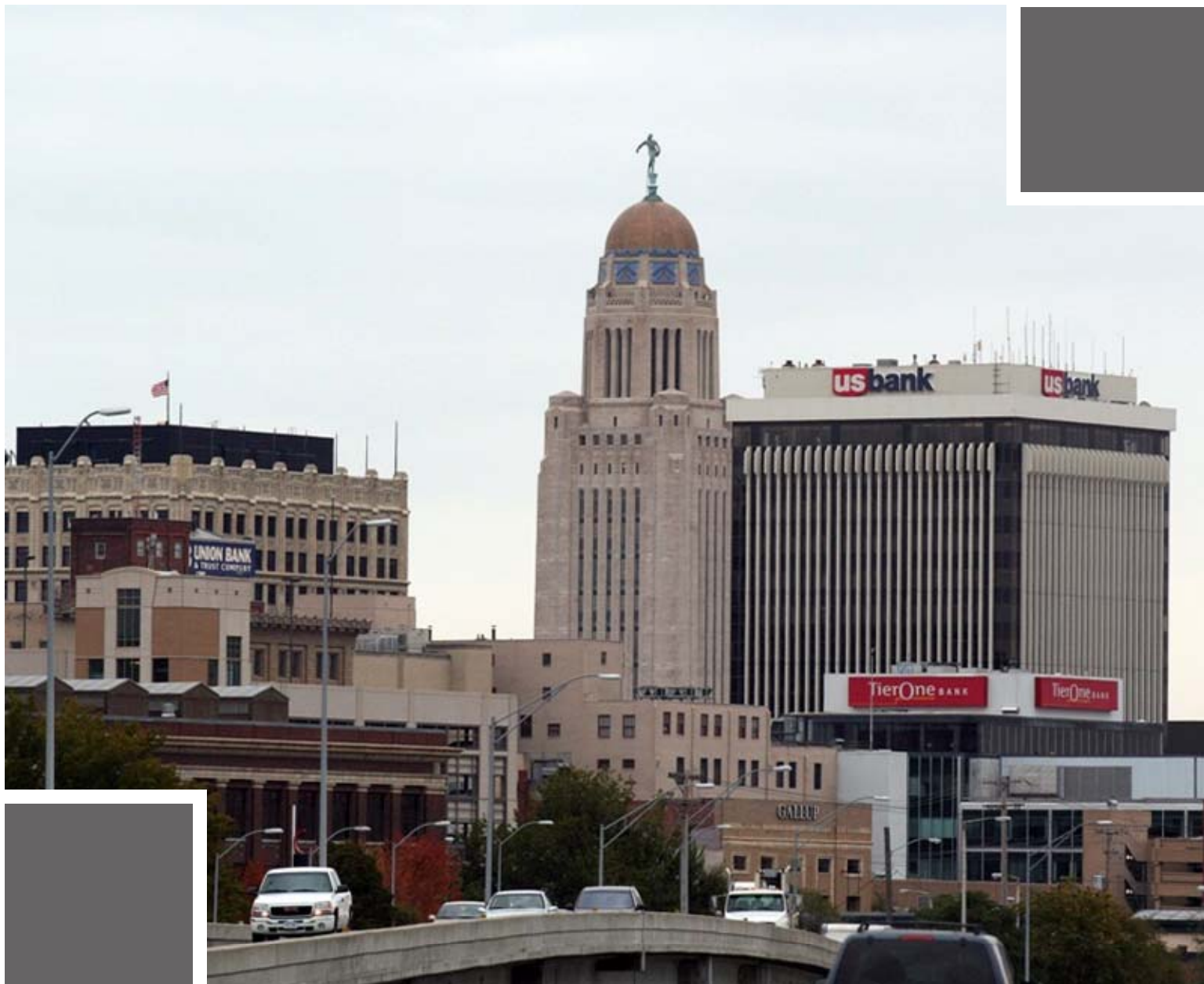


NAI FMA Realty

Market Report Second Half 2009

Lincoln, Nebraska



Second Half 2009

NAI FMA Realty

Market Report Second Half 2009

Office



TRENDS

Vacancy Rate



Asking Rents



Net Absorption



OFFICE OVERVIEW

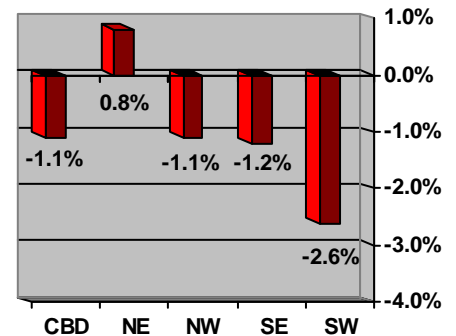
Like most markets, Lincoln's office market was challenging in 2009. However, by years end, there were some signs of optimism. City-wide, office vacancy continued to climb at the same rate it had in the first six months of the year. At the end of the fourth quarter of 2008, office vacancy was measured at 8.1%. By the end of the second quarter 2009 office vacancy had risen to 9.3% and now stands at 10.4%.

Most of the negative absorption was felt in the CBD, the southwest and southeast submarkets spiking the vacancy rates of each submarket in excess of 10%. While there was approximately 15,000 square feet of negative absorption in the northwest submarket, Perot Systems growth and consolidation of several offices into their new build-to-suit 152,000 square foot building in the University of Nebraska Technology Park was well timed. Perot's consolidation however did have an effect on both the southeast and southwest submarkets as approximately 60,000 square feet of their former office space went dark in these submarkets. The CBD saw a shift of a couple of office tenants to other downtown buildings or city-owned properties but a sizeable amount of the reported negative absorption was due to lower level space now being marketed. One bright spot was the northeast submarket which showed positive absorption attributed to a couple larger lease transactions and a vacant building sold to an owner-occupant.

