

Office Market Report

Summer 2011
Omaha, Nebraska

INVESTORS
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Omaha Office Market Conditions and Trends

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Large companies expand office presence, small renew

The Omaha office market has seen positive absorption, an increase in inventory, asking rates slightly fluctuating, and again, no new speculative building. With Blue Cross Blue Shield of Nebraska's move into their new space at Aksarben Village, we have added over 500,000 sf of inventory, which now brings the Omaha office market to 19,691,597 sf. In other corporate news, CSG Systems announced they will be occupying

a pair of three story buildings totaling 208,000 sf at the northwest corner of 180th and West Dodge Road. CSG is scheduled to move into the new location in August of 2012, when construction is complete. And if you drive by Old Mill, you will see a large steel structure which will be TDAmeritrade's new headquarters, a 12 story LEED certified building.

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Occupancy Rates for Omaha Submarkets

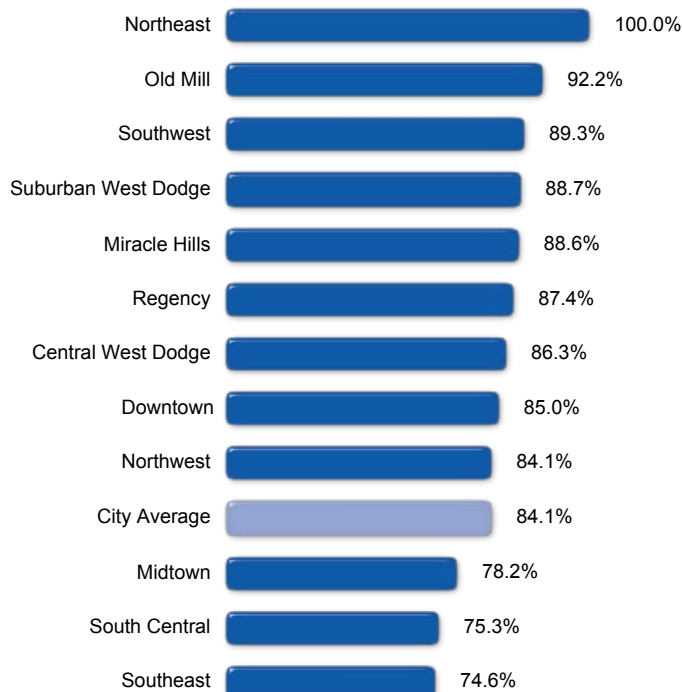
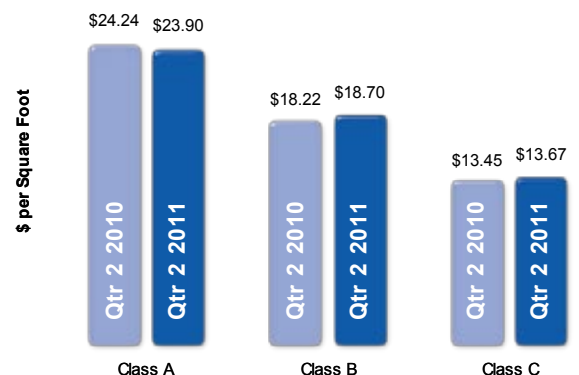


Chart 1 – As you can see in Chart 1 (left), citywide occupancy is 84.1%. Downtown occupancy is 85.0%. For identification of our markets, please refer to the map on page 5..

Rental Asking Rates - Full Service By Building Class


























Market Conditions and Trends— continued

Absorption. In the first half of 2011, the Omaha office market absorbed 116,700 sf of space. This marks the fifth consecutive quarter of increased demand for Omaha office space. Absorption is positive for the office market, but with Blue Cross Blue Shield of Nebraska, TD Ameritrade and CSG Systems moving into new buildings, we will have a significant amount of supply coming onto the market.

