

# NAI FMA Realty

Market Report Second Half 2011  
Lincoln, Nebraska



Construction Sites of Future Pinnacle Bank Arena (back left) and Courtyard Marriott (right)

# NAI FMA Realty

## Market Report Second Half 2011 Office



### OFFICE OVERVIEW

The Lincoln office market reported 214,600 square-feet of positive net absorption in the second half of 2011 which made 2011 the first year that achieved positive absorption since reporting in 2008. Vacancy rose minimally during the second half to 12.1 percent overall. This phenomenon was created in large part, to the delivery of new buildings to the market and the removal of Assurity's former office building from the rentable market at 16th & K Street, now owned by the State of Nebraska.

Although demand improved in 2011, excess vacant space still plagues the market and the active prospect pipeline remains slow. Most of the active tenants are looking to relocate within an existing or neighboring submarket. The market needs to see further organic growth and new tenants to drive continued absorption gains in 2012.

Development continues to remain limited throughout the Lincoln office market. There were four new buildings adding 219,000 square-feet to the overall inventory in 2011 with only one as speculative. There are currently three buildings under construction: NMPP Energy's 28,000 square-foot build-to-suit project underway at 84th & GlynOaks; Farmer's Mutual Insurance's 45,000 square-foot headquarters in downtown is on schedule for their early 2013 occupancy; and the 40,000 square-foot addition to Cabela's World's Foremost Bank office is set for completion in 2012. Future construction of multi-tenant buildings will remain limited but single-tenant and owner-built facilities will continue to be important alternatives for users.

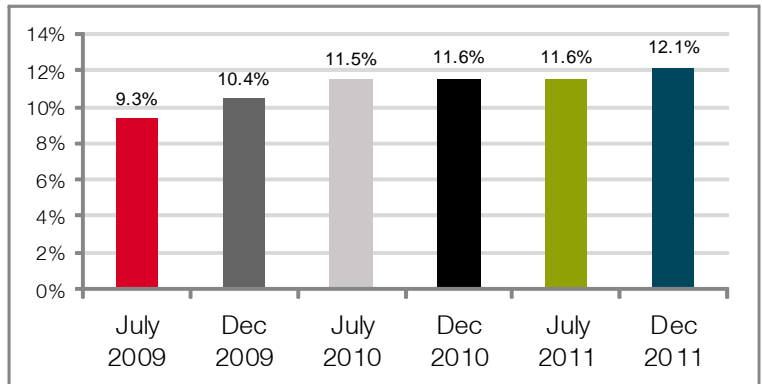
The market experienced an increase in owner/occupant transactions in 2011 as tenants capitalized on current market conditions and lenders became more receptive to financing commercial real estate. Purchase prices have ranged between \$62 and \$161 per square-foot. This remains a very active market and will continue to be so throughout 2012.

Led by the trading of the Federal Trust building, several notable sales transactions occurred in the second half. Located at 134 S. 13th Street in the CBD, the 62,000 square-foot Federal Trust building sold for \$5.775 million or \$92 per square-foot. This building was purchased by Triad Investments LLC. Another notable transaction includes 4424 S. 86th Street, which was purchased by Brehm Holdings, LLC from Rose and Wheat LLC for \$1.16 million or \$192 per square-foot. It is leased to a BryanLGH Medical Center entity.

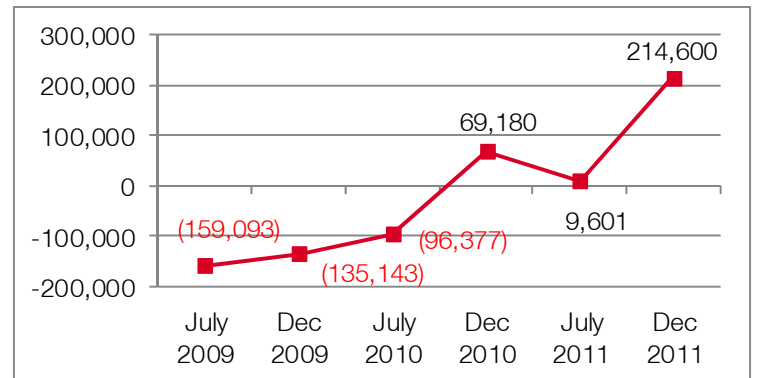
Despite a diversified economic base, low business costs and an improving job market, the office market's recovery is projected to remain at a slow pace in 2012, but accelerating in 2013 and beyond.



