

April 27, 2023

CBRE

# The State of Commercial Real Estate

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IOWA



# Agenda

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- 03** Introduction
- 04** Industrial Overview
- 10** Office Overview
- 14** Retail Overview
- 18** Multi-Family Overview
- 22** Capital Markets Overview
- 28** Q&A



# Tyler Dingel



**450**

completed commercial  
real estate transactions

**\$1B +**

transaction value over  
the past four years

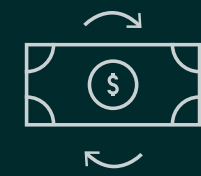
**Top 20%**

of overall CBRE  
producers nationally in  
2022

## Our Team 2021 + 2022



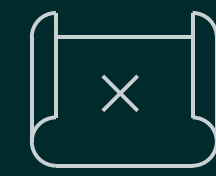
**\$767M +**  
Total Volume



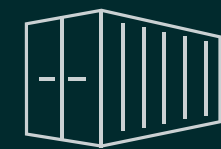
**\$516.2M**  
Investment Sales



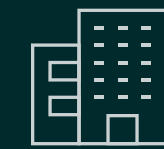
**\$88.4M**  
Retail



**\$50.2M**  
Land



**\$62.4M**  
Industrial/Flex



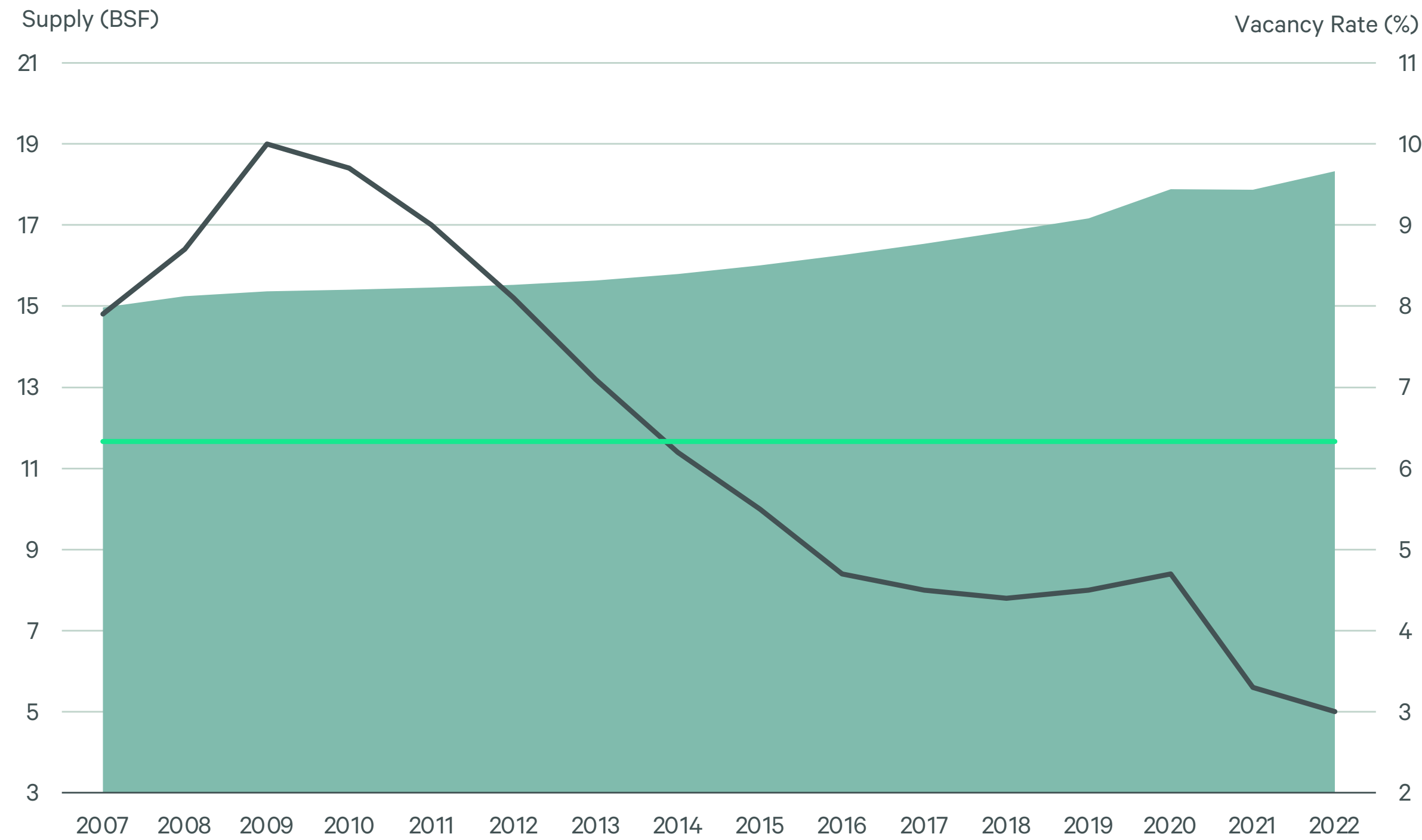
**\$31M**  
Office



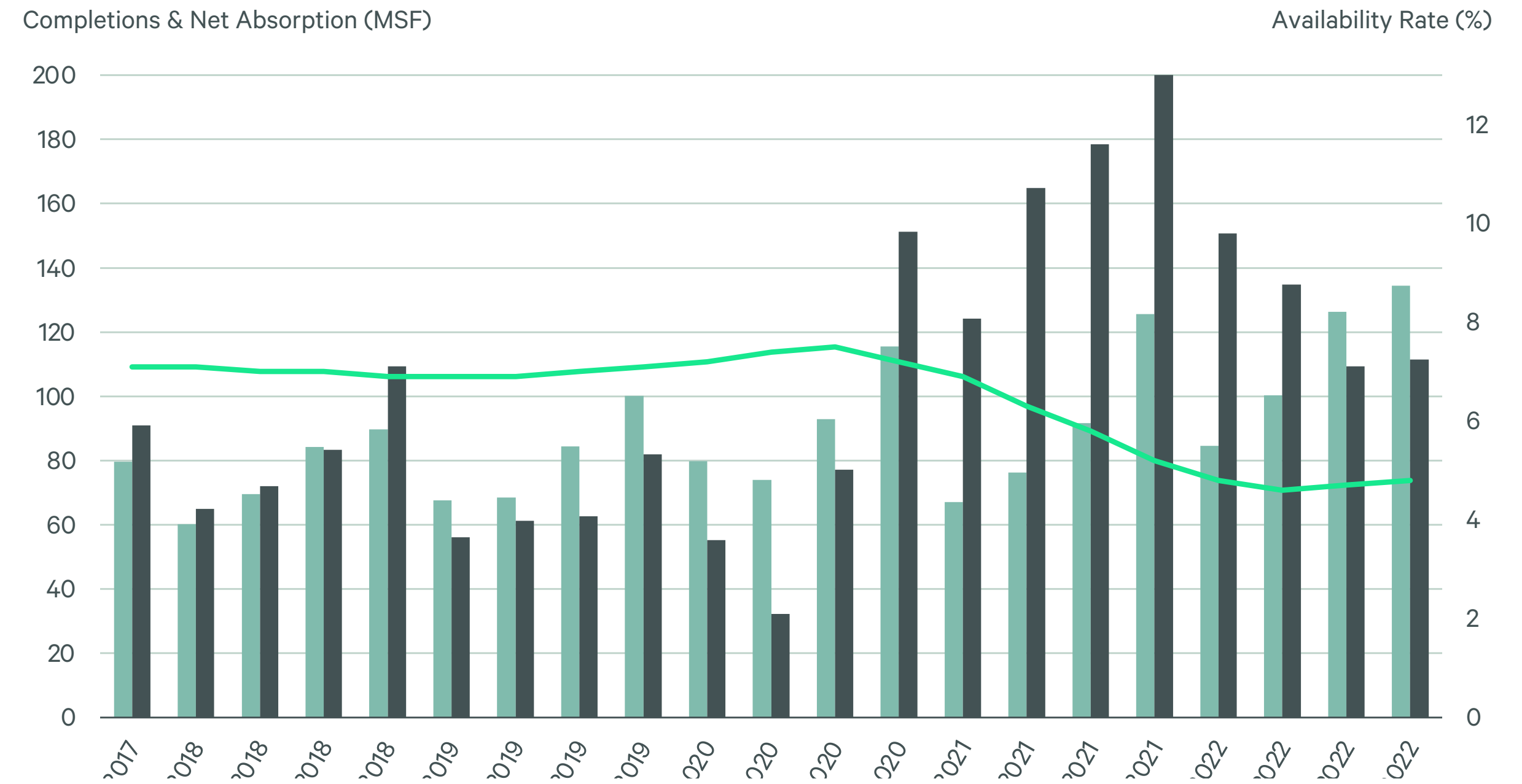
# Industrial Overview

# Supply and Demand Rising

## Vacancy Rate & Total Supply



## Industrial Completions & Demand



# How does Des Moines Compare?

## Warehouse & Distribution Completions (SF) & Vacancy Rates

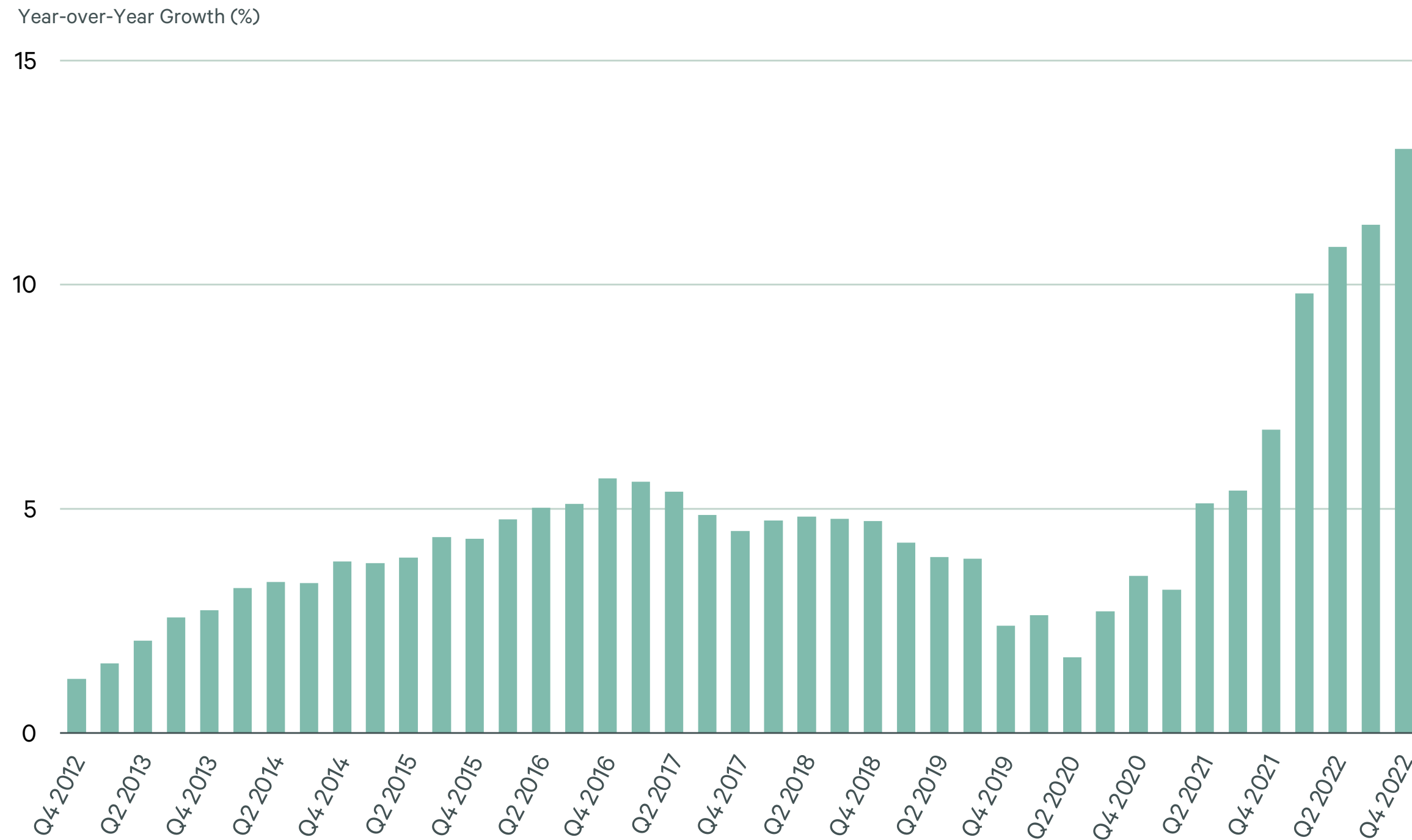


## Warehouse & Distribution Statistics

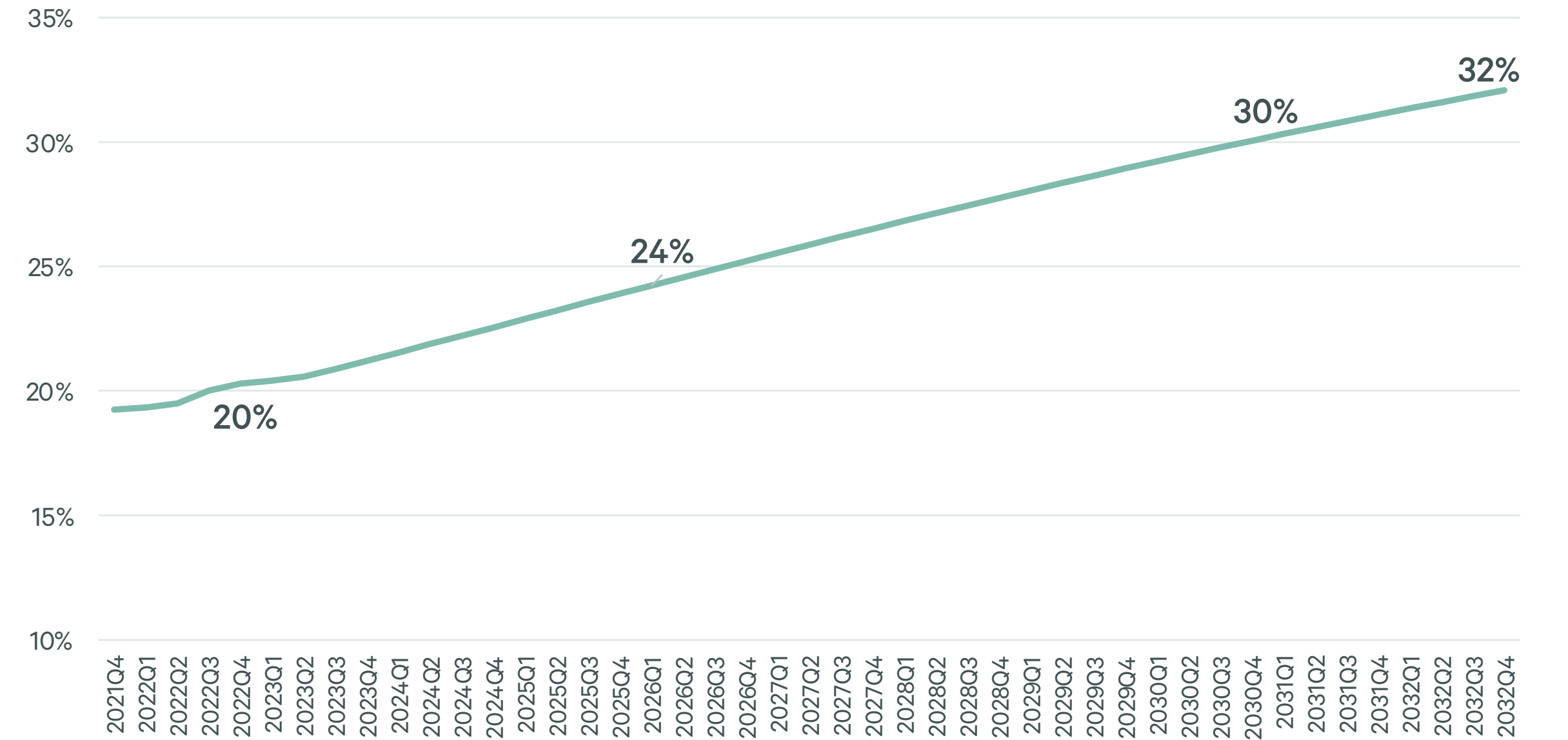
Submarket	Market Rentable Area (SF)	Vacant (SF)	Vacancy (%)	Q4 Net Absorption (SF)	2022 Net Absorption (SF)	Under Construction (Spec.) (SF)	NNN Avg. Asking Lease Rate (\$/SF/Yr.)
Western Suburbs	11,452,889	86,950	0.76%	14,400	526,424	742,692	\$6.84
CBD	579,479	2,804	0.48%	0	0	0	\$5.00
Northwest	3,787,477	67,080	1.77%	0	17,116	0	\$5.85
Northeast	16,256,999	133,683	0.82%	279,444	157,005	1,146,800	\$5.69
South	4,268,512	210,914	4.94%	8,000	(19,666)	0	\$4.87
Ankeny	4,569,920	587,866	12.86%	(32,089)	(395,784)	358,394	\$5.75
<b>Greater DSM</b>	<b>40,915,276</b>	<b>1,089,297</b>	<b>2.66%</b>	<b>269,755</b>	<b>285,095</b>	<b>2,247,886</b>	<b>\$5.96</b>

# Are These Rates Sustainable?

## Average Asking Rent Growth



## E-commerce Sales Projected to Reach 32% by 2032



E-commerce as a percent of non-auto or gas related retail sales.  
**Source:** CBRE Research Q3 2022.

