

Second Half 2019 Market Report



Individual Members of:



Direct Vacancy



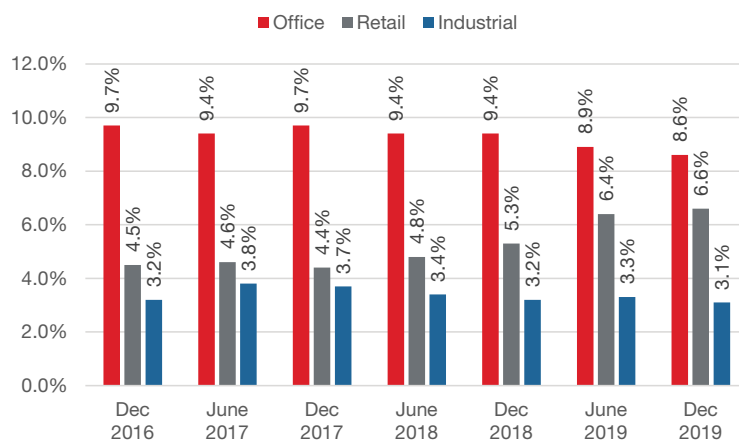
Absorption



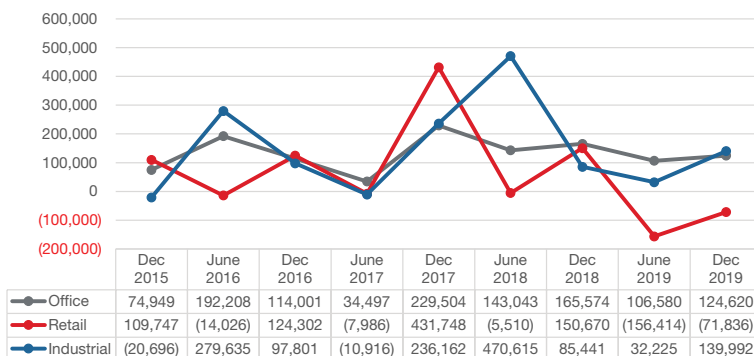
Asking Rent



Overall Market Historical Vacancy



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



LINCOLN (MSA) RANKINGS IN THE NEWS

- #1** 10 Most Beautiful Cities in US (The Culture Trip)
- #1** 5 Up-and-Coming Tech Hotspots (Livability)
- #1** America's Best City for New Jobs (Forbes)
- #3** Best State for the Young (MoneyRates)

Source: selectlincoln.org

HIGHLIGHTS

The Lincoln commercial real estate market experienced a solid second half of 2019.

Sustained activity in the second half of 2019 helped drive Lincoln's office market to consecutive positive gains in occupancy and asking rents. Modern spaces and nearby amenities give newer product the competitive edge.

The retail market was hit by a renewed round of retailer scale-backs and closings, however, tenant demand in restaurants, medical and discount retailers kept the market active.

The industrial market conditions remain constrained as vacancy fell to its lowest point since the start of this report in 2008. Tenants will find little relief with stable rents and limited expansion options.

The outlook for growth in the market may be constrained because the labor market is tight and businesses looking to expand face challenges in finding skilled workers.

Office New Construction Permits



Retail New Construction Permits



Industrial New Construction Permits

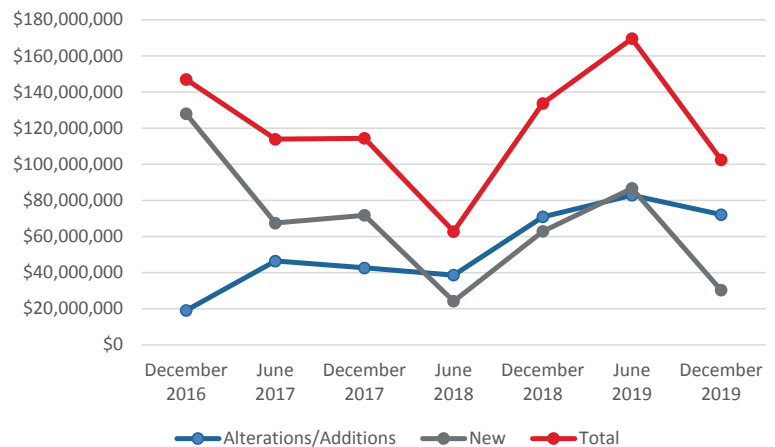


CONSTRUCTION ACTIVITY

After a strong start to 2019, new construction projects cooled to end the year.

