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FORMER FLOOD-RAVAGED CITY FLOURISHES ONCE AGAIN

Cedar Rapids benefits from a wave of real estate investment that includes a proposed new casino.

By Scott Olson, AIA, CFM, SIOR, Guest Columnist



The proposed Cedar Crossings Casino designed by OPN Architects Inc. includes three food and beverage venues, a 9,000-square-foot banquet hall and a 36,000-square-foot gaming floor with 800 slots and 30 gaming tables. The \$138 million, 169,000-square-foot complex will be elevated to mitigate flood damage. The project's developer, Cedar Rapids Development Group LLC, has applied for a state gaming license.

In the August 2013 edition of *Heartland Real Estate Business*, I described how Cedar Rapids had turned adversity stemming from the historic flood of 2008 into a game-changing opportunity. The recent decision by the Iowa Flood Mitigation Board to award \$264 million to the city of Cedar Rapids to fund flood protection on both sides of the Cedar River for the next 20 years will help accelerate the economic rebound already underway.

Combined with \$117 million of work to date and anticipated federal funds of \$78 million, the city now has the bonding capacity for the balance of funds needed to complete the

\$570 million flood protection system during the next two decades. The construction of floodwalls on both sides of the river is now financially feasible, which will mitigate the potential for a repeat of the devastation that occurred in June 2008.

But as important as this funding is for flood protection, it validates the risk taken by commercial

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Scott Olson
Skogman
Commercial Group
at the Penthouse

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cial and residential property owners, developers, tenants and city/county/state/federal governments that rebuilt and invested in the flooded areas.

Plus, the planned flood protection builds developer confidence that will accelerate the investment in housing, commercial, recreation, public services and industrial projects in the pipeline.

Roll of the Dice

The biggest proposed project in the flood recovery effort is the \$138 million Cedar Crossings Casino and a \$28 million city parking ramp, which will incorporate flood protection into the design. The Iowa Racing and Gaming Commission is scheduled to vote on whether to grant the gaming license on April 17. If successful, construction will start in June with a grand opening planned for fall 2015.

This project is the result of a group of local investors and city officials working together to devise a concept, identify a site, secure financing and orchestrate a successful public referendum to create Iowa's first urban casino that will add to the city's property tax base, create 450 jobs and fund a portion of the flood protection on the west side.

In addition, several developers specializing in multi-use projects are negotiating development agreements with the city of Cedar Rapids for vacant land and/or flood-damaged buildings adjacent to the casino site. The city purchased the buildings with federal recovery funds after the flood. This move by developers will create more jobs and housing.

Retail Sector Slow to Heal

The amount of retail space on the market increased by 50,000 square feet between June 2013 and December 2013. Even with the announcement that four national retailers (Hobby Lobby, Home Goods, Fresh Market and Shoe Carnival) will open stores in a converted Kmart in northeast Cedar Rapids in late 2014, demand for space remains soft among prospective local and national tenants.

This trend does not bode well for older properties having to compete for limited tenant prospects with several new strip malls beginning construction this year. The average retail rental rate for properties listed on our local multiple listing service system has risen due to the new projects coming on the market. Meanwhile, older properties are reducing rates in order to hold onto their current tenants.

Flex Space Is King

In the industrial sector, the decision by several local and national companies to end short-term leases in older industrial buildings led to a 170,000-square-foot increase in space on the market from June to December 2013.

The most leasing activity in this sector is occurring in flex space ranging from 1,500 to 10,000 square feet across the metro area. The bulk of the leases involve small, existing commercial and industrial companies looking to expand locally. New service companies entering our market account for a smaller percentage of leasing activity.

A Solution to Office Woes

Available office space still totals more than 1.3 million square feet, which is near an all-time high. New office projects are attracting tenants from existing buildings in Cedar Rapids, but we are not seeing new office prospects entering the market.

A movement is underway to create a 10-year tax abatement for property owners or developers that convert downtown office buildings to housing, which will accelerate a reduction in office space on the market. The average vacancy rate in the downtown apartment market is currently 3 percent.

Abundance of Land

Despite falling land prices, additional agricultural land is being marketed for conversion to potential industrial sites in southwest Cedar Rapids. Thus, the available land on the market has increased by more than 50 percent to 1,038 acres from my last review of this sector in June 2012.

Throughout 2012 and most of 2013, the majority of land sales involved lot sizes less than five acres. We are seeing more activity now for larger parcels, but it will be years before we can make a dent in the more than 1,000 acres on the market.

Additionally, the Eastern Iowa Airport is assembling more than 250 acres of excess land it controls to create a "super" site for any prospective large industrial tenant that might consider locating in Cedar Rapids.

Reasons for Optimism

Although real estate fundamentals locally have been slow to improve in several commercial real estate sectors, the Cedar Rapids metro area is outperforming many similar-sized markets nationally. The local unemployment rate stood at 5.6 percent in January compared to 6.6 nationally.

In November 2013, voters in Cedar Rapids and the surrounding area approved a 1 percent local-option sales tax extension. The \$180 million tax is estimated to generate over 10 years will be spent on street repairs in Cedar Rapids.

Cedar Rapids received a vote of confidence in December 2013 when The Movoto Blog ranked Cedar Rapids as No. 6 on the Top 10 list of "Best Mid-Sized Cities To Move To." For the purpose of the rankings, mid-sized cities ranged from 128,000 to 205,000 in population. As you can see, our momentum of change from adversity to opportunity continues.

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