Looking at the large blocks of available office space, there are only four buildings with over 100,000 sf ready to go (Central Park Plaza, Omaha World Herald Building, 12720 I Street, and Southroads Technology Park). Because two of these properties are downtown and the other two are Class C, there are few options for large Class A or B users. On the other hand, there seems to be an abundance of available options for tenants seeking a 1,000 – 4,000 sf office.

Rental Rates and Vacancy Percentages. Asking rental rates seem to have stabilized within the past year. Surprisingly, Class B and C average asking rates both increased by about \$.25 per square foot during the past six month period, while the average Class A asking rate has decreased by \$.20 per square foot. This is intriguing because the Class A vacancy rate has decreased while Class B and Class C vacancy rates have increased. As class A continues to tighten and Class B and C continue to struggle, it is expected the spread between Class A and Class B/C asking rates will increase. We will be paying close attention to see if this pattern continues into 2012.

Construction. We are still seeing little to no speculative construction in the office market. All new construction is either owner occupied or build-to-suit projects. With the increased supply mentioned above, we do not expect to see this change in the near future. ~

	Total Office Space Square Feet By Submarket % of Total			Available Office Space Square Feet (Aligned with total for comparison)			Average Asking Rent
Downtown		4,053,501	20.6%		631,720	17.5%	\$15.81
Central West Dodge		2,233,866	11.3%		395,039	10.9%	\$19.23
Midtown		2,190,026	11.1%		508,768	14.1%	\$17.51
South Central		2,118,308	10.8%		567,827	15.7%	\$16.14
Suburban West Dodge		1,892,068	9.6%		306,786	8.5%	\$22.07
Northwest		1,752,177	8.9%		322,555	8.9%	\$15.79
Southwest		1,356,097	6.9%		207,787	5.7%	\$18.62
Old Mill		1,241,822	6.3%		125,115	3.5%	\$14.25
Southeast		1,130,216	5.7%		310,414	8.6%	\$14.71
Regency		918,030	4.7%		137,731	3.8%	\$20.93
Miracle Hills		766,360	3.9%		105,533	2.9%	\$22.11
Northeast		39,116	0.2%	0	0	0.0%	\$0
			100.0%			100.0%	\$17.83 average

Charts 3 & 4 – (above) show prominent segments of office space inventory, office availability, and asking rent by Submarket

Submarket Summary

Downtown now has a vacancy rate of 15%, up from 13.5% at end of 2010. The increase in vacancy is due to Black Hills Energy vacating their 6 floor, 60,000 sf office building located at 1815 Capitol. Black Hills Energy has moved into their building near 72nd and Cornhusker. Also noteworthy, the former Northern Natural Gas Building at 24th and Dodge may undergo a redevelopment. Currently this building is under contract to be sold. Last year, 2223 Dodge Street was removed from our office survey data set because the building was determined to be “noncompetitive” office space.

The *Southwest Submarket* had two notable transactions in the past six months. Alegent Health has closed on a 17,305 sf office condo located at 156th and Q, Walnut Grove Professional Plaza. DRI Title leased 10,250 sf at Montclair Professional Center, 132 and Center. Despite QA3 vacating 10,800 sf at West Center Pointe, South-

west’s vacancy rate has decreased to 10.7%.

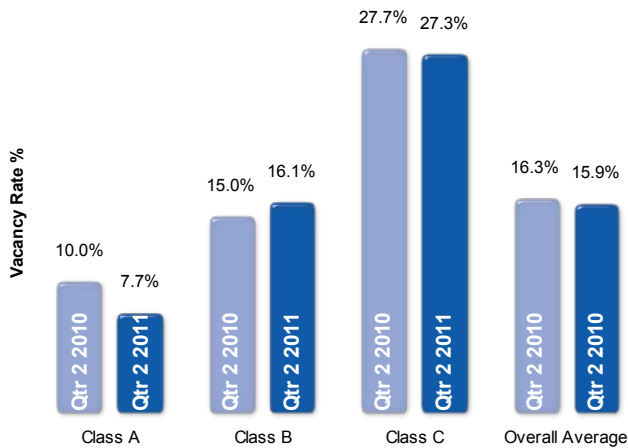
The *Suburban West Dodge* vacancy rate continued to decrease to 11.3%. Notably, Regus signed a lease on an 18,000 sf space at Linden Place. Also at Linden Place, Reed & Associates vacated 7,500 sf. This submarket has some of the highest asking Full Service Gross (FSG) asking rental rates, on average, above \$22.00 psf. This submarket contains 28% of the class A office space in the Omaha market.