- Southeast Lincoln Family Medicine and an out-patient medical clinic are under construction at S. 84th & Pioneers Blvd. The \$4 million Bryan Physician Network facility is slated to be completed by Fall 2020.
- Cattle Bank & Trust is constructing a new \$3 million bank branch on the corner of 14th & Pine Lake Road. Cattle Bank joins Brakes Plus, Panera Bread and Panda Express on the pad sites adjacent to Costco.
- Boiler Brewing Company will add a second tap room in Village Gardens at 56th & Pine Lake Road.
- Sephora will open its first stand-alone store in South-Pointe Pavilions. Tenant fit-out is \$510,000.
- An indoor dinosaur putt-putt golf facility is expected to open in 2020 in northwest Lincoln near 21st & Cornhusker Hwy.
- A big box space formerly occupied by Shopko on 68th & O Street is getting a \$1.3 million renovation for a new tenant
- Tilt-up concrete construction for \$1.8 million is nearly complete on an indoor auto, boat storage facility in northwest Lincoln.
- Zoetis plans to convert some of its existing warehouse space into a new manufacturing fill line at the cost of \$19.6 million.
- A 35,000-square-foot warehouse, office and showroom facility will be built for Robidoux, Inc. Plans are to consolidate their compressor, accessories and parts operations into the \$2.5 million facility by Spring 2020.

