

# NAI FMA Realty

Market Report First Half 2009  
Lincoln, Nebraska



First Half 2009

# NAI FMA Realty

Market Report First Half 2009

Office

## TRENDS

Vacancy Rate



Asking Rents



Net Absorption

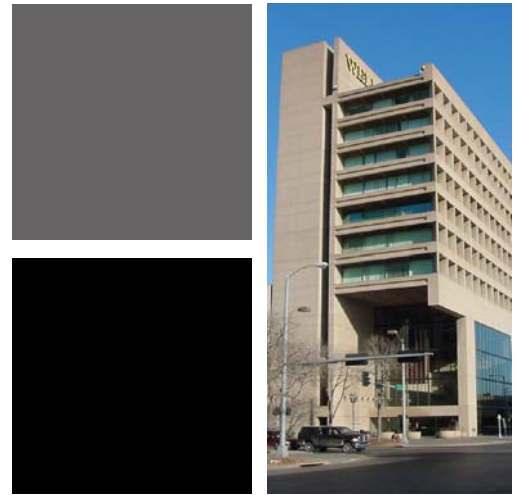


## OFFICE OVERVIEW

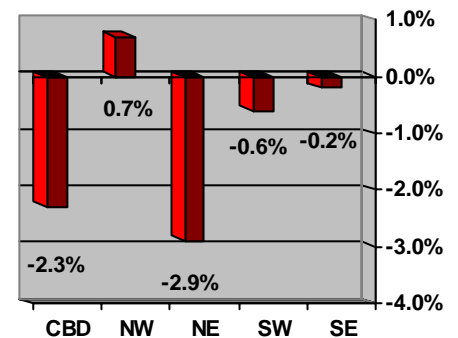
As the national economy continued to contract during the first six months of the 2009, Lincoln followed the trend. Unemployment in the Lincoln, Nebraska Metropolitan Statistical Area, as reported by the Bureau of Labor Statistics has risen from an annual 3.1% in 2008 to 4.8% in June 2009. Not surprisingly, the Lincoln office market has continued to contract as evidenced by rising vacancies throughout the community. All but one submarket reported negative net absorption for the first half of 2009. City-wide, office vacancy has increased from 8.1% at the end of 2008 to 9.3% during this time.

The two submarkets that were most negatively impacted in the first half of 2009 were the northeast submarket and the central business district (CBD). The vacancy rate for the northeast submarket spiked to 10.0% at the end of the first half. This significant rise is attributed to a large block of space that was vacated in the core of the city, the addition of two newly constructed office buildings on N. 84<sup>th</sup> Street with a combined vacancy of 60%, as well as companies downsizing. The overall vacancy rate in the CBD increased over two percentage points to 9.4%. This is mainly a reflection of the departure of Gallup from downtown to the Fallbrook Development and the conversion of office space in the Haymarket that was previously identified as available retail space. On the upside, with Gallup's relocation and other market activity, the northwest office submarket reported a positive net absorption of 6,253 square feet.

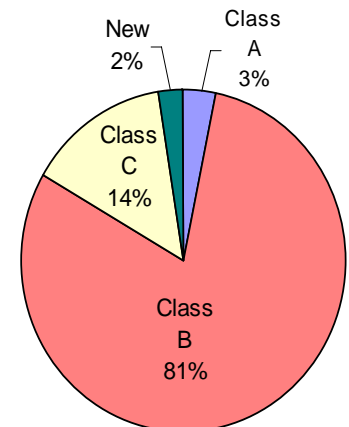
Market adjustments to rising vacancies are seen with a modest decline in asking rents, which have fallen by approximately \$.50/square foot, and more landlords offering free rent and tenant improvement concessions. Importantly, new construction has fallen dramatically as there are few new office buildings in the pipeline. At mid-year, Lincoln saw only one notable project completion. Fiserv (formerly Information Technology Inc.) finished its fourth building, a nearly 70,000 square foot expansion, to its campus in the southwest submarket. Building permit value for new office, bank and professional buildings, as reported by the City of Lincoln Building and Safety Department, added up to a mere \$2.1 million for the first six months of the year. For the same period in 2008, the total value of building permits in this category was \$13.7 million, which was already a significant decline from the \$32 million value in permits pulled for the same in 2007. However, building permits for alterations and expansions surged to \$18 million during the first six months of the year as compared to \$8 million and \$10 million in the first six months of 2008 and 2007 respectively. As there is a lag between issuance of a permit and occupancy, there is optimism that vacancy will decline somewhat provided there is no further softening in the local economy.



