Office Market Drivers: Build-to-Suits and Larger Transactions

Conditions in the Omaha office market continued to improve in the second quarter of 2014. The vacancy rate for the quarter for the overall office market decreased 20 basis points to 11.7 percent. This followed the prior quarter’s vacancy rate reduction of 120 basis points. The second quarter office vacancy rate is the lowest recorded quarterly vacancy rate in over 12 years. Absorption also was strong for the quarter with 184,525 square feet absorbed. In the first half of this year, the Omaha office market experienced 284,140 square feet of positive absorption which, if annualized, is approximately twice the yearly average over the past ten years.

Since office vacancy peaking at 17.0 percent in 2009 during the Great Recession, Omaha’s office market occupancy has steadily improved, and the market is now approaching a supply-demand equilibrium. Throughout this period, the recovery has been driven primarily by larger transactions; many of them build-to-suits as well as large transactions in Class A buildings. Such was the case again this quarter as several large transactions drove the overall absorption statistics.

Significant transactions this quarter included SAC Credit Union moving into their new 94,000-square-foot Bellevue headquarters. Tenaska commenced their 87,500-square-foot lease in their new headquarters building in First National Business Park. Additionally, Gordmans relocated to their new headquarters building in Aksarben Village leasing 70,000 square feet. West Corporation renewed and expanded another 17,656 square feet at Plaza of the Americas. Web Equity expanded in Westroads IV by adding an additional 10,500 square feet. Leasing velocity remained relatively steady during the quarter as 21 transactions over 2,000 square feet were completed, which is just below the general average of 24 over the last 12 quarters.

During the quarter there were also a number of major move-outs, primarily the result of corporate growth and associated relocations into larger spaces. Significant move-outs included Tenaska relocating from Park Place which was then sold to Immanuel Hospital. Tenaska also vacated Nicholas Plaza which was then sold to BuilderTREND Solutions and also vacated 16,272 square feet at Plaza of the Americas. Additional move-outs included COR Clearing vacating 14,385 square feet in Embassy Tower and relocating to the 1200 Landmark Building in the CBD and CBSHOME moving out of Pacific Hills II (9,933 square feet) and consolidating a number of locations at 156th & West Dodge Road.

At the top end of the office market, vacancy in Class A buildings ended the quarter at a remarkably low vacancy rate of 3.8 percent, a decrease of 50 basis points from the prior. In the suburban market, the overall vacancy in Class A buildings is an exceedingly low 3.0 percent; down 30 basis points from the prior quarter. To put this in perspective, there are only five Class A non-medical buildings in the suburban office market which have 10,000 contiguous square feet or greater available today. At the same time the office market recovery for Class B and C space has been sluggish. It should be noted the overall vacancy rate of Class B and C buildings combined at the end of the current quarter is the same as it was at the end of the first quarter of 2010 at 15.2 percent, which is generally recognized as the beginning of the economic recovery. It should be further noted the vacancy rate Class B buildings at the end of the first quarter of 2010 was 11.5 percent, peaked at 14.4 percent at the end of the first quarter of 2013 and has been reduced 100 basis points to the current vacancy rate of 13.4 percent. The vacancy rate of Class C Buildings was 25.6 percent at the end of the first quarter of 2010, peaked at 26.9 percent a year later, and is currently 20.4 percent.
The CBD market remained steady with 9,615 square feet of net absorption for the quarter and 54,400 square feet year-to-date resulting in an 8.4 percent vacancy rate at the end of the second quarter.

Meanwhile, the overall Suburban Omaha market experienced a decrease in the vacancy rate of 20 basis points from the prior quarter to 12.6 percent. The best performing major suburban submarket for the quarter was Suburban West Dodge which experienced a 100 basis point reduction in its vacancy rate to 5.8 percent from the prior quarter due to 102,574 square feet of net absorption as a result of the Tenasla build-to-suit. Also notable is the Midtown submarket with a vacancy rate of 8.5 percent, a 70 basis point reduction in its vacancy rate from the prior quarter due to the West Corporation and Gordmans transactions. Suburban submarkets that continue to perform better than equilibrium include Miracle Hills (7.4%), Central West Dodge (9.4%), and Regency (9.8%). Asking rental rates increased approximately one percent in the quarter however are unchanged from the end of the third quarter of 2013.

Additional new construction has been announced in Aksarben Village with the 125,000-square-foot Pacific Life building recently breaking ground. This new multi-tenant office building will add some supply to the tight Class A suburban office market. A new 60,000-square-foot multi-tenant building in Sterling Ridge is due to deliver later in the third quarter of this year and is now over 50 percent pre-leased.

