

2021 YEAR-END OFFICE MARKET REPORT

INVESTORS
REALTY INC.

MARKET SNAPSHOT



45,021,259 SF
INVENTORY



9.10%
VACANCY RATE



\$23.64 PSF
AVG ASKING RENT



353,000 SF
UNDER CONSTRUCTION



1,035,282 SF
DELIVERIES

OVERVIEW

Omaha's office market saw more total lease transactions in 2021 for more total space than in any year since our firm has tracked it, 281 transactions for nearly 1.8 million square feet. In a typical year, Omaha usually sees approximately 200 transactions for one million square feet. In addition to leasing activity, net absorption was positive 310,391 square feet, and Omaha's overall vacancy rate contracted slightly over the year. In turn, year-over-year market rent growth reached its highest point since pre-COVID-19. CoStar states, "Though slow-moving compared to other major U.S. metros, Omaha's office market is showing early signs of a recovery thanks to its diversified employment base."

SUBMARKET	INVENTORY 2020 (# OF BUILDINGS)	INVENTORY 2021 (# OF BUILDINGS)	INVENTORY 2020 (SQUARE FEET)	INVENTORY 2021 (SQUARE FEET)
Central Dodge	100	99	3,453,093	3,444,133
Downtown	135	136	10,034,372	10,107,683
Midtown	219	222	6,452,111	6,456,668
Miracle Hills	27	28	1,097,256	1,124,425
Northeast	75	76	809,536	897,827
Northwest	153	156	2,836,699	2,888,737
Old Mill	65	64	2,238,665	2,228,518
Regency	23	25	1,242,994	1,367,870
South Central	223	225	3,293,826	3,334,221
Southeast	200	199	2,604,600	2,588,241
Southwest	263	269	5,185,838	5,360,134
Suburban West Dodge	107	112	4,705,440	5,222,802
Total	1,590	1,611	43,954,430	45,021,259

It seems fair to describe the market as stable as we are not seeing large swings in space availability and pricing, but it feels tenuous, just as corporate office space decision-makers are dealing with uncertainty. We continue to see office users choosing to wait and see on decisions affecting demands for office space. Most of the numbers are trending the right way, albeit slowly, but Omaha's vacancy rate is more than 300 basis points higher than seen in many years before the pandemic, and we finished 2021 with 324,398 square feet of sublease space available, more than we have tracked

historically. Furthermore, Omaha is coming off of years of strong new construction, and we are seeing newly-vacated space. The economy seems strong with revenue growth in virtually all areas. However, supply chain complications and employment difficulties – especially with the impact of the Omicron variant – combined with the looming prospect of firms exploring more permanent remote and flexible work solutions may continue to place upward pressure on the Metro's office vacancy rate in the near term.

Since the onset of the pandemic, Omaha office owners have generally opted to freeze asking rents, although new construction brings higher asking prices. Despite reaching a post-pandemic high in 2021, year-over-year rent growth is still more than 200 basis points below the five-year pre-COVID-19 average. It will remain difficult for office owners to push asking rents until strong leasing activity returns for an extended period and the office vacancy rate declines significantly.

Office sales activity was strong in 2021, with total sales volume roughly matching pre-COVID-19 levels. Businesses faced with the prospect of coming out of pocket for significant tenant improvements or the ever-increasing cost of new construction are looking at purchasing an existing building as their best solution. Armed with low interest rates, businesses buying existing product is usually less costly and a faster solution in many cases. CoStar reports that market pricing, an estimated price of all office properties in the market and informed by actual transactions, increased for the first time since the onset of the pandemic.

VACANCY

The 2021 Omaha office market vacancy rate compressed slightly to 9.1%, which is 300 basis points higher than year-end 2019 (pre-COVID-19). The best performing submarket was the Southwest which has a vacancy rate of 5.50%. Only four submarkets besides the Southwest submarket had decreasing vacancy rates in 2021: the Northeast (8.90%), Southeast (13.50%), South Central (6.50%) and Southwest (5.50%). The decreases were all by less than 100 basis points except for the Northeast submarket, which experienced a 160 basis point decrease.

The worst performing submarket was Miracle Hills which has a vacancy rate of 18.30%. This rate is surprising because Miracle Hills has historically been the best performing submarket in Omaha, with single-digit vacancy rates over the last decade. Most of the vacancy can be attributed to Intrado (formerly West Corp) downsizing by 100,000 square feet. Of the space Intrado has vacated, approximately 27,124 square feet has already been leased to Scooter's Coffee, which will move into the building in 2022. The other submarkets with increasing vacancy are Central Dodge (11.10%), Downtown (6.60%), Midtown (6.60%), Northwest (14.10%), Old Mill (10.80%), Regency (10.20%), and Suburban West Dodge (12.80%). Increasing vacancy in historically strong submarkets is due to new construction coming to market with partial vacancy, such as California Pointe, Carson Wealth and the Baxter Building in the Suburban West Dodge submarket. It is also the result of the pandemic and the effects of businesses downsizing their office footprints due to a flexible work from home strategy or leaving the market to consolidate in a different city.

