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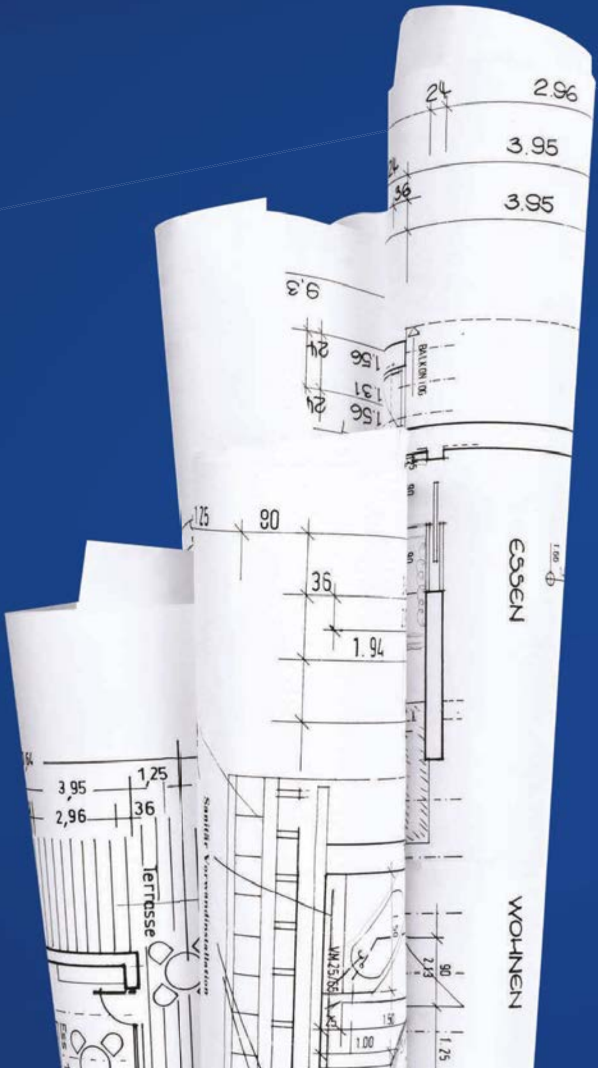

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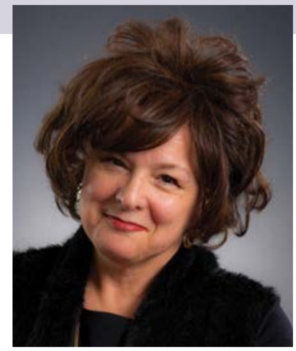

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BY KENT DARR

Plenty of grand experiments are circling the air around commercial real estate these days. In the office sector, a lot of money is being spent on how to reflect corporate culture in a way that gives companies an advantage in the hunt for talent.

Our office panel provided plenty of examples. Tim Hickman, a principal at Substance Architecture, noted that his firm is being asked to define culture via design.

"Office space can be a tool in the attraction or retention of top talent," said Adam Kaduce, senior vice president at R&R Realty Group. His company dropped multiple millions of dollars on a Jordan Creek Parkway office building intended to improve those odds.

Maybe that office includes a new definition of "neighborhood," said Kate Byus, vice president at JLL. It could be your work group, it could be the cluster of retailers right outside the office door. It gets complicated.

Or maybe an employer wants to win that fight for talent by focusing on the well-being of its employees.

"What we're seeing is that well-being is rising to the top because your people are so important to your organization and you need to look at your space through that lens," Kim Augspurger, president of commercial interiors firm Saxton Inc., said.

On the other hand, you can really mix it up with no assigned offices, just a short-term lease for space in a spot that is funky cool, such as Geoff Wood's Gravitate Coworking. Wood provides a phone booth for privacy and a stepatorium, a piece of design splendor that focuses on a stairwell that provides big views inside and outside the office. Apparently the feature is so cutting edge that not even Wikipedia has come up with a definition.

Some folks doubt whether the coworking concept will catch on in a big way in Greater Des Moines, though several building owners are finding it a nifty way to generate rent.

"At least with coworking here in Des Moines, I think we're still getting our minds around what that means," Wood said.

You might not see it from the outside, but there's a lot happening at the office.

Read the discussion on p. 12 >>>

ALL ABOUT CULTURE

The contemporary office is being asked to do a lot these days; being a workplace is just part of the story

BY KENT DARR

THE EXPERTS: **KATE BYUS,** *VICE PRESIDENT, JLL* | **TIM HICKMAN,** *PRINCIPAL, SUBSTANCE ARCHITECTURE* | **ADAM KADUCE,** *SENIOR VICE PRESIDENT, R&R REALTY GROUP* | **KIM AUGSPURGER,** *PRESIDENT/OWNER, SAXTON INC.* | **GEOFF WOOD,** *OWNER, GRAVITATE COWORKING*
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ISSUES DISCUSSED

THE PROCESS OF DISCOVERY

COST CONTROL

IMPACT OF JORDAN CREEK OFFICE RENTS

THE PANEL: The Business Record hosted a panel discussion, moderated by Senior Staff Writer Kent Darr and Publisher & Executive Editor Chris Conetzkey, in an effort to identify key trends and issues in the office market. Read on to view an edited version of that discussion and view video of the entire discussion at ***businessrecord.com/AREM***

THE PROCESS OF DISCOVERY

Q: How often are you asked to "redefine who we are"?

Tim Hickman:
That is language that we really didn't hear in the same way 10 years ago. And now I think we talk about space in a different way. Federal Home Loan Bank was an incredible opportunity for us. The new space (at 909 Locust St.) is entirely different. It's got color in it. They were very compartmentalized and they realized that their space was holding them back from what they wanted to be as a company, and from what they were hearing from their younger people. We actually were fleshing out what the culture was. And so it's an interesting two-sided coin. People know that they want the culture to be different, but they don't always know how. The process of designing the space actually can be a discovery of what your goals for your culture can be.

Q: How do you achieve that?

Hickman:
Part of it is what we call pre-design. You know I think that there is value in talking about the process. And there is a challenge. Building space is expensive. Everybody is looking for ways to make it cheaper. The challenge is if you're not prepared to invest those dollars and if you don't have the planning in place, you may realize we just spent $3 million dollars and you didn't spend it in the right way. Those dollars spent for programming are one thing; the dollars spent defining the problem can be the most valuable dollars you spend because it prevents you from getting to the end and saying, "Oh, crap, we missed some great opportunities that we now can't afford to pursue."

Kim Augspurger:
What I found in my experience is that oftentimes it's the first time companies have to decide what kind of culture they are going to have. Because they're having to make decisions such as "Does everybody have the same size office? Or are we open plan? Or are we using color?" And now there's a dollar sign attached so there's real motivation to come up with the right solution.

Adam Kaduce:
We've seen a lot of customers look at the design costs and look at the build-out costs, look at the real estate costs, and they all put that on a per-square-foot basis and that can seem pretty

daunting. And then what they do is they take their employment costs and their monthly payroll and they put that on a per-square-foot cost, and all of a sudden $18 or $20 per square foot on real estate doesn't look so high when your employment cost is $500 or $600 a square foot. So if you can use your culture and your values to put that into your space and it helps you retain and track that talent because your culture is there, all of a sudden it's an investment instead of a cost.

Kate Byus:
We like to use metrics with our customers to help them really bring that up. And so over a 10-year period the average cost for an organization is 82 percent of that cost in the people. Ten percent is in technology. And 5 percent is in the built environment. And so that helps people to go, "Oh, OK. I need to slow down and really think about this because you know I'm spending that 5 percent over a 10-year period and the only reason I'm writing a check is because we have people." So it's the why underneath it. Space used to be a what. And if you can move it over into a why conversation, that's when you really create the right solutions.

Q: Are the spaces getting smaller, or is the trend going back to a little bit more room?

Augspurger:
I think individual assigned kinds of spaces are definitely smaller. We're not really seeing the per-person square footage drop. It's already dropped a lot. So you reach a point where it can't go down a whole lot more. But people are investing in the "we" spaces. They really make a difference. They make the space a place people want to come to. We used to be laser-focused on the individual primary spaces. And all the other space kind of got the leftover budget and the leftover energy. And it is completely reversed.

Hickman:
I do think it's dangerous to look at some of the trends and say this is the way. ... Because we're not providing as much individual space, we can vastly reduce the amount of space that we have for our people. I think it's really more shifting the priorities of the spaces. And there's a lot of anxiety about that. And when you talk to a company about changing their culture, a lot of companies have a relatively conservative work community. Insurance is not necessarily always on the front edge of crazy office trends. But saying, "People are not gonna have dedicated office spaces. They're gonna have to figure out where they want to work every day," that's a big culture change. And we're seeing companies come at that in a lot of different ways. You know, Principal (Financial Group Inc.) has really taken a huge leap out to say, "You could work in a different place every day." There are a lot of other companies that are reducing the size of the individual spaces, but then adding a lot of alternatives.

Q: Are you being asked to reconsider the open workspace? There was a Harvard study this summer that said it really doesn't promote collaboration. It may not be as productive as first thought. Or was it that big of a deal to begin with?

Byus:
I get asked that all the time. Yeah, it's an issue. Open space is distracting and noisy. So you know there are things you can do to help with that. But at the end of the day, private spaces are expensive and they're not flexible. And so they don't really work well for the company. We always encourage people to really be thoughtful and have choices. You're not handcuffed to your station anymore. You can work virtually anywhere. So create spaces where people can be focused. And they can do heads-down work. And they can collaborate. And you create a space where all those options are available and then it does work.

Hickman:
Flex at risk is the open office where there are no other options. That doesn't work. But I think instead of killing the open office and putting in 78-inch-high partitions and having the rat maze of office space, it's a smarter solution to say, "We're going to figure out what types of spaces actually work for our people and we're going to design the right percentage of those spaces."

I think we're seeing more honest engagement. Do you really need five conference rooms for 18 people? Or do we need six for two and only one large conference room?

Byus:
It really matters who you are asking. Demographically, Gen Y would much rather be in an open space, based on research, and baby boomers would rather not.

Hickman:
We're also seeing a lot of the smaller to midsize users look at the Principals of the world and say, "I want that." There's a lot of great examples in Des Moines of companies that have really tricked out their office space. And so

these up to 10,000-square-foot users are coming to us and saying, "We want that. We want to be able to provide that. But maybe we don't need the collaborative space. We don't need all the conference rooms all the time."

Augspurger:
I love it when I see people asking themselves those questions by department, because it's not necessarily one-size-fits-all. Not even for a company. And what accounting needs might be very different from what sales needs. And so just getting really into the nuts and bolts of what those people need for their general work habits is great.

COST CONTROL

Q: What are you seeing in terms of the cost of office space in the market?

Kaduce:
Lease rates are rising, and that's really a function of construction costs right now. I don't know if anybody has even tried to add a bar to your basement or something right now. It's tough to get contractors. It's tough to get subs out there. So really I think you're seeing a rise in construction costs. But you're also seeing a rise in design. You're seeing higher-quality products – glass, all of those things cost money. And so you're just seeing that push up. Talking to landlords all over the country, Des Moines is still very affordable.

> "I THINK YOU'RE GOING TO CONTINUE TO SEE PRICES RISE."

I was touring a building in Denver, 40 to 50 stories, very similar glass construction to our Westfield building, and it's almost three times the price. So I think you're going to continue to see prices rise, but ultimately you are getting a better product and probably an opportunity to move into higher-quality space. And again then when you put it with your employment costs, yeah, maybe you are in one of the more expensive buildings in town, but that's still just nominal compared to what you are spending overall for your employment costs. And if it saves you a couple of new hires or saves you some turnover, all of a sudden it was worth it.

IMPACT OF JORDAN CREEK OFFICE RENTS

Q: What impact does the more expensive space on Jordan Creek Parkway have on leases in the rest of Greater Des Moines?

Kaduce:
Well, I think ultimately it's probably giving maybe the other landlords an opportunity to raise rents, but I think it's coming with an opportunity to reinvest in those properties. I think you're seeing maybe Class B and C products being invested in. And be redone. And adding new amenities. Adding new finishes throughout. And an opportunity to push those rents up. I think for landlords that are just thinking they're going to get a free rental increase, that's probably not the case. I think tenants and customers are demanding nicer buildings, more amenities, and they're not just going to move into the same old product.

Q: Who's calling the shots these days on rents? Is it a landlord's market? Tenant's market?

Kaduce:
I'm still waiting for a landlord's market to show up. There are still plenty of options for customers in the marketplace. We are seeing this market really transform into a market that escalates. There's built-in escalations in rents. That's maybe more of a landlord-friendly thing, but I still think customers are competing in the marketplace. We're competing to win clients' business. They still have plenty of options available. And with rental rates going up, all of a sudden that opens up opportunities for build-to-suit as well.

So now you're competing with existing product with new construction, and then really everything's on the table at that point if you can build a building.

Hickman:
I mean it's an interesting moment in time when you look at how much money you spend on office space. We have a new standard that's been established. I don't think Kyle Krause would be surprised if I tell people [the Krause Gateway Center is] the most expensive office building that we're likely to see for a long time. And it's totally in a class by its own. But I think we've also seen a lot of variety in what's being delivered. And they're not all super expensive.

Byus:
I think a lot of the micro-markets are starting to show themselves too. I mean I used to feel like it was a downtown versus West Des Moines exclusive conversation. But now we've got other northwest suburbs. We've got Waukee. We've got Ankeny. We've got Johnston. A lot of these places are coming on board, usually anchored by a major employer, but then they start to get some of the satellites that gravitate in

there. And some of those just by nature have different price points.

Geoff Wood:
From a coworking perspective, we don't think of cost per square foot. I mean I do, because I lease the building. But our tenants don't do that. It's all a service price. We have interior market, user fees, those types of things. That's probably the hardest thing to get people into our space – especially if they're a corporate user or remote worker – is to get them out of that mindset of cost per square foot. Because it's really a premium product that you're buying with the amenities that come with it. So I can tell you price per square foot, and everything you could use there, but if you just do your office it's going to be astronomically expensive to be with us. But that's not what you're actually getting. So I'm glad to hear they are going up, because that helps people with us. But I would say it's going to be interesting if it shifts away from that for tenants or if we get more people looking at our types of models as opposed to the traditional way to lease.

Q: Have some of the different uses for industrial space affected the office market?

Kaduce:
Yeah, we are seeing more users look at that as an option, whereas five or six years ago they would have never done that. We're actually designing an industrial space with higher parking ratio now. One of the important things to Hy-Vee was being able to get everybody on-site. You may not be able to fit them all into the building, but industrial spaces historically have not had enough parking.

So we're looking at that and making sure that when we do build an industrial building, we're building it as flexible as possible. But a lot of those things that an office user might like, we're seeing more industrial users want too. E-commerce users typically have more people at least until they move to more automation. So a lot of those amenities can work for both industrial and warehouse users. We're talking about walking trails and outdoor seating for industrial buildings, things you would have never talked about a few years ago, because we do see more of those office users wanting to take advantage of that space. It is a blank canvas.

Augspurger:
And you see office users turning office into industrial, or an industrial feel. So you rip down the ceiling grid and the tiles. Ten years ago we would have said this is an unfinished space, and now it's move-in ready.

"TEN YEARS AGO WE WOULD HAVE SAID THIS IS AN UNFINISHED SPACE, AND NOW IT'S MOVE-IN READY."

Q: What are some really, really wild futuristic office trends that you predict?

Kaduce:
I think potentially one of the single greatest impacts in commercial real estate is going to be the move to driverless cars.

I was in a different market and I was touring a parking garage. The life of a commercial real estate broker, let me tell you. It is designed at zero grade and the ramps are mobile so that you can take it apart and put it back together as an apartment building that's made with higher ceilings so that you can convert it to an apartment. I think Des Moines may be slower than other markets to adapt to the autonomous car or more car sharing or concepts like that. There are 5 billion parking stalls, and those are going to go away eventually. Or the lease is going to start to get smaller. And what happens to all of that space? Now all of a sudden where we had parking lots, we can do a lot of different things. It may not impact a market like Des Moines like it would Manhattan, where you can build up and there is a lot more demand for that, but I think the other thing that we're watching too is parcel delivery.

As more people buy things on Amazon, what do you do with all of that stuff? I walked by an apartment in New York and the bellman was standing there and there were probably 45 different Amazon packages at his feet. So what do we do with that to get parcel delivery to units? And that's not just a one-day thing; it's an everyday occurrence. So how do we make sure we get parcels

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and packages securely to people, I think, will be another trend that will impact commercial real estate.

Augspurger:
I think it will be great to watch the health and well-being trends really get even further adapted in the office space. I mean right now we hear that sitting will kill you. And you're going to go blind from your computer screen and someday we'll really perfect how you can either stand or walk or move around these different, to-be-developed, I suppose, pieces of office equipment and maybe the computer light will help me get my vitamin D and actually improve my complexion or something like that. We hear about green walls and taking that a step further with living plants and trees. I've seen touches where they want a fruit tree so somebody can grab a fresh apple off the tree in the office. Yes. Or maybe some herbs that they can put in their water. Something like that. So who knows? Watch for some of those trends in a major metro near you.

Byus:
There are actually sleeping pods. You can actually buy them. In places, I think, you know, if you have programmers or IT people that are there. I mean they work really weird hours, and so that's where you're seeing that application. First you have to culturally accept the fact that a nap is OK. But it is available.

Hickman:
When you think about the driverless cars, I think we're in a process of the work environment sort of dissipating and people working in different places at different times. Having freedom. I think that dissolution of the work environment is balanced by the desire for culture and some kind of shared experience. Somewhere in between those two, we're going to find balance. And I think we're in the middle of figuring out what that balance looks like.

IN CLOSING: PROJECT MANAGEMENT, MELDING THE OLD AND THE NEW, SPACES THAT MATTER

Byus:
This whole idea of finding the right solution is more complicated than it used to be. And there are more facets. And there are more experts and there are more layers. And it's getting democratized. And there are more choices. There should be and could be and will be that much more emphasis on the planning part of it. So make sure that you're getting your shareholders and your experts together well before you shop for space; there are so many critical decisions that have to be made before you start shopping.

Augspurger:
Companies did not look at their space through the lens that they look through today. Because we've got a process lens, everything was about cost and process. And the people component wasn't even in the conversation. And today, the people conversation is first. And so we're creating spaces that people want to be in. And I just think it's a great moment in time for workers to really have this opportunity to be in spaces that matter.

Kaduce:
I think one of the most exciting trends in commercial real estate in Des Moines is just that melding of suburban and urban office spaces. We've seen amenities really go back and forth. Buildings in the East Village are going to include parking, which has been more of a suburban amenity. And then you're seeing we're building buildings in the suburbs that include food trucks and on-site coffee shops and things like that. So I think one of the uniquenesses of Des Moines right now is because those commute times are so low, you're not seeing maybe the pull to one market or the other, but you're seeing people wherever they are, they want those unique amenities. Whatever they have in the suburbs they want downtown. And whatever they want downtown they want to be able to get those in the suburbs. And I think that's elevated the real estate game all over downtown as well as in the suburban markets.

Wood:
In our new space the things that people are most excited about are almost the old school things that we put in. It's the custom furniture that we built. We have a 75-seat auditorium that's a big set of stairs. And when people see that they're just like, "This auditorium is amazing." And that's what's drawing people in. And then we have like a maple and steel kind of like a set of restaurant booths that are intended to be just like quick meeting spaces. Those feel very old school and functional to me, but it's looked at as innovative in the way that we're doing it, and that's really bringing people in, so it's like kind of paradoxical in what the function is.

Hickman:
If companies can see a new space as an opportunity to define their aspirations, then the design of that space is actually a tool to help them reach that. I think there's a realization of the power of that. And I think that's going to increase. ■


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OFFICE TAKEAWAYS

BY KENT DARR

LET'S COOK UP SOME CULTURE

Office planners and designers are being asked to help define the corporate culture as a way to attract and retain talent.

"One of the things that we're seeing in the office market, more from a design perspective, is a recognition that office space reflects culture," said Tim Hickman, a principal at Substance Architecture. "Office space actually reflects important information about the characteristics and the highlights and what's important to a company. New employees care a lot about that."

Hickman's firm was asked to define the culture at the Federal Home Loan Bank of Des Moines after it bought a 23-year-old office building at 909 Locust St. and ordered a transformation to accommodate its 300 workers.

"They were very compartmentalized and they realized that their space was holding them back from what they wanted to be as a company. … We actually were fleshing out what the culture was."

THIS OFFICE FEELS LIKE A WAREHOUSE

In some cases, office users want that industrial feel and builders of warehouses and other industrial buildings are keeping office uses in the back of their mind.

"We're making sure that when we do build an industrial building, we're building it as flexible as possible," said R&R Realty's Adam Kaduce.

Higher parking ratios are key to accommodating potential office users, as are amenities.

"So a lot of those amenities can work for both industrial and warehouse users," Kaduce said. "We're talking about walking trails and outdoor seating for industrial buildings, things you would have never talked about a few years ago."

"You see office users turning office into industrial, or industrial feel," Saxton's Kim Augspurger said. "So you rip down the ceiling grid and the tiles. … Ten years ago we would have said this is an unfinished space, and now it's move-in ready."

OPEN OFFICE IS OPEN TO RECONSIDERATION

Not all that long ago, the open office was all the rage. Interior walls were coming down, people could roam at will, possibly have a collision where new ideas, new possibilities would blossom from the bumps.

We're still in open office mode, with a difference. Some offices sport telephone booths – oh, yes they do – for private calls, maybe a little reflective time. Neighborhoods are being created around areas of responsibility. Don't forget that Hy-Vee Inc. created its own neighborhood in a Grimes warehouse where its creative tech types could work free from the furrowed broughs of the suit-and-tie crowd.

"Open space is distracting and noisy. So you know there are things you can do to help with that. But at the end of the day, private spaces are expensive and they're not flexible," JLL's Kate Byus said.

"As we surveyed our members, I think phone booths and lockers were the two things that people said they wanted the most. And the phone thing is real even though today's workforce coming in doesn't know how to make phone calls. Like they've just never done it. I think the key is having lots of alternatives so that people can figure out what is the best," said Geoff Wood, founder of Gravitate Coworking.

GET IT ON THE LINE

In a conversation about the fading away of desk phones, the importance of having the chief information officer involved at the beginning of preparations for an office move came up.

A lot of gizmos ultimately will make the trek from one location to another, so it's a good idea to have the tech folks involved from the get-go. And it's not just the IT department.

"The technology folks have to talk to the architects, who have to talk to the furniture folks. You know, to realize the potential of all this technology, you have to plan for it," said Tim Hickman of Substance Architecture. "We used to have the architect plan the space and work with the broker. And then the furniture people came in separately, and the AV people. That doesn't work anymore because everything's working together in a exciting but also really challenging way."

Kate Byus of JLL said all of the pre-planning points to the importance of project managers.

"These companies go through these moves once every five, 10 years. It might be the unlucky HR or IT person or somebody that is not necessarily well-equipped or have time in their busy workday to accommodate all of these factors that have to be planned for because they're very expensive," she said. "Outsourcing that with a project manager is really helpful, especially for big, complicated moves."

IN THE DOGHOUSE

One guest at Newsroom 515 wanted to know what it was going to cost him to have a dog at work. Our panelists were in general agreement that although the time is coming, it might be too soon to worry about the expense; few landlords are allowing pets at work.

"We have started to see requests for that in Des Moines," said Kim Augspurger of Saxton Inc., but few examples of it in action.

"I have seen dogs in offices. None of the institutional landlords are doing it yet, to my knowledge. I have seen Fortune 500 leases mandate it and landlords say 'no.' So we're not quite there yet, but just like all the other coastal trends, I think someday we will see it," JLL's Kate Byus said.

Geoff Wood of Gravitate Coworking allows pets in the office.

"We're dog-friendly. If you want to see dogs, come see us," he said. "You saw this in multifamily. It used to be that dogs weren't a thing. And then everybody started getting dogs, and so they've had to change. I guess all it takes is one large user that says, 'We're not going in unless you let dogs in' to start changing that."

Adam Kaduce of R&R Realty, the largest property management firm in Greater Des Moines, said pets at work will become a property management issue.

"I think eventually we'll find ways to make it work," he said. "I shouldn't commit us to anything, but I think the trend is probably taking place." ■

Why coworking?

JENNIFER L. MOSELEY-MERTZ
INTERIOR DESIGNER AND ASSOCIATE, DLR GROUP

Please identify one trend in your area to watch in the upcoming year.

Coworking, which involves working remotely outside of a typical office setting or working independently within a community space, is becoming increasingly popular. And not just with small startup companies, freelancers and independent professionals. Many established companies are looking for ways to offer coworking spaces, whether through private meeting rooms, open office or community spaces, or cafe-like break rooms. It's fast becoming recognized as a benefit that can both attract new employees and retain existing ones.

Could you please explain the impact of that trend?

The greatest pull in the shift toward coworking might be that it offers employees a greater amount of choice. Choice in when and how they work. Some employees prefer to come in early in the morning and leave early in the afternoon. Others want to begin work later in the day and continue into the evening. For some employees, it's helpful to take an extended break in the middle of the day so they can recharge and then come back to finish their work. Because coworking spaces are generally operable 24/7, employees can tailor their work schedule to suit their individual needs and maximize their productivity. It may also be more convenient for an employee to work in a coworking space due to bad weather or familial needs.

One of the attractions of coworking is that it affords employees the chance to be part of the larger community, to work alongside others who have like-minded goals. Employees who choose to cowork do so among a diverse group of people, driving a culture of increased community, collaboration, learning and sustainability. These interactions allow for people with different skill sets to come together and learn from one another, helping to push a company's goals forward.

Real estate as a recruiting tool

ABBY CONLEY
PROJECT MANAGER, JLL

Please identify one trend in your area to watch in the upcoming year.

In Iowa, and specifically Des Moines, we have become quite comfortable finding ourselves on top of various "best-of" lists — most affordable place to live, best place for careers, best quality of life, etc. This has made Iowa an attractive place to invest, whether it's an existing Iowa-based company growing their workforce or a national company expanding operations into Iowa. This growing investment in Iowa businesses, coupled with low unemployment, is forcing employers to think outside the box to attract the top talent in Des Moines. They are now using real estate as a weapon of mass recruitment.

Could you please explain the impact of that trend?

It is no secret that the workplace has a big impact on employee attraction and fulfillment. As a result, some employers are now relying on the quality of their offices and amenities as a competitive differentiator. Building the coolest office space in town is a surefire way to attract and retain the best talent, especially the millennials and Generation Z. But you have to be smart about it.

When it comes to workplace design, there are many things to consider. Do you build an open office with couches and foosball tables, or do you go with a traditional design with private offices? Are sit-stand desks worth the investment? What is a more attractive amenity — an on-site wellness center with locker rooms, or a meditation room? There is no one-size-fits-all solution, though, for workplace design. The answer to these questions will vary depending on your existing workforce and the type of talent you are trying to attract.

With growing pressure to deliver an attractive and functional workplace, clients should rely on experienced partners and trusted advisers to help make the right decisions. There are many tools a commercial real estate expert can use to help make the process less painful for their clients: a laborshed analysis can assist with site selection and a client's understanding of local demographics; a utilization study can help determine the right amount, type and configuration of workspaces; and your adviser's network of contractors, architects and external vendors are invaluable resources to keep a project budget, schedule and scope on track.

What's one trend to watch in the next 10 years?

Most people think about the impact technology will have on the future workforce — affecting everything from where people work to how they work. We imagine "smart workspaces," where buildings act like butlers that guide you to the closest parking space and then assign an open workspace based on your tasks for the day.

Technological changes will continue to impact all facets of real estate, from the transaction through design and construction. The cloud will provide a paperless, transparent approach to sourcing deals and closing transactions. Virtual reality will allow us to take a virtual tour of a conceptual design. Artificial intelligence will allow us to analyze a job site and cross-check real-world construction with a digital model. These advancements will require everyone in the industry to become tech experts.

You may think some of this won't happen in our working lifetime, but the pace of technological change is accelerating. This will make it crucial for companies to partner with someone in the commercial real estate industry that can help them understand and embrace the integration of technology and real estate — or they will very quickly be left behind.

Coworking branching out

GEOFF WOOD
OWNER, GRAVITATE COWORKING

Please identify one trend in your area to watch in the upcoming year.

The modern coworking industry started in San Francisco and, like so many things associated with that city, it has always been identified as something for entrepreneurs and startup companies. While it is still true, the trend we're watching now is established companies joining coworking communities (sometimes even ditching the idea of a traditional office).

Could you please explain the impact of that trend?

Our coworking community has always been comprised of a high percentage of remote workers. These are typically people who work for established companies in other markets but choose to live in the Des Moines area and recognize the human need to be around other people. As established companies have embraced coworking, we're seeing them more open to paying for their remote employees' coworking memberships (something that these employees have previously done on their own). In 2018, we participated in a remote-work study, along with six other coworking communities in midsize U.S. cities, that found that 50 percent of remote workers have their membership fees covered by their company.

We're seeing some established companies use coworking as a low-risk avenue to spin up a local office. In one recent instance, a California-based company that won a major contract in Des Moines has joined our community to provide a workspace for their team members. While they spend significant time on-site with their client, they're able to test the idea of having a Des Moines presence that serves their other clients more broadly. They don't have to worry about finding a property that will serve all their needs for the next 60 to 84 months, don't have to jump through the logistical hoops of contracting for internet service and utilities or even have to purchase office furniture – their workspace is ready to go from day one.

What's one trend to watch in the next 10 years?

I'm interested to see when/if the large venture-backed chain coworking operators enter our market. Regus has several locations in Iowa, but on the spectrum of shared workspaces their product is closer to "executive suite" than "coworking community." Companies like WeWork and Industrious seem to have the most aggressive growth plans, yet they haven't shown up in midsized Midwestern cities yet. They market and advertise their product on a global scale and their rates are far above what we currently see in Iowa. When they do arrive, I'd expect their presence to increase both the awareness of the industry and the revenue per member. It's also likely that independent operators will see an overall revenue dip, at least initially.

