

# Second Half 2018 Market Report

**SCHEELS**

Photo Courtesy of SCHEELS

Individual Members of:





## Direct Vacancy



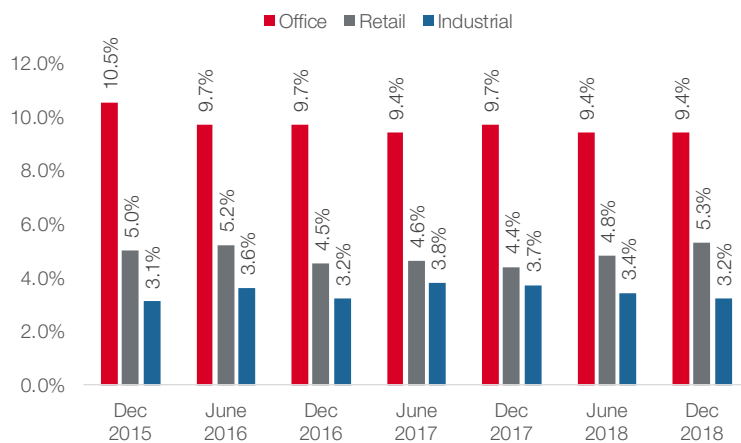
## Absorption



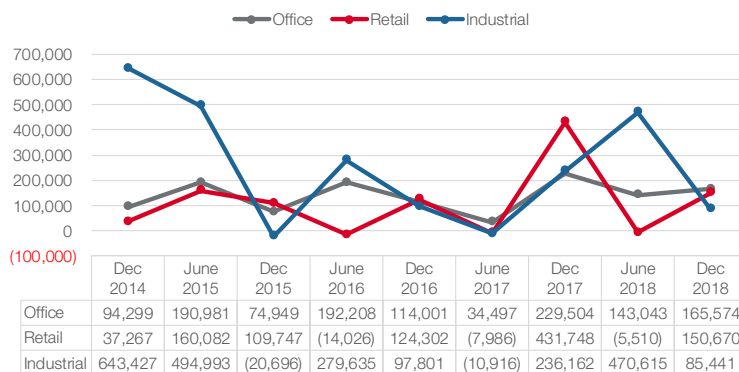
## Asking Rent



### Overall Market Historical Vacancy



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



### LINCOLN (MSA) RANKINGS IN THE NEWS

- #2 Best State to Live for Young Adults (MoneyRates)
- #1 Up-and-Coming Tech Hotspots (Livability)
- #2 City with Best Work-Life Balance (Smart Asset)
- #1 America's Best Cities for New Jobs (Forbes)

Source: selectlincoln.org

### HIGHLIGHTS

The Lincoln commercial real estate market continued to show signs of stability.

Office remained active in the second half despite the continued right-sizing of office tenants around the market. The trend has meant slow change in the sector outside of growth in single-tenant build-to-suits and new corporate headquarters.

Lincoln suffers from the same store closings as the rest of the country, but is also experiencing retail expansions due to population growth and a healthy economy. Questions are arising on how landlords will re-imagine the big box spaces as they are delivered back to the market.

The industrial market has recorded its lowest vacancy rate and highest asking rental rates in the past 10 years, reaffirming industrial property is still in high demand and a strong sector for the Lincoln market.

Real estate investors are eyeing rising interest rates with caution, however, the Lincoln market has seen little impact on investment returns across the asset classes.

