

45th Commercial Market Overview

by
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 Cedar Rapids, Iowa Area, December 2018

Click the "Market Overview" tab on my web site at www.scotteolson.com to track the dynamics of our market over the last 18 years by comparing previous reports. This "Market Overview" will be shared with commercial brokers across the state plus area legislators, government leaders, bankers, appraisers and individuals/businesses in the Creative Corridor.

City Accolades Continue

Cedar Rapids scored a perfect 100 on the Municipal Equality Index Scorecard (Human Rights Campaign Foundation 2018, 2017 and 2016)

Cedar Rapids earned a Certified 4-STAR Community Designation STAR Communities is the leading, national framework for measuring community performance for comprehensive sustainability efforts.

Flood Protection Agreement

The Army Corp of Engineers and the City of Cedar Rapids signed the official agreement on November 22, 2018 to officially commence the \$117 million dollars of federal funding for the flood protection system. The city has 5 years to complete the east side of the system. Other funding sources will complete the west side system in 10-15 years.

Major Project Announcements

The last six months have seen numerous major projects in our metro area announced including the Guaranty Bank/World Theatre renovation into 2 hotels estimated at \$50.8 million; a 120 unit apartment project in NewBo valued at \$23.7 million; a 45 unit apartment project in Kingston Village estimated at \$6.3 million; a \$33 million senior housing, retail, apartment and storage garage complex on Boyson Rd; a 55 acre commercial/retail development in NE Cedar Rapids valued at \$50 million; a 160 unit apartment project next to Green Square Park estimated at over \$25 million and finally a \$40 million dollar expansion/relocation of the Transamerica campus in SW Cedar Rapids. There are more but I don't have room!!

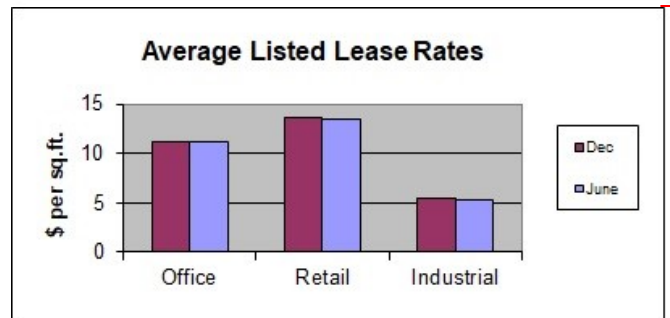
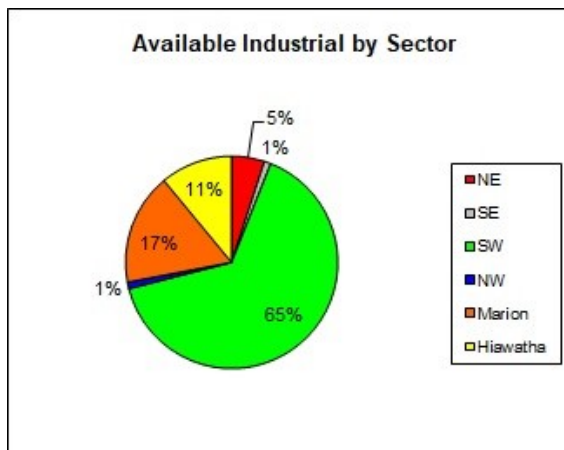
Industrial Market Trends

There are two very active sectors in the commercial real estate market - multi-family and industrial. This is a nation wide trend with e-commerce as the "fuel" behind a soaring industrial market. In a *Midwest Real Estate News* by Dan Rafter/Greg Warsek, they stated: "Companies need to open distribution centers near their customers, allowing them to ship their products to them quickly. This benefits the Midwest with its central location. Companies are looking at e-commerce and distribution as part of their business plans. But what's interesting about the industrial market is the mix that we are seeing. It's not just one type of product. We do see deals for the big boxes and the big fulfillment center. But we also see deals for smaller buildings that are being built for last-mile distribution. Spec development is also common in the industrial market today. A lot of our clients build on spec based on what they are hearing from brokers. They are targeting areas where brokers are telling them there is space available. Industrial construction can be done quickly. And today, as quickly as they are putting these buildings up, they are leasing them."

Our Local Industrial Market

As I highlighted above, we are very active with buildings being constructed to meet the demands of today's warehouse users. Besides newly occupied spaces, the amount of active spec space has increased in the last six months from 1,271,000 SF to 1,345,000 SF. This is well beyond my last feature of industrial in December 2016 where we had 1,030,000 SF on the active market. Rates have risen slightly to \$5.50/SF even with all the new buildings as the competition in the market has held pricing steady as older buildings lower their rates.

The sector pie chart compared to 2016 shows the SW sector growing from 50% to 65% due to several new projects near the airport; the NE quadrant declining from 16% to 5%; and Marion decreasing slightly from 21% to 17% of the active market. It is anticipated there will be several new buildings in 2019 to meet expanding or new tenants which will only increase the inventory of older warehouse space looking for replacement tenants.



Chart/graph data in part, obtained from December 2018 multiple listing service, research by Karl Hoffman, MBA

Current Market Trends

- Record Building Permits**
 Cedar Rapids set a record for building permits of \$375 million in total valuation for fiscal year 2017/2018. This was a \$133 million over the last fiscal year and \$29 million past the previous record in 2012. The number of total permits was less but projects were larger in scale.
- Retail**
 The amount of active space on the market increased dramatically from 1,309,000 SF to 1,458,000 SF due to closed Younkers/Sears stores at Lindale Mall entering the active market. Plus, several new strip centers are under construction or planned for 2019. We are seeing tenants shifting from older mall buildings to newer locations to attract additional business. Average rates ticked up slightly in the last six months to \$13.60/SF. Re-development of the large Lindale spaces should occur in 2019 as well as refocusing of Westdale to alternative non-retail tenants. The announcement of the \$50 million dollar commercial/retail development, Edgewood Town Center at Edgewood Rd/Hwy 100 in NE Cedar Rapids, will create a new retail power center when combined with the Fountains and Pecks Landing which is nearing completion.
- Office**
 The active spaces on the market increased slightly from 1,240,000 SF to 1,258,000 SF. This does not include the proposed 25 story \$73 million dollar tower in downtown Cedar Rapids that has an office component. As new space is constructed, existing tenants move which opens older office buildings for lease that do not fit the design model desired by today's companies. Add to that Iowa's unemployment rate dropped to 2.4%, which tied for the lowest in the nation which will make it much harder to recruit new tenants to our market. Average lease rates stayed steady at \$11.27/SF but as available older space on the active market grows, rates will need to drop to attract/retain office tenants.
- Land**
 As noted in "Overview #43" a year ago, land sales and development remains very active. With the competition and opening of the \$200 million dollar Highway 100 that connects the NE quadrant with Highway 30 in NW Cedar Rapids, land is starting to come on the market along both sides of the new highway.



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All information deemed reliable, but not guaranteed.