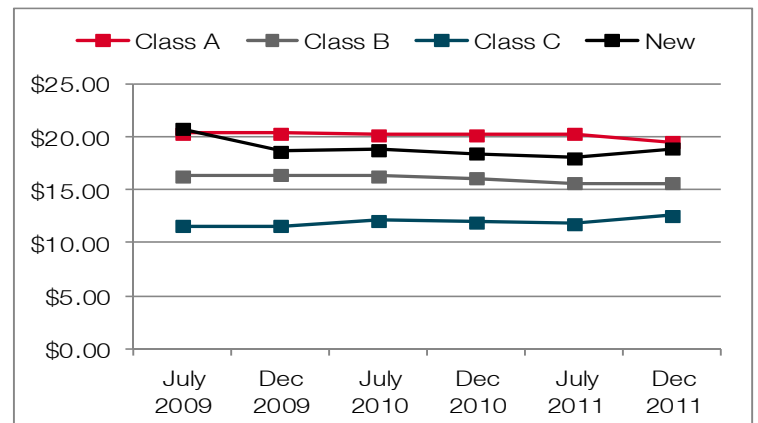
### Historical Vacancy Rates



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



### Historical Rental Rates by Building Class

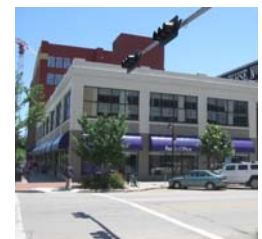
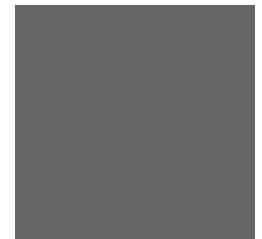


# NAI FMA Realty

## Market Report Second Half 2011 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	46,110	7.1%	17,780	\$15.83
Class B	98	2,724,840	445,187	16.3%	(143,878)	\$15.59
Class C	24	262,196	14,773	5.6%	(9,272)	\$11.81
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	127	3,635,990	506,070	13.9%	(135,370)	\$15.48
<b>SUBURBAN-NE</b>						
Class A	6	160,158	30,558	19.1%	(15,225)	\$18.62
Class B	89	1,086,225	218,628	20.1%	(8,403)	\$13.50
Class C	42	367,565	16,692	4.5%	2,999	\$12.76
New	2	19,994	19,994	100.0%	(5,490)	\$14.30
Subtotal	139	1,633,942	285,872	17.5%	(26,119)	\$14.04
<b>SUBURBAN-NW</b>						
Class A	7	550,768	9,186	1.7%	(2,545)	\$22.28
Class B	46	714,550	120,567	16.9%	40,528	\$14.85
Class C	13	146,411	6,942	4.7%	(6,112)	\$12.50
New	2	194,923	44,847	23.0%	128,776	\$21.00
Subtotal	68	1,606,652	181,542	11.3%	160,647	\$16.68
<b>SUBURBAN-SE</b>						
Class A	8	437,527	94,226	21.5%	74,411	\$21.34
Class B	378	3,770,820	302,118	8.0%	139,533	\$16.61
Class C	15	93,314	24,622	26.4%	2,560	\$13.34
New	3	37,060	4,425	11.9%	(53,935)	\$20.00
Subtotal	404	4,338,721	425,391	9.8%	162,569	\$17.50
<b>SUBURBAN-SW</b>						
Class A	3	277,835	-0-	0.0%	-0-	N/A
Class B	103	1,146,097	115,141	10.0%	46,396	\$18.27
Class C	21	113,829	17,836	15.7%	-0-	\$12.09
New	2	15,153	8,676	57.3%	6,477	\$17.77
Subtotal	129	1,552,914	141,653	9.1%	52,873	\$17.60
<b>OFFICE TOTALS</b>	<b>867</b>	<b>12,768,219</b>	<b>1,540,528</b>	<b>12.1%</b>	<b>214,600</b>	<b>\$16.11</b>



