

NAI FMA Realty

Market Report Second Half 2010
Lincoln, Nebraska



Photo courtesy of Assurity Life Insurance Co.

Celebrating 50 Years
1961-2011

Second Half 2010

NAI FMA Realty
Commercial Real Estate Services, Worldwide.

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NAI FMA Realty

Market Report Second Half 2010 Office

TRENDS

Vacancy Rate



Asking Rents



Net Absorption



OFFICE OVERVIEW

After a bumpy start to the year, the recovery in Lincoln's office market fundamentals, as measured by vacancy, begins with stabilization during the second half of 2010. Despite the overall vacancy rate ending at 11.6 percent for the end of the year, up from 10.4 percent at the end of 2009, vacancy was only ten basis points higher than what this office reported at midyear. Evidence of stabilization can be found in the growth which occurred in three out of five submarkets. However, this growth was modest with no individual submarket achieving more than 55,000 square feet of positive net absorption over the first half.

Of the five submarkets in Lincoln, two experienced declines in overall vacancy in the last six months - southwest (2.6 percent) and northwest (0.4 percent); while two remained virtually unchanged. The northeast submarket recorded the greatest increase in the vacancy rate to 14.0 percent compared with 10.5 percent mid-year. The rise in vacancy was due in large part, to Allied vacating its N. Cotner building and consolidating to the Williamsburg office and Visinet shutting its doors.

Market sentiments from both sides of the deals agree that the last six months brought increased touring and leasing activity as tenants who were once hesitant to enter the market amid economic uncertainty have begun to refocus on their real estate needs.

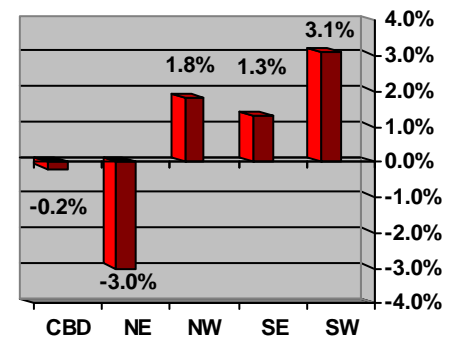
Although renewals or lateral relocations drove the majority of activity there were a handful of expansions to note. The VA relocated to its new 65,000 square foot regional office in the Williamsburg area. In the CBD's renovated Salvation Army building at 151 N. 8th Street, two of the upper floors were leased to Nebraska Global and Agile Sports Technology. In Lincoln's largest submarket, southeast, UBS Financial Services, Inc. consolidated two offices and now occupies the second floor of the Carriage House building in Village Gardens. Northwestern Mutual moved down a floor in the Park One Building to expand into vacant space and Mutual of Omaha leased just over 10,000 square feet in Pioneer Greens. The city's largest lease of the half was Kansas-based KVC Behavioral Health at 5220 S. 16th Street for 38,766 square feet. KVC is new to Lincoln and oversees foster care. It's important to note, however, that a number of financial service providers contracted space in 2010 such as Morgan Stanley vacating space and joining its Omaha office and Great Western Bank placing excess office space on the market following its acquisition of TierOne Bank.

There are signs of life in the capital markets with a recent large acquisition booked in late 2010 by a Phoenix-based investment firm. Cole Real Estate Investments purchased the Dell Perot Systems 151,000 square foot call center facility located in the UNL Technology Park. Dell's building sold for \$22 million.

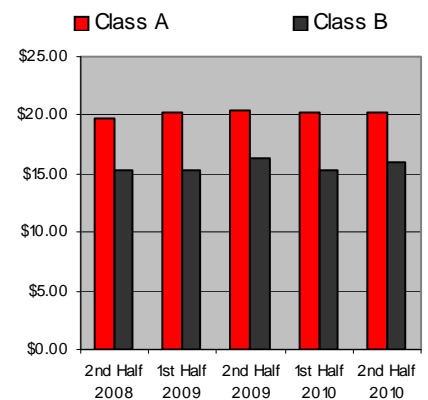
Looking forward to 2011, the office market should tighten further as the local economy continues to strengthen and stabilize.