## Office New Construction Permits



## Retail New Construction Permits



## Industrial New Construction Permits

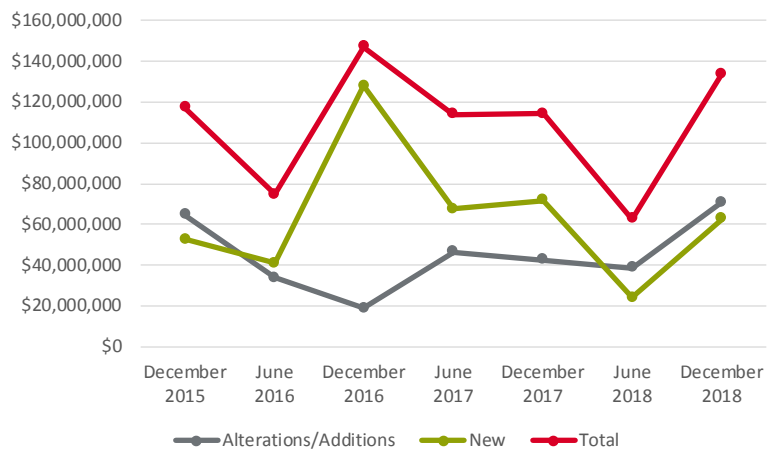


## CONSTRUCTION ACTIVITY

Construction projects remain at a healthy level for the City of Lincoln.

- Redevelopment of the VA campus has taken a step forward as the U.S. Department of Veterans Affairs plans to build its new \$24 million clinic on the campus grounds to replace the current clinic. The developers are Burlington Capital and Johnson Development.
- Olsson's new \$11 million office building is under construction in the West Haymarket area.
- Black Hills Energy and the Lincoln Electric System are building new headquarters. LES pulled a \$37 million permit for an office addition.
- Lincoln Federal Savings Bank is set to break ground in early 2019 for its new corporate headquarters, leaving a long-established downtown location for a suburban setting
- Target plans a \$1.1 million remodel to the store on N. 48th Street
- Four of the biggest fast-food chains are re-branding or refreshing their local restaurants. McDonald's, KFC and Burger King all pulled permits to update their look at various locations, following Wendy's upgrades to their restaurants.
- Construction began on the new \$1.4 million facility for Pioneer Gymnastics with completion in 2019.
- A \$3.08 million addition is underway for a warehouse facility at 4700 S. 19th Street.
- Bryant Heating & Air's new 27,000-square-foot facility will be complete in the summer of 2019

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



## BUILDING PERMITS BY BUILDING TYPE

### OFFICE

	# of Permits	Value
New Construction	11	\$ 50,360,477
Alteration to existing	93	57,275,098
<b>TOTAL</b>	<b>104</b>	<b>\$107,635,575</b>

### RETAIL

	# of Permits	Value
New Construction	10	\$ 6,919,200
Alteration to existing	72	8,546,300
<b>TOTAL</b>	<b>82</b>	<b>\$ 15,465,500</b>

### INDUSTRIAL

	# of Permits	Value
New Construction	5	\$ 5,591,295
Alteration to existing	19	5,062,053
<b>TOTAL</b>	<b>24</b>	<b>\$ 10,653,348</b>

