Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	5,690
UNITS DELIVERED	1,714

MARKET FUNDAMENTALS

VACANCY RATE	5.3%
YEAR-OVER-YEAR CHANGE	+10bps
ASKING RENTS	$1,165
YEAR-OVER-YEAR CHANGE	+4.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$96,700

Kansas City Multifamily
2Q 2023

MARKET INSIGHTS

Vacancy tightens as absorption gains momentum

HIGHLIGHTS

- Property performance metrics in the Kansas City multifamily market were mixed during the second quarter, as rents inched lower even as vacancy conditions tightened.
- Area vacancy tightened a bit during the second quarter, after trending higher in the previous six months. The vacancy rate declined by 20 basis points in the last three months to 5.3 percent. Year over year, vacancy ticked higher by 10 basis points.
- Asking rents dipped in recent months, offsetting some of the rent growth posted in the first three months of the year. Rents in Kansas City fell 0.3 percent in the second quarter to $1,165 per month but are still up 4.7 percent from one year ago.
- Sales velocity fell 14 percent from the first quarter to the second quarter, with Class C properties accounting for the bulk of the transactions. The changing mix of properties that have sold has resulted in a sharp price decline, following a spike in 2022. Cap rates rose nearly 50 basis points in the second quarter.

KANSAS CITY MULTIFAMILY MARKET OVERVIEW

Healthy job growth in Kansas City helped support renter demand for area apartment properties in recent months. Net absorption was elevated during the second quarter, causing the vacancy rate to creep lower. Following two consecutive quarters of modest vacancy upticks, the rate improved by 20 basis points in the last three months to 5.3 percent. Despite healthy supply-demand conditions, operators lowered rents during the second quarter, the first quarterly decline in rents in more than two years. This dip is expected to be an isolated occurrence, with rent increases anticipated in the second half.

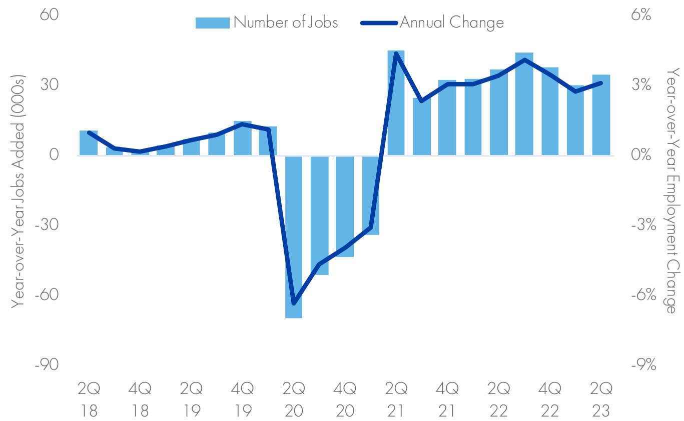
The more challenging capital markets environment dragged on investment activity in Kansas City through the first half of 2023, but the region remains one of the most active markets for sales velocity in the Midwest. Transaction volume in the first half of 2023 is down 32 percent from the same period last year, a milder decline that is being recorded across the country. Still, deals are getting done, with the Shawnee/Lenexa/Mission submarket the most active location for transactions to this point in the year. Class C properties have accounted for approximately half of the total deals to this point in 2023, resulting in lower per-unit sales prices and higher cap rates.

EMPLOYMENT

- After a modest start to the year, the local labor market posted strong gains in recent months, with the addition of 11,800 positions during the second quarter. Year over year, total employment in Kansas City increased by 34,800 jobs, rising 3.1 percent.
- The professional and business services sector continues to be the source of a significant share of new jobs created in the region. During the past 12 months, approximately 8,500 positions were added, an increase of 4.5 percent.
- Walmart recently announced plans to build a new facility in Olathe. The company will invest $275 million into the site and create roughly 670 new jobs upon completion in 2025. The location will support Angus beef distribution for Walmart throughout the Midwest.
- **FORECAST:** After several years of volatile employment activity, the local labor market should return closer to its historical pace of expansion by the end of this year. Employers are forecast to add 18,000 net new jobs in Kansas City in 2023, a 1.6 percent rate of growth.

Year over year, employment rose by 34,800 jobs.

