

Multifamily Metro Outlook:

Kansas City - Q1 2022

Overview:

- The Kansas City metro's job market recovery initially fared pretty well with its handling of the virus. However, in recent quarters the momentum has cooled, and the recovery is now lagging the national pace. As of Q1 2022, job growth in the metro expanded by approximately 3% compared to 4.4% nationally.
- Apartment market fundamentals continue to perform well and have been also minimally impacted by the virus. Vacancies continue to tighten and as of Q1 2022 were 5.25% and rent growth continues to stay positive coming in at 1.25% during the same period. The steady amounts of supply (currently 7,000 units underway) should continue to be absorbed as the metro's adult population is made up of approximately 33% of college degree holders.

Market Strengths:

- 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 4% lower than the national average. As a result of the lower costs of business due to aggressive tax incentives and structures (especially in Kansas) many employers such as JPMorgan and AMC Theaters have relocated to the metro in order to save money according to CoStar.
- The Kansas City metro area has been able to mitigate the severe impacts of COVID-19. The pandemic may have also created a new economic crutch for the Kansas City local economy: the Logistics sector. According to Moody's Analytics, payrolls in the Logistics sector are approximately 10% higher than pre-pandemic highs. Furthermore, as the virus shifted consumer behavior and made e-commerce more essential, Kansas City's central location bodes well for the future of e-commerce. Importantly, about 20% of residents within the US live within 500 miles of the Kansas City metro which is significant because 500 miles is shorter than the maximum permitted drivable distance for truck drivers during shifts. Additionally, Amazon opened four logistics facilities in the Kansas City metro that created up nearly 1,000 jobs.
- The Kansas City metro is ripe for business development. According to CoStar, the population growth rates of both the general population and the prime renting cohort are both on par or slightly above the national average and will continue to be through 2025. As a result of lower than (national) average costs of living (2% below the national average) the high-tech industry is poised to be a leading sector of growth for the metro, with companies such as Garmin looking to take advantage of the metro's intellectual capital and cheaper costs.

Market Weaknesses:

- Despite its high level of economic diversity, the Kansas City metro's local economy is still highly dependent on the Manufacturing sector to spur economic activity. Furthermore, this sector has had a fruitful period of growth but is somewhat stymied by ongoing supply chain issues and the current semiconductor shortages. For example, during 2021 Ford and General Motors had to cut hours and halt production as a result of the recurring issues. As of Q1 2022 the Manufacturing sector is expanding at a rate slower than the national rate, 2.9% vs. 3.6% respectively as the metro continues to work through supply chain issues.
- The Kansas City metro is unique in that it is essentially an MSA that is derived up of two separate states and cities (Missouri and Kansas). According to Moody's REIS, the Missouri portion of the metro accounts for nearly 56% of the metro's employment whereas the Kansas side has been trying to lure more employers and businesses by having more relaxed tax structures than its Missouri counterpart. Essentially the two sides of the metro are in competition with one another since they are in different states which can cause issues for the metro's (as a whole) bottom line.

Development:

- Recent rental development is very modest. Nearly 19,000 have completed since 2017. However there has been a bit of an uptick in supply underway as there are approximately 7,000 units in the pipeline.
- Condo development is not an issue. Approximately 3,400 condo units were completed in Kansas City since the beginning of 2006 and there are currently very few units in the pipeline scheduled to deliver throughout 2023.

Outlook:

- Apartment fundamentals continue to trend in the right direction. However, supply has been slightly elevated for a metro the size of Kansas City even though the metro does have the demographic profile to spur demand.
- Prior to the pandemic, local economic growth was tepid and slightly below the growth rate of the national rate. The metro has begun to recover from the virus; however, growth remains slightly below the national rate even as the economy picks up steam. On the bright side, the Logistics and Transportation sector has emerged as a potential new foundation for the local economy as the pandemic has changed consumer behavior around the country. Furthermore, the Kansas City metro will continue to grow at an average albeit slightly below the national rate pace as there is not a true economic pillar (yet), but the metro does have both low costs of living and business costs that will continue to lure residents.

