

Kansas City 1Q 2024 Market Report

MARKET SNAPSHOT



AVERAGE RENT
\$1,259 1Q 2024



1Q 2024 RENT CHANGE
2.5%



OCCUPANCY RATE
92.8% 1Q 2024



ANNUAL OCCUPANCY CHANGE
-90 BASIS POINTS



TOTAL OPERATING EXPENSE ANNUAL CHANGE
4.3%



NET OPERATING INCOME ANNUAL CHANGE
3.1%

* Please note that these employment figures have been adjusted for seasonal variations and are based on Moody's Analytics forecast as of January 1, 2024.

** Please note that these unemployment rates are estimates that have not been adjusted for seasonal variations, and they are derived from Moody's Analytics forecast as of January 1, 2024.

KEY TAKEAWAYS

- **Demand Resilience:** Despite being a traditionally slower leasing period, Kansas City's multifamily market shows signs of resilience with a 17% year-over-year increase in unit absorption in the first quarter of 2024.
- **Easing of New Construction Activity:** Kansas City continues to see concentrated development in select submarkets, with a total of 6,775 units under construction. However, a notable decrease in new developments is anticipated from 2025, potentially easing supply pressures and creating more favorable conditions for landlords.
- **Top-Tier Rent Growth:** Kansas City distinguished itself in the first quarter of 2024 by ranking among the top four U.S. metropolitan areas for annual rent growth.

Supply & Demand

1Q 2024

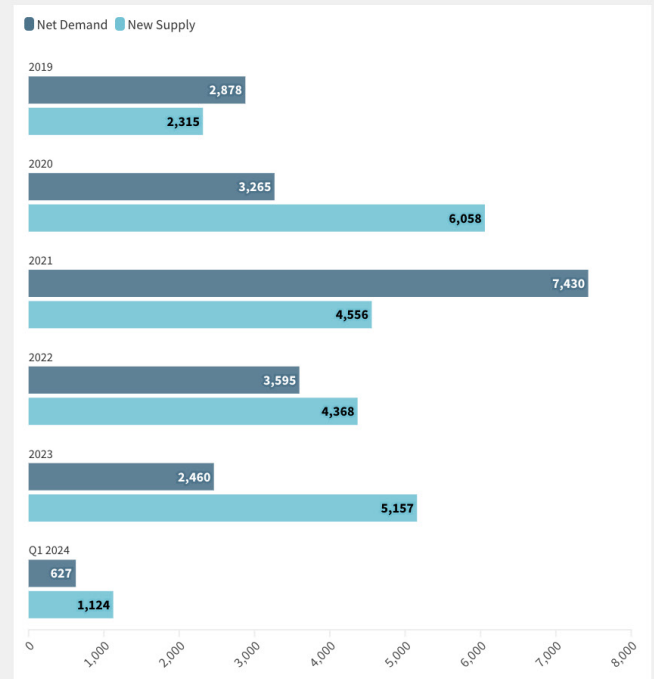


627 Units
QUARTERLY DEMAND



1,124 Units
QUARTERLY COMPLETIONS

Annual Demand Vs Completions



Demand Trends

In the first quarter of 2024, Kansas City experienced an absorption of 627 units, marking a 17% increase from the same quarter in 2023, but not quite reaching the pre-pandemic first-quarter average of 800 units recorded between 2014 and 2019. Given that the first quarter is typically slower for leasing in Kansas City, it's prudent to wait until the second quarter to draw more definitive conclusions about renter demand trends. Nevertheless, the modest improvement in the first quarter of 2024 compared to the previous year is a positive sign.

