

OMAHA | OFFICE

Fourth Quarter 2017

Accelerating success.



Office Leasing Activity Hits a Road Bump In Omaha and Nationally

In the fourth quarter of 2017, the Omaha office market experienced negative absorption for the first time in all of 2017. This was only the third quarter of negative absorption in the last three years. The total negative absorption for the fourth quarter of 2017 was 71,338 square feet which results in annual positive absorption of 135,383 square feet for the year. The total absorption of office space in 2017 was also the lowest amount of square feet since 2011, and lower than the average annual absorption over the last ten years of approximately 250,000 square feet. The negative absorption in the quarter impacted the vacancy rate resulting in an increase of 40 basis points bringing the overall vacancy rate to 11.1 percent; which remains well below the historical Omaha office vacancy rate. It should be noted the national office market also experienced negative absorption and increased vacancy in the fourth quarter of 2017.

The leasing highlight in the Omaha office market by class was again the Class A office market, which saw positive absorption of 11,875 square feet. Class A office vacancy rate currently sits at 7.9 percent which is over 3 percent below the entire market vacancy rate of 11.1 percent. The Old Mill and Suburban West Dodge submarkets had strong fourth quarters with both submarkets experiencing over 20,000 square feet of positive absorption. With the positive absorption this quarter and over 2.2 million square feet of inventory in the submarket, the Suburban West Dodge submarket's vacancy rate is now a stunning 1.8 percent, thus showing the demand for office space in West Omaha is incredibly strong.

The Omaha office market sectors that struggled in the fourth quarter were the Class B and Class C office space. Class B Omaha office vacancy increased 60 basis points to 11.4 percent with 57,683 square feet of negative absorption in the fourth quarter. Class C office vacancy also struggled with a 90 basis point increase and the vacancy rate increasing to 16.8 percent with 25,530 square feet of negative absorption. While Class A had a minimal amount of positive absorption for the quarter, Class B and Class C office space were the

key drivers of the net negative absorption. The asking rental rates of Class A office space increased slightly to \$28.60 per square foot. Class B saw a slight decrease to \$19.48 per square foot. There is nearly 500,000 square feet of Class A under construction, with an additional 70,000 square feet added this quarter and approximately 375,000 square feet of this space is preleased and set for delivery in the next 12 to 18 months. These factors point toward a strong office market for 2018.

The most significant office transactions in the fourth quarter were at 11111-11171 Mill Valley Road in Old Mill Business Campus with Atlas Medstaff leasing 18,683 square feet and The Center at 1941 South 42nd Street experiencing 18,683 square feet of positive absorption highlighted by Heartland Family Services leasing 18,387 square feet in the facility. Additional large transactions for the quarter were Quantum Market Research leasing and occupying roughly 13,166 square feet at 13810 FNB Parkway, and Goosmann Law Firm leasing 10,055 square feet at The Advent Building.

As far as major new vacancies in the fourth quarter, the American Red Cross vacated their office at 13831 Chalco Valley Parkway consisting of approximately 28,897 square feet. Accent Cost Containment vacated 18,591 square feet at Plaza of the Americas at 7171 Mercy Road. Additionally, Central Park Plaza at 222 South 15th Street experienced 17,760 square feet of vacancy with two tenants leaving the building and Inflection vacated 13,507 square feet at 4526 South 143rd Street.

As mentioned previously, the Omaha office market has not experienced many quarters of negative absorption and even more rare have been consecutive quarters of negative of absorption. As

Market Indicators

Relative to prior period	Q4 2017	Q1 2018*	CBD Q4 2017	Suburban Q4 2017
VACANCY	↑	↓	↑	↑
NET ABSORPTION	↓	↑	↓	↓
CONSTRUCTION	↔	↔	↔	↔
RENTAL RATE**	↔	↔	↔	↔

Note: Construction is the change in Under Construction.
* Projected

it has been years since the Omaha market has seen consecutive quarters of negative absorption. Based on the size and number of transactions as well as the numerous other positive signs in the local and national market (highlighted below), Colliers anticipates that the first quarter of 2018 will bounce back strong.

