



**February 2017**

**Market Analysis**

# **Johnston Merle Hay Road Redevelopment Opportunities**

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## **PROJECT BACKGROUND**

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### **Project Description**

The City of Johnston, Iowa, has engaged Confluence for planning services related to the creation of a redevelopment plan for a 30-acre group of parcels at the intersection of Merle Hay Road and NW 62<sup>nd</sup> Avenue. The project builds upon previous plans for the property and other opportunity sites along Merle Hay Rd. As subconsultants to Confluence, Leland Consulting Group is investigating relevant market and economic conditions to help guide a sound strategy for site redevelopment, consistent with an evolving civic vision.

### **Analytic Objectives and Approach**

This market analysis provides a baseline assessment of demographic, economic, and real estate conditions affecting the Merle Hay/62<sup>nd</sup> Ave. site, within the City of Johnston and the Des Moines metropolitan region. Based on observed supply and demand characteristics and real estate trends, in both the immediate subject vicinity and the larger regional market area, this analysis highlights opportunities for attracting new development consistent with an emerging overall site vision. Recommendations, based on professional judgement, are supported by available evidence—drawing on a combination of relevant existing market studies (where possible) and public and subscription databases.

Data sources include U.S. Census/ACS, commercial and residential real estate brokerages, Polk County, City staff, U.S. Bureau of Economic Analysis (BEA), ESRI, Census Longitudinal Employment/Household Dynamics (LEHD), and others. These quantitative information sources are complemented by firsthand site and market reconnaissance and interviews (both in person and by phone) with public and private sector stakeholders, including local property owners, developers, brokers and local planning officials. In addition, trends and case examples, potentially outside the market area and region, may help to inform creative approaches to catalyzing and sustaining redevelopment.

With an eye towards a 10-year action horizon, the above sources of evidence combine to form a picture of

- Anticipated household and job growth, as sources of future commercial and residential demand
- Current and expected supply conditions among key land uses types (residential, retail, office and civic/cultural amenities)
- Market position of subject site in relation to potential competitive sites within a defined market area.
- Range of real estate redevelopment possibilities by type, size, price range and density, along with likely profile of potential homebuyers, renters, retail and office tenants, and developers.

Given that the market analysis summarized here *precedes* an organized visioning work session with Confluence and City staff as part of the project planning process, this report *does not* serve as a feasibility analysis of any specific development plan for the subject property. Rather, the intent is to provide a useful characterization of local supply and demand factors, along with a range of broad market-supported redevelopment scenarios attainable with varying degrees of public investment.

## Study Area

The 30.5-acre overall study area shape includes 32 legal parcels totaling approximately 24 acres. Excluding right-of-way, easements and other undevelopable sliver lots, the total parcel acreage amount to just under 22 acres. The area spans the northeast quadrant and a portion of the southwest quadrant of the Merle Hay Rd. and 62<sup>nd</sup> Ave intersection, as shown in Figure 1.

**Figure 1: Merle Hay Rd./62<sup>nd</sup> Ave. Study Area**



Source: Leland Consulting Group, using Polk County parcel GIS and boundary definition from City staff

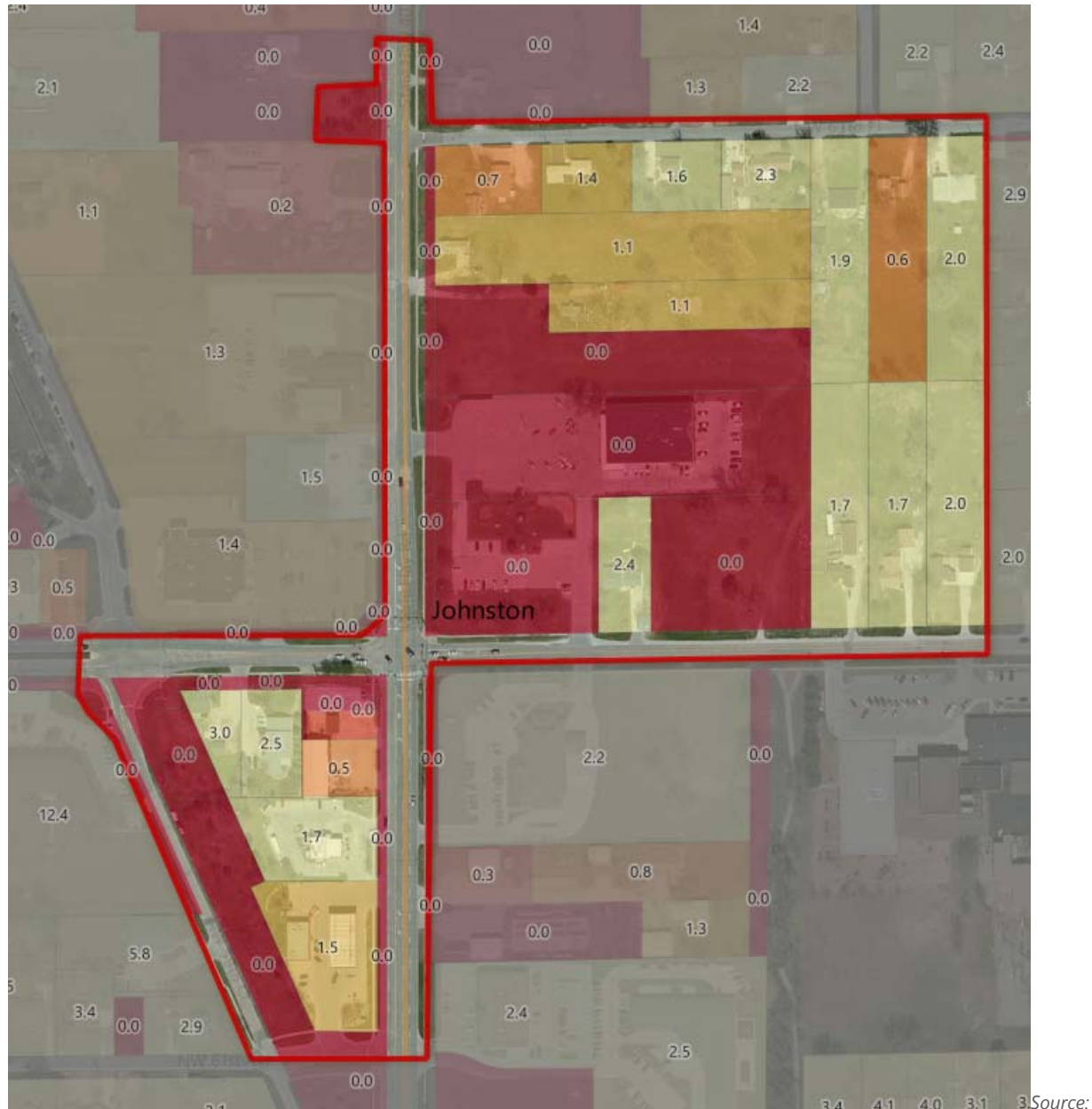
## SITE ANALYSIS

Figure 2 illustrates the ratio between improvement value and land value for properties in the Subject Property. This ratio is commonly used to identify properties that may be underutilized and ripe for redevelopment. When a property has few or no improvements (buildings) on it, it will have a low improvement to land value ratio,



indicating that its more easily redeveloped. Conversely, if a property has significant improvements on it, the ratio will be high, indicating that redevelopment is unlikely. In the map below, darker parcels represent those with low improvement to land value ratios, indicating potential opportunity sites for redevelopment.

**Figure 2: Subject Property Improvement to Land Value Ratio**



Polk County Assessor and Leland Consulting Group

*Note: Numbers below 1.0 (where improvements are worth less than the underlying land) may represent underutilized properties (or exempt land, in the case of City Hall)*

Although the lower-density single family lots north and east of City Hall tend to show ratios above 1.0, they may still be considered underutilized relative to surrounding land uses or potentially viable new uses on those sites.

## Market Competitiveness

The ability of the subject property to attract redevelopment investment and support successful new land uses will depend in large part on how favorably that property compares to potentially competitive sites in the region. A range of *site-specific* attributes combine to determine a property's potential for market competitiveness, with differing levels of importance typically found across major development types:

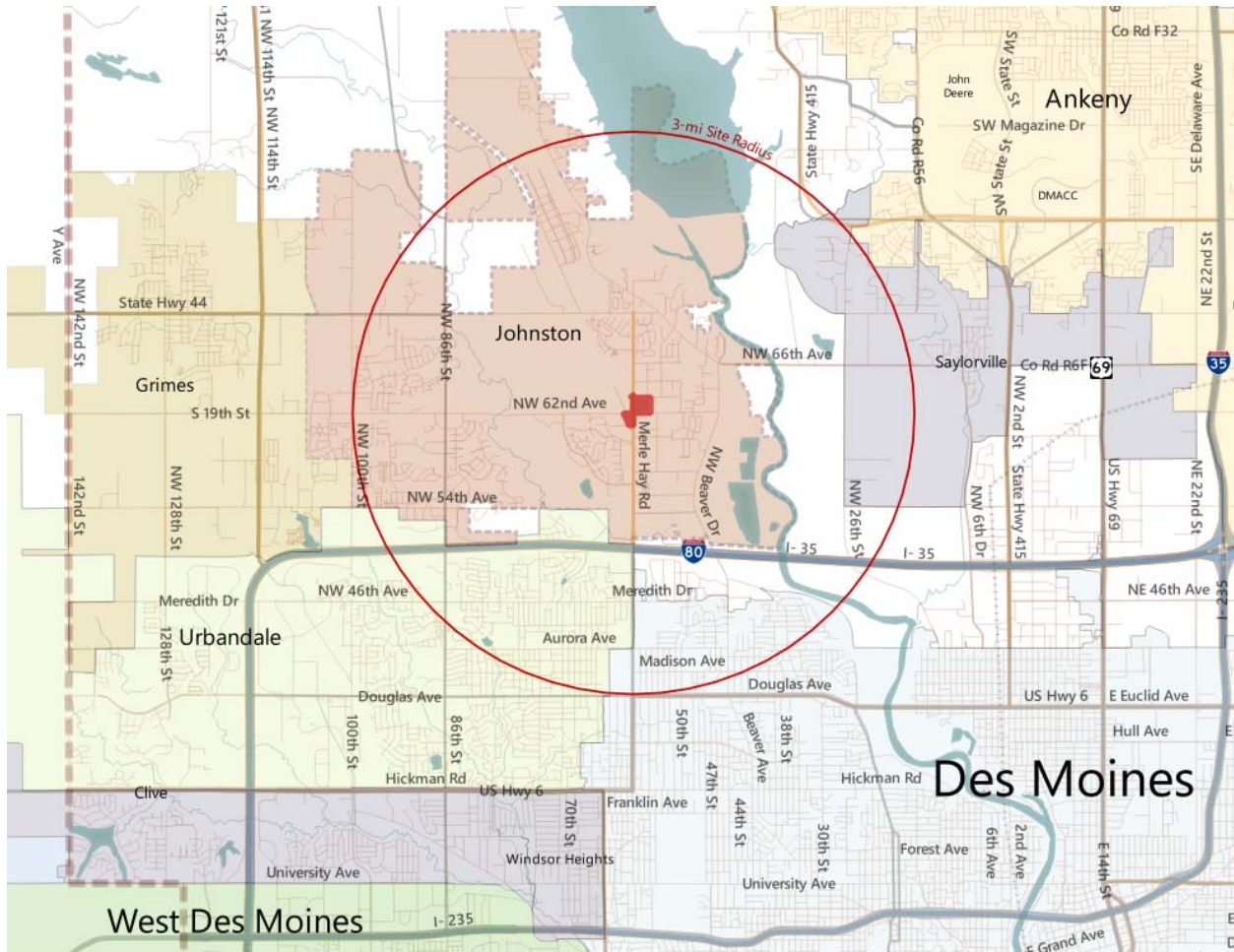
**Table 1: Site Analysis/Market Competitiveness Summary**

Category	Subject Evaluation ★ <i>weak</i> ★★ <i>fair</i> ★★★ <i>adequate</i> ★★★★ <i>strong</i> ★★★★★ <i>very strong</i>	Site Notes
<b>Proximity to Employment</b> Convenience to a variety of employment options is important for <b>residential</b> development.  <b>Dining</b> and certain <b>convenience retail</b> developments draw a portion of demand from daytime (typically office) employment.	★★★★★ The subject property is very convenient a number of major employers lying a short distance to the west and is reasonably convenient to major employment clusters in Urbandale and West Des Moines.	Physical proximity to Downtown Des Moines, a major employment center, is good, but suffers from poor north-south roadway capacity south of Johnston (discussed under Access).
<b>Proximity to Households</b> Being near concentrations of household spending power is a key asset for <b>retail</b> sites. Suburban neighborhood retail centers need sufficient rooftops within 2-3 miles, while big box and regional centers draw from 3 to 5 miles and often beyond.	★★★★1/2 Spending power and projected household growth are both very strong in Johnston, but area residential development is at typically low suburban densities (and constrained by land-intensive ag/R&D uses and both Beaver Creek and Des Moines River floodplains).	Both growth and affluence are highest to the north and west of the study area and generally decline moving towards Johnston's eastern and southern borders.
<b>Proximity to Shopping, Dining, Schools</b> Prospective <b>residential</b> renters and homebuyers desire retail amenities and quality schools within a convenient drive	★★★★★ Johnston's schools have an excellent reputation in the region and are an asset for residential developers. Retail and dining options on Merle Hay Road have improved in recent years south of the subject property, but the overall quantity and quality of retail serving northwest Johnston is somewhat lacking.	Although Merle Hay Mall is the nearest regional shopping center, convenient interstate access and superior tenant mix of the newer Jordan Creek Town Center in West Des Moines draws spending from Johnston households
<b>Visibility</b> Visibility from major roads & highways can add continual advertising value for both <b>retail</b> and <b>office</b> properties, boosting, name recognition, wayfinding. (Distinctive signage & architecture can be an important complement)	★★★★★ Adequate visibility, generally limited to autos directly passing along Merle Hay Road or 62 <sup>nd</sup> Ave.	As with much of the Des Moines area, tree cover and lack of major elevation changes is a limiting factor for visual prominence, especially for non-highway sites.  Visibility conditions are not favorable for major office development, but could support smaller-scale professional office space.

