THE GREEN REPORT

Second Half of 2019

Helping LINCOLN GROW Since 1973

Market Summary

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The Evolving Retail Environment

Lincoln's commercial real estate market remains healthy as we wrap up 2019 and look toward next year. Development activity remains strong with many notable projects underway or scheduled to start in early 2020, including the long-awaited south beltway which will begin in the spring. Vacancy rates in the Lincoln office sector are still well below national averages and industrial vacancy remains very low with a scarcity of options available. The sector which gained the most attention this year was retail, with Lincoln experiencing the same challenges as any other City as online shopping continues to reshape consumer habits.

In the 1st half of 2019, several big box spaces became vacant when all four Shopko stores and Sears at Gateway Mall closed. Several other national retailers also left the Lincoln market during year, including Pier 1, Forever 21, Payless Shoes, GAP and Banana Republic. However, the gradual upward trend in retail vacancy seems to have leveled off by year end as some of the big box vacancies have backfilled with new users. Others will likely be subdivided into smaller retail spaces or possibly repurposed for other uses as has been the trend in other markets.

As retail continues to evolve nationwide, the repurposing of big box space and even entire shopping centers has been in the news a lot over the last few years. The conversion of former retail space into entertainment, sports, co-working and even self-storage is becoming common as landlords are forced to get creative to fill vacancies. In Lincoln, we've seen Round 1 open at Gateway mall and Urban Air open at 70th & Van Dorn in the former Russ's Market space.

One interesting Midwest example of a retail-to-entertainment conversion is the Powerplex project in St. Louis. Currently under construction, this project involves the adaptive reuse of a former 1.5 million sq ft shopping mall into a multi-use indoor/outdoor sports complex focusing on baseball, softball, volleyball, basketball, pickleball and dance & cheer competitions. It will also feature entertainment, retail, restaurants and other services. Family activities will include a climbing gym, mini-golf, go-karts, movie theatre, ice skating, bowling and laser tag.

While we don't expect a project of this magnitude to occur in Lincoln, it's an interesting example of how one former shopping mall is being converted into a multi-use complex with amateur sports as the primary activity driver.

Building Permits & Construction Activities

Notable Building Permits

B1903243: BCLINC, LCC has pulled a $1.8M permit for footing and foundation of a 3-story mixed use building

B1902507: Bryan Physician Network has pulled a $4M permit for a new Out Patient Medical Clinic near S. Coddington Ave & W. Van Dorn St.

