

First Half 2020 Market Report

115 Canopy Street - Olsson Associates' New Mixed-Use Project

Individual Members of:



OVERALL MARKET First Half 2020

HIGHLIGHTS

The U.S. and the world as a whole are facing uncertainty and disruption with the spread of the novel coronavirus (COVID-19). It's altering the economy, our way of life, impacting businesses and ultimately affecting commercial real estate.

Lincoln, Nebraska for the first half of 2020 has not yet been fully impacted by the inevitable effects of the state and local restrictions and the potential economic downturn from COVID-19. Lincoln's commercial real estate market achieved another strong first half across most all key metrics.

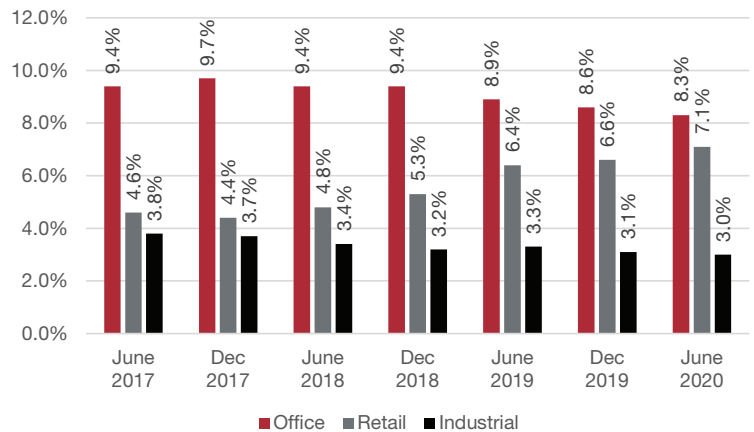
Office remained active in the first half of 2020 despite much of the office users moving from the workplace to the home office. Its too early to determine what future office space requirements will look like.

Closed doors and bankrupt businesses may continue to reshape the retail market, however, retail landlords are doing what they can to keep their tenants in place. Demand in grocery, discount, and home improvement retailers kept the market active.

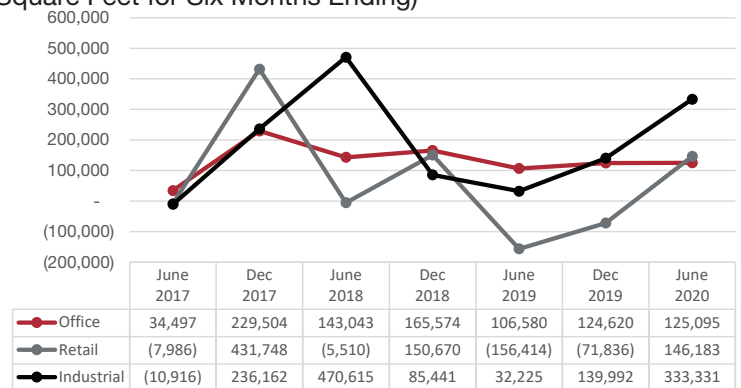
The industrial market posted healthy figures in the first half of 2020. E-commerce demand before and during the pandemic and rising rents helped to insulate the industrial market from rising vacancy rates.

The outlook for the market holds mixed reviews for the end of 2020 which will depend on the economy's response to stimulus measures and the virus.

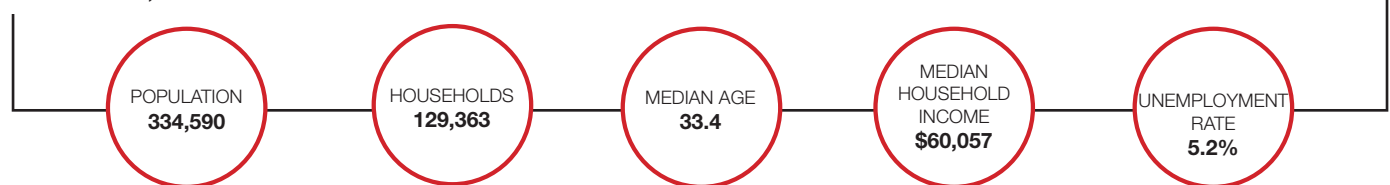
Overall Market Historical Vacancy



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



LINCOLN, NE MSA DEMOGRAPHICS



Sources:
www.bls.gov
Lincoln Partnership for Economic Development Detailed Lincoln Data Report 2019

CONSTRUCTION ACTIVITY

Developers still remain active in Lincoln, however, the number of new commercial building permits has dropped over the past year from 27 to 11 new projects overall. The largest contributor to Lincoln's growth has been the industrial sector, where low vacancy rates are driving new construction.

