Greater Kansas City Multifamily

Construction Modest in the First Half but on Pace to Gain Momentum

Highlights

- The Kansas City multifamily market posted another healthy period of performance during the second quarter. The vacancy rate dipped for the second straight quarter after rising during most of 2018.
- Vacancy dropped 20 basis points from the first quarter, falling to 4.7 percent. The current vacancy figure is 10 basis points higher than the rate from one year ago.
- Rents rose during the past three months. Asking rents ticked up to $944 per month at midyear, up 3.9 percent year over year.
- Sales of multifamily properties have been continuing at a fairly steady pace thus far in 2019. The median price in sales that have closed year to date is $100,200 per unit, up 27 percent from 2018. Cap rates have averaged 5.4 percent.

Q2 Snapshot	Kansas City Market
Market Fundamentals	
Vacancy	**4.7%**
- Year Over Year Change	**+10 bps**
Asking Rent	**$944**
- Year Over Year Change	**+3.9%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$100,200**
Cap Rates (Avg YTD)	**5.4%**
Construction Activity	
Units Under Construction	**3,419**
Units Delivered YTD	**667**

Kansas City Multifamily Market Overview

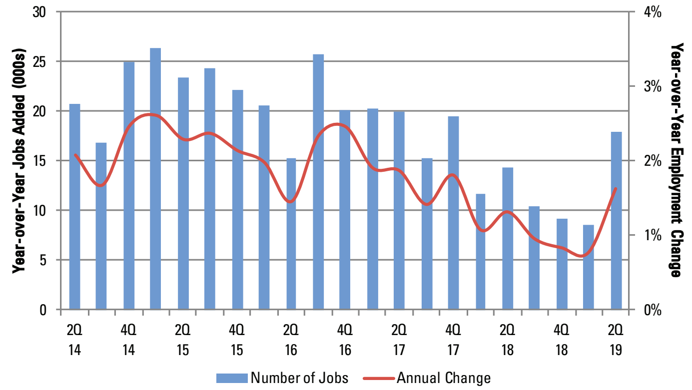
Following a strong start to the year, the Kansas City multifamily market registered additional improvement during the second quarter. The vacancy rate fell and rents continued to push higher. Part of the improving vacancy can be attributed to a more modest pace of new construction. Developers delivered fewer than 700 new units during the first half 2019, after more than 2,000 units came online during the same period in 2018.

The local investment market is ahead of the pace recorded during the first half of last year. Sales velocity is up, and properties are trading at higher prices and with lower cap rates than in 2018. The number of sales was consistent from the first quarter to the second quarter, but there was a slight shift in the mix of properties that changed hands. Class B and Class C building sales made up a larger share of the total transactions during the second quarter.

Employment

- After slowing to start 2019, employment growth accelerated during the second quarter. Year over year, area employers have expanded payrolls 1.6 percent with the addition of 17,900 new jobs.
- The professional and business services sector has been a source of growth in recent quarters. During the past 12 months, professional employment has expanded by 3.7 percent with the creation of more than 7,000 new positions.
- During the second quarter, animal health technology company Scollar announced plans to relocate the company's headquarters from Silicon Valley to Kansas City. The move will result in 200 new jobs, including engineering and development as well as sales and marketing.
- **Forecast:** Following a year of more modest job growth in 2018, employers in Kansas City are forecast to add approximately 15,000 net new positions this year, a 1.4 percent expansion.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Year over year, area employers have expanded payrolls 1.6 percent

Vacancy

- Following a decline of 10 basis points during the first quarter, the vacancy rate dipped again in the second quarter. Vacancy fell another 20 basis points, ending the second quarter at 4.7 percent.
- During the past 12 months, vacancy in Kansas City has ticked up just 10 basis points. Supply growth has been more pronounced; construction of new units has increased the local inventory of apartments 1.7 percent over that same period.
- The vacancy rate in Class A complexes has tightened as the pace of new construction has slowed. Vacancy in Class A units has dropped 60 basis points since the end of last year, reaching 5.7 percent as of the second quarter.
- **Forecast:** The local vacancy rate is expected to creep higher in the second half of the year as deliveries accelerate. Vacancy is forecast to end the year at 5.1 percent, 10 basis points higher than it was at the end of 2018.

