

## Des Moines Metro Industrial, Q1 2018

# Industrial market continues strong performance spurring construction

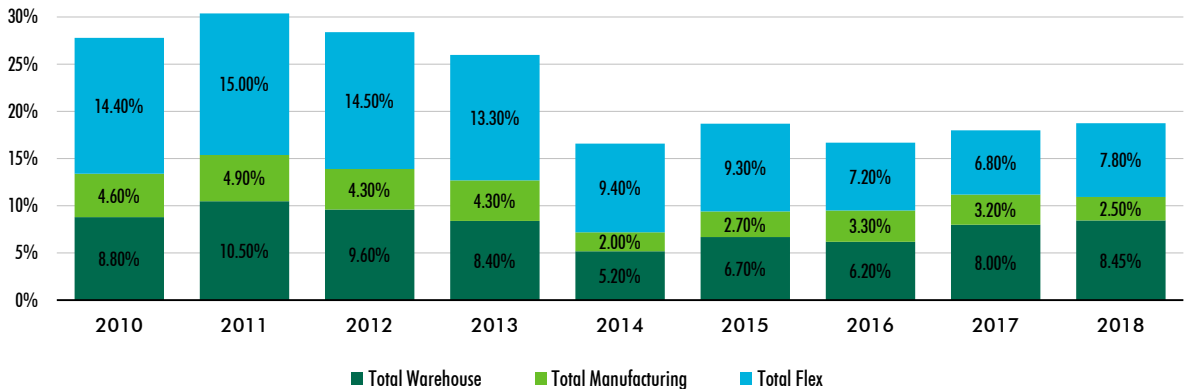
▲ Overall Vacancy Rate **6.9%**

≡ Lease Rate NNN **\$4.80 PSF**

▲ T-12 Net Absorption **1.48 MSF**

▲ Under Construction **1.65 MSF**

### Historical Vacancy Rates By Property Type



### HIGHLIGHTS

- Daimler North America occupied its 245,000 SF distribution center at Legacy Park in Grimes.
- Quality Manufacturing leased 510,000 SF at 5701 Park Avenue in Des Moines.
- Anderson Properties delivered a 135,000 SF flex building at Legacy Park in Grimes, of which 63,000 SF is leased to Insta-Pro International.
- Graham Group completed site work on their 103 acre Broadway Industrial Complex. The first of two buildings is under construction and will contain 237,500 SF with a Summer 2018 delivery.
- R&R Realty Group announced plans to construct a 300,000 SF facility in Prairie Business Park.
- 1.6M SF of new warehouse inventory was added to the market over the last 12 months with positive absorption of 1.3M SF over that same period.

### OUTLOOK

The industrial and logistics market remains on solid footing and continues to expand. Demand has slowed a bit from its well-above-average run between 2014 and 2016, but 2017's net absorption of 1.48 million sq. ft., bolstered by 3PL (third party logistic) tenants and owner occupied expansions, is right in line with the average over the cycle that began in 2010.

Consistent demand for all types of industrial space, rational levels of new speculative construction and stable rents have been this cycle's hallmarks resulting in an overall healthy market.

In our view, although the economic cycle is a bit extended, Des Moines is still at a very early stage in the e-commerce and omnichannel cycle. Given the growing service requirements of the consumer in this "on-demand" world combined with projected population and job growth and proximity to Interstate 80/35 demand for industrial real estate in greater Des Moines should not wane anytime soon.

**SUBMARKET UPDATES**

**Western Suburbs**

Industrial demand remains strong and development is occurring in nearly all of the communities that make up the Western Suburbs, including Grimes, Johnston, Urbandale, Waukee, and West Des Moines. Construction has been stout and ten new warehouse buildings have been added, which increased the warehouse inventory over 750,000 square feet within this submarket. Predominant uses include warehousing, transit, storage, church, and recreational uses.

In Grimes, Hubbell Realty Company added the fourth 110,000 square foot warehouse within the Grimes Distribution Center. Within the same neighborhood Daimler North America completed and occupied their 245,000 square foot distribution center.

