

NAI FMA Realty

Market Report First Half 2011
Lincoln, Nebraska



Photo of 570 Fallbrook Blvd. in the Fallbrook Development owned by NEBCO

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1961-2011

NAI FMA Realty
Commercial Real Estate Services, Worldwide.

First Half 2011

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NAI FMA Realty

Market Report First Half 2011 Office

TRENDS

Vacancy Rate



Asking Rents



Net Absorption



OFFICE OVERVIEW

Overall, the Lincoln office market was showing signs of stabilization in the first half of 2011 with vacancy holding steady at 11.6 percent. The southeast and the southwest submarkets boasted the lowest vacancy rates resting at 10.1 percent and 8.6 percent respectively, while the northeast submarket retained the highest vacancy rate ending the half at 16.1 percent. Net absorption was generally flat across the office market, however notably two owner-occupied buildings were voluntarily torn down, Farmers Mutual downtown and Assurity Life in southwest Lincoln. Both companies are building new headquarters in or near downtown to house associates in. Additionally, the 96,000 square foot Lincoln Public School Administration building was destroyed by fire in May. Temporary sublease space was found in two buildings totaling 69,000 square feet with the balance of space relocated to other LPS facilities.

Average asking rents moved downward, although only slightly, in most submarkets. The northwest submarket was the only exception, where asking rents increased \$0.16 to \$15.65 over the past six months. While higher asking rents favor landlords during lease renewal negotiations, new leases are still getting signed below asking in order to fill vacancy. Free rent is still written into proposals in order to win deals but at a lesser rate than was seen in 2009 and 2010.

The market saw increased touring activity earlier in the year, though slowed as summer arrived – another good indicator that the office market is moving towards stabilization. Tenants are trying to take advantage of the end of the down cycle as occupancy levels are beginning to recover but before rates increase. Early renewals are common for tenants with significant size and good credit. Most landlords are more than willing to do these transactions in order to keep the tenant long-term, even if at below market rental rates.

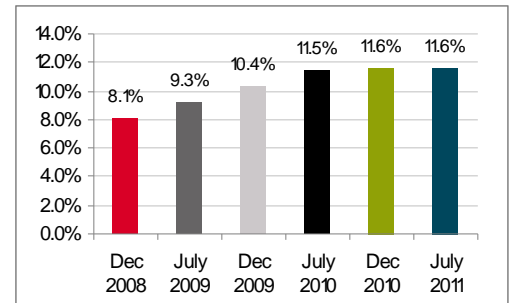
The construction activity has made strides in 2011 from primarily build-to-suit projects totaling over 260,000 square feet. Two office projects broke ground this spring: 45,000 square foot headquarters for Farmer's Mutual Insurance and 40,000 square foot addition to Cabela's World's Foremost Bank building. The pace of new projects delivered to the market is slow with just six buildings delivered for approximately 40,000 square feet.

Lincoln's investment market is typically dominated by local owners but national investors are paying more attention to secondary and tertiary markets not only for the stable economies but to diversify their portfolios. Several significant investment sale transactions occurred during the first half of 2011. Lincoln's largest transaction was the sale of the three former TierOne Bank buildings and a 265-stall parking garage to Woodbury Strategic Partners at a price of \$9.3 million. Federal Trust, a 12-story office building also in downtown, was under contract at the end of the reporting time period.

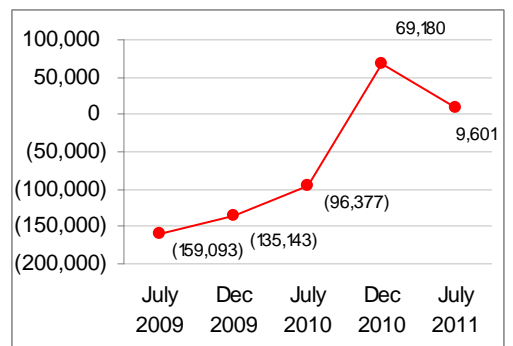
As Lincoln's job market improves and businesses resume hiring, demand for office space will grow and the office market recovery will become more robust.



