

Des Moines Metro Multifamily, Q1 2018

New Construction Deliveries Push Vacancy to 6.7%



Number of Apartment Homes Surveyed
30,038



Average Effective Rent
\$867



Average Annual Rent Growth
0.7%



Occupancy
93.3%



Net 12-Month Completions
3,138



DES MOINES MSA VACANCY RATES

Submarket	Units	2018	2017	2016	2015
East	1,564	5.6%	5.3%	2.9%	4.4%
South	4,185	5.8%	3.7%	3.8%	4.8%
West	2,586	4.8%	3.1%	3.2%	3.4%
CBD*	2,684	9.7%	4.3%	2.1%	2.3%
West Suburbs*	14,274	7.3%	6.6%	4.3%	4.0%
Subtotal/Average - Greater Des Moines	25,293	7.0%	5.4%	3.8%	4.0%
Altoona	1,267	8.2%	3.3%	2.4%	3.6%
Ankeny	2,998	4.4%	4.0%	5.3%	4.9%
Indianola	480	3.5%	5.7%	4.0%	4.3%
Total/Average – All Units Surveyed	30,038	6.7%	5.2%	3.9%	4.1%

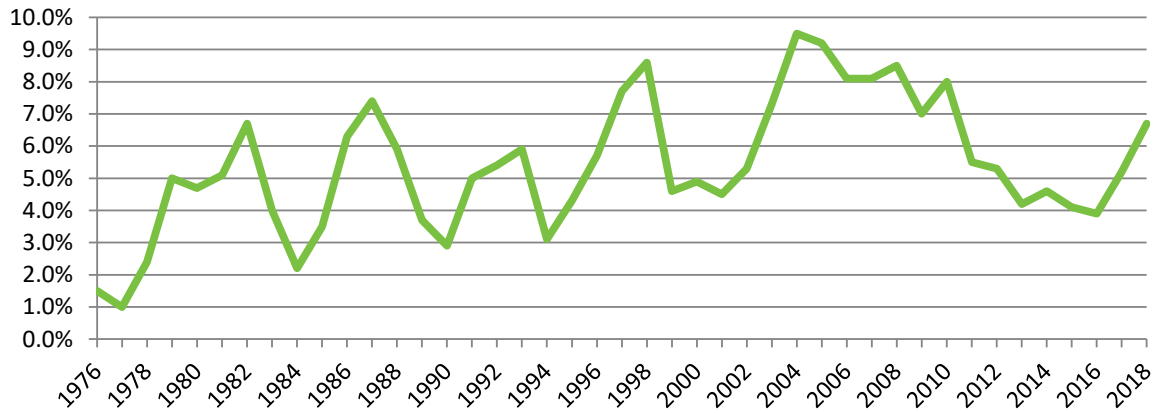
*The CBD submarket excludes four newly delivered apartment projects/phases (393 total units) and the West Suburbs submarket excludes two newly delivered projects/phases (96 units) that are still in lease-up. If these 489 units are included, the vacancy rate of the CBD submarket increases to 18.5%, the West Suburbs vacancy rate increases to 7.7%, and the Subtotal/Average – Greater Des Moines vacancy rate increases to 8.2%.

OUTLOOK

With 3,061 units under construction, the Greater Des Moines market remains in high expansion mode. Occupancy levels in the near term are expected to soften as the new supply enters the market. Higher vacancy will likely put pressure on historically consistent rent growth and lead to an increase in concessions particularly in the central business district and west suburban submarkets.

Given the forecast that physical and economic occupancy will edge lower, we expect that the new construction pipeline will diminish over the next eight to ten quarters. The expected decline in plans for new units combined with positive population and employment growth trends should result in a tightening of the overall market in 2020 and 2021.

HISTORICAL DES MOINES METROPOLITAN APARTMENT VACANCY RATES



The survey includes rental and vacancy data for 1,660 new and stabilized apartment units added to the market in 2017.

