# 2020 YEAR-END OFFICE MARKET REPORT

**Omaha's Office Market Struggles Amid COVID-19 Pandemic with Hope for a Return to Normalcy in Late 2021**

INVESTORS REALTY INC.

## MARKET SNAPSHOT

**43,954,430 SF**
INVENTORY

**8.89%**
VACANCY RATE

**$20.49 PSF**
AVG ASKING RENT

**1,108,000 SF**
UNDER CONSTRUCTION

**928,663 SF**
DELIVERIES

## OVERVIEW

The Omaha office market saw 180 new lease transactions for 718,246 square feet in 2020 (leases in excess of 1,000 SF), which is down from a typical year where we usually see a little over 200 lease transactions and 1 million square feet. While only 10% fewer transactions than a typical year, the amount of leased space is down nearly 30% which indicates a lack of larger transactions. Still, 180 transactions is not bad considering the market was at a near standstill in the second quarter. However, due to continued uncertainty, activity remains off as we move into 2021. Vacancy climbed sharply in 2020 due to a lack of new activity, new building deliveries, and several large tenant moveouts.

| SUBMARKET | INVENTORY 2019 *(# OF BUILDINGS)* | INVENTORY 2020 *(# OF BUILDINGS)* | INVENTORY 2019 *(SQUARE FEET)* | INVENTORY 2020 *(SQUARE FEET)* |
|---|---|---|---|---|
| Central Dodge | 100 | 100 | 3,453,093 | 3,453,093 |
| Downtown | 134 | 135 | 9,962,372 | 10,034,372 |
| Midtown | 217 | 219 | 6,339,624 | 6,452,111 |
| Miracle Hills | 27 | 27 | 1,097,256 | 1,097,256 |
| Northeast | 75 | 75 | 809,536 | 809,536 |
| Northwest | 148 | 153 | 2,778,856 | 2,836,699 |
| Old Mill | 65 | 65 | 2,238,665 | 2,238,665 |
| Regency | 23 | 23 | 1,242,994 | 1,242,994 |
| South Central | 222 | 223 | 3,227,298 | 3,293,826 |
| Southeast | 199 | 200 | 2,595,304 | 2,604,600 |
| Southwest | 260 | 263 | 4,998,427 | 5,185,838 |
| Suburban West Dodge | 100 | 107 | 4,282,914 | 4,705,440 |
| **Total** | **1,570** | **1,590** | **43,026,339** | **43,954,430** |

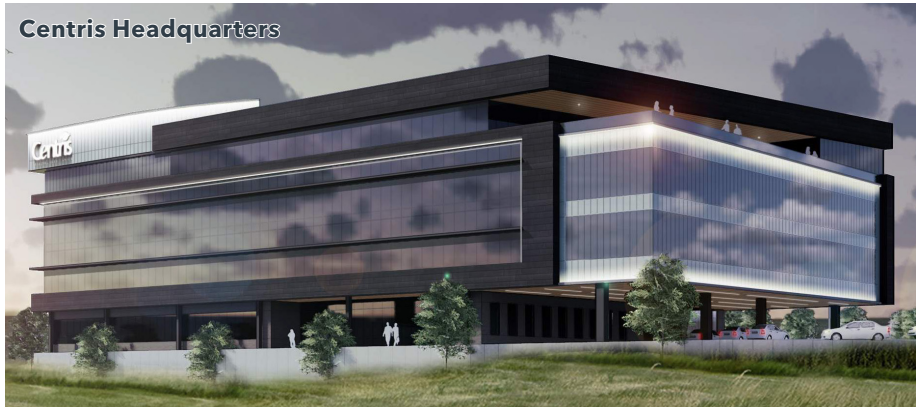
In a year like we have never seen, some tenants forged ahead with their office space expansions and relocations in 2020, believing those decisions to be long term and the effects of COVID-19 generally short term. But others pressed pause, obtaining shorter term renewals to buy some time. The COVID-19 induced shift to "work from home" for many employers heavily impacts office spaces, and employers are facing big questions around when to come

back to the office and what that will look like. Some businesses have given up space, which we will touch on later, but the vast majority have not given up space and have not made any firm real estate decisions. Omaha's largest employers are still predominately work from home and are expected to be that way until school ends in late spring, but many small to medium sized businesses have had their people back in the office with flexible schedules when needed. Most business owners want their most important assets back in their collaborative office environments. But what that looks like and when it will be safe for more employees to return is still uncertain. Many employees want to return to the office, but there is an eye toward a more flexible work schedule – a hybrid between office and work from home. A hybrid arrangement means businesses need to figure out how to accommodate their team members in the office in ways they have not needed to before.

