Omaha Office Market Report

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Omaha Office Market Conditions and Trends

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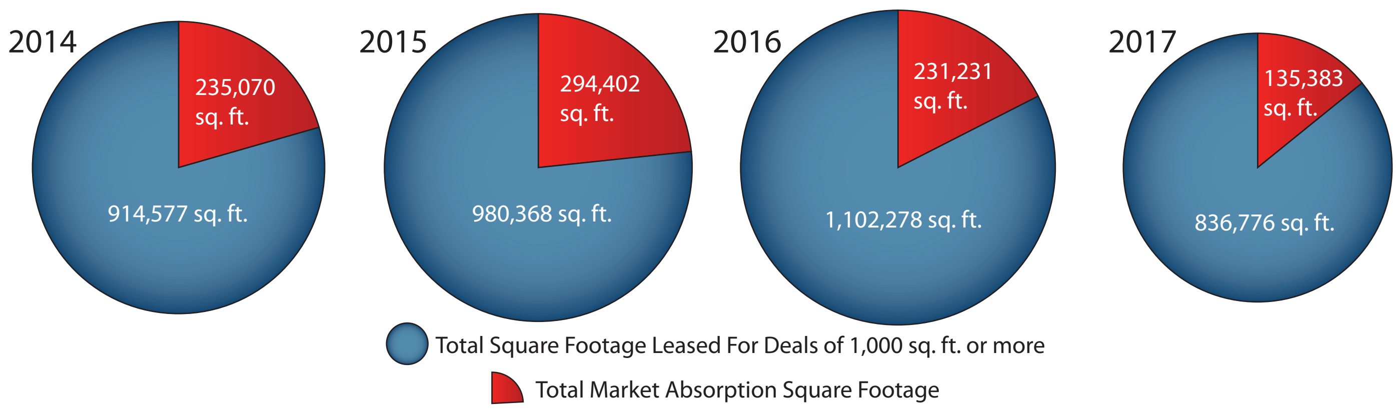
2017 Office Market Underperforms

Omaha's office market enjoyed a number of significant transactions in 2017, and has over 500,000 square feet currently under construction. However, aside from a handful of very notable transactions, such as HDR's 228,000 square foot building in Aksarben Village, and the approximately 100,000 square foot re-leasing of ConAgra Building 5, most of the activity in the office market was uninspired. 2017 absorption was a lackluster 135,383 square feet, the lowest since 2011, and vacancy climbed in the Central West Dodge, Midtown, Northwest and Southwest submarkets. The new construction is very helpful, but vacancy is down to 1.8 percent in the critical Suburban West Dodge submarket, which makes new transactions in this desirable area almost impossible.

The past year is better described as a year of tenants downsizing and moving around rather than tenants expanding and moving up in office quality. The American Red Cross exited nearly 30,000 square feet in Chalco Business Park, CBSHome integrated employees into its home office and vacated 12,600 square feet on West Maple Road, Streamliner left 14,000 square feet at Central Park Plaza and Ascent Cost Containment moved out of nearly 19,000 square feet at 7171 Mercy Road. Meanwhile, D.A. Davidson consolidated two offices into one and Inflection relocated its operations. However, neither company grew its footprint substantially.

Omaha Market Changes In Square Footage Absorption and Its Impact When Viewed as a Share of Total Annual Leasing Square Footage



Market Conditions and Trends - Continued

This overall lack of velocity in the market is, we think, more attributable to a lack of opportunities for tenants than a lack of interest from tenants. Without product, tenants are postponing real estate decisions, and those eyeing the Omaha market with significant expansion plans have to look elsewhere. Space which has been built has leased well and more construction seems to be needed.

Downtown saw its vacancy rate decrease 160 basis points to 12.3 percent, driven primarily by the leasing at ConAgra Building 5. This vacancy rate is expected to further decrease as ConAgra Building 1 is slated for demolition and will be off the market, and there is leasing activity brewing in the approximately 50,000 square foot Gavilon sublease space as well as at Central Park Plaza. Further, the Landmark Building could see most of its 139,000 square foot vacancy eliminated with the creation of a boutique hotel. The announced redevelopment of the ConAgra campus also offers exciting potential for the central business district.