By submarket, the Miracle Hills, CBD, Northwest and Southwest submarkets experienced the greatest negative impact from this quarter's activity. The Miracle Hills vacancy rate increased 490 basis points to 10.7 percent with 17,750 square feet vacated, the CBD vacancy rate increased 40 basis points to 12.3 percent with 28,889 of negative absorption. The Northwest submarket experienced the highest negative absorption with 40,900 square feet increasing the vacancy rate to 8.3 percent (still below the market average). The Southwest submarket saw 26,824 square feet of negative absorption increasing the vacancy rate for the submarket to 9.3 percent (also below the market average). The vacancy rates of Midtown (6.0%), Miracle Hills (10.7%), Regency (5.2%), Central West Dodge (9.6%), Southwest (9.3%) and Suburban West Dodge (1.8%) submarkets are all below the total market vacancy rate of 11.1 percent.

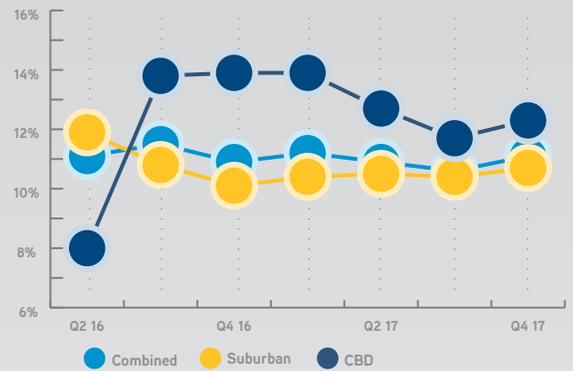
There are several office projects under construction in the Omaha metro. HDR's future 245,000-square-foot headquarters in Aksarben Village, Cizek Construction's 100,000-square-foot building at Broadmoor Hills located at 180th and West Dodge Road, and a 60,000-square-foot office building at Sterling Ridge have broken ground. Another project under construction is the 20,000-square-foot Alvine & Associates Building at 1207 Cass Street. The 60,000-square-foot Core Bank headquarters building at 17901 Burke Street has also broken ground and is 75 percent preleased. The Capitol District has also broken ground on 23,304 square feet of office in the new development at 11th and Capitol.

As discussed in prior quarterly reports, the Omaha office market is facing some headwinds as the unemployment rate in the Omaha MSA at the end of November was only 2.4 percent and the state as a whole was 2.7 percent. While several major employers laid off employees, most of those displaced employees were quickly hired by other firms. The Omaha Chamber reported earlier this year that there are over 2,500 positions available for computer programmers and engineers which remain unfilled. Furthermore, commercial construction permits are down over 40 percent from the same period one year ago. These stats became a trend throughout the first half of 2017. With unemployment at these record low rates, absorption of office space is challenged as the employment base sees minimal growth. Other buildings which are functionally obsolete may be demolished or repurposed as Omaha companies seek forward thinking locations which will provide competitive advantages.

NATIONAL OFFICE MARKET

According to the independent research firm Reis Inc., "U.S. office vacancy rate ticked up 20 basis point to 16.3 percent in the fourth quarter of 2017, rising for the first time in at least five years. Both asking and effective rents increased 0.6 percent in the quarter compared to the prior quarter, registering the highest growth rate in six quarters. "Rent growth nationally increased 1.8 percent over 2016. The year-end numbers showed a consistent deceleration in occupancy but somewhat higher rent and employment growth than in previous quarters. It is expected this trend will continue at the start of 2018 as more office construction is expected to come on-line," according to Barbara Denham, senior consultant at Reis. It is forecasted that businesses may feel renewed confidence as 2018 unfolds as the recently passed tax bill should return more profits to

