



Omaha Office Market Conditions and Trends

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

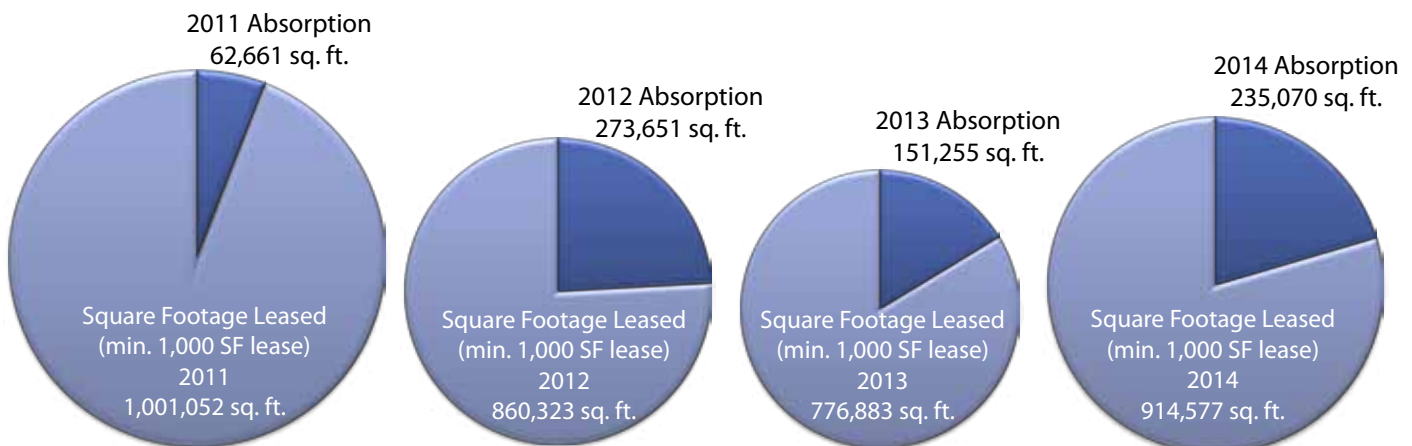
Omaha's Office Market is on Track but Gains Continue to be Slow to Materialize.

Omaha's office market finds itself in a favorable position at the start of 2015. Local economic indicators are solid, absorption has been positive year-over-year, and vacancies across the board are declining. One big reason is Omaha businesses are growing, led by stalwarts Kiewit Corporation, Berkshire Hathaway's National Indemnity Co., Union Pacific Railroad, Nebraska Medicine, and others.

The majority of the good news in 2014 sales and leasing activity came in the first half of the year while activity lagged in the second half of 2014. Good indicators for activity and growth are the low vacancy rate in Class A space that is driving an appropriate amount of new construction, and Omaha's abundant supply of quality Class B office

space is expected to accommodate demand. In years past, positive activity was seen mostly by larger transactions in the market, 25,000 sq. ft. and up. In 2014, our market had 135 office lease transactions over 1,000 sq. ft., a 15% increase compared to 117 transactions in 2013. There were more transactions in every size grouping (except 10,000 – 20,000 sq. ft.) so virtually every size segment is seeing increased activity, which is positive.

2014 started strong, but did not sustain the high deal velocity throughout the year, yet overall saw positive outcomes. For 2015, fewer larger transactions are in the pipeline than one year ago, but activity is good. Slow progress is expected across all market segments and the abundance of quality Class B space is hoped to provide good deal flow.



Changes in square footage absorbed from 2011 to 2014 and its impact when viewed as a share of total annual leasing square footage.

