

2022 YEAR-END INDUSTRIAL MARKET REPORT

INVESTORS
REALTY INC.

Written by: Kevin Stratman, CCIM, SIOR & Sydney Weller

MARKET SNAPSHOT



103.2 MILLION SF
INVENTORY



2.0%
VACANCY RATE



\$7.37 PSF
AVG ASKING RENT



2.7 MILLION SF
UNDER CONSTRUCTION



4.1 MILLION SF
DELIVERIES

OVERVIEW

The booming industrial market nationwide has become a bit of a redundant topic. Every year in preparation for writing this report, we review data and try to come up with a unique way to present the same information: vacancy is low, construction is robust, and Tenant demand is strong. And although those are still all true, we thought that rather than repeat ourselves again this would be a good opportunity to compare what has been going on in Omaha to years prior.

Before diving too deeply into it, we do want to provide a couple of warranties. First, it is our opinion that there is really only five good years worth of Omaha market data (true of all sectors, not just industrial). From 2010 to 2017, our market was researched by a company called Xceligent. CoStar has now become the market's primary resource. There were some differences in approach between the two firms, one is not necessarily better or worse than the other, but they are significant in terms of their impact on data. For example, the biggest difference is that CoStar includes the square footage of data centers in overall market size numbers, construction numbers, etc. We've seen a lot of those the last several years.

In general, a question that we as industrial brokers get asked a lot by our clients and other industry partners is "are we overbuilding the industrial market?" If you simply look at the construction numbers, they jump out at you. Overall, our industrial market is just over 103 million square feet. Since 2018, the market has added just over 9 million square feet. There is another 2.7 million currently under construction (active construction, not planned). Based on these figures, the market will have grown by about 12% since 2018. That's a lot. But is it?

Large space occupiers have accounted for a massive percentage of this new construction. Amazon is the easy one to start with. In the last five years, they have built four facilities in the metro area, combining for over 2.6 million square feet. The next logical one to evaluate are data centers. Drive down the Highway 50 corridor and they are hard to miss. Data centers have been a major economic driver in our market for the last decade. Household name tech companies like Facebook, Google, Yahoo, among others, have made major investments in data centers in our market. In fact, according to our internal figures, over 2,700 acres of land have been allocated for data centers in the last decade. In terms of square footage, there have been 3 million square feet built so far. If you single out data centers and Amazon, in total, they reflect 63% of the market's total construction. That's staggering.

To further the exercise, let's eliminate all build-to-suit or owner-occupied structures. Build-to-suits are by nature

pre-leased prior to construction commencing. Owner occupied is a building owned by an entity related to the company that operates in the building. You could pretty much call both pre-leased. When focusing just on the ten build-to-suit or owner-occupied projects 50,000 square foot or greater, you account for another 1.6 million square feet in the last five years. This represents 18%.

So what's left? Just over 2 million square feet in spec that has delivered in the last 5 years. A lot of that product is being pre-leased. For example, R&R Commerce Park's 280,000 square foot Building 4 was 100% pre-leased prior to completion (Ford and Pivot Stats). I-80 Logistics Hub's 401,320 square foot Buildings 2 & 4 were pre-leased prior to delivery as well (Scooters, Home Depot, and GXO).

Now let's dive into transaction volume. There have been 940 new industrial leases (excluding lease renewals) totaling 11 million square feet of in the Omaha market since 2018. Twenty-five of those new leases were between 50,000 and 99,999 square feet. An additional 18 were over 100,000 square feet. In order to compare this to years prior, we went back and reviewed Xceligent data. In the seven years that they tracked our market (2010-2017), there were just twenty-nine total leases over 50,000 square feet. For comparison's sake, we pulled the data from CoStar. That report showed thirty-three leases over 50,000 square feet for the same time period. Let's call it thirty. It took our market 7 years to get thirty new leases over 50,000 square feet. We did forty-three as a market in just the last five years. It is important to point out that about 20% of those in the first seven years were short term leases by 3PL companies.

What does all this mean? Well, we think this data really shows the signs of a maturing market. The market didn't see its first modern spec warehouse until 2015, and since then a huge percentage of the new spec construction is over 150,000 square feet in size. Unsurprisingly, the demand was met, and this has significantly increased the typical deal size.

