

# Office Market Report

Winter 2011  
Omaha, Nebraska



## Omaha Office Market Conditions and Trends

By John Heine JD, MBA

### A need for more Class A space?

In the second half of 2010, the Omaha office market has seen a decrease in inventory, little positive absorption, asking rates decreasing (with an exception of Class A space) and still no new speculative construction. Today, we have a total of 18,725,997 sf, which is roughly 275,000 sf less than we had six months ago. Much of this is the result of three buildings no longer included in our dataset. Two of them downtown, the Farm

Credit Building is being converted to residential and the Wells Fargo Building will be 100% owner occupied, which disqualifies them from our survey. The third is the Conagra purchase of a vacant 40,000 sf building located on north 72nd Street that will also be 100% owner occupied.

**Absorption.** The first quarter had negative absorption of 65,508 sf. The second, third and fourth

*(continued on page 2)*

Occupancy Rates for Omaha Submarkets

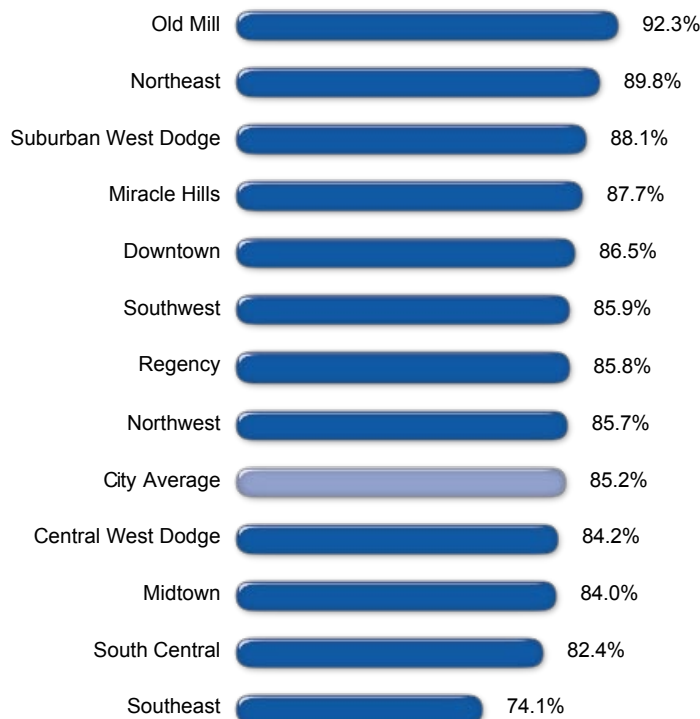
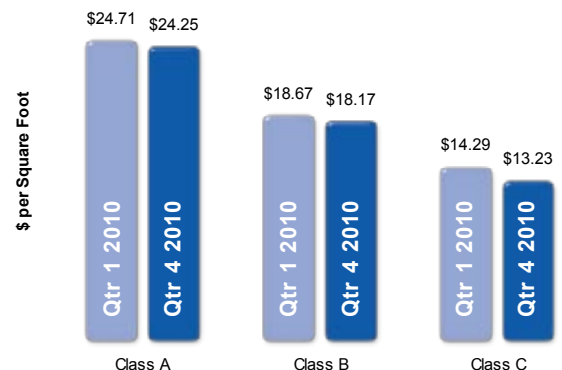


Chart 1 – As you can see in Chart 1, citywide occupancy is 85.2%. Only Old Mill is above 90% and only Southeast is below 80%. Downtown occupancy is 86.5%. For identification of our markets, please refer to the map on page 5.