<p><b>Access</b></p> <p>Ease of access (mainly auto, but also transit &amp; ped) is critical for retail developments and is generally desirable for prospective <b>office</b> and <b>residential</b> land uses (although should be balanced with some degree of privacy and safety for homes and apartments).</p>	<p>★★★★<sup>1/2</sup></p> <p>Very good local access for nearby residents, especially in Johnston.</p> <p>Sailorville Lake is a major impediment to vehicular access north of the site, while the Des Moines river basin constrains access (and development density) to the east.</p> <p>North-south access is generally good along Merle Hay Rd. south of the site until Douglas Ave., then degrades rapidly as it proceeds south into Des Moines.</p>	<p>Access conditions strongly favor neighborhood (grocery-anchored) scale as an upper limit to retail intensity for the subject.</p> <p>Access is generally well-suited to low and medium-density residential land uses, but would be a somewhat inconvenient choice for downtown employees.</p>
<p><b>Traffic Volume</b></p> <p>High automobile traffic volume is generally considered desirable for <b>retail</b> (within limits) but typically avoided by residential developments. Some <b>office</b> tenants (and notably, consumer banks) seek out high-traffic locations to boost advertising/signage benefits.</p>	<p>★★★★</p> <p>Traffic along Merle Hay Rd. is highest near its intersection with I-80, (~32,000 ADT) and decline steadily moving northward towards the subject intersection (~16,000 ADT). East-west traffic, is just under half that along 62<sup>nd</sup> Ave (with peaks due to the three nearby schools).</p>	<p>Volumes are generally supportive of neighborhood scale retail, at least on Merle Hay, without rising to a nuisance level for potential residential development.</p> <p>Traffic could, of course, increase somewhat from development on the site itself.</p>
<p><b>Neighboring Land Uses</b></p> <p>Land use compatibility is important to all development types. Retail generally prefers proximity to other retail (or similar activity generators), while lower-density residential requires a buffer from more intense land uses.</p>	<p>★★★★<sup>1/2</sup></p> <p>The existing immediate environs has a mix of generally low- to medium-intensity land uses, including City Hall, low density residential, senior apartments, free-standing/pad retailers, a consumer bank and other lower density service establishments.</p> <p>The high school and middle school lie just west of the subject property while an elementary school is just to the east – all on 62<sup>nd</sup>. A large preschool lies to the southeast.</p> <p>A retirement center and hospice are two blocks to the southwest of the subject.</p>	<p>The widely varied mix of land uses within the study area and immediate vicinity detract somewhat from a coherent sense of purpose or identity for the area. Given the fractured nature of property ownership, this issue is not easily addressed – suggesting a possible benefit for City-led land assembly.</p>
<p><b>Site Aesthetics</b></p> <p>Aesthetic aspects such as natural landscape, views to and from the site, as well as streetscape and other urban or architectural amenities can boost property value and market competitiveness across land uses.</p>	<p>★★★<sup>1/2</sup></p> <p>The site is quite flat and lacks much in the way of streetscaping, natural features or other pedestrian-friendly amenities beyond a sidewalk and occasional tree plantings and some well-tended lawns.</p>	<p>Very deep building setbacks and abundant surface parking detract from any sense of connection with the street. While typical of suburban Iowa, this land use pattern runs counter any desired impressions of quaintness or small-town urban walkability.</p>

## MARKET AREA DEFINITION

*Figure 3: Subject 3-Mile Primary Market Area Map*



To understand competitive supply and likely demand forces affecting development potential, we look beyond the borders of the immediate study area to consider broader geographies likely to directly influence market performance for relevant land use categories.

- For **retail**, the analytic goal of defining a “market area” is generally to encompass likely customers, whose spending power will fuel a significant majority of sales in future study area shops and eateries. Competitive supply (both existing and potential) will also, logically, tend to fall within that same market area. Neighborhood stores like supermarkets tend to have much smaller market areas than big box stores, which in turn have smaller catchment areas than regional malls or other larger scale projects. In the case of the subject property, the definition of the retail market area will depend in part on the site development envisioned by the community.
- For **residential**, the study area will capture some portion of the forecasted growth in a larger market area by competing with other projects in that area. Consumers (buyers and renters) who would



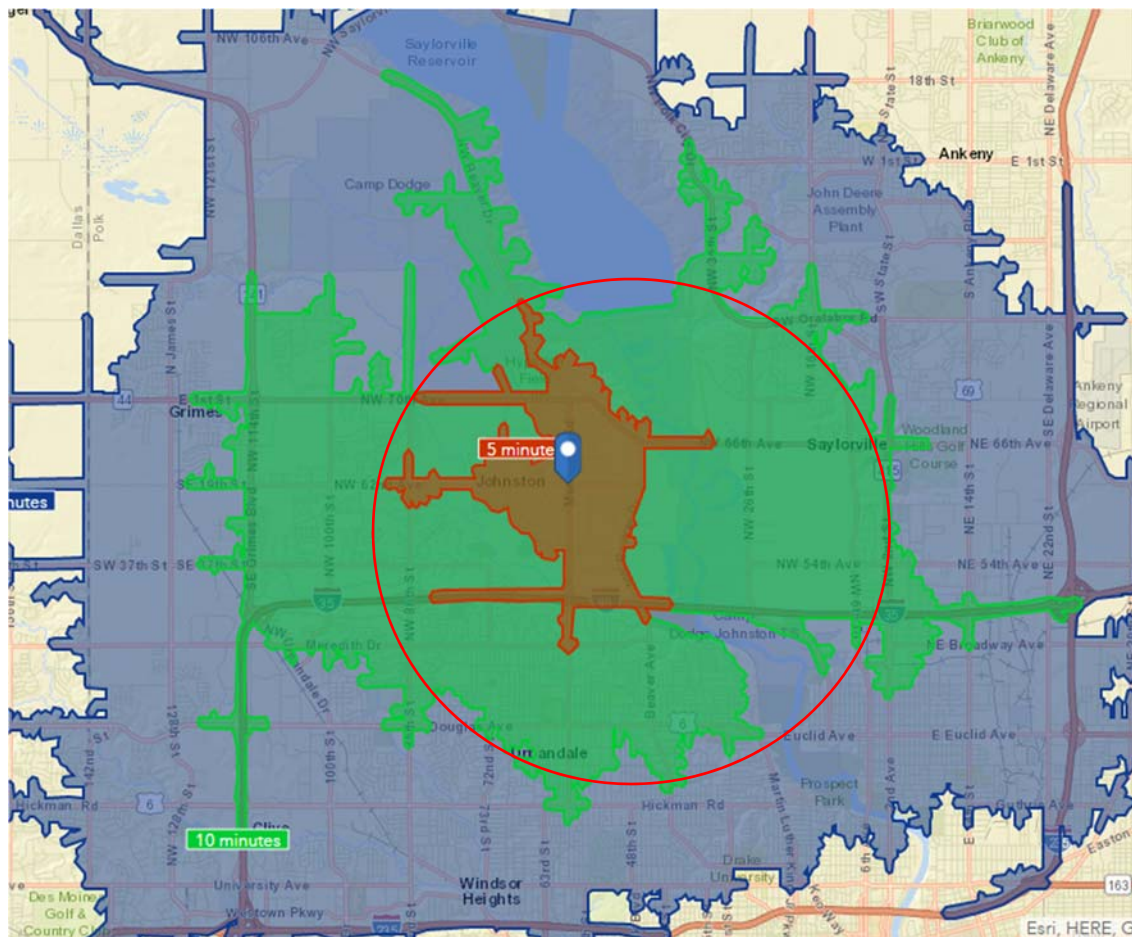
consider housing alternatives at the subject property—based on family, lifestyle and employment considerations—would presumably also consider other nearby developments.

- For **office** and **employment**, the market area is based on the proximity to the current and desired workforce, executive's residences, desirable community amenities, and access to similar and complementary businesses. As with residential, the market area definition for office is more competition-based than customer-based, per se.

Given the site's geographic location within the west suburbs and the site's assets and constraints outlined in Table 1, the primary market area defined as a 3-mile radius around Johnston is appropriate for analysis of the three main land uses under consideration here. While a radius-based definition may seem somewhat arbitrary, the resulting geography is approximately equal to a 10-minute drive time from the site, as shown in Figure 4—consistent with what is likely to be important for neighborhood-scale retail developers.

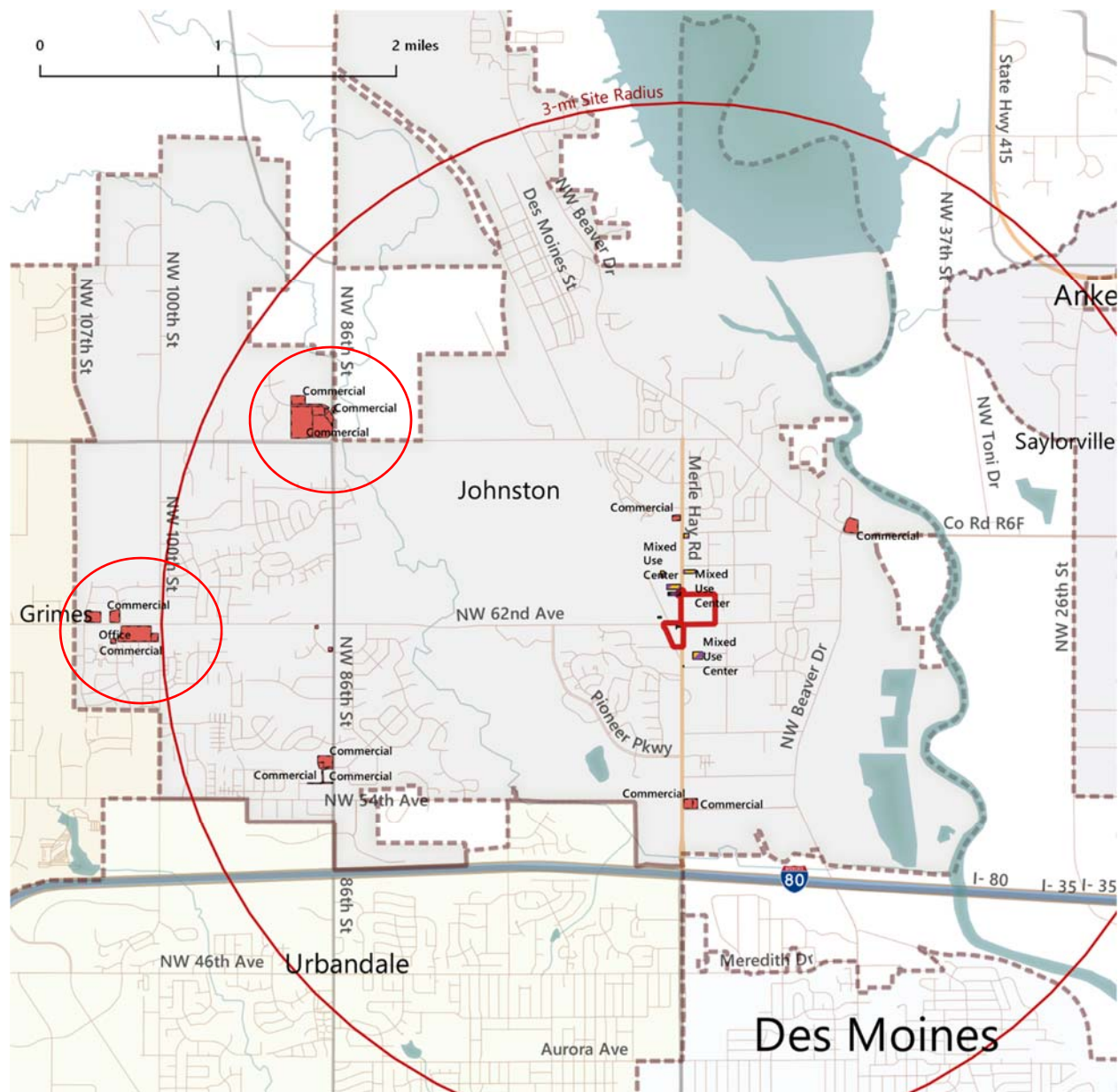
The three-mile radius shape also acknowledges that the subject property and its largely existing built environment is likely to evolve in character somewhat independently of Johnston's northwest fringe – where affluent new residential growth is less constrained.

**Figure 4: Drives Times from Subject, with 3-Mile Radius Shown**



Source: ESRI, and Leland Consulting Group

**Figure 5: Potentially Competitive Retail Sites**



Source: Leland Consulting Group, based on current vacant-commercial or vacant-mixed use status (per Assessor) and preferred future land use of commercial or mixed (per comp plan)

Potentially competitive retail and mixed-use sites in the future are highlighted above. Most likely competition based on current vacancy, future preferred use of commercial or mixed and sufficient size appear found along 62<sup>nd</sup> Ave near the Grimes border and at the northwest quadrant of 86<sup>th</sup> St. and 70<sup>th</sup> Ave.

## DEMOGRAPHIC PROFILE

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This section discusses demographics and market conditions within the city of Johnston and the 3-Mile market area, with Polk County and the nation as a whole as comparisons, where appropriate.