# Anatomy of A Company's Logistic Spend

Metric	P&L Line Items	%	Sub-Items		Cost Drivers	
LOGISTICS COSTS	Transportation Costs	45 – 70%	<ul style="list-style-type: none"> <li>Inbound Transportation (sometimes part of COGS)</li> </ul>	<ul style="list-style-type: none"> <li>Outbound Transportation</li> <li>Transfers</li> </ul>	<ul style="list-style-type: none"> <li>Distance</li> <li>Cube</li> <li>Weight</li> <li>Volume</li> <li>Mode</li> </ul>	<ul style="list-style-type: none"> <li>Number of trips / shipments</li> <li>Physical attributes (frozen, refrigerated, ambient, haz mat, etc.)</li> <li>Rates, fuel, surcharges</li> </ul>
	Fixed Facility Costs	3 – 6%	<ul style="list-style-type: none"> <li><b>Rent / lease</b></li> <li>Utilities</li> <li>Telecom</li> <li>Insurance</li> </ul>	<ul style="list-style-type: none"> <li>Depreciation</li> <li>Interest</li> <li>Property tax</li> <li>Mgmt salaries</li> </ul>	<ul style="list-style-type: none"> <li>Location</li> <li>Size</li> <li>NNN Rate</li> </ul>	<ul style="list-style-type: none"> <li>Clear height</li> <li>Floor thickness / flatness</li> <li>Construction type</li> </ul>
	Variable Facility Costs	15 – 25%	<ul style="list-style-type: none"> <li>Payroll</li> <li>Payroll taxes</li> <li>401k plan</li> <li>Employee medical</li> <li>Contract / temporary labor</li> </ul>	<ul style="list-style-type: none"> <li>Recruiting</li> <li>Employee morale</li> <li>Supplies</li> <li>Rental equipment</li> <li>Maintenance &amp; repair</li> </ul>	<ul style="list-style-type: none"> <li>Volumes</li> <li>Processes &amp; automation</li> <li>Productivity</li> <li>Number of FTEs</li> </ul>	<ul style="list-style-type: none"> <li>Skills &amp; scarcity</li> <li>Wage rates</li> <li>Operating days / hours</li> </ul>
	Inventory Carrying Costs	12 – 16%	<ul style="list-style-type: none"> <li>Cost of goods sold</li> <li>Capital costs</li> <li>Financing charges</li> <li>Inventory services cost</li> </ul>	<ul style="list-style-type: none"> <li>Inventory risk cost such as shrinkage, pilferage, damages and obsolescence</li> </ul>	<ul style="list-style-type: none"> <li>Interest rates</li> <li>Order cycle times</li> <li>Sales</li> </ul>	
	Other Related Costs	7 – 12%	<ul style="list-style-type: none"> <li>Customer Service</li> <li>Order management</li> </ul>	<ul style="list-style-type: none"> <li>Returns &amp; reverse logistics</li> <li>Administration</li> </ul>	<ul style="list-style-type: none"> <li>Customer call frequency</li> <li>Order channels</li> <li>Order mgmt software</li> </ul>	<ul style="list-style-type: none"> <li>Return rates</li> <li>Customer share of return cost</li> </ul>

Source: CBRE Supply Chain Consulting, November 2022.



# If needing more space, how does your company plan to achieve expansion goals?



66%

Lease on open market (second-hand facilities)



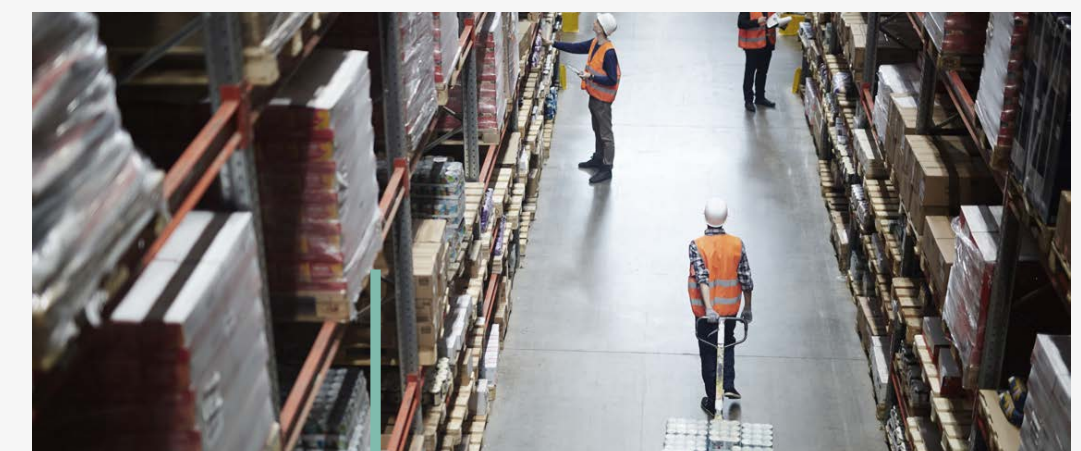
44%

Partner with a developer to lease build-to-suit facilities



37%

Purchase land and self-develop own facilities



31%

Operate in customer-owned facilities (3PLs)

Note: Represents the top four choices. Respondents could select more than one answer. Percentages calculated as a proportion of total responses and therefore do not add up to 100%.

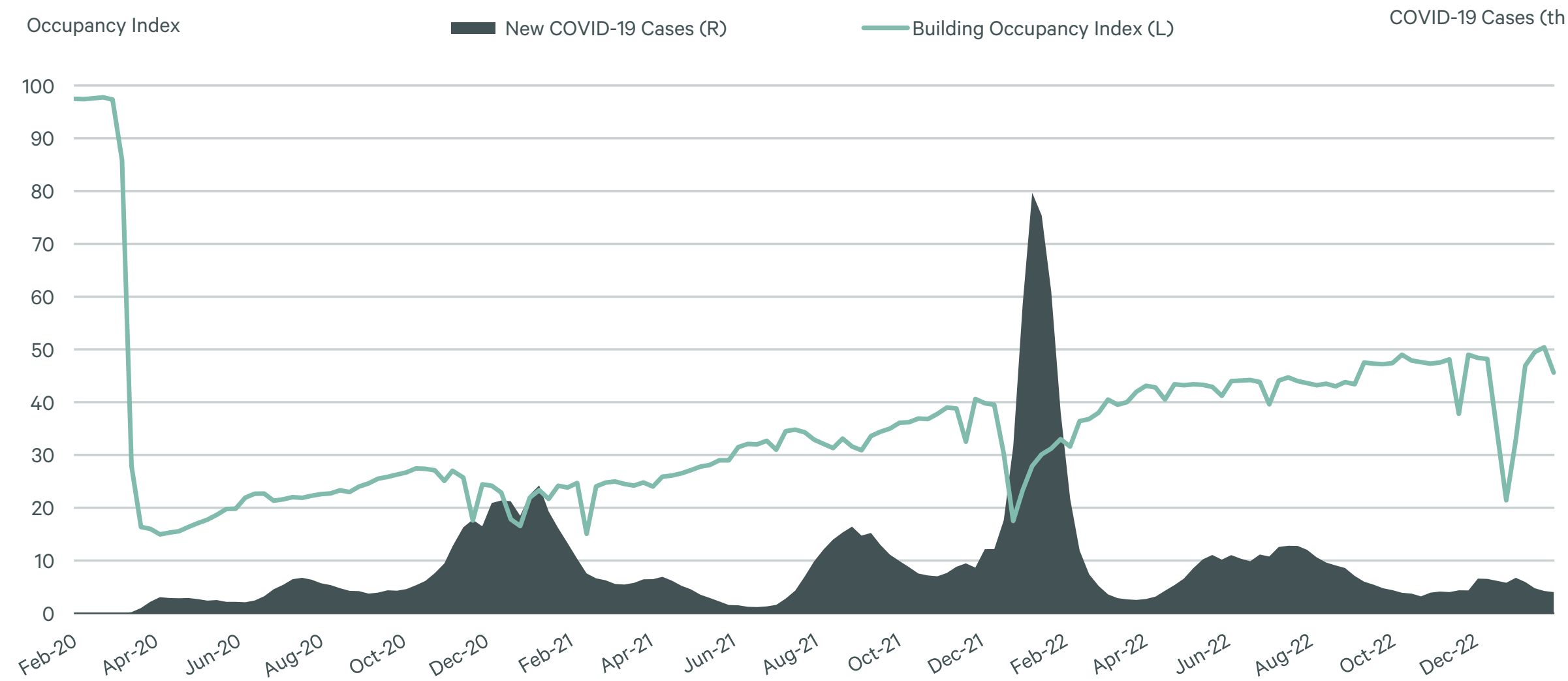
Source: CBRE U.S. Industrial & Logistics Occupier Survey, October 2022.



# Office Overview

# The Covid Effect

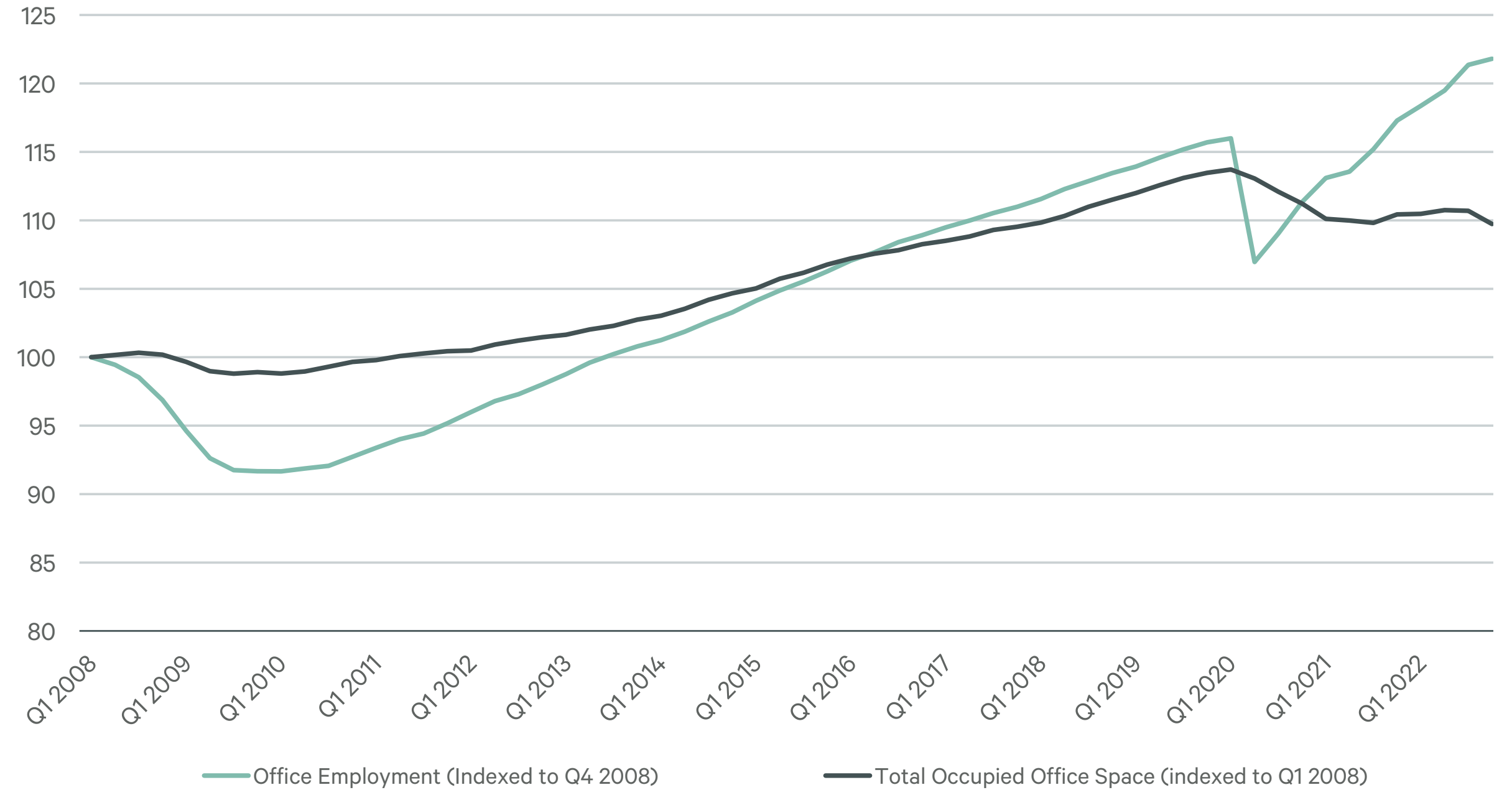
## Office Occupancy Index vs Covid Cases



Source: Center for Disease Control and Prevention, Kastle Systems, January 2023.

