

# 2023 YEAR-END OFFICE MARKET REPORT

INVESTORS  
REALTY INC.

## MARKET SNAPSHOT



**45,980,879 SF**  
INVENTORY



**7.0%**  
VACANCY RATE



**\$24.17 PSF**  
AVG ASKING RENT



**1,322,035 SF**  
UNDER CONSTRUCTION



**243,306 SF**  
DELIVERIES

## OVERVIEW

Omaha's office market outperformed other metropolitan areas in 2023, continuing the upward trend since 2020. However, it has not maintained the positive trends seen in 2022.

Although the vacancy rate and sublease space in the market performed better than in 2022, the positive absorption, total number of lease transactions, and overall square footage leased did not meet the same levels as in 2022.

### 2023 SUMMARY

- » Leasing transactions continue to outpace sales in 2023.
- » Office buildings being sold as investments sell at a higher cap rate than in 2021 and the first half of 2022, due to today's higher interest rates.
- » In 2023, things were more stable than in 2022, but the Omaha office market didn't bounce back to its pre-pandemic levels. The economy performed reasonably well, but substantial growth is curbed by inflation.
- » Office buildings being sold to an owner/occupier are selling at a higher price per square foot due to the higher cost of new construction.

### THEMES FROM 2023 EXPECTED TO CONTINUE IN 2024

- » Employers want their employees back in the office at least three days per week, and they are receiving notable pushback from employees.
- » Businesses are decreasing their office footprints and upgrading the quality of their space to attract employees back to the office.
- » New construction starts are well behind previous years, due to increased construction costs and higher interest rates, even though new class A office buildings have low vacancy rates.
- » Future new construction starts will lag until construction prices and/or interest rates decrease.
- » The lack of new construction will benefit older class A and class B office properties.

- » Sublease space is still a pain point for landlords with vacant space as the sublease terms are difficult competition.
- » Ghost space remains prevalent in the market, with at least two significant properties in Omaha being quietly marketed for sale, but their availability is not reflected in the office statistics.
- » Medical staffing companies, which have lessened the blow to Omaha's office market, have seen decreasing profits since the end of the pandemic, and they are not growing at their previous pace, forcing some to put their spaces on the market for sublease.

We are hopeful that employees will return to the office and that Omaha's office market will improve. However, uncertainties remain, and adjusting to the changing office environment may take longer than anticipated.

Investor's Realty, Inc. is tracking 163 office tenants in the market for 2.1 million square feet.

## VACANCY

The Omaha office market vacancy rate continued its downward trajectory, reaching 7.0% by the end of 2023, a notable improvement from the 7.7% recorded at the close of 2022.

Over the past two years, vacancy rates have consistently trended downward, marking a positive shift after an initial increase in the vacancy rate following the pandemic. While the current rate hasn't yet returned to the pre-pandemic level of 5.4%, the ongoing decrease in numbers gives a strong reason to be optimistic about the future of the Omaha office market.

In parallel to the conclusion of 2022, seven out of the twelve submarkets now register vacancy rates either equal to or below the overall office market vacancy rate of 7.0%.

Arranged in ascending order of vacancy rates:

- » Midtown (4.40%)
- » Downtown (5.1%)
- » Southwest (5.4%)
- » Regency (6.0%)
- » Old Mill (6.0%)
- » South Central (6.3%)

Notably, the resurgence observed in the Suburban West Dodge submarket, currently at a 7.0% vacancy rate, serves as a promising indicator for the broader market's trajectory in the years ahead. In the last quarter of 2021, the vacancy rate in this specific market was 10.2%. This high rate was mainly because the first-generation spaces along the West Dodge corridor required comprehensive full build outs. This made it difficult for deals to be finalized because the costs to renovate the spaces were very high and tenants had to pay out of pocket.

The turning point came in 2023 when tenants embraced longer-term leases, and landlords, in

turn, became more accommodating with tenant improvement concessions. This decreased the out-of-pocket costs for tenants. This positive trend is anticipated to continue in 2024 and beyond.