### Demographics

**Table 2: Population, Households & Growth**

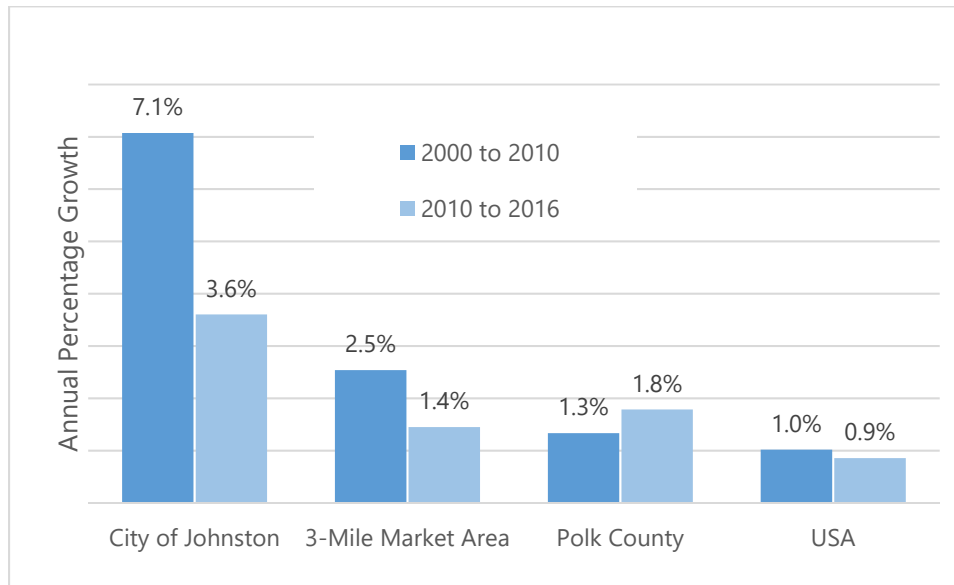
	City of Johnston	3-Mile Market Area	Polk County	USA
<b>Population - 2016 est.</b>	20,832	39,620	474,867	323,580,626
<b>Households - 2000</b>	3,216	10,944	149,112	105,480,101
<b>Households - 2010</b>	6,369	14,061	170,197	116,716,292
<b>Households - 2016 est.</b>	7,602	15,110	185,934	121,786,233
<b>2000 to 2010 annual rate</b>	7.1%	2.5%	1.3%	1.0%
<b>2010 to 2016 annual rate</b>	3.6%	1.4%	1.8%	0.9%

*Source: ESRI (based on U.S. Census data) and Leland Consulting Group*

As shown in Table 2, Johnston currently has approximately 21,000 residents living in just over 7,600 households. Johnston is among the fastest-growing cities in Iowa, with an annual growth rate that exceeded 7% from 2000 to 2010, slowing to 3.6 percent annually for the past six years. The market area has grown considerably faster than the national average, but not as fast as the city as a whole. This is due to fast growth in the far north and west portions of Johnston and slower growth in the non-Johnston parts of the south half of the market area.

For residential and retail demand analysis later in this report, we use 1.7 percent (a blended average of the two previous periods shown) as a projected annual growth rate for the market area.

**Figure 6: Household Growth Rates, City of Johnston and Comparison Geographies**



Source: ESRI (based on U.S. Census data) and Leland Consulting Group

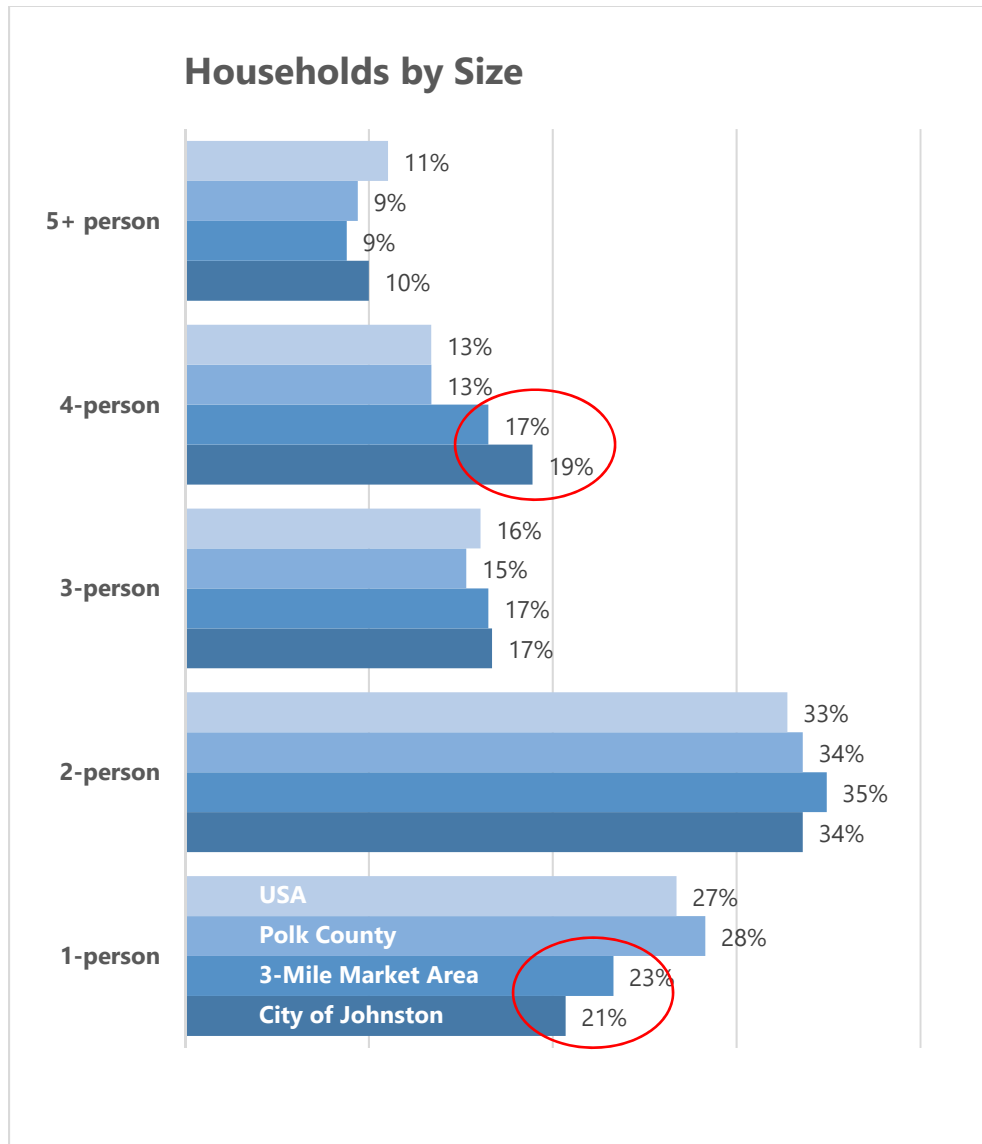
**Table 3: Housing Characteristics (HH size, home ownership, family orientation)**

	City of Johnston	3-Mile Market Area	Polk County	USA
<b>Renter Occupied</b>	22%	25%	31%	33%
<b>Owner Occupied</b>	78%	75%	69%	67%
<b>Median Home Value</b>	\$240,055	\$207,667	\$173,392	\$198,891

Source: ESRI (based on U.S. Census data) and Leland Consulting Group



**Figure 7. Households by Size**



Source: ESRI (from US Census Data) and Leland Consulting Group

As Table 3 and Figure 7 show, Johnston households tend to be larger than metro and national comparisons, with significantly more four-person households and significantly fewer single households.

Johnston's housing units are also predominantly owner occupied, with 74 percent home ownership, significantly more so than either the county or nation. The recent suburban multifamily boom has shifted this number downward from past decades.

## Population by Age

**Table 4: Population by Age Group, Johnston and Comparison Areas (indexed to USA)**

Age	City of Johnston	3-Mile Market Area	Polk County	USA
0 - 4	108	103	115	100
5 - 9	120	109	112	100
10 - 14	138	119	108	100
15 - 24	91	92	96	100
25 - 34	83	89	108	100
35 - 44	114	109	109	100
45 - 54	118	113	99	100
55 - 64	90	97	90	100
65 - 74	75	85	83	100
75 - 84	69	85	80	100
85 +	94	104	88	100

Source: ESRI (based on U.S. Census data) and Leland Consulting Group

Johnston and the market area both skew towards families with young kids, with fewer young adults aged 25 to 35 than the county and national averages. The city of Johnston has more than 30 percent fewer residents aged 75-84, although that skew is dampened somewhat for the market area.

## Housing Impacts of Shifting Age Demographics

As the housing market in the Des Moines metro area continues to strengthen and the population grows and ages, the impacts are likely to be most apparent in the housing sector. The boom in multifamily construction over the last decade may seem, as first glance, to be in danger of a rapid decline as most Millennials move beyond their prime renting-age 20's.

Demographics have certainly helped fuel this apartment demand, but have not been the only factor. Fallout from the housing-led recession left a wide portion of would-be homeowners, across all adult age groups, unable to secure mortgage lending or otherwise afford to buy a home. Many are now stalled in a rental situation, waiting for the economics of transaction costs to pencil out for their budgets.

It appears to be an open question whether aging Baby Boomers will be attracted to apartment rental living by choice. Research such as the America in 2015 survey done by ULI indicates that as nests begin to empty, this cohort will turn to smaller, lower-maintenance housing choices, albeit still in the suburbs. Other recent opinion research, such as a 2013 survey done by The Demand Institute, however, seems to suggest that most Boomers may still be drawn to the idea of home ownership, yards, and suburbs.

## Income and Educational Attainment

**Table 5. Income and Education Characteristics, City, Metro Region and State**

	City of Johnston	3-Mile Market Area	Polk County	USA
<b>Median Household Income</b>	\$96,987	\$81,316	\$61,633	\$54,149
<b>Average Household Income</b>	\$124,313	\$105,652	\$81,426	\$77,008
<b>Incomes above \$150K</b>	26.5%	19.5%	11.2%	10.6%
<b>Average Income as Percent of Median Income</b>	128%	130%	132%	142%
<b>Incomes below \$25K</b>	8%	9%	17%	23%
<b>top 10% Household Income</b>	\$224,000	\$200,000	\$176,000	\$176,789
<b>Percent with Bachelor's Degree (age 25+)</b>	62%	50%	37%	30%

Source: ESRI (based on U.S. Census data) and Leland Consulting Group

Johnston is an affluent suburb, with median, average and per capita incomes well above national and county figures. As shown in Table 6, the city has more than double the share of households earning \$150,000 to \$200,000 and approaching triple the share earning over \$200,000. The 3-mile market area has similar skews, but less pronounced.

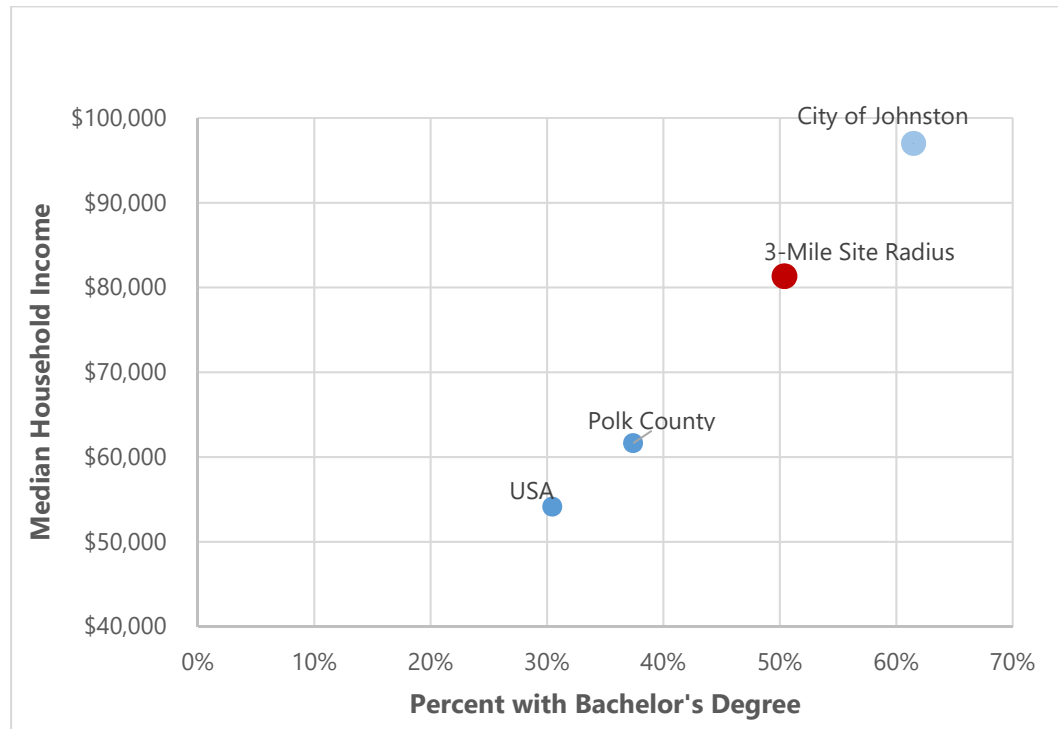
**Table 6: Income Distribution of Households, Indexed to US**

Median Income	City of Johnston	3-Mile Market Area	Polk County	USA
<\$15K	36	37	70	100
\$15-25K	36	47	84	100
\$25-35K	37	66	89	100
\$35-50K	65	82	95	100
\$50-75K	88	103	112	100
\$75-100K	126	129	118	100
\$100-150K	164	146	116	100
\$150-200K	221	180	113	100
\$200,000+	276	187	97	100

Source: ESRI (based on U.S. Census data) and Leland Consulting Group

Figure 8 shows educational attainment paired with median incomes, with Johnston edging out the market area in both categories – both well ahead of the county and nation.