Vacancy Trends

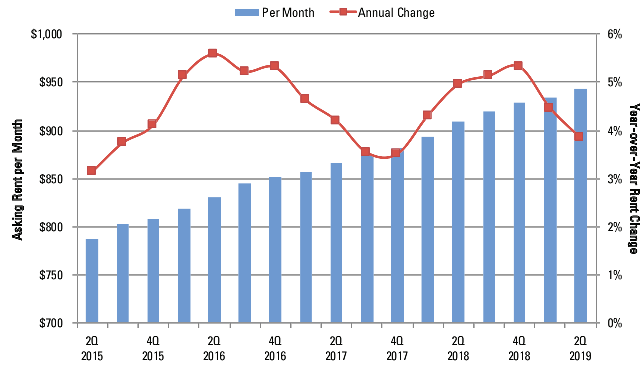
Sources: NorthMarq, Reis

Vacancy ended the second quarter at 4.7 percent

Rents

- Asking rents crept higher in the second quarter, rising to $944 per month. Current rents are up 3.9 percent from one year ago.
- Class A rents have trended higher. Asking rents in the Class A segment rose 1.3 percent during the second quarter, and at $1,123 per month, are up 4.8 percent year over year.
- Rents in the University/Plaza submarket have trended higher as newer, high-end complexes have been delivered in the area. The average asking rent in the submarket has increased 5.6 percent in the past year and is nearly $1,100 per month.
- **Forecast:** Asking rents are forecast to rise nearly 4 percent in 2019, ending the year at $965 per month.

Rent Trends



Sources: NorthMarq, Reis

Asking rents in the Class A segment rose 1.3 percent during the second quarter

Development and Permitting

- After four consecutive years of very active construction, deliveries slowed during the first half 2019. Year to date, completions have totaled fewer than 700 units, down approximately 65 percent from the first half of 2018.
- Projects totaling approximately 3,400 units are currently under construction, with nearly half of these units on schedule to be delivered in the second half of this year.
- After developers pulled permits for nearly 1,200 multifamily units during the first quarter, activity slowed in the second quarter. Permits for approximately 450 multifamily units were issued during the second quarter.
- **Forecast:** Approximately 2,500 apartment units are scheduled to be completed in 2019, down from the more than 3,600 units that came online last year.

Development Trends

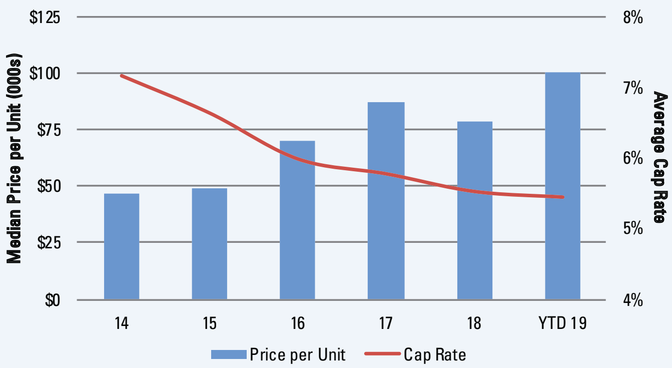
Sources: NorthMarq, Reis

Permits for approximately 450 multifamily units were issued during the second quarter

Multifamily Sales

- Transaction activity during the second quarter was nearly identical to levels recorded during the first quarter. Sales year to date are up approximately 30 percent from the same period in 2018.
- There was a greater concentration of Class B and Class C property sales during the second quarter than during the first few months of the year, putting downward pressure on prices. After topping $120,000 per unit in the first quarter, the median price retreated to $90,300 per unit in the second quarter. Thus far in 2019, the median price is approximately $100,200 per unit, up 27 percent from 2018.
- Cap rates are down slightly in 2019 compared to the average from one year ago. The average cap rate recorded year to date is approximately 5.4 percent; in Class A sales, the average cap rate is below 5 percent.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Sales year to date are up approximately 30 percent from the same period in 2018

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

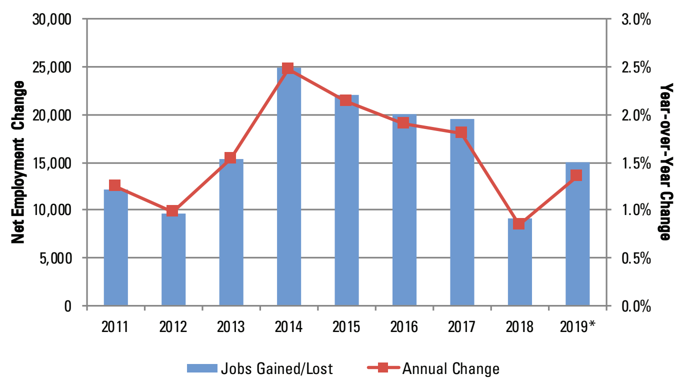
Property Name	Street Address	Units	Sales Price	Price/Unit
The Crossing at Barry Road	7831 NW Roanridge Rd., Kansas City	624	$64,500,000	$103,365
Steadfast Portfolio (3 Properties)	Downtown	335	$51,135,000	$152,642
Silver City	2208 Birch Dr., Kansas City	160	$8,900,000	$55,625
Grant 79	7913 Grant St., Overland Park	100	$7,050,000	$70,500

