

WINTER 2016

OMAHA, NEBRASKA INDUSTRIAL MARKET REPORT

**INVESTORS
REALTY INC.**



Omaha Industrial Market Conditions and Trends

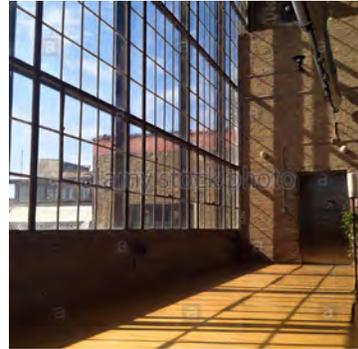
By Kevin Stratman

OMAHA'S THRIVING INDUSTRIAL MARKET SHOWS NO SIGNS OF SLOWING DOWN

It is difficult to find one aspect of the Omaha industrial market to highlight when recapping 2015. Quite frankly, about every single facet of the market improved last year: sale prices ticked up, land prices rose, absorption was positive, the vacancy rate was low, asking rental rates climbed, and there was plenty of new construction.

There are no signs of this momentum slowing. What is even more telling is the steady trend in the same direction — the market has shown signs of improvement each of the last five years. There have not been one or two transactions skewing the metric.

Sale prices of existing industrial property averaged \$56 per square foot in 2015 and over 2 million square feet of inventory was sold. This is quite a jump over the average of \$47 per square foot in 2014. We believe this uptick in sales prices is due to a number of factors, but most notably a combination of high demand, low inventory of



platted industrial lots and high construction costs.

Users have been forced to make a choice: build new product or rehab existing buildings. This has

created a bit of an odd and possibly concerning scenario: buildings are worth more vacant than fully occupied.

The industrial land market has played a big part in shaping current conditions. Omaha saw close to \$11 million in industrial land sales in 2015. The average sale price of these platted lots was \$4 per square foot, higher than the previous two years. At the same time, developers didn't really add any new shovel-ready sites to the market.

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

Building Type	2012 sq. ft.	2013 sq. ft.	2014 sq. ft.	2015 sq. ft.
Light Industrial	204,938	-63,111	206,039	135,545
Manufacturing	8,000	197,912	607,721	438,529
Whs/Distribution	339,960	-124,919	579,352	-103,506
Flex / R & D	30,508	297,617	81,340	0
Overall Market	583,406	307,499	1,474,452	470,568

Omaha Industrial Market Conditions and Trends

Although there are several projects in various stages of development, space users are going to continue to face the dilemma of either buying a piece of land in a less desirable location, being

a developer that must convert farm ground into a site, retrofitting or rehabbing an existing property, or simply waiting for some new inventory to come on line.



Absorption Trends

The Omaha industrial market absorbed 470,000 square feet of space in 2015, according to Xceligent, despite the addition of 631,000 square feet. It should be noted that our market tracks both owner-occupied and investment properties, so when Republic Beverage built its own 231,000 square foot facility and moved in, the market both added and absorbed 231,000 square feet. That being said, it is still impressive because the market was able to backfill large vacancies created by such owner-occupant development.

The Sarpy West submarket led the way with absorption in 2015, with over 292,000 square feet. Beyond that, a majority of submarkets actually saw negative absorption. Some of them, like Council Bluffs, saw negative absorption of 32,410 square feet simply because it is a less active submarket, plus it saw a single large vacancy occur during the period. The same can be said for Sarpy East, which recorded negative absorption of 66,962 square feet in 2015.

Meanwhile, the overall vacancy rate of the Omaha industrial market continues to hover

at a notably low 3 percent. Large lease transactions, which offered a healthy mix of national and local companies in 2015, included Sleepy Eye LLC (44,240 square feet), SPC Pools (30,840 square feet), Flowers Baking Co. (25,891 square feet), Lennox (18,593 square feet), and Thrasher Inc. (19,475 square feet). All of these transactions occurred in existing space. According to Xceligent, average asking rents of available properties rose 9 percent in 2015 on a year-over-year basis.

Investors Realty projects that 2016 will be another great year for the industrial market. There is a staggering 1.1 million square feet of industrial space either planned for 2016 or currently under construction, of which 300,000 square feet is speculative.

This new construction will open up additional properties to hopefully relieve some of the stress the market is currently under. It will be especially interesting to see how the speculative construction performs. The rents these projects generate combined with the lease-up time will be a great barometer of how healthy the industrial market is currently.

