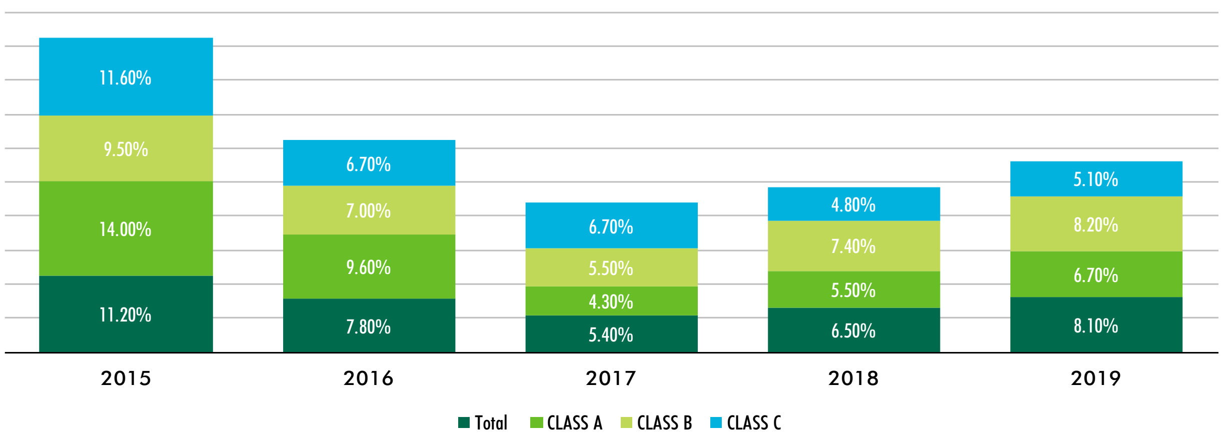
Part of the CBRE affiliate network

Des Moines Metro Office, Q1 2019

Traditionally stable office market could be tested in the next 24 months

Entire Market Vacancy Rate	Competitive Market Vacancy Rate	Competitive Market Gross Asking Lease Rate	Trailing 12 M Net Absorption	Under Construction
5.40%	8.10%	$19.20 PSF	(133,965)	80,666 SF

Greater Des Moines Historical Competitive Market Vacancy



If you were to study the Des Moines office market in-depth, words like "steady", "stable", and "predictable" would likely come to mind. That trend continued in the past 12 months as the fundamentals remain intact. On a positive note for landlords, lease rates continue to rise 1-2% or more annually in quality buildings. A majority of the landlords in the marketplace are implementing capital improvement plans that "refresh" their assets and offer amenity packages that the tenant marketplace is seeking. Lease concessions from landlords, primarily consisting of rent abatement and above standard tenant improvement packages, have decreased since post-recession levels 10 years ago. Despite these positive fundamentals, headwinds are facing the marketplace. A burst of large blocks of space have come available and concession levels could once again increase as landlords complete for tenants with a larger footprint. Additionally, a major hurdle is the ever-increasing competition among employers looking for talented employees as the unemployment rate has shrunk to record low levels. A lack of available employment could have employers begin to question a need for additional office space.

The increasing number of vacancies resulting from large office users moving from leased space to corporately owned or built-to-suit campuses is a trend that Des Moines has dealt with previously. Our market is experiencing another round of corporate campus development as IMT Insurance, Sammons Financial, Holmes Murphy, and Kum & Go have or will have vacated leased space for new single tenant corporate campuses. As a result, vacancy rates have tilted upwards and will remain there until these larger 50,000 SF to 100,000 SF spaces are backfilled. One problem for the landlords left with these large blocks of space is that often these spaces are not suitable to be demised for smaller offices (less than 10,000 SF) and demising becomes "forced" resulting in costly and inefficient renovations.

Despite there being more than typical large floor plates being available for lease it still remains difficult to find suitable Class A office space for small to mid-sized officer users that form a large part of our tenant marketplace.

