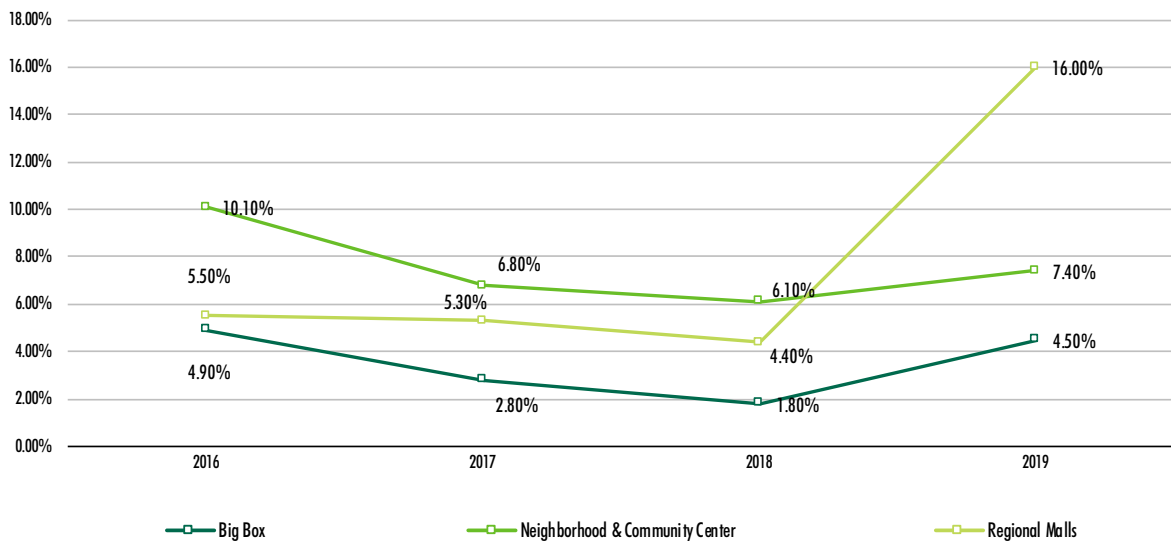


Des Moines Metro Retail, Q1 2019

Retailers continue to reinvent in response to customer behavior changes

 Vacancy Rate (Neighborhood Center) 7.40%	 Vacancy Rate (Big Box) 4.50%	 Vacancy Rate (Regional Malls) 16.00%	 Net Absorption (Neighborhood Center) (3,335) SF	 Net Absorption (Big Box) (135,492) SF
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Vacancy Rates



HIGHLIGHTS

- The Jordan Creek Town Center corridor remains Iowa's preferred shopping destination attracting new retailers and restaurants. Recent additions include Raising Cane's, Hy-Vee Health Market, Hobby Lobby and Wahlburgers.
- The Altoona and Ankeny markets continue to be thriving retail markets. Growth in Altoona is centered around the successful opening of the Outlets of Des Moines and the adjacent Prairie Crossing development. Ankeny's growth is centered around the Prairie Trail development and strength in the Delaware Avenue corridor.
- The Hickman Road corridor in Clive/Waukee has exploded with recent additions of Starbucks, Auto Zone, Palms Theatres & IMAX, and Nebraska Furniture Mart (coming soon). Retail land pricing on this corridor is as strong as any submarket.
- Department store closures push Des Moines mall vacancy levels to new highs closing out the year at an 84% occupancy rate.

CHANGING RETAIL TRENDS IN THE MARKETPLACE

“For the times they are a-changin’”. The lyrics from the 1964 Bob Dylan hit could appropriately describe the retail marketplace for there is more change in retail than any other segment of the commercial real estate marketplace. One thing remains constant: we still love to shop. According to Mastercard’s SpendingPulse, overall retail spending in the United States during the 2018 holiday season totaled \$850 billion, its highest level in six years, up 5.1% from the previous year. There are a number of factors that led to this banner holiday sales season, but exceptionally strong consumer confidence was the primary reason. Retail sales reached its highest level in almost two decades.

