

## Omaha Industrial Market Conditions and Trends

By Kevin Stratman and The Investors Industrial Team

### Omaha Industrial Market Occupancy Remains Steady

Since 2010, the occupancy rate for industrial space in the Omaha market has steadily increased. Since Xceligent Inc., a Kansas City based commercial real estate market research firm, began tracking the Omaha market in 2010, the market has seen occupancy rates increase from 93.1% to our current year end occupancy rate of 95.2%. What has been driving this increase in occupancy rates? Investors Realty has found several factors are responsible.

#### Lack of New Inventory

Since 2010, the Omaha industrial market has added just 16 new buildings to the overall market. These new buildings

account for just over 387,000 sq. ft. of the approximately 68 million sq. ft. market. Most telling is that 11 of these 16 new buildings were either single tenant build-to-suit projects or owner occupied properties. When accounting for only speculative construction, 71,300 sq. ft. of new space was added to the market. In comparison to the overall industrial market, this is less than 0.1%.

One of the main factors driving this lack of new construction is rising costs of raw materials. According to the Wall Street Journal, the price of lumber is up 52.5% from the beginning of 2011. Gypsum

*(continued on page 2)*

	2013	2012	2011	2010
<b>Light Industrial</b>	-139,135	204,938	478,227	392,429
<b>Manufacturing</b>	72,912	8,000	-811,004	-375,438
<b>Whs/Distribution</b>	5,932	339,960	369,041	-57,763
<b>Flex</b>	327,680	30,508	134,057	142,511
<b>OVERALL MARKET</b>	<b>267,389</b>	<b>583,406</b>	<b>170,321</b>	<b>101,739</b>

**Chart 1:** Square footage absorption trends in the Omaha industrial market by building types.

# Market Conditions and Trends

products (drywall) are up 32.2% over the same time period. Likewise, cement prices are up 44.8% since 2011.

In essence, it is extremely difficult for a developer or an investor to build a speculative industrial building in the current economic climate. With construction costs of raw materials being up across the board, it is simply cost prohibitive to build a new building. When return on investment drives the decision to build speculatively, most investors might opt to wait until rental rates catch up with the rise in construction costs before choosing to build.