A significant impact on the market is the increasing costs of construction with dozens of major construction projects occurring throughout the Metro, the availability of the work force, contractors, and raw materials have resulted in increasing tenant improvements costs that often approach $40-$50 per square foot or more for a simple open office and private office plan. A real concern is that material and labor prices could increase to a point where further development of smaller projects, which have been the backbone of our local Des Moines economy, could be priced out of the market.

Tenants have and will continue to be attracted to value and quality. High quality office spaces with modern workplace amenities are more apt to be leased quicker than their competition due to value created for the employers and its employees. Rental rates will continue to be a factor, but tenants are focusing on other value components, including location and building amenities. This need for value outside of just the lease rate will work across all office classes. Value is defined ultimately by the tenant marketplace and if tenants deem a building to be a lower value (lack of a good location, less than standard building finishes, parking issues, or lack of building amenities), those buildings will struggle to maintain lease rates and market occupancy rates.

The prime example of tenants seeking higher quality amenity spaces would be R&R's development of the Westfield Building, a 180,000 SF Class A building at Country Club Office Plaza that provides an amenity package not typical to the suburban office market, including underground parking, conference center, rooftop patio, coffee bar, and outdoor seating areas. Centene signed a lease for approximately 80,000 square feet and the building is approximately 75% leased. We anticipate that there will continue to be opportunities for Class A, new office construction in the marketplace as the market has seemed to embrace the higher asking rents associated with new construction. Landlords will continue to seize these opportunities carefully with a focus on pre-leasing when possible.

CONSTRUCTION

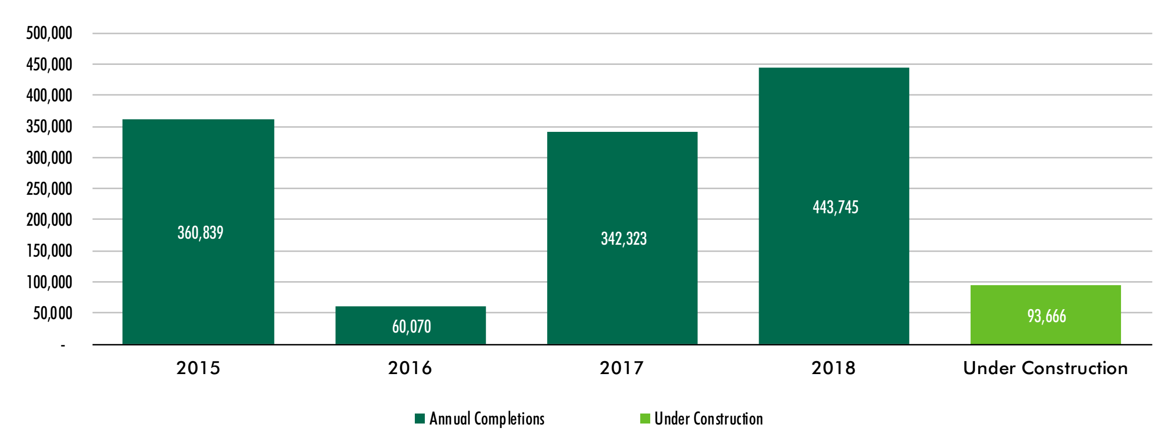
Construction has diminished a notable 83% year-over-year with 80,666 SF set to deliver by the end of Q2 2019 space. Only 40% of this space will be available and will add roughly 16,000 SF of competitive space to both the Ankeny and CBD markets.

Expect construction to continue at this modest pace for the foreseeable future as developers take notice of the changing environment. Rising construction costs, interest rate hikes, and increased LTV requirements are just a few of the catalysts we suspect will notably heighten development costs over the next 1-5 years.