We’re not only shopping, but we are changing the way in which we shop. Retailers that implemented Buy-Online, Pick-up in-Store (BOPS) and Buy-Online, Ship to Store (BOSS) strategies are benefitting. The 2018 holiday season set a record for in-store pick up of online purchases, which increased 47% over 2017. One retailer that emphasized store pick-up services was Target and their pick-up orders increased 60% over 2017 and those same sales accounted for 25% of Target’s online sales this year. Year-over-year growth in e-commerce sales continues to average 14 to 17% annually, while in-store growth averages 1 to 4% in recent years.

Online sales have and will continue to grow at a feverish pace. Online sales during the 2018 holiday season totaled \$110.6 billion, up almost 18% from 2017. Utilizing their smartphones, U.S. consumers spent \$1.0 billion on Thanksgiving Day and more than \$2.0 billion on Black Friday alone. If one thing remains certain it is that retail sales will continue to shift online and the omnichannel retailers that embrace the online consumer will capture the largest percentage of consumer spending.

The retail marketplace was rocked in 2017 with 7,000 shuttered stores and bankrupt retailers closing storefronts permanently. Some experts predicted that 2018 would even be more disastrous to the retail industry but that did not occur. Only about 50% as many stores closed in 2018 and we witnessed the continued growth of innovative retail shopping destinations as well as the re-invention of enclosed shopping malls. In fact, according to CBRE national research, Q3 2018 was the first quarter in over three years whereas available retail space declined across all shopping center categories – Lifestyle & Mall, Neighborhood Community & Strip, and Power centers.

Hobby Lobby at Jordan Creek



Target



Greater emphasis on in-store pick up.

Payless ShoeSource



Shuttered retailers

NEIGHBORHOOD & COMMUNITY CENTERS

Picking up the magnifying glass and focusing on the Greater Des Moines area retail marketplace, the results and performance are encouraging. The Western Suburbs market continues to be a focal point for Neighborhood Community & Strip centers, totaling approximately 50% of the shopping centers and building footprint in the marketplace. Although the

occupancy rate in these centers dipped approximately 1.3% in 2018, the 92.6% occupancy is still quite favorable. Securing restaurant or endcap retail in Class A neighborhood centers continues to be almost an impossibility.

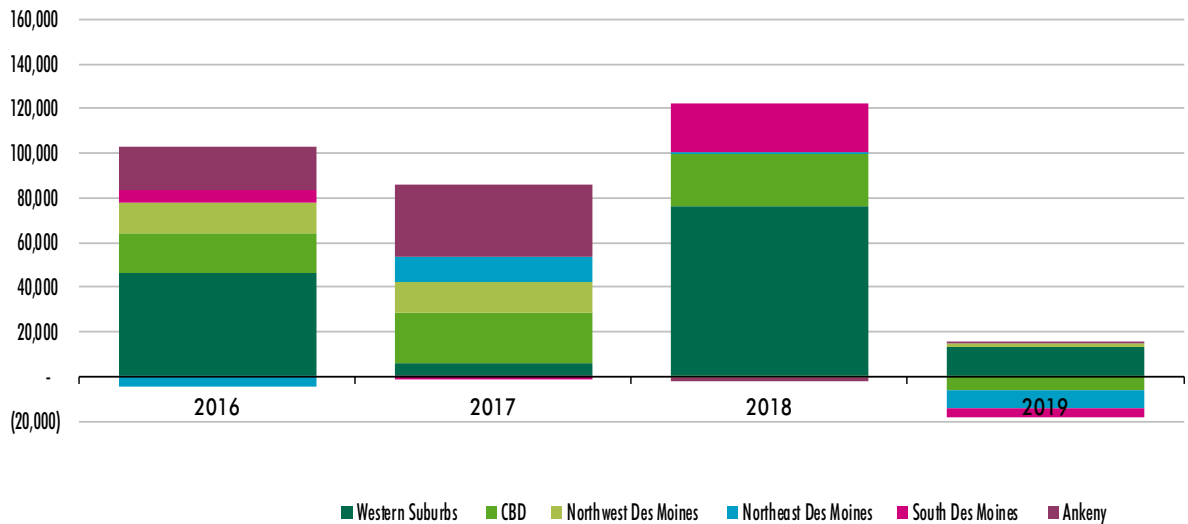
Neighborhood & Community Centers Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption
Western Suburbs	1,763,687	130,512	7.40%	13,434
CBD	223,176	19,639	8.80%	(6,413)
Northwest Des Moines	479,340	33,553	7.00%	1,101
Northeast Des Moines	419,654	16,366	3.90%	(7,523)
South Des Moines	308,239	19,419	6.30%	(4,400)
Ankeny	349,973	43,046	12.30%	466
Greater Des Moines Total	3,544,069	262,261	7.40%	(3,335)

Absorption of retail space in neighborhood centers in 2018 was uneventful, as almost all submarkets reported small positive or negative changes in

absorption. In all, absorption was a negative 3,335 square feet in 2018.