### Representative Office Sales

Address	Size (SF)	Seller	Buyer	Price	Price (psf)	Submarket
134 S. 13th Street	62,719	Lincoln 2000 LP	Triad Investments LLC	\$5,775,000	\$92.00	CBD
7140 Stephanie Lane	19,131	Brester Construction	Numil LLP	\$3,086,779	\$161.35	Southeast

### Representative Office Leases

Address	Tenant	Size (SF)	Deal Type	Submarket
2000 Q Street*	The Physician Network	25,597	Relocation/Expansion	Northwest
5601 S. 59th Street*	Gallup, Inc.	29,000	Relocation/Expansion	Southeast

\*Indicates Transaction Represented by NAI FMA Realty

# NAI FMA Realty

## Market Report Second Half 2011 Retail



### RETAIL OVERVIEW

The retail market experienced strong net absorption of 267,572 square-feet in the second half of 2011 which can be largely attributed to the continual lack of new retail development and favorable rental rates in existing centers. This resulted in the vacancy rate improving from 8.1 percent in the first half to 7.2 in the second half. A slight decline in rental rates occurred in the second half, resulting in an average rental rate of \$11.29 per square-foot annually, which was a likely driver in the continuation in leasing activity from the prior half.

Several national and regional retailers have, or soon will be expanding their Lincoln presence, while a few others are exploring opportunities. Westfield Gateway regional mall has been successful in backfilling vacant space and welcomed Shoe Department Encore, Fanzz, Earthbound Trading Co. and Hallmark among others to its retail mix, while Tilted Kilt, a pub and eatery, will open at the same address by spring 2012. Aspen Athletic Club has made its way into the Lincoln market absorbing the former Circuit City location and has negotiated with a developer to add a south location in the first half of 2012. Crave, Dickey's BBQ and PepperJax Grille opened their first Lincoln restaurants and Misty's Steakhouse opened a 6,000 square-foot restaurant, joining two other locations in the Lincoln area. Natural Grocers by Vitamin Cottage committed to the marketplace, selecting the northeast submarket – near 48th & O Street – as the location of a new store. Topper's Pizza, Cheddar's Casual Café, and Cherry Berry are all new concepts for the market. Grata Bar, Sun Tan City, Scooter's, and Cherry on Top have continued their Lincoln expansions, all adding new locations this year. Wilderness Hills at 27th & Yankee Hill welcomed its first retail tenant to near Kohl's. The two 19,000 square-foot shadow retail strips have been vacant since their completion in late 2008. A new 60,000 square-foot concept Super Saver committed to the Fallbrook community giving the area a much anticipated anchor for the Fallbrook Market Place. Finally, Sam's Club broke ground near 87th and Highway 2 for its 136,000 square-foot south store which is scheduled to open by fall 2012.

While only one mixed-use, speculative building containing 44,000 square-feet was delivered to the market, over \$38 million in permits were pulled for new retail in the second half of 2011. On the horizon within the CBD is Block 38, the mixed-use Catalyst Project under construction on the block bounded by P, Q, 13th & 14th Streets. This 10-story project is expected to be complete by summer of 2012 adding 17,000 square-feet of new retail space to the street level along with six floors of parking and three floors of apartment units. Groundbreaking for the newly named Pinnacle Bank Arena, just west of downtown, took place in the fall of 2011. The \$179 million arena project is expected to open in late 2013.

A noticeable change in frequency of market tours and with national interest up, Lincoln looks forward to an active 2012.