Omaha Industrial Market Conditions and Trends

Construction Wave Hits

The tide began to turn in 2015 when it came to new construction. In all, we not only saw three speculative projects completed, but additionally an impressive six owner-user, build-to-suit projects were completed. These projects amounted to just over 479,000 square feet of new construction.

Republic Beverage's new facility at 8648 S. 117th St. was the largest build-to-suit project at over 230,000 square feet. Other single-user facilities of note included Waldinger Corp's 76,362 square foot facility at 8802 S. 121st St., ABC Roofing's 48,000 square feet at 13251 Lynam Drive, and Titan Machinery's 32,560 square feet at 14961 Shepard St. Olsson Associates, Nebraska Atlantic Transportation, and Navigator Motorcoaches also built new facilities in 2015.

Spec construction focused on two large facilities and one minor flex project. Nebraska Warehouse Co. built a 184,800 square foot facility at its new Krambeck Industrial Park south of Omaha Steaks and Commerce Business Centre (156th Street north of Schram). KVI also built a 43,919 square foot new building at Portal Plaza at 10411 Portal Rd.

New construction shows no signs of slowing. Currently, Investors Realty is tracking 10 projects that will add over 1.1 million square feet in 2016 and beyond.



The Waldinger Corporation Building - 76,362 sq. ft.



Republic Beverage New Facility - 230,000 sq. ft.



ABC Roofing - 48,000 sq. ft.



Omaha Industrial Market Conditions and Trends

Rental Rates

Historically, much of the information about actual rental rates has been kept confidential. 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.

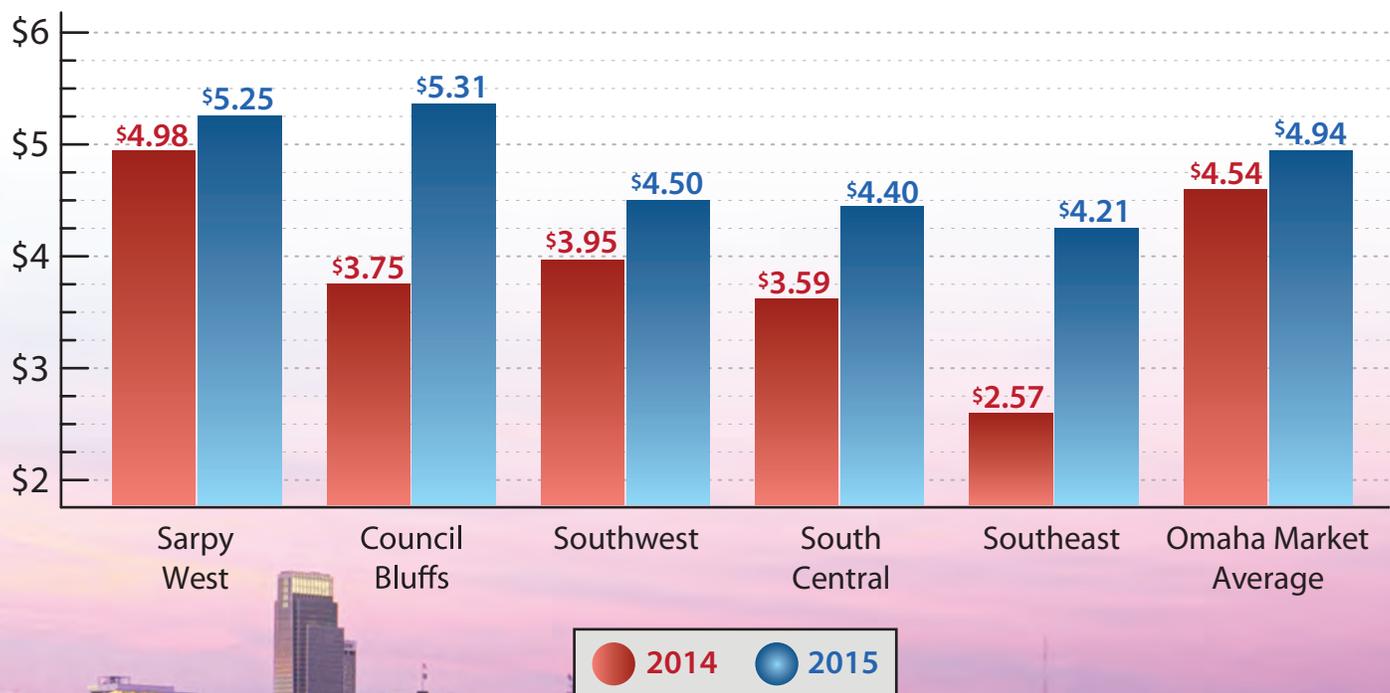
In 2015, the average asking rate hovered around \$4.94 per square foot, up approximately 9 percent from 2014. What is most impressive is the growth in the warehouse/distribution category in Omaha's three largest industrial submarkets.