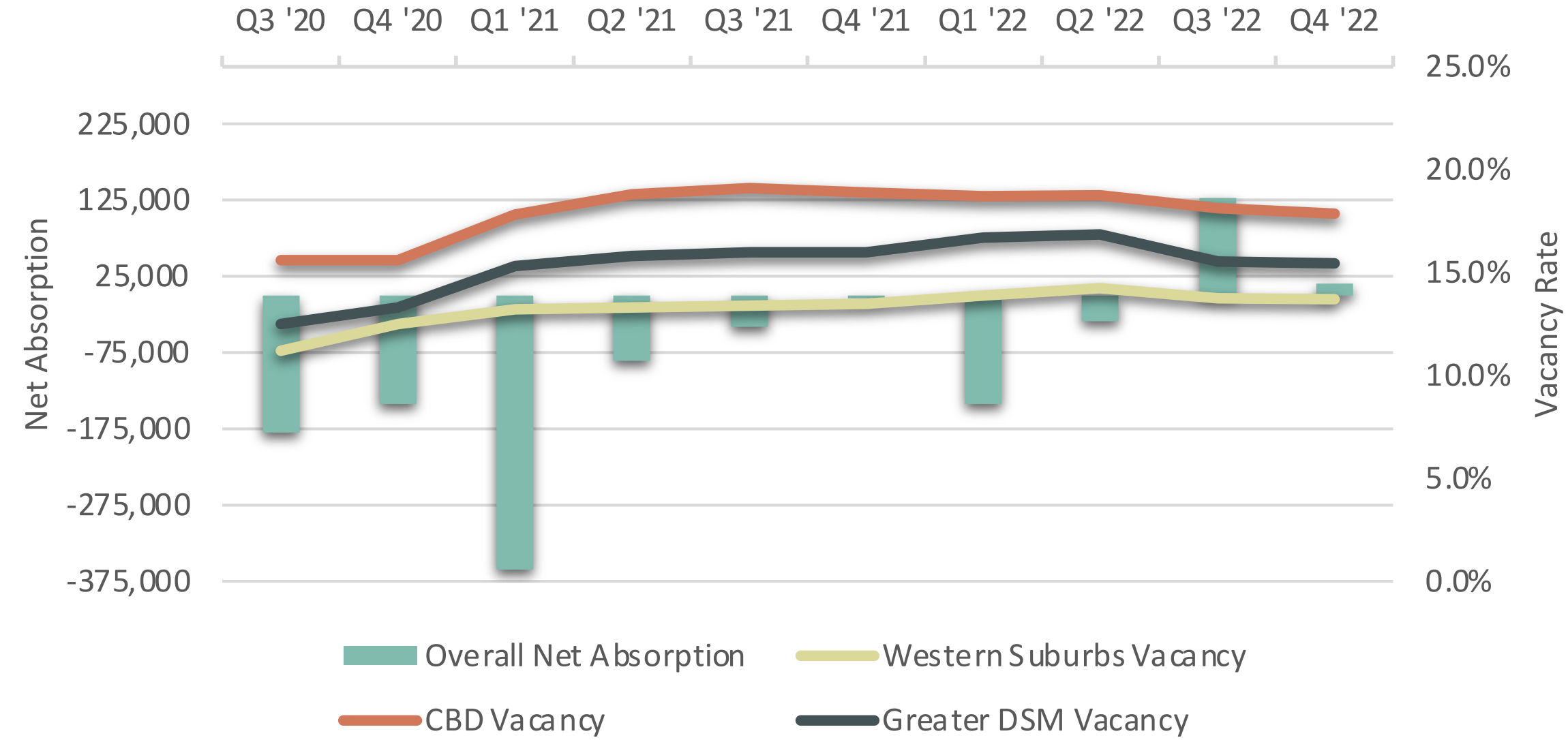
Occupancy is indexed (Feb 2020 = 100)

## U.S. Office Employment and Occupied Office Space

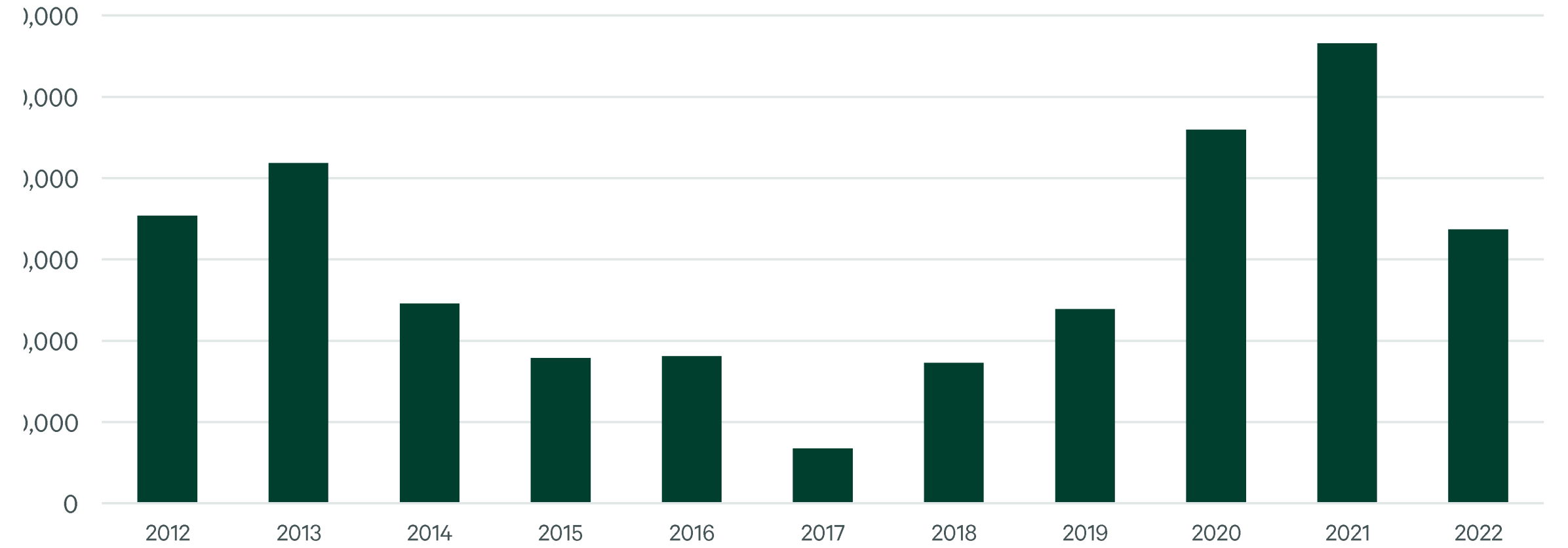


# Des Moines Market

## Net Absorption and Vacancy Rates



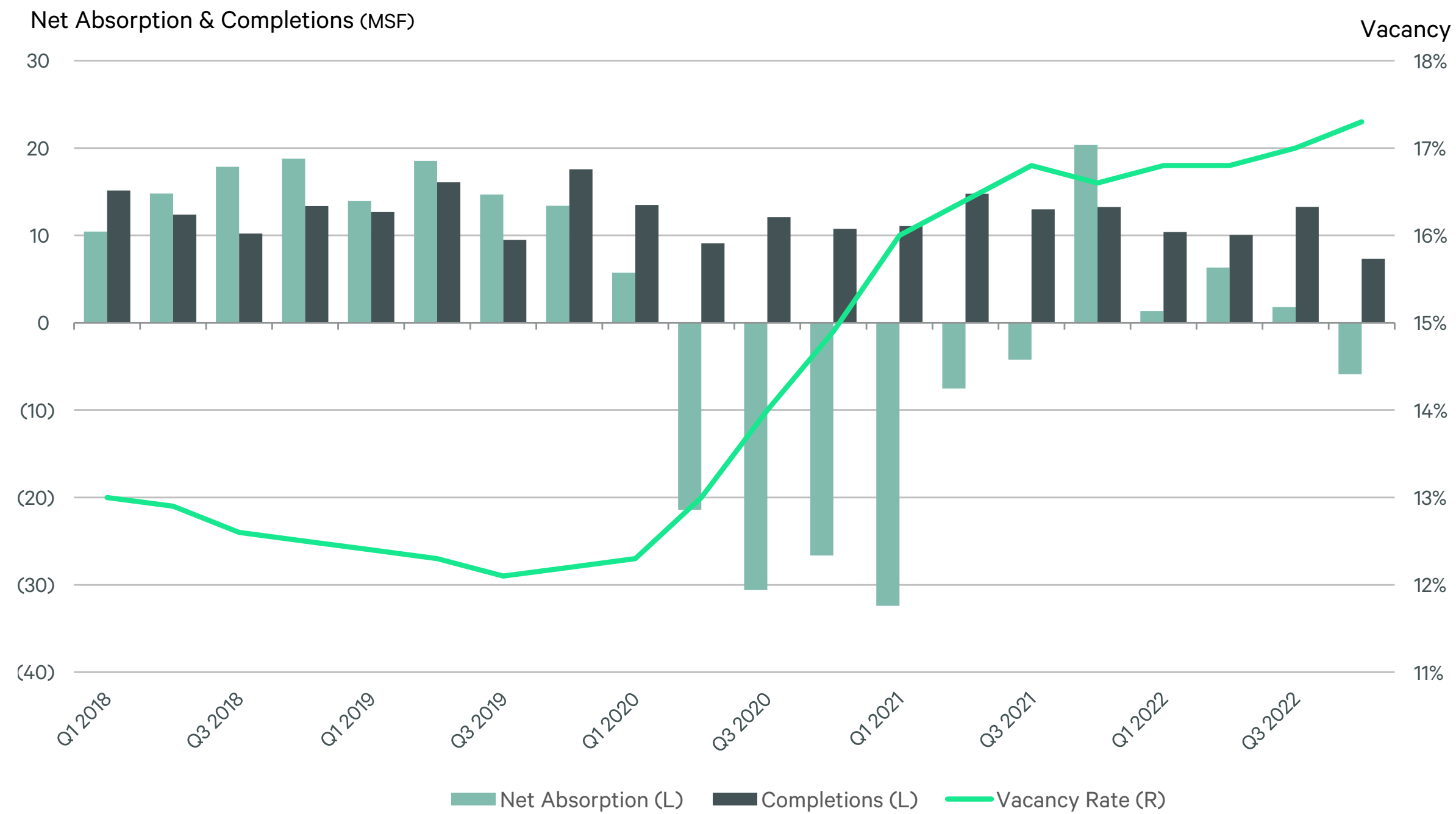
## Total Sublease Availability (SF)