Neighborhood & Community Center Net Absorption (Trailing 12 Month Period)



BIG BOX RETAIL

Big Box inventory mirrors the Neighborhood Community & Strip center numbers with almost 50% of the entire Des Moines area inventory being located in the Western Suburbs. Big Box occupancy dropped from 98.2% in Q1 2018 to 95.5% in Q1 2019. This dip in occupancy is not a huge surprise as K-Mart shuttered

two stores, one on Hickman Road in Urbandale and the other on Hubbell Avenue in Des Moines. Additionally, Toys R Us closed two stores – one on an outparcel at Southridge Mall and the other in Clive.

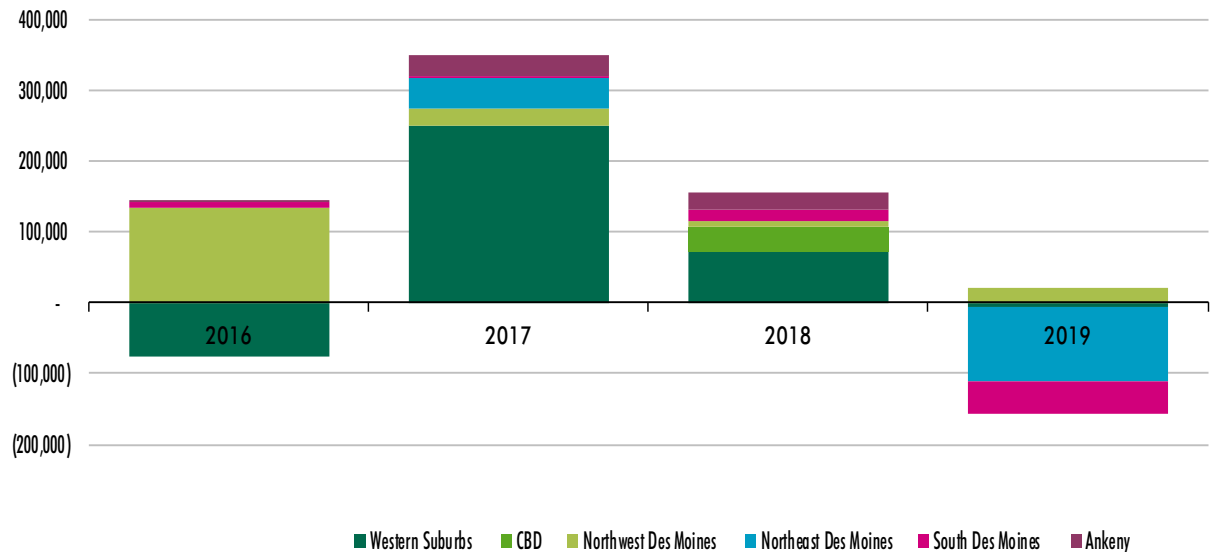
Big Box Market Statistics

Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy Rate	Net Absorption
Western Suburbs	5,335,748	186,751	3.50%	(5,870)
CBD	59,996	0	0%	0
Northwest Des Moines	824,735	18,144	2.20%	21,549
Northeast Des Moines	1,523,093	109,662	7.20%	(105,683)
South Des Moines	1,430,238	45,767	3.20%	(45,488)
Ankeny	1,586,149	15,861	1.00%	0
Greater Des Moines Total	10,759,959	376,185	4.50%	(135,492)

Unsurprisingly, absorption of Big Box space was negative in the previous 12 months with over 135,000 square feet of negative absorption. However, we

anticipate that both former K-Mart stores will be repurposed for non-retail uses in 2019 and Big Box occupancy will return to 2017 levels.