The Northwest submarket, which is primarily driven by North Park office park, was unable to sign leases until new ownership electrified the market in late 2015 and 2016. This submarket ended 2016 at 4.2 percent vacancy, but that number has nearly doubled to end 2017. However, the Northwest submarket is still strong, and this increased vacancy offers needed opportunity for tenants and brokers who have limited choices for 20,000 to 30,000 square foot spaces. The vacancy also creates some room in the market for transactions, thereby allowing landlords to push rents.

The Investors Realty Office Team is tracking 1,647,000 square feet of tenants in the market now. All are serious, but only a portion have a firm requirement that will force them to make decisions in 2018. Of the over 500,000 square feet of office space under construction, only 100,000 square feet is available for lease. Much needed construction is planned for 2018 in Aksarben Zone 5, West Dodge Pointe at 168th and West Dodge Road (Burt Street), and Broadmoor Hills at 180th and West Dodge Road (Burke Street). 2018 will see the completion of streets and infrastructure in the West Farm Development at 144th and West Dodge Road, and office will come out of the ground in fall 2018 due primarily to demand from a handful of large corporate users.

The national economy appears strong and corporate profits solid. We think the recent tax law changes are having an overall positive impact on the commercial real estate industry. New construction and speculative construction nationally have been in check and we think the national office market will continue its steady expansion.

The local economy is stable, and the agricultural economy, which has suffered over the last several years, appears to have stabilized as well. Two of Omaha's four Fortune 500 companies will be building new corporate headquarters in the foreseeable future – Kiewit in the North Downtown area and Mutual of Omaha likely on or near its current campus. Omaha businesses are reporting generally strong operating results and 2017's lack of office activity should translate into a strong 2018 for Omaha's office market. We generally see a stable 2018 with the primary markets like Downtown, Aksarben and Suburban West Dodge being very successful with new construction and leasing over the next two years.

Market Conditions and Trends - Continued

Construction

In the area of construction, 2017 saw the completion of six major new office buildings consisting of a total of 72,800 square feet. This is significantly less the 275,583 square feet delivered in 2016. Two notable new buildings completed are the Kiewit Training Facility and Elkhorn Ridge.


Kiewit Training Facility
Completed in 2017

Elkorn Ridge
Completed in 2016

Five other office buildings are currently under construction:

- **West Dodge Hills** located at 18125 Burke Street. This is a speculative office building consisting of 116,000 sq. ft. Two leases have been signed and approximately 25,000 square feet is currently available to lease.
- **Alvine and Associates** headquarters located at 1207 Cass Street. Part of a mixed-use building containing office, retail and apartments developed by Lanoha Development. The office portion is approximately 20,000 square feet.
- **Lockwood Development** started construction on Building E at Sterling Ridge. The building is 60,000 square feet and considered speculative construction. Renaissance Financial has leased 21,000 square feet on the top floor for its Omaha headquarters.
- **HDR**'s 228,218 square foot corporate headquarters in Askarben Village.
- **Core Bank**'s 60,000 square foot corporate headquarters in Village Pointe.


