

Des Moines Metro Multifamily, Q1 2019

Multi-family sector softens as market works to absorb new product



Number of Apartment Homes Surveyed
31,157



Average Effective Rent
\$901



Average Annual Rent Growth
1.9%



Occupancy
92%



Units Under Construction
2,498



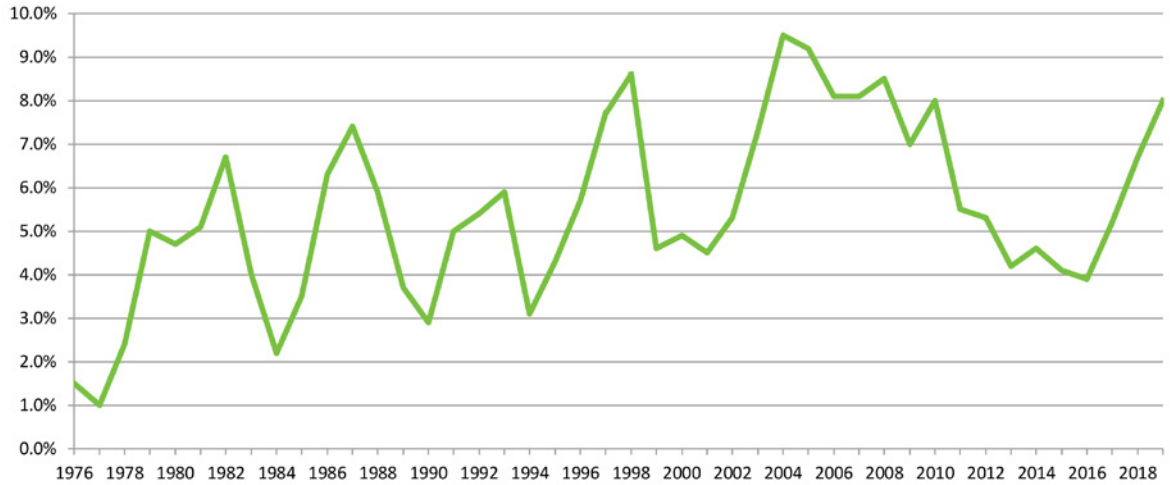
With 2,498 units under construction, the Greater Des Moines apartment market remains in high expansion mode. As a result, occupancy levels are projected to soften in the near term, likely putting pressure on the markets historically consistent rent growth. Consequently, strategic use of rent concessions is expected to remain in place across virtually all submarkets as landlords compete for occupancy amid this new supply entering the market.

Although deliveries are expected to remain relatively high in 2019, construction starts will continue to diminish. The Greater Des Moines Metro issued building permits for 1,261 multi-family units in 2018, a 53% decline from the 2,720 units permitted in 2017. We anticipate this slowdown in development combined with positive population and employment growth will facilitate healthy absorption, restoring favorable supply and demand balance to the overall market in 2020 and 2021.

DES MOINES MSA VACANCY RATES

Submarket	Units	2019	2018	2017	2016
East	1,461	5.5%	5.6%	5.3%	2.9%
South	5,016	4.8%	5.8%	3.7%	3.8%
West	2,744	7.1%	4.8%	3.1%	3.2%
CBD	3,309	9.9%	9.7%	4.3%	2.1%
West Suburbs	14,125	9.5%	7.3%	6.6%	4.3%
Subtotal/Average - Greater Des Moines	26,655	8.2%	7.0%	5.4%	3.8%
Altoona	1,025	4.0%	8.2%	3.3%	2.4%
Ankeny	3,189	7.3%	4.4%	4.0%	5.3%
Indianola	288	6.6%	3.5%	5.7%	4.0%
Total/Average - All Units Surveyed	31,157	8.0%	6.7%	5.2%	3.9%

