MARKET REPORT

Multifamily

Kansas City Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

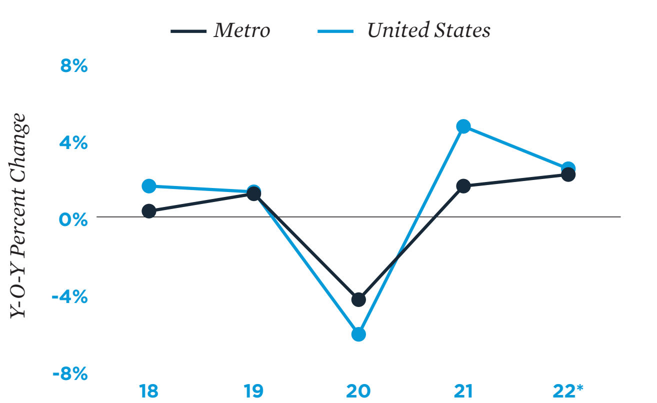
2Q/22

Locales a Short Commute to Reopening Downtown Offices at the Forefront

CBD revival and growing suburbs foster metrowide gains. Kansas City ended last year with all 11 major submarkets reporting positive net absorption and the 10 suburban areas seeing vacancies below 5.0 percent, coinciding with the second-fastest year of rent gains since at least 2000. Rents in the CBD grew by 8.8 percent last year, after falling 1.8 percent amid the pandemic shock in 2020, evidence that the recovery is underway. The area registered a five-year vacancy low in the first quarter, falling 370 basis points year-over-year to 4.5 percent, marking a rapid but still-progressing resurgence. At the same time, suburban rents grew by 11.4 percent in 2021, as renter preferences for larger units and more spacious communities helped drop vacancy in the suburbs to 3.2 percent entering this year.

Downtown-adjacent submarkets gain traction. Most completions are expected to come online this year in the suburban areas. Even amid inventory growth, South Kansas-Grandview will see vacancy shrink below 3.0 percent and Independence will also retain low availability. Both submarkets have easy access to downtown, offering renters the space and reduced cost of suburban living, with a manageable commute to urban offices as companies return to in-person work. Additionally, this proximity is appealing to the age 20-34 cohort, which comprises approximately 20 percent of the metro's population, as millennials move away from the core but continue to utilize its amenities.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

24,000 JOBS
will be created

EMPLOYMENT:

Employers are set to expand payrolls by 2.2 percent this year. In 2021, the local unemployment rate compressed to align with the national level at 3.6 percent, almost on par with its pre-pandemic rate of 3.3 percent.

3,500 UNITS
will be completed

CONSTRUCTION:

Development will decrease from last year; however, total inventory will still expand by 2.0 percent. Most new rentals will come online in suburban areas, particularly in South Kansas City-Grandview, where over 800 units are expected to finalize.

50 BASIS POINT
decrease in vacancy

VACANCY:

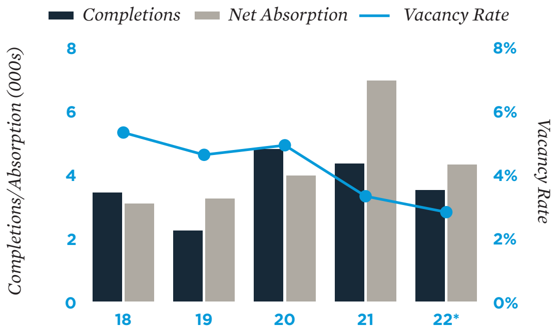
Vacancy will reach a record low in 2022 as net absorption of around 1,600 units compresses the rate to 2.9 percent. The Olathe-Gardner submarket recorded a 160-basis-point drop in 2021, tightening local vacancy to the lowest in the metro at 2.2 percent.

8.4% INCREASE
in effective rent

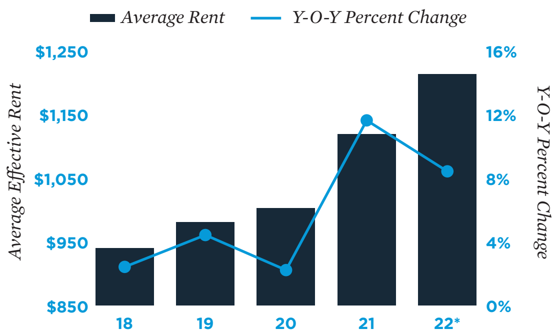
RENT:

Following last year's spike of 11.6 percent, 2022 will see the second-highest rate increase since at least 2001, raising the average effective monthly rent to $1,213. This represents the 12th consecutive year of metro rent growth.

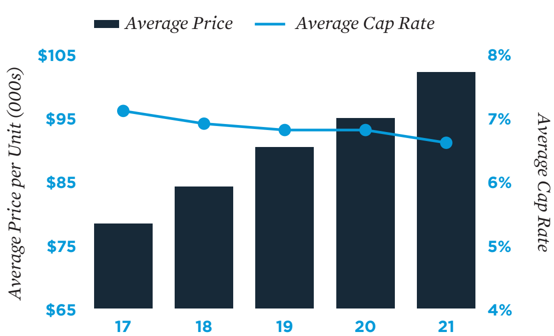
Supply and Demand



Rent Trends



Sales Trends



** Forecast*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

1Q 2022 - 12-Month Period

CONSTRUCTION

4,156 units completed

- Completions during the past year ended in March grew stock by 2.4 percent, with over 900 units coming online in the first quarter.
- Throughout 2021, almost 1,000 units were delivered in Central Kansas City, increasing the metro's urban inventory by 3.5 percent, following an 8.9 percent rise in 2020.

VACANCY

230 basis point decrease in vacancy Y-O-Y

- Renters absorbed nearly 8,000 units over the past 12 months, shrinking vacancy to 2.4 percent. Over half of the metro's submarkets recorded drops of more than 200 basis points since April 2021.
- Even amid construction above the pre-pandemic benchmark, Class A vacancy continued to compress to 2.9 percent in 2021's fourth quarter.

RENT

13.8% increase in the average effective rent Y-O-Y

- Tight vacancy helped lift the average effective rent to $1,144 per month as positive rent growth was recorded in each of the last five quarters.
- Rent growth was the strongest in South Overland Park, with an annual gain of 17.8 percent pushing the monthly payment up to $1,347, which is the second-highest submarket outside of Central Kansas City.

Investment Highlights

- The past year featured an elevated number of trades in Outlying Johnson County, over half of which consisted of Class A and B properties. The submarket's suburban location has attracted renters and enabled locales, such as Olathe-Gardner and South Overland Park, to see sharp drops in vacancy on the Kansas side of the metro.
- Kansas City's sub-3 percent availability will contribute to rent gains as net absorption remains elevated. Consequently, deal flow may accelerate in the near term, as buyers rush to lock in financing ahead of anticipated increases in interest rates. Higher borrowing costs may soften price gains longer term, even with above-normal rent growth.
- Despite a nearly 8.0 percent increase last year, an average sale price lower than many other major metros was sustained. While cap rates dipped 20 basis points to the mid 6-percent range, they remain meaningfully higher than the national average as well. Lower pricing enables a larger pool of potential buyers to be active, while high cap rates attract capital from metros with smaller yields, drawing out-of-market investors to Kansas City.

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Price: $250