Rental Asking Rates - Full Service By Building Class



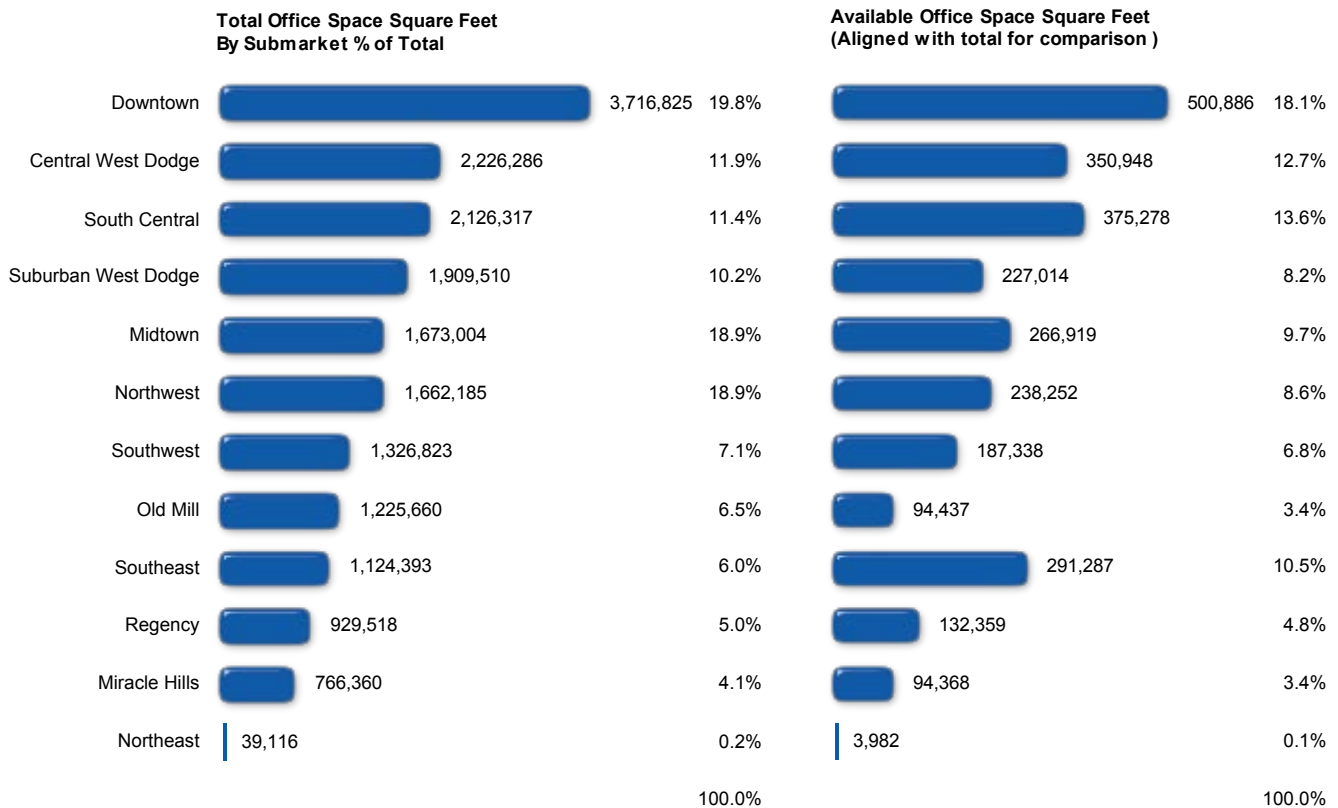
# Market Conditions and Trends— continued

quarters had positive absorption of 51,546 sf, 30,412 sf and 26,337 sf, respectively. This is the first year we have seen positive absorption (+42,787) since 2007. It is fair to say the growth, however small may it be, is a positive sign along with our overall vacancy rate decreasing from 15.9% to 14.8%, largely due to our drop in inventory.

**Rental Rates and Vacancy Percentages.** Asking rental rates have been decreasing over the past two years. For the past six months, rates for Class A have held steady, while Class B rates have slightly decreased and Class C rates have decreased more rapidly. The decline in Class C rates might correlate to that sector of the market being 24.5% vacant, while the Class A sector is only 8.7% vacant. The average asking full service Class A office rental rate is \$24.25 psf. Six months ago this rate was \$24.24. The average full service Class B rate is \$18.17 psf and Class C rate is \$13.23 psf,

a reduction by \$.34 and \$.42 respectively, over the same six months. Overall, there is very little Class A space available and a large surplus of Class C space.

**Construction.** We are still seeing little to no speculative construction in the office market. Any projects coming out of the ground are either owner occupied or are build-to-suit projects. With the Class A vacancy rate decreasing and financing still relatively cheap, there may be an opportunity for a developer to come out of the ground with a project. Or, it is possible we may see more successful redevelopment projects like Regency 450, which is now 75% leased. A question many might ask, “can future rental rates coupled with acquisition/construction costs provide an adequate return?”