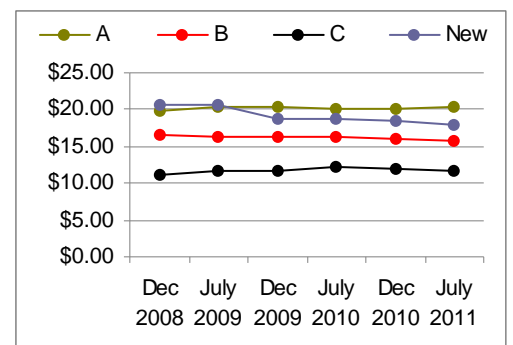
Historical Vacancy Rates



Historical Net Absorption (Square Feet)



Historical Rental Rates by Building Class



NAI FMA Realty

Market Report First Half 2011 Office



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
OFFICE						
CBD						
Class A	5	648,954	63,890	9.8%	765	\$17.10
Class B	99	2,844,144	420,613	14.8%	(17,496)	\$15.50
Class C	24	262,196	5,501	2.1%	3,895	\$10.35
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	128	3,755,294	490,004	13.0%	(12,836)	\$15.62
SUBURBAN-NE						
Class A	6	160,158	15,333	9.6%	4,704	\$18.33
Class B	88	1,081,106	205,106	19.0%	(53,253)	\$12.81
Class C	43	370,656	22,782	6.1%	13,756	\$12.15
New	3	25,484	19,994	78.5%	-0-	\$14.30
Subtotal	140	1,637,404	263,215	16.1%	(34,793)	\$14.15
SUBURBAN-NW						
Class A	7	550,768	6,641	1.2%	-0-	\$22.00
Class B	45	693,250	139,795	20.2%	(10,230)	\$15.35
Class C	13	145,581	-0-	0.0%	600	N/A
New	1	21,300	-0-	0.0%	17,869	N/A
Subtotal	66	1,410,899	146,436	10.4%	8,239	\$15.65
SUBURBAN-SE						
Class A	7	312,563	43,673	14.0%	(754)	\$21.78
Class B	369	3,656,275	327,106	8.9%	39,510	\$16.93
Class C	16	96,149	30,017	31.2%	6,785	\$12.59
New	7	107,626	21,056	19.6%	21,418	\$20.14
Subtotal	399	4,172,613	421,852	10.1%	66,959	\$17.49
SUBURBAN-SW						
Class A	3	277,835	-0-	0.0%	-0-	N/A
Class B	100	1,084,055	99,495	9.2%	2,476	\$17.60
Class C	21	113,829	17,836	15.7%	(16,236)	\$12.09
New	1	10,153	10,153	100.0%	(4,208)	\$19.50
Subtotal	125	1,485,872	127,484	8.6%	(17,968)	\$17.15
OFFICE TOTALS	858	12,462,082	1,448,991	11.6%	9,601	\$16.05



Representative Office Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
1221, 1235 & 1241 N Street plus parking garage	190,659	1221 Tower LLC	Federal Deposit Insurance Corporation	\$9,300,000	\$40.86**	CBD
5631 S. 48th Street, #1	20,498	Planned Parenthood of the Heartland Foundation	Hoppe Hall, Inc.	\$1,500,000	\$73.18	Southeast
Representative Office Leases						
Address	Tenant	Size (SF)	Deal Type	Submarket		
2021 Pine Lake Road	Hyland Software, Inc.	8,125	New	Southeast		
6500 Holdrege*	Ritnour, Payne & Coon, LLC	7,137	New	Northeast		

*Indicates Transaction Represented by NAI FMA Realty

**Price per square foot based on \$1,510,000 allocated to parking garage.

NAI FMA Realty

Market Report First Half 2011 Retail



TRENDS

Vacancy Rate



Asking Rents



Net Absorption



RETAIL OVERVIEW

Retail activity increased modestly at the beginning of 2011 as higher than anticipated consumer spending was realized over the holidays. However, retailers refrained from being overly optimistic while the economy continued in recovery mode. The Lincoln retail market saw positive net absorption of 75,000 square feet and a decrease in the overall vacancy rate to 8.1 percent. Asking retail rental rates rose back to \$12.76 per square foot after dipping to \$12.49 at the end of 2010.

Tenants continue to search for quality space at lower rates and are cautious before entering into long term deals. The deal cycle is still long and challenging.

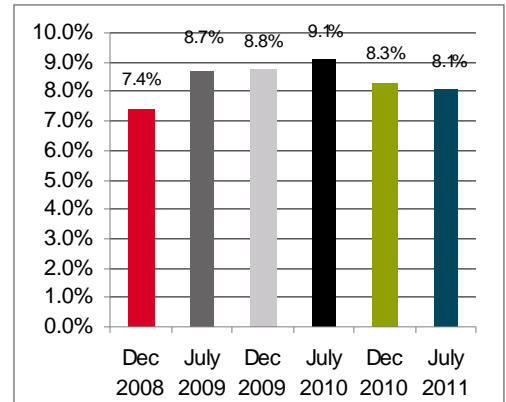
Demand for restaurant spaces remained one of the most active categories. Quick-serve and fast-casual concepts were generating the majority of interest. Entering the market are such concepts as Cheddars Casual Café, Dickey's Barbecue Pit, Red Mango and a host of local restaurants and specialty cake shops. Additionally, franchises already present in the market are expanding like Cherry on Top, The Egg & I, Papa Murphy's and Scooter's Coffeehouse. The challenge for many retailers is that the prime locations have become increasingly difficult to find in the strong suburban trade areas, such as 27th & Pine Lake Road and 27th & Superior Street. Second generation retail space in these locations continue to be in high demand. This increased demand is allowing landlords to hold their rates firm while offering some concessions to capture the ideal credit tenant.