- \$2.5 million new office building broke ground at 5100 N. 26th Street in northwest Lincoln
- A two-story 12,000 SF building at 3543 S. 85th Street is under construction for BMG and Weber Dental
- Union Bank & Trust is renovating existing office space for \$3.8 million at their 48th & Calvert facility.
- Capitol Foot & Ankle is building out 9,700-square-feet of space in Bryan Health's 5055 A Street medical office building
- McDonald's restaurants are re-branding exterior and interior portions of their existing Lincoln locations
- Party City has started \$351,995 alterations for retail space at a retail strip in the SouthPointe Pavilions development
- \$600,000 permit was filed for a 7,381-square-foot Auto Zone at 2744 S. 9th Street
- \$3.7 million storage building at 2170 Wildcat Circle
- \$1.4 million warehouse for construction equipment storage
- Nature's Variety is making \$835,000 in alterations to their processing plant at 309 S.W. 32nd Street
- \$381,000 addition is planned for an existing warehouse at 3601 N. 25th Street

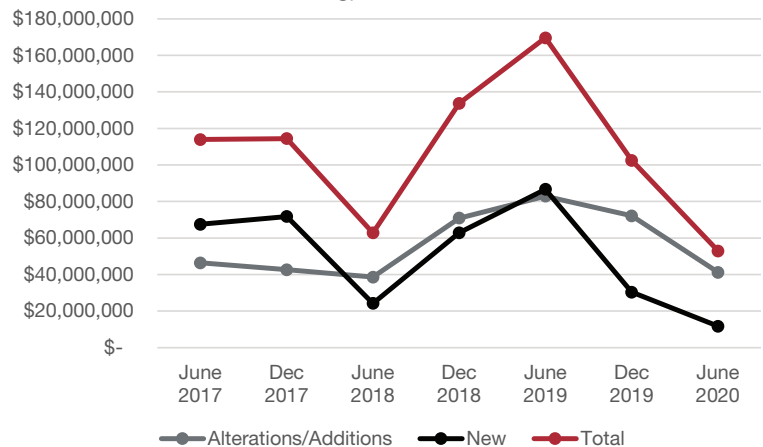


Fallbrook Development-643 Fallbrook Blvd.
NEBCO Inc. has begun construction on its new 35,000-square-foot mixed-use building in the Fallbrook Town Center.

NEW CONSTRUCTION PERMITS

Office		1st Half 2020: \$ 3,550,000 2nd Half 2019: \$13,325,000
Retail		1st Half 2020: \$ 992,000 2nd Half 2019: \$3,505,856
Industrial		1st Half 2020: \$ 7,175,000 1st Half 2019: \$13,517,982

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



BUILDING PERMITS BY BUILDING TYPE

OFFICE

	# of Permits	Value
New Construction	3	\$3,550,000
Alteration to existing	100	\$22,256,929
TOTAL	103	\$25,806,929

RETAIL

	# of Permits	Value
New Construction	2	\$992,000
Alteration to existing	74	\$15,443,033
TOTAL	76	\$16,435,003

INDUSTRIAL

	# of Permits	Value
New Construction	6	\$7,175,000
Alteration to existing	21	\$3,496,549
TOTAL	27	\$10,671,549

OFFICE First Half 2020

HIGHLIGHTS

- Over the last several years, office vacancy rates have slowly trended downward with a city-wide vacancy rate settling at 8.3% for the first half of 2020. Total net absorption was 125,095 square feet.
- The two north submarkets posted slight increases in vacancy. On the positive side, the Southwest submarket experienced the biggest decline in vacancy from 6.6% to 5.4%.
- Average asking rental rates held at \$18.45 per square foot.
- As the first half of the year ended, many offices were still closed with employees working from home. The impact of COVID-19 has spurred much debate about whether office users will return and what that return will look like.
- Larger corporations are delaying major decisions on office space until there are clearer signs ahead and employees have returned to the office.
- While there were only two new office buildings announced, ongoing construction of existing projects continued. In-progress projects include the 141,000-square-foot building in the Fallbrook Development, which is partially leased to the Nebraska Department of Environmental Quality, along with the 32,000-square-foot office building for Great Plains Beef on N. 84th Street.
- The Southeast submarket had three new office complexes added to the market including a new 17,000-square-foot Bryan Health out-patient medical clinic and urgent care now open at 84th & Pioneers Blvd. The largest multi-tenanted completion was the 76,000-square-foot office building developed by Olsson Associates downtown.
- Looking ahead to the second half of 2020, landlords and investors will be carefully watching tenants' response to office re-entry and businesses' ability to withstand a potential second wave of the coronavirus.