The average asking rent in Sarpy West, the largest submarket, finished the year at \$5.25 per square foot, a 5.2 percent increase from the prior year. The

second largest submarket, South Central, posted an increase of nearly one dollar per square foot, ending 2015 at \$4.40 per square foot compared to \$3.59 per square foot at the end of 2014. The Southwest industrial submarket, the third largest in metro Omaha, recorded an average asking rent of \$4.50 per square foot compared with \$3.95 a year earlier.

In addition to rental rates being up, the Investors Realty industrial team notes that in a majority of transactions, rental concessions such as rent abatement (free rent) is now uncommon, Tenant Improvement allowances are significantly reduced, and lease terms are longer.

2014 & 2015 Rental Asking Rates Per Sq. Ft. by Market (NNN)



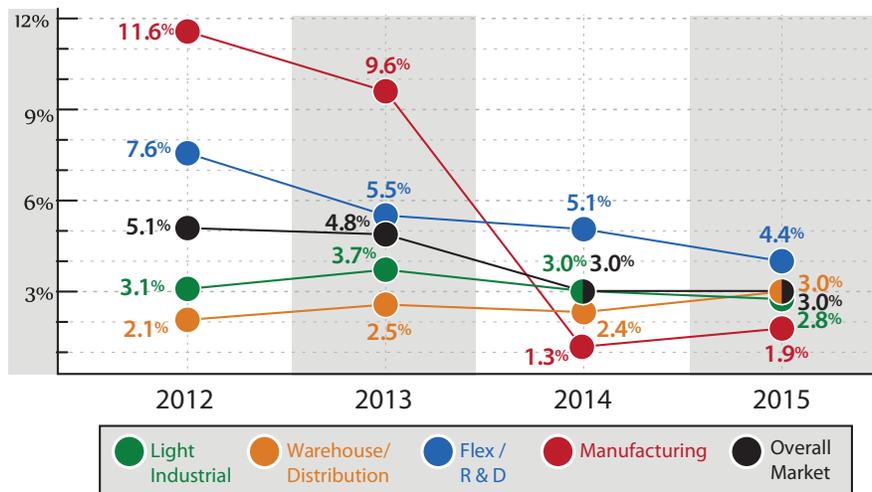
Omaha Industrial Market Conditions and Trends

Vacancy Percentage

We began and ended 2015 with a 3 percent vacancy rate. Several large vacancies did occur, however, including 98,500 square feet at 325 Veterans Memorial Highway in Council Bluffs (Telmar Network Technology), 78,204 square feet at 13333 Lynam Drive (Manko Window Systems), 54,420 square feet at 13619 Industrial Road (Diesel Power Equipment Co.), and 25,891 square feet at 2624 Edward Babe Gomez Ave. (Shake & Shingle Supply). Despite the large chunks of space that came on the market, we were able to backfill a number of these vacancies.

Out of the nine submarkets that make up the Omaha industrial market, four have vacancy rates below the three percent average market-wide. Only one, the Northeast submarket, has a vacancy rate higher than 5 percent.

Vacancy Percentages by Type



It's worth noting that the vacancy rate for flex space fell from 5.1 percent at the end of 2014 to 4.4 percent at the end of 2015,

the lowest it has been since Xceligent began tracking the Omaha industrial market in 2010.

