

Market Insights

Greater Kansas City Multifamily 4Q 2021



Construction Activity



4,275

Units under construction

3,162

Units delivered (YTD)

Market Fundamentals



5.6%

Vacancy

+70 bps

Year over year change

\$1,058

Asking Rent

+7.5%

Year over year change

Transaction Activity



\$106,900

Median sales price per unit (YTD)

Cap Rates Compress to Close 2021

Highlights

- Renter demand in Kansas City is slowly returning to more typical levels as rents trended higher and absorption levels jumped in 2021. The multifamily market should gain momentum in the year ahead as the economy reaches a full recovery.
- Asking rents continued to rise in the final quarter, though the pace of growth slowed from previous periods. Asking rents increased 0.8 percent in the fourth quarter, reaching \$1,058 per month.
- Transaction volume held fairly steady in the second half of the year, increasing slightly in the last few months of 2021. The median sales price pushed higher throughout the year, rising 41 percent in 2021 to \$106,900 per unit. Cap rates continue to compress, averaging 3.8 percent in the fourth quarter.

Kansas City Multifamily Market Overview

The Kansas City multifamily market recorded gains to close out 2021, as rents continued to climb. Developers have been active in the past five years, and new supply growth has generally outpaced demand. That trend began to change course in 2021, with absorption increasing by more than 30 percent from 2020 levels to nearly 2,500 units. Additional improvement is likely in 2022 as area employment levels rebound. Asking rents posted strong gains in the second and third quarters and continued to trend higher at the end of the year. Although rents increased across the entire Kansas City market in 2021, the largest annual gains were recorded in the University/Plaza, Platte, and Independence submarkets with annual increases between roughly 9 percent to 11 percent.

The Kansas City investment market strengthened in the last few months of the year with transaction volume increasing slightly and sales prices pushing higher. While the median sales price for all of 2021 was \$106,900 per unit, there were a handful of properties that traded well above this range in the fourth quarter. Half of the transactions in the final quarter consisted of Class A properties with a few sales trading for more than \$265,000 per unit. As prices trended higher, cap rates compressed, averaging about 3.8 percent in the fourth quarter. Average cap rates in Kansas City declined 140 basis points from 2020, reflecting an increasingly competitive investment market.

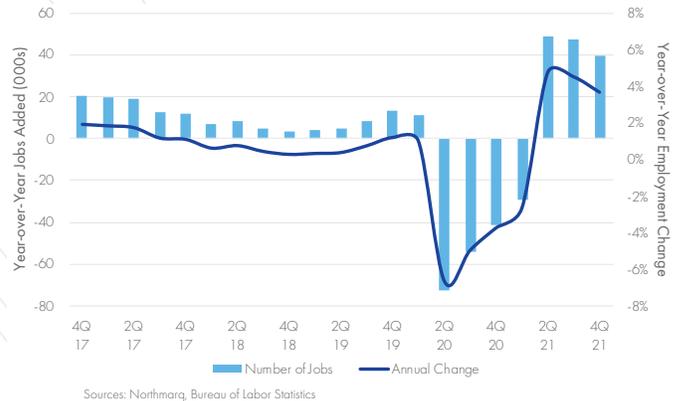
Employment

- Employers in Kansas City continued to add workers back in the final few months of the year with the addition of more than 10,000 jobs in the fourth quarter. For the full year, local employers added nearly 40,000 positions, a 3.7 percent annual increase. Total employment in Kansas City is down less than 1 percent from its pre-pandemic high.
- Trade, transportation, and utilities—Kansas City’s largest employment sector—added 9,500 jobs during 2021, an expansion rate of 4.3 percent. This sector is fueled by the region’s large transportation and distribution infrastructure and is forecast to continue to add workers going forward.
- During the fourth quarter, global plastics manufacturer APLA announced plans to expand its operations in Missouri with a new manufacturing plant in Kansas City. The 246,000-square-foot-facility will be completed in late-2022, bringing 75 jobs to the Blue River Commerce Center.
- Forecast:** The employment forecast in Kansas City calls for continued growth in the year ahead. Employers are expected to add more than 22,000 positions in 2022, a growth rate of approximately 2 percent.



