heightened demand fueled rent growth. With the economy improving, additional gains are forecast for the local rental market.
- After trending higher for the past several quarters, the vacancy rate changed direction in the third quarter. Vacancy fell 20 basis points in the third quarter, retreating to 5.5 percent. Despite the recent improvement, the rate is up 70 basis points year over year.
- The pace of rent growth has accelerated in recent months. Asking rents rose 4 percent in the third quarter, reaching \$1,050 per month. In the past year, asking rents have gained 6.2 percent.
- The pace of transactions slowed in the third quarter, following a spike in activity in the preceding three months. Prices have pushed higher throughout the year; the median price in transactions that have closed in 2021 is up to \$93,100 per unit, 23 percent higher than in 2020. Cap rates have compressed to 4.5 percent on average.

Kansas City Multifamily Market Overview

For the first time in more than a year, vacancy in the Kansas City apartment market tightened during the third quarter. The dip in vacancy was fueled by an accelerating pace of absorption, particularly in Class A units. The earlier vacancy increases were the function of an active pace of new development that began in 2015 and continued for several years before peaking in 2020. Construction has slowed to this point in 2021, at the same time demand is accelerating. These trends are likely to be sustained in the next few quarters, leaving room for additional rent increases as vacancy rates normalize. Asking rents rose 4 percent in the third quarter alone, and early indications suggest additional increases before this year comes to a close.

After a spike in investment activity at midyear, sales of multifamily communities cooled a bit in the third quarter. Despite the quarter-to-quarter fluctuations, transactions to this point in 2021 are ahead of levels from recent years, indicating the steady demand in the market. With property fundamentals improving, prices have pushed higher. The median price recorded thus far in 2021 is up more than 20 percent from one year ago, even though more than half of the sales to take place this year have included older, Class C properties. In Class A properties, the median price is closer to \$200,000 per unit, with a few transactions closing at more than \$250,000 per unit. Cap rates have averaged about 4.5 percent in 2021, 75 basis points lower than one year ago.

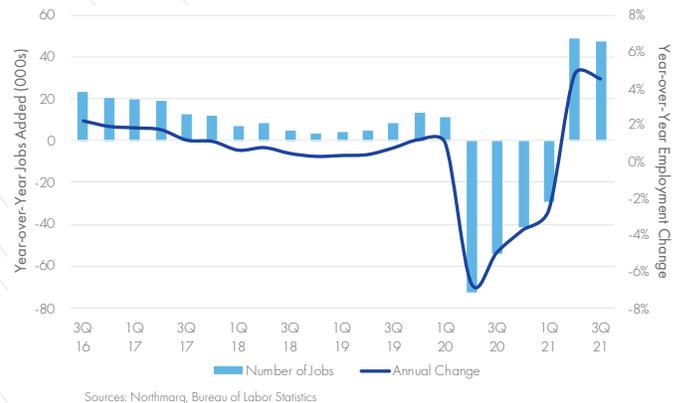
Employment

- The pace of expansion in the Kansas City employment market accelerated during the third quarter. Employers added more than 20,000 jobs in the third quarter.
- Year over year through the third quarter, local employment totals have expanded by 4.5 percent with the addition of 47,400 jobs. There is room for additional gains; despite the recent gains, total employment in the market remains 1.5 percent below the pre-COVID peak.
- The traditionally high-wage professional and business services sector is leading the employment rebound in Kansas City. More than 13,000 professional jobs have been added in the past 12 months, a growth rate of 7.3 percent.
- **Forecast:** Employers are on pace to add 38,000 jobs in the market in 2021, increasing payrolls by 3.6 percent. Gains are forecast to continue in the coming quarters, and the market should top its earlier employment peak by midyear 2022.



