MARKET REPORT | 3Q/2018

Greater Kansas City Multifamily

NORTHMARQ

Construction Picking Up, Rents Pushing Higher

Highlights

- The Kansas City multifamily market was somewhat mixed in the third quarter, with the vacancy rate inching higher but rents posting strong gains. Recent vacancy increases have been the result of new construction, rather than a decline in renter demand.
- Vacancy inched up 30 basis points during the third quarter, reaching 4.7 percent. The rate has risen in each of the past two quarters and remained in a fairly tight range over the past several years.
- Even with vacancy ticking higher in recent quarters, rents continue to rise. Asking rents gained 1.3 percent in the third quarter and have increased 4.3 percent in the past year to $913 per month.
- Investment activity surged in the third quarter following a slower period of transactions in the second quarter. The median price dipped a bit in the most recent period but is up nearly 10 percent from the 2017 median price. Cap rates have averaged approximately 6 percent for much of 2018.

Kansas City Multifamily Market Overview

The Kansas City multifamily market has been in growth mode for the past few years, a trend that continued in the third quarter. Renter demand is being supported by healthy levels of job creation, with growth concentrated in a few diverse industries such as construction, education and health, and professional and business services. This economic activity is also prompting new apartment construction, and 2018 will mark the fourth consecutive year where developers have delivered at least 3,000 rental units. The pace of new construction has pushed vacancy a bit higher in recent years, but with the rate still sitting below 5 percent, operators have been able to continue to implement rent increases.

Market Indicators

	3Q/2018
Vacancy	↑
Rents	↑
Transaction Activity	↑
Price Per Unit	↓
Cap Rates	↑

Summary Statistics — Kansas City Market

Vacancy Rate	4.7%
- Change from 3Q 2017 (bps)	+30
Asking Rents (per month)	$913
- Change from 3Q 2017	+4.3%
Median Sales Price (per unit YTD)	$94,900
Average Cap Rate (YTD)	6.0%

Kansas City Multifamily Market Overview (cont.)

Investment activity in local properties gained momentum during the third quarter, following a bit of a lull in the preceding three months. Sales velocity for the year is now just a bit lower than during the same period in 2017. Pricing trends have been a bit erratic from quarter to quarter, but the median price has been on an extended upswing for the past several years. Cap rates have been more consistent, generally averaging from the mid-5 percent to low-6 percent range for the past few years. Thus far in 2018, the average cap rate has been approximately 6 percent, with Class A assets trading with cap rates between 5.2 percent and 5.5 percent. There has been a modest uptick in cap rates for Class B and Class C as interest rates have ticked higher.

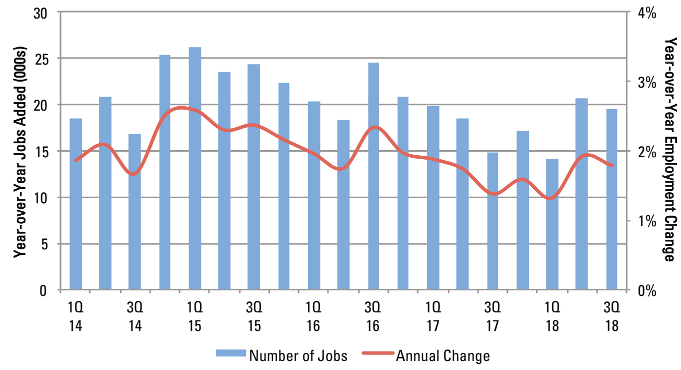
Submarket Statistics

Submarket Name	3Q 2018 Vacancy	3Q 2017 Vacancy	Annual Vacancy Change (BPS)	3Q 2018 Rents	3Q 2017 Rents
Lee's Summit	2.3%	4.2%	(190)	$928	$939
Raytown	2.4%	2.7%	(30)	$788	$773
Olathe/Gardner	2.5%	2.6%	(10)	$859	$843
Southwest Kansas City	2.8%	9.7%	(690)	$690	$641
Merriam/Mission/Prairie Village	3.1%	1.7%	140	$920	$850
Wyandotte	3.3%	3.4%	(10)	$737	$718
North Kansas City	3.6%	3.4%	20	$751	$730
Independence	3.8%	3.4%	40	$730	$714
Grandview/Far South	4.0%	5.1%	(110)	$772	$767
Gladstone/Liberty	4.5%	4.9%	(40)	$768	$756
Shawnee/Lenexa	4.5%	4.2%	30	$974	$937
Overland Park North	4.7%	2.2%	250	$955	$903
Midtown	4.9%	5.9%	(100)	$732	$705
Platte	4.9%	3.8%	110	$927	$852
Overland Park South	5.3%	5.6%	(30)	$1,187	$1,164
University/Plaza	9.8%	4.5%	530	$1,048	$1,016
Downtown/East Kansas City	11.6%	9.3%	230	$1,189	$1,066