The second warehouse within the Prairie Business Park has been completed and contains 250,000 square feet. Also in Prairie Business Park, the developer R&R Realty Group recently announced plans to construct a 3rd phase containing 300,000 SF.

**Northeast/Ankeny**

The portion of Northeast Des Moines that is located north of I-80, between NE 14th Street and I-35 is converging on the city limits of Ankeny, and the lines between the two communities are becoming blurred. Strong activity is occurring in this sector as nine new warehouse buildings have been completed. This adds over 800,000 square feet of inventory over a 12 month period across the two submarkets.

OPUS Group is nearing completion of Phase 2 of their planned three building development in Ankeny's Corporate Woods Industrial Center. The second building consists of 200,688 square feet. The planned third building will be approximately the same size.

Graham Group has completed their 300,000 square foot warehouse and distribution center at 6812 NE 22nd Street. They are also developing a new warehouse complex next to the NE I 35/80 interchange in Des

Moines. The 103-acre site is being developed in two phases. Phase one includes a 237,500 square foot warehouse that will be ready for occupancy in summer 2018. Phase two includes the development of a 675,000 square foot warehouse building which will be available for occupancy in summer 2019.

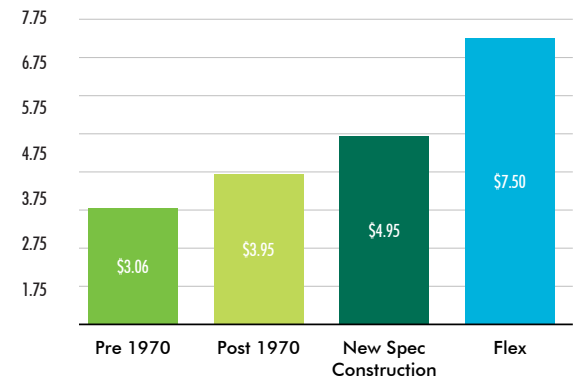
Baker Group has completed their home office/warehouse in Ankeny, located at 1600 Southeast Corporate Woods Drive. The new building consists of 141,616 square feet.

In Altoona, a new training center for the Council of Carpenters has been completed which includes nearly 50,000 square feet of space.

**South**

The South submarket experienced new construction and significant positive absorption since the previous survey. EP2 constructed a new office/warehouse consisting of 242,800 square feet and moved operations from their prior location on Hull Avenue. Quality Manufacturing is expanding and now occupies the former vacant space located at 5701 Park Avenue. GK Services now fully occupies the high cube warehouse located in the Airport Commerce Park along Army Post Road. Atlantic Coca-Cola Bottling Company moved their operations from Waukee, as they purchased the 405,000 square foot office and distribution facility located at 3600 Army Post Road. Today Atlantic utilizes a majority of the facility and offers approximately 95,000 square feet for lease.

**Average Asking Lease Rates (\$/sq. ft. nnn)**



**Top Recent Lease/Sale Transactions**

Tenant/Buyer	Size(SF)	Type	Property	City	Submarket
Quality Manufacturing	510,000	Lease	Park Avenue	Des Moines	South
Daimler Trucks North America	245,000	Lease	Legacy Business Park	Grimes	Western Suburbs
XPO Logistics	300,000	Lease	6812 SE Delaware	Ankeny	Ankeny
Bell Avenue Properties	572,509	Sale	Interstate Distribution Center	Urbandale	Western Suburbs

**NET ABSORPTION**

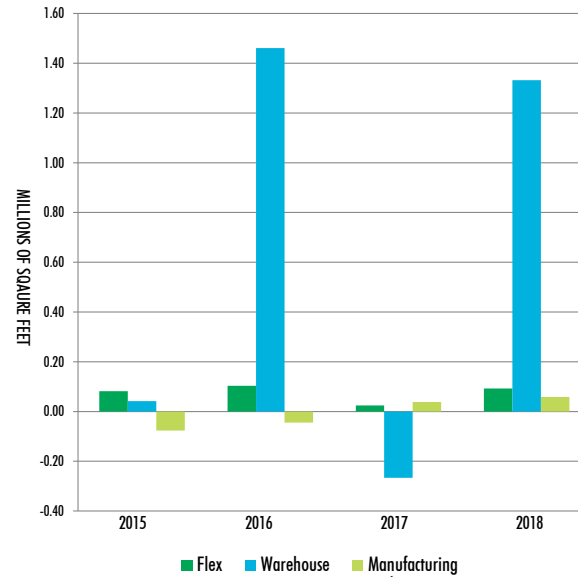
Absorption of warehouse space was positive over the trailing 12 months, with over 1,300,000 square feet of positive absorption across all submarkets. The South submarket and Ankeny submarket were the two biggest drivers for this positive absorption, with 930,176 square feet absorbed in the South submarket and 520,594 square feet absorbed in the Ankeny submarket. The Western Suburbs submarket also experienced positive absorption of 118,806 square feet.

