

# NAI FMA Realty

Market Report First Half 2013  
Lincoln, Nebraska



## First Half 2013

# NAI FMA Realty

## Market Report First Half 2013

### Office



#### OFFICE OVERVIEW

The Lincoln office market continued its slow recovery as vacancy inched lower; positive net absorption was negligible and average asking rents remained stable during the first half of 2013. Job growth in the professional and business services sectors – predominant office-users – led employment gains by expanding 2.4 percent from last year at this time. Yet, a new trend was for businesses to increasingly adapt existing space to accommodate a higher concentration of workers which didn't necessarily translate to higher occupancy.

At the end of the first half, overall vacancy sat at 11.6 percent or 80 basis points lower than this time last year. During the past six months, vacancy has declined in most submarkets with the northeast submarket leading the way with a drop of 1.2 percent from one year ago to 16.0 percent at the end of the first half. The southeast submarket, Lincoln's largest submarket, is another bright spot with the lowest vacancy rate. The 9.2 percent vacancy rate at the end of 2012 dropped to 8.7 percent at the end of the first half of 2013.

For small- to mid-sized users of space, options within both the CBD and suburban submarkets remain plentiful. Leasing activity in the market was carried by tenant demand spaces of 5,000 square-feet and below as deals across the city involved companies that renewed, grew organically into additional space at their current location or chose to relocate. The beginning of 2013 saw limited sales activity. One transaction that closed was 3732 Holdings LLC who acquired 6800 Normal Blvd. from KSA LLC for \$910,000 or \$66 per square foot.

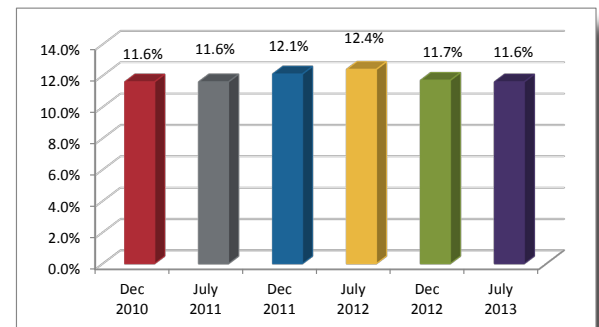
Two new office projects broke ground during the first half of 2013. NEBCO began construction on 3 Landmark Center, a 90,000-square-foot, 3-story Class A office building with underground parking along Lincoln Mall in the CBD. An established law firm has pre-leased approximately 8,000 square feet. Developers Scott-Woodbury-Wiegert broke ground on Project Oscar, a \$16.8 million, 80,000-square-foot office and retail building in the Haymarket where Olsson Associates will occupy the second and third floors when the building is delivered in the 2nd half 2014. These additions, along with the relocation of Farmers Mutual of Nebraska to its new 60,000 square foot headquarters adjacent to its existing facility, will open up several large blocks of space in downtown. The construction pipeline remained limited in the suburban submarkets.

Demand is slowly gaining momentum in Lincoln. With more robust employment growth among office-using sectors, vacancy might tighten in the near future. However, the development pipeline is a concern to area landlords and has the potential to nudge vacancies back up by the end of 2014.