Alvine and Associates
Under Construction

HDR
Under Construction

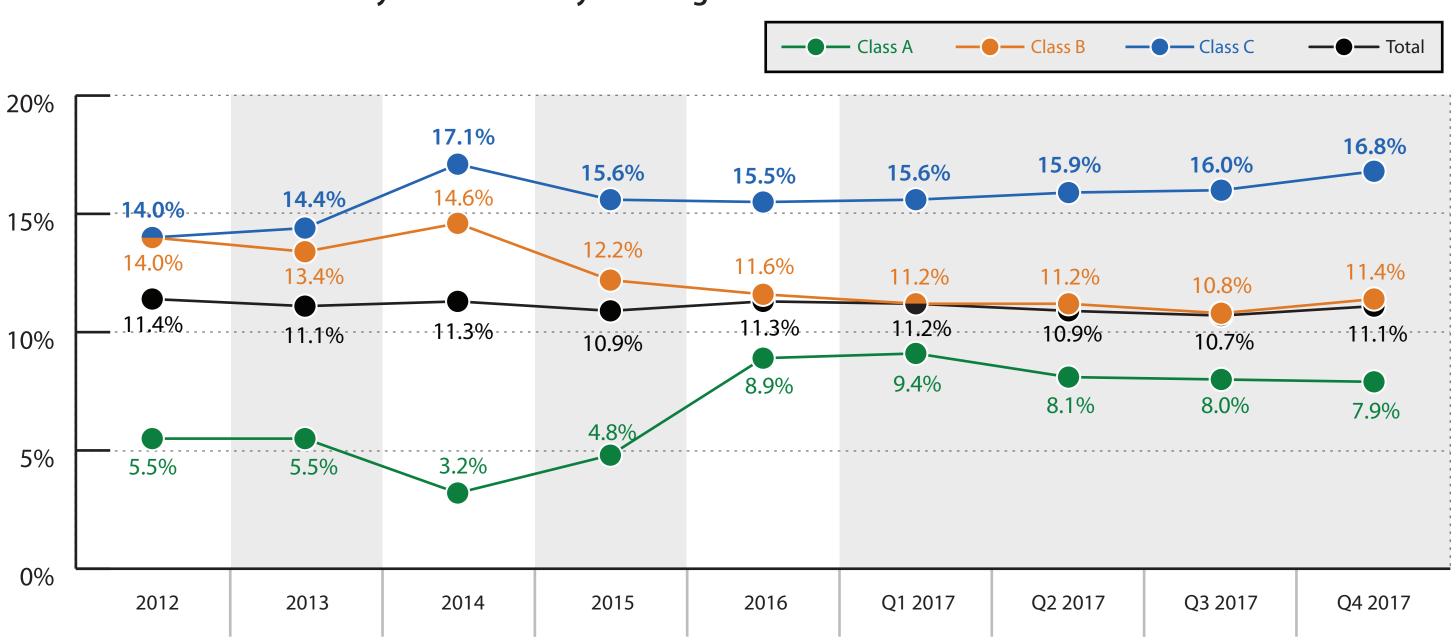

Core Bank
Under Construction

Vacancy

The 2017 overall market vacancy rate increased slightly to 11.1 percent, which is 20 basis points higher than year-end 2016. Although the vacancy rate increased slightly, it is still below historical rates. The largest positive change happened in the Southeast submarket where the vacancy rate decreased from 32.2 percent year-end 2016 to 25.3 percent year-end 2017. The 690 basis point swing is attributed to the leasing activity at 4502 Maass Road where Nebraska Families Collaborative leased 24,228 square feet and Sarpy DMV leased 14,280 square feet. The building had previously been vacant for approximately two years before being purchased by an investor. Surprisingly, the largest negative change happened in the Miracle Hills submarket where the vacancy rate increased from 5.8 percent year-end 2016 to 10.7 percent year-end 2017. This change is attributed mostly to Tetrad's vacating of One Miracle Hills to move into its new headquarters located on land owned by the Walter Scott, Jr. family and overlooking Lake Cunningham near 72nd and I-680.

Also of note is that the Class A and Class C vacancy rates trended upward, though not significantly, while Class B trended down. Class A vacancy remains low at 7.9 percent, which is 120 basis points higher than year-end 2016. The increase in the rate can be attributed to new product coming to the market which is not fully leased. The Class B vacancy rate of 11.4 percent has decreased 70 basis points from last year because of an active leasing market, while the Class C market has experienced a 130 basis point increase to a vacancy rate of 16.8 percent in Class C.

Omaha Area Six Year Vacancy Rate Trends By Building Class



Market Conditions and Trends - Continued

Absorption

2017 saw 95,720 fewer square feet absorbed than in 2016, and was below the 250,000 of square feet of positive absorption the market typically experiences. Net absorption for the overall market for 2017 was 135,383 square feet. Negative absorption of 71,338 square feet in the fourth quarter played a role in slowing the momentum experienced in early 2017. In 2017, suburban Omaha experienced 5,972 square feet of positive absorption while Downtown Omaha experienced 129,411 square feet of positive absorption. Suburban Omaha Class B buildings had 93,112 square feet of positive absorption while Class A and C buildings both experienced negative absorption, 18,817 and 68,323 square feet respectively. In Downtown Omaha all building classes experienced positive absorption. Class A led with 81,331 square feet, Class B accounted for 47,545 square feet and Class C had 535 square feet. Class A and B buildings drove the positive absorption for the year with 62,514 and 140,657 square feet respectively, while Class C buildings were a drag on the market with 67,788 square feet of negative absorption.