"WE'RE SEEING SOME ESTABLISHED COMPANIES USE COWORKING AS A LOW-RISK AVENUE TO SPIN UP A LOCAL OFFICE"


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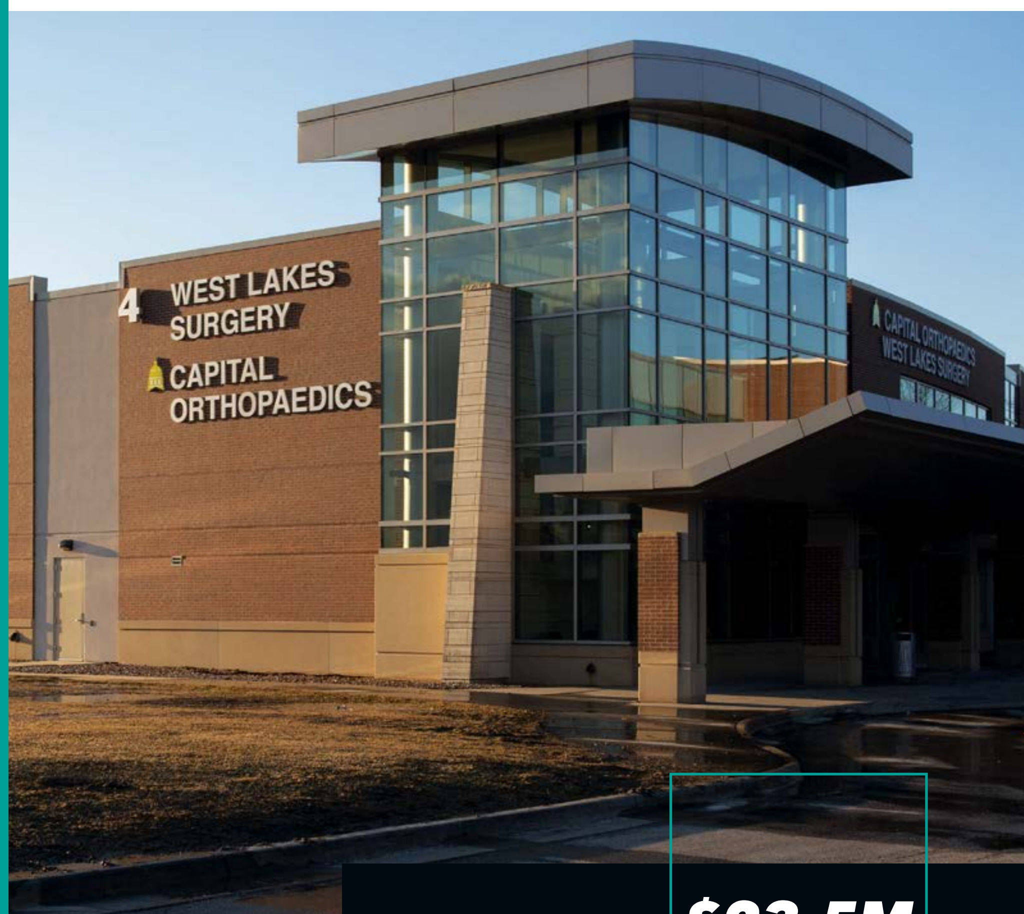
OFFICE

TOP DEALS OF 2018



$23.5M

West Lakes Surgery Center

Carter Validus, a real estate investment trust based in Tampa, Fla., paid $23.5 million on Nov. 20 to MD Realty of Des Moines LLC of Byron Center, Mich., for the 60,862-square-foot West Lakes Surgery Center at 12499 University Ave., Clive The purchase was made through HCII 12499 University Avenue LLC.

$8M

Altoona medical clinic

501 W. Weber LLC, based in Stockton, Calif., paid $8 million on June 27 to Myers Unity Point LLC, TJS Unity Point LLC, Rizzuti Holdings II LLC and AJE Unity Point LLC for the Unity Point clinic at 2720 Eighth St. N.W., Altoona.

$2.5M

Iowa Network Services new home

Iowa Network Services Inc. paid $2.5 million on Aug. 14 to Principal Life Insurance Co. for a 23,124-square-foot office building at 616 10th St., Des Moines.

$2.5M

Former office, new hotel

207 Crocker LLC paid $2.5 million on Feb. 26 to Catholic Health Initiatives Iowa Corp. for a four-story, 50,544-square-foot office building at 207 Crocker St., Des Moines. The building will be converted to a hotel.

$1.78M

West Des Moines office

GCC Properties LLC paid $1.78 million on Aug. 22 to Shojaat Properties Inc. for a 13,320-square-foot office building at 5058 Grand Ridge Drive, West Des Moines.

$1.75M

Medical office in Ankeny

Denny Elwell Family LC and DTK Properties LLC paid $1.75 million on June 13 to Central Iowa Health Properties Corp. for a 12,532-square-foot medical office building at 1105 N. Ankeny Blvd., Ankeny.

$1.5M

Medical office, West Des Moines

Westown Parkway Real Estate Co. LLC paid $1.5 million on July 2 to the Olivencia Family Trust for a 9,433-square-foot medical office building at 2425 Westown Parkway, West Des Moines.

$1.5M

DMACC picks a new home for Davis Center

Des Moines Area Community College paid $1.5 million on Dec. 27 to Anawim Housing Inc. for 1171-1183 Seventh St., Des Moines.

$1.45M

Iowa Realtors turn a bike shop to an office

The Iowa Association of Realtors paid $1.45 million on Aug. 15 to Ridgway Properties LLC for the 11,200-square-foot former Bike World store at 5950 Village View Drive, Suite 100, West Des Moines.

$1.25M

Lincoln Savings Bank downtown branch

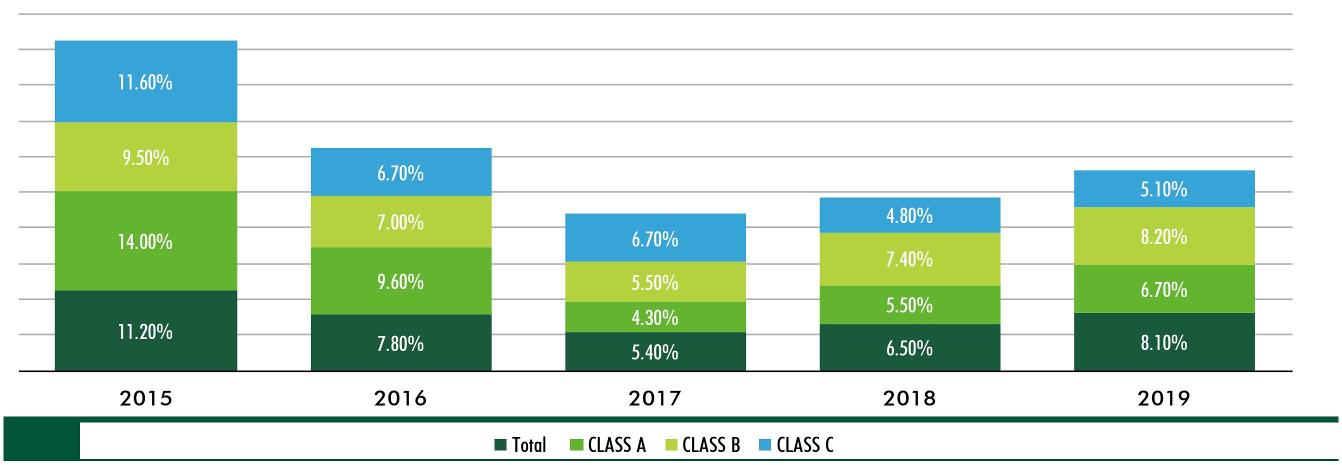
Lincoln Savings Bank paid $1.25 million on June 29 to Jake Christensen's 1922 Ingersoll LLC for a 7,584-square-foot office building at 1922 Ingersoll Ave., Des Moines.

Des Moines Metro Office, Q1 2019

Traditionally stable office market could be tested in the next 24 months

- Entire Market Vacancy Rate **5.40%**
- Competitive Market Vacancy Rate **8.10%**
- Competitive Market Gross Asking Lease Rate **$19.20 PSF**
- Trailing 12 M Net Absorption **(133,965)**
- Under Construction **80,666 SF**

Greater Des Moines Historical Competitive Market Vacancy



If you were to study the Des Moines office market in-depth, words like "steady", "stable", and "predictable" would likely come to mind. That trend continued in the past 12 months as the fundamentals remain intact. On a positive note for landlords, lease rates continue to rise 1-2% or more annually in quality buildings. A majority of the landlords in the marketplace are implementing capital improvement plans that "refresh" their assets and offer amenity packages that the tenant marketplace is seeking. Lease concessions from landlords, primarily consisting of rent abatement and above standard tenant improvement packages, have decreased since post-recession levels 10 years ago. Despite these positive fundamentals, headwinds are facing the marketplace. A burst of large blocks of space have come available and concession levels could once again increase as landlords compete for tenants with a larger footprint. Additionally, a major hurdle is the ever-increasing competition among employers looking for talented employees as the unemployment rate has shrunk to record low levels. A lack of available employment could have employers begin to question a need for additional office space.

The increasing number of vacancies resulting from large office users moving from leased space to corporately owned or built-to-suit campuses is a trend that Des Moines has dealt with previously. Our market is experiencing another round of corporate campus development as IMT Insurance, Sammons Financial, Holmes Murphy, and Kum & Go have or will have vacated leased space for new single tenant corporate campuses. As a result, vacancy rates have tilted upwards and will remain there until these larger 50,000 SF to 100,000 SF spaces are backfilled. One problem for the landlords left with these large blocks of space is that often these spaces are not suitable to be demised for smaller offices (less than 10,000 SF) and demising becomes "forced" resulting in costly and inefficient renovations.

Despite there being more than typical large floor plates being available for lease it still remains difficult to find suitable Class A office space for small to mid-sized officer users that form a large part of our tenant marketplace.

SOURCE: CBRE|Hubbell Commercial

A significant impact on the market is the increasing costs of construction with dozens of major construction projects occurring throughout the Metro, the availability of the work force, contractors, and raw materials have resulted in increasing tenant improvements costs that often approach $40-$50 per square foot or more for a simple open office and private office plan. A real concern is that material and labor prices could increase to a point where further development of smaller projects, which have been the backbone of our local Des Moines economy, could be priced out of the market.

Tenants have and will continue to be attracted to value and quality. High quality office spaces with modern workplace amenities are more apt to be leased quicker than their competition due to value created for the employers and its employees. Rental rates will continue to be a factor, but tenants are focusing on other value components, including location and building amenities. This need for value outside of just the lease rate will work across all office classes. Value is defined ultimately by the tenant marketplace and if tenants deem a building to be a lower value (lack of a good location, less than standard building finishes, parking issues, or lack of building amenities), those buildings will struggle to maintain lease rates and market occupancy rates.

The prime example of tenants seeking higher quality amenity spaces would be R&R's development of the Westfield Building, a 180,000 SF Class A building at Country Club Office Plaza that provides an amenity package not typical to the suburban office market, including underground parking, conference center, rooftop patio, coffee bar, and outdoor seating areas. Centene signed a lease for approximately 80,000 square feet and the building is approximately 75% leased. We anticipate that there will continue to be opportunities for Class A, new office construction in the marketplace as the market has seemed to embrace the higher asking rents associated with new construction. Landlords will continue to seize these opportunities carefully with a focus on pre-leasing when possible.

CONSTRUCTION

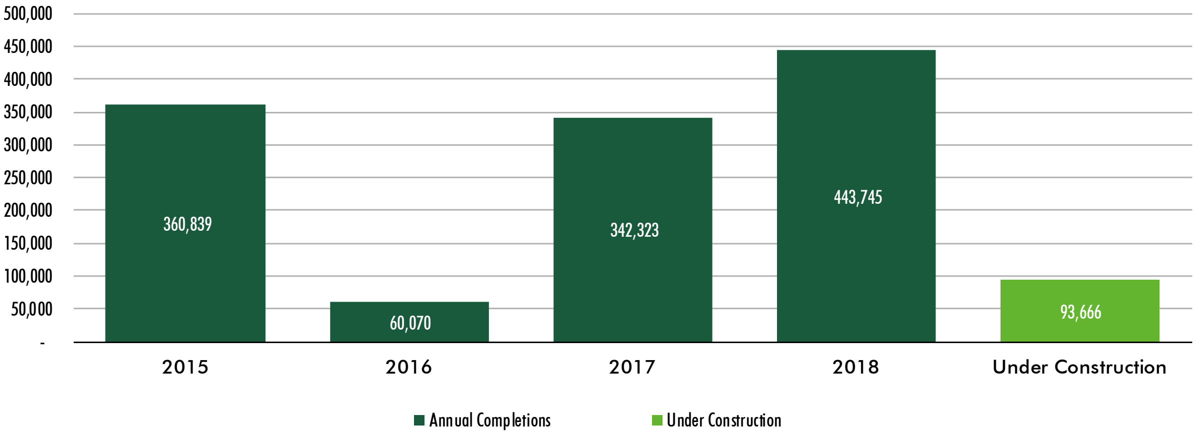
Construction has diminished a notable 83% year-over-year with 80,666 SF set to deliver by the end of Q2 2019 space. Only 40% of this space will be available and will add roughly 16,000 SF of competitive space to both the Ankeny and CBD markets.

Expect construction to continue at this modest pace for the foreseeable future as developers take notice of the changing environment. Rising construction costs, interest rate hikes, and increased LTV requirements are just a few of the catalysts we suspect will notably heighten development costs over the next 1-5 years.

Under Construction

Property	Size (SF)	Delivery Date	Developer	City	Submarket
Vintage Hills Office	16,666	Q2 2019	DRA Properties	Ankeny	Ankeny
111 E Grand Ave	64,000	Q2 2019	JSC Properties	Des Moines	CBD
Miesblock	13,000	Q2 2019	Nelson Construction	Des Moines	CBD

Construction (SF)



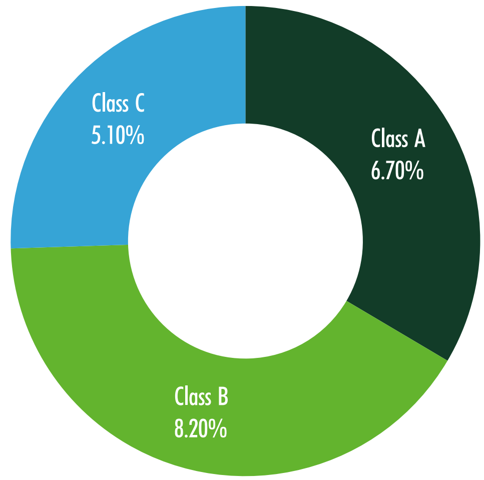
SOURCE: CBRE|Hubbell Commercial

VACANCY

As expected, competitive market occupancy levels softened 23 bps metro wide as a handful of large office users transitioned from leased space to corporately owned campuses. Ankeny is the only submarket that experienced increased occupancy rates with an impressive 6.8% increase year-over-year bringing vacancy to a healthy 5.3%. The Western Suburbs and CBD both saw occupancy levels soften by 32bps and 17bps respectively.

Class A space experienced the biggest dip in occupancy softening 30 bps year-over-year. This was expected as projects like Paradigm and Westfield delivered sizeable floor plates of Class A product to the market. Paradigm remains 100% vacant with 46,734 SF of leasable space.

Competitive Market Vacancy by Class



Vacancy (%)

LEASE RATES

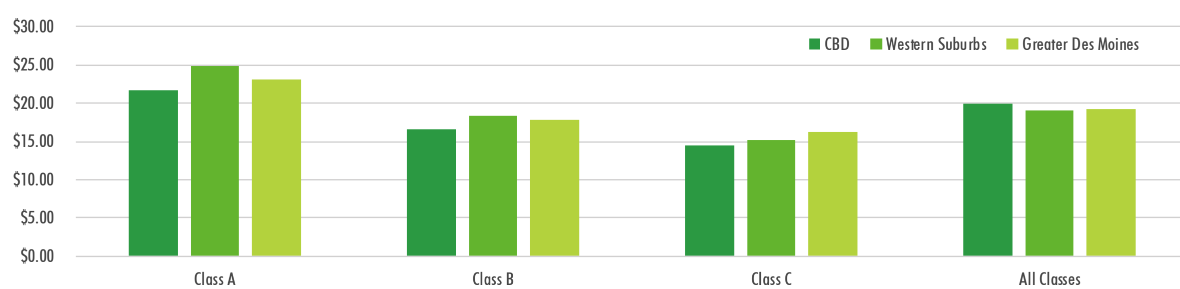
Competitive market gross asking lease rates for the Des Moines metro came in at $19.20 PSF. This is a 1.7% increase year-over-year and reinforce the markets slow but steady rent growth. All classes of space in the CBD, Western Suburbs, and the Greater Des Moines metro saw year-over-year rent bumps. Class A space experienced the strongest growth with a 2.4% increase across the metro.

The Western Suburbs continue to command the highest rents with Ankeny and the CBD is not far behind. We fully anticipate this trend will continue as the West suburban submarket continues to distance itself as additional Class A space comes-online over the next 1-5 years.

Based on Asking Rents

	Class A	Class B	Class C	All Classes
Western Suburbs	2.00%	1.50%	1.60%	1.70%
CBD	2.70%	1.30%	1.10%	2.00%
Greater Des Moines	2.40%	1.40%	1.30%	1.70%

Asking Lease Rate ($PSF/YR/FSG)



SOURCE: CBRE|Hubbell Commercial

Entire Market Statistics

	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption	Under Construction
Metro Overall	24,599,048	1,328,348	5.40%	(133,965)	80,666
Class A	11,307,393	565,369	5%	(12,857)	
Class B	11,708,601	725,933	6.20%	(106,185)	80,666
Class C	1,583,054	55,406	3.50%	(14,923)	
Western Suburbs	12,025,985	817,766	6.80%	14,176	
Class A	4,376,433	297,597	6.80%	70,532	
Class B	6,711,048	463,062	6.90%	(35,885)	
Class C	938,504	55,372	5.90%	(20,471)	
CBD	10,066,469	392,592	3.90%	(110,864)	64,000
Class A	6,840,960	266,797	3.90%	(3,389)	
Class B	3,003,045	126,128	4.20%	(27,475)	64,000
Class C	222,464	0	0%	0	
Northwest	783,473	14,886	1.90%	(1,890)	
Class A	0	NA	NA	NA	
Class B	537,162	15,040	2.80%	(7,438)	
Class C	246,311	0	0%	5,548	
Northeast	384,029	4,992	1.30%	0	
Class A	90,000	0	0%	0	
Class B	254,661	5,094	2%	0	
Class C	39,368	0	0%	0	
South	597,223	65,097	10.90%	(62,723)	
Class A	0	NA	NA	NA	
Class B	486,073	64,647	13.30%	(62,723)	
Class C	111,150	0	0%	0	
Ankeny	741,869	49,705	6.70%	27,336	16,666
Class A	0	NA	NA	NA	
Class B	716,612	49,446	6.90%	27,336	16,666
Class C	25,257	0	0%	0	

The entire market analysis includes competitive and non competitive office space in classes A, B and C.

SOURCE: CBRE|Hubbell Commercial

Competitive Market Statistics

	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption	Under Construction	Gross Asking Rate ($/SF/YR)
Metro Overall	13,411,284	1,086,314	8.10%	(110,520)		$19.20
Class A	5,038,569	428,278	8.50%	22,021		$23.06
Class B	7,290,049	597,784	8.20%	(103,043)		$17.83
Class C	1,082,666	55,215	5.10%	(29,498)		$16.21
Western Suburbs	7,203,071	669,885	9.30%	(28,483)		$19.86
Class A	2,477,447	200,673	8.10%	70,532		$24.83
Class B	4,124,688	416,593	10.10%	(69,517)		$18.40
Class C	600,936	55,286	9.20%	(29,498)		$15.26
CBD	4,671,276	355,016	7.60%	(76,486)	16,000	$19.05
Class A	2,471,122	229,814	9.30%	(48,511)		$21.69
Class B	1,992,690	123,546	6.20%	(27,975)	16,000	$16.55
Class C	207,464	0	0%	0		$14.50
Northwest	487,232	15,104	3.10%	(7,438)		$17.65
Class A	0	NA	NA	NA		NA
Class B	329,796	14,840	4.50%	(7,438)		$18.41
Class C	157,436	0	0%	0		$15.83
Northeast	318,919	0	0%	0		$16.90
Class A	0	NA	NA	NA		NA
Class B	200,248	0	0%	0		$17.77
Class C	28,671	0	0%	0		$14.56
South	317,320	21,260	6.70%	(19,016)		$16.97
Class A	0	NA	NA	NA		NA
Class B	242,871	21,129	8.70%	(19,016)		$16.95
Class C	74,449	0	0%	0		$11.03
Ankeny	413,466	21,913	5.30%	20,903	16,666	$19.81
Class A	0	NA	NA	NA		NA
Class B	399,756	21,913	5.50%	20,903	16,666	$20.13
Class C	13,710	0	0%	0		$17.01

Competitive Office is a segment of the entire market and consists of buildings considered by the market to be competing for tenants. The competitive inventory can vary from year-to-year without any new construction or demolition as building(s) may be reclassified from non-competitive.

SOURCE: CBRE|Hubbell Commercial

OFFICE SPACE

featured advertising listings

1963 BELL AVENUE
1963 Bell Avenue, Des Moines, IA 50315

5,000-63,381 SF Available

Max Contiguous Space: 63,381 SF
Min Divisible Space: 5,000 SF
Construction State: Existing
Year Built/Renovated: 1963/2018-Present
Building Size: 114,000 SF
Number of Floors: 3

Lease Rate: $7.50 SF/yr
Lease Type: NNN

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CBRE | Hubbell Commercial
Riley Hogan
(515) 221-6683
riley.hogan@cbre-hubbell.com

RUAN CENTER
666 Grand Avenue, Des Moines, IA 50315

2,000-78,942 SF Available

Max Contiguous Space: 78,942 SF
Min Divisible Space: 2,000 SF
Construction State: Existing
Year Built: 1973
Building Size: 78,942 SF
Number of Floors: 34

Lease Rate: $17.75 SF/yr
Lease Type: FSG

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CBRE | Hubbell Commercial
Bill Wright
(515) 221-6653
bill.wright@cbre-hubbell.com

CAPITAL SQUARE
400 Locust St, Des Moines, IA 50309

146,949 SF Available

Max Contiguous Space: 36,167 SF
Min Divisible Space: 1,0443 SF
Construction State: Existing
Year Built: 1985
Building Size: 454,619 SF
Number of Floors: 8

Lease Rate: $7.50-12.00 SF/yr
Lease Type: Net

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CBRE|Hubbell Commercial
Tyler Dingel
(515) 221-6662
tyler.dingel@cbre-hubbell.com

BUTLER MANSION
2633 Fleur Drive, Des Moines, IA 50321

73,700 SF Available

Construction State: Existing
Year Built: 1981
Building Size: 73,700 SF
Number of Floors: 3

Sale Price: $5,250,000

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CBRE | Hubbell Commercial
Riley Hogan
(515) 221-6683
riley.hogan@cbre-hubbell.com

7300 WESTOWN PARKWAY
7300 Westown Parkway, West Des Moines, IA 50266

73,700 SF Available

Max Contiguous Space: N/A
Min Divisible Space: N/A
Construction State: Existing
Year Built/Renovated: 1979/2019
Building Size: 58,645 SF
Number of Floors: 3

Lease Rate: $9.50-13.50 SF/yr
Lease Type: NNN

CUSHMAN & WAKEFIELD
Iowa Commercial Advisors

Cushman & Wakefield
Iowa Commercial Advisors
Steve Scott
(515) 778-7268
sscott@iowaca.com

6400 WESTOWN PARKWAY
6400 Westown Parkway, West Des Moines, IA, 50266

80,800 SF Available

Max Contiguous Space: 80,800 SF
Min Divisible Space: N/A
Construction State: Existing
Year Built: 2004
Building Size: 80,800 SF
Number of Floors: 2

Lease Rate: $18.00 SF/yr
Lease Type: NNN

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justin.lossner@am.jll.com

THE DEPOT
1045 76th Street, West Des Moines, IA 50266

12,116 SF Available

Max Contiguous Space: 3,615 SF
Min Divisible Space: 1,693 SF
Construction State: Existing
Year Built: 2015
Building Size: 32,796 SF
Number of Floors: 3

Leasing Rate: $18.00 SF/yr
Leasing Type: NNN

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WESTRIDGE I
3001 Westown Parkway, West Des Moines, IA 50266

67,275 SF Available

Max Contiguous Space: 22,450 SF
Min Divisible Space: Contact broker
Construction State: Existing
Year Built: 1977
Building Size: 67,275 SF
Number of Floors: 3

Lease Rate: $10.50 SF/yr
Lease Type: NNN

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801 GRAND
801 Grand Avenue, Des Moines, Iowa, 50309

147,106 SF Available

Max Contiguous Space: Up to 100,000 SF
Min Divisible Space: 4,967 SF
Construction State: Existing
Year Built: 1991
Building Size: 970,000 SF
Number of Floors: 44

Lease Rate: $15.00 - $18.00 SF/yr
Lease Type: NNN

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909 LOCUST
909 Locust Street, Des Moines, IA 50309

14,521 SF Available

Max Contiguous Space: 14,521 SF
Min Divisible Space: 4,029 SF
Construction State: Existing
Year Built/Renovated: 1996/2018
Building Size: 225,654 SF
Number of Floors: 6

Lease Rate: $16.50 SF/yr
Lease Type: NNN

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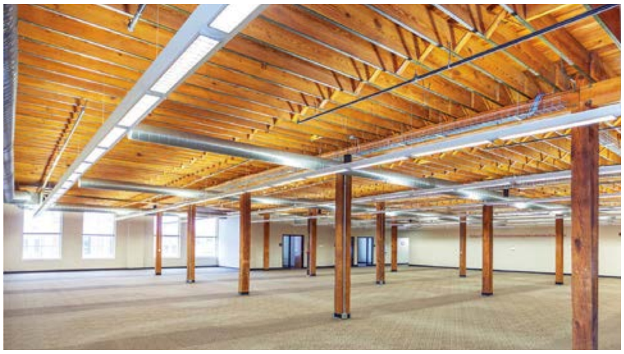

430 E GRAND
430 E Grand, Des Moines, IA 50309

51,999 SF Available

Max Contiguous Space: 18,001 SF
Min Divisible Space: 5,000 SF
Construction State: Existing
Year Built/Renovated: 1904/2004
Building Size: 51,999 SF
Number of Floors: 3

Lease Rate: $16.75 SF/yr
Lease Type: NNN

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(515) 371-0846
justin.lossner@am.jll.com

THE DISTRICT IV AT PRAIRIE TRAIL
1355 SW Park Square Drive, Ankeny, IA 50023

19,544 SF Available

Max Contiguous Space: 10,534 SF
Min Divisible Space: 2,648 SF
Construction State: U/C
Year Built: 2019
Building Size: 45,566 SF
Number of Floors: 3

Lease Rate: $18.00 SF/yr
Lease Type: NNN

JLL
Marcus R. Pitts
(515) 218 7017
marcus.pitts@am.jll.com

CENTURY
2700 Westown Parkway, West Des Moines, IA, 50265

937-8,578 SF Available

Max Contiguous Space: 8578 SF
Min Divisible Space: 937 SF
Construction State: Existing
Building Size: 89,494 SF
Number of Floors: 4

Lease Rate: $14.50-$17.50 SF/yr
Lease Type: Gross

Sunrise Ankeny Properties LLC
Jordan Bouslog
(515) 402-9131
jordanb@iowrealtycommercial.com

2635 BERKSHIRE PARKWAY
2635 Berkshire Parkway, Clive, IA 50325

4,088 SF Available

Max Contiguous Space: N/A
Min Divisible Space: 1,086 SF
Construction State: Existing
Building Size: 10,520 SF

Lease Rate: $10.00-$14.00 SF/yr
Lease Type:NNN

NAI Iowa Realty Commercial
Jerry Marckres
(515) 453-5482
jmarckres@iowarealtycommercial.com

1800 HULL AVENUE
1800 Hull Avenue, Des Moines, IA 50313

Construction State: Existing
Year Built/Renovated: 1985/2013
Building Size: 85,540 SF

Sale Price: $4,277,000

NAI Iowa Realty Commercial
BJ Connolly
(515) 770-8431
bj@iowarealtycommercial.com

WESTFIELD CAMPUS

1080 Jordan Creek Parkway, West Des Moines, IA, 50266

58,000 SF Available

Max Contiguous Space: N/A
Min Divisible Space: N/A
Construction State: Existing
Year Built: 2018
Building Size: 180,000 SF
Number of Floors: 4

Lease Rate: $22.95 SF/yr
Lease Type: NNN

R&R Real Estate Advisors

R&R Real Estate Advisors
Paul Rupprecht
(515) 223-4500
Rupprecht.Paul@rrrealty.com

NEWPORT

1075 Jordan Creek Parkway, West Des Moines, IA, 50266

24,000 SF Available

Max Contiguous Space: N/A
Min Divisible Space: N/A
Construction State: Existing
Year Built: 2017
Building Size: 75,000 SF
Number of Floors: 3

Lease Rate: $17.10 SF/yr
Lease Type: NNN

R&R Real Estate Advisors

R&R Real Estate Advisors
Paul Rupprecht
(515) 223-4500
Rupprecht.Paul@rrrealty.com

PARADIGM OFFICE BUILDING

12100 Meredith Drive, Urbandale, IA 50323

90,000 SF Available

Max Contiguous Space: N/A
Min Divisible Space: N/A
Construction State: U/C
Year Built: Phase I - 2018 Phase II - 2019
Building Size: 90,000 SF
Number of Floors: 2

Lease Rate: $15.10 SF/yr
Lease Type: NNN

R&R Real Estate Advisors

R&R Real Estate Advisors
Paul Rupprecht
(515) 223-4500
Rupprecht.Paul@rrrealty.com

RETAIL

RETAIL **_CHAPTER FEATURES_**

ROUNDTABLE Q&A
TRENDS TO WATCH
TOP DEALS IN 2018
HUBBELL MARKETVIEW
FEATURED ADVERTISING LISTINGS
ONLINE: Q&A VIDEO BUSINESSRECORD.COM/AREM

BY KENT DARR

One thing can be said about the retail world: There's never been a dull moment over the last several years as it casts about on something of a vision quest and spins a range of nifty buzzwords during that search. Little question it generates some heartburn along the way.

A hot corner, a busy corridor, a new frontier – they're all waiting for storefront retailers who can find them. Chances are the bigger players in the field have the data to help them zero in on the right locations, and if they follow their online leads to a brick and mortar shop, so much the better.

Our retail panel met at a time when big department stores were cratering, leaving the local malls that hosted them searching for better days. We couldn't let an hour of conversation slip by without talking about Merle Hay Mall and Valley West Mall (soon to be Valley West Commons).

But there's more to the landscape. For example, where is the next retail frontier in Greater Des Moines? Where are retailers feeling the most pain and, really now, just how acute is it? A great question came from panelist Laura Rowley, a retail specialist, consultant and author who has advised the Greater Des Moines Partnership on downtown retail.

What is the Greater Des Moines "vibe," she asked, and is there a way, possibly through social media, to communicate the retail message?

Our panel would have agreed with this comment from Richard Hurd, who has proved plenty adept at negotiating the bumpy terrain of retail in a dozen markets across the country, on the general theme hovering over retail this year.

"The underlying theme is the strong retailers are doing quite well and they will continue to do well. They're opening new stores at a pretty rapid pace," Hurd said.

Others on the panel were Tim Leach of the Greater Des Moines Partnership and brokers Aaron Hyde of JLL and Collin Nelson of Cushman & Wakefield Iowa Commercial Advisors.

Read the discussion on p. 40 >>>


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CORRIDORS, CORNERS, FRONTIERS

There are few safe harbors, but retail continues to seek a safe landing spot

BY KENT DARR

EXPERTS: **TIM LEACH,** *SENIOR VICE PRESIDENT OF DOWNTOWN DEVELOPMENT, GREATER DES MOINES PARTNERSHIP* | **COLLIN NELSON,** *ASSOCIATE, CUSHMAN & WAKEFIELD IOWA COMMERCIAL ADVISORS* | **AARON HYDE,** *VICE PRESIDENT, JLL* | **RICHARD HURD,** *PRESIDENT, HURD REAL ESTATE SERVICES* **LAURA ROWLEY,** *PRESIDENT, ROUGH MEADOW DIGITAL MEDIA*

MODERATORS: **KENT DARR**, *STAFF REPORTER, BUSINESS RECORD* | **SUZANNE BEHNKE,** *CONTRIBUTOR*

ISSUES DISCUSSED

THE CHANGING MALL SCENE

'THE FRICTIONLESS CITY'

THE NEXT RETAIL FRONTIER

THE PANEL: The Business Record hosted a panel discussion, moderated by Senior Staff Writer Kent Darr and Suzanne Behnke, in an effort to identify key trends and issues in the retail market. Read on to view an edited version of that discussion and view video of the entire discussion at ***businessrecord.com/AREM***

THE CHANGING MALL SCENE

Q: How important is the survival of a retail center like Merle Hay Mall? How significant is it to pump additional public monies into helping that mall deal with the fickle nature of retail?