VACANCY BY UNIT TYPE AND GEOGRAPHIC AREA

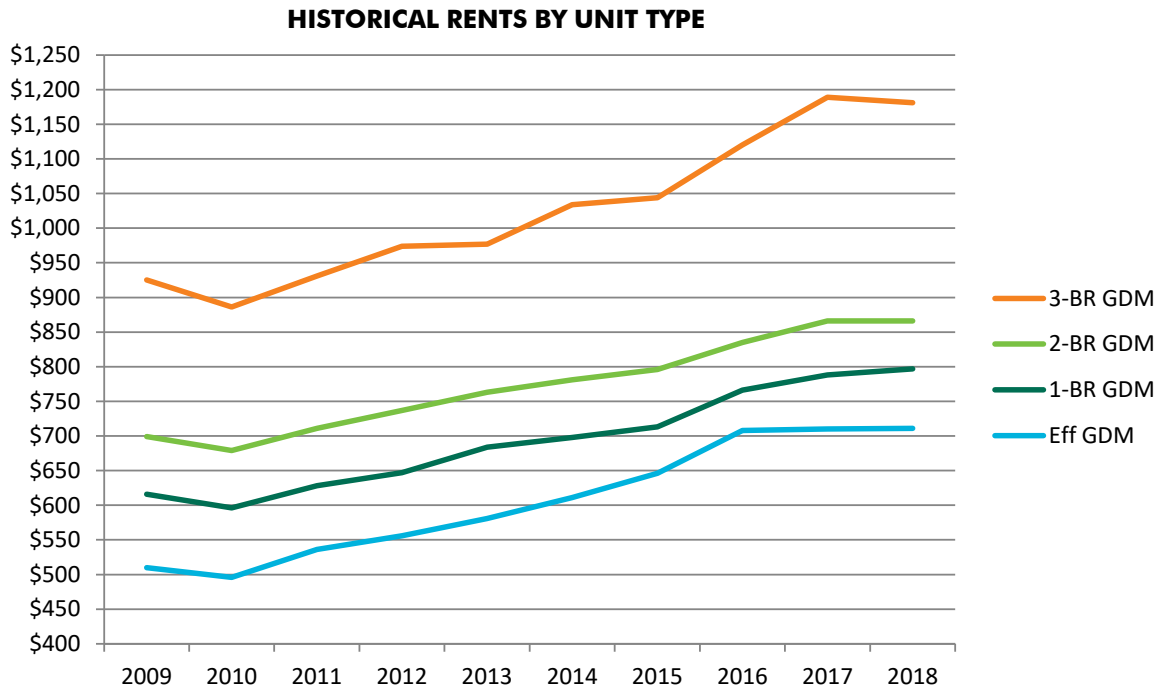
Submarket	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom	Total
East	4.1%	4.6%	5.7%	11.3%	5.6%
South	9.1%	6.2%	5.4%	6.6%	5.8%
West	3.7%	1.8%	5.7%	29.8%	4.8%
CBD	6.9%	10.1%	11.6%	6.3%	9.7%
West Suburbs	8.2%	6.4%	7.5%	8.2%	7.3%
Altoona	2.4%	3.1%	10.4%	11.2%	8.2%
Ankeny	0.0%	4.6%	3.8%	7.4%	4.4%
Indianola	0.0%	5.7%	3.5%	0.0%	3.5%
Average of All Units Surveyed	6.3%	6.1%	6.8%	8.5%	6.7%

AVERAGE RENT BY UNIT TYPE AND GEOGRAPHIC AREA

Submarket	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
East	\$512	\$648	\$765	\$1,033
South	\$600	\$668	\$722	\$965
West	\$577	\$665	\$758	\$1,396
CBD*	\$811	\$1,015	\$1,397	\$2,282
West Suburbs	\$719	\$807	\$897	\$1,159
Average Greater Des Moines	\$711	\$797	\$866	\$1,181
Altoona	\$616	\$794	\$954	\$1,133
Ankeny	\$764	\$766	\$914	\$1,198
Indianola	\$550	\$592	\$714	\$710
Average of All Units Surveyed	\$709	\$792	\$870	\$1,178

