MEMORANDUM

To: Tom Scannell – Community Development Director, City of Independence, MO

CC: Rick Arroyo and Joshua Garrett – City of Independence

From: Andy Pfister and Justin Carney – Development Strategies

Date: May 1, 2024 **Discussion Draft**

Re: Multifamily Housing Demand Update, City of Independence

The City of Independence hired Development Strategies to update the housing demand findings from the January 2022 Citywide Housing Study because the city has met demand for a key market segment—market-rate multifamily rental housing—as concluded in that study. However, even though only 2.5 years after the analysis was completed, so much has changed nationally, regionally, and locally due to a number of factors, including increases in interest rates, continuing impacts of the COVID-19 Pandemic, and shifts in market preferences.

The purpose of this memorandum is to:

- Describe how the market, particularly for multifamily, has changed over the past three years
- Summarize demographic and economic trends in Independence that influence demand for housing
- Update demand projections for all housing types and price points in Independence, with particular emphasis on market-rate multifamily
- Summarize key recommendations and priorities

INTRODUCTION AND CONTEXT

Since the *Citywide Housing Study in Independence, Missouri* was published in January 2022, 319 multifamily units have been permitted or completed in Independence, meeting the demand for market-rate rental housing that was projected in the study.

Now, in 2024, the broader housing context has shifted in several important ways:

- **Data lags**—In 2021, the data available was largely collected prior to the COVID-19 pandemic or right at the start of it. As a result, it did not reflect the major market shifts that COVID-19 catalyzed.
- **Remote work—**The pandemic ushered in a boom for remote and hybrid work patterns, shifting demand for office and residential space significantly.
- **Construction costs**—COVID-19 also created challenges with materials supply chains and worker training pipelines that exacerbated the trend of rising construction costs.
- **Interest rates**—In 2021, mortgage rates in the United States were still historically low, at an average of 3.11 for a 30-Year Fixed Rate Mortgage. By 2023, this average had risen to 6.61, peaking at 7.79 in October (St. Louis Federal Reserve FRED Economic Data).
- **Rentership rising**—Rentership is on the rise again, driven by for-sale prices that are increasingly putting homeownership out of reach for many and wages that have not kept pace with ballooning housing costs.

Nationally, although multifamily starts have fallen from their 2022 peak, the multifamily housing market is strong. Investors are more confident in the current climate given the undersupply of housing, increased stability in capital markets, and potential interest rate decreases on the horizon. In the coming year, the Midwest is projected to have the strongest rent growth and occupancy alongside the Northeast and larger urban markets (CBRE).

High interest rates and a national shortage of at least 3.1 million single-family homes are contributing to persistent homeownership challenges that affect some demographic groups more than others. On average, mortgage payments are currently 38 percent higher than average rents. Over the long term, the current premium for an average monthly mortgage payment (35 percent, down from 52 percent in 2023) is expected to decline, but is likely to persist long enough to keep renters renting for years. Annual rental increases are also expected to return to modest pre-COVID levels (2.8 percent) in the next five years. These trends will inevitably impact housing demand. Meanwhile, as interest rates remain high, homeowners may choose to stay in homes purchased with low-interest mortgages, further limiting the supply of for-sale homes (CBRE).

In the Kansas City Metro, the market is healthy and positioned for growth with a new Panasonic battery plant opening with 4,000 projected new jobs in 2025. Over the past two years, construction has been above the region's long-term trends, with vacancy rates ending at 5.8 percent in 2023, the highest rate in five years. This is being driven by rent growth (4.9 percent in 2023, slower growth than in 2021 and 2022) and developers seeking the right balance between deliveries and absorption amid shifting market conditions. Class A vacancy rates fell in 2023 with more tightening expected in the years ahead, and the investment market is cooling: half the number of properties were traded in 2023 as in 2022, and Class A property sales in particular saw a steep decline (Northmarq, Cushman & Wakefield).

The lawsuit settlement against the National Association of Realtors will likely also have an effect on housing demand in the coming years. Per the settlement, the practice of "tying" is now prohibited. Previously, Multiple Listing Service (MLS) websites mandated that sellers' agents set and list commission for both buyers' and sellers' agents on MLS databases, guaranteeing that a buyer's agent would know their compensation before showing a home and creating conflicts that limit competition. Now, MLS databases will no longer display commission rates, and since sellers no longer have to pay a buyer's agent's commission, listed home prices are expected to drop. Additionally, buyers may have new options to purchase Realtor services a la carte or negotiate fees that are not connected to a home's selling price. Overall, these changes may boost population mobility as the buying and selling costs associated with housing transactions fall. They may also create new barriers for low- and moderate-income and first-time homebuyers, however: these practice shifts will mean new up-front costs for buyers that sellers have covered in the past (National Public Radio, Brookings).

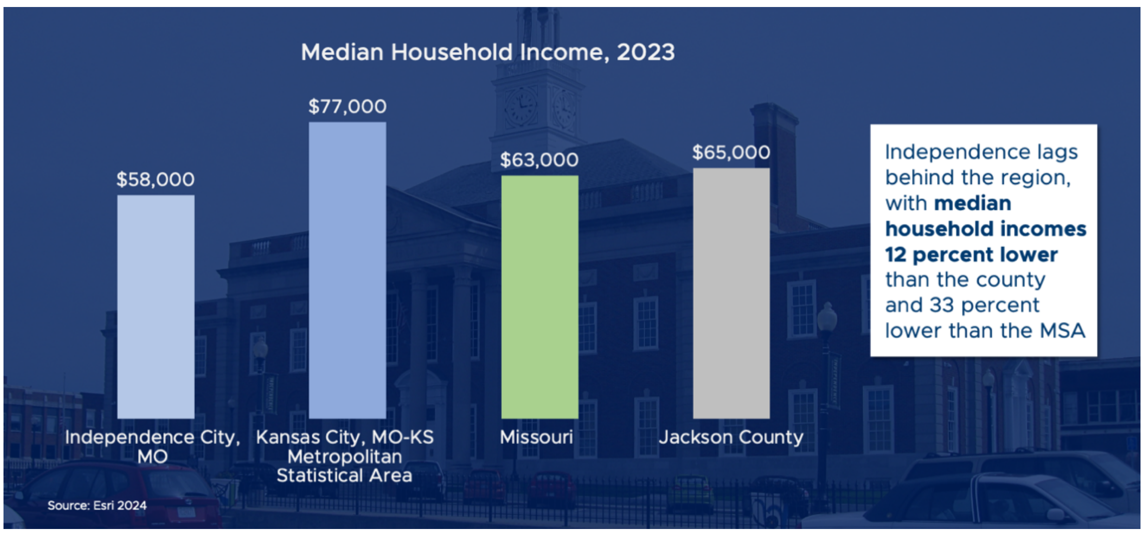
Finally, within Independence, the new Eastgate Commerce Center industrial development on the eastern side of town is expected to create 5,000 jobs with an annual payroll of $180 million (*The Kansas City Star*). The project will be completed over the next 15 years and will impact future housing demand in ways that data available today cannot currently reflect.

