

# First Half 2017 Market Report



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# First Half 2017



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## NAI FMA REALTY

We are proud to be the exclusive representative of NAI Global, the world's only managed network of commercial real estate firms spanning the globe. Incorporated in 1961, NAI FMA Realty has evolved into Lincoln's premier full-service, privately-owned commercial real estate company. NAI FMA consistently ranks among the top commercial real estate firms in the Midwest for industry rankings.

NAI FMA professionals bring a broad spectrum of experience and in-depth understanding of the commercial real estate industry and the local marketplace. Our professionals have combined experience with a variety of clients and market conditions and have successfully brokered more than \$945 million in commercial real estate transactions.

As a true-third party brokerage firm, NAI FMA does not have any equity interest in property we represent so we are committed to keeping the best interests of our clients in mind. Our commitment to our clients is to provide them with superior service that surpasses the manner in which their real estate is currently handled.

### Brokerage Services

NAI FMA is Lincoln's largest brokerage firm with ten active brokers. We handle transactions ranging from complex corporate relocations to the routine handling of lease renewals. As a full-service provider, our brokers have a vast experience with buyers, sellers, landlords, tenants and investors allowing for the ability to assist with every aspect of property acquisition and disposition, leasing/subleasing and site selection.

### Property Management

Our property management professionals provide a complete range of property services including operations management, financial reporting, and construction coordination. As an Accredited Management Organization™, we apply state-of-the-art ideas and technologies to complex ownership issues and provide integrated resources to maximize an asset's value for our clients. With over 3.9 million-square-feet under management in multi-tenant and owner-occupied facilities, our property managers provide outstanding customer service and total tenant satisfaction, combined with fiduciary responsibility to the owner.

### Facility Maintenance

Our professional and highly trained maintenance team are experienced with all building systems and have the ability to handle a multitude of tasks from as complex as balancing airflow or adjusting energy management systems to simply changing a light bulb. NAI FMA's approach to maintaining an asset involves routine and preventive maintenance, safety testing, alterations and reactive maintenance to prolong the life of the building's systems. We respond to service calls rapidly and effectively 24-hours a day, 7-days a week, ensuring our clients and their tenants receive consistent high quality service.

(Some of the data in this report has been gathered from third party sources and has not been independently verified by NAI FMA Realty. NAI FMA Realty makes no warranties or representations as to the completeness or accuracy thereof.)



# METHODOLOGY AND DEFINITIONS

## Absorption

The change in occupied space from one period to the next. In this measurement, it is important to distinguish that a building may be “available”, but not vacant (often the case in sublease situations which this report does not include). Therefore occupancy is not reduced until the space is vacated.

## Available Square Footage

Net rentable area considered available for lease; excludes sublease space.

## Average Asking Rental Rate (Weighted)

Rental rate as quoted from each building’s owner/management company. For office space a full service rate was requested; for retail and industrial, a triple net rate requested.

## Building Class

Class A product is office/retail space of quality construction with quality tenants, excellent amenities, prime location and premium rates. Class B product is office/retail space of average construction, fair to good finishes and wide range of tenants. Class C product has poor finishes, outdated appearance, and/or functional obsolescence. New product is office/retail space that has never been occupied or is owner occupied and constructed within the last year.

## Direct Vacancy

Space currently available for lease directly with the landlord of building owner.

## Market Area

The market includes all of Lincoln, Nebraska. The city was split into five sub-areas which include northwest, southwest, northeast, southeast, and central business district (CBD). The north/south cutoff is ‘O’ street and the east/west cutoff is 27th Street. The central business district is approximately ‘R’ Street to ‘H’ Street and 6th Street to 17th Street.

## Market Size

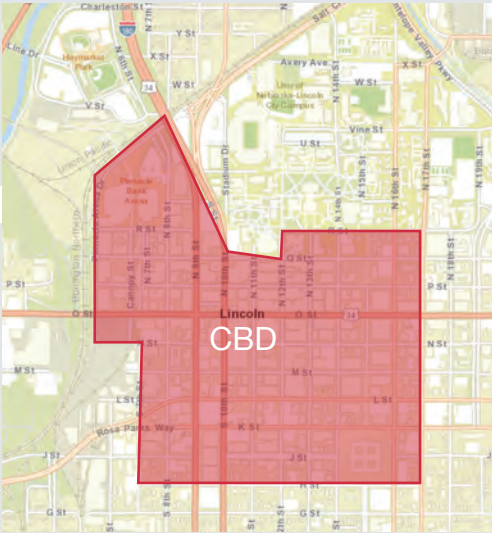
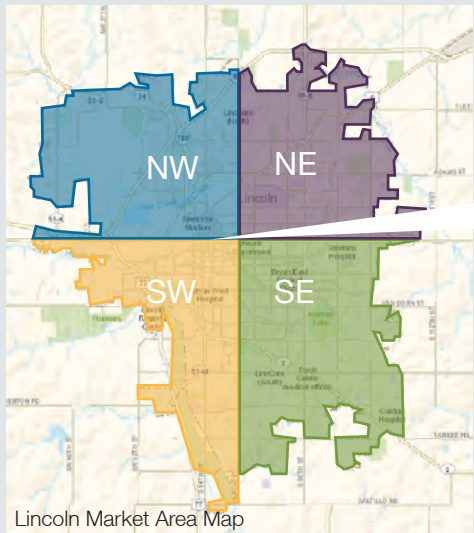
Includes all existing office, retail, and industrial buildings (all classes and all sizes, both multi-tenant and single tenant, including owner-occupied buildings but excluding all government or university owned and occupied buildings) within each market.