Absorption of manufacturing space was slightly positive overall, 58,404 square feet, driven by the Northwest and Northeast submarkets. The Western Suburbs submarket experienced the largest decline in absorption with over 40,000 square feet of negative absorption.

**FLEX**

All of the flex space is considered to be “competitive” space. Over 60% of the flex market is located in the Western Suburbs submarket, which has more inventory than the other submarkets combined. New construction of flex space is limited, yet two new flex buildings have been added in the last 12 months. Anderson Properties added a new flex building in Grimes, west of Highway 141, and south of SE 19th Street in Legacy Park. The new building consists of

**Net Absorption**



135,000 square feet and will house multiple tenants including 63,000 SF leased to Insta-Pro International. A second new flex building is located west of I-35 and south of Corporate Woods Drive and contains 18,564 square feet. Vacancy levels increased slightly from 6.8% in Q1 2017 to 7.7% in Q1 2018 as the new buildings are in the initial stages of lease-up. Absorption of flex space was positive overall, at 92,457 square feet.

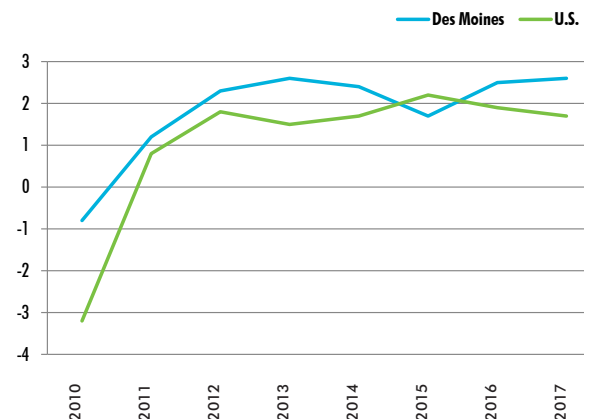
**Under Construction**

Property	Size (SF)	Delivery Date	Developer	City	Submarket
Broadway	237,500	Summer 2018	Graham	Des Moines	Northeast
Prairie Business Park	300,000	Q4 2018	R&R Realty	Grimes	Western Suburbs
Corporate Woods Industrial Center	200,688	Q3 2018	Opus Group	Ankeny	Ankeny

**LABOR MARKET AND EMPLOYMENT**

The Des Moines Metropolitan Area continues to outpace the Midwest & the U.S. in year-over-year job growth. Des Moines ended 2017 with a 2.6% growth rate and outpaced the U.S. by 110 basis-points (bps). The jobless rate is down to its lowest level in 17 years. Des Moines remains in an expansion cycle which will yield positive long term growth. The outlook for Des Moines will remain positive over the next year with income and spending gains expected to meet or exceed the national average.