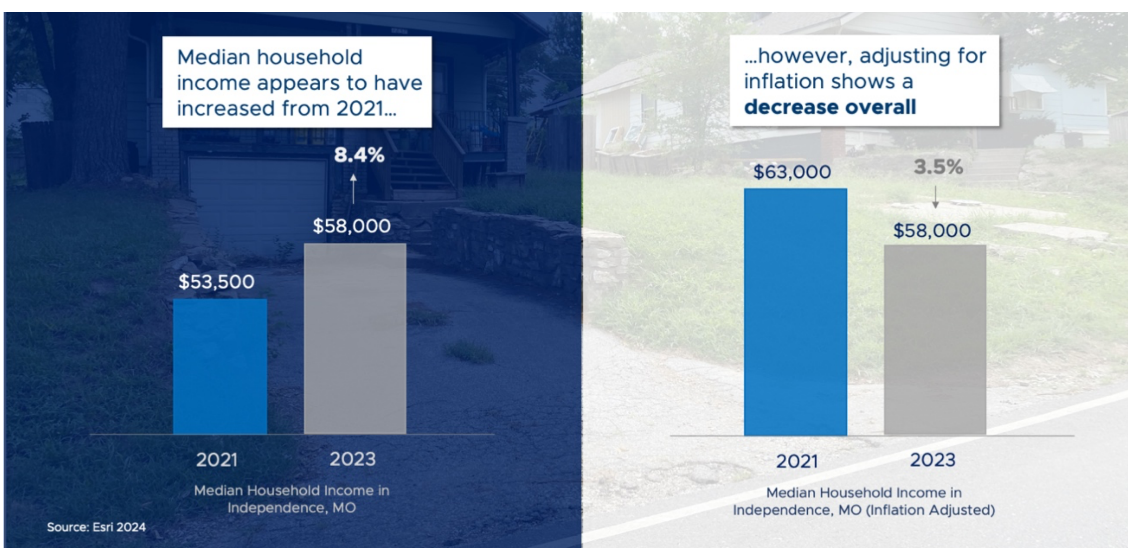
KEY FINDINGS – DEMOGRAPHICS AND HOUSING

The housing market in Independence has shifted in seven key ways since the previous study was completed.

1. **Median incomes in Independence lag behind the region and have fallen since 2021 when adjusted for inflation.**

   Median household incomes in Independence are 12 percent lower than in Jackson County overall and 33 percent lower than in the Kansas City MSA. Although median household incomes increased by 8.4 percent since 2021 in absolute terms, when adjusted for inflation, they actually fell by 3.5 percent (Esri 2024). This means that Independence residents can afford relatively less housing than they could three years ago.

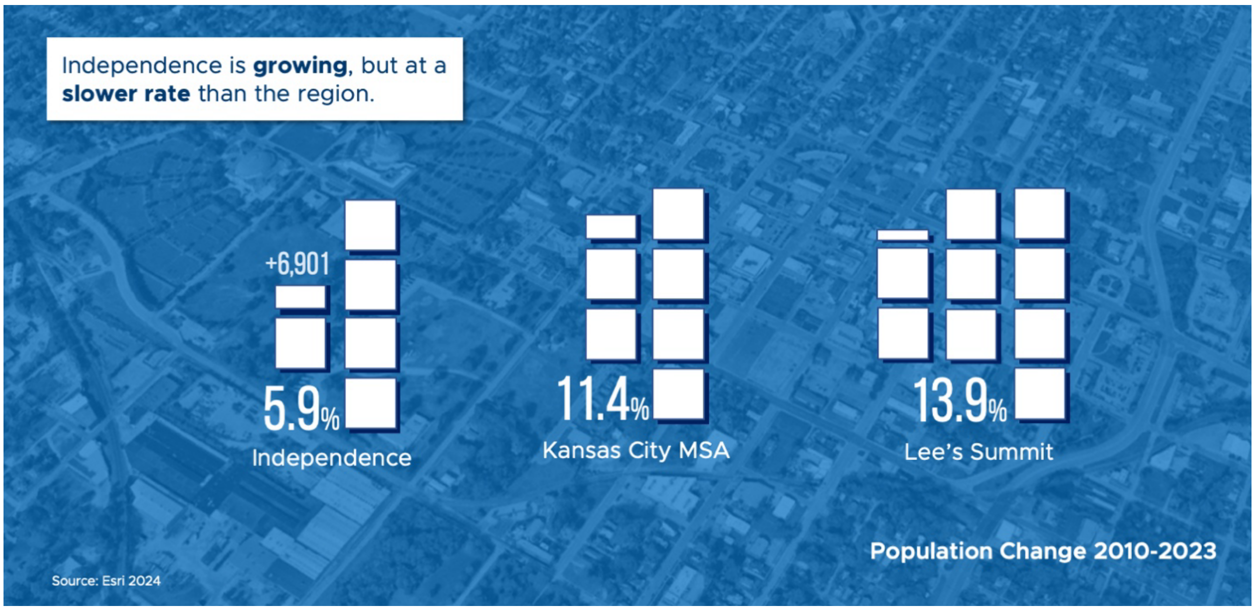


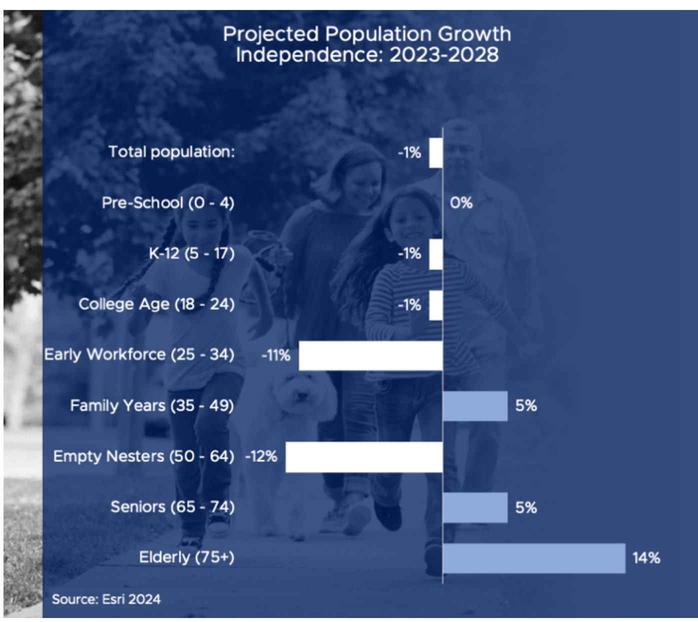


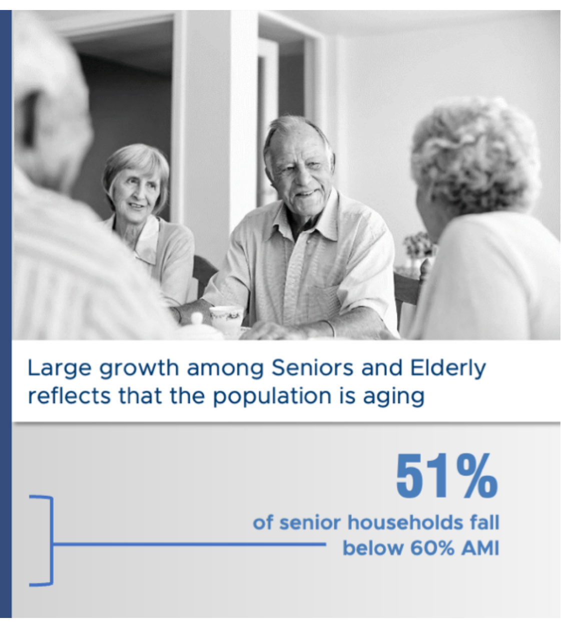
2. **Independence is growing more slowly than the region and has an aging population.**

   Independence is growing, but at a slower rate than the region, with 5.9 percent growth since 2010 (versus 11.4 percent growth in the Kansas City MSA and 13.9 percent growth in nearby Lee's Summit).