## Overall Vacancy

All unoccupied available space for lease, excluding sublease space.

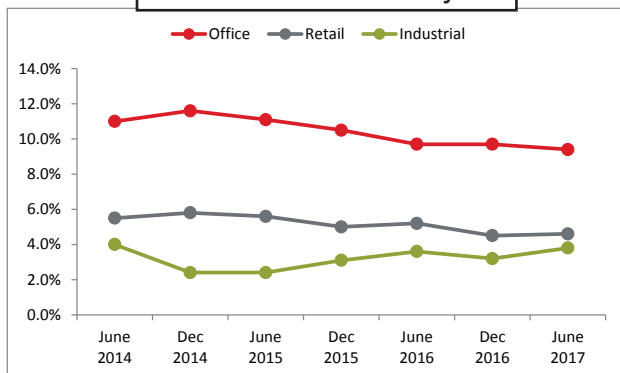
## Rental Rate

All asking rental rates are quoted as price per square foot per year.

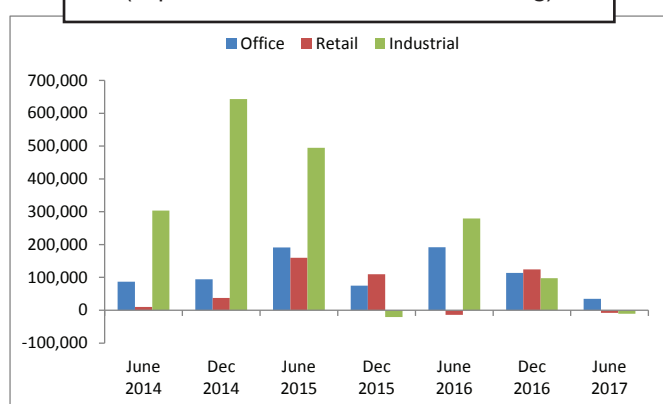


# First Half 2017

Overall Market  
Historical Vacancy



Overall Market  
Historical Net Absorption  
(Square Feet for Six Months Ending)



## OVERALL MARKET OVERVIEW

Lincoln, Nebraska is thriving and has remained one of the top communities in the U.S. in unemployment rates. The Lincoln metropolitan area unemployment rate stood at 2.9 percent in June 2017 ([www.dol.nebraska.gov](http://www.dol.nebraska.gov)).

The Lincoln commercial real estate market experienced slight easing of demand across some sectors but overall fundamentals are still positive.

## CONSTRUCTION ACTIVITY OVERVIEW

- New \$9.6 million office at Nebraska Innovation Campus and \$9 million office at 8800 Firethorn Lane
- New \$8.9 million Costco at 1620 Pine Lake Road
- \$2.7 million 22,000 SF warehouse at 6300 Cornhusker Highway and \$3.3 million of new warehouse at 33rd & Ox Bow Circle

## BUILDING PERMITS BY BUILDING TYPE

### OFFICE

	# of Permits	Value
New Construction	12	\$28,630,710
Alteration to existing	82	\$25,081,667
<b>TOTAL</b>	<b>94</b>	<b>\$53,712,377</b>

### RETAIL

	# of Permits	Value
New Construction	18	\$20,164,690
Alteration to existing	87	\$15,772,195
<b>TOTAL</b>	<b>105</b>	<b>\$35,936,885</b>

### INDUSTRIAL

	# of Permits	Value
New Construction	18	\$18,688,268
Alteration to existing	19	\$ 5,561,370
<b>TOTAL</b>	<b>37</b>	<b>\$24,249,638</b>

