

# Greater Kansas City Multifamily




## Sales Activity Concentrated in Class C Properties to Start 2021

### Highlights

- > The Kansas City multifamily market got off to a bit of a slower start to 2021. Rents rose, but vacancy also trended higher. The recovery in the labor market continued, but gains were recorded at a slower pace than at the end of last year.
- > Vacancy rose during the first quarter, reaching 5.2 percent. The current rate is up 30 basis points year to date, and 80 basis points higher than one year ago.
- > Asking rents advanced during the first quarter and have gained ground during the past year. Rents are up 2 percent year over year, reaching \$992 per month in the first quarter.
- > Sales activity in the first quarter of this year was similar to transaction levels from the same period in 2020. The median price in sales during the first quarter was approximately \$60,400 per unit, while cap rates compressed to an average of 4.7 percent.

### Kansas City Multifamily Market Overview

The Kansas City multifamily market is still absorbing the new units that were delivered in 2020. While the local economy is gaining momentum, renter demand for apartments has not fully matched supply growth in recent quarters, pushing the vacancy rate higher. Despite recent upticks in vacancies, rents in Kansas City are trending higher, with additional gains likely through the remainder of this year as supply and demand become more in balance. One factor supporting new development has been the Kansas City area's healthy economy. The COVID-related job losses in the economy were less severe than most major markets, and the labor market has been adding back jobs since the middle of last year.

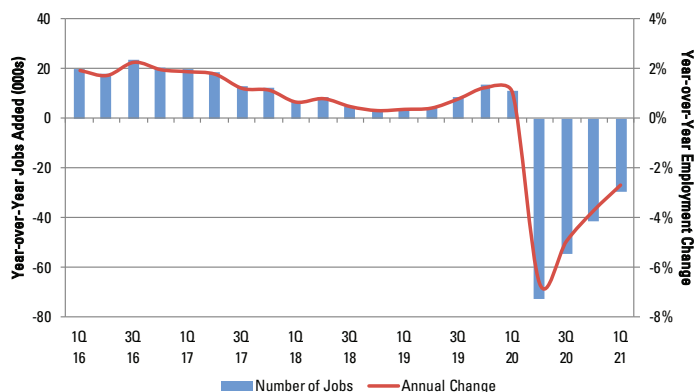
Q1 Snapshot	Kansas City Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>5.2%</b>
	- Year Over Year Change ..... <b>+80 bps</b>
	Asking Rent ..... <b>\$992</b>
	- Year Over Year Change ..... <b>+2.0%</b>
	<b>Transaction Activity*</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$60,400</b>
	Cap Rates (Avg YTD) ..... <b>4.7%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>6,117</b>
	Units Delivered YTD ..... <b>588</b>
	<small>*In transactions where pricing is available</small>

The total number of apartment properties that sold in the first quarter of this year was similar to the figure from the same period in 2020, but the mix of assets that changed hands was different. At the start of this year, investment activity was concentrated in older, Class C properties, with most transactions executing at \$15 million or less. With 1960s- and 1970s-vintage rental complexes accounting for the bulk of the sales during the first quarter, the median price was closer to \$60,000 per unit at the beginning of the year. Prices for newer properties remained above \$190,000 per unit, closely tracking pricing levels recorded in 2020.

## Employment

- > The employment recovery gained momentum in Kansas City sooner than in many other markets, causing the pace to cool a bit in the first quarter. Employers added back more than 40,000 jobs during the second half of 2020, but gains totaled just 9,100 positions during the first quarter of this year.
- > Year over year through the first quarter, total area employment has contracted by 2.7 percent with the loss of nearly 30,000 jobs. Total employment in the Kansas City metro area is forecast to return to pre-COVID levels by early next year.
- > The local economy continues to attract companies looking to expand. Colorado-based TTEC Holdings announced plans to open a new office in Overland Park. The company will hire 450 workers with starting wages around \$19 per hour. The new jobs will be in sales and customer service roles.
- > **Forecast:** Local businesses are forecast to add back workers at a steady pace throughout 2021. Job gains are expected to total 28,000 new positions, a 2.6 percent pace of gains.

### Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Employment gains totaled 9,100 positions during the first quarter of this year*

## Vacancy

- > The recent surge in new construction has pushed the local vacancy rate higher since the second half of last year. Vacancy rose 50 basis points in the second half of 2020, before pushing up 30 basis points in the first quarter of this year.
- > Year over year, vacancy in Kansas City has increased 80 basis points to 5.2 percent. This marked the first quarter where the rate topped 5 percent since 2012.
- > The impact of new construction on local vacancy is most evident in the Class A vacancy rate. Vacancy in Class A properties ended the first quarter at 7 percent, 150 basis points higher than one year ago.
- > **Forecast:** This year is expected to be another active one for new multifamily development, which should put further upward pressure on local vacancy rates. Vacancy is forecast to increase 60 basis points in 2021, ending the year at 5.5 percent.

