

FIGURES | OMAHA OFFICE | Q1 2023

# Available sublease space decreases in the Omaha office market

▼ 9.3%  
Vacancy Rate

▲ 70,503  
SF Net Absorption

▲ 119,335  
SF Construction

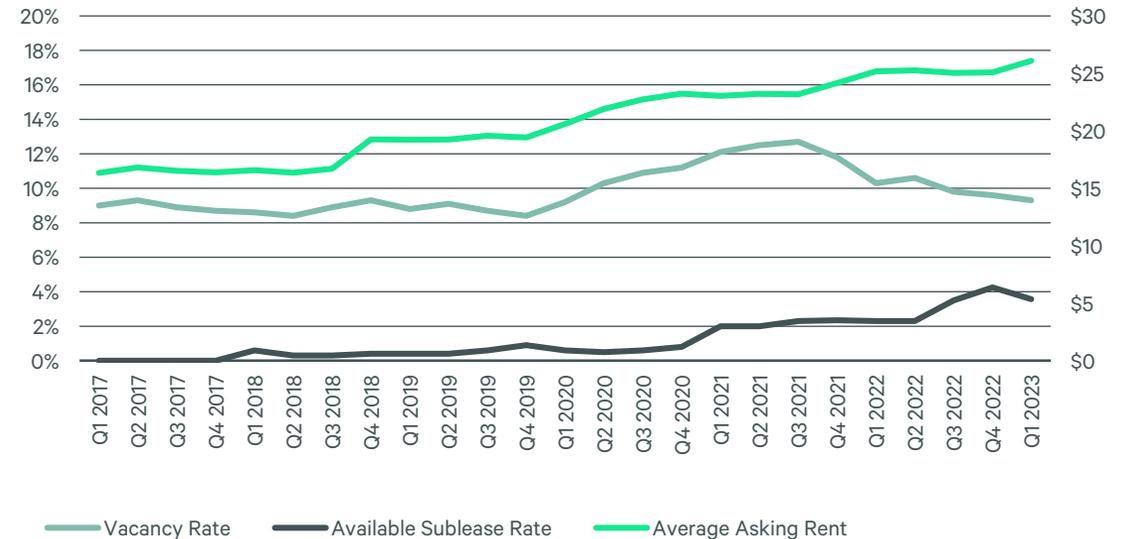
▲ \$26.09  
FSG / Lease Rate

Note: Arrows indicate change from previous quarter.

## Market Overview

- Absorption in the Omaha office market is positive for the 3rd quarter in a row, posting 70,503 square feet of net absorption in the first quarter. As a result, vacancy fell by 30 basis points to 9.3% in the first quarter, compared to 9.6% in the fourth quarter of 2022.
- Available sublease space reached a record high level of over 1 million square feet in the fourth quarter of 2022. Since the end of 2022, available sublease space fell by approximately 170,000 square feet and now sits at 886,168 square feet. While this sublease space reflects a challenge in the local office market, the vacancy rate and new construction remain low.
- Average asking lease rates increased \$1.01, or 4%, quarter-over-quarter, and \$0.91, or 3.6%, year-over-year and now stands at \$26.09 per square foot on a full-service gross basis. Part of this increase is due to an annual increase of average operating expenses between 5% and 8%.
- Vacancy in the market decreased 30 basis points from 9.6% in Q4 2022 to 9.3% in Q1 2023. Vacancy is down by 250 basis points from the 4<sup>th</sup> quarter of 2021, prior to the disruption caused by the Covid-19 pandemic.

FIGURE 1: Vacancy Rate, Available Sublease Rate and Asking Rent Trends



Source: CBRE Research, Q1 2023.