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

# Submarket Summary

**D**owntown now has a vacancy rate of 13.5%, a decrease from 15.3% back in July. This decrease in vacancy is due to two significant factors. One, the 132,000 sf Farm Credit Building located at 206 S 19th Street was removed from our dataset because it was sold to NuStyle Development. NuStyle has plans to convert the former office building into residential units. Secondly, the 115,000 sf Wells Fargo Bank building was also removed from the dataset. Wells Fargo had been marketing some of their building as available but will now occupy the entire building for their own use. 100% owner occupied buildings are not included in our dataset. Regarding significant leasing activity, Adesta expanded into 11,500 more square feet and Pacific Life vacated 20,000 sf, both at the Landmark Building.

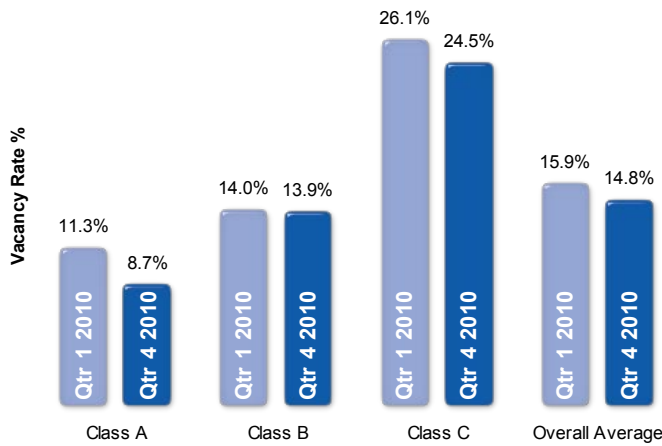
The *Southwest* Submarket had very little activity in the past six months. The only notable news was the vacancy rate

creeping up to 14.1% with additional space available at 160 Center Place and 13931 Gold Street.

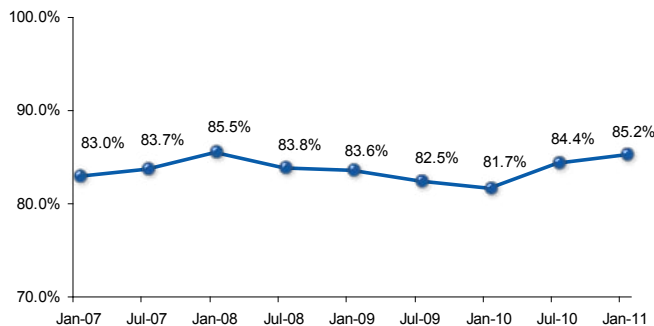
*Suburban West Dodge* continues to be a desirable submarket with an 11.9% vacancy rate. 18,000 sf was occupied by Read & Associates at California Place and TransCanada leased 17,000 sf at 13710 FNB Parkway.

*Miracle Hills* is 12.3% vacant, this submarket has remained very static in the past six months.

The *South Central* submarket's vacancy rate has increased to 17.6%. The highlight is KVC Behavioral Healthcare leasing 11,700 sf at 84th & 370 while the losses were EMSI vacating 30,000 sf at Empire Park I and the Post Office vacating 27,000 sf at Weitz Plaza. Evergreen Village Building A and Oak Hills Professional Center also added vacant space to the submarket. (continued on page 3)



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

Within the *Regency* Submarket, Regency 450 continues to add tenants. Regency 450 has absorbed more than 45,000 sf largely in part to the addition of Great Plains Renewable Energy (23,000 sf), Bland & Associates (11,000 sf) and Midwest Medical Associates. Earlier this year, Jeleos moved into Regency 450 and vacated the Enterprise Bank building that is a few blocks away. Another tenant leaving the submarket was Curnes Financial Services vacating 5,000 sf at Regency Professional Plaza. This submarket is now 14.2% vacant.

The best submarket remains *Old Mill*, lowering its vacancy rate to 7.7% from previously being 9.3%. This decrease is the result of Dutton & Associates purchasing and occupying the formerly vacant 12,000 sf building located at 10822 Old Mill Road.

