

# 2022 YEAR-END OFFICE MARKET REPORT

## MARKET SNAPSHOT



**45,252,365 SF**  
INVENTORY



**7.74%**  
VACANCY RATE



**\$24.73 PSF**  
AVG ASKING RENT



**0 SF**  
UNDER CONSTRUCTION



**100,698 SF**  
DELIVERIES

## OVERVIEW

Omaha's Office Market is performing better than many other metropolitan areas. Omaha saw a reduction in vacancy, reasonable absorption and a healthy number of transactions in 2022. One area of concern is the presence of more sublease space than ever before. Office sales were brisk in the first half of 2022 but decreased sharply in the second half, mostly as a result of the increase in interest rates. Leasing activity was stable and picked up in the later part of 2022 as sales decreased. This report includes a list of the more notable lease and sale transactions.

The relatively stable market is due to several factors. First, it seems Omaha based companies tend to want their employees working in the office, although most offer some hybrid solution. Secondly, there is a continuing flight to quality as employers try to entice employees back to the office. We're seeing some office users decrease their footprint in conjunction with increasing the quality of their space. Also, the conservative nature of the development community kept new construction at appropriate levels prior to the pandemic.

SUBMARKET	INVENTORY 2021 (# OF BUILDINGS)	INVENTORY 2022 (# OF BUILDINGS)	INVENTORY 2021 (SQUARE FEET)	INVENTORY 2022 (SQUARE FEET)
Central Dodge	99	95	3,453,093	3,347,180
Downtown	136	134	10,034,372	10,098,962
Midtown	222	216	6,452,111	6,273,337
Miracle Hills	28	26	1,097,256	1,085,763
Northeast	76	78	809,536	910,807
Northwest	156	156	2,836,699	2,881,416
Old Mill	64	64	2,238,665	2,240,923
Regency	25	25	1,242,994	1,202,067
South Central	225	224	3,293,826	3,354,448
Southeast	199	197	2,604,600	2,589,071
Southwest	269	273	5,185,838	5,586,648
Suburban West Dodge	112	114	4,705,440	5,681,743
<b>Total</b>	<b>1611</b>	<b>1602</b>	<b>43,954,430</b>	<b>45,252,365</b>

2022 saw effectively no new construction starts, which has been the case as a result of the pandemic, but new Class A space of any significant size is becoming almost impossible to find as steady leasing has used up the inventory. Second generation Class A space has also leased well, while a few developers are beginning to sound serious about new office construction.

The large amount of sublease space offers opportunities for businesses as they often come with a rent subsidy from the sublessor and furniture in place. Subleases can be more complicated, and all sublease space is not equal, but the sublease space is providing potential solutions for businesses who want to get their teams back together.

Omaha's office market is not out of the woods but has several stable components. We are tracking 62 office tenants in the market for 912,000 SF and think 2023 will see similar leasing to 2022 but fewer sales. We are generally optimistic about Omaha's Office Market's future but uncertainty remains and only time will provide answers. Businesses are still adapting to the new normal in the office environment and it remains to be seen how today's office decisions will fare. Companies who have downsized may wish they had more space and companies which didn't downsize their footprint may wish they had.

## VACANCY

The 2022 Omaha office market vacancy rate decreased to 7.7% from 9.1% at year-end 2021. Any improvement in the office market should be a reason to rejoice and provide an optimistic outlook with today's market conditions but any enthusiasm is subdued when today's vacancy rate is compared to the pre-pandemic rate of 5.4%.

Seven of the twelve submarkets are at or below the overall office market vacancy rate of 7.7%. In order from lowest vacancy: Southeast (3.4%), Southwest (4.9%), Downtown (5.4%), Midtown (6%), Regency (6.2%), South Central (7.1%), and Old Mill (7.7%). The Southeast submarket decreased their vacancy more than any other submarket in the past year. The Southeast's submarket decreased the vacancy rate by 1,010 basis points due to The Nebraska Defense Research Corporation occupying 21,373 SF and The State of Nebraska occupying 11,740 SF at 4530 Maass Road.