## Building Permit Trends

Office  
New Construction



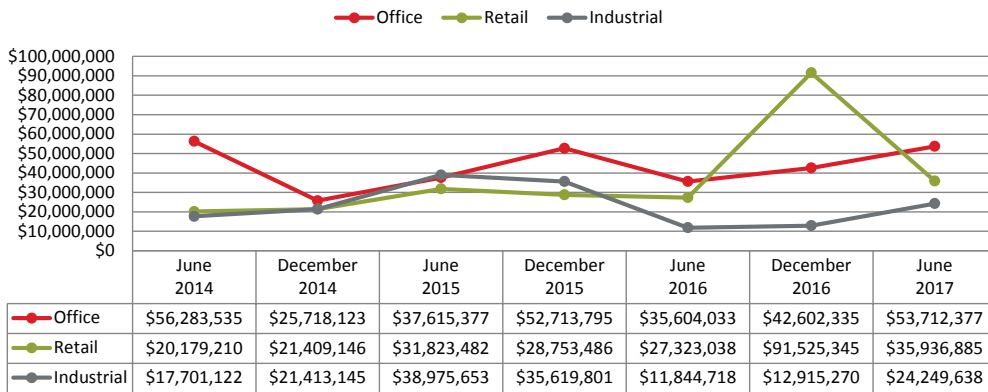
Retail  
New Construction



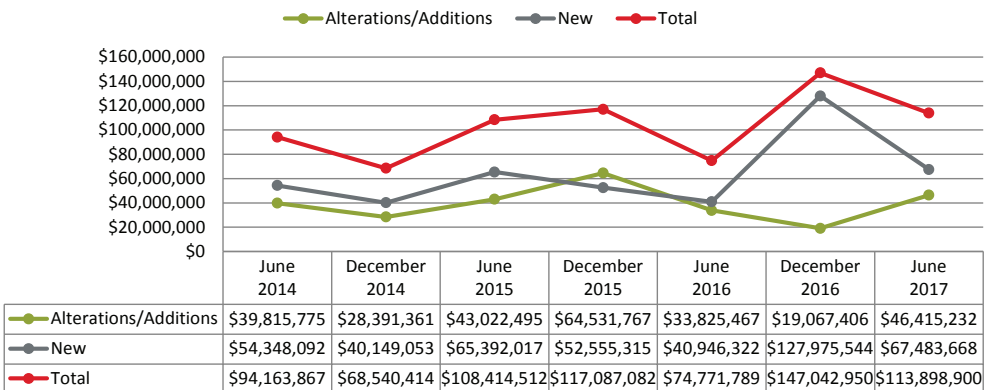
Industrial  
New Construction



Historical Building Permit Value  
by Building Type  
(Dollars for Six Months Ending)



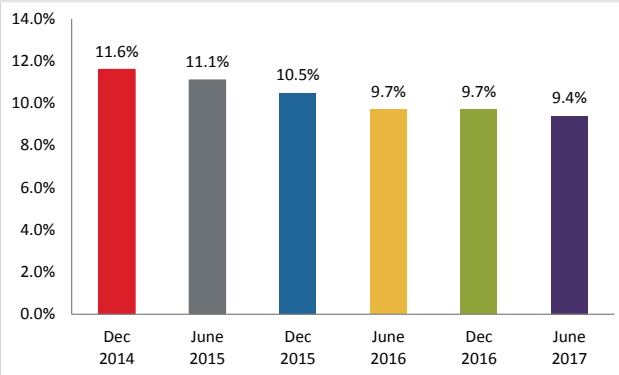
Historical Building Permit Value  
by Permit Type  
(Dollars for Six Months Ending)



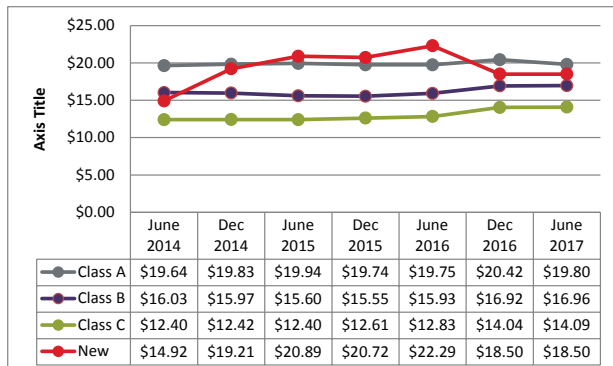
# First Half 2017

## OFFICE OVERVIEW

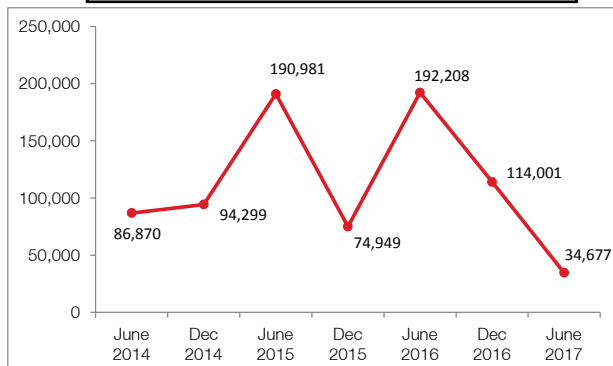
Office Historical Vacancy



Historical Asking Rental Rates by Retail Building Class



Retail Historical Net Absorption (Square Feet for Six Months Ending)