HISTORICAL DES MOINES METROPOLITAN APARTMENT VACANCY RATES



VACANCY BY UNIT TYPE AND GEOGRAPHIC AREA

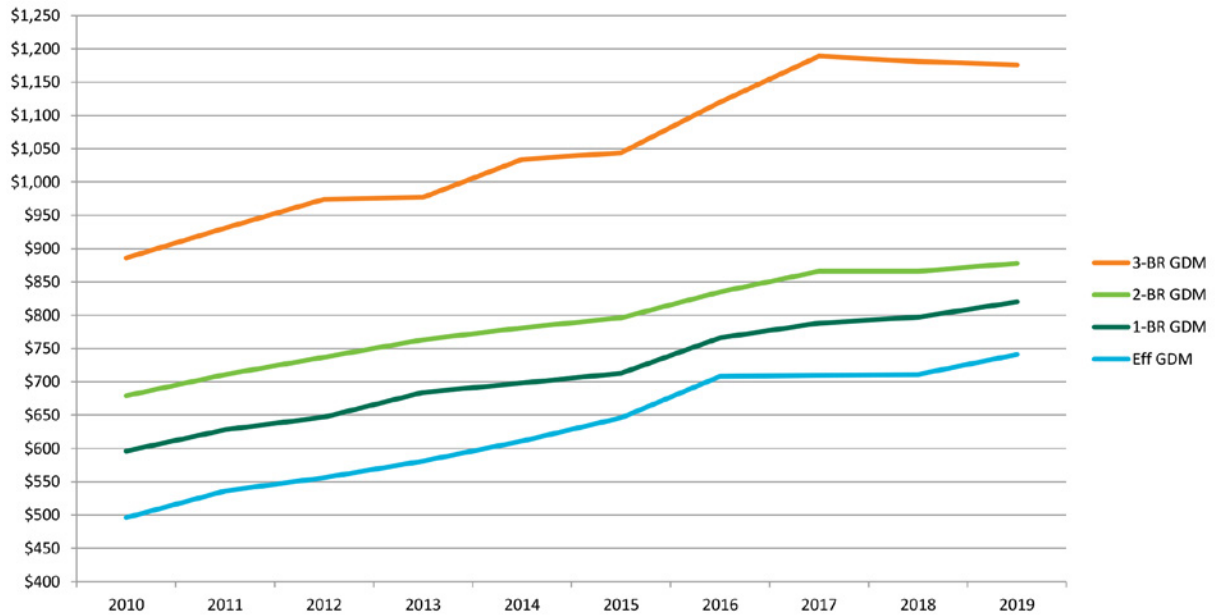
Submarket	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom	Total
East	27.8%	5.1%	4.7%	14.5%	5.5%
South	6.4%	5.3%	4.3%	7.7%	4.8%
West	7.4%	6.8%	7.5%	4.4%	7.1%
CBD	11.6%	8.7%	10.2%	16.9%	9.9%
West Suburbs	15.0%	9.0%	9.4%	9.8%	9.5%
Altoona	2.4%	3.5%	3.3%	7.5%	4.0%
Ankeny	3.1%	10.9%	3.9%	6.7%	7.3%
Indianola	0.0%	6.9%	6.7%	NA	6.6%
Average of All Units Surveyed	11.4%	8.2%	7.3%	9.4%	8.0%

AVERAGE RENT BY UNIT TYPE AND GEOGRAPHIC AREA

Submarket	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
East	\$540	\$664	\$759	\$991
South	\$555	\$668	\$743	\$1,006
West	\$593	\$726	\$807	\$1,175
CBD	\$811	\$997	\$1,331	\$1,917
West Suburbs	\$767	\$830	\$913	\$1,163
Average Greater Des Moines	\$741	\$820	\$878	\$1,176
Altoona	\$587	\$809	\$864	\$1,134
Ankeny	\$806	\$804	\$942	\$1,135
Indianola	\$525	\$595	\$754	NA
Average of All Units Surveyed	\$737	\$817	\$882	\$1,170

RENTAL RATE COMPARISON								
Submarket	Efficiency		1-Bedroom		2-Bedroom		3-Bedroom	
	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change
	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19
East	4.7%	5.5%	2.0%	2.5%	3.8%	-0.8%	-2.8%	-4.1%
South	-5.4%	-7.5%	0.5%	0.0%	-3.3%	2.9%	-0.4%	4.2%
West	4.5%	2.8%	2.2%	9.2%	-2.7%	6.5%	14.0%	-15.8%
CBD	5.1%	0.0%	6.7%	-1.8%	17.9%	-4.7%	10.4%	-16.0%
West Suburbs	-9.9%	6.7%	-3.7%	2.9%	-1.5%	1.8%	-1.9%	0.3%
Average Greater Des Moines	0.1%	4.2%	1.1%	2.9%	0.0%	1.4%	-0.7%	-0.4%
Altoona	2.0%	-4.7%	9.7%	1.9%	14.0%	-9.4%	3.7%	0.1%
Ankeny	35.0%	5.5%	2.3%	5.0%	1.9%	3.1%	1.3%	-5.3%
Indianola	9.1%	-4.5%	8.2%	0.5%	2.9%	5.6%	-0.7%	-2.1%
Average of All Units Surveyed	0.7%	3.9%	1.5%	3.2%	0.7%	1.4%	-0.3%	-0.7%

