

▶ MARKET HIGHLIGHT: CEDAR RAPIDS

INCREASED DEVELOPMENT ACTIVITY IN CEDAR RAPIDS FLOWS ACROSS PROPERTY TYPES



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These are momentous times for the Cedar Rapids economy. On the jobs front, the unemployment rate for the Cedar Rapids area stood at 3.2 percent in May, even tighter than the national unemployment rate of 4.3 percent the same period.

Meanwhile, the housing market recorded its lowest inventory of housing on the market in two years with 1,482 active listings in June 2017, 540 less than June 2015. On average, the number of days that houses were on the market dropped from 87 to 62 in the last year-and-a-half, while the median house price increased to \$166,646.

The city has seen dramatic housing, commercial and industrial growth in the last several years. Municipal and business leaders are addressing several issues, including:

- Affordable housing for entry-level workers and those earning 30 to 50 percent of the area median income
- Recruitment of workers to fill an abundance of job openings
- More recreational, retail and cultural opportunities to attract Millennials to the city to fill the job openings
- Completion of the flood protection system to reinforce the confidence of developers in creating projects along the Cedar River

What follows is an update on the performance of the major property types.

Retail options grow

Retail development is still quite strong in all quadrants of the city



The four-story 329 Building will consist of 9,600 square feet of commercial space, 18 apartments and five condominium units. The \$5 million project, developed by Ahmann Cos., is located in the Czech Village/New Bohemia area.

despite the national perception that brick-and-mortar retail is dying. During our annual May visit to RECon, the global retail real estate convention in Las Vegas sponsored by the International Council of Shopping Centers (ICSC), Cedar Rapids City Manager Jeff Pomeranz and I observed less interest by national retailers in discussing possible properties for expansion to our city and more interest in having us help identify qualified franchisees.

Active retail space on the market totaled 989,000 square feet as of June, up from 863,000 square feet in December 2016. Many of the projects highlighted in my 2016 article — the redevelopment of Westdale Mall, the expansion of Lindale Mall, the construction of North Towne Market and Water Rock Mall — are now substantially complete and landlords are seeking tenants to fill the new space.

Average rental rates increased slightly to \$13.11 per square foot triple net in June, up from \$12.90 per square foot in December 2016. We are seeing

several national retailers such as Ross, Shoe Dept. Encore, Moe's Southwest Grill, and Einstein Bros. Bagels enter our market, but available space has now outpaced demand.

Rental rates at newly built or renovated buildings are at the higher end of the market. That means many new developments are too expensive for local retailers to lease. I predict that the vacancy rate will climb and that new facilities will need to adjust their rental rates downward.

The assessed taxable value on Frew Development Group's revitalization of Westdale Mall — which currently has five outparcels and mall projects under construction — increased from \$7.3 million in 2013 to \$42.1 million this year. This valuation does not include projects being developed on outparcels sold to other developers that were formerly part of the original mall site.

The Frew Development incentive agreement with the city set a goal of \$60 million in assessed value by 2022. That

level should be reached by 2020 due to all of the new and renovated buildings.

Office development abounds

Although the availability of office space has grown by more than 100,000 square feet since December 2016 to reach 1.1 million square feet on the active market, we continue to see new office projects proposed.

Construction has begun on a second 50,000-square-foot Class A office building in the Fountains development in Northeast Cedar Rapids. The developer, Ahmann Cos. Inc., is requesting that the final building in the Fountains, a 90,000-square-foot facility, be split into two separate mixed-use buildings featuring a retail component due to the excess office space in the market.

Local downtown developer Steve Emerson has unveiled plans for Jade Luxe Plaza, a contemporary, multi-level 170,000-square-foot Class A office building on the edge of the central business district. The construction will likely start in 2018 after tenants are identified.

Just a few blocks away, Physicians Clinic of Iowa announced that it will build a \$30 million, three-story medical building spanning 98,000 square feet located across from its main complex, plus a 400-car parking structure adjacent to both buildings. The initial medical building was a 221,000-square-foot facility completed in 2013 at a cost of \$47 million. That building is now fully leased.

Also underway is the renovation of the 10-story, historic American Building and construction of an attached 10-story glass tower. Together they will bring an additional 110,000 square feet of office space to the downtown campus of United Fire Group. The \$28.4 million project is scheduled for completion in 2018.

This boom in new office space does not include a proposed 29-story tower proposed by Jess Allen, an Iowa



Developer Steve Emerson announced plans for Jade Luxe Plaza, a 170,000-square-foot Class A office building on the edge of the CBD in downtown Cedar Rapids. The proposed LEED-certified facility will include two levels of parking and 35,000-square-foot floor plates. Construction is slated to begin in 2018.

City developer, or several recent announcements of corporate expansions in the metro area.

Most of the available space (49 percent) is in the downtown area, followed by 20 percent in northeast Cedar Rapids and 17 percent in the southwest quadrant. The average rental rate has increased from \$9.95 to \$11.19 per square foot triple net due to the new projects underway. Thus, we will likely continue to see a shift by major existing office tenants from older to newer space, creating a higher vacancy rate in older office buildings.

Urban experience in demand

The high demand in our housing market for condominiums and market-rate apartments is fueled by the continued development of residential projects downtown. Six new projects, ranging from 12 to 56 units each, have been announced in the last 12 months.

One of those projects is in the Czech Village/New Bohemia area called the 329 Building. Slated to begin construction this month, this \$5 million project will be a four-story building with 9,600 square feet of commercial space, 18 apartments and five large condominiums on the top floor. The developer of an adjacent office/housing complex, the Depot, is nearing completion of the third phase with 21 market-rate apartments.

