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# Surveys find strength in commercial real estate

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Led by a continuing boom in retail activity, the Central Iowa real estate market should continue to prosper, according to speakers at the annual market survey luncheon hosted March 30 by CB Richard Ellis/Hubbell Commercial.

A crowd of brokers and others gathered at the Sheraton in West Des Moines to hear the results of the ninth annual Greater Des Moines Real Estate Market Survey and the 36th annual Metro Des Moines Apartment Survey. Several Hubbell brokers presented the results by category, and Lawrence Melody, founder of CB Richard Ellis/Melody in Houston, capped the event with a description of his company’s recent results.

Melody’s overriding message to local brokers was that they should constantly emphasize to out-of-state buyers the comparatively higher rates of return offered by this market.

Overall, occupancy is strong in the local office market, retail construction continues to surge and interest is growing among out-of-state investors in Central Iowa real estate. The apartment vacancy rate is low.

The industrial segment of the market continues to recover, but the amount of empty space continues to increase, and flex-space occupancy remains relatively low.

Frandson, Knapp & Associates conducted the real estate market survey by gathering information from owners, managers and brokers throughout Greater Des Moines. Carlson, McClure & Associates Inc. did the apartment survey.

Here are more details:

Office: Class A office space increased by 850,000 square feet in 2006, with all of that growth taking place in the western suburbs. Nearly all of the office absorption occurred out west, too, where companies found uses for 898,000 square feet of office space.

Wells Fargo Home Mortgage completed two buildings containing 560,000 square feet on its West Des Moines campus, which eventually will have 900,000 square feet. Wells Fargo Financial is scheduled to complete a 360,000-square-foot building downtown this fall. Wells Fargo is leasing space in a number of locations, and it’s expected that some of that space will be vacated as the company’s construction projects are completed.

In the competitive office market, 97 percent of the space in the central business district is occupied. Just 81 percent is occupied in the CBD fringe.

Industrial: This category includes manufacturing, flex and warehouse spaces. Dick Powell, a vice president at CB Richard Ellis/Hubbell Commercial, said an analysis of the past five years shows strength in manufacturing and warehouse activity but weaker results in flex-space occupancy.

Powell said the current overall vacancy rate of less than 10 percent, or 4.4 million square feet, equals a three-year inventory by Central Iowa standards.

Warehouse absorption totaled a remarkable 1.58 million square feet in 2006, a sharp reversal of 2005's negative performance.

Manufacturing occupancy was nearly 100 percent in Ankeny and Northeast Des Moines and 97 percent overall. However, manufacturing absorption veered into the negative category for the second time in the past three years.

Flex space occupancy declined to 82 percent; it stood at 85 percent in 2004. The CBD fringe experienced a strong increase, however, showing 86 percent occupancy compared with 74 percent the previous year.

Retail: CBRE/Hubbell broker Colleen Johnson called retail the growth market in commercial real estate and predicted continued strong growth in the suburbs and the central business district.

Occupancy rates rose 6 percent in the regional shopping malls. Merle Hay Mall and Jordan Creek Town Center both had 91.5 percent occupancy, and Valley West Mall was at 90 percent. Though Southridge Mall trailed the pack with 77 percent occupancy, it turned in the biggest percentage jump by improving from 60 percent in 2005.

In the "big box" portion of the retail category, which deals with single-tenant outlets with more than 20,000 square feet, Central Iowa experienced a decrease in absorption, as losses in Northwest Des Moines and Ankeny offset positive trends in the western suburbs.

Investment properties: Multi-unit housing led this category in terms of the number of transactions. The average price per unit was $34,569, which reflects increased interest in Class B and C properties.

The husband-and-wife broker team of Tim Sharpe and Linda Gibbs predicted a continuing influx of new investors from other states this year, an excess of demand over supply and continuing momentum in the tenant-in-common investment segment.

Apartments: Vacancy rates decreased to 8.1 percent in 2005, marking the second consecutive year of market tightening. The national figure is 9.5 percent. All unit types, from efficiencies to three-bedroom apartments, increased their average rents.

Tom DeWaay, a CBRE/Hubbell sales associate, attributed improvements in apartment fundamentals to increasing mortgage rates, which pushed some potential homebuyers back into the rental market, and the absorption of a large number of apartment units that had saturated the market in recent years.

As work continues on downtown residential projects, nearly 1,200 new housing units are expected to become available in the central business district by the end of 2007.

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