The 16.6% vacant *Midtown* Submarket has more vacant space due to Mutual of Omaha adding 33,000 sf to the

market. On a positive note, Kiewit leased 23,000 sf at the Center (42nd and Center).

*Central West Dodge* has made the most improvement with a decrease in vacancy from 19.8% to 15.8%. New tenants include; Hayneedle leased 65,000 sf at 94 Dodge Place, The Maids leased 20,000 sf at 94 Dodge Place, and High Mark Life Insurance leased 8,600 sf at the Mark.

The *Northwest* Submarket improved from 14.3% to 13.6%. In North Park, GMAC, who occupied 32,000 sf, bought out of their lease. West Corp signed a lease in the same building for 20,000 sf.

The *Southeast* and *Northeast* Submarkets had very little activity to report. The struggling Southeast submarket, which includes Bellevue, is 25.9% vacant. While the Northeast submarket comprises approximately 40,000 sf, less than .2% of the total market. ~

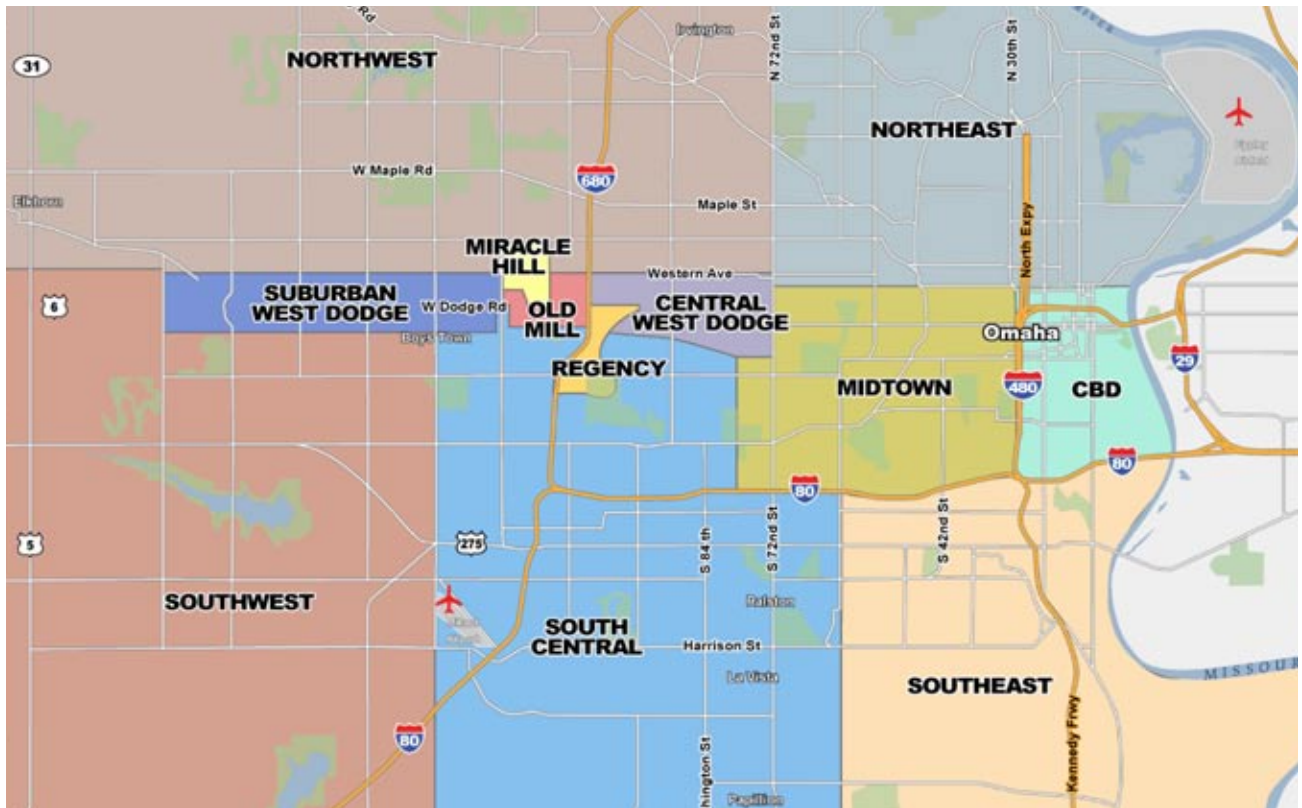
## Office Data by Submarket

	# of Buildings	Inventory (SF)	Inventory by Percentage	Total Vacant (SF)	Total Vacancy Rate (%)	Qtrly Net Absorption (SF)
Downtown	28	3,716,825	19.8%	500,886	13.5%	-2,683
Midtown	23	1,673,004	8.9%	266,919	16.0%	-38,780
Northeast	44	2,226,286	0.2%	350,948	15.8%	29,268
Northwest	16	929,518	8.9%	132,359	14.2%	42,733
South Central	42	1,225,660	11.4%	94,437	7.7%	-1,907
Southeast	23	766,360	6.0%	94,368	12.3%	3,151
Southwest	39	1,909,510	7.1%	227,014	11.9%	22,083
Suburban West Dodge	47	1,326,823	10.2%	187,338	14.1%	-8,089
Regency	78	2,126,317	5.0%	375,278	17.6%	-19,682
Central West Dodge	18	1,124,393	11.9%	291,287	25.9%	1,387
Miracle Hills	50	1,662,185	4.1%	238,252	14.3%	-1,144
Old Mill	2	39,116	6.5%	3,982	10.2%	0
Grand Total	410	18,725,997	100.0%	2,763,068	14.8%	26,337

# Notable Transactions

# Submarket Map

Company (Tenant/Buyer)	Transaction (amount)	Size	Submarket
NuStyle Development	Sale (\$2,100,000)	131,774 sf	Downtown
Hayneedle	Lease	65,000 sf	Central West Dodge
JasperStone Partners	Sale (\$5,600,000)	46,639 sf	Southeast
ConAgra	Sale (\$4,000,000)	38,500 sf	Northwest
Project Harmony	Sale (\$4,450,000)	38,496 sf	Southwest
Jerry Huber	Sale (\$755,000)	27,391 sf	South Central
Kiewit	Lease	23,150 sf	Midtown