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



BUILDING PERMITS BY BUILDING TYPE

OFFICE

	# of Permits	Value
New Construction	8	\$13,325,000
Alteration to existing	101	\$35,543,461
TOTAL	109	\$48,868,461

RETAIL

	# of Permits	Value
New Construction	5	\$3,505,856
Alteration to existing	83	\$15,069,380
TOTAL	88	\$18,575,236

INDUSTRIAL

	# of Permits	Value
New Construction	14	\$13,517,982
Alteration to existing	10	\$21,543,736
TOTAL	24	\$35,061,718

Direct Vacancy



Absorption



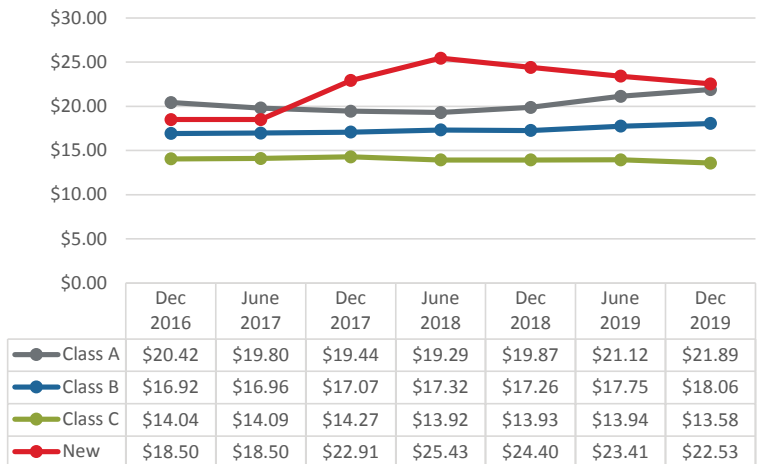
Asking Rent



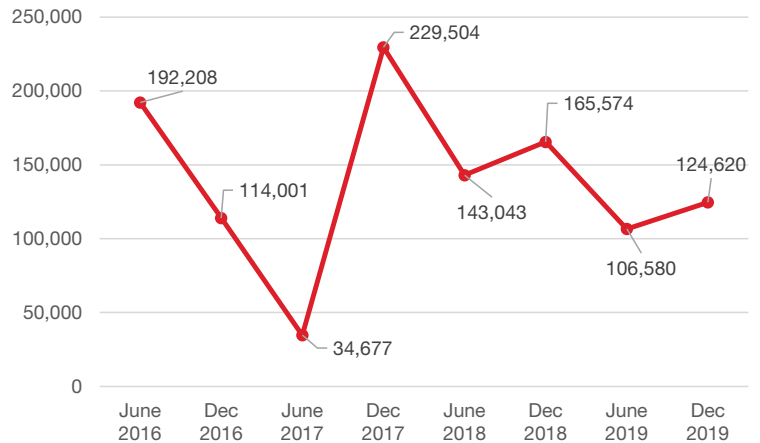
HIGHLIGHTS

- The office market has seen steady positive movement over the past two years which continued through 2019. Vacancy reached its lowest point since 2008, ending at 8.6%.
- The CBD submarket experienced the biggest decline in vacancy from 12.9% to 10.5%, while the Southwest submarket vacancy jumped from 4.7% to 6.6% mostly due to Black Hills Energy moving out of a leased building into its new owner-occupied facility.
- Average asking rental rates continued to climb across most of the classes. Notably, however, new construction asking rates declined and are not keeping up with the high cost of building materials and labor.
- Tenant demand for newer office buildings with modern amenities is a recurring trend felt throughout the market. In contrast, existing landlords battle to improve their occupancy rates and compete with these newer buildings.
- Larger occupiers are competing over a scarce number of Class A suburban options, as the flight to quality continues.
- In Southwest submarket, Union Bank & Trust purchased a 50,000-square-foot mixed-used property for \$8.32 million at 1801 Pine Lake Road for expansion of its corporate offices.
- The Gold's Building, a 96-year old downtown mixed-use building sold to Nebraska and Florida-based Keating Resources for \$2.3 million. A redeveloped new 110-room extended stay hotel is planned for the six-story portion of the complex, while a connecting four-story structure will be upgraded and remain office space.
- Looking ahead, Lincoln is poised for a strong first half of 2020 with very little speculative construction in the pipeline mixed with low availability rates.