**Figure 8: Income by Educational Attainment**

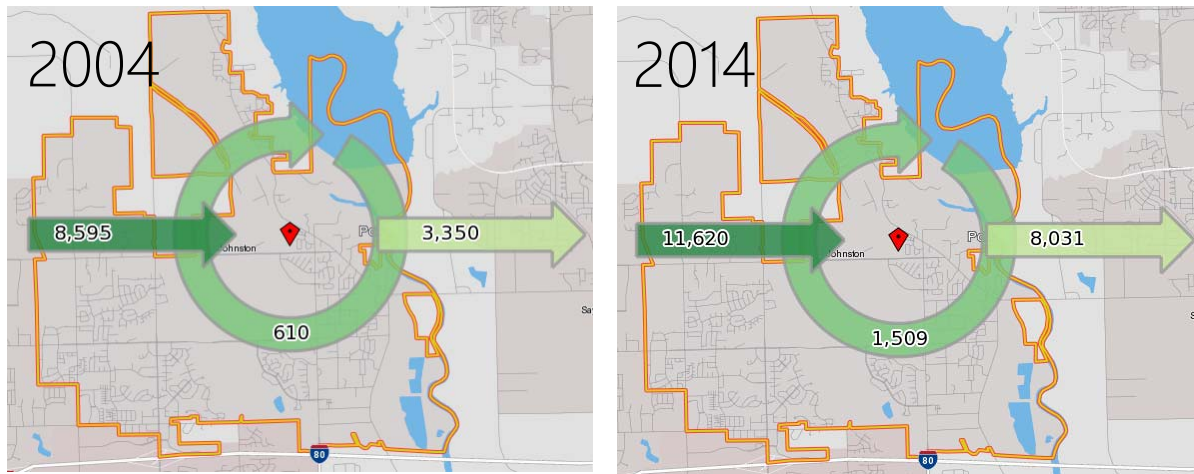


Source: ESRI (based on U.S. Census data) and Leland Consulting Group



## Employment Flows

**Figure 9: Johnston Worker/Household Flows, 2004 to 2014**



Source: U.S. Census 2014 Longitudinal Employment-Household Dynamics (LEHD) dataset and Leland Consulting Group

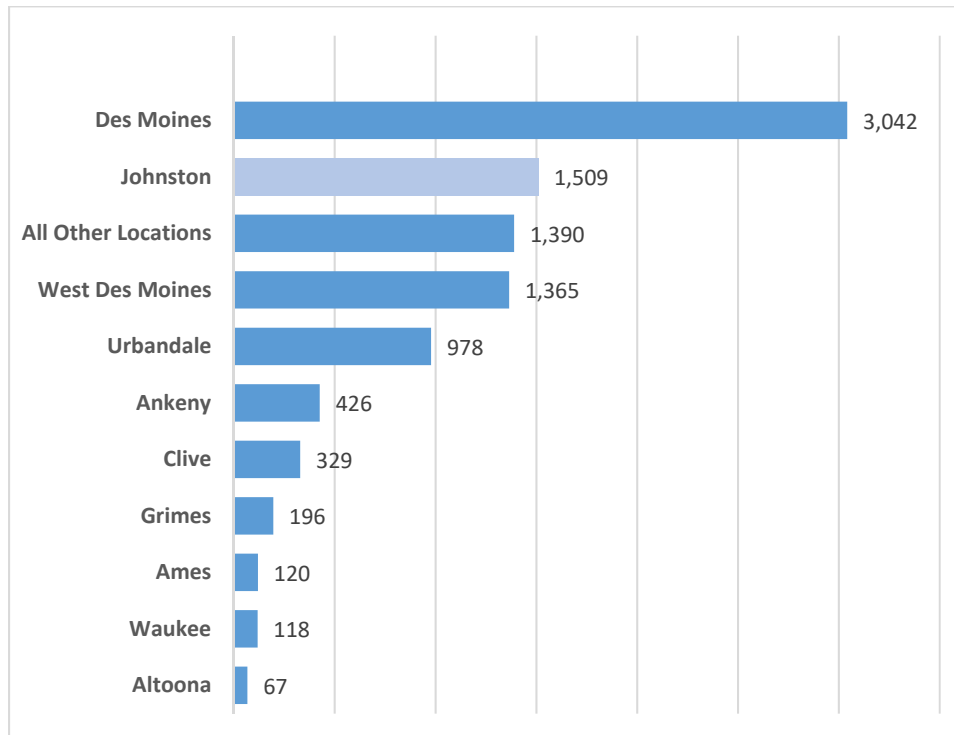
As shown in Figure 9, Johnston has been adding both jobs and employees rapidly over the past decade. In 2014, daily in-commuting approaches 12,000 total workers while out-commuting 8,000. Just 1,509 people both live and work in Johnston daily.

**Table 7. Inflow/Outflow Job Counts (All Jobs), 2004 & 2014**

Workers (age 25+)	2004	2014	Change	% Change
<b>Employed in Johnston</b>	9,205	13,129	+3,924	+43%
<b>Employed in Johnston but Living Outside</b>	8,595	11,620	+3,025	+35%
<b>Employed and Living in Johnston</b>	610	1,509	+899	+147%
<b>Living in Johnston</b>	3,960	9,540	+5,580	+141%
<b>Living in the Johnston</b>	3,350	8,031	+4,681	+140%
<b>Living and Employed in Johnston</b>	610	1,509	+899	+147%

Given the scientific and technical nature of jobs among major Johnston employers, together with the relatively low incidence of Millennials (who tend to be drawn to such jobs) in the City, there would seem to be an emerging housing opportunity for Johnston to target that group with more urban-styled multifamily options before that cohort moves entirely into child-rearing years.

**Figure 10: Where Johnston Residents Work, 2014**

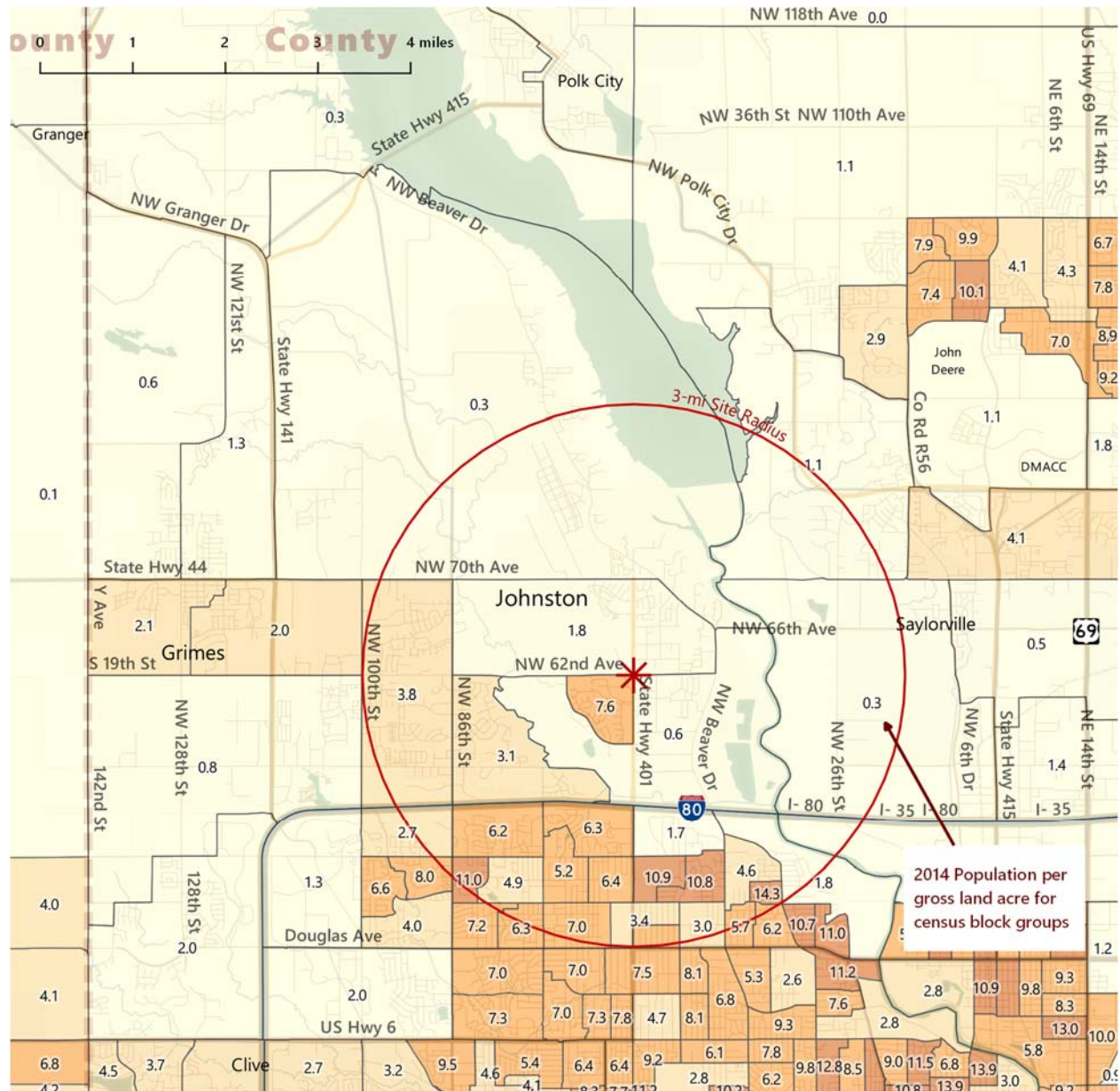


Source: U.S. Census 2014 Longitudinal Employment-Household Dynamics (LEHD) dataset and Leland Consulting Group

## MARKET AREA PROFILE

### Demographics

**Figure 11: Population Density, Johnston Vicinity (2014)**

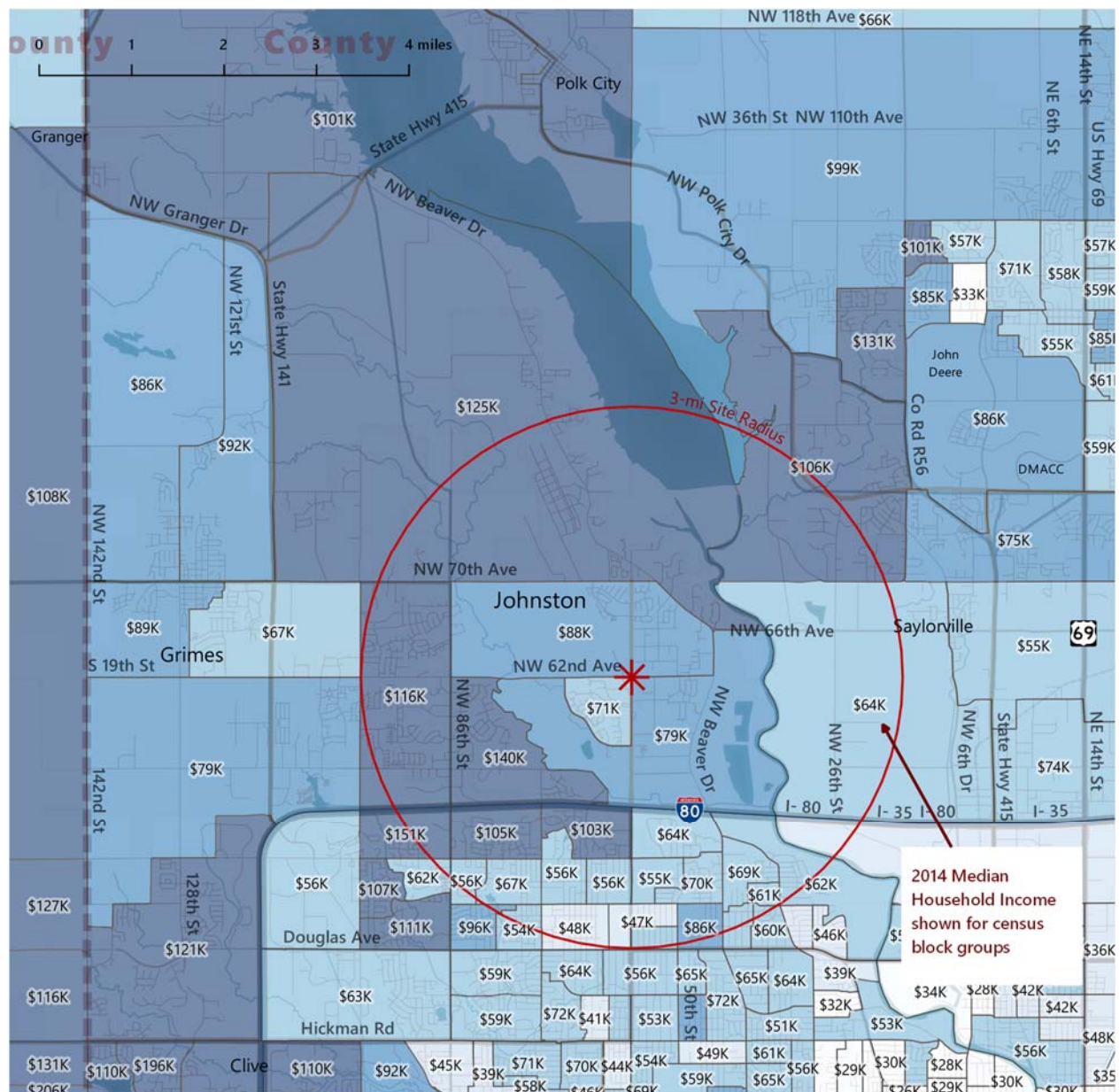


Source: U.S. Census/ACS 2014 (block group level) and Leland Consulting Group

2014 population densities shown in Figure 11, above, likely understate the concentration of residents now living north of I-80, especially in Johnston and Grimes, where recent homebuilding activity has been brisk. That said, population density in Johnston is generally quite low, even when compared to nearby suburbs of Ankeny, Urbandale and even Waukee. Density is actually highest (as of 2014) immediately southwest of the study area, where there are 7.6 residents per gross acre of land. North and south portions the identified 3-mile market area show a marked contrast in density, with relatively few residents in the northern half.

## Income and Educational Attainment

**Figure 12: Median Household Incomes, Johnston and Region**



Source: U.S. Census/ACS 2014 (block group level) and Leland Consulting Group

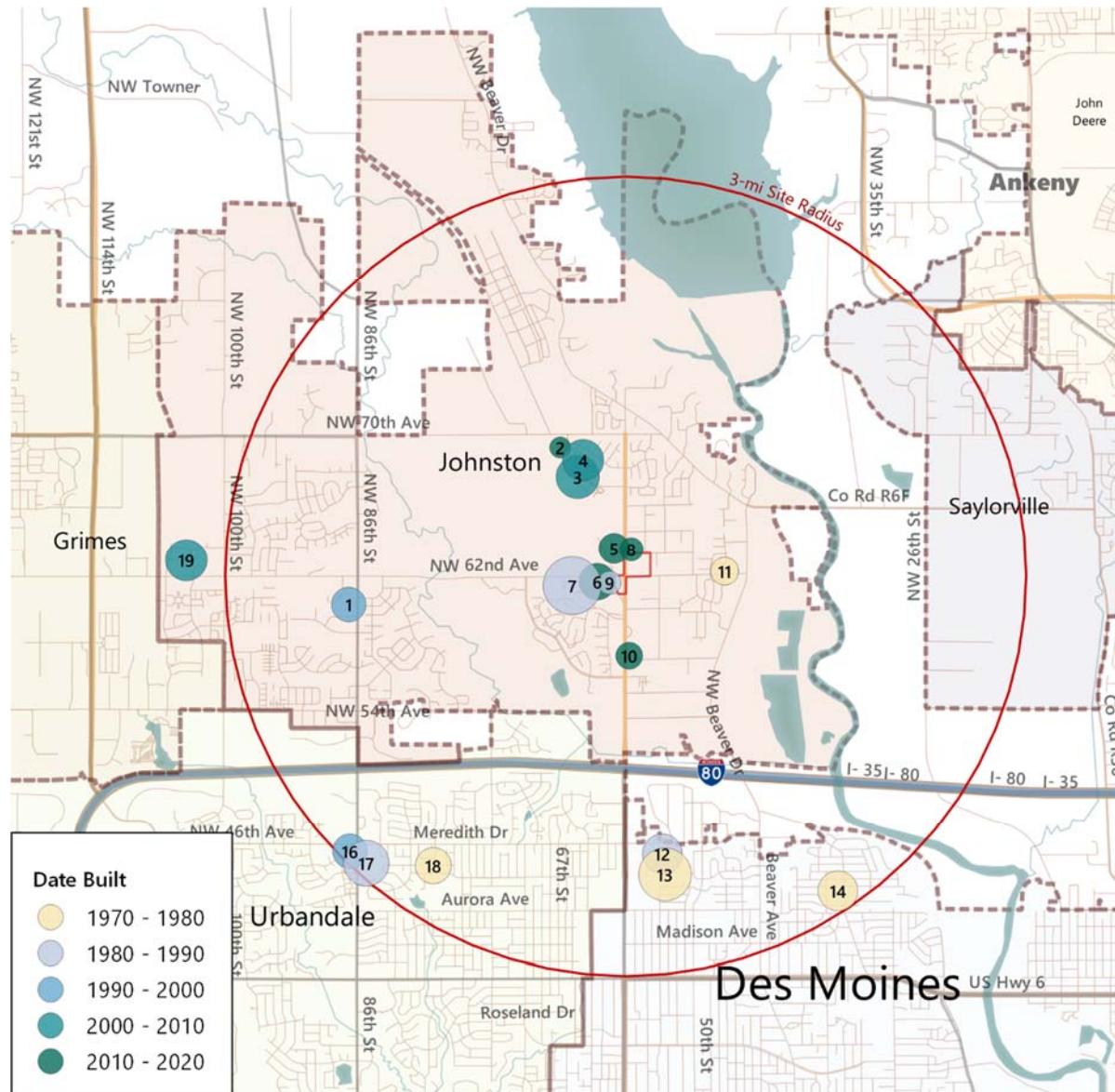
Market area household incomes are generally higher to the west and north of the subject property, with medians approaching and even exceeding \$150,000 annually near the intersection of I-80 and 86<sup>th</sup> St. Although there is some block-to-block income diversity, affluence generally decreases as one approaches central Des Moines to the southeast. However, even the lower income block groups in the market area are on par with or somewhat higher than the national median income.