## Direct Vacancy



## Absorption



## Asking Rent



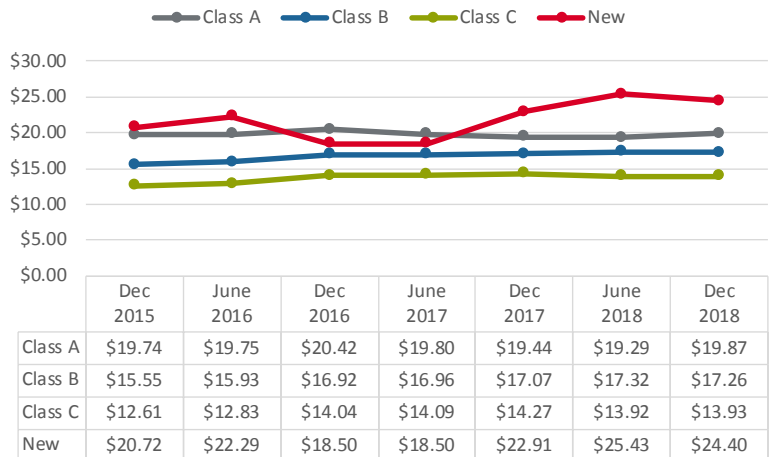
### HIGHLIGHTS

- Lincoln's office market experienced solid leasing activity, absorption and construction during the second half of 2018. Overall vacancy stabilized at 9.4% in 2018 and has remained in a narrow range between 9.4% and 9.7% since 2016.
- The Northeast submarket was the only submarket to experience an increase in vacancy going from 4.7% to 6.0%. Most of the uptick can be attributed to the Great Plains Conference of the United Methodist consolidating its administration offices to Topeka, Kansas.
- Outside investment dollars continue to enter the market, as South Dakota-based real estate investment firm Ernst Capital Group purchased the Center on N, a \$19.2 million office portfolio. This transaction was the largest office sale in over two decades.
- North Lincoln delivered the largest share of new office space deliveries with the addition of the 75,000-square-foot The Rise Building at Nebraska Innovation Campus and two buildings in Landmark Corporate Center development off Superior and N. 33rd Street
- A couple of the largest signed leases of the second half were Cline Williams Law Firm renewing at US Bank Tower and Ear Nose & Throat Specialties, PC in the 5055 Building.
- The future relocation of a couple large state agencies along with Lincoln Federal Savings Bank and LES moving to new headquarters out of the CBD, could negatively impact downtown Lincoln office vacancy

### New Construction



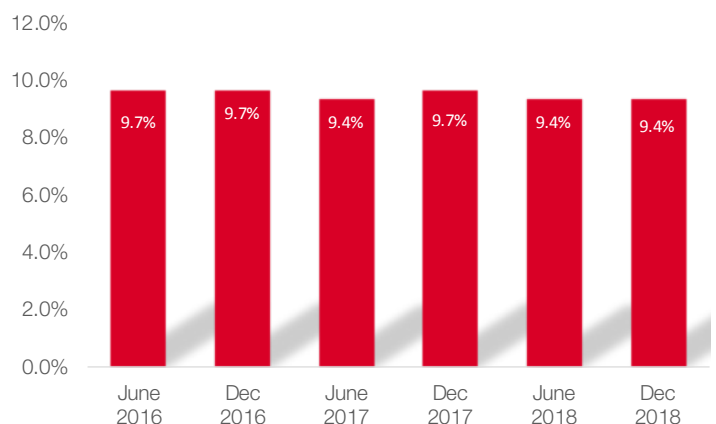
### Historical Asking Rates



### Historical Net Absorption



### Historical Vacancy



	Number of Buildings	Total Rentable SF	Total Available SF	% Vacant	Net Absorption	Average Asking Rate (\$/SF/YR)
<b>CBD</b>						
Class A	13	1,236,522	98,156	7.9%	163,266	\$19.60
Class B	96	2,448,601	352,095	14.4%	(34,222)	\$16.45
Class C	22	259,578	71,551	27.6%	-	\$13.55
New	1	11,984	11,984	100.0%	(128,155)	\$20.00
CBD Subtotal	132	3,956,685	533,786	13.5%	889	\$16.72
<b>Northeast</b>						
Class A	8	234,704	21,346	9.1%	(13,216)	\$18.92
Class B	93	1,121,426	67,612	6.0%	(6,392)	\$16.25
Class C	43	370,183	16,666	4.5%	(7,397)	\$14.51
New	3	29,532	-	N/A	24,996	N/A
Northeast Subtotal	147	1,755,845	105,624	6.0%	(2,009)	\$16.50
<b>Northwest</b>						
Class A	10	803,245	116,729	14.5%	-	\$19.63
Class B	50	885,115	120,992	13.7%	27,955	\$16.24
Class C	13	146,411	-	N/A	2,170	N/A
New	2	83,401	33,313	39.9%	41,492	\$24.00
Northwest Subtotal	75	1,918,172	271,034	14.1%	71,617	\$18.61
<b>Southeast</b>						
Class A	10	519,438	40,174	7.7%	8,049	\$21.71
Class B	414	3,991,711	237,394	5.9%	32,745	\$18.72
Class C	17	89,745	5,404	6.0%	-	\$17.62
New	6	202,193	46,020	22.8%	33,339	\$26.25
Southeast Subtotal	447	4,803,087	328,992	6.8%	74,133	\$20.09
<b>Southwest</b>						
Class A	3	283,288	-	N/A	-	N/A
Class B	115	1,225,945	62,214	5.1%	11,934	\$19.30
Class C	23	119,645	19,032	15.9%	-	\$13.79
New	5	34,601	3,300	9.5%	9,010	\$18.50
Southwest Subtotal	146	1,663,479	84,546	5.1%	20,944	\$17.99
Market Total	947	14,097,268	1,323,982	9.4%	165,574	\$18.02