## Market Statistics

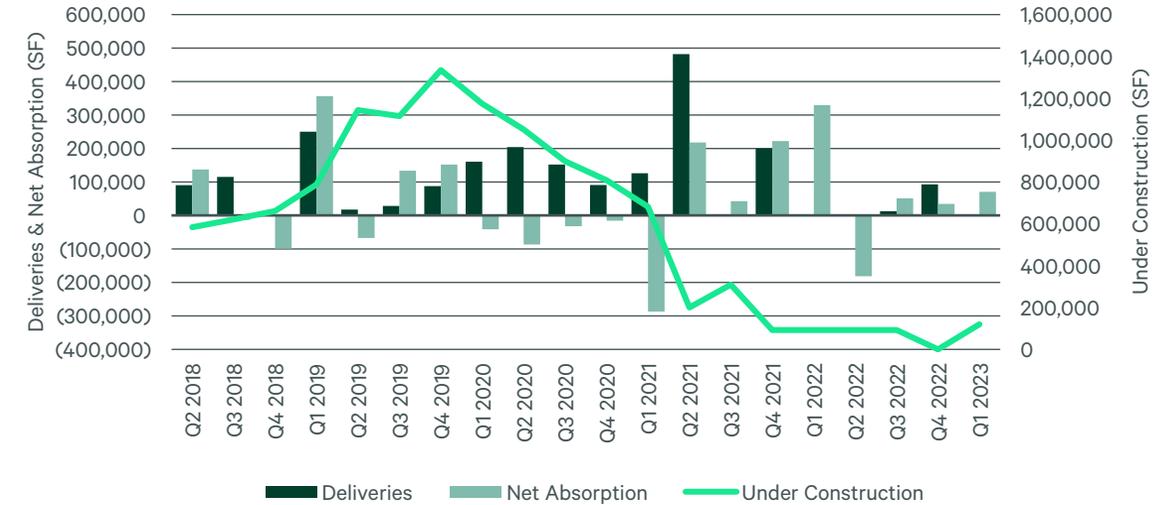
### Construction

- There were no new office properties delivered to the Omaha market this quarter. However, there is one speculative multi-tenant office property under construction this quarter. A 4-story Class A 119,300 sq. ft. building is under way in the Builders District north of Downtown. The property is just south of Kiewit Corporation’s new headquarters building on the northwest corner of 15<sup>th</sup> and Mike Fahey streets. The property will be developed by local developer, Noddle Companies, and will be Omaha’s first timber office building. The property will have Class A amenities such as roof decks, green spaces, a food hall and revolving recreation programs.
- Planned office projects on the horizon include:
  - T3 at the Mercantile, 175,000 sq. ft. located downtown on the former Con Agra campus site
  - 2 properties in Heartwood Preserve, 300,000 sq. ft. located southwest of 144<sup>th</sup> and West Dodge Road
  - 3 properties in La Vista City Centre, 160,000 sq. ft. located northeast of 84<sup>th</sup> Street and Giles Road
  - Broadmoor 180, 99,500 sq. ft. located on the southwest corner of 180<sup>th</sup> Street and West Dodge Road

### Absorption

- The largest move-in for the quarter was the occupancy of over 60,000 sq. ft. by DMSI Software company in the Miracle Hills area. DMSI now occupies the first and second floors of space previously listed for sublease.
- By submarket, Miracle Hills and Boys Town/Sterling Ridge showed the greatest absorption this quarter absorbing 89.1K, and 23.7K sq. ft., respectively. By submarket, the lowest vacancy rate is in the Aksarben submarket while the highest vacancy rate is found in the Miracle Hills submarket.
- By class, Class B absorbed the most sq. ft. during the quarter with 64,707 sq. ft. of net absorption followed by 40,059 sq. ft. for Class A and negative 34,263 sq. ft. for Class C.

FIGURE 2: Delivery, Net Absorption and Under Construction Trends (SF)



Source: CBRE Research, Q1 2023

FIGURE 3: Absorption by Class (SF)



