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Multifamily Metro Outlook: Kansas City Fall 2018

Overview

Kansas City's job market continues to expand, albeit at a moderate pace. Employment as of Q2 2018 has expanded by 1.6 percent, equal with the national rate of 1.6 percent.

Apartment market fundamentals are performing decently. Vacancies as of Q2 2018 for the Kansas City metro were 5.50 percent. Rent growth has also remained positive at 1.25 percent, and net absorption was positive as improving job growth numbers have fueled demand.

The Kansas City metro area has a low cost of doing business. According to Moody's Analytics, the cost of business in the Kansas City metro area is 5 percent lower than the national average. Many high-tech companies are lured to the metro due to these low business costs and the addition of the super-speedy Google Fiber internet services brought to the area.

The Trade/Transportation industry is beginning to emerge as an economic crutch for the Kansas City economy. According to Moody's Analytics, payrolls in this industry are up 10 percent year over year. As of Q2 2018, the Trade industry expanded by 1.6 percent compared to 1.2 percent nationally.

Kansas City's population growth is proving meager over both the near and long term. Population growth in the metro as of Q2 2018 was approximately 0.4 percent compared to 0.7 percent nationally. Furthermore, over the next five years it doesn't appear as if population prospects will improve. Over that time horizon, Kansas City's population growth is expected to continue to lag behind the national rate.

The Telecommunications sector continues to cast a dark cloud over the local economy. Sprint, one of the metro's largest employers, is cutting jobs in order to stay competitive. According to Moody's Analytics, Sprint will cut approximately $2.5 billion in labor costs nationally, including layoffs and hiring freezes. Furthermore, Sprint and T-Mobile have once again resumed merger discussions, and it is unclear what impact such a merger would have on local jobs.

Development

Recent rental development has been very modest. In a rental market of 130,000-plus units, nearly 14,000 have completed since 2013. There are approximately 6,200 units underway and another 12,700 units in the planning stages.

Condo development is not an issue. Approximately 3,200 condo units were completed in Kansas City since the beginning of 2006, and there are currently none in the pipeline through 2019.

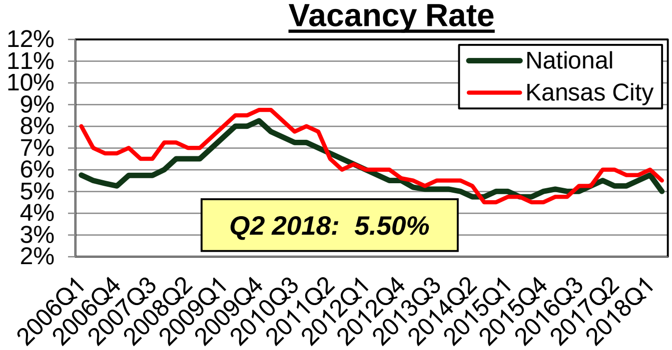
Outlook

Attractive apartment fundamentals are leading the metro in its effort to recovery. Low business costs and high educational attainment will continue to attract migrants and employers to the metro. Although job growth has been outpacing the national average (albeit slightly), the metro's struggle to establish a stable economic pillar will continue to hinder future growth. Moreover, the ongoing troubles of Sprint may continuing to hinder economic progress in the metro as the employer cuts costs and eliminates jobs.

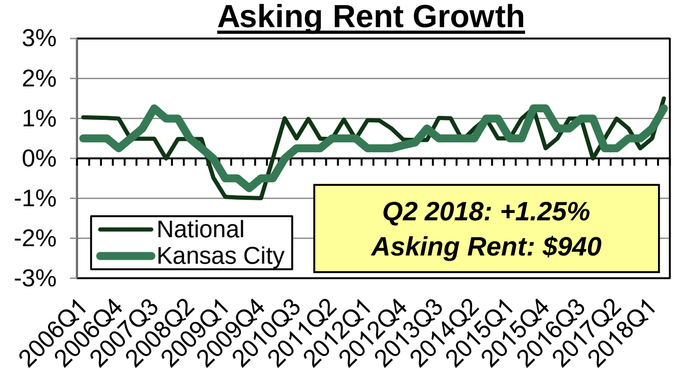
Vacancies and rent growth have recovered from the recession. Longer term, below average population growth, inconsistent job growth, and poor single-family housing affordability (single family homes in the metro are below the national average cost according to the National Association of Realtors) will keep the For-Rent market from receiving a stronger rating. However, the recent success of Trade/Transportation is something to keep an eye on as 2017 was a good year for the local industry.