What to expect in the 2021 office market is understandably hard to predict. While it would be easy to presume the coming year will be rocky due to continued uncertainty, there are many reasons to expect good leasing activity. Many businesses are thriving and there is an abundance of new space, which leaves an abundance of second-generation space behind. This available inventory creates opportunity, and the market has pent up demand from 2020, where new leasing activity was down nearly 300,000 square feet. Leases are expiring and while tenants are considering whether they need less space due to work-from-home arrangements, they are also considering their need for more space due to the need for more private offices, larger workstations and larger collaboration and amenity spaces. Much depends on the efficacy of the COVID-19 vaccines, but Omaha has some natural benefits related to its lack of density and it is known for being a place where business gets done. We expect Omaha's community approach will be 'let's get back to business' and we foresee better results for new lease transactions, total space leased and positive absorption in the year to come.

## CONSTRUCTION

While 2019 was a very active year in new construction, the theme for 2020 was less new construction taking place and progress on the projects started in 2019. There was significant construction taking place in 2020, but only two new buildings breaking ground. At the end of 2020, there was approximately 1,100,000 square feet under construction. Over 800,000 square feet of that was from projects started prior to 2020. In 2020 we saw two significant office projects break ground: R&R Realty Group broke ground on Waterford, their 180,000 square foot class A building at 192nd and West Dodge Road and UBT (Union Bank and Trust) broke ground on their new 93,000 square foot headquarters at the Heartwood Preserve (144th and West Dodge Road). With the amount of construction taking place in consecutive prior years and the onset of the first global pandemic in 100 years, this lack of new product should not be surprising nor overly concerning. 2021 could be similar to 2020 in terms of new projects commencing, but we will see significant deliveries taking place. LinkedIn will move into their new 200,000 square foot space at Sterling Ridge, Carson Wealth will be occupying 80,000 square feet of the 120,000 square foot headquarters they built at Heartwood Preserve, Valmont will relocate to their 150,000 square foot headquarters also at Heartwood Preserve and Kiewit will make a move to their new




downtown 165,000 square foot headquarters.

Fortunately, only two new buildings commenced construction in 2020, which will help the market maintain some equilibrium.

### BUILDINGS UNDER CONSTRUCTION *(At the end of 2020)*

| PROPERTY | SIZE (SF) |
|---|---|
| Applied Underwriters | 250,000 |
| LinkedIn | 200,000 |
| Carson Wealth | 120,000 |
| Valmont | 150,000 |
| Centris Headquarters | 115,000 |
| Waterford | 180,000 |
| UBT Headquarters | 93,000 |

## VACANCY

The 2020 Omaha office market vacancy rate increased to 8.89% from 5.4% in 2019. The best performing and only sector to see a decrease in the vacancy rate was Old Mill, which went from 8.4% in 2019 to 7.20% in 2020. The largest transactions contributing to this decrease were Southwest Signal Engineering (7,248 SF) and the First Responders Foundation (7,920 SF).

The overall vacancy rate in Downtown (5.90%), South Central (6.80%) and Southwest (5.90%) submarkets experienced only marginal increases at year-end. However, the remaining submarkets – Central Dodge (10.30%), Suburban West Dodge (8.90%), Midtown (6.10%), Northwest (10.60%), Southeast (14.10%), Regency (8.50%), Miracle Hills (11.70%) and Northeast

(10.50%) – ended with increases over the prior year, some being more substantial than others. In most cases, these increases are due to tenants vacating their office space and moving to another location, downsizing or moving the business out of Omaha. However, along Suburban West Dodge, some of this increased vacancy can be attributed to new building deliveries that were built with speculative space. The two worst performing sectors of the past year have been Southeast (14.10%), mainly attributable to Infogroup vacating 176,000 square feet in Papillion, and Miracle Hills (11.70%) due to Intrado's downsize and building consolidation, leaving behind 80,000 square feet.

Class A office buildings maintain their lead concluding the year with the lowest vacancy rate of 6.4%, although notably up from the prior year's 4.1%. Class B buildings closed the year at an 8.7% vacancy rate, an increase from 5.4%, and Class C decreased to 6.8% from last year's 7.3%. The fact the vacancy rate increased across all building classes is in line with lack of new activity, new building deliveries with speculative space, and several large tenant moveouts.

## ABSORPTION

Absorption is the net change in occupancy from period to period, expressed in square feet. In 2020, Omaha's office market experienced negative 140,674 square feet of absorption. Our historical annual absorption averages 250,000 square feet. The year's negative absorption nearly wipes out the extraordinary 577,000 square feet absorbed in 2019. We are not surprised by these results as COVID-19 impacted every workplace in 2020, and work from home was instituted across Omaha to slow the spread of the virus. Move-outs throughout 2020 outpaced leasing, which was on pause for much of March through June.