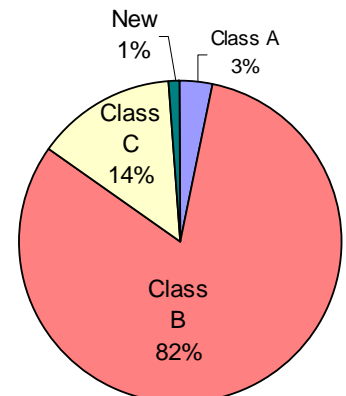
At years end, good news came in the form of declining unemployment and increasing building permit data. Locally, unemployment had risen well beyond 4% and peaked at 4.8% in both January and June. However, beginning in July, the unemployment rate in the Lincoln MSA steadily decreased to 3.9% as reported in November by the Bureau of Labor Statistics. Building permit data as it relates to new construction in office, bank and professional buildings was very weak until late 2009 when permits were pulled for two highly anticipated projects (Assurity Life's new headquarters and the new VA Benefits office). These two projects contributed \$35.5 million in construction valuation of an annual total of \$38.6 million). Responding to the prevailing economic conditions, developers continued to avoid speculative building. While permits for additions and alterations were strong the first six months of the year (\$18M), they declined in the last half of the year to \$8M— but still better than any of the prior three years.

We are guarded as it relates to the outlook for 2010. We expect little to no speculative office construction in the coming year as developers and landlords look for tenants to fill existing space on the market. Asking rates should not fall dramatically (off by less than 2% from the prior reporting period), but inducements such as free rent and higher tenant finish allowances should be the order of the day in early 2010.