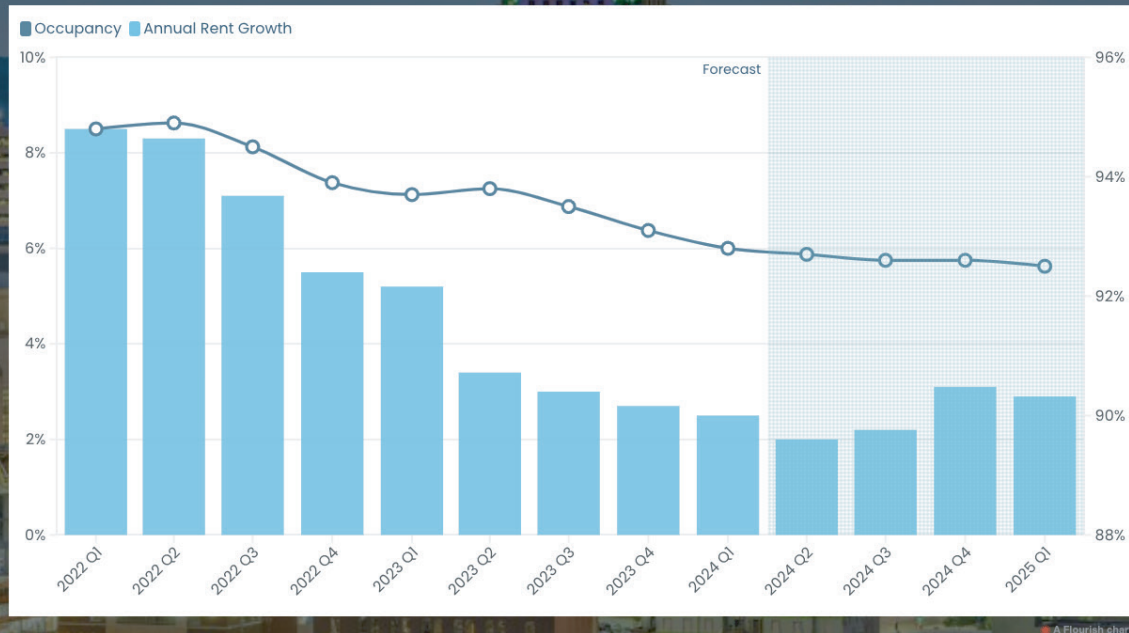
The Northland submarket, which is the city's second largest by unit count, led the way in demand with 681 units absorbed on an annual basis. This area's diverse mix of suburban and urban style living options continues to be a significant draw, attracting an increasing number of renters and developers.

Construction Trends

New apartment developments in Kansas City are focused in a few key areas, with active construction in only seven of the city's 21 submarkets, totaling 6,775 units or 3.8% of the multifamily inventory. This reflects a continued downtrend in development for the third straight quarter, as developers exercise increased caution. Despite the slowdown, Johnson County remains a primary development locale, hosting a third of these units. Wyandotte County is gaining traction as well, with projects accounting for 15% of its 9,375 units, underscoring its rising appeal. Kansas City's development pipeline is smaller than the national average, reducing the risk of oversupply. With development continuing to slow, market dynamics are expected to shift by year's end.

Occupancy & Rent Trends

RENT VS OWN MONTHLY PAYMENT



OCCUPANCY TRENDS

In 2023, Kansas City's multifamily market saw an absorption of 2,500 units, while 4,800 new units were constructed. This led to a decrease in the overall occupancy rate to 93.1%. Although the occupancy rate continued to decline in the first quarter of this year, dropping 30 basis points on a quarterly basis, the rate of decrease is slowing down, suggesting that the worst of the downturn may be over. With fewer new developments expected, occupancy rates are likely to start improving by the end of this year or early 2025.

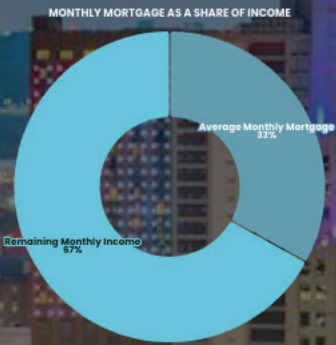
On a more granular level, most submarkets experienced a drop in occupancy rates, with declines typically ranging from 70 to 80 basis points compared to the prior year. The notable exception was the less densely populated Leavenworth County, which saw a significant increase in occupancy of 190 basis points, raising the submarkets average occupancy rate to 93.1%. On the flipside, Downtown Kansas City stood out for less favorable reasons, as it experienced the most pronounced decline in average occupancy rate, falling 150 basis points to 91.5% in the first quarter of 2024. This downturn is likely tied to the challenges highlighted above in our discussion on rent trends in Downtown Kansas City.

RENT TRENDS

Despite the deceleration in rent growth from its peak in 2021 and 2022, Kansas City's multifamily market remains ahead of the national curve, with its owners and operators seeing strong performance in comparison to other major U.S. multifamily markets. Throughout 2023, Kansas City consistently ranked within the top ten of the 50 largest U.S. markets for annual rent growth, maintaining this performance across all four quarters. By the end of the first quarter of 2024, it had ascended to the fourth-highest position for annual rent growth among major U.S. metropolitan areas, recording a 2.5% increase. This growth significantly surpassed the national average, which has registered sub 1.0% growth for three consecutive quarters now.