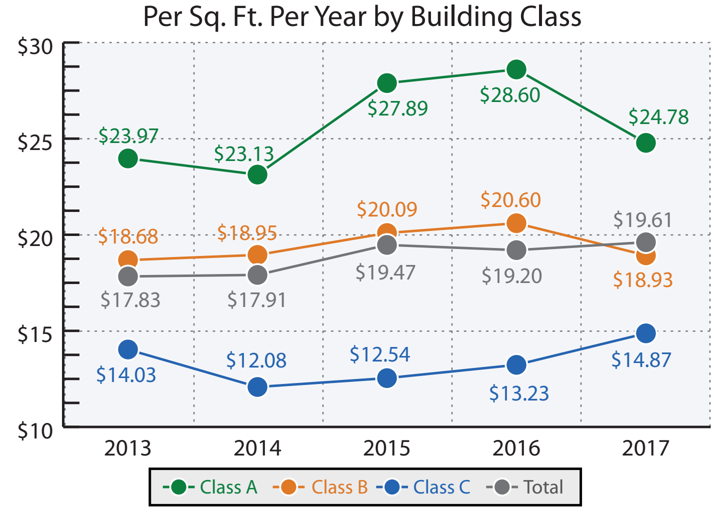
Size (Sq. Ft.)	# of 2014 Transactions	2014 Sq. Ft.	# of 2015 Transactions	2015 Sq. Ft.	# of 2016 Transactions	2016 Sq. Ft.	# of 2017 Transactions	2017 Sq. Ft.
Above 50,000	3	228,930	3	244,053	6	413,672	2	118,443
20,000-49,999	4	118,232	8	242,955	6	170,114	7	174,876
10,000-19,999	14	206,121	4	53,741	10	126,101	11	169,843
5,000-9,999	20	135,086	29	198,442	23	159,340	18	120,935
2,500-4,999	38	134,815	43	145,233	35	117,647	39	142,831
1,000-2,499	56	91,393	60	95,944	68	115,404	66	109,848
Total	***135***	***914,577***	147	***980,368***	***148***	***1,102,278***	***143***	***836,776***
Building Class								
A	27	393,712	22	250,748	22	32	26	229,303
B	81	441,422	97	643,938	97	93	83	449,361
C	27	79,443	28	85,682	28	23	34	158,112
Total	***135***	***914,577***	***146***	***980,368***	***147***	***1,102,278***	***143***	***836,776***

Table shows transactions over 1,000 sq. ft. only

Rental Rates

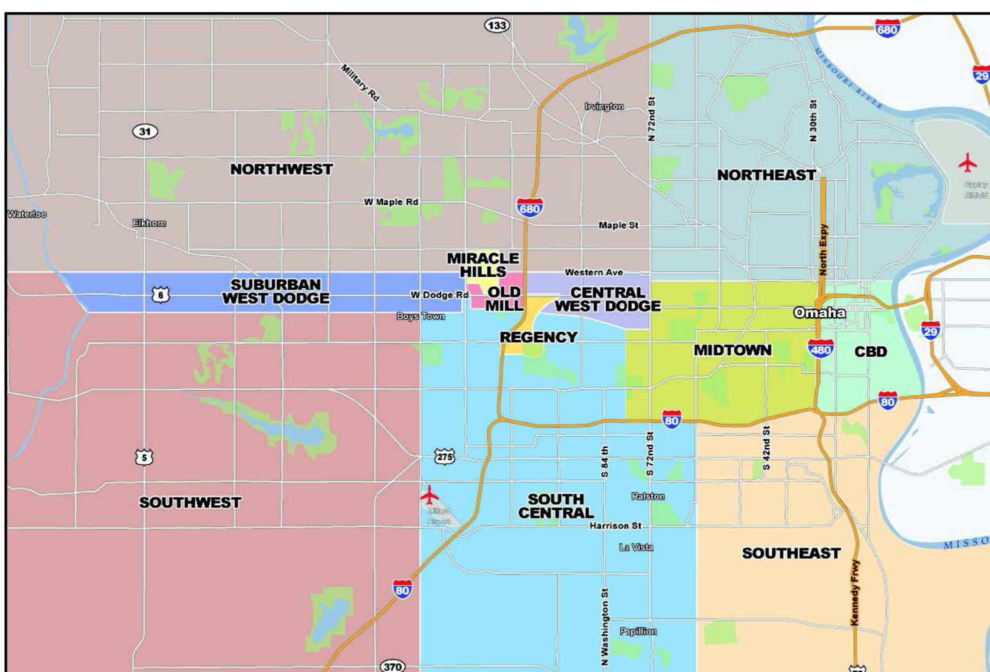
Asking Rental Rates across the market experienced an increase of $.56 per square foot on average in 2017, but were down $.33 per square foot from the second quarter high. As noted earlier, the office leasing market lacked velocity in the fourth quarter 2017, so the rise in asking rental rates is likely a result of higher construction costs and lack of quality leasing options rather than demand.