Big Box Net Absorption (Trailing 12 Month Period)



REGIONAL SHOPPING CENTERS

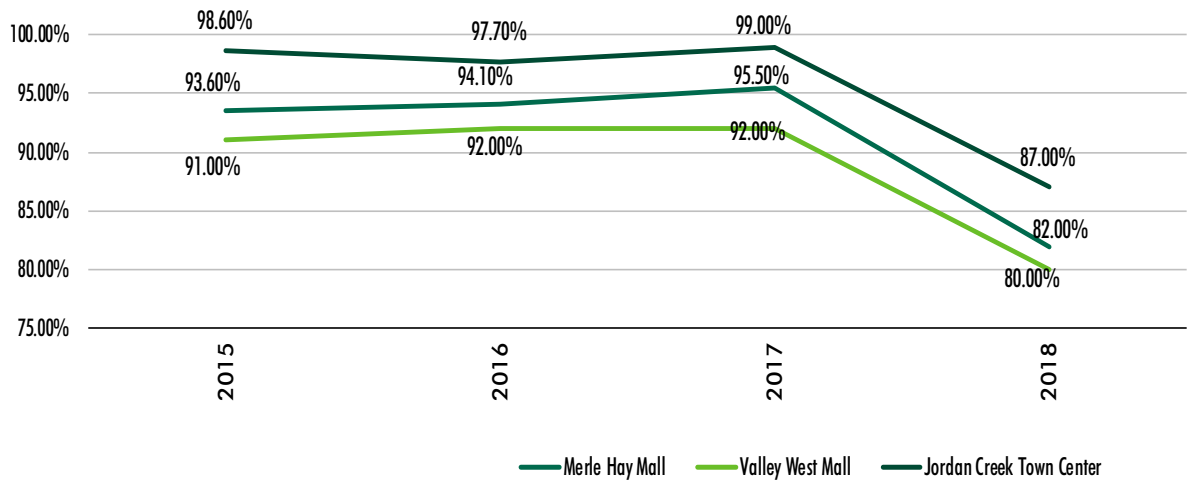
No type of retail center has been impacted more by the changes in retail dynamics than enclosed malls. Merle Hay Mall lost two anchors in 2018 with the departure of Sears and Younkers. Meanwhile, Valley West Mall along with Jordan Creek Town Center lost a Younkers store. Both malls are making strong cases to reinvent the properties. Valley West Mall is planning a rebrand to Valley West Commons with a mix of new restaurants, outparcels, office spaces, and multi-family.

We anticipate demolition of the former Sears building at Merle Hay Mall and continued development of exterior entrance mall shops that have proven to be a successful formula for the mall owner.

Regional Shopping Center Market Statistics

	Total Area (SF)	Total Stores	Occupancy
Merle Hay Mall	1,060,000	89	82%
Valley West Mall	859,399	74	80%
Outlets of Des Moines	325,000	46	93%
Jordan Creek Town Center	1,318,000	144	87%

Regional Shopping Center Historical Occupancy Levels



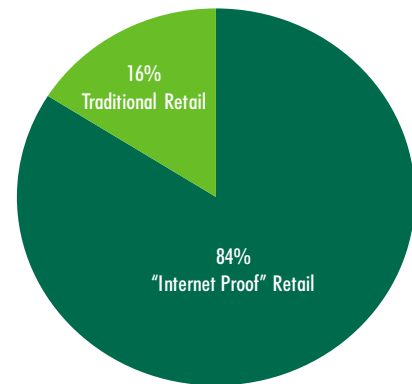
RETAIL MOVING FORWARD

Restaurant and experience related retailers continue to be in demand for developers and landlords in the Des Moines marketplace. Restaurant chains such as Blaze Pizza, McAlister’s Deli, 1908 Drought House, Panchero’s, B-Bops, Culvers, Raising Cane’s, and Rosati’s Pizza have expanded aggressively in the marketplace. In addition, full-service restaurants such as Giordano’s Pizza, Burger Shed, Steak N Shake, and District 36 have announced new locations that will open in 2019. Experience retailers will continue to look for opportunities in the marketplace and build upon the success shown by Flix Brewhouse, escape rooms, trampoline parks, and others.