### Vacancy Trends



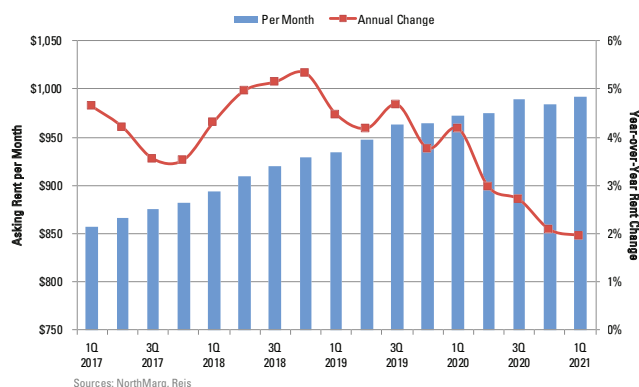
Sources: NorthMarq, Reis

*Year over year, vacancy in Kansas City has increased 80 basis points to 5.2 percent*

## Rents

- > Rents have generally trended higher in Kansas City, a trend that continued during the first quarter. Asking rents rose 2 percent year over year, with nearly half of the increase occurring in the first three months of this year. Asking rents ended the first quarter at \$992 per month.
- > Net absorption slowed during the first quarter, totaling fewer than 300 units. The average net absorption during the first quarter from 2016 to 2020 was more than 600 units. The cooling pace of absorption could drag on rents if it does not gain momentum in the traditionally stronger second and third quarters.
- > Rents in Class A units ticked higher in the first quarter, after being flat for much of 2020 as new units came online and created some oversupply conditions. Asking rents in Class A properties have increased 1.4 percent year over year to \$1,184 per month.
- > **Forecast:** Rents should continue to advance throughout the rest of this year. Asking rents are forecast to rise by approximately 3.2 percent this year, reaching approximately \$1,015 per month.

## Rent Trends



*Asking rents rose 2 percent year over year, ending the first quarter at \$992 per month*

## Development and Permitting

- > After an active year of apartment construction in 2020, developers delivered approximately 600 rental units during the first quarter.
- > Developers are active in Kansas City, with projects totaling more than 6,100 units currently under construction. Top submarkets for new development include Overland Park South, Olathe/Gardner, and Platte County. These three submarkets account for more than 40 percent of the total units under construction.
- > Permitting activity gained momentum during the first quarter, with developers pulling permits for nearly 1,100 multifamily units at the start of the year. Multifamily permitting issuance rose 25 percent when compared to the same period one year earlier.
- > **Forecast:** New apartment construction will be active in 2021, but deliveries will not match the pace recorded in 2020. Developers are forecast to complete nearly 3,700 units in 2021.

## Development Trends

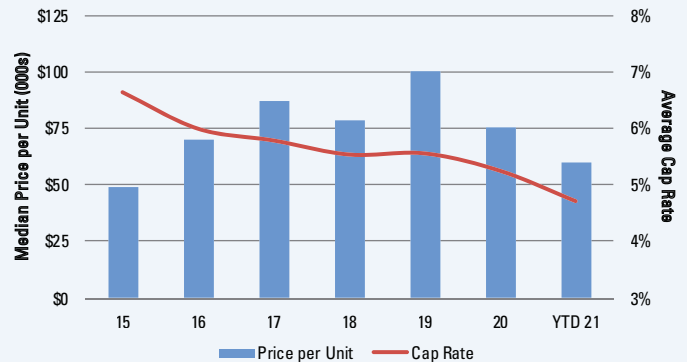


*Multifamily permitting issuance rose 25 percent in the first quarter*

## Multifamily Sales

- > After surging at the end of 2020, the pace of sales of local apartment properties cooled at the start of this year. Sales velocity during the first quarter closely tracked levels from the same period at the beginning of 2020.
- > The bulk of the sales that closed during the first quarter were older Class C properties that traded at lower per-unit prices. The median price in sales during the first quarter was approximately \$60,400 per unit, about 20 percent lower than the median price in 2020. At the high end of the market, Class A properties have traded with a median price of more than \$190,000 per unit since the beginning of 2020.
- > Cap rates averaged 4.7 percent during the first quarter, down nearly 50 basis points from the average in 2020. Cap rates have shown additional signs of compressing early in the second quarter.

## Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

*Cap rates averaged 4.7 percent during the first quarter, down nearly 50 basis points 2020*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

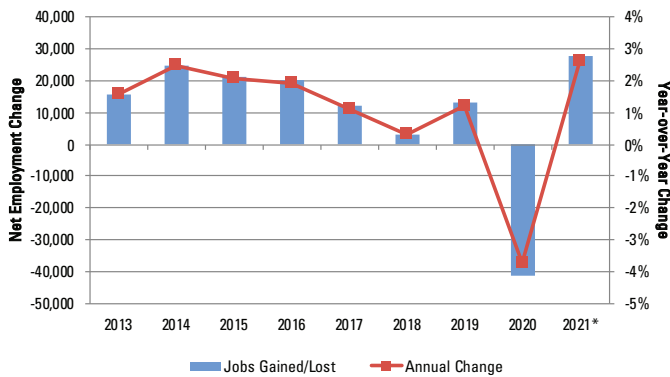
Property Name	Street Address	Units	Sales Price	Price/Unit
Marcato	2697 Troost Ave., Kansas City	186	\$36,928,000	\$198,538
Fountains at LindenWoods	1603 E 97th St., Kansas City	216	\$15,200,000	\$70,139
Terrace Point	641 S 71st St., Kansas City	125	\$7,500,000	\$60,360

## Looking Ahead

The Kansas City economy is expected to gain momentum as 2021 progresses, which should carry over to the local multifamily market. The pace of development is forecast to be active in 2021, but deliveries of new units will lag the total recorded in 2020. Despite the supply-side pressures associated with new development, the market is fairly healthy, and rents are rising. Additional rent increases are forecast for the remainder of the year, as supply and demand become more closely aligned.

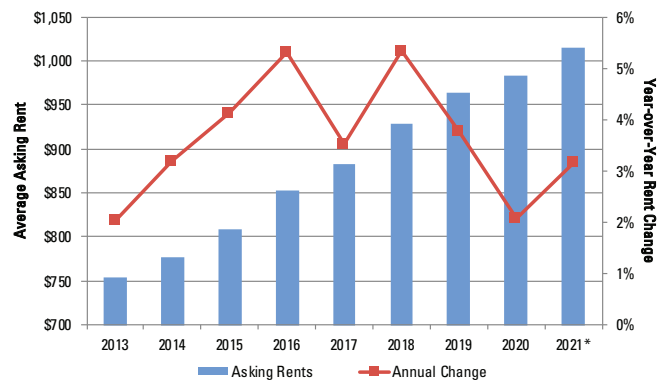
The local investment market is expected to gain momentum in Kansas City in 2021. Sales were fairly active to start the year, but the mix of properties that sold was heavily skewed to the lower end of the quality spectrum. As the year progresses, sales should occur across a more representative mix of properties. This trend began to emerge early in the second quarter and should continue through the remainder of 2021. As more high-quality properties sell, the median price will push higher.

### Employment Forecast



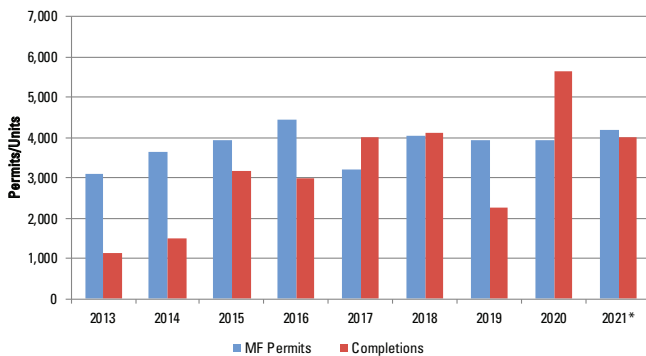
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



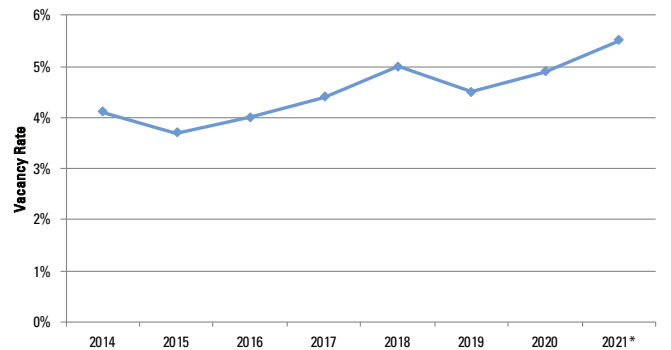
\* Year End Forecast  
Sources: NorthMarq, Reis

### 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 more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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