### TRENDS

Vacancy Rate



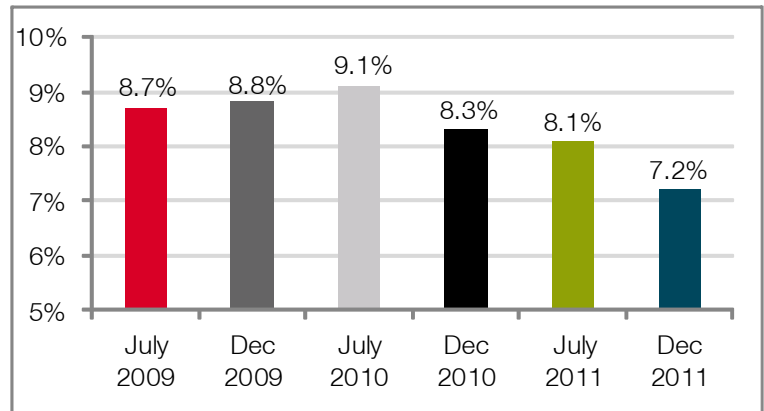
Asking Rents



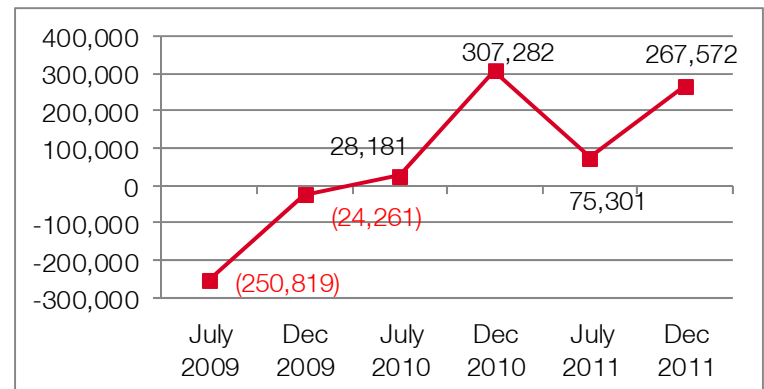
Net Absorption



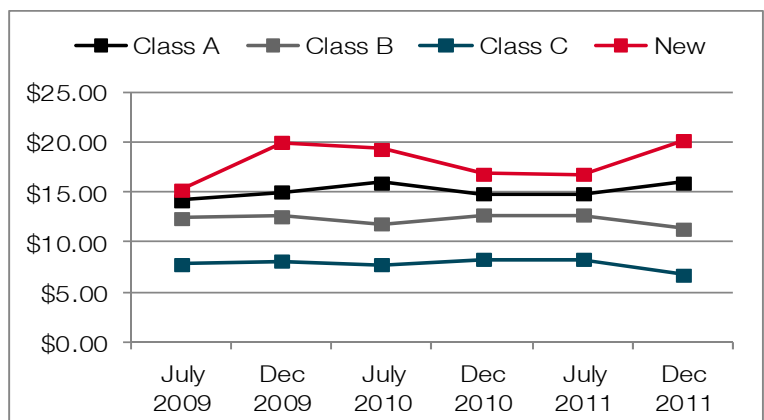
### Historical Vacancy Rates



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

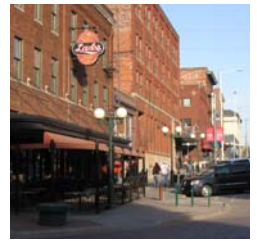


### Historical Rental Rates by Building Class



# NAI FMA Realty

## Market Report Second Half 2011 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	2,981	3.6%	-0-	\$14.00
Class B	125	1,055,463	87,192	8.3%	36,130	\$10.14
Class C	63	357,862	72,800	20.3%	(19,911)	\$6.99
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	192	1,496,160	162,973	10.9%	16,219	\$8.80
<b>SUBURBAN-NE</b>						
Class A	3	43,789	1,917	4.4%	1,796	\$14.00
Class B	394	6,456,205	499,133	7.7%	157,901	\$10.94
Class C	139	632,467	10,622	1.7%	2,158	\$10.73
New	5	16,468	3,820	23.2%	(3,007)	\$16.50
Subtotal	541	7,148,929	515,492	7.2%	158,848	\$10.98
<b>SUBURBAN-NW</b>						
Class A	6	236,956	-0-	0.0%	-0-	N/A
Class B	184	1,688,366	74,821	4.4%	(1,227)	\$10.81
Class C	102	560,357	25,305	4.5%	980	\$7.91
New	2	20,805	19,250	92.5%	1,555	\$15.00
Subtotal	294	2,506,484	119,376	4.8%	1,308	\$10.87
<b>SUBURBAN-SE</b>						
Class A	11	671,491	71,761	10.7%	3,928	\$16.09
Class B	301	4,781,970	317,905	6.6%	37,701	\$12.67
Class C	69	371,896	29,895	8.0%	10,676	\$7.52
New	7	121,236	35,250	29.1%	44,756	\$22.00
Subtotal	388	5,946,593	454,811	7.6%	97,061	\$13.59
<b>SUBURBAN-SW</b>						
Class A	8	362,739	4,970	1.4%	4,753	\$16.49
Class B	150	1,037,236	52,033	5.0%	(13,060)	\$9.49
Class C	123	867,194	80,911	9.3%	(19,099)	\$5.35
New	3	29,707	8,165	27.5%	21,542	\$25.00
Subtotal	284	2,296,876	146,079	6.4%	(5,864)	\$8.30
<b>RETAIL TOTALS</b>	<b>1,699</b>	<b>19,395,042</b>	<b>1,398,731</b>	<b>7.2%</b>	<b>267,572</b>	<b>\$11.29</b>



<b>Representative Retail Sales</b>						
Address	Size (SF)	Seller	Buyer	Price	Price (psf)	Submarket
211 N. 70th Street	7,500	Paul & Janice Wilcoxon	Abram & Rosauria Morales	\$525,000	\$70.00	Northeast
