Central Iowa:

Multifamily Quarterly Newsletter

"Actionable Insights for YOUR Bottom Line"

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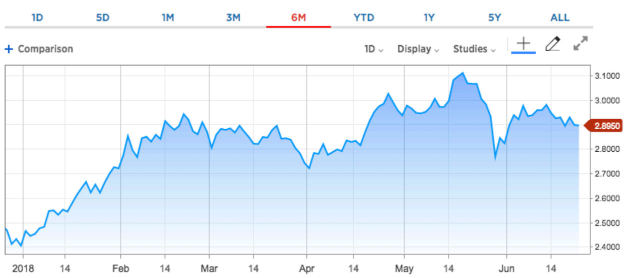
Executive Summary

The 2nd Quarter of 2018 was slightly lower than the 1st quarter with a decline in number of transactions as well as number of units sold. The likely reason for this is twofold: the rising of interest rates by the Federal Reserve is causing buyers to re-evaluate their purchases and tax law change that took place at the end of 2017 resulted in a surge of acquisitions in the 1st quarter.

Over $10 Million of Transactions in the 2nd Quarter of 2018 → Average Price Per Unit: $44,308.00 → Average CAP Rate: 8.0%

The average CAP rate for sales that took place in the 2nd Quarter was 8.0% (based upon data collected). This is a 50 basis point increase from the 1st Quarter of 2018. Why the increase?

Ten Year Treasury Rate



The 10-Year Treasury Rate from January 1st, 2018 was at 2.4%; it is currently hovering around 2.9%. This means that investors are directly basing their investments on the increase in interest rates at a 1-1 Ratio (based upon current data).

The only sector that is not seeing a direct 1-1 Ratio in CAP Rates VS Interest Rates is the Industrial Sector.

3rd Quarter Projections:

- The 3rd Quarter of 2018 in Des Moines will see CAP rates compress slightly; why?
  - There is an estimated $50-$60 billion in capital searching for a desirable yield in the multifamily sector across the country and with the rise to 8.0% CAP rate in the 2nd Quarter this WILL attract that capital!
- New Inventory will Continue to See High Vacancy but; it will lease-up faster than the 2nd Quarter; why?
  - The most obvious reason is the warmer temperatures that are seen in the Summer (the unusually cold Spring did not help).
  - The second reason is the delay in construction. There is a huge need for skilled labor in Central Iowa and this is causing a labor shortage which is resulting in delayed openings; this is actually a good thing as it will temper the amount of new openings and lease-ups taking place in the market.

Insights for YOUR Bottom Line:

- Do NOT put off Capital Improvements; why?
  - With 3,000+ of new units coming online and another 3,000 under construction we are facing almost 10% of new inventory within the market; competition WILL be fierce and tenants WILL have options!
- Invest in the RIGHT tenant amenities; why?
  - There has been a surge of high-end amenities in new inventory and it is becoming standard to offer some amenities to tenants; however, understand your tenant profile! A Class assets demand different amenities than C Class assets!
  - Amenities to Consider: High-Speed Internet (Wi-Fi), Discounts to nearby food/restaurants (create a partnership with them), Pre-Paid transportation (Uber/Lyft).
- Do NOT raise your rents; why?
  - Vacancy and turnover are the biggest enemy to your NOI; keep your rents affordable and your occupancy high! In the face of so much competition it's better to be conservative than aggressive.

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Iowa Economy

The Iowa economy remains strong with a majority of the growth taking place in the urban cities. According the Iowa Leading Economic Indicators, four of the eight leading indicators show growth taking place with an annualized rate of 0.5% for the Iowa economy.

The main components for growth are residential building permits which are 6.6% above historical averages and 21.5% above 2017 levels; weekly manufacturing hours, weekly unemployment claims, and new orders.

What does this all mean? How does it affect YOUR bottom line?

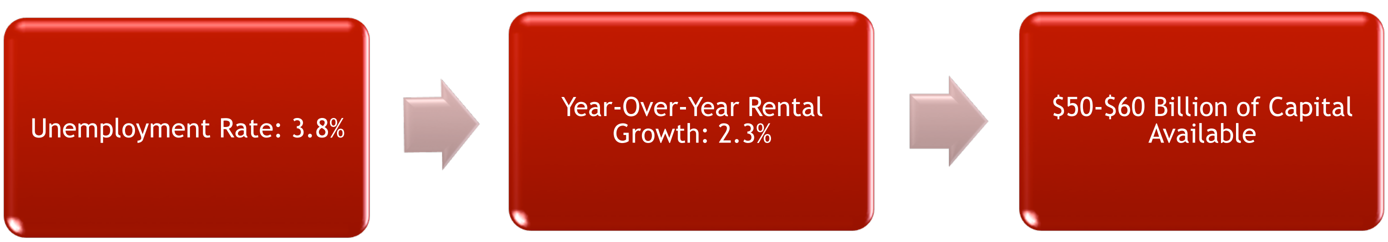
- Residential builders anticipate more buyers for their new homes.
  - As inflation takes place and wages begin to increase in the face of low-unemployment numbers more tenants will have the option to Buy VS Rent.
- Employment remains strong and companies in Iowa are expanding.
  - This means more tenants can afford to pay rent which should translate to stronger occupancy and less delinquency.
  - This also means that more tenants will be able to purchase new homes OR move up in class of apartment units.
- Capital improvement projects will be critical in order to maintain quality tenants and strong occupancy.