Deal velocity increased significantly in 2021, with 281 office lease transactions for 1,773,449

square feet compared to 180 transactions for 718,246 square feet in 2020. Both figures are more than a typical year where Omaha sees approximately 200 transactions for one million square feet. However, that is not the whole story, as 2021 benefited from some make-up for lost transactions in 2020, and some of the 2021 transactions reflect stop-gap solutions for businesses, which may be short-term, less valuable leases. Tenants also continue to downsize and/or offer sublease space, making it feel like the office market is treading water.

Omaha recorded 324,398 square feet of sublease space available at the end of 2021. Large blocks of space exist in Aksarben Village, North Park, Suburban West Dodge, Altech Tech and Pacific Springs. We expect more sublease space due to a few large Omaha area employers working through their workplace strategies and talking about giving space back. Sublease space in Omaha has typically been one-off situations where a business was acquired or changed dramatically and gave space back. The current market demonstrates several businesses giving space back, which suggests sublease space will have a more significant impact on the market than ever before, particularly regarding rental rate and length of term.

ABSORPTION

Absorption is the net change in occupancy from period to period, expressed in square feet. Omaha's historical (pre-COVID-19) annual absorption average was approximately 250,000 square feet. In 2020, the office market experienced a negative 182,288 square feet of absorption as COVID-19 impacted every workplace, and work from home became common. At the close of 2021, the office market has absorbed 474,977 square feet, which is materially above average and makes up for the loss seen in 2020.

At year end, the best performing office submarkets were the Southwest submarket, absorbing 267,009 square feet, and the Suburban West Dodge submarket, absorbing 267,928 square feet. These two submarkets outperformed all other sectors and absorbed more space than Omaha's historical (pre-COVID-19) annual average of approximately 250,000 square feet. The Suburban West Dodge submarket benefitted from Valmont (127,548 square feet) and Carson Wealth



(78,464 square feet), while the Southwest submarket data reflects LinkedIn's move into their new headquarters (200,000 square feet).

The worst performing submarket was the Northwest submarket, finishing the year at a negative 126,654 square feet absorption. The negative absorption would be worse if the sublease space on the market was vacated as there is 129,659 square feet available for sublease in the submarket. There is a total of eight buildings with over 20,000 square feet available in the submarket, and there was only a total of 17 leases over 20,000 square feet completed in all of Omaha last year.

CONSTRUCTION

While the last few years we have seen a boom in new construction, 2021 was more the year of "deliveries." At the end of 2020, there was 1,100,000 square feet under construction and much of that was in its final stages of completion. That led to the notable deliveries in 2021 listed below:

- » LinkedIn at Sterling Ridge (132nd & Pacific) – 200,000 SF
- » The Carson Wealth Buildings at Heartwood Preserve (144th & West Dodge Road) – 120,000 SF
- » Valmont Headquarters at Heartwood Preserve (144th & West Dodge Road) – 130,000 SF
- » Centris Headquarters at Sterling Ridge (132nd & Pacific) – 115,000 SF
- » Waterford Building (192nd & Dodge) – 180,000 SF

In contrast, at the end of 2021, there was only 353,000 square feet under construction between two buildings: Applied Underwriters and Union Bank & Trust, both located in Heartwood Preserve. Applied Underwriters is 250,000 square feet and broke ground in late 2019, but slowed progress dramatically during 2020 and 2021, while Union Bank & Trust is 93,000 square feet and broke ground in late 2020. This lack of new construction should not be surprising considering the amount of new space that has been added to the market the last few years and the fact we are still dealing with the effects of a global pandemic. We see this continuing in 2022 as many companies are still working remotely, creating less demand. We are optimistic this will change as more employers bring their employees back to the office and eventually upgrade their space, although we believe this return to the office will occur slowly over a few years. The return to the office will help fill the current vacancies and create demand for more new construction. The last two years have been a sea change moment in the history of office space. Employers will be rethinking how they promote their work opportunities to potential employees, and flexibility along with new office space construction will be a major component of the future employment conversation.

LEASE TRANSACTIONS IN 2020

180 DEALS

SIZE (SF)	# OF TRANSACTIONS	TOTAL SQUARE FOOTAGE
1,000-2,499	113	184,742
2,500-4,999	37	121,459
5,000-9,999	19	130,423
10,000-19,999	7	82,422
20,000-49,999	2	54,125
50,000 and above	2	145,075
BUILDING CLASS		
Class A	24	191,470
Class B	115	421,860
Class C	41	104,916

LEASE TRANSACTIONS IN 2021

281 DEALS

SIZE (SF)	# OF TRANSACTIONS	TOTAL SQUARE FOOTAGE
1,000-2,499	134	214,112
2,500-4,999	76	266,626
5,000-9,999	34	228,292
10,000-19,999	20	278,001
20,000-49,999	12	403,116
50,000 and above	5	383,352
BUILDING CLASS		
Class A	42	359,552
Class B	187	1,296,938
Class C	52	117,009

