

# NAI FMA Realty

Market Report First Half 2010  
Lincoln, Nebraska



First Half 2010

# NAI FMA Realty

## Market Report First Half 2010 Office

### TRENDS

Vacancy Rate



Asking Rents



Net Absorption



### OFFICE OVERVIEW

In Lincoln, the office sector continues to have space come back onto the market. The overall market recorded over 96,000 square feet of negative net absorption in the first half 2010. In the past year, the office market has given back close to a quarter million (231,520) square feet in negative net absorption. For the first half, Class B space took a major blow for the year, as it experienced over 100,000 square feet of negative net absorption. Yet looking behind the numbers, the vast majority of the reduction occurred in connection with the expected vacancy by Allstate in the CBD; aside from that change, first half performance was nearly unchanged.

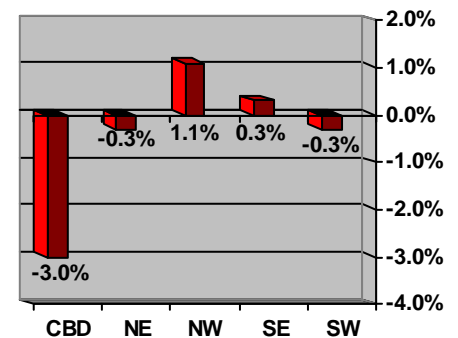
Throughout the first part of the year, the office market continued to display sluggish leasing velocity. The majority of leasing activity taking place has centered on renewals. As leases approach expiration, tenants are surveying the market and many are finding renewal terms make more financial sense than taking on build-out and moving expenses to relocate to a new office. Healthcare legislation has cast a cloud over medical-related office expansions and medical office users are requesting shorter lease terms as they wait out the effects of the health reform. In general, new lease agreements and lease renewals during the past six months continue to be for shorter terms with landlord concessions including reduced rent, increased tenant improvement allowances, and options to terminate. Some downward pressure continues on actual rental rates even though asking rents remain relatively flat.

In terms of notable submarket transactions, Digital River, Inc. leased approximately 13,800 square feet consisting of the top two floors above Old Chicago at 826 P Street; Waterstreet Solutions leased 5,100 square feet in a office/flex building in the northwest submarket; and Jencyn Medical and TenDot Travel's relocations helped fill a single-story office building in southeast Lincoln. Sales activity picked up but consisted primarily of small building and condo sales to owner occupants. One of the most significant sale transactions of the first half involved the purchase of a 12,310 square feet office building in the Williamsburg area for \$1.12 million by the firm Elite Professionals Home Care Company. The office building at 3901 Faulkner Drive was owned by Ritchie Bros. Auctioneers at the time of the sale.

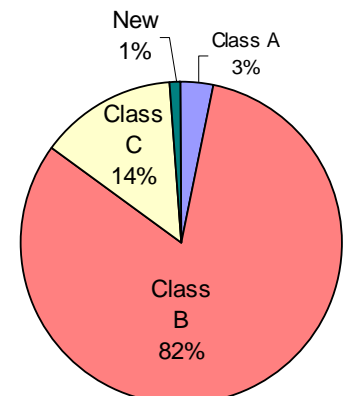
Over the next six months, current market conditions are likely to remain unchanged. The market continues to be favorable to tenants and landlords should be prepared to negotiate more early renewals and structure terms better suited for the current economic climate in order to keep their tenant base. With over one million square feet of available Class A and B office space, it will take awhile to burn through this surplus, even though, there is very little speculative construction underway. For landlords and sellers waiting for the market conditions to change in their favor, it may be some time before that occurs.