Total Vacancy



Asking Rates



Net Absorption



## TRENDS

- The Lincoln office market absorbed over 34,000-square-feet in the first half of 2017, leaving overall vacancies at 9.4 percent, resulting in a slight improvement in the overall rate.
- The southwest submarket had the highest level of positive net absorption during the first half with most notably Nelnet expanding into nearly 60,000-square-feet at 401 S. 21st Street to kick off the new Telegraph District development on the eastern edge of downtown.
- Increasing construction costs and the inability to find firms to bid on projects are slowing deals down however many owner-users are finding its the right environment to build versus lease due to low cost of capital.
- Tenant negotiations for build-out remains a difficult discussion and it has increased over the past year with rising construction costs.
- Tetrad Property Group in partnership with the University of Nebraska-Lincoln will begin construction in the fall of 2017 on a 80,000-square-foot office building on the Nebraska Innovation Campus. Current buildings are 94 percent leased.
- Journal Star Printing Co. has agreed to relocate and sell its downtown office building for redevelopment. Newman Development Group of New York plans to build a \$90 million mixed-use project which includes a 9-story building featuring apartments, office space, parking and street retail.
- Lincoln-based fast food restaurant chain, Runza National, broke ground on a new 47,000-square-foot corporate office building in the Firethorn Development in the southeast submarket. The building is expected to be completed by summer 2018.
- Tenant demand for space in the "5,000-square-feet and under" segment declined this half while demand for larger spaces of 10,000-square-feet or larger saw a noticeable jump.
- Verizon Wireless announced plans to close its 113,000-square-foot Lincoln call center along with four others in the U.S.

OFFICE MARKET DATA							
SUBMARKET	CLASS	NUMBER OF BUILDINGS	TOTAL RENTABLE SF	TOTAL AVAILABLE SF	% VACANT	NET ABSORPTION	AVERAGE ASKING RATE (\$/SF/YR)
CBD	CLASS A	10	1,066,763	116,242	10.9%	(17,461)	\$18.12
	CLASS B	97	2,476,399	328,619	13.3%	(1,737)	\$17.46
	CLASS C	22	259,578	59,576	23.0%	(3,104)	\$14.19
	NEW	1	11,473	-0-	N/A	-0-	N/A
	<b>SUBTOTAL</b>	<b>130</b>	<b>3,814,213</b>	<b>504,437</b>	<b>13.2%</b>	<b>(22,302)</b>	<b>\$17.26</b>
NORTHEAST	CLASS A	7	180,180	7,007	3.9%	21,373	\$17.42
	CLASS B	93	1,121,300	80,547	7.2%	3,656	\$15.08
	CLASS C	43	370,183	8,813	2.4%	900	\$13.16
	NEW	1	54,524	-0-	N/A	(25,453)	N/A
	<b>SUBTOTAL</b>	<b>144</b>	<b>1,726,187</b>	<b>96,367</b>	<b>5.6%</b>	<b>476</b>	<b>\$15.08</b>
NORTHWEST	CLASS A	10	803,245	48,052	6.0%	(7,904)	\$20.56
	CLASS B	49	821,620	156,108	19.0%	(4,510)	\$14.98
	CLASS C	13	146,411	5,974	4.1%	-0-	\$14.68
	NEW	-0-	-0-	-0-	N/A	-0-	N/A
	<b>SUBTOTAL</b>	<b>72</b>	<b>1,771,276</b>	<b>210,134</b>	<b>11.9%</b>	<b>(12,414)</b>	<b>\$18.83</b>
SOUTHEAST	CLASS A	10	519,438	50,475	9.7%	(9,597)	\$22.05
	CLASS B	406	3,936,958	294,610	7.5%	32,905	\$17.45
	CLASS C	17	89,745	2,915	3.2%	-0-	\$16.91
	NEW	3	21,255	-0-	N/A	(23,099)	N/A
	<b>SUBTOTAL</b>	<b>436</b>	<b>4,567,396</b>	<b>348,000</b>	<b>7.6%</b>	<b>209</b>	<b>\$19.58</b>
SOUTHWEST	CLASS A	3	283,288	5,000	1.8%	-0-	\$19.50
	CLASS B	109	1,218,107	79,124	6.5%	68,708	\$18.33
	CLASS C	23	119,645	27,033	22.6%	-0-	\$13.77
	NEW	5	8,448	3,300	39.1%	-0-	\$18.50
	<b>SUBTOTAL</b>	<b>140</b>	<b>1,629,488</b>	<b>114,457</b>	<b>7.0%</b>	<b>68,708</b>	<b>\$17.26</b>
<b>OFFICE TOTALS</b>		<b>922</b>	<b>13,508,560</b>	<b>1,273,395</b>	<b>9.4%</b>	<b>34,677</b>	<b>\$18.15</b>