Five Year Metro Area Growth Forecast

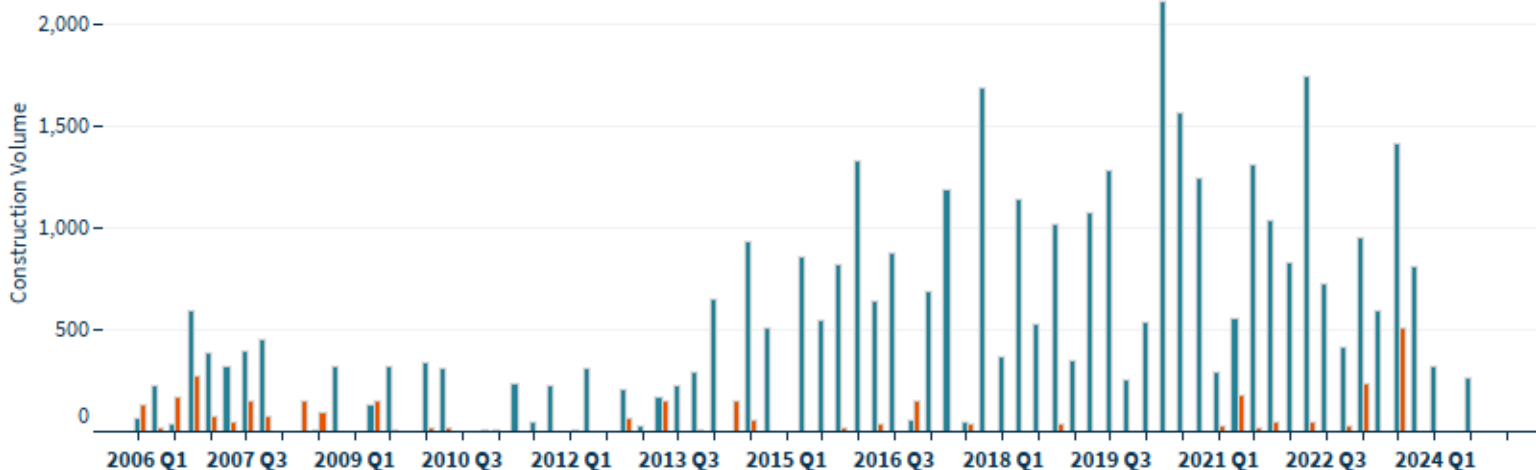
	Q4 2021	Q4 2026	Kansas City (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population	2,182	2,212	0.28%	0.47%
Households	880	900	0.46%	0.90%
Renting Cohort (Ages 20-34)	434	427	-0.34%	-0.30%
Total Employment	1,099	1,123	0.44%	1.08%
Median Household Income	\$73,242	\$85,817	3.22%	3.30%
Median SF Home Price	\$285,311	\$296,428	0.77%	1.93%
Net Migration	2,902	-1,378		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