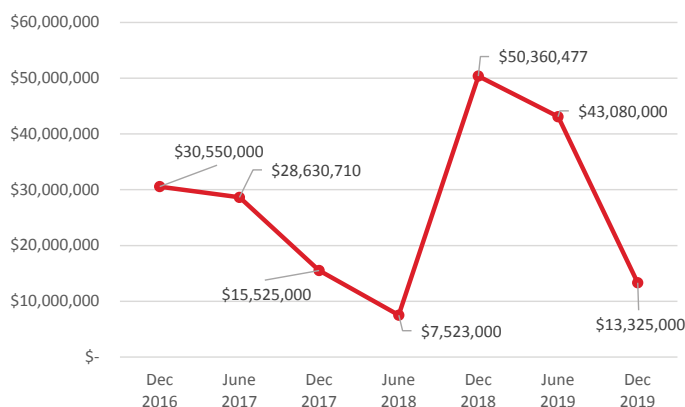
Historical Asking Rates



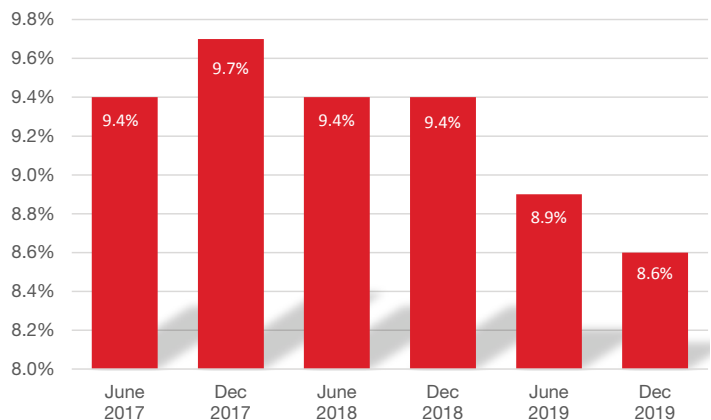
Historical Net Absorption



New Construction



Historical Vacancy



	Number of Buildings	Total Rentable SF	Total Available SF	% Vacant	Net Absorption	Average Asking Rate (\$/SF/YR)
CBD						
Class A	13	1,236,522	62,221	5.0%	25,097	\$18.50
Class B	97	2,531,457	302,828	11.9%	48,713	\$16.85
Class C	21	240,013	56,972	23.7%	(4,986)	\$13.55
New	-	-	-	N/A	(1,570)	N/A
CBD Subtotal	131	4,007,992	422,021	10.5%	67,254	\$16.65
Northeast						
Class A	8	234,704	5,520	2.4%	10,093	\$20.26
Class B	96	1,153,003	48,392	4.2%	11,366	\$16.23
Class C	43	371,340	16,564	4.5%	(3,482)	\$15.05
New	-	-	-	N/A	-	N/A
Northeast Subtotal	147	1,759,047	70,476	4.0%	17,977	\$16.27
Northwest						
Class A	12	897,382	102,185	11.4%	19,149	\$21.75
Class B	50	867,475	100,425	11.6%	(13,885)	\$17.29
Class C	14	172,647	27,892	16.2%	2,148	\$11.70
New	-	-	-	N/A	(40,205)	N/A
Northwest Subtotal	76	1,937,504	230,502	11.9%	(32,793)	\$18.56
Southeast						
Class A	14	705,297	77,993	11.1%	57,717	\$24.94
Class B	416	4,007,112	295,872	7.4%	(1,399)	\$19.31
Class C	17	89,745	4,550	5.1%	940	\$17.02
New	5	35,976	6,238	17.3%	(50,642)	\$22.53
Southeast Subtotal	452	4,838,130	384,653	8.0%	6,616	\$20.48
Southwest						
Class A	6	352,589	-	N/A	50,000	N/A
Class B	120	1,264,455	94,251	7.5%	3,617	\$19.83
Class C	24	123,325	23,737	19.2%	(1,470)	\$14.16
New	3	37,739	-	N/A	13,419	N/A
Southwest Subtotal	153	1,778,108	117,988	6.6%	65,566	\$18.67
Market Total	959	14,332,030	1,225,640	8.6%	124,620	\$18.39

Notable Sales

Address	Size	Price	Price/SF	Submarket
1033 'O' Street*	267,447	\$2,300,000	\$9.00	CBD
5539 S. 27th Street*	16,788	\$1,975,000	\$118.00	SW
121 Cherry Hill Blvd.*	9,546	\$850,000	\$89.00	SE
220 S. 17th Street*	42,600	\$750,000	\$18.00	CBD
3333 Landmark Circle*	12,285	\$1,250,000	\$102.00	NE
3801 S. 14th Street	31,725	\$2,400,000	\$76.00	SW