### Net Absorption by Sector



### Office Market Inventory

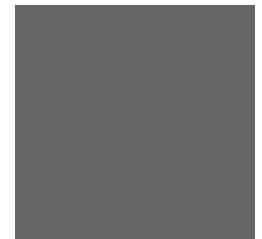


# NAI FMA Realty

## Market Report First Half 2010 Office



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
<b>OFFICE</b>						
<b>CBD</b>						
Class A	5	648,954	74,021	11.4%	800	\$17.29
Class B	101	2,876,158	416,655	14.5%	(115,440)	\$15.31
Class C	24	262,196	10,696	4.1%	-0-	\$11.95
New	N/A	N/A	N/A	N/A	-0-	N/A
Subtotal	130	3,787,308	501,372	13.2%	(114,640)	\$15.53
<b>SUBURBAN-NE</b>						
Class A	6	160,158	17,237	10.8%	2,712	\$17.64
Class B	84	1,068,766	88,745	8.3%	19,395	\$15.97
Class C	43	370,656	38,565	10.4%	(10,388)	\$12.04
New	4	29,810	26,489	88.9%	(16,406)	\$15.93
Subtotal	137	1,629,390	171,036	10.5%	(4,687)	\$15.25
<b>SUBURBAN-NW</b>						
Class A	7	550,768	6,641	1.2%	152,336	\$24.00
Class B	43	668,197	122,007	18.3%	14,079	\$15.01
Class C	12	141,777	600	0.4%	1,500	\$11.00
New	N/A	N/A	N/A	N/A	(152,292)	N/A
Subtotal	62	1,360,742	129,248	9.5%	15,623	\$15.45
<b>SUBURBAN-SE</b>						
Class A	7	312,563	46,798	15.0%	(15,698)	\$21.78
Class B	363	3,746,143	354,049	9.5%	23,668	\$17.11
Class C	16	96,512	33,967	35.2%	-0-	\$12.56
New	4	27,309	23,427	85.8%	3,882	\$20.31
Subtotal	390	4,182,527	458,241	11.0%	11,852	\$17.42
<b>SUBURBAN-SW</b>						
Class A	3	277,835	-0-	0.0%	-0-	N/A
Class B	100	1,097,026	155,338	14.2%	(3,881)	\$18.25
Class C	21	113,829	3,044	2.7%	(644)	\$13.20
New	2	13,611	13,611	100.0%	-0-	\$20.12
Subtotal	126	1,502,301	171,993	11.4%	(4,525)	\$18.31
<b>OFFICE TOTALS</b>						
	<b>845</b>	<b>12,462,268</b>	<b>1,431,890</b>	<b>11.5%</b>	<b>(96,377)</b>	<b>\$16.43</b>



### Representative Office Sales

Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
3901 Faulkner Drive*	12,310	Jen and Derek Real Estate LLC	Ritchie Bros. Properties Inc.	\$1,125,000	\$91.39	Southeast
5220 S. 16th Street	38,766	Technical Management Inc.	Sampson Properties LLC	\$2,125,000	\$54.82	Southwest

### Representative Office Leases

Address	Tenant	Size (SF)	Deal Type	Submarket
5640 S. 84th Street*	Jeffrey, Hahn, Hemmerling & Zimmerman, PC/Jeffrey, Friehauf & Love, CPA	5,949	Relocation	Southeast
826 P Street	Digital River, Inc.	13,880	Relocation	CBD

\*Indicates Transaction Represented by NAI FMA Realty

# NAI FMA Realty

## Market Report First Half 2010

### Retail

#### TRENDS

Vacancy Rate



Asking Rents



Net Absorption



#### RETAIL OVERVIEW

While vacancy rates continue to rise nationally and locally, Lincoln is seeing activity in select segments of the retail market. Small business owners and franchisees are what have been driving the local retail leasing activity in the first half of 2010. The tenants with strong, stable businesses are able to take advantage of the market to expand or open additional locations to back-fill some of the vacancies left behind in 2009.

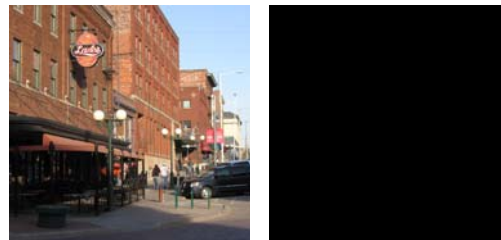
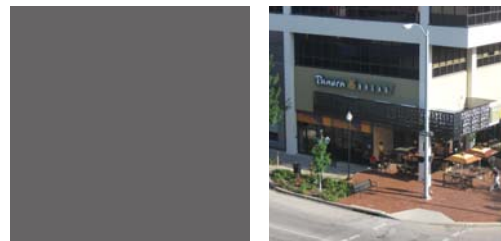
Although opportunities exist, the retail market conditions remain challenging for Lincoln retail landlords. There is still a large number of big box and junior anchor spaces that sit vacant. These spaces are particularly difficult to fill as there are not many retailers that are willing and able to fill a space of that size. Landlords are then challenged to find alternative uses for these large vacancies until national retailers look to enter back into the market in the coming years.

The overall retail vacancy rate increased to 9.1 percent, a small increase from 8.8 percent at the end of 2009. The pace of store closings slowed during the first part of the year, but some retailers who managed to hold on through the 2008/2009 recession recently had to close their doors. Hollywood Video closed its location at 66th & O Street, Abercrombie and Fitch shut its doors at SouthPointe Mall, and two Quiznos locations went dark.