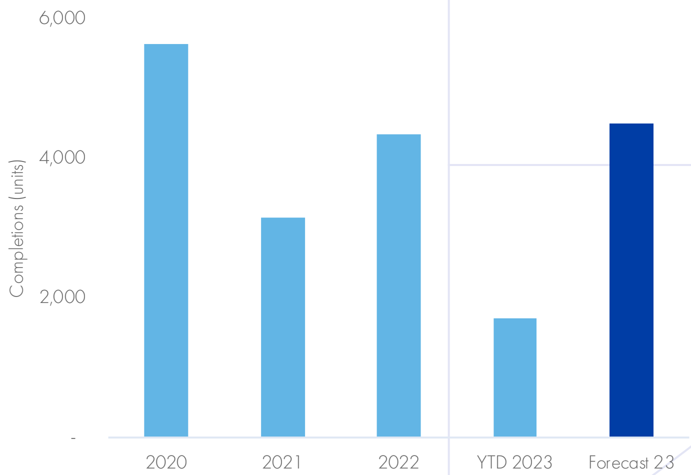
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Developers delivered 1,714 units in the first half.

DEVELOPMENT TRENDS



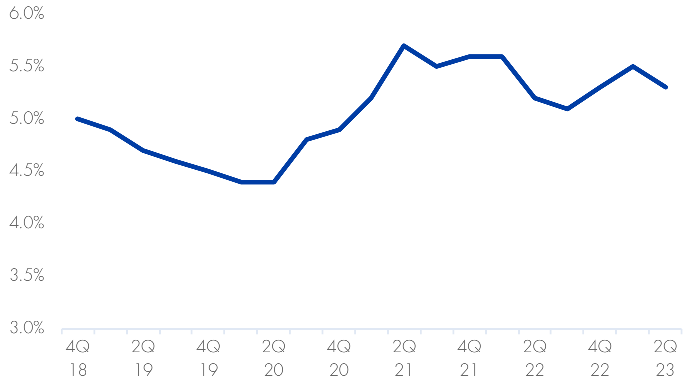
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Projects totaling approximately 380 units came online during the second quarter, down 70 percent from levels recorded in the first three months of the year. Despite the recent slowing, developers delivered 1,714 apartment units in the first half, closely tracking levels posted in the same period of 2022.
- Nearly 5,700 units were under construction in Kansas City at midyear, up 4 percent from one year ago. While several areas in the region have some projects in development, the Johnson County and Northland submarkets are recording the highest concentration of new construction activity.
- Developers pulled permits for more than 900 multifamily units in the second quarter, after minimal issuance during the first three months of the year. Despite the recent surge, multifamily permitting levels were down 65 percent year over year in the first half.
- **FORECAST:** The pace of multifamily deliveries is expected to pick up through the end of the year, and inventory growth in 2023 will closely track levels from the prior year. Developers are forecast to deliver projects totaling 4,500 units in 2023.

Vacancy dipped 20 basis points during the second quarter.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

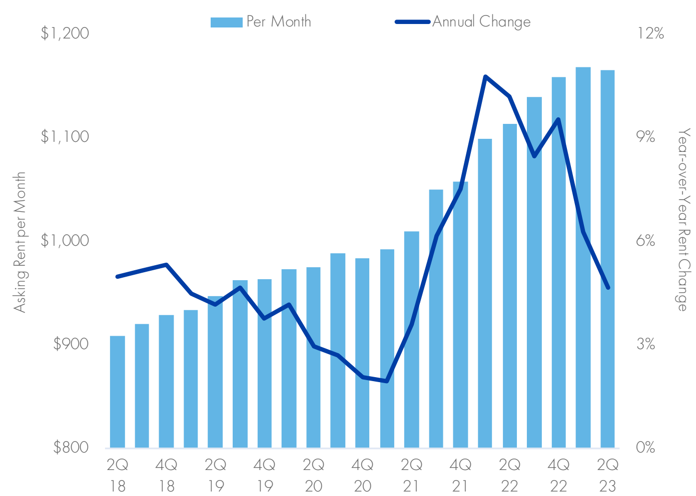
- The local vacancy rate has recorded some minor moves in recent quarters, but the prevailing trend is of mostly steady operating conditions. After inching higher for two consecutive quarters, the rate ticked lower in the second quarter, dipping 20 basis points to 5.3 percent. Year over year, area vacancy rose 10 basis points.
- The Downtown/East KC submarket posted the largest decline in vacancy in recent periods. The vacancy rate in this submarket fell 210 basis points in the past year, finishing the second quarter at 7.9 percent. The submarket's vacancy rate has been trimmed nearly in half after peaking in mid-2021.
- While combined vacancy in mid-tier and lower-tier units trended higher during the past 12 months, the rate improved in upper-tier properties. Year over year, Class A vacancy declined by 140 basis points to 6.4 percent. Prior to the recent surge in new development, the long-term average Class A vacancy rate was between 5 percent and 5.5 percent.
- **FORECAST:** With construction activity forecast to accelerate and the pace of job growth likely to slow a bit, the area vacancy rate is expected to tick higher through the end of the year. Vacancy in Kansas City is projected to finish 2023 at 5.7 percent, a full-year increase of 40 basis points.