*Indicates Transaction Represented by NAI FMA Realty

Direct Vacancy



Absorption



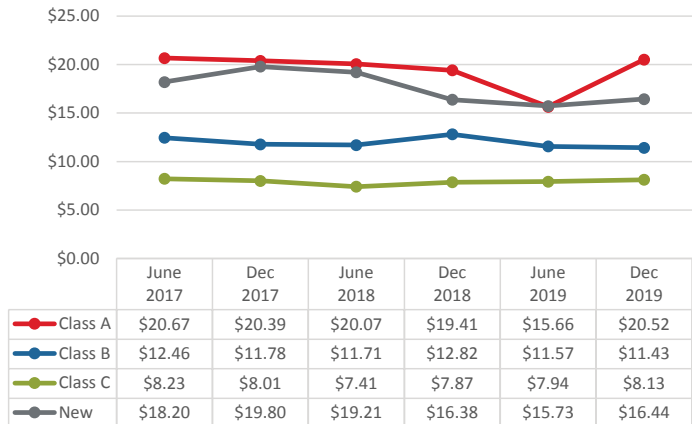
Asking Rent



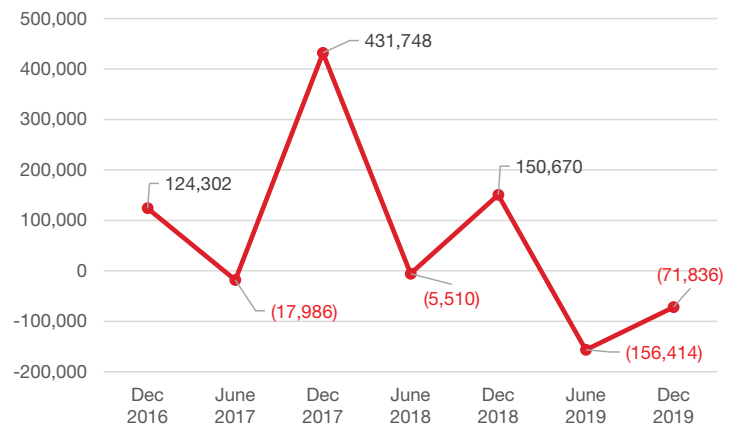
HIGHLIGHTS

- More shakeout between winners and losers in brick-and-mortar retailers edged the retail vacancy rate up to 6.6% for the second half of 2019.
- Southwest submarket occupancy demonstrated the strongest gain from 8.6% to 4.7% with At Home opening in the big box store vacated by Shopko. The Northeast submarket experienced the highest move outs as the former Sears building was sold to an out-of-state investor with no known occupier, pushing the vacancy from 5.0% to 6.6%.
- Growth of digital-native or niche brands are overtaking the traditional retailers. Plus DIY, value/discount retailers along with food categories continue to be a driving force in the market.
- Overall asking rents are sliding down from over a year ago. The current average asking rent stands at \$12.14/SF.
- Lincoln is attracting outside investor activity. The largest sale in 2019 consisted of the Edgewood Shopping Center in the Southeast submarket. A Kansas-city company purchased three parcels totaling 175,000-square-foot for \$16.65 million. Another notable sale was Natural Grocers on 212 N. 48th Street, which sold to Bella Squared LLC for \$5.25 million (\$385/SF).
- Downtown is benefitting from older retail buildings along the outer edge being refurbished for new uses, breathing life into a long-ignored urban area.
- New and expanding retailers this half include Lululemon, JP Morgan Chase Bank, Buffalo Wings & Rings, and Five Below. Retailers closed or closing are Pier1, Madhouse Trampoline Park, Forever 21, Teriyaki Madness and Egg & I.