Under Construction

Property	Size (SF)	Delivery Date	Developer	City	Submarket
Vintage Hills Office	16,666	Q2 2019	DRA Properties	Ankeny	Ankeny
111 E Grand Ave	64,000	Q2 2019	JSC Properties	Des Moines	CBD
Miesblock	13,000	Q2 2019	Nelson Construction	Des Moines	CBD

Construction (SF)



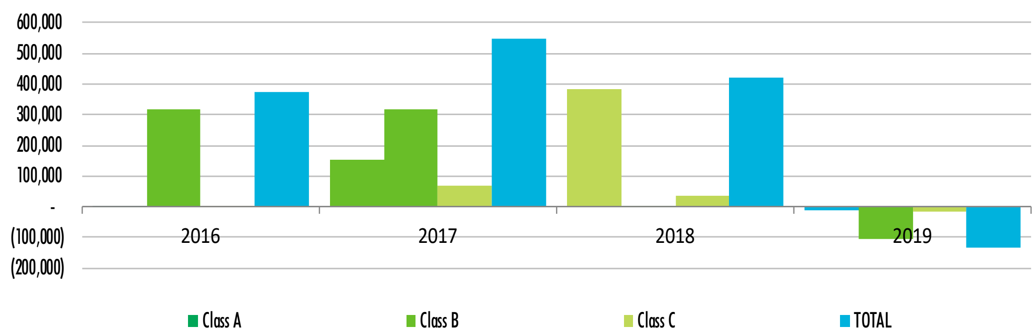
ABSORPTION

Overall absorption for the year finished in the red as all 3 classes experienced negative absorption. This was driven primarily by Class B space which saw -106,185 SF of net absorption on the year. Class A and C space saw minimal negative absorption at -12,857 SF and -14,923 SF respectively.

Across the entire market, the CBD experienced -110,864 SF of net absorption, the lowest of all submarkets. The western suburbs and Ankeny were the only submarkets that saw positive absorption closing out the year at 14,176 SF and 27,336 SF respectively.

In the competitive market, the Western Suburbs Class A space saw the largest net absorption at 70,532 SF, driven primarily by the delivery and lease up of R&R's Westfield Building. On the other end, Class A space in the CBD had net absorption at -48,511 SF for the year.

Net Absorption by Class (Trailing 12-month period)



Notable Completions

Property	Size (SF)	City	Submarket	Major Tenant
Krause Gateway Center	160,000	Des Moines	CBD	Kum & Go
Westfield Complex	180,000	West Des Moines	Western Suburbs	R&R, Centene
9505 Northpark Dr	134,000	Urbandale	Western Suburbs	John Deere ISG
7825 Mills Civic	85,000	West Des Moines	Western Suburbs	IMT Group

Notable Vacancies

Property	Vacant (SF)	City	Submarket	Prior Tenant
3001 Westown Pkwy	67,275	West Des Moines	Western Suburbs	Holmes Murphy
6400 Westown Pkwy	80,800	West Des Moines	Western Suburbs	Kum & Go
4445 Corporate Dr	52,209	West Des Moines	Western Suburbs	IMT Group
12100 Meredith Dr	90,000	Urbandale	Western Suburbs	New Build (2 Phases)

Notable Lease Transactions

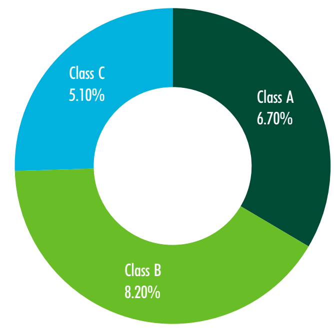
Property	Size (SF)	City	Submarket	Tenant
Westfield Complex	80,000	West Des Moines	Western Suburbs	Centene
4900 University Ave	58,213	West Des Moines	Western Suburbs	ADP
4330 114th St	33,088	Urbandale	Western Suburbs	Deere & Company
8700 Crescent Chase	30,184	Johnston	Western Suburbs	DuPont Pioneer
909 Locust St	22,117	Des Moines	CBD	Dwolla

VACANCY

As expected, competitive market occupancy levels softened 23 bps metro wide as a handful of large office users transitioned from leased space to corporately owned campuses. Ankeny is the only submarket that experienced increased occupancy rates with an impressive 6.8% increase year-over-year bringing vacancy to a healthy 5.3%. The Western Suburbs and CBD both saw occupancy levels soften by 32bps and 17bps respectively.

