Colliers

Omaha

Office 21Q2

Key Takeaways

- Almost 200,000 square feet of positive absorption
- Over 250,000 square feet delivered
- Sublease space is up 57.9% year-over-year
- Workers return to office post-pandemic

		YOY	Forecast
Vacancy Rate	10.6%	▲	▲
Net Absorption	196K SF	▲	▲
Under Construction	664K SF	▼	▼
Overall Class A Asking Lease Rates (FSG)	$29.68/SF	▲	▬

Omaha Office Market Rebounding from Covid-19

The Omaha office market is rebounding from the Covid-19 crisis and experienced almost 200,000 square feet of positive absorption in the second quarter of 2021. This marks three straight quarters of positive absorption after three straight quarters of negative absorption in 2020.

Market Indicators

2.7% Unemployment Rate

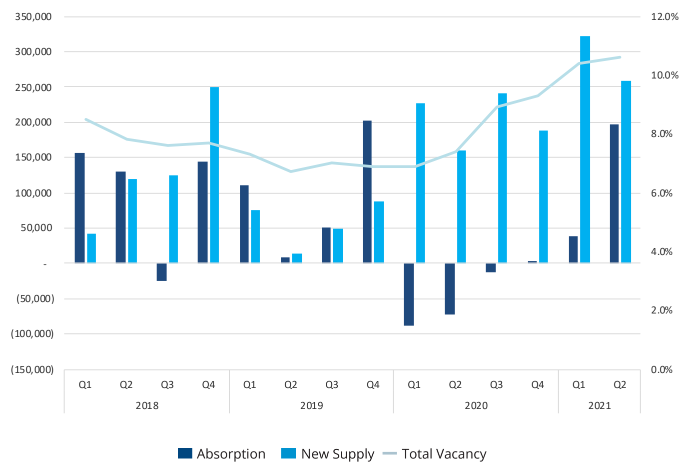
12.9% GDP - Quarterly % change yr/yr

1.537% U.S. 10 Year Treasury Note

Historic Comparison

	20Q2	21Q1	21Q2
Total Inventory (in Thousands of SF)	32.8	34.0	34.2
New Supply (in Thousands of SF)	159.9	321.0	258.8
Net Absorption (in Thousands of SF)	(72.7)	38.2	196.3
Overall Vacancy	7.4%	10.4%	10.6%
Under Construction (in Thousands of SF)	1,619.3	1,038.0	664.0
Overall Asking Lease Rates (FSG)	$22.02	$22.34	$23.88

Market Graph



Vacancy up 20 basis points from the previous quarter and 280 basis points from three years ago. Absorption is positive for the third quarter in a row and 258,844 square feet of new office construction was delivered to the market in the second quarter of 2021.

Recent Transactions

Lease
9110 West Dodge Road
Central West Dodge
15,431 SF

Lease
1023 Leavenworth Street
Midtown | 9,442 SF

Lease
1125 South 103 Street
South Central
6,642 SF

Lease
8710 Frederick Street
Midtown | 6,379 SF

Omaha

Office

21Q2

The Office Market Improves as Some Workers Return to the Office

The Omaha office market is rebounding from the Covid-19 crisis and experienced almost 200,000 square feet of positive absorption in the second quarter of 2021. This marks three straight quarters of positive absorption after three straight quarters of negative absorption in 2020. The vacancy rate increased slightly from 10.4 percent in the first quarter to 10.6 percent in the second quarter as the newly constructed buildings, referenced below, collectively delivered 16.3 percent vacant. Average asking rents are increasing and now sit at $23.88 per square foot on a full-service gross basis, which is $1.86 higher than last quarter and $1.54 higher than one year ago. Over 250,000 square feet of newly constructed office space was delivered to the market in the second quarter bringing the year-to-date delivered space to 579,830 square feet. An additional 664,000 square feet of office space are currently under construction.

By submarket, Old Mill, Downtown, Regency, South Central, Southwest and Suburban West Dodge all have vacancy rates lower than the market as a whole, with vacancy rates of 7.0, 7.4, 7.4, 8.2, 9.5 and 10.0 percent, respectively. The Suburban West Dodge submarket experienced the highest amount of absorption for the quarter with the delivery of two new office properties in Heartwood Preserve at 144th Street and West Dodge Road. The Southwest submarket has the most office square footage under construction with two large projects underway; the LinkedIn buildings in Sterling Ridge located at 132nd and Pacific Streets, and Applied Underwriters' building southwest of 144th and Pacific Streets.