Historical Asking Rates



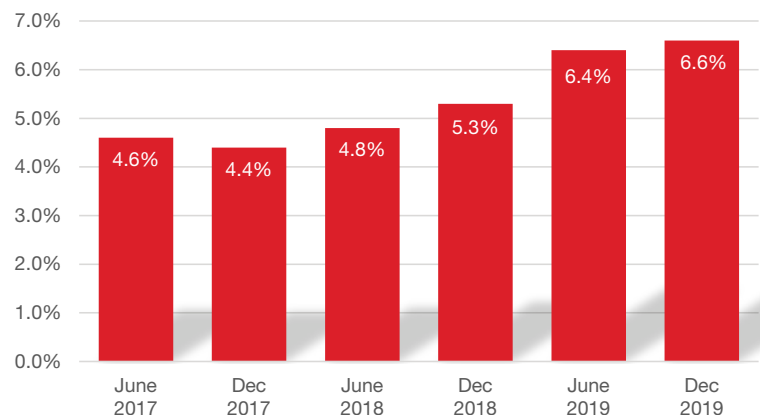
Historical Net Absorption



New Construction



Historical Vacancy



	Number of Buildings	Total Rentable SF	Total Available SF	% Vacant	Net Absorption	Average Asking Rate (\$/SF/YR)
CBD						
Class A	12	261,897	57,916	22.1%	19,288	\$19.33
Class B	126	1,040,396	106,138	10.2%	29,732	\$13.40
Class C	63	361,448	39,152	10.8%	(870)	\$8.53
New	-	-	-	N/A	(11,186)	N/A
CBD Subtotal	201	1,663,741	203,206	12.2%	36,964	\$14.24
Northeast						
Class A	3	43,789	-	N/A	-	N/A
Class B	421	6,663,542	471,242	7.1%	(108,295)	\$11.22
Class C	137	646,248	3,880	0.6%	2,968	\$6.76
New	2	24,574	9,574	39.0%	(6,633)	\$15.50
Northeast Subtotal	563	7,378,153	484,696	6.6%	(111,960)	\$11.26
Northwest						
Class A	7	268,168	5,937	2.2%	2,174	\$15.00
Class B	188	1,689,991	84,381	5.0%	(33,656)	\$11.65
Class C	99	575,921	14,904	2.6%	4,331	\$7.71
New	-	-	-	N/A	-	N/A
Northwest Subtotal	294	2,534,080	105,222	4.2%	(27,151)	\$11.28
Southeast						
Class A	14	886,795	58,502	6.6%	(23,428)	\$24.06
Class B	350	5,486,424	401,582	7.3%	(49,759)	\$10.96
Class C	64	311,868	9,098	2.9%	7,797	\$10.46
New	9	69,643	2,750	3.9%	9,956	\$18.78
Southeast Subtotal	437	6,754,730	471,932	7.0%	(55,434)	\$12.62
Southwest						
Class A	9	353,993	17,173	4.9%	78,217	\$15.20
Class B	172	1,593,062	58,891	3.7%	(4,735)	\$12.73
Class C	121	819,324	40,162	4.9%	(407)	\$7.51
New	5	55,634	16,875	30.3%	12,670	\$16.00
Southwest Subtotal	307	2,822,013	133,101	4.7%	85,745	\$11.89
Market Total	1,802	21,152,717	1,398,157	6.6%	(71,836)	\$12.14

Notable Sales

Address	Size	Price	Price/SF	Submarket
1801 Pine Lake Road*	50,000	\$8,320,000	\$166.00	SW
1733 & 1745 'O' Street*	10,650	\$692,250	\$65.00	SW
366 N. 48th Street*	12,120	\$1,300,000	\$107.00	NE
5400-5500 S. 56th Street	175,366	\$16,650,000	\$95.00	SE
6420 & 6540 'O' Street	127,335	\$6,300,536	\$49.00	NE

*Indicates Transaction Represented by NAI FMA Realty

Direct Vacancy



Absorption



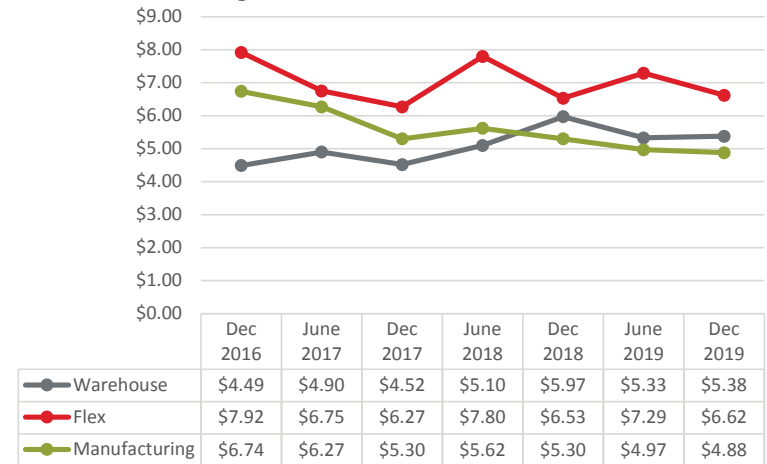
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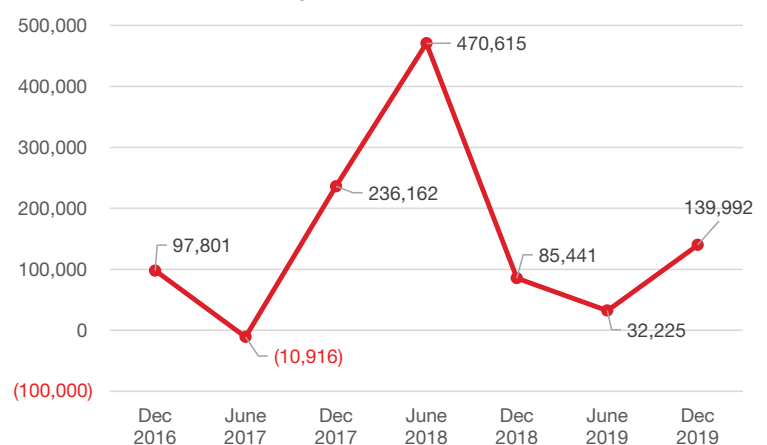
HIGHLIGHTS