   Between 2023 and 2028, significant population growth is projected for people over the age of 65, although still less (19 percent) than the growth that was projected for this age group between 2021 and 2026 (24 percent). With 51 percent of senior households earning 60 percent or less of the Area Median Income (AMI), this growth has important implications for housing affordability (Esri 2024).



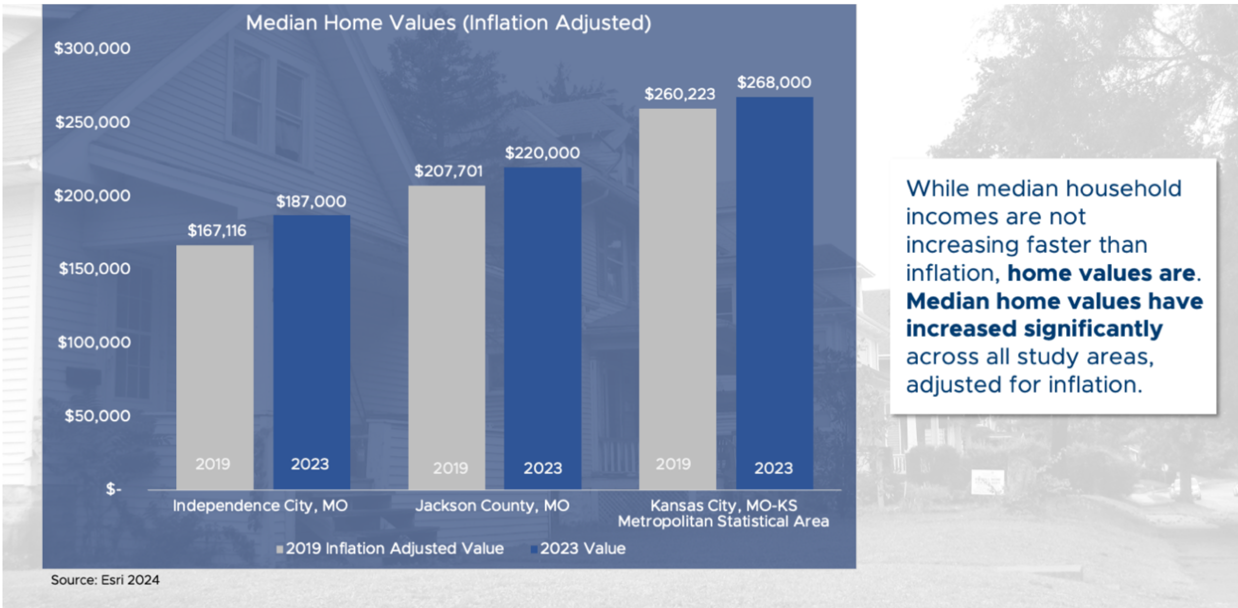




3. **Home values in Independence are increasing faster than inflation.**

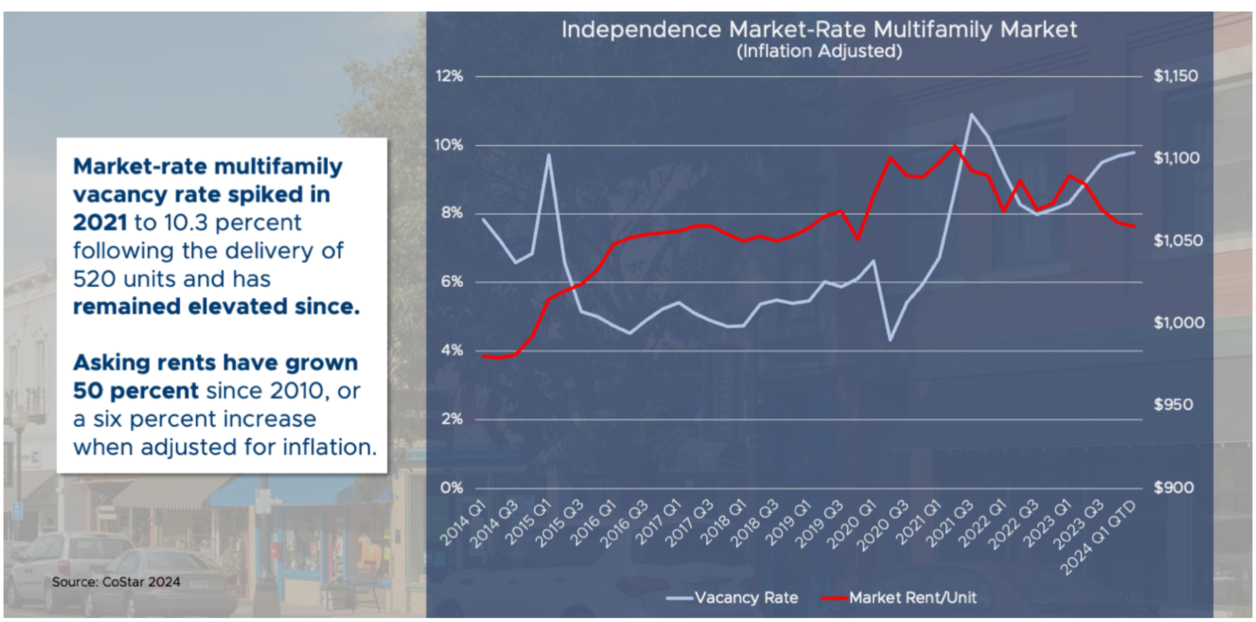
   While median household incomes are not increasing faster than inflation in Independence, home values are. This was the case in Jackson County and the Kansas City MSA as well (Esri

2024). In 2020, approximately 30 percent of homes in the city had a value of less than $100,000; as of 2022, this had decreased to 17 percent (2016-2021 ACS). By 2026, the median home value in Independence is projected to increase to about $232,000 (Esri 2024).



4. **Market-rate multifamily vacancy rates have been high since 2021 relative to historic rates, but affordable multifamily vacancy rates remain low.**

In 2021, market-rate multifamily vacancy spiked to 10.3 percent following the delivery of 520 units and has remained elevated since. By contrast, affordable vacancy rates were at 3.3 percent as of the first quarter of 2024 (CoStar 2024).