1600 Normandy Court, #106 & #108	3,000	Pioneer Woods LLC	Charlotte Carlson	\$210,000	\$70.00	Southwest

<b>Representative Retail Leases</b>				
Address	Tenant	Size (SF)	Deal Type	Submarket
Westfield Gateway	Shoe Department Encore	14,000	New	Northeast
3930 Village Drive	Misty's Steakhouse	6,000	New	Southeast

\*Indicates Transaction Represented by NAI FMA Realty

# NAI FMA Realty

## Market Report Second Half 2011 Industrial



### INDUSTRIAL OVERVIEW

Lincoln's industrial market fundamentals continue to strengthen with over 718,000 square-feet of positive net absorption in the second half, pushing year-to-date total absorption to over 1.6 million square feet. The overall industrial vacancy continues to decrease and was down to 6.2 percent at the end of the year, 1.8 percent less than the previous half and well below the 9.2% recorded in the same half last year. As a result of tightening market conditions, the overall average quoted industrial rental rate picked up by 63 cents this half increasing from \$3.28 to \$3.91 per square-foot NNN.

Among Lincoln's major industrial corridors, the northwest sub-market outperformed all others in the second half by posting nearly all of the absorbed space with 716,995 square-feet of positive net absorption. Two large sales transactions over the past six months contributed to most of the net absorption gains in the second half. The sale of the former Ace Hardware distribution facility to Recycling Enterprises removed 345,000 square-feet from available inventory and sold for \$6.00 per square-foot. 3801 Harney LLC purchased a 408,901 square-foot former manufacturing building that was previously owned and occupied by Quebecor. The investment buyer purchased the building for \$1.17 million and simultaneously signed a lease with LapkoSoft for 73,000 square-feet. The LapkoSoft deal was its third expansion to their Lincoln operations which now totals close to 160,000 square-feet.