Market Conditions and Trends— continued

Construction

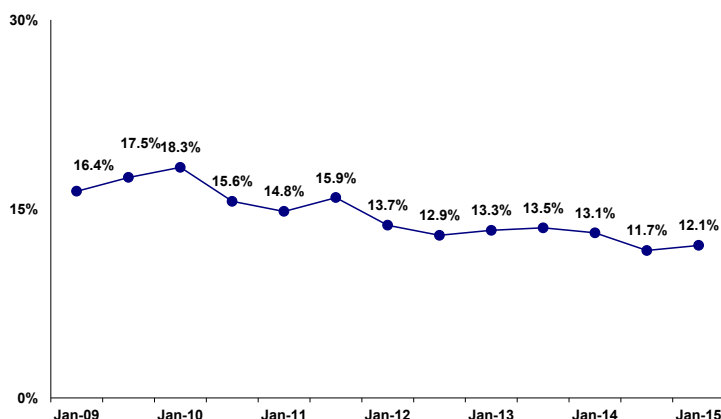
Build-to-suit construction activity was strong in 2014. There are currently five projects in varying stages of construction totaling 336,000 sq. ft. These projects include the following:

- Tagge Rutherford’s 42,000 sq. ft. building at 15808 West Dodge Road. Available June 2015. There is approximately 19,548 sq. ft. available for lease.
- Pacific Life’s 125,000 sq. ft. building at Aksarben Village. Available Fall 2015. There is approximately 25,000 sq. ft. of first floor retail space and 12,500 sq. ft. of office space available for lease.
- Deeb Realty’s 42,000 sq. ft. building at 168th and West Dodge Road. Available Summer 2015. There is approximately 20,000 sq. ft. available for lease.
- Advent’s 47,000 sq. ft. building at 17838 Burke Street. Available January 2016. There is approximately 40,000 sq. ft. available for lease.
- Berkshire Hathaway HomeServices Ambassador Real Estate’s 79,000 sq. ft. building at 331 Village Pointe Plaza. Available January 2016. There is approximately 26,174 sq. ft. available for lease.

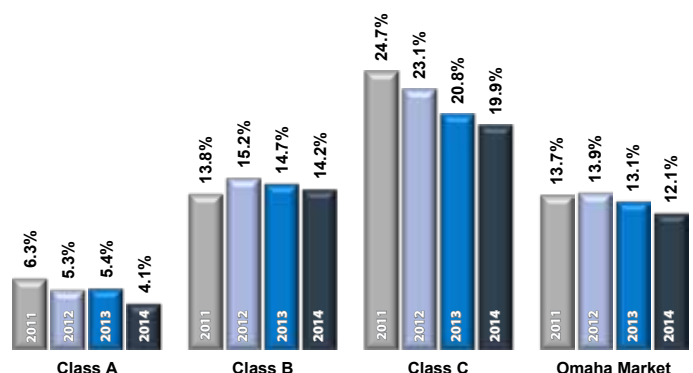
The projects detailed above are Class A office buildings and all but Pacific Life’s building is located on or in close proximity to West Dodge Road. The space for lease in these buildings will add 118,000 sq. ft. of Class A office space to the market. While build-to-suit activity is plentiful, developers remain hesitant to take the risk on construction of speculative office buildings. The only truly speculative building in the works is Fountain West at 192nd and West Dodge, construction of which has already been delayed due to site preparation and anticipated road improvements.

Vacancy Percentages

The Omaha office market had a 12.1% vacancy rate at the end of 2014, lower than 2013’s year-end rate of 13.1%. Class A properties continue to see the lowest vacancy, posting a 4.1% vacancy rate, down from 2013’s 5.4% rate. The Class B vacancy rate of 14.1% is down slightly from 14.7% in 2013. The Class C vacancy rate improved in 2014 to 19.9% compared to 20.8% in 2013. For both Class B and C, which both suffered negative absorption, the improved vacancy rate is attributed to buildings being sold to owner/users or repurposed.



Omaha Area 6 Year Vacancy Rate Trend



Omaha Area Vacancy Rates by Building Class

Market Conditions and Trends— continued

Absorption

The net absorption for 2014 year-to-date is a positive 235,070 sq. ft. The positive absorption was driven solely by the Class A market's positive absorption of 291,382 sq. ft. Both Class B and Class C markets had negative absorption for the year, -55,959 sq. ft. and -353 sq. ft., respectively.