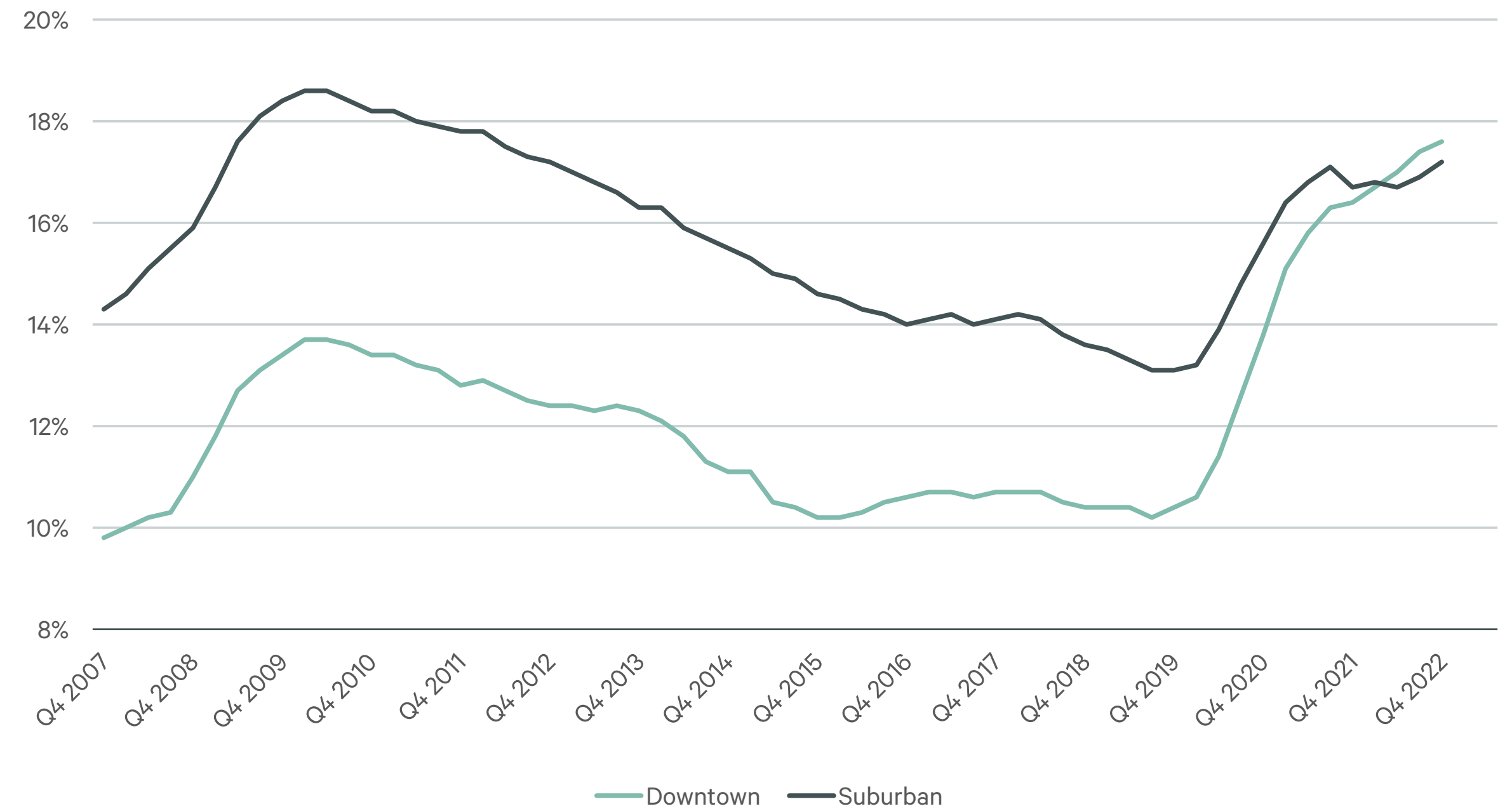
Source: CBRE Research and Other Sources

# Supply and Demand

## U.S. Office Supply and Demand



## Office Vacancy Rates



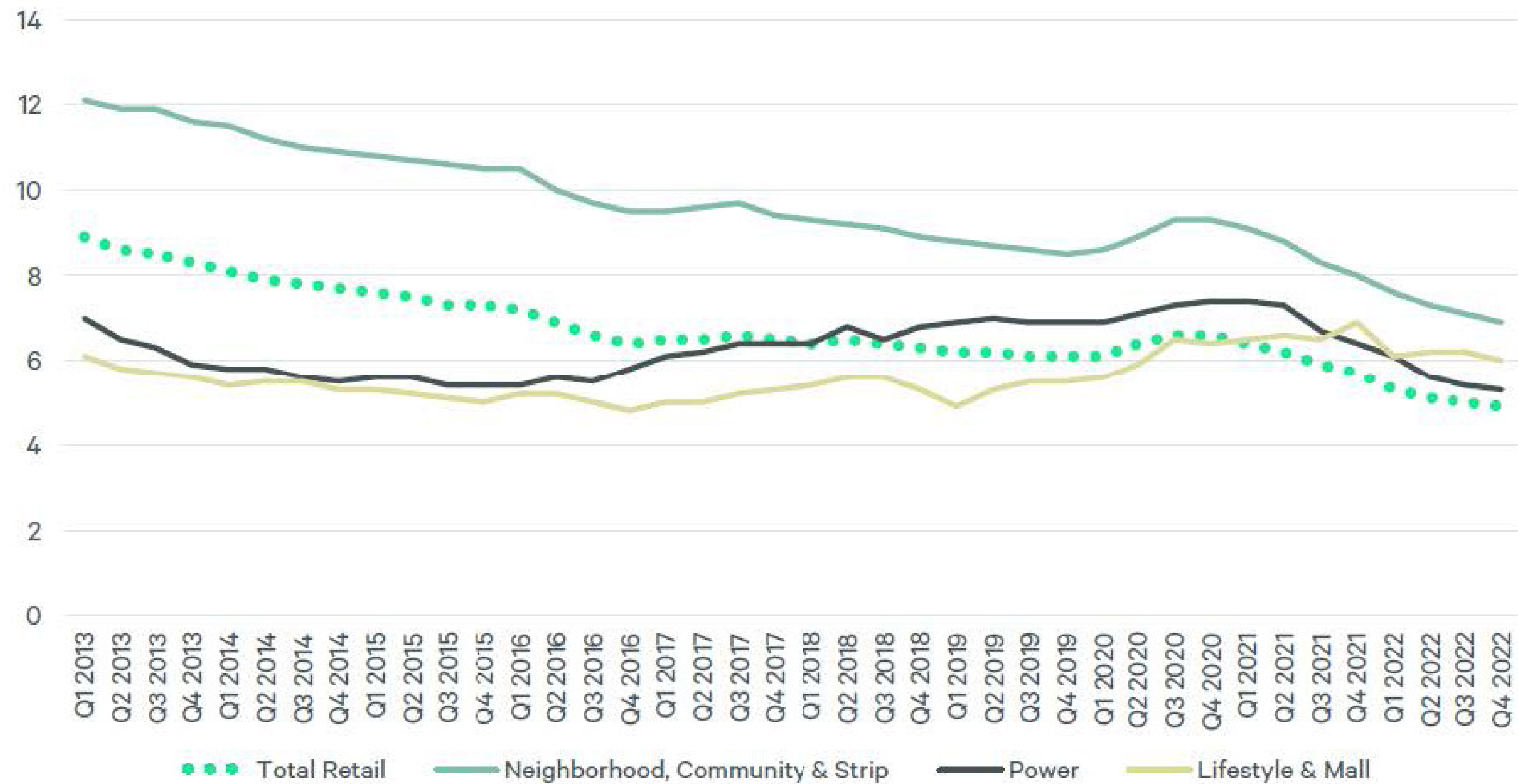


# Retail Overview

# Retail Inventory Effects

## Retail Space Availability

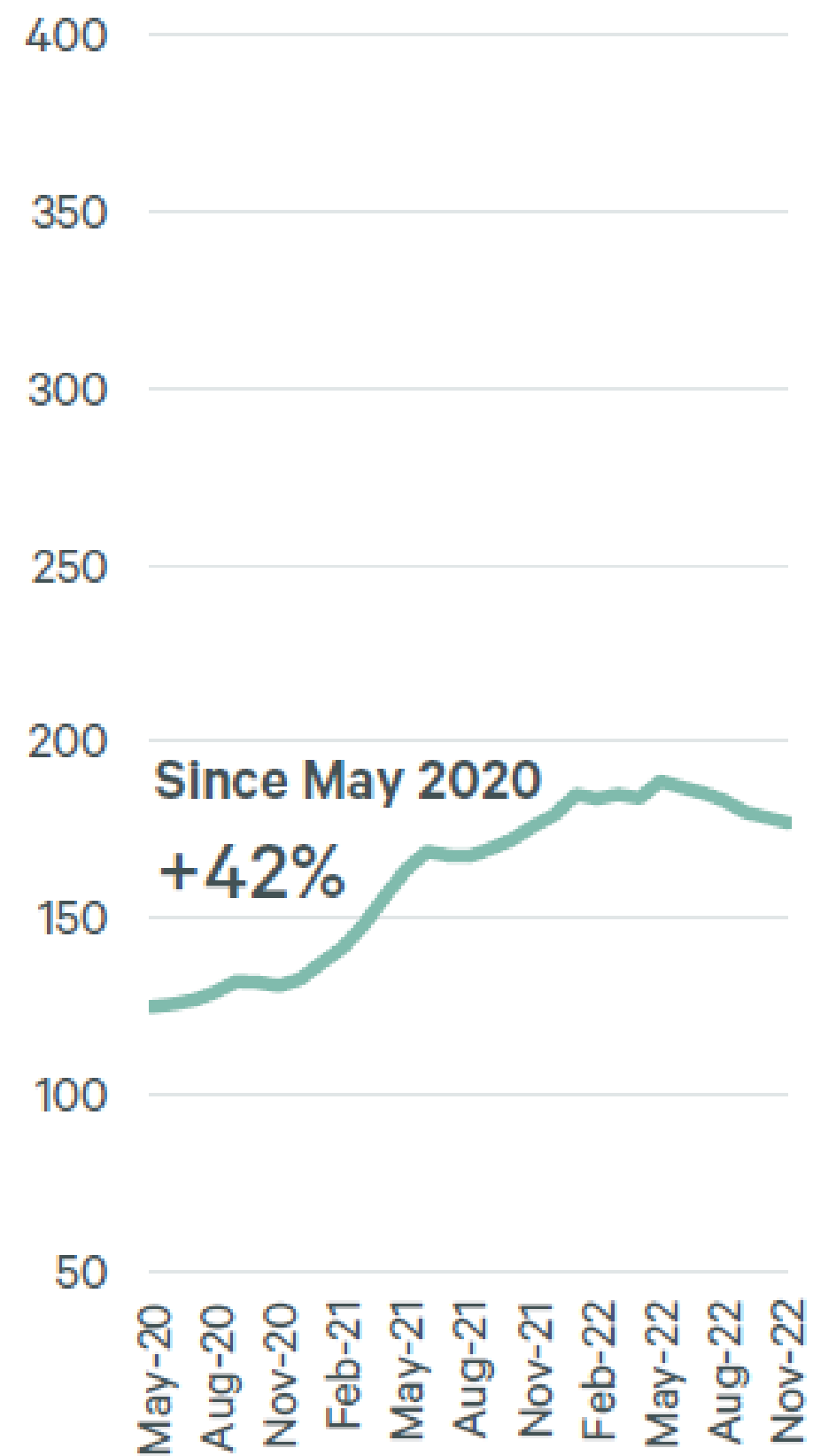
By % Available and Format



# Biggest Hurdle: Cost of Construction

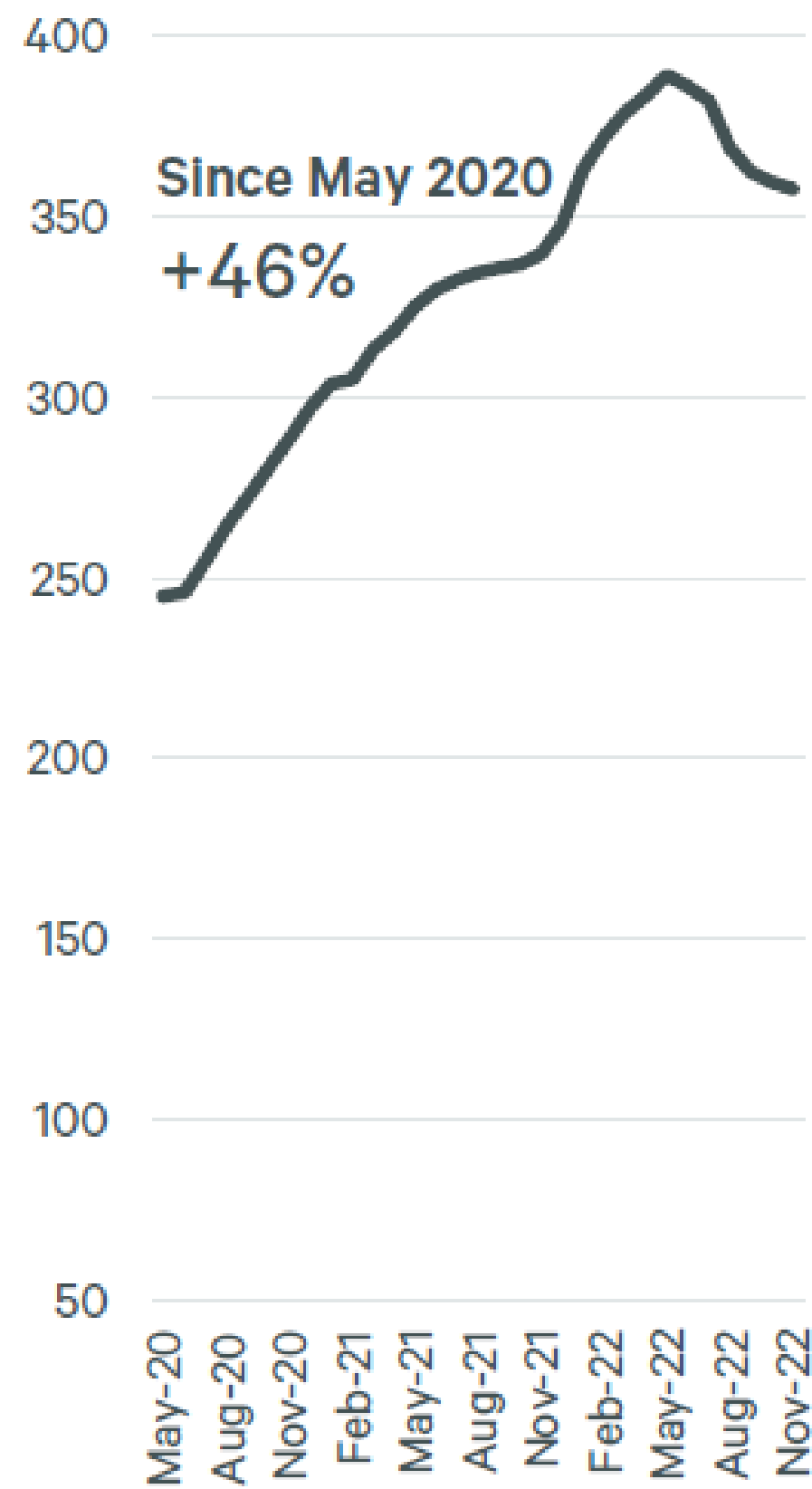
## Construction Materials Cost Index

June 2009 = 100



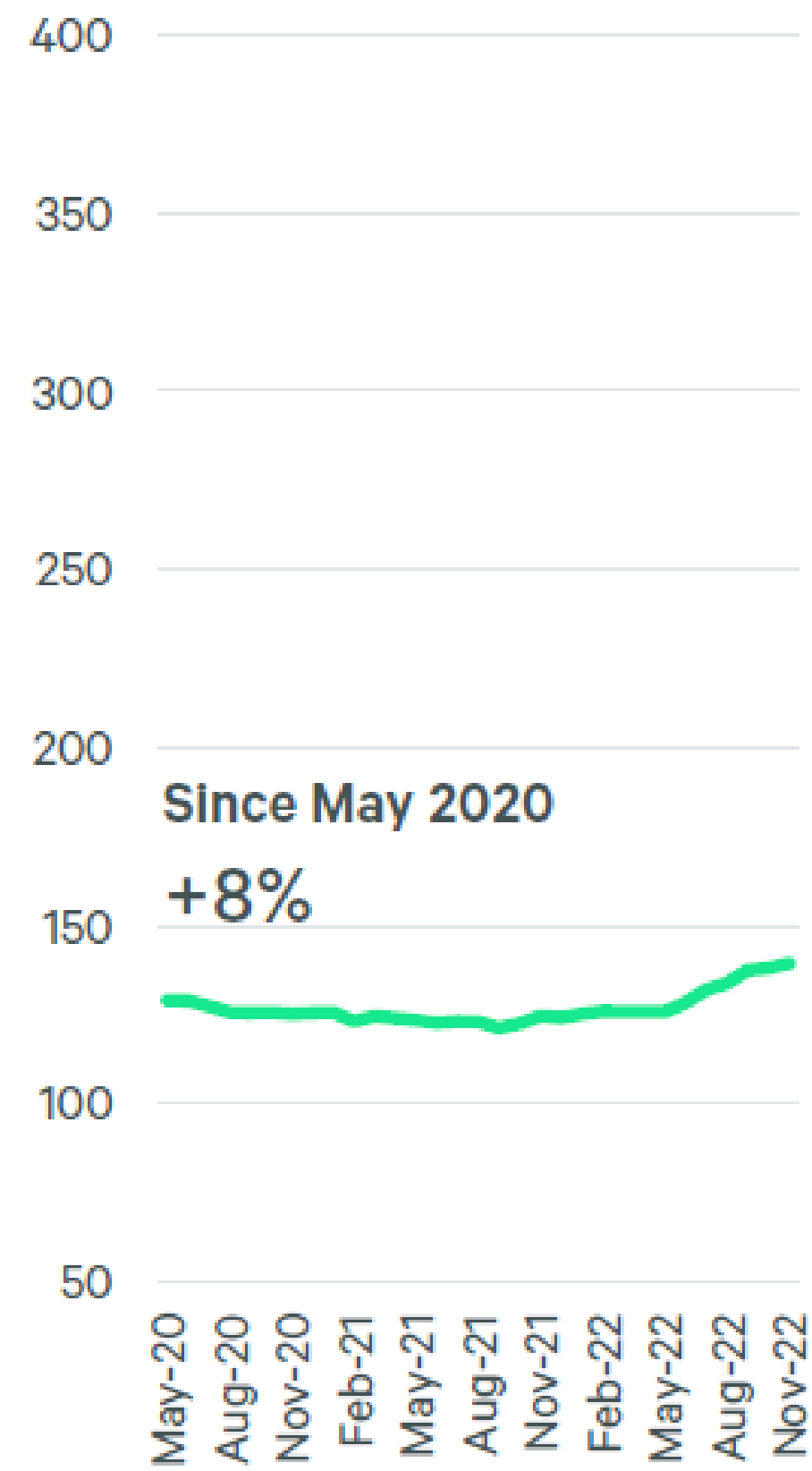
## Residential Development Spending Index

June 2009 = 100



## Non-Residential Development Spending Index

June 2009 = 100



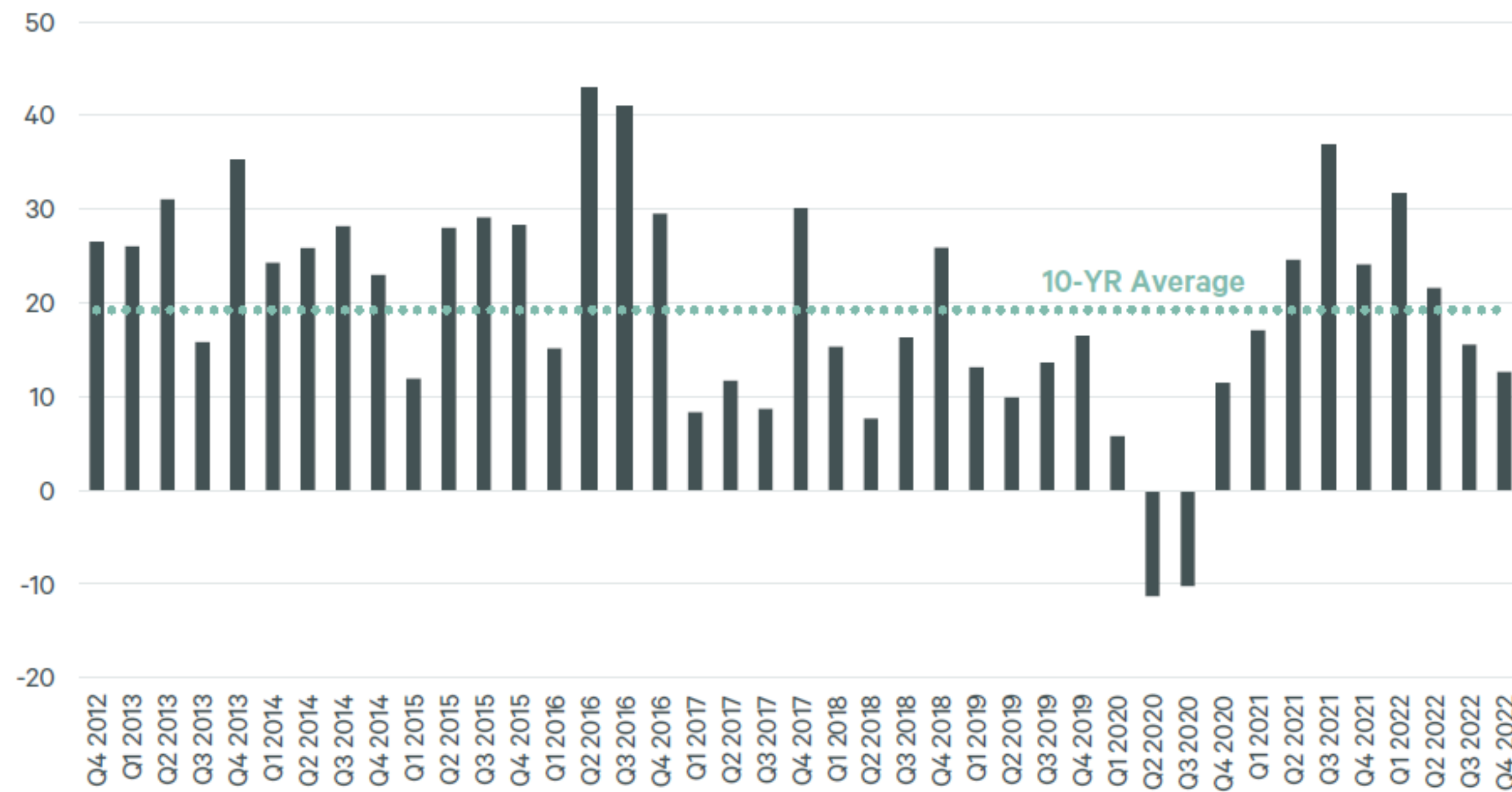
Cost of construction materials has begun to decline, but remains an obstacle to retail development, as does competition for resources with the residential sector.