In 2020, there were many significant tenant move-outs where the tenant did not offset the move-out with a corresponding move-in to newer space. Examples include InfoUSA (176,033 SF), Intrado, formerly West Corporation (130,000 SF), Sitel Corporation (38,000 SF), Black Hills Energy (34,000 SF), Signature Performance (17,317 SF) and Consolidated Container Company (16,134 SF). InfoUSA's and Black Hills Energy's buildings were sold to owner users in 2020, preventing the buildings from adversely impacting the overall market's absorption calculation. In addition, there are a multitude of properties marketing office space for sublease, which will negatively impact absorption as the leases expire in the future.

Suburban West Dodge was the lone bright spot in 2020, with absorption of 129,753 square feet for the year. This positive absorption was driven by tenants moving into newly-constructed office buildings in the submarket. Some examples of notable moves-ins in the Suburban West Dodge submarket are DTN (45,953 SF), Milliman (33,710 SF), Bridges Trust (35,980 SF) and Frontier Bank (20,228 SF). The worst performing submarkets were the Central West Dodge and Downtown submarkets, which experienced negative absorption of 50,916 square feet and 50,677 square feet, respectively. The negative absorption in these two submarkets can be attributed mostly to two large office users moving to different submarkets: DTN to the Suburban West Dodge submarket and Metropolitan Utilities District moving to the Northwest submarket.

## LEASE TRANSACTIONS IN 2019

202 DEALS

| SIZE (SF) | # OF TRANSACTIONS | TOTAL SQUARE FOOTAGE |
|---|---|---|
| 1,000 - 2,499 | 117 | 190,061 |
| 2,500 - 4,999 | 47 | 155,268 |
| 5,000 - 9,999 | 18 | 113,660 |
| 10,000 - 19,999 | 14 | 204,681 |
| 20,000 - 49,999 | 5 | 170,211 |
| 50,000 and above | 1 | 200,000 |
| **BUILDING CLASS** | | |
| Class A | 29 | |
| Class B | 113 | |
| Class C | 60 | |

## LEASE TRANSACTIONS IN 2020

180 DEALS

| SIZE (SF) | # OF TRANSACTIONS | TOTAL SQUARE FOOTAGE |
|---|---|---|
| 1,000-2,499 | 113 | 184,742 |
| 2,500-4,999 | 37 | 121,459 |
| 5,000-9,999 | 19 | 130,423 |
| 10,000-19,999 | 7 | 82,422 |
| 20,000-49,999 | 2 | 54,125 |
| 50,000 and above | 2 | 145,075 |
| **BUILDING CLASS** | | |
| Class A | 24 | 191,470 |
| Class B | 115 | 421,860 |
| Class C | 41 | 104,916 |

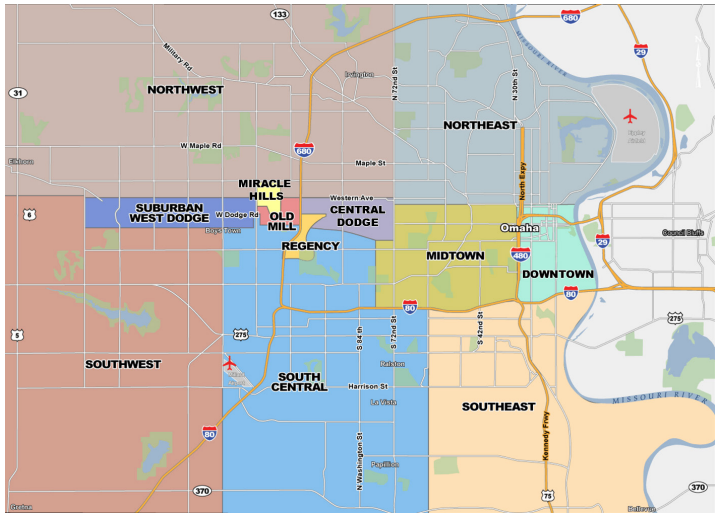
## NOTABLE SALE TRANSACTIONS IN 2020

| PROPERTY | SIZE (SF) | SUBMARKET AREA |
|---|---|---|
| **Central Park Plaza*** | **209,819** | **Downtown** |
| Midwest Laboratories | 176,033 | Southeast |
| Village Pointe Medical Buildings | 147,671 | Suburban West Dodge |
| Mastercraft Building | 138,128 | Downtown |
| Farnam Tech Buildings | 123,060 | Old Mill |
| Two Miracle Hills | 77,325 | Miracle Hills |
| **7101 Mercy Road*** | **63,860** | **Midtown** |
| 9805 Q Street | 52,930 | South Central |
| Archdiocese of Omaha | 36,737 | Northwest |
| **Black Hills Energy*** | **36,470** | **Southeast** |
| **16945 & 17055 Frances Street*** | **36,128** | **Southwest** |
| 5601 N 103rd Street | 35,774 | Northwest |
| Standard Oil Building | 31,098 | Downtown |
| 1005 S 107th Avenue | 23,524 | Regency |
| Warren Distribution | 21,310 | Downtown |
| **9719 Giles Road*** | **21,218** | **South Central** |
| 3930 S 147th Street | 20,968 | Southwest |
| Frances Place | 19,732 | Southwest |
| Ontario Place Professional Building | 19,228 | Midtown |
| 13220 Birch Drive | 19,050 | Northwest |
| 6855 Mercy Road | 16,300 | Midtown |
| **Henningsen Foods*** | **12,036** | **Southwest** |
| Sodoro Law Building | 12,000 | Midtown |
| **Westfield I Office Condo*** | **11,288** | **Central Dodge** |