Net Absorption by Sector



Average Office Rents



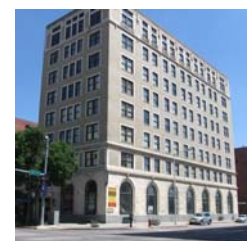
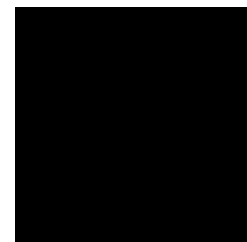
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Market Report Second Half 2010

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	64,655	10.0%	9,366	\$17.15
Class B	100	2,864,970	423,943	14.8%	(18,476)	\$15.99
Class C	24	262,196	9,396	3.6%	1,300	\$11.80
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	129	3,776,120	497,994	13.2%	(7,810)	\$15.99
SUBURBAN-NE						
Class A	6	160,158	20,037	12.5%	(2,800)	\$17.76
Class B	88	1,081,460	152,207	14.1%	(50,768)	\$14.69
Class C	43	370,656	36,538	9.9%	2,027	\$12.04
New	3	26,579	21,089	79.3%	2,169	\$15.02
Subtotal	140	1,638,853	229,871	14.0%	(49,372)	\$14.57
SUBURBAN-NW						
Class A	7	550,768	6,641	1.2%	-0-	\$24.00
Class B	43	680,967	117,282	17.2%	17,495	\$14.97
Class C	13	145,581	600	0.4%	3,804	\$11.00
New	1	5,131	1,700	33.1%	3,431	\$20.00
Subtotal	64	1,382,447	126,223	9.1%	24,730	\$15.49
SUBURBAN-SE						
Class A	7	312,563	42,919	13.7%	3,879	\$21.78
Class B	365	3,752,053	366,326	9.8%	(6,367)	\$16.84
Class C	16	96,512	37,165	38.5%	(3,198)	\$12.11
New	4	88,579	23,427	26.4%	61,270	\$20.57
Subtotal	392	4,249,707	469,837	11.1%	55,584	\$17.10
SUBURBAN-SW						
Class A	3	277,835	-0-	0.0%	-0-	N/A
Class B	101	1,103,232	121,148	11.0%	40,396	\$17.85
Class C	21	113,829	1,600	1.4%	1,444	\$13.00
New	2	14,361	10,153	70.7%	4,208	\$19.50
Subtotal	127	1,509,257	132,901	8.8%	46,048	\$17.92
OFFICE TOTALS	852	12,556,384	1,456,826	11.6%	69,180	\$16.23



Representative Office Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
8600 Executive Woods Drive	10,197 SF	Wilderness Woods Holdings LLC	Richard & Nancy Greb	\$1,159,575	\$113.72	Southwest
777 Research Drive	152,292 SF	Cole Real Estate Investments	KDC Real Estate & Investments	\$22,000,000	\$144.46	Northwest

Representative Office Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
5220 S. 16th Street	KVC Behavioral Health	38,766 SF	New	Southwest
5800 Hidcote Drive*	UBS Financial Services, Inc.	12,957 SF	Relocation	Southeast

*Indicates Transaction Represented by NAI FMA Realty

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Market Report Second Half 2010

Retail



TRENDS

Vacancy Rate



Asking Rents



Net Absorption



RETAIL OVERVIEW

The Lincoln retail market showed signs of increased consumer confidence and stabilization during the second half of 2010, as the overall vacancy rate slid down to 8.3 percent and 307,282 net square feet was absorbed. The northeast submarket witnessed the only spike in vacancy with Gordmans moving out of their 101,000 square foot store in the core to downsizing into a smaller concept store in north Lincoln. Tenant interest in retail space has improved over last year, but actual leasing momentum in the form of closed transactions is still well below landlord expectations. As a result, landlords continue to focus on retaining existing tenants and competing for new ones through lease incentives and upgrades to the property.

The availability of vacant storefronts at more affordable rents resulted in many national and regional retailers to take advantage of the market conditions and snap up opportunities to relocate or expand in Lincoln. Trader Joe's, The Egg & I restaurant, Cherry on Top, Red Mango and Ann Taylor Loft all are new concepts that opened or announced plans to move into the market. Following a national trend, pop-up leasing was a noticeable activity during the holidays. Toys 'R' Us opened 600 Toy 'R' Us Express stores nationally to test out new locations and if successful, lead to permanent lease deals for the landlords. Two stores opened in Lincoln one at each of the malls but both closed by the end of January 2011. Restaurants were by far the most active in the market. The CBD alone added six new restaurants during the second half with four more slated to open in early 2011. Store closings still trickled in for the market. Struggling Blockbuster Video continues shuttering its stores as leases expire. Center Stage filed for bankruptcy. Five Willows spa and a number of small shops closed its doors after not being able to hold on for the recovery.