“Shadow space, or office space that is leased but not currently used, takes on an entirely different meaning in COVID-19 times. Whereas shadow space typically refers to room for future expansion or sublease space, the definition now likely includes temporarily and indeterminately idled space resulting from the pandemic. What happens with such space for the remainder of the year and the first half of the new year, may have the biggest impact on our office market moving forward.”

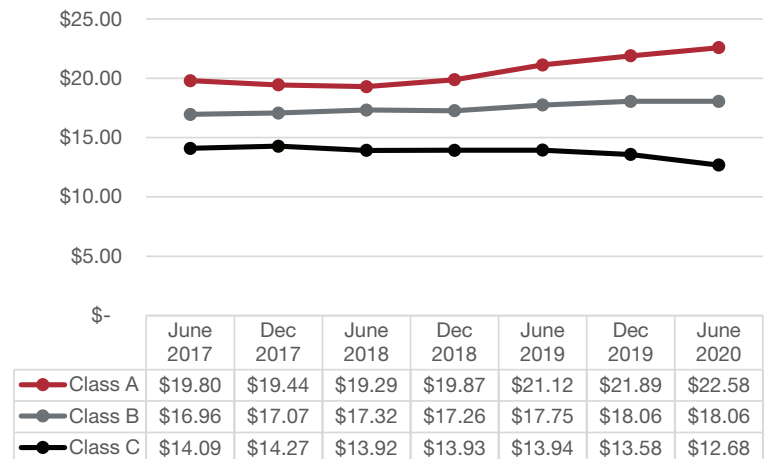


Tom Graf, CCIM
Sales Associate

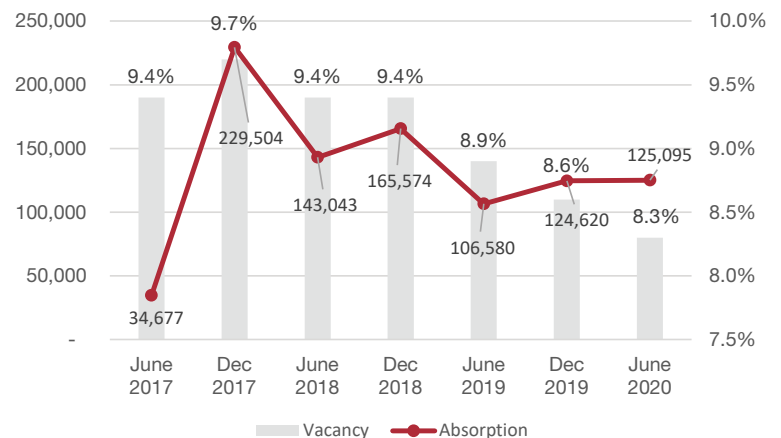
OFFICE FUNDAMENTALS

Vacancy		1st Half 2020: 8.3% 2nd Half 2019: 8.6%
Net Absorption		1st Half 2020: 125,095 SF 2nd Half 2019: 124,620 SF
Average Asking Rate		1st Half 2020: \$18.45 2nd Half 2019: \$18.39

Historical Asking Rates



Historical Net Absorption & Vacancy



Submarket Statistics	Number of Buildings	Total Rentable (SF)	Total Available (SF)	Total Vacancy (%)	Net Absorption (SF)	Average Asking Rate (\$/SF/YR) Full Gross
CBD						
Class A	14	1,312,734	85,120	6.5%	53,313	\$20.35
Class B	97	2,525,072	269,236	10.7%	24,507	\$16.79
Class C	21	240,013	56,972	23.7%	-	\$13.55
CBD Subtotal	132	4,077,819	411,328	10.1%	77,820	\$17.07
Northeast						
Class A	7	217,704	9,982	4.6%	(4,462)	\$20.59
Class B	98	1,171,699	68,833	5.9%	(20,441)	\$17.00
Class C	43	371,340	15,646	4.2%	918	\$14.59
Northeast Subtotal	148	1,760,743	94,461	5.4%	(23,985)	\$16.99
Northwest						
Class A	12	897,382	100,785	11.2%	1,400	\$22.87
Class B	50	867,235	98,067	11.3%	2,358	\$16.94
Class C	14	172,647	37,908	22.0%	(10,016)	\$9.59
Northwest Subtotal	76	1,937,264	236,760	12.2%	(6,258)	\$18.26
Southeast						
Class A	17	720,241	69,173	9.6%	18,764	\$25.03
Class B	424	4,047,316	289,750	7.2%	20,257	\$19.48
Class C	17	89,745	4,040	4.5%	510	\$16.78
Southeast Subtotal	458	4,857,302	362,963	7.5%	39,531	\$20.48
Southwest						
Class A	7	356,409	-	-	-	N/A
Class B	122	1,285,193	75,378	5.9%	34,411	\$19.39
Class C	24	123,325	20,161	16.3%	3,576	\$13.69
Southwest Subtotal	153	1,764,927	95,539	5.4%	37,987	\$18.16
Market Total	967	14,398,055	1,201,051	8.3%	125,095	\$18.45