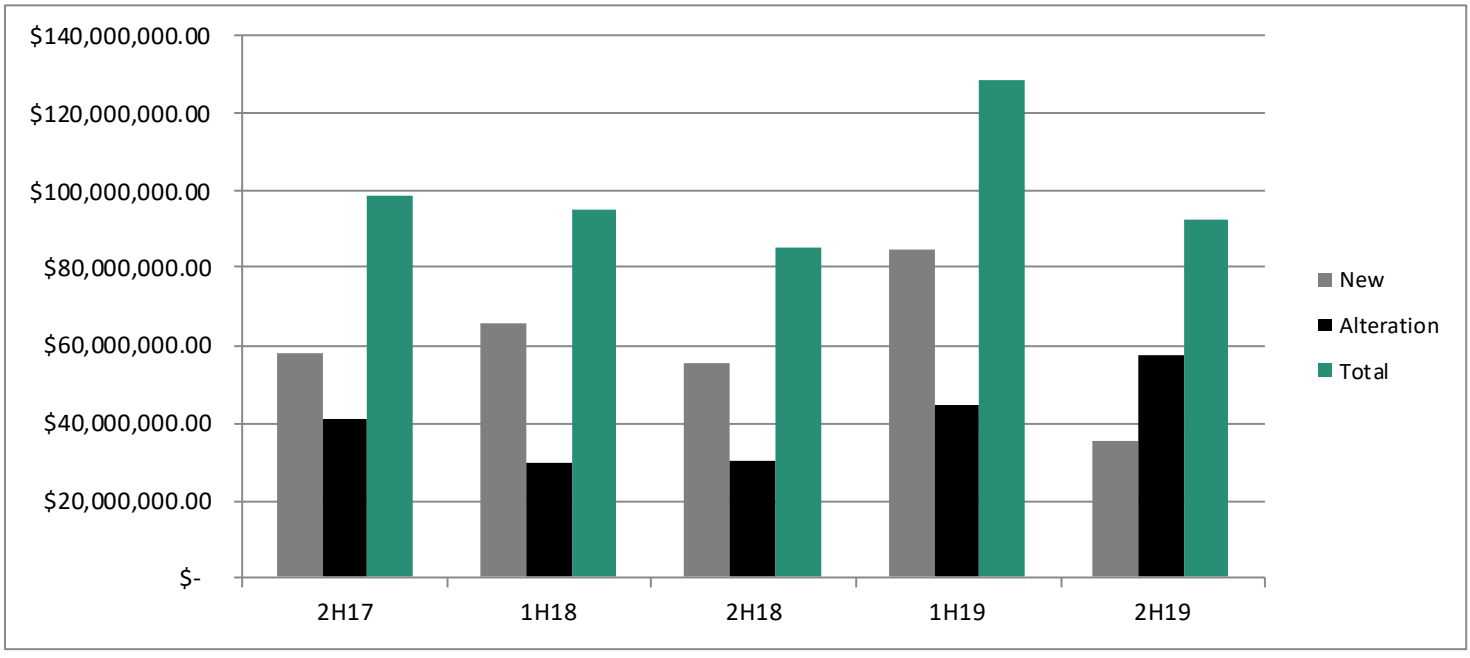
B1902903: Cattle Bankl & Trust pulled a $3M permit for a new facility

B1902388: CCI Holdings LLC has pulled a $2.5M permit for a new office, warehouse showroom

B1902477: Country Club of Lincoln has pulled a $1.9M permit

Notable Construction Projects

- The Kindler Hotel redevelopment project downtown has been completed and is open for business
- The development at 48th & Leighton is coming closer to completion after a slow-down early in 2019.
- The scaled back version of a hotel development at 9th & O street has been approved by Lancaster County Planning Commission
- The Olsson Associates expansion South of their current location at 601 P St is expected to be complete in early 2020 adding more than 60,000 sq.ft. of office space and 5,000 sq.ft. of retail space



Building Permits and Construction Notes: All Building permits and statistics are generated from the Lancaster County Citizen Access portal. For the purposes of this report all commercial permits are recorded. The final dollar amount, however, excludes education, religious, storage, government, multifamily (unless it contains first floor retail), cell towers, structures that are not buildings, concrete work, garages and car ports. Demolition permits are tracked internally but financial information for each project are not recorded by the city.

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Retail 2H19

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While the retail sector continues to undergo fundamental changes nationwide, Lincoln's retail market has held its own despite several notable store closings during the year, including the four Shopko stores and Sears at Gateway Mall, all of which closed in early 2019. National store closings during the second half of 2019 included Forever 21 at Gateway Mall and Pier 1 at Southpointe Pavillions, adding vacancy to Lincoln's two primary shopping centers. Also, 7-Day Furniture will be vacating roughly 50,000 Sq Ft at 56th & Hwy 2 at the end of January when they relocate to a new building at 2240 Fletcher Avenue in north Lincoln.

On the positive side, two of the former Shopko's have backfilled with new users and a third will soon be occupied by Hobby Lobby at 66th & O Street. The former Sears store at Gateway Mall was purchased for $6.3 million and will likely be subdivided into smaller retail spaces. Fast-growing discount retailer Five Below opened its first Lincoln location at 48th & R Street.

Despite the volatility experienced during the year, Lincoln's overall retail vacancy rate, which has been trending upward over the last couple years, seems to be stabilizing and finished the year at 6.4%. Retail asking rates fell slightly during the second half of 2019, finishing the year at an average of $13.40/PSF across all submarkets.

Looking toward 2020, we expect to see some ongoing uncertainty as retail continues to evolve to meet changing consumer buying habits. Some additional store closings are likely but Lincoln's overall retail market should remain fairly healthy with vacancy rates remaining well below national averages.