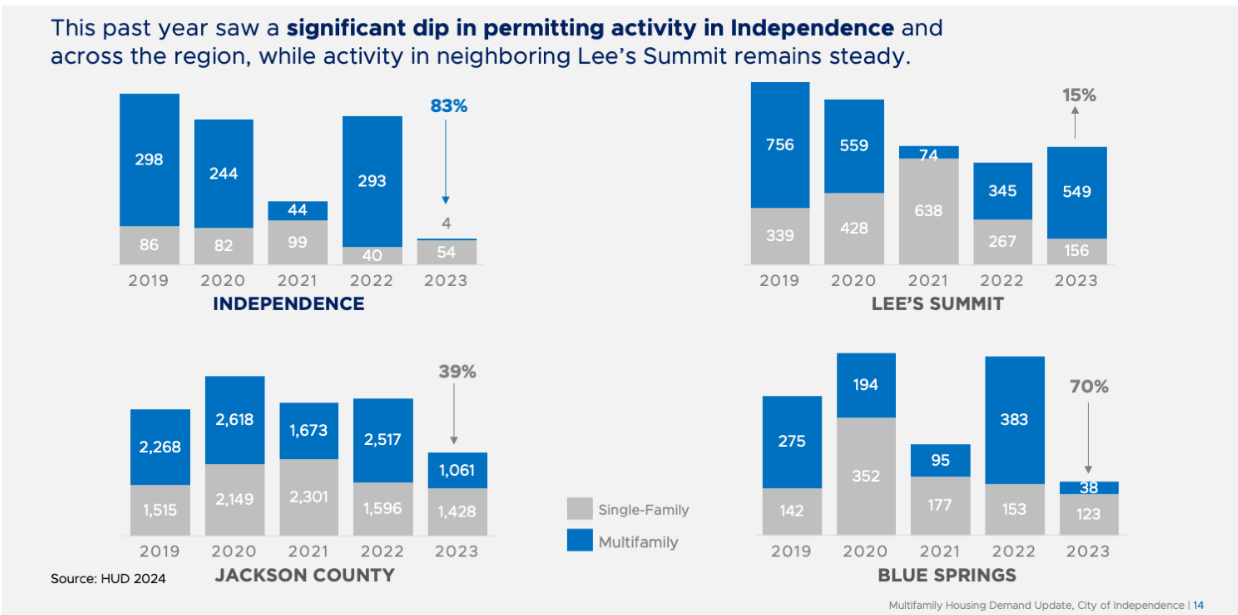


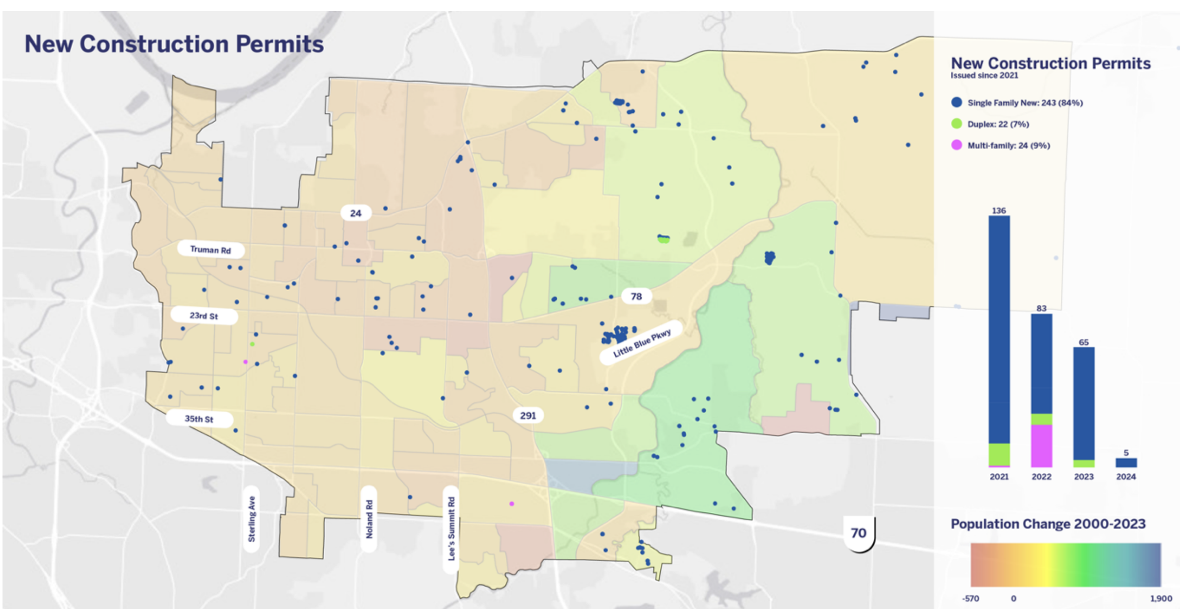
5. **Rents in Independence have been rising.**

Overall, asking rents in Independence grew 50 percent since 2010, or 6 percent when adjusted for inflation. Rents have risen an average of 21 percent since 2021 among comparable properties initially sampled in the 2021 report (CoStar 2024).

6. **In 2023, permitting dipped significantly in Independence and across the region.**

   Between 2022 and 2023, permitting fell 83 percent in Independence, 39 percent in Jackson County, and 70 percent in Blue Springs, although it held relatively steady in Lee's Summit (HUD 2024). Of the 289 new construction permits issued since 2021, 16 percent have been for multifamily projects (7 percent for duplexes). Permitting activity overall has been concentrated in the east portion of Independence (City of Independence Building Permit Dataset, 2024).