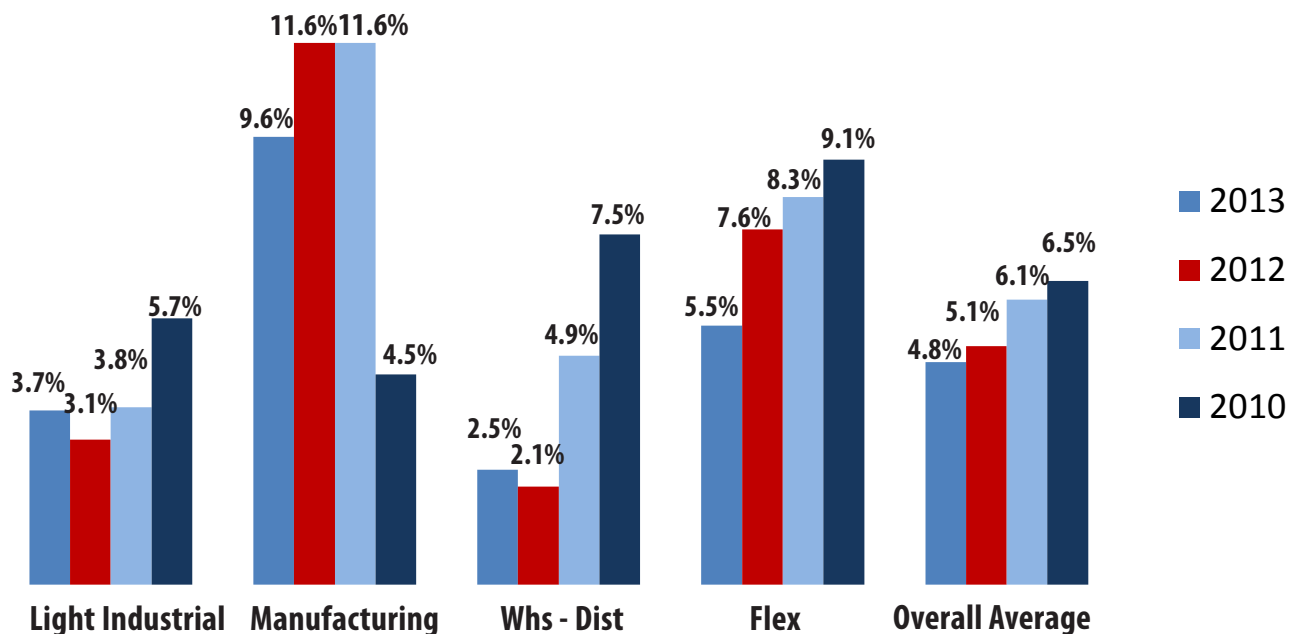
## Business Expansion

Industrial expansion has been another prevalent factor driving down the vacancy rate since 2010. Investors Realty has tracked several large expansions of both local and national companies in the Omaha market over the past three years.

In 2011, Little Snacks, Inc., the maker of Jack

Link's Beef Jerky, purchased a vacant 414,000 sq. ft. warehouse in Underwood, Iowa. Sergeant's Pet Care Products has made two significant investments in the Omaha market in the past two years, one in purchasing the former Professional Veterinary Products 131,110 sq. ft. facility in Sarpy County, and another in their recent announcement to open a 350,000 sq. ft. distribution center near 126th and Giles Road.

Smaller companies are making large expansions in Omaha, too. Local brewery, Nebraska Brewing Company, recently opened a 24,000 sq. ft. brewing location. Previously, most of the brewing operations for the company were done inside their restaurant in Papillion. MH Equipment, a national forklift company, expanded their presence in Omaha this year by adding an additional 16,000 sq. ft. to their already existing 9,600 sq. ft. showroom. There are several other examples of smaller companies making significant investments. These deals all show that companies are expanding in Omaha and the industrial market is benefiting. ☺



**Chart 2:** Omaha Area Vacancy Rates by building type over the past four years.

# Market Conditions and Trends— continued

## Absorption

In the overall Omaha industrial market, 267,389 sq. ft. was absorbed in 2013, down in comparison to 2012, with 652,075 sq. ft. of absorption. Most notable last year was the increase in absorption in the flex category, 2013 absorbed 327,680 sq. ft. vs 2012 with only 30,508 sq. ft.

This is significant because it shows a great deal of expansion among small businesses. Flex buildings with small bays are great for start-up or small businesses because they offer functional space at an affordable price. Leading the way was the Sarpy West submarket which had 175,305 sq. ft. of flex absorption in 2013. Warehouse-distribution space and light Industrial saw the least activity in 2013, with warehouse space showing just less than 6,000 sq. ft. of absorption and light manufacturing show negative absorption of -139,135 sq. ft. (Chart 1).

## Rental Rates

Asking rental rates significantly increased in three of the four industrial building subtypes in 2013. The only type that did not see an increase

was manufacturing, which declined from \$3.58 in 2012 to \$3.50 in 2013 (Chart 3).

The increase in rental rates may be directly correlated with lack of new construction in the industrial market. Coupled with strong leasing activity, landlords appear to have gained back negotiating power with new tenants. Across the board, landlord concessions such as free rent, large tenant improvement allowances, and discounted rental rates appear to be declining. Lease terms have also increased in 2013 and tenants appear to be more willing to sign longer term leases of 4 or 5 years in length as opposed to 2 to 3 years which were more common over the past few years.

## Vacancy Percentage

The overall Omaha industrial vacancy rate has declined over the past few years. At year end, the market had a 4.8% vacancy rate, the lowest it has been since Xceligent began tracking the Omaha market in 2010. Driving this is business expansion by both local and national tenants and a lack of new construction.

	2013	2012	2011	2010
<b>Light Industrial</b>	<b>\$4.85</b>	<b>\$4.67</b>	<b>\$4.57</b>	<b>\$4.48</b>
<b>Manufacturing</b>	<b>\$3.50</b>	<b>\$3.58</b>	<b>\$2.98</b>	<b>\$2.70</b>
<b>Whs - Distribution</b>	<b>\$5.87</b>	<b>\$4.07</b>	<b>\$3.81</b>	<b>\$4.21</b>
<b>Flex</b>	<b>\$7.12</b>	<b>\$6.07</b>	<b>\$6.13</b>	<b>\$6.20</b>
<b>Omaha Market</b>	<b>\$6.40</b>	<b>\$5.57</b>	<b>\$5.49</b>	<b>\$5.58</b>