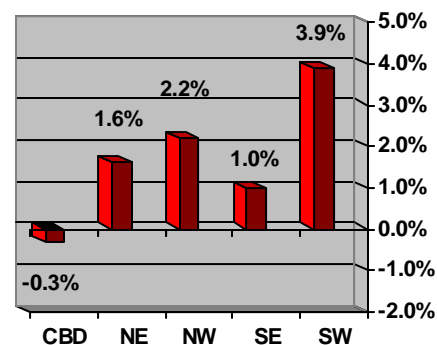
Difficulty in finding financing will continue to slow the development of new retail centers. A 44,000 square foot retail/office building is under construction in the Fallbrook Development in northwest Lincoln and was the only speculative retail building under construction in 2010. Expected completion is summer 2011.

The retail sales market improved with several transactions occurring during the last half of 2010. A retail strip center located at 8320 Northwoods Drive, sold for a price of \$2.05 million or \$135.98 per square foot. Lincoln's largest transaction was low-based Casey's General Stores' acquisition of the Kabredlo's convenience store chain for \$45.8 million. Of the forty-four stores acquired, fourteen locations are in Lincoln bringing Casey's local store count from eight to twenty-two.

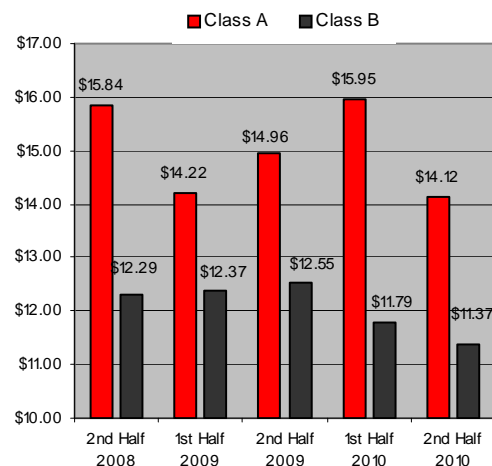
Going forward, Lincoln needs to continue stabilized job growth, witness gains in the housing sector and increased consumer spending to help the retail sector maintain the improvement in market conditions it saw at the end of 2010.



Net Absorption by Sector



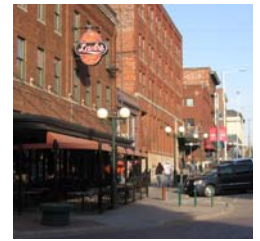
Average Retail Rents



NAI FMA Realty

Market Report Second Half 2010

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	2,981	3.6%	4,811	\$14.00
Class B	126	1,056,789	114,686	10.9%	(19,563)	\$9.13
Class C	64	364,732	64,583	17.7%	9,695	\$6.61
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	194	1,504,356	182,250	12.1%	(5,057)	\$8.32
SUBURBAN-NE						
Class A	3	43,789	3,713	8.5%	587	\$14.50
Class B	386	6,356,634	638,128	10.0%	51,593	\$14.55
Class C	138	629,587	8,668	1.4%	10,876	\$7.23
New	4	83,332	12,097	14.5%	47,239	\$16.63
Subtotal	531	7,113,342	662,606	9.3%	110,295	\$14.50
SUBURBAN-NW						
Class A	6	236,956	-0-	0.0%	-0-	N/A
Class B	182	1,699,057	99,766	5.9%	56,059	\$10.08
Class C	103	561,843	25,611	4.6%	(1,212)	\$8.64
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	291	2,497,856	125,377	5.0%	54,847	\$9.78
SUBURBAN-SE						
Class A	11	671,491	63,022	9.4%	(871)	\$13.73
Class B	298	4,764,125	319,629	6.7%	73,358	\$13.13
Class C	67	365,831	35,508	9.7%	2,227	\$8.22
New	3	45,570	45,570	100.0%	(15,817)	\$22.06
Subtotal	379	5,847,017	463,729	7.9%	58,897	\$13.71
SUBURBAN-SW						
Class A	8	362,739	15,390	4.2%	(4,648)	\$14.26
Class B	144	1,042,838	51,480	4.9%	72,743	\$9.98
Class C	125	881,424	95,302	10.8%	20,205	\$5.14
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	277	2,287,001	162,172	7.1%	88,300	\$7.54
RETAIL TOTALS	1,672	19,249,572	1,596,134	8.3%	307,282	\$12.49