Net Absorption by Sector



Office Market Inventory



NAI FMA Realty

Market Report Second Half 2009

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	74,821	11.5%	14,719	\$17.48
Class B	101	2,890,803	315,860	10.9%	(56,793)	\$16.73
Class C	24	262,196	10,696	4.1%	(997)	\$12.13
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	130	3,801,953	401,377	10.6%	(43,071)	\$16.33
SUBURBAN-NE						
Class A	6	160,158	19,949	12.5%	8,568	\$18.11
Class B	81	1,047,424	86,798	8.3%	9,751	\$15.40
Class C	43	370,656	28,177	7.6%	(6,060)	\$11.80
New	6	46,216	26,489	57.3%	N/A	\$15.93
Subtotal	136	1,624,454	161,413	9.9%	12,259	\$15.21
SUBURBAN-NW						
Class A	6	398,476	6,685	1.7%	2,315	\$24.00
Class B	42	649,855	117,744	18.1%	(15,385)	\$15.73
Class C	12	141,777	2,100	1.5%	(2,100)	\$11.90
New	1	152,292	-0-	0.0%	N/A	N/A
Subtotal	61	1,342,400	126,529	9.4%	(15,170)	\$16.07
SUBURBAN-SE						
Class A	7	312,563	31,100	9.9%	-0-	\$21.86
Class B	356	3,728,676	360,250	9.7%	(27,373)	\$15.63
Class C	16	96,512	33,967	35.2%	(23,117)	\$11.21
New	1	10,000	10,000	100.0%	N/A	\$20.00
Subtotal	380	4,147,751	435,317	10.5%	(50,490)	\$15.69
SUBURBAN-SW						
Class A	3	277,835	-0-	0.0%	-0-	N/A
Class B	99	1,090,926	145,357	13.3%	(45,244)	\$18.36
Class C	21	113,829	2,400	2.1%	6,573	\$10.97
New	2	13,611	13,611	100.0%	N/A	\$19.99
Subtotal	125	1,496,201	161,368	10.8%	(38,671)	\$17.90
OFFICE TOTALS	832	12,412,759	1,286,004	10.4%	(135,143)	\$12.97



Representative Office Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
3333 Landmark Circle*	12,285	NE Annual Conf. of the United Methodist Church	National Strength & Conditioning Assoc.	\$1,525,000	\$124.14	Northeast
4424 S. 86th Street	6,068	Roses and Wheat LLC	Pioneer Greens LLC	\$1,163,636	\$191.77	Southeast

Representative Office Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
5000 Central Park Drive	Visinet	11,400	Relocation	Northeast
1248 'O' Street*	BKD, LLP	14,995	Relocation	CBD

*Indicates Transaction Represented by NAI FMA Realty

NAI FMA Realty

Market Report Second Half 2009

Retail

TRENDS

Vacancy Rate



Asking Rents



Net Absorption



RETAIL OVERVIEW

Of the nearly 19 million square feet surveyed in the Lincoln retail market, the overall market remained stagnant as net absorption was just slightly negative. Retailers both large and small are still feeling the effects of tightened credit markets and a decrease in consumer spending. Negative absorption was significantly lower than the 250,000 square feet of negative net absorption experienced in the first half of the year which was mainly due to bankruptcies and subsequent store closings of several national retailers.

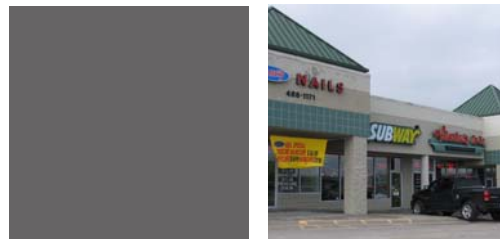
The vacancy rate for the entire market remained virtually unchanged at 8.8 percent despite some modest gains and losses scattered throughout certain submarkets. More specifically the vacancy rate in the southeast submarket dropped to 8.7 percent from 9.1 in the previous report and vacancy in the southwest submarket decreased almost half a percentage point to 9.0 percent. News however, was not favorable for the rest of the submarkets as they experienced either an increase or no change in the vacancy.

With vacancies continuing to increase, lease rates have fallen slightly as landlords renegotiate existing leases and offer more incentives to attract creditworthy tenants. Not surprisingly, landlords are being more aggressive during negotiations on second generation space if they can keep their improvement costs down.