National Economy

The national apartment market continues to face headwinds with decelerating rent gains, growing supply of units, increases in interest rates, and the aging economic cycle; in spite of this, the fundamentals remain strong with low-unemployment and demand continues to remain strong for multifamily.

A Few Key Economic Numbers:

- More than 200,000 jobs are being added per month in 2018.
- Rents are forecasted to grow 2.9% nationwide in 2018.
- More capital is available and searching for niche sectors in secondary/tertiary markets.



How to Play It?

- Pay attention to interest rates and the continual rise of the 10 Year Treasury. An inverse-yield where the short-term treasury provides a higher return than the long-term generally signals that a recession is imminent.
- Pay attention to the labor shortage in the construction market and the rising costs of materials. These factors are causing construction delays for many new projects.
- Pay attention to the rhetoric coming out of Washington D.C. for signs of what Congress and the Executive branch are planning.

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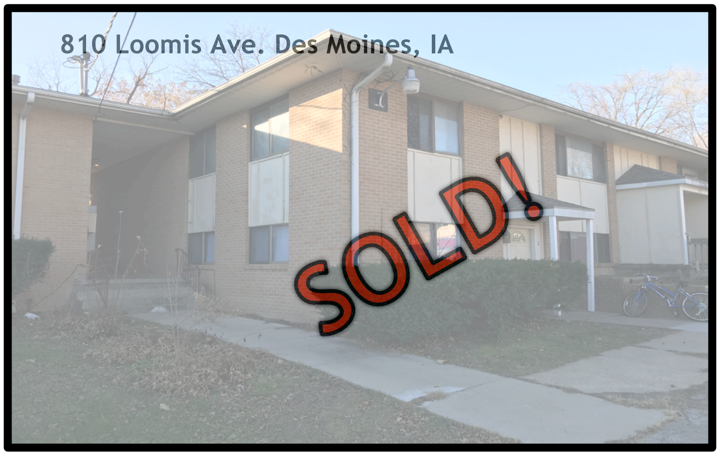
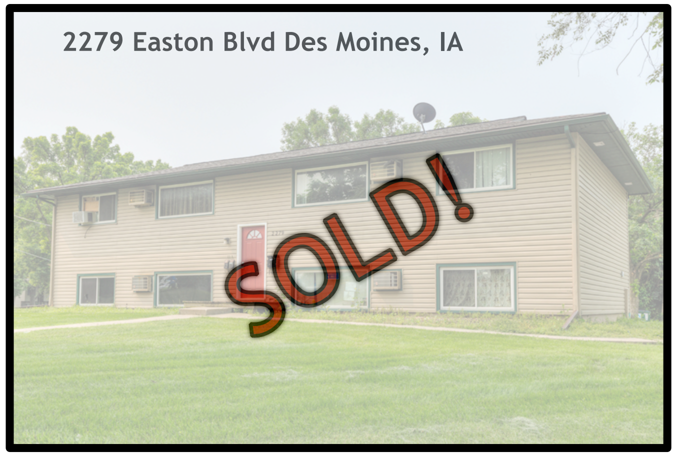
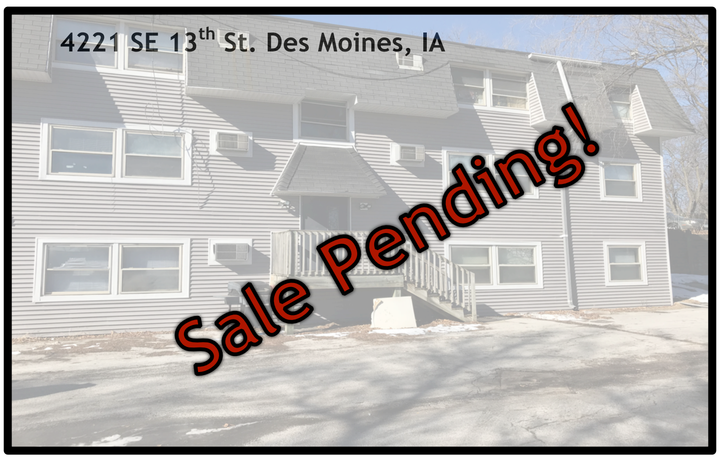
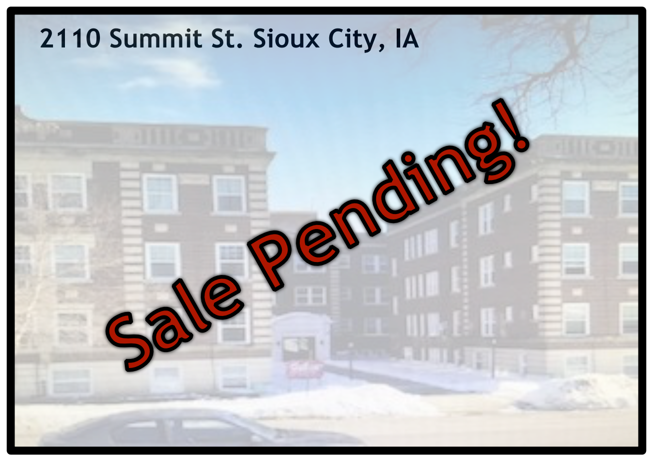
Recent Transactions









For more information on Sold or Sale Pending properties please contact me. Thank you.

Disclaimer

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