### Notable Sales

Address	Size	Price	Price/SF	Submarket
1221 N Street*	140,041	\$19,200,000	\$137.10	CBD
2070, 2100, 2110, 2200 Fletcher Avenue*	39,871	\$3,772,780	\$94.62	NW
4600 Innovation Drive*	113,644	\$5,512,500	\$48.51	NW
8025 Eiger Drive	5,477	\$930,000	\$169.80	SE
7140 S. 29th Street	4,125	\$650,000	\$157.58	SE
5931 S. 58th Street	8,810	\$885,000	\$100.45	SE

\*Indicates Transaction Represented by NAI FMA Realty

## Direct Vacancy



## Absorption



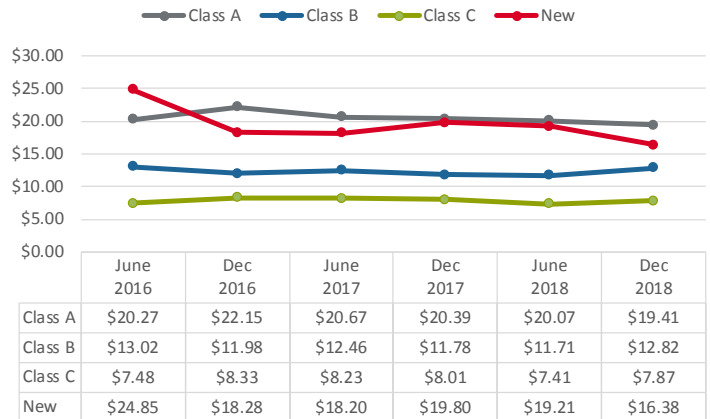
## Asking Rent



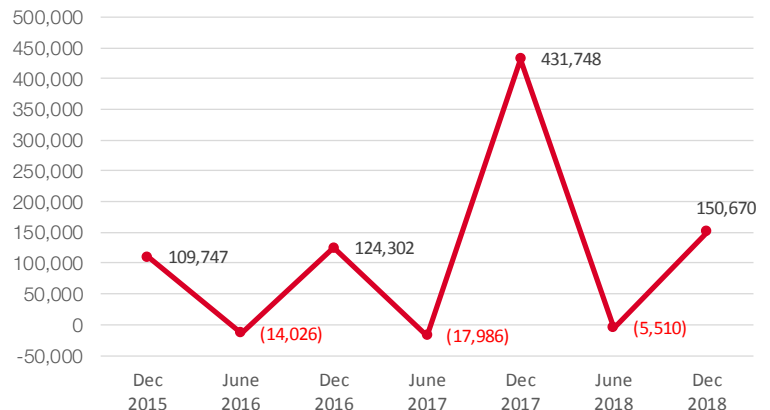
### HIGHLIGHTS

- Overall, the retail vacancy rate increased over the past year standing at 5.3%, however, its important to note that this rate is still low compared to the national average of 12.6%. (Source: NAR Q3.2018)
- Rental rates are up with overall asking rental rates at \$13.35 per square foot NNN at the close of 2018.
- The total retail market reached 21 million-square-foot with 271,249-square-foot delivered during the second half of 2018. The largest move-in of the half was also a construction completion as Scheels opened its new 220,000-square-foot store.
- Announcements continue of big brands filing for bankruptcy and shuttering stores. Yunkers, Gap, and Gymboree closed its doors. Sears, Yankee Candle and Beauty Brands are expected to close in early 2019 while Shopko announced it is to close all four stores by April 2019. One Shopko store was sold to a local developer for \$10 million with rumors deals have been inked to backfill a majority of the 110,000-square-foot.
- Consumer expectations are putting pressure on fast-casual restaurants and service retailers to evolve their service and options to connect with the busy consumer. Panera Bread now offers delivery and desires stand-alone restaurants with drive-thrus. Starbucks is testing out delivery in six major cities. Hy-Vee, Walmart and Target offer drive up options.