NOTABLE TRANSACTIONS				
SALE	Size	Price	Price/SF	Submarket
1200 N Street*	139,139	\$2,004,000	\$14.00	CBD
5539 S. 27th Street*	16,768	\$1,975,000	\$118.00	SW
1645 N Street*	28,039	\$2,409,439	\$86.00	CBD
LEASE	Size	Tenant	Lease Type	Submarket
233 S. 13th Street*	25,194	Cline Williams Law Firm	Renewal	CBD
115 Canopy Street*	11,154	Q2 Software	Relocation	CBD
4433 S. 70th Street*	11,715	Upland Software	Relocation	SE

*Indicates Transaction Represented by NAI FMA Realty



SOLD: Tom Graf and John Hyland represented the buyer for the purchase of a 5,432 SF office building at 8040 O St.



NEW: 17,000 SF medical office building for Bryan Health's Urgent Care and Southeast Lincoln Family Medicine at 84th & Pioneers



LEASED: Ageless Men's Health leased 1,648 SF at 5715 S. 34th St. Chris Vasek and Mattison Wenzl assisted the tenant.



SOLD: A 3,105 SF office condo at 1919 S. 40th St sold for \$265,800. Scott Richardson represented the seller.



LEASED: Bluestem Health leased 6,140 SF on Bryan Health's East Campus. Mike Ball and Richard Meginnis represented the landlord.

RETAIL First Half 2020

HIGHLIGHTS

- U.S. retail has been hit hard faced with the combined impact of the pandemic and continued growth of online shopping.
- Lincoln's retail market felt some disruption in recent months due to temporary closures, reduced foot traffic and lower store capacities. The retail vacancy rate ticked up to 7.1% for the first half 2020. Regardless the market managed to produce 146,183 square feet of positive net absorption.
- The Northeast & CBD submarkets experienced the biggest loss of occupancy. Northeast submarket vacancy went from 6.6% to 8.0% while CBD vacancy jumped from 12.2% to 13.9%.
- Store closures and bankruptcies have continued to make the national and local headlines with major brands such as Sears, Pier 1 Imports, Men's Warehouse, Chuck E. Cheese, GNC, JCPenny, Tuesday Morning along with others locally like Zoup, Jimmy's Egg, BurgerFi and Old Chicago.
- New data from Yelp shows that just over 50% of U.S. restaurants that closed during COVID-19 are now permanently closed. Casual-dining restaurants or sit-in dining have not fared as well as the fast-casual or fast-food providers.
- Overall asking rents rose slightly ending the first half at \$12.33 per square foot.
- Many retail property owners are feeling the effect of tenants unable to pay rent or requesting concessions. Some landlords are offering deferred rent or rent abatement to try and keep the tenant.
- "Daily needs" retailers are thriving - grocery, discounters, pharmacy, and home improvement stores.
- Notable announcements or move-ins of new retailers are Sephora, Versona, and Ollie & Hobbes Craft Kitchen opening at SouthPointe Pavilions; Wingstop will be new to Lincoln at 27th & Superior; Genesis bought 7 local gyms across the city; and Tommy's Carwash completed its construction at 70th & O Streets.