RENTS

- After rising for nine consecutive quarters, asking rents dipped during the second quarter. Apartment rents in Kansas City inched lower by 0.3 percent in the last three months to $1,165 per month.
- Despite the recent dip, rents in Kansas City rose 4.7 percent in the past 12 months. Prior to elevated growth in 2021 and 2022, annual rent growth averaged 4 percent from 2015 to 2020.
- While rents rose across all submarkets in the past year, Downtown/East KC posted some of the most rapid gains across the region as occupancy conditions strengthened. Year over year, apartment rents in this submarket rose 6.3 percent to $1,582 per month.
- **FORECAST:** Average rents are projected to inch higher during the remainder of the year. Area rents are forecast to rise more than 2 percent in 2023 to roughly $1,185 per month.

Rents in Kansas City rose 4.7 percent in the past 12 months.

RENT TRENDS



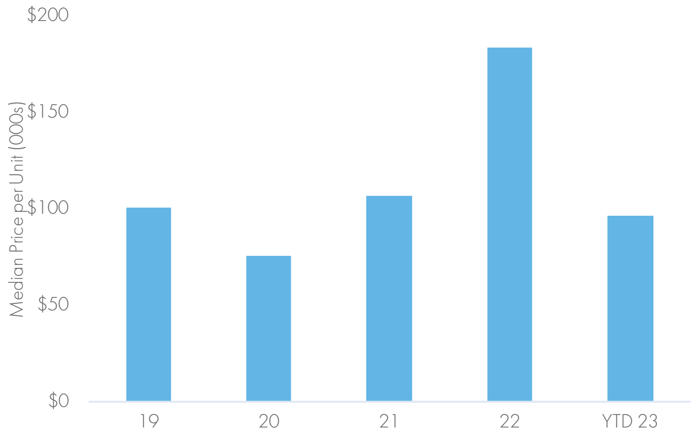
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily transaction volume declined by roughly 15 percent from the first quarter to the second quarter. Although sales velocity slowed, Kansas City remains one of the most active markets in the Midwest for transaction volume.
- After a steep increase in 2022, recent pricing trends have returned closer to levels recorded in prior years. The median price during the first half was $96,700 per unit.
- During the second quarter, newer properties traded between $240,000 per unit and $260,000 per unit. Older, Class C properties—which accounted for roughly half of the transaction volume—sold for between $75,000 per unit to $95,000 per unit.
- Cap rates averaged between 5.75 percent and 6 percent during the second quarter, about 50 basis points higher than at the beginning of the year. Cap rates had been as low as 3.5 percent to 4 percent during the first half of 2022.

Cap rates averaged between 5.75 percent and 6 percent.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

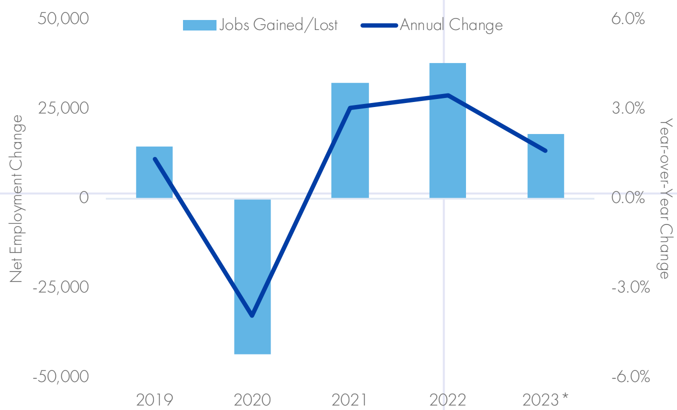
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Summit Square	789 NW Donovan Rd., Lee's Summit	308	$80,080,000	$260,000
Georgetown Apartments	7200 Eby Dr., Merriam	395	$38,200,000	$96,709
Kings Cove Apartments	7350 Kings Cove Dr., Merriam	307	$25,300,000	$82,410
Pine Meadow Townhomes	14202 W 63rd Ter., Shawnee	102	$24,550,000	$240,686
Pinehurst	500 NW 63rd St., Kansas City	146	$18,500,000	$126,712
Thousand Oaks	10405 W 70th Ter., Merriam	156	$12,000,000	$76,923

LOOKING AHEAD

The Kansas City apartment market has demonstrated that absorption can generally keep pace with heightened levels of new construction over the past few years. In the coming quarters, developers are expected to increase the pace of deliveries somewhat, which will likely result in some modest supply-related vacancy increases, particularly as the rate of net job creation slows somewhat. Still, the vacancy rate is expected to end the year only marginally higher than at the beginning of 2023, and less than 100 basis point above the region's long-term average. Supply-side pressures will ultimately ease; multifamily permitting in the first half was down 65 percent from the same period in 2022.