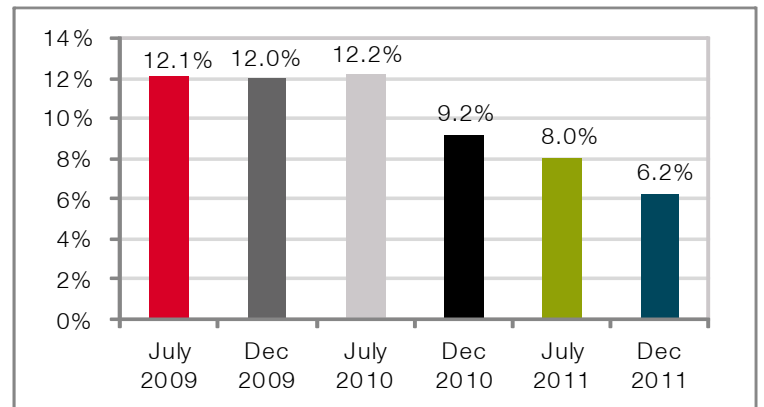
Construction activity in 2011 reached \$41.5 million in permit value - totals not seen since before 2006. Construction began in 2011 for Sysco and Duncan Aviation's expansion plans in northwest Lincoln while Kawasaki completed its \$40 million new rail car testing facility. Lincoln's plant now can boast it is the only plant in North America with the ability to build rail cars from the ground up and test them on-site.

Lincoln's industrial sales activity decreased between the last two reporting periods, 10 properties trading in the second half compared to 15 in the first half of 2011. Sales prices for Lincoln declined over 24 percent from an average of \$46.27 to \$35.07 per square-foot with the inclusion of the two sales mentioned above. Another sale to note was Timpote purchasing a 31,000 square-foot building on West O Street that had been foreclosed on. Timpote, who manufactures bulk commodity trailers out of a 195,000 square-foot plant in David City, NE, plans to open a research and development office in Lincoln and in the future add light manufacturing to the facility.

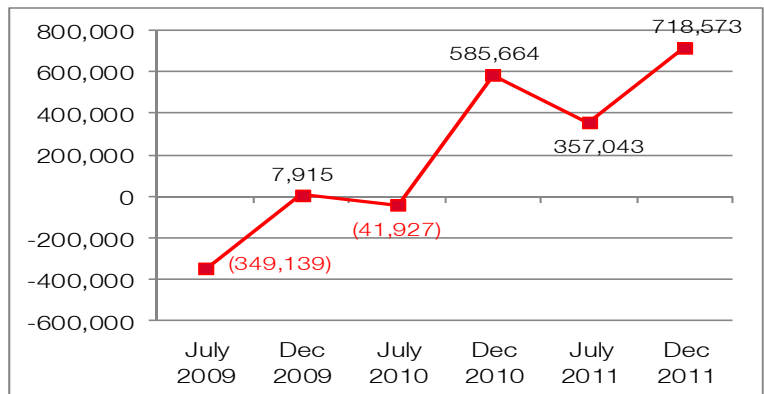
With yet another active half in terms of absorption, vacancy rates are continuing to decline to levels not seen since the impact of the recession began to take its toll in mid-2008. As gradual economic recovery continues, the lack of market-wide speculative development, continued leasing activity, and favorable rates will continue to push vacancy rates down over the next year.



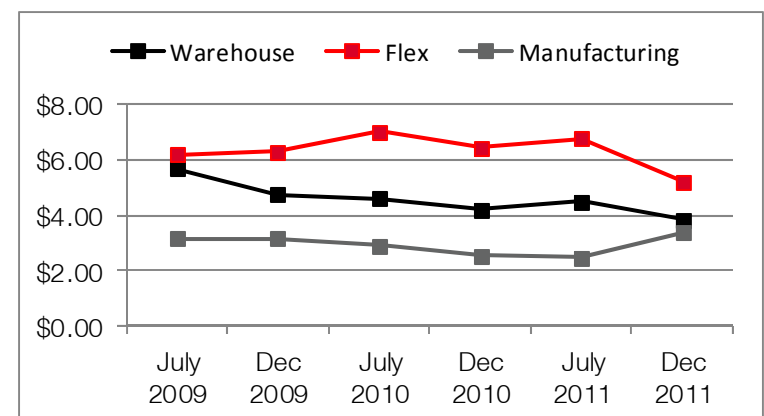
Historical Vacancy Rates



Historical Net Absorption  
(Square Feet for Six Months Ending)