Looking Ahead

The first half of 2019 is likely to prove stronger than the second half of the year in the Kansas City multifamily market. While vacancy tightened in each of the first two quarters of the year, the rate is expected to inch higher in the coming months as the pace of development gains momentum. Renter demand for apartments is expected to be slightly lower than the number of new units delivered, mirroring trends recorded in each of the last three years.

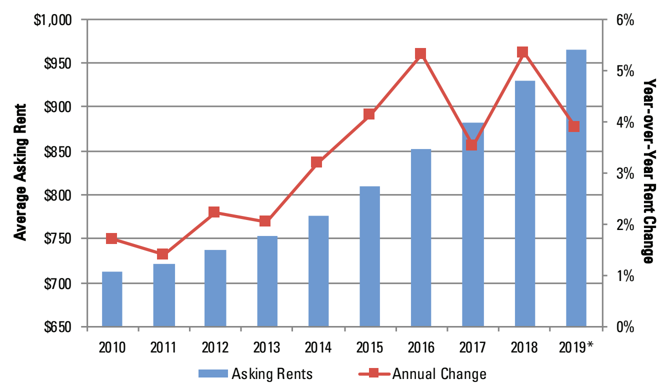
Investors are expected to remain active in the second half of the year. Strong property fundamentals should continue to fuel transaction activity, and with interest rates dipping, the investment market is expected to remain favorable. Activity picked up in the Class B and Class C segments of the market during the second quarter, but the significant number of new projects that have been delivered in recent years could eventually start moving through the transaction pipeline.

Employment Forecast



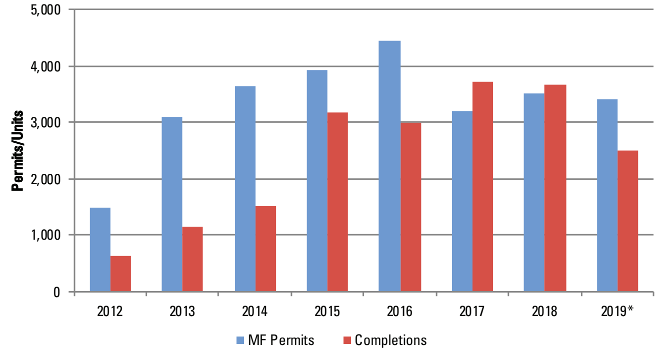
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



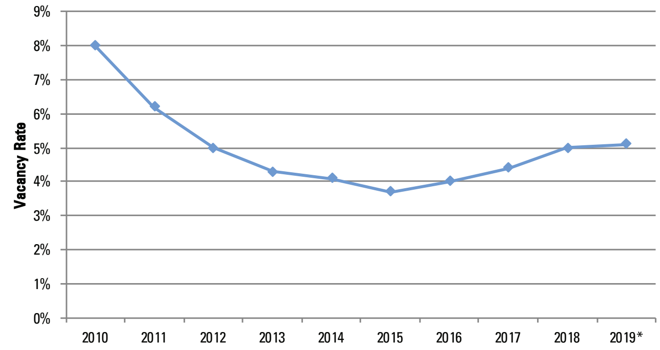
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of $13 billion, loan servicing portfolio of more than $55 billion and the multi-year tenure of our more than 500 people.

For more information, contact:

Jeff Lamott
SVP, MANAGING DIRECTOR – INVESTMENT SALES
913.647.1640
jlamott@northmarq.com

Gabe Tovar
ASSOCIATE VICE PRESIDENT – INVESTMENT SALES
913.647.1647
gtovar@northmarq.com

Greg Duvall
SVP, MANAGING DIRECTOR – DEBT & EQUITY
913.647.1610
gduvall@northmarq.com

Trevor Koskovich
PRESIDENT – INVESTMENT SALES
T 602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

NORTHMARQ