Current new construction is telling us that this trend will continue. As noted earlier, there is currently just over 2.7 million square feet under construction in the Omaha metro. Just over 51% of that is already leased. One project, the Dollar General Distribution Center, in Blair accounts for



930,000 square feet of that alone. The three major spec warehouses currently under construction (all 200,000 square feet or greater) are all at least 50% pre-leased.

More than anything, we think this shows that the market is not over saturated, but actually, significantly underbuilt. As brokers we are still seeing strong leasing demand and are tracking 36 tenants in the market over 1.7 million square feet. Although the hike in interest rates last summer caused a lot of projects to hit pause or stall out, as the capital markets stabilize we predict that we will see another boom in new construction. However, the next big wave might not start being delivered until 2024 or later. Like years prior, available industrial sites continues to be a challenge. But if the last 5 years has proven anything, 'build it and they will come' might still be the theme going forward.

ABSORPTION

The Omaha Industrial market saw another record year for absorption. Approximately 5.3 million square feet was absorbed in 2022. Comparing that with the previous two years, the industrial market absorbed 3.6 million square feet in 2021 and 1.2 million square feet in 2020. So, 2022 saw a pretty significant jump.

Why the big increase in absorption? Facebook's Data Center off Hwy 50 and Capehart Road was almost half of this year's total absorption at 2.6 million square feet. Two other large players were Amazon at 3860 South 24th Street, Council Bluffs (270,000 SF) and 8376 North 72nd Street (141,816 SF) and Google's Data Center at 14865 Gold Coast Road (281,792 SF). R&R Commerce Park delivered Warehouse 4 (260,000 SF) and I-80 Logistics Hub delivered Buildings 2 & 4 (401,320 SF), all being fully leased prior to completion.

OTHER NOTABLE ABSORPTION CHANGES

PROPERTY	SIZE (SF)
11305 S 150th Avenue (New FedEx Facility)*	320,000
13576 Cornhusker Road (GXO)	301,320
9202 F Street (Airlite Plastics)*	186,405
9575 N 109th Avenue (Ford Storage)	142,600
9202 F Street (Marianna Industries)*	81,090

*Denotes an Investors Realty, Inc. transaction

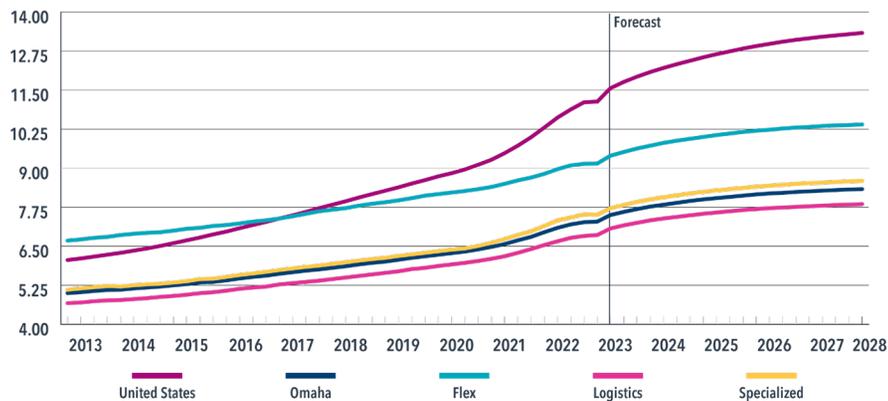
RENTAL RATES

Generally, information about actual rental rates is confidential 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 they are trending upward or downward.

Not surprisingly, average asking triple net rental rates continue to increase in the Omaha market. 2022 ended with average asking rates of \$7.37 PSF, which is staggering, considering just 5 years ago average asking rates were \$6.09 PSF.

But rental rate increases aren't only being seen in new construction, existing product in more mature submarkets are seeing significant rental rate increases as well. This is leading to significant "sticker shock" during lease renewals. Tenants, especially ones that have occupied a property for many years (think ten plus), are seeing a huge increase in their occupancy costs. This is putting Tenants in a difficult predicament: either relocate, perform build out (at a high cost), buy new FF & E, racking, equipment, etc., and other costs associated with moving, or stay put and absorb a significant increase in occupancy costs. Even though modern warehouses come with amenities like more trailer parking, higher stacking height, and other attractive amenities that lead to a more efficient operation, in 2022 we saw a lot of Tenants deciding the cost of moving is not worth the efficiencies. Eventually that will have to flip.