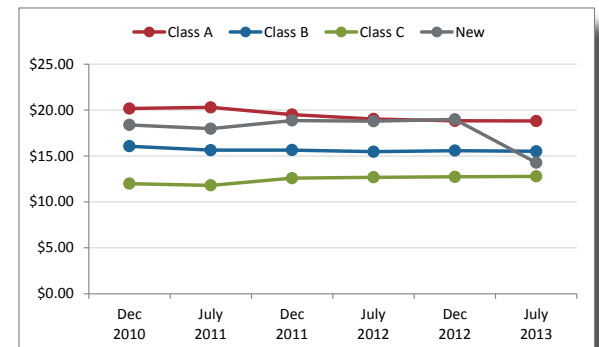
#### TRENDS



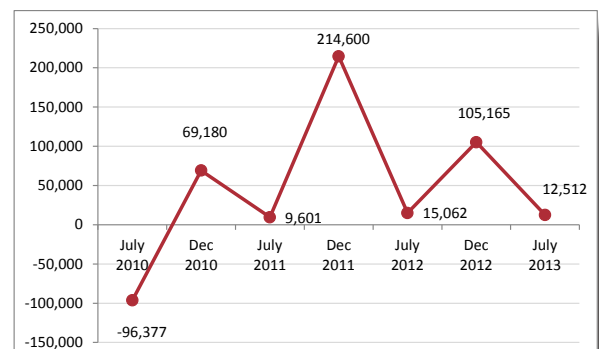
#### Historical Vacancy Rates



#### Historical Rental Rates by Building Class



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

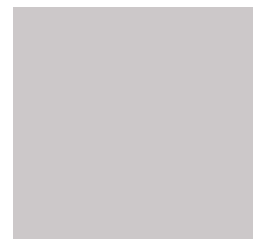


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## Market Report First Half 2013 Office



SUBMARKET	CLASS	# BLDGS	TOTAL RENTABLE SF	TOTAL AVAILABLE SF	% VACANT	NET ABSORPTION	AVG ASKING RATE (\$/SF/YR)
CBD	CLASS A	5	648,954	70,812	10.9%	(7,169)	\$16.12
	CLASS B	95	2,681,872	391,049	14.6%	(6,004)	\$15.67
	CLASS C	24	262,196	17,172	6.5%	650	\$12.81
	NEW	-0-	-0-	-0-	N/A	-0-	N/A
	SUBTOTAL	124	3,593,022	479,033	13.3%	(12,523)	\$15.61
NORTHEAST	CLASS A	6	160,158	21,243	13.3%	1,820	\$17.57
	CLASS B	91	1,097,837	200,896	18.3%	6,857	\$14.40
	CLASS C	42	367,565	28,252	7.7%	(7,650)	\$12.79
	NEW	3	23,009	14,000	60.8%	9,009	\$12.50
	SUBTOTAL	142	1,648,569	264,391	16.0%	10,036	\$14.35
NORTHWEST	CLASS A	9	745,691	22,790	3.1%	3,405	\$20.72
	CLASS B	46	754,819	117,025	15.5%	2,061	\$13.51
	CLASS C	13	146,411	7,542	5.2%	2,500	\$12.46
	NEW	-0-	-0-	-0-	N/A	(3,405)	N/A
	SUBTOTAL	68	1,646,921	147,357	8.9%	4,561	\$14.60
SOUTHEAST	CLASS A	8	437,527	56,109	12.8%	1,832	\$21.88
	CLASS B	384	3,808,536	320,917	8.4%	12,100	\$16.29
	CLASS C	15	93,314	4,846	5.2%	(846)	\$12.31
	NEW	3	73,825	3,600	4.9%	2,400	\$18.75
	SUBTOTAL	410	4,413,202	385,472	8.7%	15,486	\$17.06
SOUTHWEST	CLASS A	3	277,835	-0-	N/A	-0-	N/A
	CLASS B	106	1,164,226	202,963	17.4%	2,763	\$16.22
	CLASS C	21	108,909	16,723	15.4%	(8,520)	\$13.01
	NEW	1	5,000	1,315	26.3%	709	\$21.00
	SUBTOTAL	131	1,555,970	221,001	14.2%	(5,048)	\$16.96
OFFICE TOTALS		875	12,857,684	1,497,254	11.6%	12,512	\$15.86



Representative Office Sales						
Address	Size (SF)	Seller	Buyer	Price	Price/SF	Submarket
6800 Normal Blvd.*	13,700	KSA LLC	3732 Holdings LLC	\$910,000	\$66.42	Southeast
1217 Q Street*	11,033	Norman Hansmeyer	Suleiman Holdings Inc.	\$895,000	\$81.12	CBD

Representative Office Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
4665 Innovation Drive*	Computer Services, Inc.	16,688	Renewal	Northwest
5539 S. 27th Street*	Modern Woodmen of America	3,084	Relocation	Southwest