## Net Absorption by Sector



## Office Market Inventory

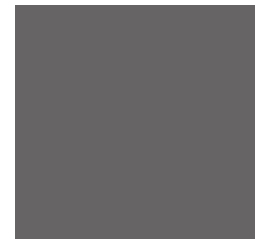


# NAI FMA Realty

## Market Report First Half 2009 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	6	648,954	89,540	13.8%	-0-	\$17.49
Class B	101	2,890,803	259,067	9.0%	(90,131)	\$16.66
Class C	24	262,196	9,699	3.7%	-0-	\$11.50
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	131	3,801,953	358,306	9.4%	(90,131)	\$16.30
<b>SUBURBAN-NE</b>						
Class A	6	160,158	28,517	17.8%	(7,313)	\$17.92
Class B	74	983,811	91,168	9.3%	(22,981)	\$15.38
Class C	44	373,536	22,117	5.9%	(10,217)	\$12.08
New	9	76,102	17,870	23.5%	(8,781)	\$19.55
Subtotal	133	1,593,607	159,672	10.0%	(49,292)	\$15.42
<b>SUBURBAN-NW</b>						
Class A	6	398,476	9,000	2.3%	15,500	\$24.00
Class B	42	649,855	102,359	15.8%	(9,247)	\$15.50
Class C	11	138,627	-0-	0.0%	-0-	N/A
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	59	1,186,985	111,359	9.4%	6,253	\$16.27
<b>SUBURBAN-SE</b>						
Class A	7	312,563	31,100	9.9%	2,000	\$21.86
Class B	342	3,622,472	316,100	8.7%	(10,566)	\$15.60
Class C	15	94,736	10,850	11.5%	(1,776)	\$9.69
New	6	89,104	26,777	30.1%	1,515	\$22.59
Subtotal	370	4,118,875	384,827	9.3%	(8,827)	\$16.08
<b>SUBURBAN-SW</b>						
Class A	3	277,835	-0-	0.0%	-0-	N/A
Class B	95	1,061,948	98,113	9.2%	(18,250)	\$18.56
Class C	21	113,829	8,973	7.9%	-0-	\$13.00
New	5	37,219	15,611	41.9%	2,154	\$19.99
Subtotal	124	1,490,831	122,697	8.2%	(16,096)	\$18.27
<b>OFFICE TOTALS</b>	<b>817</b>	<b>12,192,224</b>	<b>1,136,861</b>	<b>9.3%</b>	<b>(158,093)</b>	<b>\$13.21</b>



Representative Office Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
5440 South Street*	27,959	South Street Holdings LLC	West Point LLC	\$4,250,000	\$152.01	Southeast
1620 Normandy Court	7,080	Donald Dunn	Pioneer Woods LLC	\$1,100,000	\$155.37	Southwest

Representative Office Leases					
Address	Tenant	Size (SF)	Deal Type	Submarket	
425 Fallbrook Blvd.*	Gallup, Inc.	15,500	Relocation	Northwest	
238 S. 13th Street	United Way of Lincoln & Lancaster Cty	6,716	Relocation	Downtown	

\*Indicates Transaction Represented by NAI FMA Realty

# NAI FMA Realty

## Market Report First Half 2009

### Retail

#### TRENDS

Vacancy Rate



Asking Rents



Net Absorption



#### RETAIL OVERVIEW

The retail real estate market in Lincoln continues to face challenges in 2009. In fact, this half showed negative net absorption for all retail submarkets across Lincoln with the overall vacancy rate rising 18%.

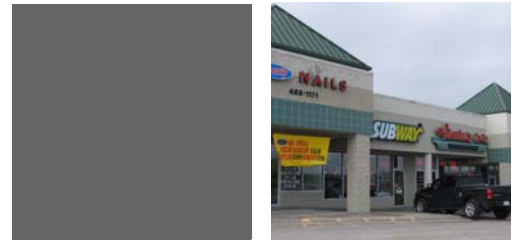
With several closings in 2008, no additional national retailers have announced store closings since the departure of Circuit City in the first quarter of 2009. The local market is not likely to see expansion activity from national retailers until residential development fills in around the newer retail centers. This will present opportunities for local and regional retailers that are not situated in this market. Existing centers are dealing with the problem of retaining tenants while competing against new developments, in a market with few expanding retailers.

Effective rates of recent transactions are running as much as 10-15 percent below asking rates which have shown little movement. Many tenants are taking advantage of market conditions to improve their positions by moving, modifying terms or extending leases with more favorable terms.

