Multifamily Metro Outlook: Kansas City Winter 2017

Overview

Kansas City’s job market recovery continues to move tepidly. As of December 2016, employment year-over-year has expanded by 0.9 percent, significantly below the national rate of 1.6 percent.

Apartment market fundamentals are performing well. Vacancies continue to decline, and as of Q4 2016 the vacancy rate for the Kansas City metro was 5.5 percent. Even though rent growth was flat, net absorption remained positive as improving job growth numbers from previous quarters continue to fuel demand.

The Kansas City metro area has a low cost of doing business – 7 percent lower than the national average, according to Moody’s Analytics. Many high-tech companies are lured there due to the low cost of business and the addition of high-speed, Google Fiber internet services.

The Kansas side of the metro area is much more tax favorable for businesses. According to CoStar, AMC Theaters and JPMorgan relocated from the Missouri side to the Kansas side to take advantage of the state’s tax incentives.

The telecommunications sector continues to cast a cloud over the local economy. Sprint, one of the metro’s largest employers, is cutting jobs in order to stay competitive. In fact, according to Moody’s Analytics, cost-cutting to date is estimated at approximately $2.5 billion nationally, including layoffs and hiring freezes. So far, 830 jobs have been cut – and more are looming – as Softbank, the parent company, updates the company’s business model.

Development

Recent rental development is very modest. In a rental market of 125,000-plus units, only 9,100 have completed since 2012. There are 7,300 units underway and 8,500 units in the planning stages.

Condo development is not an issue. Approximately 2,900 condo units have been completed in Kansas City since the beginning of 2006, and there are currently fewer than 200 condos in the pipeline through Q2 2018.

Outlook

Tight apartment fundamentals are leading the metro in their effort to recovery. Low business costs and high educational affluence will likely continue to attract migrants and employers to the metro. Although job growth is positive, the metro’s struggle to add jobs in critical areas is holding the metro back from expanding to level footing with the rest of the country. More so, Sprint’s ongoing troubles are continuing to hinder local economic progress as the employer continues to cut costs and eliminate jobs.

Vacancies and rent growth have recovered since the recession. In the long term, average population size, meager job growth, and single-family housing affordability will probably keep the For-Rent market from exceptional improvement.

Vacancy and Rent Composite Estimates

Source: Fannie Mae Multifamily and Economics Research
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**Q4 2016 Market Inventory:**
- **Units 129,000**
- **Units 128,000**
- **Units 145,000**

**Annual Rent Growth**
- CBRE-EA
- REIS
- CoStar
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Construction Bidding/Underway
(44 projects/7,600 Units/9.5 M Sq. Feet)

<table>
<thead>
<tr>
<th>CBRE-EA Submarket</th>
<th>Number of Projects</th>
<th>Total Sq Ft (000's)</th>
<th>Total Units</th>
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<tbody>
<tr>
<td>Downtown/East KC</td>
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<td>3620</td>
<td>2999</td>
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<tr>
<td>Gladstone/Liberty</td>
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<td>607</td>
<td>493</td>
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<tr>
<td>Grandview/Far South</td>
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<td>400</td>
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<tr>
<td>Independence</td>
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<td>250</td>
<td>300</td>
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<tr>
<td>Jackson County/Other</td>
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<td>592</td>
<td>336</td>
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<tr>
<td>Johnson County/Other</td>
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<td>270</td>
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<tr>
<td>North Kansas City</td>
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<th>Number of Projects</th>
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<th>Total Units</th>
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<tbody>
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<td>Olathe</td>
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<td>Overland Park North</td>
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<td>Overland Park South</td>
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<td>Platte</td>
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<td>491</td>
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<tr>
<td>Shawnee/Lenexa</td>
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<tr>
<td>University/Plaza</td>
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<td>411</td>
<td>228</td>
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</tbody>
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Source: Dodge Data & Analytics
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Fannie Mae Multifamily Economics and Market Research

Francisco Nicco-Annan, Economist

Sources Used

- AxioMetrics
- CBRE-Econometric Advisors
- Bureau of Labor Statistics
- Census Bureau
- CoStar
- Dodge Data & Analytics
- Moody’s Analytics
- Real Capital Analytics
- Reis, Inc.

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