Asking Rental Rates (FSG) Weighted Rate Per Sq. Ft. Per Year by Building Class



Office Data by Omaha Submarket

MARKET	INVENTORY: Total (SF)		VACANCY: Total Vacant (SF)		VACANCY: Total Vacancy Rates (Year to year change shown as Basis Points)			ABSORPTION: YTD Net Absorption (SF)		RENTAL RATES: Asking Rental Rates (PSF)		
	2016	2017	2016	2017	2016	2017	+ / -	2016	2017	2016	2017	+ / -
Downtown	4,512,145	4,577,737	628,707	562,296	13.9%	12.3%	-160	-250,490	129,411	$19.74	$19.52	-$0.22
Central West Dodge	2,418,782	2,439,026	192,340	233,071	8.0%	9.6%	160	-37,351	-40,731	$21.39	$21.58	$0.19
Suburban West Dodge	2,373,330	2,294,330	97,124	40,828	4.1%	1.8%	-230	89,967	34,296	$27.29	$26.87	-$0.42
South Central	2,606,585	2,509,150	573,256	553,969	22.0%	22.1%	10	132,057	29,292	$16.81	$16.46	-$0.35
Midtown	2,114,022	2,147,838	81,158	129,867	3.8%	6.0%	220	108,866	-48,709	$17.18	$25.48	$8.30
Northwest	1,537,049	1,584,850	58,796	131,193	3.8%	8.3%	450	197,589	-21,761	$15.17	$18.40	$3.23
Southwest	1,488,488	1,488,488	117,840	138,076	7.9%	9.3%	140	65,342	-20,236	$19.51	$17.66	-$1.85
Old Mill	1,194,487	1,210,228	187,966	166,530	15.7%	13.8%	-190	-20,174	21,436	$18.16	$19.06	$0.90
Southeast	876,676	860,298	282,080	217,959	32.2%	25.3%	-690	-11,161	47,743	$15.66	$16.79	$1.13
Regency	1,023,338	1,023,338	93,788	53,023	9.2%	5.2%	-400	-24,401	40,765	$24.84	$25.96	$1.12
Miracle Hills	766,450	740,007	44,452	79,049	5.8%	10.7%	490	-16,768	-34,597	$21.92	$20.67	-$1.25
Northeast	179,116	179,116	21,977	23,503	12.3%	13.1%	80	-2,629	-1,526	$23.88	$21.99	-$1.89
Omaha Market	***21,090,468***	***21,054,406***	***2,379,484***	***2,329,364***	***11.3%***	***11.1%***	***-20***	***230,847***	***135,383***	***19.05***	***$19.61***	***$0.56***



Notable Transactions in 2017

Company (Tenant/Buyer)	Transaction Type	Size (SF)	Submarket Area
Kiewit Corporation*	***New Construction***	***63,000***	***Downtown***
The Sherwood Foundation	Lease	55,443	Downtown
Kiewit Corporation	Backfill	41,841	Midtown
Nebraska Families Collaborative	Lease	24,228	Southeast
Hayneedle	Lease	23,634	Old Mill
DA Davidson	Lease	22,224	Regency
Greater Omaha Chamber of Commerce	Lease	22,013	Downtown
Triage Staffing	Lease	20,684	Northwest
Safe Haven Home Security	Lease	20,252	Northwest
Atlas MedStaffing*	***Lease***	***18,683***	***Old Mill***
Triage Staffing	Lease	17,576	Northwest
Heartland Family Services	Expansion	17,509	Midtown
Signature Performance	Expansion	17,284	Regency
Inflection*	***Lease***	***16,398***	***South Central***
Food Safety Net Services	Sale	16,378	Southeast
Grace Life Bible Church of Omaha	Sale	15,840	Old Mill
Sarpy DMV	Lease	14,280	Southeast
Quantum Market Research	Lease	13,166	Suburban West Dodge
Owner of 1623-1625 Farnam St	Owner Expansion	12,216	Downtown

*** Transaction involved Investors Realty, Inc.**


Sarpy County DMV

How Does Omaha's Office Market Compare to Other Midwestern Markets?