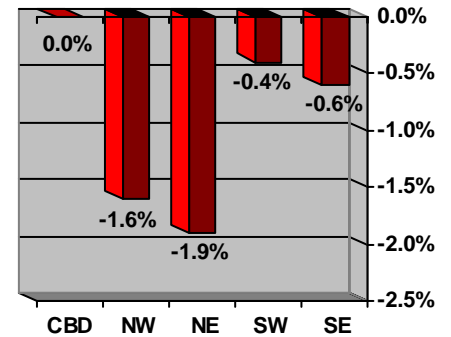
Retailers expanding in the market include CVS Pharmacy, who purchased property at 70<sup>th</sup> & O Streets for its first free-standing Lincoln location. 7-Day Furniture has relocated and expanded into 40,000 square feet of the long vacant, former K-Mart building at 56<sup>th</sup> & Hwy. 2. Jimmy John's continued its market wide expansion with two new locations at 16<sup>th</sup> & Pine Lake Road and 84<sup>th</sup> & Holdrege and two other locations scheduled for completion in the near future. Smaller retailers opening new stores or expanding include Snap Fitness, Verizon Wireless, Dietze Music, True Value, Bike Peddlers and Joyride Bicycles. JC Penny is completing an extensive remodeling project and addition of a Sephora Beauty Store within its building. An area experiencing new growth is the N. 27<sup>th</sup> Street corridor. A local developer purchased land to construct a second location for Mazatlan Mexican Restaurant and Jet Splash Car Wash and has pre-leased two bays in the adjoining retail strip.

On the negative side, the fast food restaurant, Taco Bueno, pulled out of all three Lincoln locations. A noticeable trend in Lincoln is older restaurant vacancies being re-opened as local mexican food venues. D'Leons Mexican food has been one such restaurant concept that has capitalized on this trend with opening two new locations this quarter for a total of five locations city-wide.

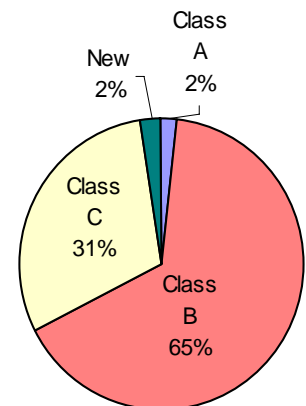
Looking forward, the Lincoln retail market is fortunate that it is not overbuilt, however, developers and lenders continue to reduce their risk by requiring a higher percentage of pre-leased space before starting construction.



#### Net Absorption by Sector



#### Retail Market Inventory



# NAI FMA Realty

## Market Report First Half 2009 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	15,921	17.5%	-0-	\$13.53
Class B	125	1,044,932	115,746	11.1%	(34,750)	\$12.64
Class C	64	364,732	58,079	15.9%	2,232	\$7.32
New	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal	193	1,492,499	189,746	12.7%	(32,518)	\$12.11
<b>SUBURBAN-NE</b>						
Class A	3	43,789	4,300	9.8%	(4,300)	\$13.95
Class B	368	5,829,396	489,312	8.4%	(116,719)	\$13.52
Class C	139	630,387	16,879	2.7%	(3,500)	\$9.79
New	12	374,019	16,893	4.5%	(2,821)	\$11.05
Subtotal	522	6,877,591	527,384	7.7%	(127,340)	\$13.09
<b>SUBURBAN-NW</b>						
Class A	6	236,956	-0-	0.0%	-0-	N/A
Class B	170	1,558,893	97,072	6.2%	(13,935)	\$9.43
Class C	105	577,459	32,512	5.6%	(23,105)	\$4.90
New	9	99,887	47,252	47.3%	(479)	\$14.74
Subtotal	290	2,473,195	176,836	7.2%	(37,519)	\$9.55
<b>SUBURBAN-SE</b>						
Class A	12	684,031	75,587	11.1%	(47,482)	\$13.73
Class B	276	4,136,913	327,857	7.9%	4,129	\$14.78
Class C	69	368,229	33,354	9.1%	(7,152)	\$9.65
New	15	518,143	82,186	15.9%	2,299	\$19.59
Subtotal	372	5,707,316	518,984	9.1%	(48,206)	\$14.58
<b>SUBURBAN-SW</b>						
Class A	8	382,864	14,384	3.8%	20	\$15.65
Class B	130	906,542	85,849	9.5%	(12,530)	\$11.47
Class C	125	881,424	102,686	11.6%	7,348	\$7.28
New	5	114,736	14,452	12.6%	-0-	\$15.50
Subtotal	268	2,285,566	217,371	9.5%	(5,162)	\$10.93
<b>RETAIL TOTALS</b>	<b>1,645</b>	<b>18,836,167</b>	<b>1,630,321</b>	<b>8.7%</b>	<b>(250,819)</b>	<b>\$12.05</b>