Employment

- During the past 12 months, employers in Kansas City have added 19,500 workers, an increase of 1.8 percent. The pace of local employment expansion has been quite steady over the past few years; growth has averaged 1.9 percent per year for the past five years.
- Construction employment is strong, fueling a job spike of nearly 11 percent in the mining, logging, and construction sector during the past year. Approximately 5,500 net new jobs have been created in the sector year over year.
- White-collar industries have also been expanding in Kansas City. The professional and business services sector grew by more than 3 percent, or 6,000 jobs, in the past year. More gains are likely as companies such as Shamrock Trading, SelectQuote, and Burns & McDonnell have announced plans to add more than 1,000 workers combined.
- **Forecast:** Employers in Kansas City are on pace to add approximately 20,000 jobs in 2018, expanding payrolls by 1.8 percent. In 2017, growth was more modest, as 17,100 jobs were added.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

The pace of local employment expansion has been quite steady over the past few years

Vacancy

- Metrowide vacancy inched higher during the third quarter, ticking up 30 basis points to 4.7 percent. After a dip to start the year, vacancy has risen in each of the past two quarters.
- The current vacancy rate is up 30 basis points from one year ago as new supply increases have somewhat outpaced renter demand growth. The quarterly vacancy rate has ranged between 3.5 percent and 4.7 percent since the beginning of 2014.
- Vacancy in the two Overland Park submarkets combine to average approximately 5 percent, or slightly above the market average. Vacancy trends in Overland Park are generally indicators of the overall market health due to the large inventory of housing in the area.
- **Forecast:** Deliveries of new units should accelerate in the fourth quarter, which will put some supply-side pressure on vacancy. The vacancy rate is forecast to end 2018 at 4.9 percent, 50 basis points higher than one year ago.

Vacancy Trends

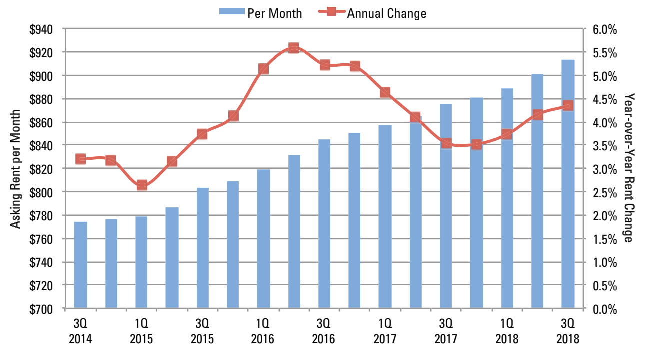
Sources: NorthMarq, Reis

Vacancy has risen in each of the past two quarters

Rents

- Rent growth has been strong in Kansas City, with the pace quickening in recent quarters. Asking rents ended the third quarter at $913 per month, up 4.3 percent from one year ago. Rents advanced 1.3 percent during the third quarter, building on a 1.4 percent increase in the preceding three months.
- Rent growth in the Class A segment of the market has been particularly strong thus far in 2018. Year to date, asking rents in Class A properties have increased 3.8 percent, reaching $1,085 per month as of the third quarter. Some of this increase has been fueled by the delivery of newer, more expensive units to the market.
- Rent growth has been more modest in Class B and C properties. Average asking rents in these properties have increased 3.2 percent in the past year, ending the third quarter at $750 per month. Gains in the third quarter accelerated, however; the 1.2 percent jump during the past three months was the steepest quarterly increase in Class B/C rents in two years.
- **Forecast:** Local rents are forecast to continue to strengthen in the fourth quarter and into next year. Asking rents are forecast to end 2018 at $922 per month, up 4.7 percent from one year earlier.