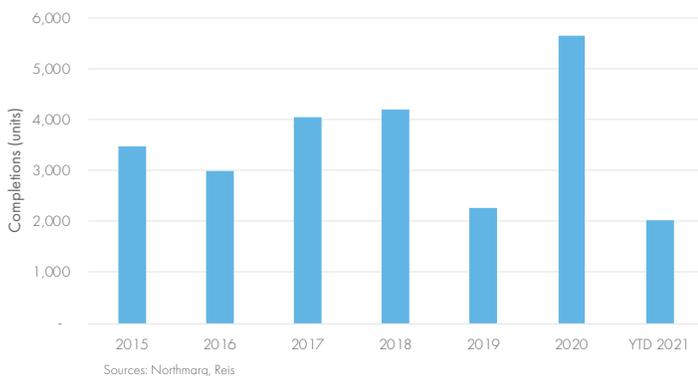
Employers added more than 20,000 jobs in the third quarter.

Employment Overview



Year to date, permits for 2,850 multifamily units have been issued.

Development Trends



Development and Permitting

- Deliveries of new apartment communities have accelerated throughout the year. Developers delivered projects totaling about 800 units in the third quarter, bringing the total for the full year to more than 2,000 units. Additional projects are scheduled to come online in the fourth quarter.
- Projects totaling approximately 4,000 units are currently under construction throughout the Kansas City region, down about 30 percent from levels one year ago.
- Permitting activity has been steady in recent years, with developers pulling permits for an average of about 4,000 multifamily units annually since 2014. Year to date through the third quarter, permits for 2,850 multifamily units have been issued, closely tracking the pace established in recent years.
- **Forecast:** After deliveries peaked in 2020, construction activity will be more modest this year. Developers are on pace to complete projects totaling approximately 3,400 units in 2021, followed by a slower pace of deliveries in 2022.

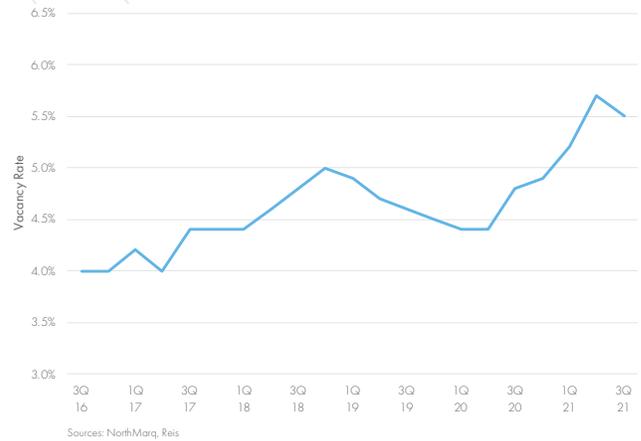
Vacancy

- Vacancy in Kansas City dipped 20 basis points in the third quarter, reaching 5.5 percent and reversing an upward trend that had been in place for the past several quarters as supply growth had been active and absorption trends were mixed. In the third quarter, absorption surged, topping the total from the first half of this year.
- Year over year, vacancy in Kansas City is up 70 basis points. The market's long-term average vacancy is about 4.5 percent, and the rate is likely to trend lower in the coming quarters.
- Net absorption in the Class A segment of the market totaled 825 units in the third quarter, bringing the year-to-date total to nearly 1,700 units. The current Class A vacancy rate is 7.1 percent, just 10 basis points higher than the figure at the beginning of the year.
- **Forecast:** Vacancy is expected to tighten again in the fourth quarter, and the rate is forecast to end the year at 5.3 percent. This would represent an improvement of 40 basis points in the second half of 2021.



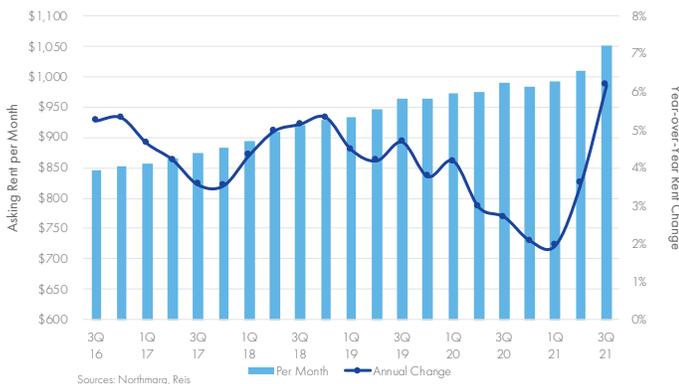
Vacancy dipped 20 basis points in the third quarter, reaching 5.5 percent.