# Rents increase, but less than construction costs

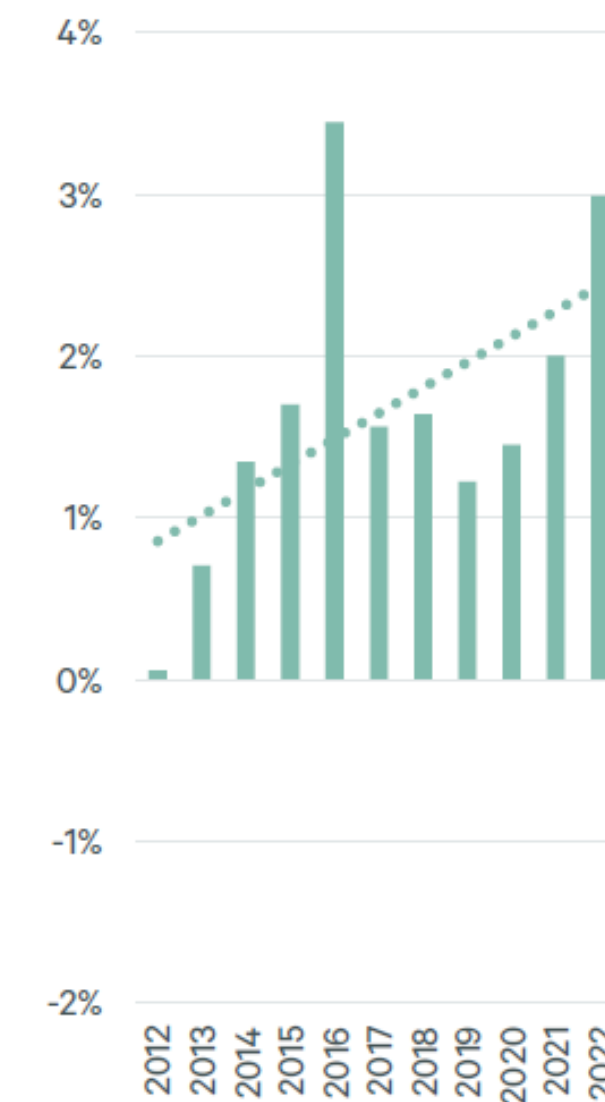
Retail Space Absorption:  
Positive every quarter since Q4 2020, 75+ million SF in 2022

In Millions of SF, by Asset Class

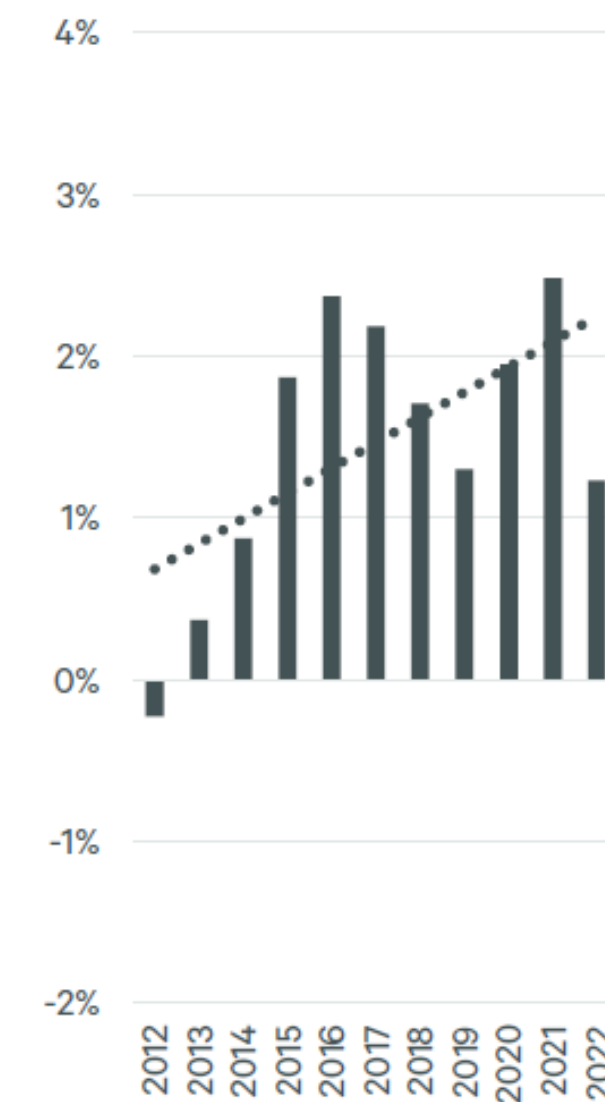


Rent Growth: 2.5% Average Year Over Year

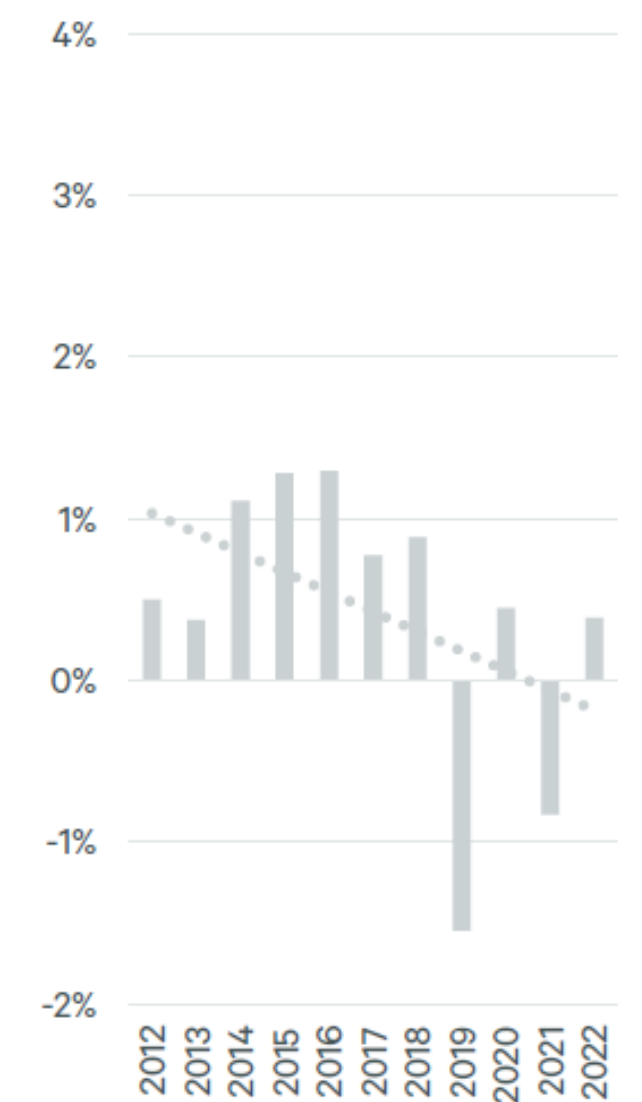
Asking Rents: Retail  
Neighborhood/Community/Strip  
% Growth, Year-over Year



