

Omaha Industrial Market Conditions and Trends

By Kevin Stratman and The Investors Industrial Team

Omaha Industrial Market Occupancy Remains Active

For years, the Omaha Industrial Market seemed to be slow and steady. When the market would tighten, developers were able to meet demand. Companies looking to construct new facilities had an ample number of options in which to relocate in industrial parks like Hilltop, Brook Valley, ValVista, and Commerce Business Park. Things worked. But recently, the great recession of the late 2000's seemingly halted speculative construction. During the current rebound, the vacancy rate has begun to steadily decline. Land is being bought up. The market is now facing two overwhelming challenges: virtually full occupancy among rental space and few readily available options in which to build new buildings.

The industrial vacancy rate in Omaha continued to plummet over the past few quarters ending 2014 at an impressive 3% overall vacancy. Growth in the market came from both large national companies and strong local businesses. Companies such as Sergeant's Pet Care Products (built 349,680 sq. ft.), Airlite Plastics (71,272 sq. ft.), and Election Systems & Software (40,000 sq. ft.) all made notable increases in their current Omaha industrial market presence in 2014. However, more significant is the number of smaller transactions that took place. Companies such as, FleetPride, Westside Public Schools, Mid Plains Power, Ferguson Enterprises, and Midwest Respiratory Care were involved in significant transactions of 10,000 sq. ft. or greater. *(continued on page 2)*

| Absorption by Bldg. Type | 2014 sq. ft. | 2013 sq. ft. | 2012 sq. ft. | 2011 sq. ft. |
|--------------------------|------------------|----------------|----------------|----------------|
| Light Industrial | 206,039 | -63,111 | 204,938 | 478,227 |
| Manufacturing | 607,721 | 197,912 | 8,000 | 369,041 |
| Whs/Distribution | 579,352 | -124,919 | 339,960 | -811,004 |
| Flex | 81,340 | 297,617 | 30,508 | 134,057 |
| Overall Market | 1,474,452 | 307,499 | 583,406 | 170,321 |

Chart 1: Annual absorption trends by sq. ft. in the Omaha industrial market by building type

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Despite such growth in both Omaha and nationally, what is concerning is the rapidly diminishing availability of shovel ready industrial ground. In 2014, multiple businesses and developers, who have long owned industrial ground, began construction. Many other users, mostly small in size (approx. 10,000 sq. ft.), began to acquire new industrial sites. With the last new industrial park having been developed over a decade ago, overnight the supply of available land seemingly disappeared. Currently, Investors Realty is tracking several large users in the market for new industrial sites. Although new industrial parks are in the works, most of them will not be ready to meet the demand currently sought after in the marketplace. With few available rental options for companies to grow into, this has put an immense amount of stress on several large businesses.

several projects are in the works that will alleviate this demand. New construction by users creates vacancies. Many speculative construction projects are ready or near ready to begin. Municipalities, the Greater Omaha Chamber, developers, and users are working together to expand existing infrastructure to meet development needs of the market. A few new industrial parks are in the planning stages.

Most importantly, this problem is actually good. Business is strong. Companies are hiring. The outlook for the future of Omaha and its industrial market is better than ever. We project that the theme of 2015 will be the fruition of several projects, some large and some small, that will continue to satisfy growth for years to come.

In spite of these challenges the Investors Realty Industrial Team remains optimistic about the Omaha Industrial Market. Although there are stresses on the economy of the market currently,

| SUBMARKET | 100,000+ SF | 99,000 - 50,000 SF | 49,999 - 25,000 SF |
|-----------------------|-------------|--------------------|--------------------|
| Council Bluffs | 1 | 1 | 2 |
| Northeast | 0 | 4 | 7 |
| Northwest | 0 | 0 | 1 |
| Sarpy West | 0 | 0 | 4 |
| South Central | 3 | 2 | 4 |
| Southeast | 1 | 2 | 3 |
| Southwest | 0 | 1 | 5 |
| Grand Total | 5 | 10 | 26 |

Chart 2: Number of available buildings per Omaha industrial submarket area by total available square footage. Overall, the Omaha industrial market has 2,088 buildings.