## RESIDENTIAL MARKET SUPPLY & DEMAND

### Supply Characteristics

**Figure 13. Apartment Supply, 3-mi. Market Area**



Source: Leland Consulting Group, using Polk County parcel data and on-line research with multiple apartment brokerage sites

**Table 8: Apartment Supply, 3-mi Market Area**

Map Key	Name	Units	Rent-Low	Rent-High	Available Units	Built	Stories
1	Crescent Chase	120	\$859	\$939	12	1994	3
2	Ridge at Johnston Commons	58	\$1,295	\$1,595	0	2012	2
3	Chapel Ridge of Johnston	207	\$800	\$1,395	5	2004	2

Map Key	Name	Units	Rent-Low	Rent-High	Available Units	Built	Stories
4	Mansions at Hemingway	184	\$1,165	\$1,515	4	2002	2
5	Cadence Apts	92	\$995	\$1,650	29	2016	3
6	Residences at 62W (completing construction)	137	\$1,275	\$2,170	n/a	2017	4
7	Winwood Apts	418	\$854	\$965	2	1986	2
8	Cornerstone Commons (senior affordable)	62	\$510	\$1,065	0	2013	3
9	AHEPA 192 Senior Apts (affordable)	60	\$329		0	1989	3
10	Johnston Gardens Apts	72	\$1,060	\$1,260	3	2015	3
11	Various Older 7-unit Apts	77	n/a	n/a	0	1967	2
12	Westchester Square	168	\$745	\$889	14	1986	3
13	Village at Westchester	334	\$739	\$769	14	1978	3
14	Woodland Park Apts	168	\$585	\$925	7	1973	3
15	Plaza Manor	140	\$619	\$699	2	1967	3
16	Cross Creek	120	\$655	\$955	4	1997	3
17	Bristol Ridge	235	\$750	\$790	4	1985	3
18	Timberland at Meredith	132	\$700	\$830	1	1974	3
19	Providence Pointe*	189	\$1,000	\$1,500	3	2009	2
	<b>Total Units</b>	<b>2,973</b>					
	<b>Total, excluding under construction units</b>	<b>2,836</b>			<b>104</b>		
	<i>Vacancy rate for existing units</i>	<i>3.7%</i>					

Source: Leland Consulting Group, using Polk County parcel data and on-line research with multiple apartment brokerage sites.

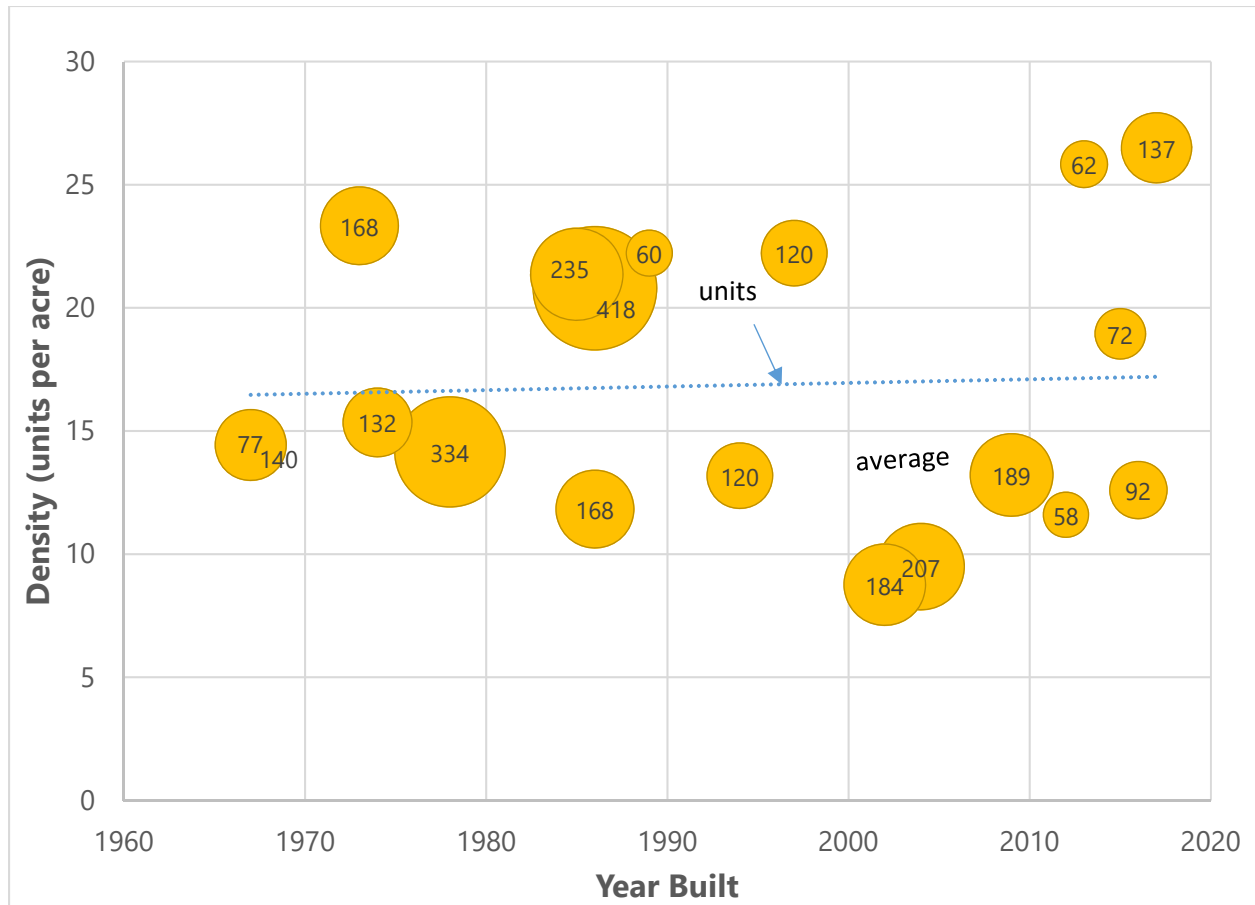
Note: Vacancy based on units available as of Jan 24, 2017 survey (excluding 137 units still under construction at Residences at 62W).

\*Providence Pointe actually lies just beyond the 3-mile subject radius, but is included in this analysis because it lies within Johnston and would likely compete with subject property units.

- The 3-mile market area includes nearly 3,000 apartment units within 19 projects of 20 or more units. All identified properties were either 2- or 3-story construction.
- 2016 Census-based ESRI figures show the market area as having 26 percent renter households, translating into approximately 4,000 market area rental units. This suggests that some 1,000 current rental units are likely part of small (<20 unit) developments (including single-unit rentals).
- With just 104 of the 2,836 completed (surveyed) units currently available for rent, the 3-mile market area appears to have a 3.7-percent overall vacancy rate. Occupancy above 95-percent is typically considered a “tight” or “landlord’s market,” with insufficient supply to keep up with turnover and new demand.
- The subject property is within just one mile of 42-percent of all market area units identified here. All post-2000 apartment construction (except for *Providence Pointe*) also lies within one mile of the subject.

- The subject property is, in fact adjacent or nearly adjacent to five apartment projects with a total of 749 units. One, *Residences at 62W*, with 137 units, is completing construction at the time of this report. Two others are “active senior” apartments with at least a portion of units set aside as affordable.
- Asking rents in the market area are highly dependent on year of construction

**Figure 14: Market Area Apartment Projects by Density and Year Built**

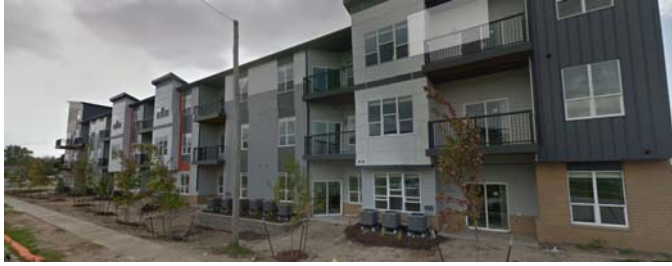


Source: Leland Consulting Group, using Polk County parcel data and on-line research with multiple apartment brokerage sites.

The graphic above illustrates trends in project size and density over time within the study area. While the average project density has consistently been between 16 and 19 units per acre (rising slightly over time), most projects have actually been built either under 15 du/a or above 20 du/a. The most recent project, *Residences at 62 W*, are 26.5 du/a, higher than any preceding development in the area.



*Cornerstone Commons (Senior Affordable Apartments)*

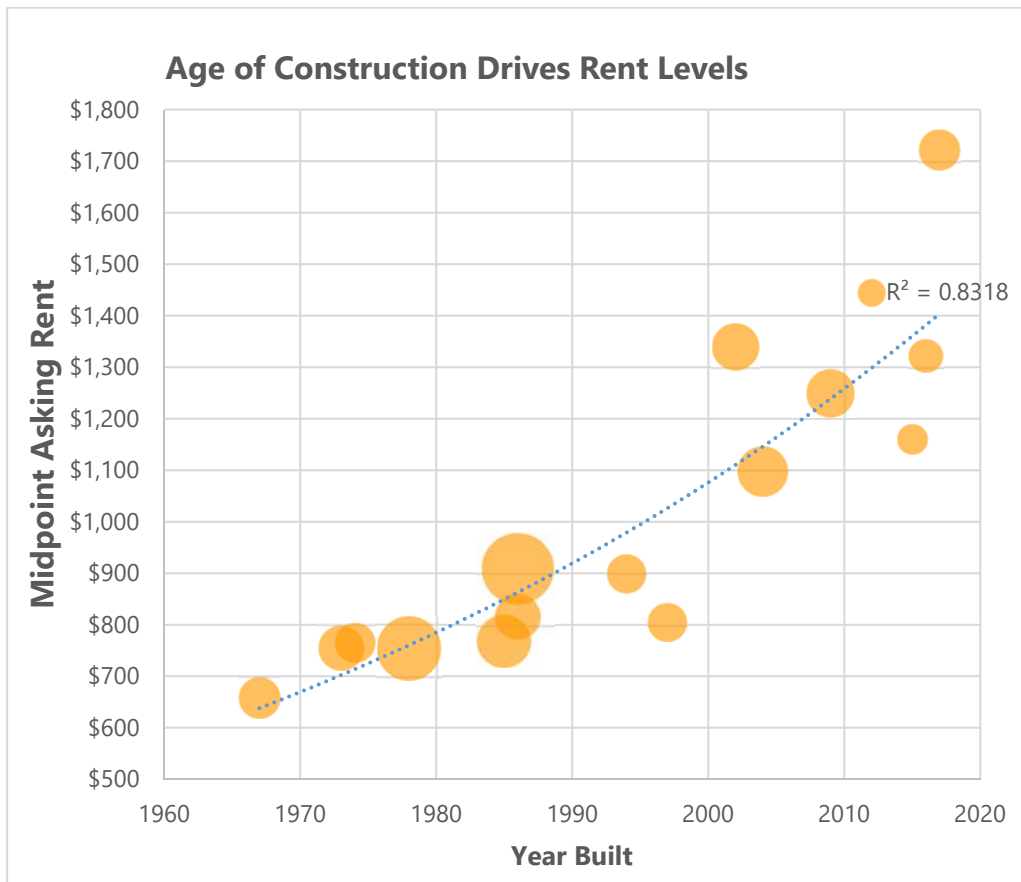


*Cadence Apartments*



*Residences at 62W (artist's rendering)*

**Figure 15: Rent vs. Year Built, Market Area Apartments**



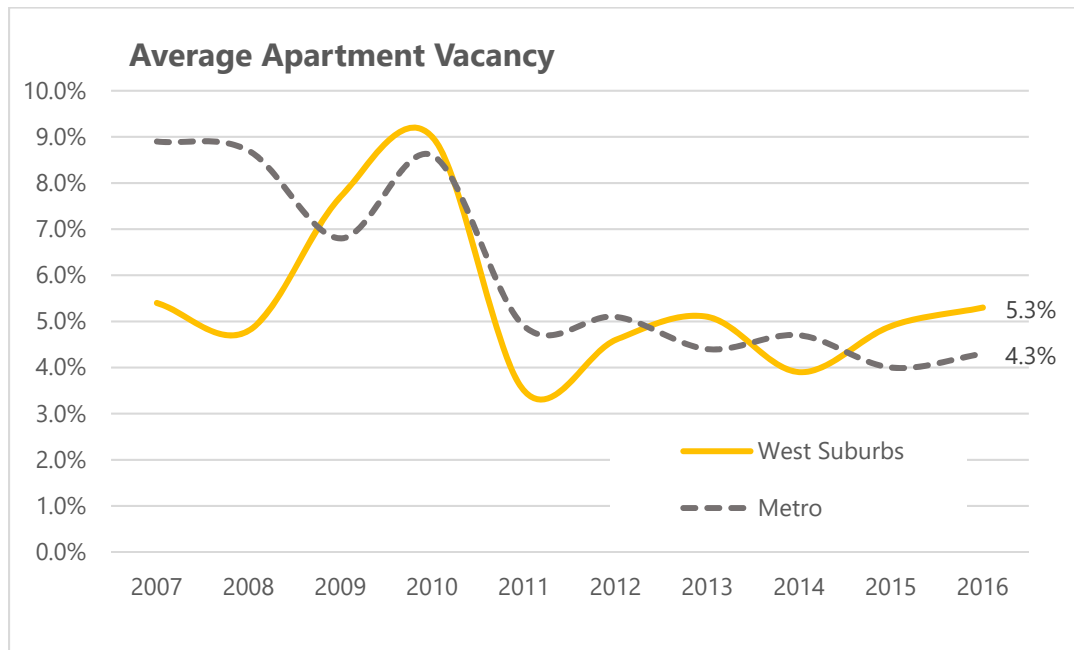
Source: Leland Consulting Group, using Polk County parcel data and on-line research with multiple apartment brokerage sites.