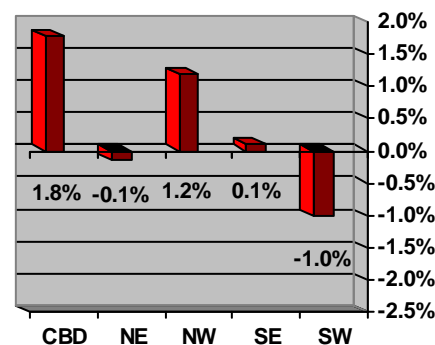
Despite the rising vacancies, there are still pockets of opportunity. The retail development near 27<sup>th</sup> & Superior has been successful in opening additional locations for Mazatlan, Juice Stop, and Jimmy John's. Clocktower Shopping Center at 70<sup>th</sup> & A Streets has gained attention by attracting a number of new tenants for that area. In addition, Famous Footwear's third location and a new Gordmans store, are under construction in north Lincoln in the Lincoln Crossings center along the North 27<sup>th</sup> Street corridor. This will be offset by Gordmans leaving over 100,000 square feet vacant in the core of the city once they move into their new location in the fall 2010.

Less than 40,000 square feet of new construction has been completed in 2010 with the majority of the new product focused on smaller retail projects of 10,000 square feet and under. The decrease in new construction will aid the market in back-filling the excess inventory as the recovery gains momentum. Retailers and restaurants expanding in the area include CVS Pharmacy, Scooter's Coffeehouse, McDonald's, Jimmy John's, and Subway; while new-to-the-market retailers include Five Guys Burgers & Fries and Jensen Tire; Staples opened their first Lincoln store at 48<sup>th</sup> & O Streets.

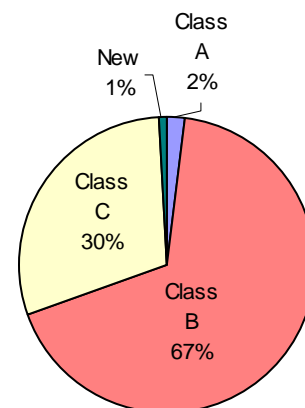
Weaker retail sales will continue to keep job growth at bay. The last two months of the second quarter, U.S. retail sales revenue fell after seeing a solid gain in the first three months of the year. However, Lincoln is better positioned than many areas of the U.S. for economic recovery and retail will benefit from not only pent-up demand, but the recent vote supporting the new arena that will transform the downtown district over the next few years.



#### Net Absorption by Sector



#### Retail Market Inventory

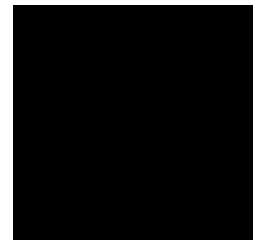


# NAI FMA Realty

## Market Report First Half 2010 Retail



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
<b>RETAIL</b>						
<b>CBD</b>						
Class A	4	82,835	7,792	9.4%	3,415	\$18.00
Class B	128	1,093,662	131,996	12.1%	28,238	\$10.00
Class C	64	364,732	74,278	20.4%	(3,778)	\$6.57
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	196	1,541,229	214,066	13.9%	27,875	\$9.10
<b>SUBURBAN-NE</b>						
Class A	3	43,789	4,300	9.8%	-0-	\$13.95
Class B	383	6,238,567	565,995	9.1%	(22,811)	\$15.83
Class C	139	630,387	20,344	3.2%	(3,465)	\$9.49
New	6	37,716	13,720	36.4%	16,777	\$16.56
Subtotal	531	6,950,459	610,018	8.8%	(9,499)	\$15.62
<b>SUBURBAN-NW</b>						
Class A	6	236,956	-0-	0.0%	-0-	N/A
Class B	182	1,699,057	155,825	9.2%	34,013	\$9.08
Class C	104	568,943	31,499	5.5%	(5,163)	\$7.37
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	292	2,504,956	187,324	7.5%	28,850	\$8.80
<b>SUBURBAN-SE</b>						
Class A	11	671,491	62,151	9.3%	(6,099)	\$16.50
Class B	293	4,733,263	362,125	7.7%	12,194	\$13.61
Class C	67	365,831	37,735	10.3%	(5,251)	\$9.69
New	5	61,387	45,570	74.2%	3,335	\$22.06
Subtotal	376	5,831,972	507,581	8.7%	4,179	\$14.43
<b>SUBURBAN-SW</b>						
Class A	8	362,739	10,742	3.0%	5,062	\$15.33
Class B	141	1,019,725	101,110	9.9%	(18,463)	\$10.43
Class C	125	881,424	115,507	13.1%	(16,565)	\$5.26
New	1	6,742	-0-	0.0%	6,742	N/A
Subtotal	275	2,270,630	227,359	10.0%	(23,224)	\$8.03
<b>RETAIL TOTALS</b>	<b>1,670</b>	<b>19,099,246</b>	<b>1,746,348</b>	<b>9.1%</b>	<b>28,181</b>	<b>\$12.76</b>