Representative Retail Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
8320 Northwoods Drive	15,076 SF	Regor LLC	Peters Properties LLC	\$2,050,000	\$135.98	Northeast
14 Locations in Lincoln	44,701 SF	Casey's Retail Co.	Olderbak Enterprises North LLC	\$11,674,360	\$261.17	Various

Representative Retail Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
5050 N. 27th Street	Gordman's	55,000 SF	Relocation	Northeast
6201 Artisan Way*	Graham Tire	8,625 SF	New	Southeast

*Indicates Transaction Represented by NAI FMA Realty

NAI FMA Realty

Market Report Second Half 2010 Industrial

TRENDS

Vacancy Rate



Asking Rents



Net Absorption



INDUSTRIAL OVERVIEW

Lincoln's industrial leasing market took a step forward during the second half of 2010 by posting an impressive positive net absorption of 585,000 square feet. The vacancy rate decreased to 9.2 percent down from its peak in mid-2010 at 12.2 percent, ending a long trend of minimal activity since early 2008.

Leasing activity was controlled by local companies spread across several submarkets but the lion's share of this half's occupancy gains were felt in the northwest. Molex, Inc. inked the largest deal of 120,000 square feet, committing to a long-term lease in the former Exmark warehouse while LapkoSoft expanded into an additional 40,000 square foot facility. Vacancy was further affected by the City of Lincoln's year-end purchase of a 355,000 square foot facility at 901 W. Bond for \$6.375 million. The city initially plans to use a portion of the building for the Public Work's engineering services division but eventually make it the city's Public Works Campus. In the northeast submarket, warehouse properties helped counter the big block of space left vacant by Window Technology's departure of 124,000 square feet. And in the CBD, Telesis, Inc., who owns Emphyrean Brewing Co., plans to relocate its downtown brewery operations and redevelop the former Meadow Gold plant into a mixed-use project. Telesis purchased the property for over \$1.2 million and as a result the CBD submarket vacancy rate dropped from 30.3 percent in the first half to a mere 1 percent.

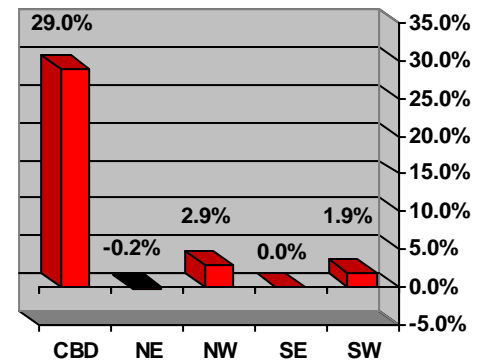
Two noteworthy business acquisitions occurred in July 2010. Sysco, an institutional food distribution company, announced its purchase of Lincoln Poultry, a 53-year-old locally owned food distributor. Lincoln Poultry's facility located in northwest Lincoln sold for over \$7.6 million. That same month, Sysco invested in its future expansion plans by acquiring 24.71 acres of adjacent land for \$2.9 million. Sysco's plans for their existing southwest location are unknown. The bankrupt Premium Protein Products' plants in Hastings and Lincoln were acquired by a joint venture of the New York City's Poretz family and Lincoln Provision Inc. of Chicago, a food wholesaler. The new owners intend to make the Hastings plant a kosher slaughter operation but plans for the Lincoln facility are unclear. The Lincoln facility was purchased for \$700,000.

As expected, asking rental rates continued their steady decline during the last half of 2010 – decreasing to \$2.60 per square foot triple net from the first half's \$3.70 per square foot triple net. Asking and effective rental rates are expected to stabilize in 2011 as landlords begin to test the market and start to cut back on concessions.

