

Market Insights

Greater Kansas City Multifamily 2Q 2022



Construction Activity



5,478

Units under construction

1,758

Units delivered (YTD)

Market Fundamentals



5.2%

Vacancy

-50bps

Year over year change

\$1,113

Asking Rent

+10.2%

Year over year change

Transaction Activity



\$202,600

Median sales price per unit (YTD)

After Holding Steady for Several Quarters, Vacancy Begins to Tighten

Highlights

- Multifamily property fundamentals improved in Kansas City during the second quarter, as vacancy dropped and asking rents rose at a modest pace. Additionally, apartment development activity gained momentum.
- Local vacancy tightened in recent months, falling 40 basis points in the second quarter to 5.2 percent. Year over year, the rate declined by 50 basis points.
- Asking rents continue to push higher, although the pace of rent growth slowed in the second quarter. Local apartment rents rose 1.3 percent during the last three months to \$1,113 per month. Year over year, average rents are up 10.2 percent.
- Sales activity slowed modestly in the second quarter. Year to date, the median sales price is \$202,600 per unit. Cap rates remain low, averaging 3.8 percent in the last three months, but will likely rise in the second half of the year in response to higher borrowing costs.

Kansas City Multifamily Market Overview

Property performance metrics strengthened across the board in Kansas City during the second quarter with vacancy tightening, asking rents ticking higher, and construction activity accelerating. After holding fairly steady for the past year, the vacancy rate tightened in recent months fueled by rising absorption levels and a labor market that is adding jobs at a consistent pace. The improving occupancy levels—particularly across the region’s suburban submarkets—allowed operators to continue to raise rents. Developers are actively bringing new units into the construction pipeline throughout the metro area with a concentration of deliveries around the city core. Roughly one-third of the projects that have come online to this point in the year have been located in the Downtown and Midtown areas.

The multifamily investment market has posted a healthy performance thus far in 2022, although the investment landscape was slightly stronger at the beginning of the year than during the second quarter. While the pace of sales remained active in the past three months, transaction volume dipped slightly from levels at the start of the year. In addition, sales prices tapered off from the spike in per-unit pricing recorded in the first quarter. Still, prices remain elevated as the median sales price year to date is \$202,600 per unit, nearly doubling the median price from 2021. Class A properties accounted for the largest share of the transaction mix during the second quarter. After tightening during the past year, cap rates inched higher, averaging 3.8 percent in the last three months.

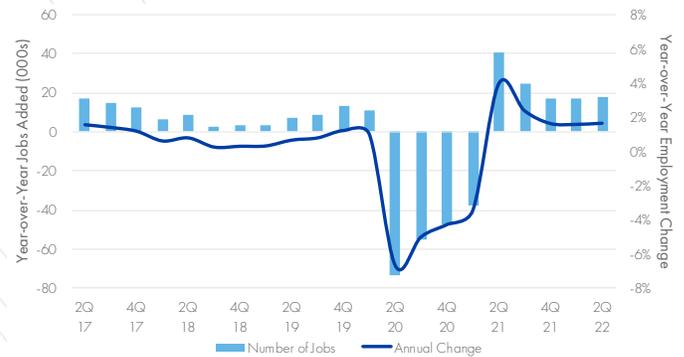
Employment

- The labor market in Kansas City expanded at a slower pace with the addition of only 1,300 jobs during the second quarter. Year over year, total employment grew by 17,700 positions, advancing roughly 1.7 percent.
- The leisure and hospitality sector is leading the way with recent job gains as these businesses restaff payrolls. Year over year, this sector added 6,300 jobs and grew by 6.1 percent. Further additions are likely; current employment totals in leisure and hospitality are about 5 percent lower than at the pre-COVID peak.
- Tech manufacturer Garmin recently announced plans to expand its headquarters in Olathe. The company will redevelop two buildings near 151st Street and Ridgeview Road into state-of-the-art research and office space, ultimately creating 900 high-paying jobs in the area. Garmin currently has approximately 4,600 workers in Olathe.
- **Forecast:** Employers are forecast to continue to add workers through the remainder of this year. The local labor market is expected to expand by 1.5 percent in 2022, as businesses add approximately 16,000 jobs.



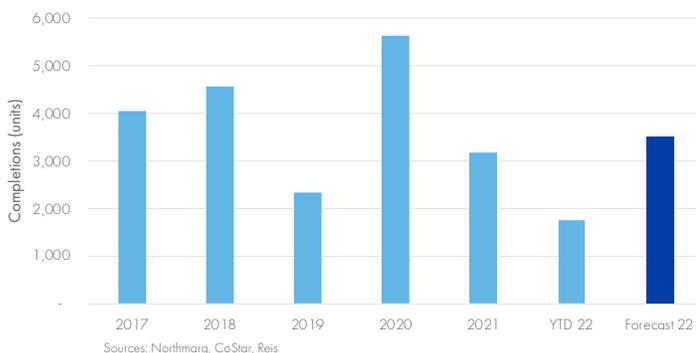
Year over year, total employment grew by 17,700 positions.

