

MARKETBEAT

Omaha

Office Q2 2018



OMAHA OFFICE

Economic Indicators

| | Q2 17 | Q2 18 | 12-Month Forecast |
|--------------------|-------|-------|-------------------|
| Omaha Employment | 500k | 505k | ▲ |
| Omaha Unemployment | 3.0% | 2.9% | ▼ |
| U.S. Unemployment | 4.3% | 3.8% | ▼ |

Numbers above are quarterly averages; May data used to represent Q2 2018 for Omaha

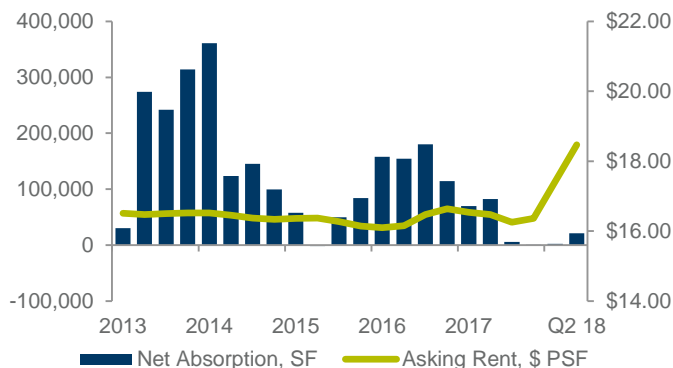
Market Indicators (Overall, All Classes)

| | Q2 17 | Q2 18 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 6.8% | 6.6% | ■ |
| Net Absorption (sf) | 128k | 69k | ▲ |
| Under Construction (sf) | 583k | 918k | ■ |
| Average Asking Rent** | \$20.15 | \$20.29 | ▲ |

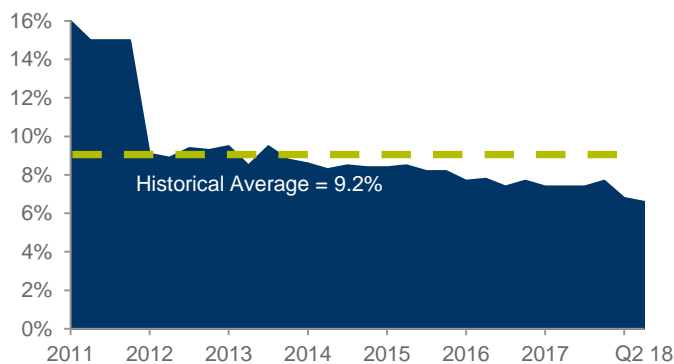
*Historical data differences due to change of data provider from Xceligent to Costar
**Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Omaha MSA unemployment rate dropped to 2.9% in the second quarter of 2018, and the local economy added 5,100 jobs year-over-year. The low unemployment rate continues to signal a tight labor market, which brings some concern. Employers face the challenge of filling open positions with a much smaller talent pool to choose from. In an attempt to attract qualified job candidates, they may have to offer more money than in the past. In addition to employers increasing their competitive offering wages, they may have to provide pay increases to existing employees to retain them.

Market Overview

Downtown leasing drove office activity for the second quarter in a row, producing nearly 100,000 square feet (sf) of positive net absorption and more than 220,000 sf, year-to-date. The large blocks of space that were once available in the downtown submarket, have recently been leased to Mutual of Omaha, Alvine Engineering, Omaha Chamber of Commerce, MetLife, Kirsch Transportation, and a boutique hotel. Toast snagged the last large office space downtown and will soon call Central Park Plaza home. The company plans to initially bring 400 to 500 new jobs to the downtown area. Other commercial real estate property types may benefit from the substantial number of office jobs being brought to the submarket. More people means, area-restaurants will see increased business, apartment leasing will rise, and more transportation will be necessary. With only 4.3% of vacant inventory left downtown, new development is essential to accommodate users with the need for sizeable amounts of space. Suburban markets are benefitting from the lack of space downtown, and several new office projects are on the horizon. More than 900,000 sf of new office product is under construction, with less than 350,000 sf available after pre-leasing. Limited supply caused asking rents in the Suburban West Dodge submarket to increase significantly quarter-over-quarter, averaging \$26.03 per square foot (psf) in Q1 2018, and reaching \$26.87 psf at the close of Q2 2018.

Outlook

Positive growth is expected throughout 2018, as notable tenants such as HDR, Core Bank and Sojern will occupy sizeable amounts of office space slated for delivery before year-end. Asking rents will continue to improve, primarily in submarkets with the tightest office vacancies. Added inventory due to new speculative space coming online, combined with leasing and tenant expansions may cause a minimal and temporary fluctuation in the vacancy rate.

