



Central Iowa: Multifamily Quarterly Newsletter

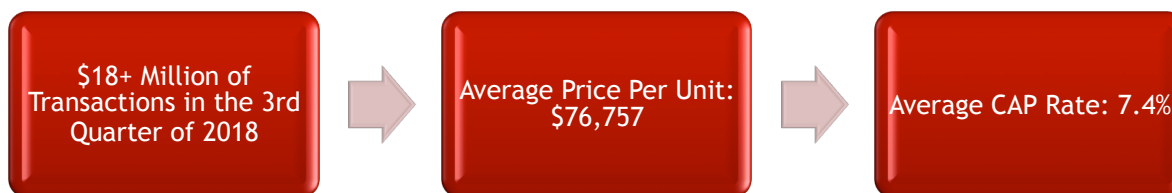
*“Actionable Insights for **YOUR** Bottom Line”*

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Executive Summary

The 3rd quarter of 2018 saw a very similar market when compared to the 2nd Quarter in terms of number of unique sales as well as number of units sold. The two biggest differences in the 3rd Quarter that set it apart from the first half of the year, and most specifically the 2nd quarter, was in the price per unit and average CAP rate.



The average CAP rate for sales that took place in the 3rd Quarter was 7.4% (based upon data collected). This is a 60 basis point DECREASE from the 2nd Quarter of 2018. Why the decrease?

Ten Year Treasury Rate



As predicted in my last quarterly update, the search for yield has never been greater and Des Moines continues to attract outside investment. Most notably, two large transactions in the vicinity of Drake University took place which largely driving up the average price per unit as well as the CAP rates.

Note: Since the last quarter the 10 Yr Treasury Rate has risen 15.3 basis points.

Please be aware of this and continue to watch it if your property is due for a refinance in the next 12-18 months.

4th Quarter Projections:

- The 4th Quarter of Des Moines will see a slower sales market; why?
 - There has been sizable listings brought to market as well as the Winter coming and it will take time for this new product to get sold as well as wrap up 2018.

Insights for **YOUR** Bottom Line:

- Do NOT put off Capital Improvements; why?
 - Construction prices continue to rise across the board, both in labor costs due to a shortage of skilled labor as well as the costs of materials; wrap these projects up before Winter!
- Look for simple ways to add value:
 - Amenities: there has been high demand for amenities, understand your tenant profile (or even ask them with a simple survey) and provide it for them.
 - Energy: consider energy costs savings/reductions tactics; specifically with the Winter months approaching.
- Raise your rents (but slowly); why?
 - We have seen a strong lease-up in the new units and the labor market remains strong. Despite concerns, most tenants are feeling great about the economy right now, a slight increase in rent will be sustained.

Iowa Economy

The Iowa economy remains strong with a majority of the growth taking place in the urban cities. According to the Iowa Leading Economic Indicators (July), four of the eight leading indicators show growth taking place with an annualized rate of -0.7% for the Iowa economy.

The main components for growth are residential building permits which are 3.5% above 2017 and 32.3% above historical levels; diesel fuel consumption, weekly unemployment claims, and the Iowa stock market.

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

- Residential builders anticipate more buyers for their new homes.
 - Most of these homes will not be coming online for sale until the Spring of 2019 however so look for strong occupancy throughout the Winter with the potential to raise rents on leases coming up.
- 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.
 - Keep an eye on the inflation numbers and wage growth which will affect tenants ability to either pay higher rents OR purchase a home.

National Economy

The national apartment market is performing above expectations despite the amount of new supply that has come to the marketplace! Buoyed by a strong economy, rents are up 3.1% nationally and almost 10 points higher than the 2nd quarter.

A Few Key Economic Numbers:

- 2.5 Million jobs will be added in 2018; over 200,000 per month!
- Rents nationwide have increased over 0.4% in the last three months!
- Rents were forecasted to grow 2.9% nationwide in 2018; they have grown 3.1% so far.



How to Play It?

- Pay attention to B & C Class Multifamily Units.
 - In the face of new supply and luxury units, Renter-by-Necessity has been outperforming A Class Multifamily units.
- Pay attention to interest rates and the continual rise of the 10 Year Treasury.
 - Lock in rates now if your loan has a maturity date in the next 24 months.
- 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 November elections.
 - A change in congress could have multiple rippling effects.

Recent Transactions of 2018:



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

Disclaimer

Provider is a licensed real estate agent and has the rights to sell real estate in the state of Iowa.

All information was obtained via 3rd parties including but not limited to Yardi Matrix, Iowa-Leading Economic Indicators, CoStar, and more. All effort was made to ensure the accuracy, timeliness, and completeness of information provided for publication. KW Commercial does not guarantee, warrant, or represent that all information is accurate or complete and is not liable for any loss, claim, or demand arising from the direct or indirect use or reliance upon information provided.

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