### Historical Asking Rates



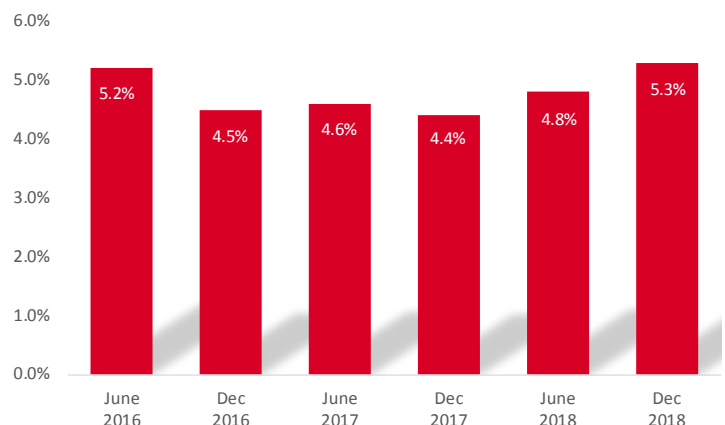
### Historical Net Absorption



### New Construction



### Historical Vacancy



	Number of Buildings	Total Rentable SF	Total Available SF	% Vacant	Net Absorption	Average Asking Rate (\$/SF/YR)
<b>CBD</b>						
Class A	11	234,004	35,648	15.2%	(644)	\$19.77
Class B	119	995,319	105,092	10.6%	(19,957)	\$13.61
Class C	63	361,755	49,807	13.8%	2,240	\$7.81
New	3	50,143	37,227	74.2%	12,916	\$16.92
CBD Subtotal	196	1,641,221	227,774	13.9%	(5,445)	\$13.99
<b>Northeast</b>						
Class A	3	43,789	-	N/A	-	N/A
Class B	413	6,619,045	390,827	5.9%	(106,838)	\$12.71
Class C	137	644,443	4,080	0.6%	19,495	\$8.65
New	9	63,679	29,434	46.2%	11,365	\$16.15
Northeast Subtotal	562	7,370,956	424,341	5.8%	(75,978)	\$12.90
<b>Northwest</b>						
Class A	7	268,168	10,921	4.1%	(22,361)	\$15.00
Class B	187	1,724,011	60,128	3.5%	(5,589)	\$10.13
Class C	99	574,070	17,384	3.0%	(7,344)	\$7.81
New	1	2,028	-	N/A	-	N/A
Northwest Subtotal	294	2,568,277	88,433	3.4%	(35,294)	\$10.27
<b>Southeast</b>						
Class A	14	883,294	40,519	4.6%	202,046	\$20.06
Class B	344	5,443,334	174,836	3.2%	220,678	\$13.59
Class C	64	316,957	12,984	4.1%	(817)	\$10.26
New	6	39,944	3,514	8.8%	(147,086)	\$18.50
Southeast Subtotal	428	6,683,529	231,853	3.5%	274,821	\$14.41
<b>Southwest</b>						
Class A	9	395,385	23,437	5.9%	(12,150)	\$19.59
Class B	171	1,579,324	27,926	1.8%	186,513	\$12.56
Class C	121	819,324	51,442	6.3%	(7,581)	\$6.86
New	3	36,561	36,561	100.0%	(174,216)	\$15.78
Southwest Subtotal	304	2,830,594	139,366	4.9%	(7,434)	\$13.70
Market Total	1,784	21,094,577	1,111,767	5.3%	150,670	\$13.35