- The overall industrial vacancy had a slight drop from 3.3% in the first half 2019 to 3.1% at the end of 2019. The drop in vacancy hints at how tight the market currently is and the lack of inventory available for tenants and owners.
- Despite low vacancy, average asking rents recorded virtually no change. These rates are still at a point that would typically justify the cost to begin new construction but due to high costs of materials and labor, developers and owners have been hesitant to start new projects.
- The Southeast submarket - Lincoln's smallest - recorded the largest decline in vacancy from 7.5% to 1.8% and in warehouse product.
- Second half 2019 recorded thirty-four industrial sale transactions, with a total sales volume of \$27,733,000 at an average price per square foot of \$57.32. Majority of these sales were properties under 20,000 square feet and primarily investment sales. The largest sale was an owner/user purchase of a 93,000 square foot manufacturing facility located at 1030 SW 6th Street, which sold for \$5.2 million (\$56.44 per square foot).
- Industrial land remains scarce and limited planned speculative building development.
- With low available inventory, high construction costs, and rents declining, the next twelve months should prove interesting for the industrial space market.

Historical Asking Rates



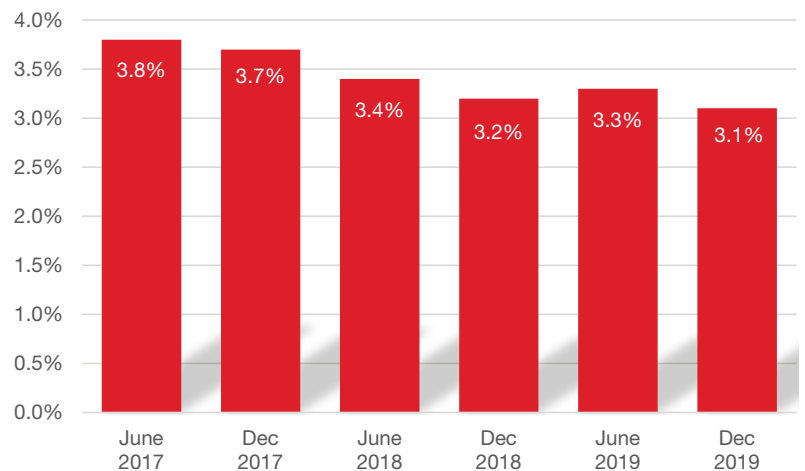
Historical Net Absorption



New Construction



Historical Vacancy



	Number of Buildings	Total Rentable SF	Total Available SF	% Vacant	Net Absorption	Average Asking Rate (\$/SF/YR)
CBD						
Warehouse	11	133,744	14,200	10.6%	5,365	\$11.00
Flex	3	23,038	-	N/A	-	N/A
Manufacturing	7	316,202	105,570	33.4%	-	\$8.00
CBD Subtotal	21	472,984	119,770	25.3%	5,365	\$8.36
Northeast						
Warehouse	300	4,834,655	195,653	4.0%	7,510	\$5.32
Flex	67	987,977	13,280	1.3%	10,978	\$7.06
Manufacturing	49	3,481,534	103,700	3.0%	14,850	\$3.66
Northeast Subtotal	416	9,304,166	312,633	3.4%	33,338	\$4.84
Northwest						
Warehouse	247	5,296,771	141,291	2.7%	36,236	\$4.06
Flex	32	478,762	5,740	1.2%	(3,659)	\$6.15
Manufacturing	33	5,493,096	211,081	3.8%	(9,433)	\$3.92
Northwest Subtotal	312	11,268,629	358,112	3.2%	23,144	\$4.01
Southeast						
Warehouse	20	121,538	-	N/A	17,344	N/A