Other Notable Retail News:

The former Post and Nickel clothing store buildings at 14th & P Street are now occupied by a Chase Bank branch, Lululemon and a local boutique called Madida Clothing

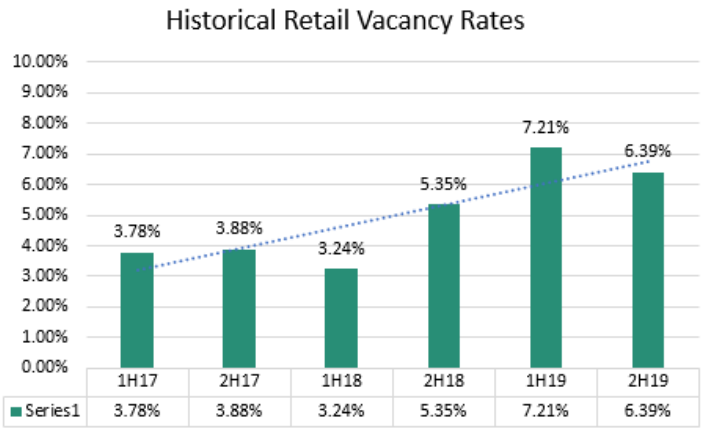
After closing their Haymarket location in the Railyard, Buffalo Wings and Rings opened a new restaurant at 40th & Old Cheney in Williamsburg Village

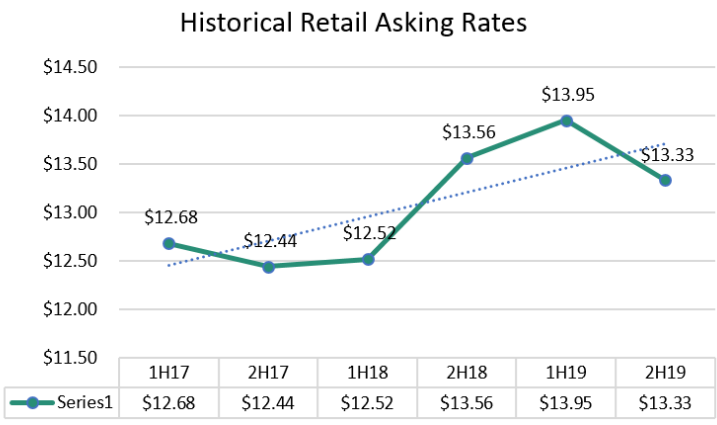
Type	Buyer/Lessee	Seller/Lessor	Address	Price/Size
Sale	NPR Development Company	MF Edgewood, LLC	Edgewood Shopping Center	$16,650,000
Sale	Bella Squared LLC	National Retail Properties, LP	212 N. 48th St.	$5,244,693
Lease	At Home	Realty Trust Group Inc	6845 S. 27th St.	110,796 sq.ft.
Lease	Five Below	Westmore Group Inc	400 n 48th	20,000 sq.ft.

Retail Second Half of 2019

Submarket	Total Sq.Ft.	Vacant Sq. Ft.	Vacancy %	Net Absorption	Weighted Avg. Asking Rate
CBD	1,602,740	177,615	7.34%	10,878	$16.46
NE	6,735,786	561,765	8.34%	101,010	$12.58
NW	1,949,504	93,899	4.82%	(15,883)	$10.60
SE	6,558,796	325,873	4.97%	86,977	$12.09
SW	1,743,777	89,342	5.12%	(4,141)	$15.24
Total	**18,590,603**	**1,188,494**	**6.39%**	**178,841**	**$13.33**

By Subtype	Total Sq.Ft.	Vacant Sq. Ft.	Vacancy %	Net Absorption	Weighted Avg. Asking Rate
Community Center	1,452,407	48,572	3.34%	95,200	$12.86
Free Standing	6,616,232	210,199	3.18%	116,685	$12.29
Neighborhood Center	2,541,221	235,823	9.28%	(142,175)	$14.00
Power Center	1,079,969	115,461	10.69%	110,604	$12.25
Regional Center	2,496,458	192,147	7.70%	(10,079)	$11.32
Store Front	1,752,652	89,932	5.13%	(12,910)	$12.26
Strip	2,339,574	209,100	8.94%	3,382	$17.16
Urban	312,090	87,260	27.96%	18,134	$13.27
Total	**18,590,603**	**1,188,494**	**6.39%**	**178,841**	**$13.33**





Retail Terms and Definitions

Total SF: Retail inventory includes all multi-tenant and single tenant buildings.

