

46th Commercial Market Overview

by
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 Cedar Rapids, Iowa Area, June 2019

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.

National Rankings Continue

Cedar Rapids ranked #18 Most Secure Place to Live for mid-sized cities in the US (Farmers Insurance Group 2019)

Cedar Rapids was recognized as a Bronze Walk Friendly Community (Walk Friendly Communities 2019)

Cedar Rapids ranks #5 Best City in America for Young Adults to Get Rich - Extremely low unemployment, modest expenses and good salaries in CR all add up to a location ideal for savings to accumulate. (Money Under 30 2019)

Cedar Rapids ranked the #15 Best Run City of the 150 largest cities in the nation based on a "quality of services score made up of 37 metrics. (Wallethub 2019)

The Coworking Space Trend

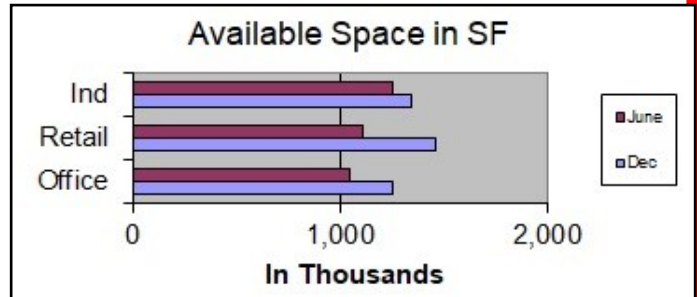
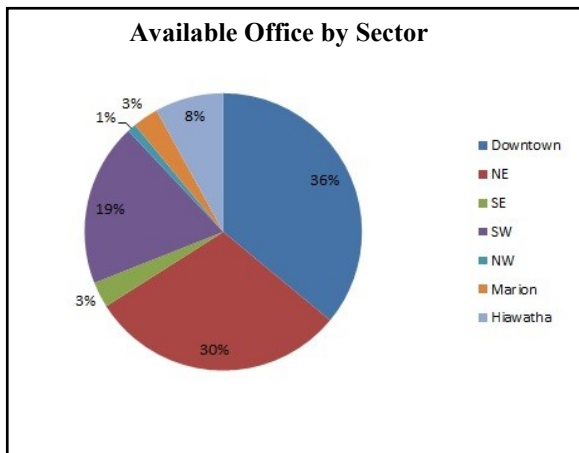
At recent national meetings ranging from the retail World Conference ICSC in Las Vegas to the Fusion Conference by IFMA in Atlanta, the office phenomena called "co-working" is rapidly expanding across the country. We have seen the early versions of this trend in Cedar Rapids with Regus, Geonetric, Groundswell at Matthew 25 and Office Evolution. But large space concepts by Weworks and Serendipity Labs are entering the Midwest office market in an aggressive fashion. In a recent article in "Midwest Real Estate News", they highlighted *global coworking unconference conference and emerging research* predicted 2,026 coworking spaces in the US by 2019 growing to 6,219 in 2022. In 2007, there were only 14 coworking spaces.

This trend is due to companies continuing to shrink their office footprints as employees want to have more flexible working conditions and shorter commutes. With a labor shortage in many areas of the country, employees are looking for more options in their work experience. In several new office spaces in downtown Cedar Rapids including the new Skogman corporate offices, this trend is very evident in their design. The research report stated in 2016 a total of 331,000 people utilized coworking space with a projected growth to 1,026,000 people in 2022. This will have a dramatic effect on the increase of vacant office space in our market especially in older office buildings.

Office Sector Remains Soft and Competitive

The office sector in the last year has seen a wonderful growth spurt with new facilities constructed by UFG Insurance, Transamerica, PCI, Linn County, Steve Emerson and the Skogman Companies. Despite available space on the active market dropping from 1,258,000 SF to 1,044,012 SF in the last six months, it was caused by several existing or spec spaces from 17,000 SF to 170,000 SF leaving the market versus being leased. The major changes in office users is not from growth of new companies but tenants shifting to new locations in order to meet the rapidly changing design needs of office spaces and to attract millennial employees. Also, less space is needed by tenants in both new and existing buildings as the number of employees that work remotely has increased dramatically.

As outlined above, the national coworking trend plus many retail strip developers are marketing their vacant retail space to office users. Average office rates have increased from \$11.27/SF to \$11.74/SF due to a change in the mix and age of spaces on the market. As shown in the pie chart, the percentage of space in the downtown since June 2017 dropped from 49% to 30%, and increased from 20% to 30% in the NE quadrant all other areas were similar to 2017.



Chart/graph data in part, obtained from June 2019 multiple listing service, research by Karl Hoffman, MBA

Current Market Trends

- Retail**
 Despite retail space on the active market declining from historic 1,458,000 SF to 1,133,820 SF, there is still plenty of activity as developers create additional strip mall projects especially in several mixed use complexes with housing on upper floors. Positive signs in our market include the conversion of our vacant big box spaces to new uses. One as retail, another to indoor climate controlled storage and a third to a 30,000 SF VA medical center. Plus, we are seeing sites/buildings previously planned for retail becoming housing developments.
- Industrial**
 The amount of active space on the market decreased from 1,345,000 SF in December 2018 to 1,252,202 SF with many smaller low bay buildings dominating this sector. The average rental rate increased slightly from \$5.50/SF to \$5.55/SF with the majority of new construction in the SW quadrant of the city near the Eastern Iowa Airport. Several industrial expansions were announced including Iowa Fluid Power planning a \$5.7 million, 45,000 SF addition to its NE city facility. Truck equipment manufacturer, Future Line LLC, announced a new \$3.9 million, 30,000 SF manufacturing building in SW Cedar Rapids. This \$3.9 million project that will allow it to expand its equipment manufacturing plus begin a new contract parts manufacturing division.
- Historic Hotel Development**
 In one of our more unique downtown projects in the city's history, the Heart of America Group of the Quad Cities will restore the historic Guaranty Bank building with an adaptive re-use creating an \$20.3 million, 80 room 78,500 SF Courtyard by Marriott and an 8,000 SF Johnny's Italian Steakhouse on the main level. Next to the Guaranty building in the adjacent parking lot will be a 9-story 125 room, 84,000 SF hotel slated to be an AC Hotel Marriott. This \$30.5 million hotel will feature the historic façade renovation of the former World Theatre and rooftop bar plus event space. Construction is scheduled to start in late 2019 with an opening in early 2021.
- Apartment Sector**
 Activity is strong with three urban projects totaling 330 units and \$54 million investment starting this year. Several hundred units of all types are also under construction in our four quadrants of the city.



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All information deemed reliable, but not guaranteed.