# NAI FMA Realty

## Market Report First Half 2013

### Retail



#### RETAIL OVERVIEW

The Lincoln retail sector continues into 2013 with positive net absorption. Retailers filled slightly less than 178,000-square-foot of retail space and the first half ended with 5.6 percent market vacancy. Average quoted asking rental rates in the Lincoln retail market increased over previous end of year levels. Quoted rents ended the first half 2013 at \$12.45 per square foot per year. That compares to \$11.95 per square foot in the second half 2012. The new construction plus shrinking vacancies seem to be naturally pushing rates higher.

The area is attracting national and regional concepts which are new to the Lincoln. Those entering the market include Dempsey's Burger Pub, Pizza Ranch, Yogurt City, EZ Go convenience store and Tanner's Bar & Grill. Clothing retailer Forever 21 opened its first Lincoln store at Gateway Mall while Charming Charlie's and Soma Intimates have opened at SouthPointe Pavilions Shopping Center. The grocer sector is active with Lincoln's first Whole Foods nearing completion while Super Saver built a new 60,000-square-foot grocery store in the northwest submarket. Recently announced, Pie Five Pizzas franchise will be opening multiple locations in Lincoln and Omaha. Additionally, a host of other users of 1,500-6,500 square feet took space throughout all of the submarkets.

Discounters continue to be active. Wal-Mart has opened a new 125,000-square-foot store in the southwest submarket. Site preparation is underway at the Wilderness Hills development at S. 27th & Yankee Hill Road for a Home Goods Store and Marshalls. Kohl's currently anchors the development.

There were a couple large investment sales completed in the first half of the year. Van Dorn Plaza, a 168,000-square-foot retail center, closed at a purchase price of \$11 million. Hobby Lobby anchors the 100 percent occupied center. The Piedmont Shops was purchased for \$2.7 million by a local investment group who announced \$2 million in upgrades to the half full 50,000 square foot center.

Competition is increasing for Class A retail space. While overall asking rental rates for all property classes saw a small uptick, developers are asking for rental rates as high as \$25.00-30.00 per square foot for new buildings under construction in the Haymarket. Rates haven't been seen at this level for downtown retail space. As the Pinnacle Bank Arena draws closer to its opening in August 2013, a strong parade of users have been announced for the new adjacent dining, entertainment and retail area under construction. Mellow Mushroom, Hiro88, Buffalo Rings and Wings along with a host of local businesses are among the already-announced tenants.

Lincoln's vacancy rates will continue to decrease through the city, and accordingly asking rates will continue to increase. As a whole, the city continues to see a very positive growth rate, and recent national rankings by CNBC, Yahoo! Finance, and Entrepreneur Magazine all show the area is ripe for business. All this momentum should keep national interest high, as well as local retail opportunities ripe for new tenants.