Miracle Hills is 11.4% vacant, this submarket has remained very static within the past six months. The largest transaction was Wilson Engineering leasing 4,300 sf at 11516 Miracle Hills Drive.

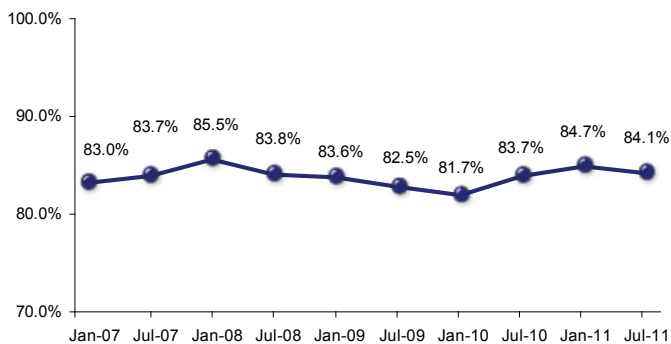
The *South Central Submarket* vacancy rate has ballooned up to 24.7%. Despite Proxibid taking 23,000 sf at 4405 S 96th Street and Fiserv moving into 19,500 sf at 9744

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Vacancy Rate by Building Class



Omaha Area Occupancy Rate Trend



Definitions

Inventory – The total square feet of all single and multi tenant office properties above 10,000 square feet, excluding owner occupied and medical buildings.

Occupied SF – The total amount of square feet leased by tenants/owners.

Vacant SF – Space that is not currently occupied.

Vacancy Rate – Percentage of space in the market that is not currently occupied. (Vacant square feet divided by inventory)

Absorption – Is the amount of inventory that becomes occupied during a specific period of time.

Submarket Summary—continued

Mockingbird, the vacancy rate crept up by almost 7%. TransFirst vacated their 11,300 sf office at Pacific Hills IV, 120th and Pacific. And 95,000 sf was vacated by Hayneedle, DRI Title and Millard Public Schools at 12720 I Street.

Regency's submarket is now 12.6% down from 14.2% six months ago. Great Plains expanded by 7,600 sf at Regency 450.

Old Mill Submarket is seeing the 12 floor TDAmeritrade building continue to gain height, but outside of this construction, there was hardly any activity.

The Midtown Submarket has seen much of the Metropolitan area's office activity in 2011. The vacancy rate increased from 16.6% to 21.8%. This is largely due to Blue Cross Blue Shield of Nebraska's move into its new headquarters at Aksarben Village. The new tower is 315,000 sf while their former two buildings on the southwest corner of 72nd and Mercy totaled 190,000 sf. In all, this adds over 500,000 sf to the office survey. Blue Cross Blue Shield of Nebraska also vacated 76,550 sf in the Omaha Tower.

Also in the Omaha Tower, Raytheon moved into 26,000 sf on the 8th and 9th floor. Other news in the Mid-

town Submarket was Cornhusker Casualty expanding into 33,000 sf located at 3333 Farnam Street, Mutual of Omaha's south office building.

Central West Dodge has reduced their vacancy rate to 13.7% from 15.8% six months ago, and from 19.8% a year ago. This past quarter HDR expanded into 40,000 sf at Westplex Office Park, Building III, but vacated 20,000 sf of Westplex Office Park, Building I. Westplex Office Park is located northwest of Westroads Mall. HM Life Insurance leased 9,000 sf at the Mark. AMR and MSR Group leased a total of 13,000 sf at 77 Dodge Court. Also, Bland & Associates vacated 6,500 sf at 8712 West Dodge Road for their move to Regency 450.

