

# MARKET REPORT

Multifamily  
Kansas City Metro Area

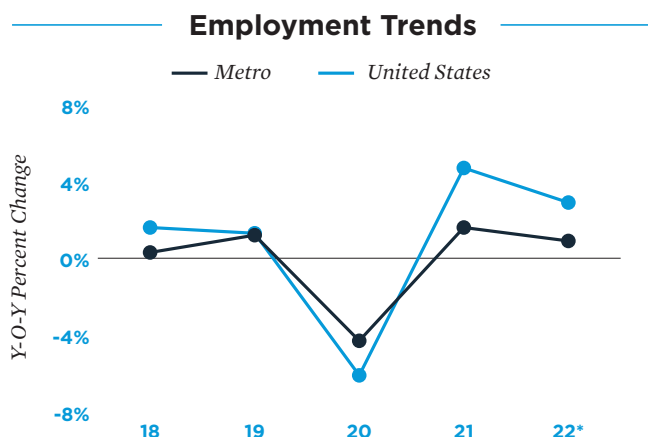
IPA  
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PROPERTY  
ADVISORS

3Q/22

## Barriers to Homeownership and Regionally Low Rent Prolong Vacancy Compression

**Rising home prices tip the scales in favor of renting.** Defying the national trend, vacancy in Kansas City declined through the first half of 2022. After achieving a record low of 3.3 percent at the end of 2021, the vacancy rate dropped another 20 basis points by June, and the market is expected to retain this compacted rate through the duration of 2022. Renter demand is being bolstered by a widening affordability gap relative to homeownership. The disparity between the mean effective apartment rent and the typical mortgage payment on a median priced home is larger in Kansas City than any other major Midwest metro. The regionally high monthly payment on a home, paired with a tight single-family housing market, continues to prompt residents to consider the advantages of multifamily living.

**Cost-cutting households fill suburban rentals.** Outside the CBD, collective vacancy dropped 130 basis points to 2.9 percent during the 12-month span ended in June, even as 3,600 units came online. This decrease came as eight of Kansas City's 10 submarkets reported positive net absorption in both the first and second quarters. Over those last three months, absorption was strongest in Independence-East Kansas City and South Kansas City-Grandview, which have the lowest average rents in the metro. Meanwhile, Central Kansas City's availability has seen a less drastic compression, with vacancy at 4.8 percent in June. The rate remained 40 basis points below the 2021 year-end level, however, and the area is still posting strong rent gains, leaving room for further improvement.



\* Forecast

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

## Multifamily 2022 Outlook



**10,000  
JOBS**  
*will be created*

### EMPLOYMENT:

In the second quarter, local unemployment fell well below the previous low to 2.7 percent, one of the 10 lowest rates in the nation. Despite a smaller pool of available workers, total employment will still expand by 0.9 percent by December.



**3,400  
UNITS**  
*will be completed*

### CONSTRUCTION:

Apartment inventory grows by 1.9 percent this year. Completions are concentrated in the Independence-East Kansas City, Lee's Summit-Blue Springs-Raytown and South Kansas City-Grandview submarkets.



**20  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Unit availability declines for a second consecutive year, placing the metro's vacancy rate at 3.1 percent. The absorption of nearly 4,000 units supports the moderate compression projected to be recorded in 2022.

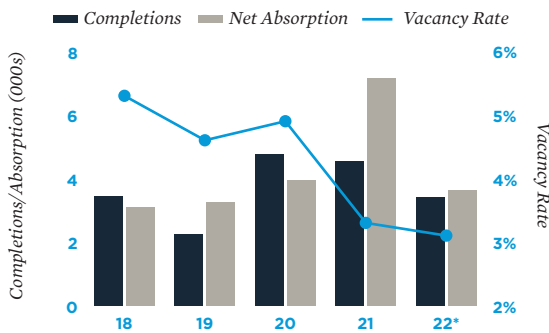


**9.7%  
INCREASE**  
*in effective rent*

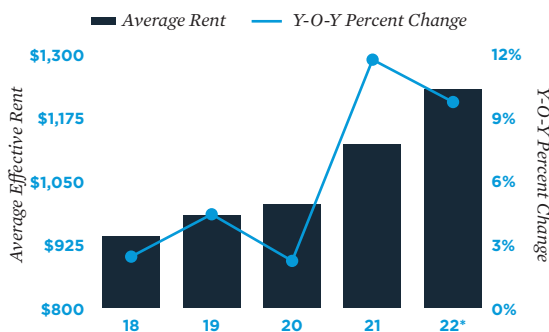
### RENT:

The mean effective rent will reach \$1,230 per month in December as renter demand in Kansas City holds strong. While this increase is below last year's 11.7 percent rise, it is still well above the 2015-2019 average growth rate of 3.9 percent.

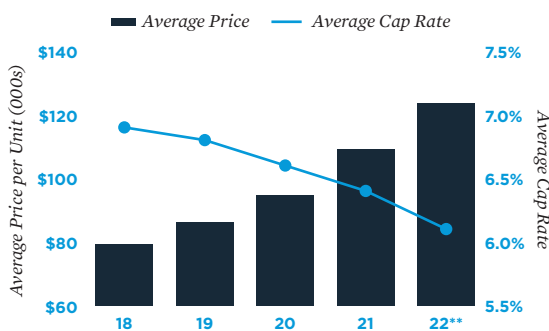
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

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

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Price: \$250

### 2Q 2022 - 12-Month Period

**CONSTRUCTION**  
**4,170 units completed**

- Inventory increased by 2.4 percent over the trailing 12-month period ended in June. The majority of completions came online in the South Kansas City-Grandview and Independence-East Kansas City submarkets.
- In the yearlong interval, the metro noted 24 projects that broke ground. As of August, more than 8,500 units were underway in the market.

**VACANCY**  
**140 basis point decrease in vacancy Y-O-Y**

- Positive absorption was recorded during each of the past four quarters, lowering unit availability to 3.1 percent.
- Class A vacancy rose by 30 basis points during the second quarter of 2022 alone, placing availability at 3.9 percent. Over the same three-month window, Class B vacancy rose by 10 basis points to 2.7 percent.

**RENT**  
**14.0% increase in the average effective rent Y-O-Y**

- After the largest annual increase on record, the average effective rent ended June at \$1,192 per month.
- CBD rent gains closely matched suburban rate growth, despite differing vacancy rates. This alignment suggests broad-based demand exists across the Kansas City metro.

### Investment Highlights

- The average sale price per unit in Kansas City during the trailing 12 months ended in June rose over 20 percent to \$123,800. Despite increasing more than any other major Midwest market, pricing in Kansas City remains in line with the rest of the region. Meanwhile, the mean cap rate has declined 70 basis points since the end of 2019 to the low-6 percent range.
- A rise in pricing coincided with improving transaction velocity, with recent deal flow driven by a surge in fourth quarter 2021 trading. During this three-month interval, a group of \$20 million-plus trades closed as institutions are paying more attention to Kansas City.
- Following three years of scant trades in Central Kansas City, the first half of 2022 noted a surge in investor interest downtown. Buyers appear confident in the CBD's recovery, a sentiment bolstered by net absorption totaling around 1,500 units in both 2020 and 2021. Recent local deal flow has involved Class A and B assets, most of which were built after 2000.
- Shawnee-Lenexa-Mission's Class A vacancy of 2.1 percent marks the lowest rate in the metro. Segment rent growth here trailed the marketwide average, however, indicating upside potential through tenant turnover.