Occupancy is expected to rise in the coming months as a number of long vacant big boxes are backfilled. With the sale of the former K-Mart store at 56th & Hwy. 2, redevelopment plans got a boost with the signing of Gallup, Inc. a 29,000 square foot office tenant who will join an existing 40,000 square foot retail tenant. Aspen Athletic Club is entering the Lincoln market by leasing the former Circuit City building. Stanley Health Solutions will move into the former 101,000 square foot Goldman's site at 45th & Vine.

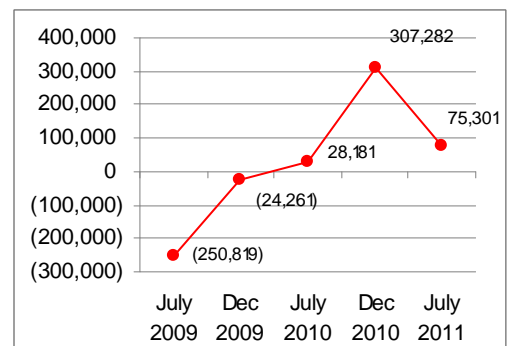
New construction in the first part of 2011 consisted mostly of owner-occupied and build-to-suit properties that were already planned or in the construction pipeline. National companies are researching the city as a potential market for expansion, and could lead to opportunities ahead. Most noteworthy was Sam's Club announcement of plans for a south store. The CBD will continue to grow in its retail sector as site work began for the new West Haymarket Arena and foundations were poured for the Catalyst One Building, a \$30.6 million mixed-use project with 53 residential units, 600-stall garage and 17,000 square feet of retail. Catalyst One's expected completion date is summer 2012.

The Lincoln retail market will continue to show improvement as other market sectors like industrial and multi-family start realizing more absorption and consumer confidence increases.

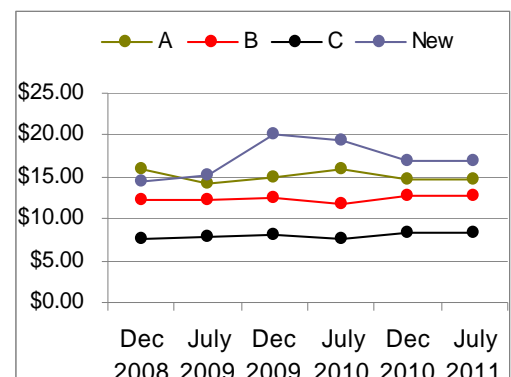
Historical Vacancy Rates



Historical Net Absorption (Square Feet)

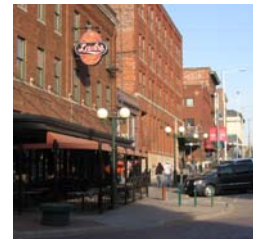


Historical Rental Rates by Building Class



NAI FMA Realty

Market Report First Half 2011 Retail



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
RETAIL						
CBD						
Class A	4	82,835	2,981	3.6%	-0-	\$14.00
Class B	124	1,041,883	109,742	10.5%	(9,962)	\$10.64
Class C	64	364,732	59,759	16.4%	4,824	\$7.14
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	192	1,489,450	172,482	11.6%	(5,138)	\$9.00
SUBURBAN-NE						
Class A	3	43,789	3,713	8.5%	-0-	\$14.50
Class B	391	6,444,496	645,325	10.0%	80,665	\$15.36
Class C	138	629,587	9,900	1.6%	(1,232)	\$11.89
New	5	19,475	3,820	19.6%	(55,580)	\$15.00
Subtotal	537	7,137,347	662,758	9.3%	23,853	\$14.73
SUBURBAN-NW						
Class A	6	236,956	-0-	0.0%	-0-	N/A
Class B	182	1,698,782	84,010	4.9%	15,481	\$10.71
Class C	102	560,883	26,811	4.8%	(2,160)	\$7.07
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	290	2,496,621	110,821	4.4%	13,321	\$9.83
SUBURBAN-SE						
Class A	11	671,491	75,689	11.3%	(12,667)	\$14.16
Class B	299	4,768,125	341,761	7.2%	(18,132)	\$13.00
Class C	68	369,061	37,736	10.2%	1,002	\$8.30
New	8	84,080	42,850	51.0%	41,230	\$22.03
Subtotal	386	5,892,757	498,036	8.5%	11,433	\$13.60
SUBURBAN-SW						
Class A	8	362,739	9,723	2.7%	5,667	\$14.12
Class B	149	1,041,020	45,757	4.1%	6,905	\$8.19
Class C	124	880,170	74,788	8.5%	19,260	\$5.13
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	281	2,283,929	127,268	5.6%	31,832	\$6.84
RETAIL TOTALS	1,686	19,300,104	1,571,365	8.1%	75,301	\$12.76