### Notable Sales

Address	Size	Price	Price/SF	Submarket
1111 N. 27th Street*	12,512	\$1,250,000	\$99.90	NW
2900 NW. 12th Street*	4,910	\$475,000	\$96.74	NW
6845 S. 27th Street	110,505	\$10,000,000	\$90.49	SW
5040 N. 27th Street	24,892	\$3,400,000	\$136.59	NE
1317 'O' Street	5,250	\$670,000	\$127.62	CBD

\*Indicates Transaction Represented by NAI FMA Realty

Direct Vacancy



Absorption



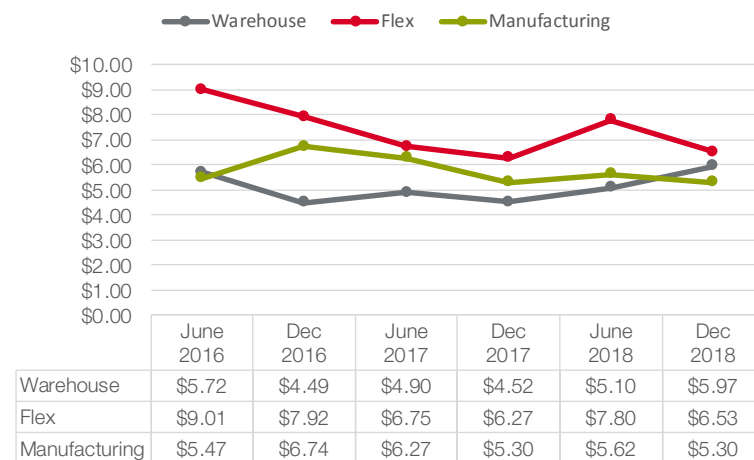
Asking Rent



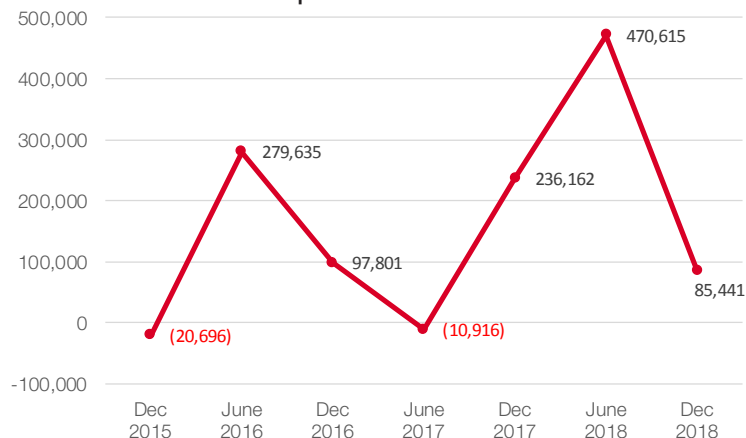
## HIGHLIGHTS

- Overall, industrial demand has been healthy, and vacancy remains historically low. The second half of 2018 dipped to a rate of 3.2%, down 50bps since the first of the year.
- After industrial activity surged in the first half of 2018, posting a 470,615-square feet of positive net absorption, the second half of 2018 leveled off, ending with a positive absorption of 85,441-square-feet.
- Average asking rents continue to increase, with the second half average at \$5.83 per square foot, up \$.84 per square foot from one year ago and the highest since NAI FMA started tracking the data over 10 years ago.
- Developers started to pull back on industrial projects in the second half of 2018. This trend might be reflective of enough new projects already in the pipeline to satisfy pent-up demand. Lincoln's industrial pipeline in the second half of 2018 ended with 5 new buildings going vertical, compared to 21 buildings at the end of 2017.
- The largest transactions in Lincoln were: Lincoln Industries expanding their operations by leasing approximately 173,000-square-feet in the LNK Enterprise Park. A local manufacturing company, Norland International, Inc., purchased a 46,000-square-foot adjacent facility for its growing business.