The Northwest Submarket vacancy rate climbed to 15.9%. HDR vacated 18,000 sf at Exec Centre II. With the announcement of CSG's move to 180th and Dodge, a year from now, Northpark, located at 120th and Blondo, will undergo a significant vacancy.

The Southeast and Northeast Submarkets had very little activity to report. The Southeast submarket, which includes Bellevue, is 25.4% vacant and is mostly Class C office space. While the Northeast submarket comprises approximately 40,000 sf, less than .2% of the total market. ~

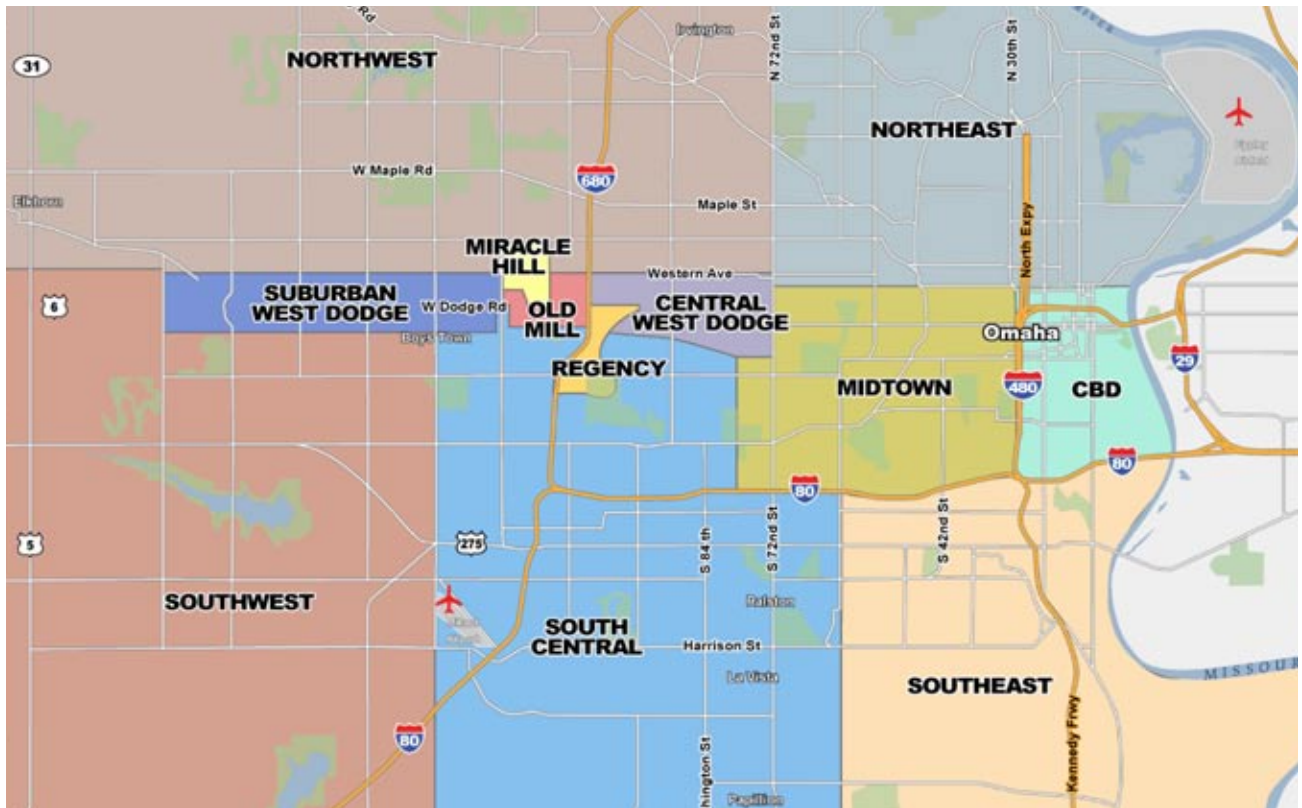
Office Data by Submarket

	# of Buildings	Inventory (SF)	Inventory by Percentage	Total Vacant (SF)	Total Vacancy Rate (%)	Qtrly Net Absorption (SF)
Downtown	28	4,053,501	631,720	606,018	15.0%	-48,923
Midtown	27	2,190,026	508,768	477,769	21.8%	59,685
Central West Dodge	45	2,233,866	395,039	305,900	13.7%	378
Regency	15	918,030	137,731	115,505	12.6%	2,791
Old Mill	43	1,241,822	125,115	96,323	7.8%	-35
Miracle Hills	23	766,360	105,533	87,404	11.4%	-1,314
Suburban West Dodge	38	1,892,068	306,786	214,587	11.3%	14,678
Southwest	48	1,356,097	207,787	145,219	10.7%	30,878
South Central	78	2,118,308	567,827	524,204	24.7%	24,420
Southeast	18	1,130,216	310,414	287,062	25.4%	-1,287
Northwest	52	1,752,177	322,555	278,687	15.9%	-2,175
Northeast	2	39,116	0	0	0.0%	0
Grand Total	417	19,691,587	3,619,275	3,138,678	15.9%	79,096

Notable Transactions

Submarket Map

Company (Tenant/Buyer)	Transaction (amount)	Size	Submarket
Blue Cross Blue Shield	Lease	315,000 sf	Midtown
HDR	Lease	40,175 sf	Central West Dodge
Cornhusker Casualty	Lease	33,000 sf	Midtown
Salfity Real Estate (Investor)	Sale (\$2,740,000)	31,694 sf	Northwest
Raytheon	Lease	26,000 sf	Midtown
Proxibid	Lease	23,000 sf	South Central
Fiserv	Lease	19,500 sf	South Central
Regus	Lease	18,000 sf	Suburban West Dodge
Alegent	Sale (\$2,100,000)	17,300 sf	Southwest
Daycare	Lease	14,400 sf	South Central
14680 Building LLC (Investor)	Sale (\$1,875,000)	12,121 sf	Suburban West Dodge
B & J Investments LLC	Sale (\$950,000)	12,000 sf	South Central
DRI Title	Lease	10,250 sf	Southwest
B 4 Corners LLC (Investor)	Sale (\$1,000,000)	10,000 sf	Southwest