“ While it continues to be uncertain as to the full impact of COVID-19 on the retail sector, retailers who were early adopters of technology, who think creatively, have an online and strong social media presence, are steps ahead and poised for success now and post-pandemic. ”

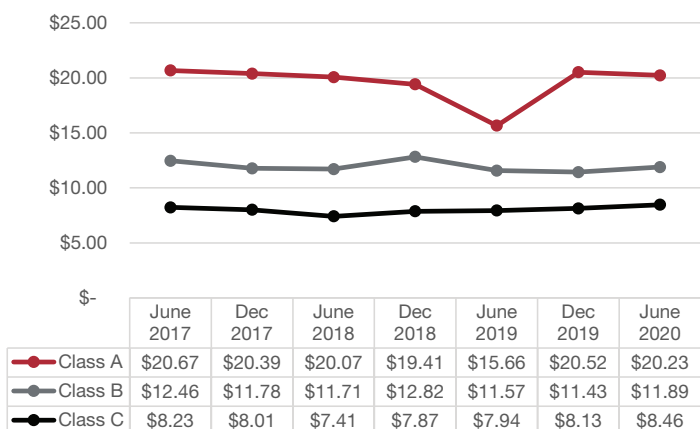


Sally DeLair
Sales Associate

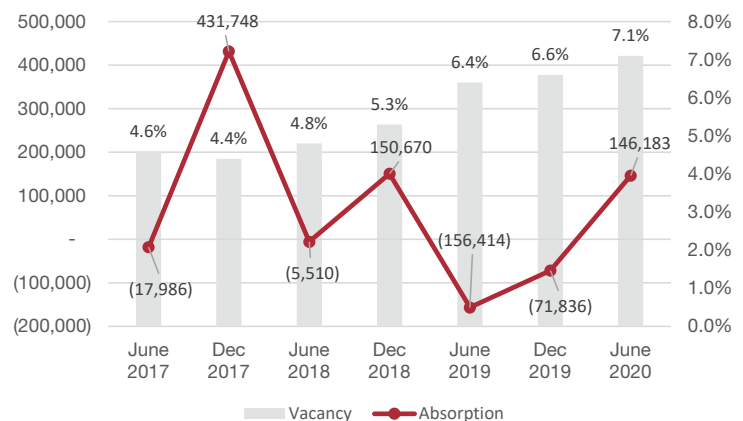
RETAIL FUNDAMENTALS

Vacancy		1st Half 2020: 7.1% 2nd Half 2019: 6.6%
Net Absorption		1st Half 2020: 146,183 SF 2nd Half 2019: (71,836) SF
Average Asking Rate		1st Half 2020: \$12.33 2nd Half 2019: \$12.14

Historical Asking Rates



Historical Net Absorption & Vacancy



Submarket Statistics	Number of Buildings	Total Rentable (SF)	Total Available (SF)	Total Vacancy (%)	Net Absorption (SF)	Average Asking Rate (\$/SF/YR) NNN
CBD						
Class A	12	261,897	57,829	22.1%	(3,347)	\$19.46
Class B	125	1,043,654	129,480	12.4%	(23,342)	\$13.31
Class C	63	368,680	45,858	12.4%	(6,706)	\$9.16
CBD Subtotal	200	1,674,231	233,167	13.9%	(33,395)	\$14.08
Northeast						
Class A	4	48,634	-	-	-	N/A
Class B	424	6,621,265	580,217	8.8%	(84,826)	\$12.17
Class C	138	665,810	3,880	0.6%	-	\$7.59
Northeast Subtotal	566	7,335,709	584,097	8.0%	(84,826)	\$12.08
Northwest						
Class A	7	268,168	5,937	2.2%	-	\$15.00
Class B	190	1,807,910	107,079	5.9%	89,470	\$12.28
Class C	99	575,921	12,012	2.1%	2,892	\$8.03
Northwest Subtotal	296	2,651,999	125,028	4.7%	92,362	\$12.01
Southeast						
Class A	20	924,716	51,786	5.6%	9,466	\$23.54
Class B	355	5,531,727	404,367	7.3%	10,330	\$11.07
Class C	64	311,868	10,124	3.2%	(1,026)	\$10.91
Southeast Subtotal	439	6,768,311	466,277	6.9%	18,770	\$12.28
Southwest						
Class A	14	400,452	17,189	4.3%	7,684	\$14.83
Class B	178	1,745,024	56,665	3.2%	147,088	\$11.68
Class C	120	813,604	41,662	5.1%	(1,500)	\$7.53
Southwest Subtotal	312	2,959,080	115,516	3.9%	153,272	\$10.71
Market Total	1,813	21,389,330	1,524,085	7.1%	146,183	\$12.33

NOTABLE TRANSACTIONS					
SALE	Size	Price	Price/SF	Submarket	
8601 Andermatt Drive	3,368	\$2,300,000	\$683.00	SE	
1601 Q Street*	14,760	\$3,150,000	\$213.00	CBD	
7045 O Street	14,458	\$6,054,167	\$419.00	SE	
LEASE	Size	Tenant	Lease Type	Submarket	
6900 O Street*	7,260	Ash & Ash Co.	Expansion	NE	
1265 S. Cotner Blvd.*	2,400	Heartland Urgent Care	New	SE	
5353 N. 27th Street*	4,974	Villa Amore	New	NW	

*Indicates Transaction Represented by NAI FMA Realty



LEASED: Ash & Ash Co. expanded in Meridian Park at 70th & O St. Sally DeLair and Mattison Wenzl assisted the landlord.