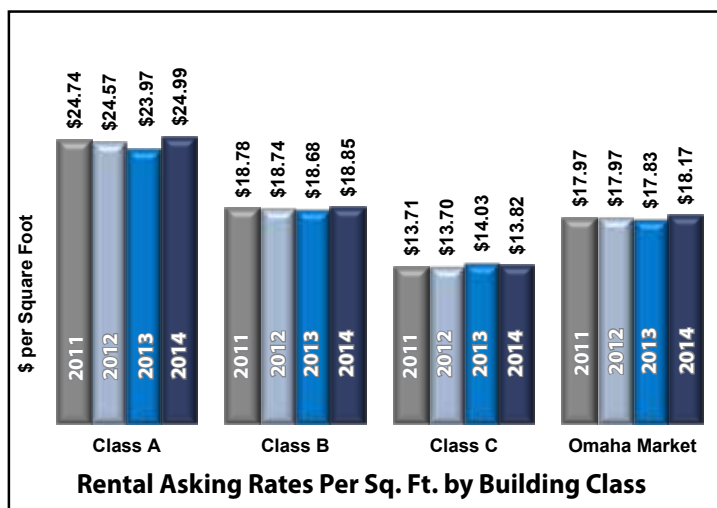
The market as a whole continues to fluctuate between periods of high and low activity. 2014 started with a bang, the market experienced 284,140 sq. ft. of positive absorption in the 1st and 2nd quarters before experiencing a slowing, resulting in negative absorption of -70,092 in the 3rd quarter and then bounced back in the 4th quarter with a pedestrian 31,200 sq. ft. of positive absorption

Size (Sq. Ft.)	# of 2011 Transactions	2011 Sq. Ft.	# of 2012 Transactions	2012 Sq. Ft.	# of 2013 Transactions	2013 Sq. Ft.	# of 2014 Transactions	2014 Sq. Ft.
Above 50,000	2	382,581	3	371,892	1	131,255	3	228,930
20,000-49,999	6	170,031	6	152,498	3	73,068	4	118,232
10,000-19,999	13	190,434	11	154,676	19	280,988	14	206,121
5,000-9,999	11	83,030	10	62,585	15	99,807	20	135,086
2,500-4,999	33	121,815	22	80,446	32	111,069	38	134,815
1,000-2,499	31	53,161	23	38,226	47	80,687	56	91,393
Total	96	1,001,052	75	860,323	117	776,883	135	914,577
Building Class								
A	15	478,356	14	163,154	23	329,339	27	393,712
B	53	340,230	44	505,639	69	344,342	81	441,422
C	28	182,466	17	191,160	25	103,202	27	79,443
Total	96	1,001,052	75	860,323	117	776,883	135	914,577

Number of transactions over 1000 sq. ft. - more transactions for more square footage in 2014.

Rental Rates

The asking rental rate across the Omaha Market increased in 2014 by \$0.34 psf from 2013. Class A rents experienced the most dramatic increase of \$1.02 psf to \$24.99 psf. Class B rents increased by \$0.17 psf to \$18.85 psf. Class C rental rates were the only class to experience decreasing rental rates. The rents decrease by -\$0.21 psf to \$13.82 psf. The asking rental rates are a reflection of the tenant interest in the market. Asking rental rates are quoted as full service gross where NNN rents are 'grossed up' for comparison purposes.



