

▶ DOWNTOWN SNAPSHOT: CEDAR RAPIDS

CEDAR RAPIDS RISES TO COMMERCIAL REAL ESTATE CHALLENGE FOLLOWING MAJOR FLOOD



Scott Olson
AIA, CFM, SIOR, Broker
Associate, Skogman
Commercial Group,
Member, Cedar Rapids
City Council

In the April 2014 edition of *Heartland Real Estate Business*, I pointed out that the recovery from the historic 2008 flood was nearing completion in Cedar Rapids, a city of approximately 129,000 residents. The last of the damaged city facilities, a recreation center in the Time Check neighborhood on the city's northwest side, has been demolished. Taking its place will be a new 17,000-square-foot recreation center currently under construction.

In July, the Cedar Rapids City Council approved the \$600 million flood protection system alignment on both sides of the Cedar River; all the flood system funding plan is now in place, except for the federal appropriation of \$78 million pending approval in Congress. Three sections of flood protection are complete or under construction.

The National Civic League recognized this feat in 2014 when it named Cedar Rapids as a recipient of the All-America City Award, which recognizes communities that overcome citywide challenges and achieve uncommon results. (The National Civic League is a nonprofit organization that advocates for transparency, effectiveness, and openness in local government.)

The city's strong recovery following the devastating flood in 2008 is evident by the accolades it has received from a variety of media outlets and interest groups. Among the accolades:

- Cedar Rapids currently ranks No. 7 on AARP's 2015 Livability Index for medium-sized cities (population 100,000 to 500,000) due to its innovative programs, such as one that transforms empty lots into vegetable gardens.

- NerdWallet, a consumer finance site, recently examined the business climate and economic health of 183 metro areas with 15,000 or more businesses, and found that Cedar Rapids is the sixth-best place to start a business in the nation.

- Livability.com ranks Cedar Rapids No. 10 on its list of "Best Affordable Places to Live." Cities that make this list are less expensive than most, but still deemed a great place to live by Livability's metrics.

- Cedar Rapids ranks No. 65 nationally in Livability.com's "Top 100 Best Places to Live." Cities were scored in a variety of categories including economic factors, healthcare, housing, civic capital, education, amenities, demographics and infrastructure.

- Movoto Real Estate ranks Cedar Rapids No. 4 on the list of the "Ten Best Mid-Sized Cities for Education in America."

In June, the metro area's unemployment rate stood at 3.7 percent compared with 5.3 percent nationally for the same period, according to the Bureau of Labor Statistics.

Numerous job opportunities are available in a cross section of professions. What follows is an analysis of the current state of the commercial real estate market by property type in our metro area.

Office Uptick

Increased leasing activity combined with the conversion of office buildings to alternative uses has led to a drop in office space on the market to

976,000 square feet. This is the first time in almost three years that the active space on the market is below 1 million square feet.

As the market has become more active, lease rates have increased slightly over 2014 levels, rising from an average of \$9.67 to \$9.85 per square foot triple net across all classes of office space.

Two projects highlighting the recovery include the construction of a \$37 million, 11-story corporate headquarters for CRST International in downtown Cedar Rapids on the banks of the Cedar River. The CRST Center will include eight floors of office space and three floors of parking.

As one of the nation's largest transportation companies, CRST provides total transportation solutions and comprehensive logistics services to customers across North America.

CRST's headquarters will occupy two floors of the building. Bankers Trust will serve as an anchor tenant in the building and occupy the top two floors, plus retail space on a lower level, according to *The Gazette*, the local newspaper. Risk management and insurance brokerage firm Holmes Murphy & Associates will also be a tenant in the building.

The project also includes a 300-foot section of the city's proposed flood protection system built into the first floor parking structure as a decorative concrete wall along the river trail walkway.

The second major office project centers around financial services firm Berthel Fisher & Co., which plans to move its headquarters from neighboring Marion to Cedar Rapids in a new facility that will house 85 employees.