Retail Building Classifications: *Neighborhood Centers* are properties with 30,000 to 150,000 Sf with at least one anchor tenant. *Community Centers* are properties with 100,000 to 350,000 SF with two or more anchor tenants. *Regional Centers* are properties with two or more full-line department stores anchor a total area of 400,000 to 800,000 SF.

Power Centers are properties with typically 250,000 to 600,000 SF with three or more anchor stores which occupy 75-90% of the total area. *Free Standing* properties consist of one building occupied by one major tenant. *Strip Centers* are properties constructed with common walls in a strip facing the street and usually have no dominant anchor stores. *Urban Retail* is typically the retail space in the lower levels of downtown office buildings as well as other street-oriented retail spaces. *Store Front* properties consist of buildings typically in specific areas such as downtown, with street parking access, usually consisting of 2 levels

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Office 2H19

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Lincoln's office market remained stable during the 2nd half of 2019, ending the year with an overall vacancy rate of 7.4%, virtually unchanged from mid-year 2019. Lincoln continues to perform better than the national average for office vacancy rates, which is in the range of 10%-11%. Despite the long national economic expansion over the last decade, employers continue to reduce their office footprint as more people work remotely and the average square foot per employee continues to decline with the trend toward more open workspaces. Average asking rental rates in the Lincoln market remained steady, ending the year just below $13.00 per square foot on a triple net basis.

In downtown Lincoln, the Gold's building was purchased for $2.3 million with plans for a mixed-use redevelopment that would include an extended-stay hotel, office space and retail space. Olsson will soon occupy its new building at Canopy and O Street, completing an expansion of its headquarters in the West Haymarket. In the NW submarket, construction continues at Fallbrook on a new office building which will house the State of Nebraska Department of Environmental Quality. In southeast Lincoln, construction started last fall on Lincoln Federal's new headquarters at 84th & Van Dorn. In the southwest submarket, Union Bank purchased and is renovating the 50,000 Sq Ft Pine Ridge Plaza building at 18th & Pine Lake Road. And in the Telegraph District, local contractor NGC Group completed its renovation and moved into the former Awards Unlimited building at 1935 O Street.

While most of these projects have some excess space for lease, they are primarily owner-occupied or have a major tenant and are not built on speculation as developers remain conservative with regard to projected demand for new office space, particularly in an environment of continued rising construction costs. While there is demand for new Class A office space with modern amenities, there is a limit to what tenants are willing pay for it. The one exception to this is the mixed-use building under construction in the Telegraph District at 21st & N Street. No office tenants have been announced for the building at this point.

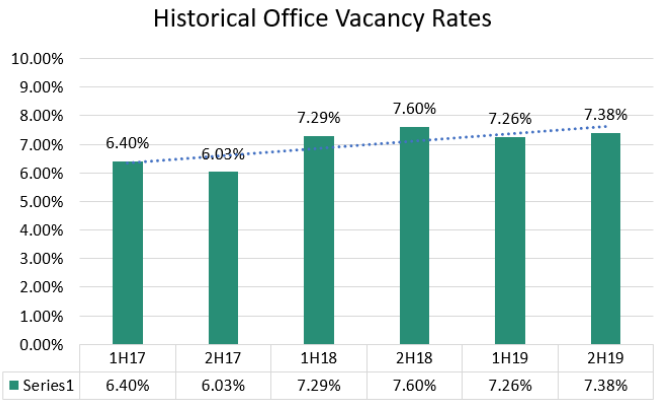
Looking forward, we anticipate that Lincoln's office sector will remain healthy in 2020 with no significant change in vacancy rates or asking rents anticipated. The lack of speculative office development will keep supply in check.