Market Conditions and Trends

Absorption

Want an impressive number? Last year the Omaha Industrial Market absorbed 1.475 million sq. ft. of space (total market approximately 68.4 million). (Chart 1) What is even more impressive is the fact that over 60% of that absorption came from existing inventory. In short, what was available in 2013 was mostly eaten up in 2014.

A great example of this would be the Southwest Submarket. Not only did it end 2013 with the highest vacancy rate (15.1%), but it had the largest amount of available space in the market (1.278 million sq. ft.). In fact, the submarket accounted for some 40% of the total available space in the market. Last year, it absorbed over 666,000 sq. ft. of space.

Also, of interest, the Sarpy West Submarket, which has accounted for much of the growth in the industrial inventory over the past 10 years, saw over 470,000 sq. ft. of absorption, mostly in new construction.

Rental Rates

Historically, little information about actual rental rates has been disclosed, since landlords are not required to publish that information or register it with the county. Average asking rates are typically the best way to track whether rates are trending upward or downward.

In 2014, incremental changes took place in average asking rents in all four major building types (Light Industrial, Warehouse/Distribution, Manufacturing, and Flex). Although this may be disappointing for the marketplace, the Investors Realty Industrial Team notes that in a majority of transactions, rental concessions such as rent abatement (free rent) is now more uncommon, tenant improvement allowances are significantly reduced, and lease length is up.

| | 2014 | 2013 | 2012 | 2011 |
|---------------------------|---------------|---------------|---------------|---------------|
| Light Industrial | \$5.74 | \$5.44 | \$4.67 | \$4.57 |
| Manufacturing | \$4.24 | \$4.52 | \$3.58 | \$2.98 |
| Whs - Distribution | \$4.19 | \$5.35 | \$4.07 | \$3.81 |
| Flex | \$8.10 | \$8.13 | \$6.07 | \$6.13 |
| Omaha Market | \$7.25 | \$6.40 | \$5.57 | \$5.49 |

Chart 3: Average Asking Rental Rates on average have increased over the past four years (all rate quoted as NNN).

Market Conditions and Trends

Vacancy Percentage

It might be difficult to find a market in this country currently with a lower industrial market vacancy rate than in Omaha. Omaha ended the year with a staggering 3% overall vacancy rate. This is 1.8% lower than the 4.8% vacancy rate the market ended with in 2013.

The vacancy rate only increased in one quarter in 2014, which was the 3rd quarter. This can exclusively be explained by the vacation of 123,000 sq. ft. by Telmar Network Tech in Council Bluffs. Without this vacation, the market vacancy would have actually decreased to 2.8%.

What is important to note about the low vacancy rates is the dismal vacancy rates in the metro's two largest submarkets: South Central (18.7 million sq. ft.) and Sarpy West (12.24 million sq. ft.). The South Central Submarket cut its vacancy rate in half in 2014, ending the year at 1.8%. The Sarpy West Vacancy rate ended the year at 1.7%. Of interest in the Sarpy West Submarket is that the vacancy rate ended 2010 with a 6.6% vacancy, showing

significant improvement over the previous 4 years.

Construction

Most of the construction in 2014 was centered on 2 facilities: Sergent Pet Care Products 360,000 sq. ft. facility near 126th and West Giles Rd; and Lavigne Enterprises' speculative 90,000 sq. ft. flex warehouse at 13205 Lyman Dr. Sergent Pet Care Products built a new distribution facility to relocate their Memphis, TN operations in the metro area. Lavigne Enterprises built their new facility on a speculative basis and was able to secure almost immediately a long term tenant in 3PL Logistics.