Note: Chart excludes two senior affordable projects in the market area

Figure 16, above, illustrates trends in the strong relationship between recency of construction and asking rents among market area apartments (year built explains about 83% of the variability in rent). While location is, of course, important in attainable rent, it appears here to be secondary to product age.

In comparison to the overall metro market, the western suburbs have had a comparable vacancy rate since the recession. The market area vacancy rate of 3.7 percent is slightly lower than both the metro and western suburb overall rates. Rents across the combined western suburbs are somewhat higher for each major unit type, when compared to metro-wide rates. Assuming a typical apartment size of two bedrooms, the market area around this subject property appears to support asking rents well in excess of regional comparisons, especially for more recent construction.

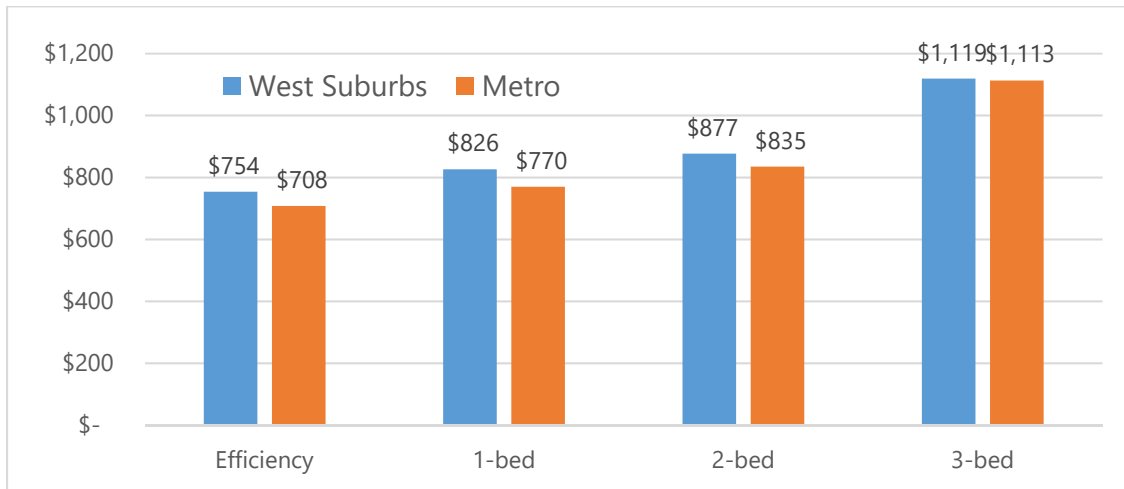
**Figure 16: Apartment Vacancy Trends, Metro Des Moines vs. Western Suburbs**



Source: CBRE 2016 Market Report

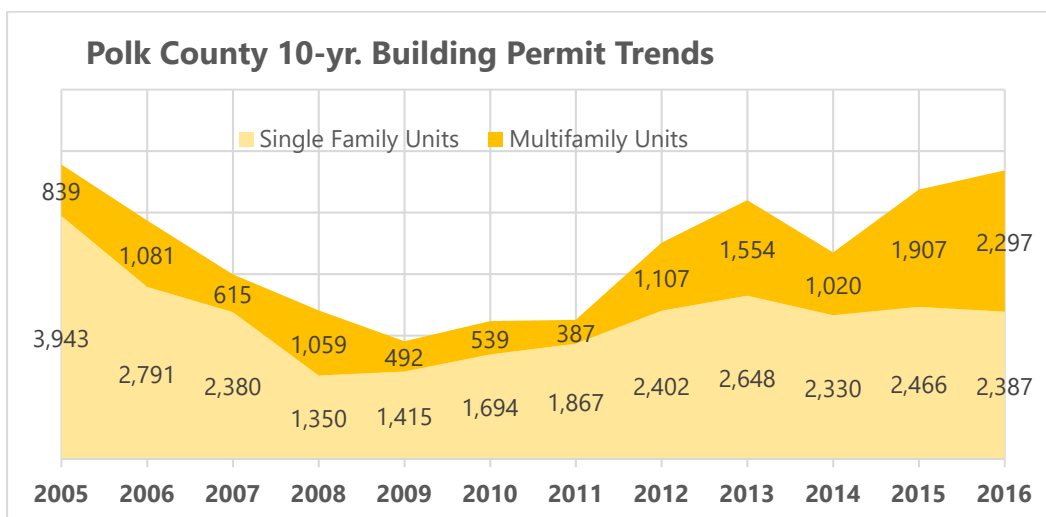
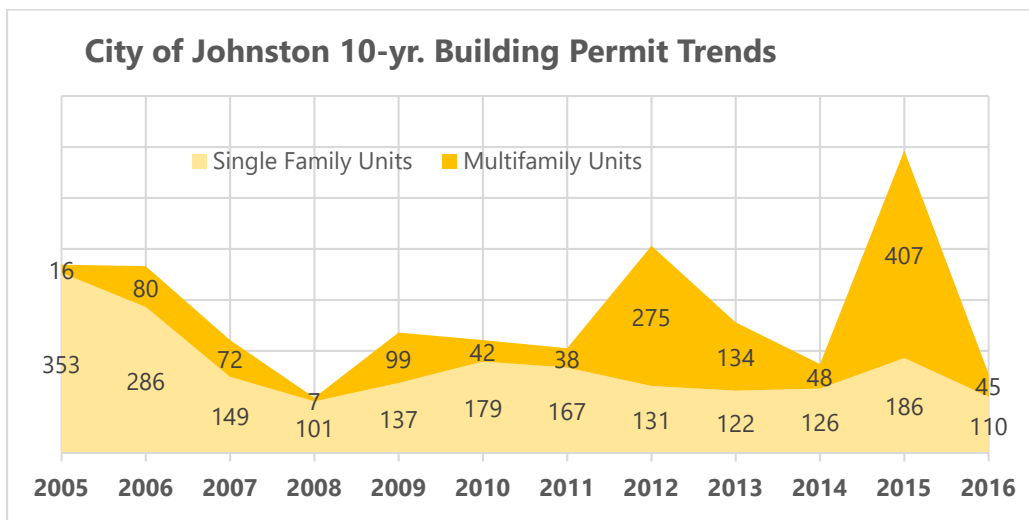
Note: Western Suburbs include Johnston in addition to West Des Moines, Urbandale, Grimes, Clive and Waukee

**Figure 17. Average Apartment Rents, West Suburbs vs. Des Moines Metro**



Sources: CBRE

**Figure 18: Building Permit Trends, City of Johnston and Polk Counties**





Source: HUD (from U.S. Census, based on local reporting) and Leland Consulting Group

Figure 18 shows building permit activity for the city, as well as Polk County overall. Leading up to the housing bust of 2008-2010, Johnston peaked by permitting more than 360 units annually in 2005 and 2006. After a relatively soft recession (compared to national markets) Johnston's single family construction has rebounded steadily, but not quite to pre-recession levels. As with most other urban markets in the U.S., the Des Moines metro, and the City of Johnston specifically, have witnessed a very active (if volatile) multifamily construction market.

Johnston's multifamily development has been particularly volatile, with 275 permits in 2012 and nearly 400 in 2015, but comparatively modest activity in 2014 and 2016 (through November).

Polk County's continued apartment construction boom in 2016 is likely due in part due to national and regional trends for ever more urban apartment products, particularly in mid-size downtowns such as Des Moines'.

## Planned and Proposed Multifamily Activity

Despite increasing apartment rents and decreasing vacancy rates, the market area has just one known planned project in the inventory pipeline. Called Bricktowne Johnston, this Jensen Group development would bring 384 new units just two blocks north of the study area, just west of Merle Hay Rd. at NW 64<sup>th</sup>.

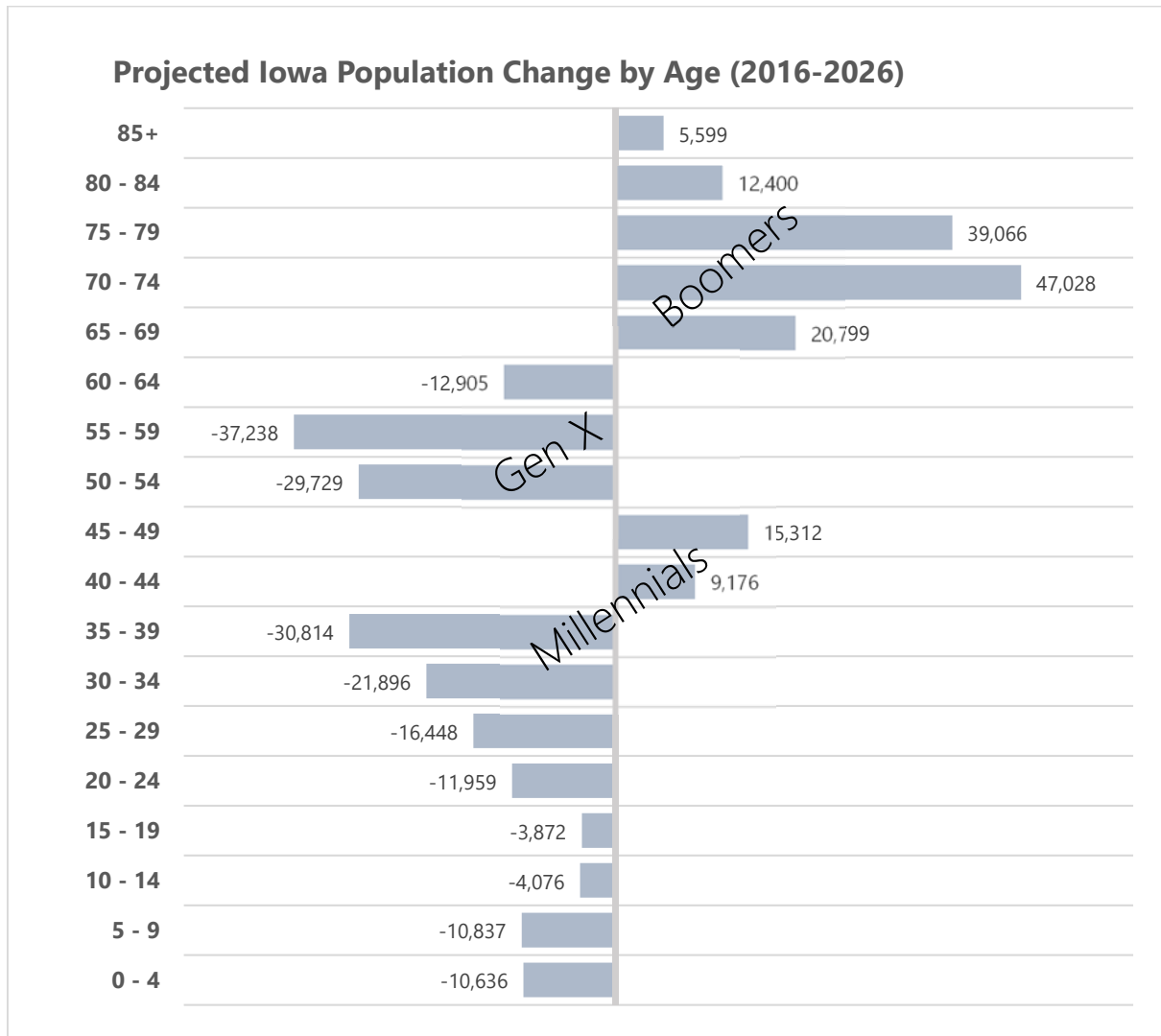


While the addition of so many units in the immediate proximity of the subject property would bring heightened competition for residential development, the 3-5 year market demand for multifamily should be adequate to support multiple projects of this scale. Furthermore, Brickstone will add additional support for neighborhood-scale retail in the market area.

## **Demographics and New Residential Demand**

- As with much of the nation, The State of Iowa is projected to experience the highest growth in the Millennial and Baby Boomer cohorts. Baby Boomer growth will likely result in increased demand for senior housing and 1- and 2- bedroom units as they begin to downsize, both of which are more prevalent in the study area vicinity. In contrast, as Millennials begin to settle down and have children there may be increased demand for larger units which will typically be in the form of single-family structures or multiple-bedroom multifamily properties.
- For nearly a decade, Millennials have driven most of the demand for apartments due to their prime renting age and their distinct preference for mobility. While it is likely that there will be an increase in the number of Millennials choosing conventional single-family housing as they start families, many—a greater proportion than any prior generation—are expected to become lifetime renters to avoid the responsibility of ownership, using their income instead to support a more urban lifestyle. Those Millennials that do turn to ownership might yet turn to condominiums rather than single-family housing.
- Older Baby Boomers and empty nester households who want to downsize from the responsibilities of single-family homes will have a significant role in the future of Polk County housing. This generation generally wants the freedom to travel for significant periods of time. Multifamily housing, in this regard, provides the opportunity to “lock and leave”. Prior to the recession, Baby Boomers typically sought condominiums, but have since become disillusioned by high property taxes, rising homeowner’s association fees, and the absence of appreciation in many condo buildings.
- The Silent Generation (those currently over 69 years-of-age) will increasingly leave their homes in search of convenience and accessibility. This will drive the demand for senior living facilities, as well as stacked-flat developments and other accessible multifamily developments.

