

MARKETBEAT

Omaha

Office Q1 2018



OMAHA OFFICE

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Omaha Employment	500k	502k	▲
Omaha Unemployment	3.3%	3.0%	▲
U.S. Unemployment	4.7%	4.1%	▼

Numbers above are quarterly averages; February data used to represent Q1 2018 for Omaha

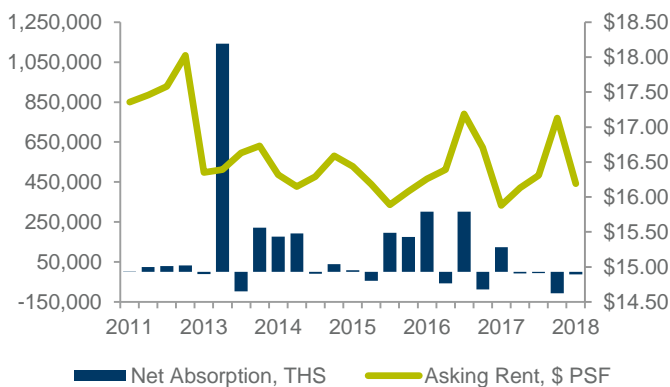
Market Indicators (Overall, All Classes) *

	Q1 17	Q1 18	12-Month Forecast
Vacancy	7.4%	7.7%	■
Net Absorption (sf)	123k	-12.8k	▲
Under Construction (sf)	358k	551k	▲
Average Asking Rent**	\$15.88	\$16.19	▲

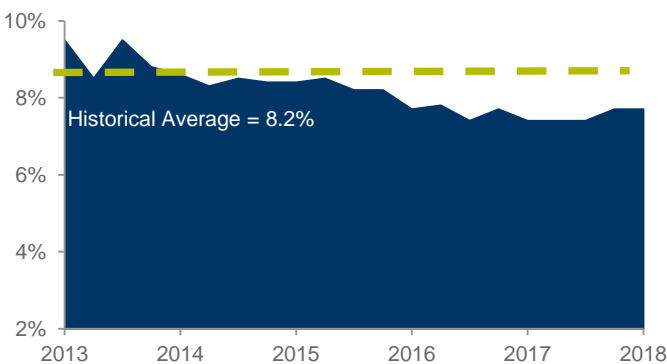
*Data Revisions made after the national report was released
 **Historical data differences due to change of data provider from Xceligent to Costar
 ***Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Omaha MSA economy showed positive momentum in the first quarter of 2018, following a much slower growth period than originally reported. Revisions show the U.S. job market slowing down in late 2017, with 8,000 less jobs created than originally recorded. Omaha-Council Bluffs non-farm payroll employment rose by 2,000 year-over-year, causing the unemployment rate to decrease by 30 basis points (bps) during the same period. According to the Bureau of Labor and Statistics, the overall Nebraska unemployment rate is 2.8%, which is relatively lower than the Midwest rate of 3.9% and the 4.1% national average.

Market Overview

The Omaha office market recorded its fourth consecutive quarter of negative activity, closing the first quarter of 2018 with just under 13,000 square feet (sf) of negative absorption. Year-over-year absorption totaled negative 135,811 sf, causing the vacancy rate to increase 30 basis points, to 7.7%. Many historical buildings are now being redeveloped into multifamily housing, leaving office users with limited opportunities. A large portion of office space that is being leased comes from existing tenants in the market, relocating locally. Often, that relocation stems from the need to downsize, which creates additional office vacancy. The CBD has nearly 650,000 sf of vacant space, but larger tenants have been hesitant to take that leap due to concerns over commute time and inadequate parking options. Despite slow tenant activity, there was positive news in the downtown market this quarter, as Mutual of Omaha announced it would be taking nearly 30,000 sf of space at the Landmark building. Though the metro experienced a vacancy increase and slower leasing this quarter, the office sector saw growth in other areas. Construction activity is on the rise, with more than 550,000 sf of new office development currently underway. The largest office project is HDR's new 228,000-sf global headquarters at 67th and Frances Street. This project makes the Midtown submarket home to more than 40% of the area office construction.

