

Des Moines 1Q 2023 Multifamily Market Report

Welcome to the Des Moines Multifamily Market Report. This comprehensive analysis provides valuable insights into the multifamily sector's performance and emerging trends. Our data-driven approach equips investors and stakeholders with the knowledge to make informed decisions and maintain a competitive edge. We invite you to explore this resource and leverage its findings to refine your investment strategy.

Supply and Demand

Completions in 1Q 2023

During the initial three months of 2023, the Des Moines multifamily market received 276 units. The majority of this supply, 162 units, was concentrated in the West Des Moines / Dallas County submarket.

Annual Supply Trends

819 units were delivered in the 2022 calendar year, expanding the local inventory base by 1.9%, with the strongest concentration in Northeast Des Moines / Ankeny and West Des Moines / Dallas County submarkets.

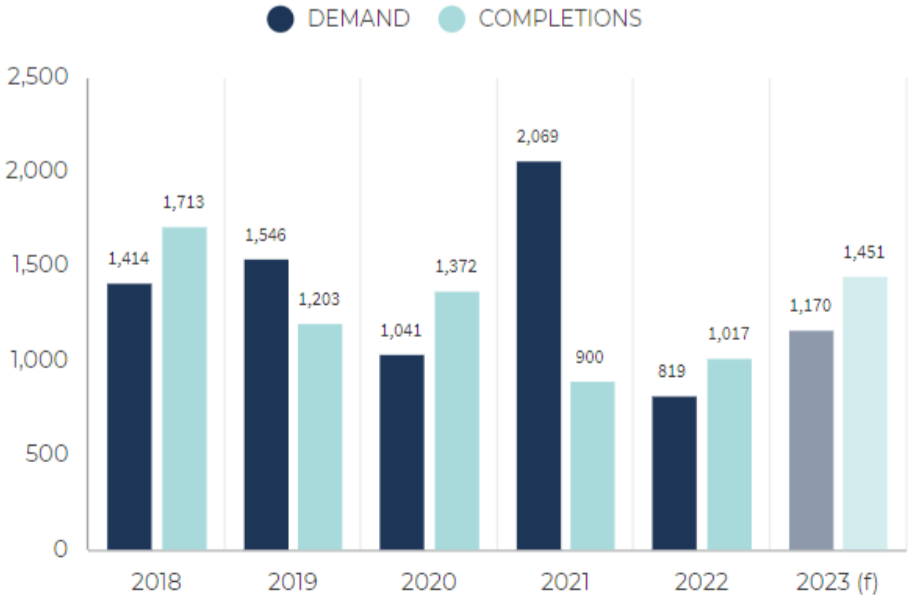
Units Under Construction

At the end of 2022, there were 2,053 units under construction with 1,355 scheduled to complete in 2023. So far, 276 units were delivered in the first quarter of 2023. Deliveries in this year will be concentrated in the Northeast Des Moines / Ankeny and West Des Moines / Dallas County submarkets.

Annual Absorption Trends

Over the past five years, annual absorption has consistently been positive. However, quarterly absorption turned negative in the first quarter of 2023. locally, demand was strong in the West Des Moines / Dallas County submarket, which was the only submarket to exhibit both positive annual and quarterly absorption. In contrast, the remaining submarkets experienced weaker demand.

ANNUAL DEMAND VS COMPLETIONS



Occupancy and Rent Trends

▼ Occupancy Trends

As a result of an imbalance between the arrival of new renters and the expansion of the inventory base, apartment occupancy continued its decline from its peak of 96.9% achieved in the second quarter of 2022 to 95.5% in the first quarter of 2023. It is worth noting that this 140 basis point decrease is considerably more modest compared to what most other major markets have faced. Turning to asset class performance in Des Moines, Class C units held the highest average occupancy rate at 95.6%, with Class A and B units trailing closely at 95.5% and 95.3% respectively.

