



Policy Development & Research

Analysis of the Des Moines, Iowa Housing Market

As of October 1, 2003



ECONOMIC RESEARCH

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may be useful also to builders, mortgagees, and others concerned with local housing conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any particular mortgage insurance proposals that may be under consideration in a particular locality or the housing market area.

The factual framework for this analysis follows the guidelines developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based upon information available on the "as-of" date from both local and national sources. As such, any findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis (Current date), and from the Current date to a Forecast date. The analysis presents counts and estimates of employment, population, households, and housing inventory, as of the 1990 Census, 2000 Census, Current date, and Forecast date. For the purposes of this analysis the forecast period is 24 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by James P. Laakso, the Division's Field Economist in the Omaha Area Office, based on fieldwork conducted in December 2003. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Laakso at 402-492-3111 and at Jim_P._Laakso@hud.gov.

Housing Market Area

For the purpose of this analysis, the Des Moines, Iowa Housing Market Area (HMA) shall be the same as the 1999 definition of the Des Moines, Iowa metropolitan statistical area by the U.S. Office of Management and Budget. The Des Moines metropolitan area consists of three counties: Dallas, Polk, and Warren. This analysis divides the HMA into three submarket areas: the City of Des Moines, the City of West Des Moines, and the Remainder of the HMA.

Summary

The City of Des Moines is located just south of the geographic center of Iowa. Interstate Highway 80 serves the HMA to the east and west, and Interstate Highway 35 runs to the north and south. While Des Moines is the state capital of Iowa, the city also is known as the “third insurance capital of the world” (behind London and Hartford).

Between 1990 and 2000, the Des Moines metropolitan area grew three times faster than the state. The Des Moines HMA represents only 15.6 percent of the population of Iowa, but its population growth over the past decade represented 42.2 percent of the state’s population growth.

From 1990 to 2000, nonagricultural employment in the Des Moines HMA increased an average of 2.2 percent annually. Between 2001 and 2002, however, the number of wage and salary jobs actually declined by 0.9 percent, or 2,700 jobs. Given that wage and salary employment grew by 0.6 percent during the past 12 months, the lull in the economy should be short lived. Nonagricultural employment is projected to grow at a rate of 2.0 percent annually during the 2-year forecast period

Household growth during the 2-year forecast period is expected to average 3,200 annually. This rate of growth significantly exceeds the household growth rate experienced during the past decade because of an expected increased rate of in-migration.

Currently, the sales market is very good, with existing and new homes both selling briskly. Sales for the first 9 months of 2003 are up 14 percent compared to the same period for 2002. The average price for all homes sold through September 2003 was \$152,000. Overall, balanced conditions exist in the rental market, with the vacancy rate currently estimated at 5.8 percent.

Based on the analysis of current and anticipated economic and demographic changes, estimates indicate that a demand for approximately 8,000 new housing units, consisting of 6,600 sales units and approximately 1,400 rental units, will exist during the 2-year forecast period.

Economy of the Area

The strong and growing economy of the Des Moines HMA is dominated by the finance and insurance industry, retail trade, government, the production of goods, and health care. Employment in goods-producing industries rose 7.0 percent from the previous year, mainly because construction employment rose 12.8 percent. Other sectors have also performed well compared to the previous year: retail trade employment rose 4.9 percent, finance and insurance came up 3.3 percent, and employment in the health care and social assistance category climbed 3.2 percent. Table 1 presents the trend in labor force and employment in the HMA from 1992 to the Current date. Table 2 presents the trend in nonagricultural employment by industrial sector from 1992 to the Current date.

More than \$2 billion in construction activity is driving the construction employment growth currently under way in the Des Moines HMA. Des Moines' status as a regional center keeps retail sales strong. The strength of the financial and insurance sector lies in the large presence of banks and insurance companies: 66 banks, federal savings & loans, and credit unions are located in the greater Des Moines area, as well as 70 insurance companies' home headquarters and another 100 insurance carriers' regional centers.

Of the 15 largest private employers, five are either insurance companies and/or in the delivery of financial services, four operate in retail or grocery sales, two deliver of healthcare services, and one is a manufacturer. The largest private employer, The Principal Financial Group, employs more than 8,000 people. Both Central Iowa Health System and Mercy Hospital Medical Center, the second and third largest private employers, have more than 4,200 workers. Bridgestone/Firestone, the largest manufacturer and the 11th largest private employer, uses more than 1,300 workers for manufacturing tires.