Historical Rental Rates

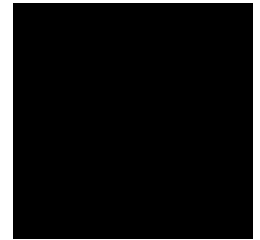


# NAI FMA Realty

## Market Report Second Half 2011 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%	-0-	N/A
Flex	6	71,713	-0-	0.0%	-0-	N/A
Manufacturing	7	325,334	-0-	0.0%	-0-	N/A
Subtotal	26	620,507	-0-	0.0%	-0-	N/A
<b>SUBURBAN-NE</b>						
Warehouse	272	4,244,713	426,522	10.0%	18,156	\$4.64
Flex	65	900,017	36,000	4.0%	3,022	\$5.27
Manufacturing	49	3,281,773	231,310	7.0%	(18,250)	\$2.56
Subtotal	386	8,426,503	693,832	8.2%	2,928	\$3.98
<b>SUBURBAN-NW</b>						
Warehouse	199	3,947,635	218,183	5.5%	383,796	\$3.78
Flex	26	352,369	8,534	2.4%	47,233	\$5.93
Manufacturing	32	5,513,787	338,901	6.1%	285,966	\$1.95
Subtotal	257	9,813,791	565,618	5.8%	716,995	\$2.72
<b>SUBURBAN-SE</b>						
Warehouse	19	122,857	8,344	6.8%	(1,244)	\$6.81
Flex	23	185,135	10,800	5.8%	3,200	\$4.00
Manufacturing	1	8,829	-0-	0.0%	-0-	N/A
Subtotal	43	316,821	19,144	6.0%	1,956	\$5.22
<b>SUBURBAN-SW</b>						
Warehouse	268	4,591,333	104,244	2.3%	20,387	\$4.32
Flex	83	636,328	68,220	10.7%	(23,693)	\$5.28
Manufacturing	22	1,511,922	151,638	10.0%	-0-	\$2.88
Subtotal	373	6,739,583	324,102	4.8%	(3,306)	\$3.85
<b>INDUSTRIAL TOTALS</b>	<b>1,085</b>	<b>25,917,205</b>	<b>1,602,696</b>	<b>6.2%</b>	<b>718,573</b>	<b>\$3.91</b>



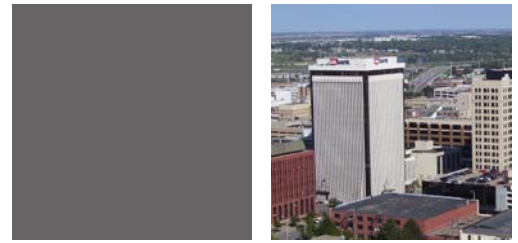
Representative Industrial Sales						
Address	Size (SF)	Seller	Buyer	Price	Price (psf)	Submarket
3700 N.W. 12th Street & 1000 W. Commerce Way	408,901	World Color (USA) Corp.	3801 Harney LLC	\$1,170,000	\$2.86	Northwest
4721 N. 56th Street	11,472	Beatrice Motor Freight Inc.	Zaniya LLC	\$480,000	\$41.84	Northeast
3109 S. 6th Street*	3,000	Jerry & Linda Boyce	SNS Properties LLC	\$158,000	\$52.67	Southwest

Representative Industrial Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
1000 W. Commerce Way*	LapkoSoft	73,000	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.