Employment Overview



Nearly 1,400 apartment units came online in the second quarter.

Development Trends



Development and Permitting

- Multifamily construction activity accelerated in recent months as nearly 1,400 apartment units came online in the second quarter, after fewer than 400 units were delivered in the first three months of the year.
- Projects totaling nearly 5,500 units are currently under construction in Kansas City, a 13 percent increase from one year ago. Although multifamily construction is ongoing throughout the metro area, development is most active near the city center.
- Permitting activity dipped during the second quarter, following a spike at the start of the year. Developers pulled permits for 1,195 multifamily units in the last three months, a 56 percent increase from the same period last year.
- **Forecast:** Apartment developers are expected to remain active in the Kansas City region with projects totaling more than 3,500 units slated to come online in 2022. Construction activity has averaged approximately 3,750 units per year since 2015.

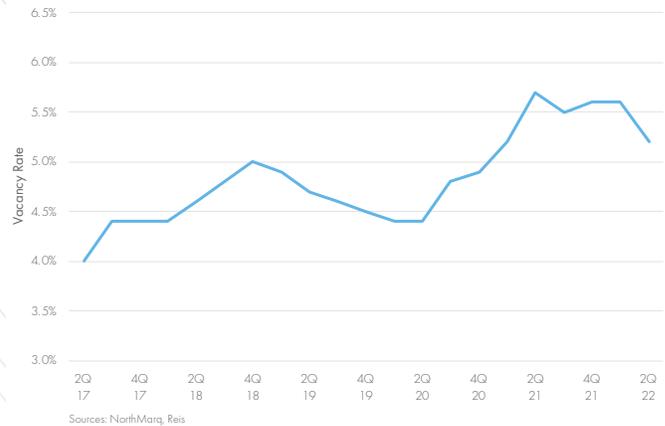
Vacancy

- After remaining essentially flat during the past several quarters, the local vacancy rate dropped in recent months. Vacancy in Kansas City declined 40 basis points in the second quarter to 5.2 percent, and the rate is down 50 basis points year over year.
- While vacancy rates in Downtown and Midtown average above 10 percent, rates in suburban submarkets are closer to 4 percent.
- Although vacancy tightened across all asset classes in the past three months, the largest declines occurred in lower-tier properties. The combined vacancy rate in Class B and Class C units dropped 50 basis points in the second quarter to 2.4 percent. With demand forecast to remain steady, vacancy in the lower tiers is likely to stay near current ranges.
- **Forecast:** The vacancy rate is projected to be fairly stable for the remainder of the year. Vacancy in Kansas City is forecast to drop 50 basis points in 2022, finishing the year at 5.1 percent.



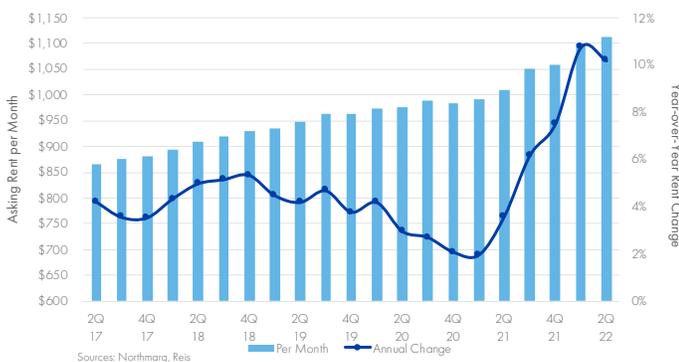
Vacancy in Kansas City declined 40 basis points in the second quarter.

Vacancy Trends



Year over year, local asking rents climbed 10.2 percent.

Rent Trends



Rents

- Asking rents continued to rise during the second quarter, though the pace of growth cooled after a sharp rise during the first few months of the year. Apartment rents rose 1.3 percent in the second quarter to \$1,113 per month.
- Year over year, local asking rents climbed 10.2 percent. The city core is the most expensive area in Kansas City, and rents are growing at above-average rates. Asking rents in the Downtown/East Kansas City submarket rose 13.8 percent in the past year to nearly \$1,490 per month.
- Class A properties posted significant rent gains in recent quarters. Year over year, asking rents in Class A units increased more than 11 percent to \$1,356 per month.
- **Forecast:** Asking rents are projected to rise at a similar pace in 2022 compared to the prior year. Average rents are forecast to increase by more than 7.5 percent this year to \$1,140 per month.