Representative Retail Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
8901 Andermatt Drive	11,738	Regor LLC	TierOne Bank	\$1,293,000	\$110.16	Southeast
2800 Cornhusker Hwy.	8,693	M & E Investments LLC	TAC, Inc.	\$900,000	\$103.53	Northeast

Representative Retail Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
2910 Pine Lake Rd.	The Buckle	9,048	Relocation	Southeast
1230 P Street*	Burger Bliss of Lincoln, LLC d/b/a Five Guys Burgers & Fries	3,251	New	CBD

\*Indicates Transaction Represented by NAI FMA Realty

# NAI FMA Realty

## Market Report First Half 2010 Industrial

### TRENDS

Vacancy Rate



Asking Rents



Net Absorption



### INDUSTRIAL OVERVIEW

Citywide vacancy in the industrial market continued to inch up through the first half of 2010, reaching 12.2% at the end of the period. Net absorption totaled a negative 41,927 square feet, largely influenced by the introduction of a significant new vacancy to the market in the manufacturing sector. The small CBD submarket experienced the most significant change as vacancy rose to 30.3% from 2.9% during the last half resulting from Meadow Gold Dairy fully vacating their downtown property of more than 192,000 SF.

Overall demand and activity increased slightly during the first half compared to the first half of last year, due to cautious optimism in the local market. Most landlords are competitively pursuing tenants with lower rental rates and free rent to attract new tenants and retain current ones. Though many tenants continue to favor renewals, a number of tenants sought to take advantage of favorable leasing and purchasing conditions. Several notable industrial lease transactions occurred during the first part of the year. Refurbished computer equipment distributor LapkoSoft signed a lease for the entire 40,690 SF warehouse located at 1421 Kingbird. Similarly, natural pet treats manufacturer M.I. Industries expanded their local operations and leased a 17,770 SF building at 215 S. 7<sup>th</sup> Street and wholesale bakery Pan-O-Gold Baking Co. relocated into over 9,000 SF at 4601 N. 52<sup>nd</sup> Street. While activity has increased, industrial sales remain slow due to an overall lack of sale comparables in the marketplace as well as continued constraints from lenders.

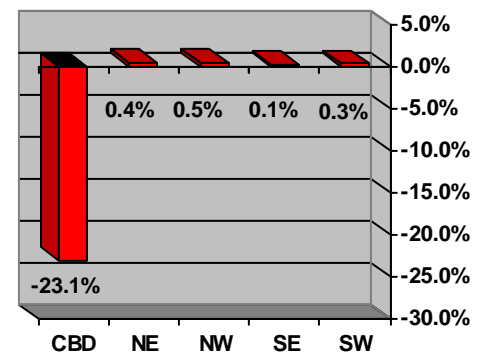
Construction in the Lincoln area has all but vanished as the tightened credit market and lack of demand has shelved almost all speculative construction until the market recovers. There is presently only one speculative building under construction in the city totaling almost 13,000 square feet. Once the industrial market begins its recovery, however, the City of Lincoln is poised to encourage job creation and business expansion for development of large industrial product by its designation over the past few years of large tracts of land throughout the city. The city also continues its aggressive annexation policy of contiguous land that can easily be served with city services and will annex later this year about 74 acres of industrial-zoned ground on N. 84<sup>th</sup> Street.

A recent announcement from one of Lincoln's largest manufacturers signaled positive signs are on the horizon for the industrial market. Lincoln's Pfizer manufacturing plant, rumored at the end of 2009 to be downsizing its local operations, now plans to expand their operations locally by 15% to absorb work that was previously outsourced. Pfizer employs 500 and has invested \$100 million over the past five years at the Lincoln plant.