SOLD: John Hyland represented the buyer for a 4,949 SF building at 2634 N. 48th Street. Purchase price was \$340,000.



NEW: 7 Day Furniture built a new store/warehouse at 2240 Fletcher Ave. Excess space for lease, contact Sally or Marc.



SOLD: Tom Graf and Marc Hausmann sold an investment property 1201 N. 6th Street, Beatrice, NE for \$218,000.



LEASED: Movement Academy, a new downtown gym, leased 6,345 SF at 115 Canopy St. Sally DeLair and Richard Meginnis represented the landlord.

INDUSTRIAL First Half 2020

HIGHLIGHTS

- The vacancy rates for the Lincoln industrial market inched downward from 3.1% to 3.0% for the 1st half 2020 and completed the first half with 333,331 square feet of positive net absorption. The industrial market was active and momentum from 2019 continued into 2020.
- Lincoln is continuing its streak of three years of positive net absorption. The Northwest submarket led the area for the largest gain in occupancy. Posting positive net absorption of 130,160 square feet with vacancy stabilized at 3.2%. Nearly all of the occupancy gains can be attributed to the newly built 133,000-square-foot tilt-up concrete warehouse for an indoor auto, RV and boat storage facility.
- Average asking rental rates for industrial increased to \$5.37 per square foot in first half 2020. Lease rates in Lincoln have continued to remain at higher levels.
- With limited space options and vacancies at historic lows, lease renewals were higher than new lease activity.
- The warehouse property sector recorded the majority of the transaction and construction activity. One of the largest lease transactions was A. Stucki Company leasing 54,000-square-feet at 5500 N. 58 Ct. when Sally Beauty Systems moved its operations out of town.
- Completion of a few projects in the first half 2020 added to the industrial inventory: 26,960-square-foot facility for Bryant Heating & Air in the Landmark Center development; two buildings totaling 35,000-square-feet in Southwest Lincoln for White Castle Roofing's new headquarters; and a 37,000-square-foot facility at 455 W. South Street for Robidoux, Inc.
- Looking forward, the Lincoln industrial market will likely remain tight, with demand outpacing supply as companies continue to seek out space and online sales increase.

“Pandemic jitters caused the industrial market to pause in April as COVID-19 brought much uncertainty to the economy. Many owner/users took a “wait-and-see approach” to space needs. As help from PPP arrived, along with increased consumer spending, the industrial demand got back to normal in June.”

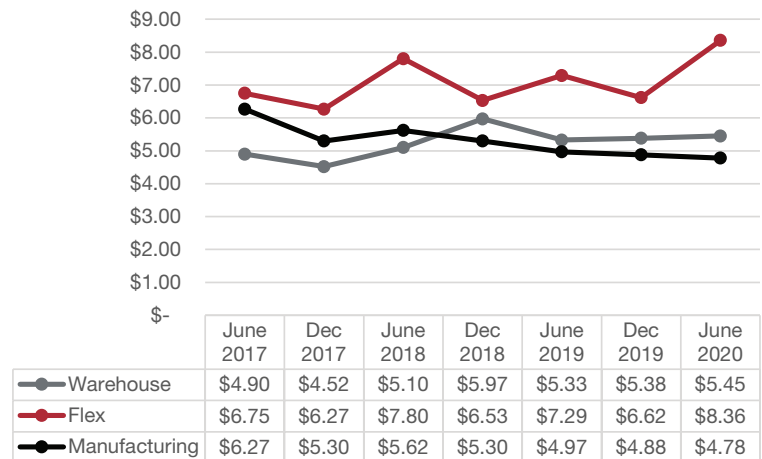


Chris Vasek
Senior Associate
Broker

INDUSTRIAL FUNDAMENTALS

Vacancy		1st Half 2020: 3.0% 2nd Half 2019: 3.1%
Net Absorption		1st Half 2020: 333,331 SF 2nd Half 2019: 139,992 SF
Average Asking Rate		1st Half 2020: \$5.37 2nd Half 2019: \$5.21

