



Central Iowa: Multifamily Quarterly Newsletter

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

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Jared Husmann
KW Commercial Greater Des Moines
4001 Westown Parkway
West Des Moines, IA 50266
Mobile: (515) 639-0145
Email: JaredHusmann@KW.com
Licensed to Sell Real Estate in Iowa

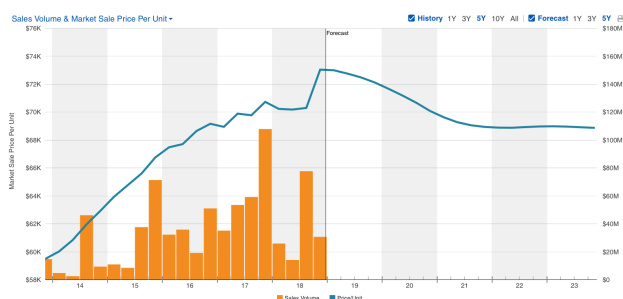
Central Iowa Market:

The 4th quarter of 2018 was much more active than the 3rd quarter of 2018. There were over 15 sales transactions within a 35 mile radius of Des Moines, IA and this translated to \$30,954,000 of registered sales with an average price per unit of \$58,075. Of the deals marketed and sold the Capitalization rate was 8.8% this is a HUGE increase from the 3rd quarter of 2018; why the increase?



The average CAP for the 4th quarter was higher for a couple of reasons; first, there were two transactions that took place in lower class neighborhoods that dramatically skewed the data and brought the average CAP rate higher. Second, the market has begun to shift and despite seller's wanting a higher price for their properties, buyers are beginning to demand a better deal in the face of headwinds in the commercial real estate sector (specifically multifamily).

A Cooling Down:



When you look at the data and review the sales history over the last 3-5 years you notice that 2015 was when sales began to rise faster than the historical average in terms of price and velocity with a peak being reached in 2017. In comparison, 2018 looks similar to 2015 in terms of sales volume. For the next 12-18 months most economist predict a slight dip and cooling off in the market; however, the Central Iowa economy remains strong in terms of employment and growth.

1st Quarter Projections:

- The 1st Quarter of 2019 for Central Iowa will slow in sales due to a gap between seller's asking prices and the price that buyers are willing to pay; however this gap will narrow as the Spring comes into focus.

Insights for YOUR Bottom Line:

- If you are a BUYER or SELLER:
 - Consider buying or selling property on contract. This is a great solution to meet a seller's price while giving the buyer the ability to obtain the necessary return-on-investment in the face of a slowing market.
- A Creative Buying Solution:
 - If you are looking to buy property consider asking if the loan is assumable. With interest rates higher and continuing to rise as well as lenders becoming more conservative in their underwriting this will be an option for credible buyers and operators to purchase properties.
- If you are HOLDING:
 - If you are not considering a sale in the next 3-6 months do NOT forget to put money into a reserve account and to maintain your property with capital improvements. If are not looking to sell in the next 12-18 months look to hold your investment until we have passed this next cooling period in the economy.

Iowa Market/Economy:

The Iowa economy is beginning to cool-off and follow the national market. According to the Iowa Leading Economic Indicator has fallen -0.2% which is the first move in the index in six months.

Of the Eight metrics tracked, four are positive and four are negative in the following order from positive to negative: diesel fuel consumption, weekly unemployment claims, yield spread, residential building permits, new orders, manufacturing hours, agricultural profits, and the Iowa stock market.

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

- The Iowa economy is beginning to feel a cooling in the economy with agricultural and the stock market being the biggest negative impacts.
 - Despite the negative market, people continue to find employment and jobs. This means that you can expect residents to continue to rent as the average consumer will not see a significant change in their lifestyle.

National Market/Economy:

The national apartment market is beginning to slow-down and for the first time in recent memory we are beginning to see rents decline. Upon writing this rents across the nation were down \$2 to an average of \$1,419 per month nationwide; however, year-over-year rents are up 3.1% which is keeping pace with historical inflation.

A Few Key Economic Numbers:

- Rents are still up 3.1% year-over-year
- Occupancy rates nationwide remain at 95%



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.

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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