Richard Hurd:
Since [Hurd Real Estate Services has] the listing on the Sears building out there, I'll take a shot at it. I think it's not a one size fits all answer to that question. It depends on where your mall is located and the surrounding neighborhood. If we were talking about Merle Hay in particular, the answer is one thing. If you're talking about Valley West, the answer would be something else because the conflict between the two is that Valley West is in a location that allows it to be developed into other types of uses that would probably not be successful at Merle Hay. Merle Hay also, keep in mind, is the only ... I mean, it's in Des Moines, primarily. There's a little piece in Urbandale, but it's primarily a Des Moines mall. South Ridge is pretty much de-malled already, so it's really the only mall left in Des Moines proper.

I think it's important for that area of the city to see it survive. It won't survive in the same fashion and configuration and services that it's been since 1959 because department stores are on the decline. It's really not going to be a four department store mall. It may be a one or two department store. Sears could very easily become a medical use. It could become some other type of ancillary use that brings in traffic and provides services to the neighborhood but not necessarily a pure retail play.

If your question is really more specifically about Merle Hay, I think it's pretty important for that area of town, but it's going to provide different services than what we have traditionally seen out there going forward.

Tim Leach:
I think Richard's exactly right. I think it's important to that neighborhood, and I think that is such a large, key piece of real estate. It's important to the [Des Moines] neighborhood. It's important to Urbandale. It's right there. I think you have to keep those neighborhoods connected. You can't make that Merle Hay area an island, if you will. You've got to figure out how to connect it back to downtown. Again, some of the successes we've had in downtown, you keep it

connected in a neighborhood so it doesn't fall into disinvestment and more disinvestment. Sooner or later, you've really got problems on your hands. I do think it's going to look a lot different than it did in '59 and through its heyday.

Collin Nelson:
The surrounding neighborhood is a bit in transition where you've got a lot of homeowners that have been in those homes for a long time and they're starting to sell those homes off to first-time buyers. The demographics of the neighborhood, I think, are changing a bit. It's in transition and those first-time homebuyers coming in are looking for services and amenities. A Flix Brewhouse would be great for that neighborhood. I think those guys are on it. What they've done so far is great, but it's just continuing that transition.

Q: What would fit in a vacant Younkers at Valley West Mall that wouldn't fit in a vacant Younkers at Merle Hay?

Hurd:
Well, office. You have to realize that Valley West has a lot of attributes that Merle Hay doesn't have. Merle Hay has a lot of attributes that Valley West doesn't have. They're just totally different puzzles. If you own one or the other, your approach would be totally different as to where to go in 2019. First of all, Des Moines had four malls. We're probably a one and a half to two mall city in terms of population in today's world. What does that mean? There's only two chairs and there's four malls. South Ridge is already pretty much converted to a strip center, so that one's off the table. The problem Valley West has is it's just, frankly, physically too close to Jordan Creek. Jordan Creek is the premier mall. It will be the premier mall. It will do just fine because we need a good, solid mall. There is virtually no vacancy in the corridor. It's where every retailer wants to be that comes to town. If you look at it from that perspective, Merle Hay has a benefit because it is physically further away from Jordan Creek than Valley West. The other thing that Merle Hay has going for it is that one of the other big growth areas of the metro is Ankeny. Merle Hay is north and closer to Ankeny, and there is an awful lot of population growth in Ankeny that needs to be served.

The good news for Valley West is it's right on Interstate 235. It's great real estate. You're at the beginning of the office corridor. Younkers could be fairly easily converted into office. It's got a big parking field. It's got great access. The rest of it, I mean, there's all kinds of things that can be done from all kinds of experiential retail, to service retail to residential. There will probably be some residential on that site before it's over.

Leach:
Valley West is going to look a little different. It's going to have to evolve with the neighborhood around it. Basically, that area is pretty vibrant. There's a lot of traffic out there. There's a lot of cars in that lot. Von Maur brings a lot of traffic. Is it going to go through some growing pains when losing the big boxes? Probably. Are they going to look the same? Are there going to be different services? Is there health care? Are there fitness or new things on the horizon, new services that people are looking for? I think all malls in that particular category, not to equate them exactly on a real estate basis, but I think they have to evolve with the changing times.

'THE FRICTIONLESS CITY'

Q: *(via Laura Rowley)* **I had a question for the panel. Travel and Leisure surveys thousands of people every year and asks them for the list of America's favorite places. Des Moines has a lot of the characteristics that were reflected in this survey that people love – friendly residents, a relaxing ambience, historic preservation, walkability. How would you define Des Moines' vibe? If you had to pick three adjectives that described Des Moines' vibe for you, what would they be?**

Aaron Hyde:
To me, it's just a chill, laid-back, Midwestern vibe. I don't know if that hits where you're going. Just like a lot of places, different pockets or different neighborhoods have this, even downtown looking at the Western Gateway, the core and the East Village, they all have their own little feel to it. It's cool, but Des Moines, too, has done a great job of marrying all those together.

Nelson:
Yeah, I'd agree with that. I think certain pockets of Des Moines or different neighborhoods have a different feel to them. If you look at East Village and downtown versus Ingersoll, those are similar but two distinct vibes. Then you look at a West Des Moines, which has a different vibe, but I think downtown and specifically the East Village is very nice to look at. A lot of local businesses like Raygun that are locally grown or some of those that are satirical and funny. Getting to your point, there's different pockets,

but I think it all flows together nicely and there's a little bit of something for everybody.

Leach:
A few of us can go back when the Partnership first started and one of our first campaigns was to change your view, change your own attitude. We have that Midwest, humble attitude, look down at your shoes when people are giving you compliments kind of thing. It's surprising. We really hit above our weight class. Our rankings are very proven. We constantly fight a battle of "do we say enough about ourselves?"

I think one of our taglines over the years was "the surprising place." It surprises people sometimes how well Des Moines does.

Q: Would wholesome fit? That's kind of what you're saying, Tim. Raygun seems to be beyond the box, but they're incredibly successful and wildly popular; seems very un-Des Moinesian to someone who grew up around here.

Leach:
I would agree. I think they had just enough to be really popular. They can make fun of us a little bit and we all enjoy it, but I think wholesome is a good word. It's Midwest. It's who we are. I think we should be proud of a lot of that.

Hyde:
You used the word Des Moinesian. I think we're a lot less Des Moinesian than people think. We have these cool things. We have these Rayguns. We have this great food. There's a lot more going on here. Every time I bring somebody to town to tour, they're really blown away, every single time. I think a lot of people who live here don't realize how nice it is and how good we have it. I go to these other markets and these other property tours. It's not as nice. Our downtown for a small market is just great. It's married together. It's easy to get around. There's a lot of cities that are our size or just a tad bigger. They just don't have it together.

Rowley:
That's interesting. I mean, as somebody who lived on the East Coast for 20 years, I'd say yeah, people definitely don't know how good they have it here. I think of Des Moines as friendly, affordable, livable. My husband and I call it the frictionless city. It's easy. You can get anywhere. I think about it as a place where there's primaries and the fabulous farmers markets and the State Fair. I'm just wondering how that's reflected in the retail vibe. I just wonder if Des Moines in the future in some of these neighborhoods could have a cohesive theme to it. Maybe that's something that arises out of things like geography and culture, and so you have a town that has all Victorian will have those kinds of shops or a town that has all Colonial will have, will reflect that, because that's the kind of people they're drawing in. I'm just wondering if you could bolster retail by communicating its vibe in a certain way.

Q: I'm wondering if there's a central social hub around the retail part of Des Moines? Where do you get your information about what's happening in retail?

Nelson:
I don't know that there is one hub. I'd say if you're browsing a lot of content, you see it on Facebook. You see it on Twitter and Instagram. ... It happened just the other day, speaking of social media and people advertising, how those two can work together. I was on Instagram and I saw a picture. I touched the picture of this gentleman and a button popped up for every piece of clothing he was wearing. I clicked on the button for his watch, and it took me to Casio's website. I looked at the watch, wasn't sure, it was a little bulkier than I'm used to. At the bottom, there's a box that says, "Find a store near you." I put my ZIP code in, and there's three stores around Des Moines that had it. I went to the store, tried it on, and I liked it and I bought it. That was a really seamless process. That's really crazy if I think about how online and in-store can work together and a lot of, especially these places that people are able to leverage that.

Hyde:
To get back to what you were saying, I don't know that there is one way or one channel. I think maybe it depends on what the product is and what you're buying. The first thing that comes to my mind is furniture. There's a lot of folks here in town who will make custom pieces for you. It's all over Instagram, or if you just say, "Oh, I like this," you can find them on Instagram and they'll make it for you. When it comes to bands or stuff like that, it seems like it's usually Facebook notifications that I get. It's coming at you from every angle.

Leach:
I'm not so sure that in retail it would be one central social media. Gen Z is about 11 percent Facebook while boomers are about 25 percent. The millennials, you hear that they do most of theirs on Instagram or Snapchat, so it depends on what audience you're after for what channel you would be using. Those are the numbers. If your

target is a boomer probably, then you'll probably use Facebook. If it's the millennial crowd, it's probably Snapchat or Instagram.

Q: Richard, to refer to Laura's question about our "vibe," is there a type of retail that you would not pursue for one of your centers?

Hurd:
There are plenty of them that are out there that we wouldn't pursue for various reasons. Let's back up a step here. What type of culture do we have? The retail has to reflect the culture. It isn't the other way around. The stores reflect the culture of the city. What we try to do is we try to bring retailers that enhance the experience of living here based upon the culture of the city. [Hurd Realty is] in 12 states. What we have here may not be what we have in Las Vegas, for example, or in Phoenix.

The point is that you have to be cognizant of what actually is interesting, as Laura pointed out. Take Nashville, for example. What's the first thing that comes to mind? Music, so you would have a retail environment that would be highly sensitive to the music industry, especially country music. If you were there, you might have Gibson guitars and you might have clothing that reflects that lifestyle. We probably wouldn't be successful with that here just because we don't have the demand for it. That's an example of geography playing a role in how you select the retailers that you would work with and how they would select our market, also.

Nelson:
I'll touch on that as well. I think you need to really look at each company in specific. I think an example I would go to is a department store. A lot of people would say, "I wouldn't touch a department store right now." Here in Des Moines, maybe I wouldn't take a Sears or J.C. Penney, but I would take a Von Maur. I think we have to look at each company individually and how they fit into your neighborhood and your market and really take a look at them and try to stay away from industry generalizations.

THE NEXT RETAIL FRONTIER

Q: Are there any sleeper retail areas left? Has Johnston experienced its full potential for retail? Pleasant Hill, Norwalk?

Nelson:
In Johnston we've got this thing at 54th and 86th Street. We've seen some really good activity from restaurant users. I really like that neighborhood because it's an established neighborhood. It's got a lot of rooftops. We've got some good, solid employers with DuPont and Pioneer. You've got growing daytime population with the addition of John Deere going there and now the addition of Pella. It's the quarter that I think the perception there is that it's been underserved by restaurants and coffee users and things of that nature. That's one that I think we're excited about right now.

Hurd:
You're talking about corridors and nodes, I think. Collin's talking about a corner. Those are different things. There's no doubt that Waukee is the next retail frontier. It just is. It's where everything is moving. It will have all those services in time. Johnston, with all due respect, I don't believe will ever get that. Again, Johnston has the problem that it's in between Des Moines and Ankeny, and Ankeny is the next retail corridor. You've got Jordan Creek. You've got Merle Hay. You've got Ankeny and you've got Waukee and then the regional stuff out in Altoona. Those are really the nodes that have the strength for retail.

Hyde:
I'd like to piggyback on that. The Johnstons of the world, I think they'll do fine at the strip retail. You're not going to get the big box retail. It's just a tweener site. These guys, they're getting more selective. They have to be selective. They can only do so many stores, especially e-commerce and whatnot. When you're that close to Merle Hay, I don't see how you can do it. Up in Grimes you do have, I think, you'll see your grocer going in. You've got your Menard's and your Walmart and maybe a few other small friends, I'll call it, but I don't foresee a TJ Maxx necessarily going up there, and if it is, it's a long way in the future because it's just too close to everything else.

Leach:
When we had our focus groups it was pretty clear. We have really good neighborhoods and it was Jake Christensen pointed out we have a tendency to build lily pads and we're not connecting those. I think we need to concentrate on making sure we connect these neighborhoods. Some of that will happen naturally. You think about the underpass, going under the underpass at Fleur Drive and what's going on in Gray's Station and the Hubbell development. We'll start to connect that south area to downtown. We have to have an ounce or a pound of patience with Walnut Street as we take a look at especially that east building comes up. I'm talking about connections to make sure our neighborhoods are not isolated.

Then the other thing that came out as a strong imperative was that not every neighborhood from a retail perspective can be an East Village nor should be. I think the west end, for example, where the West End Salvage is, and we got the jazz club and we've got some other unique shops. It starts to take on an identity of its own.

In the area where the arena is and the hotel, there's some good real estate that's in pretty savvy development hands. I think you might see some more entertainment-type retail, entertainment being more sports-themed or entertainment-type things. Again, it seems like it's not fully connected, so some of those things will happen naturally and we've had some discussions with the city saying, "Where do we need to make connections?" Maybe that's where we target some of those incentive dollars to help the developers develop those areas.

IN CLOSING: DELIVERY SERVICES, ENTERTAINMENT AND RESTAURANTS, BROWN PACKAGES AREN'T GREEN, THE MIDDLE GROUND …

Leach:
I think we covered an awful lot of ground. I think in 2019 you're going to see more of the same [with] some changes coming, restaurants with delivery, for example. It's interesting to note that McDonald's started with 200 test sites. Now they've got 5,000 where they actually deliver. They've got Uber Eats and some of those that have cropped up. I think the subscription services have had huge growth online. You'll just see more and more as they figure out what it is people want.

I think some of these malls, or at least the high-quality malls, have an opportunity for some of that comeback. Some stores that we thought were down and out are making comebacks and have a possibility to fill some vacant spaces.

Nelson:
One thing I think I'm interested to watch, I think we've touched on it lightly in a couple of different ways, is Amazon. Obviously that's on everybody's mind as an online retailer, but with their acquisition of Whole Foods, they've entered the physical retail market. Now with their Amazon Go stores, I think they're up to a couple now in Seattle and Chicago, but there was a Bloomberg report the other day that said they might be up to 2,000 stores by 2021. If they are to hit that growth, that's pretty impressive. How does that hit the real estate market, and when do they come to Central Iowa? With all these retailers that are doing great and all this real estate up for grabs, who takes it? How does this fill in, and how does each unique asset and neighborhood reposition these assets, and what does that look like going forward?

Hyde:
I think we're going to see a lot more entertainment-type users in the marketplace and really try to take advantage of these big boxes that have gone out. I think we'll also see retailers offer more exclusive offers to try and draw you in for the experience. I think we'll see more of that. We're still going to see the restaurants grow, and we got a lot of cool ones coming.

Hurd:
I know it's not in the interest of a lot of the companies that are connected, but online shopping is terribly environmentally insensitive, and we hear nothing about it. Putting it on an airplane and flying it from LA to Memphis and from Memphis to Des Moines, and then you put it on a brown truck that's diesel-powered with one guy driving one package to everybody's house is not an environmentally wise way to deliver goods to people. Stores are much more efficient.

We're all here. We all went to work today. We all got in a car and drove to work. It's much more efficient to stop and pick up what you need on your way to and from work than it is to go through that process I just talked about, not to mention all the packaging it takes to package it. There is obviously a glut of packaging now in our country from all the cardboard. Then every time, as Tim or someone pointed out, every time you order something it's not the right size and you repeat the process all over again.

Rowley:
I'm very bullish on Des Moines, and I'm bullish on Des Moines retail. Part of it, I'm in the middle of writing a book with the tentative title "Live in a Flyover City and Get out of the Coast and Get a Life" because that's what my husband and I did. Five years ago we were living 60 miles outside of Manhattan, but our commute was an hour and a half each way. When I looked at Des Moines, it was such a 180 in lifestyle and I thought, "Is it only me?" I started to do some research, and there are all of these enormous economic, structural, social and cultural factors that are hitting millennials, everything from housing prices and property taxes to student loan debt to lower wages. At the same time you have these cities in the middle like Des Moines and Columbus, Ohio, and Omaha and Kansas City that are rising culturally and offering all the good bones that millennials that are starting to have children want, things like awesome schools and easy commutes and parks and recreation that's accessible. ■

RETAIL TAKEAWAYS

BY KENT DARR

PAINKILLERS

If retailers are feeling any pain, it's more than likely a result of the area's low unemployment rate. There aren't enough workers to go around.

"I've got a lot of guys that are trying to open up shops and they're having a heck of a time trying to find people that they can rely on to work in the stores," said JLL's Aaron Hyde.

Lack of workers is a big issue among restaurateurs, he said.

Smaller retailers also can be hampered by too little information about their markets. The Partnership is looking for ways to provide that data.

And there is the equally important task of making sure small businesses operate in a clean and welcoming environment, Leach said.

"There might be some movement afoot in the Market District for some public spaces, some parks, perhaps some pocket parks that serve a playground for the kids," Leach said.

Convincing residents that downtown is a good place to raise a family is important, too.

"As our neighborhoods mature, we want to keep these people downtown as they start families," Leach said. "Attracting more schools is a big part of it. Where are our kids going to go to school? That makes that neighborhood development programming even more important. … I think schools are a big part of our culture here."

A THEME: A RESURGENCE OF STOREFRONT RETAIL

The folks who study the studies and read the data are upbeat about the future of brick and mortar retail in a variety of forms. "Physical retail is really making a resurgence in a lot of areas and probably doesn't get as much press as it should," Richard Hurd said. "We still have the weak retailers that are still closing stores, but the other side of it is that there's more stores opening. There will be more openings in 2019 than there are closures."

"Clicks to bricks" filled several snippets of conversation. It is used to describe online retailers that take to the streets.

"I think it's more of an evolution than the retail apocalypse that everyone has talked about, especially if you look at digital native retailers," Laura Rowley said. "They have the data that tells them where to open the stores. There was a retail study that found digitally native brands are going to open 850 stores this year. It's a burgeoning area of the market."

The digital retailers are "able to keep track of their online sales and they're really able to dig in and make some important decisions on what markets they should be in, where they should be in those markets," Collin Nelson said.

Citing a study by the International Council of Shopping Centers, Aaron Hyde noted that online retailers reported a 37 percent spike in internet traffic after they opened a brick and mortar store.

"High-quality real estate's going to be very, very competitive," Tim Leach said. "That said, B and C space still may have some struggles. Some of those midtier, lower tier malls seem to continue to struggle, but high-quality real estate is going to be very competitive.

BUILDING ON THE TARGET STRATEGY

We asked Laura Rowley to provide some insight on how big-box retail has managed to succeed where others of its ilk have failed. The author of "On Target: How the World's Hottest Retailer Hit a Bull's-Eye," she is the person to ask.

Here's the answer:

"Target had a couple of things going on. From the very beginning, the founders had a clear vision that it was going to be the upscale discounter. In 1962, the Dayton brothers said, 'This is not going to be a straightforward competitor to Kmart or Walmart. We will be the upscale discounter. We're not going to discount because we're selling cheap goods at cheap prices. We're going to sell high-quality goods at a value.' They had come out of the Dayton department store tradition and sort of continued that quality aspect.

"The other thing they've been really good at is creating their own brand by cherry-picking the other brands. It started with Michael Graves, the architect. He started doing fancy housewares for them. Then one by one by one they started having all of these individual designers coming in and doing a line specifically for Target. They were one of the first retailers to really get the notion that you make something affordable and surprising and you change your collections over time with something that's exclusive to the store.

"The other thing that they were really smart about is they did not make themselves into a mini mall. It was always Target brings me Michael Graves, where if you looked at Kmart, I think it was Martha Stewart is at Kmart. They were almost subordinating their brand to the larger name, and Target doesn't do that. They made their brand front and center.

"You see retailers downtown like Raygun that are jumping on this trend of fast retail mixed with media. It's really interesting to me that a lot of media companies are doing retail. Companies like Ziff Davis, PC Magazine, they're making most of their money now on affiliate marketing. They'll review a tech product and then you'll click through and you'll buy that tech product and they'll get a commission. Media is doing retail, but then you see retail doing media. Raygun did a whole, I mean they turned around a whole T-shirt line around the Elizabeth Warren comment, "Nevertheless, she persisted." By 9 a.m. that morning they had shirts in the store with that slogan on it, same day, and did tens of thousands of dollars of retail on that media theme.

"I think speed is involved. I think media is involved. I think that having a really clear, authentic voice. Target had those things, and you see successful retailers today building on that." ■

RETAIL

TRENDS TO WATCH

Creating a retail experience

NIKKI SYVERSON
DIRECTOR, CAPITAL CROSSROADS

Please identify one trend in your area to watch in the upcoming year.

One trend to watch for is the emphasis on placemaking in the retail environment. Today's consumers, especially the large consumer mass of millennials, don't want to just go to a store, they want an experience. That starts with the neighborhood. What feeling does the shopping district evoke? What makes it unique? And, most importantly, what makes people want to come back to that shopping district?

Could you please explain the impact of that trend?

Focusing on placemaking and district identity is one strategy of the Downtown Retail Plan that was released at the end of 2018. Creating a unique overall shopping experience is critical to enticing shoppers to come through the doors versus simply clicking online. In today's tech-driven world, consumers crave an experience. Whether it's investing in public art, creating places to gather or hosting special events, creating a compelling reason to visit a destination also creates repeat customers.

One district that has really made placemaking a focus is the Avenues along Grand and Ingersoll. From the new district branding to investing in murals, they are working collectively to give the neighborhood a distinct feel and attraction. As our downtown neighborhoods continue to grow and evolve, we'll see similar strategies employed. For instance, the "West End" is a burgeoning area within the Western Gateway that's gaining traction as a niche area for creatives through its range of artistic shops and entertainment venues. In the future, in addition to distinct district branding, we'll see more shops, restaurants and public art experiences that feed off the funky, artistic vibe of the area.

Investing in place is beneficial for all. It creates more vibrant neighborhoods; draws consumers in the doors, which helps our small businesses' bottom lines; and in turn, bolsters our local economy. Soon we'll see that it's not just something that's nice to have, it will become a must-have for retailers both big and small.

RETAIL

TOP DEALS OF 2018

$19M

Mills Fleet Farm, Ankeny

Hurd Real Estate Services paid $19 million to New York-based hedge fund Davidson Kempner Management for the Mills Fleet Farm at 3875 S.E. Delaware Ave. in Ankeny plus 4.5 acres that can be developed for additional retail. Hurd Realty represented itself. The seller was represented by Will Pike of CBRE Group Inc.'s New York office.

$9.4M

California investor buys neighborhood retail

Westown Properties LLC paid $9.4 million on Feb. 1 to Mark Anderson Properties LC for neighborhood shopping centers at 2651 100th St. and 2725 100th St., Urbandale. Westown Properties is managed by California investor Karr Field.

$7.85M

Neighborhood shopping center and warehouse

MCR Investments VI LLC paid $7.85 million on Nov. 12 to Signature Real Estate Holdings for a 52,000-square-foot neighborhood shopping center at 10101 Hickman Road, Urbandale, and a 78,234-square-foot warehouse at 10161 Hickman Road, Urbandale. The properties were owned by Signature entity 10151 Hickman LLC.

$6.2M

West Des Moines Red Lobster

Dan C Inc. of Gold River, Calif., paid $6.2 million on Sept. 27 to an entity of CIM Group of Phoenix for the Red Lobster property at 3838 Westown Parkway, West Des Moines.

$4.4M

Southport Plaza, Des Moines

Southport Group LLC paid $4.4 million on May 22 to Southport Partners LLC for Southport Plaza at 6301 S.E. 14th St., Des Moines.

$3.8M

Neighborhood shopping center, Ankeny

Corgi One Ankeny Properties LLC, based in Las Vegas, paid $3.8 million on Feb. 5 to HDANK Investment LLC, managed by Ron Daniels, for a neighborhood shopping center at 2325 S.E. Delaware Ave., Ankeny.

$3.2M

Willis has room to grow in Clive

Willis Auto Campus paid nearly $3.2 million on Oct. 31 to 121 Acquisition Co. LLC of Dallas for the former Nebraska Furniture Mart at 2075 N. 94th St., Clive. 121 Acquisition is the real estate arm of Nebraska Furniture Mart, which is a part of Berkshire Hathaway. Nebraska Furniture Mart moved into a former Dahl's store at 156th Street and Hickman Road.

$2.98M

Neighborhood shopping center, Urbandale

Steelsmith Properties LLC paid $2.98 million on May 30 to Linden Holden Co. LLC for the 34,976-square-foot Westmark Plaza II neighborhood shopping center at 2601 86th St., Urbandale.

$2.9M

Des Moines hotel

Ram Lodging LLC paid $2.9 million on April 18 to PIDI Investments LLC for the Econo Lodge hotel at 4743 Merle Hay Road, Des Moines.

$2.7M

Auto repair in Ankeny

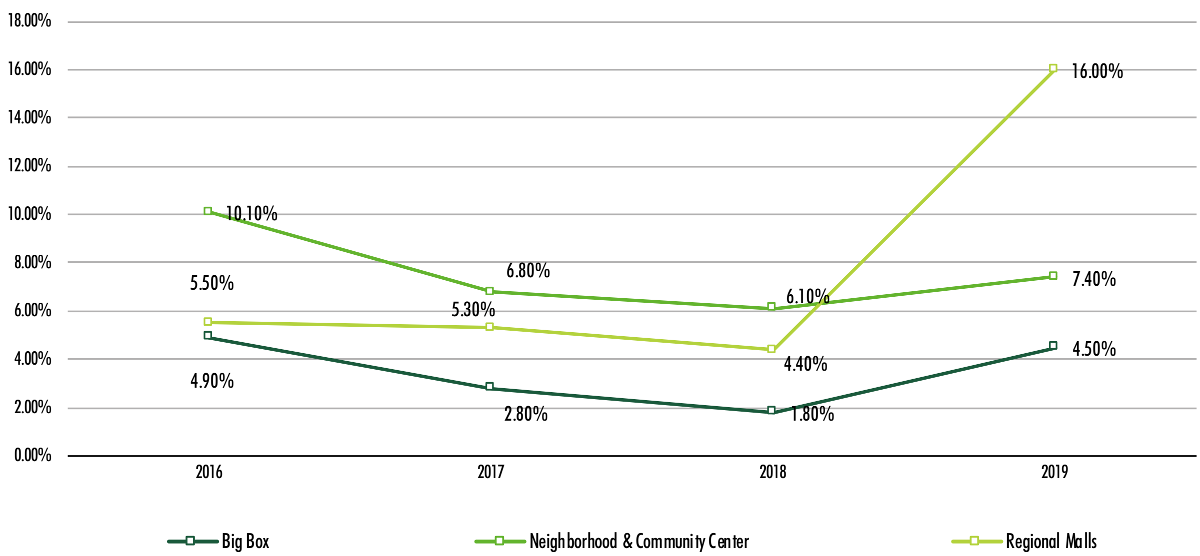
Littleton, Colo.-based 1315 Ankeny LLC paid $2.7 million on Dec. 18 to CBH Properties Ankeny LLC of Houston for the Christian Brothers Automotive repair shop at 1315 N. Ankeny Blvd., Ankeny.

Des Moines Metro Retail, Q1 2019

Retailers continue to reinvent in response to customer behavior changes

▲ Vacancy Rate (Neighborhood Center) **7.40%**	▲ Vacancy Rate (Big Box) **4.50%**	▲ Vacancy Rate (Regional Malls) **16.00%**	▼ Net Absorption (Neighborhood Center) **(3,335) SF**	▼ Net Absorption (Big Box) **(135,492) SF**

Vacancy Rates



HIGHLIGHTS

- The Jordan Creek Town Center corridor remains Iowa's preferred shopping destination attracting new retailers and restaurants. Recent additions include Raising Cane's, Hy-Vee Health Market, Hobby Lobby and Wahlburgers.

- The Altoona and Ankeny markets continue be thriving retail markets. Growth in Altoona is centered around the successful opening of the Outlets of Des Moines and the adjacent Prairie Crossing development. Ankeny's growth is centered around the Prairie Trail development and strength in the Delaware Avenue corridor.

- The Hickman Road corridor in Clive/Waukee has exploded with recent additions of Starbucks, Auto Zone, Palms Theatres & IMAX, and Nebraska Furniture Mart (coming soon). Retail land pricing on this corridor is as strong as any submarket.

- Department store closures push Des Moines mall vacancy levels to new highs closing out the year at an 84% occupancy rate.

SOURCE: CBRE|Hubbell Commercial

NEIGHBORHOOD & COMMUNITY CENTERS

Picking up the magnifying glass and focusing on the Greater Des Moines area retail marketplace, the results and performance are encouraging. The Western Suburbs market continues to be a focal point for Neighborhood Community & Strip centers, totaling approximately 50% of the shopping centers and building footprint in

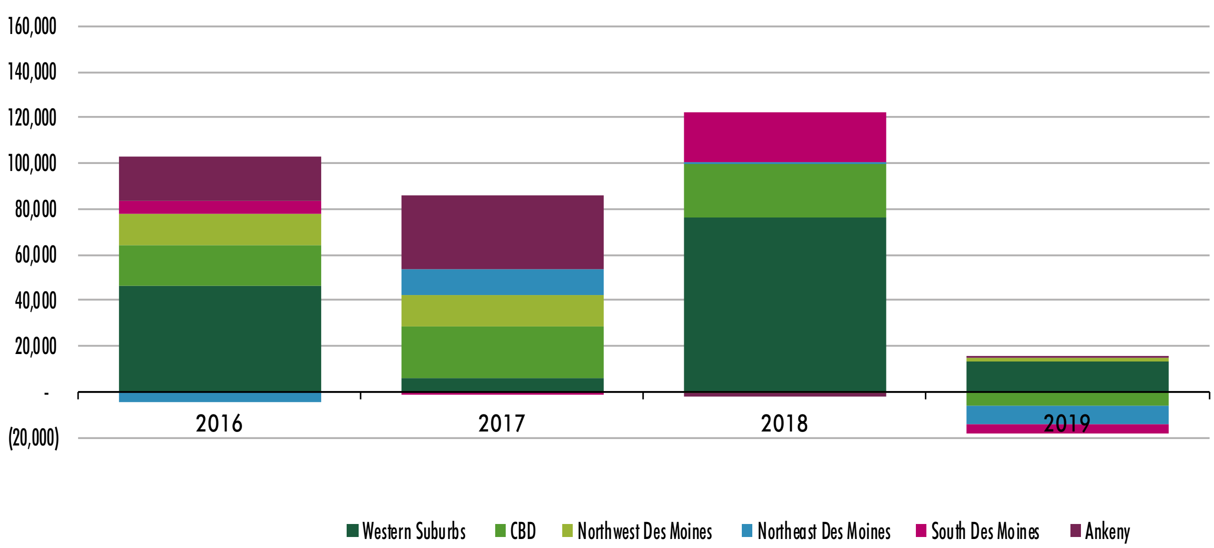
the marketplace. Although the occupancy rate in these centers dipped approximately 1.3% in 2018, the 92.6% occupancy is still quite favorable. Securing restaurant or endcap retail in Class A neighborhood centers continues to be almost an impossibility.

Absorption of retail space in neighborhood centers in 2018 was uneventful, as almost all submarkets reported small positive or negative changes in absorption. In all, absorption was a negative 3,335 square feet in 2018.

