

# Office Market Report

Omaha, Nebraska / Summer 2014

**INVESTORS  
REALTY INC.**

## Omaha Office Market Conditions and Trends

By Tim Kerrigan, CCIM and J.P. Raynor, J.D.

### Omaha Based Firms Continue to Grow and Lead the Improving Office Sector

Omaha based firms continue to set the pace for demand for office space. In the past 12 months, Union Pacific, Kiewit, Medical Solutions, West Corporation, First National Bank, and WebEquity Solutions all acquired additional space. Some have moved into larger spaces and some have expanded their current presence. A few have made more than one expansion within that time frame. Add to that businesses such as, LinkedIn and Regus, that are growing their Omaha offices needing additional space, and the market can be described as energized. This may be due to high optimism as a strengthening U.S. Economy aids the job market. The U.S. added 280,000 jobs in June 2014 and saw unemployment drop to 6.1%, its lowest since September 2008, according to the U.S. Bureau of Labor Statistics.

Nebraska's unemployment rate is 3.6% (May) and Omaha's rate is 3.8% (April).

The number of office lease transactions (1,000 sq. ft. and larger) was up from 62 in the first half of 2013 to 68 in the first half of 2014, but the square feet leased nearly doubled from 284,720 to 520,298. The two largest transactions in the first half of 2014, Tenaska and Gordmans, accounted for 158,000 sq. ft. These were actually negotiated in 2012 so they don't feel terribly current to the brokerage community, but the square footage leased is notable even without these two transactions and brokers are busy. There were more transactions in almost every size category, and there are several large users in the market currently. *(continued on page 2)*

Size (Sq. Ft.)	# of 2012 Transactions	2012 Sq. Ft.	# of 2013 Transactions	2013 Sq. Ft.	# of 2014 Transactions	2014 Sq. Ft.
Above 50,000	1	65,000	0	0	2	157,500
20,000-49,999	3	77,110	1	23,801	3	85,392
10,000-19,999	9	131,371	7	97,313	7	97,448
5,000-9,999	4	26,501	10	68,463	11	73,607
2,500-4,999	13	40,831	14	48,197	17	60,773
1,000-2,499	16	24,301	30	46,946	28	45,578
<b>Total</b>	<b>46</b>	<b>365,114</b>	<b>62</b>	<b>284,720</b>	<b>68</b>	<b>520,298</b>
<b>Building Class</b>						
A	6	45,470	9	62,319	15	283,874
B	31	213,484	42	200,191	40	192,395
C	9	106,160	11	22,210	13	44,029
<b>Total #</b>	<b>46</b>	<b>365,114</b>	<b>62</b>	<b>284,720</b>	<b>68</b>	<b>520,298</b>

The number and sq. ft. of lease transactions by size and class for the first half of 2012, 2013 & 2014. The office market is active and 2014 is trending with the greatest number and size of deals.

# Market Conditions and Trends - continued

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Overall vacancy is down, absorption is very positive, and average asking rental rates are up. While we still see some 'trading spaces', we are more often seeing a return to businesses growing their foot print as well as spaces being backfilled when they become vacant. Tenaska occupied space in three Miracle Hills buildings before consolidating into one in FNB Park. Two of Tenaska's three spaces have been backfilled. UP has taken two floors at Central Park Plaza and may have their eye on one more space. WebEquity Solutions took on 23,000 sq. ft. in a new building in 2013 and added another 10,000 sq. ft. in 2014. It's great to see these Omaha based firms moving ahead and, while not public at this time, there are several significant transactions in the works with well known national corporations that already have a presence in Omaha. The only cause for pause may be that companies new to Omaha are basically non-existent from the list of transactions completed so far in 2014.

All the Omaha office market statistics in this report are based on data from Xceligent, a database of all Omaha buildings supported by the Omaha brokerage community. A summary chart showing available space, vacancy rates, absorption, and asking rents for all submarkets is on page 5. ~

## Construction

The first half of 2014 revealed very little new construction to actually come out of the ground. Magnum Development, in partnership with McNeil Company, has begun site work for the parking garage and the Pacific Life Operational Headquarters in Aksarben Zone 5. Pacific Life, which was represented locally by Investors Realty, leased 75,000 sq. ft. on three floors of the 125,000 sq. ft. build-to-suit project. Pacific Life has rights to a fourth floor and the main level of the building will be retail.