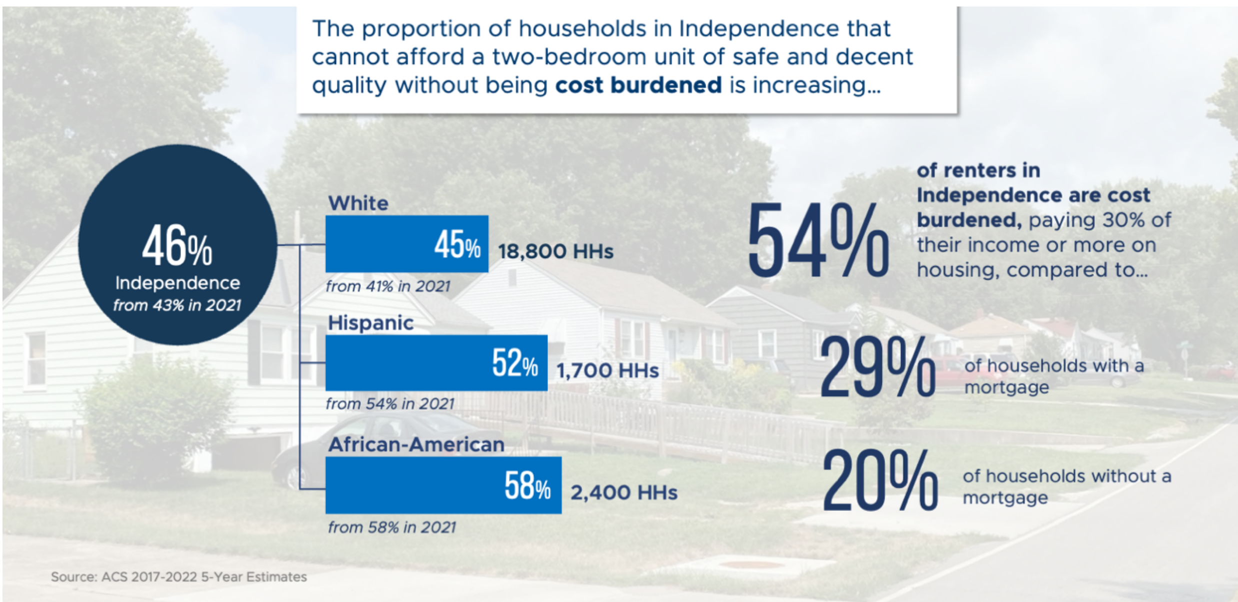


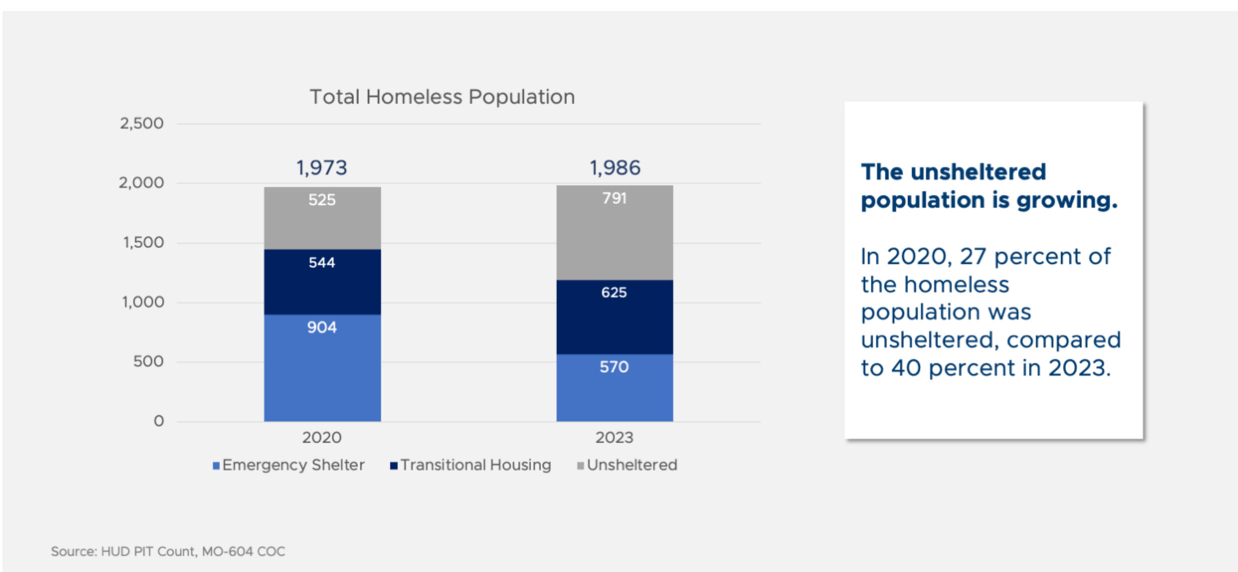


7. The number of households experiencing housing cost burden is growing, as is the unsheltered population.

A household is experiencing housing cost burden when they are paying 30 percent of their income or more on housing. Current data indicates that 46 percent of households in Independence cannot afford a two-bedroom unit of safe and decent quality without being cost burdened, up from 43 percent in 2021. Over half (54 percent) of renters in Independence are cost burdened, compared with 29 percent of households with a mortgage and 20 percent of households without a mortgage (2017-2022 ACS).

The unsheltered population in the Continuum of Care that serves Independence is growing as well: in 2023, 40 percent of the homeless population was unsheltered, compared to 27 percent in 2020 (HUD PIT County, MO-604 COC).





HOUSING DEMAND – TRENDS

Independence's convenient location at the intersection of Interstates 70 and 435 make it a potential regional draw for housing development. This means that housing demand is generated from a much broader geography than the city's borders. Regional trends and demand patterns influence what is possible in Independence.

Multifamily properties in Independence are generally performing well. Rents for comparable properties (see table below) increased by an average of 21 percent from 2021 to 2024. Average vacancy decreased from about 10 percent to 7 percent during that time period, even as 520 new units were added via the Azure and Trinity Woods developments. These properties specifically have done well since coming onto the market, with rents increasing as they have leased up: at Azure, rents are up 6 percent and vacancy is down to 8 percent since 2021; at Trinity Woods, rents are up 12 percent and the vacancy rate has fallen to 21 percent (this will likely continue to fall in the months ahead as units are absorbed into the market).

These properties are highly amenitized with community leisure spaces, pools and sun decks, fitness rooms, facilities for dog care, and garages and carports. Esri's Tapestry framework suggests consumer groups that are more likely to rent these types of apartments—including Metro Renters, Bright Young Professionals, and Emerald City—have both grown in Jackson County since 2021 and are more prevalent in the 25-minute drive time area surrounding Independence than they are within the boundaries of the city.

These demographic shifts, combined with the success of the multifamily properties recently delivered in Independence, is creating additional opportunity for rental development in the city, particularly close to the highway interchanges.

Independence Multifamily Rent and Vacancy Survey (2021 and 2024)

					Rent/Unit			Rent/SF			Vacancy		
Property	Type	Units	Year Built/Renov.	Avg. SF	2021	2024	% Change	2021	2024	% Change	2021	2024	Net change
Gaslight Square	MR	64	1962	702	$653	$763	17%	$0.93	$1.09	17%	3.10%	3.50%	0.40%
Independence Ridge	MR	336	1986	851	$796	$1,212	52%	$0.94	$1.42	51%	2.40%	2.10%	-0.30%
Crysler Gardens	MR	60	1965	819	$684	$726	6%	$0.84	$0.89	6%	0%	1.40%	1.40%
Glendale at the Mansion	MR	140	2000	734	$866	$976	13%	$1.18	$1.33	13%	1.20%	5.90%	4.70%
Azure	MR	280	2021	886	$1,370	$1,464	7%	$1.55	$1.65	6%	59%	8%	-51.00%
Trinity Woods	MR	240	2021	891	$1,309	$1,459	11%	$1.47	$1.64	12%	52.90%	21.10%	-31.80%
Hawthorne Place	A	745	1973	872	$819	$875	7%	$1.94	$1.00	-48%	0.10%	3.90%	3.80%
Sterling Creek	A	48	1999	1,117	$606	$1,135	87%	$0.54	$1.02	89%	9.50%	4.40%	-5.10%
Maple Manor	A	40	1969/2018	855	$657	$973	48%	$0.77	$1.14	48%	10.50%	12.80%	2.30%
Sterling Plaza	A - S	53	2010	550	$517	$559	8%	$0.94	$1.02	9%	0%	0%	0.00%
Olde Oak Tree	A - S	125	1979	563	$686	$711	4%	$1.22	$1.26	3%	0%	0.90%	0.90%
Heritage House	A - S	166	1973	500	$753	$798	6%	$1.51	$1.60	6%	0.80%	2.90%	2.10%
The Gardens at Jackson Creek	MR - S	65	2014	687	$1,359	$1,256	-8%	$1.98	$1.83	-8%	14.60%	9.50%	-5.10%
Connect 55+	MR - S	110	2014	843	$1,180	$1,360	15%	$1.40	$1.61	15%	4.90%	17.10%	12.20%
Eastland Court	MR - S	128	2019	805	$1,250	$1,751	40%	$1.55	$2.18	40%	0.80%	14.80%	14
Hocker Heights	S8	185	1968	550							0%	1.30%	1.30%
Pleasant Heights	S8	235	1976	790							3.80%	6.40%	2.60%
Averages				**779**	**$900**	**$1,067**	**21%**	**$1.18**	**$1.38**	**21%**	**9.60%**	**6.82%**	**-2.80%**

MR=Market Rate
A=Affordable or Workforce
S=Senior
S8= Section 8

Source: Development Strategies and CoStar (2021 & March 2024)
[1]Rent, SF, and vacancy data is from CoStar

HOUSING DEMAND – PROJECTIONS AND SUMMARY

Updated housing demand projections (summarized in the table below, "20-Year Projections: Demand by Income Level and Housing Tenure") predict a need for roughly 7,100 housing units in Independence over the next two decades. The overwhelming majority of this demand (90 percent) will need to be met by new construction rather than renovated existing housing stock.