This national shift to ‘internet proof’ retail is already beginning to show itself in the Des Moines market, most notably in the west suburban submarket. In

fact, a survey of 67 retail leases executed in the western suburbs in 2018 indicated that 84% of the tenants were restaurant or experience related retailers

Percent of Retail Leases Executed in the Western Suburban Submarket 2018



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

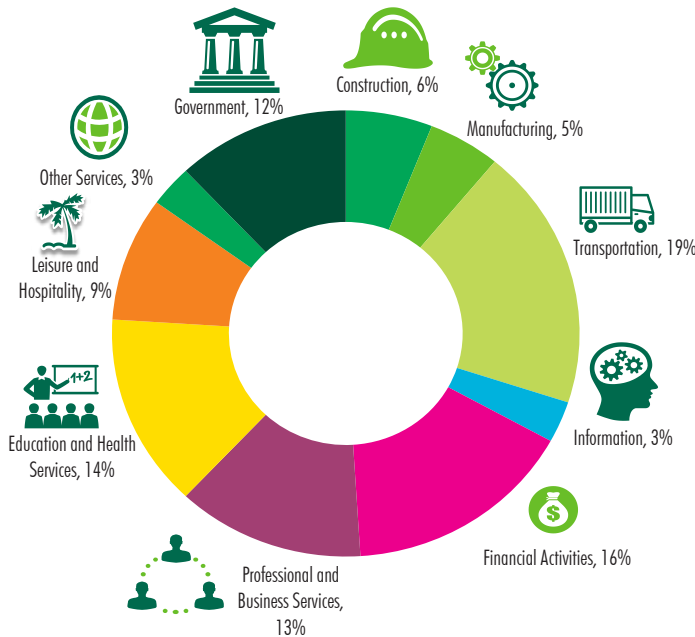


12 Month Change
in employment
3.3%

Annual Retail Sales

YEAR	DES MOINES MSA	PERCENTAGE CHANGE
2013	\$8,411,526,797	1.71%
2014	\$8,787,650,388	4.47%
2015	\$9,346,317,273	6.36%
2016	\$9,769,581,274	4.53%
2017	\$10,071,879,055	3.09%
2018	\$10,128,863,313	0.6%

Source: Iowa Retail and Use Tax Report, Iowa Department of Revenue and Finance



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

METHODOLOGY

While there are a variety of retail uses, this survey focuses on regional shopping malls, neighborhood and community centers, and big box retail. The neighborhood and community centers analysis focuses on multi-tenant with small to medium size occupiers. Big box includes grocery stores, home improvement stores, and larger retail and discount stores containing approximately 20,000 SF. Regional shopping centers are considered separately. 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.

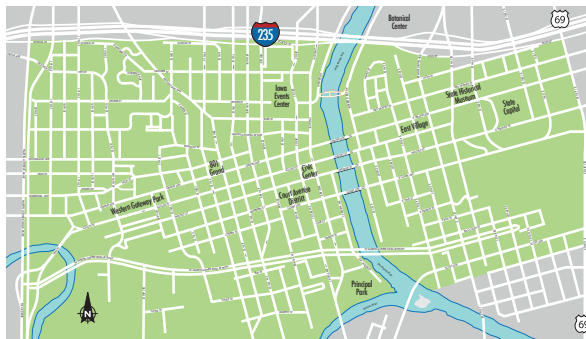
Western Suburbs - Encompasses West Des Moines, Clive, Urbandale, Windsor Heights, Johnston, Grimes, Waukee, and some unincorporated areas of Polk, Dallas, and Warren Counties.

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.

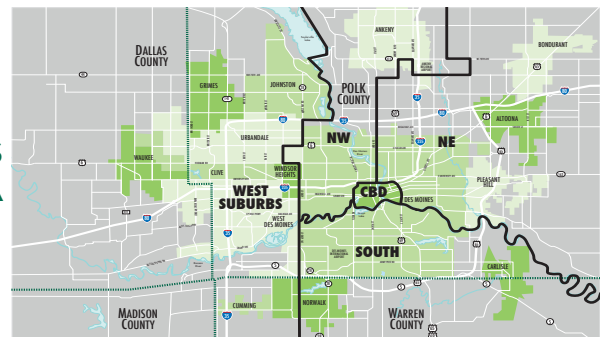
South - Comprises Southwest Des Moines, Southeast Des Moines (south of Des Moines River), and some unincorporated areas of Polk and Warren Counties.

Ankeny - Evaluated separately.



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

**DES MOINES
METROPOLITAN AREA**



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



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