<b>Representative Retail Sales</b>						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
7000 O Street	37,674 (land)	NE CVS Pharmacy, LLC	Tunzmor Growth, Ltd	\$1,800,000	\$47.78	Northeast
8341 O Street*	6,341	Xue Wei Chen	Trieu & Luu Zhou, LLC	\$550,000	\$86.74	Southeast

<b>Representative Retail Leases</b>				
Address	Tenant	Size (SF)	Deal Type	Submarket
5601 S. 59th Street	Rod Kush's 7-Day Furniture	40,000	Relocation & Expansion	Southeast
1400 Old Cheney Road*	Joyride Bicycles	6,000	New	Southwest

\*Indicates Transaction Represented by NAI FMA Realty

# NAI FMA Realty

## Market Report First Half 2009 Industrial

### TRENDS

Vacancy Rate



Asking Rents



Net Absorption



### INDUSTRIAL OVERVIEW

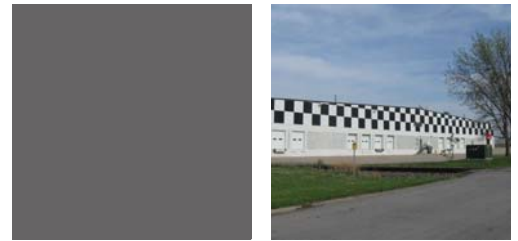
Lincoln's industrial market saw an increase in activity during the first half of 2009 from companies looking to take advantage of today's market. That boost, however, wasn't enough to stop the upward trend as overall vacancy increased to 12.1% from 10.8% at the end of 2008.

Most activity has been isolated to the expansion of businesses with a local presence, such as the case with LICOR, who purchased a neighboring warehouse for expansion and Murphy Tractor moving to their newly completed 23,000 square foot building off of N. 56<sup>th</sup> & I-80. Across all submarkets, the northwest submarket saw the largest rise in overall vacancy rate from the end of 2008, increasing two percentage points to 18.5%. Contributing to part of that increase was Toro who vacated 62,360 square feet and a warehouse of 88,560 square feet reintroduced to the market - providing a blow to an already weakened submarket.

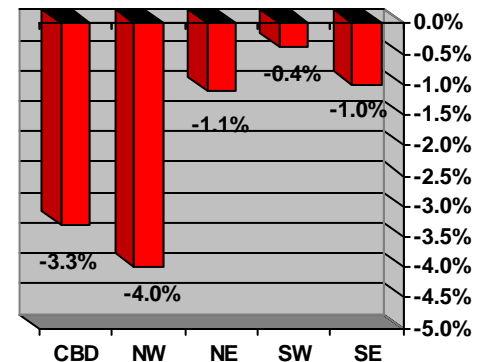
As a result of the current economic conditions, many smaller businesses were forced to downsize operations, merge with a stronger company or close. Larger manufacturers and suppliers are feeling the pressure as well. In April, Meadow Gold Dairy, announced plans to close its 101-year old downtown processing plant this fall. REEL Quick recently announced it will move operations overseas in August and vacate a 46,000 square foot facility in northwest Lincoln and the future seems uncertain for the Premium Protein Products' processing plant in Airpark which has idled since June 11<sup>th</sup>, all which may affect vacancy in the foreseeable future.

Two of Lincoln's largest companies, Duncan Aviation and Lincoln Industries, whom were in expansion mode at the beginning of 2009, announced job lay offs of around 230 workers locally during the first quarter of 2009 - first layoffs for either company in their 50+ year histories. This is not solitary to the industrial market, small layoffs have also been felt in Lincoln's other major employment sectors - government, health care and financial services.