Historical Asking Rates



Historical Net Absorption & Vacancy



Submarket Statistics	Number of Buildings	Total Rentable (SF)	Total Available (SF)	Total Vacancy (%)	Net Absorption (SF)	Average Asking Rate (\$/SF/YR) NNN
CBD						
Warehouse	11	133,744	14,200	10.6%	-	\$10.50
Manufacturing	7	316,202	105,570	33.4%	-	\$8.00
Flex	3	23,038	-	-	-	N/A
CBD Subtotal	21	472,984	119,770	25.3%	-	\$8.30
Northeast						
Warehouse	304	4,891,142	159,147	3.3%	90,365	\$5.61
Manufacturing	50	3,499,767	103,700	3.0%	18,000	\$3.24
Flex	67	987,977	9,247	0.9%	4,033	\$7.97
Northeast Subtotal	421	9,378,886	272,094	2.9%	112,398	\$4.88
Northwest						
Warehouse	248	5,429,659	134,095	2.5%	140,084	\$3.97
Manufacturing	33	5,493,096	211,081	3.8%	-	\$3.92
Flex	32	478,762	15,664	3.3%	(9,924)	\$5.67
Northwest Subtotal	313	11,401,517	360,840	3.2%	130,160	\$4.01
Southeast						
Warehouse	20	121,538	-	-	-	N/A
Manufacturing	1	8,829	-	-	-	N/A
Flex	22	176,974	5,615	3.2%	-	\$8.00
Southeast Subtotal	43	307,341	5,615	1.8%	-	\$8.00
Southwest						
Warehouse	331	5,323,435	87,020	1.6%	83,285	\$6.72
Manufacturing	26	1,850,058	-	-	-	N/A
Flex	90	722,420	36,447	5.0%	7,488	\$9.73
Southwest Subtotal	447	7,895,913	123,467	1.6%	90,773	\$7.61
Market Total	1,245	29,456,641	881,786	3.0%	333,331	\$5.37

NOTABLE TRANSACTIONS					
SALE	Size	Price	Price/SF	Submarket	
1421 S. 3rd Street*	3,360	\$305,000	\$91.00	SW	
5801 N. 57th St Circle	36,030	\$2,250,000	\$62.00	NE	
3324 Ox Bow Circle	26,960	\$3,353,756	\$124.00	NE	
LEASE	Size	Tenant	Lease Type	Submarket	
141 Harwood Ct.*	4,850	Star City Recycling	Relocation	SW	
117 Harwood Ct.*	5,250	Jung Electric, LLC	Relocation	SW	
2933 N. 26th Street*	10,032	PL Enerserv, LLC	New	NW	

*Indicates Transaction Represented by NAI FMA Realty



LEASED: Jared Froehlich assisted Relish Catering to relocate its business to 1,471 SF of flex space at 601 Van Dorn.



SOLD: Chris Vasek and Mattison Wenzl sold the 1,440 SF warehouse at 7501 W. O Street for \$115,000



LEASED: Star City Recycling leased 4,850 SF at 141 Harwood. Jared Froehlich represented the tenant.



SOLD: Chris Vasek and Mattison Wenzl brokered the \$450,000 sale of the 5,250 SF warehouse at 117 Harwood Ct.



NEW: Robidoux, Inc. consolidated their operations into 37,000 SF at 455 W. South St.

SALES First Half 2020

MULTIFAMILY

- Multifamily continues to see sustained investor demand and rent growth. The first half 2020 sales ended at an average of \$50,000 per unit.
- Investor capital is increasingly moving into secondary and tertiary markets, a trend favorable for the Lincoln market.
- Future demand will depend on if landlords can raise rents and if renters will have trouble paying.

OFFICE

- The office sector has been late to emerge as an attractive investment opportunity. Most sales in the Lincoln market are owner-user sales.
- First half of 2020 had an average sale price of \$123.00 per square foot.

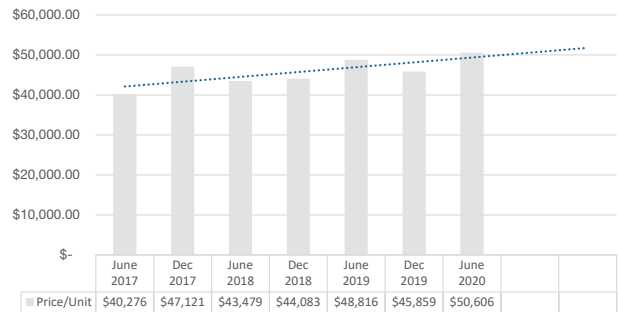
RETAIL

- Retail real estate continues to evolve with shifts in consumer trends and vacancies hitting the market. A recent rise in average sale prices is beginning to offset the longer term trendline.
- Investor activity for well-established, long-term tenants is in demand. The largest sale in the first half was the sale of the Walgreens store at 7045 O Street, which sold to WBLINE001, LLC for \$6.05 million (\$418.00 per square foot).
- Well-located retail properties, value-add or grocery-anchored retail were in the highest demand.