NOTABLE SALE TRANSACTIONS IN 2021

PROPERTY	SIZE (SF)	SUBMARKET AREA
11650 & 11808 Miracle Hills Drive	246,391	Miracle Hills
One Valmont Plaza	183,358	Suburban West Dodge
Southport Office Buildings	148,524	South Central
Orion HQ Buildings*	105,000	Southwest
C&A Plaza	94,520	Suburban West Dodge
10802 Farnam Drive	58,663	Old Mill
West Center Pointe	41,451	Southwest
Aureus Medical - Lakeside	41,046	Southwest
Midlands Professional Centre*	40,111	South Central
Midwest Professional Center*	38,802	Suburban West Dodge
7720 Crown Point Ave	38,000	Northwest
Wilshire Building	37,247	Southeast
Miracle Hills VII	36,024	Miracle Hills
100 Myers Place*	34,806	South Central
Thrive Space	31,485	Northwest
One Lakeside	31,088	Southwest
13340 California St	30,308	Suburban West Dodge
Brookfield Place*	26,364	Southwest
Omaha Orthopedic Building*	26,311	Southwest
Shaker Place	25,000	Regency
407 N 117th St	23,305	Old Mill
Lakeside Hills Office Plaza	21,356	Southwest
11104-11112 John Galt Blvd	21,024	South Central
5807 N 102nd St	20,487	Northwest

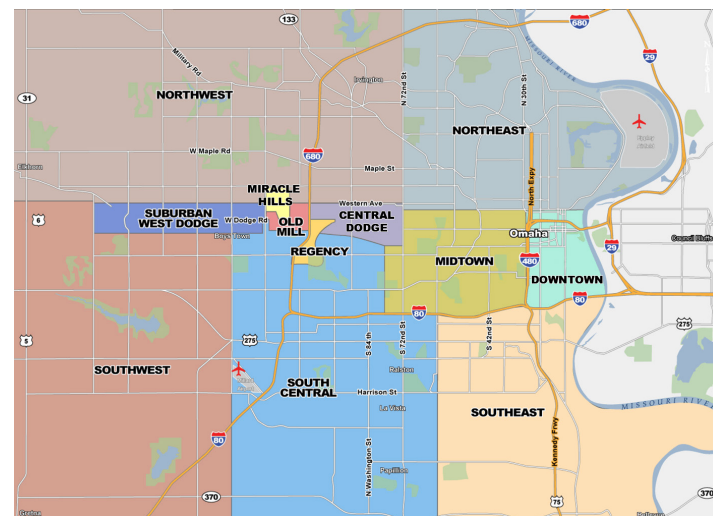
*Denotes an Investors Realty, Inc. transaction

†Denotes a sublease transaction

NOTABLE LEASE TRANSACTIONS IN 2021

PROPERTY	SIZE (SF)	SUBMARKET AREA
Intrado	148,552	Miracle Hills
Flatirons Solutions	58,798	Southwest
Omaha National Insurance	53,272	Central Dodge
Undisclosed - Government	49,209	Southwest
Titan Medical	48,877	Suburban West Dodge
Nelnet	44,538	Suburban West Dodge
Marvel Medical Staffing	42,599	Central Dodge
E&A Consulting Group†	34,538	Old Mill
Diabetes Supply Center of the Midlands	31,579	Northwest
Intrado	29,734	Miracle Hills
Scooters Coffee	27,123	Miracle Hills
Spreetail	26,182	Midtown
Axos Clearing*	23,897	Suburban West Dodge
Orion	21,524	Southwest
Retire Smart*	19,740	Suburban West Dodge

OMAHA SUBMARKETS



2021 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	99	3,444,133	380,085	3,695	383,780	11.10%	65,924	\$23.38
Downtown	136	10,107,683	630,951	37,359	668,310	6.60%	156,740	\$23.86
Midtown	222	6,456,668	422,857	3,067	425,924	6.60%	(31,345)	\$27.15
Miracle Hills	28	1,124,425	206,147	0	206,147	18.30%	(24,343)	\$23.50
Northeast	76	897,827	79,855	0	79,855	8.90%	7,721	-
Northwest	156	2,888,737	336,738	70,116	406,854	14.10%	(126,654)	\$18.29
Old Mill	64	2,228,518	177,316	64,287	241,603	10.80%	(83,162)	\$20.31
Regency	25	1,367,870	131,276	7,749	139,025	10.20%	(34,505)	\$28.11
South Central	225	3,334,221	217,297	0	217,297	6.50%	3,765	\$18.61
Southeast	199	2,588,241	350,199	0	350,199	13.50%	5,899	\$18.35
Southwest	269	5,360,134	235,268	59,824	295,092	5.50%	267,009	\$19.64
Suburban West Dodge	112	5,222,802	588,076	78,301	666,377	12.80%	267,928	\$25.20
Omaha Market	1,611	45,021,259	3,756,065	324,398	4,080,463	9.10%	474,977	\$23.64

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