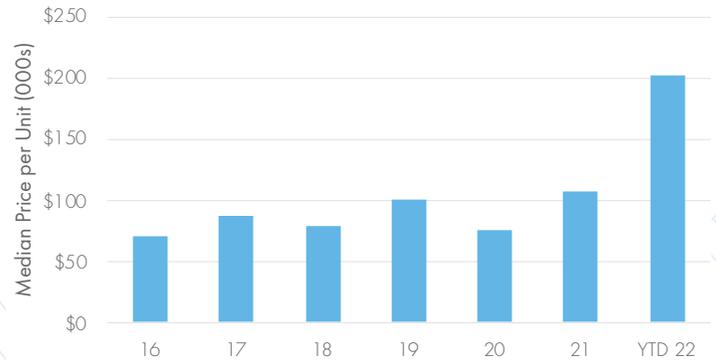
Multifamily Sales

- Multifamily sales activity dipped in the second quarter as deal volume slowed 10 percent from the start of the year. Additionally, the pace of transactions through the first half of 2022 is down slightly from the same period one year ago.
- Sales prices ticked lower during the second quarter, following a surge in per-unit pricing in the first three months of the year. The median sales price to this point in 2022 is \$202,600 per unit.
- Cap rates inched higher in recent months, after reaching new lows in recent periods. During the second quarter, cap rates averaged 3.8 percent but will likely trend higher in the second half of the year.



The median sales price thus far in 2022 is \$202,600 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

Property Name	Street Address	Units	Sales Price	Price/Unit
Lexington Farms	8500 W 131st St., Overland Park	404	\$100,000,000	\$247,525
Meridian at View High	201 NW Kessler Dr., Lee's Summit	312	\$96,000,000	\$307,692
The Vue	7205 W 80th St., Overland Park	219	\$78,000,000	\$356,164
Aspen Place Apartments	101 Aspen St., Gardner	188	\$23,100,000	\$122,872

Looking Ahead

The Kansas City multifamily market is projected to record modest gains in the second half of 2022. Following a pronounced decline in recent months, local vacancy should be mostly stable in the coming quarters. Construction activity accelerated in the second quarter, and the elevated pace of deliveries is forecast to continue for the rest of the year. Additionally, the construction pipeline will likely expand for the next several periods, as a result of healthy multifamily permitting levels in recent years. With renter demand and new supply growth expected to remain aligned, rents are projected to push higher, although the pace of growth will lag increases from the first half of the year.

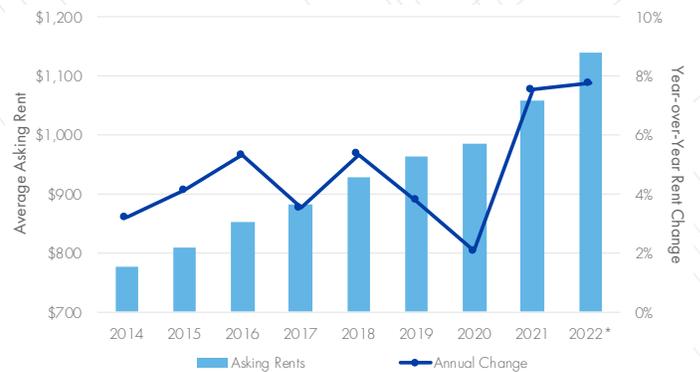
Improving property fundamentals should support investor demand in Kansas City through the end of this year and into 2023. The sale of newer, Class A assets has had a significant impact on the investment market to this point in 2022, which has helped spur the recent spike in the median sales price. While property fundamentals are healthy and strengthening, the pace of deals could cool a bit in the remainder of the year. There may be a period of price discovery across property classes over the next few months as buyers and sellers adjust to the new financing conditions. Cap rates could top 4 percent in the coming quarters.

Employment Forecast



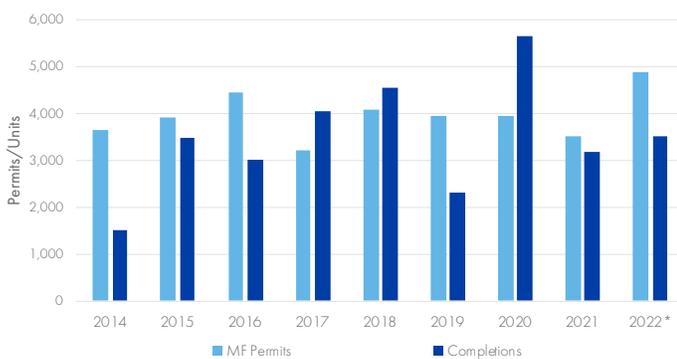
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



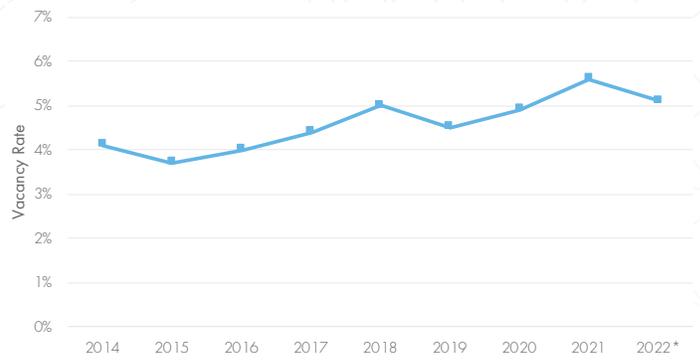
* Year End Forecast
Sources: Northmarq, Reis

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.