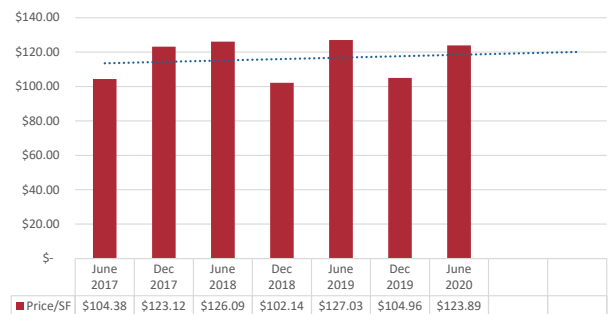
INDUSTRIAL

- The industrial sector has garnered more interest from investors due to low vacancy rates, higher rents, and bigger demand.
- Industrial average sale prices started climbing in first half of 2020 to closer match the supply and demand experienced in the market for 2019.

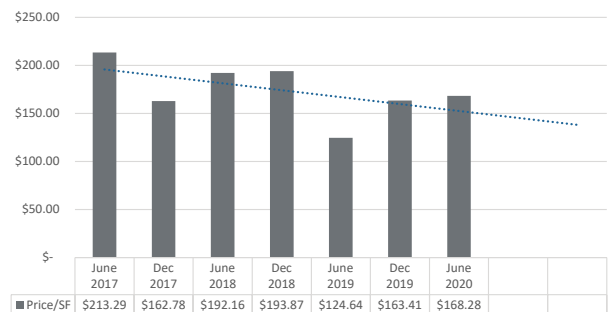
Multi-Family Average Sale Price/Unit



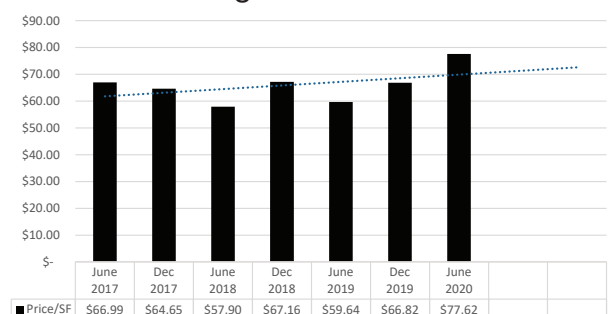
Office Average Sale Price/Square Foot



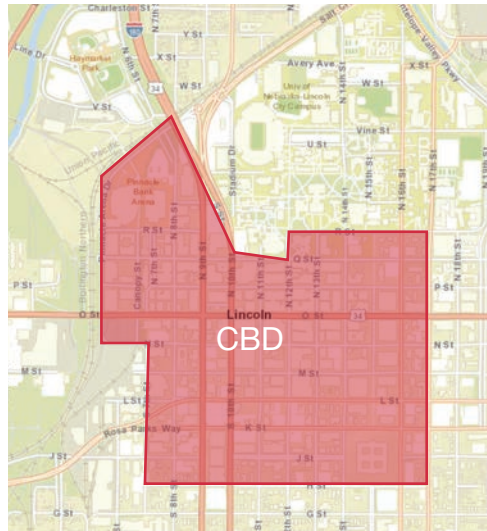
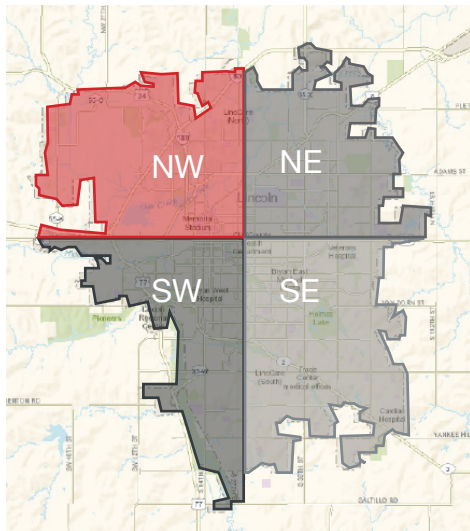
Retail Average Sale Price/Square Foot



Industrial Average Sale Price/SF



Submarkets



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