Vacancy and Rent Composite Estimates

Vacancy Rate



Asking Rent Growth



Source: Fannie Mae Multifamily and Economics Research

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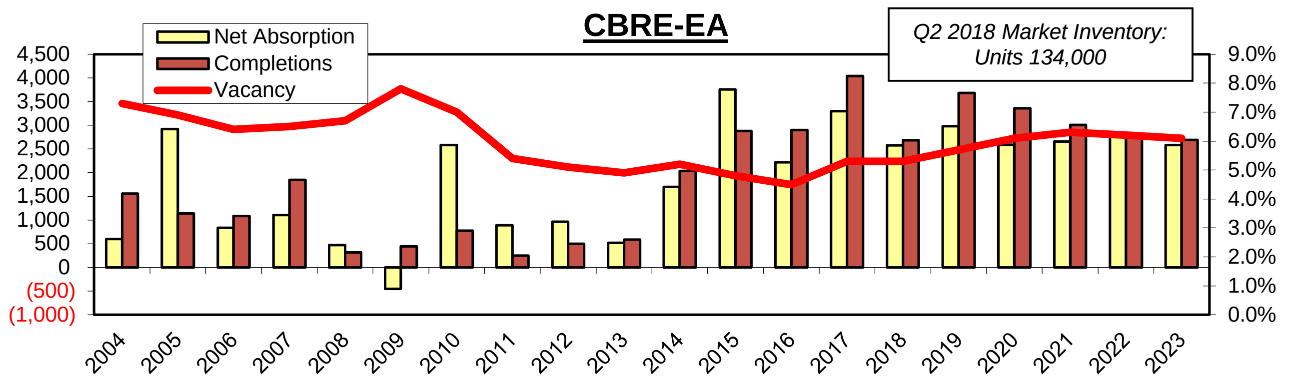