The remaining five submarkets all had vacancy rates above 7.7%. In order from highest vacancy: Miracle Hills (28.6%), Central Dodge and Northwest (11.9%), Suburban West Dodge (10.3%), and Northeast (9.9%). It's surprising to see the Miracle Hills, Central Dodge, and Suburban West Dodge submarkets underperforming. Except for last year, Miracle Hills has historically been the best performing submarket in Omaha with single digit vacancy rates over the last decade. Miracle Hill's vacancy is attributed to Intrado (formerly West Corp) downsizing by 100,000 SF and then placing their remaining 165,000 SF building on the market for sublease. Lockwood Development, the new owner of the two buildings, has done an excellent job of renovating and backfilling these properties which isn't reflected in current numbers but will be reflected in the 1st quarter 2023 report. DMSi Software recently signed a lease for 65,000 SF at the property and numerous other tenants are negotiating potential leases for the remaining vacancies. Suburban West Dodge has been an active submarket with new Class A buildings seeing increasing

activity. California Pointe, located at 13333 California Street, the HQ for Bridges Trust, leased approximately 32,299 SF in the past year and will show as full in the next reporting period.



## ABSORPTION

Absorption is the net change in occupancy from period to period, expressed in square feet. Omaha's historical (pre-COVID-19) annual absorption average was approximately 250,000 SF. In 2021, the office market absorbed 474,977 SF, which is materially above average and makes up for the loss seen in 2020. At the close of 2022, the office market has absorbed 224,783 SF producing two consecutive years of positive absorption, a scenario the market previously took for granted.

At year end, the best performing office submarkets were the Suburban West Dodge submarket, absorbing 162,249 SF and the Southeast submarket, absorbing 86,075 SF. Suburban West Dodge is typically a strong performing submarket, but the Southeast is a surprise performer due to the new leasing previously mentioned at 4503 Maass Road.

The worst performing submarket was the Miracle Hills submarket, finishing the year at a negative 107,076 SF absorption. As mentioned above, much of the negative absorption is attributed to the downsize of Intrado at their former HQ but the buildings, which were purchased by Lockwood Development, have experienced interest from numerous prospects.

"Ghost Space", space that is currently leased, yet not occupied, nor on the market for sublease, and "Sublease Space" remain the elephant in the room in any conversation concerning office space as there seems to be a constant theme of two steps forward and one step back.

## CONSTRUCTION

While the theme for 2021 was "deliveries" of projects started the previous two years, the theme for 2022 was progress leasing the delivered projects from the previous years. No notable new construction broke ground in 2022 but it was gratifying to see leasing activity in Class A, first-generation space that had been slow over the previous two years. Notable Class A, first-generation leases signed in 2022 listed below:

- » Fusion Medical Staffing signed a 115,545 SF lease at the Waterford Building on 192nd & W Dodge Road.
- » Associates in Women's Health signed a 18,669 SF lease at Pacific Springs Center II on 168th & Pacific Street.
- » Three leases were signed at California Pointe on 132nd & W Dodge Road totaling 32,299 SF.



The total square footage for these transactions for the three new buildings was 166,513 SF. In contrast, there was a total of 66,742 SF of Class A, first-generation leases signed in 2021. Although we do not expect a significant increase in new construction in 2023, we do expect developers to take notice of the lack of Class A, first-generation space and seize the opportunity to start planning new projects to fill that need. That begins with Noddle Companies breaking ground on their new Class A 120,000 SF mass timber constructed office building located in the Builders District in downtown and other developers are looking at new build opportunities in the Suburban West Dodge Submarket. The biggest challenge for new construction is the amount of available, move-in ready, fully furnished sublease space with which it currently competes. We expect to see more businesses, both locally and nationally, bring employees back to the office which will absorb space and push demand.