## NOTABLE LEASE TRANSACTIONS IN 2020

| PROPERTY | SIZE (SF) | SUBMARKET AREA |
|---|---|---|
| **Scoular*†** | **51,733** | **Suburban West Dodge** |
| Milliman | 33,710 | Suburban West Dodge |
| IAT Insurance Group, Inc. | 20,415 | Southwest |
| **Raymond James*** | **14,770** | **Southwest** |
| Alff Construction† | 12,500 | South Central |
| CACI | 12,000 | Midtown |
| Health Management Systems | 11,770 | Central Dodge |
| **Omaha Community Foundation*†** | **10,615** | **Regency** |
| **Nebraska Children and Families Foundation*** | **10,482** | **Downtown** |
| **DMSI*†** | **10,285** | **Suburban West Dodge** |

### OMAHA SUBMARKETS




***Denotes an Investors Realty, Inc. transaction***
***†Denotes a sublease transaction***

# 2020 END OF YEAR SUMMARY

| SUBMARKETS | INVENTORY (BUILDINGS) | INVENTORY (SF) | VACANT SF DIRECT | VACANT SF SUBLEASE | VACANT SF TOTAL | TOTAL VACANCY RATE | YTD NET ABSORPTION (SF) | AVERAGE ASKING RENTAL RATE (PSF) |
|---|---|---|---|---|---|---|---|---|
| Central Dodge | 100 | 3,453,093 | 261,246 | 93,069 | 354,315 | 10.30% | (173,519) | $22.79 |
| Downtown | 135 | 10,034,372 | 564,599 | 29,737 | 594,336 | 5.90% | (58,086) | $20.50 |
| Midtown | 219 | 6,452,111 | 391,720 | 3,067 | 394,787 | 6.10% | (114,389) | $23.41 |
| Miracle Hills | 27 | 1,097,256 | 127,712 | 2,930 | 130,642 | 11.90% | (78,530) | $23.52 |
| Northeast | 75 | 809,536 | 84,676 | 0 | 84,676 | 10.50% | 13,568 | $12.00 |
| Northwest | 153 | 2,836,699 | 276,478 | 24,348 | 300,826 | 10.60% | (19,797) | $16.76 |
| Old Mill | 65 | 2,238,665 | 139,233 | 21,725 | 160,958 | 7.20% | 18,001 | $20.23 |
| Regency | 23 | 1,242,994 | 81,527 | 23,509 | 105,036 | 8.50% | (9,022) | $27.12 |
| South Central | 223 | 3,293,826 | 224,487 | 0 | 224,487 | 6.80% | 76,994 | $16.29 |
| Southeast | 200 | 2,604,600 | 367,007 | 0 | 367,007 | 14.10% | (112,648) | $17.75 |
| Southwest | 263 | 5,185,838 | 295,983 | 9,942 | 305,925 | 5.90% | 121,784 | $18.97 |
| Suburban West Dodge | 107 | 4,705,440 | 356,708 | 60,322 | 417,030 | 8.90% | 194,970 | $26.48 |
| **Omaha Market** | **1,590** | **43,954,430** | **3,171,376** | **268,649** | **3,440,025** | **8.89%** | **(140,674)** | **$20.49** |

*The Investors Realty, Inc. Omaha Office Report is based on data provided by CoStar. This report includes all Omaha office buildings, including medical and owner occupied. Council Bluffs, IA is not included.*

## CONTRIBUTORS


**TIM KERRIGAN, CCIM, SIOR**
tkerrigan@investorsomaha.com

**JP RAYNOR, JD, CCIM, SIOR**
jpraynor@investorsomaha.com

**MIKE RENSCH**
mrensch@investorsomaha.com

**JEANETTE WEBER, CPM**
jweber@investorsomaha.com

**JACK WARREN**
jwarren@investorsomaha.com

**INVESTORS REALTY, INC.**
12500 I Street, Suite 160
Omaha, NE 68137
402.330.8000
investorsrealty@investorsomaha.com

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