Source: CBRE Research, Q1 2023

## Market Statistics (cont.)

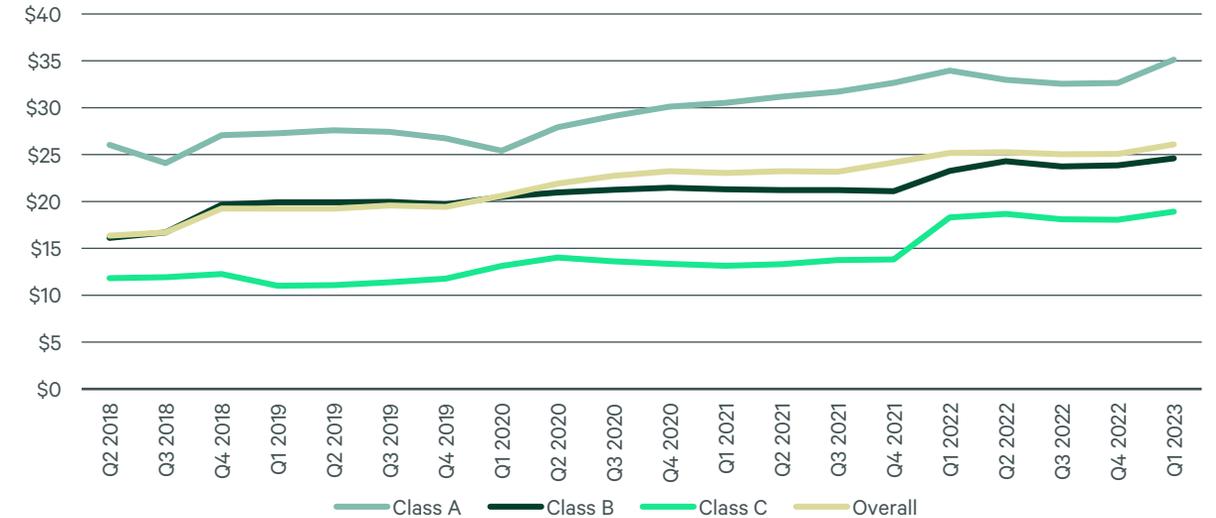
### Asking Rents

- Average asking rents rose to \$26.09 in the 1<sup>st</sup> quarter. This represents an increase of \$1.01 per sq. ft., or 4%, from the previous quarter.
- By class, average asking rents per square foot are now \$35.12 for Class A, \$24.60 for Class B and \$18.91 for Class C.

### Sales

- With continued interest rate increases, sales volume has slowed for all property types both locally and nationally. Overall commercial real estate sales in the Omaha metro area are down 21.4% year-over-year for the first quarter compared to office property sales down 65.1% during the same time period.
- While volume is down, the average price per square foot for office property sales in the Omaha metro area has increased by 11.3% from \$156.43 per square foot in the first quarter of 2022 to \$174.03 per square foot in the first quarter of 2023.

FIGURE 4: Asking Lease Rate Trends by Class



Source: CBRE Research, Q1 2023

FIGURE 5: Key Transactions

Tenant/Buyer	Address	City	Submarket	Type	Size (SF)
DMSI	11650 Miracle Hills Dr	Omaha	Miracle Hills	Lease	62,146
Downtown JBK LLC	2215 Harney St	Omaha	Downtown	Sale	14,830
Real Property Appraisals PC	11725 Arbor St	Omaha	Southwest	Sale	14,684
Husch Blackwell, LLP	14400 W Dodge Rd	Omaha	Boys Town/ Sterling Ridge	Lease	14,070

Source: CBRE Research, Q1 2023

Tenant/Buyer	Address	City	Submarket	Type	Size (SF)
Rabbel Mill	1113 N 13 <sup>th</sup> St	Omaha	Northeast	Lease	11,000
NE2 72 <sup>nd</sup> Omaha LLC	3131 S 72 <sup>nd</sup> St	Omaha	Midtown	Sale	11,000
Agemark	17110 Marcy St	Omaha	Southwest	Lease	10,395
Pilot Travel Centers	802-810 S 169 <sup>th</sup> St	Omaha	Southwest	Lease	10,285

Source: CBRE Research, Q1 2023

FIGURE 6: Market Statistics

Submarket	Building Count	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Deliveries (Sq. Ft.)	Avg. Gross Total Asking Rate (\$/SF)
Aksarben	10	1,177,025	0.0	0	0	0	36.00
Boys Town - Sterling Ridge	24	2,407,223	9.5	23,730	0	0	34.13
Central Dodge	41	2,038,388	15.3	(23,934)	0	0	25.30
Midtown	36	1,759,165	11.7	(10,572)	0	0	29.27
Miracle Hills	23	997,724	16.3	89,056	0	0	26.58
Northeast	6	200,417	9.9	0	0	0	22.44
North Park	17	957,682	12.7	0	0	0	22.00
Northwest	39	911,484	12.9	5,345	0	0	19.85
Old Mill	42	1,234,372	10.9	(9,500)	0	0	23.38
Regency	15	783,930	8.6	(4,030)	0	0	27.10
South Central	92	2,629,863	9.5	4,087	0	0	21.82
Southeast	21	1,079,552	4.5	932	0	0	17.57
Southwest	68	1,619,367	6.9	(14,469)	0	0	23.15
Suburban West Dodge	32	1,742,408	11.7	20,000	0	0	34.06
<b>DOWNTOWN</b>	<b>53</b>	<b>5,294,408</b>	<b>6.1</b>	<b>(10,572)</b>	<b>119,335</b>	<b>0</b>	<b>29.54</b>
<b>TOTAL SUBURBAN</b>	<b>466</b>	<b>19,538,600</b>	<b>10.2</b>	<b>81,075</b>	<b>0</b>	<b>0</b>	<b>25.51</b>
<b>TOTAL OMAHA</b>	<b>519</b>	<b>24,833,008</b>	<b>9.3</b>	<b>70,503</b>	<b>119,335</b>	<b>0</b>	<b>26.09</b>

