

## MARKET HIGHLIGHT: IOWA

### CEDAR RAPIDS IS TURNING ADVERSITY INTO A GAME-CHANGING OPPORTUNITY



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In June 2008, Cedar Rapids experienced what at the time was the fifth worst disaster in U.S. history. A historic flood covered 10 square miles in the four core neighborhoods and the entire downtown, damaging more than 5,000 homes, over 1,000 businesses, and numerous public, cultural and religious facilities.

Since that time, 1,088 residences have been demolished and 2,356 residential properties repaired or rehabilitated. Some 82 percent of the damaged businesses have reopened compared to a national average of 55 percent in previous major disasters. The scope of the recovery in just five years is remarkable. The numbers speak for themselves:

- 1,311 new housing units completed since 2008;
- 118 new multifamily units recently

- funded by state recovery grants;
- 16 major city of Cedar Rapids facilities built or under construction with all to be finished by 2014;
- building permits in 2012 totaled 11,000 with 1,300 commercial and 9,700 residential, which set a record of more than \$400 million (63 percent from the private sector);
- population growth of 4.6 percent in the last decade despite the June 2008 flood;
- unemployment rate currently at 4.9 percent;
- AAA bond rating by Moody's for 41 consecutive years.

The city still faces the challenge of funding long-term flood protection, but there has been progress in several public/private developments throughout the flood-affected areas that have incorporated future flood protection in building designs.

Federal, state and local funding to construct a comprehensive floodwall system is still three to five years away with completion not anticipated until the next decade.

#### Current Market Trends

The industrial market has improved during the past several months with



The new Cedar Rapids Central Fire Station under construction will replace the old one, which was inundated with 11 feet of water in the flood of 2008. The 67,140-square-foot building set to open in October is designed to achieve LEED Platinum certification.

active space on the market dropping by 11 percent to 824,000 square feet. Activity is still modest with absorption mainly coming from several major industrial expansions, including a proposed \$20 million expansion by DuPont Industrial Biosciences of its Cedar Rapids facility. Cedar Rapids continues to lead the state in the number of manufacturing jobs. Meanwhile, rental rates remain steady.

Retail space on the market has also declined, but several new projects in the planning stage will dramatically increase available space. Retail rental rates are also increasing as newer space enters the market. Major new projects under construction include the redevelopment of Westdale Mall, an addition to Lindale Mall, a 19.9-acre redevelopment of an industrial site into retail in northeast Cedar Rapids and The Fountains, an 18.5-acre retail/office project.

Land sales are still sluggish with only one industrial land sale of more than three acres occurring over the last 18 months. Residential development land is the most active followed by commercial lots, but neither is setting any records. Investment activity is strong, but the available income-producing properties lack the quality that most investors desire.

The downtown housing working group of Cedar Rapids Metro Economic Alliance hosted a highly successful "Urban Living" forum in May to display several projects planned for downtown. In the recent update of JLG Architects' downtown plan, additional housing was cited as the No. 1 need.

There are 10 proposed housing projects in design or under construction with more than 200 rental/condo units that have materialized in 2013 with completion scheduled for 2014. This will produce a wide range of new housing options for young professionals and empty nesters in downtown Cedar Rapids.

#### Office Sector Glut Remains

This segment of the market has blown past the previous record set in December 2012 by reaching almost 1.5 million square feet on the active market. Compared to my last analysis on the office sector in January 2012, space available has nearly doubled. Six new and existing properties have entered the market since January despite a lack of office demand.

Of more concern, however, are several new planned projects that will create 50,000 square feet of new speculative space and cause 50,000 square feet of existing space to be vacated when existing tenants in the metro area shift to these new buildings.

Moreover, when tenants move to these new buildings, we will find that rents at existing buildings will decline due to increased vacancies, thereby creating lower office property valuations. This will eventually cause property tax revenues to decline, offsetting gains in taxes from new buildings.

The good news is that these new office buildings to be constructed in 2014 will create numerous construction jobs and serve as corporate headquarters for key companies in the Cedar Rapids area, allowing for future growth in our city.

Cedar Rapids has definitely created opportunity from the devastation of the historic flood in June 2008. The influx of federal and state disaster funds minimized the impact of the 2008 national recession on the region. The city will have 16 new/renovated public buildings that would not have occurred, plus previously flood-prone areas are being converted to green space and parks.

The success of flood recovery efforts by the city has led the private sector to invest in housing, office and retail development despite permanent flood protection being years away. Now it is time for the city to step back and let the private sector readjust to the new Cedar Rapids.

## HUB TOWER & KALEIDOSCOPE MALL WALNUT STREET, DES MOINES



#### Class A Office/Retail Space

#### Landmark Downtown Location

**Hub Tower**  
Up to 140,000 SF  
of Office Space

**Kaleidoscope**  
2,000-35,000 SF Retail  
Space Opportunities.  
Skywalk & Street level  
availability.

Join Verizon, Burger King,  
Bruegger's Bagels &  
more!

**New Ownership.**  
**New Management.**  
**New Opportunities.**

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