Neighborhood & Community Centers Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption
Western Suburbs	1,763,687	130,512	7.40%	13,434
CBD	223,176	19,639	8.80%	(6,413)
Northwest Des Moines	479,340	33,553	7.00%	1,101
Northeast Des Moines	419,654	16,366	3.90%	(7,523)
South Des Moines	308,239	19,419	6.30%	(4,400)
Ankeny	349,973	43,046	12.30%	466
Greater Des Moines Total	3,544,069	262,261	7.40%	(3,335)

Neighborhood & Community Center Net Absorption (Trailing 12 Month Period)



SOURCE: CBRE|Hubbell Commercial

BIG BOX RETAIL

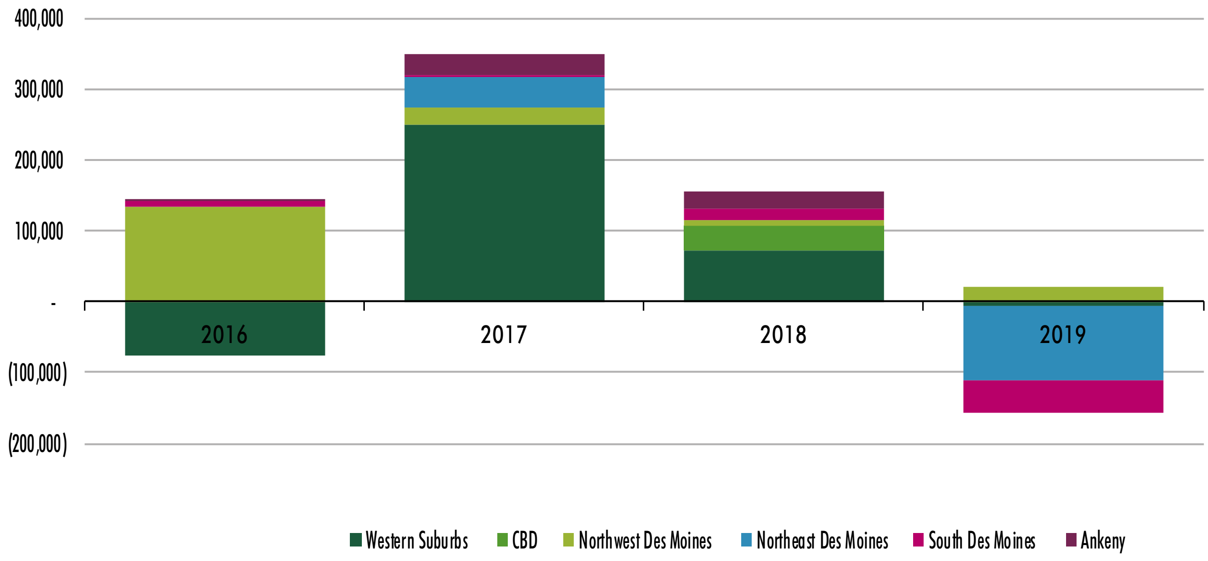
Big Box inventory mirrors the Neighborhood Community & Strip center numbers with almost 50% of the entire Des Moines area inventory being located in the Western Suburbs. Big Box occupancy dropped from 98.2% in Q1 2018 to 95.5% in Q1 2019. This dip in occupancy is not a huge surprise as K-Mart shuttered two stores, one on Hickman Road in Urbandale and the other on Hubbell Avenue in Des Moines. Additionally, Toys R Us closed two stores – one on an outparcel at Southridge Mall and the other in Clive.

Unsurprisingly, absorption of Big Box space was negative in the previous 12 months with over 135,000 square feet of negative absorption. However, we anticipate that both former K-Mart stores will be repurposed for non-retail uses in 2019 and Big Box occupancy will return to 2017 levels.

Big Box Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption
Western Suburbs	5,335,748	186,751	3.50%	(5,870)
CBD	59,996	0	0%	0
Northwest Des Moines	824,735	18,144	2.20%	21,549
Northeast Des Moines	1,523,093	109,662	7.20%	(105,683)
South Des Moines	1,430,238	45,767	3.20%	(45,488)
Ankeny	1,586,149	15,861	1.00%	0
Greater Des Moines Total	10,759,959	376,185	4.50%	(135,492)

Big Box Net Absorption (Trailing 12 Month Period)



SOURCE: CBRE|Hubbell Commercial

REGIONAL SHOPPING CENTERS

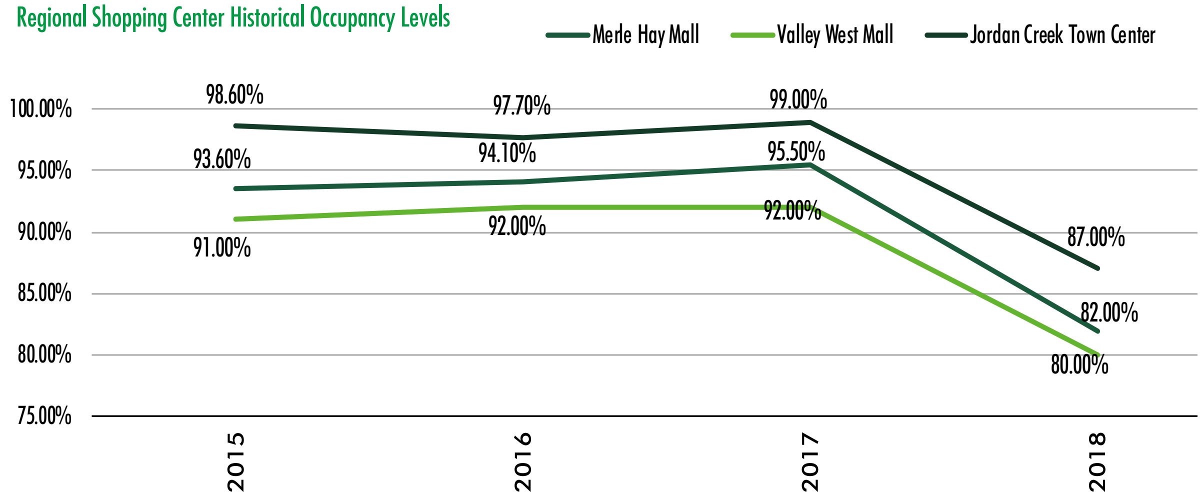
No type of retail center has been impacted more by the changes in retail dynamics than enclosed malls. Merle Hay Mall lost two anchors in 2018 with the departure of Sears and Younkers. Meanwhile, Valley West Mall along with Jordan Creek Town Center lost a Younkers store. Both malls are making strong cases to reinvent the properties. Valley West Mall is planning a rebrand to Valley West Commons with a mix of new restaurants, outparcels, office spaces, and multi-family.

We anticipate demolition of the former Sears building at Merle Hay Mall and continued development of exterior entrance mall shops that have proven to be a successful formula for the mall owner.

Regional Shopping Center Market Statistics

	Total Area (SF)	Total Stores	Occupancy
Merle Hay Mall	1,060,000	89	82%
Valley West Mall	859,399	74	80%
Outlets of Des Moines	325,000	46	93%
Jordan Creek Town Center	1,318,000	144	87%

Regional Shopping Center Historical Occupancy Levels



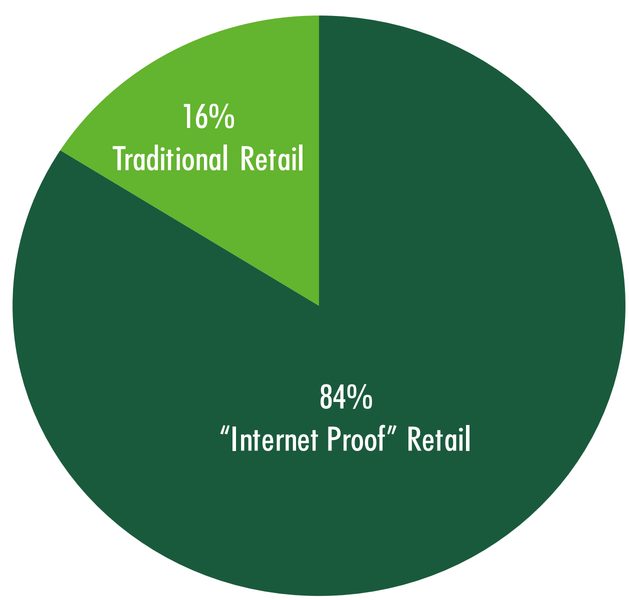
RETAIL MOVING FORWARD

Restaurant and experience related retailers continue to be in demand for developers and landlords in the Des Moines marketplace. Restaurant chains such as Blaze Pizza, McAlister's Deli, 1908 Drought House, Panchero's, B-Bops, Culvers, Raising Cane's, and Rosati's Pizza have expanded aggressively in the marketplace. In addition, full-service restaurants such as Giordano's Pizza, Burger Shed, Steak N Shake, and District 36 have announced new locations that will open in 2019. Experience retailers will continue to look for opportunities in the marketplace and build upon the success shown by Flix Brewhouse, escape rooms, trampoline parks, and others.

This national shift to 'internet proof' retail is already beginning to show itself in the Des Moines market, most notably in the west suburban submarket. In

fact, a survey of 67 retail leases executed in the western suburbs in 2018 indicated that 84% of the tenants were restaurant or experience related retailers

Percent of Retail Leases Executed in the Western Suburban Submarket 2018



SOURCE: CBRE|Hubbell Commercial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PRAIRIE CROSSING
801 Bass Pro Drive NW, Altoona, IA 50009

400,000 SF Available

Max Contiguous Space: N/A
Min Divisible Space: 3,000 SF
Year Built: 2019
Building Size: 400,000 SF

Heart of America Group
Ajay Singh
(563) 508-9808
asingh@hoari.com

415 CENTER PLACE
415 Center Place, Altoona, IA 50009

7,041 SF Available

Max Contiguous Space: N/A
Min Divisible Space: 1,400 SF
Year Built: 2019
Building Size: 7,041 SF
Number of Floors: 4

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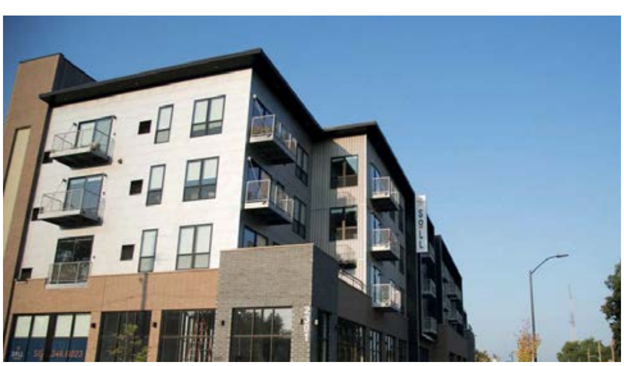
CBRE | Hubbell Commercial
Mike Macri
(515) 221-6625
mike.macri@cbre-hubbell.com



SOLL - RETAIL
2301 Ingersoll Avenue, Des Moines, IA 50312

2,510 SF Available

Max Contiguous Space: 2,510 SF
Min Divisible Space: 2,510 SF
Construction State: Existing
Year Built: 2018
Building Size: 139,000 SF
Number of Floors: 4

Lease Rate: $25.00 SF/yr
Lease Type: NNN

Part of the CBRE affiliate network

CBRE | Hubbell Commercial
Bill Wright
(515) 221-6672
bill.wright@cbre-hubbell.com

featured advertising listings

RETAIL SPACE

WHITEWATER REDEVELOPMENT RETAIL
5401 East University, Plesant Hill, IA 50327

7,500 SF Available

Max Contiguous Space: 7,500 SF
Min Divisible Space: 1,500 SF
Construction State: Planned
Year Built: 2019
Building Size: 10,000 SF
Number of Floors: 1

Lease Rate: $19.00-$23.00 SF/yr
Lease Type: NNN

CBRE | Hubbell Commercial
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CBRE | Hubbell Commercial
Chris Pendroy
(515) 402-6600
chris.pendroy@cbre-hubbell.com

VAL AIR BALLROOM
301 Ashworth Drive, West Des Moines, IA 50266

30,956 SF (+6,400 SF basement) Available

Construction State: Existing
Year Built/Renovated: 1939/1955
Building Size: 30,956 SF (+6,400 SF basement)
Number of Floors: 1

Sale Price: $2,295,000

CUSHMAN & WAKEFIELD
Iowa Commercial Advisors

Cushman & Wakefield
Iowa Commercial Advisors
Christophern Stafford
(515) 554-0999
cstafford@iowaca.com

MIXED-USE DEVELOPMENT LAND
NE Corner of HWY 141 & HWY 44, Grimes, IA 50111

23,000 SF Available

Max Contiguous Space: 23,000 SF
Min Divisible Space: 10,000 SF
Construction State: Planned

Sale Price: Negotiable

CUSHMAN & WAKEFIELD
Iowa Commercial Advisors

Cushman & Wakefield
Iowa Commercial Advisors
Mark Hanrahan
(515) 633-7638
mhanrahan@iowaca.com

WEST GLEN TOWN CENTER

5465 Mills Civic Parkway, West Des Moines, IA 50266

30,134 SF Available

Max Contiguous Space: 5,839 SF
Min Divisible Space: 1,074 SF
Construction State: Existing
Number of Floors: 3

Lease Rate: $10.00-$17.00 SF/yr
Lease Type: NNN

Ferguson Commercial Real Estate Services
Michael Shindler
515-309-0905
michael@fergusoncres.com

CLOCKTOWER SQUARE

2800-2900 University Ave, West Des Moines, IA 50266

10,744 SF Available

Max Contiguous Space: 5,138 SF
Min Divisible Space: 1,607 SF
Construction State: Exsiting
Year Built/Renovated: 1983/2016
Building Size: 152,680 SF
Number of Floors: 2

Lease Rate: $15.00-$24.00 SF/yr
Lease Type: NNN

Ferguson Commercial Real Estate Services
Ben Brackett
(515) 309-0918
ben@fergusoncres.com

THE SHOPPES AT WILLIAMS POINTE | WEST OUTLOT RETAIL CENTER

1300 E Hickman Road, Waukee, IA 50263

6,344 SF Available

Max Contiguous Space: 6,344 SF
Min Divisible Space: 1,433 SF
Construction State: Proposed
Building Size: 6,344 SF
Number of Floors: 1

Lease Rate: $25.00 SF/yr
Lease Type: NNN

Ferguson Commercial Real Estate Services
Darin Ferguson, CCIM, SIOR
(515) 778-6683
darin@fergusoncres.com

MARKET STREET AT THE DISTRICT IN PRAIRIE TRAIL

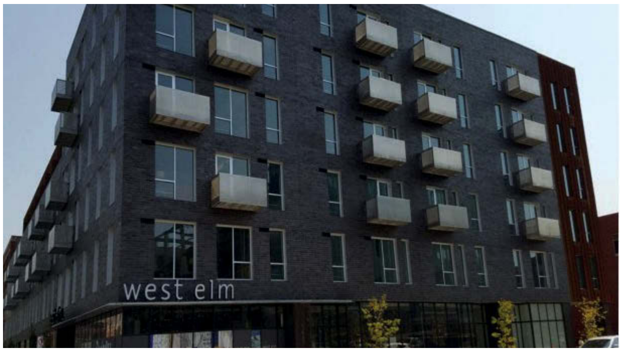
1510 SW Vintage Parkway, Ankeny, IA 50023

7,797 SF Available

Max Contiguous Space: 7,797 SF
Min Divisible Space: 1,096 SF
Construction State: U/C
Year Built: 2019
Building Size: 9,958 SF
Number of Floors: 1

Lease Rate: $26.00-$28.00 SF/yr
Lease Type: NNN

JLL
Marcus R. Pitts
(515) 218 7017
marcus.pitts@am.jll.com



WEST ELM
219 East Grand Avenue, Des Moines, IA 50309

17,500 SF Available

Max Contiguous Space: 17,500 SF
Min Divisible Space: 1,567 SF
Construction State: Exsiting
Building Size: 72,000 SF

Lease Rate: $19.50 SF/yr
Lease Type: NNN

NAI Iowa Realty Commercial

NAI Iowa Realty Commercial
Sloan Cownie
(515) 453-5493
sloancownie@iowrealtycommercial.com

BRIDGEWOOD SQUARE
140–160 Jordan Creek Parkway, West Des Moines, IA 50266

18,030 SF Available

Max Contiguous Space: 8,630 SF
Min Divisible Space: 1,334 SF
Construction State: Existing
Year Built: 2018
Building Size: 30,040 SF
Number of Floors: 1

Lease Rate: $28.00-$32.00 SF/yr
Lease Type: NNN

SIGNATURE COMMERCIAL REAL ESTATE

Signature Commercial Real Estate
Andy Hodges
(515) 221-9990
AHodges@SignatureRES.com

SHOPPES AT WELLINGTON SQUARE
245 50th Street, West Des Moines, IA 50265

6,490 SF Available

Max Contiguous Space: 3,255 SF
Min Divisible Space: 1,601 SF
Construction State: Existing
Year Built/Renovated: 1992/2008
Building Size: 36,631 SF
Number of Floors: 1

Lease Rate: $15.00 SF/yr
Lease Type: NNN

SIGNATURE COMMERCIAL REAL ESTATE

Signature Commercial Real Estate
Andy Hodges
(515) 221-9990
AHodges@SignatureRES.com

HAWTHORNE PLAZA
9250 University Avenue, West Des Moines, IA 50266

3,074 SF Available

Max Contiguous Space: 1,740 SF
Min Divisible Space: 1,334 SF
Construction State: Existing
Year Built: 2014
Building Size: 29,938 SF
Number of Floors: 1

Lease Rate: $22.00 SF/yr
Lease Type: NNN

SIGNATURE COMMERCIAL REAL ESTATE

Signature Commercial Real Estate
Andy Hodges
(515) 221-9990
AHodges@SignatureRES.com

INDUSTRIAL

INDUSTRIAL *CHAPTER FEATURES*

ROUNDTABLE Q&A
TRENDS TO WATCH
TOP DEALS IN 2018
HUBBELL MARKETVIEW
FEATURED ADVERTISING LISTINGS
ONLINE: Q&A VIDEO BUSINESSRECORD.COM/AREM

BY KENT DARR

From "circus tents" that provide temporary warehouses to cavernous high-tech buildings, the industrial sector is booming.

Follow the exits off Interstate 35/80 from Grimes to Ankeny to Norwoodville, and you'll spot new construction all along the way.

The north is the place to be. It has the workforce and easy access to the metro's crisscrossing interstate system to attract development, and that development is being made possible by investors – including pension funds and other institutional types – that are drawn to the sector.

Before users land in Greater Des Moines, they are on the lookout for more than land. They are weighing the workforce as well.

The rapid adoption of artificial intelligence is a dominant theme in the sector, and millennials who are tech-savvy make just the kind of labor pool that warehouse users are after.

Warehouse properties do not last long on the market. Quick sales are on a cycle that keeps repeating itself and is helping to drive up purchase prices.

Demand is so great that the conversion of vacant big-box retail spaces to warehouses is on the horizon. Does that mean we'll see semis pulling in and out of a vacant Younkers at Merle Hay Mall? It's a possibility.

The conversion of shuttered shopping centers to distribution centers is occurring in other parts of the Midwest.

Warehouses are becoming easier on the eyes, it seems, with some stonework and large windows a constant theme. It was noted during our panel discussion that some warehouse centers have the look of fancy office buildings.

Warehousing and manufacturing continue to be the dominant uses for industrial spaces, but don't be surprised to find office users and entertainment centers.

Read the discussion on p. 64 >>>

STILL GROWING

The industrial sector remains a hot commodity

BY KENT DARR

THE EXPERTS: **BRIAN CLARK,** *DIRECTOR OF REAL ESTATE DEVELOPMENT, RYAN COS. US INC.* | **KEVIN CROWLEY,** *MANAGER, NAI IOWA REALTY COMMERCIAL*
JACKIE JOHANSEN, *PRINCIPAL, SHATTERED GLASS DEVELOPMENT* | **HARRISON KRUSE,** *SENIOR ASSOCIATE, CBRE|HUBBELL COMMERCIAL*
MODERATORS: **KENT DARR***, STAFF REPORTER, BUSINESS RECORD* | **SUZANNE BEHNKE,** *CONTRIBUTOR*

ISSUES DISCUSSED

PUT YOUR MONEY HERE
WHAT'S THAT WAREHOUSE GOING TO COST ME?
HOW FLEXIBLE IS FLEX?
THE OPPORTUNITY ZONE CHALLENGE IN RURAL IOWA

THE PANEL: The Business Record hosted a panel discussion, moderated by Senior Staff Writer Kent Darr and Suzanne Behnke, in an effort to identify key trends and issues in the industrial market. Read on to view an edited version of that discussion and view video of the entire discussion at ***businessrecord.com/AREM***

Q: What is the dominant theme in the industrial market this year?

Brian Clark:
One out of the gate is, I think, the labor location. A few large companies are not just looking at location for landing in Central Iowa but focusing on where they can grab labor. And we're seeing the northern side of the metro being a strong draw for these companies to attract the labor they need for these large distribution centers. I think that trend will reveal itself more in 2019.

Kevin Crowley:
I agree with Brian 100 percent on that. Also, employers are drawn to the amenities that the north side offers that really some other parts of the industrial sector do not offer. Another trend that we're going to really see in 2019 is artificial intelligence driving the use of industrial space, so tighter racking, automated forklifts, and other technology that will be driving the efficiency of warehousing.

Jackie Johansen:
And I would agree and add to that that the investor pool is growing for industrial to be very strong for 2019. A growing amount of pension funds, even foundation endowment funds, are being more and more comfortable with commercial real estate and the industrial sector specifically, so lots of dollars of equity flowing.

Harrison Kruse:
Maybe not in 2019, but here in the future we're going to see more retail big-box converting to industrial use, especially with our e-commerce and fulfillment centers.

PUT YOUR MONEY HERE

Q: What makes industrial properties such attractive investments?

Crowley:
Logistics is driving a lot of that, so part of it is actually both manufacturing but shipping and receiving. And then really the buzzword in the industry is the last mile. So I think you saw Amazon was running ads for people that wanted to start their own delivery service in markets where I can start Kevin Crowley's Delivery Service tomorrow as long as I had a vehicle that Amazon deemed worthy of me running and they guaranteed you like $90,000 a year to run that delivery service. The last mile is really important, too. Some of the companies here in town that do what I'm going to call short or immediate logistics work are busier than ever.

Q: What kind of spaces do they need?

Crowley:
It really varies, but there is a company out of Ankeny that probably is operating out of 50,000 to 60,000 square feet. They have dock doors and dry beds so their vehicles are constantly moving.

Clark:
We've seen a concept that's been more like a tent, a large circus-like tent that would be over a couple acres that would keep the weather out for a short duration, but [would] get your holiday packages processed and delivered on that last mile concept.

Crowley:
There's been times where we've seen Walmart take temporary space for Christmas rush; the U.S. Postal Service in Greater Des Moines is always looking for an extra 60,000 to 100,000 feet at Christmas just to handle the logistics of their extra business, so it's not unusual.

However, with the tighter market with low inventory, it does present challenges that really something like Brian's talking about where something temporary could pop up, although vacancies like the Younkers store, or Southridge, or Merle Hay could create opportunities too. On the East and West coast a lot of malls are being repurposed into residential housing complexes where they have senior housing, they have student housing, and they really mix up the use. But at the same time a good alternative for the right piece of real estate will be using an Amazon-type company, using a space to deliver product out of.

Kruse:
Our CBRE report said that there's been about 8 million square feet of retail either torn down and repurposed into about 11 million square feet of industrial logistics properties across the U.S., more in the major markets but it could happen in ours.

Johansen:
These third-party logistics companies that are doing this reverse logistics work and all the returns, they had over half of the largest leases in the nation, over 7 million square feet.

Q: There's a lot of new construction in the industrial sector, yet vacancies remain low. Why?

Crowley:
It's really 1 million square feet of build-to-suit activity and probably almost 1 million square feet of speculative space.

They're backfilling as quick as they want. We've done leases with a plastics company that came in from out of state and they took some space out in Urbandale, just really backfilled space that had been vacated. There's really no lack of tenants, whether they're local, regional or national tenants.

Kruse:
We've seen the local guys grow the big chunk space as primarily more your national credit, third-party logistics and the other third-party distribution centers.

Johansen:
It seems to me when I'm just looking at sales on the assessor site for that sector that there's a very good strong percentage of out-of-state ownership.

Clark:
Industrial is still kind of the preferred asset class among investors. Northern Tool is coming to the market with 635,000 square feet in phase one. There's a pool of investors who have already indicated interest in buying that lease.

Q: Is the demand for warehouse space a national trend?

Crowley:
It really is around the country. It doesn't matter if you talk to brokers in Kansas City, Indianapolis, Chicago, even Chicago for a while was at probably 20, 25 percent vacancy because everybody started developing out in the suburbs and that's all full now. We're not a unique island here. The same phenomena is happening all over the United States, and it has to do with shipping and receiving in manufacturing.

Johansen:
But would you agree that most of that is around a fairly major metro market?

Crowley:
It's really metro-driven. The rural real estate market is still challenged. You'll have spectacular facilities that sell for pennies on the dollar in rural parts of Iowa just because, again, it can be a labor issue, there just could be a lot of different drivers to what really causes that.

Kruse:
Yes, the larger metropolitan areas are definitely growing the fastest, but our smaller markets still need the industrial and we can't find it. Construction is still expensive and you can't get the lease rates low enough to attract them. They can still find a building here in Des Moines or Cedar Rapids at the same price.

Clark:
We're seeing the national investors focus in the larger cities, and in the more smaller markets you're seeing more local investors or lesser-known investors.

Q: Will the use of artificial intelligence displace warehouse workers?

Johansen:
These automated systems increase the productivity of the employees. Early on in my career I managed assembly lines for a manufacturing team and I even drove a forklift, so I can say I've taken pallets down from about five stories up. But I can't imagine doing anything like that with a 40-foot ceiling, so you almost would have to have guided systems to really make that more productive. The skill set that you need for your employees is different than what it was 25 years ago. And then most likely you need more, especially if you're doing fulfillment. There are a couple of companies that I've just been watching that have been installing these automation systems. One of then in Germany has about eight racks of full pallets with over 9,000 locators just in those eight aisles. Then they have about four aisles of what they call mini-loads, so they're more like bins, and that has 26,000 locators. So they have what in my day back in warehousing we used to call a water slider. I don't know what the role is called anymore, but basically they would allow the employees to stay at their station where they're adding value to product and then moving it off to the next employee that's adding a different kind of value. And they get to stay put while somebody else brings all of their pieces and widgets and items to them. So it's just almost like it was 25 years ago on steroids with all of these guided systems and things moving all over the place.

Crowley:
With the technology they have today, they'd literally fill a bin and then it can be scanned going onto trucks so they know what went into that particular truck. I mean the inventory controls are tighter and what they call breakage is less than probably 1 or 2 percent in terms of loss.

Q: Why have the south-side industrial properties been slow to fill in?

Crowley:
My conjecture is that these companies understand the cost of moving the product a mile. And so right now it's more convenient to be on the north side of Interstate 80, whether you're in Altoona, Ankeny, Grimes, Urbandale, along that corridor that's just a more efficient corridor for these people to operate out of as far as shipping, receiving and where labor is, where our employees can go get lunch, where employees can get services before and after work. I think that is what has driven people to the north side. As the south side grows residentially and with retail, I think then the industrial and jobs will follow.

Clark:
It's an evolution. There was a time when the north side of Des Moines wasn't as robust as it is now and it was all in the Delaware Avenue corridor or something. So it's just a matter of time before the populations and the amenities and resources catch up, whether it's the east side or south side.

Johansen:
And the intermodal inland ports drive where industrial goes as well, so if you look at other inland ports like Dallas and Phoenix and Denver, about 3 percent to 12 percent of growth in warehouses is based on where those [intermodal] spots are located. So if we're spending $15.2 million on the Des Moines facility and if that continues to grow, we'll have four different rail lines, which is much more than what most of the nation has.

WHAT'S THAT WAREHOUSE GOING TO COST ME?

Q: Is the square-foot price for industrial the best price on the market right now?

Clark:
Compared to corporate office, yeah. Yeah, I mean you can do a large-scale office or warehouse project for $55 a square foot; and as the square footage comes down, that price becomes $75 a square foot.

Kruse:
And I've seen 5,000-square-foot buildings with flex space, and they're all above ... north of $100, $120.

Crowley:
So we actually just sold a building in Grimes that somebody built thinking that they were going to use it for their business and it did not have heat in it, it did not have a restroom in it; it had two garage doors and a main door. And so we sold it as a cold storage warehouse, and literally the person who's buying it is going to finish it, but we listed for $110 dollars a square foot and when we listed it my broker sarcasm was saying, "This is not gonna sell for $110 dollars a square foot," and probably 14 days later we had a full-price offer. It was sold. That cycle keeps repeating. We sold a parking lot with a small truck service building in Grimes, and there were multiple bidders. And we literally just said we've had a number of contests among brokers and if everybody's playing straight they say, "Here's the list price, make your best offer," and you better advise your client you better be $50,000 or $100,000 over list price or you're not going to get it.

There was a building that Harrison listed and we literally legitimately made an offer about an hour after they listed and it was above list price and they sold it for about 20 percent over list price to someone that needed it more than my client did.

Kruse:
Yeah, we got it sold in 24 hours. We had 12 or 15 offers on it; we had offers in our inbox within 20 minutes of it being blasted out to the brokers. It was pretty incredible.

Crowley:
And we continue to see that. We just sold a building in Urbandale – it's just a small little flex building, and literally we listed it and it sold within 24 hours.

THE SMALL INDUSTRIALS, THE OWNER-USER INDUSTRIALS, ARE JUST ***FLYING OFF THE SHELF.***

Kruse:
The small industrials, the owner-user industrials, are just flying off the shelf.

Crowley:
Because the cost of construction, cost of even development ground, it's almost prohibitive to try to put in sewer, water and utilities and then say, "OK, I have a 3-acre site I can sell you" because it's going to be probably $5 dollars a square foot for industrial dirt once it's developed.

Kruse:
Well, I mean it's tough with city requirements too; it's hard to find a metal building site that you can build on. Most of these now, you have to put stone on at least 25 percent of the front facade or more, or they require tilt-up concrete.

Clark:
Yeah, precast is a minimum now on these industrial buildings.

Crowley:
And what's really amazing is watching over the years product has been priced by the year it was built and so there's $2.40 square foot triple net. There was $3 triple and there's $3.50 triple, and now new product is usually coming in between $4.75 and $5.75 a square foot triple net.

Well, that's giving landlords the opportunity to actually raise rents, which is something that we hadn't seen for years in Des Moines. We're seeing that in office space too; you're approaching $20 or $25 net rents in new office construction. On industrial you're still seeing the same thing, where some of the older industrial space as it turns over might have been leasing for $3 a square foot. The landlord might do nothing to the space and raise the rent 50 cents.

And then we're also seeing the annualized bumps in leases, which we haven't seen in Des Moines for years.

HOW FLEXIBLE IS FLEX?

Q: You mentioned flex. Are nontraditional users still making up a big part of that market, or were they not a big part of that market to begin with?

Crowley:
I think Hy-Vee's use of the R&R building has been a big topic of conversation and it's a great use for that space. It's creative, it's unusual. There aren't that many people that can make that work for them because I think you'd find by cost per square foot, by the time they got done they could have had an office building or pretty close.

Q: Are the nonprofits, fitness centers, those alternative uses, are they active in the market?

Kruse:
You'll continue seeing the entertainment uses in most spaces like you see at Hubbell's Grimes Business Park.

Johansen:
Go-karts.

Kruse:
You're going to have go-karts, you're going to have a baseball facility for training, you're going to have basketball, you name it. The sport, the training, the activity for younger kids, that stuff is going to continue being hot just because of the way we live now. We want entertainment.