Just west of Aksarben Village the fully leased $46 million Think Primary Care medical office building is under construction consisting of 148,000 square feet. Ground has broken on the $205 million mixed-use development on the former Pinnacle Foods site in the CBD near the CenturyLink Arena. A 400-room hotel along with office and retail is planned and the hotel is now under construction. The City has received two mixed-use proposals for the Civic Auditorium site and announcements are forthcoming in the next sixty days. Metro Community College broke ground on a $90 million expansion on the south end of the college’s Fort Omaha location facilitating improved methodologies in training IT students as well as adding new programs.

Overall, Omaha’s job base continues to expand. Private sector job growth over the last 12 months totals 8,700 net new jobs according to the Great Omaha Chamber of Commerce. Omaha’s unemployment rate was reported at 3.8 percent at the end of May, down 20 basis points from the end of January and remains one of the nation’s lowest among the country’s top MSAs. Due to the steady pace of Omaha’s economic growth, the market conditions within the office market continue to improve.

The unemployment rate for Nebraska was 3.6 percent at the end of May, the same it was at the end of 2013. Nebraska continues to have the third lowest unemployment rate in the nation, behind only to North Dakota and Vermont.

Omaha and Nebraska continue to be in the news. Omaha again hosted the College World Series at TD Ameritrade Park and broke all-time attendance figures this year as Omaha was on display in primetime on ESPN. Omaha was named number one in the country by Site Selection Magazine for new and expanding facilities for cities its size. It was named the third Best City to Start a Business and the seventh Best City for Job Seekers by Nerdwallet.com. Omaha was also named the 16th Most Affordable City in America by the Council for Community & Economic Research. Nebraska was named as the fourth Best State to do Business by CNBC and was included by Fortune Magazine as one of eight states that has “truly shined” in the past 20 years. Also notably, Hudl, a Lincoln based sports-focused software company, expanded into Omaha and opened an Omaha office which is expected to employ 50 new employees using $10,000 hiring bonuses to attract qualified employees. And Right at Home, an Omaha based health care franchisor, has been named one of the best franchises in the country by Fortune Magazine.

RECENT TRANSACTIONS

<table>
<thead>
<tr>
<th>LESSEE/BUYER</th>
<th>LESSOR/SELLER</th>
<th>PROPERTY</th>
<th>SIZE SF/SALE PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Induction Center</td>
<td>SportsCenter Properties, LLC</td>
<td>4245 South 121st Plaza</td>
<td>$7,487,500</td>
</tr>
<tr>
<td>Lincoln National Life Insurance Co.</td>
<td>Paradise Valley Associates NF, LLC</td>
<td>Phoenix, AZ</td>
<td>5,551</td>
</tr>
<tr>
<td>Mutual of Omaha-United</td>
<td>CA State Teachers’ Retirement System</td>
<td>Denver, CO</td>
<td>5,906</td>
</tr>
<tr>
<td>Pacific Life Insurance Co.</td>
<td>Zone 5, LLC</td>
<td>Mercy Road &amp; Aksarben Drive, NEC</td>
<td>78,289</td>
</tr>
<tr>
<td>West Asset Management, Inc.</td>
<td>Accent of the Americas Plaza, LP</td>
<td>7171 Mercy Road</td>
<td>118,109</td>
</tr>
</tbody>
</table>
### Office Overview

**Vacancy**

<table>
<thead>
<tr>
<th>Submarket</th>
<th>SF</th>
<th>Vacancy</th>
<th>%</th>
<th>Q2 SF</th>
<th>2014 SF</th>
<th>Q2 YTD</th>
<th>SF</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>16,188,707</td>
<td>2,045,813</td>
<td>12.6%</td>
<td>174,910</td>
<td>224,538</td>
<td>157,500</td>
<td>78,689</td>
</tr>
<tr>
<td><strong>CBD TOTAL</strong></td>
<td>4,608,777</td>
<td>388,188</td>
<td>8.4%</td>
<td>9,615</td>
<td>54,399</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>SUBURBAN</strong></td>
<td>11,580,930</td>
<td>1,665,925</td>
<td>14.6%</td>
<td>322,902</td>
<td>213,870</td>
<td>157,500</td>
<td>78,689</td>
</tr>
</tbody>
</table>

**Submarket**

- **Central Business District**
  - **Downtown**
    - SF: 4,608,777
    - Vacancy: 388,188
    - %: 8.4%
    - Q2 SF: 9,615
    - 2014 SF: 54,399
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $20.25
  - **CBD Total**
    - SF: 4,608,777
    - Vacancy: 388,188
    - %: 8.4%
    - Q2 SF: 9,615
    - 2014 SF: 54,399
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $20.25