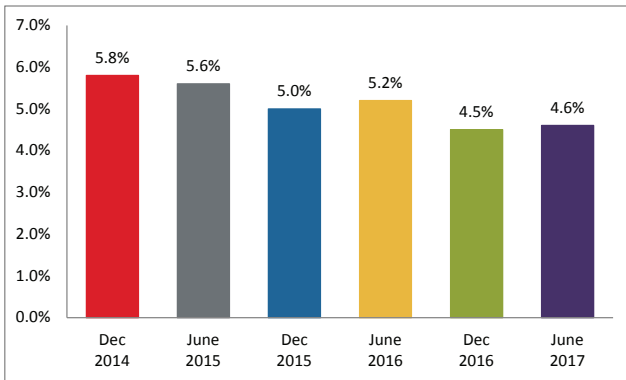
RECENT OFFICE SALES							
Address	Size (SF)	Seller		Buyer	Price	Price/SF	Submarket
245 S. 84th St.	36,700	US Global Service, LLC		BCLINC, LLC	\$2,600,000	\$70.84	Southeast
7700 A St.	17,699	Professional Business Services Co.		Dimensions Educational Research Foundation	\$1,375,000	\$77.69	Southeast
701 N. 48th St.	17,320	DRMJ Properties, LLC		Roberts & Roberts, LLC	\$1,100,000	\$63.51	Northeast
2121 S. 56th St.*	15,658	Mary Hepburn O'Shea		Madonna Rehabilitation Hospital	\$2,900,000	\$185.21	Southeast
1001 S. 70th St.	12,662	Concorde Opportunity Fund I, LLC		Surgical Associates Properties, LLC	\$1,190,000	\$93.98	Southeast

\*Indicates Transaction Represented by NAI FMA Realty

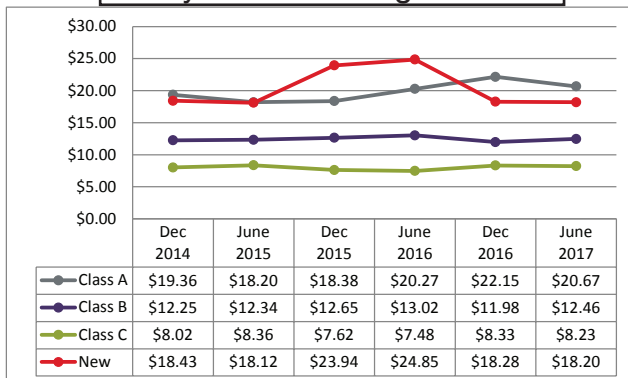
# First Half 2017

## RETAIL OVERVIEW

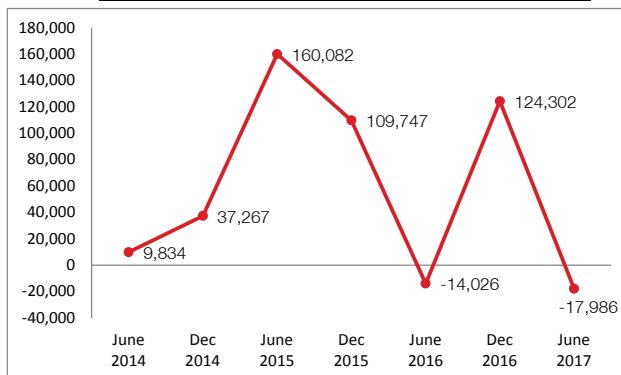
Retail Historical Vacancy



Historical Asking Rental Rates by Retail Building Class



Retail Historical Net Absorption (Square Feet for Six Months Ending)