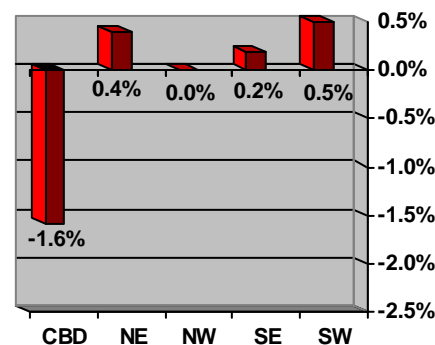
Retail construction activity throughout the market continues to center around smaller construction projects currently in the pipeline although pre-leasing has slowed considerably. New construction permits fell again for the second consecutive year to \$10.3 million as compared to \$36.5 million and \$18.1 million for 2007 and 2008 respectively. One bright spot to note are the hotel developments on the horizon for the downtown area as approval came in late 2009 for three new projects.

Retail sales activity remained weak in the Lincoln area as the ongoing credit crunch continues to limit the pool of potential investors in the market. For the last two quarters, 13 retail properties with a combined 157,000 square feet were sold for a total dollar volume of \$12 million or \$97 per square foot. Transaction activity continues to be dominated by smaller properties (less than 20,000 square feet) while private investors comprise the majority of active investors in the market.

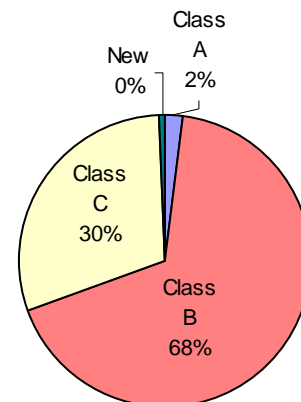
Consumers are likely to remain cautious in the coming year. Additional store closings may be expected and some developments will experience continued delays. Although activity is likely to remain slow for early 2010, the coming year may prove to be a good time for strong retailers to solidify plans for growth.



Net Absorption by Sector



Retail Market Inventory



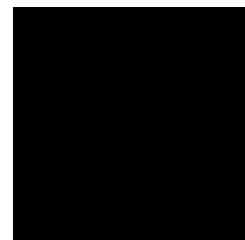
NAI FMA Realty

Market Report Second Half 2009

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	11,207	13.5%	4,714	\$18.00
Class B	126	1,065,232	131,804	12.4%	(16,058)	\$12.17
Class C	64	364,732	70,500	19.3%	(12,421)	\$6.86
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	194	1,512,799	213,511	14.1%	(23,765)	\$11.49
SUBURBAN-NE						
Class A	3	43,789	4,300	9.8%	-0-	\$13.95
Class B	381	6,221,415	531,691	8.5%	(25,486)	\$12.87
Class C	139	630,387	16,879	2.7%	-0-	\$9.79
New	4	28,539	21,320	74.7%	N/A	\$17.98
Subtotal	527	6,924,130	574,190	8.3%	(25,486)	\$12.71
SUBURBAN-NW						
Class A	6	236,956	-0-	0.0%	-0-	N/A
Class B	179	1,658,780	149,561	9.0%	(5,237)	\$11.36
Class C	104	570,569	27,962	4.9%	4,550	\$6.24
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	289	2,466,305	177,523	7.2%	(687)	\$10.50
SUBURBAN-SE						
Class A	12	684,031	68,592	10.0%	6,995	\$12.10
Class B	293	4,723,127	364,183	7.7%	7,984	\$15.09
Class C	69	368,229	34,882	9.5%	(1,528)	\$9.80
New	3	52,832	40,350	76.4%	N/A	\$22.00
Subtotal	377	5,828,219	508,007	8.7%	13,451	\$14.71
SUBURBAN-SW						
Class A	8	362,739	15,804	4.4%	(1,420)	\$15.77
Class B	141	1,027,477	90,399	8.8%	9,902	\$11.28
Class C	125	881,424	98,942	11.2%	3,744	\$7.58
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	274	2,271,640	205,145	9.0%	12,226	\$10.52
RETAIL TOTALS						
	1,661	19,003,093	1,678,376	8.8%	(24,261)	\$11.99



