

# Greater Kansas City Multifamily

## Vacancy Ticks Lower for the Third Straight Quarter

### Highlights

- > Conditions improved in the Kansas City multifamily market during the third quarter. The vacancy rate tightened and the pace of rent growth accelerated, while apartment development ticked higher after a slower first half of the year.
- > Vacancy fell 10 basis points during the third quarter, reaching 4.6 percent. The rate has improved in each of the first three quarters of 2019.
- > Asking rents ticked up 1.4 percent to \$957 per month in the third quarter; year over year, rents are up 4 percent.
- > Sales velocity accelerated during the third quarter, and transaction activity thus far in 2019 is up considerably from last year's pace. The median price in sales year to date is approximately \$100,600 per unit, while cap rates have averaged 5.5 percent.

### Kansas City Multifamily Market Overview

The Kansas City apartment market registered another period of steady improvement during the third quarter. The vacancy rate inched lower, even as the delivery of new units gained momentum. With vacancy improving, rents recorded their strongest quarterly rise in more than a year. This improvement in the local multifamily market occurred at the same time as the pace of growth in the local labor market levelled off a bit. A stronger pace of job growth than is currently being recorded may be required to sustain additional improvement in local apartment market fundamentals.

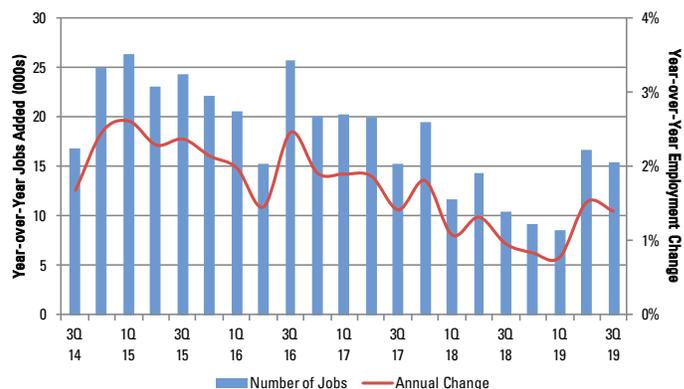
Q3 Snapshot	Kansas City Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>4.6%</b>
	- Year Over Year Change ..... <b>-20 bps</b>
	Asking Rent ..... <b>\$957</b>
	- Year Over Year Change ..... <b>+4.0%</b>
	<b>Transaction Activity*</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$100,600</b>
	Cap Rates (Avg YTD) ..... <b>5.5%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>4,388</b>
	Units Delivered YTD ..... <b>1,506</b>
	<small>*In transactions where pricing is available</small>

Investment activity gained momentum during the third quarter, with more properties changing hands. Year to date, sales of apartment properties are up more than 30 percent from the same period in 2018, with transactions involving Class B and Class C buildings accounting for the bulk of the activity increase. Cap rates have remained fairly steady in the mid-5 percent range on average, although cap rates for Class A properties are generally below 5 percent. In the lower tiers, buyers can still find Class C properties trading with cap rates at or above 6 percent.

## Employment

- > After an uptick in the second quarter, the pace of employment growth slowed during the past three months. Year over year through the third quarter, area employers added 15,400 jobs, a growth rate of 1.4 percent.
- > The healthcare and social assistance sector has been the driving force for local employment growth. During the past 12 months, employment in the sector has expanded by approximately 7 percent, with the addition of 9,600 jobs.
- > The local transportation and warehousing sector, which has recorded modest job losses during the past year, is expected to receive a boost in the coming months. T.J. Maxx announced plans to open a new distribution center in Olathe, which should result in approximately 100 new jobs. The retailer is one of several companies moving into industrial space in Kansas City.
- > **Forecast:** The local employment market is forecast to expand by 1.4 percent this year, with businesses expected to add 16,000 new jobs.

## Employment Overview



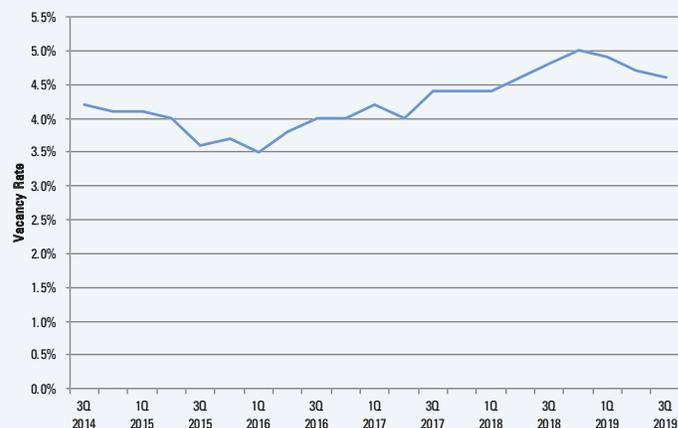
Sources: NorthMarq, Bureau of Labor Statistics