Vacancy Trends



Year over year, local asking rents are up 6.2 percent at \$1,050 per month.

Rent Trends



Rents

- Asking rents in Kansas City rose 4 percent in the third quarter, building on a 2 percent gain from the second quarter. With absorption gaining momentum and vacancies creeping lower, additional rent increases are expected.
- Year over year, local asking rents are up 6.2 percent at \$1,050 per month. This is the fastest pace of rent growth in the market in more than a decade and follows a five-year period where rents rose at an average annual pace of 4.2 percent.
- Class A asking rents have risen 6.6 percent in the past year, reaching \$1,279 per month. Rents in the market's top properties are forecast to continue to rise at an accelerating pace in response to an increase in renter demand.
- **Forecast:** The strong rent growth recorded in the second and third quarters is likely to extend into the end of 2021. For the full year, asking rents are forecast to rise 8.7 percent, reaching approximately \$1,070 per month.

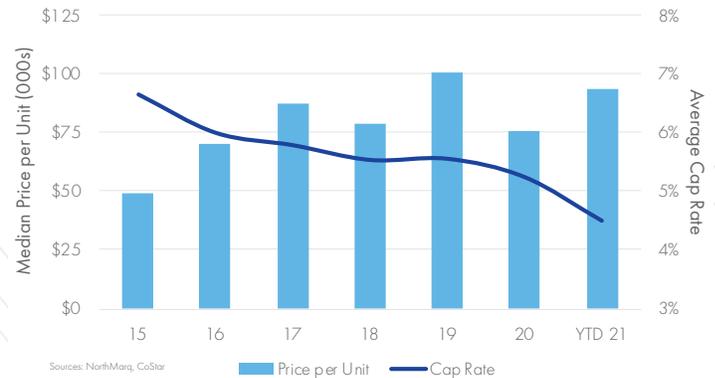
Multifamily Sales

- After a surge in the second quarter, investment activity cooled a bit in the third quarter. Total sales velocity through the first nine months of the year is ahead of the average pace recorded from 2018 to 2020.
- Prices trended higher during the third quarter. The median price in transactions that closed in the third quarter topped \$103,000 per unit, bringing the year-to-date median price up to \$93,100 per unit. The median price is up 23 percent when compared to 2020 levels.
- Cap rates have averaged 4.5 percent year to date, 75 basis points lower than in 2020. While a handful of older Class C properties have changed hands with cap rates above 6 percent, the bulk of the activity consists of projects selling with cap rates at 4.5 percent or below.



The median price in transactions that closed in the third quarter topped \$103,000 per unit.

Investment Trends



Recent Transactions

Multifamily Sales Activity

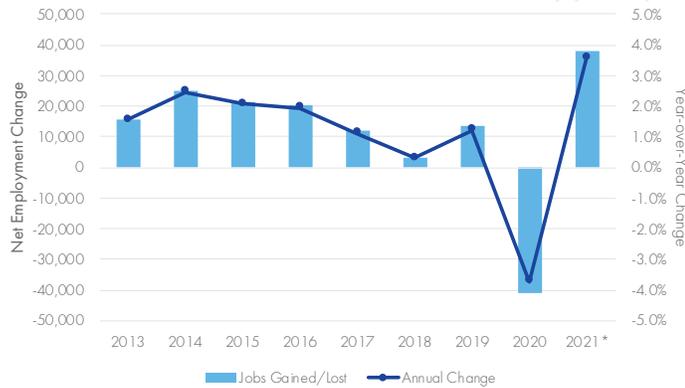
Property Name	Street Address	Units	Sales Price	Price/Unit
CityView	2500 Cityview Dr., North Kansas City	246	\$46,100,000	\$187,398
Carson Street Towers	6741 W 135th St., Overland Park	225	\$45,000,000	\$200,000
Park 67	6527 Reeder Rd., Shawnee	352	\$35,500,000	\$100,852