Total Vacancy



Asking Rates



Net Absorption



## TRENDS

- The retail market is still expanding, albeit at a slower pace than the first few years of the recovery. The overall vacancy rate remained relatively unchanged at 4.6 percent in the first half 2017.
- The vacancy rate for shop space in downtown Lincoln was 8.0 percent and the average asking rate of \$14.97 per square foot. A trend in downtown retail is food replacing food. The CBD saw a number of restaurants close in the first half but had new restaurant concepts waiting in the wings to fill the vacancies.
- The southeast submarket is one of the largest in the Lincoln retail market with an inventory of 6.3 million square feet. The vacancy stood at 4.5 percent, a minimal increase from the end of 2016. The Fareway Meat Market is under construction and Big Red Keno opened another location in this submarket.
- Changing consumer preferences is pushing “big box” retailers to focus on smaller-format stores or improve locations with most potential. Struggling department chain J.C. Penny announced it is closing 138 stores across the U.S. including three in Nebraska. Lincoln’s store at Gateway Mall survived the cuts.
- The “Amazon effect” continues to impact brick-and-mortar retail as e-commerce sales continues to increase.
- Costco broke ground on its first Lincoln store at 16th and Pine Lake Road in the southwest submarket. The 156,000-square-foot store is expected to open in fall 2017.
- Steel is up and construction well underway for the redevelopment of Scheels at SouthPointe Pavilions in the southeast submarket and Dick’s Sporting Goods at Gateway Mall.
- Investors are paying lower cap rates for strong, existing neighborhood shopping centers or strip centers.
- The top sale transaction was for an investment property at 4901 O Street. It was purchased for \$3.2 million or \$453.13 per square foot.



RETAIL MARKET DATA							
SUBMARKET	CLASS	NUMBER OF BUILDINGS	TOTAL RENTABLE SF	TOTAL AVAILABLE SF	% VACANT	NET ABSORPTION	AVERAGE ASKING RATE (\$/SF/YR)
CBD	CLASS A	11	234,004	31,704	13.5%	(1,924)	\$24.54
	CLASS B	120	1,015,658	65,235	6.4%	(19,056)	\$14.29
	CLASS C	62	342,622	36,166	10.6%	10,455	\$7.68
	NEW	1	5,160	5,160	100.0%	-0-	\$20.00
	<b>SUBTOTAL</b>	<b>194</b>	<b>1,597,444</b>	<b>138,265</b>	<b>8.7%</b>	<b>(10,525)</b>	<b>\$14.97</b>
NORTHEAST	CLASS A	3	43,789	1,090	2.5%	1,917	\$13.50
	CLASS B	407	6,509,954	300,961	4.6%	10,815	\$12.17
	CLASS C	136	628,921	7,608	1.2%	(1,000)	\$7.20
	NEW	3	23,090	15,179	65.7%	(20,231)	\$16.31
	<b>SUBTOTAL</b>	<b>549</b>	<b>7,205,754</b>	<b>324,838</b>	<b>4.5%</b>	<b>(8,499)</b>	<b>\$12.20</b>
NORTHWEST	CLASS A	7	286,319	6,711	2.3%	(4,616)	\$15.00
	CLASS B	187	1,750,047	82,786	4.7%	23,966	\$9.50
	CLASS C	98	566,905	2,000	0.4%	5,236	\$8.00
	NEW	1	1,890	-0-	0.0%	(16,007)	N/A
	<b>SUBTOTAL</b>	<b>293</b>	<b>2,605,161</b>	<b>91,497</b>	<b>3.5%</b>	<b>8,579</b>	<b>\$9.87</b>
SOUTHEAST	CLASS A	13	659,574	46,720	7.1%	(8,291)	\$20.83
	CLASS B	332	5,231,048	218,842	4.2%	(4,388)	\$12.74
	CLASS C	65	323,583	9,980	3.1%	(8,969)	\$11.04
	NEW	5	106,915	9,462	8.9%	(5,567)	\$18.95
	<b>SUBTOTAL</b>	<b>415</b>	<b>6,321,120</b>	<b>285,004</b>	<b>4.5%</b>	<b>(27,215)</b>	<b>\$14.13</b>
SOUTHWEST	CLASS A	8	347,341	14,821	4.3%	1,420	\$15.57
	CLASS B	167	1,435,830	47,915	3.3%	15,445	\$15.73
	CLASS C	120	812,329	27,147	3.3%	4,617	\$7.86
	NEW	3	19,826	9,416	47.5%	(1,808)	\$19.50
	<b>SUBTOTAL</b>	<b>298</b>	<b>2,615,326</b>	<b>99,299</b>	<b>3.8%</b>	<b>19,674</b>	<b>\$13.91</b>
<b>RETAIL TOTALS</b>		<b>1,749</b>	<b>20,344,805</b>	<b>938,903</b>	<b>4.6%</b>	<b>(17,986)</b>	<b>\$13.14</b>