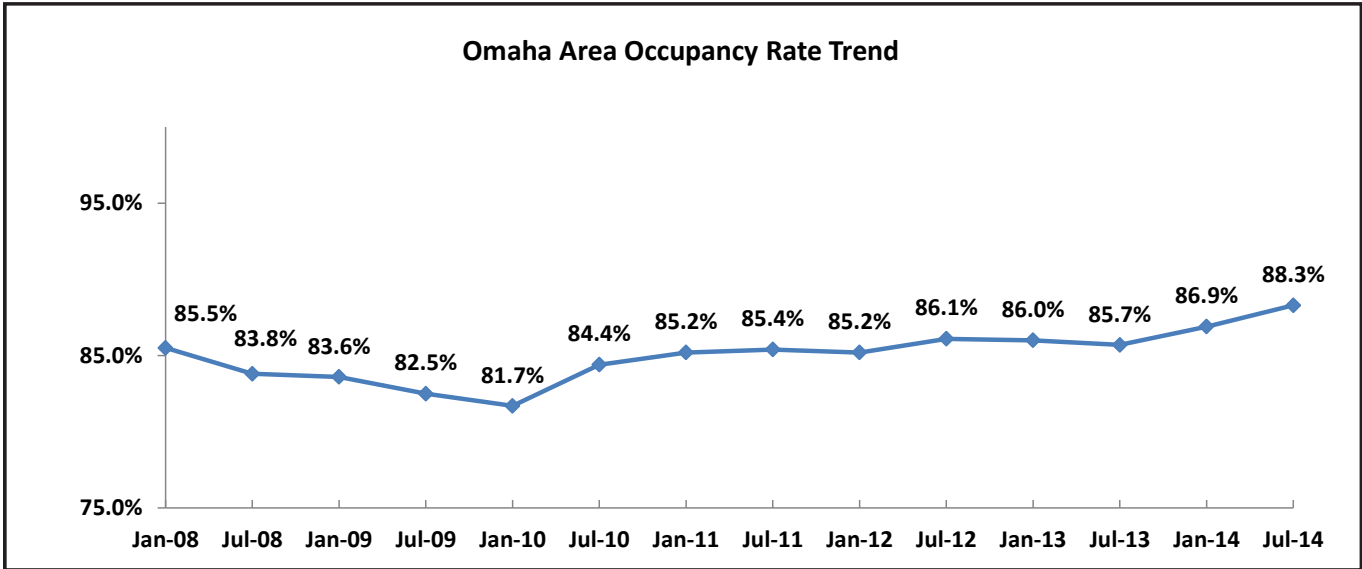
Plans are underway for a significant office building to be constructed next to Pacific Life that would be home to the Foundation(s) of the Walter Scott Family as well as related entities. The size and other details are becoming clear but have not been shared publicly.

Here is an update on some of the items from our Winter 2014 report:

- Lockwood Development's 50,000 sq. ft. building at Sterling Ridge is moving along well and will see its first tenant take occupancy September 1st.
- R&R Development's plans for a 75,000 sq. ft. spec building at Fountain West hasn't broken ground but construction is expected this fall, according to Brett Bosworth, President of R&R Equity Partners, Inc.
- Noddle/Waite's plans for Waite Plaza, a 140,000 sq. ft. signature building in Aksarben Village Zone 6, are still in the planning stages. Jay Noddle, President and CEO of Noddle Companies, expects to see construction start Spring 2015.

Not directly relevant to the Omaha office leasing market but relevant from a construction standpoint is the ongoing construction of the \$524 million, 915,876 sq. ft. Headquarters for US Strategic Command at Offutt Air Force Base and the billion dollar plus Google Data Center compound on 1,000 acres south of Council Bluffs, IA. Both projects are keeping the trades busy and construction costs high, and will be in process for years to come. Google has abundant land and is spending \$2 billion per quarter on their global data center construction program, according to [datacenterknowledge.com](http://datacenterknowledge.com).

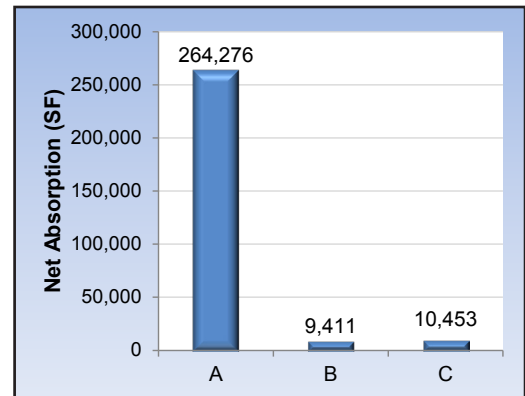
# Market Conditions and Trends - continued



## Absorption

Absorption is the net change in occupancy from period to period, expressed in sq. ft. Positive absorption means more space was leased than vacated in the previous period. The first half of this year saw positive absorption of 284,140 sq. ft., which is up from negative 162,547 sq. ft. of absorption a year ago. Absorption was positive in Class A, B and C, with A having 93% of that total. Classes B and C were nominally positive, each with about 10,000 sq. ft., but having all classes in the black has not been typical and is being interpreted positively.