The remaining five submarkets all reported vacancy rates exceeding 7.0%.

Ranked from highest to lowest vacancy:

- » Northwest (17.7%)
- » Miracle Hills (11.7%)
- » Central Dodge (10.3%)
- » Southeast (8.3%)
- » Northeast (8.10%)

## SUCCESS IN MIRACLE HILLS

Despite initial impressions of Miracle Hills struggling, it was one of the standout performers in 2023. This submarket experienced the most significant reduction in vacancy, decreasing from 28.6% to 11.7%, primarily attributed to DMSi signing a lease for 65,000 square feet at one of the former West Corp buildings. Miracle Hills, historically known as the best-performing submarket, is poised for a robust comeback in 2024 and beyond. The remaining five submarkets all reported vacancy rates exceeding 7.0%.

## ABSORPTION

Absorption is the net change in occupancy from period to period, expressed in square feet. Omaha's historical (pre-pandemic) annual absorption average was approximately 250,000 square feet. In 2023, the office market absorbed 417,994 sq. ft., which was well above the 2022 absorption level of 224,783 sq. ft. Omaha has now experienced positive absorption for 17 consecutive quarters, going back to Q3 of 2019.

» At the end of 2023, the standout performers in office submarkets were:

- » Downtown submarket, absorbing 292,312 sq. ft.
- » Suburban West Dodge submarket, absorbing 228,842 sq. ft.

Downtown's absorption is attributed to various leases, including Habitat for Humanity (23,340 SF) and United Way of the Midlands (28,601 SF) within the Millwork Commons development as well as Deloitte (17,811 SF) within the Capitol District. Prime Time Health Care leased 101,283 square feet at 18010 Burt Street, which contributed to absorption in the Suburban West Dodge submarket.

The worst performing submarket was the Northwest submarket, finishing with a negative absorption of 150,717 square feet. This submarket is mainly made up of office buildings that used to be for back-office work. Since the pandemic, many employees now work from home due to the nature of the work. The Southeast submarket also struggled, ending the year at negative 115,379 square feet.

## CONSTRUCTION

There were 243,306 square feet of new construction delivered in 2023.

Eighty seven percent of the square footage delivered was from the Douglas County Justice Center on 1717 Harney Street. The amount is notably low compared to historical averages, as Omaha typically sees an annual average of 630,169 SF over the last 5 years. The decrease in construction can be attributed to the conservative nature of Omaha developers, the uncertainty surrounding the rebound of the office market, high construction costs, and interest rates.

Omaha developers often do not build speculative office buildings. Instead, developers wait to begin construction until the building is 50-60% pre-leased or they are building for an owner/user. In 2023, Noddle Companies bucked this trend and commenced construction at 1501 Mike Fahey in the vibrant and growing Builder's District. The \$65 million office and retail project consists of 108,000 sq. ft. and is poised to become the city's first hybrid timber commercial structure, representing a groundbreaking initiative that underscores the area's dedication to innovation and growth.

The uncertainty in the office market surrounding work-from-home scenarios, as mentioned in

the sublease section, is a major challenge for office developers because office buildings that have never been available to the market have been subleasing space since the pandemic and directly competing with new construction.

The majority (80%) of the 1,322,035 sq. ft. of office space under construction in 2023 can be accounted for in two office headquarters:

- » Mutual of Omaha's 800,000 sq. ft. downtown office tower
- » Applied Underwriters 260,000 sq. ft. HQ in West Omaha

The 2023 kick off of the Mutual of Omaha project aligns with Omaha's aspiration for downtown to emerge as a hub for commerce, city living, and recreation such as development of The RiverFront and construction of the streetcar. The Applied Underwriters Headquarters is located on a 50-acre campus, showcasing a five-story building that bookends the south of the Heartwood Preserve Development. Construction commenced in late 2019, but it experienced a notable slowdown in 2020 and 2021. Momentum was regained in 2022, persisting into 2023 with an expected completion date in 2024. The building is unique in that it doesn't have any above-ground parking stalls, which provides a breathtaking view as one approaches the structure.