Vacancy Rates

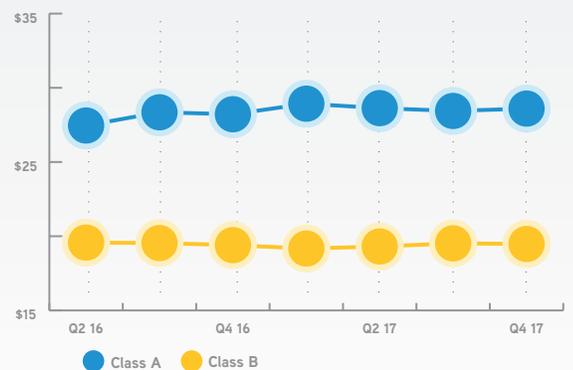


Annual Absorption

(in Thousands)



Rental Rates



the bottom lines of many companies and should foster more robust leasing activity as well. Net absorption plummeted about 60 percent nationally for the quarter to 5.21 million square feet compared to the same quarter in 2016. Construction activity slowed also, with approximately 7 million square feet of new office construction completed during the quarter compared to 10.7 million square feet completed in the same quarter in 2016. New York City remained the tightest market with a vacancy rate of 8.7 percent while Dayton, Ohio, had the highest vacancy rate at 27 percent.

The national unemployment rate decreased 10 basis points from the prior quarter to 4.1 percent at the end of December. The pace of hiring slowed in December of 2017 to 148,000 jobs however the U.S. added more than two million new jobs in 2017 for the seventh consecutive year. It is only the second time on record the economy has produced at that pace for that long. Hawaii has the lowest unemployment rate at 2 percent and Nebraska's unemployment rate of 2.7 percent remains third lowest in the nation. The labor force participation rate remains low at 62.7 percent and has not changed throughout 2017. As in the third quarter of 2017, employment rose in healthcare, transportation and warehousing while employment showed a substantial decrease in food services. Employment in mining, construction, wholesale trade, retail trade, information and government showed little change from the prior quarter. As has been the trend, Omaha and Nebraska as a whole has continued to outperform the nation with low unemployment.