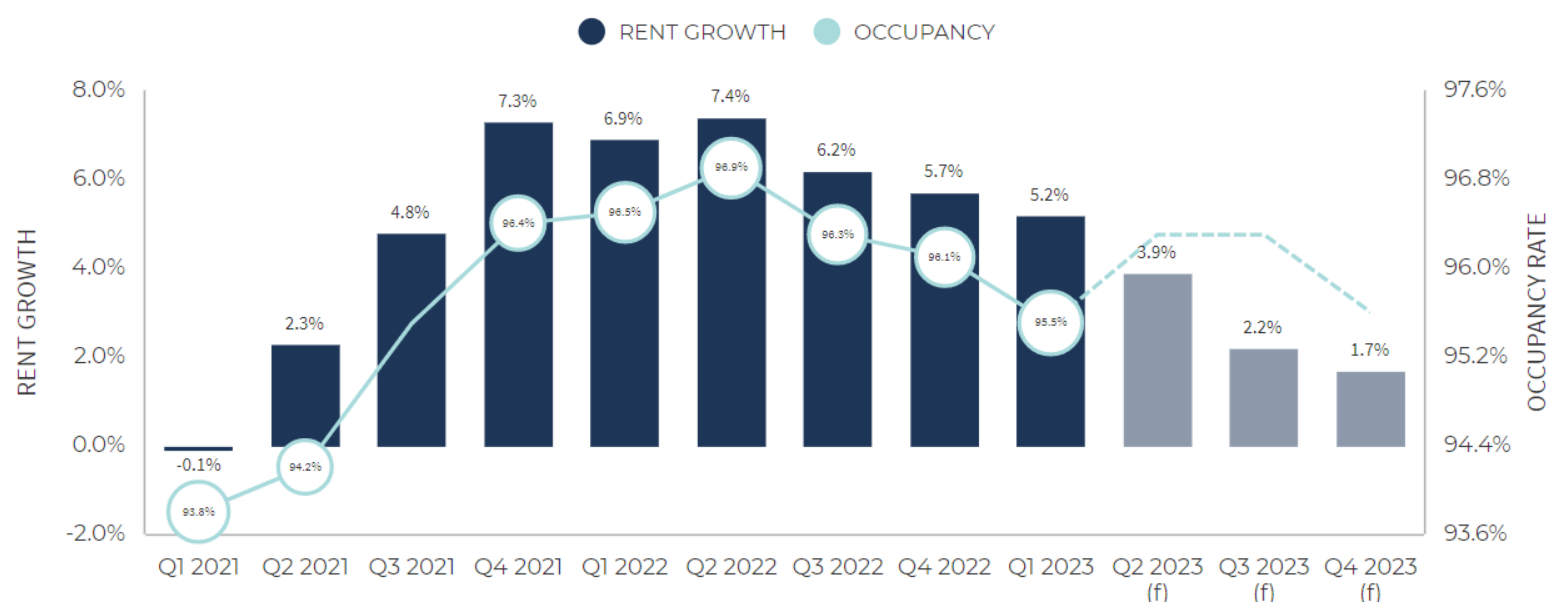
Every submarket in Des Moines witnessed a year-over-year decline in occupancy. Nevertheless, the West Des Moines / Dallas County submarket saw the least significant change, with occupancy decreasing by 70 basis points to 95.9%, and still maintaining the highest occupancy rate among its counterparts. Furthermore, this submarket was unique in that it saw an annual increase in occupancy for Class B properties, underscoring the asset type's appeal to renters.

▼ Rental Trends

Despite modestly shrinking occupancy rates, overall occupancy remains healthy in Des Moines. In the midst of a still tight rental market, operators pushed effective asking rents 5.2% year-over-year. Class B rents continue to perform exceedingly well, recording an annual gain of 6.3%, which highlights the strong demand for affordable, well-maintained housing options in desirable neighborhoods in the Des Moines market. Class A rent growth trailed closely with a 6.2% annual increase, indicating a simultaneous demand for luxury amenities in the metro area. Conversely, Class C annual rent growth trailed considerably at 3.1%, possibly indicating financial stress among less affluent renters in the area.

Submarket performance exhibited a broad spectrum of results in the first quarter, with the West Des Moines / Dallas County submarket leading all submarkets with an annual rental growth rate of 6.6%, while the South Des Moines / Warren County submarket trailed in last place with rent growth measuring a more modest 2.4%.