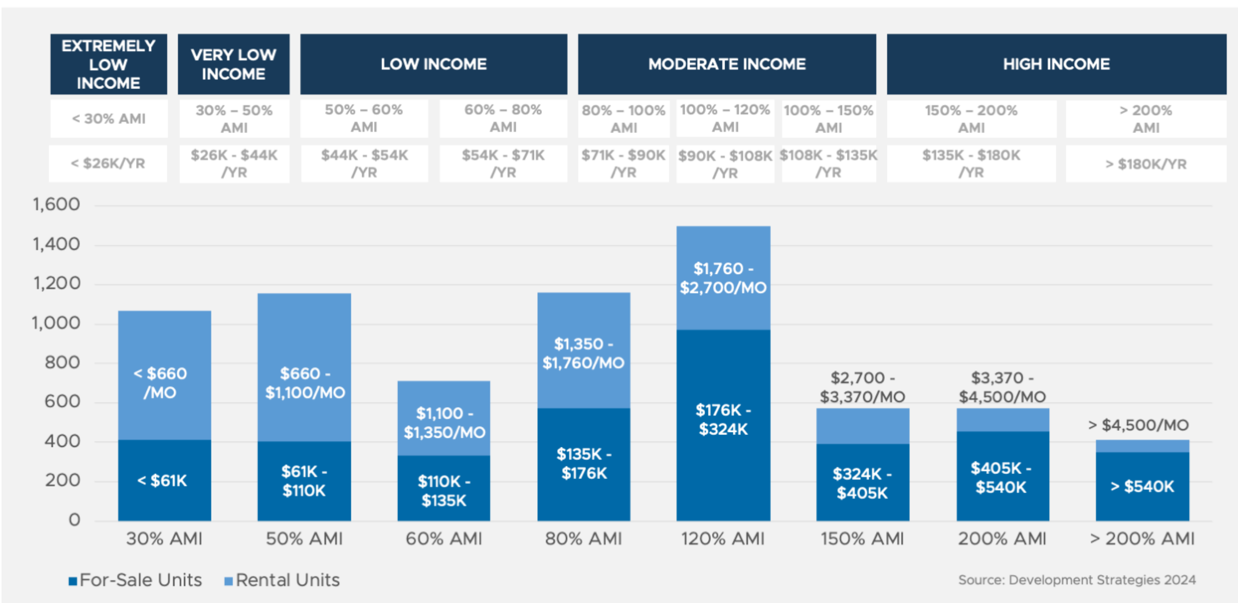
Of the 7,100 housing units needed, about 3,300 (46 percent) will be rental housing, and about 2,900 of those units (88 percent) will be new construction.

The "Demand by Housing Type" table below summarizes updated demand projections across the different housing types currently available in Independence.

To summarize, there is a need for the following housing to support demand and provide equitable housing choices over the next 20 years:

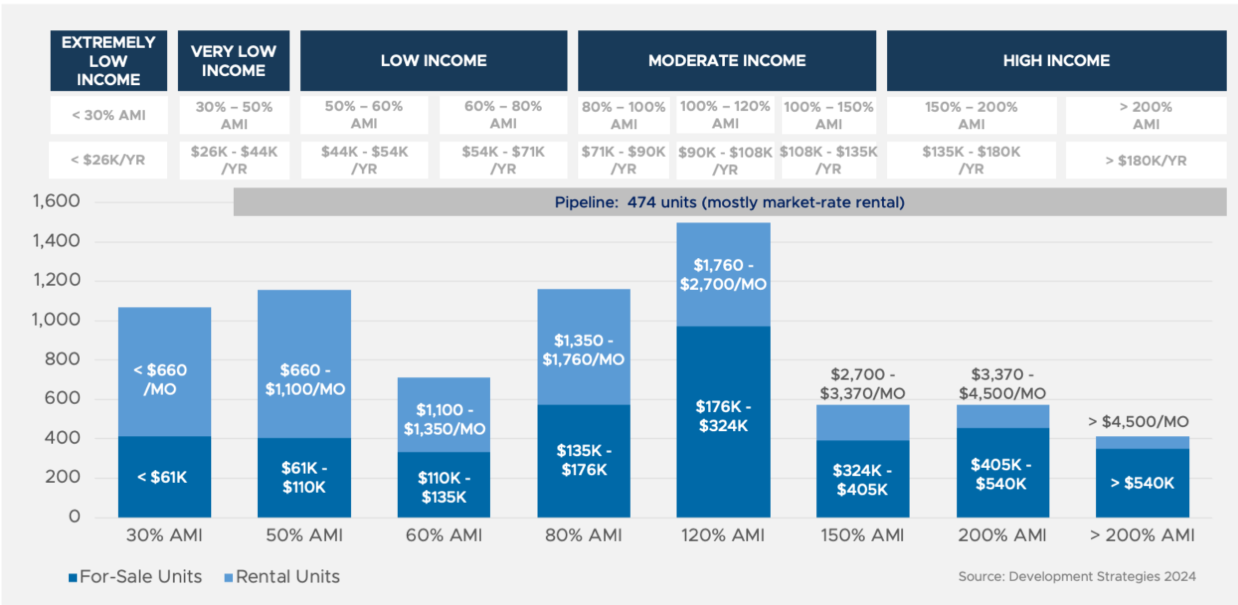
- 2,930 units of affordable housing (1,780 rental and 1,150 for-sale). Rents of less than $1,350 per month and for-sale prices of less than $135,000.
- 2,660 units of workforce-affordable housing (1,110 rental and 1,550 for-sale). Rents of $1,350 to $2,700 per month and for-sale prices of $135,000 to $324,000.
- 1,560 units of market-rate housing (360 rental and 1,190 for-sale). Rents of more than $2,700 per month and for-sale prices of $324,000 and up.

20-YEAR DEMAND SUMMARY
CITY OF INDEPENDENCE: 7,100 UNITS (MOSTLY NEW)



We also accounted for housing development that is under way or planned to determine *net demand*. Based on data from the city, approximately 474 units are in the development pipeline and most of these units are market-rate multifamily properties and fall into the "moderate income" category. The net demand summary is included on the following page.

20-YEAR DEMAND SUMMARY: NET DEMAND
CITY OF INDEPENDENCE: 6,700 UNITS (MOSTLY NEW)



HOUSING DEMAND – 2021 VERSUS 2024

The following tables summarize differences in demand projections from 2021 to 2024 by income category. The second table shows the 20-year net demand projection that subtracts out pipeline development. Overall, as shown in the “gross change” column, demand increased for housing at all income levels, rental and for sale. This increase in demand includes growth that is projected to occur because of Eastgate Commerce Center, as well as Independence’s continued ability to accommodate regional demand because of its location.

These demand updates also show that there will be continued demand for market-rate multifamily development in years to come.