Representative Retail Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
8550 Andermatt Drive	11,520	Harris Properties Andermatt LLC	Prairie Lake Pointe 1 LLC	\$1,300,000	\$112.85	Southeast
4615 Vine Street	62,307	Kelly's Carpet Furniture	SFI Lincoln Properties LLC	\$2,500,000	\$40.12	Northeast

Representative Retail Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
5555 S. 48th Street	Dietz Music	5,930	Relocation	Southeast
211 N. 12th Street*	Panera Bread	4,714	New	CBD

*Indicates Transaction Represented by NAI FMA Realty

NAI FMA Realty

Market Report Second Half 2009 Industrial

TRENDS

Vacancy Rate



Asking Rents



Net Absorption



INDUSTRIAL OVERVIEW

The year ended with a 12.0 percent vacancy rate and over 350,000 square feet of negative net absorption. During the last six months over 219,000 square feet of vacancy has been added to the market as companies continued to evaluate their long-term warehousing and storage needs. But following a recent uptick in activity the second half ended with a minimal amount of negative net absorption. Most activity has been either consolidations or relocations due to lease expirations and many have been under 10,000 square feet.

Average lease rates have held steady throughout the year however, many landlords are reducing rates in lease negotiations and even offering incentives such as tenant improvements, flat rental rates and free rent to get deals done. Also noteworthy, some landlords are looking to sign shorter term deals so that when the renewal time approaches, they will hope to achieve a higher rental rate.

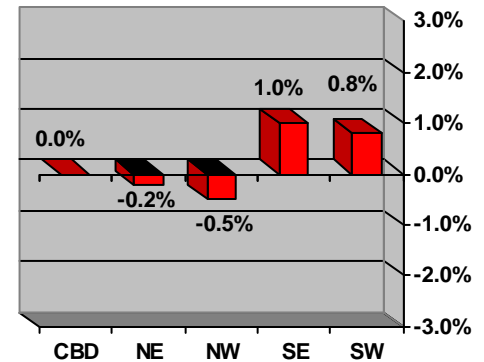
Local industrial sales remained quiet through the end of 2009 with owner/user sales dominating any activity. Unfortunately, the number of properties available for sale has far outpaced available buyers. The Lincoln market however has not yet seen significant discounting on industrial building sales. This is partly due to a reasonable vacancy rate of and lack of speculative building over the past couple of years. The largest sale for the year, was Lincoln Cold Storage buying the former Lincoln Poultry buildings near 20th & M Streets for just over \$2.1 million. Lincoln Cold Storage has grown steadily over the years and this purchase adds just over 70,000 square feet to their operations.

New construction is virtually non-existent throughout the market, an ongoing trend for the past couple of years. There are presently only two buildings under construction in the entire market. One is a 20,000 square foot owner-user facility in southwest Lincoln. The other is FedEx's new distribution center on McCormick Drive in northeast Lincoln which is expected to be delivered in early 2010. With a decrease in construction activity vacancy should stabilize and rental rates will not increase until the market recovers.

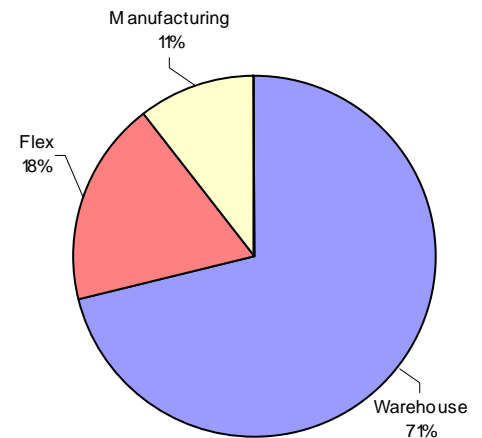
There are no signs that the first half of 2010 is going to be much different than 2009. Leasing activity levels for industrial space remains low and Lincoln's citywide double-digit vacancy rate has forced many landlords to provide deeper concessions than in years past in an effort to fill empty buildings or retain current tenants. This lag in demand may make it difficult for Lincoln to absorb much of the existing product on the market, let alone provide incentive for any new construction.