RENTAL RATE COMPARISON								
Submarket	Efficiency		1-Bedroom		2-Bedroom		3-Bedroom	
	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change
	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18
East	-6.0%	4.7%	-4.1%	2.0%	-3.7%	3.8%	-5.8%	-2.8%
South	-1.4%	-5.4%	2.2%	0.5%	3.9%	-3.3%	3.0%	-0.4%
West	-1.6%	4.5%	1.2%	2.2%	2.6%	-2.7%	1.2%	14%
CBD	3.2%	5.1%	4.4%	6.7%	0.9%	17.9%	18.0%	10.4%
West Suburbs	5.8%	-9.9%	1.5%	-3.7%	3.9%	-1.5%	5.6%	-1.9
Average Greater Des Moines	0.3%	0.1%	2.3%	1.1%	3.7%	0.0%	6.8%	-0.7%
Altoona	-19.7%	2.0%	-6.0%	-6.0%	4.2%	14.0%	3.2%	3.7%
Ankeny	5.8%	35.0%	-6.0%	-6.0%	0.0%	1.9%	-5.7%	1.3%
Indianola	0.8%	9.1%	-6.0%	-6.0%	1.0%	2.9%	9.2%	-0.7%
Average of All Units Suveyed	-0.6%	0.7%	1.8%	1.5%	3.6%	0.7%	5.4%	-0.3%

Note: 6% of the surveyed units were delivered to the market in 2017



RENTAL RATE COMPARISON

Rents experienced minimal increases for efficiency, one-bedroom, and two-bedroom units. Three-bedroom units experienced a small decrease in rents. The change in average rents ranged from -0.3% for three-bedroom units to 1.5% for one-bedroom units. The rents have been adjusted for any rent concessions offered to arrive at an effective rent. Approximately 25% of the market rate projects offered

some type of rental concessions to new tenants, which is a significant increase from approximately 9% in the prior year. This large increase is due to the significant number of new units that were delivered over the past year. Types of rental concessions being offered include free garage rent, gift cards up to \$1,500, up to three months of free rent and gym memberships, among others.

TAX CREDIT/AFFORDABLE PROPERTIES

Section 42 of the Internal Revenue Service Code provides for tax credits to developers of rental housing for low income tenants. The Iowa Housing Finance Authority administers a program involving low income tax credits under which many apartments have been built or rehabbed in recent years. Since these projects have rent restrictions, they are not included in the market rate survey previously described in this report.

Forty eight (48) tax credit/affordable properties containing a total of 3,819 units within the Des Moines Metropolitan Area were surveyed. The average vacancy rate is 3.0%, which is an increase from 2.1% vacancy at this time last year.

Only one of the tax credit/affordable projects responding to this survey provided rental concessions in the form of free rent, compared to none in 2017.

LOW INCOME HOUSING TAX CREDIT/AFFORDABLE PROJECTS

Vacancy Rate

2018	2017	2016	2015	2014
3.0%	2.1%	2.7%	2.0%	3.0%

2018 Vacancy By Unit Type on 3,819 Units

Total	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
3.0%	6.0%	1.3%	3.5%	3.6%

2018 Average Rent by Unit Type

	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
	\$622	\$688	\$805	\$907

% Rental Rate Change

	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
2017-2018	-2.0%	0.4%	5.0%	-2.7%
2016-17	18.5%	4.9%	3.4%	6.8%

SUMMARY

The survey indicates a rental rate change ranging from -0.3% to 1.5% during the past year. The largest increases in market rent were primarily seen in the CBD submarket, which is due to the large number of new units that were introduced to the market in 2017. The West Suburbs experienced a decrease in rental rates for all unit types. This is also due to the substantial increase in rental concessions being offered in this submarket. The Ankeny efficiency units experienced a large increase due to a large number of new efficiency units being introduced to the market. Altoona rental rates also increased for all units types.

This survey indicates an overall vacancy rate of 6.7% for conventional apartments, which is an increase from 5.2% in 2017.

The highest vacancy rates are located in the CBD which range from 6.3% for three-bedroom units to 11.6% for two bedroom units. The West Suburbs also experienced an increase in vacancy rates which range from 6.4% for one-bedroom units to 8.2% for efficiency and three-bedroom units.