The biggest driver of absorption were Tenaska and Gormans moving into build-to-suit, leased spaces in third party owned buildings. Almost all of their combined 157,500 sq. ft. of new space resulted in positive absorption. In Tenaska's case, almost all of their previous space has been backfilled, which has not regularly occurred over the last few years when large companies moved into build-to-suit, leased spaces. The story is a bit different in Gordmans' case as the space they vacated is currently vacant but due to its non-traditional nature isn't reflected in Xceligent's numbers. This reminds us the numbers can be a bit misleading on the surface but, in this case, the brokerage community feels this is appropriate treatment of the Gordmans' situation.

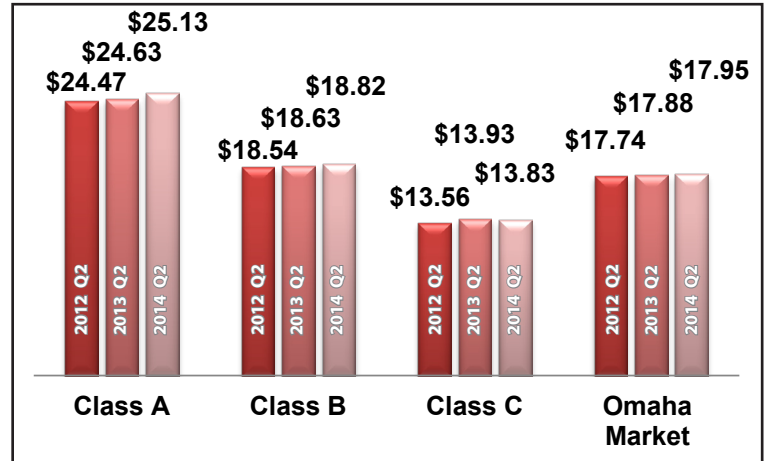


Net Absorption by Building Class YTD

# Market Conditions and Trends - continued

## Rental Rates

Average Asking Rental Rates are expressed as a Full Service Equivalent rate to provide for an equal comparison. This is accomplished by ‘grossing up’ triple net rates. Average asking rental rates have increased on average across the Omaha market. From a year ago, Class A increased by \$0.50 psf, or 2%, and Class B by \$0.19 psf, which is a 1% bump. Class C was down by 0.7% which is \$0.10 psf. While one would expect across the board increases in an improving market, asking rates have been a mixed bag over the last few years with the average asking rental rates actually shrinking at the end of 2013. An increase in the overall average and in 2 of the 3 classes is a reflection of good market activity and landlord confidence.

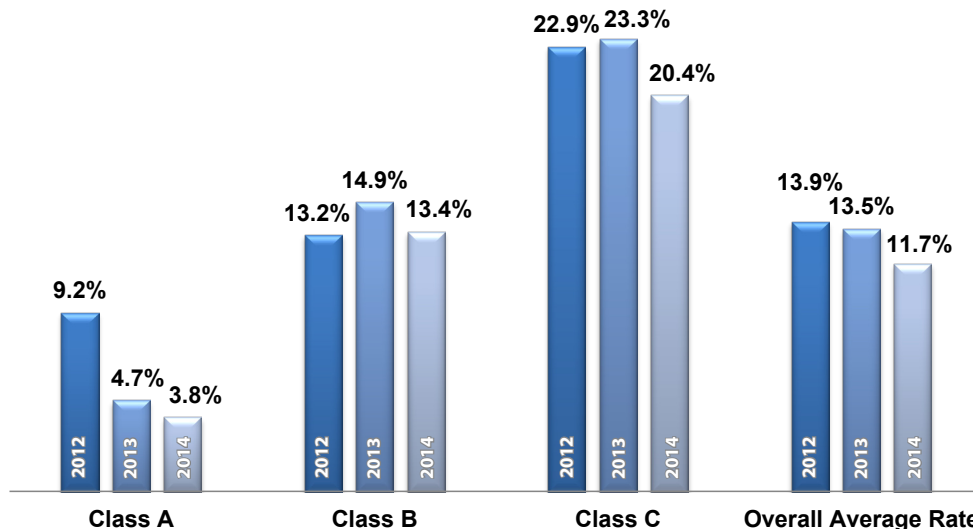


Rental Asking Rates Per Sq. Ft. by Building Class

## Vacancy Percentages

With positive absorption, limited new construction, and an active leasing market, vacancy rates have fallen across the board. The overall vacancy rate is down nearly 200 basis points from one year ago, from 13.5% to 11.7%. Class A has been our primary source of good news for the last several years and it has fallen further to 3.8%, which is too low for a vibrant market. The new story is the 150 basis point drop in Class B and the 290 basis point reduction in the Class C rate. Class B sits at 13.4%, aided by leasing activity downtown by Union Pacific and activity in North Park. Class C’s rate has fallen to 20.4% and was the beneficiary of a new leases by West Corp at Plaza of the America’s at 72nd and Mercy. This is the best vacancy rate picture Omaha has seen since before the economic downturn and suggests the market has finally found the traction we have been seeking.