Asking Rents: Retail  
Power  
% Growth, Year-over Year



Asking Rents: Retail  
Malls/Lifestyle  
% Growth, Year-over Year

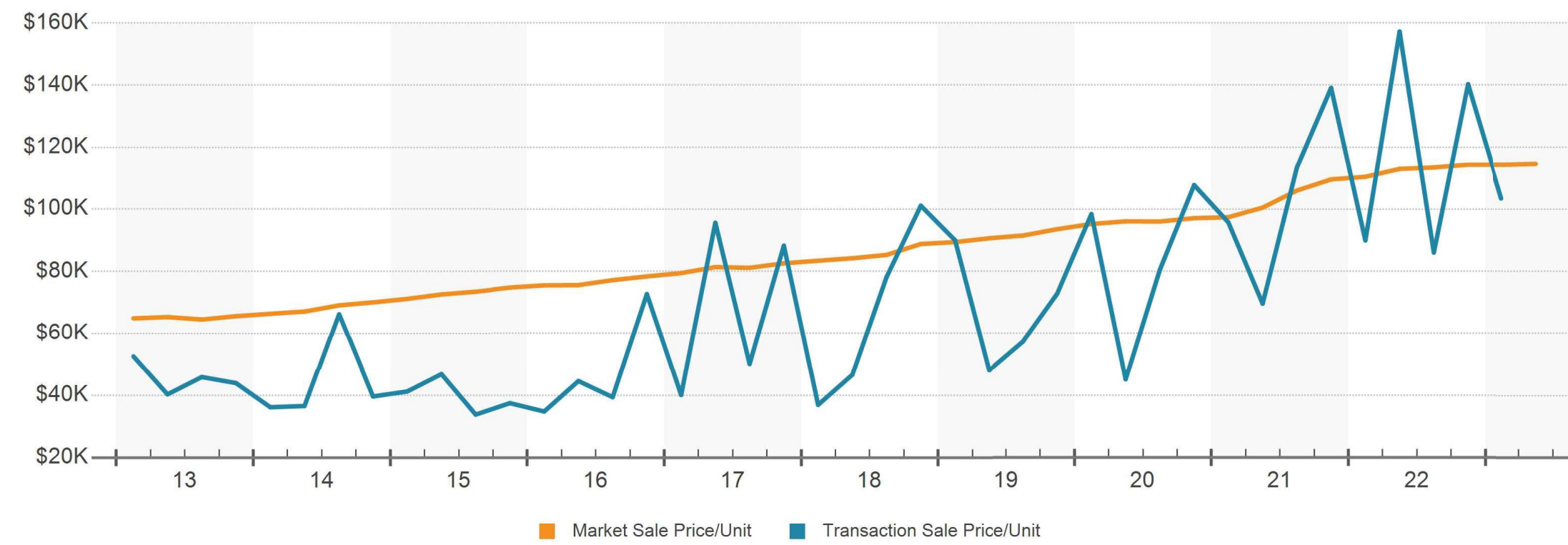




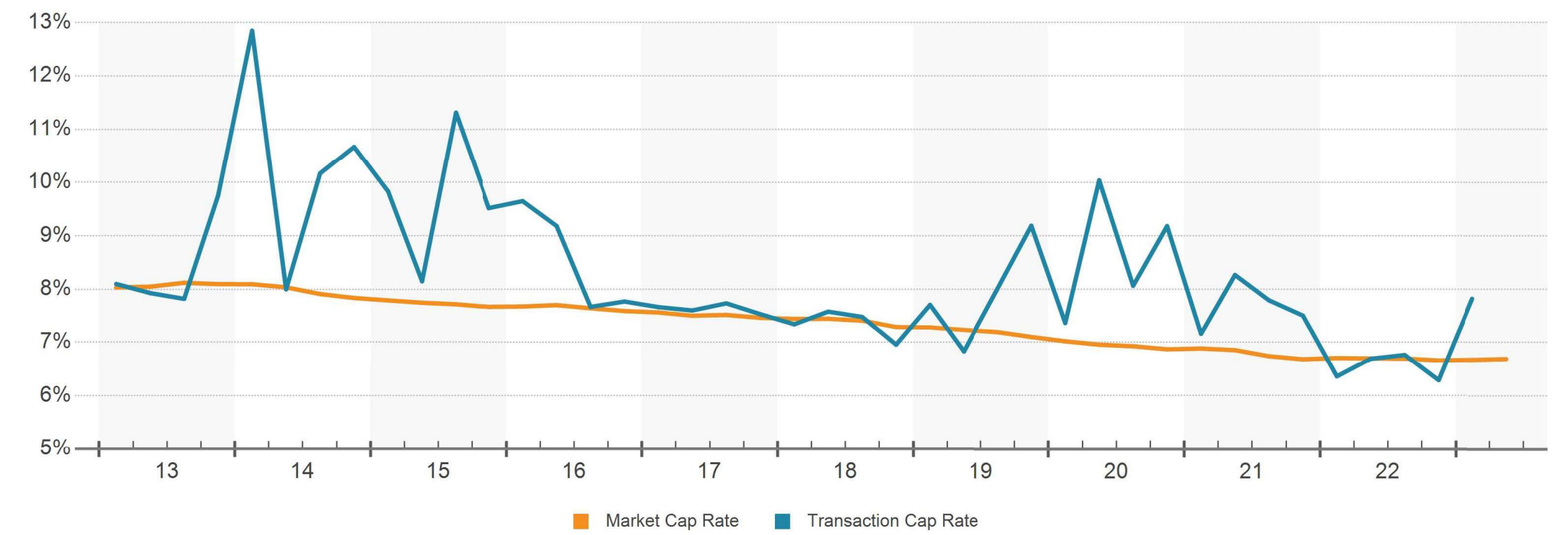
# Multi-Family Overview

# Prices up, cap rates down

## Market sale price & transaction sale price per unit

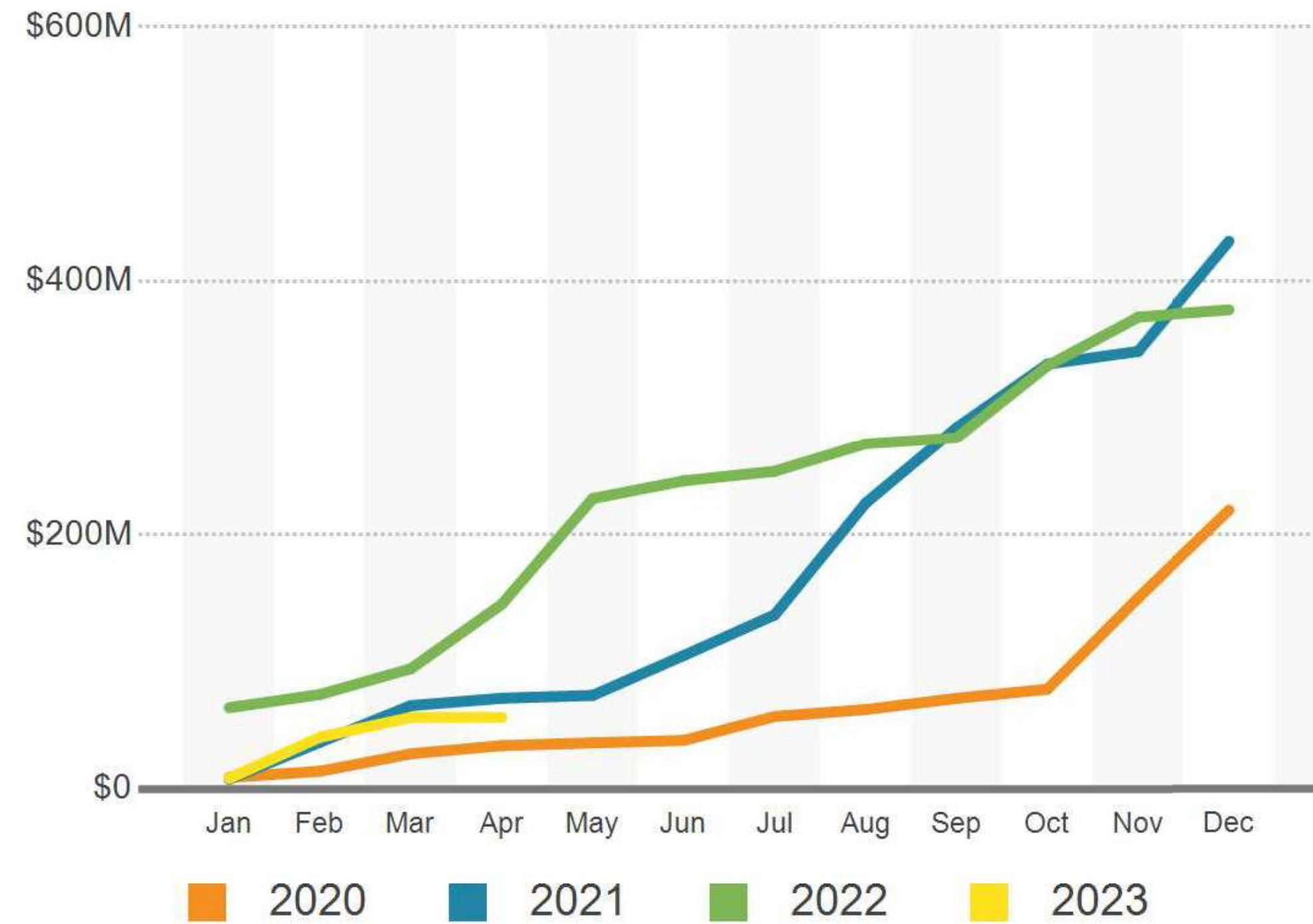


## Market cap rate & transaction cap rate

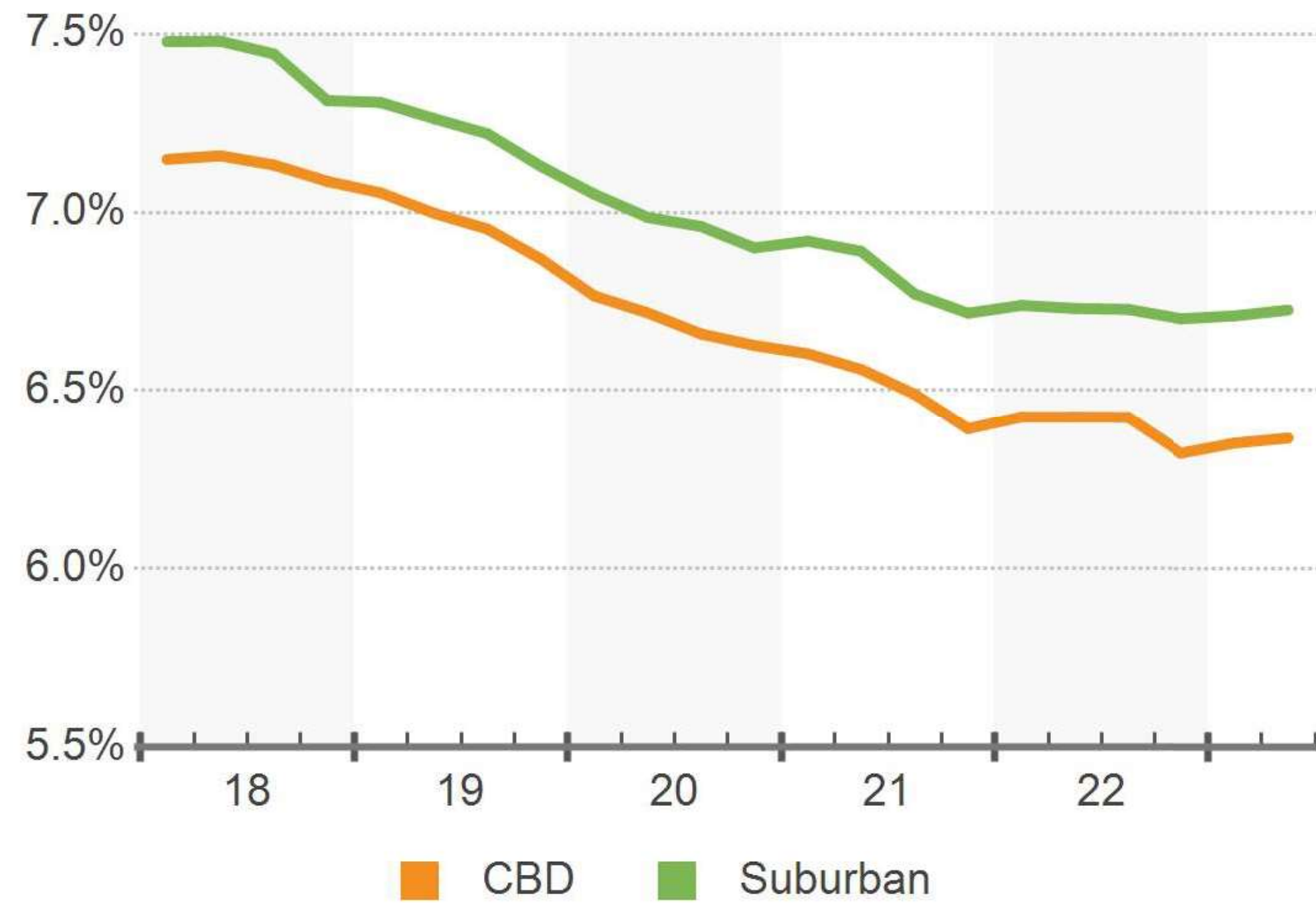


# Has the Market Found Equilibrium?

### Cumulative sales volume by year

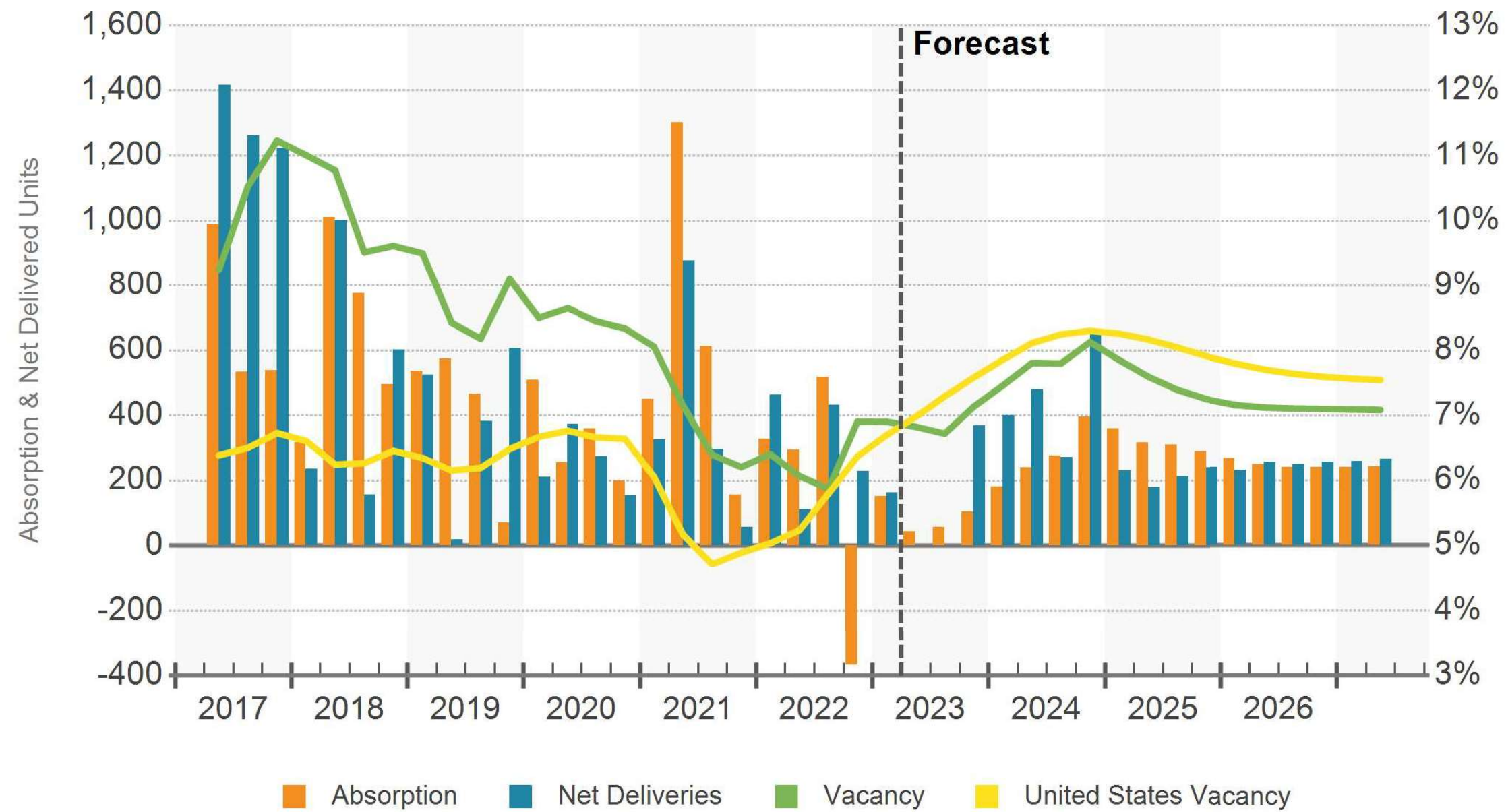