The CBD has been experiencing a surge in apartment development over the past two years. We estimate that 1,352 new units were delivered to the CBD in 2017, of which 1,061 responded to this survey. However, 394 of the responding units are still in the initial lease-up phase. Therefore, only 667 of the newly delivered CBD units have been included in this survey.

The vacancy rate for the tax credit/affordable properties increased to 3.0% from 2.1% the prior year.

The West Suburbs, Ankeny, and the new units added to the Central Business District have the highest average rents. The lowest average monthly rental rates tend to be in the South, East, and Indianola submarkets.

Approximately 3,230 new rental apartment units were added to the rental market in 2017, of which 3,138 were market rent units. This is an increase from 1,966 new units delivered in 2016.

2018 NEW CONSTRUCTION PROJECTS SUMMARY

MARKET RATE					
City	Apartment Project	Units	City	Apartment Project	Units
Des Moines	The Nexus	145	West Des Moines	360 at Jordan West	160
	Verve	124		Aspire	57
	Vue	142		Park 88	113
	Station 121	26	Strathmore	108	
	Velocity	115	Waukee	Alice Patricia	264
	Flux	90		Autumn Ridge Phase II	72
	Soll	192	Grimes	Pepperwood Glen	126
Altoona	Linden Oaks	98		The Reserve at Destination Pointe	90
	The Sterling at Prairie Trail	106		Heritage at Grimes	165
Ankeny	Brick Towne at Piper	336	Grimes Crossing	54	
	Walnut Crest	72	Johnston	Brick Towne Johnston Phase I	72
Urbandale	The Reserve	48		Total	2,775

TAX CREDIT/AFFORDABLE UNITS		
City	Apartment Project	Units
Des Moines	Fort Des Moines	142
	Hilltop Phase II	72
	Melbourne Phase IV	72
Total		286

The above tables represent only the units that we anticipate will be added to the market in 2018. These units do not always represent the total project size. It should be noted that typically not all planned units are actually delivered to the market. Our 2017 survey indicated 4,460 total units of planned development in 2017. Of these units included in our 2017 survey, 2,807 units (63%) were delivered (423 additional units that were not included in our 2017 survey were also delivered in 2017).

Currently 2,685, or 88% of the planned 3,061 units, are either under construction and/or have begun pre-leasing. Therefore, in 2018, well over 2,000 units are expected to be delivered to the market, with 616 of the new units located in the CBD. The 2018 planned development estimates

are primarily based on discussions with city development officials and project developers. The low vacancy rates and increasing rents witnessed throughout Greater Des Moines over the past few years have led to this substantial amount of planned development.

Over the past two years, the steady demand for apartments has continued, but the large amount of newly delivered apartment units has led to another increase in vacancy rates. With the large number of planned units set to enter the market, we anticipate this trend to continue in 2018.

GREATER DES MOINES ECONOMIC DATA



Population
635,000 (2017 MSA)