- **Suburban**
  - **Central W Dodge**
    - SF: 2,474,711
    - Vacancy: 232,306
    - %: 9.4%
    - Q2 SF: (5,322)
    - 2014 SF: 28,199
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $23.50
  - **Miracle Hills**
    - SF: 766,360
    - Vacancy: 56,437
    - %: 7.4%
    - Q2 SF: (10,929)
    - 2014 SF: (8,093)
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $20.00
  - **Midtown**
    - SF: 1,989,444
    - Vacancy: 168,549
    - %: 8.5%
    - Q2 SF: 87,715
    - 2014 SF: 82,795
    - Q2 YTD: 70,000
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $21.57
  - **Northwest**
    - SF: 1,662,219
    - Vacancy: 342,957
    - %: 20.6%
    - Q2 SF: 430
    - 2014 SF: 628
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $20.05
  - **Old Mill**
    - SF: 1,096,672
    - Vacancy: 133,335
    - %: 11.0%
    - Q2 SF: (2,242)
    - 2014 SF: 17,838
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $18.08
  - **Regency**
    - SF: 985,134
    - Vacancy: 93,804
    - %: 9.8%
    - Q2 SF: (262)
    - 2014 SF: (5,212)
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $31.99
  - **South Central**
    - SF: 2,256,099
    - Vacancy: 431,548
    - %: 19.1%
    - Q2 SF: 102,574
    - 2014 SF: 25,860
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $24.65
  - **Southeast**
    - SF: 1,019,736
    - Vacancy: 243,868
    - %: 23.9%
    - Q2 SF: (16,294)
    - 2014 SF: (13,279)
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $20.05
  - **Southwest**
    - SF: 1,373,568
    - Vacancy: 154,686
    - %: 11.3%
    - Q2 SF: 12,356
    - 2014 SF: 32
    - Q2 YTD: 78,689
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $21.36
  - **Suburban West Dodge**
    - SF: 2,707,324
    - Vacancy: 132,229
    - %: 5.8%
    - Q2 SF: 102,574
    - 2014 SF: 25,860
    - Q2 YTD: -
    - SF Class A: -
    - SF Class B: -
    - Asking Rent: $27.21

### By Class

<table>
<thead>
<tr>
<th>Class</th>
<th>SF</th>
<th>Q2 SF</th>
<th>2014 SF</th>
<th>Q2 YTD</th>
<th>SF Class A</th>
<th>SF Class B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CLASS A</strong></td>
<td>6,412,345</td>
<td>195,140</td>
<td>157,500</td>
<td>157,500</td>
<td>57,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>CLASS B</strong></td>
<td>10,610,929</td>
<td>264,276</td>
<td>157,500</td>
<td>157,500</td>
<td>21,689</td>
<td>27,343</td>
</tr>
<tr>
<td><strong>CLASS C</strong></td>
<td>3,795,496</td>
<td>(9,119)</td>
<td>-</td>
<td>-</td>
<td>1,126</td>
<td>19,480</td>
</tr>
</tbody>
</table>

**Total**

- **Class A**
  - SF: 20,797,484
  - Vacancy: 184,525
  - %: 11.7%
  - Q2 SF: 278,937
  - 2014 SF: 157,500
  - Q2 YTD: 78,689
  - SF Class A: 27,343
  - SF Class B: 171,962

**By Class Sublease**

- **Available for Sublease**
  - **CBD**
    - SF: 174,910
    - SF Class A: 57,000
    - SF Class B: 0
  - **Suburban**
    - SF: 224,538
    - SF Class A: 21,689
    - SF Class B: 27,343

### Office Submarkets

- **NW** Northeast
- **NE** Downtown
- **CB** Council Bluffs
- **D** Midtown
- **MT** South Central
- **SE** Southeast
- **SC** Southwest
- **SW** Suburban West Dodge
- **SWD** Central West Dodge
- **OM** Miracle Hills
- **OM** Old Mill
- **R** Regency
The conditions in the Omaha office market remain resilient and activity is expected to be steady over the next 12 months. Several new office buildings are planned or under construction in the Aksarben Village area. There are a several large companies looking for large office space in the city. Additional larger transactions should be expected over the next year. Given the scarcity of Class A office space, developers will continue to consider speculative new buildings in the months ahead. With that being said, confidence remains strong in the Omaha economy.