#### TRENDS

Vacancy Rates



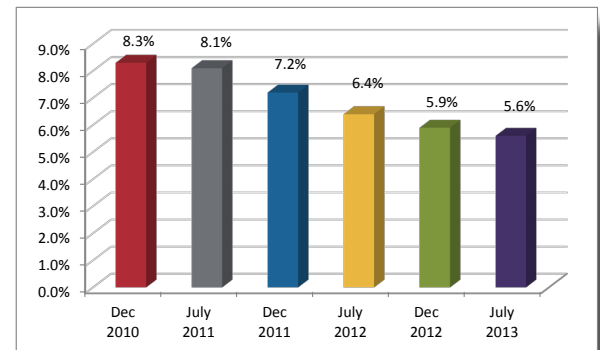
Asking Rates



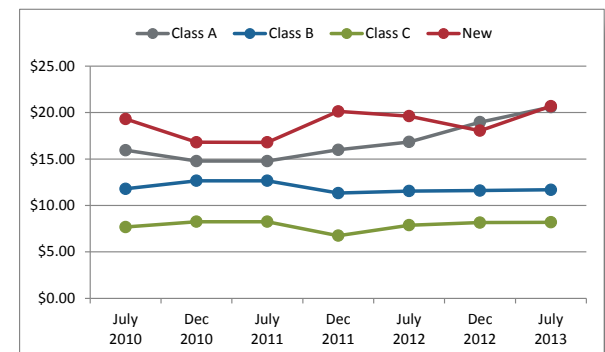
Net Absorption



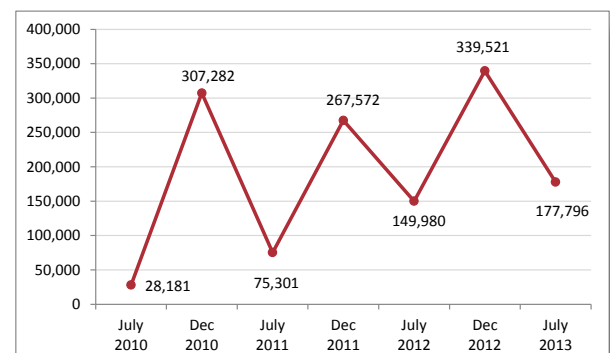
#### Historical Vacancy Rates



#### Historical Rental Rates by Building Class



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



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## Market Report First Half 2013

### Retail



SUBMARKET	CLASS	# BLDGS	TOTAL RENTABLE SF	TOTAL AVAILABLE SF	% VACANT	NET ABSORPTION	AVG ASKING RATE (\$/SF/YR)
CBD	CLASS A	5	97,674	5,462	5.6%	9,377	\$25.00
	CLASS B	127	1,061,332	117,429	11.1%	(6,375)	\$12.22
	CLASS C	63	359,142	58,121	16.2%	(5,152)	\$7.78
	NEW	1	22,783	22,783	0.0%	(8,500)	\$30.00
	SUBTOTAL	196	1,540,931	203,795	13.2%	(10,650)	\$13.28
NORTHEAST	CLASS A	3	43,789	1,917	4.4%	1,854	\$14.00
	CLASS B	399	6,421,025	352,938	5.5%	55,996	\$10.67
	CLASS C	139	632,467	13,667	2.2%	(2,938)	\$11.45
	NEW	3	11,797	-0-	N/A	(8,403)	N/A
	SUBTOTAL	544	7,109,078	368,522	5.2%	46,509	\$10.71
NORTHWEST	CLASS A	6	236,956	-0-	N/A	-0-	N/A
	CLASS B	187	1,726,687	83,833	4.9%	32,627	\$11.04
	CLASS C	100	553,761	11,770	2.1%	(476)	\$6.53
	NEW	5	98,736	21,366	21.6%	66,551	\$14.70
	SUBTOTAL	298	2,616,140	116,969	4.5%	98,702	\$11.26
SOUTHEAST	CLASS A	12	689,939	62,100	9.0%	(9,937)	\$20.71
	CLASS B	309	4,839,076	204,677	4.2%	14,522	\$12.99
	CLASS C	69	371,896	27,958	7.5%	(3,642)	\$9.93
	NEW	6	196,317	20,175	10.3%	(24,058)	\$22.00
	SUBTOTAL	396	6,097,228	314,910	5.2%	(23,115)	\$14.82
SOUTHWEST	CLASS A	8	362,739	3,570	1.0%	3,150	\$15.40
	CLASS B	162	1,149,400	32,891	2.9%	60,960	\$14.28
	CLASS C	123	838,752	49,548	5.9%	(6,685)	\$7.19
	NEW	4	58,925	19,380	32.9%	8,925	\$15.00
	SUBTOTAL	297	2,409,816	105,389	4.4%	66,350	\$11.12
RETAIL TOTALS		1,731	19,773,193	1,109,585	5.6%	177,796	\$12.45