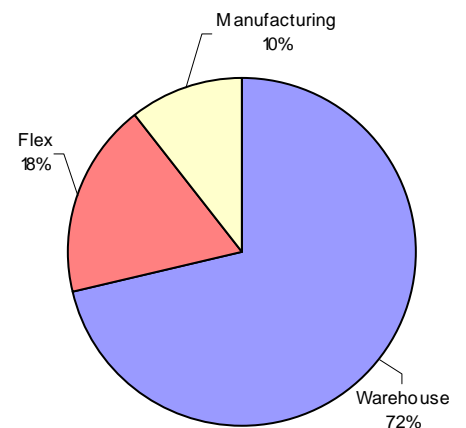
Despite transactional activity increasing and construction remaining minimal, vacancy will remain elevated until demand picks up, industrial production increases and 3.1 million square feet of vacant space is gradually absorbed.



### Net Absorption by Sector



### Industrial Market Inventory



# NAI FMA Realty

## Market Report First Half 2010 Industrial



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
<b>INDUSTRIAL</b>						
<b>CBD</b>						
Warehouse	13	223,460	-0-	0.0%	45,690	N/A
Flex	7	85,293	-0-	0.0%	-0-	N/A
Manufacturing	7	325,334	192,266	59.1%	(192,266)	N/A**
Subtotal	27	634,087	192,266	30.3%	(146,576)	N/A
<b>SUBURBAN-NE</b>						
Warehouse	269	4,139,127	535,266	12.9%	32,061	\$4.31
Flex	64	884,895	61,634	7.0%	17,347	\$6.79
Manufacturing	49	3,282,883	70,381	2.1%	(15,852)	\$3.27
Subtotal	382	8,306,905	667,281	8.0%	33,556	\$4.43
<b>SUBURBAN-NW</b>						
Warehouse	198	4,220,616	1,248,660	29.6%	20,071	\$3.16
Flex	25	336,249	59,742	17.8%	(25,960)	\$7.34
Manufacturing	32	5,310,487	494,041	9.3%	53,700	\$2.59
Subtotal	255	9,867,352	1,802,443	18.3%	47,811	\$3.14
<b>SUBURBAN-SE</b>						
Warehouse	19	122,857	8,344	6.8%	4,836	\$6.42
Flex	23	185,135	13,238	7.2%	(4,400)	\$5.50
Manufacturing	1	8,829	-0-	0.0%	-0-	N/A
Subtotal	43	316,821	21,582	6.8%	436	\$5.85
<b>SUBURBAN-SW</b>						
Warehouse	261	4,568,163	237,675	5.2%	25,846	\$4.55
Flex	73	602,200	81,336	13.5%	(3,000)	\$8.49
Manufacturing	22	1,511,922	151,638	10.0%	-0-	\$2.88
Subtotal	356	6,682,285	470,649	7.0%	22,846	\$4.69
<b>INDUSTRIAL TOTALS</b>	<b>1,063</b>	<b>25,807,450</b>	<b>3,154,221</b>	<b>12.2%</b>	<b>(41,927)</b>	<b>\$3.70</b>



Representative Industrial Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
2001 SW 5th Street	12,600	Anthony & Diane Gratopp	Pierson Enterprises LLC	\$660,000	\$52.38	Southwest
2640 W. M Court	6,750	TB Rentals LLC	Joanne Johnson	\$363,500	\$53.85	Southwest
3121 S. 6th Street, Unit C	5,454	XOTICPC LLC	Paper Tiger Shredding Inc.	\$255,000	\$46.75	Southwest

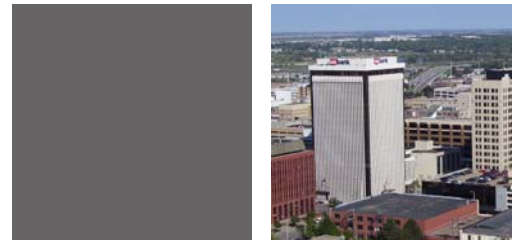
Representative Industrial Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
1421 Kingbird Road*	Vitali Lapko d/b/a LapkoSoft	40,960	Relocation	Northwest
215 S. 7th Street	M.I. Industries	17,770	New	CBD

\*Indicates Transaction Represented by NAI FMA Realty

\*\*The available property is only for sale and no rental rate was made available.

# NAI FMA Realty

## Methodology/Definitions/Sub Market Map



### 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 a sublease situation 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 & premium rates. Class B product is office/retail space of average construction, fair to good finishes & 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 7th 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 rental rates are quoted as price per square foot per year.

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.