Office Data by Omaha Submarket

Submarkets	# of Bldgs	2014 Inventory (SF)	Total Vacant (SF)	2013 Total Vacancy Rates	2014 Total Vacancy Rates	Year Over Year Change in Total Vacancy Rates (Basis Pts.)	2013 YTD Net Absorption (SF)	2014 YTD Net Absorption (SF)	Year Over Year Change in Absorption (SF)	2013 Avg. Asking Rental Rates	2014 Avg. Asking Rental Rates	Year Over Year Change in Avg. Asking Rental Rates
Downtown	31	4,608,777	377,740	9.9%	8.2%	-170	169,832	66,240	-103,592	\$17.88	\$18.22	\$0.34
Central West Dodge	47	2,474,711	156,346	10.7%	6.3%	-440	52,073	94,659	42,586	\$19.08	\$20.02	\$0.94
Suburban West Dodge	41	2,257,832	115,452	6.6%	5.1%	-150	33,358	115,905	82,547	\$22.18	\$22.36	\$0.18
South Central	80	2,256,490	491,049	21.8%	21.8%	0	23,970	-27,600	-51,570	\$16.53	\$16.31	-\$0.22
Midtown	24	1,989,444	226,728	13.4%	11.4%	-200	-72,296	24,616	96,912	\$17.18	\$18.98	\$1.80
Northwest	50	1,662,219	366,831	20.4%	22.1%	170	29,330	-29,492	-58,822	\$15.81	\$15.80	-\$0.01
Southwest	49	1,415,534	141,912	12.2%	10.0%	-220	2,144	64,788	62,644	\$18.15	\$19.04	\$0.89
Old Mill	42	1,206,672	118,997	12.3%	9.9%	-240	-79,442	33,135	112,577	\$16.03	\$16.82	\$0.79
Southeast	15	1,027,883	331,729	23.2%	32.3%	910	-22,038	-101,140	-79,102	\$16.23	\$15.66	-\$0.57
Regency	16	958,134	101,596	9.3%	10.6%	130	10,699	-9,178	-19,877	\$20.86	\$20.93	\$0.07
Miracle Hills	23	766,360	64,322	5.6%	8.4%	280	11,750	-7,782	-19,532	\$19.71	\$19.78	\$0.07
Northeast	3	179,116	20,063	28.7%	11.2%	-1750	-8,155	10,919	19,074	\$16.18	\$19.30	\$3.12
Omaha Market	421	20,803,172	2,512,765	13.1%	12.1%	-100	151,225	235,070	83,845	\$17.83	\$18.17	\$0.34

Notable Transactions in 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
Fidelity National Title	Leased	71,430	Northwest
Gordmans	Leased	70,000	Midtown
Union Pacific	Leased	52,530	Downtown
Cizek	Sold	51,219	Old Mill
Medical Solutions	Leased	36,652	Central West Dodge
Lutz Company	Leased	32,840	Suburban West Dodge
Dicon	Sold	30,866	Downtown
BuilderTREND Solutions*	Sold	26,443	Miracle Hills
Nirmal Raj*	Sold	26,360	Regency
3805 Harney LLC	Sold	23,484	Midtown
Linkedin	Leased	20,000	Central West Dodge
NEI	Leased	19,484	Central West Dodge
Great Western Bank	Leased	18,992	Central West Dodge
Methodist*	Sold	18,009	Central West Dodge
West Communications	Leased	17,656	Midtown
Cline, Williams, Wright, Johnson, Oldfather	Leased	15,120	Southwest
Regus Executive Offices*	Leased	15,000	Downtown
Social Security	Leased	15,000	Central West Dodge
American Republic Insurance*	Leased	15,000	Central West Dodge
SNC Investments	Sold	14,032	South Central
Yahoo	Leased	13,632	Suburban West Dodge
LRS Health Care*	Leased	13,458	Southwest
11837 MHD, LLC	Sold	13,440	Miracle Hills
RMD Group, LLC	Sold	13,243	Old Mill
First National Bank	Leased	13,055	Downtown

* *transaction involved Investors Realty, Inc.*

How Does Omaha's Office Vacancy Compare?