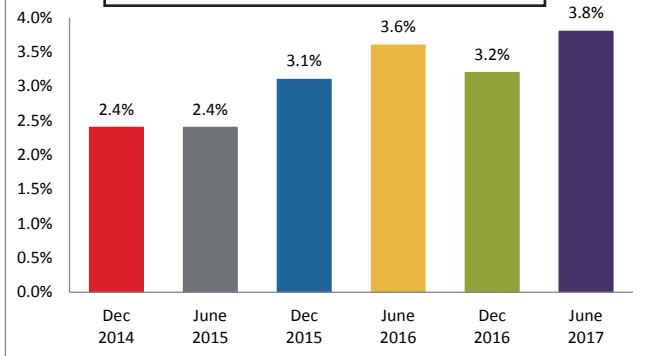
Recent Retail Sales						
Address	Size (SF)	Seller	Buyer	Price	Price/SF	Submarket
4901 O St.	7,062	Realty Trust Group, Inc. & Michael, Kimberly, Marisa, & Kipper Marsh	The Eating Establishment-48th & O LLC	\$3,200,000	\$453.13	Southeast
5300 Old Cheney Rd.	83,361	Lincoln Racquet Club, Inc.	Old Cheney Group, LLC	\$3,000,000	\$35.99	Southeast
4001 O St.	19,994	Kafka Partners II, LLC	New Generation Properties, LLC	\$1,325,000	\$66.27	Southeast
3301 O St.	1,372	RG Hall LP	Vandelay Investments, LLC	\$412,000	\$300.29	Southeast
4622 W. Huntington Ave.	4,914	Muff-Stettinger, LLC	TNJL, LLC	\$650,000	\$132.28	Northwest
714 N. 48th St.	1,891	Cutchall Property Mgmt., LLC	EON Properties, LLC	\$1,100,000	\$581.70	Northeast

\*Indicates Transaction Represented by NAI FMA Realty

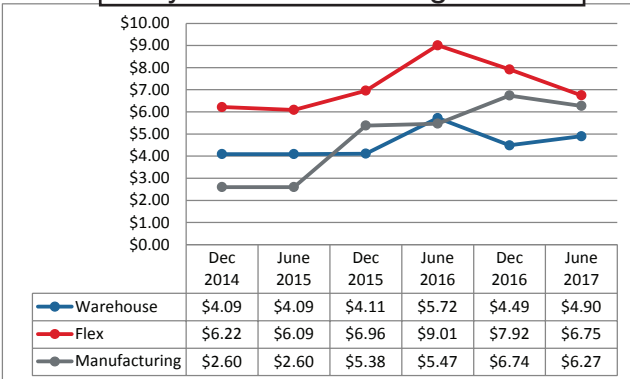
# First Half 2017

## INDUSTRIAL OVERVIEW

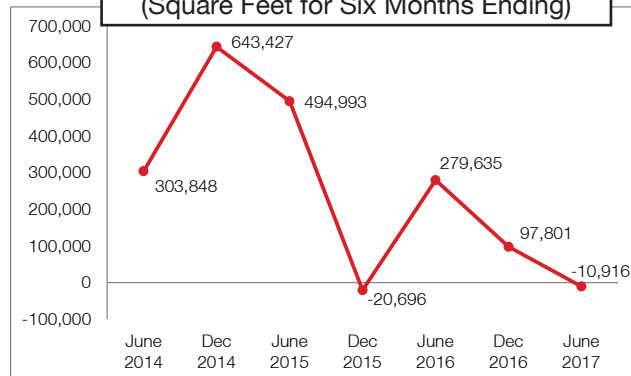
Industrial Historical Vacancy



Historical Rental Rates by Industrial Building Class



Industrial Historical Net Absorption (Square Feet for Six Months Ending)



Total Vacancy



Asking Rates



Net Absorption



### TRENDS

- The first half 2017 showed a minimal increase in vacancy from 3.2 percent to 3.8 percent.
- The northwest submarket is the largest in the Lincoln industrial market with an inventory of 11 million square feet. The vacancy rose to 5.4 percent in the first half due in part to a large manufacturer vacating over 60,000-square-foot and newer properties not yet occupied.
- Landlords are pushing back and not as willing to provide free rent or tenant improvements
- The CBD, one of the smallest submarkets, experienced the largest increase in vacancy with Nature's Variety moving out of a downtown facility and purchasing a 21,000-square-foot facility in an industrial park in the southwest submarket.
- Demand for industrial flex space is on the rise along with commanding the highest rental rates in upwards of \$8.00 per square foot.
- E-commerce is fueling taller warehouse construction to maximize space. The average height for warehouse construction has increased from 24 feet to 34 feet (Source: NAI Global)
- Sellers are in a greater position, as values are up due to lack of inventory and cost of new construction.
- The purchase price per square foot for industrial condos "3,000-square-feet or smaller" continues to strengthen.
- While availability in the market is tight, the addition of space under construction and larger spaces expected to come back on the market in the last half of the year, may help loosen conditions and pent-up demand.