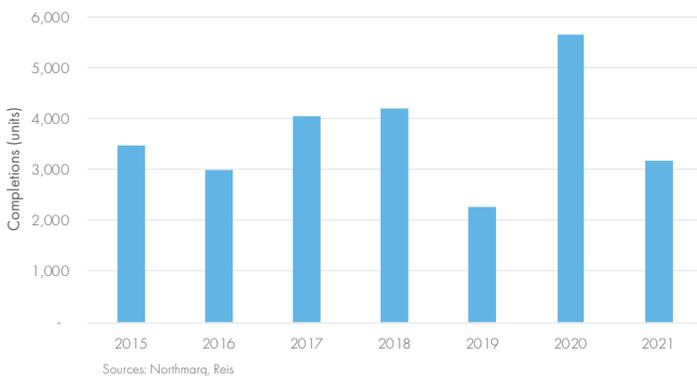
Employers added nearly 40,000 jobs in 2021.

Employment Overview



Deliveries totaled more than 3,160 units in 2021.

Development Trends



Development and Permitting

- After spiking in the prior year, multifamily deliveries slowed to more than 3,160 units in 2021. Deliveries in 2021 were down slightly from the market’s recent trend; since 2015, developers have completed an average of 3,700 apartment units per year in Kansas City.
- Projects totaling 4,275 units are currently under construction in the Kansas City area, nearly identical to the total from one year earlier. There are several planned projects in the development pipeline that could break ground by the end of 2022.
- Multifamily permitting remained active in 2021, down from the prior year. Developers pulled permits for nearly 3,500 units in 2021, down 12 percent from 2020 levels. Multifamily permitting averaged 3,900 units in 2015 through 2020.
- Forecast:** Apartment deliveries are expected to taper slightly in the year ahead with approximately 2,400 units forecast to come online in 2022.

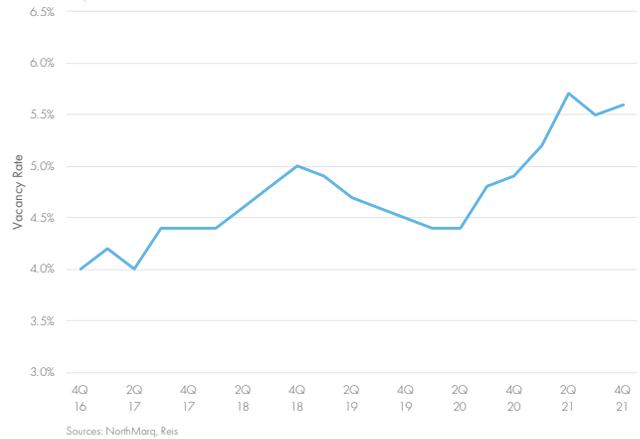
Vacancy

- Vacancy in Kansas City inched higher during the last few months of the year, rising 10 basis points in the fourth quarter to 5.6 percent. The rate has been essentially flat for the past three quarters, after ticking higher at the end of 2020 and in the first few months of 2021.
- For the full year, vacancy in Kansas City rose 70 basis points. While the overall market rate trended higher, there are several submarkets where conditions remain tight. The Southwest Kansas City, Wyandotte, and Raytown submarkets all have vacancy rates around 2.5 percent. These submarkets also have some of the lowest asking rents in the entire metro area.
- Absorption levels in Class A units lagged the pace of new supply growth by about 30 percent in 2021, pushing the vacancy rate higher. The vacancy rate in Class A properties rose by 100 basis points in the past 12 months, finishing the year at 8 percent.
- **Forecast:** Net absorption is forecast to closely track new multifamily construction in 2022, and the vacancy rate should remain in a fairly right range for much of the year ahead. Vacancy is expected to dip 20 basis points in the coming year, ending 2022 at 5.4 percent.