**Chart 3:** Average Asking Rental Rates on average have increased over the past four years (all rate quoted as NNN).

# Market Conditions and Trends— continued

The flex subtype has shown the most remarkable decline in vacancy over the past 4 years. Posting a 9.1% vacancy rate at the end of 2010, the vacancy rate for flex space is now 5.5%. Again, this may be a result of small businesses making a comeback as bigger companies were forced to close or significantly decrease their size footprint during the economic downturn. Another factor may be, that the economy is recovering and Omaha's business climate is strong allowing both new and established small businesses to expand.

Manufacturing has the highest vacancy rate at 9.6%, most of which can be explained by large vacancies in just in two or three properties. For example, Omaha Works (formerly Connectivity Solutions), at 125th & I Street, currently has 888,278 sq. ft. available of the 1,136,682 total sq. ft. available in the manufacturing market, in other words this one building accounts for 78.2% of the manufacturing vacancy rate.

## Construction

Construction has been down significantly in the industrial market and continued to be the case in 2013. Only 62,900 sq. ft. was added to the overall market in 2013, which in a total market of 67,800,000 sq. ft. is a drop in the bucket. Rising construction costs and design requirements for industrial buildings over the past few years has made new construction difficult to afford and makes investing in speculative construction very difficult. Unless rental rates increase significantly over the next several years, new construction will be relatively uncommon in the industrial market.

Single tenant buildings dominated construction in 2013. Most notably, Progressive Insurance opened a 12,000 sq. ft. claim center at 118th & Harrison Street in late summer, and U.S. General Services Administration built a new 20,636 sq. ft. military processing center at 121st & I Street.

SUBMARKET	100,000+ SF	50,000-99,000 SF	25,000-49,999 SF	10,000-24,999 SF	5,000-10,000 SF	Less than 5,000 SF	Fully Occupied
<b>Council Bluffs</b>	1	2	1	5	0	2	161
<b>Northeast</b>	0	5	4	14	2	1	229
<b>Northwest</b>	0	0	0	4	5	8	169
<b>Sarpy East</b>	0	0	1	1	0	0	52
<b>Sarpy West</b>	0	0	3	9	5	12	326
<b>South Central</b>	3	2	5	16	28	27	480
<b>Southeast</b>	1	0	2	8	3	0	224
<b>Southwest</b>	1	0	3	10	10	21	217
<b>Pottawattamie</b>	0	0	0	0	1	0	11
<b>Grand Total</b>	6	9	19	67	54	71	1,869

**Chart 4:** Number of buildings per Omaha industrial submarket area by total available square footage. Overall, the Omaha industrial market has 2,095 buildings, 226 of them with vacancy equalling 4,899,308 sq. ft.