Relocate versus Renew

In the Omaha office market today, the number of tenants actively looking for space seems promising but, more often than not, does not result in a lease transaction at a new location. This is the result of tenants surveying the market as their current lease nears its expiration in an attempt to decide whether to renew at their current location or relocate.

A multitude of factors are weighed by a tenant as they decide to renew or relocate. Factors which drive Tenant's to consider relocating are often tied to the growing or downsizing of the business, the operational inefficiency of the current space, expensive rental rates, inadequacy of the current landlord's services, or any number of other factors. Factors which drive Tenant's to consider renewing are the time it takes to relocate, the real cost of moving (i.e. phone and data wiring, new furniture and equipment, business downtime, and the move itself), the process and timetable needed to build out a new space to fit the needs of the business, or any number of other pressing factors.

We are seeing many of these tenants being represented by office brokers, who educate tenants on the office market. As the tenant solicits offers from their current landlords and landlords at viable locations, often the tenant's current landlord is providing the most economical option. This is the case, if the tenant's current space is still functional for the business operations. The current landlord then does not need to provide significant tenant improvement dollars and can provide an aggressive rental rate and renewal package. The tenant does not have to deal with the aforementioned factors associated with relocating, and the current landlord avoids having vacancy.

Because of these factors, landlords who want tenants to relocate to their office buildings have to be more creative than ever to entice tenants to make a move, in these situations where the tenant is just checking the market for a comparison to their current landlord's offer. The challenge for the landlord is getting a read on what the tenant's real objective is. ~

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