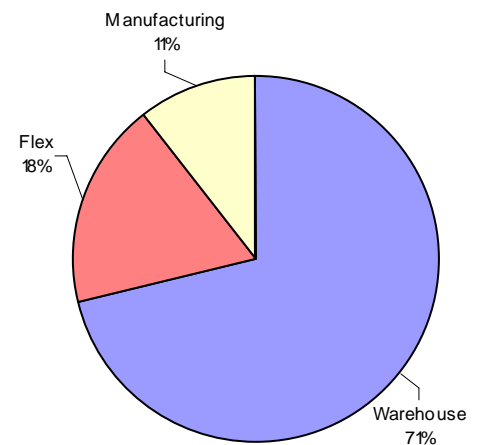
Perhaps the most noticeable trend reported for the first half is the city's lack of new development. Approximately 168,000 square feet was delivered onto the market at the end of last year and for the first time in a decade, no additional space is under construction. Alteration and expansion projects, on the other hand, have dominated the market by nearly tripling the permit values from the same time period a year ago with over \$11 million in value. This trend is evidenced by the fact that the largest current project is a 75,000 square foot addition for a cold storage facility to be delivered during the fourth quarter of this year in the southwest submarket.



### Net Absorption by Sector



### Industrial Market Inventory



# NAI FMA Realty

## Market Report First Half 2009 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	208,740	30,970	14.8%	(17,770)	\$9.53
Flex	7	85,293	-0-	0.0%	-0-	N/A
Manufacturing	7	251,380	-0-	0.0%	-0-	N/A
Subtotal	27	545,413	30,970	5.7%	(17,770)	\$9.53
<b>SUBURBAN-NE</b>						
Warehouse	262	4,103,953	520,292	12.7%	(46,935)	\$4.41
Flex	63	867,195	72,961	8.4%	8,582	\$5.81
Manufacturing	50	3,298,735	70,381	2.1	(57,081)	\$2.00
Subtotal	375	8,269,883	663,634	8.0%	(95,434)	\$4.62
<b>SUBURBAN-NW</b>						
Warehouse	198	4,226,805	1,228,762	29.1%	(129,464)	\$3.59
Flex	26	354,955	54,168	15.3%	-0-	\$7.50
Manufacturing	32	5,310,487	547,741	10.3%	(79,540)	\$3.71
Subtotal	256	9,892,247	1,830,671	18.5%	(209,004)	\$4.12
<b>SUBURBAN-SE</b>						
Warehouse	17	115,277	5,600	4.9%	2,800	\$6.50
Flex	23	185,135	12,038	6.5%	(3,200)	\$4.75
Manufacturing	1	8,829	-0-	0.0%	-0-	N/A
Subtotal	41	309,241	17,638	5.7%	(400)	\$5.63
<b>SUBURBAN-SW</b>						
Warehouse	260	4,515,373	335,597	7.4%	(31,874)	\$4.45
Flex	73	602,200	75,464	12.5%	3,619	\$6.68
Manufacturing	22	1,511,922	151,638	10.0%	-0-	\$3.75
Subtotal	355	6,629,495	562,699	8.5%	(28,255)	\$5.19
<b>INDUSTRIAL TOTALS</b>	<b>1,054</b>	<b>25,646,279</b>	<b>3,105,612</b>	<b>12.1%</b>	<b>(349,139)</b>	<b>\$4.89</b>



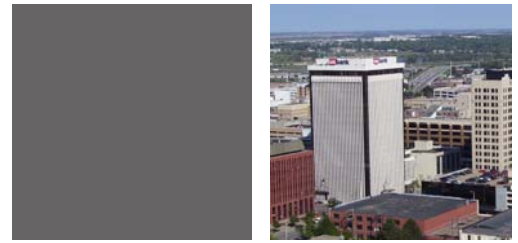
Representative Industrial Sales						
Address	Size (SF)	Buyer	Seller	Price	Price (psf)	Submarket
6310 N. 56th Street*	16,250	Dealer Sites LLC	Price Investments LP	\$685,000	\$42.15	Northeast
4317 Progressive Ave.	27,198	LI-COR of Lincoln LLC	LF Enterprises LLC	\$1,050,000	\$38.61	Northeast
3300 Folkways Circle	14,520	CK-RT Investments LLC	JSA LLC	\$1,025,000	\$70.59	Northeast

Representative Industrial Leases				
Address	Tenant	Size (SF)	Deal Type	Submarket
6310 N. 56th Street	Titan Machinery	16,250	New	Northeast
4700 Douglas Circle*	WRC, Inc.	10,000	Relocation	Northeast
8320 Cody Drive	AOI	6,000	New	Southwest

\*Indicates Transaction Represented by NAI FMA Realty

# NAI FMA Realty

## Methodology/Definitions/Sub Market Map



### Absorption (Net)

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.

### Averaging Asking Rental Rate

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.

### 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.