Class A space experienced the biggest dip in occupancy softening 30 bps year-over-year. This was expected as projects like Paradigm and Westfield delivered sizeable floor plates of Class A product to the market. Paradigm remains 100% vacant with 46,734 SF of leasable space.

Competitive Market Vacancy by Class



Vacancy (%)

LEASE RATES

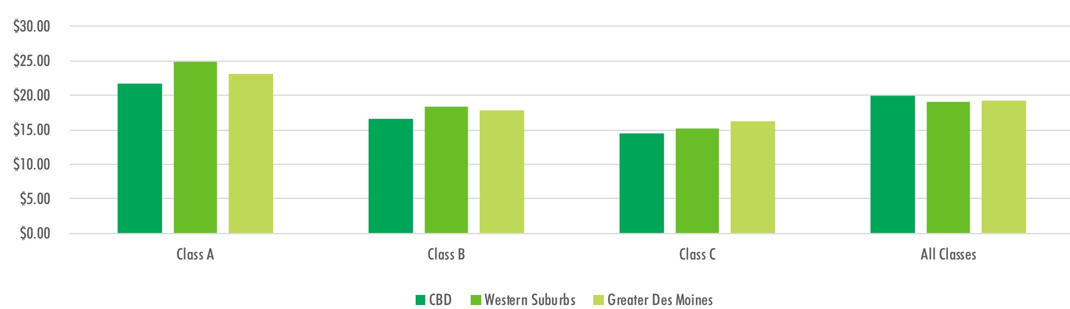
Competitive market gross asking lease rates for the Des Moines metro came in at $19.20 PSF. This is a 1.7% increase year-over-year and reinforce the markets slow but steady rent growth. All classes of space in the CBD, Western Suburbs, and the Greater Des Moines metro saw year-over-year rent bumps. Class A space experienced the strongest growth with a 2.4% increase across the metro.

The Western Suburbs continue to command the highest rents with Ankeny and the CBD is not far behind. We fully anticipate this trend will continue as the West suburban submarket continues to distance itself as additional Class A space comes-online over the next 1-5 years.

Based on Asking Rents

	Class A	Class B	Class C	All Classes
Western Suburbs	2.00%	1.50%	1.60%	1.70%
CBD	2.70%	1.30%	1.10%	2.00%
Greater Des Moines	2.40%	1.40%	1.30%	1.70%

Asking Lease Rate ($PSF/YR/FSG)



Entire Market Statistics

	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption	Under Construction
Metro Overall	24,599,048	1,328,348	5.40%	(133,965)	80,666
Class A	11,307,393	565,369	5%	(12,857)	
Class B	11,708,601	725,933	6.20%	(106,185)	80,666
Class C	1,583,054	55,406	3.50%	(14,923)	
Western Suburbs	12,025,985	817,766	6.80%	14,176	
Class A	4,376,433	297,597	6.80%	70,532	
Class B	6,711,048	463,062	6.90%	(35,885)	
Class C	938,504	55,372	5.90%	(20,471)	
CBD	10,066,469	392,592	3.90%	(110,864)	64,000
Class A	6,840,960	266,797	3.90%	(3,389)	
Class B	3,003,045	126,128	4.20%	(27,475)	64,000
Class C	222,464	0	0%	0	
Northwest	783,473	14,886	1.90%	(1,890)	
Class A	0	NA	NA	NA	
Class B	537,162	15,040	2.80%	(7,438)	
Class C	246,311	0	0%	5,548	
Northeast	384,029	4,992	1.30%	0	
Class A	90,000	0	0%	0	
Class B	254,661	5,094	2%	0	
Class C	39,368	0	0%	0	
South	597,223	65,097	10.90%	(62,723)	
Class A	0	NA	NA	NA	
Class B	486,073	64,647	13.30%	(62,723)	
Class C	111,150	0	0%	0	
Ankeny	741,869	49,705	6.70%	27,336	16,666
Class A	0	NA	NA	NA	
Class B	716,612	49,446	6.90%	27,336	16,666
Class C	25,257	0	0%	0	

The entire market analysis includes competitive and non competitive office space in classes A, B and C.