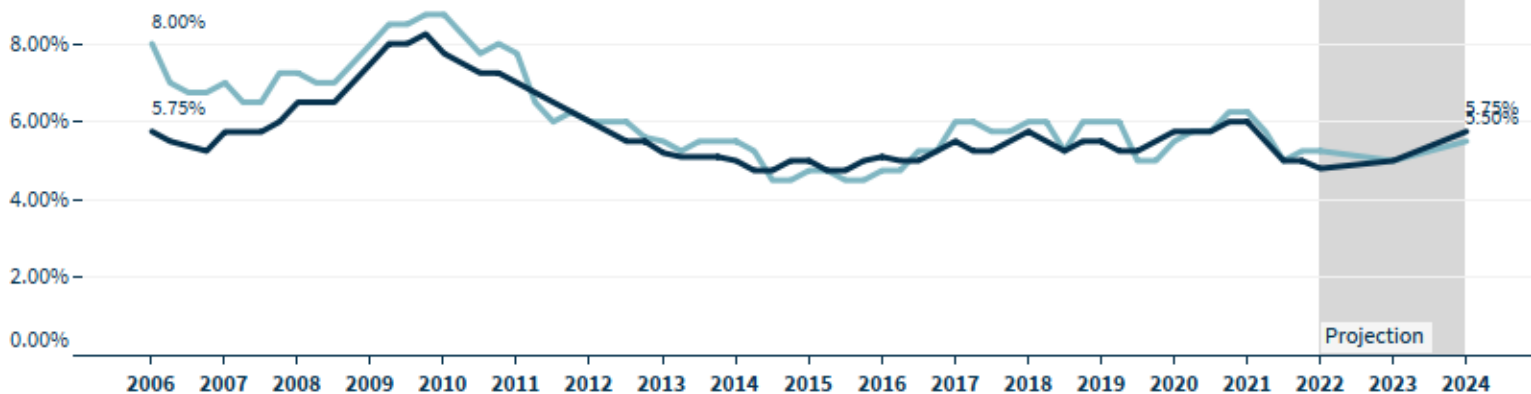
Vacancy & Rent Composite Estimates

Vacancy Rates

Kansas City | National

Q1 2022 Vacancy Rate:

5.25%

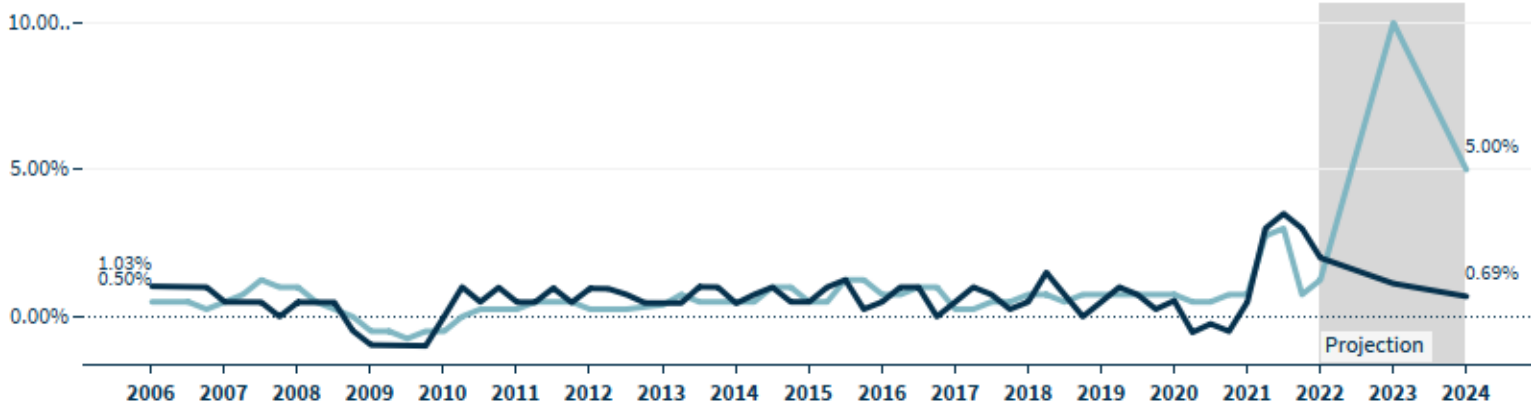


Asking Rent Growth

Kansas City | National

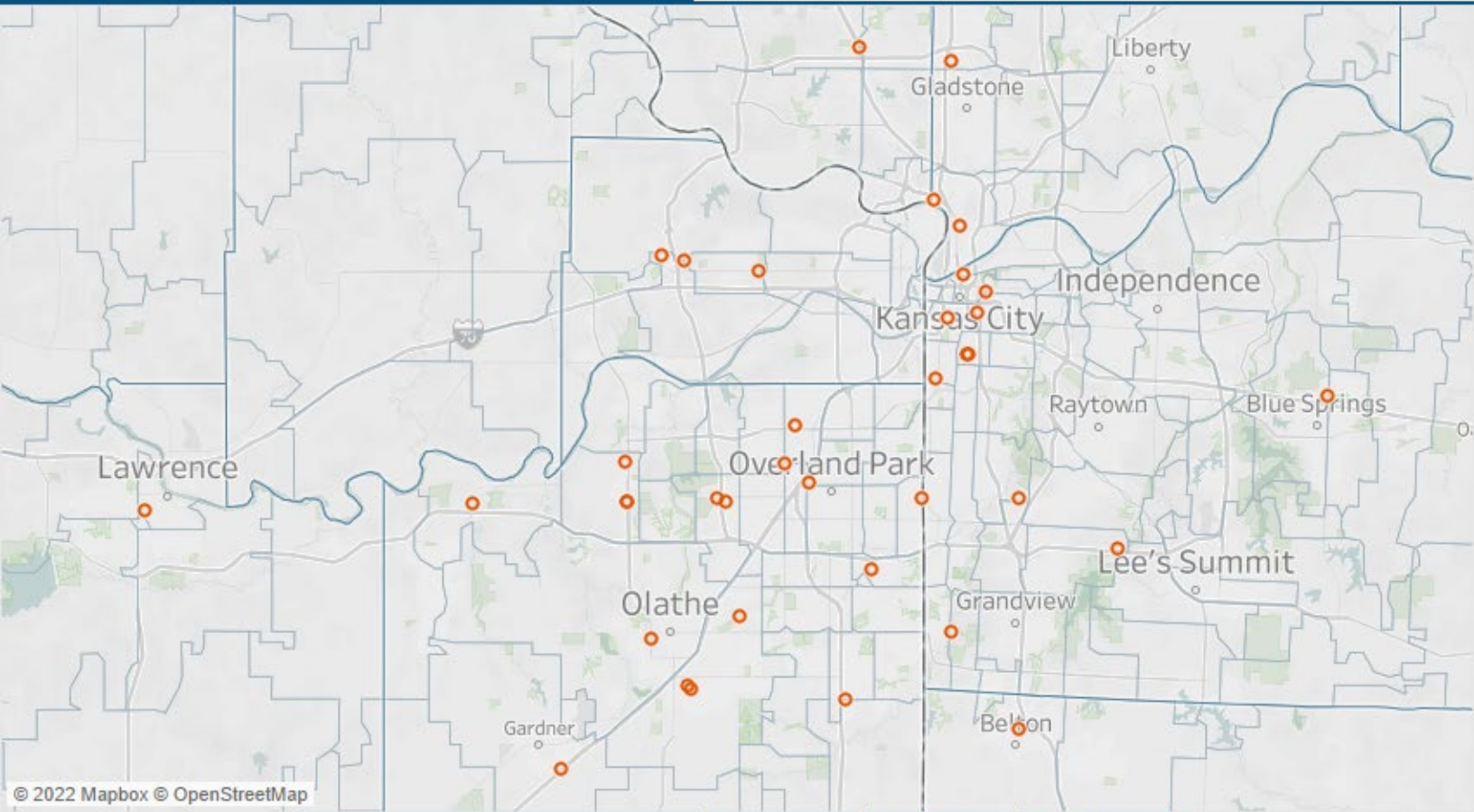
Q1 2022 Asking Rent:

\$1,130



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Central Kansas City	5	557	0.61M
Clay County	3	798	0.71M
Independence/East Kansas City	2	417	0.46M
Lee's Summit/Blue Springs/Raytown	1	53	0.09M
n/a	1	49	0.05M
North Overland Park	2	188	0.25M
Olathe/Gardner	6	1,522	1.69M
Platte County	1	243	0.27M
Shawnee/Lenexa/Mission	9	1,093	1.29M
South Kansas City/Grandview	4	1,167	1.13M
South Overland Park	2	326	0.36M
Wyandotte County/Leavenworth	3	614	0.90M
Grand Total	39	7,027	7.80M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

Francisco Nicco-Annan, Economic and Strategic Research - Economics – Advisor

Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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