## Historical Asking Rates



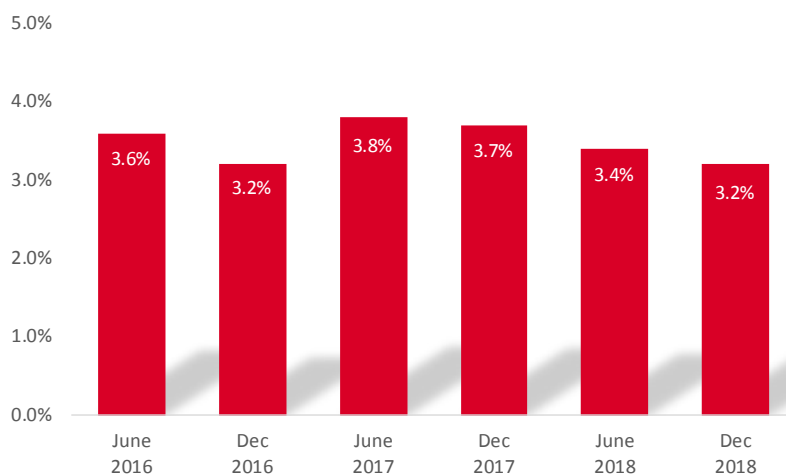
## Historical Net Absorption



## New Construction



## Historical Vacancy





	Number of Buildings	Total Rentable SF	Total Available SF	% Vacant	Net Absorption	Average Asking Rate (\$/SF/YR)
<b>CBD</b>						
Warehouse	11	146,939	50,530	34.4%	-	\$7.36
Flex	3	23,038	-	N/A	-	N/A
Manufacturing	7	316,202	105,570	33.4%	-	\$8.00
CBD Subtotal	21	486,179	156,100	32.1%	-	\$7.79
<b>Northeast</b>						
Warehouse	298	4,766,140	161,268	3.4%	(67,705)	\$5.67
Flex	67	987,977	35,608	3.6%	10,830	\$7.83
Manufacturing	49	3,481,534	118,550	3.4%	(118,550)	\$4.17
Northeast Subtotal	414	9,235,651	315,426	3.4%	(175,425)	\$5.33
<b>Northwest</b>						
Warehouse	244	5,248,025	133,104	2.5%	228,632	\$5.04
Flex	33	514,198	45,987	8.9%	(31,917)	\$4.00
Manufacturing	33	5,476,719	85,271	1.6%	-	\$3.53
Northwest Subtotal	310	11,238,942	264,362	2.4%	196,715	\$4.41
<b>Southeast</b>						
Warehouse	20	121,538	17,344	14.3%	-	\$3.95
Flex	22	176,974	-	N/A	7,500	N/A
Manufacturing	1	8,829	-	N/A	-	N/A
Southeast Subtotal	43	307,341	17,344	5.6%	7,500	\$3.95
<b>Southwest</b>						
Warehouse	328	5,201,834	124,010	2.4%	35,955	\$7.09
Flex	89	701,269	51,259	7.3%	7,336	\$7.90
Manufacturing	25	1,823,726	-	N/A	13,360	N/A
Southwest Subtotal	442	7,726,829	175,269	2.3%	56,651	\$7.32
Market Total	1,230	28,994,942	928,501	3.2%	85,441	\$5.83

## Notable Sales

Address	Size	Price	Price/SF	Submarket
4901 N. 57th Street*	22,858	\$850,000	\$37.19	NE
600 W. South Street	45,935	\$2,320,000	\$50.51	SW
2600 Kimco Place	30,123	\$2,250,000	\$74.69	NW
400 Blue Heron Court	6,000	\$475,000	\$79.17	SW
7100 Amanda Road	5,676	\$500,000	\$88.09	NE
5850 Fletcher Avenue	12,193	\$490,000	\$40.19	NE