Demand Summary: Gross Change, 2021 to 2024

INPUTS (CURRENT STATISTICS)				2021 DEMAND			2024 DEMAND			GROSS CHANGE		
AMI Level	2024 Upper Income Limit	2024 Rent Affordability	2024 For-Sale Affordability	Rent	For-Sale	Total	Rent	For-Sale	Total	Rent	For-Sale	Total
< 30%	$26,450	< $660	< $61,400	650	375	1,025	654	413	1,068	4	38	42
30% - 60%	$53,950	$660 - $1,350	$61,400 - $136,400	544	563	1,107	1,127	738	1,865	583	175	758
60% - 120%	$107,900	$1,350 - $2,700	$136,400 - $327,300	467	910	1,377	1,112	1,546	2,658	645	636	1,281
120% -150%	$134,891	$2,700 - $3,370	$327,300 - $435,200	122	356	478	183	390	573	61	34	95
150% - 200%	$179,850	$3,370 - $4,500	$435,200 - $545,500	81	421	502	117	456	573	36	35	70
> 200%	> $179,850	> $4,500	> $545,500	47	329	376	64	348	412	16	19	35
			TOTAL	1,912	2,954	4,866	3,257	3,891	7,148	1,345	938	2,282

Demand Summary: Net Demand, 2024

INPUTS (CURRENT STATISTICS)				2024 DEMAND			2024 PIPELINE			2024 NET DEMAND		
AMI Level	2024 Upper Income Limit	2024 Rent Affordability	2024 For-Sale Affordability	Rent	For-Sale	Total	Rent	For-Sale	Total	Rent	For-Sale	Total
< 30%	$26,450	< $660	< $61,400	654	413	1,068	0	0	0	654	413	1,068
30% - 60%	$53,950	$660 - $1,350	$61,400 - $136,400	1127	738	1,865	0	2	2	1,127	736	1,863
60% - 120%	$107,900	$1,350 - $2,700	$136,400 - $327,300	1112	1546	2,658	449	6	455	663	1,540	2,203
120% -150%	$134,891	$2,700 - $3,370	$327,300 - $435,200	183	390	573	0	10	10	183	380	563
150% - 200%	$179,850	$3,370 - $4,500	$435,200 - $545,500	117	456	573	0	5	5	117	451	568
> 200%	> $179,850	> $4,500	> $545,500	64	348	412	0	2	2	64	346	410
			TOTAL	3,257	3,891	7,148	449	25	474	2,808	3,866	6,674

Another key component of the prior study was the estimates of demand by housing types. We revised these projection as well and the following tables summarize the results. As indicated, demand increased overall for all types of units in the 5-, 10-, 15-, and 20-year categories, but decreased in the "current" demand category because of the development that occurred and the pipeline development. It will continue to be important so support more diverse housing types, including missing middle types like duplexes, fourplexes, and small multifamily. This will give residents more options and could help meet demand for housing for older adults.

Demand by Housing Type, 2024 versus 2021

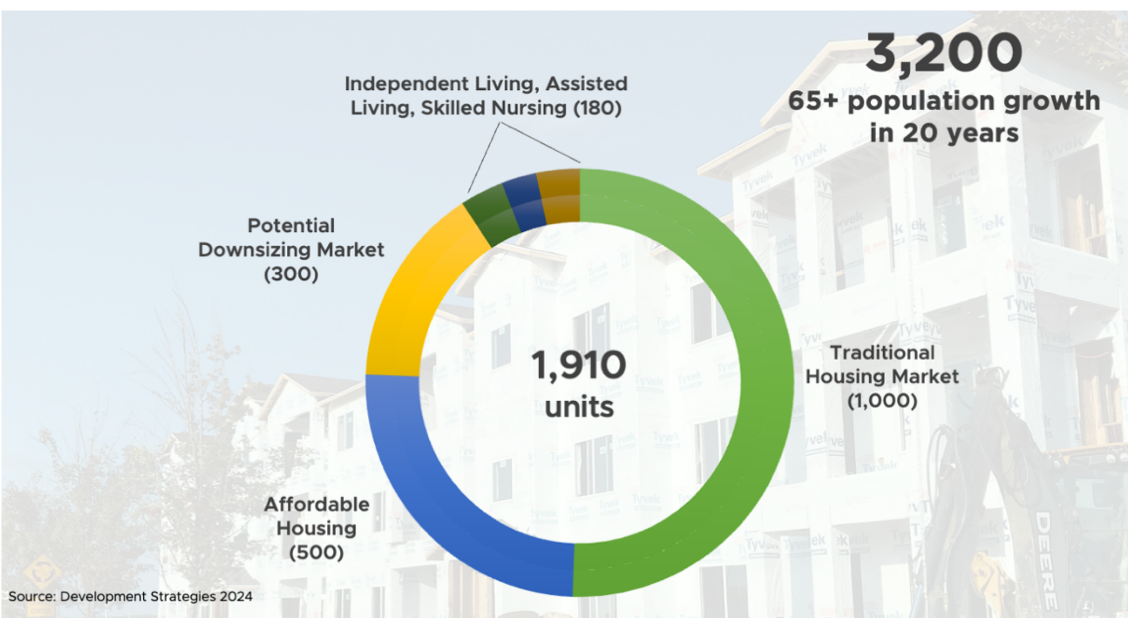
DESCRIPTION		NET DEMAND - 2024									
Units in Structure	Current Distribution	Current		5 Year		10 Year		15 Year		20 Year	
		% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units
Single-Family*	78%	60%	484	60%	849	60%	849	60%	1,035	60%	1,073
Duplex	2%	5%	40	10%	141	5%	71	10%	172	10%	179
Fourplex	3%	5%	40	5%	71	5%	71	5%	86	5%	89
Small Multifamily (5-9 units)	4%	15%	121	15%	212	15%	212	15%	259	15%	268
Large Multifamily (20+ units)	6%	15%	121	10%	141	15%	212	10%	172	10%	179
	Total Unit Demand	807		1,415		1,414		1,724		1,788	

DESCRIPTION		NET DEMAND - 2021									
Units in Structure	Current Distribution	Current		5 Year		10 Year		15 Year		20 Year	
		% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units	% Share by Unit Type	# Units
Single-Family*	77%	60%	885	60%	735	60%	745	60%	770	60%	780
Duplex	2%	5%	75	10%	120	10%	125	10%	130	10%	130
Fourplex	4%	5%	75	5%	60	5%	60	5%	65	5%	65
Small Multifamily (5-9 units)	10%	15%	220	15%	185	15%	185	15%	195	15%	195
Large Multifamily (20+ units)	5%	15%	220	10%	120	10%	125	10%	130	10%	130
	Total Unit Demand	1,475		1,220		1,240		1,290		1,300	

Senior Housing Demand, 2024 (20 Years)

As the "Senior Housing Demand, 2024" graphic below illustrates, a variety of housing types will be needed to support growth in the older adult segments. National surveys show that seniors prefer to stay in their current homes, or similar traditional market homes, as long as possible. A smaller share, approximately 15 to 20 percent, would prefer a lower-maintenance "downsizing" option, such as a smaller home (i.e., 2 BR), attached home, or appropriately designed apartment. Income trends show that there will be demand for approximately 500 affordable senior housing units and 180 units within independent living, assisted living, and skilled nursing facilities.