By class, Class B office properties now have the lowest vacancy rate at 10.2 percent, which is 40 basis points lower than the overall vacancy rate of 10.6 percent and 70 basis points lower than Class A office properties. For several years, and until this quarter, Class A product boasted the lowest vacancy rates in the local office market. New construction of Class A office space has been added to the market in the past couple of years to meet the demand for large blocks of office space. While most of this space was build-to-suit space, some speculative space was included in these newly constructed properties. While Class B properties currently show the lowest vacancy levels, that could change in future quarters. Class B properties have the highest amount of available sublease space, for a total of 1.7 percent of inventory, that will be vacated in the future if not leased. In comparison, the amount of Class B available sublease space was 0.8 percent in the fourth quarter, 2019 prior to the Covid-19 crisis.

By property, the largest move-in for the quarter was the completion of Valmont Industries' new 127,548-square-foot office property in Heartwood Preserve located southwest of 144th Street and West Dodge Road. The space they formerly occupied in Bank of the West Business Park will be vacated in the third quarter of this year. Carson Wealth moved in to 80,000 square feet of a newly constructed 120,000-square-foot office property in Heartwood Preserve, with the remaining space on the market for lease. Raymond James and Associates moved in to 14,770 square feet in the Centris Federal Credit Union building in Sterling Ridge that delivered last quarter. The two largest move-outs for the quarter were AAA Auto Club Group's 44,800 square feet in the Altech area of 144th and F Streets, and the new 37,856-square-foot vacancy at Chalco Valley Tech Center, near 144th Street and Chandler Road.

During the Covid-19 crisis, many office workers were able to successfully work from home. As a result, some office users in the area have placed space on the sublease market as some businesses scale back the amount of office space required. The amount of available sublease office space at the end of the quarter was 435,293 square feet, up 57.9 percent from the second quarter of 2020 amount of 275,727 square feet. While that is a large increase, the amount of available sublease office space in the Omaha market accounts for only 1.3 percent of the total office inventory.

Nationally, decisions of when and how to return to the office differ by company and industry. Large finance companies are largely expecting workers to return to the office while technology companies are more flexible. JP Morgan Chase and Goldman Sachs are requiring employees to return to the office while Citigroup is embracing a more flexible environment. JP Morgan Chase plans for their entire U.S. workforce to return to offices starting in July while Citigroup has designated most roles as hybrid while expecting employees to be in the office at least three days a week. Bank of America and Morgan Stanley expect employees to return by September. The differences in return-to-work policies reflect different philosophies. JP Morgan Chase's Chief Executive Officer, Jamie Dimon recently stated that "remote work doesn't work for those who want to hustle." Others cite the value of office culture for staff and an opportunity for younger employees to build their networks and skills as a drive behind encouraging employees to return to the office. Conversely, Citigroup CEO, Jane Fraser, says that a philosophy of flexible working will promote inclusion and retention. Fraser also theorizes that a flexible work environment gives them a competitive edge in recruiting. Both Apple and Uber expect employees to return to the office three days a week in September. Facebook announced that employees can apply for remote work if their role allows. Google employees will continue to work remotely until September when employees will decide whether to return to the office or apply for full-time remote work. Twitter will open their offices at 50 percent capacity for vaccinated employees beginning July 12th.

In conclusion, the local office market is rebounding from the Covid-19 crisis with a slight risk of unleased sublease space potentially increasing the vacancy rate in coming quarters. The national office market is experiencing an increase in sublease space as well, however, increases in the vacancy rate have yet to result in a decrease of asking rents in both the local and national markets. Some uncertainty remains as office using employers continue to make decisions regarding their office use needs. That being said, there is light at the end of the tunnel.