Although there is currently a large amount of construction going on in the industrial market, none of the space is relevant for the 2014 statistics because the space is not completed and thus has not been "absorbed" by its occupants. Republic Beverage, the Waldinger Corporation, and Titan Machinery are all in the process of constructing new facilities. Speculative construction is taking place too with KVI's Portal Plaza Building 3 and other minor spec projects. ~

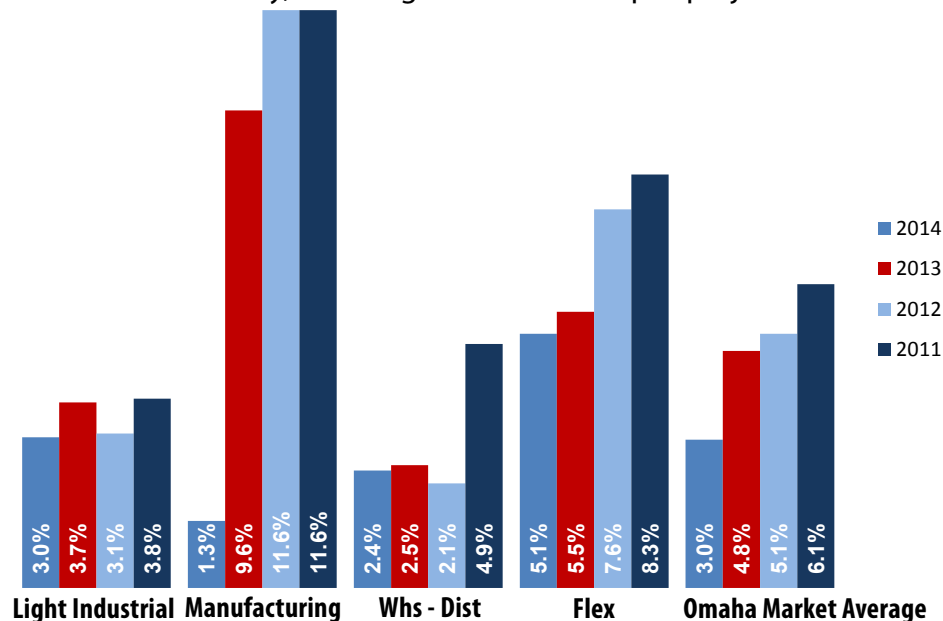


Chart 4: Omaha Area Vacancy Rates by building type over the past four years.