Looking Ahead

Gains in local employment should continue to fuel renter demand for units in Kansas City in the coming quarters. With demand gaining momentum, the outlook calls for continued fundamental improvement in performance metrics, highlighted by a tightening vacancy rate. An influx of new supply—particularly in 2020—pushed the local vacancy rate about 100 basis points higher than the long-term average. With supply and demand likely returning closer to equilibrium through the end of this year and into 2022, the market is poised for continued rent growth in the coming quarters.

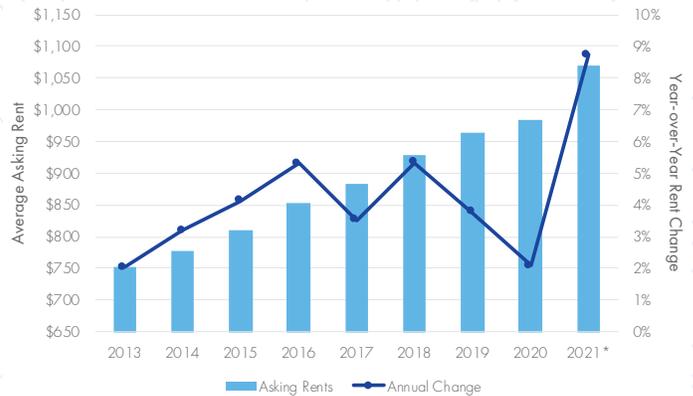
As property fundamentals strengthen, the local investment market should continue to post healthy performance. With demand gaining momentum, the outlook calls for continued fundamental improvement in performance metrics, highlighted by a tightening vacancy rate. The pace of transaction activity has been very steady in recent years, although the mix of properties has varied. One segment of the market where activity has gained momentum has been among newer, Class A buildings. With thousands of new units delivered and leased-up in recent years, there should be additional sales of these newer projects in the coming years.

Employment Forecast



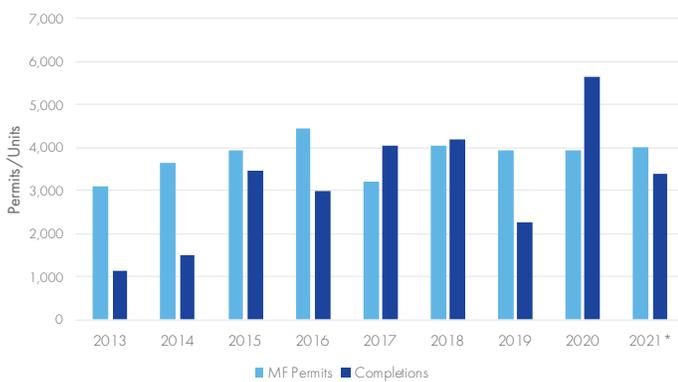
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



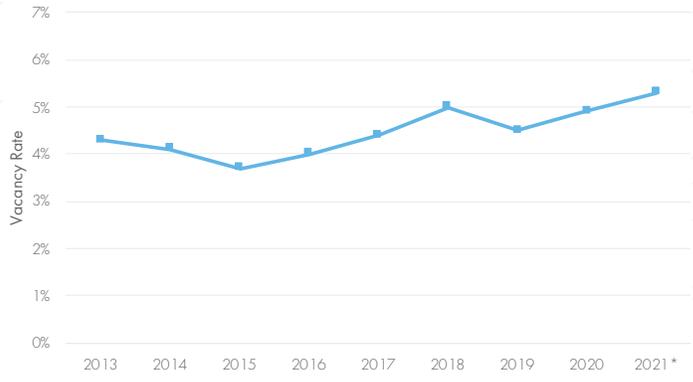
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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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 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.