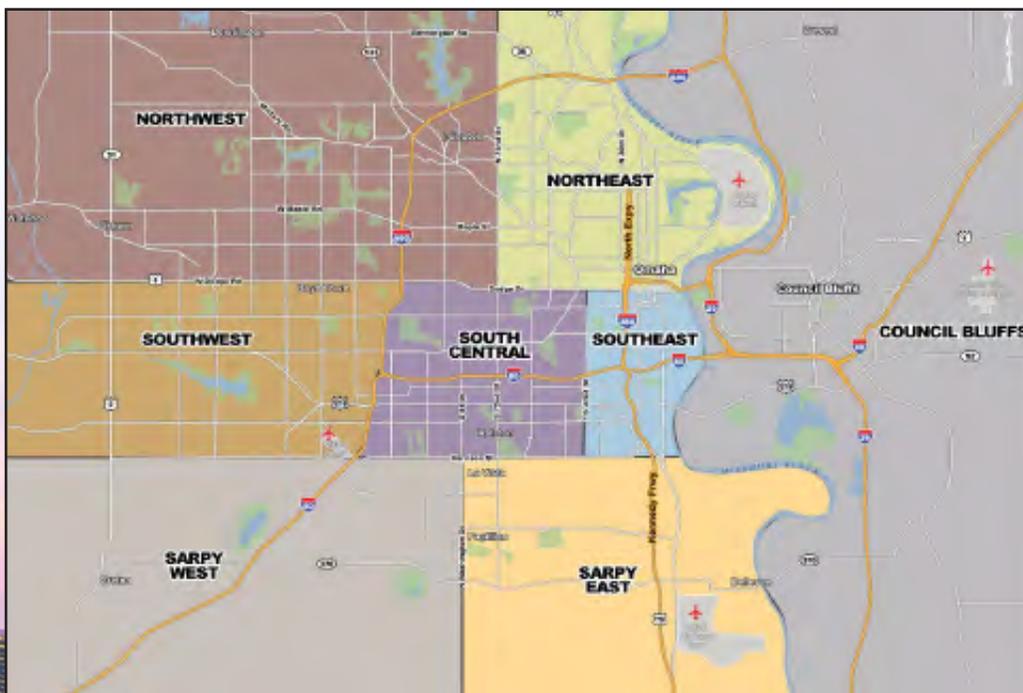
Notable Large Transactions in 2015

Company (Tenant/Buyer)	Transaction	Size (sf)	Location	Submarket
City of Council Bluffs	Sale	85,084	3036 2nd Ave.	Pottawattamie
Bell Ave Properties	Sale	78,204	13333 Lynam Dr.	Sarpy West
Confidential Tenant*	Lease	69,623	4320 S 94th St.	South Central
Confidential Tenant	Lease	58,900	900 Avenue H	Pottawattamie
Sleepy Eye, LLC	Lease	44,240	14242 C Cir.	Southwest
Confidential Tenant	Lease	40,500	325 Veterans Memorial Hwy.	Pottawattamie
SPC Pools	Lease	30,860	9950 S 134th St.	Sarpy West
Flowers Baking*	Lease	25,891	2624 Edward Babe Gomez Ave.	Southeast
Cenveo, Inc.	Lease	25,600	10307-17 I Cir.	Southwest
Thrasher Inc.	Lease	19,475	12304 Cary Cir.	Sarpy West
Lennox Company*	Lease	18,593	10918-22 Emiline St.	Sarpy West
Impact Merchandising*	Lease	12,000	3606-08 D St.	Southeast

* transaction involved Investors Realty, Inc.

Industrial Market Data By Submarket

Submarkets	2015 # of Buildings	2015 Inventory (SF)	2015 Total Vacant (SF)	2014 Total Vacancy Rates	2015 Total Vacancy Rates	Year Over Year Change in Total Vacancy Rates	2014 YTD Net Absorption (SF)	2015 YTD Net Absorption (SF)
South Central	558	18,749,069	1,354,989	1.8%	2.2%	0.4%	338,402	(55,194)
Sarpy West	363	12,789,082	720,466	1.7%	3.4%	1.7%	447,863	292,131
Northeast	246	9,235,401	602,093	5.1%	5.3%	0.2%	41,584	48,397
Southwest	262	8,290,798	651,353	3.6%	3.1%	-0.5%	666,478	85,096
Southeast	230	6,985,310	218,554	6.0%	2.7%	-3.3%	(21,286)	196,957
Council Bluffs	163	6,161,905	229,955	3.5%	2.5%	-1.0%	(20,881)	(32,410)
Northwest	187	4,068,697	301,911	1.2%	1.1%	-0.1%	22,292	2,553
Sarpy East	57	1,857,255	81,887	0.0%	4.4%	4.4%	0	(66,962)
Pottawattamie County	16	235,302	0	3.2%	0.0%	-3.2%	0	0
Overall Market	2,082	68,372,811	4,161,208	3.0%	3.0%	0	1,474,452	470,568



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