Nonagricultural employment in the last decade grew by an annual average of 2.0 percent. Growth in that sector began to slow after 1997 and by 2002 was in decline. In 1990, nonagricultural wage and salary employment averaged 225,900. By 2000, the number of wage and salary employment workers had grown to 288,400, an increase of 62,500, or 2.5 percent annually. Currently nonagricultural wage and salary employment in the HMA for the 12 months ending in September 2003 is estimated to be 286,700, a decline of 1,700 jobs.

The reconstruction of Interstate 235 through the heart of the City of Des Moines, the expansion of the Martin Luther King expressway to the southeastern part of the city, and the building of the Iowa Events Center (at a cost of \$218 million) in downtown Des Moines are the major current construction activities. For 2002 through the Current date, \$163 million in residential and \$322 million in commercial building permits have been issued within the City of Des Moines.

The major current building activity in the City of West Des Moines is the construction of the Jordan Creek Mall at a cost that may exceed \$200 million. From 2002 through the Current date, more than \$192 million residential and \$167 million commercial building permits have been issued. The projects currently proposed for development over the next

2 years are Wells Fargo Home Mortgage Home Office, a 170-acre tract just south of Jordan Creek Mall (\$118 million); West Glen (\$100 million); and Mills Parkway Plaza (\$100 to \$125 million) to be located just east of Jordan Creek Mall. These and several other developments will account for a high level of construction activity in West Des Moines over the forecast period.

Household Incomes

In 1990 the median family income in the Des Moines HMA was \$37,304. By 2000, the median family income had increased 52.1 percent to \$56,732. HUD estimates that the median family income for the HMA, as of fiscal year 2003, was \$63,000.

Population

The population for the Des Moines HMA grew by approximately 1.6 percent annually from 1990 to 2000. In 2000 the population for the HMA was 456,022. During the previous decade the population in the City of Des Moines grew less than 3 percent. The rates of population growth in the City of West Des Moines and the Remainder of the HMA, however, increased significantly. During the last decade, Dallas County was the fastest growing county in Iowa. As of the Current date the Des Moines HMA has an estimated population of 481,000. Net in-migration from 1990 through the Current date has been responsible for approximately 47 percent of the population growth. During the 2-year forecast period, migration is expected to account for almost 50 percent of the expected population change. From 1990 to 2000, the net natural increase (resident births minus resident deaths) in the Des Moines HMA averaged 3,340 persons a year. Since 2000, net natural increase has increased 13 percent, for an average of 3,775 persons a year.

Overall population growth in the Des Moines HMA has slowed since 2000, along with the slowdown in the economy. The rate of population growth, however, is expected to increase over the forecast period with the improved economy and expected growth in the rate of in-migration. The trends in population and household growth for the HMA and the submarkets for 1990 to the Forecast date are presented in Table 3.

Households

From 2000 to the Current date the average annual change in households in the Des Moines HMA was higher than during the period from 1990 to 2000. Between 1990 and 2000 the number of households in the Des Moines HMA increased by 2,630 annually, reaching 179,400 households in 2000. As of the Current date, 190,900 households are in the HMA, an increase of 3,285 annually since the 2000 Census. Since 2000, owner households accounted for more than 95 percent of the total gains within the HMA. In the City of Des Moines, the total number of households increased 1,100 between the 2000 Census and the Current date. All the growth in the city was in owner households, since renter households declined by more than 200 during the period. In the City of West Des

Moines, between the 2000 Census and the Current date, the number of households increased 2,475; of those, 1,595, or 64 percent, owned their houses.