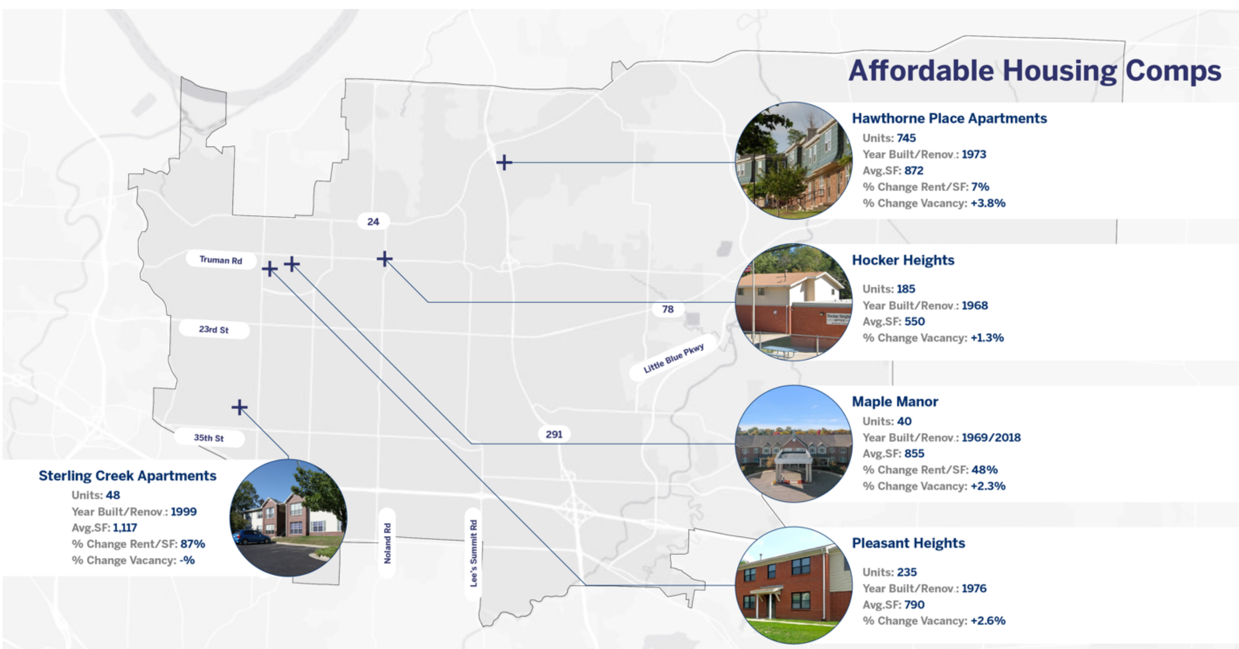
Overall, this data supports the need to diversify the housing stock so that households have options as their life stage changes and can choose to stay in Independence.

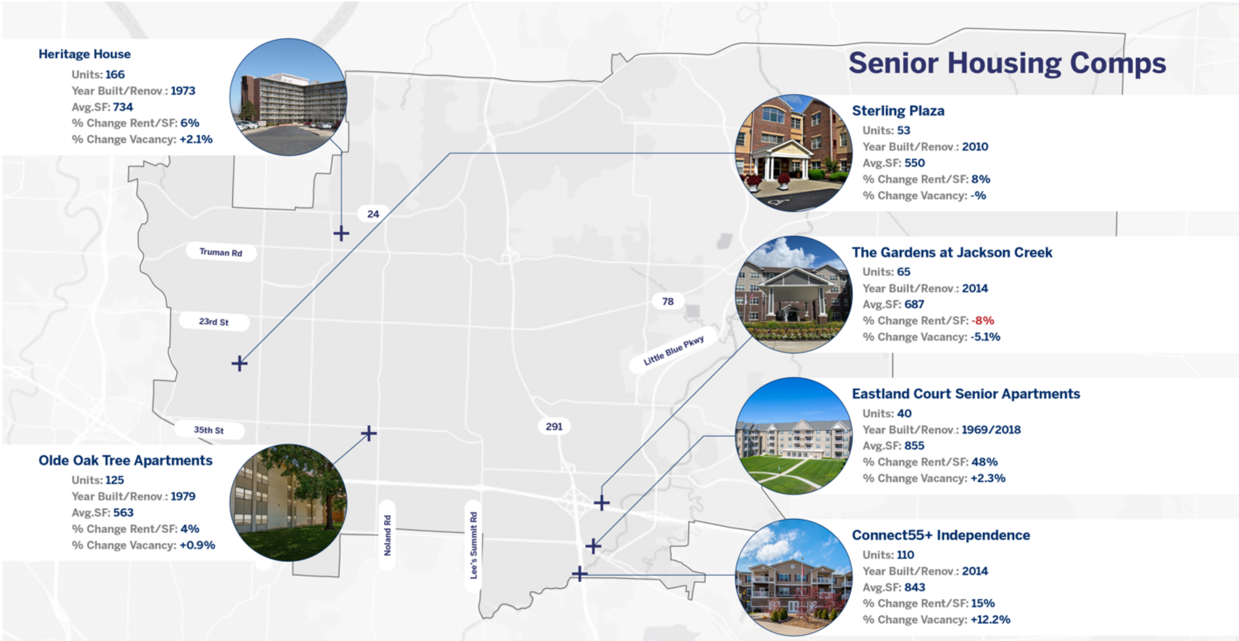


CONCLUSIONS

The analysis presented in this memo shows that there will continue to be demand for market-rate multifamily housing, as well as all types of housing at all price points. There will continue to be strong demand for quality affordable housing, moderately-priced for-sale housing, and higher-priced rental and for-sale housing.

ADDITIONAL DATA





Source: CoStar, 2024

20-Year Projections: Demand by Income Level and Housing Tenure

The following table summarizes the detailed projections that are represented on the gross demand summary graph.

INPUTS (CURRENT STATISTICS)						PROJECTED TOTAL DEMAND (GROSS)									
AMI	Income	Households	% Owner	For Sale	For Rent	Current		5 Year		10 Year		15 Year		20 Year	
						Sale	Rent	Sale	Rent	Sale	Rent	Sale	Rent	Sale	Rent
30%	$26,450	9,504	39%	3,679	5,825	58	91	82	130	82	130	94	148	97	154
50%	$44,050	8,822	35%	3,083	5,739	48	90	79	148	79	148	97	180	100	187
60%	$53,950	4,680	47%	2,201	2,479	35	39	67	75	67	75	81	92	84	95
80%	$70,500	6,967	49%	3,441	3,526	54	55	112	115	112	115	145	149	151	154
120%	$107,900	10,276	65%	6,680	3,597	105	56	194	104	194	104	236	127	245	132
150%	$134,900	4,124	68%	2,806	1,318	44	21	77	36	77	36	94	44	98	46
200%	$179,850	4,073	80%	3,243	830	51	13	90	23	90	23	110	28	114	29
>200%	>$179,850	2,954	85%	2,498	456	39	7	69	13	69	13	84	15	87	16
Units per Period						434	373	770	644	770	644	941	783	976	812
Renovated Units from Existed Stock per Period						43	37	77	65	77	65	94	79	97	81
New Construction Units per Period						390	336	694	579	693	579	847	705	878	731
Cumulative Total Units per Period						807		2,221		3,636		5,360		7,148	