RENT AND OCCUPANCY TRENDS



Submarket Analysis

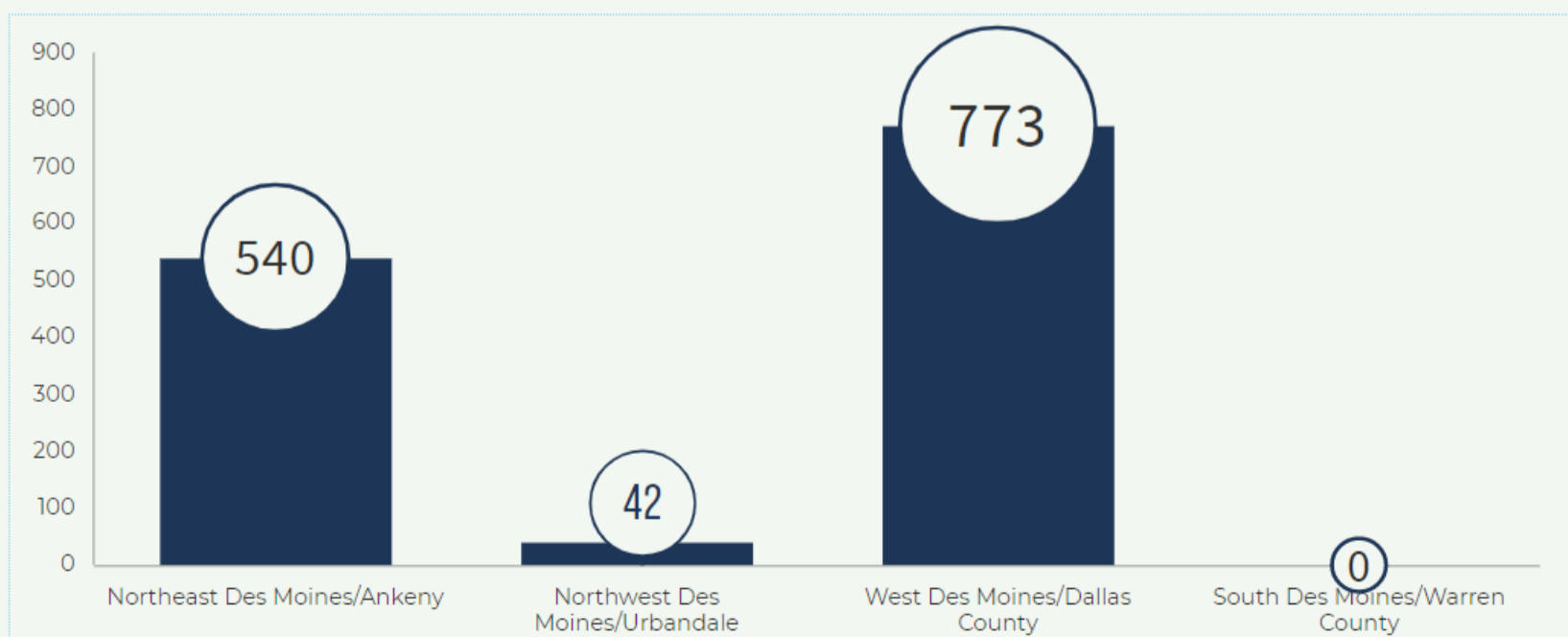
Driven by pandemic-related shifts in renter preferences towards larger and more cost-effective units, rent growth has been most robust in Des Moines' outer suburbs, where spacious garden-style apartment communities with a greater proportion of larger units are situated. The West Des Moines / Dallas County submarket, in particular, has led the market in rent increases over the past year.

Conversely, areas in proximity to the urban core have faced difficulties in maintaining a similar rental growth rates. This is due to the combination of a higher presence of smaller units and substantial inventory growth, leading to lower occupancy rates. The introduction of new inventory has imposed a downward force on rents in these areas, accounting for the comparatively weaker growth in recent quarters.

Looking forward, as the construction pipeline contracts and demand for smaller urban units returns to normal, rent growth in the urban core is projected to pick back up.

