

Greater Kansas City Multifamily




Rents and Prices Rise as Local Economy Gains Momentum

Highlights

- > The Kansas City multifamily market recorded mixed performance during the second quarter. Rents rose and investment activity gained momentum, but the vacancy rate continued to creep higher in response to an active pace of new apartment construction. As new units are absorbed and the economy strengthens, the outlook for the local multifamily market will continue to brighten.
- > Vacancy trended higher in Kansas City, rising 50 basis points to 5.7 percent in the second quarter. Year over year, the rate is up 130 basis points, following an active 18 months of new development. The vacancy rate is forecast to be mostly stable through the remainder of this year.
- > Asking rents rose 1.8 percent in the second quarter, reaching \$1,010 per month. In the past 12 months, rents have advanced 3.6 percent.
- > Far more multifamily properties sold during the second quarter than changed hands at the beginning of the year. As activity has picked up, prices have pushed higher; the median price in transactions in 2021 is up to \$84,800 per unit, while cap rates have compressed to 4.4 percent.

Kansas City Multifamily Market Overview

The Kansas City multifamily market posted healthy rent increases during the second quarter, even as the delivery of new units has pushed the vacancy rate higher. Multifamily developers delivered approximately 1,300 units during the first half of this year, following the completion of more than 5,500 units in 2020. While supply growth has outpaced new renter demand in recent quarters, that trend is likely to reverse by the end of the year, as the economy gains momentum. The overall employment market is gaining traction, and several industries are stepping up the pace of hiring in response to a broader reopening of the economy.

Q2 Snapshot	Kansas City Market
	Market Fundamentals
	Vacancy 5.7%
	- Year Over Year Change +130 bps
	Asking Rent \$1,010
	- Year Over Year Change +3.6%
	Transaction Activity*
	Median Sales Price Per Unit (YTD) \$84,800
	Cap Rates (Avg YTD) 4.4%
	Construction Activity
	Units Under Construction 4,830
	Units Delivered YTD 1,285
	<small>*In transactions where pricing is available</small>

Sales velocity accelerated in recent months, with transaction activity in the second quarter more than doubling levels recorded during the first three months of the year. Several of the sales thus far in 2021 were concentrated in newer, Class A and Class B properties, with approximately half of all transactions closing for \$30 million or more. Per-unit prices in Kansas City trended higher in the first six months of the year, rising more than 10 percent from the 2020 median price. Cap rates have generally been compressing during the past decade, with average rates currently at 4.4 percent.

Employment

- > The local employment market had been posting healthy gains leading into the second quarter, but conditions leveled off in recent months. Year over year, the local job market added nearly 49,000 jobs, an expansion of 4.8 percent.
- > The professional and business services industry has outperformed most other sectors in the past year. Professional employment in the Kansas City area has expanded by more than 9 percent in the past year, and employment levels have fully recovered from pandemic-related losses.
- > Niagara Bottling, a California-based bottled water manufacturer, recently announced plans to open a new production facility in Kansas City, bringing around 100 jobs to the area. Niagara will invest \$156 million into a 634,000-square-foot manufacturing site near the Kansas City International Airport.
- > **Forecast:** Local employers are expected to continue to add workers back in the remainder of the year. The employment market is forecast to add 30,000 jobs in 2021, an annual growth of 2.8 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Year over year, the local job market added nearly 49,000 jobs, expanding by nearly 5 percent

Vacancy

- > Vacancy in Kansas City pushed higher during the second quarter, rising 50 basis points to 5.7 percent. The vacancy increase is being driven by the elevated number of apartment units that were delivered in recent years.
- > Year over year, vacancy in Kansas City rose 130 basis points. The rate has been trending upwards since the second half of 2020.
- > The vacancy rates in the region's Class B and Class C properties remained fairly steady during the past several quarters. Year over year, vacancy in Class B and Class C units rose 20 basis points, ending the second quarter at 3.5 percent. Year over year, vacancy in Class A properties spiked, rising 150 basis points, ending the second quarter at 7.7 percent.
- > **Forecast:** Vacancy is expected to plateau by year end. The rate is forecast to end 2021 at 5.8 percent, 90 basis points higher than at the end of 2020.