Johansen:
And back to Kevin's point when you're talking about these amenities and things like that at the Hy-Vee space and you are seeing an interest in office-type amenities in warehouse facilities. And to keep the employees happy, they're more productive, they get a fitness center where maybe you didn't usually see a fitness center in a warehouse facility, and more natural light, good ventilation, just your basics that in the office world are a lot of talk right now, a lot of design features, you're starting to see in warehouse.

Clark:
Deere ISG, I think, will come online this April, and Deere really wanted that industrial look and price. But then

in certain areas within that for their tech employee base, they wanted to spend a little more money on the inside of the building than the outside, so the exterior is a very simple precast box and more of the amenities are being spent to make it less industrial on the inside, that new tech office space.

Q: Are the state-certified sites attracting industrial users?

Crowley:
There's a cost to getting your sites certified. However, time kills deals. If we represent a buyer and all of a sudden the soil tests are done and you know where the sewer is, you know where the water is, you know where the utilities and the electrical is located, what Internet service is available. So the certified, shovel-ready sites are really important.

Clark:
Yeah, I agree. A lot of the out-of-state users or clients will go there first or to what certified sites are available in this geographic region. Some cities are now in the process of creating those sites, and they'll have a leg up over other cities. We're seeing some national activity focus on some of those sites.

Kruse:
Minimizes risk and time.

Johansen:
Now what needs to be added to that is where the labor pool will come because site selectors are looking for labor pool.

Q: Are your clients concerned about the [low] unemployment rate?

Crowley:
Well, I think there's a two-sided coin in that it's worse in other parts of the country, so we've actually seen companies looking for programs come to Central Iowa to open up an office because they can hire someone here for a lower cost than they can in Austin or San Jose, Calif. So they're coming here and then they're trying to poach the insurance companies and some of the other companies. They are poaching employees but they're doing it because they can pay more here that's still less from other markets they're in. And so, yes, we do have employers that also want to say, "Gee, it's hard to get employees" or "It's hard to do it industrially." I know that a lot of these companies that use temps, they have high standards for drug testing and they lower the standard and they now accept certain drugs in their testing that they never did before.

Clark:
And one of our clients, Northern Tool, picked the Ankeny site because they felt there was a labor shortage but felt like paying them a higher than average wage to compete with others to gravitate toward their business.

Kruse:
Go back to amenities. I mean there's a lot of discussion of places with fully air-conditioned warehouses because if there's a competitor across the street that doesn't have AC in the warehouse, that employee will come over for the exact same pay to be in AC. So it's like the office market to where you have to have amenities to continue keeping your workforce happy and staying with you.

Johansen:
And obviously there's a significant cost to those kinds of amenities.

THE OPPORTUNITY ZONE CHALLENGE IN RURAL IOWA

Johansen:
I feel like there's a lot of industrial comp-planned land in opportunity zones across Iowa. So now a lot of that is in rural cities, so the land price will be good. So where is the labor pool, where are the developers, where are the investors that want to be in those towns? But yet at the same time you can't ignore there's a lot of industrial land inside of those zones.

Crowley:
But again it gets down to the economics and the logistics of it. We were working with a company and said we have a perfect facility for your truck service center and your distribution center. It was literally nine miles away and they said 750 trucks a day, 75 cents a mile, 18 miles a day, we can build exactly what we need on our site and pay for it in three years instead of driving across town. And so I mean that's the reality, and again that just goes to show that's the challenge of rural Iowa. And if rural Iowa can somehow with technology compete and have some workforce, maybe there's third-party work they're going to be able to do. Years ago I know there were leaders and companies [who said], "I grew up in a small town; I'm going to go back there and build a factory as an honor to my hometown and create jobs." The population is not there to really help with that factory anymore and then logistics-wise it makes no sense, so people aren't going to do it, it's going to be harder to make that happen.

Kruse:
It's hard for an investor to go into a small city like that without security. So I think there's potential for your local companies that are already there. I just don't see it drawing a Des Moines company or a national company.

Clark:
I would ask the state to redo the opportunity zone process. I'm a small-town guy, but awarding opportunity zones to communities where there's no labor force, there's no access – they are probably just going to sit. ■

INDUSTRIAL TAKEAWAYS

BY KENT DARR

OPPORTUNITY ZONES MIGHT MISS THE MARK IN RURAL IOWA

Here's a plan that sounds so good it just might work: Defer, reduce or eliminate taxes on unrealized capital gains by investing that surplus in opportunity funds, which in turn trigger economic development projects in opportunity zones.

That tax-eluding enticement was included in the 2017 rewrite of federal tax laws. The zones are located in low-income census tracts. There are two in Des Moines near Drake University and one in the Valley Junction neighborhood of West Des Moines. There are nearly 100 scattered around the state, mostly in rural areas. Once designated, the zones are in place for 10 years.

Our panelists like the concept, but worry that opportunity zones might have trouble gaining much purchase in some parts of the state.

"The land price will be good. So where is the labor pool, where are the developers, where are the investors that want to be in those towns?" said Jackie Johansen of Shattered Glass Development. "At the same time, you can't ignore there's a lot of industrial land inside of those zones."

Harrison Kruse of CBRE|Hubbell Commercial thought that land might be most attractive to businesses located near it.

"I think there's potential for your local companies that are already there. I just don't see it drawing a Des Moines company or a national company," Kruse said.

Kevin Crowley of NAI Iowa Realty Commercial said a recent client asked why it should settle for a facility farther away when it can invest in a current location and pay its redevelopment bill in a shorter period of time.

Brian Clark of Ryan Cos. US Inc. thought the whole process of designating opportunity zones could be reconsidered. As it stands, sites were recommended by local officials and vetted by the Iowa Economic Development Authority, with the final selection coming from Gov. Kim Reynolds.

"I would ask the state to redo the opportunity zone process," he said. "I'm a small-town guy, but awarding opportunity zones to communities where there's no labor force, there's no access – they are probably just going to sit."

CHILLIN' ON THE NORTH SIDE

The hunt for workers in the highly sought last mile of delivery has taken a decided turn to northern Greater Des Moines.

It won't always be that way – all of that land eventually will be filled and developers will look elsewhere. Still, the trend is to go north. It is driven in large part by a concentration of workforce and amenities.

"We're seeing the northern side of the metro being a strong draw for these companies to attract the labor they need for these large distribution centers," said Brian Clark of Ryan Cos. US Inc.

In many cases, the amenities are similar to those being offered in the office sector, such as restaurants and entertainment. Residential growth is not only good for retail in those areas, but it also provides workforce.

Some amenities might not be immediately apparent.

"There's a lot of discussion of places with fully air-conditioned warehouses because if there's a competitor across the street that doesn't have AC in the warehouse, that employee will come over for the exact same pay to be in AC," said Harrison Kruse of CBRE|Hubbell Commercial. "So it's like the office market to where you have to have amenities to continue keeping your workforce happy and staying with you."

THE MILLENNIAL EFFECT

Millennials are shaping virtually every sector of the real estate market, including the push to cut the last mile from warehouse to doorstep.

"Thirty -nine percent of Amazon Prime members are millennials, so that's where a lot of the demand of wanting things in two hours is coming from," said Jackie Johansen of Shattered Glass Development.

"They're driving the last mile," said Brian Clark of Ryan Cos. US Inc.

Kevin Crowley said millennials make up a workforce that is attractive to warehouse users.

"The artificial intelligence and the technology helps the industrial users a little bit on employees because a lot of millennials or Gen Zs really like technology. They might be a good fit for fixing the AI or computerized systems," said Harrison Kruse of CBRE|Hubbell Commercial.

Clark had an anecdote to illustrate that point.

"We had a competition at Elder Corp. to run heavy equipment. The old guys did OK, but the young millennials who are used to operating video games, they were moving dirt. They won the competition because of their motor skills development. And millennials have been doing that since they were a kid so they're a great labor force when it comes to that."

REVERSE LOGISTICS OR E-CHARITY

The panel touched a bit on reverse logistics. It's trending in the warehouse and distribution market and describes centers that are set up to return online purchases.

So far there isn't a lot of demand for such centers in Central Iowa, but that doesn't mean we aren't avid online shoppers. It's just that e-commerce is providing alternatives.

Jackie Johansen, founder of Shattered Glass Development, said about 8 percent of in-store purchases are returned. That number jumps to 15 to 30 percent for e-commerce purchases.

Johansen said she isn't a big online shopper, but has had a couple of experiences with attempting to return purchases that she has made. "They don't want it back," she said.

"One was a large dog bed and they said, 'Take it to your local animal shelter if you would and we'll send you the next one.' And I've had that on the boutique side before – ordered a garment that didn't fit right and I called and they said, "Donate it, we'll send you a new one."

And besides, many online retailers have returns covered.

"If you've got an Amazon package, there's literally instructions in the packet how to send it back," said Kevin Crowley of NAI Iowa Realty Commercial. "There's probably a specialty group within Amazon that just deals with returns." ■

INDUSTRIAL

TRENDS TO WATCH

Geothermal, 5G and 'home within a box'

KRIS KUNZE
FOUNDER AND MANAGING PRINCIPAL, KCL ENGINEERING

Please identify one or more trends in your area to watch in the upcoming year.

One trend we're really excited about is developers using geothermal systems to supply heating and cooling to entire hospitality developments. This is currently occurring at the Fairfield Inn & Suites, a Heart of America Group hospitality development, in Altoona.

Could you please explain the impact of that trend?

Great benefits include lower first costs, size diversity, heat share, and the ability to serve a building where land may not have been otherwise accessible for a vertical well field. Federal tax credits for geothermal projects are also available, making the strategy more attractive.

We're on the cusp of seeing 5G cellular service become a reality in 2019. This means that we'll potentially have "wired speeds" over wireless. As technology designers, we're interested in the deployment of this service as it affects how we design technology infrastructure for our clients. 5G also comes with the need for more small-scale cell towers. We are closely watching the trend to see how and where those cell towers pop up and ultimately how the logistics of delivering 5G wireless service plays out.

Another trend we're involved with is the concept of a "home within a box." This is a much more sophisticated version of the home kits that Sears shipped out across the country a century ago. This approach is being used to build high-end homes in less populated areas, where more variables come into play that can adversely affect a project's schedule and quality. The goal is to achieve consistency in quality, scheduling and end product. The project is controlled by a tight partnership of development, design and construction entities that place more guardrails on a project to help meet expected standards.

Active north metro

ADAM PLAGGE
ECONOMIC DEVELOPMENT MANAGER, CITY OF JOHNSTON

"COMMERCIAL DEVELOPMENT IS ALREADY ACCELERATING AROUND THE URBAN LOOP AREA IN JOHNSTON, URBANDALE AND GRIMES."

Please identify one trend in your area to watch in the upcoming year.

The opening of the 100th Street interchange garnered much fanfare in 2018, and commercial development is already accelerating around the Urban Loop area in Johnston, Urbandale and Grimes. Last year also marked a significant push north in commercial development interest along Highway 141 and 100th Street. If you haven't driven Highway 141 north toward Granger recently, you have missed the bloom of concrete and lumber coming out of the ground. Construction is underway by Hubbell, Menards and several banks in Grimes, as well as by Wesley Life and the Navy Reserve in Johnston.

Could you please explain the impact of that trend?

In the spring, surveyors will begin tracking through the mud to prepare the way for the first leg of the city of Johnston's three miles of planned sewer main that will push the development frontier farther north to Saylorville Drive, i.e., Highway 415. Fifteen hundred acres along Highway 141 recently annexed into the city of Johnston, and another wave of annexation requests are pending for 2019. Grimes, too, is busy planning for future infrastructure growth in the area, and the Iowa Department of Transportation is examining potential enhancements to the corridor's road network in preparation for future growth. Buoyed by the annexations and a flurry of land transactions, new real estate signs touting rising land prices have sprouted up along the highway and several ambitious site plans are beginning to germinate. When the fly-over bridge onto Highway 141 opens in 2020 and the city of Johnston's planned Phase I and Phase II utility extensions are completed in 2020 and 2021 respectively, the northern Highway 141 corridor will be poised to become a substantial commercial artery into the metro.

INDUSTRIAL

TOP DEALS OF 2018

$17.8M

Daimler warehouse

Country Club Investment Co. LC paid $17.8 million on May 24 to Anderson Four LLC for the 245,520-square-foot Daimler warehouse at 1000 S.E. 19th St. in Legacy Park, Grimes.

$7.2M
Moehl Millwork
AIC Ventures of Austin, Texas, paid $7.2 million on Oct. 23 to Home Factories Inc. of Galt, Calif., for the 111,803-square-foot Moehl Millwork building located on 10.4 acres at 5150 S.E. Rio Court, Ankeny. AIC Ventures is an investment firm that specializes in sale and leaseback arrangements with middle market companies. The property was purchased through AIC-related entity AIC Income Fund Rio LLC.

$6M
Des Moines warehouse
Stag Industrial Holdings LLC of Boston paid $6 million on Aug. 8 to Warehouse 1900 E. 17th St. LLC for an 82,320-square-foot warehouse on five acres at 1900 E. 17th St., Des Moines.

$5.6M
Coke warehouse to U-Haul
Amerco Real Estate Co. of Phoenix paid $5.6 million on Sept. 7 to Atlantic Bottling Co. for the former Coca-Cola warehouse at 16200 Hickman Road, Waukee. Amerco acquires properties for self-storage operations, according to its website.

$3.9M
Flex warehouse in Johnston
Gottula Properties LC and two related entities paid $3.9 million on Jan. 11 to Sansgaard Properties LLC for a 36,630-square-foot flex warehouse on 5.3 acres at 8191 Birchwood Court in Johnston.

$3.7M
Ankeny warehouse
UniFirst Corp. of Wilmington, Mass., paid $3.7 million on Oct. 17 to Shorr Ankeny LP of Aurora, Ill., for a 56,620-square-foot warehouse at 2401 S.E. Creekview Drive, Ankeny.

$3M
Des Moines municipal services
The city of Des Moines paid $3 million on Jan. 4 for the former Monfort Inc. beef packing plant at 1700 Maury St. and nearby properties where the city plans a municipal services center.

$2.55M
West Des Moines warehouse
Next Phase Development LLC paid $2.55 million on Nov. 21 to Scharnberg Real Estate LLC for a 40,260-square-foot, multi-tenant warehouse at 2150 Delavan Drive, West Des Moines. Richie Hurd and Daniel Hurd of Hurd Realty represented the seller. Mike Schindler and Ben Brackett with Ferguson Real Estate represented the buyer.

$2.55M
Light industrial in Grimes
Merge Left LLC paid $2.55 million on Oct. 9 to Flat Out Property LLC for a 36,380-square-foot light industrial building at 1152 S.E. Gateway Drive, Grimes.

$2.2M
Cold storage in Des Moines
Kool Storage LLC paid $2.2 million on Feb. 5 to Des Moines Cold Storage Co. Inc. for nearly 195,000 square feet of warehouse space located on 7 acres at 800 New York Ave. and 2814 Seventh St., Des Moines.

Des Moines Metro Industrial, Q1 2019

New inventory betting on growth in industrial sector

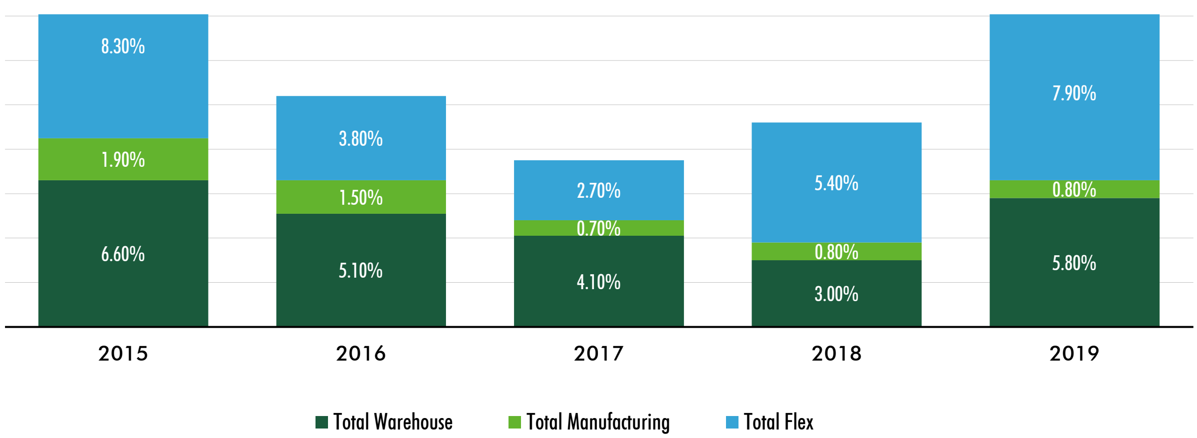
Overall Vacancy Rate **6%**

Lease Rate NNN **$4.80 PSF**

T-12 Net Absorption **58,488 SF**

Under Construction **293,500 SF**

Historical Vacancy Rates By Property Type



HIGHLIGHTS

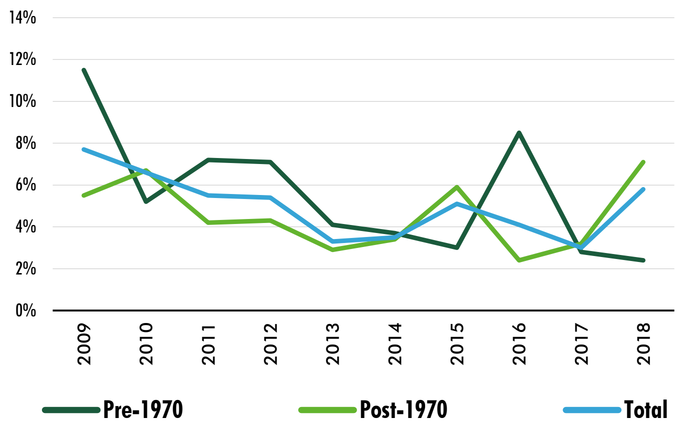
- The recent trend of available new construction will continue, with new projects primarily centered in the Western Suburbs, Ankeny, and Altoona.
- The Corporate Woods corridor in Ankeny is the new home of three major build-to-suit and owner-occupied projects, including Kreg Tool, Northern Tool, and Ruan Transportation.
- Sale prices for industrial properties have increased steadily both for vacant and income-producing properties. Industrial remains a prime target for investors and cap rate compression continues despite a rising interest rate environment.
- Warehouse occupancy levels soften as sizeable deliveries come online in the Northeast, Northwest, and Western Suburbs submarkets.

Recently, the development of new industrial product in Des Moines has become a darling for the developer community. Industrial buildings as a product type are attractive to developers as the market has increasing tenant demand for quality high cube and flex product and landlords are attracted to the lower re-tenanting costs that often characterize office or retail product. Des Moines is no longer a secret and is officially "on the radar" as a distribution hub for large, high cube warehouses seen in other major Midwestern markets. Being at the crossroads of Interstates 80 and 35 has always given Des Moines a competitive advantage for companies dependent on over-the-road transportation. Considering the ever-increasing space demands for companies expanding their e-commerce business platforms, Des Moines will continue to see more space requirements and new projects.

SOURCE: CBRE|Hubbell Commercial

In review of the flex market in 2018, occupancy dropped from 94.6% to 92.1% across the entire Metro. The biggest drop in occupancy was in the Western Suburbs submarket where occupancy slipped under 90% for the first time in four years. We anticipate this could drop further in the next 18 months due to Deere & Company's ISG vacating approximately 135,000 square feet at Aurora Business Park. Despite this dip in occupancy, new flex product is still in demand and will continue to be developed, including up to 200,000 square feet at Signature Group's development at Meredith Drive and NW Urbandale Drive, as well as Hubbell Realty Company's 72,000 square foot flex/tech building at Birchwood Crossing in Johnston. The 72,000 square foot building is the first of two phases that Hubbell has planned in that development. The buildings will capitalize on high visibility from Interstate 80/35, which is a feature that many tenants in the marketplace are seeking.

Greater Des Moines Warehouse Vacancy



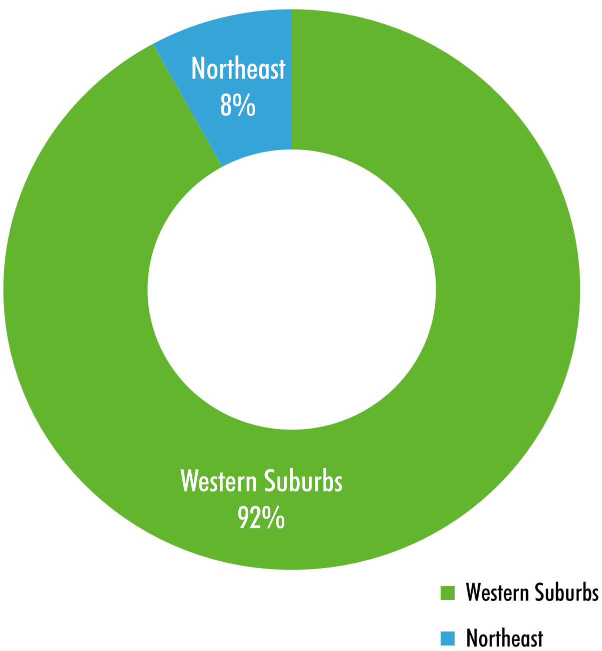
For the first time in a number of years, there are several high cube spaces in excess of 100,000 square feet that are on the market, including:

- R&R's 350,000 square foot, 32' clear Prairie Business Park III building in Grimes
- R&R's 175,000 square feet available in Prairie Business Park building II
- Graham Warehouse's new 675,000 square foot, 24' clear building at 4950 NE 29th Street

This new inventory is a result of a shift in the developer mind-set as owners are willing to build larger speculative warehouses in an effort to be prepared for the larger tenant requirements that have circled the Des Moines market in recent years.

Overall, more than 34 million square feet of warehouse space and over 10.8 million square feet of manufacturing space was surveyed. Total occupancy in the warehouse market dropped from a 97% level in 2018 to 94.2% in Q1 2019, but still remains healthy. Impressively all six submarkets show occupancy levels in excess of 92%. Vacancy for buildings constructed pre-1970 remains low at 2.4% and the vacancy levels for buildings constructed post-1970 increased to 7.1%, which is not a surprise considering the new product that has been constructed. Manufacturing space remains 99.2% occupied across the Des Moines Metro and consistent with Q1 2018 levels.

Percent of Inventory Under Construction



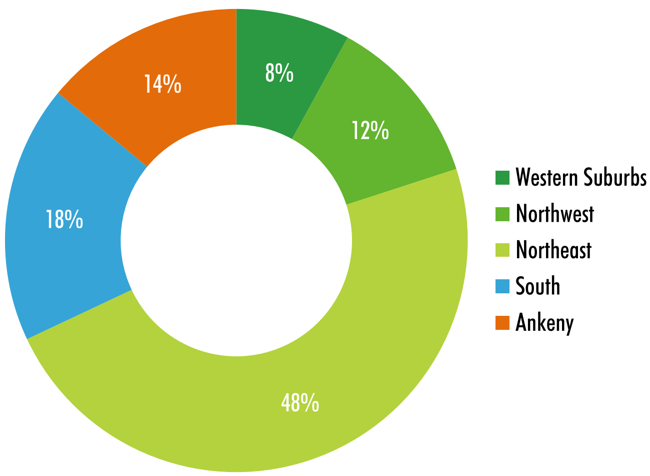
Flex Occupancy

Submarket	2015	2016	2017	2018
Western Suburbs	95.70%	97.00%	95.70%	89.30%
CBD	94.50%	94.50%	94.80%	95.90%
Northwest Des Moines	98.00%	99.30%	98.70%	98.80%
Northeast Des Moines	95.90%	97.10%	99.30%	96.60%
South Des Moines	95.40%	95.40%	86.10%	100%
Ankeny	99.10%	100%	81.70%	87.60%
Total	96.20%	97.30%	94.60%	92.10%

SOURCE: CBRE|Hubbell Commercial

Although there is inventory available in the marketplace, the interest in developing new product will not slow in 2019 as just over 3 million square feet of space can be found in the current pipeline. Hubbell Realty Company has begun construction on their fifth building in Grimes - a 110,000 square foot, 32 foot clear building, as well as plans to construct a 130,000 square foot speculative high cube building in Ankeny. Graham Warehouse has purchased approximately 74 acres in Altoona and plans to construct four buildings there that could total 1.4 million square feet when completed. Opus also has 125,000 square feet remaining to be filled in their second building west of I-35 at the Corporate Woods exit in Ankeny and has plans to start construction on a third 200,000 square foot warehouse.

Percent of Inventory in the Proposed Pipeline

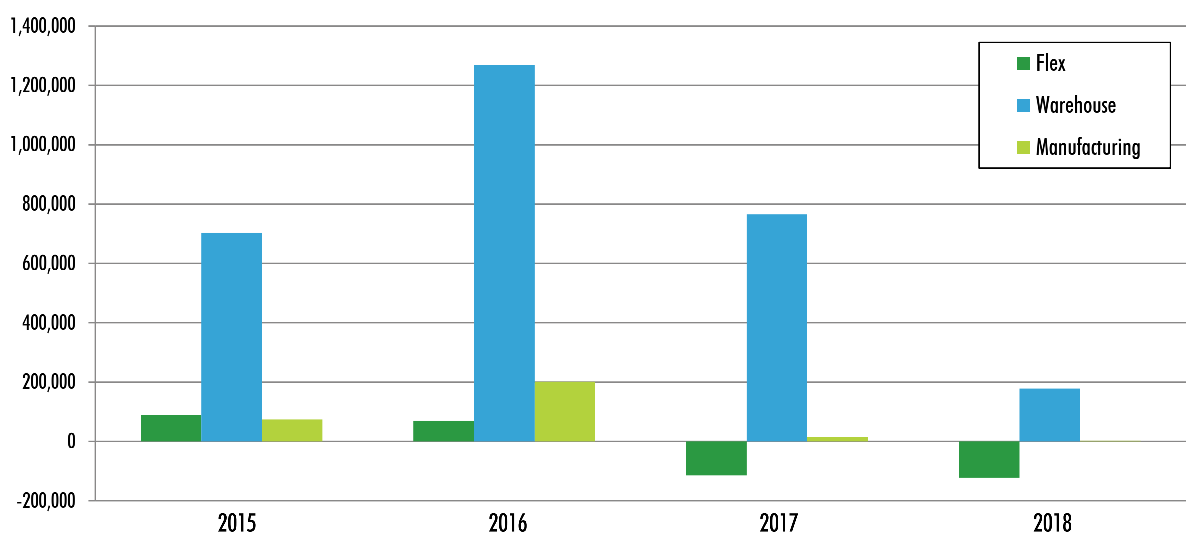


The build-to-suit and owner-occupied new construction remains robust, including three major projects in the Corporate Woods corridor in Ankeny. Kreg Tool has will construct a 250,000 square foot facility, Ruan Transportation will construct an operations and training center, and Ryan Companies is developing a 675,000 square foot distribution center for Northern Tool. The Northern Tool building will be expandable to 1 million square feet and is a perfect example of a company that has brick and mortar locations, catalog business and an expanding online presence.

Generally, we anticipate that new warehouse construction will continue to incorporate 32' or better clear height construction, 50-ft bay spacing, Early Suppression, Fast Response (ESFR) sprinkler systems, and significant dock loading. The primary geographic location for new product will continue to reside in the traditional warehouse corridors of Northeast Des Moines, Ankeny, and the Western Suburbs.