Representative Retail Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
5601 S. 59th Street	112,770	BCLINC LLC	Bank of America N.A. Trustee	\$2,100,000	\$18.62	Southeast
1750 W. O Street*	19,228	Midwest Unlimited Investments LLC	P & L Investments	\$582,000	\$30.27	Northwest

Representative Retail Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
5730 O Street	Dillon Used Cars	10,228	New	Northeast
6201 Artisan Way*	Graham Tire	8,625	New	Southeast

*Indicates Transaction Represented by NAI FMA Realty

NAI FMA Realty

Market Report First Half 2011 Industrial

TRENDS

Vacancy Rate



Asking Rents



Net Absorption



INDUSTRIAL OVERVIEW

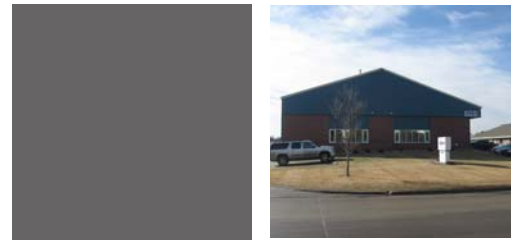
The Lincoln industrial market ended the first half of 2011 with a vacancy rate of 8.0 percent which is a decrease of 120 basis points from the previous half and a level unseen since NAI FMA Realty began tracking the market in 2008.

Overall net absorption totaled a positive 357,043 square feet for the first six months. Northwest, one of the hardest hit submarkets during the recession reported the largest positive net absorption of 192,000 square feet. Northwest's increase in occupancy can be mostly explained by Duncan Aviation's lease of an approximate 100,000 square foot hangar at the Lincoln Airport while its new \$10.5 Million painting hangar is constructed. The new 45,000 square foot painting facility will expand Duncan's capabilities to paint larger corporate jets and keep future business in Lincoln. The facility is expected to open in April 2012. The company's long-term plan is to add a second paint hangar in four to seven years.

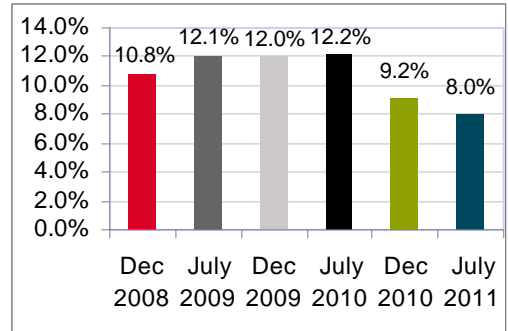
Leasing and sales activity in the industrial sector maintained a slow but steadily increasing pace during the first part of the year. The increase in touring activity was driven by the expansion of local firms and the presence of regional and national vendors. Several key factors drove this trend. First, entrepreneurs are gaining confidence in the current market conditions and are looking to expand or open new businesses. Secondly, as the lending environment is becoming more relaxed, businesses see this as an opportune time to purchase industrial spaces for their use instead of leasing spaces - mostly for owner-occupied spaces less than 30,000 square feet. Lastly, as initial site work for the West Haymarket Arena has begun, national vendors are searching for space to open operations in during the construction phase.

Several local firms continued to expand their presence in Lincoln. Geist Manufacturing invested in its future expansion by acquiring a 17,000 square foot building adjacent to its existing location near 17th & Cornhusker Hwy. for \$1.3 million. LI-COR Biosciences purchased a 27,440 square foot warehouse for \$700,000 early in the year. This acquisition increases LI-COR's presence near 48th & Superior to over 160,000 square feet. XoticPC LLC, one of the largest SIs (system integrators), purchased 1.48 acres of ground in a southwest Lincoln industrial park and is expected to complete construction on a 20,000 square foot building this fall.

