

MARKETBEAT

Omaha Office Q4 2017



OMAHA OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Omaha Employment	500k	510k	▲
Omaha Unemployment	3.4%	2.7%	▼
U.S. Unemployment	4.7%	4.1%	▼

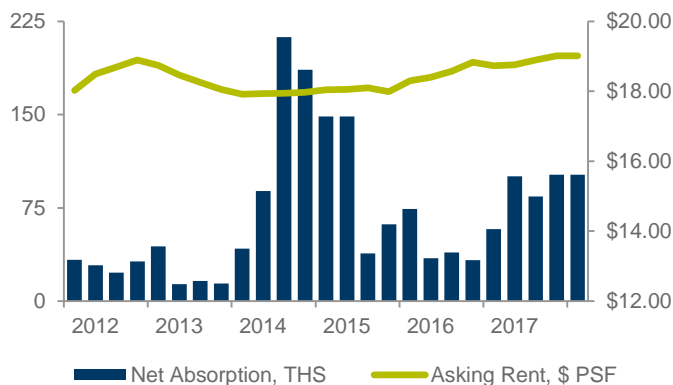
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	10.9%	11.1%	▼
Net Absorption (sf)	180k	-71k	▲
Under Construction (sf)	255k	551k	▲
Average Asking Rent*	\$18.97	\$18.90	▲

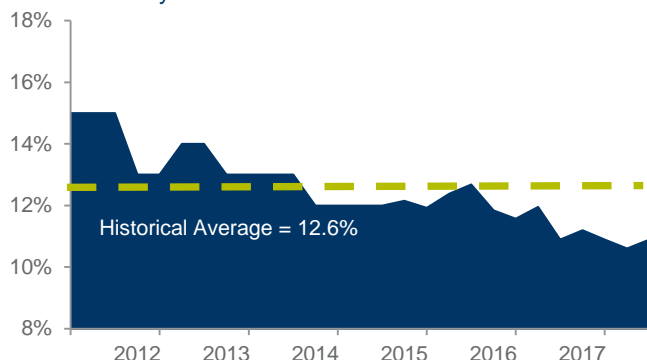
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Economic conditions remain solid in the Omaha MSA, with year-over-year unemployment rates improving by 70 basis points (bps) through the end of 2017. The unemployment rate was reported at 2.7% for fourth quarter 2017, which is a vast improvement in comparison to the 3.4% unemployment rate recorded for fourth quarter 2016. The strengthening of the labor market is a major factor in the economic growth, with local job creations totaling 9,100 from fourth quarter 2016. The overall performance of the U.S. economy remained positive, demonstrating a surprisingly strong annual growth rate. In December, the Federal Reserve raised its benchmark interest rate for the third time in 2017. It is anticipated that interest rates will increase at least four times in 2018.

The biggest news for the economy in 2017 was the passing of President Trump's tax bill. It remains to be seen how the bill will influence businesses in the future, but the work force is already reaping the benefits. The new tax law reduced the corporate tax rate from 35% to 21%, prompting a handful of major corporations such as AT&T and Wells Fargo to gift hefty holiday bonuses. Predictions indicate that the corporate tax changes could result in a \$4,000 per year salary increase for the average U.S. worker and potentially encourage increased investment from corporations. If business and consumer confidence can remain strong the economy will see its best two-year run in a decade.

Market Overview

The Omaha office market reported negative 71,000 square feet (sf) of net absorption in the fourth quarter, the first down period of 2017. The overall year-to-date activity was positive, totaling 171,000 sf of positive absorption. The year-over-year office vacancy rate increased by 20 bps, from 10.9% in fourth quarter 2016 to 11.1% in fourth quarter 2017. The Class A office market experienced the highest rate of growth in the fourth quarter with 12,000 sf of positive absorption pushing the vacancy rate down to 7.9%. The largest deal for Class A space was Quantum Market Research leasing more than 13,000 sf at 13810 FNB Parkway. Class B office endured 58,000 sf of negative absorption in the fourth quarter, primarily due to tenants vacating sizeable blocks of space and consolidating into existing locations.

In December, Kiewit announced plans to develop a new 165,000-185,000-sf corporate headquarters in North Downtown Omaha. The employee-owned company will relocate from the current Midtown location it has occupied since 1961. The new site is located just to the west of Kiewit University, at North 15th and Mike Fahey Streets. Construction is planned to start soon, with an estimated completion date of 2020.

Outlook

Despite recording negative absorption in fourth quarter 2017, the outlook for the Omaha office market remains positive. The overall market health continues to improve and is driven by important factors such as job creation, new development projects, and steady leasing activity. The positive momentum is expected to carry into 2018.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*
Midtown	2,147,838	19,960	109,907	6.0%	683	-48,709	144,886	228,218	\$18.47
Southwest	1,488,488	0	138,076	9.3%	-26,824	-20,236	88,270	60,000	\$16.93
South Central	2,509,150	19,503	534,466	22.1%	1,454	29,292	213,475	127,230	\$18.68
Northwest	1,584,850	0	131,193	8.3%	-40,900	-21,761	89,837	N/A	\$14.11
Central West Dodge	2,439,026	0	233,071	9.6%	-1,299	-40,731	218,243	N/A	\$19.41
Old Mill	1,210,228	16,907	149,623	13.8%	21,306	21,436	94,880	N/A	\$19.63
Regency	1,023,338	0	53,023	5.2%	-5,760	40,765	102,216	N/A	\$22.63
Northeast	179,116	0	23,503	13.1%	1,258	-1,526	18,104	N/A	N/A
Downtown	4,577,737	51,382	510,914	12.3%	-28,889	129,411	110,321	20,000	\$18.97
Southeast	860,298	0	217,959	25.3%	0	47,743	155,432	N/A	\$15.83
Suburban West Dodge	2,294,330	0	40,828	1.8%	25,383	34,296	134,647	116,000	\$16.17
Miracle Hills	740,007	5,840	73,209	10.7%	-17,750	-34,597	24,281	N/A	\$20.53
OMAHA TOTALS	21,054,406	113,592	2,215,772	11.1%	-71,338	154,647	1,394,592	551,448	\$18.90

*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*
Class A	7,298,467	51,382	521,706	7.9%	11,875	75,680	406,818	484,218	\$21.28
Class B	10,244,581	26,712	1,140,650	11.4%	-57,683	140,657	649,467	67,230	\$18.38
Class C	3,511,358	35,498	553,416	16.8%	-25,530	-67,788	338,307	0	\$13.88

Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
11111 Mill Valley Road	19,000	Atlas Medstaff	New Lease	Old Mill
1941 South 42 nd Street	18,000	Heartland Family Services	New Lease	Midtown
13810 FNB Pkwy	13,000	Quantum Market Research	New Lease	Suburban West Dodge

Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF
16820 Frances Street	34,000	Jasper Stone APG, LLC / NE Obliviscaris, LLC	\$4,575,000 / \$135
Legacy Place	18,000	Hilltop Real Estate, LLC / 427 Investments, LLC	\$4,000,000 / \$222

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