## SUBLEASE SPACE

The pre-pandemic 5-year average of sublease space on the market was approximately 161,366 SF. At the end of 2022, Omaha saw a record high 1,004,476 SF of sublease space available. This drastic increase is a direct result of tenants working entirely remotely or using a "hybrid" work model which provides the flexibility of being able to work remotely or from the office. The hybrid model is seemingly preferred among the majority of office employees. Many employers question if the remote work model is sustainable long-term and we are finding the hybrid is a good compromise for employers and employees. Towards the end of 2022, we began to see a back-to-work trend as many local and national employers started requiring their employees to

## LEASE TRANSACTIONS IN 2021

### 281 DEALS

SIZE (SF)	# OF TRANSACTIONS	TOTAL SQUARE FOOTAGE
1,000-2,499	134	214,112
2,500-4,999	76	266,626
5,000-9,999	34	228,292
10,000-19,999	20	278,001
20,000-49,999	12	403,116
50,000 and above	5	383,352
BUILDING CLASS		
Class A	42	359,552
Class B	187	1,296,938
Class C	52	117,009

## LEASE TRANSACTIONS IN 2022

### 275 DEALS

SIZE (SF)	# OF TRANSACTIONS	TOTAL SQUARE FOOTAGE
1,000-2,499	111	183,364
2,500-4,999	85	293,473
5,000-9,999	52	351,402
10,000-19,999	14	191,097
20,000-49,999	9	264,524
50,000 and above	4	286,989
BUILDING CLASS		
Class A	58	558,636
Class B	164	864,376
Class C	53	147,837

return to the office in some capacity. Our expectation is for this back-to-work trend to continue in 2023.

Looking forward, we believe that the excess amount of available sublease space may continue to grow before it declines due to the large amount of "ghost space" in the Omaha market. The majority of these tenants with ghost space are still evaluating their future workplace strategies before making long-term decisions regarding their office footprint. We estimate that there is over 400,000 SF of ghost space in Omaha at 2022 year-end. Some of this ghost space will likely be added to the market as available sublease space in 2023.

The large amount of sublease space and ghost space will eventually affect the market's vacancy rate. Although our market's vacancy rate decreased 140 basis points YOY, this vacancy rate does not account for the available sublease space on the market, because rent is still being collected on that space. As leases on unoccupied space start to expire, such space will be added to the market as vacant if not leased.