**Figure 19: Projected Iowa Population Growth by Age (2016 to 2026)**



Source: Iowa State Data Center and Leland Consulting

- Gen X are typically the generation most prone to home ownership and least likely to desire urban amenities. Most of this population are expected to move to larger living quarters within five years. The Gen X population in Polk County is projected to decline, consistent with Johnston's current age distribution, which is likely to limit demand for larger single-family developments.
- Significant Millennial and Baby Boomer growth will continue to drive residential demand for rental units, but Millennials will have a stronger impact on the demand for ownership units.
- Many people want to live in more walkable neighborhoods. Nationwide, one-quarter live in single-family homes, but would prefer an attached home in a neighborhood where they could walk to places with a shorter commute.

## Estimating Future Market Area Residential Demand

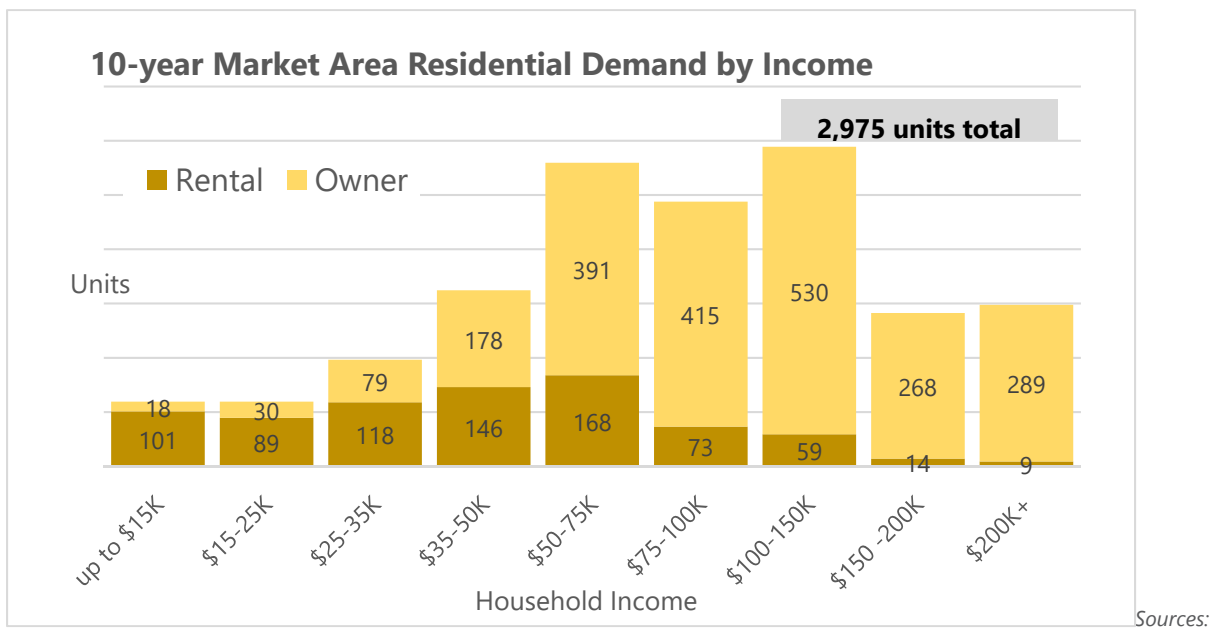
**Table 9: Key Residential Growth Assumptions**

		Notes
<b>Households 2016</b>	15,110	Source: ESRI (census-based)
<b>Annual Growth Rate</b>	1.73%	Blend of 16-year historical rate and ESRI 5-year projection
<b>Households 2026 (projected)</b>	17,943	apply growth rate
<b>Household Growth (2016-26)</b>	2,833	difference
<b>Adjustment factor</b>	+ 5%	one-time flat addition necessary to preserve healthy vacancy/turnover rates plus small amounts of demolition replacement and 2 <sup>nd</sup> home purchases
<b>Adjusted Unit Requirement (2016-2026)</b>	2,975	growth x 1.05

The market area can expect a total residential demand of 2,975 new units in the coming decade. Most of that demand in the market area will be for housing units suited to households earning \$50,000 to \$150,000 (1,636 units).

Nearly three-quarters of new demand, or approximately 2,200 units in all, should continue to go towards ownership products in this market, with the remaining 777 rental units going mainly to households earning less than \$75,000.

**Figure 20. 10-Year Residential Demand, 3-mile Market Area**



The following tables address the attainable share of remaining market area residential demand that could realistically be captured on the subject property (by unit type and price point).



**Table 10: 10-Year Market Area Apartment Demand and Attainable Subject Capture**

Annual Income Range	Approx. Rent Range	Market Area Rental Demand (units)	Conservative Capture Rate (within rentals)	Conservative Study Area Capture (units)	Attainable Capture Rate (within rentals)	Attainable Study Area Capture (units.)
<b>\$15-25K</b>	\$375 - \$625	89	15%	13	25%	22
<b>\$25-35K</b>	\$625 - \$875	118	15%	18	25%	29
<b>\$35-50K</b>	\$875 - \$1,000	146	15%	22	25%	36
<b>\$50-75K</b>	\$1,000-\$1,500	168	15%	25	25%	42
<b>\$75-100K</b>	\$1,500+	73	15%	11	25%	18
<b>\$100-150K</b>	\$2,000+	59	15%	9	25%	15
<b>\$150 -200K</b>	\$2,500+	14	15%	2	25%	4
<b>over \$200K</b>	\$3,000+	9	15%	1	25%	2
<b>Totals</b>		<b>676</b>	<b>15%</b>	<b>101</b>	<b>25%</b>	<b>169</b>

Of the estimated 676 units of new apartments within the 3-mile market area by 2026, the subject property should be able to capture a share of 15-25 percent, based on its size and likely competitive position in the market. In terms of units, 10-year absorption for the Merle Hay & 62<sup>nd</sup> study area could range from 101 to 169 apartments.

**Table 11: 10-Year Market Area Ownership Attached Unit Demand and Attainable Subject Capture**

Annual Income Range	Approx. Home Price Range	Market Area Townhome-Condo Demand	Conservative Capture Rate (within condo-townhome)	Conservative Study Area Capture (units)	Attainable Capture Rate (within condo-townhome)	Attainable Study Area Capture (units.)
<b>\$15-25K</b>	\$100 to \$175K	4	15%	1	25%	1
<b>\$25-35K</b>	\$150 to \$225K	16	15%	2	25%	4
<b>\$35-50K</b>	\$200 to \$275K	36	15%	5	25%	9
<b>\$50-75K</b>	\$250 to \$375K	78	15%	12	25%	20
<b>\$75-100K</b>	\$350 to \$550K	83	15%	12	25%	21
<b>\$100-150K</b>	\$500K and up	53	15%	8	25%	13
<b>\$150 -200K</b>	\$500K and up	13	15%	2	25%	3
<b>over \$200K</b>	\$500K and up	14	15%	2	25%	4
<b>Totals</b>		<b>298</b>	<b>15%</b>	<b>45</b>	<b>25%</b>	<b>74</b>

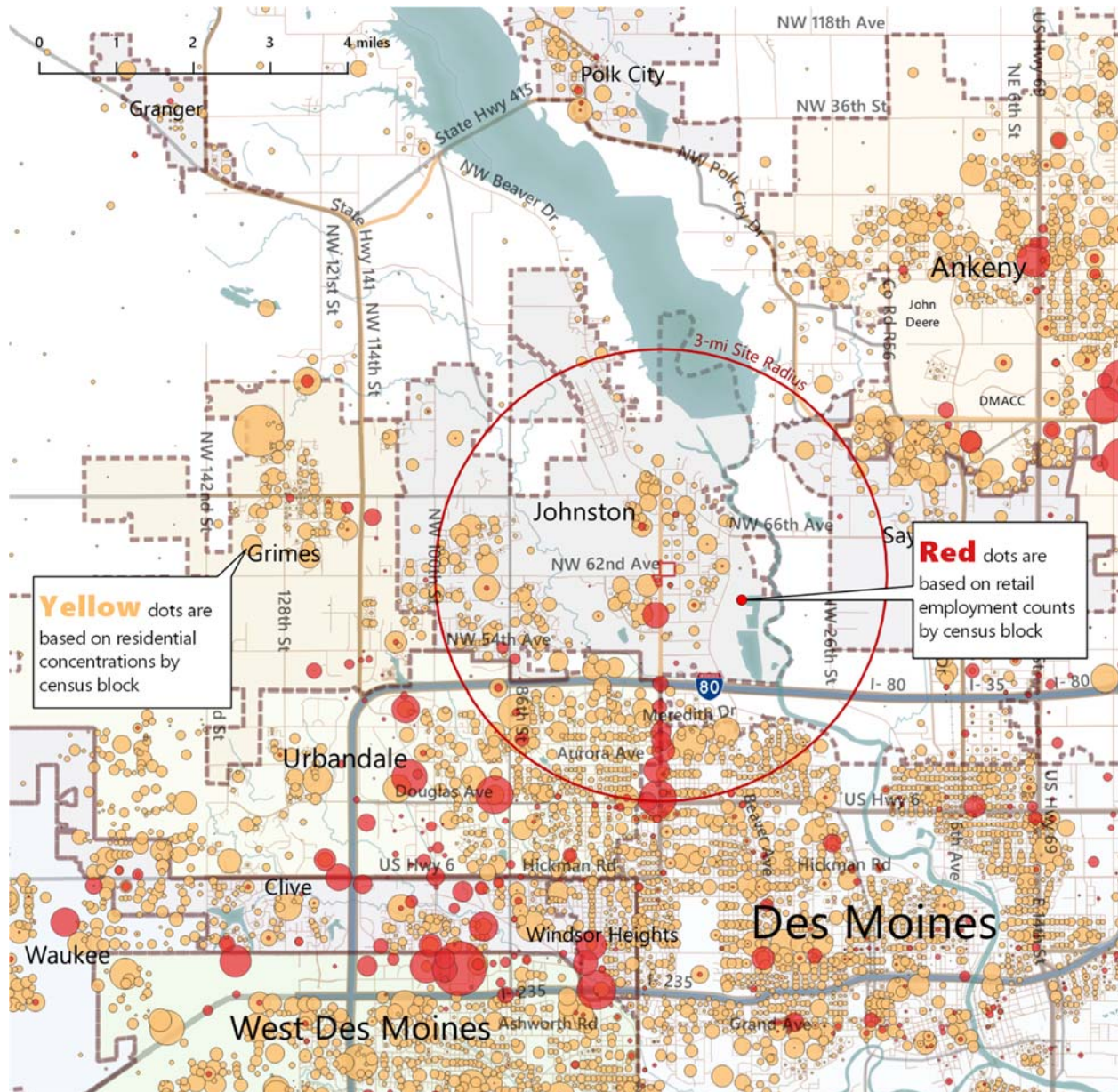
Condominium demand is somewhat more difficult to predict, given the construction liability complexities and market cycle volatility. Assuming condos and townhomes (and related ownership attached products such as rowhomes, plex and lofts) grow to constitute 15 percent of all market ownership demand, the market area as a whole could absorb nearly 300 new such units. The subject property, should be able to capture a share of 15-25 percent, based on its site competitiveness. In terms of units, the 10-year share for the subject could range from 45 to 74 condo/townhome/rowhome units.

Demand for these two multi-family categories could be additive, resulting in total medium-density multifamily residential capture of approximately 145 to 240 units.

## RETAIL MARKET SUPPLY AND DEMAND

### Retail Supply Characteristics

**Figure 21. Retail Concentrations Relative to Housing, Region**



Source: Census LEHD (2014 data) and Leland Consulting Group

The figure below illustrates the distribution of retail and housing across north metro Des Moines. Johnston's relative imbalance – with much more housing than retail – is clearly visible in the pattern of clustering. The Hy-Vee-anchored Village Square development can be seen directly south of the study area. Beyond that, however, most retail along Merle Hay Rd. is south of the city limits. The Merle Hay Mall and surrounding retail marks the southern extent of the 3-mile market area. Because this mapping relies on 2014 data, it is missing both considerable new housing and some newer Merle Hay Rd. retail development (including the Panera-anchored Johnston Station at 55<sup>th</sup>).

Outside of the Merle Hay Mall vicinity and Village Square development, the retail and dining activity within the market area generally consists of strip centers and stand-alone establishments. The Walmart Supercenter in Grimes is just beyond the market area to the west.

**Figure 22: Metro and West Suburbs Retail Supply Conditions**

	<b>Inventory</b>	<b>Occupancy</b>	<b>Net Absorption (2014-2016)</b>
<b>Neighborhood &amp; Community Centers</b>			
<i>West Suburbs</i>	3,713,156	83.4%	301,078
<i>Metro DSM</i>	6,810,119	82.6%	494,617
<i>West Suburbs % of Metro</i>	55%		61%
<b>Big Box</b>			
<i>West Suburbs</i>	5,258,073	94.1%	190,035
<i>Metro DSM</i>	10,318,527	95.4%	354,636
<i>West Suburbs % of Metro</i>	51%		54%

Source: CBRE 2016 Market Report, and Leland Consulting Group

Neighborhood and community centers, both in the Western Suburbs and the Metro as a whole are considerably less healthy from an occupancy standpoint, when compared to Big Box, with vacancies exceeding 15 percent as of 2016. For retail, a 5 to 7-percent vacancy rate is typically considered a healthy equilibrium.

## Estimating Future Market Area Retail Demand

Looking at estimates sales and household spending potential across a variety of retail categories for the market area, together with the same projections of household growth used in the residential demand analysis, we can provide a rough estimate of new retail demand that can be absorbed within the 3-mile market area over the coming decade (of which the study area may capture a limited portion).