The Des Moines' industrial market fundamentals remain strong. There is ample inventory available with over 1.4 million square feet coming online before the end of Q2 2019. Based upon tenant demand in the marketplace, we anticipate the market will successfully absorb one-half or more of that inventory before the end of 2019. Typically, the Des Moines marketplace experiences an average of 750,000 square feet of positive absorption per year. Overall, the market is in a healthy supply mode with developers anticipating tenant demand and strong absorption

Net Absorption in Square Feet



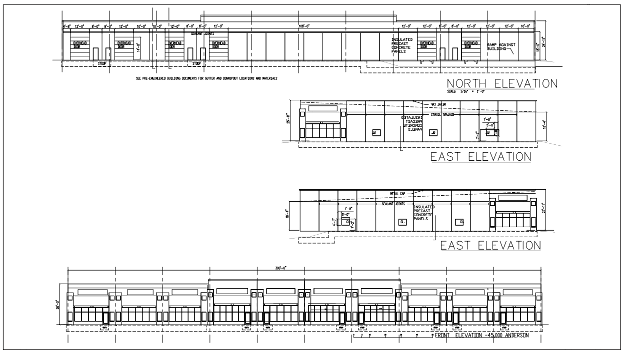
SOURCE: CBRE|Hubbell Commercial

Market Statistics

	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	Under Construction (SF)
Greater Des Moines					
Warehouse Pre 1970	8,930,844	214,340	2.40%	35,691	
Warehouse Post 1970	25,176,602	1,787,539	7.10%	-158,759	272,500
Manufacturing Pre 1970	6,850,551	0	0%	2,772	
Manufacturing Post 1970	4,037,695	84,792	2.10%	0	
Flex	5,008,412	395,664	7.90%	-122,716	21,000
TOTAL	50,304,104	2,782,335	6%	-243,012	
Western Suburbs					
Warehouse Pre 1970	1,279,616	0	0%	0	
Warehouse Post 1970	8,189,458	820,704	10.10%	-326,844	250,000
Manufacturing Pre 1970	620,467	0	0%	0	
Manufacturing Post 1970	898,811	0	0%	0	
Flex	2,697,344	288,615	10.70%	-169,124	21,000
CBD					
Warehouse Pre 1970	730,705	29,958	4.10%	36,143	
Warehouse Post 1970	398,251	7,965	2%	-5,736	
Manufacturing Pre 1970	53,436	0	0%	0	
Manufacturing Post 1970	12,737	0	0%	0	
Flex	490,449	20,108	4.10%	5,440	
Northwest					
Warehouse Pre 1970	864,732	0	0%	11,474	
Warehouse Post 1970	3,876,136	255,825	6.60%	8,971	
Manufacturing Pre 1970	1,883,813	0	0%	0	
Manufacturing Post 1970	231,777	0	0%	0	
Flex	663,952	7,967	1.20%	2,402	
Northeast					
Warehouse Pre 1970	3,834,858	65,192	1.70%	-23,926	
Warehouse Post 1970	9,913,477	882,299	8.90%	172,385	22,500
Manufacturing Pre 1970	1,553,153	0	0%	0	
Manufacturing Post 1970	2,000,473	86,020	4.30%	0	
Flex	490,213	16,667	3.40%	-13,610	
South					
Warehouse Pre 1970	1,956,730	117,403	6%	12,000	
Warehouse Post 1970	1,974,586	84,907	4.30%	-44,638	
Manufacturing Pre 1970	278,914	2,789	1%	2,772	
Manufacturing Post 1970	423,509	0	0%	0	
Flex	157,074	0	0%	21,888	
Ankeny					
Warehouse Pre 1970	264,203	0	0%	0	
Warehouse Post 1970	1,844,694	20,291	1.10%	37,103	
Manufacturing Pre 1970	2,460,768	0	0%	0	
Manufacturing Post 1970	470,388	0	0%	0	
Flex	509,380	63,163	12.40%	30,288	

SOURCE: CBRE|Hubbell Commercial.

featured advertising listings



4401 NW URBANDALE DR
4401 NW Urbandale Drive, Urbandale, IA 50322

45,000 SF Available

Max Contiguous Space: 45,000 SF
Min Divisible Space: 4,500 SF
Construction State: U/C
Year Built: 2019
Number of Floors: 1

Lease Rate: $8.00 SF/yr
Lease Type: NNN

ANDERSON PROPERTIES

Anderson Properties
Jeff Saddoris
(515) 371-3023
jeff.saddoris@theandersoncompanies.com

LEGACY II
2100 SE Gateway, Grimes, IA 50111

135,000 SF Available

Max Contiguous Space: 135,000 SF
Min Divisible Space: 7,500 SF
Construction State: Planned
Year Built: 2019
Number of Floors: 1

Lease Rate: $7.50 SF/yr
Lease Type: NNN

ANDERSON PROPERTIES

Anderson Properties
Jeff Saddoris
(515) 371-3023
jeff.saddoris@theandersoncompanies.com

GRIMES DISTRIBUTION CENTER, BUILDING 5
1301 SE Gateway Drive, Grimes, IA 50111

100,000 SF Available

Max Contiguous Space: 110,000 SF
Min Divisible Space: 20,000 SF
Construction State: U/C
Year Built: 2019
Building Size: 110,000
Number of Floors: 1

Lease Rate: $4.95 SF/yr
Lease Type: NNN

CBRE | Hubbell Commercial
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CBRE|Hubbell Commercial
Marty Herrmann
(515) 221-6653
marty.hermann@cbre-hubbell.com

INDUSTRIAL SPACE

1220 THOMAS BECK RD

1220 Thomas Beck Rd, Des Moines, IA 50315

61,004 SF Available

Construction State: Existing
Year Built: 1989
Number of Floors: 1

Sale Price: $5,900,000

Part of the CBRE affiliate network

CBRE|Hubbell Commercial
Chris Pendory
(515) 221-6605
chris.pendroy@cbre-hubbell.com

4121 DIXON STREET

4121 Dixon Street, Des Moines, IA 50313

177,431 SF Available March 1, 2020

Max Contiguous Space: 177,431 SF
Min Divisible Space: N/A
Construction State: Existing
Building Size: 177,431 SF
Number of Floors: 1

Lease Rate: $3.25 SF/yr
Lease Type: NNN

Ferguson Commercial Real Estate Services
Craig Crossland
(515) 309-0912
craig@fergusoncres.com

CORPORATE WOODS INDUSTRIAL CENTER

5910 SE Rio Circle, Ankeny, IA 50023

126,930 SF Available

Max Contiguous Space: 126,930 SF
Min Divisible Space: 27,000 SF
Construction State: Existing
Year Built: 2018
Building Size: 200,000 SF
Number of Floors: 1

Lease Rate: $4.95 SF/yr
Lease Type: NNN

JLL
Marcus R. Pitts
(515) 218-7017
marcus.pitts@am.jll.com

1510 OHIO STREET
1510 Ohio Street, Des Moines, IA, 50314

5,000 SF Avalilable

Max Contiguous Space: 5,000 SF
Min Divisible Space: N/A
Construction State: Existing

Lease Rate: $6.00 SF/yr
Lease Type: NNN

NAI Iowa Realty
Jason Lozano
(515) 577-4225
jlozano@iowarealtycommercial.com

1863 NE 54TH ST. BLDG. 6
1863 NE 54th St. Bldg. 6, Des Moines, IA 50313

8,000 SF Available

Max Contiguous Space: 8,000 SF
Min Divisible Space: 4,000 SF
Construction State: Existing
Building Size: 151 acres
Number of Floors: 1

Lease Rate: $9.50 SF/yr
Lease Type: NNN

NAI Iowa Realty
John Knapp
(515) 778-8870
jknapp@iowarealtycommercial.com

CLIVE LASER CAR WASH
2195 NW 159th Street, Des Moines, IA 50325

3,772 SF Available

Construction State: Existing
Year Built: 2001
Building Size: 3,772 SF

Sale Price: $1,500,000

NAI Iowa Realty
Kevin Crowley
(515) 991-7000
kcrowley@iowrealtycommerciall.com

PRAIRIE BUSINESS PARK III
4201 S. James St., Grimes, IA 50111

300,000 SF Available

Max Contiguous Space: N/A
Min Divisible Space: N/A
Construction State: Existing
Year Built: 2019
Number of Floors: 1

Lease Rate: $4.95 SF/yr
Lease Type: NNN

R&R Real Estate Advisors
Paul Rupprecht
(515) 223-4500
Rupprecht.Paul@rrrealty.com

LAND

LAND ***CHAPTER FEATURES***

ROUNDTABLE Q&A
TRENDS TO WATCH
TOP DEALS IN 2018
FEATURED ADVERTISING LISTINGS
ONLINE: Q&A VIDEO BUSINESSRECORD.COM/AREM

BY KENT DARR

Maybe you've already glanced at CBRE|Hubbell Commerical's Marketview report while plunging into this issue of the Annual Real Estate Magazine. If so, you've come across reports on three sectors — multifamily, office and retail — that are facing some headwinds.

Our panel of land development experts tilted slightly toward the cautious side when it met in late January. Let's be clear, the yellow flags aren't even halfway up the mast, but the experts are keeping an eye on themes that temper full-blown optimism for the coming year.

A spike in interest rates would be the first area. Yet, as Nick Halfhill, president of Landmark Development Services, said, developers react to the concerns of their end users, whether that end user is a family moving into a new home or a business looking for office space.

"We're still coming out of a real strong session with real estate," Halfhill said. "Over the past probably six or eight months, we've noticed a little bit of slowdown. But it's nothing that we're reacting to. So at this point, it's somewhat business as usual."

Aimee Staudt, vice president of development for Knapp Properties, agreed, and said it is difficult to pinpoint the exact interest rate level that would trigger deep concern. "We're doing a lot of really great things throughout our city. You're continuing to see the secondary markets be very desirable from an investment perspective for institutions. So I feel those are all things working in our favor," she said.

Curtis Brown, assistant city manager and director of economic development for the city of Urbandale, sees another year of "high-quality, market-sensitive development."

"I think we're seeing developers and businesses read the market and look at the opportunities that the public sector's putting out there," he said.

Dennis Reynolds noted that much of the "low-hanging fruit" has been picked and processed as Greater Des Moines came out of a "really difficult time and … stabilized."

"So now where do we go next in a very thoughtful and intentional way that helps the city of Des Moines continue to have the success that it's had in the past 10 years?" he said.

Read the discussion on p. 90 >>>


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THE METRO MATURES

A couple of growing pains aside, few anticipate much of a development slowdown

BY KENT DARR

THE EXPERTS: **CURTIS BROWN,** *ASSISTANT CITY MANAGER AND DIRECTOR OF ECONOMIC DEVELOPMENT, CITY OF URBANDALEN*
DENNIS REYNOLDS, *OWNER, REYNOLDS URBAN DESIGN AND URBAN PLANNING* | **AIMEE STAUDT,** *VP AND DIRECTOR OF DEVELOPMENT, KNAPP PROPERTIES* | **NICK HALFHILL,** *PRESIDENT, LANDMARK DEVELOPMENT SERVICES*
MODERATORS: **CHRIS CONETZKEY,** *PUBLISHER & EXECUTIVE EDITOR, BUSINESS RECORD* | **KENT DARR**, *STAFF REPORTER, BUSINESS RECORD*

ISSUES DISCUSSED

CATCHING A WAVE, OR NOT
IOWA NICE
NEXT UP FOR DEVELOPMENT
LOOKING IN THE REAR VIEW MIRROR
LOOKING AHEAD

THE PANEL: The Business Record hosted a panel discussion, moderated by Senior Staff Writer Kent Darr and Publisher & Executive Editor Chris Conetzkey, in an effort to identify key trends and issues in the land market. Read on to view an edited version of that discussion and view video of the entire discussion at ***businessrecord.com/AREM***

CATCHING A WAVE, OR NOT

Q: Greater Des Moines is kind of an economy of ripples. We don't get smacked down by the big waves, but what could happen on the national scene or international scene that would send that big wave our direction?

Dennis Reynolds:
I think the easy one's interest rates. I think that's something we all kind of keep our eye on. And that's probably where cautious attitudes come from. We've got to make sure stuff in the pipeline can survive a little bump in the interest rates.

Aimee Staudt:
I don't know if there's necessarily a threshold [for rates]. I just know for a single-family development there's always this triangle. So your pool of buyers that can afford a home, it's just like a triangle. If you're at this price point, everybody can afford it. If you're at this price point, you're starting to narrow your market. And so, obviously, interest rates play a factor into all of that. We haven't really seen a ton; we've seen some movement on lot sizes and maybe house square footage, where people are willing to sacrifice quality and maybe go to a little bit smaller footprint. Homebuyers worry. Even apartment dwellers really want to scale back on their finishes and amenities and some of those things. And so you're kind of in that sort of Catch-22 of, "We're trying to bring home prices down and apartment rents down but people aren't wanting to sacrifice some of the things that maybe that would take." And so interest rates just add another layer to that.

Nick Halfhill:
From our development performance, they're obviously very reactive to interest rates. That's part of the equation, but probably as fast as we react to that issue, homeowners or buyers, business owners are reacting to that issue a little faster than we need to. So the market is going be affected as quick as we can kind of figure out what we're doing with aggressive planning.

We all react to the end users. And the end users are trying to figure out what they can get for $1 and whatever version of that dollar. For the last 15 years around the Des Moines metro, we've been trying to figure out what that next paradigm is, and I don't know that we're there yet. But we're getting there. We're getting into the 55-foot-wide lot being a little more normal, where 65 was the standard for the better part of 40 years.

So what that does is that it makes the land more attainable for that house. But you think about how much infrastructure is in front of that lot, and that's really ... it's not the square foot of the dirt, it's how much road you have in front. That 10 more feet of road, you have more feet of sewer, of water, another hydrant.

So when we're talking about obtaining a value of a house, that's really what we're all chasing. Whether it's $201,000 at one point, now it's $250,000. It's trying to figure out how to knock $10,000 or $20,000, or 5 or 10 percent out of that home.

Reynolds:
To me, it puts a premium on the design aspect. When you've got a smaller lot and you've got this high expectation for quality that's not expressed in just sort of big simple square footage. It's expressed in quality of the spaces. The quality of a light, the finishes, all those experiences that it provides. So as we get smaller and more efficient, which I think is smart, it also means we have to be smarter about how we design these neighborhoods.

Q: Before businesses look for land or infill sites or anything, are they asking you about workforce?

Curtis Brown:
It's hand in hand. It really is. I think the advantage that the Des Moines metro has is this is a great place to live and work. And so, business has to have confidence in the ability to attract the people that they need. I suppose you could give away land and buildings all around, but if you don't have the people that they need to work in those spaces, you're missing half the equation. I'd be curious, what you all think of that?

Halfhill:
I don't think any of us at any one given point know the answer. I think I mentioned earlier about the Partnership speaker who had some very good information about the statistics and where people are coming from. Folks come from any number of small towns around Iowa; we all kind of know that. But the infill that we see from Chicago or Omaha or Kansas City and why are they coming. Well, a lot of that is this recipe we're talking about. It's workforce versus available jobs. It's when the available jobs are created versus that workforce. And we have this really good machine working right now, with the strong nucleus downtown, which allows everything to really function well.

We're creating homes, ultimately, for places to live and neighborhoods. Where are those people coming from, how often are they going to come? And so it's reacting to global numbers, but we have an anomaly here that isn't what you get in every midsized town around the Midwest or around the country, for that matter. So it's talked often about — how do we keep that going? Which is what we're all up to … I think it's interesting to watch.

IOWA NICE

Q: Are companies shopping for incentives?

Brown:
That phrase, I think, might imply something more negative than what might actually be happening. I think that businesses are making, and have the right to make, wise economic decisions. And so is there incentive shopping? I think there is definitely comparison of what comes with each site. But ultimately, I don't know. I think the incentives are part of the equation, but only a part. There are the location, the access to workforce, the land or building being the right fit for the personality of the company. All of those things have to be in place, and then the incentive becomes a way to move the project forward.

Because here's the thing. And I wanted to ask the panel this, and I hope we'll get to there. But what's different this time from the years leading up to 2008? It seems like this time, companies are making conservative and wise economic decisions about their investments. And the incentives, right, should be part of that consideration. But I think around the metro, companies are honorable and reasonable.

Reynolds:
That's one of those intangibles; that's an Iowa strength, right. We're not reckless, we save our money and we're resourceful.

> WE'RE NOT RECKLESS, WE SAVE OUR MONEY AND WE'RE RESOURCEFUL.

Brown:
Absolutely. The principles are there. We incent good jobs. We don't release something we didn't have. We share the benefit of investment with the

companies making those investments. The managers and owners of the businesses here are honorable and reasonable, because they live here too. I would say that our city peers are as well. People in economic development, we take that fair play agreement seriously. And the key principle is that we don't steal. And so I think we all recognize, being in economic development, that businesses have a right to make sound economic decisions. And so that means that they can compare sites and buildings and incentives. And I think we have an obligation to provide that information and be even-handed about it as well. The truth is, it's a good environment to work here. I hope to do business and I know from practicing local economic development that it definitely is. It's more than about incentive, it's more than about the price too.

Halfhill:
The most unique thing that we're dealing with is just steady urban planning. You try to figure out how people react. Well, we have this anomaly of these huge economic impacts that bring the infrastructure. And that's outside of what we've learned to try to react to people. So now we're looking at, OK, we have a physical model that's expanding. And not necessarily organically, and how are organics going to fit into it? We have a nucleus, and a very strong nucleus, downtown. But now with the infrastructure in the northeast quadrant, a lot of infrastructure on the south, definitely the southwest bigger than it once was. And then, now directly west with Apple out there. A lot of that is going to happen organically no matter what. But all of a sudden we have this ability to kind of infill those areas. So it's more observation of, well, let's see what happens and how that kind of influences areas between all of these big spots now.

NEXT UP FOR DEVELOPMENT

Q: What do some of the next prime development spots look like?

Reynolds:
Good planning says you don't consume sites, you create sites. So as you develop a site, it now makes two other sites suddenly prime. And those two sites get developed and they create four good sites. Hopefully we're being smart about what we're doing. I think we've got some good riverfront sites still, and riverfronts are always attractive for lots of good reasons. There are still lots of creative infill sites. They just need the right numbers to make them work. I'm not worried about us running out of key sites.

Q: You say make the numbers work. Is that the cost of the land?

Reynolds:
Yeah, the cost of the land. We've chewed through most of the inexpensive brick warehouses from the 1920s and '30s and converted those. So you go to the next level. What's the next type of building type or site? The Bridge District, I think, maybe opened our eyes and says light industrial stuff from the 1970s could be redeveloped in a really strong way. So I think we continue to be creative. ... My dad always said, he was a golfer, "You win the match on the first tee." And that means the bet that you make, how many strokes do I have to give you, is going to determine if I'm going to win or not. So the terms that you set at the very beginning helps decide if it's going to be successful. And that goes for development too. You've got to get the land at the right price to make the pro forma work.

Q: I can think of three other projects around Greater Des Moines. One is the 100th Street bridge and the Iowa Highway 141 flyover in Urbandale. The other two are the proposed Microsoft Data Center in Madison and Warren counties in West Des Moines and ... the Apple project in Waukee. The 100th Street bridge is working out pretty well for Urbandale, but do those big projects, such as the super big data center projects, are they just out there on their own, or do they have additional benefit that may not be as immediately apparent?

Staudt:
I think the benefit that really comes from it is all the infrastructure that goes with it. And I think that's particularly apparent from our perspective for the Microsoft Data Center that helped with the funding of the bridge over Raccoon River and the extension of Veterans Parkway and eventually the future interchange on Interstate 35. And so, I mean that, for just us alone, opened up 1,800 acres of land that you would have to go through four counties — and literally four counties. And it would take you 30 minutes to drive on a combination of gravel and pavement to where now you are literally, I don't know, five minutes from, say, the Glen Oaks area of West Des Moines. So that's just a huge game changer for us, and that's just the land we own. There's tens of thousands of acres that opened up for West Des Moines and Warren County.

I think the same thing with Apple, from an infrastructure standpoint and all the different sewer and water improvements that were made because of that. And then in that particular deal, it also spills over into funding that goes to help Waukee with amenities and park land and some of those things.

Brown:
We cheer them on, because all of these projects accrue to the benefit of our entire region. When the Greater Des Moines Partnership or any of us selling the metro can say, "Look who's invested here." I mean those are names that bring immediate attention. It's like having anchors in the mall. It benefits everyone. And then you asked about whether the infrastructure has any spillover effects. Absolutely. Aimee gave numerous examples of the data centers, but just think of what 100th Street and the flyover, just to think of what all of that infrastructure does for all of the northwest part of the metro, not to mention all of the people from around Central Iowa who are going to work in those buildings that are there, perhaps due in part to the access that's been created.

Q: Five, seven years ago, many of the development areas currently being filled didn't exist. Do you think there'll be additional places where future development will start carving out, or are we in a holding pattern until some of these areas fill in?

Staudt:
All it takes is really one of those to land someplace that's sort of a new area and then, while you have all of the construction jobs that come with it for multiple years, you also have all of the infrastructure that comes with it. And so, while there are not a ton of employee uses that a data center brings, it does bring the infrastructure.

Q: If you lay out what we're talking about with the data centers creating potentially more spots in the future, what does that ultimately do to land prices? Let's pretend, to the extreme, then, two or three more bigger type projects were to come online and that would open up new areas. Does that affect pricing at the places currently?

Staudt:
I think absolutely, if you look at what Apple paid for however many acres they have out there. I mean if you're a neighboring landowner, I think that there's your comp. When Nick or Knapp comes and says, "Hey, we'd like to make you an offer." They're like, "Well, $35,000 an acre is what that averaged. So …"

Reynolds:
Yeah. And it does create opportunities maybe for other vectors in the metro areas. So the Altoonas and the Norwalks, some of those places that maybe don't get as much attention, suddenly become viable.

LOOKING IN THE REAR VIEW MIRROR

Q: So, back to Curtis' question, when you look at 2008 and what led up to that, what is different? In this case, are prices back to that point?

Halfhill:
Yeah, the prices aren't what broke. What broke was, well, a lot of things. But what's immediately different is, it is far less risky. We're never going to get rid of the risk. Any business endeavor is a risk, right? But it's a lot different. And by and large, where some companies, maybe they didn't change their practices at all, but there were a lot more entities that either don't exist or were forced to say, "Look, you cannot do it this way." And land development, by and large, real estate is the easy one to point your finger at because it is inherently risky. So I think people nowadays want to get a little more from land development.

Are you going to go build 100 lots and hope you sell on it, or are you going to get those 100 deals worked out, or 75 whatever percentage. You're going to be a little more concerned about that business model. That's a benefit. And what's changed is we all have had the opportunity to experience 2008. Before that, I was 7 in 1980, so the farm crisis didn't hit me the same, it hit my family members. But I didn't have an economic issue to go through like that. Now we've had it, so we have our reasons for reacting the way that we do.

Staudt:
Simplistically, I think that, back before 2008, there were a lot of banks, developers, you name it, in the real estate industry that maybe felt like they were taking too much risk but in order to compete and do any business, you had to take that risk, because there was someone else who would've done it. And some people didn't change their practices. I would say the people who maybe resisted that a little bit said, "That's too much risk for me; I'm gonna try and make the deals work that don't get me

to that risk level" are the ones who survived. And the ones who said, "You know what? Everybody else is doing it. I'm jumping in. I'm gonna make these deals and so far it's worked out." Well, then it stopped working out and now, like Nick said, people have lived through that and they understand, and, hey, there were consequences to making those decisions. [They say,] "I'm going to change how I do business because of that."

Q: What would be an indicator that people are starting to do that again, where they are taking that much risk? Is there something that you'd be looking for?

Staudt:
The fundamentals in real estate are not rocket science. You factor in your costs, you factor in your projected revenue and the return you need. You figure out your risks from that. The problems were people saying, "Well, yeah, I'm gonna make no-doc loans and I'm gonna just assume it all works out well." If you stick with the fundamentals, you're going to be fine. And people weren't doing that then.

Q: If you have a sector that struggles – retail, for example – does it create a new opportunity, a different development opportunity, or does that upset the balance of those fundamentals?

Reynolds:
That's how I see it. If you were to ask me, "Where do I think the next opportunities lie?" Surely we've milked the multifamily market as far as we can. But the failing strip center is an area, and the big-box retailer is just ripe, to me, for rethinking in an innovative way. Des Moines, if it has a weakness, in my perspective, one of them is we're really limited with our entertainment and shopping choices. We've got the East Village, a little bit of something there at Valley Junction. A little bit of something in Beaverdale, and then the big mall experience, and lots of retail spaces that are pretty marginal and need to be reinvented. So how we reinvent those retail spaces –they're big, simple building forms. How do we reinvent them, and in a multitude of uses?

LOOKING AHEAD

Q: If you're going to anticipate, looking into the next three to five years, push it out a little bit and think about land prices, what do you think we could expect for the Des Moines market?

Halfhill:
I don't think we're going to see a lot of fluctuation in land prices. You like to think everything follows the market values, but it's relative. But in our case, the only place is that one spot down the street downtown. Yeah, that's going to change because those are getting fewer and fewer.

Q: Is the approach to developing in the suburbs different? Do you focus more on amenities and neighborhood retail stores and that kind of thing?

Staudt:
Well, I think every property or every area we look at is different. I mean, if you're developing something that is right behind the Hy-Vee in Waukee versus something that's kind of out in the outer regions of Urbandale versus where we're looking at the new area for Raccoon River. You're going to approach all of those a little bit differently. It certainly does come into mind. And one of the things we think about as we're looking at opening up a new area is: If someone wants to go get a gallon of milk, how far are they going to have to go? And even if it is only five or 10 minutes, some of it can be perceived distance as well.

So then the question is, "OK, well, the area that we're looking at really doesn't make a lot of sense for convenience stores." When you think that next year, they're going to have the intersection of Grand Prairie Parkway and Veterans Parkway constructed. So that makes more sense. Those are all factors, kind of, that we look at. Parkland, we don't get to make those decisions unilaterally; the city's weighing in on that. And a lot of times the trend now is to try to create, maybe have three different landowners contribute and create sort of a larger piece. Because a lot of cities can't afford to maintain 30 different small parks when they could combine all of those into five larger, regional parks that still provide access to the neighborhoods.

Brown:
I'm glad you mentioned that, because I do think cities are trying to meet developers halfway too. So one example is out in northwest Urbandale, we are building one of our streets as a complete street. And some people might look and say, "Well, this isn't in the dense part." But we wanted to get started. And part of it is responding to the people who are investing in those neighborhoods, to the developers that are making investments out there and saying we understand that you want a distinct place. ■

LAND TAKEAWAYS

BY KENT DARR

'WE NEED MORE PEOPLE'

The scramble to find workers was a common theme of several of our video roundtables. With an unemployment rate just barely above the surface of 2 percent, employers say they are having a tough time filling open jobs. Greater Des Moines finds itself in a bit of a pickle. A strong economy and the jobs it creates could stymie additional growth. Curtis Brown, assistant city manager and director of economic development for the city of Urbandale, remains optimistic. "Workforce is the No. 1 thing we talk about. And in Iowa, we just need more people," he said. "But we are not seeing a disinvestment in workforce. Companies are working hard to retain their employees. They're working hard investing in training workers. And so far, we're seeing continued hiring. And so wealth generation is the engine that keeps this going and allows people to buy houses and reinvest, and I think so long as we're seeing good opportunities for earning a great wage here in Des Moines, in the area, it seems like that is going to bode well for the rest of this year. If we start to see business slow down on investments or taper off hiring, that would be a concern from my point of view."

PARKS AND RECREATION

Let's face it, some of the cities in Greater Des Moines are growing like weeds — not the noxious kind, mind you, but they are growing darn fast. Nick Halfhill of Landmark Development Services said Ankeny is likely to hit 100,000 residents much sooner than what would have been projected a decade ago. It's not alone in that growth spurt.

There isn't much in the way of local geography to slow growth.

"We don't have that natural barrier that says it's wetland so we're going to jump that area. It's all sort of developable," said urban planner and designer Dennis Reynolds.

"Some communities that maybe 20 years ago we all looked at as benchmarks and some of them maybe are having issues with loss of green space, traffic issues," he said. "I think we really need to be proactive in terms of how we manage these big-picture issues."

One area that is opening to development sooner that expected is 1,800 acres of land Knapp Properties owns along the Raccoon River. A $1 billion Microsoft data farm is leading to a road system that will cut through four counties, providing routes to malls and highways and cities large and small.

Several years ago, Knapp Properties entered an agreement with the Iowa Natural Heritage Foundation that will preserve forests and wetlands.

"There are a lot of restrictions on what's happening there," said Aimee Staudt, vice president of development for Knapp. "In some ways, it does almost create a buffer."

"Our flood plains are some of the best natural areas that we have in Iowa," Nick Halfhill, president of Landmark Development Services, said.

HOW FAR FOR A GALLON OF MILK

Developers are trying to squeeze some cost savings out of their projects, especially as they hunt for a magic formula that would make single-family homes more affordable. But they face other issues when planning their projects.

There is the question of just how many convenience stores the metro area can support. It's more than a matter of numbers.

"One of the things we think about as we're looking at opening up a new area is: If someone wants to go get a gallon of milk, how far are they going have to go?" said Aimee Staudt of Knapp Properties. "And even if it is only five or 10 minutes, some of it can be perceived distance as well."

A BRIDGE TO PARKS AND PATHS AS A BEACON

The north side of the Raccoon River is going to meet the south bank in downtown Des Moines one day this summer, linking the central business district to Gray's Lake Park, a rejuvenated Water Works Park and an elaborate trail system.

Nice touch, but what will that mean for a day in the life of the metro?

"We were talking earlier about downtown over the last 25 years or 30 years," said Nick Halfhill of Landmark Development Services. "Little things like that add up tremendously. Whereas 25 years ago, coming down here on a bicycle on a Sunday might not have been as appetizing as it is now. I live nowhere near downtown Des Moines; however, I find myself down there on a weekend recreating. Not just going to a restaurant, but literally riding a bicycle here from fairly far away, so that's something."

It's helping to put numbers on the scoreboard.

"We have a pretty good idea of what winning looks like right now because we're seeing a lot of it," Halfhill said.

The bridge is just part of it, but it serves as a reminder of the kind of thinking and planning that continues to foster growth in Greater Des Moines.

"I think place matters so much," said the city of Urbandale's Curtis Brown. "I think we're moving away from the commoditization of developments, whether it's residential or commercial or even business parks. There's got to be some unique aspect of the development, and it's so interesting now how you hear the development talked about with the employees in mind. How are they going to get here on their bikes? Are they going to be able to walk their dog over the lunch hour? I mean it's so interesting to see how the employee is thought of in the design."

Urban planner and designer Dennis Reynolds said he is reminded of another icon of community planning.

"It almost takes you back to Kohler, Wis., at the turn of the century," Reynolds said. "With a whole community developed around the industry. And likewise, we need to think of our businesses as being a holistic aspect of our lives." ■

LAND

TRENDS TO WATCH

Going communal

HARRISON KRUSE

SENIOR ASSOCIATE, CBRE|HUBBELL COMMERCIAL

Please identify one trend in your area to watch in the upcoming year.

While Greater Des Moines' growth continues to follow the trends of many other similar-sized cities throughout the Midwest, its development has partly been driven by affordable and plentiful land, which encourages expansions into the outside city limits into suburbs. These areas are favorable for massive retail buildings, without interrupting the basic flow of office space and housing communities.

Could you please explain the impact of that trend?

Most recently, the focus is on the town center and mixed-use concepts, which meld work, life and fun in one place, usually within a small geographical area, creating its own unique neighborhood. This concept seems to be a mutual desire for both the millennial and baby boomer generations. These communal concepts have developed as a response to what works best for individual human desires. Oftentimes development is influenced by popular trends and costs, rather than consideration of human desires and human needs, but that tendency has faded over recent years. For office developers and building owners looking to maximize occupancy in their asset, offering extra services and convenience are becoming a primary consideration in real estate design and development.

Today, communal concepts are also a selling point. These collaborative spaces are important to employers and developers who are looking to provide amenities within their office buildings to recruit and retain employees. Low unemployment and competition for qualified workers place greater emphasis on providing convenience of services, which can make the employee's life easier and, in some cases, healthier. To recruit and maintain people or make a property more desirable, not only do developers need to provide exceptional amenities, but also examine the neighborhood and surrounding services to complete the communal environment. Recent studies on worker well-being show that productivity, engagement and collaboration, culture, and satisfaction with their office environment directly correlates with commute time, worker satisfaction and health. For example, employees that have shorter commute times are more apt to exercise. According to Athletic Business, a 40-year-old publication dedicated to the sports and fitness industry, corporate fitness facilities "increase productivity, improve employee morale, and decrease absenteeism."

Solely focusing on current trends may miss the mark. However, development and design that focuses on providing for employee needs has and will continue to have greater potential to provide profitability and satisfaction to employers, developers and building owners.

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The future won't wait, and neither will we. Right now, the pioneers of retail, residential, data, advanced manufacturing and logistics are building their future in Iowa's new frontier. It's a movement. It's an invitation. And it's happening right now in the City of Altoona.
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Opportunity in Opportunity Zones

TIM BRATVOLD
DIRECTOR OF BUSINESS DEVELOPMENT, ESTES CONSTRUCTION

Please identify one trend in your area to watch in the upcoming year.

Opportunity Zones that were established by the 2017 Tax Cut and Jobs Act are starting to gain traction. Investor interest is high around Opportunity Zones due to the exchange for attractive tax breaks that come with the investment. The tax incentive drives economic development in underserved communities, thus benefiting individuals and communities. With the right development projects, Opportunity Zones have the potential to catapult development and provide exponential growth in specified areas of our community. At Estes Construction, we seek to provide a great client experience for all stakeholders involved in revitalizing the Opportunity Zones by advocating, connecting investors with landowners and delivering on promises.

Could you please explain the impact of that trend?

Opportunity Zones have the ability to provide specified neighborhoods with an incentive package that attracts new developments in these areas. The incentive is created through a tax vehicle that allows taxpayers to reinvest unrealized capital gains into opportunity funds that then support Opportunity Zone developments. A majority of the Opportunity Zones that have been selected would not have otherwise seen private investments and development projects come to fruition due to development costs being high in an area where strong rental rates would be difficult to achieve. There is a need for the development to "do well," which in return creates a need for an integrated project team to be involved early on to balance the project design and budget. The Opportunity Zone program will provide the potential to rejuvenate neighborhoods while spurring a positive economic wave of work for construction trades and suppliers. I believe this program will bridge the gap between our strongest neighborhoods and our underserved neighborhoods to strengthen the overall quality of life in our community.