Omaha Area Vacancy Rates for 2nd Quarter over the Past Three Years



## Office Data by Omaha Submarkets

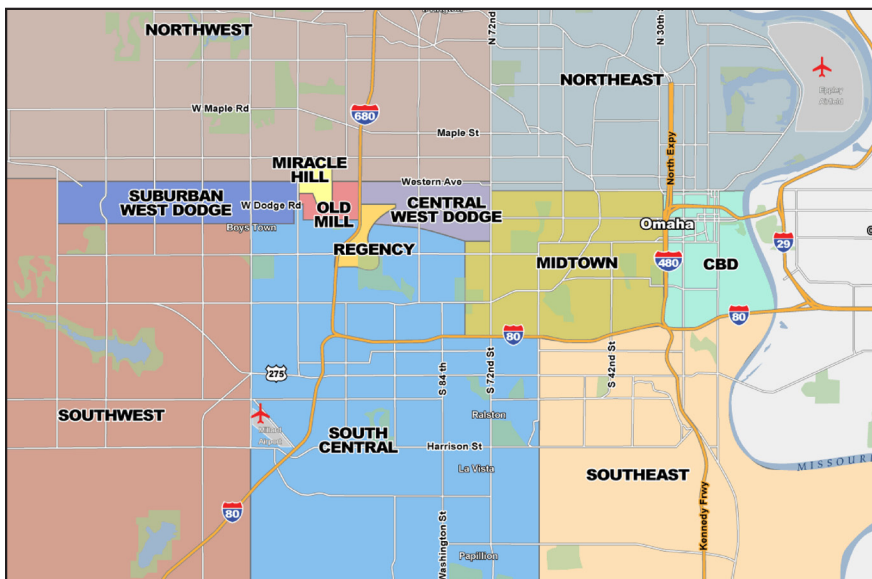
Q2 2014 Submarket Data	# of Bldgs	Inventory (SF)	Total Available (SF)	Total Vacant (SF)	Total Vacancy	Quarterly Net Absorption (SF)	YTD Net Absorption (SF)	Average Asking Rental Rate
Downtown	31	4,608,777	463,501	388,188	8.4%	9,615	54,399	\$18.19
Central West Dodge	47	2,474,711	283,569	232,306	9.4%	(5,322)	28,199	\$19.21
Suburban West Dodge	42	2,270,324	204,864	132,229	5.8%	102,574	99,128	\$22.71
South Central	80	2,256,099	488,133	431,548	19.1%	6,256	25,860	\$16.54
Midtown	24	1,989,444	243,060	168,549	8.5%	87,715	82,795	\$18.51
Northwest	50	1,662,219	473,611	342,957	20.6%	628	(7,418)	\$15.78
Southwest	48	1,373,568	203,107	154,686	11.3%	12,356	32	\$18.27
Old Mill	42	1,206,672	179,532	133,335	11.0%	(2,242)	17,838	\$16.68
Southeast	15	1,019,736	329,431	243,868	23.9%	(16,294)	(13,279)	\$15.69
Regency	16	958,134	116,888	93,804	9.8%	(262)	(5,212)	\$21.00
Miracle Hills	23	766,360	58,780	56,437	7.4%	(10,929)	(8,093)	\$19.21
Northeast	4	211,440	60,294	56,094	26.5%	430	4,688	\$17.15
<b>Grand Total</b>	<b>422</b>	<b>20,797,484</b>	<b>3,104,770</b>	<b>2,434,001</b>	<b>11.7%</b>	<b>184,525</b>	<b>278,937</b>	<b>\$17.95</b>

# Notable Transactions for the First Half of 2014

Company (Tenant/Buyer)	Transaction Type	Size (SF)	Submarket Area
Cole OFC of Omaha NE LLC	Sold	147,530	Downtown
Tenaska	Leased	87,500	Suburban West Dodge
Immanuel Communities	Sold	77,775	Miracle Hills
Gordmans	Leased	70,000	Midtown
Medical Solutions	Leased	36,652	Central West Dodge
Dicon	Sold	30,866	Downtown
Union Pacific Railroad	Leased	28,740	Downtown
BuilderTREND Solutions*	Sold	26,443	Miracle Hills
Linkedin	Leased	20,000	Central West Dodge
West Communications	Leased	17,656	Midtown
Regus Executive Offices*	Leased	15,000	Downtown
Social Security	Leased	15,000	Central West Dodge
SNC Investments	Sold	14,032	South Central
First National Bank	Leased	13,055	Downtown
Web Equity	Leased	10,500	Central West Dodge

\* transaction involved Investors Realty, Inc.

## Omaha Submarket Area Map



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