### Market cap rate market sale price per unit by location type by location type



# Looking Ahead

## Absorption, net deliveries & vacancy



## Daily asking rent per sf

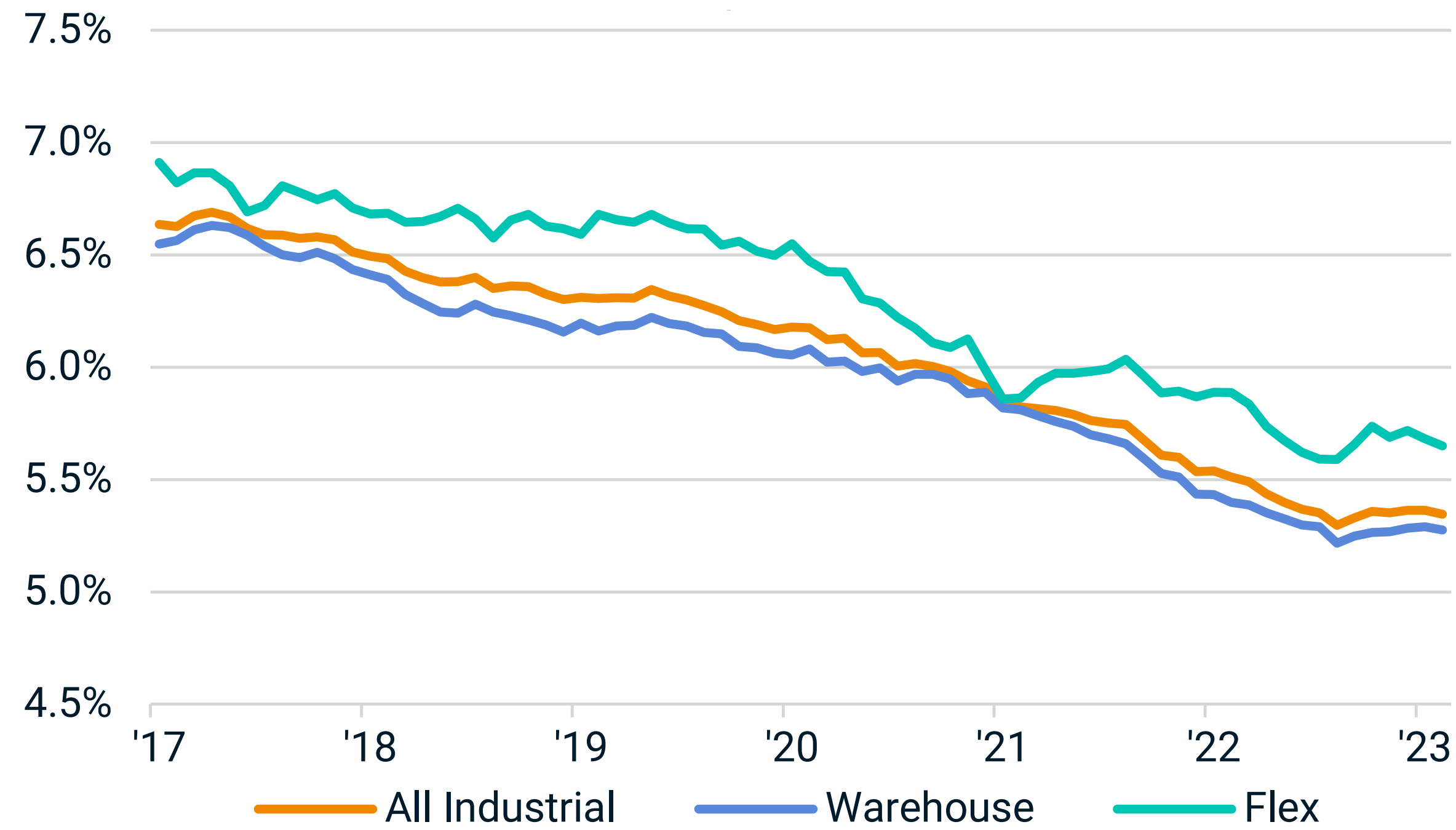




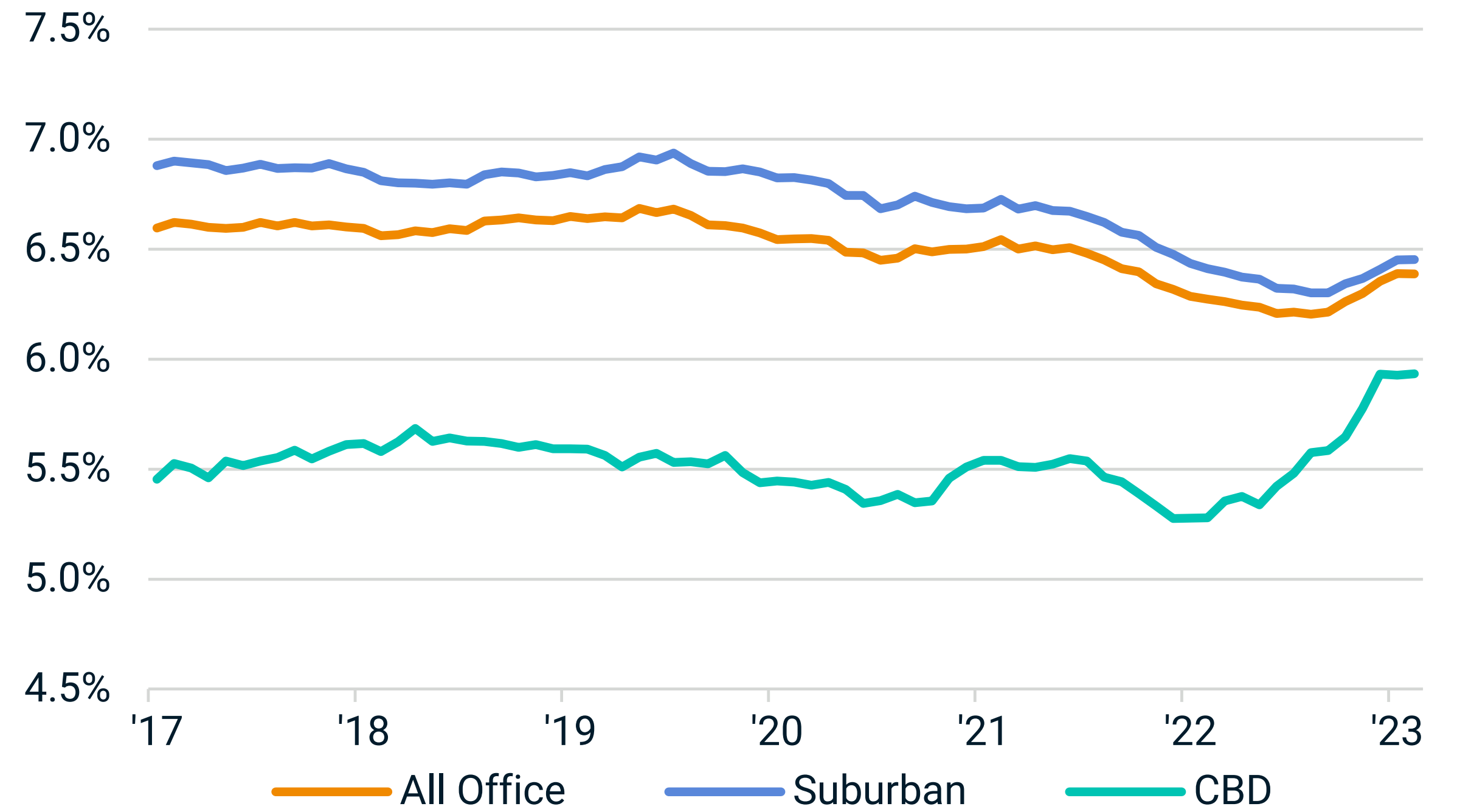
# Capital Markets Overview

# Cap Rate Trends

## U.S. Industrial Cap Rates

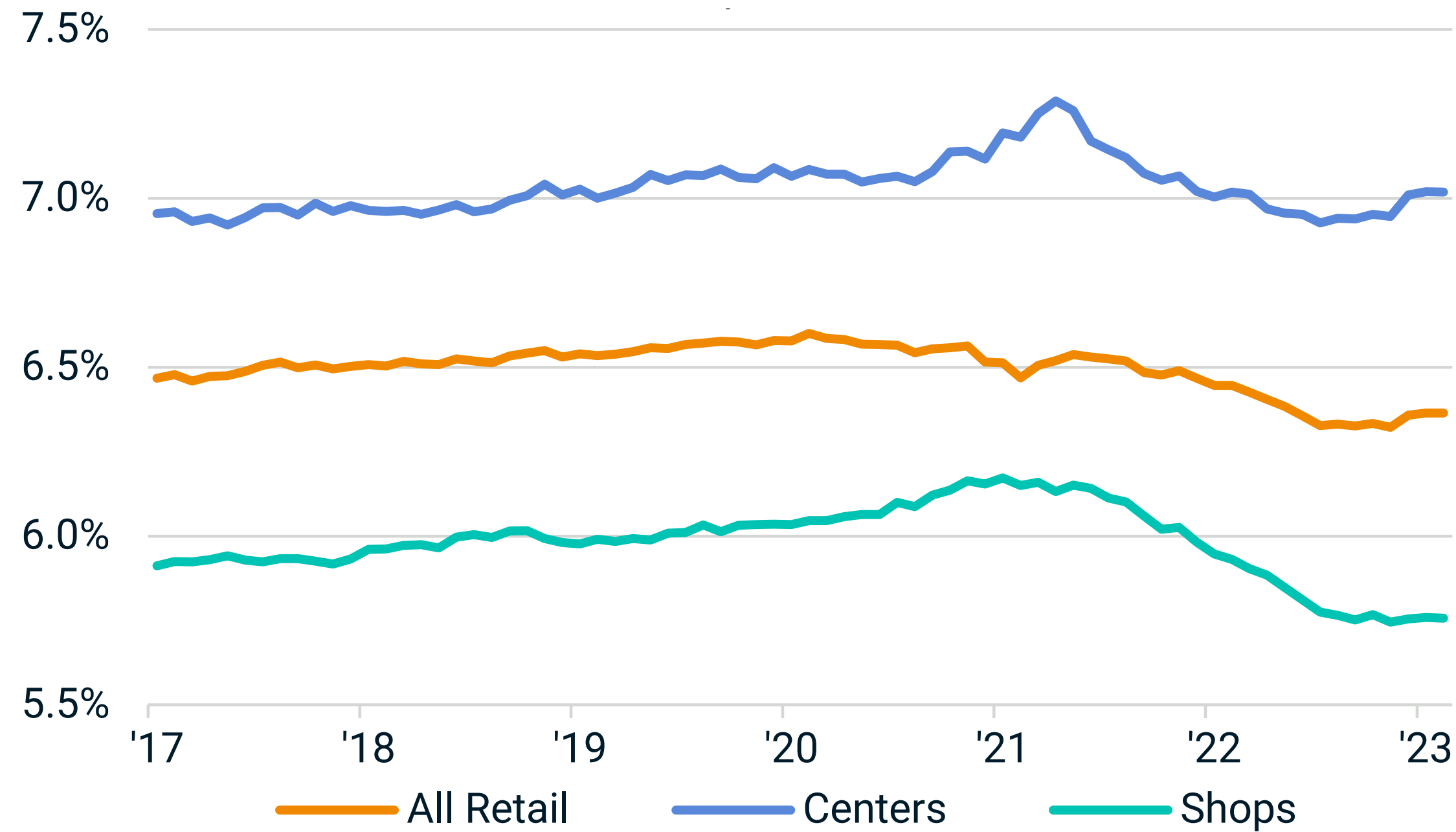


## U.S. Office Cap Rates

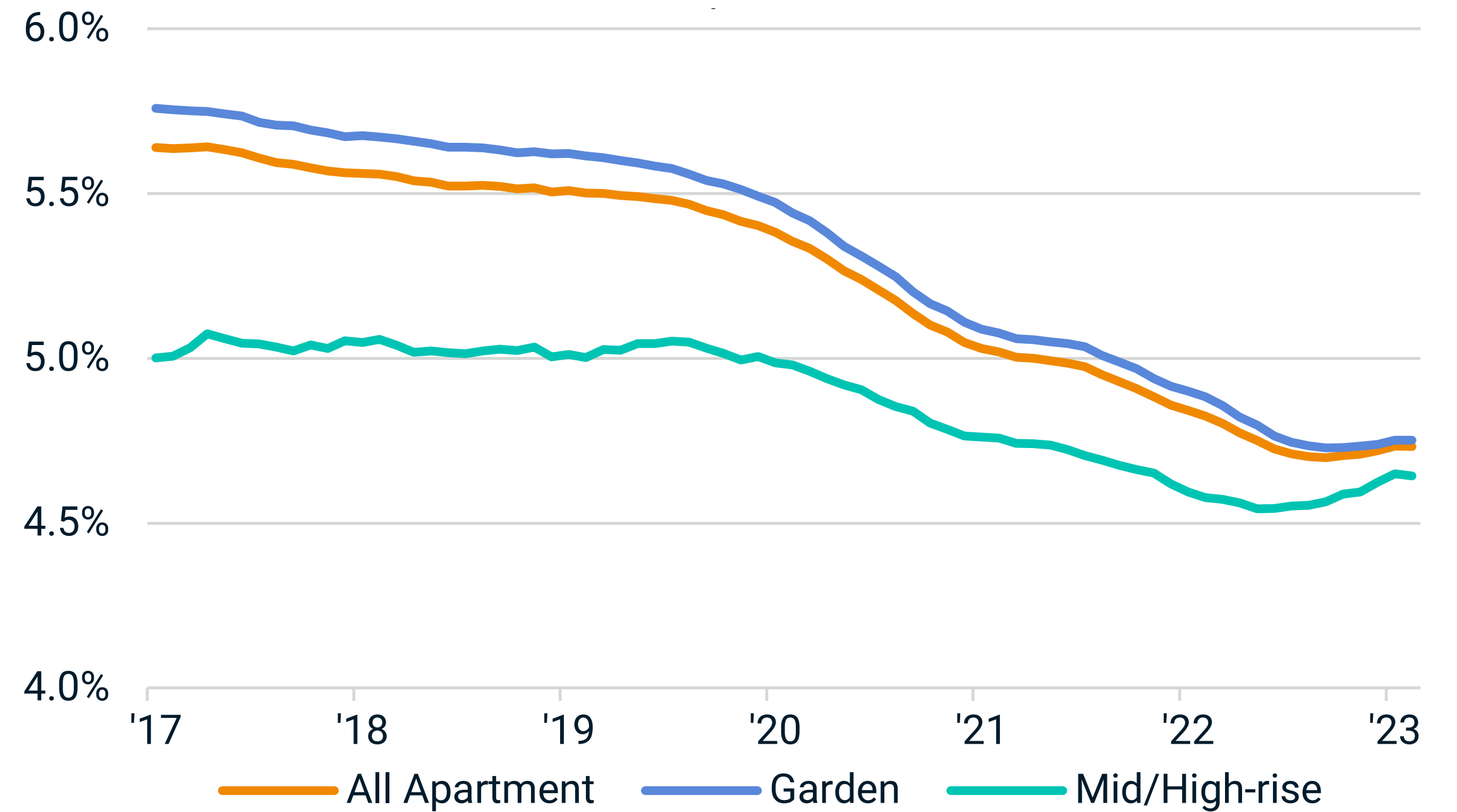


# Cap Rate Trends

## U.S. Retail Cap Rates



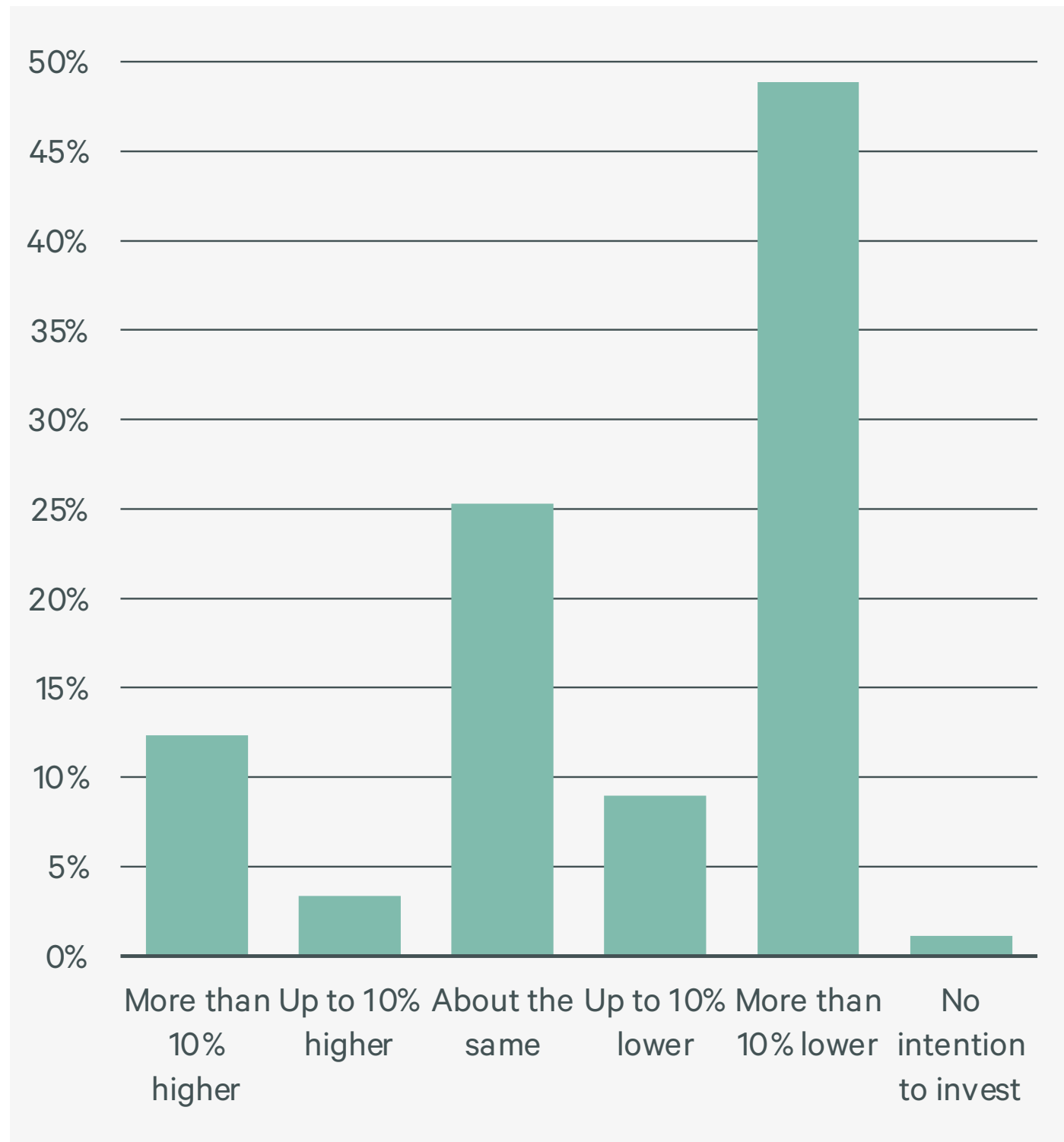
## U.S. Multi-Family Cap Rates



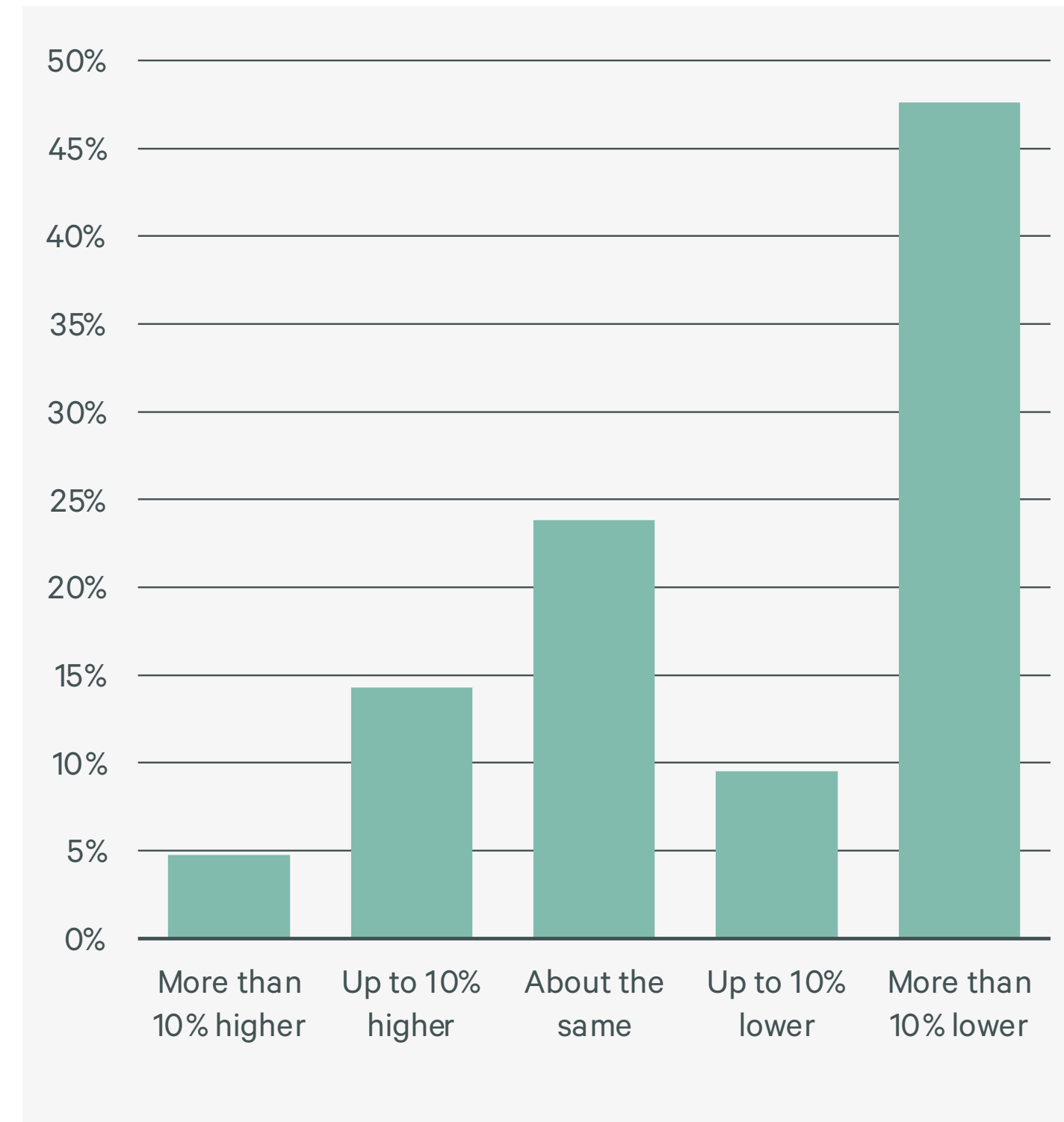


# The Crystal Ball

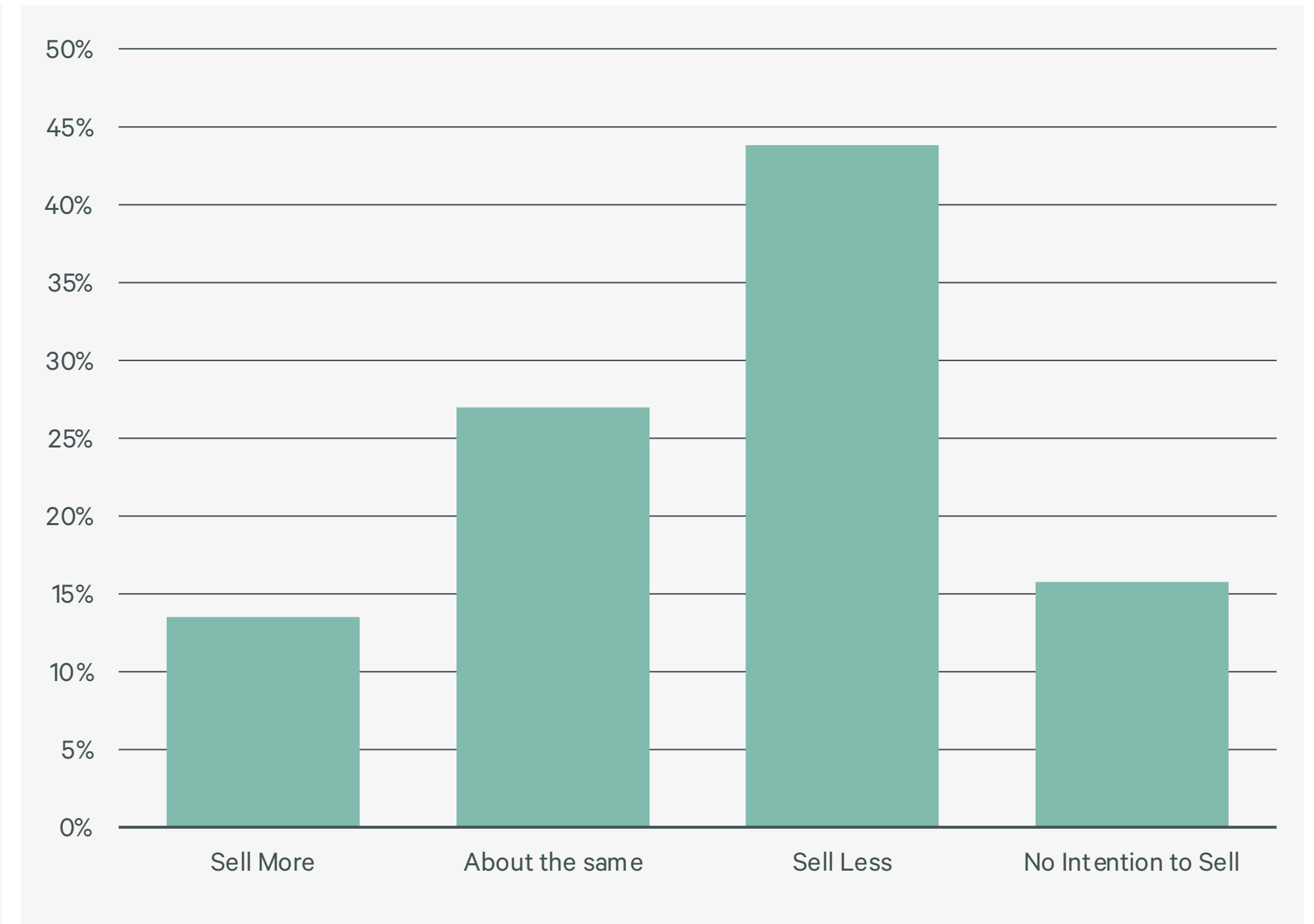
## Investor's purchasing activity expectations in 2023