Focusing on submarkets, Johnson County and Northland, Kansas City's largest submarkets, each reported impressive annual rent growth rates of 3.9% and 3.8%, respectively. This growth is notable given the substantial number of new units delivered in these areas in recent quarters. For owners and operators in these submarkets, the high rate of completed units is expected to level off by year's end, with a reduced pipeline forecasted for 2025. This scenario is poised to place further upward pressure on rents beyond 2024 in these locales.

Conversely, Kansas City's urban core showed weaker rental growth, with Downtown Kansas City marking a modest 0.2% annual increase. This likely results from multiple factors. The downtown area, known for having the highest average rent in the metro—about 23% above the market-wide average—is feeling the impact of economic pressures on renters. As a result, many are opting for more affordable yet well-appointed options in suburban areas like Northland and Johnson County. This shift, coupled with a high number of new units in downtown, is likely dampening potential rent increases.



\$1,936

Average Monthly Mortgage Payment



\$1,259

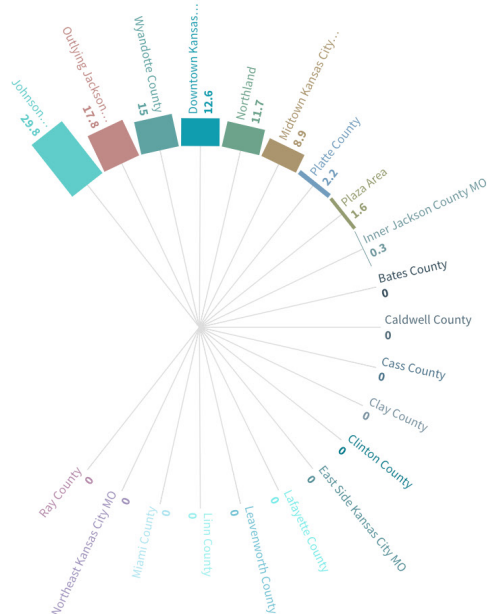
Average Monthly Rent

Submarket Rent & Occupancy

Submarket	Q1 2024 Occupancy	Annual Occupancy Change	Q1 2024 Effective Annual Rent Growth	Q1 2024 Effective Rent/Unit
Bates County	93.5%	-0.8%		
Caldwell County	93.5%	-0.8%		
Cass County	94.8%	-0.5%	4.8%	\$1,288
Clay County	98.1%	-0.7%	2.2%	\$964
Clinton County	94.6%	-0.8%	1.4%	\$644
Downtown Kansas City MO	91.2%	-1.5%	0.1%	\$1,532
East Side Kansas City MO	89.8%	-1.2%	-0.8%	\$862
Inner Jackson County MO	86.6%	-1.4%	0.2%	\$967
Johnson County KS	94.3%	-1%	3.8%	\$1,384
Lafayette County	93.8%	-0.6%	1.5%	\$572
Leavenworth County	93.1%	1.9%	7.2%	\$1,058
Linn County	93.5%	-0.8%		
Miami County	99.1%	-0.3%	5.2%	\$1,304
Midtown Kansas City MO	89.9%	-1.2%	0.7%	\$1,086
Northeast Kansas City MO	91%	-0.4%	2.9%	\$672
Northland	93.7%	-0.7%	3.3%	\$1,215
Outlying Jackson County MO	91.9%	-1%	2.9%	\$1,137
Platte County	92.9%	0%	2.2%	\$1,011
Plaza Area	92.5%	0.1%	0.6%	\$1,295
Ray County	92.6%	-0.5%	1.6%	\$826
Wyandotte County	92.1%	-0.8%	1.3%	\$1,063

Submarket Construction Pipeline

% of Total Market Wide UC



A Flourish hierarchy chart

Submarket	Units UC Delivering In the Next 4 Quarters	Under Construction Units	% of Total Market Wide UC
Bates County	0	0	0%
Caldwell County	0	0	0%
Cass County	0	0	0%
Clay County	0	0	0%
Clinton County	0	0	0%
Downtown Kansas City MO	664	856	13%
East Side Kansas City MO	0	0	0%
Inner Jackson County MO	14	18	0%
Johnson County KS	888	2,021	30%
Lafayette County	0	0	0%
Leavenworth County	0	0	0%
Linn County	0	0	0%
Miami County	0	0	0%
Midtown Kansas City MO	413	604	9%
Northeast Kansas City MO	0	0	0%
Northland	458	796	12%
Outlying Jackson County MO	882	1,206	18%
Platte County	147	148	2%
Plaza Area	107	110	2%
Ray County	0	0	0%
Wyandotte County	551	1,016	15%
Total	4,124	6,775	100%