Rent Trends



Sources: NorthMarq, Reis

Rents advanced 1.3 percent during the third quarter

Development and Permitting

- Developers have been fairly active in the Kansas City metro area in recent years, a trend that has continued in 2018. For the three-year period ending in 2017, builders brought an average of 3,200 units online per year. Through the third quarter of 2018, approximately 2,500 units have been completed, including nearly 700 apartments that were delivered in the third quarter.
- Projects totaling approximately 900 units are scheduled to come online in the fourth quarter. Development has been concentrated in the Downtown/East Kansas City submarket; approximately 3,000 units have come online in that submarket since the beginning of 2017, and an additional 1,300 apartments are under construction in Downtown.
- Multifamily permitting surged nearly 40 percent during the third quarter, reaching approximately 1,350 units for that three-month period. Year to date, permits for more than 2,500 units have been issued, up 3 percent from the same period in 2017.
- **Forecast:** Multifamily developers are forecast to deliver approximately 3,400 rental units to the Kansas City market in 2018, after 3,550 units came online last year. The pace of new development has been fairly steady for the past four years.

Development Trends

Sources: NorthMarq, Reis

Through the third quarter of 2018, approximately 2,500 units have been completed

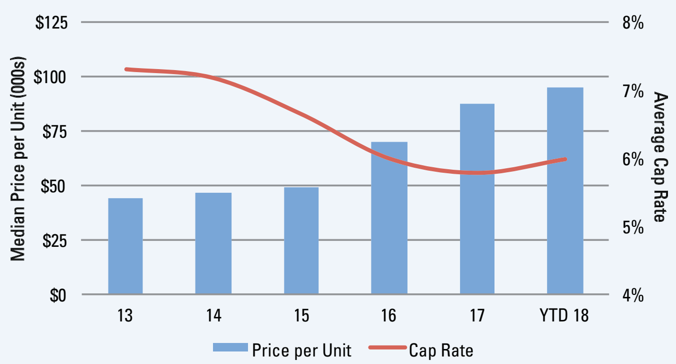
Multifamily Sales

> Following a slowdown during the second quarter, transaction activity more than tripled in the third quarter. Even after the recent spike, the number of properties that have changed hands year to date through the third quarter is down 5 percent from the first nine months of 2017.

> While activity accelerated, sale prices crept lower during the third quarter. The median price dipped to $84,500 per unit in the third quarter, after sales of newer properties pulled the price higher during the first half of 2018. Year to date, the median price is nearly $95,000 per unit, up nearly 10 percent from the 2017 median price.

> Cap rates averaged approximately 6 percent during the third quarter, similar to the average thus far in 2018. While cap rates have generally remained consistent in the Class A segment of the market, there has been some upward pressure on cap rates in Class B and Class C buildings as interest rates have ticked higher.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Transaction activity more than tripled in the third quarter

Recent Transactions in the Market

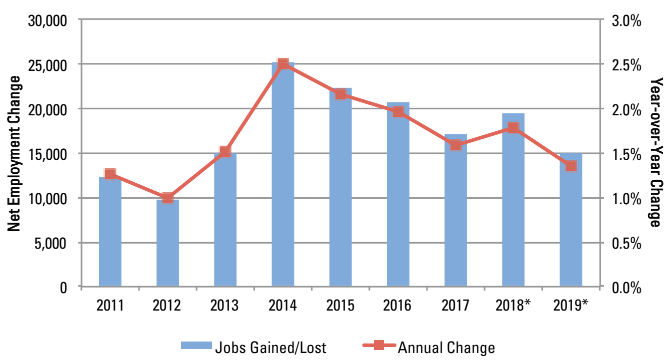
MULTIFAMILY SALES ACTIVITY				
Property Name	**Street Address**	**Units**	**Sales Price**	**Price/Unit**
The Jefferson at the Lake	12251-12289 S Strang Line Rd., Olathe	352	$29,800,000	$84,659
Pinnacle Pointe	10460 Pflumm Rd., Lenexa	160	$18,100,000	$113,125
Plaza East	1500 E 46th St., Kansas City	380	$17,100,000	$45,000
Pheasant Run	1102 NE Independence Ave., Lee's Summit	160	$16,400,000	$102,500

Looking Ahead

The Kansas City multifamily market has remained strong even as new supply growth has averaged approximately 2.5 percent annually for the past few years. While the outlook for local renter demand remains healthy, there is some short-term potential for overbuilding, particularly in Downtown, where much of the new development is being concentrated. While there are pockets of the metro area that could face some overbuilding going forward, much of the Kansas City multifamily market is performing quite well, and this trend should continue for the next several quarters. One indicator that will be worth monitoring will be rent growth. Asking rents have risen at an average annual rate in excess of 4 percent over the past few years. The forecast calls for that pace to slow, but if the current rate can be sustained, it will highlight the overall strength of the market.