Vacancy Trends



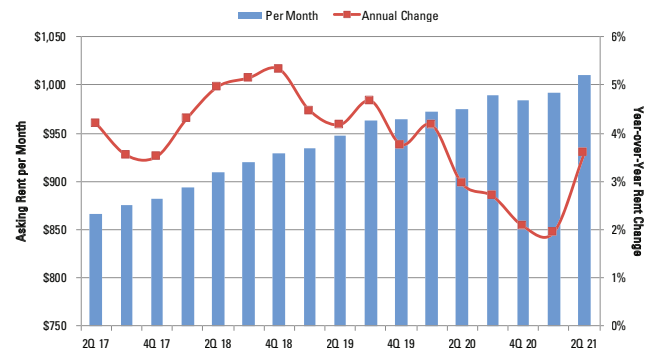
Sources: NorthMarq, Reis

Vacancy increased during the second quarter, reaching 5.7 percent

Rents

- > Rents in Kansas City have steadily increased during the past decade. Asking rents rose 1.8 percent in the second quarter, ending the period at \$1,010 per month.
- > Year over year, local asking rents are up 3.6 percent. This marks the largest annual rent growth since the final quarter of 2019.
- > Rent growth has been concentrated in Class A units in recent months. Asking rents in Class A properties rose 2.2 percent during the second quarter, reaching \$1,211 per month.
- > **Forecast:** Rents are expected to tick higher in the remainder of 2021. Asking rents are forecast to end the year at \$1,025 per month, 4.2 percent higher than at the end of 2020.

Rent Trends



Sources: NorthMarq, Reis

Asking rents rose 1.8 percent in the second quarter, reaching \$1,010 per month

Development and Permitting

- > Construction activity accelerated slightly during the second quarter as developers delivered nearly 700 units, following the completion of more than 550 units in the first quarter.
- > Multifamily developers remain active in Kansas City, with projects totaling more than 4,800 units currently under construction. The most active submarkets for new construction include Downtown/East Kansas City, Overland Park, and Olathe/Gardner.
- > Multifamily permitting accelerated thus far in 2021, with developers pulling permits for more than 1,800 units in the first half of the year. Permitting activity in the first six months of 2021 is up nearly 25 percent from the same period last year.
- > **Forecast:** Construction activity will remain fairly active through the rest of the year. Developers are forecast to deliver approximately 3,600 units in 2021.

Development Trends



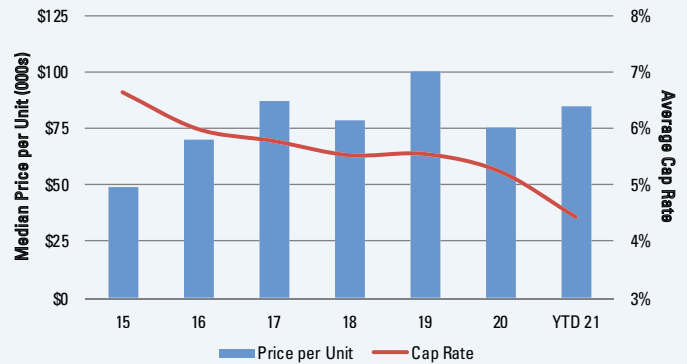
Sources: NorthMarq, Reis

Developers delivered nearly 700 units, up more than 18 percent from the first quarter

Multifamily Sales

- > Investment activity spiked during the second quarter, following a slow start to the year. Sales velocity in the second quarter more than doubled levels recorded during the first three months of the year.
- > The median price of transactions that closed in the first half of this year was approximately \$84,800 per unit, up roughly 12 percent from the median price in 2020. The bulk of the properties that have sold thus far in 2021 have been Class C buildings, but few Class A and Class B properties traded during the second quarter.
- > As investment activity accelerated and prices trended higher, cap rates dropped. Year to date, cap rates averaged approximately 4.4 percent, down 80 basis points from the average in 2020.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Year to date, cap rates averaged 4.4 percent, down 80 basis points from the average in 2020