Source: CBRE Research, Q1 2023

Submarket	Class	Building Count	Net Rentable Area (Sq. Ft.)	Vacancy Rate (%)	Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Deliveries (Sq. Ft.)	Avg. Gross Total Asking Rate (\$/SF)
Downtown	A	9	1,892,898	6.7	22,837	119,335	0	33.74
	B	31	3,027,866	5.4	(28,034)	0	0	26.84
	C	13	373,644	8.4	(5,375)	0	0	26.00
Suburban	A	52	4,773,809	11.1	17,222	0	0	35.63
	B	285	11,444,833	10.5	92,741	0	0	24.31
	C	129	3,319,958	7.6	(28,888)	0	0	18.27
<b>TOTAL OMAHA</b>	<b>A</b>	<b>61</b>	<b>6,666,707</b>	<b>9.9</b>	<b>40,059</b>	<b>119,335</b>	<b>0</b>	<b>35.12</b>
	<b>B</b>	<b>316</b>	<b>14,472,699</b>	<b>9.4</b>	<b>64,707</b>	<b>0</b>	<b>0</b>	<b>24.60</b>
	<b>C</b>	<b>142</b>	<b>3,693,602</b>	<b>7.7</b>	<b>(34,263)</b>	<b>0</b>	<b>0</b>	<b>18.91</b>

Source: CBRE Research, Q1 2023

## Economic Summary

### National

Market concerns about the stability of the banking sector have been alleviated by decisive actions. The Federal Reserve, acting as lender of last resort, is providing unlimited liquidity to the banking sector with government securities as collateral at par value. The U.S. Treasury has implied that even uninsured deposits at troubled banks would be protected.

Markets have moved very quickly to assess the threat to regional banks from their exposure to real estate. While default rates will rise substantially, particularly for loans to the office sector, the best research suggests the losses will not be sufficient to erode the banks' capital base. Total commercial real estate mortgages are worth \$2.5trn. Banks hold \$1.1trn, including \$627bn of loans backed by office assets, of which \$54bn is likely to be written off.

Up to \$1trn of deposits have been withdrawn from regional banks and moved to money market funds or larger banks. It is a large sum, but only a small portion of the \$18trn total deposits in the U.S. banking system, and signals continued confidence in U.S. banks. More importantly, the interbank lending rate is only marginally elevated, an indication that banks still trust each other. This is a major difference with the Great Financial Crisis (GFC).

CBRE's view is that we are not facing another GFC. In 2008, the global banking sector was subject to poorly understood financial instruments and massive losses on U.S. sub-prime mortgages. Banks did not have the capital base to absorb these losses. This is not the case now. The potential losses from real estate, though material, are smaller, and the banks' capital buffers are much larger.

### Local

- Nebraska legislators have been busy introducing bills that would positively affect the local economy.
  - Legislative Bill 531 was introduced to the Nebraska Legislature's Urban Affairs Committee in March. This bill would build on a previous bill, LB 1024, which earmarked \$335 million for development in north and south Omaha, underserved areas in the market.

Projects include affordable housing, innovation hubs and an industrial park near the Omaha airport. LB 531 would increase the funds by \$100 million. Lawmakers are looking to approve the bill soon as much of the funding comes from the American Rescue Plan Act of 2021 which indicates that the money must be spent by the end of 2026.