Housing Inventory

During the previous decade, the housing inventory of the Des Moines HMA increased an average of 2,730 units annually to 188,265 as of the 2000 Census. Detailed counts on the housing inventory, occupancy by tenure, and vacancy for 1990 to the Current date are presented in Table 4. Residential construction averaged 3,135 units annually, while mobile homes added a net annual average 100 units. During the period, an estimated 550 housing units were lost from the housing inventory annually. As a result of a strong and growing economy for the Des Moines HMA during the 1990s, residential construction activity, as indicated by building permits, averaged 3,135 units a year, of which 2,290 were single-family homes. On average, multifamily building permits were issued for approximately 845 units annually, although activity in the HMA was very cyclical. From 1992 through 1996, multifamily activity averaged 860 units. As a result of the significant volume of activity and softening conditions in the rental market, apartment development declined substantially. For the next 4 years building permit activity averaged 285 units. During 2001 and 2002 activity has averaged 960 units. It is estimated that condominium units for sale accounted for around 25 percent of the multifamily activity from 1990 to 2000. Table 5 presents the trends in building permit activity from 1992 through 2002.

In 2000, 70.4 percent of the occupied residential units were owner occupied. Since the 2000 Census, low interest rates and in-migration have moved the percentage of owner-occupied homes up to 71.9, a significant change since 2000. This trend is forecast to continue during the 2-year forecast period, when by October 1, 2005, owner-occupied units are projected to represent 72.5 percent of all occupied housing units in the Des Moines HMA.

Housing Vacancy

Despite the strong sales market during the past 3 years, the sales vacancy rate has remained relatively stable. The sales vacancy rate is estimated to be 1.5 percent currently, compared with 1.6 percent as of the 2000 Census. The recent high levels of rental production have pushed the rental vacancy rate higher. It is estimated that the rental vacancy rate is currently 5.8 percent. Currently an estimated 5,400 vacant and available housing units are in the Des Moines HMA: 2,090 homes for sale and 3,310 for rent. In addition, an estimate 3,600 housing units are vacant but not available, for reasons such as having been sold or rented but not occupied, or otherwise being held off the market.

Sales Market Conditions

The sales market in the Des Moines HMA has been strong for the past 3 years. Home sales in 2001 totaled 9,750, including 270 condominiums and townhomes. New sales accounted for approximately 2,500 of the homes sold. Sales activity in the HMA for 2002 totaled 11,500 homes, including 350 multifamily units and an estimated 3,000 new

homes. For 2003, it is estimated that sales will total 13,700, of which 3,900 will be new homes.

The continued relatively strong household growth and low mortgage interest rates have fueled much of the demand for sales. Sales of homes in the higher price ranges are expected to remain strong during the 2-year forecast period. Builder confidence is high in the Des Moines housing market. Local sources have reported that construction times have lengthened, resulting from a lack of available home construction workers.

Rental Market Conditions

Because of the substantial volume of new units coming on the market during the past 2 years, the slower economy, and the continued shift of a number of renters to homeownership, conditions in the rental market have become more competitive. Apartment vacancy rates of 6 and 7 percent are typical. The increasing rental vacancy rate in the Des Moines HMA is expected to peak at 8 percent during the middle of the 2-year forecast period. Vacancy rates are reported to be higher in the eastern part of Polk County and in Warren County, compared to other parts of the HMA. Rent increases have been restrained because of the competitive conditions and higher vacancy rates. As of the Current date, a one-bedroom apartment rents for an average of \$563, a two-bedroom apartment averages \$639, and a three-bedroom unit averages \$849.

A significant number of apartment developments have been financed with low-income housing tax credits in the HMA. Conditions have been tighter in this segment of the market than for the rental market as a whole. Rent increases in this part of the market have been much greater than in the market-rate segment. Since 2000, the rent for a one-bedroom apartment has increased almost 10 percent to \$535. Two-bedroom apartments have gone up 7 percent to \$575 a month and three-bedroom apartments have increased 9 percent to \$679.

Forecast Housing Demand

To maintain a balanced housing market in the Des Moines HMA, it is estimated that there will be a demand for approximately 3,300 new units of sales housing, including condominiums and manufactured housing, and 700 units of market-rate rental housing. Table 6 presents a qualitative distribution of the rental demand by bedroom size and rent levels.

Table 1
Labor Force and Total Employment
Des Moines HMA
1992 to October 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Prior 12 Mos.	Current 12 Mos.
Labor Force	238,700	249,100	249,500	250,400	256,300	253,700	255,500	255,600	261,400	267,900	276,800	275,300	275,300
Employment	229,900	240,600	242,500	243,900	249,100	247,200	250,100	250,800	256,300	261,100	267,400	266,400	265,200
Unemployment	8,800	8,500	7,000	6,500	7,200	6,500	5,400	4,800	5,100	6,800	9,400	8,900	10,100
Rate (%)	3.7	3.4	2.8	2.6	2.8	2.6	2.1	1.9	2.0	2.6	3.4	3.2	3.7

Source: Iowa Workforce Development
 North American Classification System (NAICS), Benchmark 2001.