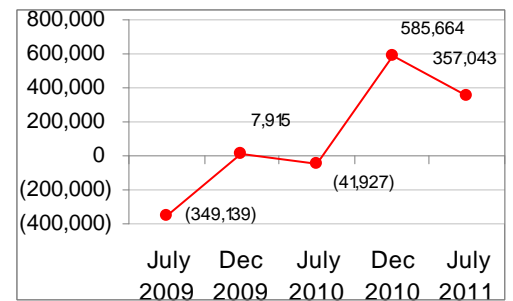
The market needs a bigger boost from the economy to help improve consumer confidence and spending, which will further support the recovery in the warehouse and distribution sectors.



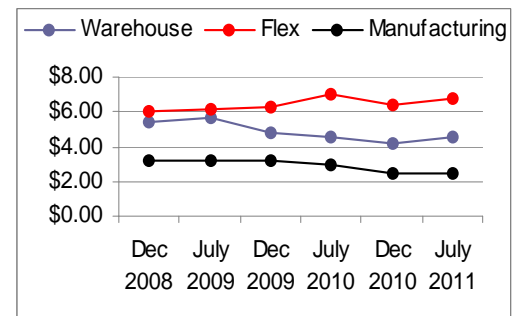
Historical Vacancy Rates



Historical Net Absorption (Square Feet)



Historical Rental Rates by Building Type



NAI FMA Realty

Market Report First Half 2011 Industrial



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
INDUSTRIAL						
CBD						
Warehouse	13	223,460	-0-	0.0%	6,278	N/A
Flex	7	85,293	13,580	15.9%	(13,580)	\$10.00
Manufacturing	7	325,334	-0-	0.0%	-0-	N/A
Subtotal	27	634,087	13,580	2.1%	(7,302)	\$10.00
SUBURBAN-NE						
Warehouse	271	4,225,625	425,590	10.1%	57,901	\$4.52
Flex	64	884,895	23,900	2.7%	33,984	\$5.92
Manufacturing	49	3,281,773	213,060	6.5%	-0-	\$2.56
Subtotal	384	8,392,293	662,550	7.9%	91,885	\$3.94
SUBURBAN-NW						
Warehouse	199	3,947,635	601,979	15.2%	181,883	\$2.75
Flex	25	336,249	39,647	11.8%	600	\$6.67
Manufacturing	32	5,297,821	408,901	7.7%	9,540	\$1.95
Subtotal	256	9,581,705	1,050,527	11.0%	192,023	\$2.59
SUBURBAN-SE						
Warehouse	19	122,857	7,100	5.8%	1,244	\$6.31
Flex	23	185,135	14,000	7.6%	(762)	\$5.46
Manufacturing	1	8,829	-0-	0.0%	-0-	N/A
Subtotal	43	316,821	21,100	6.7%	482	\$5.74
SUBURBAN-SW						
Warehouse	263	4,591,263	124,561	2.7%	61,977	\$4.42
Flex	82	631,828	40,027	6.3%	17,978	\$5.78
Manufacturing	22	1,511,922	151,638	10.0%	-0-	\$2.88
Subtotal	367	6,735,013	316,226	4.7%	79,955	\$3.78
INDUSTRIAL TOTALS	1,077	25,659,919	2,063,983	8.0%	357,043	\$3.28



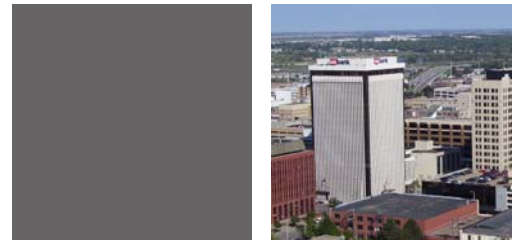
Representative Industrial Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
1717 Yolande Ave.	16,976	Plastic Companies Enterprises, Inc.	Zuniga Investment Partners Ltd.	\$1,300,000	\$76.58	Northwest
2025 SW Fifth Street	15,000	Thomas & Barbara Wassenberg	Pierson Enterprises LLC	\$1,295,000	\$86.33	Southwest
3720 S. 6th Street, Unit C	4,028	Morningstar Investments LLC	3720 S. 6th Street LLC	\$223,800	\$55.56	Southwest

Representative Industrial Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
4521 NW 34th Street	Duncan Aviation	103,218	New	Northwest
1060 N. 33rd Street*	Walcro Floor Covering Supplies	6,957	New	Northeast

*Indicates Transaction Represented by NAI FMA Realty

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 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 & 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.