## Industrial Market Data by Submarket

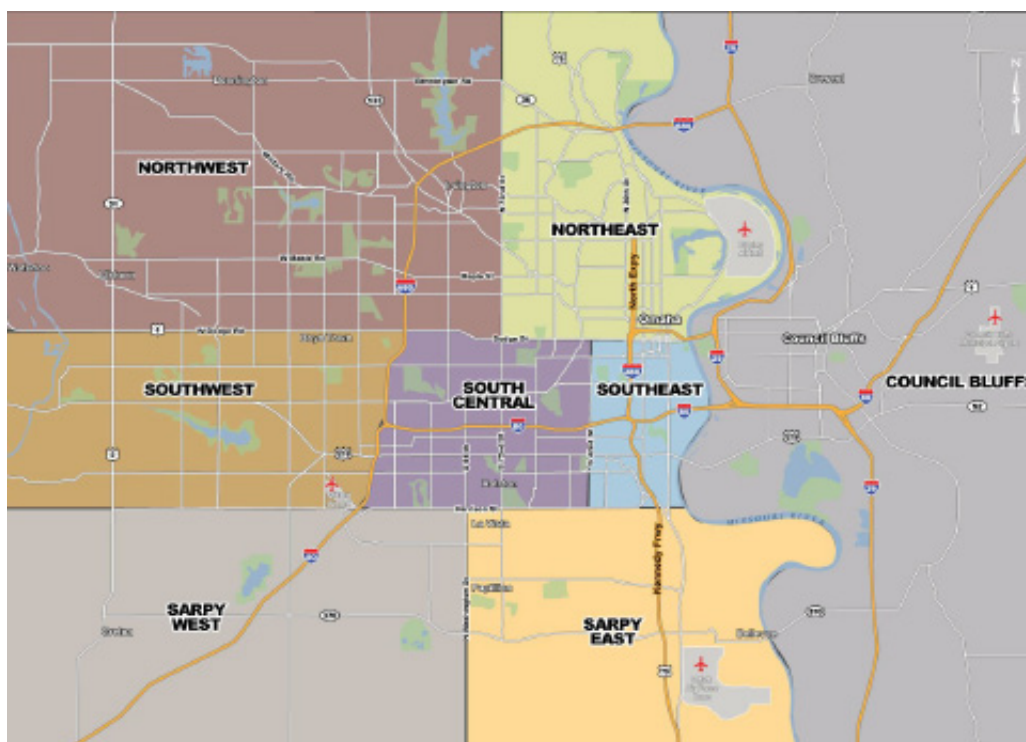
Submarkets	# of Buildings	2013 Inventory (SF)	2013 Total Vacant (SF)	2013 Total Vacancy Rate	2012 Total Vacancy Rate	Year Over Year Change in Total Vacancy Rate	2013 YTD Net Absorption (SF)	2012 YTD Net Absorption (SF)	2013 Average Asking Rental Rate	2012 Average Asking Rental Rate	Year Over Year Change in Average Asking Rental Rate
South Central	561	18,497,558	658,376	3.6%	2.6%	0.9%	-168,214	193,199	\$5.55	\$5.48	\$0.07
Sarpy West	355	11,726,669	159,513	1.4%	2.7%	-1.3%	175,305	281,713	\$5.65	\$5.65	\$0.00
Northeast	255	9,552,650	512,768	5.4%	4.7%	0.6%	-30,891	128,170	\$4.91	\$4.83	\$0.08
Southwest	262	8,471,619	1,283,755	15.2%	18.5%	-3.3%	166,056	-115,301	\$9.08	\$6.32	\$2.76
Southeast	238	7,263,604	401,665	5.5%	6.4%	-0.9%	81,164	-31,426	\$6.19	\$5.50	\$0.69
Council Bluffs	172	6,302,527	132,916	2.1%	2.0%	0.1%	-8,046	85,820	\$3.40	\$3.19	\$0.21
Northwest	186	3,995,911	71,283	1.8%	3.1%	-1.3%	52,015	41,231	\$8.15	\$5.04	\$3.11
Sarpy East	54	1,843,249	0	0.0%	0.2%	-0.2%	-	-	-	-	-
Pottawattamie County	12	158,180	7,500	4.7%	0.0%	4.7%	-	-	-	-	-
<b>Overall Market</b>	<b>2,095</b>	<b>67,811,967</b>	<b>3,227,776</b>	<b>4.8%</b>	<b>5.2%</b>	<b>-0.5%</b>	<b>267,389</b>	<b>583,406</b>	<b>\$6.40</b>	<b>\$5.57</b>	<b>\$0.83</b>

# Notable Large Transactions in 2013

Company (Tenant/Buyer)	Transaction	Size (SF)	Location
<b><i>Natura Pet Care Products*</i></b>	Leased	167,000	1035 E Dodge (Fremont)
Tire Centers Inc.	Leased	46,600	8619 S 137th Cir
Student Transportation of America	Leased	44,950	10201 Sapp Bros. Dr
FSI Nutrition	Leased	44,248	14242 C Cir
<b><i>Peter Ciaccio*</i></b>	Sold	42,625	4420-4438 Iazard St
Echo Electric	Leased	40,000	1000 Fort Crook Rd
Millard Athletic Association	Leased	40,000	8840 S 137th St
Purified Oil	Leased	39,342	13724 Industrial Rd
Wes & Willy	Leased	34,179	4524-26 F St
<b><i>Temperatsure*</i></b>	Leased	32,000	10606 S144th St
<b><i>Nebraska Brewing Company*</i></b>	Leased	24,900	6948 S 108th St

\* *transaction involved Investors Realty, Inc.*

Omaha Area Industrial Submarket Map



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