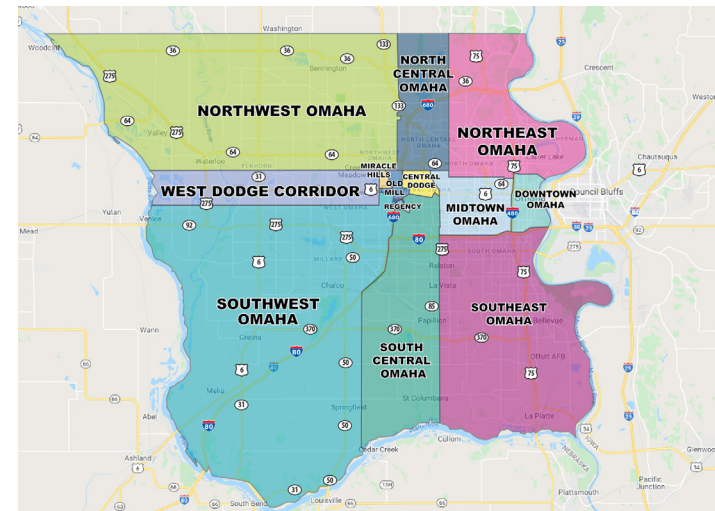
## NOTABLE SALE TRANSACTIONS IN 2022

PROPERTY	SIZE (SF)	SUBMARKET AREA
<b>7171 Mercy Road - Plaza of the Americas*</b>	<b>130,104</b>	<b>Midtown</b>
10810 Farnam Drive - Farnam Executive Center	98,980	Old Mill
<b>2027 Dodge Street - The Scouler Building*</b>	<b>87,828</b>	<b>Downtown</b>
11340 Blondo Street	71,888	Northwest
319 S 17th Street - Keeline Building	60,912	Downtown
910 N 96th Street	48,405	Central Dodge
<b>6910 Pacific Street - Overland Wolf*</b>	<b>46,065</b>	<b>Midtown</b>
17002 Marcy Street - One Pacific Springs	46,011	Southwest
<b>11010 Burdette Street*</b>	<b>44,000</b>	<b>Northwest</b>
1015 N 98th Street - Westroads Pointe	40,000	Central Dodge
<b>13500-13520 California Street - Midwest Professional Center*</b>	<b>38,802</b>	<b>Suburban West Dodge</b>
<b>2110 Papillion Parkway*</b>	<b>33,070</b>	<b>Northwest</b>
12002-12020 Pacific Street - Pacific Hills I	30,414	Suburban West Dodge
7205 W Center Rd	28,800	Midtown
11718 Nicholas Street	26,443	Miracle Hills
120-124 S 24th Street - The Dunklau Building	21,893	Downtown

## NOTABLE LEASE TRANSACTIONS IN 2022

PROPERTY	SIZE (SF)	SUBMARKET AREA
<b>DMSI*†</b>	<b>62,146</b>	<b>Miracle Hills</b>
Fusion Medical Staffing	115,545	Suburban West Dodge
<b>OPPD*†</b>	<b>58,532</b>	<b>Midtown</b>
Toast	50,766	Midtown
Duet Nebraska	40,589	Northwest
Markel Services	39,205	Suburban West Dodge
Horsepower Brands	35,430	Northwest
Triage Staffing	34,686	Northwest
Highline Warren, LLC	24,535	Downtown
CrossMed Healthcare	23,626	Southwest
Ventura Medstaff LLC	23,353	Northwest
Milan Laser	21,866	Suburban West Dodge
<b>H3C*†</b>	<b>21,234</b>	<b>Northwest</b>

## OMAHA SUBMARKETS



\*Denotes an Investors Realty, Inc. transaction

†Denotes a sublease transaction



## 2022 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	95	3,347,180	389,130	9,167	398,297	11.90%	(22,966)	\$22.97
Downtown	134	10,098,962	548,698	1,148	549,846	5.40%	(20,273)	\$30.51
Midtown	216	6,273,337	371,964	2,158	374,122	6.00%	51,043	\$31.07
Miracle Hills	26	1,085,763	137,159	173,534	310,693	28.60%	(107,076)	\$23.07
Northeast	78	910,807	89,921	0	89,921	9.90%	(10,066)	\$17.45
Northwest	156	2,881,416	325,111	18,914	344,025	11.90%	38,679	\$19.69
Old Mill	64	2,240,923	171,390	774	172,164	7.70%	(12,530)	\$20.38
Regency	25	1,202,067	74,076	0	74,076	6.20%	29,745	\$28.85
South Central	224	3,354,448	207,422	31,827	239,249	7.10%	21,331	\$17.17
Southeast	197	2,589,071	88,091	0	88,091	3.40%	86,075	\$17.42
Southwest	273	5,586,648	220,718	52,579	273,297	4.90%	8,572	\$21.46
Suburban West Dodge	114	5,681,743	498,877	89,082	587,959	10.30%	162,249	\$25.05
<b>Omaha Market</b>	<b>1,602</b>	<b>45,252,365</b>	<b>3,122,557</b>	<b>379,183</b>	<b>3,501,740</b>	<b>7.74%</b>	<b>224,783</b>	<b>\$24.73</b>

## CONTRIBUTORS

TIM KERRIGAN, CCIM, SIOR  
tkerrigan@investorsomaha.com



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



MIKE RENSCH  
mrench@investorsomaha.com



JEANETTE WEBER, MPA, SIOR, CPM  
jweber@investorsomaha.com



JACK WARREN, CCIM  
jwarren@investorsomaha.com



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

investorsrealty@investorsomaha.com



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