Locally based Hunter Cos., a design-build commercial contractor, is constructing the 67,000-square-foot office

and retail development at the southeast corner of 42nd Street NE and Edgewood Road NE, a site that had been undeveloped for many years. The \$12 million project is also scheduled for a spring 2016 completion.

Retail Rebound

Active retail listings in our market have spiked almost 37 percent since December 2014, rising from 483,000 square feet to 757,000 square feet due to three major projects underway in Cedar Rapids.

The first project is the \$100 million-plus redevelopment of the 90-acre Westdale Mall from an enclosed center of 800,000 square feet to a lifestyle complex with numerous outparcel developments, housing, and more than 500,000 square feet of retail space, featuring a mix of national and local tenants. The complex is scheduled for completion in 2017.

The second major project is the redevelopment of a 20-acre industrial site in northeast Cedar Rapids that will create Northtowne Market, a \$16 million retail complex. The project will include several outparcels and four retail buildings designed for multi-tenant use. Demolition is complete with infrastructure scheduled for this fall. The first phase of the project will open in 2016.

Finally, local developer Todd Culver has purchased a former industrial site on Blairs Ferry Road adjacent to Northtowne Market. The \$11 million project will feature two 23,000-square-foot office/retail buildings, plus a pad site suitable for retail. Construction is scheduled for early 2016.

The city of Cedar Rapids has signed a three-year contract with Buxton, a Fort Worth, Texas-based customer analytics firm, to identify national retailers that would be a good fit for metro Cedar Rapids. This data is being shared with area developers for projects like the three outlined above in response to the requests of our residents for expanded retail opportunities.

Urban Living in Demand

The Cedar Rapids Metro Economic Alliance's third annual Urban Living event recently highlighted the rapid expansion of housing ownership/rental options in the downtown and surrounding core neighborhoods (NewBo, Kingston Village, Czech Village).

In projects ranging from two to 60 units, the available living options will increase from the existing 1,000 apartments/condos to over 1,500 within the next three years. Many of these projects are also mixed-use with office and/or retail components. The consensus is that the city can support



This rendering of the 90-acre Westdale Mall redevelopment shows outparcels and a courtyard plaza in the center of a 600,000-square-foot lifestyle complex featuring retail, office and housing components. Frew Development Group anticipates phased openings of various components over the next two years.



CSRT's new 11-story corporate headquarters in downtown Cedar Rapids was designed by OPN Architects and constructed by Ryan Cos. US Inc. The building is expected to be ready for occupancy in the spring of 2016. Design features include a cantilevered office component over the Cedar River and 300 feet of the new Cedar Rapids flood protection system.

between 3,000 and 5,000 residential units downtown the next 10 years.

The conversion of Class B and C office properties to housing has had a positive impact on reducing the excess office space in downtown Cedar Rapids.

Industrial, Land Sales Spike

The amount of industrial space on

the active market would have dwindled further had a 210,000-square-foot food grade warehouse not come onto the active market, offsetting solid absorption of space.

The 775,000 square feet of industrial space on the active market is almost the same as highlighted in my December 2014 report with a vacancy rate hovering around 5 percent.

Industrial land sales have also started to rebound after almost two years of being moribund.

Meanwhile, a 582-acre site adjacent to the Eastern Iowa Airport in Cedar Rapids was recently designated as the state's first "Super Park" ready for development after meeting eight key development criteria. At the same time, the 184-acre Marion Enterprise

Park has also been certified as "shovel ready."

Strong Buyer Interest

Numerous potential buyers both locally and nationally are frustrated by the lack of quality investment opportunities in the market. Even tenant-occupied investment properties on the market are attracting widespread interest — and in some cases multiple offers.

Overcoming Adversity

Cedar Rapids has become a national model for how a city can rebound from a major natural disaster. The city has recreated itself in a positive way by combining private and local/state/federal funds with creative public policy to encourage the private sector to replace damaged housing and commercial properties/businesses.

The new construction and rehabilitation of existing buildings has been designed to minimize the impact of future flooding events while the flood protection system is constructed over the next 20 years.

This amazing recovery has invigorated the private and public sector to improve the quality of life for residents, which is now fueling a rapid growth of Iowa's second largest city.