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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 | 5,285,253 | 0 | 145,926 | 3.2% | 14,039 | 35,407 | 73,850 | 357,987 | \$21.36 | \$32.73 |
| Southwest | 3,726,842 | 15,702 | 269,839 | 7.7% | -15,386 | 34,776 | 99,988 | 60,000 | \$20.08 | \$25.21 |
| Downtown | 9,117,986 | 15,898 | 375,342 | 4.3% | 97,603 | 223,891 | 109,527 | 0 | \$18.42 | \$23.36 |
| Northwest | 2,217,058 | 1,796 | 342,703 | 15.5% | -31,951 | -106,097 | 41,969 | 65,469 | \$20.35 | \$0.00 |
| Central West Dodge | 2,523,697 | 45,375 | 166,536 | 8.4% | 16,630 | 29,316 | 49,648 | 97,600 | \$23.73 | \$29.00 |
| Old Mill | 2,327,494 | 16,907 | 240,362 | 11.8% | -28,819 | -63,354 | 13,656 | 0 | \$20.67 | \$0.00 |
| Regency | 1,238,273 | 0 | 56,483 | 6.8% | -2,543 | -16,497 | 33,351 | 0 | \$24.62 | \$31.43 |
| Northeast | 458,571 | 0 | 9,712 | 2.1% | -5,212 | -5,212 | 0 | 0 | \$0.00 | \$0.00 |
| South Central | 2,357,458 | 0 | 148,449 | 6.7% | 20,290 | 46,152 | 141,632 | 135,510 | \$17.07 | \$0.00 |
| Southeast | 1,891,338 | 0 | 225,481 | 13.2% | 21,401 | 25,517 | 15,052 | 0 | \$18.13 | \$16.00 |
| Suburban West Dodge | 3,145,215 | 22,004 | 47,154 | 2.8% | -3,432 | 15,942 | 38,817 | 201,500 | \$26.87 | \$30.75 |
| Miracle Hills | 1,027,243 | 14,787 | 15,358 | 6.8% | -13,282 | -22,355 | 28,281 | 0 | \$20.72 | \$0.00 |
| OMAHA TOTALS | 35,316,428 | 132,469 | 2,043,345 | 6.6% | 69,338 | 197,486 | 645,771 | 918,066 | \$20.29 | \$26.17 |

*Renewals are not included in YTD Leasing Activity (SF) **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) | DIRECT AVERAGE ASKING RENT** | OVERALL AVERAGE ASKING RENT** |
|---------|----------------|--------------------|--------------------|----------------------|-----------------------------------------|---------------------------------|----------------------------|------------------|------------------------------|-------------------------------|
| Class A | 8,575,217 | 19,580 | 227,036 | 3.3% | 69,712 | 164,243 | 187,618 | 718,969 | \$26.17 | \$26.17 |
| Class B | 22,865,829 | 82,891 | 1,393,570 | 7.0% | -28,832 | 25,056 | 246,422 | 199,097 | \$20.36 | \$20.36 |
| Class C | 3,875,382 | 29,998 | 422,739 | 12.1% | 28,458 | 8,187 | 211,731 | 0 | \$16.30 | \$16.30 |

Key Lease Transactions Q2 2018

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|--------------------------------|--------|--------------------|------------------|---------------------|
| 1331 Capitol Ave | 39,293 | Metlife | New Lease | Downtown |
| 4502 Maass Rd | 14,280 | DMV | New Lease | Southeast |
| 10825 Farnam | 13,204 | Wex Health | New Lease | Old Mill |
| 802-810 S 169 th St | 10,285 | Lanoha Development | New Lease | Suburban West Dodge |

Key Sales Transactions Q2 2018

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|----------------------------|---------|--------------------------------------------------------|--------------------|---------------|
| North Park Bldgs 7 & 8 | 177,323 | VK Blondo Properties LP/NP78 LLC | \$22,403,000/\$126 | Northwest |
| Embassy Plaza | 142,059 | SCI Real Estate Investments LLC/Dennis & Kathleen Esch | \$13,000,000/\$91 | Central Dodge |
| 17001 Lakeside Hills Plaza | 27,819 | IRET Properties/HSRE-MN Lakeside LLC | \$6,600,000/\$237 | Southwest |
| 1102 Douglas St | 23,712 | Alvine Engineering/Kirsch Transportation | \$2,275,000/\$96 | Downtown |

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