#### Representative Retail Sales

Address	Size (SF)	Seller	Buyer	Price	Price/SF	Submarket
2600 S. 48th Street	168,888	TY Gial LLC Etal	TKG Van Dorn Plaza LLC	\$14,000,000	\$82.90	Southeast
133 S. 9th Street*	3,351	Alfreda Goods	Erickson Sullivan Architects PC	\$130,000	\$38.79	CBD

#### Representative Retail Leases

Address	Tenant	Size (SF)	Deal Type	Submarket
200 N. 66th Street	JoAnn Fabrics	31,650	Relocation	Northeast
965 S. 27th Street*	Hong Kong Chinese Restaurant	1,500	New	Southwest

\*Indicates Transaction Represented by NAI FMA Realty

Realizing Potential, Delivering Results

# NAI FMA Realty

## Market Report First Half 2013

### Industrial



#### INDUSTRIAL OVERVIEW

Halfway through 2013, Lincoln's economy continued trending on a slow but positive recovery, adding jobs at a moderate pace and showing signs of sustainable growth. The Lincoln MSA and State of Nebraska both still hold an unemployment rate lower than the national average at 4.0 percent. Over the past 12 months Lincoln added 3,401 jobs, led by the Leisure and Hospitality sectors. For the industrial market, manufacturing job growth remains sluggish over the past year. Slower growth in domestic demand and uncertainty about the impact of healthcare regulations are reasons given for the sector's slower growth in early 2013.

Net absorption gains and leasing activity were muted this half, as several larger spaces became available, yet tenants' interest for space remains light. The Lincoln industrial market posted a small 39,598 square-foot of overall positive net absorption. Total market vacancy remained flat in the first half at 5.7 percent but year-to-date totals are positive in general and vacancy is lower than it was a year ago.

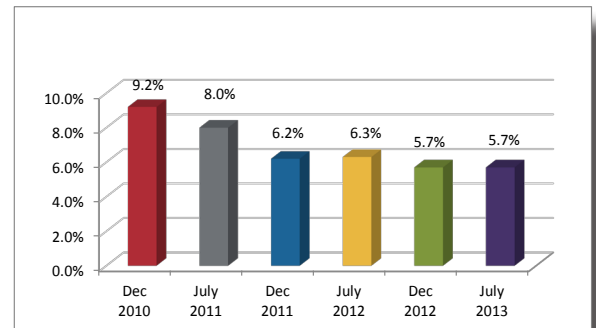
Average asking rents in the industrial market are remaining steady at \$3.45 per square-foot. While leverage in the market continues to be on the side of the tenants, a more neutral ground is beginning to arise. Investment sales was boosted through Corporate Center Apartment LLC's purchase of 6851 Cornhusker Hwy. for \$2.6 million. The property was fully occupied at the time of sale. Seven owner-user transactions occurred during the first half with 100,000-square-foot transferring at a total price of \$3.49 million.

At the close of the first half, approximately 54,000-square-feet of space was delivered to the market in the form of four new facilities. Significant upcoming construction project announcements included a new \$15 million facility being planned at the Lincoln Airpark for GT Exhaust. GT Exhaust was recently purchased by ICA, a British company. Animal health company Zoetis, Inc., who has an animal vaccine manufacturing plant in northwest Lincoln, recently, announced it will expand its local plant and add as many as 30 jobs in 2014. Zoetis was spun off from Pfizer, Inc. earlier this year.

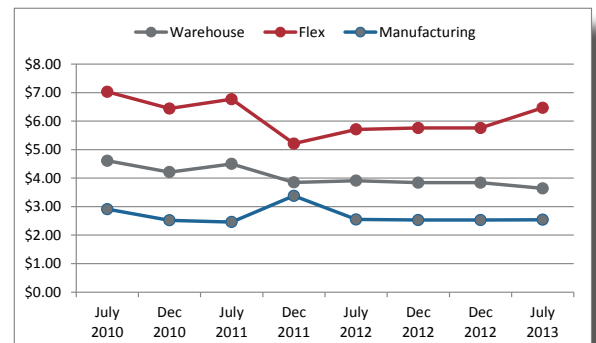
Lincoln's great central location to major markets and strong labor force, have helped strengthen the entire market. With the market as tight as it is, expect to see more new construction to begin soon.