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

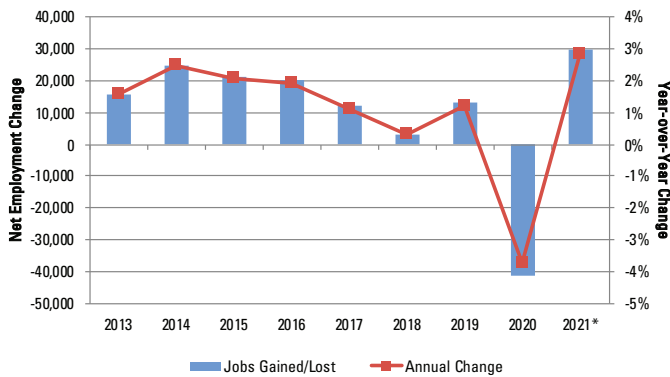
Property Name	Street Address	Units	Sales Price	Price/Unit
Kenilworth Apartments & Townhomes	4120 W. 94th Terrace., Prairie Village	246	\$45,000,000	\$182,927
79 Metcalf	7843 Riley St., Overland Park	280	\$38,500,000	\$137,500
Southridge	1100 County Line Rd., Kansas City	372	\$31,550,000	\$84,812

Looking Ahead

Demand drivers for apartment properties are forecast to strengthen in the second half of this year, pushing vacancy rates a bit lower and allowing for additional rent increases. Developers are on pace to continue to bring new units to the market at an accelerated pace, and the supply growth will prevent local vacancy rates from returning to recent averages for the next few quarters. As supply and demand growth return closer to equilibrium, market conditions will stabilize, and vacancy rates should return to levels below 5 percent by the end of next year.

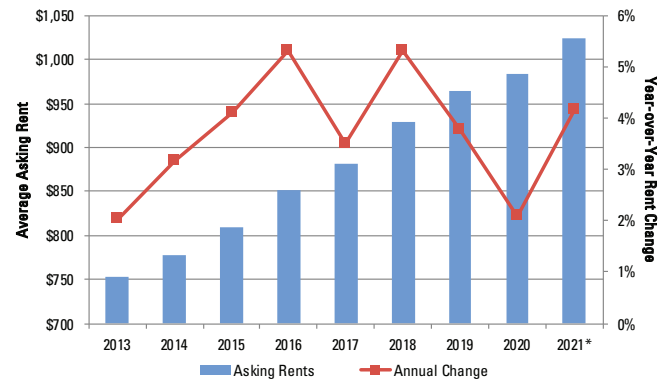
Investors are expected to remain active in the second half of the year, spurred on by improving property fundamentals and the prospects for additional rent increases in the coming quarters. The pace of absorption will likely be a closely watched metric in the near term. Absorption during the first half of this year lagged the pace recorded in the first halves of the past three years, but demand is likely to gain momentum through the remainder of 2021. If properties record the leasing activity that is forecast, sales velocity should accelerate.

Employment Forecast



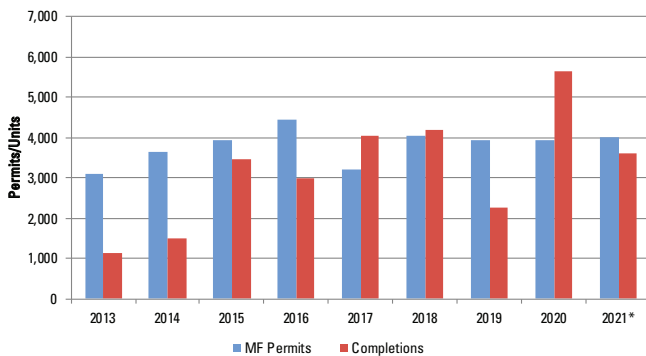
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



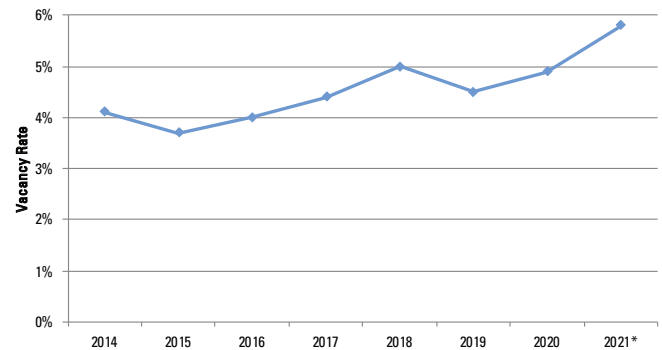
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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