\*Indicates Transaction Represented by NAI FMA Realty



Tom  
Ball  
Chairman



Drew  
Stange, CCIM  
CEO and  
Managing Broker



Richard  
Meginnis, SIOR  
President



Scott  
Bahm  
Senior Vice  
President,  
Facility  
Maintenance



Scott  
Vyskocil, CPM  
Senior Vice  
President,  
Property  
Management



Mike  
Ball  
Vice President,  
Sales & Leasing



Diana  
Schilf  
Vice President,  
Marketing &  
Communication



Shawn  
Doering  
Vice President,  
Finance



Chris  
Vasek, SIOR  
Senior Associate  
Broker



Marc  
Hausmann, CCIM  
Associate  
Broker



John  
Sutton  
Associate  
Broker



Tom  
Graf, CCIM  
Sales Associate



Marc  
Snow  
Sales Associate



Sally  
DeLair  
Sales Associate



Scott  
Richardson  
Sales Associate



Mattison  
Wenzl  
Sales Associate

## Brokerage Services

NAI FMA Realty is Lincoln, Nebraska's largest commercial brokerage firm with ten active brokers. Our experienced professionals offer a full spectrum of consultative and transactional services including:

- Property Acquisitions and Dispositions
- Tenant/Buyer Representation
- Site Selection Analysis
- Broker's Opinion of Value
- Research

## Maintenance Services

Our skilled and highly trained maintenance team are experienced with:

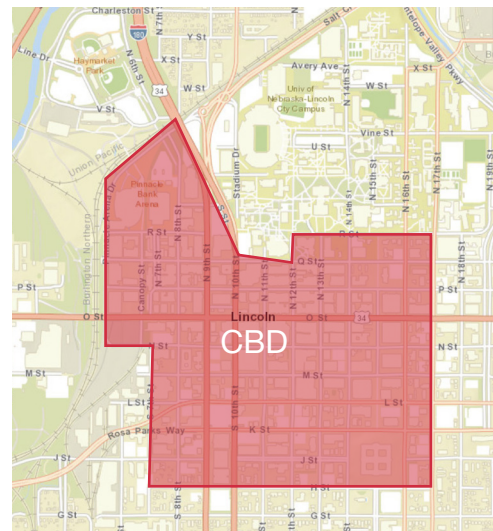
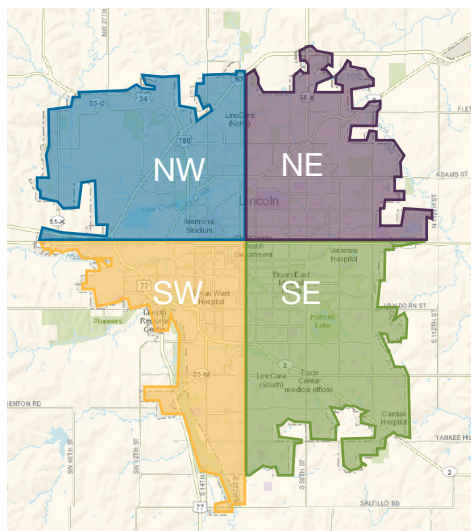
- Balancing Airflow
- Adjusting Energy Management Systems
- Routine/Preventative Maintenance
- Emergency Service 24-hours a day, 7-days a week

## Property Management

Our property management professionals provide comprehensive property management services and solutions including:

- Operations Management
- Financial Reporting and Accounting
- Lease Administration
- Project Coordination
- Accredited Management Organization™
- Over 4.1 million-square-feet under management in multi-tenant and owner-occupied facilities

FOLLOW US ON:



## 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 or 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.

# Our Commercial Real Estate Services Include:

Acquisitions & Dispositions

Corporate Services

Tenant Representation

Advisory Services

Management Services

Facility Maintenance

Lease Administration

Financial Reporting

Project Coordination

Research

## Where can NAI help you next?



Wells Fargo Center  
1248 'O' Street Suite 550  
Lincoln, Nebraska 68508  
402 441 5800

[naifmarealty.com](http://naifmarealty.com)