Industrial Market Data by Submarket

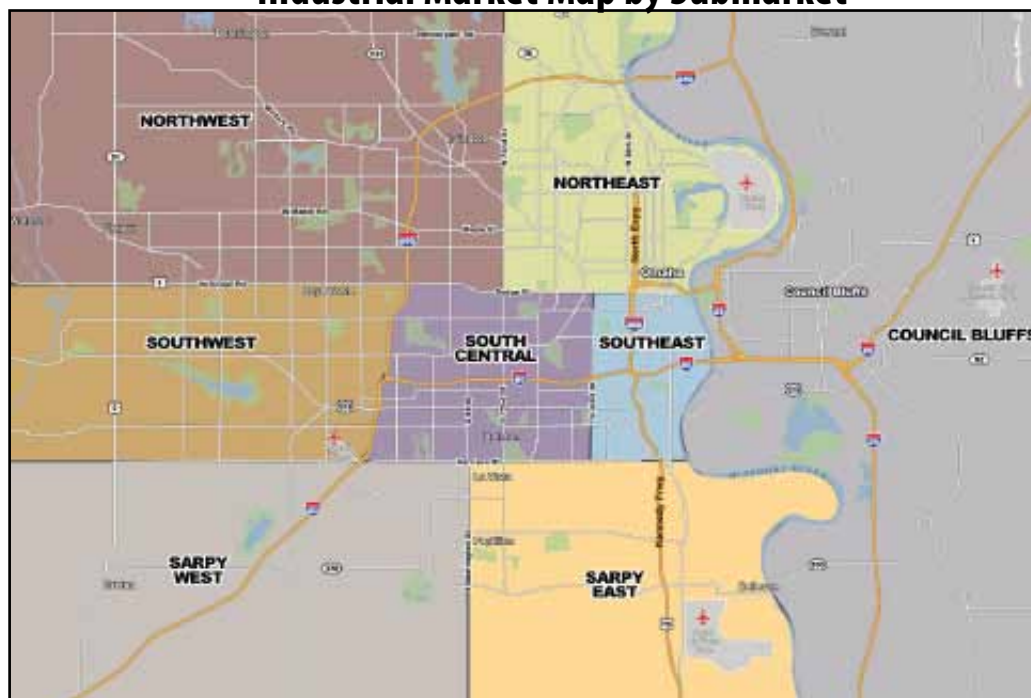
| Submarkets | # of Buildings | 2014 Inventory (SF) | 2014 Total Vacant (SF) | 2014 Total Vacancy Rate | 2013 Total Vacancy Rate | Year Over Year Change in Total Vacancy Rate | 2014 YTD Net Absorption (SF) | 2013 YTD Net Absorption (SF) |
|-----------------------|----------------|---------------------|------------------------|-------------------------|-------------------------|---|------------------------------|------------------------------|
| South Central | 561 | 18,782,708 | 336,576 | 1.8% | 3.6% | -1.8% | 338,402 | (160,940) |
| Sarpy West | 356 | 12,241,154 | 204,209 | 1.7% | 1.7% | 0.0% | 447,863 | 138,885 |
| Northeast | 255 | 9,563,800 | 486,493 | 5.1% | 5.5% | -0.4% | 41,584 | (43,431) |
| Southwest | 262 | 8,322,988 | 302,077 | 3.6% | 13.7% | -10.1% | 666,478 | 276,612 |
| Southeast | 237 | 7,253,489 | 435,701 | 6.0% | 5.7% | 0.3% | (21,286) | 51,164 |
| Council Bluffs | 163 | 6,161,905 | 213,797 | 3.5% | 2.2% | 1.3% | (20,881) | (8,046) |
| Northwest | 184 | 3,987,037 | 47,751 | 1.2% | 1.8% | -0.6% | 22,292 | 53,255 |
| Sarpy East | 54 | 1,839,505 | 0 | 0.0% | 0.0% | 0.0% | 0 | 0 |
| Pottawattamie County | 16 | 235,302 | 7,500 | 3.2% | 3.2% | 0.0% | 0 | 0 |
| Overall Market | 2,088 | 68,387,888 | 2,034,104 | 3.0% | 4.7% | -1.7% | 1,474,452 | 307,499 |

Notable Large Transactions in 2014

| Company (Tenant/Buyer) | Transaction | Size sq. ft. | Location | Submarket |
|------------------------------------|-------------|--------------|----------------------|----------------|
| 3PL | Leased | 90,000 | 13205 Lynam Dr. | Sarpy West |
| Airlite Plastics | Leased | 70,272 | 708 Crown Point Ave. | Northeast |
| SRC Enterprises | Leased | 46,560 | 11502 I St. | Southwest |
| Meno Logistics | Leased | 40,556 | 2300 S Bass Pro Dr. | Council Bluffs |
| Temperatsure Inc.* | Leased | 31,145 | 10606 S 144th St. | Sarpy West |
| The Masters Craft Inc. | Leased | 26,120 | 13606 Industrial Rd. | Southwest |
| Jeanneworks Inc. | Leased | 20,257 | 8619 S 137th Cir. | Sarpy West |
| Parker8 LLC | Sold | 18,597 | 10501 Chandler Cir. | Sarpy West |
| G & K | Leased | 17,500 | 300 Owen Pkwy Cir. | Council Bluffs |
| Reclaimed Enterprises Inc.* | Leased | 16,859 | 1445 N 11th St. | Northeast |

* transaction involved Investors Realty, Inc.

Industrial Market Map by Submarket



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