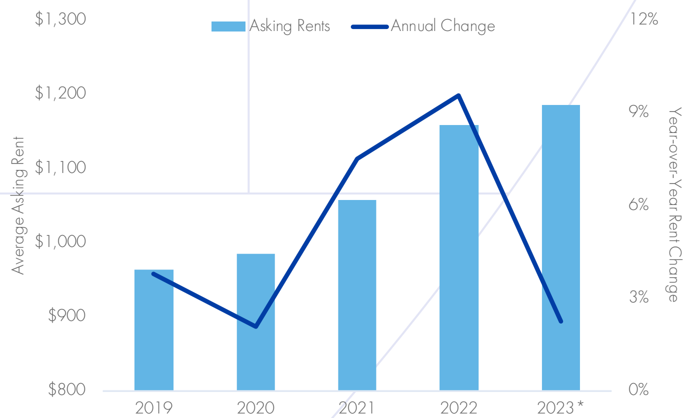
Multifamily transaction volume in the local investment market is expected to remain fairly limited in the second half of the year, as the higher interest rate environment keeps some investors on the sidelines. Although the total number of deals in 2023 will lag levels recorded in recent years, Kansas City should continue to be one of the most active markets in the Midwest. While the median price for all transactions has reverted closer to ranges recorded from 2019-2021, values in the top tier have held fairly steady. Coming supply growth will likely generate some sales activity for brand-new assets, although older, Class B and Class C properties will continue to account for a significant share of the transaction mix.

EMPLOYMENT FORECAST



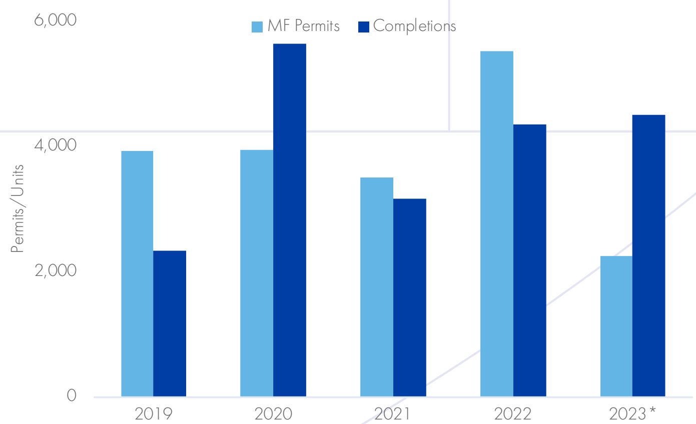
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



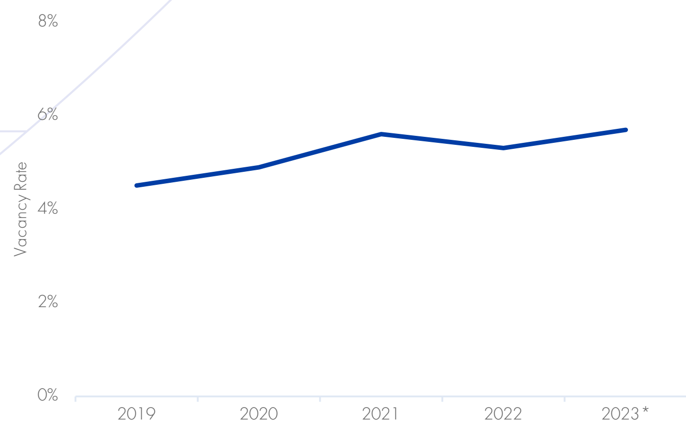
* *Year End Forecast*
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



* *Year End Forecast*
Sources: Northmarq, Census Bureau, CoStar, Reis

VACANCY FORECAST



* *Year End Forecast*
Sources: Northmarq, Reis

FOR MORE INFORMATION, PLEASE CONTACT:

JEFF LAMOTT
Managing Director–Investment Sales
913.647.1640
jlamott@northmarq.com

GABE TOVAR
Senior Vice President–Investment Sales
913.647.1647
gtovar@northmarq.com

GREG DUVALL
Managing Director–Debt & Equity
913.647.1610
gduvall@northmarq.com

JOHN DUVALL
Vice President–Debt & Equity
913.647.1620
jduvall@northmarq.com

TREVOR KOSKOVICH
President–Investment Sales
602.952.4040
tkoskovich@northmarq.com

PETE O'NEIL
Director of Research
602.508.2212
poneil@northmarq.com

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 1,000 employees, loan servicing volume approaching $80 billion, and $40+ billion in transaction volume.

BUILT TO THRIVE®

northmarq.com