Omaha, NE | 2021 Q2 | Office | Market Statistics

Submarket	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
Central West Dodge	2,648,134	13.8%	0.7%	14.6%	14.7%	15.0%	7,716	6,649	-	-	$23.49
Council Bluffs	719,223	11.0%	0.0%	12.4%	11.6%	11.1%	(3,875)	(3,875)	-	-	$23.45
Downtown	7,761,395	6.7%	0.2%	7.0%	7.4%	7.2%	9,798	213,952	-	194,850	$25.90
Midtown	4,883,058	10.1%	0.0%	10.2%	11.2%	11.0%	5,322	(182,274)	-	-	$25.27
Miracle Hills	945,747	14.3%	0.0%	14.3%	16.3%	16.0%	(3,140)	27,460	-	-	$24.63
Northeast	198,174	2.8%	0.0%	2.8%	16.9%	16.4%	(1,000)	(1,000)	-	-	$21.16
Northwest	2,294,475	14.7%	4.2%	18.9%	15.1%	14.1%	(12,290)	(77,78)	-	11,296	$22.08
Old Mill	2,106,273	14.6%	1.8%	16.4%	7.0%	7.4%	8,494	14,671	-	-	$21.66
Regency	1,139,462	8.0%	0.9%	8.9%	7.4%	8.1%	7,586	9,200	-	-	$26.74
South Central	2,281,759	7.5%	1.3%	8.8%	8.2%	9.4%	18,844	(22,355)	24,000	-	$19.61
Southeast	1,502,666	12.4%	0.0%	12.4%	20.9%	21.3%	7,133	9,778	-	-	$18.04
Southwest	3,681,464	6.9%	1.6%	9.5%	9.5%	8.3%	(68,451)	11,165	460,000	126,136	$18.94
Suburban West Dodge	4,037,286	9.4%	4.2%	13.7%	10.0%	10.1%	220,194	228,983	180,000	247,548	$30.17
TOTAL	34,199,116	9.7%	1.3%	11.2%	10.6%	10.4%	196,331	234,567	664,000	579,830	$23.88
Building Class by CBD/Suburban Summary											
CBD											
A	2,945,307	9.0%	0.0%	9.0%	8.5%	8.2%	-	194,850	-	194,850	$29.26
B	4,296,025	4.3%	0.3%	4.9%	5.9%	5.7%	12,955	23,699	-	-	$22.82
C	520,063	13.2%	0.0%	13.2%	13.8%	13.2%	(3,157)	(4,597)	-	-	$20.23
TOTAL	7,761,395	6.7%	0.2%	7.0%	7.4%	7.2%	9,798	213,952	-	194,850	$25.90
Suburban											
A	6,118,329	10.3%	0.8%	11.2%	12.0%	12.2%	243,678	156,103	640,000	362,548	$29.86
B	17,648,129	11.0%	2.1%	13.4%	11.3%	11.0%	(77,260)	(154,136)	24,000	22,432	$21.92
C	2,671,263	8.9%	0.2%	9.1%	11.9%	12.7%	20,115	18,648	-	-	$18.48
TOTAL	26,437,721	10.6%	1.6%	12.4%	11.5%	11.4%	186,533	20,615	664,000	384,980	$23.50
Total											
A	9,063,636	9.9%	0.6%	10.5%	10.9%	10.8%	243,678	350,953	640,000	557,398	$29.68
B	21,944,154	9.7%	1.7%	11.7%	10.2%	9.9%	(64,305)	(130,437)	24,000	22,432	$21.99
C	3,191,326	9.6%	0.2%	9.8%	12.2%	12.8%	16,958	14,051	-	-	$18.91
TOTAL	34,199,116	9.7%	1.3%	11.2%	10.6%	10.4%	196,331	234,567	664,000	579,830	$23.88
Building Class											
A	9,063,636	9.9%	0.6%	10.5%	10.9%	10.8%	243,678	350,953	640,000	557,398	$29.68
B	21,944,154	9.7%	1.7%	11.7%	10.2%	9.9%	(64,305)	(130,437)	24,000	22,432	$21.99
C	3,191,326	9.6%	0.2%	9.8%	12.2%	12.8%	16,958	14,051	-	-	$18.91
GRAND TOTAL	34,199,116	9.7%	1.3%	11.2%	10.6%	10.4%	196,331	234,567	664,000	579,830	$23.88

FOR MORE INFORMATION
Melissa Torrez
Director of Market Research
Nebraska
+1 402 763 1744
melissa.torrez@colliers.com

Mike Potthoff
President, Principal
Nebraska
+1 402 763 1751
mike.potthoff@colliers.com

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$3.3B
in revenue

2B
square feet under management

18,000 +
professionals and staff

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Market Contacts:

Melissa Torrez
Director of Market Research
Nebraska
+1 402 763 1744
melissa.torrez@colliers.com

Mike Potthoff
President, Principal
Nebraska
+1 402 763 1751
mike.potthoff@colliers.com

Contributors:

Adam Marek
Vice President, Nebraska

11516 Miracle Hills Drive, Suite 400
Omaha, NE 68154
+1 402 345 5866
colliers.com