Competitive Market Statistics

	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption	Under Construction	Gross Asking Rate ($/SF/YR)
Metro Overall	13,411,284	1,086,314	8.10%	(110,520)		$19.20
Class A	5,038,569	428,278	8.50%	22,021		$23.06
Class B	7,290,049	597,784	8.20%	(103,043)		$17.83
Class C	1,082,666	55,215	5.10%	(29,498)		$16.21
Western Suburbs	7,203,071	669,885	9.30%	(28,483)		$19.86
Class A	2,477,447	200,673	8.10%	70,532		$24.83
Class B	4,124,688	416,593	10.10%	(69,517)		$18.40
Class C	600,936	55,286	9.20%	(29,498)		$15.26
CBD	4,671,276	355,016	7.60%	(76,486)	16,000	$19.05
Class A	2,471,122	229,814	9.30%	(48,511)		$21.69
Class B	1,992,690	123,546	6.20%	(27,975)	16,000	$16.55
Class C	207,464	0	0%	0		$14.50
Northwest	487,232	15,104	3.10%	(7,438)		$17.65
Class A	0	NA	NA	NA		NA
Class B	329,796	14,840	4.50%	(7,438)		$18.41
Class C	157,436	0	0%	0		$15.83
Northeast	318,919	0	0%	0		$16.90
Class A	0	NA	NA	NA		NA
Class B	200,248	0	0%	0		$17.77
Class C	28,671	0	0%	0		$14.56
South	317,320	21,260	6.70%	(19,016)		$16.97
Class A	0	NA	NA	NA		NA
Class B	242,871	21,129	8.70%	(19,016)		$16.95
Class C	74,449	0	0%	0		$11.03
Ankeny	413,466	21,913	5.30%	20,903	16,666	$19.81
Class A	0	NA	NA	NA		NA
Class B	399,756	21,913	5.50%	20,903	16,666	$20.13
Class C	13,710	0	0%	0		$17.01

Competitive Office is a segment of the entire market and consists of buildings considered by the market to be competing for tenants. The competitive inventory can vary from year-to-year without any new construction or demolition as building(s) may be reclassified from non-competitive.

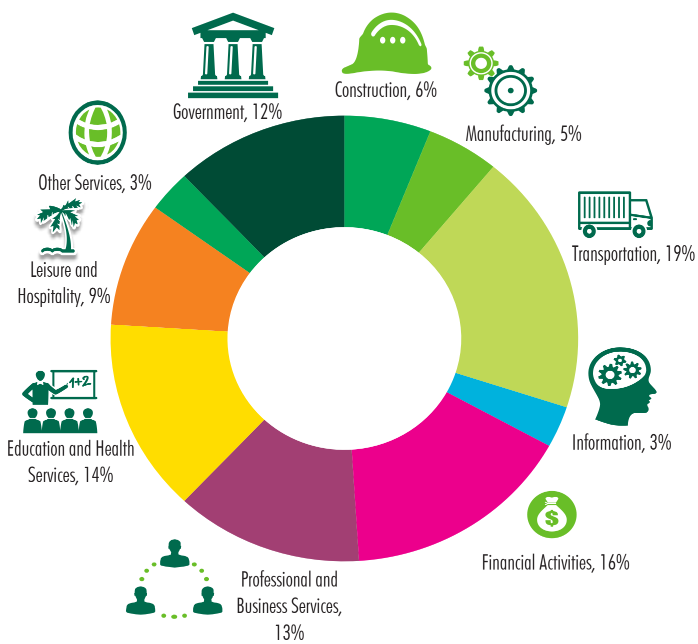
GREATER DES MOINES ECONOMIC DATA

Population
644,590 (2018 MSA)