INDUSTRIAL MARKET DATA							
SUBMARKET	CLASS	NUMBER OF BUILDINGS	TOTAL RENTABLE SF	TOTAL AVAILABLE SF	% VACANT	NET ABSORPTION	AVERAGE ASKING RATE (\$/SF/YR)
CBD	Warehouse	11	146,939	50,530	34.4%	(17,770)	\$7.36
	Flex	4	27,878	4,840	17.4%	-0-	\$4.38
	Manufacturing	7	325,334	154,000	47.3%	-0-	\$8.00
	<b>SUBTOTAL</b>	<b>22</b>	<b>500,151</b>	<b>209,370</b>	<b>41.9%</b>	<b>(17,770)</b>	<b>\$7.76</b>
NORTHEAST	Warehouse	290	4,656,626	55,575	1.2%	33,783	\$5.43
	Flex	67	990,444	28,794	2.9%	(26,145)	\$8.99
	Manufacturing	48	3,424,497	-0-	0.0%	14,620	N/A
	<b>SUBTOTAL</b>	<b>405</b>	<b>9,071,567</b>	<b>84,369</b>	<b>0.9%</b>	<b>22,258</b>	<b>\$6.65</b>
NORTHWEST	Warehouse	222	5,042,867	420,253	8.3%	61,727	\$4.25
	Flex	32	495,080	66,182	13.4%	5,555	\$4.75
	Manufacturing	33	5,476,719	109,877	2.0%	(61,359)	\$3.84
	<b>SUBTOTAL</b>	<b>287</b>	<b>11,014,666</b>	<b>596,312</b>	<b>5.4%</b>	<b>5,923</b>	<b>\$4.23</b>
SOUTHEAST	Warehouse	19	122,481	17,344	14.2%	(25,844)	\$5.25
	Flex	23	185,894	8,500	4.6%	3,780	\$8.00
	Manufacturing	1	8,829	-0-	0.0%	-0-	N/A
	<b>SUBTOTAL</b>	<b>43</b>	<b>317,204</b>	<b>25,844</b>	<b>8.1%</b>	<b>(22,064)</b>	<b>\$6.15</b>
SOUTHWEST	Warehouse	298	4,939,920	87,871	1.8%	29,316	\$6.00
	Flex	88	696,279	72,164	10.4%	(28,579)	\$7.60
	Manufacturing	24	1,810,366	-0-	0.0%	-0-	N/A
	<b>SUBTOTAL</b>	<b>410</b>	<b>7,446,565</b>	<b>160,035</b>	<b>2.1%</b>	<b>737</b>	<b>\$6.78</b>
<b>INDUSTRIAL TOTALS</b>		<b>1,167</b>	<b>28,350,153</b>	<b>1,075,930</b>	<b>3.8%</b>	<b>(10,916)</b>	<b>\$5.58</b>

Recent Industrial Sales							
Address	Size (SF)	Seller	Buyer	Price	Price/SF	Submarket	
5733 Johanna Rd. Units 3 & 4*	5,400	Trautman, Gregg L Et Al	Grasshopper, LLC	\$279,000	\$51.67	Northeast	
1421 Kingbird Rd.	45,472	Cannonball Express, Inc.	Platinum Real Estate Group, LLC	\$1,600,000	\$35.19	Northwest	
1233 Libra Dr.	21,445	Hobby Town Unlimited, Inc.	The Schwartz Group, Inc.	\$1,753,618	\$81.77	Southwest	
520 Blue Heron Dr.	13,280	CBCO Partnership	Jason & Gretchen Lee	\$995,000	\$74.92	Southwest	
5930 S. 57th St.	10,500	1701 Leasing Group, LLC	Sunny Investments, LLC	\$950,000	\$90.48	Northeast	
1746 N St.*	3,950	Metro Building Services, Inc.	Cider House, LLC	\$330,000	\$83.54	Southwest	
3201 S. 7th St.	10,320	DANDJ, LLC	Kentucky Blue Entities, Inc.	\$425,000	\$41.18	Southwest	
3120 & 3140 N. 33rd St.	9,336	GS Investments, LLC	JCL Investments, LLC	\$603,000	\$64.59	Northeast	

\*Indicates Transaction Represented by NAI FMA Realty

# Our Commercial Real Estate Services Include:

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## Where can NAI help you next?



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