Submarket Name	1Q23 Occupancy Rate	Annual Change	1Q23 Effective Rent	Annual Change
Northeast Des Moines / Ankeny	95.8%	-1.1%	\$1,215	6.1%
Northwest Des Moines / Urbandale	94.8%	-1.1%	\$1,050	2.5%
West Des Moines / Dallas County	95.9%	-0.7%	\$1,167	6.6%
South Des Moines / Warren County	94.4%	-1.6%	\$852	2.4%

UNITS BY SUBMARKET DELIVERING IN 2023



Sales Activity

Des Moines has garnered intense interest from investors looking for smaller, stable, and higher-yielding markets due to its remarkable performance during the pandemic. This trend is expected to persist into the new year as investor enthusiasm for Des Moines remains strong. However, similar to the rest of the country, tighter financial conditions will likely dampen the overall deal frenzy witnessed in Des Moines throughout 2021 and 2022.

Real Capital Analytics reports that in the first quarter of 2023, transaction volume for individual conventional multifamily deals reached \$91.2 million, involving a total of seven properties. Notably, this volume represents an approximately 26% increase from the \$71.9 million recorded in the first quarter of 2022, reflecting the ongoing investor interest in the rapidly expanding Midwest metro. It is worth mentioning that smaller markets tend to be more susceptible to fluctuations when analyzing short time series data, as one or two transactions can skew the results. Nevertheless, considering the current capital market environment, Des Moines' performance is undeniably impressive.

Transaction Trends

Transaction Volume

\$91.2M

1Q 2023 Transaction Volume

Pricing

\$123.2k

1Q 2023 Price Per Unit

+26%

Annual Volume Change

-4.0%

Annual Price Change

Top Buyers (Prev. 12 Mos)

1. Spruce Capital Partners
2. BAM Capital
3. VareCo
4. Donna Dailey
5. Archstone Capital

Top Sellers (Prev. 12 Mos)

1. Hubbell Realty Corp.
2. Roes Investments
3. Thompson Thrift
4. Premier Companies
5. Artisan Capital Group

Economy

In March 2023, the Des Moines metro area experienced a significant increase in job opportunities, adding 10,200 new positions and raising the total number of jobs to 392,600. Meanwhile, the unemployment rate remained stable at 3.0%. The education and health services sector took the lead by creating 3,000 new jobs, closely followed by the government sector, which added 2,200 positions. Additionally, the trade, transportation, and utilities sector expanded with 2,000 new jobs, and the manufacturing sector contributed 1,100 jobs. However, the business services sector witnessed a contraction, losing 700 jobs.

Various factors have contribute to the impressive job growth in the Des Moines metro area, including the region's strong economy, central location, and affordable cost of living. The diverse local economy boasts a significant presence in agriculture, manufacturing, and insurance industries. Des Moines is home to several Fortune 500 companies, such as Principal Financial Group, Wells Fargo, and Nationwide Insurance, and serves as a key transportation hub due to its strategic location. The area's attractive cost of living appeals to both businesses and workers alike.

Looking ahead, the steady job growth in the Des Moines metro area is anticipated to continue. The area's robust economy, prime location, and affordable living costs are expected to keep attracting businesses and workers.

Major Economic Developments



\$2.1B invested in downtown Des Moines over last decade

3,429

New apartment units over the last decade

\$2.1B

invested by public and private entities

New \$111.6M HQ

Krause Companies

\$240M HQ renovation

Principle Financial Group



Stadium District at core of \$550M redevelopment

6,300

Seat soccer stadium

60

Acre site

2025

Inaugural season

10 Year

Development timeline

USL Soccer Team

Coming to Des Moines in 2023



\$750M Mixed-Use Project to Begin Next Year

Market District

South of East Village

3,400

residential units

210k SF

Office space

200

Room hotel

2033

Full build-out complete

Market Outlook

Despite weakening demand nationwide, Des Moines has maintained greater stability due to its relatively affordable market and resilient local economy. Demand in the Des Moines market is projected to nearly align with the estimated 2,000 units set to be delivered this year, which will help maintain a steady average occupancy rate throughout 2023.

By the end of 2023, rent growth is anticipated to revert to the mean; however, suburban areas are expected to experience pockets of strength, as local renters have demonstrated a preference for these locations.

The Des Moines rental market appears well-positioned to sustain its stability, even in the face of nationwide variations, due to its robust local economy, reasonably priced housing choices, and the attractiveness of suburban living for the local population.





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