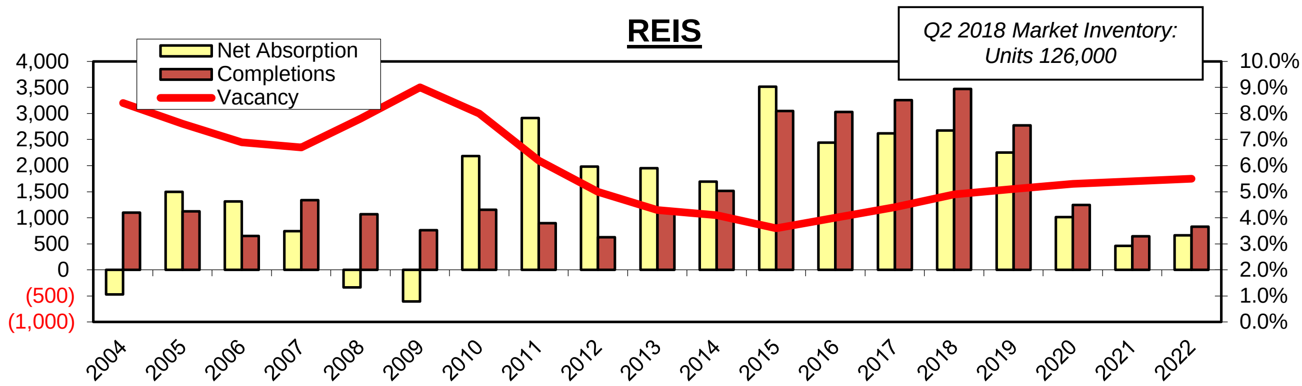

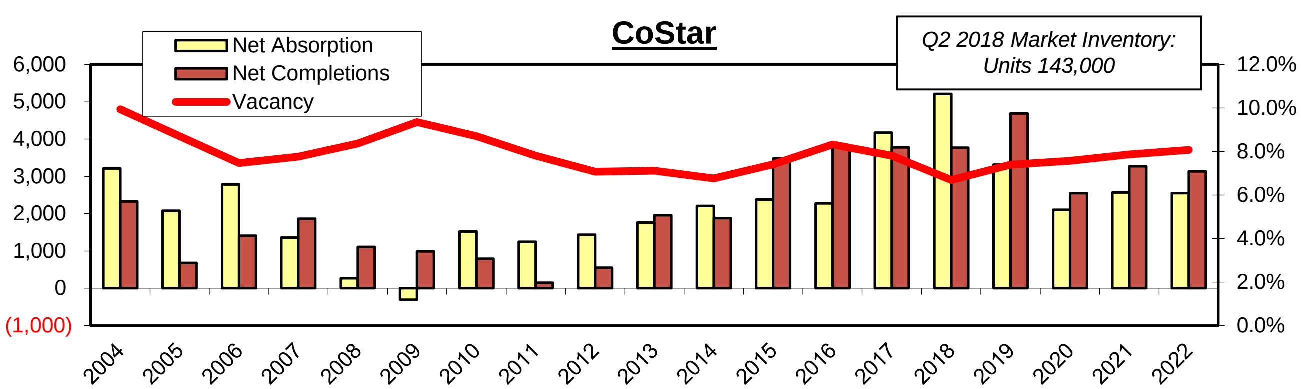

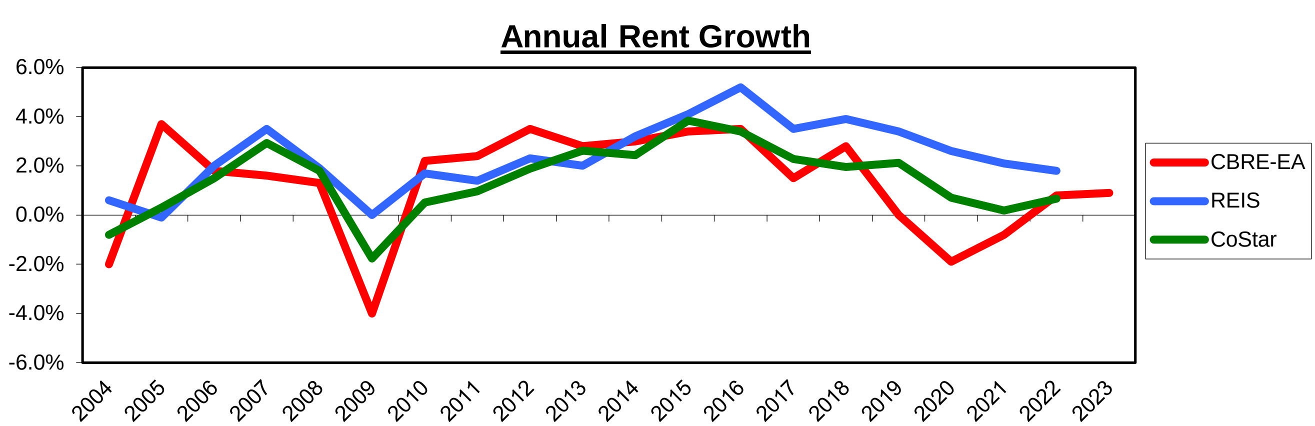

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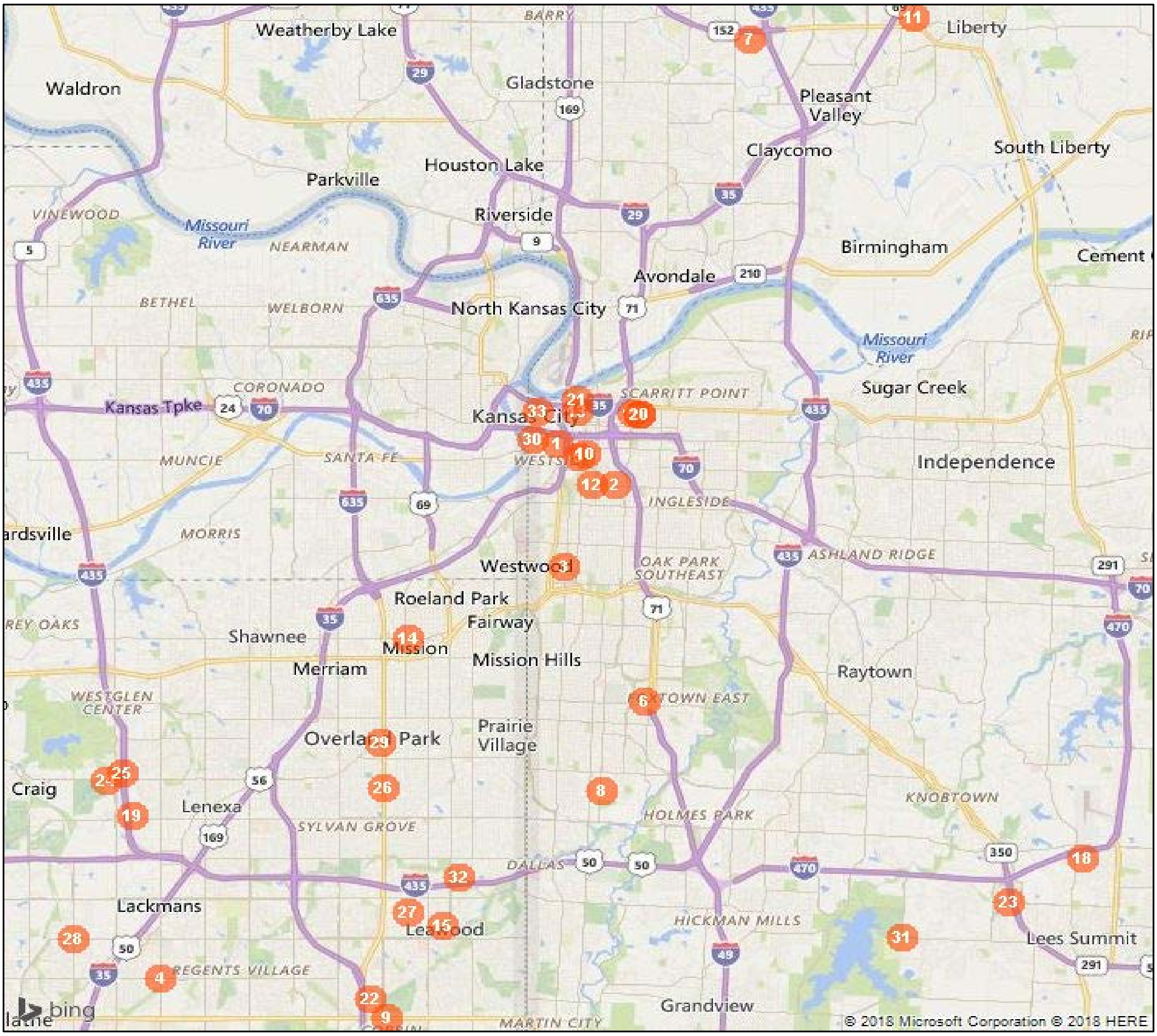
Construction Bidding/Underway
(33 projects/6,300 Units/7.6 M Sq. Feet)



CBRE-EA Submarket	Number of Projects	Total Sq Ft (000's)	Total Units
Downtown/East KC	12	2175	1837
Gladstone/Liberty	2	517	454
Grandview/Far South	1	316	312
Jackson County/Other	2	532	551
Merriam/Mission/Prairie Village	1	240	200
Olathe	2	727	540
Overland Park North	2	800	514
Overland Park South	5	1164	1045
Shawnee/Lenaxa	3	806	509
Southwest Kansas City	2	100	134
University/Plaza	1	188	188

Source: Dodge Data & Analytics

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Fannie Mae Multifamily Economics and Market Research

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Sources Used

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