*Builder's District*

While there were few buildings commencing or under construction in 2023, the total construction square footage is similar to the 2019 total construction. Most of the 2023 construction, except for the Builder's District, was to build corporate headquarters. We expect future new construction office building demand to come from owner/users because the high cost of construction and interest rates combined are pushing rental rates at least 30% higher than the past new construction deliveries.

## SUBLEASE SPACE

Sublease space is the direct result of employees working from home or a "hybrid" work model, which gained popularity in the pandemic. The pre-pandemic 5-year square foot average of sublease space in the market was approximately 161,366 square feet. At the end of 2022, Omaha saw a record high 919,033 sq. ft. of sublease space available. At the end of 2023 there was 696,034 sq. ft. of sublease space available (a YOY decrease of 222,999 sq. ft., or 24%).

Subleasing benefits tenants seeking to relocate, but it can be detrimental for landlords dealing with the vacant space.

Subleasing space offers tenants looking to move a chance to rent space in class A and B buildings. Many buildings that were previously occupied by owners and are now more readily available at rents that are lower than the current market rates.

In practice, a sublessor wants to reduce how much they have to pay for rent. When there are fewer people renting and more places available, they are willing to agree to lower prices quickly to lessen their responsibilities. On the other hand, landlords who have empty properties, especially those who have loans to repay, are not as willing to agree to these lower prices right away. That said, most Omaha landlords have the wherewithal to withstand the current market or wait for market terms.

Out of Omaha's 12 office submarkets, there is one clear outlier that holds a staggering 45% of the sublease space available—Suburban West Dodge.

Of the 696,034 square feet of total sublease space available, 310,432 sq. ft. of it comes from Suburban West Dodge and the next highest are as follows:

- » Northwest (81,013 sq. ft.)
- » Southwest (79,716 sq. ft.)
- » South Central (79,444 sq. ft.)

Given the size of the submarket and the higher cost of rent, it's understandable, yet surprising, to see such a significant disparity in the figures above.

Our assumption at the end of 2022 was that Omaha would see a back-to-work trend in 2023. That prediction was seemingly accurate as both the vacancy rate and sublease space decreased.

## 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

## LEASE TRANSACTIONS IN 2023

### 212 DEALS

SIZE (SF)	# OF TRANSACTIONS	TOTAL SQUARE FOOTAGE
1,000-2,499	84	142,422
2,500-4,999	56	196,444
5,000-9,999	49	320,984
10,000-19,999	15	206,009
20,000-49,999	5	138,982
50,000 and above	3	215,918
BUILDING CLASS		
Class A	37	403,081
Class B	133	643,029
Class C	42	174,649

## NOTABLE SALE TRANSACTIONS IN 2023

PROPERTY	SIZE (SF)	SUBMARKET AREA
Gordman Old Mill Portfolio (3 buildings)	154,173	Old Mill
7700 Eastport Pky - Paypal	128,497	South Central
12312 Port Grace Blvd - Paypal	115,294	South Central
<b>11404 W Dodge Rd - FNBO*</b>	<b>99,616</b>	<b>Miracle Hills</b>
331 Village Pointe Plz	84,408	Suburban West Dodge
<b>2027 Dodge St - Former Scoular*</b>	<b>83,470</b>	<b>Downtown</b>
<b>8420 W Dodge Rd*</b>	<b>66,011</b>	<b>Central Dodge</b>
7515-7599 Main St - Hillcrest Landing	63,320	Southeast
112 S 20th St - Anglim Building	57,816	Downtown
444 Regency Pkwy Dr - Lake Regency	48,861	Regency
<b>910 N 96th St*</b>	<b>48,405</b>	<b>Central Dodge</b>
13304 W Center Rd - Old Orchard West	39,600	Southwest
<b>12101 Emmet St*</b>	<b>31,168</b>	<b>Northwest</b>
2724 N 24th St - OOIC	29,100	Northeast
2215-2221 Harney St - The Accurate Building	28,230	Downtown
5332 S 138th St - US Bank Building	28,000	Southwest
9375 Burt St - 9400 Building	25,489	Central Dodge
11515 S 39th St - Cobalt Credit Union	24,197	Southeast