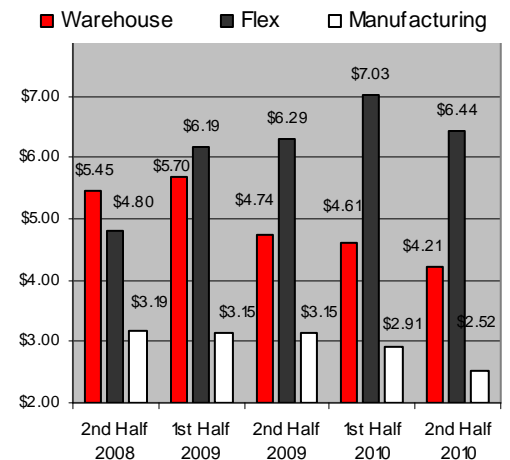
Development activity is still on pause, which should allow the time for the market to back fill some of the empty supply in the coming months. Even though market activity is still off of peak levels, overall conditions appear to be stabilizing. The strong up-tick in activity among smaller local users has helped encourage a sense of cautious optimism that the Lincoln industrial market is moving towards recovery.



Net Absorption by Sector



Average Industrial Rents



NAI FMA Realty

Market Report Second Half 2010 Industrial



SUBMARKET/CLASS	# BLDGS	TOTAL RENTABLE SQ. FT.	TOTAL AVAILABLE SQ. FT.	% VACANT	NET ABSORPTION	TOTAL AVERAGE ASKING RATE (\$/SF/YR)
INDUSTRIAL						
CBD						
Warehouse	13	223,460	6,278	2.8%	(6,278)	\$3.00
Flex	7	85,293	-0-	0.0%	-0-	N/A
Manufacturing	7	325,334	-0-	0.0%	192,266	N/A
Subtotal	27	634,087	6,278	1.0%	185,988	\$3.00
SUBURBAN-NE						
Warehouse	271	4,226,201	484,067	11.5%	138,273	\$4.55
Flex	64	884,895	57,884	6.5%	3,750	\$6.83
Manufacturing	49	3,282,883	214,170	6.5%	(143,789)	\$2.68
Subtotal	384	8,393,979	756,121	9.0%	(1,766)	\$4.20
SUBURBAN-NW						
Warehouse	198	3,930,659	766,886	19.5%	191,817	\$2.74
Flex	25	336,249	40,247	12.0%	19,495	\$6.77
Manufacturing	32	5,297,821	418,441	7.9%	62,934	\$2.01
Subtotal	255	9,564,729	1,225,574	12.8%	274,246	\$2.54
SUBURBAN-SE						
Warehouse	19	122,857	8,344	6.8%	-0-	\$6.42
Flex	23	185,135	13,238	7.2%	-0-	\$5.50
Manufacturing	1	8,829	-0-	0.0%	-0-	N/A
Subtotal	43	316,821	21,582	6.8%	-0-	\$5.85
SUBURBAN-SW						
Warehouse	261	4,568,163	163,438	3.6%	74,237	\$4.34
Flex	74	605,270	31,447	5.2%	52,959	\$6.67
Manufacturing	22	1,511,922	151,638	10.0%	-0-	\$2.88
Subtotal	357	6,685,355	346,523	5.2%	127,196	\$3.91
INDUSTRIAL TOTALS	1,066	25,594,971	2,356,078	9.2%	585,664	\$2.60



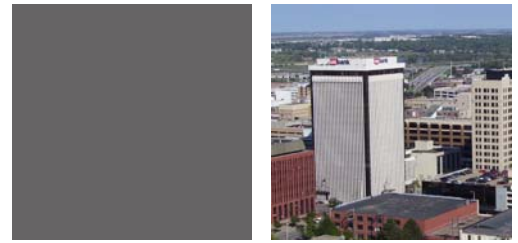
Representative Industrial Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
800 Cattail Road	214,530 SF	Sysco Corp	E & E Property Holdings LLC	\$7,640,233	\$35.61	Northwest
726 L Street*	192,000 SF	The Dairy House LLC	Southern Foods Group LP	\$1,218,822	\$6.35	Downtown
5301 Alvo Road	25,920 SF	Inland Truck Parts Co.	Detweiler Properties I. LLC	\$4,100,000	\$158.18	Northeast

Representative Industrial Leases					
Address	Tenant	Size (SF)	Deal Type	Submarket	
1000 W Upland Avenue	Molex Inc.	120,000 SF	New	Northwest	
4021 N 27th Street*	LapkoSoft	40,200 SF	New	Northwest	

*Indicates Transaction Represented by NAI FMA Realty

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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 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.

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.