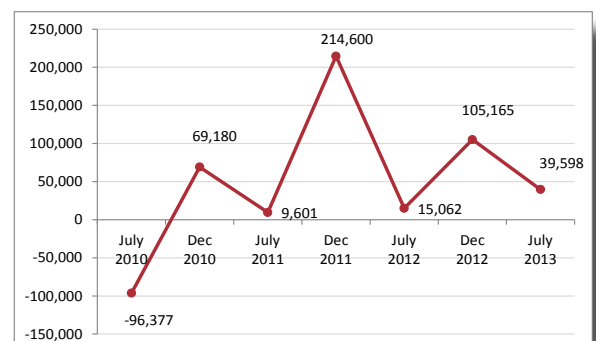
#### Historical Vacancy Rates



#### Historical Rental Rates by Building Class



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



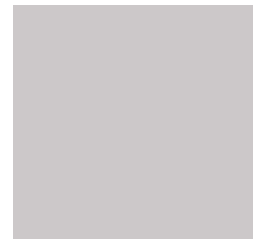
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## Market Report First Half 2013

### Industrial



SUBMARKET	CLASS	# BLDGS	TOTAL RENTABLE SF	TOTAL AVAILABLE SF	% VACANT	NET ABSORPTION	AVG ASKING RATE (\$/SF/YR)
CBD	Warehouse	13	223,460	-0-	N/A	-0-	N/A
	Flex	4	27,878	-0-	N/A	-0-	N/A
	Manufacturing	7	325,334	-0-	N/A	-0-	N/A
	SUBTOTAL	24	576,672	-0-	N/A	-0-	N/A
NORTHEAST	Warehouse	275	4,283,265	317,892	7.4%	(19,256)	\$3.87
	Flex	64	889,895	15,000	1.7%	2,600	\$6.22
	Manufacturing	50	3,385,657	100,855	3.0%	(62,755)	\$3.59
	SUBTOTAL	389	8,558,817	433,747	5.1%	(79,411)	\$3.89
NORTHWEST	Warehouse	210	4,434,211	367,405	8.3%	44,053	\$3.16
	Flex	26	352,369	27,511	7.8%	-0-	\$9.41
	Manufacturing	31	5,299,257	388,161	7.3%	3,761	\$2.27
	SUBTOTAL	267	10,085,837	783,077	7.8%	47,814	\$2.94
SOUTHEAST	Warehouse	19	122,877	3,200	2.6%	(3,200)	\$5.25
	Flex	23	185,135	4,200	2.3%	(4,200)	\$5.55
	Manufacturing	1	8,829	-0-	N/A	-0-	N/A
	SUBTOTAL	43	316,841	7,400	2.3%	(7,400)	\$5.42
SOUTHWEST	Warehouse	273	4,712,062	113,215	2.4%	53,271	\$4.48
	Flex	84	644,028	80,930	12.6%	(32,317)	\$5.57
	Manufacturing	22	1,511,922	93,997	6.2%	57,641	\$2.50
	SUBTOTAL	379	6,868,012	288,142	4.2%	78,595	\$4.14
INDUSTRIAL TOTALS		1,102	26,406,179	1,512,366	5.7%	39,598	\$3.45



Representative Industrial Sales						
Address	Size (SF)	Seller	Buyer	Price	Price/SF	Submarket
6050 N. 56th Street	20,520	Earthgrains Baking Company	Dave Benes Farms LLC	\$600,000	\$29.24	Northeast
1701 Cushman Drive	22,550	Marex Properties LLC	Lincoln One LLC	\$2,135,000	\$94.68	Southwest

Representative Industrial Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
4800 Doris Bair*	UNL Inventory	27,000	New	Northeast
1415 W Commerce Way*	American Tire Distribution	215,090	Renewal	Northwest

\*Indicates Transaction Represented by NAI FMA Realty

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## 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 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 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.