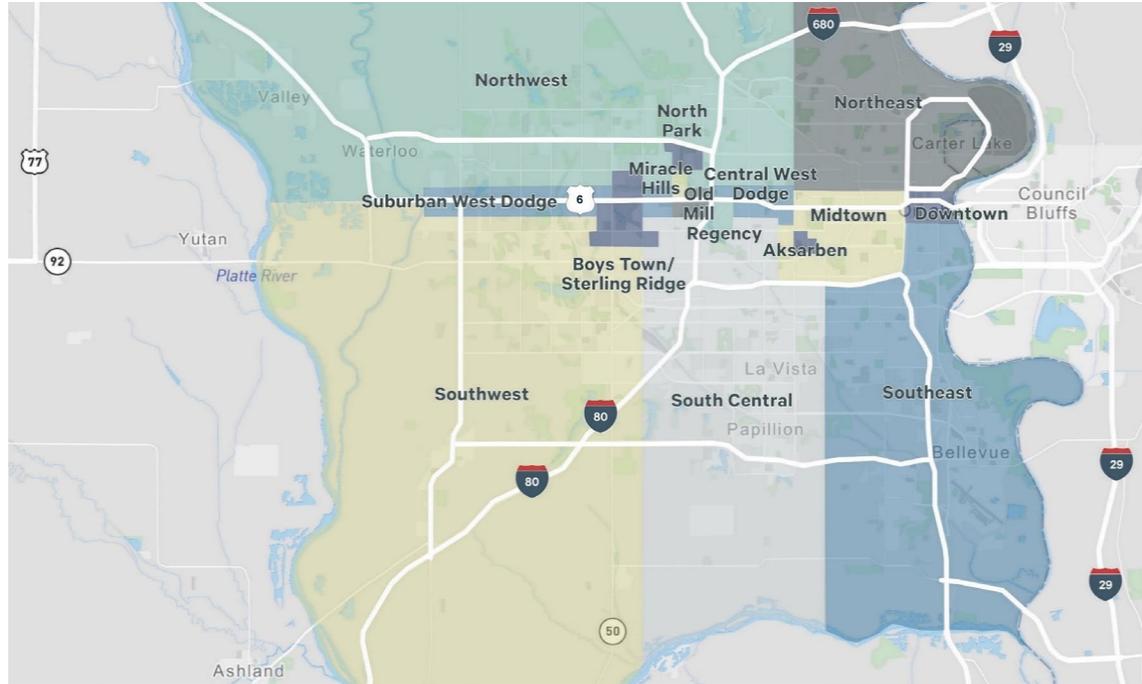
- Legislative Bill 754 seeks to lower the state income tax rate for both individuals and businesses. According to taxfoundation.org, Nebraska ranks 38th on their list of state and local tax burdens for 2022. LB 754 would reduce the top personal income tax rate and corporate tax rate to 3.99% by 2027. Lawmakers believe that this measure combined with a property tax proposal will result in Nebraska ranking in the top 15 for lowest state taxation.
- As Nebraska continues to experience low unemployment with many job openings going unfilled, law makers are seeking solutions:
  - Legislative Bill 610 seeks to direct \$10,000 to fund career and technical education programs in Nebraska schools.
  - Legislative Bill 416 would ease the tax burden for those who work for Nebraska companies but don't live in the state.
  - Other initiatives include boosting college enrollment and immigration reforms.

The University of Nebraska at Omaha announced a new program, the Omaha Urban Rate Tuition program (OUR), in March meant to attract more out-of-state students. Students from 11 states, Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Montana, North Dakota, South Dakota, Wisconsin and Wyoming, will pay reduced tuition rates. Chancellor Joanne Li believes the OUR program will help solve the workforce shortages in Nebraska and states, "Offering the OUR Tuition rate to students across the region enables out-of-state students to find affordability and opportunity in Nebraska."

### In Conclusion

- Absorption remains positive, vacancy remains low and sublease space is decreasing in the local office market.
- There is still much uncertainty in the economy as interest rates remain higher than pre-pandemic levels, inflation looms and credit tightens.

## Market Area Overview



## Contacts

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## Definitions

**Available Sq. Ft.:** Space in a building, ready for occupancy within six months; can be occupied or vacant.  
**Availability Rate:** Total Available Sq. Ft. divided by the total building Area.  
**Average Asking Lease Rate:** A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage.  
**Building Area:** The total floor area sq. ft. of the building, typically taken at the “drip line” of the building.  
**Gross Activity:** All sale and lease transactions completed within a specified time period. Excludes investment sale transactions.  
**Gross Lease Rate:** Rent typically includes real property taxes, building insurance, and major maintenance.  
**Net Absorption:** The change in Occupied Sq. Ft. from one period to the next.  
**Net Lease Rate:** Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate.  
**Occupied Sq. Ft.:** Building Area not considered vacant.  
**Vacancy Rate:** Total Vacant Sq. Ft. divided by the total Building Area.  
**Vacant Sq. Ft.:** Space that can be occupied within 30 days.

## Survey Criteria

Includes all competitive office buildings 10,000 sq. ft. and greater in size in the Omaha metropolitan area. Buildings under construction includes buildings which have begun development beyond initial site work.