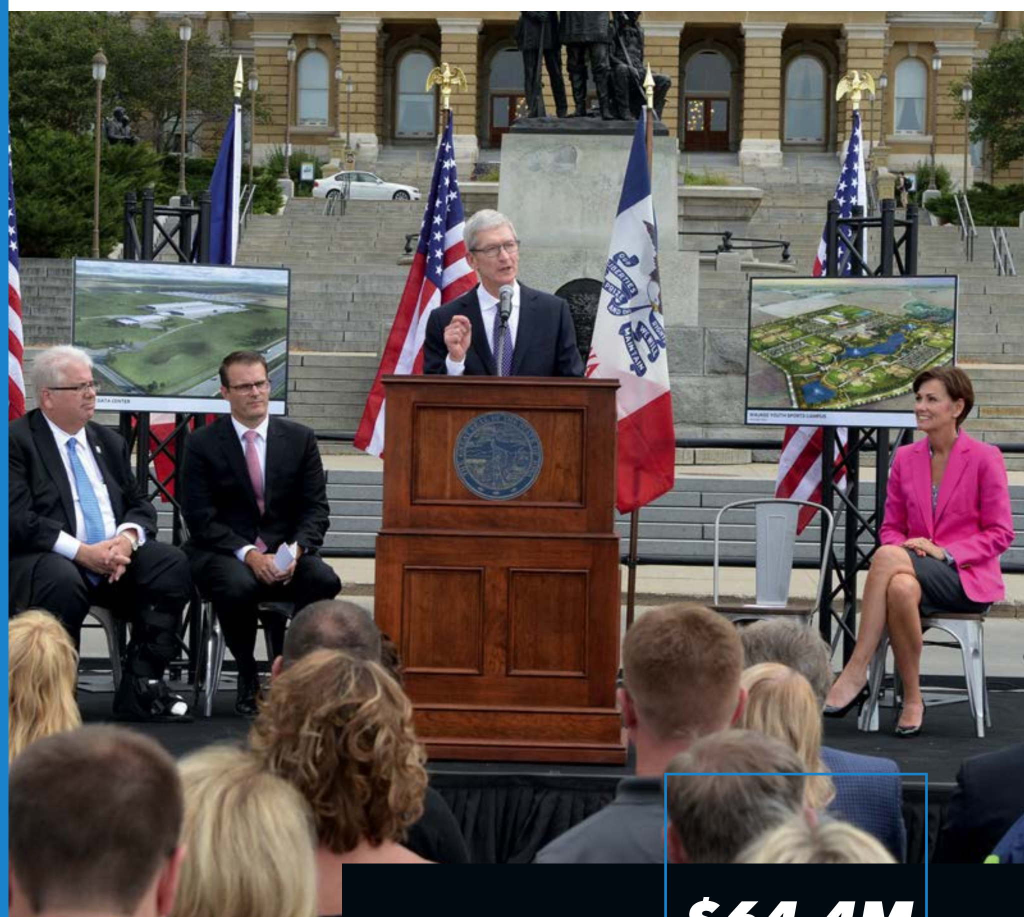
What's one trend to watch in the next 10 years?

I believe that within the next 10 years, we will see a significant advancement and integration of technology in construction. A big advancement I foresee is how project information is transitioned from design to construction. Rather than designing in 3D, putting the design on 2D (paper) and building it in 3D, the construction and design industry will identify and implement efficiencies and new technology to streamline this function. People will demand to experience their building prior to building it, perhaps through VR or another system yet to hit mainstream. The technology within buildings will help with sustainability via automatic lights and the heating and cooling of areas where people are accommodating new working routines and virtual connection. Truly, the possibilities are yet to be imagined.

*"I BELIEVE THIS PROGRAM WILL BRIDGE THE GAP BETWEEN OUR STRONGEST NEIGHBORHOODS AND OUR UNDERSERVED NEIGHBORHOODS TO **STRENGTHEN** THE OVERALL QUALITY OF LIFE IN OUR COMMUNITY."*

LAND

TOP DEALS OF 2018



$64.4M

Apple Data Farm

Apple Inc. paid $68.4 million to acquire 2,042 acres of private property from 22 individuals or entities for future development of a data farm. Most of the purchases were completed in April 2018. As an example, Apple Inc. paid a total of $10.8 million on March 8 to Wittern LLC and General Manufacturing Co., which is controlled by the Wittern family, for 172 acres of farmland in Waukee.

$7.3M

Menards buys Grimes land

Menards Inc. paid $7.3 million on June 5 to entities controlled by Kurt Mumm and Mark Hanrahan for 28 acres near East First Street and Iowa Highway 141 in the Destination Market development in Grimes.

$6.5M

Federal courthouse

The United States of America paid nearly $6.5 million on Oct. 12 to Hubbell Terminal Corp. for the former Riverfront YMCA property at 101 Locust St., where plans call for a new federal courthouse.

$5.7M

R&R buys more land in Urbandale

Two entities operated by R&R Realty paid $5.7 million on Aug. 27 to Edward and Teresa Shafer for 74 acres at the northwest corner of 128th Street and Meredith Drive, Urbandale.

$3.46M

Destined for a warehouse

Graham Group Inc. paid $3.46 million on Oct. 5 to Anderson Family Farms LP for 73.6 acres at 5845 N.E. 56th St., Altoona.

$3.3M

Waukee's Kettlestone area

Kettleview LLC, managed by Daniel Pettit, paid nearly $3.3 million on Aug. 8 to Arac LLC, managed by Kurt Brewer, for 12.4 acres along Grand Prairie Parkway. Don Brown, Coldwell Banker Commercial, represented the buyer and seller.

$2.9M

Land for Deere tech center

Ryan Cos. US Inc. paid $2.9 million on April 9 to First Assembly of God Church for 34 acres at 9301 Northpark Drive in Urbandale, where it will build a new $32.6 million technology center for Deere & Co.'s Intelligent Solution Group. Ryan also has a right of first refusal on other property First Assembly of God Church owns in the Northpark Business Centre.

$2.5M

One big playground

The city of West Des Des Moines paid $2.5 million on Dec. 6 to W&G McKinney Farms LC for 60.9 acres that stretch east from Jordan Creek Parkway, between Grand Avenue and Iowa Interstate Railroad tracks to the south. The property will be the site of a sports center called the MidAmerican Energy Company RecPlex.

$2.4M

Hummell expansion in Ankeny

Hummell Real Estate LLC paid $2.4 million on Jan. 25 to Denny Elwell Family LC for a lot in the Hummel's Nissan Plat east of Interstate 35 and south of Oralabor Road in Ankeny.

$2M

Hubbell's Bridge District in Des Moines

Hubbell Realty Co. paid $2 million on April 4 to Principal Financial Group Inc. for three lots that will be part of Hubbell's Bridge District development in Des Moines.

WHITE WATER UNIVERSITY
5401 East University Avenue, Pleasant Hill, IA 50327

10,000 SF Available

Lot Size: 6 acres

Sale Price: $10.00 SF

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CBRE | Hubbell Commercial
Bill Wright
(515) 221-6672
bill.wright@cbre-hubbell.com

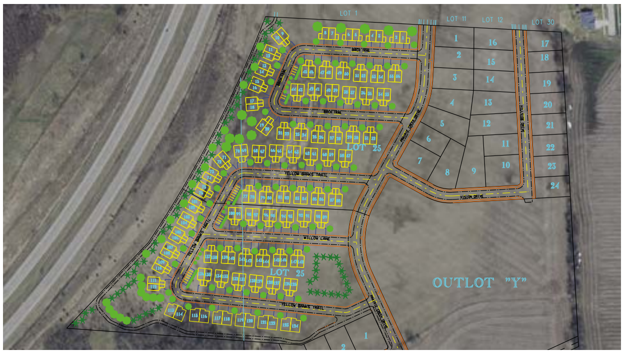
ALTOONA INDUSTRIAL PARK
1st Ave N & 1-80, Altoona, IA 50009

Lot Size: 343 acres

Sale Price: Negotiable

CUSHMAN & WAKEFIELD
Iowa Commercial Advisors

Cushman & Wakefield
Iowa Commercial Advisors
Chris Thomason
(515) 778-8188
cthomason@iowaca.com



PRAIRIE CREEK PLAT 2
Pleasant Hill, IA

Lot Size: N/A Developed Lots

Sale Price: Negotiable/ $40,000+

KADING

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LAND SPACE

2105 DAYTON AVENUE

2105 Dayton Avenue, Ames, IA 50010

Lot Size: 72.76 acres

Sale Price: $2.50 SF

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George McGuire
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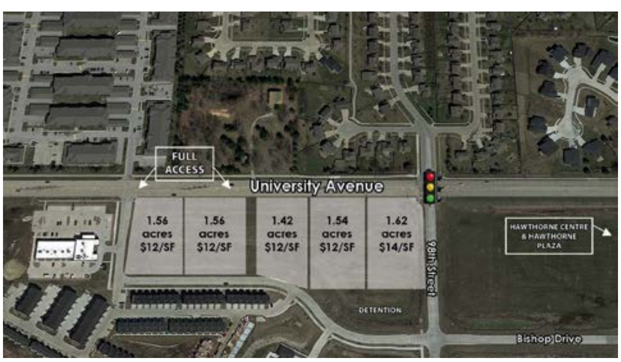
gmcguire@iowarealtycommercial.com



HAWTHORNE POINTE

1250–1400 SE University Avenue, Waukee, IA 50266

365,904 SF Available

Lot Size: 8.4 acres

Sale Price: $12.00-$14.00 SF

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MICHAEL **SMITH**

Vice President

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Michael Smith joined the CBRE|Hubbell Commercial team in 2018, after having spent 25 years leading the real estate and environmental efforts at several Des Moines area companies with operations both regionally and nationally. Michael's commercial real estate responsibilities spanned across the United States in retail, office, and industrial sectors of the marketplace. Michael's background is unique in that he also led the environmental and sustainability efforts of these corporations while being responsible for real estate.

In addition to Michael's experience in retail, office, and industrial markets, he has also worked in a variety of other industries, including manufacturing, mining, transportation and distribution. In these varied capacities Michael has been integrally involved in site selection and acquisition, property analysis and valuation, development and construction, and business acquisitions and divestitures. Michael also has a diverse educational background with degrees in Geology and Environmental Science, together with a Master's in Business Administration from the University of Iowa's Tippie College of Business.

In a relatively short time at CBRE|Hubbell Commercial, Michael has developed an impressive list of clients including: Hy-Vee, the Ruan Companies, Siemens Corporation, Learning Care Group, Primary Healthcare, Amber Pharmacy, PharmScript, Heartland Income Properties, and Orangetheory Fitness. One of the more positive attributes of Michael's brokerage practice is his broad level of knowledge and ability to work with clients requiring brokerage services in more than one segment of the marketplace. Michael's extensive history of working as an owner's representative, combined with his unique background and experience, have prepared him to work with clients with diverse backgrounds. This experience is enhanced by Michael's commitment to understand what a client's needs are and how they can best be met.

HAVE A PASSION FOR WHAT YOU DO

Shaping the Investment Real Estate Market in Iowa, Linda Gibbs and Tim Sharpe are known experts in the commercial real estate investment properties industry. With more than 68 years of experience collectively, they have successfully undertaken an enormous amount of transactions.

In 2002, this husband and wife team decided to exclusively concentrate on the acquisition and disposition of investment real estate – a determined effort to up their game that has proven to set them apart in the industry. "We recognized there were a large number of private investors, both locally and nationally, looking to invest in investment properties and no one was catering to their needs," explains Gibbs.

The affiliation with CBRE, assisted them in pioneering the Capital Markets Investment Properties platform for the state of Iowa, initially referred to as the Private Client Group, specializing in investment property real estate. With a proprietary database of over 400,000 qualified investors they are able to reach out to local and national investors wanting to invest in Iowa. Gibbs and Sharpe are two of the most knowledgeable and seasoned investment brokers, with over $1 Billion worth of transactions in 14 years. That kind of volume brings instant credibility to their clients.

When asked the secret to their success, they give this advice: Have a passion for what you do, become an expert in your field, bring consistent follow-through to your clients and most importantly, act with interity.

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LINDA **GIBBS** &

Senior Vice President, CCIM, SIOR

TIM **SHARPE**

Senior Vice President, CCIM, SIOR

CBRE | Hubbell Commercial

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2018 NAI IOWA REALTY COMMERCIAL ROOKIE OF THE YEAR

For over 20 years Jerry Marckres was known to his clients in Des Moines as the "Phone Guy." Jerry recalls, "I would drive around with a box of smartphones and phone accessories in the event that if a business client called, I could respond to them quickly. I had a wireless phone store on wheels."

As a native of Perry, Iowa, and a graduate of Simpson College, Jerry went on to work in the family's business – Spring Valley Wireless. Over the years, he successfully developed and implemented growth strategies that helped expand the business from one retail location to 12 throughout Iowa as he hired, trained and supervised a team of over 70 team members, making Spring Valley one of the premier wireless retailers for Verizon Wireless in the Great Plains Region. This success led to the company being acquired in 2015.

Jerry joined NAI Iowa Realty Commercial in 2017. His prior experience as an entrepreneur has given him a strong foundation for success in real estate. He recently earned the title of "2018 NAI Iowa Realty Commercial Rookie of the Year."

Clients choose to work with Jerry for his real-world business experience, ethics and market knowledge. Known as a "generalist," Jerry's focus is on retail, office, industrial and investment properties. "In order to build lasting relationships, I realized that my clients' needs extended far beyond a single property type," he said. "I focus on creating value and solving problems — wherever my client might need me to do so. I want to be their 'Property Guy.' From Phone Guy to Property Guy."

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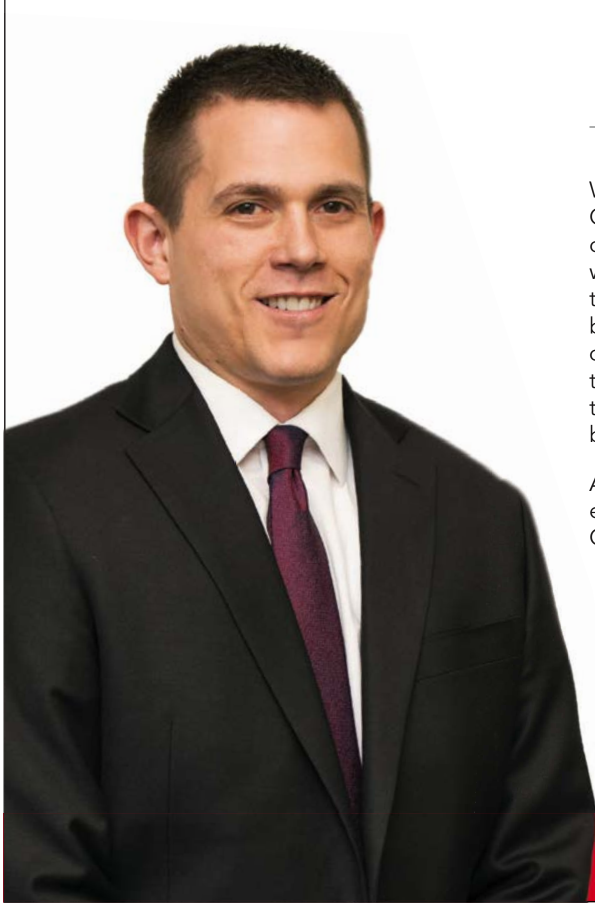
JERRY **MARCKRES**

Commercial Agent

NAI Iowa Realty Commercial



CUSHMAN & WAKEFIELD
Iowa Commercial Advisors

With 13 years of experience, Keith Olson has an extensive background in office, industrial and land transactions within the Des Moines metro and throughout the State of Iowa. Keith believes in providing complete detailed information to his clients so they are in the best position possible to make the right decision for their business needs.

As an office specialist, he has earned the Society of Industrial and Office Realtors (SIOR), and Certified Commercial Investment Member (CCIM) designations. The SIOR designation is a professional symbol of the highest level of knowledge, production and ethics. Only 3,300 commercial brokers worldwide have earned the SIOR designation, and less than 1,000 are office specialists.

KEITH **OLSON**

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SIOR, CCIM

CUSHMAN & WAKEFIELD
Iowa Commercial Advisors

Throughout his 17 years at Cushman & Wakefield Iowa Commercial Advisors, Christopher Stafford has helped redefine the Des Moines metro as a city now recognized by national site selectors, developers and investors.

As a collaborative leader, Stafford directs a full range of real estate strategies to Fortune 500 companies, REIT's, national retailers and investors. Stafford is a past President of the Iowa CCIM Chapter and has earned numerous industry awards, including the 2018 Cushman & Wakefield Iowa Commercial Advisor's Top Producer Award and the 2017 ICREA Broker of the Year Award.

Perhaps more important than business accolades is Stafford's passion for his community. Stafford is a recent graduate of the Greater Des Moines Leadership Institute and serves on the Board of Directors for the ALS Association of Iowa. His past involvement includes the Iowa Homeless Youth Centers Project Art Team, Greater Des Moines Partnership Development Council and United Way's Capital Campaign Calling Cabinet.

CHRISTOPHER **STAFFORD**

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CCIM

KNAPP PROPERTIES

Brian's responsibilities include buyer and seller representation and marketing of Knapp Properties' portfolio, as well as third-party buyer and seller representation. Brian attended Simpson College and Grandview University before joining RadiSys Corporation in 1997 as the Manager of Global Real Estate and Facilities. Following RadiSys, he spent 10 years as a commercial broker with NAI Optimum. He joined Knapp Properties in December of 2014 as Senior Vice President of Brokerage Services.

Brian has attained the CCIM designation, is a member of the Iowa Commercial Real Estate Association, a past president of the Urbandale Development Association, and is a board member for the Northern Polk County Pheasants Forever chapter and Johnston Economic Development Company (JEDCO). Together with his wife, Betty, he has 3 adult children and 4 grandchildren.

BRIAN **ERICKSON**

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515-202-5035

Senior Vice President of Brokerage Services

KNAPP PROPERTIES

Ben attended the University of Northern Iowa where he received a Bachelor of Arts in both finance and real estate. He has worked as an asset manager for Principal Financial Group and American Equity and was a Business Development Officer at Wells Fargo until he came to Knapp Properties in 2014.

He has been involved in United Way of Central Iowa, a Big Brother with Big Brothers Big Sisters of Central Iowa, been on fundraising committees for the Moonlight Classic, benefitting Orchard Place, and the annual Human Foosball tournament, benefitting Youth Emergency Services & Shelter.

Ben is a board member for the Ingersoll and Grand Avenue Self-Supported Municipal Improvement District (SSMID), and for the Warren County Economic Development Corporation. He also serves as President of the Metropolitan Business Association breakfast club. Ben was also a part of Business Record's 2017 Forty Under 40 class.

BEN **GARRETT**

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Vice President of Brokerage Services

IT'S NOT JUST A HOUSE, IT'S A HOME!

With over 25 years as a Realtor®, Kim has acquired an abundance of knowledge in the Des Moines metro real estate market. She specializes in new construction, single-family homes, townhomes, condos, land and acreages. Clients adore working with Kim, as she brings passion, enthusiasm and high energy to everything she does and that is one reason her clients enjoy working with her. Her measure of success is pairing the perfect property with her clients and striving to make every transaction as smooth and seamless as possible. Kim is truly your Des Moines real estate resource, and she is dedicated to serving her clients during each stage of the home-buying process. She is knowledgeable about construction, quality, neighborhoods, schools, entertainment, and all the details that make your purchase worth the investment.

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KIM **O'CONNOR**
Realtor®

KIM O'CONNOR
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REALTOR®
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A HOUSE IS NOT JUST A HOUSE, IT'S A SANCTUARY FROM A STRESSFUL DAY, A HOME TO RAISE A FAMILY AND A PLACE TO FEEL COMFORT.

Summer Clark has become a driving force in the Des Moines-area real estate market. Born and raised in Urbandale, she has spent the last 15 years of her real estate career focusing on residential real estate in Des Moines and surrounding areas. She is driven and motivated to help her clients find the perfect home for their family's needs. "A house is not just a house, it's a sanctuary from a stressful day, a home to raise a family and a place to feel comfort. I'm aware that everyone has a different picture on what they would call the perfect home and I'm here to listen and help you find the best fit for you and the best value for your money," says Summer.

She strives to give each one of her clients the same outstanding service that has led to tons of referrals, repeat clients and a five-star rating. Summer focuses on both residential resale and new construction. She is considered a new-construction specialist and is very knowledgeable on the different styles of homes that local builders construct and is able to fit the buyer to the right builder to help them develop the home of their dreams. "The smile on a client's face when they see the home we drew up on paper come to life is one of my favorite aspects of my job" Summer says.

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RESIDENTIAL ***CHAPTER FEATURES***

ROUNDTABLE Q&A
TRENDS TO WATCH
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FEATURED ADVERTISING LISTINGS
ONLINE: Q&A VIDEO BUSINESSRECORD.COM/AREM

BY KENT DARR

A house is no longer a place to rest your head, unless, of course, the house manages in some fanciful way to fluff the pillow.

Housing as a service is all the rage these days, it seems, a way to lure millennials and empty nesters and relieve them of the serve-the-house mentality that has reigned over homeownership for many a decade.

"That's going to be a growing trend," said Jared Husmann, associate director at KW Commercial. "Housing is being seen more as a service now, not just an everyday sort of roof over their heads."

That service model serves a variety of purposes. For one thing, it is a way to make housing more affordable, whether it's an apartment or a single-family house, Karie Kading Ramsey, CEO of Kading Properties, said.

That issue of affordable housing continues to gnaw at the market, though Dan Knoup, executive officer of the Home Builders Association of Greater Des Moines, pointed out that a few of the builders he represents are taking a whack at the issue.

You can expect homebuilders and multifamily developers to continue searching for ways to provide more affordable housing, providing local regulations don't get in the way.

On the multifamily front, coming out of several years in which supply has suddenly outpaced demand, Kris Saddoris, vice president of development for Hubbell Realty Co., expects some equilibrium to return to the market.

"I think this year we're starting to kind of prove out what we've all believed," Saddoris said. That belief, echoed by all of the panel, is that the Greater Des Moines market is lively enough to balance out the supply-demand equation.

Other issues are afoot. The area's low unemployment rate could slow the pace of economic development; a big push is underway to convince young people, their parents and their teachers that a job in the trades could trump a career behind a desk.

That tug and pull between a lack of skilled trades workers and its effect on the local economy generated a brief discussion and a little disagreement on whether it might be a blessing in disguise, especially for developers wanting to slow the appearance of rental units on the market as vacancy rates balance out.

Read the discussion on p. 122 >>>

PERFORMANCE RATED

A surplus of apartments will test the market and change our expectations of the place we call home

BY KENT DARR

THE EXPERTS: **DAN KNOUP,** EXECUTIVE OFFICER, HOME BUILDERS ASSOCIATION OF GREATER DES MOINES | **KARIE KADING RAMSEY,** CEO, KADING PROPERTIES
JARED HUSMANN, ASSOCIATE DIRECTOR, KW COMMERCIAL | **KRIS SADDORIS,** VICE PRESIDENT OF DEVELOPMENT, HUBBELL REALTY CO.
MODERATORS: **CHRIS CONETZKEY,** *PUBLISHER & EXECUTIVE EDITOR, BUSINESS RECORD* | **KENT DARR***, STAFF REPORTER, BUSINESS RECORD*

ISSUES DISCUSSED

HOUSING AS A SERVICE
INTEREST RATES AND HOUSING
THE OUT-OF-TOWN DYNAMIC
CALLING ALL (POTENTIAL) TRADES WORKERS

THE PANEL: The Business Record hosted a panel discussion, moderated by Senior Staff Writer Kent Darr and Publisher & Executive Editor Chris Conetzkey, in an effort to identify key trends and issues in the residential market. Read on to view an edited version of that discussion and view video of the entire discussion at ***businessrecord.com/AREM***

HOUSING AS A SERVICE

Q: Many homeowners would say they service their home. What is housing as a service?

Jared Husmann:
And that's exactly the point. The millennial generation wants to have services; we always want to have experiences. What happened was that everybody saw their home as an asset, and then 2008 hit, '09 hit, and we saw a lot of people lose properties. They had to put money back into them.

And what you're realizing, then, is that maybe owning a home isn't what it used to be. I'm not saying owning a home in the suburbs is not ideal for someone who may want that, but the idea of saying I need to go spend $2,000 to replace a furnace or I need to call my landlord and they're going to come fix that for me, or help me with that, as well, is one thing. The service can also be the environment of downtown — the environment of having a restaurant right below and going downstairs and having food, walking back up to your apartment.

Karie Kading Ramsey:
"[At Kading Properties], our best amenity is a front door with no common hallways and little land area. Then also having the convenience of pushing snow for them, mowing yards, taking care of anything that breaks down in the unit — kind of that convenience piece.

Kris Saddoris:
It's still going to be a good fit for some people to own homes. It really comes down to some people are trending towards more of a convenient lifestyle.

Dan Knoup:
We still look at, and talk about, homeownership being the American dream. I think it's just generationally shifted a little bit or changed a little bit. It's not as important. But when we look at the debt that the millennial generation is coming out into the world with, and they're entering the marketplace later, they still have a lot more debt than we had as a generation when we first started buying. So I think it's a little bit of a shift in priorities.

But I still think people largely want to own a home, and that is still part of that dream.

Q: Would the association neighborhood be an example of what we're talking about as a service where some of those things traditionally come with homeownership you don't have to worry about?

Knoup:
Somewhat, yes, the houses are smaller. There's less maintenance, there's less upkeep, there's less wow factor to them. They still want the amenities. But they look at it as a steppingstone more so than we did. When we started buying homes, for the last couple generations, we went to Beaverdale, we went to the older parts of West Des Moines or Urbandale, and we moved our way up. They definitely want to have something nice immediately. So that entry point that they want to go into still wants to have granite and stainless steel.

But they're willing to give up some space, and some of the yard, the lawn. The driveways in front yards are smaller, the houses are closer together. So there is less maintenance and less upkeep. But then they want to turn that probably in a shorter time frame, so then they can move up. And that may not be to the same thing that we feel like is a move up now. So we'll see in another couple years what this next generation is looking for as their second or third home.

Husmann:
The service that that provides is affordability. That is exactly what we're talking about. It's not the same service in the sense of I'm going to have a doorman or I'm going to have all these amenities, but the service is the affordability factor, which we are having a huge issue of right now, across the nation, not just in Des Moines.

Q: Is downsizing also the trend in the multifamily market?

Ramsey:
Yeah, what we're seeing is that a lot of the millennials and the elderly people really want the same thing. The average age of the person who lives with us is 42. There's just a wide variety of people that want different things, and I think that's different. Affordability is really the key.

Saddoris:
It goes back to how they want to spend their capital, too. Do they spend it on big bedrooms and big houses? Making it more affordable, so it is a smaller space. A lot of those social spaces we used to put in the house are now outside the house. Are they in parks, are they in the community? And so you have less of that square footage that's actually in the house.

Ramsey:
Right. And we know today, again, people are looking for those recreational spaces, access to that connectability, walkability. So how do you put that in that kind of experiential place, as opposed to just your typical neighborhoods? But it is smaller square footage, because we have less stuff today. We have as many empty nesters coming down as we do millennials, and they're shedding it on their way down from the suburbs.

Husmann:
I think the idea of the townhomes and the condos is going to be also a trend you're going to start seeing more and more in the next few years. If you look to our northern brothers, Minneapolis/St. Paul, they're seeing a lot of discussion about condos and townhomes right now, in their suburbs and in their core.

INTEREST RATES AND HOUSING

Q: With homebuilders, when do interest rates start making a difference?

Knoup:
It already has some, to be truthful. But it's really going to be driven by the consumer market. If we look at Des Moines as a metro community, and if we're really going to get to 1 million people by 2040, the consumers are going to drive all of that. If they're still coming to town, they need a place to live. People ask all the time, where are all these apartments coming from on the west side, and who is moving into them?

If we look at the numbers we have today, in the permits that we're pulling, we won't have enough housing for Des Moines to hit that number by 2040.

Q: What's does the gap look like?

Knoup:
Over the last five years, we pull about 2,400 permits a year for apartments, for rent. And we pull about 2,400 single-family home permits per year. So it's fairly balanced. There are ups and there are downs. Some of those bigger projects take a long time to build up and then they run their course. But we're between 5,000 and 6,000 residential permits per year on average. So if we tick that out, we're not going to be anywhere near a million. So I think that's going to drive more than the interest rates, because people are going to have to have a place to live. If they're coming to town and they find a job, they're going to have to, I don't want to say settle, but they're going to have to find what they find, and the interest rates are going to be a byproduct or a side product of that, I guess.

Ramsey:
Yeah, and I would agree with that, too, with interest rates, people that are going to buy homes are still going to buy homes. They just might not get as much if the interest rate goes up. Same as it's always been.

Q: Will interest rates chill the investment market?

Husmann:
Well, what we're seeing in terms of sales is it's affecting retail the most. But in terms of apartments, there's still a pent-up demand; a lot of capital is

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deployed to invest in multifamily across the nation. We've seen some uptick in cap rates, but we have not seen a one-to-one ratio in terms of interest rates affecting cap rates in the terms of investment in that.

Q: The money that's out there, is that coming from outside of the area?

Husmann:
It's really interesting how, when you look at the macro trends, that people invest into the major cities, New York, Miami, LA. Those investors are then pushed into the secondary markets and tertiary markets. So we're seeing a lot of investment from Minneapolis, Chicago, Denver because they can't find deals in their own market. And that's going to keep our cap rates fairly compressed, even with interest rates rising. They're going to find value and they're going to find a way to create that value.

Ramsey:
I think for us it becomes extremely personal, because we invest in all of our properties solely, we don't have outside investors coming in. Central Iowa is strong. We work with a radius that's 60 miles outside of Des Moines, and people need housing. That's where we're at right now.

THE OUT-OF-TOWN DYNAMIC

Q: We hear that it's difficult to build in the smaller towns, it's difficult to get contractors to pay attention to the smaller towns. What makes that work for you?

Ramsey:
I think for us, we're really fortunate that we have a lot of subcontractors that stick with us. We've had second-generation, third-generation contractors that have been with us, and they just follow us to those communities. They know that we're a constant contractor for them. When the rest of the market was down in '08, '09, I mean we put a lot into production in those two years. And I think, for us, it's just positioning ourselves in a downturn market. A downturn market is when we really go after most of our land.

Knoup:
We definitely have members that are traveling further outside the metro than they ever have. The consumers are asking for it, demanding it in some cases. It's really hard, though, to get the subcontractor base to go with them, because there's so much work to do right here. So I know some of our members are building beautiful custom homes an hour away from Des Moines, the Storm Lake area, so further than an hour. And they just let the customers know, hey, for our team to travel, this is the cost. We're not going to gouge you, but we want you to know for my foundation contractor to drive up here, it's going to cost this much more.

And the skilled trades gap plays into that. The fact that rural America is starting to shrink and retract and grow back to the cities is a component of it. And I think we just have to find a way to work through it.

Ramsey:
Yeah, and I think it's probably even a bigger challenge on the one single-family home than it is on a multifamily front.

Q: Will the creation of opportunity zones help those rural communities?

Ramsey:
So far I haven't seen that they really will present much opportunity. The landowners know if their land is in an opportunity zone, and they're looking for an opportunity themselves.

Knoup:
Housing is definitely underserved in those communities, and they're going to some extreme measures. Giving away lots, giving away guaranteed price points to contractors to come. They're taking some long strides to try to get contractors and new housing — and communities like Newton and Perry, we're not talking about long distances.

Ramsey:
And several of those outlying communities do have tax abatement. I mean anything from five years 100 percent to 10 years 100 percent tax abatement. I mean if you had a 10-year loan, you would essentially only pay taxes on that for five years.

Knoup:
It seems to be the trend that they're trying to make it a little more and more onerous to us to try to develop and build and remodel and redevelop in some of these communities. New zoning ordinances that are trying to be put in place in two communities around the metro that will require things that are going to be detrimental to affordable housing. Whether it's the Keating model or the Habitat model or HOME Inc. model. They all have their niche and they're helping us to redevelop neighborhoods, and they're really trying to help those communities.

Saddoris:
A lot of them have done well at creating jobs, but they assume we're

all going to be there right behind, and that's just not true. Those that have the housing in them to support and hold the jobs will be the ones that are successful. And those communities that understand they have to play a role, because that housing will always cost more money there than it does here. It just does, because of the fact that we have to transport not only supplies, but workers there.

So if they understand it and are progressive about that, they will be the ones that win out.

We get a lot of calls all the time, the jobs have been created or are being created there. Unfortunately the minute they start to create the jobs ... you need to be digging the houses right then.

Ramsey:
And we can't field all the calls. I mean the calls that we're getting to come to rural Iowa is really incredible.