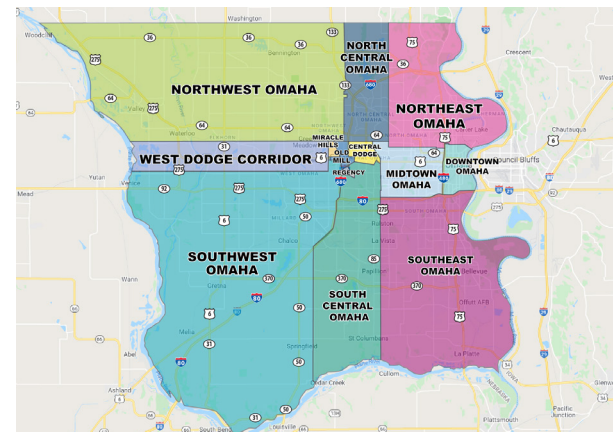
\*Denotes an Investors Realty, Inc. transaction

†Denotes a sublease transaction

## NOTABLE LEASE TRANSACTIONS IN 2023

PROPERTY	SIZE (SF)	SUBMARKET AREA
Primetime Healthcare	101,283	Suburban West Dodge
<b>Interpublic Group**</b>	<b>58,532</b>	<b>Midtown</b>
Lincoln Financial Group	56,103	Central Dodge
Horsepower Brands	35,430	Northwest
<b>OPPD**</b>	<b>29,266</b>	<b>Midtown</b>
<b>United Way†</b>	<b>28,601</b>	<b>Downtown</b>
<b>Habitat For Humanity of Omaha**</b>	<b>23,340</b>	<b>Downtown</b>
Edifice Property Investments	22,345	South Central
Felsberg Holt and Ullevig	19,184	Suburban West Dodge
North End Teleservices	18,417	Midtown
<b>Koley Jessen*</b>	<b>18,375</b>	<b>Regency</b>
<b>ADEMCO*</b>	<b>15,024</b>	<b>South Central</b>
North End Teleservices	15,000	Midtown
<b>Undisclosed**</b>	<b>14,937</b>	<b>Suburban West Dodge</b>
Husch Blackwell	14,070	Suburban West Dodge
<b>Heartland Family First Medical Clinic*</b>	<b>12,801</b>	<b>Southwest</b>

## OMAHA SUBMARKETS



## 2023 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	3,348,617	325,167	20,083	345,250	10.30%	41,572	\$24.15
Downtown	135	10,582,335	504,762	32,408	537,170	5.10%	292,312	\$24.30
Midtown	218	6,546,852	257,259	32,430	289,689	4.40%	21,363	\$30.64
Miracle Hills	26	1,067,023	98,241	26,307	124,548	11.70%	94,268	\$28.44
Northeast	80	930,484	75,297	0	75,297	8.10%	14,624	\$24.00
Northwest	160	2,933,690	503,705	14,738	518,443	17.70%	(150,717)	\$18.28
Old Mill	63	2,167,961	128,633	2,421	131,054	6.0%	14,033	\$23.10
Regency	25	1,192,936	70,784	1,100	71,884	6.0%	2,192	\$25.13
South Central	224	3,330,570	207,617	3,000	210,617	6.30%	8,846	\$17.17
Southeast	198	2,582,578	213,458	0	213,458	8.30%	(115,379)	\$15.74
Southwest	279	5,674,164	261,207	48,000	309,207	5.40%	(33,962)	\$22.33
Suburban West Dodge	117	5,623,663	379,562	12,216	391,778	7.0%	228,842	\$25.89
<b>Omaha Market</b>	<b>1,621</b>	<b>45,980,879</b>	<b>3,025,692</b>	<b>192,703</b>	<b>3,218,395</b>	<b>7.0%</b>	<b>417,994</b>	<b>\$24.17</b>

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