Outlook

Expect to see an upturn in 2018 overall demand. More than 250,000 sf of new construction is set to be delivered this year, with much of it already spoken for by Alvine & Associates, CoreBank and Sojern. Leases totaling just over 160,000 sf have already been signed for future occupancy this year and another 300,000 sf has been inked for occupancy in 2019. In order to boost the office performance in the long-term, the lack of modern, public transportation will have to be addressed.

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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)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Midtown	5,270,547	1,369	181,575	3.4%	29,118	29,118	28,114	228,218	\$15.18	\$21.99
Southwest	3,687,663	3,328	303,905	7.9%	21,970	21,970	44,177	60,000	\$13.10	\$20.00
Downtown	9,154,083	11,555	636,686	7.1%	-30	-30	33,531	20,000	\$17.26	\$21.77
Northwest	2,219,074	1,796	312,752	14.2%	-76,146	-76,146	17,431	0	\$15.32	\$0.00
Central West Dodge	2,523,697	42,960	187,501	10.0%	12,686	12,686	44,265	0	\$19.75	\$19.96
Old Mill	2,330,468	16,907	218,868	10.2%	-34,535	-34,535	2,648	0	\$15.38	\$0.00
Regency	1,232,311	0	95,920	7.8%	-14,903	-14,903	6,468	0	\$21.35	\$21.79
Northeast	502,211	0	43,640	8.7%	0	0	0	0	\$11.79	\$0.00
South Central	2,247,555	11,702	167,123	8.0%	25,862	25,862	64,898	127,230	\$11.43	\$18.93
Southeast	1,908,568	0	280,145	14.7%	20,816	20,816	2,000	0	\$15.00	\$18.97
Suburban West Dodge	3,144,226	20,468	72,861	3.0%	19,374	19,374	16,340	116,000	\$19.79	\$22.00
Miracle Hills	1,027,243	7,238	97,753	10.2%	-9,073	-9,073	8,126	0	\$20.01	\$21.50
OMAHA TOTALS	35,247,646	117,323	2,598,729	7.7%	-12,811	-12,811	266,902	551,448	\$16.19	\$21.23

*Data revisions made after the national report was released

**Rental rates reflect gross asking \$psf/year

***Renewals are not included in YTD Leasing Activity (SF)

	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)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	8,517,598	15,237	574,254	6.9%	6,033	6,033	30,020	484,218	\$20.87	\$21.23
Class B	22,855,719	73,624	1,590,638	7.3%	3,427	3,427	204,226	67,230	\$15.67	\$15.91
Class C	3,874,329	28,462	448,963	12.3%	-22,271	-22,271	32,656	0	\$10.47	\$10.69

Key Lease Transactions Q1 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
North Park Bldg 2	29,613	Conifer Revenue Cycle Solutions	Renewal/Expansion	Northwest
Chalco Valley Tech Center	28,574	Securities America	New Lease	Southwest
Landmark Center	27,947	Mutual of Omaha Bank	New Lease	Downtown
9500 W Dodge Rd	22,573	Dvorak Law Group, LLC	New Lease	Central Dodge

Key Sales Transactions Q1 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
707 Conagra Dr	161,475	VEREIT Services, LLC/ConAgra Brands	\$49,784,000 / \$308.31	Downtown
810 N 96 th St	60,039	RFW Properties, LLC/810 N 96 th St, LLC	\$4,322,808 / \$72	Central Dodge
Dundee Professional Building	14,960	Duane J. Dowd, Trustee, Michael A. & Catherine M. Huber/DPB Partnership, LLC	\$890,000 / \$59	Midtown
233 S Washington St	4,256	Central Plains Classis, Inc/Lc Schlitz Co Store, R&E Partnership	\$375,000 / \$88	South Central

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