HISTORICAL RENTS BY UNIT TYPE



RENTAL RATES

The Greater Des Moines market experienced an average annual rent growth of 1.9% across the metro. This 1.9% growth is primarily driven by higher rents associated with new deliveries. Note that the rent averages have been adjusted this year and in past years to reflect effective rents, net of concessions.

Survey results indicated 27% of respondents offered concessions in the form of free rent, which is a 2% increase over last year. We estimate concessions could be more

prevalent than the survey suggests, and will continue to impact effective rents and economic occupancy rates throughout the market in 2019.

This survey indicated an annual rent change by unit-type ranging -0.7% to 3.9% across all units surveyed. Efficiency and 1-bedroom units displayed the strongest growth averaging 3.9% and 3.2% increases respectively. Three-bedroom units were the only unit-type to experience negative annual rent growth with a -0.7% decrease amongst all units surveyed.

The Western Suburbs submarket experienced annual rent growth averaging 2.8% across all unit-types. This growth is likely due to several recent completions delivering units above current market rents. With 1,153 new units expected to deliver in 2019, we anticipate rent growth in the western suburbs will face downward pressure as occupancy levels inevitably soften in the near term.

Ankeny experienced steady annual growth averaging 2.1% across all unit-types. This also can be attributed to recent projects delivering one and two-bedroom units priced between \$1,100 and \$1,300 per month.

The CBD experienced flat to declining rent growth across all unit-types in 2018. Efficiency apartments experienced flat rents while both 1-bedroom and 2-bedroom units experienced declining rents of -0.9% and -4.0% respectively. This can be attributed to increased rental concessions as landlords worked the lease-up of approximately 1,200 units delivered to the CBD in 2018. With 165 units already delivered in 2019, and another 447 expected by year end, we anticipate continued pressure on effective rent while absorption occurs.

VACANCY

Our survey indicates an overall vacancy rate of 8%, which is a 130-basis point increase from 6.7% in 2018. Efficiency units are 11.4% vacant across the metro, which is the highest of all unit types.

The CBD has the highest overall vacancy rate at 9.9%, a 20-basis point increase from 9.7% in 2018. With 612 units expected to deliver in 2019, we expect the CBD to face continued pressure on economic occupancy in the near term. However, favorable demographic trends, increasing demand for urban living and a declining construction pipeline will lead to greater market balance over the next 24 months.

The Western Suburbs submarket is 9.5% vacant, a 2.2% increase from 7.3% in 2018. With a total of 1,153 units expected by year end, we anticipate the western suburbs will experience vacancy increases for the near-term.

The South submarket is 4.8% vacant, a decrease from 5.8% the prior year. This was the only submarket to experience an increase in occupancy in 2018. This is likely a result of no new deliveries paired with the stabilization of a few sizeable projects delivered in 2017.

DEVELOPMENT

Approximately 1,418 market rate units of a planned 2,500 units (57%) were added to the Greater Des Moines market in 2018. This is a 55% decrease from the 3,138 units delivered to the market in 2017.