A Flourish table

Sales Activity

Preliminary data from MSCJ indicates that the sales volume for conventional multifamily properties in Kansas City was notably low in the first quarter, with just two sales totaling \$11.3 million. This figure might be adjusted upwards as late March transactions are accounted for, but even with revisions, it's unlikely to significantly alter the perception of a weak investment sales quarter in Kansas City.

Now, with a year's worth of data since the Federal Open Market Committee (FOMC) started aggressively raising rates, we have a clearer picture of the impact on investment sales. Over the past four quarters, including Q1 2024, the preliminary deal count total for single-asset conventional multifamily properties checked in at 23 deals. That's roughly half the average annual deal count between 2015 and 2023 in Kansas City. Furthermore, the corresponding \$400.9 million in deal volume over the trailing four quarters will likely be the lowest since the GFC. Although the sluggish transaction activity raises concerns, the market's strong fundamentals and the balance between supply and demand may foster steady growth in deal volume, especially as investors with accumulated capital look for opportunities in robust markets.

TRANSACTION VOLUME

\$33.3M

YTD Transaction Volume

-73%

Y-O-Y Change

4 YTD

Individual Transaction Count

* Trailing 4Q average PPU

* Preliminary Data from RCA - Individual transaction \$2.5M +

Income & Expense Analysis

Please note that the income and expense data presented in this section is sourced from third-party providers. Our firm does not provide any warranty or guarantee as to the accuracy or reliability of this information. We recommend that users exercise their own discretion and professional judgment when interpreting and utilizing this data.

Income & Expenses

— Operating Income Metrics

Operating Income	Value / Unit Past 3 Years	Prior Full Year	Year Change (%)
Rental Income / Occupied Unit	\$10,340	\$10,760	4.0%
Other Income / Occupied Unit	\$1,379	\$1,398	1.4%
Total Income / Occupied Unit	\$11,719	\$12,158	3.7%

— Operating Expense Metrics

Operating Expenses	Value / Unit Past 3 Years	Prior Full Year	Change
Real Estate Taxes	\$1,040	\$1,094	5%
Property Insurance	\$472	\$531	13%
Utilities	\$925	\$907	-2%
Repairs and Maintenance	\$866	\$865	0%
Management Fees	\$427	\$430	1%
Payroll & Benefits	\$1,311	\$1,325	1%
Advertising & Marketing	\$125	\$130	4%
Professional Fees	\$60	\$58	-3%
General & Administrative	\$374	\$442	18%
Other Expenses	\$401	\$480	20%
Total Operating Expense	\$6,001	\$6,262	4.3%

— Net Operating Income

	Value / Unit Past 3 Years	Prior Full Year	Change
Net Operating Income	\$5,718	\$5,896	3.1%

Market Outlook

Moving forward into the spring leasing season, Kansas City is on track to see over 4,100 new units delivered in 2024, marking the fifth consecutive year at this pace. However, a downturn in new developments is anticipated by 2025, easing supply-side pressures. This shift is expected to create a more favorable landscape for landlords in 2025 and beyond. Although annual rent growth may decelerate during 2024, it is projected to pick up towards the year's end, approaching 3%. This rebound is likely as market-wide occupancy rates are predicted to marginally recover with the slowdown in new construction.

Sources: Yardi Matrix; Costar; MSCI.

TO GAIN FURTHER INSIGHTS INTO THE KANSAS CITY MARKET PLEASE REACH OUT TO OUR LOCAL TEAM



TJ Wahl
Senior Advisor

tj.wahl@mmgrea.com



Harry Trotter
Senior Advisor

harry.trotter@mmgrea.com



Jake Sullivan
Associate Advisor

jake.sullivan@mmgrea.com



Colson Bayles
Associate Advisor

colson.bayles@mmgrea.com



Alex Blagojevich
Executive Managing Director /
Co-Founder

alex.blagojevich@mmgrea.com



Michael Sullivan
Executive Managing Director /
Co-Founder

michael.sullivan@mmgrea.com