The previously unveiled ArtTech Village — with 104 studio, one- and two-bedroom housing units and adjacent to the Iowa Start-Up Accelerator and New Bohemian Innovation Collaborative — has been redesigned by Czech architect KNTXT Group in collaboration with the Novak Design Group to reflect the industrial and Czech history of this area.

These units are designed for short-term stays for entrepreneurs participating in the start-up accelerator or wanting to locate their new businesses near other entrepreneurs. Hatch Development of Des Moines is slated to begin construction on the \$30 million project in 2018.

This strong housing demand in the core and throughout the city has caused rents and condo values to increase, which has led to a community-wide effort to also create more affordable housing for low-income workers.

Active industrial sector

Even with several new projects completed and some expansions announced, the approximately 1 million square feet of available industrial space is virtually unchanged from December 2016. Several of our major industries have expansion projects underway.

Fifth-generation French company Lesaffre Yeast Corp., for example, is building a state-of-the-art facility that will include offices and a warehouse.



Des Moines-based Hatch Development Group unveiled the new industrial/Czech Heritage-inspired design for ArtTech Village, a \$30 million, 104-unit apartment complex. The property will feature commercial, co-working and studio, one- and two-bedroom units for entrepreneurs and start-up businesses. KNTXT Group/Novak Design Group are the project architects.

The new 25,000-square-foot plant will produce customized baking ingredients. Completion is scheduled for early 2018 as part of a \$50 million company-wide expansion.

One recently announced project is the 100,000-square-foot, \$13 million headquarters office/distribution space for Cedar Rapids based Lil' Drug Store products. The company, located in northeast Cedar Rapids, was founded in 1974 to supply health and beauty products in travel/sample-sized portions to convenience stores, gas stations and other clients.

Many other owner-occupied industrial buildings were completed in 2016 and several are in process in 2017. Those facilities include a \$3 million, 12,000-square-foot freezer/warehouse for Hunt Brothers Pizza; and ReConserve of Iowa's 60,000-square-foot, \$12 million facility that processes food waste into livestock feed.

Most of our available space in older buildings is not conducive to many of today's users. Thus, we have seen our average rental rates drop from \$5.12 to \$4.81 per square foot on a triple-net basis in an effort to be more competitive for local users.

Land development options

Commercial land sales have experienced an uptick in activity, even as the price range has held steady at \$1.85 per square foot on the low end and \$3.25 per square foot on the high end based on size and visibility. However, there is still 1,000 acres on the active market, which is easily a 10-year supply.

One of the biggest changes to our available land is the nearly 600-acre, state-certified Cedar Rapids Air and Land Super Park located north of the Eastern Iowa Airport. The land is "shovel ready" for major users such as industries providing logistics, distribution, advanced manufacturing,

biotech or foodservices. The site has adequate electrical, gas, water and wastewater services plus airport/interstate and rail access. Having received a state grant for infrastructure, it is ready to accept users this year.

Meanwhile, Iowa Land and Building, a subsidiary of Alliant Energy Corp., is developing the 1,300-acre Big Cedar Industrial Center, the state's first certified Mega industrial park located not far from The Eastern Iowa Airport and I-380, according to *The Gazette*, the daily local newspaper. This will be the city's newest addition to the city's portfolio of land options that will be available in 2018.

This park is designed for large industrial prospects needing development-ready sites of 400 to 800 acres with air, rail and highway access. These two large shovel-ready parks make Cedar Rapids a very unique development option in the Midwest.

Even though we have several commercial types experiencing excess capacity, the amount of activity in housing, commercial and industrial sectors is impressive for a city our size. All of the city planning efforts for future growth in Cedar Rapids will pay long-term dividends and fulfill city leaders' vision of "building a better community for the next generation."

ACCOLADES APLENTY FOR CEDAR RAPIDS

Cedar Rapids continues to be recognized for the strength and quality of its economy. The second largest city in Iowa — which boasts a population of approximately 131,000 and 266,000 across the metro area — has received high marks from three popular consumer websites.

SmartAsset, a personal finance technology company, ranked Cedar Rapids No. 8 on its list of "The Best Cities for Living the American Dream in 2017." According to SmartAsset, Cedar Rapids "boasts a big city feel without any of the hassle."

GoodCall.com, a website that provides consumers with information they need to make educated financial decisions about products and services, ranked Cedar Rapids No. 10 on its "2017 List of Best Cities for New Grads."

GoodCall weighed four metrics to determine the rankings; affordability (gross rent as percentage of household income); comparative salary, the number of entry-level jobs posted on Indeed.com; and amenities such as arts, entertainment and

recreation sites plus food services.

In 2016, Cedar Rapids was named No. 1 on the list of "The Best Places in America for Children" by SmartAsset largely because of the metro area's high-performing schools. The rankings for the best places to raise a child were based on 13 total metrics. The cost of living, median home values, child poverty rates, water quality violations and average air quality index ratings were some among the factors weighed.

The newest ranking was just received from Wallethub.com in early July 2017 which surveyed 150 cities. Cedar Rapids was recognized as the No. 19 overall "Best Run City in the United States"!

This is a 30 place increase from 2016. The survey evaluated each city in the country based on total budget per capita and quality of services, which includes 33 performance points. The indicators are grouped into six service categories; financial stability, education, health, safety, economy, and infrastructure and pollution.