MARKET RENT PER SF



VACANCY RATE

The Omaha Industrial market continues to have a record low vacancy rate, ending 2022 at 2.0%. This is down from 2021 at 3.2%.

Sarpy West is considered the largest industrial submarket in the Omaha industrial market, containing roughly 25.2 million square feet. It continues to be the hottest submarket in the area. This submarket ended 2021 at 3.5% vacant. 2022 ended with a record low vacancy rate of 1.2%.

Another notable submarket is South Central Omaha which has 21.8 million square feet of industrial. This submarket ended 2021 at 4.7%. Leasing was strong in this submarket with 2022 ending at 2.2%.

It will be interesting to see how the next few years play out, but we believe the vacancy rate will continue to remain strong at or below 2%.



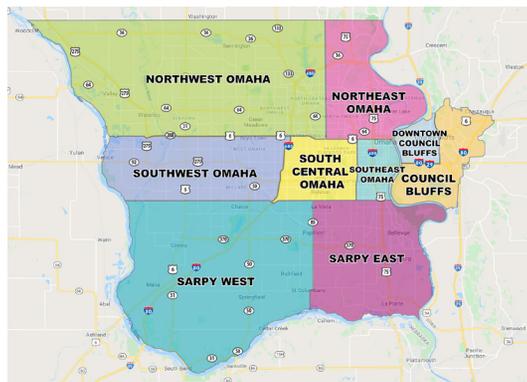
TOP 10 LEASE TRANSACTIONS 2022

ADDRESS	TENANT	SIZE (SF)
9202 F Street*	Airlite Plastics	186,405
9009 S 135th Street	UPS	165,052
River Road & Nebraska Ave, CB	PCA	163,699
14910 Gold Coast Rd	Ford Storage	150,280
9575 N 109th Ave	Ford Storage	142,600
14910 Gold Coast Rd	Pivot Bio	109,720
4011 S 60th Street	International Paper	82,470
9202 F Street*	Marianna Industries	81,090
11921 S 156th Street	Echo Group	68,640
12900 I Street	Fremont Custom Carriers	67,276

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2022 YEAR-END SUMMARY

SUBMARKETS	INVENTORY (SF)	TOTAL VACANCY (SF)	VACANCY RATE	ANNUAL CHANGE IN VACANCY RATES (BPS)	YTD NET ABSORPTION (SF)	MARKET RENT/SF	ANNUAL RENT GROWTH
Sarpy West	25,216,819	277,385	1.1%	-2.4%	4,246,167	\$7.82	7.0%
South Central Omaha	21,803,350	479,674	2.2%	-2.5%	545,700	\$7.42	6.6%
Northeast Omaha	11,170,641	245,754	2.2%	0.4%	(38,222)	\$6.20	7.0%
Southwest Omaha	9,501,440	161,900	1.7%	-0.4%	36,987	\$7.29	6.4%
Southeast Omaha	9,309,657	167,574	1.8%	-1.0%	91,142	\$5.80	6.9%
Northwest Omaha	7,747,749	271,171	3.5%	-0.1%	192,879	\$7.77	6.5%
Downtown Council Bluffs	3,412,227	81,893	2.4%	1.5%	(50,048)	\$7.24	7.7%
Council Bluffs	3,334,496	126,711	3.8%	0.0%	267,300	\$7.92	7.1%
Sarpy East	2,301,500	75,950	3.3%	-0.3%	(7,410)	\$6.98	6.9%
Rural Submarkets (9)	9,419,971	178,857	1.9%	-0.2%	70,114	\$7.58	6.2%
Omaha Market	103,217,850	2,066,869	2.0%	-0.3%	5,354,609	\$7.37	6.8%



Omaha Submarkets (Map excludes the 9 rural submarkets)

LEASE TRANSACTIONS IN 2022

195 DEALS

SIZE (SF)	# OF TRANSACTIONS
100,000 and above	6
50,000-99,999	7
20,000-49,999	19
10,000-19,999	28
900-9,999	135

INDUSTRIAL BROKERS

LEE EHLERS, CCIM
lee@investorsomaha.com



CLINT SEEMANN
cseemann@investorsomaha.com



KEVIN STRATMAN, CCIM, SIOR
kstratman@investorsomaha.com



SYDNEY WELLER
sweller@investorsomaha.com



INVESTORS REALTY, INC.
12500 I Street, Suite 160
Omaha, NE 68137
402.330.8000

investorsrealty@investorsomaha.com



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