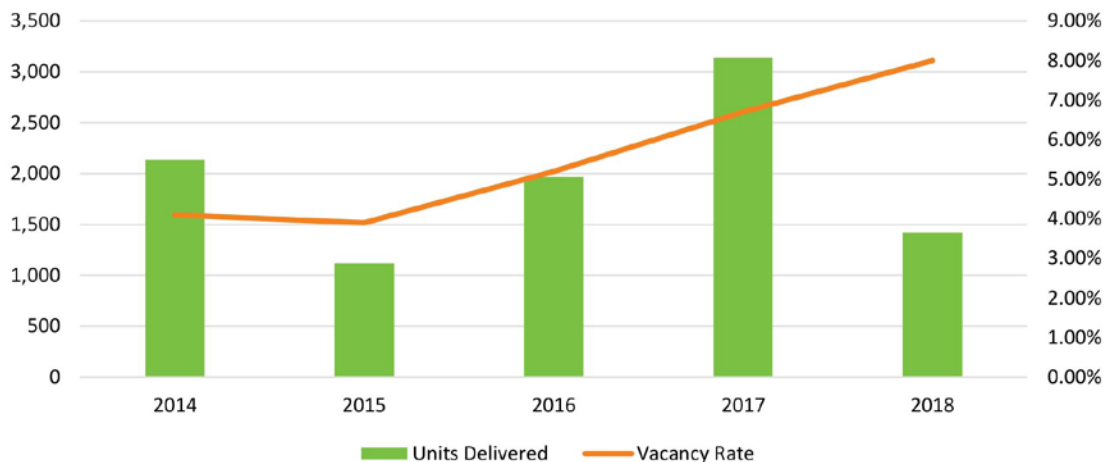
However, Greater Des Moines development remains robust with 2,498 units currently under construction throughout the metro. A total of 2,163 units are expected to deliver in 2019, with 395(14%) having already delivered.

The Western Suburbs are experiencing a surge of development with 1,458 units under construction, which equates to 58% of the entire construction pipeline. A total of 1,153 units are expected to deliver in 2019.

The CBD continues to experience new development with 674 units currently under construction. A total of 612 units are expected to deliver in 2019. Hubbell Realty Company has already completed two projects in the CBD this year totaling 165 market rate units.

Ankeny has 294 units under construction, all of which are expected to deliver this year. A second phase of an existing project completed in January of this year delivered an additional 32 units to the market.

UNITS DELIVERED VS. VACANCY RATES - DES MOINES METRO



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-nine (49) tax credit/affordable properties containing 3,624 units through the Greater Des Moines Metro were surveyed.

Tax Credit and Affordable properties saw flat rent growth averaging 0.2% across all unit-types. This is a slight increase from 0.18% in 2018.

The survey also indicated 12 (24%) of the 49 Tax Credit and Affordable properties surveyed provided rental concessions in the form of free rent. This is a sizeable increase from the 1 (2%) out of 48 Tax Credit and Affordable projects surveyed in 2018.

This significant increase in rental concessions comes on the heels of softening occupancy levels with 4.8% of all units surveyed vacant. This is a 180-basis point increase from 3% in 2018.

LOW INCOME HOUSING TAX CREDIT/AFFORDABLE PROPERTIES				
Vacancy Rate				
2019	2018	2017	2016	2015
4.8%	3.0%	2.1%	2.7%	2.0%
2019 Vacancy By Unit Type on 3,624 Units				
Total	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
4.8%	3.3%	3.2%	4.8%	5.4%
2019 Average Rent by Unit Type				
	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
	\$574	\$695	\$812	\$967
% Rental Rate Change				
	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
2018-2019	-7.7%	1.0%	0.9%	6.6%
2017-2018	-2.0%	0.4%	5.0%	-2.7%

12 (24%) of the tax credit/affordable properties responding to this survey provided rental concessions in the form of free rent, compared to one in 2018.