Table 2
Total Wage and Salary Employment
Des Moines HMA
1992 to October 1, 2003

Employment Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Prior 12 Mos.	Current 12 Mos.
Nonagricultural Wage & Salary	239,900	244,300	252,800	261,900	267,500	270,800	279,100	285,700	288,400	288,600	285,900	285,100	286,700
Goods Producing	31,500	31,500	32,900	33,800	34,000	34,500	35,100	36,100	35,200	34,700	33,800	33,500	34,400
Construction & Mining	9,600	9,600	10,700	11,000	11,600	12,100	12,700	14,000	14,000	14,200	14,500	14,100	15,150
Manufacturing	21,900	21,900	22,200	22,800	22,500	22,400	22,400	22,100	21,200	20,500	19,300	19,400	19,250
Service Producing	208,400	212,800	219,900	228,100	233,500	236,400	244,000	249,600	253,300	253,900	252,100	251,600	252,300
Trans-Comm-Public Utilities	57,800	58,300	61,300	63,800	63,700	63,500	65,700	65,300	66,100	64,400	62,600	62,700	63,500
Wholesale Trade	15,800	15,800	16,500	17,200	17,000	17,100	17,700	18,000	17,800	17,400	16,500	16,700	16,900
Retail Trade	31,200	32,100	34,100	35,100	34,900	34,500	35,500	34,600	35,900	36,400	35,700	35,900	36,350
Information	7,500	7,300	7,500	8,100	8,100	8,400	8,700	10,200	10,400	10,200	9,600	9,600	9,800
Financial Activities	31,100	32,000	33,100	33,300	35,500	36,700	39,900	41,200	41,200	43,100	44,100	44,200	44,200
Financial & Insurance	27,700	28,600	29,600	29,800	31,800	32,900	35,900	36,800	36,800	38,800	39,800	39,550	39,600
Professional & Business	20,800	22,700	23,800	25,300	26,500	27,300	28,100	29,000	29,900	30,700	30,000	29,700	30,300
Education & Health	27,100	27,200	27,700	28,800	29,800	30,400	31,100	31,600	33,700	33,500	33,600	33,400	33,500
Health Care & Social Assistance	22,400	22,500	23,000	24,000	25,000	25,600	26,200	26,700	27,400	28,100	28,000	28,000	28,100
Leisure & Hospitality	19,500	20,000	20,700	22,100	22,800	23,000	23,600	20,400	23,600	23,900	24,000	23,800	23,700
Accommodation & Food Services	16,700	17,100	17,600	18,100	18,400	18,400	19,000	19,400	19,100	19,100	19,400	19,300	19,200
Other Services	12,400	12,700	12,900	12,900	12,400	12,100	12,000	12,200	12,300	11,200	11,500	11,500	11,500
Government	32,300	32,500	32,900	33,900	34,700	35,100	34,900	35,900	36,100	36,900	36,600	36,800	35,800
State	7,700	7,600	7,700	7,900	8,200	8,300	8,000	8,300	8,500	8,600	8,200	8,200	8,200
Local	18,700	19,100	19,100	19,500	20,100	20,600	20,900	21,500	21,800	22,700	22,900	23,000	22,200

Source: Iowa Workforce Development
 North American Classification System (NAICS), Benchmark 2001.

Table 3
Population and Household Trends
Des Moines HMA
April 1, 1990 to October 1, 2005

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Des Moines HMA	392,928	456,022	481,000	496,500	6,310	1.6	7,135	1.6	7,750	1.6
City of Des Moines	193,187	198,682	201,000	202,400	550	0.3	660	0.3	700	0.4
City of West Des Moines	31,702	46,403	52,200	56,000	1,470	4.6	1,655	3.6	1,900	3.6
Remainder of HMA	168,039	210,937	227,800	238,100	4,290	2.6	4,820	2.3	5,150	2.3
Households										
Des Moines HMA	153,100	179,404	190,900	197,400	2,630	1.7	3,285	1.8	3,250	1.7
City of Des Moines	78,453	80,504	81,600	82,200	205	0.3	315	0.4	300	0.4
City of West Des Moines	12,974	19,826	22,300	24,200	685	5.3	705	3.6	950	4.3
Remainder of HMA	61,673	79,074	87,000	91,000	1,740	2.8	2,265	2.9	2,000	2.3