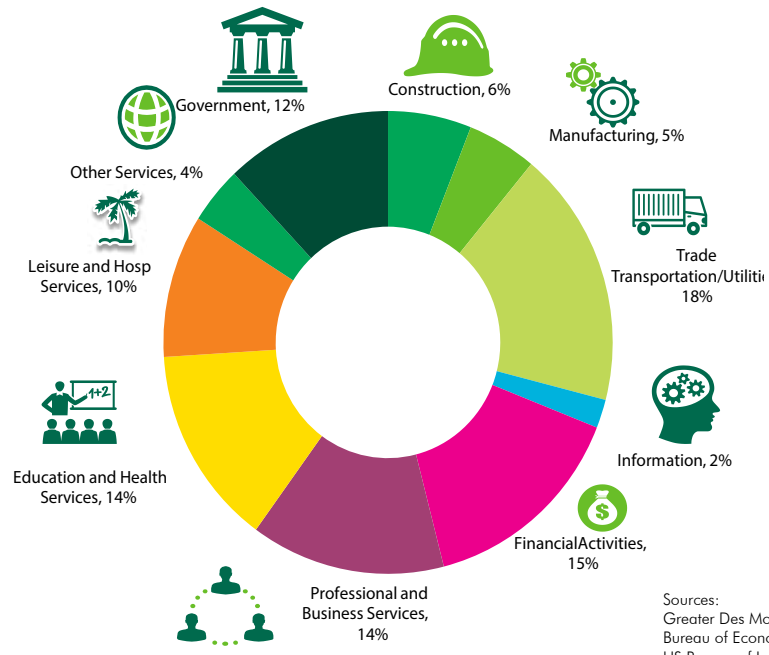


Unemployment Rate
2.6%

LARGEST EMPLOYERS	EMPLOYEES
Wells Fargo & Company	14,500
UnityPoint Health - Des Moines	7,797
Mercy Medical Center	7,055
Hy-Vee, Inc.	6,400
Principal	6,182
Nationwide	4,442
John Deere	3,089
Vermeer Corporation	2,500
DuPont Pioneer	2,495
JBS USA	2,300
Pella Corporation	2,224
Kum & Go	2,043
Wellmark Blue Cross Blue Shield of Iowa	1,800
UPS	1,600
Firestone Agricultural Tire Co.	1,600
YMCA of Greater Des Moines	1,480
Athene	1,320
EMC Insurance Companies	1,300
Casey's General Stores	1,200
Tyson Fresh Meats, Inc.	1,200



12 Month Change
in employment
2.6%



Sources:
Greater Des Moines Partnership
Bureau of Economic Analysis
US Bureau of Labor Statistics - December 2017

RECENT TRANSACTIONS

				
	BOULDER RIDGE	SPRINGS AT WAUKEE	ASHLEY SQUARE	MAPLEWOOD TOWNHOMES
City, State	West Des Moines, Iowa	Waukee, Iowa	Des Moines, Iowa	West Des Moines
Sale Date	December 2017	November 2017	November 2017	October 2017
# of Units	144	260	144	94
Year Built	1984	2015	1987	2014
Price	\$10,735	\$34,400,000	\$11,025,000	\$13,750,000
Price/Unit	\$75,549	\$132,308	\$76,563	\$146,277
Price/SF	\$80	\$130	\$76	\$109

				
	PARK PLACE APARTMENT HOMES	RIVER HILLS	APARTMENTS AT PRAIRIE LAKES	WILLOW PARK
City, State	Des Moines, Iowa	Des Moines	Ankeny, IA	Des Moines, Iowa
Sale Date	September 2017	August 2017	June 2017	March 2017
# of Units	158	234	92	300
Year Built	1986	1972	2013	1977
Price	\$10,090,000	\$11,600,000	\$9,800,000	\$13,150,000
Price/Unit	\$63,861	\$49,573	\$106,522	\$43,833
Price/SF	\$68	\$49	\$88	\$61

SURVEY OVERVIEW & METHODOLOGY

This annual survey of apartments in the Des Moines Metropolitan Area includes both conventional apartments and tax credit projects. The survey has been completed to assist in the decision-making process of developers, property owners, brokers, investors, managers, assessors, and other market participants regarding multi-family properties.

The 48th Annual Apartment Survey includes 30,038 conventional apartment units located in 319 projects and 3,819 Section 42 Low Income Housing Tax Credit/affordable units in 48 projects. The survey covers both high-rise and garden-style apartments, and was conducted during January of 2018. Occupancy and rental data was furnished by owners and/or managers of each building project, and was obtained by a mailed survey questionnaire or phone interview.

The surveyed apartments span a wide range of amenities and units per complex, ranging from 6 to 450 units, generally built after 1950. The survey does not include senior housing, student housing, or projects with non-rental amenities such as meals. A separate study for tax credit/affordable projects is also included in this report.

The survey includes only the units available for rent as of January 2018. This survey does not include units under construction as of the survey date, or units still in the lease-up phase for six months or less.

Although the method of survey and occupancy data reports are considered valid and reliable, they are not guaranteed of being free of error, statistically or otherwise. In our opinion, this survey is an objective picture of the occupancy and rental situation as of January 2018. Reproduction of this information is permitted with acknowledgement to Commercial Appraisers of Iowa, Inc. and CBRE/Hubbell Commercial.

We wish to thank the property owners, developers, and managers who made this survey possible by providing rental and vacancy data over the past 48 years.

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