Net Absorption by Sector



Industrial Market Inventory



NAI FMA Realty

Market Report Second Half 2009 Industrial



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
INDUSTRIAL						
CBD						
Warehouse	12	195,540	17,770	9.1%	-0-	\$4.05
Flex	7	85,293	-0-	0.0%	-0-	N/A
Manufacturing	7	325,334	-0-	0.0%	-0-	N/A
Subtotal	26	606,167	17,770	2.9%	-0-	\$4.05
SUBURBAN-NE						
Warehouse	267	4,102,703	530,903	12.9%	(10,611)	\$4.53
Flex	64	884,895	78,981	8.9%	(6,020)	\$5.70
Manufacturing	50	3,298,735	70,381	2.1%	-0-	\$2.00
Subtotal	381	8,286,333	680,265	8.2%	(16,631)	\$4.72
SUBURBAN-NW						
Warehouse	198	4,226,805	1,274,920	30.2%	(46,158)	\$4.00
Flex	26	354,955	52,488	14.8%	1,680	\$7.50
Manufacturing	32	5,310,487	547,741	10.3%	-0-	\$3.70
Subtotal	256	9,892,247	1,875,149	19.0%	(44,478)	\$4.35
SUBURBAN-SE						
Warehouse	17	115,277	5,600	4.9%	-0-	\$6.50
Flex	23	185,135	8,838	4.8%	3,200	\$4.75
Manufacturing	1	8,829	-0-	0.0%	-0-	N/A
Subtotal	41	309,241	14,438	4.7%	3,200	\$5.63
SUBURBAN-SW						
Warehouse	260	4,587,373	282,731	6.2%	52,866	\$4.64
Flex	73	602,200	78,336	13.0%	(2,872)	\$7.19
Manufacturing	22	1,511,922	151,638	10.0%	-0-	\$3.75
Subtotal	355	6,701,495	512,705	7.7%	49,994	\$5.30
INDUSTRIAL TOTALS	1,059	25,795,483	3,100,327	12.0%	(7,915)	\$4.75



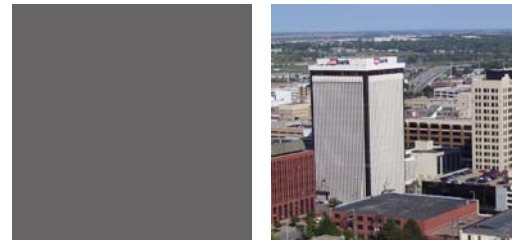
Representative Industrial Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
3235 N. 33rd Street	12,600	Windmill Properties LLC	Westcor LLC	\$595,000	\$47.22	Northeast
906 S. 26th Street	13,471	LF Enterprises, LLC	Kidwell Electric Co.	\$680,000	\$50.48	Southwest
1936 L St. & 2005 M St.	70,158	Lincoln Cold Storage Partnership	E & E Family Limited Partnership	\$2,167,420	\$30.89	Southwest

Representative Industrial Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
5600 N. 58th Court, Suite 1*	Express Messenger On Trac	10,460	Relocation	Northeast
4800 N. 48th Street	Love Box Co.	25,000	Relocation	Northeast
1030 W. Upland Ave.	B & R Stores	32,974	Relocation	Northwest

*Indicates Transaction Represented by NAI FMA Realty

NAI FMA Realty

Methodology/Definitions/Sub Market Map



Absorption (Net)

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.

Averaging Asking Rental Rate

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.