Sources: U.S. Census Bureau, 1990 and 2000 Censuses
 Current and Forecast: Estimates by analyst

Table 4
Housing Inventory Tenure and Vacancy
Des Moines HMA
1990 to October 1, 2003

	Des Moines HMA			City of Des Moines			City of West Des Moines			Remainder of HMA		
	1990	2000	Current	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total housing inventory	160,948	188,265	199,900	83,289	85,067	85,950	13,668	20,815	23,450	63,991	82,383	90,500
Occupied units	153,100	179,404	190,900	78,453	80,504	81,600	12,974	19,826	22,300	61,673	79,074	87,000
Owners	102,367	126,276	137,250	48,660	52,119	53,450	8,072	12,306	13,900	45,635	61,851	69,900
%	66.9	70.4	71.9	62.0	64.7	65.5	62.2	62.1	62.3	74.0	78.2	80.3
Renters	50,733	53,128	53,650	29,793	28,385	28,150	4,902	7,520	8,400	16,038	17,223	17,100
%	33.1	29.6	28.1	38.0	35.3	34.5	37.8	37.9	37.7	26.0	21.8	19.7
Vacant units	7,848	8,861	9,000	4,836	4,563	4,350	694	989	1,150	2,318	3,309	3,500
Available units	4,775	5,512	5,410	2,941	2,821	2,640	516	681	700	1,318	2,010	2,070
For sale	1,445	2,039	2,100	790	743	760	145	206	210	510	1,090	1,130
Rate (%)	1.4	1.6	1.5	1.6	1.4	1.4	185	1.6	1.5	1.1	1.7	1.6
For rent	3,330	3,473	3,310	2,151	2,078	1,880	371	475	490	808	920	940
Rate (%)	6.2	6.1	5.8	6.7	6.8	6.3	7.0	5.9	5.5	4.8	5.1	5.20
Other vacant	3,073	3,349	3,590	1,895	1,742	1,710	178	308	450	1,000	1,299	1,430

Source: 1990 and 2000 Census and EMAS estimates

Table 5
Residential Building Permit Activity
Des Moines HMA
1992 to 2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Des Moines HMA											
Total	3,415	2,818	3,856	3,280	3,395	2,359	3,661	3,636	3,015	3,868	4,713
Single-family	2,270	2,258	2,250	2,188	2,396	2,027	2,836	3,113	2,427	2,731	3,308
Multifamily	1,145	560	1,606	1,092	999	332	825	523	588	1,137	1,405
City of Des Moines Submarket Area											
Total	726	390	725	527	428	239	415	453	332	506	707
Single-family	275	208	231	275	227	166	268	361	294	294	349
Multifamily	451	182	494	252	201	73	147	92	38	212	358
City of West Des Moines Submarket Area											
Total	857	638	806	803	692	422	908	655	475	688	1,039
Single-family	316	389	322	205	268	273	316	297	269	226	208
Multifamily	541	249	484	598	424	149	592	258	206	462	831
Remainder of HMA Submarket Area											
Total	1,832	1,790	2,325	1,950	2,275	1,698	2,338	2,528	2,208	2,674	2,967
Single-family	1,679	1,661	1,697	1,708	1,901	1,588	2,252	2,455	1,864	2,211	2,751
Multifamily	153	129	628	242	374	110	86	73	344	463	216

Source: U.S. Census Bureau, C-40 Construction Series

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Des Moines HMA
October 1, 2003 to October 1, 2005

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
550	245	650	385	850	70
600	210	700	320	900	55
650	195	750	285	950	50
700	170	800	245	1,000	45
750	145	850	200	1,050	40
850	90	950	125	1,150	30
950	70	1,050	100	1,250	25
1,050	55	1,150	80	1,350	20
1,150	40	1,250	60	1,450	15
1,250	30	1,350	45	1,550	5
1,350	20	1,450	10	1,600	0

Source: Estimates by analyst