**Des Moines Labor Market**



## Market Statistics

	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate (%)	Net Absorption (SF)	Under Construction (SF)
<b>Greater Des Moines</b>					
Warehouse Pre 1970	9,038,413	781,315	8.6	(361,221)	
Warehouse Post 1970	26,775,381	2,214,573	8.3	1,693,003	1,653,188
Manufacturing Pre 1970	7,577,516	244,240	3.2	116,016	
Manufacturing Post 1970	5,782,543	106,974	1.8	(57,612)	
Flex	5,400,940	422,240	7.8	92,457	
<b>TOTAL</b>	<b>54,574,793</b>	<b>3,769,342</b>	<b>6.9</b>	<b>1,482,643</b>	
<b>Western Suburbs</b>					
Warehouse Pre 1970	1,236,077	0	0.0	(35)	
Warehouse Post 1970	9,469,197	1,221,526	12.9	118,841	300,000
Manufacturing Pre 1970	1,296,537	0	0.0	0	
Manufacturing Post 1970	1,742,326	59,239	3.4	(43,558)	
Flex	3,448,328	275,866	8.0	97,693	
<b>CBD</b>					
Warehouse Pre 1970	1,135,485	378,117	33.3	(32,740)	
Warehouse Post 1970	165,773	33,983	20.5	(17,578)	
Manufacturing Pre 1970	190,495	38,480	20.2	(20,925)	
Manufacturing Post 1970	54,500	0	0.0	0	
Flex	589,697	32,433	5.5	(2,359)	
<b>Northwest</b>					
Warehouse Pre 1970	714,050	63,550	8.9	0	
Warehouse Post 1970	520,086	61,370	11.8	(1,560)	
Manufacturing Pre 1970	795,857	48,547	6.1	50,139	
Manufacturing Post 1970	50,587	0	0.0	0	
Flex	99,161	6,743	6.8	0	
<b>Northeast</b>					
Warehouse Pre 1970	4,084,753	224,661	5.5	(333,192)	
Warehouse Post 1970	10,107,508	596,343	5.9	147,276	912,500
Manufacturing Pre 1970	4,340,106	143,223	3.3	86,802	
Manufacturing Post 1970	1,756,713	21,081	1.2	(14,054)	
Flex	586,110	52,164	8.9	(3,517)	
<b>South</b>					
Warehouse Pre 1970	1,596,438	60,665	3.8	59,068	
Warehouse Post 1970	2,494,801	0	0.0	871,108	
Manufacturing Pre 1970	388,600	13,990	3.6	0	
Manufacturing Post 1970	783,954	26,654	3.4	0	
Flex	237,370	0	0.0	0	
<b>Ankeny</b>					
Warehouse Pre 1970	271,610	54,322	20.0	(54,322)	
Warehouse Post 1970	4,018,016	301,351	7.5	574,916	440,688
Manufacturing Pre 1970	565,921	0	0.0	0	
Manufacturing Post 1970	1,394,463	0	0.0	0	
Flex	440,274	55,034	12.5	640	

**GREATER DES MOINES ECONOMIC DATA**



Population  
**635,000 (2017 MSA)**

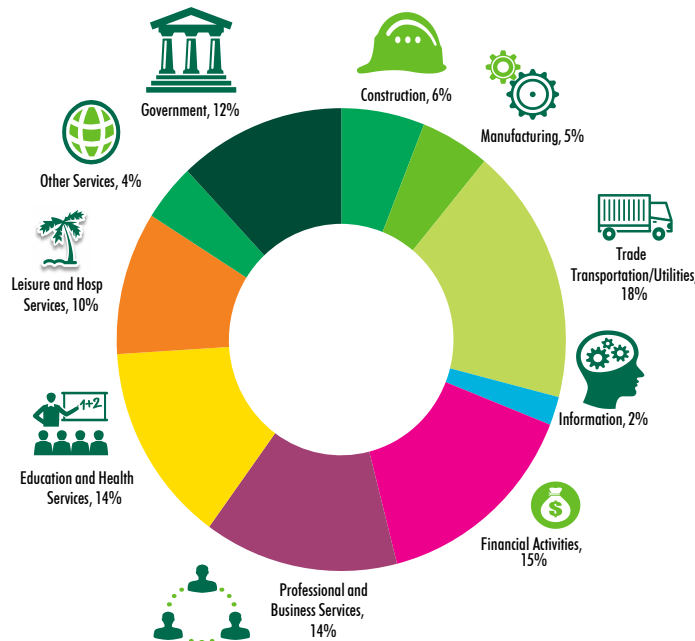


Unemployment Rate  
**2.6%**

LARGEST EMPLOYERS	EMPLOYEES
Wells Fargo & Company	14,500
UnityPoint Health - Des Moines	7,797
Mercy Medical Center	7,055
Hy-Vee, Inc.	6,400
Principal	6,182
Nationwide	4,442
John Deere	3,089
Vermeer Corporation	2,500
DuPont Pioneer	2,495
JBS USA	2,300
Pella Corporation	2,224
Kum & Go	2,043
Wellmark Blue Cross Blue Shield of Iowa	1,800
UPS	1,600
Firestone Agricultural Tire Co.	1,600
YMCA of Greater Des Moines	1,480
Athene	1,320
EMC Insurance Companies	1,300
Casey's General Stores	1,200
Tyson Fresh Meats, Inc.	1,200