2019 NEW CONSTRUCTION PIPELINE SUMMARY

Under Construction	Address	Project	Developer	Submarket	Units Under Construction	Total Units	Expected Delivery of Units Under Construction
1	935 SE Silkwood Ln, Grimes, IA	The Reserve at Destination Point Phase II	Edward Rose & Sons	Western Suburbs	282	390	2019 - 134 units 2020 - 148 units
2	6410-6430 Merle Hay Rd, Johnston, IA	Brick Towne at Johnston Phase II & III	Jensen Group	Western Suburbs	144	384	May, 2019
3	1260 S Jordan Creek Pky, West Des Moines, IA	Strathmore Apartment Homes	Edward Rose & Sons	Western Suburbs	288	522	2019 - 144 units 2020 - 144 units Phased Delivery
4	725 Gateway Dr, Grimes, IA	Allure at 141 Phase II	Perry Reid Properties	Western Suburbs	78	132	Throughout 2019
5	1272 SE Bishop Dr, West Des Moines, IA	The Cove at Kettlestone Phase II	Caliber Iowa	Western Suburbs	36	131	March, 2019
6	720 NE Alices Rd, Waukee, IA	Alice Patricia Apartments Phase II	DSM Rental	Western Suburbs	96	288	April, 2019
7	204 S 64th St, West Des Moines, IA	BelleMeade Phase II	The Richdale Group	Western Suburbs	23	180	June, 2019
8	8925 Cascade Ave, West Des Moines, IA	Lift at Jordan Creek	The Garrett Companies	Western Suburbs	180	180	June, 2019
9	Northeast Heritage Drive, Grimes, IA	Grimes at Heritage	Classic Builders Inc.	Western Suburbs	331	331	June, 2019 - 120 units 2020 - 211 units
10	600 Northwest Cherry Creek Ln, Ankeny, IA	Brick Towne at Piper Phase II	Jensen Group	Ankeny	240	528	December, 2019
11	1370 SW Raddiffe Ln, Ankeny, IA	Havenwood Phase II	Redwood Living	Ankeny	54	160	May, 2019
12	200 SW 11th St, Des Moines, IA	Linc	Hubbell	CBD	227	227	April, 2020 - 85 units January, 2021 - 142 units
13	110 SE 7th St, Des Moines, IA	Rowat Lofts	Nelson	CBD	162	162	July, 2019
14	201 SE 6th St, Des Moines, IA	District at 6th	TWG	CBD	213	213	December, 2019
15	1331 Keosauqua Way, Des Moines, IA	Cityview 34	Calliber Iowa	CBD	49	49	September, 2019
16	600 E 5th St, Des Moines, IA	Lyon Flats	Premier Companies	CBD	23	23	June, 2019
17	2300 1st Ave S, Altoona, IA	Residences at Ironwood	Highgates Group	Altoona	48	48	July, 2019
18	4000 Ingersoll Ave, Des Moines, IA	The Residences at 4000 Ingersoll	Newbury Living	West	24	24	June, 2019

Proposed	Address	Project	Developer	Submarket	Expected Start	Proposed Units	Potential Delivery
1	401 SE 7th St, Des Moines, IA	Connolly Lofts	Market District One, LLC	CBD	TBD	58	2020
2	422 Walnut St, Des Moines, IA	The Fifth	Mandelbaum	CBD	TBD	208	2021
3	418 E Grand, Des Moines, IA	418 E Grand	Nelson Development	CBD	TBD	105	2020
4	701 Walnut St, Des Moines, IA	The Blackbird	Black Bird Investments	CBD	TBD	336	2021
5	215 SW 9th St, Des Moines, IA	Parkway Lofts	Orton Development	CBD	TBD	77	TBD
6	7750 SE 19th Ln, Ankeny, IA	Ankeny Lofts	TWG Development	Ankeny	TBD	54	2020
7	437 Elgin Ln, Altoona, IA	Linden Oaks Phase II	Redwood	Altoona	TBD	80	2020
8	665 Grand Ave, Des Moines, IA	Miesblock	Nelson Development	CBD	TBD	75	2021

Lease Up	Address	Project	Developer	Submarket	Units Completed in 2019	Total Units	Delivered
1	1165 SE Olson Dr, Waukee, IA	Autumn Ridge Phase II	Kimberley Development	Western Suburbs	198	434	January, 2019
2	5411 NE Lowell Ln, Ankeny, IA	Northgate Apartments Phase II	DSM Rental	Ankeny	32	48	January, 2019
3	200 Des Moines St, Des Moines, IA	Velocity	Hubbell	CBD	115	115	January, 2019
4	541 6th Ave, Des Moines, IA	Carbon 550	Hubbell	CBD	50	50	February, 2019

Total Units Under Construction	Total Units Expected to Deliver in 2019
2,498	2,163

	Western Suburbs	CBD	Ankeny
Under Construction	1,458	674	294
Expected Total Deliveries in 2019	1,153	612	326
Proposed	0	859	54

2019 NEW CONSTRUCTION PIPELINE SUMMARY

The above table represents the Greater Des Moines multifamily development pipeline for market rate units. This table does not include Tax Credit and Affordable properties, senior housing, or student housing.

The status of properties under construction was determined primarily via field research and interviews with property managers and landlords.

The proposed pipeline represents projects that have been proposed for development. It is possible that a specific project scope and timing could change. Any information that is not presented in this table we are unable to verify.