One thing I will say about the rural communities in Iowa, I do think they're making a really great effort at encouraging hands-on labor. We've donated a couple lots here in the last couple years for the schools to build homes on them and stuff like that. So we're really seeing that as a helpful solution in those communities.

Q: What's the answer to addressing the shortage of affordable housing?

Saddoris:
I tell people all the time, it's math. There's no science to it, it's math. When you are subsidizing every market-rate project that's being built today, and you want lower rents, but you want the outside to look the same, it's math. All you do is double down on what you're now. Well, when you do that, but you want twice as many units, it's math.

Knoup:
We're also one of the most regulated industries in the country. Depending on whose statistics you're looking at, we look at 25 percent to 30 percent of the cost of every home or every apartment due to regulation. If we're driving that cost up from the land development side, we're driving those costs up on the construction side. We're dragging those out because of the lack of skilled trades. And we add all those components together, it makes it really difficult to try to put together affordable housing.

It's certainly not a lack of desire or understanding of the need. And I would also say it's not unique just to Des Moines. So it's not only our community that's having a hard time with it. And then when we add the component of the next generation expecting granite and stainless steel, because those are things they grew up with, it really compounds itself quickly. But the burdensome over-regulation is really difficult for us.

Think about a $300,000 house, think about the cost just for the governmental oversight and the things that they're mandating. And I'm not advocating or saying that all those things are bad. I truly am not. But some of them are definitely an overreach, and we're constantly trying to combat them. We're trying to say what's fair, what's right, what's reasonable.

CALLING ALL (POTENTIAL) TRADES WORKERS

Q: What kind of progress are you making on drawing more people into the construction trades?

Knoup:
We're making a lot of traction, having a lot of positive conversations. We're really having to shift the conversation and the paradigm that parents and educators think in. Because for at least a generation we've talked about the fact that every kid should go to college to be successful, you have to have a piece of paper that says I'm successful. And we just know that that's not true.

We were talking with the Rasmussen Group this weekend. They said that just in CDL [commercial driver's license] drivers, there are 3,000 openings in Iowa for truck drivers. So beyond the skilled trades, you know, plumbers, pipe fitters, electricians. Let's look outside of that, think about mechanics, think about drivers. Every one of our businesses need them, our industries need them. And there's an enormous shortage there. And the misnomer that our world is not full of educated people is a shame. Because all of our subcontractor bases, every one of them that has a license has continuing education. As the world changes and technology evolves, all of our tradespeople ... they shift with it.

But we're making a lot of progress. We're making a lot of progress in our skilled trades academy. Across the state of Iowa, in a larger sense, we're doing these build my future events, and our national association is supporting them in a way that we've never seen before, but we have a long way to go still. We have to find a way to fund it. We know that education funding in Iowa and across the country is underserved. But our Legislature can only do so much. We know that the private sector is not a long-term viable option for us to fund it. So we have to find a way to make it more acceptable so more people say, "Yeah, my Johnny and Sally are OK to go do that as a career." And then we have to find a way to reintegrate that into our educational system, because when they pulled shop classes out, they created a void that we don't think we're ever going to be able to refill.

What we're hearing from the Department of Education is that they're looking to create regional centers. So Fort Dodge may have one, and Marshalltown may have one, but they may be different. So the students may go to Marshalltown for shop, but they may go to a neighboring community for FFA and they may go somewhere else to learn how to weld, instead of each having each of those classes. So we have a lot of lifting still to do.

Saddoris:
It's critical that it happen in the high school. What people have to appreciate, it has to be at the high school level, so when they graduate, what's critical is they graduate with no debt. Because what we just talked about, the millennials and this college education, is that they strapped on this debt load. Well, this way they can come out of high school right into whatever that position is without any debt.

Knoup:
We send a tremendous amount of students to college every year in Iowa. We're very proud of that. What we don't talk about is that each year 25 percent of them don't come back. So the amount of kids that are coming out of school with debt and no foreseeable path out of it is staggering. And it should shock all of us, but we don't talk about it. So let's talk about it could be a way to pay for college, could be a way to know what you want to do after college and become an entrepreneur. Or it could be a way to get to provide a path instead of college. We need to talk about it more, and get to a point where it's definitely more acceptable in our worlds.

Q: What would pay look like for somebody like that? Would you have to have gone through training in order to get hired someplace right out of high school? Or are you going to be hiring somebody right away?

Knoup:
Well, both scenarios actually exist. But the program specifically that we're talking about, they're going to go into an apprenticeship. That could be a union-based apprenticeship, it could be non-union-based. During high school we're trying to get accreditation, so that way the programs start to feed into those systems. In that same conversation with the Rasmussen Group, they said that their average truck driver makes up to $60,000 a year. But their highest paid driver driving a cement truck almost made $100,000 last year. Kids don't hear that, they don't understand that. Because the message is not being delivered to them.

The kids that we're talking to all want to be entrepreneurs. They don't know what they want to do, but they all want to own their own business. That's part of the dream, that's part of the current culture. They don't understand how to do that and they don't know what field it's going to be in, but they all want that. So there's a piece there — maybe business school, maybe a trade organization. There are a lot of different pieces of how that education comes together.

Q: Does the lack of trades workers, especially during a time of low unemployment, become a drag on the economy, or has it already?

Knoup:
It is. Nationally, our numbers are down because we don't have enough people to start as many homes as we should be.

Saddoris:
The piece that gets lost in the equation is the delivery time, too. Not only is cost going up but times are stretching out because of that. So what used to come on in 90 or 120 days is now 180 or beyond. So you're seeing them stretch out just because ... you used to be able to back trades up, and now you just don't always have that availability.

The lowest unemployment is the last thing we want. Because we have slowing job growth.

Knoup:
That's when your cost of money is going to really start to affect things. Because you start to deliver, and then you're paying utilities and you're paying taxes sooner. All those things start to compound.

Husmann:
The other side of that equation is actually good for multifamily, due to the lag in construction. It's a terrible thing, but it's also helping to spread out the deliveries. You're seeing some of the demand and supply be at equilibrium just because of construction delays.

Ramsey:
I would challenge that that's helpful.

Knoup:
I was having a hard time processing that, too.

Husmann:
From the development chain point, it's tough, but looking at the market and the consumer, it can be OK. And as an overall market, it's not always bad to have equilibrium in that. I'm not going to disagree in terms of ownership it's tough.

Ramsey:
The developer is controlling the price point. So it really just changes the price point for the end user. ■

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RESIDENTIAL TAKEAWAYS

BY KENT DARR

BUILDING PERMITS AND THE ELECTION CYCLE

A quick glance at the CBRE|Hubbell Commercial Marketview report in this issue will show permits for multifamily housing dropped 53 percent in 2018 in Greater Des Moines.

There are many reasons, one being that developers are hoping to fill an oversupply of vacant units over the next couple of years.

Dan Knoup of the Home Builders Association of Greater Des Moines has watched building permit trends for many years, and he wasn't all that taken aback by the decline in permits for both apartment buildings and single-family homes. It pays for his group to keep track of trends.

"This was an election year, a midterm year at that. We have a definite cycle and we see that prior to the midterm elections and prior to the general elections, we definitely have some down numbers. This year was no different than that," Knoup said.

Permitting activity was strong near the end of November and into December, he said.

"We're starting to see that come around, and it seems to be following that same cycle. So I don't think that we're going to see a big impact from that. In fact, I think the statistics and the projections are that we're probably going to be up anywhere from 8 percent to 10 percent this year," Knoup said.

Does he expect to see a repeat performance in 2020? "Maybe not so much multifamily, because of the timing of that. So once they have approval and they're starting to get pre-leasing, they're going, but single-family, we definitely see a hiccup every time we're going to the ballots," he said.

SOPPING UP THE VACANCIES

Some folks might fret over the high vacancy numbers showing up in Greater Des Moines apartments, but Kris Saddors of Hubbell Realty Co. isn't one of them. CBRE|Hubbell Commercial's multifamily report for the first quarter has vacancy rates nipping at 10 percent in downtown Des Moines and in West Des Moines. Those vacancies are pushing concessions and hobbling rent increases in some classes of apartments.

Saddoris said it's time for the market to show what it's made of. "We're coming off record years of delivery," she said. "Will our market take it? I've always argued yes, it can."

HOUSING AS A SERVICE

Homeowners know the drill: You mow the lawn, you change the furnace filter, unclog the drain, pay the mortgage and the property taxes. You spend a fair amount of time servicing your home. Well, the market is moving beyond that subservient relationship to something called housing as a service.
"I think that's a growing trend we're going to continue to see," said Jared Husmann of KW Commercial.

Few on our panel of experts disagreed.

"We still look at, and talk about, homeownership being the American dream. I think it's just generationally shifted a little bit or changed a little bit," said Dan Knoup of the Home Builders Association of Greater Des Moines. "It's not as important. But when we look at the debt that the millennial generation is coming out into the world with, and they're entering the marketplace later, they still have a lot more debt than we had as a generation when we first started buying. So I think it's a little bit of a shift in priorities."

Karie Kading Ramsey of Ramsey Properties said that shift is showing up among empty nesters as well as millennials.

"I think people want those services, they want those convenience things, and they want to be able to pick up and move if they want to, and leasing allows that," she said.

Aside from having someone else be responsible for maintenance, that housing located downtown near restaurants and bars and entertainment could be all the service necessary, Husmann said.

"It's still going to be a good fit for some people to own homes. It really comes down to some people are trending towards more of a convenient lifestyle," said Kris Saddoris of Hubbell Realty Co.

PUTTING ON THE 'GAME FACE'

Little question that our panel of housing experts can talk a good game when it comes to promoting Greater Des Moines. Take note of all the national attention our small but growing neck of the woods receives, and it's easy to understand why.

Hubbell Realty's Kris Saddoris said that rather than resting on our accolades, it's essential "to keep our game face on every single day and understand what role we play."

With a metropolitan unemployment rate of 2.3 percent at the end of December — 2.4 percent for the entire state — it's easy to be lulled into a false sense of complacency.

Low unemployment "is not a good thing for us," Saddoris said. "We want to have companies here and grow, so we all have an economic developer role to play. And I think to the extent that we can support efforts in the region to do that, we're all in the same fight together."

Hubbell Realty's experience at its Bridge District development of for-sale townhomes as well as apartment buildings is a case in point.

"We have three buyers at Bridge District that can do what they do anywhere in the nation, and absent their ability to quickly move through the airport, they can locate anywhere," Saddoris said. So we need to think creatively how we, as a region, support economic development. We all support it differently, affordable housing, all of those things. … We used to be the chaser, now we're the chasee."

The panel pointed to projects that can continue to make the area the "chasee," such as the water trails project, training trades workers, enhancing mass transit and getting behind the expansion of Des Moines International Airport.

"We, as a region, need population growth, so as to support those efforts," Saddoris said. ■

RESIDENTIAL

TRENDS TO WATCH

Leases may reveal future of market

JARED HUSMANN
ASSOCIATE DIRECTOR, KW COMMERCIAL

Please identify one trend in your area to watch in the upcoming year.

I am closely monitoring the supply of new units in the market and the occupancy, specifically units built in 2017 and early 2018 that offered a lot of concessions upon lease-up and are coming to the end of those initial leases. How the residents respond at the end of the lease will give us insight into how the new supply in our market will be handled.

Could you please explain the impact of that trend?

If the residents come to the end of these initial leases, they may tend to move into more affordable housing stock that is older, which could severely hurt the new housing being developed and brought to the market. Additionally, these residents may "jump ship" to the newest complex to be developed and make a habit of following the concessions provided by ownership in lease-up phases. The mindset behind this will give us a clue as to what the next generation will be looking for and if they will prefer location and urban environments, will they be price/budget sensitive, will they really move to the suburbs? Their actions now will determine what we can expect from them further in the future.

What's one trend to watch in the next 10 years?

Technology has exploded onto the commercial real estate sector in the last 18 to 24 months in a way not seen before; for the first time the industry is joining the 21st century. The future of commercial real estate will focus less on relationships (although relationships will still be of vital importance) and more on the data, analytics and logical reasoning of why a certain deal makes sense; and technology is vastly improving our efficiency in these areas and answering those questions.


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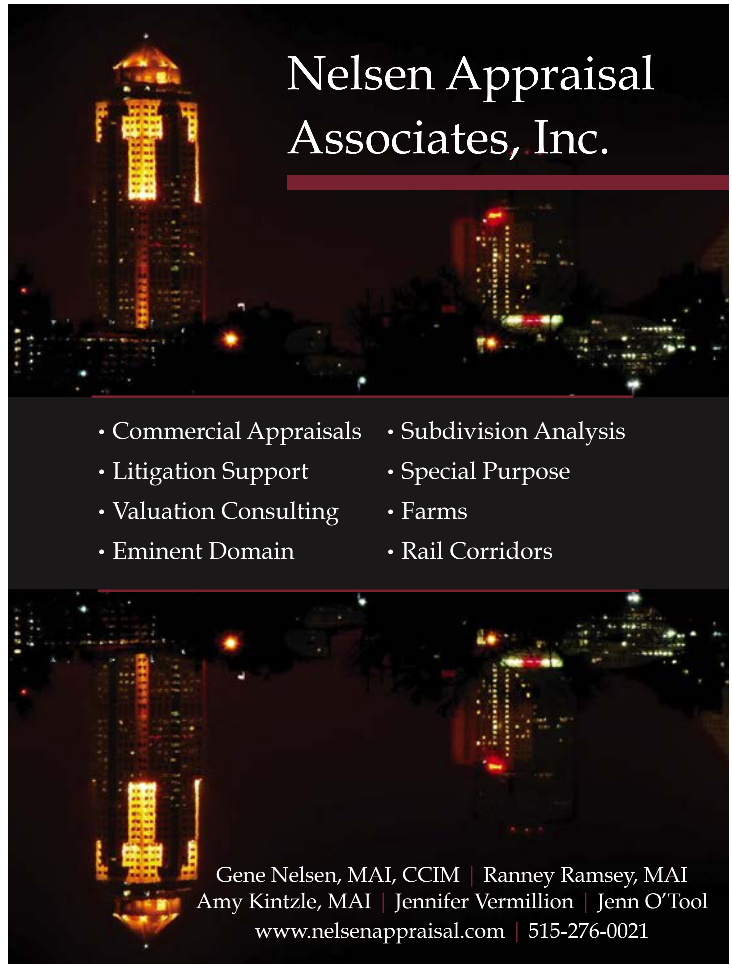
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Seeking a more stable market

KRIS SADDORIS
VICE PRESIDENT OF DEVELOPMENT, HUBBELL REALTY CO.

Please identify one trend in your area to watch in the upcoming year.

The trend for our market in multifamily housing for 2019 is stabilization. We are coming off of record unit delivery years in almost all markets nationally, and Des Moines is no exception. However, our market will see a continuation in 2019 of the reduction in construction starts we saw during 2018, while all indicators show that we will continue to lead the Midwest in population growth. In addition, we know that lifestyle changes, possible recessionary pressures and the financial barriers of homeownership all support growth in multifamily housing in all age groups during 2019. The convergence of all those influences will make for a very interesting year to watch in our industry.

Could you please explain the impact of that trend?

As record numbers of multifamily units have delivered both in the commercial business district (CBD) as well as the western suburbs during 2017 and into 2018, rent levels have been negatively impacted, as is expected when supply well exceeds demand. Almost every city across the nation is currently experiencing this imbalance as multifamily construction was ramped up post-recession to record levels. However, most national markets still have strong deliveries coming to market yet again in 2019. Although that will hold true in our western suburbs in 2019, the pipeline of deliveries in the CBD is sharply reduced for the coming year.

Strong rental concessions that are a natural response to the imbalance in the market are also impacting owners of multifamily units across the Greater Des Moines market, negatively affecting cash flow positions, in a year when multifamily assessed values are projected to rise an average of 20 percent. As the housing market demand grows for multifamily housing, it is critical that the market move back to a better state of balance and stabilization during 2019. This balance allows for a reduction in the level of rental concessions and moves our market back to a state that a more typical annual rental increase level can be expected to help offset the expected cost increases. Without a movement toward stabilization, further reduction in multifamily starts in our market can be expected at a time when there is record growth in the number of renters in the market. As Des Moines is focused on continuing our leadership role in imperative population growth, a stabilized multifamily market is a critical piece of that success for our region.

"IT IS CRITICAL THAT THE MARKET MOVE BACK TO A BETTER STATE OF BALANCE AND STABILIZATION"

What's one trend to watch in the next 10 years?

Like many major metro areas across the nation, creative housing options are playing an increasingly critical role as Des Moines competes in the livability race toward population and corporate growth. As our community evolves into a "live and play" space and we strive to create a vibrant, connected environment to attract industry and the best and brightest, the role of a variety of housing opportunities has become more essential in that effort.

In 10 years, we will define "housing" very differently. The lines between workspace and living space are beginning to blur today, and advances in technology, coupled with the interests of a new working population that demands more flexibility, will change how living spaces are defined and designed.

Des Moines' neighborhoods support needed workforce

ERIN OLSON-DOUGLAS
DIRECTOR, DES MOINES ECONOMIC DEVELOPMENT DEPARTMENT

Please identify one trend in your area to watch in the upcoming year.

Des Moines continues to enjoy low unemployment. The flip side of this heralded position is that attraction of quality workers along the entire spectrum of the workforce — from professionals to service providers — is increasingly challenging.

Could you please explain the impact of that trend?

Provision of quality, well-located housing at price points that foster Des Moines' highly touted quality of life is key to continuing regional growth and vibrancy. Last year, the city of Des Moines completed an analysis of our Neighborhood Revitalization Program. The analysis concluded that we should coordinate and concentrate new resources in areas that need a nudge to encourage reinvestment by residents and prospective residents. The city is currently budgeting $4.5 million to focus in the first four pilot areas: Waveland Park, Oak Park, Columbus Park and Drake. By and large, these areas contain quality housing stock, but they are functionally obsolete and often passed over in the market. People do not live the same way that they did 50 or more years ago when many of these homes were built — kitchens are too cramped, there aren't enough bathrooms, rooms are too small, there is not enough diversity in housing types. Funding is intended to address these issues and bring housing to today's standards. Paired with reinvestment in already charming commercial areas, these walkable neighborhoods with libraries, parks, trails, schools and bus routes are ripe for new buyers.

Meanwhile, Capital Crossroads is currently completing an analysis of our workforce housing market. It shows a future demand for nearly 60,000 housing units in the region over the next 20 years. Based on the job projections in this analysis, over 80 percent of this housing needs to be affordable to households making less than $75,000 per year. With a diversity of housing prices and an average assessed value around $150,000 in the pilot areas, Des Moines' neighborhoods are well-positioned to provide housing that is affordable across the spectrum of our expected workforce. Reinvigoration of our urban neighborhoods will enhance our region's competitiveness for the best and brightest workforce.

RESIDENTIAL

TOP DEALS OF 2018

$40.25M

West Des Moines Townhomes

An entity sponsored by Four Mile Capital LLC of Louisville, Colo., paid $40.25 million on Dec. 11 to Signature Real Estate Holdings of West Des Moines for the 222-unit Aspire Townhomes at 6950 Stagecoach Drive, West Des Moines.

$32.4M

Apartments in Waukee

Apartments at Autumn Ridge LLC of Brooklyn, N.Y., paid $32.4 million on July 5 to Classic Builders of Ankeny for the 236-unit Autumn Ridge Apartments in Waukee.

$32M

Apartments in West Des Moines

North Dakota-based EVI Westlake Apartments LLC paid $32 million on Sept. 7 to Missouri-based MV Westlake Apartments for 92 West Apartments at 1770 92nd St., West Des Moines.

$26.3M

Ingersoll Square residential and retail

Marc Realty of Chicago paid $26.3 million on on Dec. 7 to Ingersoll Square Partners LLC of West Des Moines for 133 apartment units and a neighborhood retail center at the Ingersoll Square development at Martin Luther King Jr. Parkway and Ingersoll Avenue, Des Moines.

$19.4M

New owners, new name in West Des Moines apartments

An entity managed by Mandel Group Inc. of Milwaukee paid $19.4 million on Sept. 27 to Continental Properties Co. Inc. of Menomonee Falls, Wis., for the 168-unit Springs at Jordan Creek Apartments, 8655 Bridgewood Blvd., West Des Moines. The complex was renamed Prairiegrass at Jordan Creek.

$7.1M

Des Moines apartments

Roers Investments of Long Lake, Minn., paid $7.1 million on March 7 to Royal Oaks Partners LLC of Fargo, N.D., for the 203-unit Royal Oaks Apartments at 2400 Hickman Road, Des Moines.

$7M

Drake-area apartments

Iowa City developer and property manager SouthGate Cos. paid $7 million on Aug. 10 to Neighborhood Development Corp. for the 50-unit Forest Avenue Village apartment development at 3201 Forest Ave., Des Moines.

$5.8M

Drake Park Residential co-op

Artisan Capital Group LLC of Chicago paid nearly $5.8 million on Aug. 30 to Urbandale-based Premier real estate companies for the 87-unit Drake Park Residential COOP, 1304 34th St., Des Moines. Premier was represented by the Chicago office of Berkadia.

$5.1M

Kenwood, Rosewood apartments in Des Moines

Kenwood Apartments LLC paid $5.1 million on March 14 to Kenwood Rosewood Apartments LLP of North Dakota for the 60-unit Kenwood Apartments at 530 E. Kenyon Ave., Des Moines, and the 48-unit Rosewood Apartments at 221 E. McKinley Ave., Des Moines.

$3.7M

Housing co-op buys old shopping center

Reed Cooperative Housing Association paid $3.7 million on July 10 to Eastpointe LLC for the 43,200-square-foot East Pointe Plaza neighborhood shopping center at 2590 Hubbell Ave., Des Moines.

Des Moines Metro Multifamily, Q1 2019

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

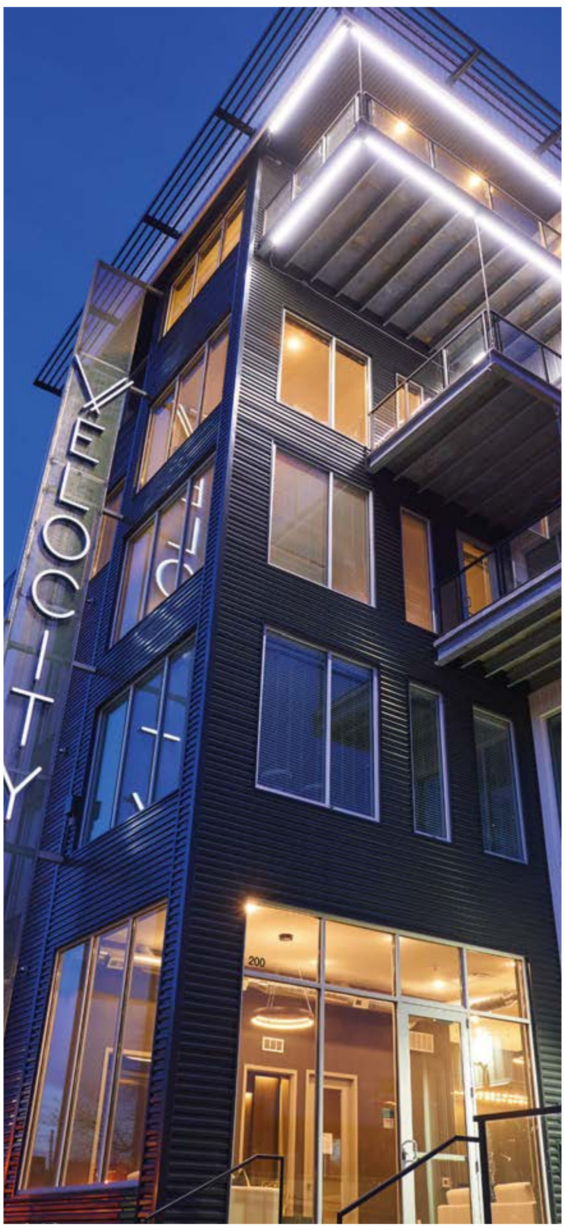
Number of Apartment Homes Surveyed 31,157

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.

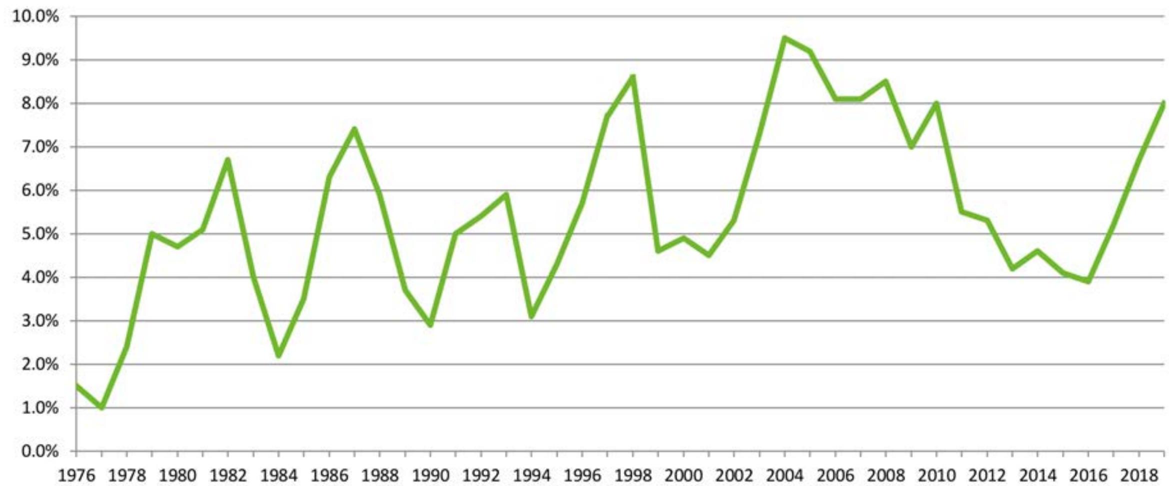
Although deliveries are expected to remain relatively high in 2019, construction starts will continue to diminish. The Greater Des Moines Metro issued building permits for 1,261 multi-family units in 2018, a 53% decline from the 2,720 units permitted in 2017. We anticipate this slowdown in development 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%

SOURCE: CBRE|Hubbell Commercial and Commercial Appraisers of Iowa, Inc.

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

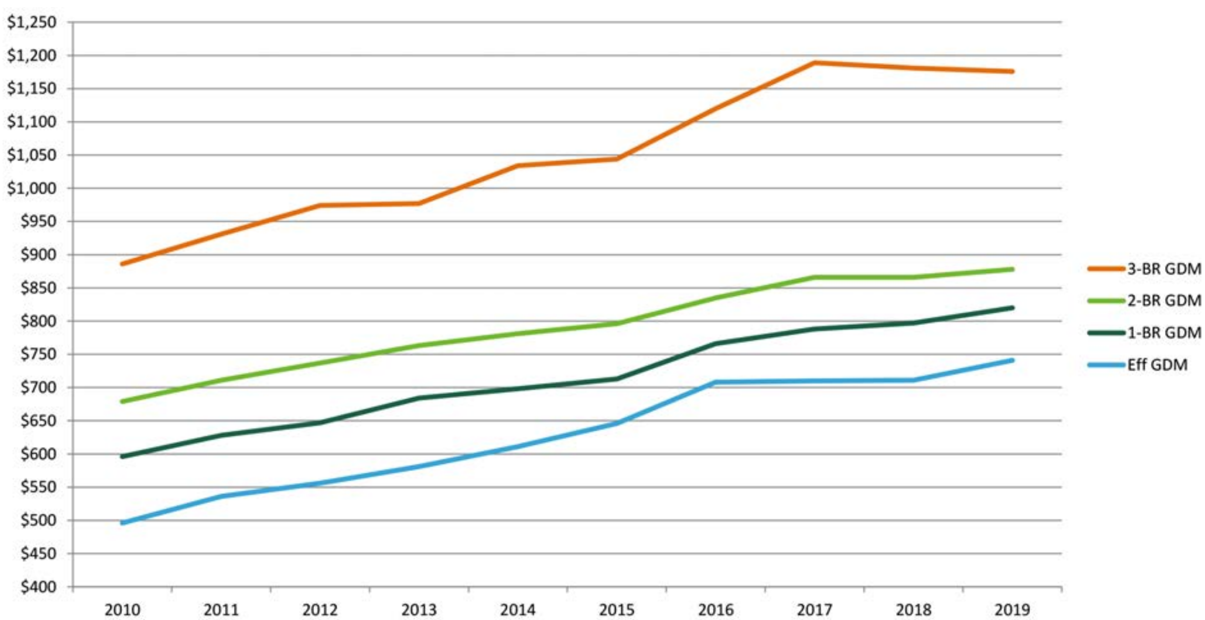
Submarket	Efficiency	1-Bedroom	2-Bedroom	3-Bedroom
East	$540	$664	$759	$991
South	$555	$668	$743	$1,006
West	$593	$726	$807	$1,175
CBD	$811	$997	$1,331	$1,917
West Suburbs	$767	$830	$913	$1,163
Average Greater Des Moines	**$741**	**$820**	**$878**	**$1,176**
Altoona	$587	$809	$864	$1,134
Ankeny	$806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

SOURCE: CBRE|Hubbell Commercial and Commercial Appraisers of Iowa, Inc.

RENTAL RATE COMPARISON

Submarket	Efficiency		1-Bedroom		2-Bedroom		3-Bedroom	
	% Change 2017-18	% Change 2018-19	% Change 2017-18	% Change 2018-19	% Change 2017-18	% Change 2018-19	% Change 2017-18	% Change 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.

SOURCE: CBRE|Hubbell Commercial and Commercial Appraisers of Iowa, Inc.

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.

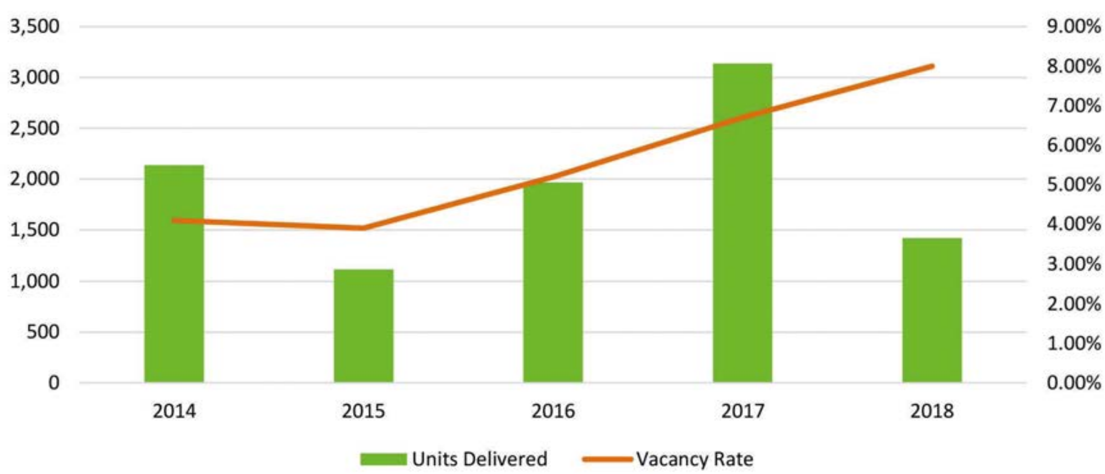
However, Greater Des Moines development remains robust with 2,498 units currently under construction throughout the metro. A total of 2,163 units are expected to deliver in 2019, with 395(14%) having already delivered.

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



SOURCE: CBRE|Hubbell Commercial and Commercial Appraisers of Iowa, Inc.

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.

SOURCE: CBRE|Hubbell Commercial and Commercial Appraisers of Iowa, Inc.

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