National Office Market Forecast

U.S. office vacancy rate remained stagnant at 16.8 percent in the second quarter due to lower demand for new or additional space, based on a report from Reis Research. Vacancy rates peaked at 17.6 percent in late 2010 and since that time any quarterly decline in the national vacancy has never exceeded 10 basis points in any quarter. “It has certainly been a slow recovery of the national office sector, but it is in-line with expectations given an economy that has been growing at an average of 2 percent annually since the end of the recession,” according Reis Research. Although job growth is accelerating, it is likely that newly created office jobs are taking up under-utilized space and not yet creating much demand for leasing of new or additional space, Reis reported.

The research firm, however, said it expected the recovery in the office space market to spread beyond the technology and energy sectors and cover more U.S. metros going forward. Ryan Severino, senior economist and associate director of research at Reis said, “if stronger labor-market gains persist, the recovery in the office market should become more pervasive, across an increasing number of metro areas.” Nearly 3.88 million square feet of new office space came into the market in the second quarter, and 2.76 million square feet was newly occupied. This was the first time supply outpaced occupancy in quite some time and the lowest new amount of new quarterly construction in over a year.

Prior to the economic downturn in 2008, national office absorption averaged 15 million square feet per quarter for the prior five years. Net absorption increased by 2.759 million square feet during the second quarter. This is the lowest quarterly figure since the fourth quarter of 2010, the last time net absorption was negative in the U.S. Last quarter, net absorption was the highest quarterly figure since before the recession so this is a stark reversal in only one quarter. Hopefully, it is just a timing issue. Net absorption averaged roughly 8.2 million square feet over the last four quarters so this quarter’s outcome represents a significant change from recent performance in the market.

Cities with growing industries such as technology and energy continue to outpace the country as a whole in office space absorption. Markets in Houston, San Jose, San Francisco, Dallas, New York, San Diego and Orange County had the strongest growth in the quarter. The Bay Area had the nation’s highest rent growth during the past 12 months with annual rents increasing 6.3 percent with eight leases signed in the Bay Area in the quarter for over 100,000 square feet each. Washington, D.C. remained the tightest office market in the United States, reporting the lowest vacancy rate of 9.6 percent, with New York following at 10 percent. Other strong performing growth markets included Nevada, Florida and Arizona which were the most affected areas of the country from the economic downturn.

Nationally, the jobs market recovery continues and job creation has accelerated over the prior quarter. The brutal winter nationwide was explained as a factor in hiring in the first quarter of this year. However, U.S. employers added an average of 270,000 private sector jobs monthly during second quarter, which is the highest total for a quarter since the late 1990’s tech boom. As a result, the unemployment rate fell to 6.1 percent at the end of June which is 60 basis points lower than the prior quarter. The number of people employed today in the private sector is now greater than what it was at the end of 2008, however 10.8 million remain unemployed. Private sector jobs have now been added for 60 consecutive months. The strongest industry sectors gaining jobs were manufacturing, retail, financial services, hospitality, professional and business services, and healthcare. Furthermore, the number of long-term unemployed has dropped by 1.2 million in the past year and is half of what it was three years ago.

The national investment market continues to perform well. According to Real Capital Analytics, sales of significant office properties in the past quarter are up over 25 percent from the same quarter in 2013. A number of transactions in the 4.0 percent cap rate range have recently been reported in New York City and San Francisco, however cap rates for suburban office buildings are rising. Cap rates nationally for office properties are still averaging slightly below 7.0 percent. The largest office transaction reported for the quarter was the Citigroup Building at 388 Greenwich Street in New York City consisting of 2,635,000 square feet selling for $1.72 billion or approximately $652 per square foot. In Omaha, there were several significant office sale transactions with the sale of ConAgra 6 to Cole Real Estate for $47.5 million or $321.00 per square foot; Park Place located at 1044 North 115th Street which was sold to Immanuel Hospital for $8.75 million or $123.93 per square foot; 94 Dodge Place for $14.371 million or $122.25 per square foot; and the sale of the former Nebraska Spine Center building located at 11819 Miracle Hills Drive consisting of 31,800 square feet and sold to Joe Failla, a local investor, for $2.4 million or $75.47 per square foot.

Colliers International is continuously refining its database. The data shown in the historical tables and graphics in this report have been adjusted to take into account these changes in the database.

This report has been prepared by Colliers International for general information only. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy there of. Colliers International does not guarantee, warrant or represent that the information contained in this document is correct. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from.

This report and other research materials may be found on our website at www.colliers.com.

485 offices in 63 countries

• $2.1 billion in annual revenue
• $75 billion total transaction value
• 1.46 billion square feet under management
• Over 15,800 professionals

Barry Zoob
Senior Vice President
barry.zoob@colliers.com

Melissa Torrez
Director of Market Research
melissa.torrez@colliers.com