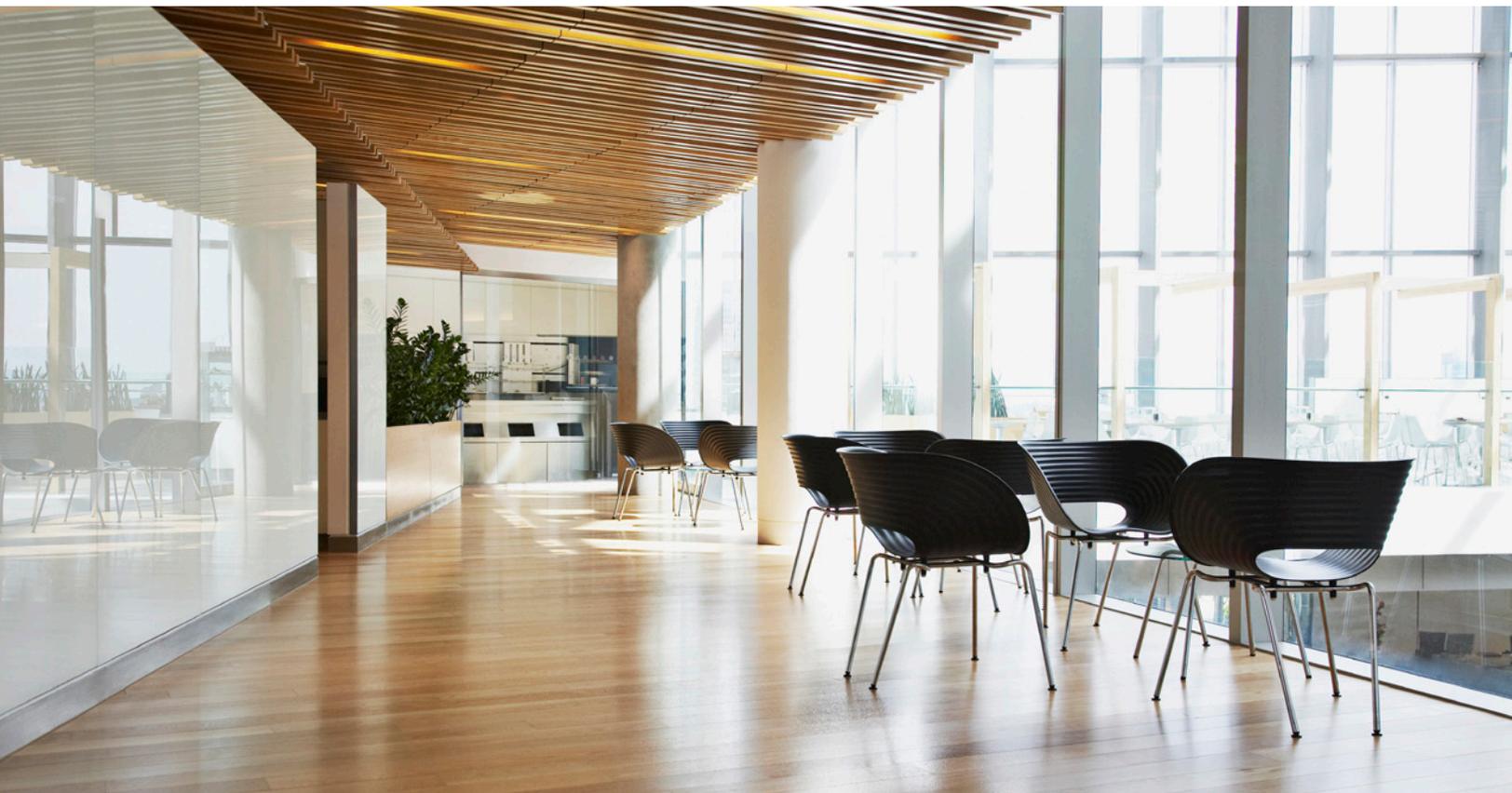
OFFICE INVESTMENT SECTOR

According to Real Capital Analytics (RCA), there are two distinct office markets in the U.S. today, each having unique trends. While CBD office volume is falling and price growth struggles to remain positive, suburban markets have remained resilient. National office transaction volume remains weak overall and was down 50 percent

through November of 2017. Cap rates for CBD office properties nationally were unchanged from the prior quarter and stand at 5.7 percent and by contrast cap rates for suburban office properties came in at 6.7 percent at the end of 2017. The disparity on relative pricing helps to explain the suburban office product outperformance today. In a market where investors are hungry for fixed income alternatives, suburban office investments simply represent a better yield opportunity. Additionally, in this low interest rate environment, the inventory of trophy CBD assets has diminished. The largest transaction for the quarter was the sale of the 2,118,000-square-foot State Farm Building located in Tempe Arizona, for \$928 million or \$438 per square foot. The largest sale in Omaha during the fourth quarter of 2017 was the sale of One Miracle Hills (84,420 square feet) located at 11422 Miracle Hills which sold for \$7,925,000 or (\$93.88 per square foot),

In conclusion, the absorption in the Omaha Office Market in the fourth quarter of 2017 was hurt by both the lack of transactions and the number of larger transactions. With low unemployment, absorption in 2018 should be driven by three factors: 1) the growth of corporate profits due to decreased corporate tax rates; 2) the competition for labor; and 3) substantial growth of healthcare back office needs. It is anticipated that the office market will continue to have positive absorption throughout 2018, and absorption will gain momentum throughout the year. That being said, one should not lose sight of the macro factors which could reverse optimism and diligent decision making.

Statistical Note: At the beginning of 2018 Colliers, as well as all of Omaha's commercial real estate firms, will change third-party data providers from Xceligent to CoStar. The new reporting will cause a change in definition for some statistics. Look forward to full details in Colliers' next quarterly report.