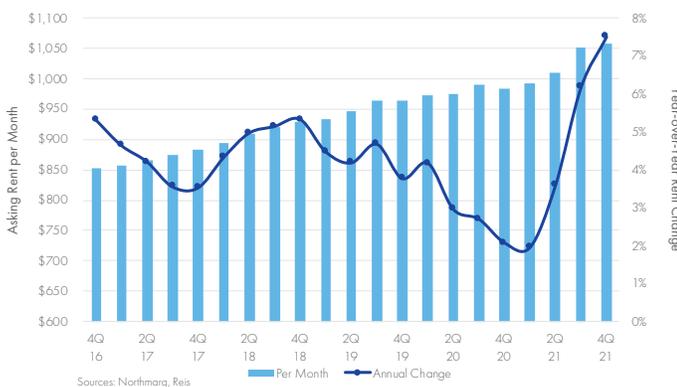
The vacancy rate reached 5.6 percent in 2021.

Vacancy Trends



For the full year, rents jumped 7.5 percent.

Rent Trends



Rents

- Asking rents continued to rise in the last few months of the year, though the pace of growth slowed from elevated levels in the middle part of the year. Average rents in Kansas City rose 0.8 percent in the fourth quarter, ending 2021 at \$1,058 per month.
- For the full year, apartment rents jumped 7.5 percent, the largest annual growth in the market in more than 20 years. Rent growth in recent years has averaged approximately 3.5 percent.
- Average rents rose across all property classes during the past year, with the largest gains recorded in Class A units. Asking rents in Class A properties advanced by nearly 8 percent in 2021, reaching \$1,284 per month at year-end.
- **Forecast:** Local asking rents are slated for further growth in the year ahead, although the pace of expansion will slow from 2021. Rents in Kansas City are forecast to reach \$1,100 per month by the end of 2022, advancing 4 percent for the year.

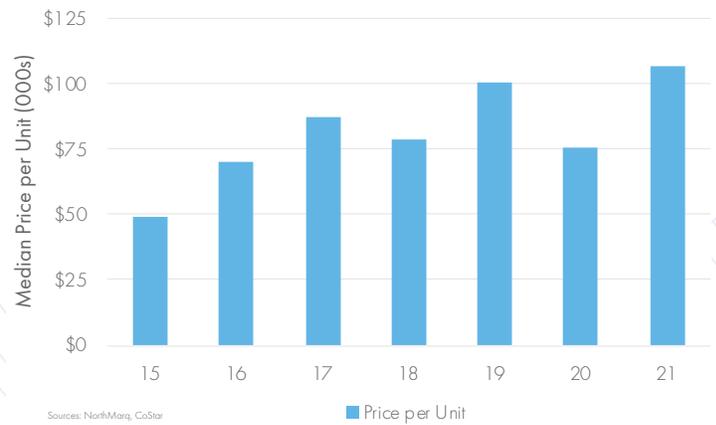
Multifamily Sales

- Sales activity accelerated slightly in the last few months of the year as transaction volume rose nearly 15 percent from the third quarter to the fourth quarter. Total sales volume for the year increased approximately 10 percent from 2020 levels.
- The median sales price in 2021 was roughly \$106,900 per unit, up 41 percent from the median price in 2020. Sales prices jumped in the fourth quarter with the median price reaching nearly \$173,900 per unit in the transactions that closed in the final few months of the year.
- Cap rates continued to compress in Kansas City in recent months as demand intensified across the region. Cap rates averaged approximately 3.8 percent in the fourth quarter, down 140 basis points from the average rate in 2020.



The median price in 2021 was \$106,900 per unit.

Investment Trends



Recent Transactions

Multifamily Sales Activity

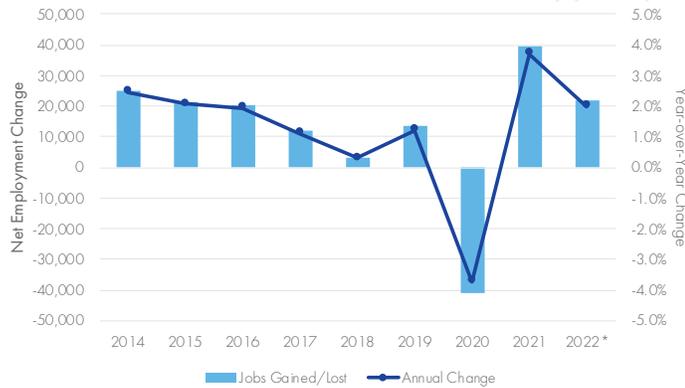
Property Name	Street Address	Units	Sales Price	Price/Unit
The Villas at Ridgeview Falls	11835 S Fellows St., Olathe	237	\$65,600,000	\$276,793
Clear Creek	13590 Earnshaw St., Overland Park	288	\$51,300,000	\$178,125
Fountainhead	9821 Wornall Rd., Kansas City	112	\$14,000,000	\$125,000