Each year we take a look at how Omaha's office market performance compares with other meaningful markets. On the next page is a chart showing market size and vacancy rates for eight Midwestern office markets including Omaha. This data is provided by CoStar. At 44 million square feet, including owner occupied buildings, Omaha's market size is equal to the average of the eight markets. Four markets – Des Moines, Lincoln, Little Rock and Madison – are smaller than Omaha, and three are larger: Milwaukee, Oklahoma City and Tulsa. Tulsa's office market is the closest in size to Omaha's with 48 million square feet of office space.

The vacancy rate and market size used for Omaha in this section of the Omaha Office Market Report is different than that referenced in the balance of this report because the balance of the report is based on data from Xceligent, which excludes owner occupied buildings. Several large brokerage firms in Omaha, including Investors Realty, are in the process of moving from Xceligent's database to CoStar's. Beginning in 2018, all of our firm's market reports will be based on CoStar data. While the Xceligent and CoStar methodology and results vary notably from one another, this market-to-market comparison using only CoStar as a data source should provide a meaningful market comparison.

How Does Omaha Compare? - Continued

Generally, the smaller markets have lower overall vacancy rates. Omaha and Milwaukee both ended 2017 at 7.4 percent vacancy, and only Tulsa, at 11.1 percent, is higher. These eight markets are seeing similar results. Excluding the highest and lowest rates, the range in vacancy is 340 basis points, with 4 percent in Madison at the low and 7.4 percent in Omaha and Milwaukee at the top. Most markets showed little change in vacancy from 2016 to 2017, but the two Oklahoma markets saw notable increases, presumably as a result of continued struggles in the energy sector.

Omaha's Class A market, which shows 6.8 percent vacancy, is at the midpoint of the eight markets. The chart below does not show historical rates for each class, but Omaha's Class A rate is up from past years. This is providing some needed elbow room in the marketplace, which is necessary to satisfy transactions. Extremely low vacancy rates, like those in Madison and Des Moines at 2.5 and 3.5 percent respectively, leave little room for transactions.

For regular readers of this report, the Class C vacancy rates in all of these markets will seem low. The appearance of low vacancy in Class C is largely the result of CoStar data including owner occupied buildings in its survey. Owner occupied Class C buildings appear as fully occupied even though they have a tendency to be underutilized. This methodology results in a lower vacancy rate for the class. Truly understanding each market requires a deep dive beyond the scope of this segment. These rates show a fairly tight spread for Class C vacancy among all of the markets except for Omaha, which, at 9.9 percent, is notably higher than the other seven markets.

Omaha is in the middle of the pack in terms of market size and vacancy, which is fairly typical. As stated elsewhere in this report, Omaha's office market saw a fairly lackluster 2017, however, there are positive signs on the horizon and we will look to see if Omaha gains some ground in 2018.

Regional Office Market Comparison

City / Area	2017 Vacancy Rates By Building Class A	B	C	City Overall Vacancy Rates 2015	2016	2017	2017 Total Office Inventory (sq. ft.)
Omaha	6.8%	7.5%	9.9%	8.0%	7.5%	7.4%	**43,963,192**
Lincoln	4.4%	3.8%	4.8%	4.8%	3.4%	4.0%	16,568,471
Little Rock	12.5%	4.7%	3.6%	5.1%	4.5%	4.9%	34,214,047
Milwaukee	10.4%	6.9%	4.7%	9.5%	7.6%	7.4%	73,685,717
Oklahoma City	6.4%	7.6%	5.2%	6.2%	5.6%	6.7%	60,903,754
Des Moines	3.5%	3.7%	2.8%	5.8%	3.8%	3.7%	36,043,949
Tulsa	8.6%	14.6%	4.1%	10.5%	9.9%	11.1%	48,563,219
Madison	2.5%	4.3%	5.3%	6.3%	5.7%	4.0%	31,747,316

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