The lease-up portion of the table contains properties that have already been delivered in 2019. Properties are considered to be in lease-up for the first six months following delivery.

RECENT TRANSACTIONS



ASPIRE TOWNHOMES



92WEST



AUTUMN RIDGE (PHASE 1)

City, State	West Des Moines, IA	West Des Moines, IA	Waukee, IA
Sale Date	December, 2018	September, 2018	July, 2018
# of Units	222	296	236
Price	\$40,250,000	\$31,999,975	\$32,385,607
Price/Unit	\$181,306	\$108,108	\$137,227



PRAIRIEGRASS AT JORDAN CREEK



INGERSOLL SQUARE



BROOKVIEW POINTE CONDOS

City, State	West Des Moines, IA	Des Moines, IA	West Des Moines, IA
Sale Date	September, 2018	December, 2018	January, 2018
# of Units	162	180 units plus 26,392 +/- SF of retail	65
Price	\$19,400,000	\$26,250,000	\$8,400,000
Price/Unit	\$119,753	\$145,833 inclusive of 26,392 SF retail area	\$129,230

SURVEY OVERVIEW & METHODOLOGY

This annual survey of apartments in the Des Moines Metropolitan Area includes both conventional apartments and tax credit properties. 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 49th Annual Apartment Survey includes 31,157 conventional apartment units located in 307 properties and 3,624 Section 42 Low Income Housing Tax Credit/affordable units in 49 properties. The survey covers both high-rise and garden-style apartments, and was conducted during January of 2019. 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 properties with non-rental amenities such as meals. A separate study for tax credit/affordable properties is also included in this report.

Portions of the survey data results include only the units available for rent as of January 2019. 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 2019. 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 49 years.

Sources: CoStar Group, Polk County Assessor, Dallas County Assessor and Home Builders Association of Greater Des Moines

GREATER DES MOINES ECONOMIC DATA



Population
644,590 (2018 MSA)

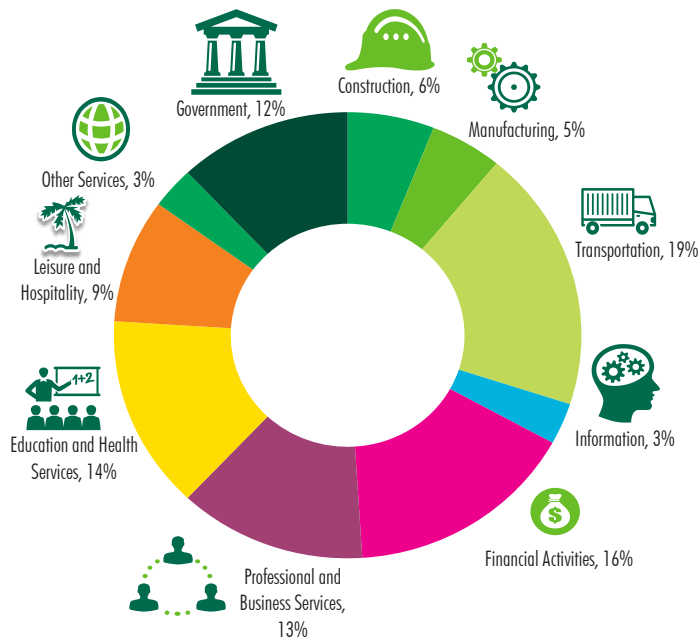


Unemployment Rate
2.4%

LARGEST EMPLOYERS	EMPLOYEES
Wells Fargo & Company	14,500
UnityPoint Health - Des Moines	8,026
Principal	6,500
Hy-vee	6,400
Nationwide	4,525
Mercy Medical Center	4,228
John Deere	3,089
Vermeer Corporation	2,500
DuPont Pioneer	2,495
JBS USA	2,300
Pella Corporation	2,224
Wellmark Blue Cross Blue Shield of Iowa	2,000
UPS	1,600
Bridgestone Americas Tire Operations	1,600
Mercer	1,560
YMCA	1,300
EMC Insurance Companies	1,269
Casey's	1,200
Tyson Fresh Meats, Inc.	1,200



12 Month Change
in employment
3.3%



Sources:
Greater Des Moines Partnership
Bureau of Economic Analysis
US Bureau of Labor Statistics - December 2018



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