Looking Ahead

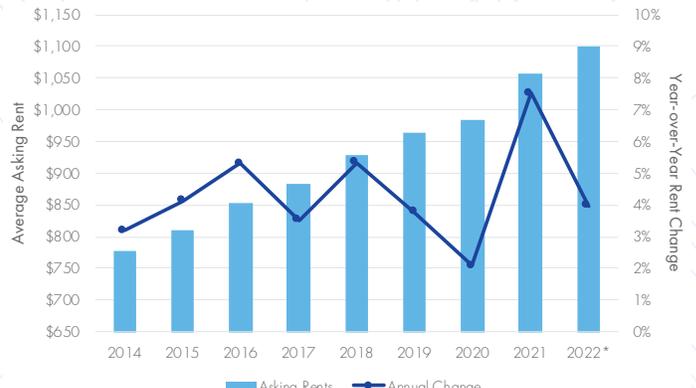
The local labor market is forecast to continue to recover in the year ahead, following rapid employment growth in recent quarters. Total employment in Kansas City should surpass its pre-pandemic peak in 2022 as the overall economy strengthens in the region. Continued economic growth will drive demand for housing, fueling multifamily property fundamentals. Asking rents are expected to post additional gains in the coming quarters, building upon the largest annual growth in decades in 2021. Absorption levels and new apartment completions are forecast to closely track each other in 2022, allowing for a modest decline in the area vacancy rate.

Continued healthy operational performance supported investment activity in 2021, and that trend should continue in the year to come. Momentum built throughout the year with per-unit sales prices rising in each quarter of 2021. The upward trend in pricing could lead to additional transaction activity in the coming quarters. Yields compressed throughout 2021, with properties trading with cap rates below 4 percent by the end of last year. Cap rates will likely remain low as long as property operators are able to achieve healthy rent gains. The market's above-average economic growth prospects are expected to keep Kansas City among the most desirable investment markets in the Midwest.

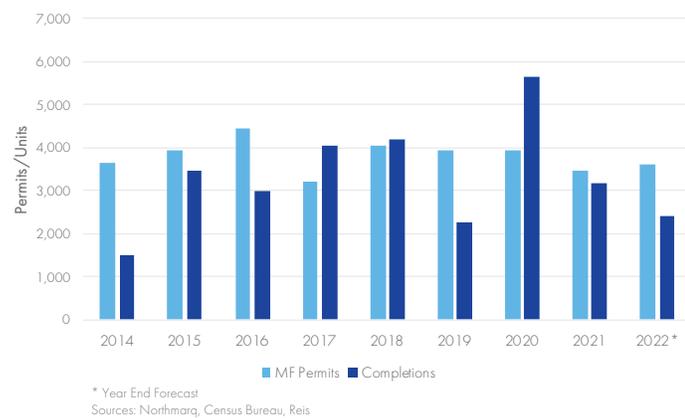
Employment Forecast



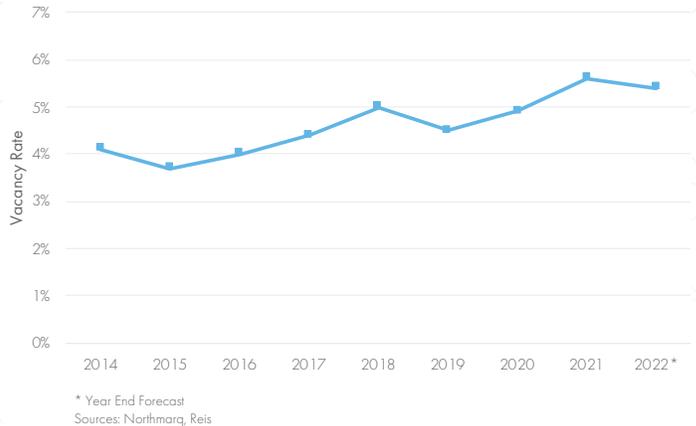
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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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.