Market Overview

Omaha - Office Overview *(Does not include owner occupied or medical-use buildings)*

Submarket	VACANCY			ABSORPTION		CONSTRUCTION			RENTS	
	Total	Vacancy	Vacancy	Net Absorption		Construction Deliveries		Under Const	Asking Rent	
	SF	SF	%	Q4	2017 SF	Q4	YTD	SF	Class A	Class B
CENTRAL BUSINESS DISTRICT										
DOWNTOWN	4,577,737	562,296	12.3%	(28,889)	129,411		63,000	43,304	\$21.84	\$14.67
CBD TOTAL	4,577,737	562,296	12.3%	(28,889)	129,411		63,000	43,304	\$21.84	\$14.67
SUBURBAN										
CENTRAL W DODGE	2,439,026	233,071	9.6%	(1,299)	(40,731)	-	-	-	\$26.95	\$20.07
MIDTOWN	2,147,838	129,867	6.0%	683	(48,709)	-	-	228,218	\$31.81	\$22.35
MIRACLE HILLS	740,007	79,049	10.7%	(17,750)	(34,597)	-	-	-	\$21.50	\$18.84
NORTHEAST	179,116	23,503	13.1%	1,258	(1,526)	-	-	-	-	-
NORTHWEST	1,584,850	131,193	8.3%	(40,900)	(21,761)	-	9,800	-	-	\$19.83
OLD MILL	1,210,228	166,530	13.8%	21,306	21,436	-	-	-	-	\$20.99
REGENCY	1,023,338	53,023	5.2%	(5,760)	40,765	-	-	-	\$32.21	\$21.40
SOUTH CENTRAL	2,509,150	553,969	22.1%	1,454	29,292	-	-	60,000	\$25.25	\$17.95
SOUTHEAST	860,298	217,959	25.3%	-	47,743	-	-	-	-	\$18.05
SOUTHWEST	1,488,488	138,076	9.3%	(26,824)	(20,236)	-	-	-	\$25.00	\$19.12
SUBURBAN WEST DODGE	2,294,330	40,828	1.8%	25,383	34,296	-	-	176,000	\$28.76	\$25.40
SUB TOTALS	16,476,669	1,767,068	10.7%	(42,449)	5,972	-	9,800	464,218	\$28.60	\$19.48
TOTALS	21,054,406	2,329,364	11.1%	(71,338)	135,383	-	72,800	507,522	\$24.78	\$18.87

BY CLASS

	Inventory	Vacancy		Net Absorption		Construction Deliveries		Under Const	Available for Sublease	
	SF	SF	%	Q4 SF	YTD	Q4	YTD	SF	CBD	Suburban
CLASS A	7,298,467	573,088	7.9%	11,875	62,514	-	-	487,522	51,382	51,122
CLASS B	10,244,581	1,167,362	11.4%	(57,683)	140,657	-	72,800	20,000	-	95,955
CLASS C	3,511,358	588,914	16.8%	(25,530)	(67,788)	-	-	-	-	45,142
TOTALS	21,054,406	2,329,364	11.1%	(71,338)	135,383	-	72,800	507,522	51,382	192,219

Recent Transactions - LEASE AND SALE ACTIVITY

Lessee/Buyer	Lessor/Seller	Property	Size SF/Sale Price
11422 MH Property Holdings, LLC	CGCMT 2006-C5 9 Property Portfolio	11422 Miracle Hills	\$7,550,000
DEMU Properties, LLC	Maple Core, LLC	13220 Birch Drive	\$2,550,000
Alorica, Inc.	99-Maple Partnership	9910 Maple Street	43,000 SF
Bridges Investment Management, Inc.	WEII-PELC-JV One Pacific, LLC/EverWest	1125 South 103rd Street	13,492 SF
Quantum Market Research	Zurich American Insurance Company	13810 FNB Parkway	13,166 SF
Custom Computing Corporation	SGD-Old Mill North, LLC	11135 Mill Valley Road	12,470 SF
Avenue Scholars Foundation	MR Inc., No. 3/Tetrad Corporation	7101 Mercy Road	9,194 SF

68 countries

\$2.6

billion in
annual revenue

2.0

billion square feet
under management

15,000

professionals
and staff

\$105

billion in
total transaction value

*All statistics are for 2017, are in U.S. dollars and include affiliates.

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