Flex	22	176,974	5,615	3.2%	-	\$8.00
Manufacturing	1	8,829	-	N/A	-	N/A
Southeast Subtotal	43	307,341	5,615	1.8%	17,344	\$8.00
Southwest						
Warehouse	329	5,251,175	98,050	1.9%	52,502	\$6.65
Flex	89	693,701	15,216	2.2%	8,299	\$5.90
Manufacturing	26	1,850,058	-	N/A	-	N/A
Southwest Subtotal	444	7,794,934	113,266	1.5%	60,801	\$6.55
Market Total	1,236	29,148,054	909,396	3.1%	139,992	\$5.21

Notable Sales

Address	Size	Price	Price/SF	Submarket
3800 N. 27th Street*	14,850	\$620,000	\$42.00	NE
5711 Russell Drive*	6,930	\$408,580	\$59.00	NE
1030 SW 6th Street	93,910	\$5,300,000	\$56.00	SW
2112 Cornhusker Hwy.	8,304	\$245,000	\$30.00	NW
3220 S. 6th Street	9,000	\$711,000	\$79.00	SW
2137 Magnum Circle	7,200	\$570,000	\$79.00	SW

*Indicates Transaction Represented by NAI FMA Realty



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Stange, CCIM
CEO and
Managing Broker



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Sally
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Sales Associate



Tom
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Sales Associate



John
Hyland
Sales Associate



Scott
Richardson
Sales Associate



Mattison
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NAI FMA Realty is Lincoln, Nebraska's largest commercial brokerage firm with ten active brokers. Our experienced professionals offer a full spectrum of consultative and transactional services including:

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- Tenant/Buyer Representation
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- Broker's Opinion of Value
- Research

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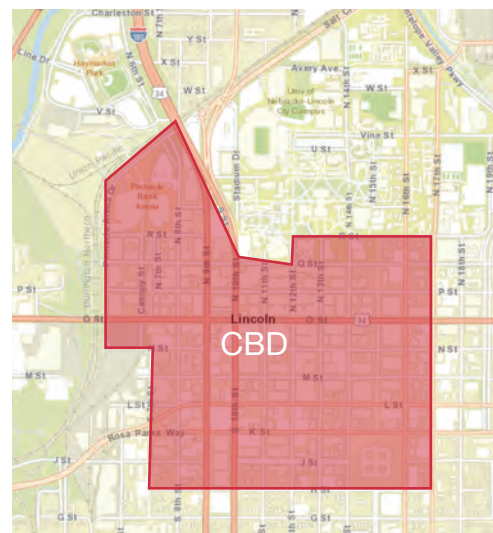
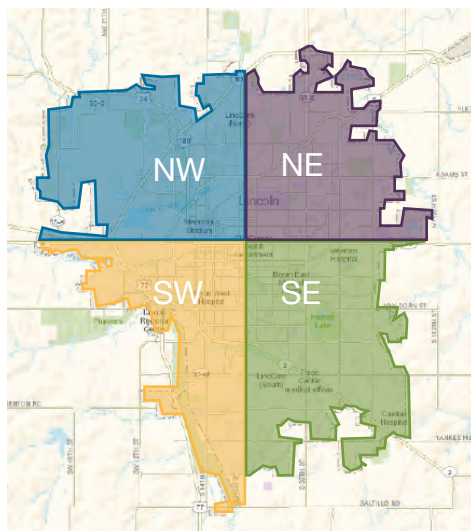
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Property Management

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METHODOLOGY AND DEFINITIONS

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 6th 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.

Net Absorption

The net 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.

Overall Vacancy

All unoccupied available space for lease, excluding sublease space.

Rental Rate

All asking rental rates are quoted as price per square foot per year.

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