Great Plains Renewable Energy	Lease	23,000 sf	Regency
The Maids	Lease	19,500 sf	Central West Dodge
California Place Tenant	Lease	18,068 sf	Suburban West Dodge
Reed & Associates	Lease	18,000 sf	Suburban West Dodge
TransCanada	Lease	17,000 sf	Suburban West Dodge
KVC Behavioral Healthcare	Lease	11,700 sf	South Central
Dutton & Associates	Sale (\$945,000)	11,597 sf	Old Mill
Bland & Associates	Lease	11,000 sf	Regency



# How Does Our Office Market Compare?

Nebraska's unemployment rate is 4.6% while the national unemployment rate is 9.8%. We all know Omaha and Nebraska are doing well in comparison to most other cities and states. Recently, Marketwatch's annual rankings put Omaha second on the list of "Top Cities for Business." We were praised for our low unemployment and diversity of business, and criticized for our job creation and sparse population. Washington DC ranked first. CNBC rated Omaha as the third "Best City to Move to in America." Behind Pittsburgh and Buffalo, CNBC scored Omaha well in stability and affordability. Omaha again topped the list of

"America's Most Recession Proof Cities" published by CNNMoney.com, in which Omaha was credited for robust economic activity, stable home prices and again, our low unemployment rate.

So Omaha is surviving the economic downtown better than most, but how does our office market compare to other similar office markets in the Midwest?

Omaha has a disproportionate amount of available Class A and Class C space. On the bright side, Omaha's vacancy rate of 8.7% for Class A buildings is very impressive. With the exception of Des Moines, other markets are seeing their Class A vacancy rates between 14% and 17%.

Our Class C vacancy rate of 24.5% is very high compared to other Midwestern markets. Over the next several years TD Ameritrade, Blue Cross Blue Shield, and Black Hills Energy will be vacating their existing offices for their newly constructed buildings. The spaces they leave behind will only add to our Class B and C available inventory, pushing our vacancy rates higher. Hopefully, Omaha will see positive absorption to take some of this space off the market ~

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## Office Market Comparison