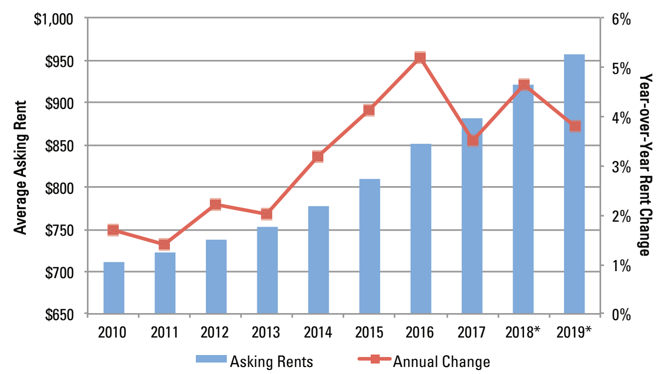
Conditions are likely to remain favorable for investors, although the number of properties that will change hands in 2018 will likely lag peak levels from a few years ago. There is a bit of an expectation gap between buyers and sellers emerging as the median price has spiked in recent years and is currently nearly double the figure from 2012-2015. While near-term activity levels could be modest as buyers and sellers reassess the current conditions, there could be an uptick in transactions in the coming years. Approximately 75 percent of all properties that were sold when activity was at a peak in 2013-2015 have not sold again. As owners reach their investment targets or need to refinance loans, some of these properties could return to the market as acquisition opportunities.

Employee Forecast



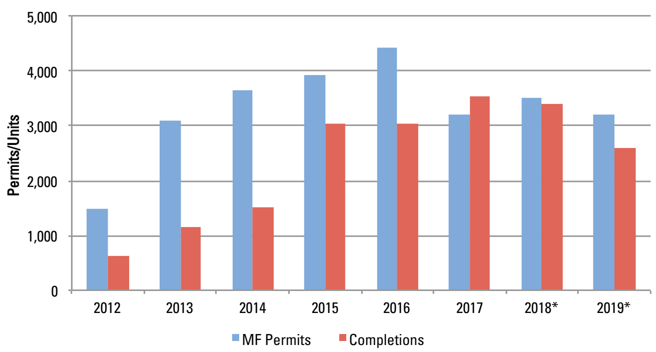
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



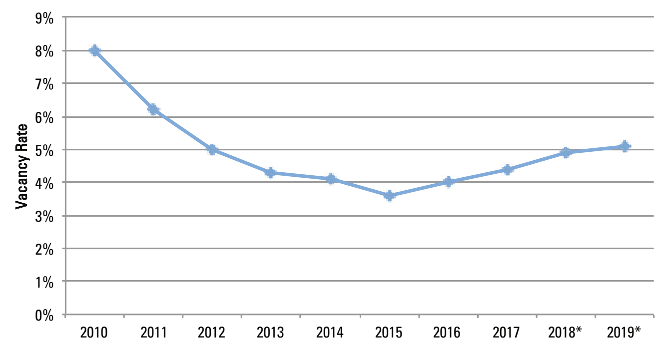
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq Multifamily

NorthMarq Multifamily has a market-leading position in multifamily property sales in markets across the U.S., offering commercial real estate investors a personalized approach to buying and selling multifamily and manufactured housing properties. These teams collaborate with NorthMarq Capital's debt and equity experts nationwide to provide a full range of capital markets services, developing innovative solutions for real estate investments.

NorthMarq Capital, the largest privately held commercial real estate financial intermediary in the U.S., provides debt, equity and commercial loan servicing through over 300 mortgage banking professionals in regional offices coast-to-coast and services a loan portfolio of more than $53 billion. For more information, please visit www.northmarq.com.

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