12 Month Change  
in employment  
**2.6%**



Sources:  
Greater Des Moines Partnership  
Bureau of Economic Analysis  
US Bureau of Labor Statistics - December 2017

**METHODOLOGY**

Inventory of each property type is based on the Polk County Assessor’s records and municipal building permits. The public data is further refined and classified through a variety of direct contacts and physical inspections. Properties are grouped by property type, age, and broad geographic region. All industrial, flex, and manufacturing space is considered competitive space since occupiers can change from long-term to short-term leases, and from leasing to owner-occupying space. Therefore, occupancy estimates of these categories are based on the actual occupancy of the entire inventory of space.

Warehouse

Individual bulk storage and distribution warehouse properties 7,500 SF and larger are all considered. Special use properties such as cold storage facilities and truck terminals with multiple doors used to transfer freight between trucks are not included.

Manufacturing

Light and heavy manufacturing facilities 7,500 SF and larger are all considered. Truck shops and other service facilities are not included. Other special use properties, such as bulk oil facilities are also not included.

Flex

This multi-purpose space typically contains a better quality front facade, but also contains dock high or drive-in doors at the rear of the building. This type of space is designed to easily accommodate 100% finish or any combination of office, retail, showroom, and warehouse.

**SUBMARKET BOUNDARIES**

**Central Business District (CBD)** - Includes the Western CBD and the East Village, extending west to Martin Luther King Jr. Parkway and east to East 14th Street.

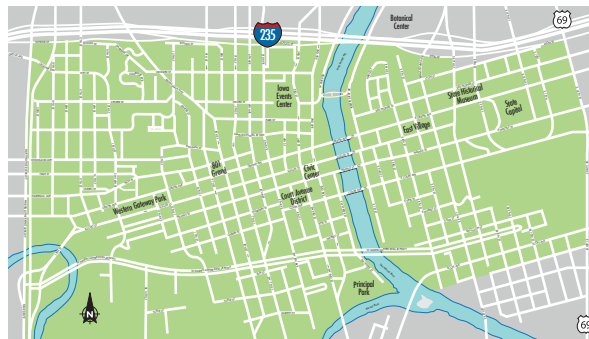
**Western Suburbs** - Encompasses West Des Moines, Clive, Urbandale, Windsor Heights, Johnston, Grimes, Waukee, and some unincorporated areas of Polk, Dallas, and Warren Counties.

**Northwest** - Includes Northwest Des Moines and Western Saylor Township.

**Northeast** - Consists of Northeast Des Moines (extended south to the Des Moines River), Pleasant Hill, Altoona, Eastern Saylor Township, and Delaware Township.

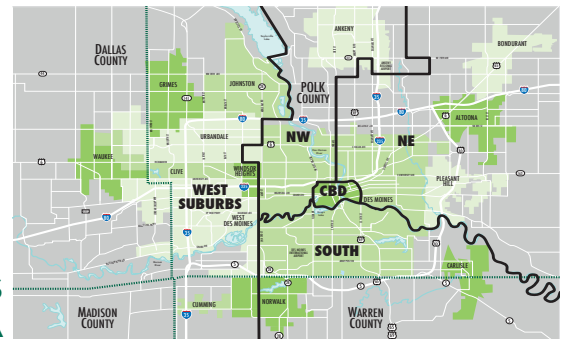
**South** - Comprises Southwest Des Moines, Southeast Des Moines (south of Des Moines River), and some unincorporated areas of Polk and Warren Counties.

**Ankeny** - Evaluated separately.



**DES MOINES  
CENTRAL BUSINESS  
DISTRICT (CBD)**

**DES MOINES  
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