## Lender's origination activity expectations in 2023

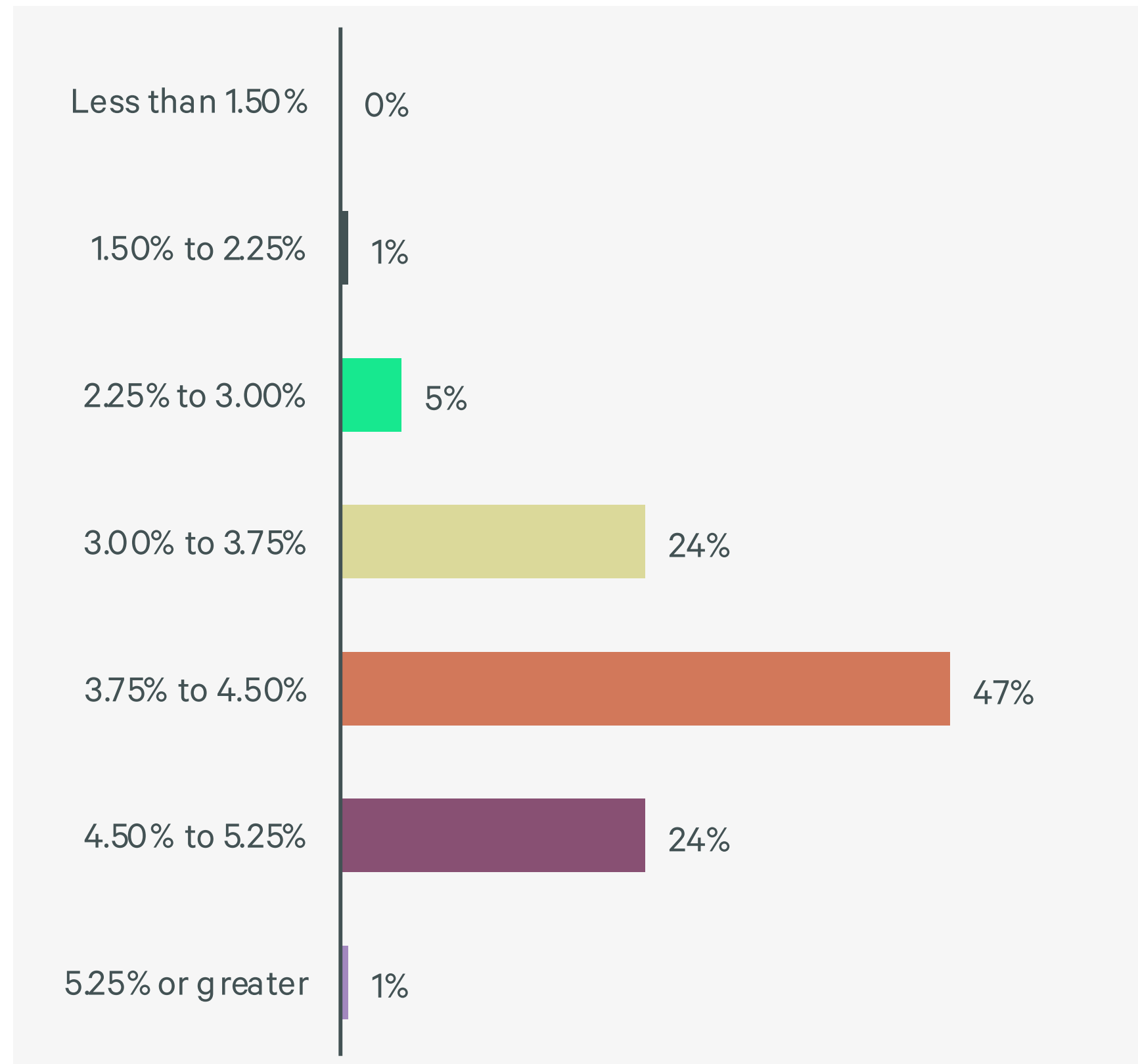


## Investors' selling activity expectations in 2023

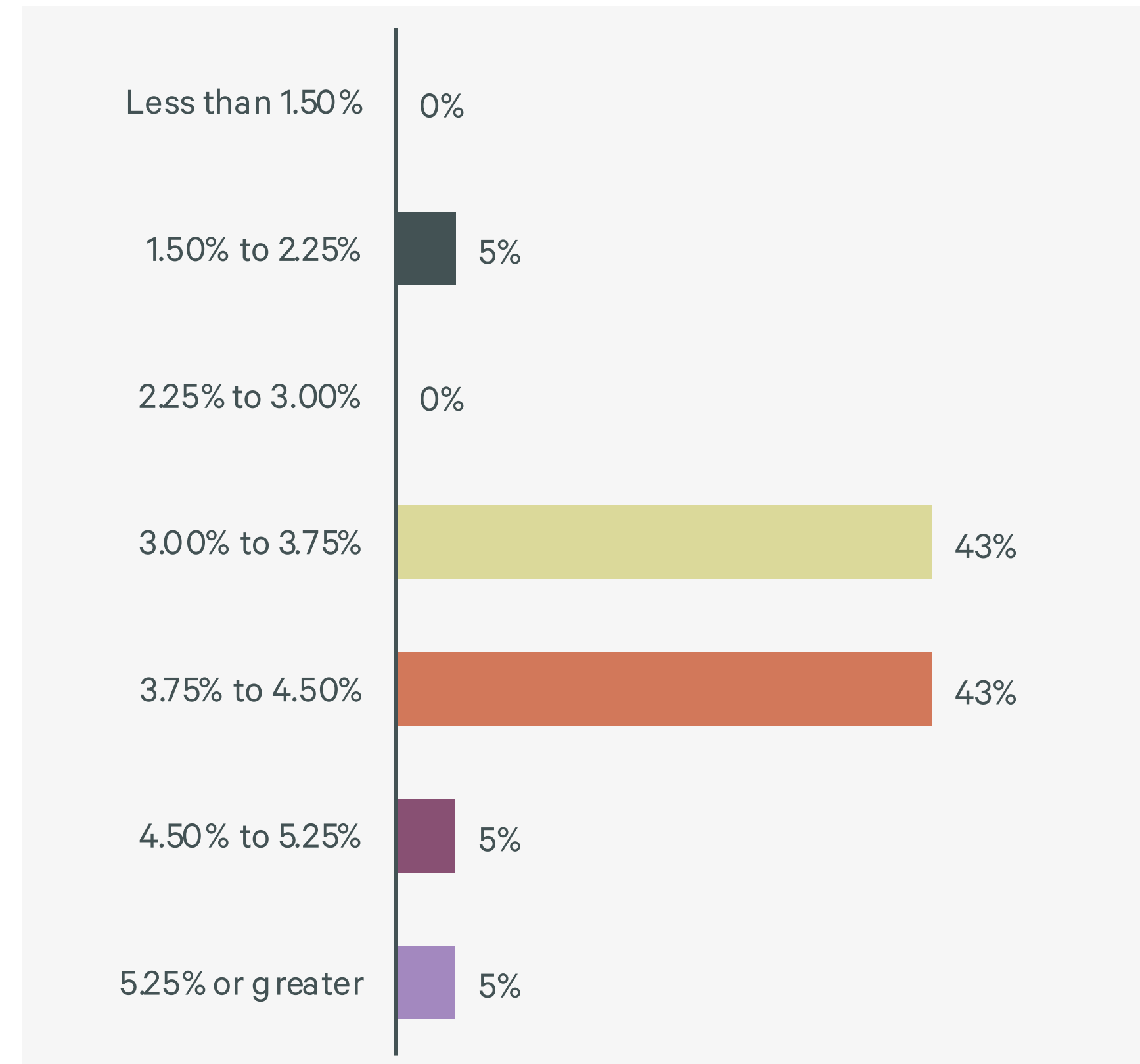


# Where are rates headed?

## Investors' year-end 2023 10-year Treasury rate expectations

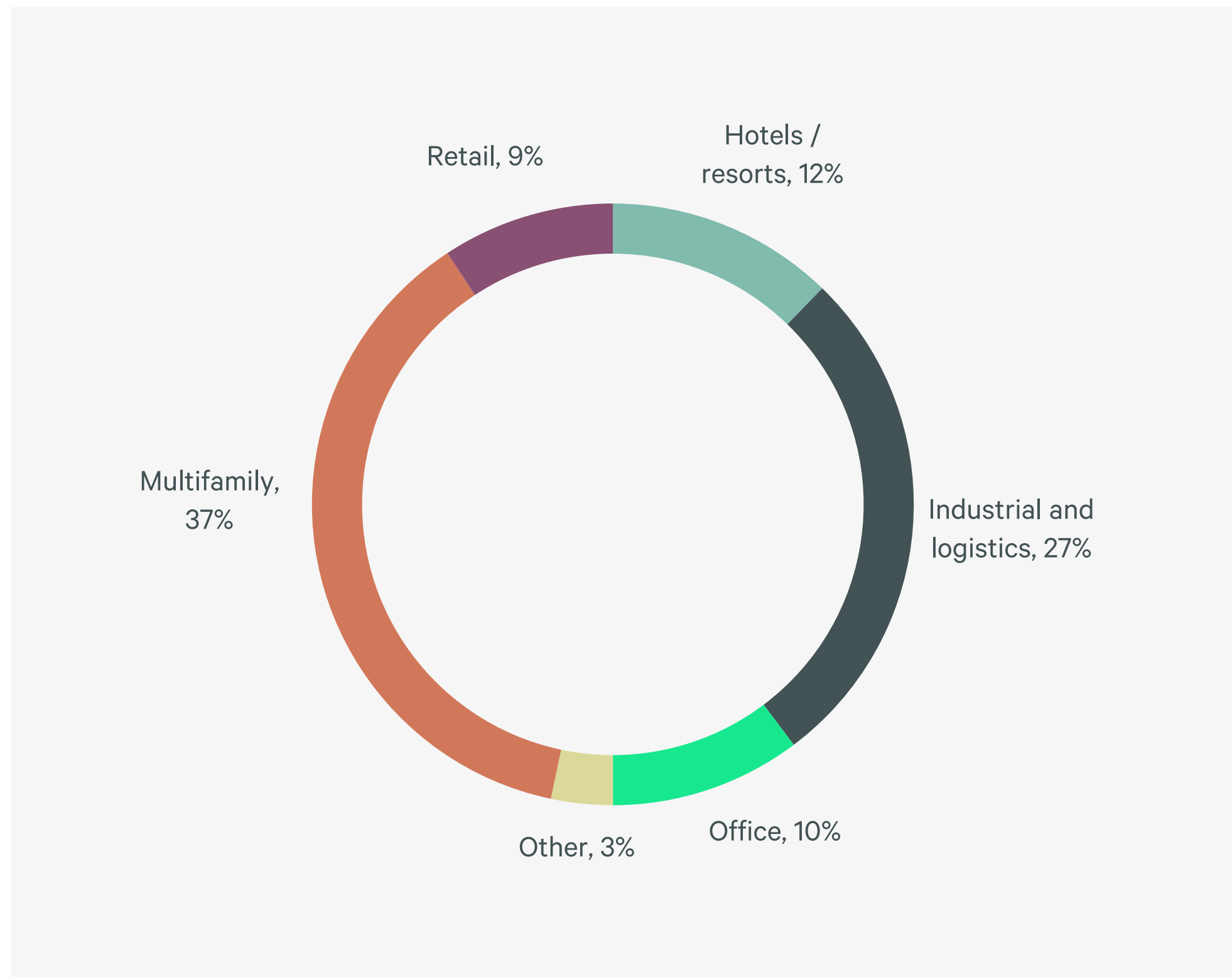


## Lenders' year-end 2023 10-year Treasury rate expectations

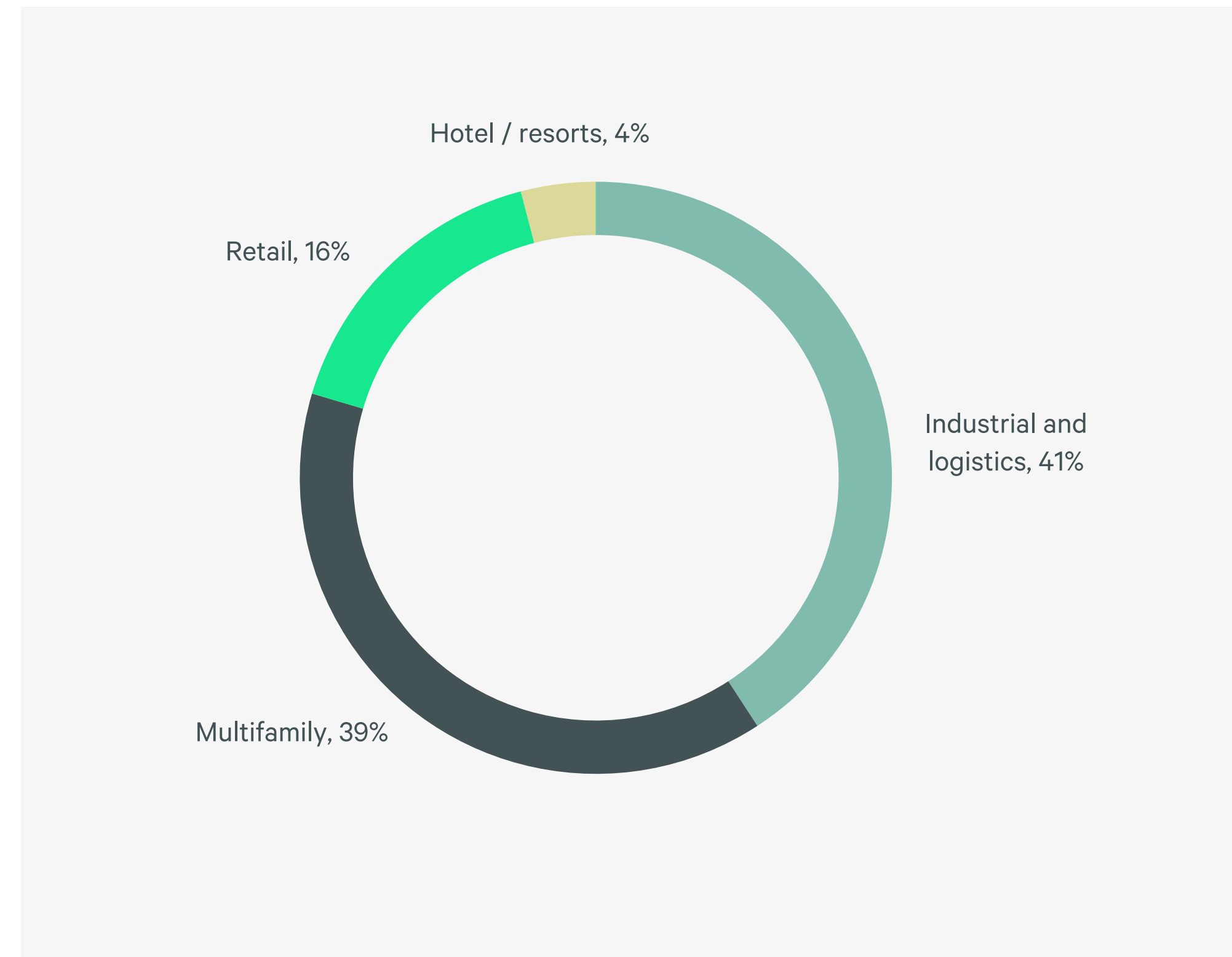


# Where's the money headed?

## Investors' property type preferences in 2023



## Lenders' property type preferences in 2023





Q&A



# Thank You!



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