This demand consists of two main components:

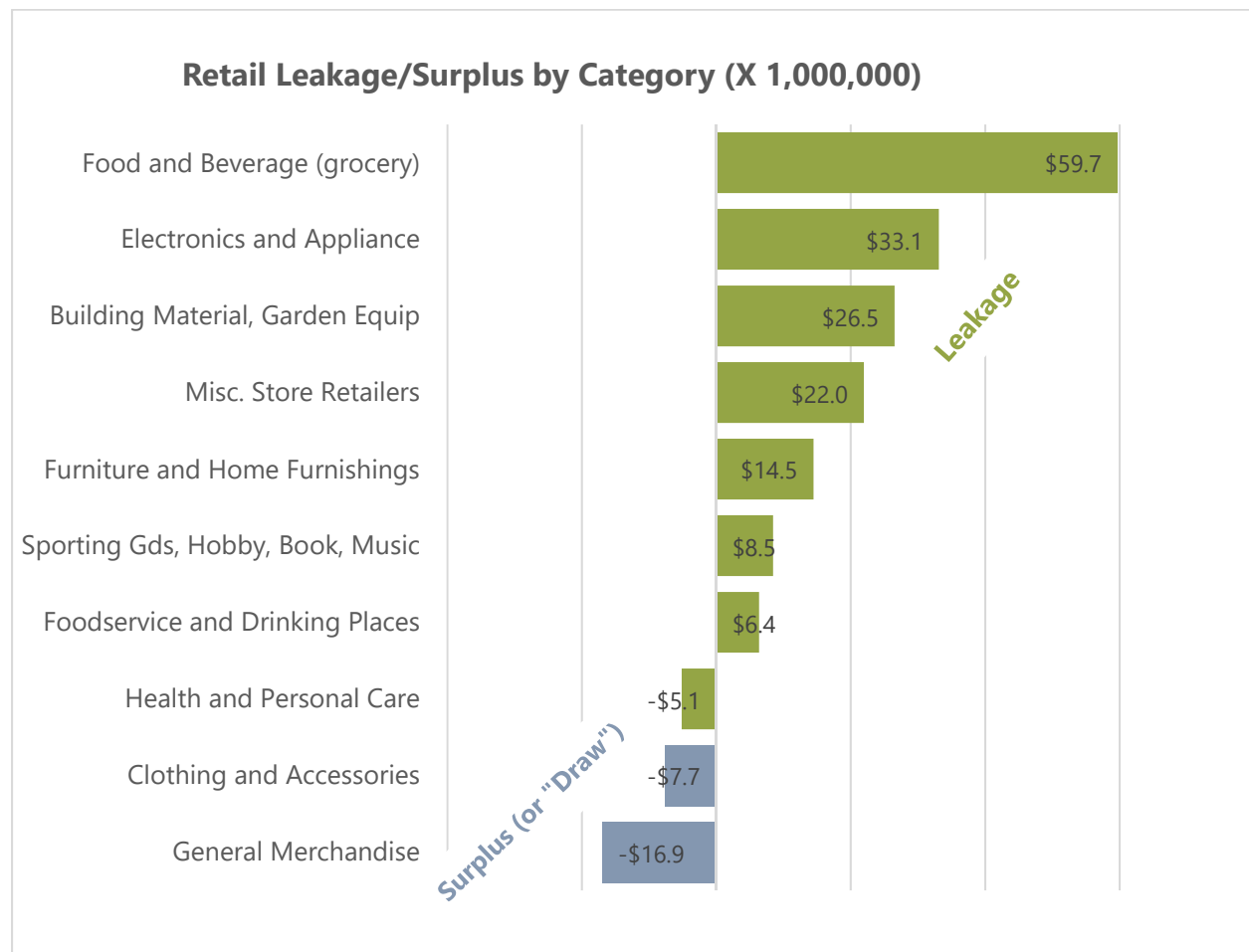
- Demand from re-capturable leakage (current household spending potential in excess of estimated local sales)
- New demand from household growth – typically the largest component of new demand

A small additional demand source may come from replacement of obsolete physical space in the area.

## Leakage/Surplus Analysis

Leakage in the market area (spending potential from market area household that is not being captured by retailers within that same area) can be found across most store categories (with the sole exceptions of clothing/accessories and general merchandise). This is not an uncommon situation for suburban areas that have historically served a “bedroom community” role in the region, as consumers develop shopping and dining habits over time based on limited store availability. Some portion of this leakage, especially in grocery, convenience and personal care categories, can eventually be recaptured by such communities as they mature and diversify in terms of land uses.

**Figure 23: Current Retail Leakage/Surplus Analysis, 3-Mile Market Area**



Source: ESRI and Leland Consulting Group

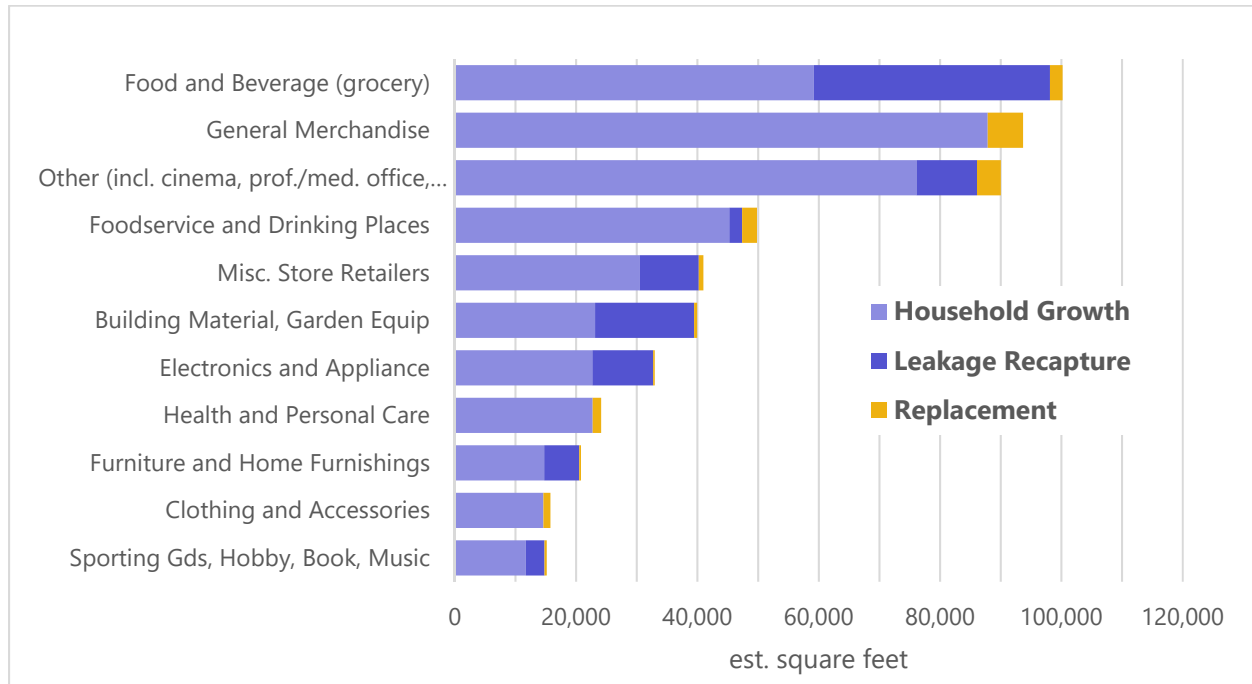
Note: ESRI estimates of market area grocery sales were unaccountably low, appearing to be in error. Leland Consulting Group surveyed area supply to arrive at new estimates for that category.

“Surplus” spending in the remaining categories is not necessarily an indicator that the market area has *too much inventory* of a particular store type. Instead, it may mean that the area may contain individual stores or entire districts that have a competitive advantage in a given category – with an ability to “draw” spending dollars into the market area from households living outside. In the case of this analysis, what shows up as a surplus in

general merchandise and clothing/accessories reflects the mall's ability to attract spending from more densely populated neighborhoods to its south (and outside the market area) in addition to Johnston households.

As new households move to and are formed within the market area over the next decade, those new households will boost the overall spending potential available for retailers. Figure 24 shows the combined new demand that can be created by recapturing some available leakage, serving needs of new households and replacing a modest portion of existing, obsolete retail space.

**Figure 24: 10-Year Market Area New Retail Demand by Category**

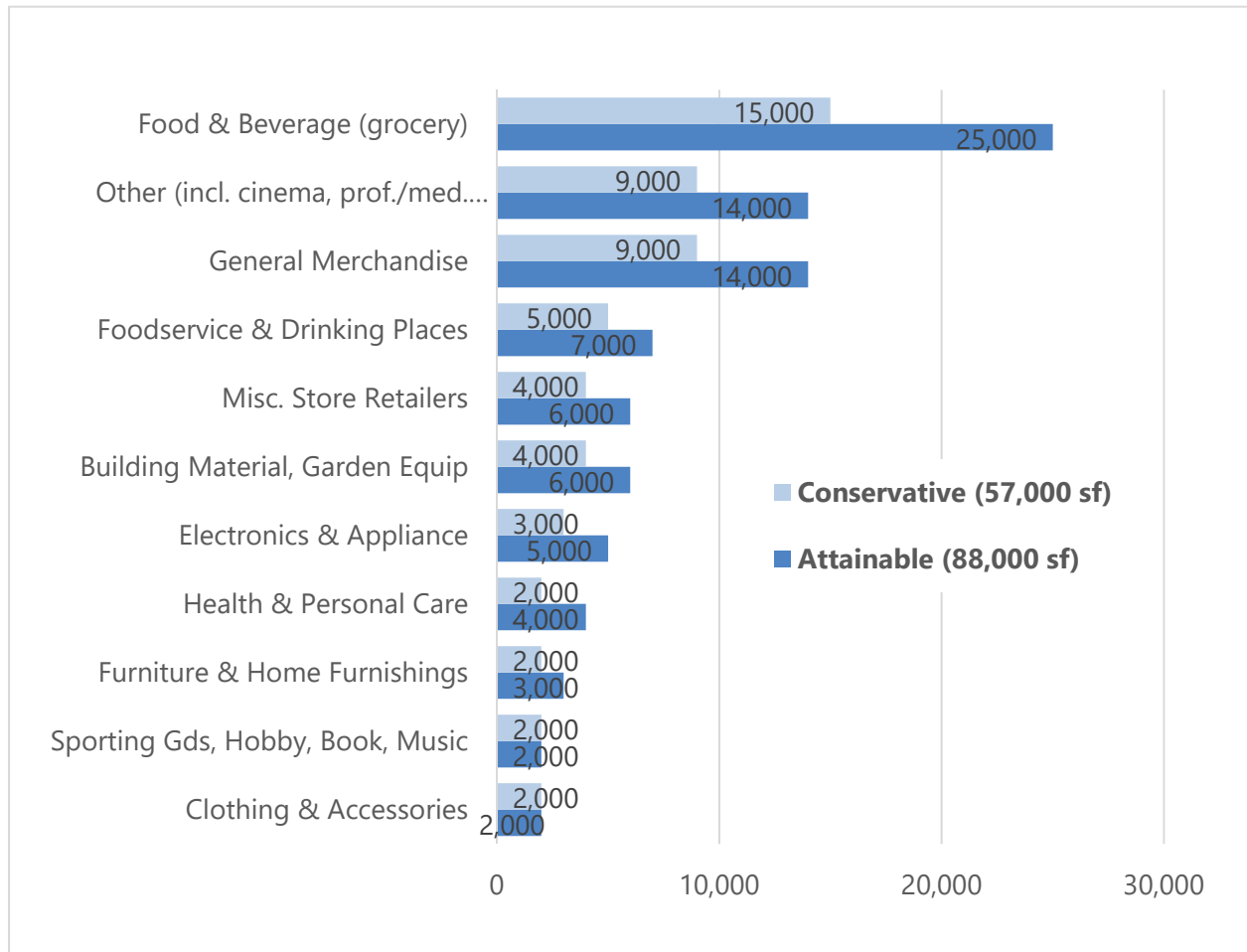


Notes:

- *General Merchandise* includes big box retail stores such as Kohl's, Sears, Target, Big Lots, etc.
- *Misc. Store Retailers* include smaller, specialty retailers like the Hallmark Store, Office Depot, Staples, Hockenbergs, and Boesens.



**Figure 25: 10-Year Subject Property Retail Demand (Capture) by Store Category**



## SUMMARY OF MARKET DEMAND POTENTIAL

The following table summarizes market supported demand for private-sector real estate development in the subject property study area over the next 5-10 years, based on a variety of prevailing market conditions including: regional growth trends, local and regional demographics, local amenities, access considerations and likely competitive activity across the broader local area.

**Table 12: Subject Property Development Recommendations Supportable by 2026**

Product Type	Demand (conservative)	Demand (attainable)	Notes
<b>Residential</b>			<b>Density:</b> aim for minimum of 20 du/a, possibly higher
Ownership Attached	40 units	70 units	Condo, townhomes, rowhomes, or stacked flats. Consider 3 or even 4-story form to help define compact, walkable town center streetscape
Apartments	100 units	170 units	3-4 story apartments, stacked-flat rentals, and mixed use developments. As with ownership multifamily, goal is to improve residential "critical mass" of the subject property. Strongest apartment market likely over next 1-3 years, but continued moderate demand in years 4-6.
Single Family Detached	*	*	SFD is supported by the market for this area but is a poor fit with town center-like visions
<b>Non-Residential</b>			<b>Density:</b> aim for minimum .25 FAR, maybe higher
Professional Storefront Office (including potentially live/work creative space)	8,000 s.f.	12,000 s.f.	Demand growth for professional/technical services and health/medical clinics (including dental, chiropractic, physical therapy, etc.) could support a smaller office building, but more likely to be part of mix for storefront-type space.
Fitness, Yoga, Jujitsu or Dance or similar studio space	5,000 s.f.	7,000 s.f.	(Confirmation needed -- coordinate with Bob Gibbs)
Dining & Drinking	5,000 s.f.	10,000 s.f.	Ideal anchor would be spin-off of local major restaurant in need of expansion
Grocery, Food & Beverage	15,000 s.f.	25,000 s.f.	Natural Grocer, Trader Joe's or similar smaller format market. Independent meat market or similar would also be excellent for establishing local flavor
Specialty/Art Cinema, specialty indoor sport (basketball, archery, shooting, ??)	5,000 s.f.	10,000 s.f.	Difficult to predict. Need motivated local tenant types to drive brainstorming (may need special credit/subsidy to pencil)
Misc. Retail, Health & Beauty, General Merchandise	10,000 s.f.	15,000 s.f.	

Source: Leland Consulting Group

The development potential shown here considers downtown zoning and land utilization patterns, in general, but does not reflect any site-specific capacity analysis. As such, demand support may exceed actual acreages available for assembly and redevelopment.