Unemployment Rate
2.4%

LARGEST EMPLOYERS	EMPLOYEES
Wells Fargo & Company	14,500
UnityPoint Health - Des Moines	8,026
Principal	6,500
Hy-vee	6,400
Nationwide	4,525
Mercy Medical Center	4,228
John Deere	3,089
Vermeer Corporation	2,500
DuPont Pioneer	2,495
JBS USA	2,300
Pella Corporation	2,224
Wellmark Blue Cross Blue Shield of Iowa	2,000
UPS	1,600
Bridgestone Americas Tire Operations	1,600
Mercer	1,560
YMCA	1,300
EMC Insurance Companies	1,269
Casey's	1,200
Tyson Fresh Meats, Inc.	1,200

12 Month Change
in employment
3.3%



Sources:
Greater Des Moines Partnership
Bureau of Economic Analysis
US Bureau of Labor Statistics - December 2018

METHODOLOGY

Individual buildings consist of Classes A, B, or C primarily based on their quality, age, location, and appeal in the market. The survey then indicates full service rental rate ranges for each class. The survey includes buildings 5,000 SF and larger. Medical and government buildings are excluded. The 2019 Marketview contains information collected during the first quarter of 2019.

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.

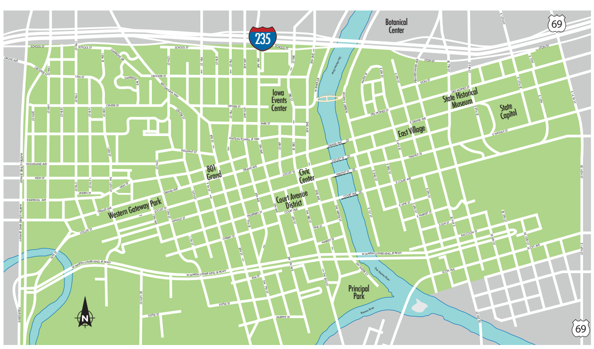
Western Suburbs - Encompasses West Des Moines, Clive, Urbandale, Windsor Heights, Johnston, Grimes, Waukee, and some unincorporated areas of Polk, Dallas, and Warren Counties.

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.

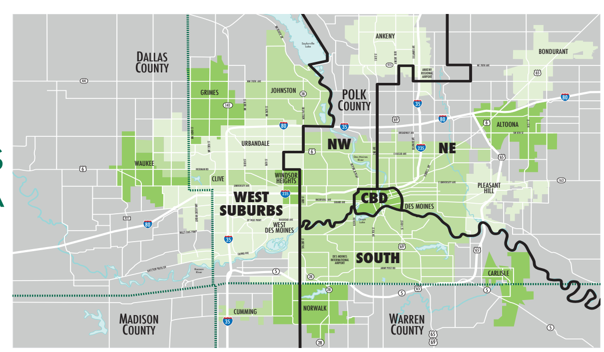
South - Comprises Southwest Des Moines, Southeast Des Moines (south of Des Moines River), and some unincorporated areas of Polk and Warren Counties.

Ankeny - Evaluated separately.



DES MOINES CENTRAL BUSINESS DISTRICT (CBD)

DES MOINES METROPOLITAN AREA



Sources: CoStar Group, Polk County Assessor and Dallas County Assessor

CBRE | Hubbell Commercial

Part of the CBRE affiliate network

Commercial Real Estate Advisory and Transaction Services

6900 Westown Parkway • West Des Moines, Iowa 50266 • +1 515 224 4900 • Fax +1 515 221 6652
www.cbre.com/desmoines