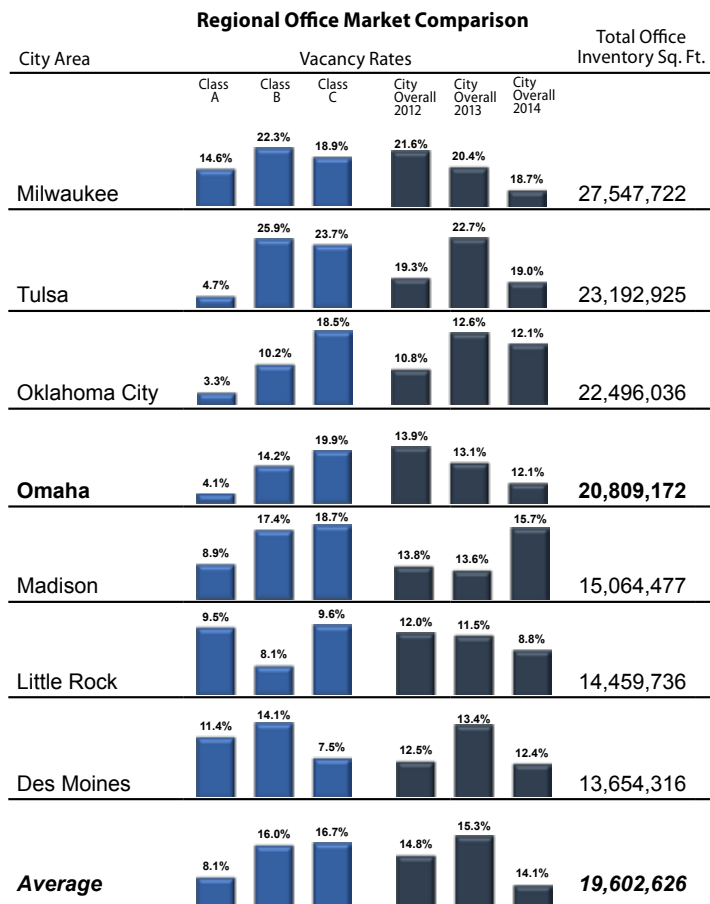
Below is a chart comparing Omaha with six other Midwestern office markets of similar size. Omaha, at nearly 21,000,000 sq. ft., is slightly larger than the average size of the markets. In a change from last year's snapshot, we have added Madison, WI to the fold.

Every market except Madison saw a decline in their overall market vacancy rate last year. Only Little Rock, at 8.8%, has a lower overall rate than Omaha's 12.1%. Tulsa enjoyed the largest drop in overall vacancy cutting their rate by 370 basis points. Omaha had a 100 basis point reduction.

Like last year, Omaha, Oklahoma City and Tulsa all boast very low Class A vacancy rates that are half of the average of all the markets. Considering that virtually all office space built in Omaha in the last several years has been Class A, it is a tribute to our market that the vacancy rate has remained one of the lowest on the list.

Omaha's Class B condition is slightly better than the average and we know that much of our available Class B inventory is quality product. Omaha ranks second to last on this list for Class C vacancy at 19.9%. While this rate is down slightly from a year ago, Omaha had been in the middle of the pack at the end of 2013. Other markets are seeing more activity in Class C. It isn't clear from the information available whether the other market's Class C success is attributable to leasing activity or building repurposing. Repurposing from office to multifamily continues and has provided Omaha with virtually all of its incremental improvement in Class C vacancy rates.

Over the past year, Omaha seems to have seen more than its share of improvement compared to these other markets. A strong Class A and Class B market, where Omaha shines, is arguably more critical to the health of a market. Slow but steady activity appears to be the story for Omaha and these markets. ~



Contributors:
 Tim Kerrigan, CCIM
 J.P. Raynor, JD
 John Dickerson, CPM
 Brian Farrell
 Steve Farrell, CCIM, SIOR
 Jerry Huber, CCIM
 Brian Kuehl
 Mike Rensch
 Jeanette Weber, CPM
 Ryan Zabrowski, CCIM, SIOR

www.investorsomaha.com