*Year over year, area employers grew payrolls 1.4 percent, adding 15,400 jobs*

## Vacancy

- > Vacancy dipped 10 basis points in the third quarter, falling to 4.6 percent. This marked the third consecutive quarter where the vacancy rate fell.
- > Year over year, vacancy in Kansas City has dropped 20 basis points. The vacancy rate peaked at the end of 2018, and has been trending lower in subsequent quarters.
- > Vacancy in Class A apartments reached 5.6 percent as of the third quarter, 40 basis points lower than one year ago. The vacancy rate in Class A properties has fluctuated with the delivery of more than 9,000 units since the beginning of 2017.
- > **Forecast:** Apartment vacancy in Kansas City is forecast to end the year at 4.7 percent, 30 basis points lower than at the end of 2018. The improvement would put the market vacancy closer to its long-term average after a surge in supply pushed the rate higher in 2017 and 2018.

## Vacancy Trends



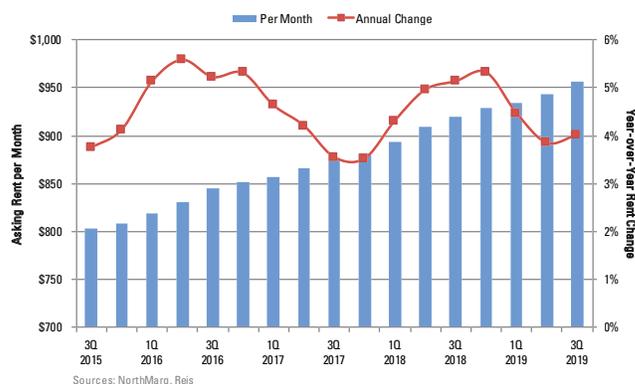
Sources: NorthMarq, Reis

*The vacancy rate peaked at the end of 2018, and has been trending lower since*

## Rents

- > Asking rents rose 1.4 percent during the third quarter, reaching \$957 per month. This was the strongest quarterly increase in the market's asking rents in since mid-2018.
- > Current asking rents are up 4 percent year over year. The pace of annual rent growth has slowed a bit after averaging 4.5 percent from 2017 to 2018.
- > Asking rents in the Class A segment ended the third quarter at \$1,141 per month, 3.7 percent higher than one year ago. Rents in Class A apartments should trend higher as the vacancy rate improves.
- > **Forecast:** Rents are on track to rise 4.5 percent in 2019, as tightening vacancy gives operators some additional pricing power. Asking rents are forecast to end the year at approximately \$970 per month.

## Rent Trends

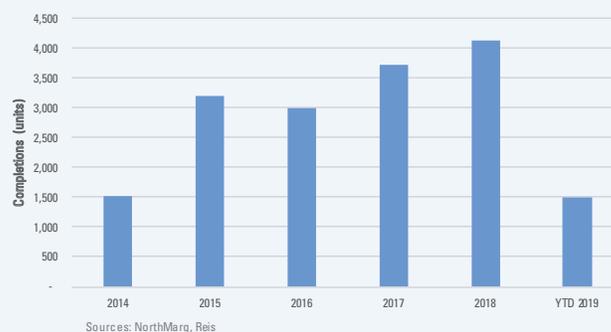


*Rents rose 1.4 percent in the third quarter, the strongest quarterly increase in more than a year*

## Development and Permitting

- > Following a slowdown during the first half of the year, apartment deliveries accelerated in the third quarter. More than 800 units came online during the third quarter, bringing the year-to-date total to approximately 1,500 units.
- > Projects totaling nearly 4,400 units were under construction as the third quarter came to a close. The two Overland Park submarkets combined to have more than 1,300 units under construction.
- > Permitting activity accelerated during the third quarter. Developers pulled permits for nearly 900 multifamily units in the third quarter; year to date, permits for approximately 2,500 multifamily units have been issued, down 13 percent from one year ago.
- > **Forecast:** Projects totaling approximately 2,300 apartment units are slated to be delivered in Kansas City in 2019. This represents a slowdown in new supply growth; deliveries have averaged more than 3,400 units per year since 2015.

## Development Trends



*Year to date, approximately 1,500 apartment units have been delivered*

## Multifamily Sales

- > After a very steady start to the year, transaction activity rose 30 percent from the second quarter to the third quarter. Through the first nine months of the year, sales velocity is up 32 percent from the same period in 2018.
- > Class B and Class C properties accounted for nearly all of the transaction activity during the third quarter, and the median price was \$87,000 per unit. Year to date, the median price was approximately \$100,600 per unit, up 28 percent from the 2018 median price.
- > Cap rates thus far in 2019 have averaged 5.5 percent, nearly identical to the average from last year. Cap rates for Class A properties have averaged a bit below 5 percent, while cap rates for Class C buildings have been over 6 percent.

## Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

*Transaction activity rose 30 percent during the third quarter*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

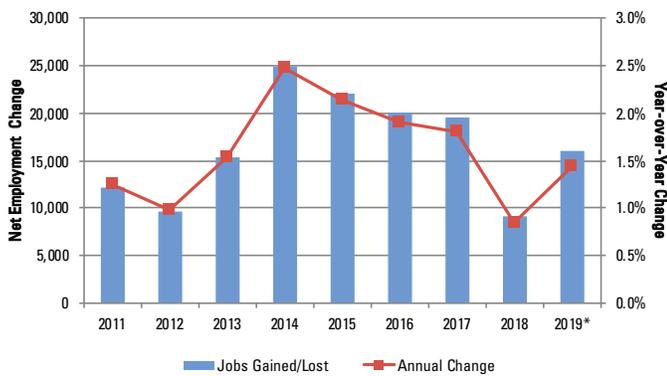
Property Name	Street Address	Units	Sales Price	Price/Unit
Altitude 970	6301 N Klammer Rd., Kansas City	291	\$58,927,500	\$202,500
The Lennox of Olathe	1890 N Lennox Dr., Olathe	384	\$43,000,000	\$111,979
Roe 107	4401 W 107th St., Overland Park	70	\$8,250,000	\$117,857

## Looking Ahead

The Kansas City multifamily market is forecast to end 2019 in a stronger position than it began the year. Following four straight years or fairly active construction, the pace of new apartment development is on track to slow in 2019. With renter demand for apartments still healthy, this decelerating pace of new construction is allowing for a modest vacancy decline, and giving operators sufficient leverage to implement healthy rent increases.

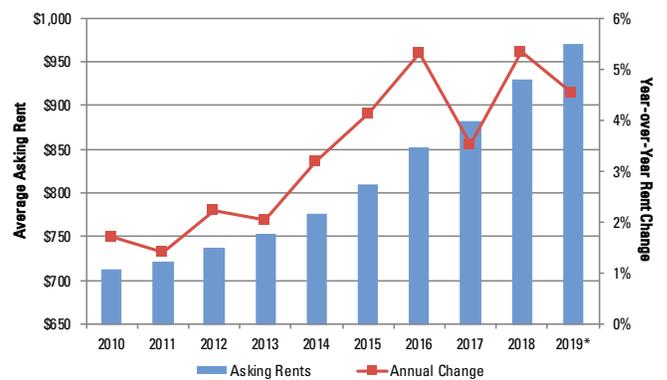
The local investment market is shaping up to have a very healthy showing in 2019. Total transaction activity through the first three quarters of the year has nearly matched levels for all of 2018, and the market will likely reach a five-year high in sales velocity in 2019. While cap rates are staying fairly steady, the median price has topped \$100,000 per unit, doubling the figure from 2014-2015.

### Employment Forecast



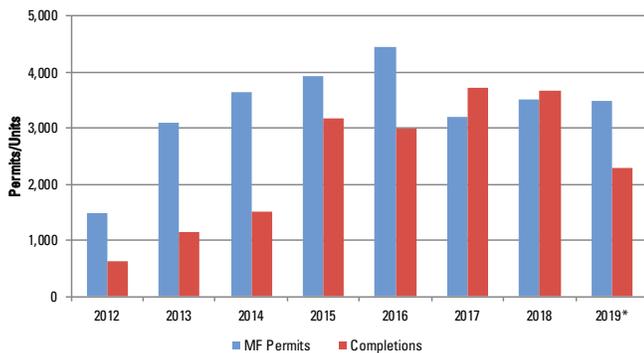
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



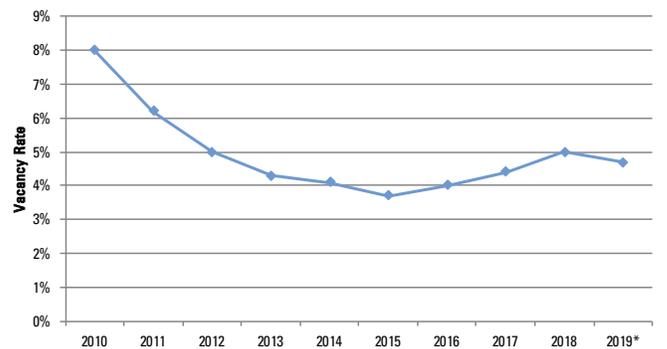
\* Year End Forecast  
Sources: NorthMarq, Reis

### 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.

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