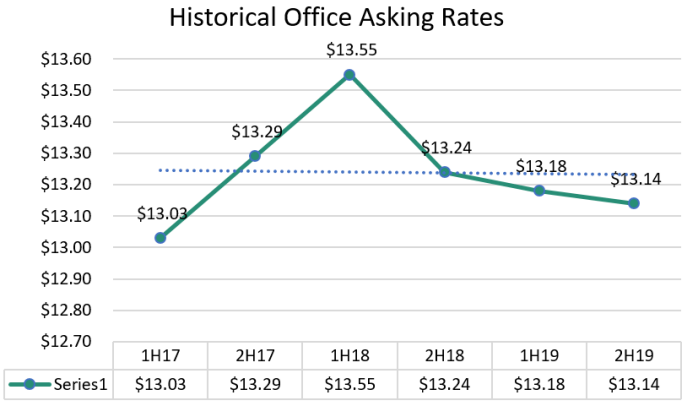
Type	Buyer/Lessee	Seller/Lessor	Address	Size/Price
Sale	Gannett Peak Investments, LLC	Rosasco Properties, LLC	7400 Cross Lake Ln.	$2,200,000
Sale	Commonwealth Electric Company of the Midwest	Austin Realty Investments	3910 South St.	$1,200,000
Lease	Agilx	Speedway Properties	826 P St.	7,050 sq.ft.
Lease	ALN Medica Management	Hampton Enterprises	3533 Village Dr	25,000 sq.ft.

Office Second Half of 2019

Submarket	Total Sq.Ft.	Vacant Sq. Ft.	Vacancy %	Net Absorption	Weighted Avg. Asking Rate
CBD	4,647,117	233,898	5.03%	23,381	$14.79
NE	1,938,273	96,450	4.98%	(4,969)	$12.98
NW	1,878,626	230,439	12.27%	(39,190)	$12.00
SE	4,703,451	421,217	8.96%	10,719	$15.04
SW	1,422,772	95,377	6.7%	5,335	$9.92
Total	**14,590,239**	**1,077,381**	**7.38%**	**(4,724)**	**$13.14**

Subtype	Total Sq.Ft.	Vacant Sq. Ft.	Vacancy %	Net Absorption	Weighted Avg. Asking Rate
Class A	3,467,952	319,075	9.2%	17,700	$17.87
Class B	9,694,392	708,757	7.31%	(25,900)	$12.54
Class C	373,067	24,250	6.5%	3,701	$7.84
Medical	1,054,828	25,299	2.4%	(225)	$15.03
Total	**14,590,239**	**1,077,381**	**7.38%**	**(4,724)**	**$13.14**





Office Terms and Definitions

Total SF: Office inventory includes all multi-tenant and single-tenant buildings. Government and university owned and occupied, as well as medical buildings, are not included.

Office Building Classifications: Greenleaf Properties follows the BOMA guidelines. *Class A* Buildings are the most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility, and a definite market presence. *Class B* Buildings compete for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. *Class C* Buildings compete for tenants requiring functional space at rents below the average area.

Vacancy: The vacancy rate is the amount of physically vacant space divided by the inventory.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year. The asking rent is weighted by the amount of available space in the building.

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Industrial 2H19

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The Lincoln Industrial market posted a strong performance during the second half of 2019 mirroring the solid performance of the national industrial sector. Continuing demand for warehouse space driven by e-commerce sales has kept industrial vacancy rates steady with higher asking rents. The Costar EOY 2019 Industrial Report shows that overall industrial vacancy rates remained relatively steady at 5.2%, up slightly from 5% at the end of the second quarter. Although supply increased nationally, asking rents finished the year at $8.71 psf, which is up from $7.93 psf at the end of the second quarter. National absorption rates remained positive at 46,277,076 square feet with a total inventory of 16,729,192933 square feet at the end of the year.

Greenleaf research data indicates that the local market performed very well in the second half of 2019. Overall industrial vacancy dropped to 2.31% from 2.71% at the end of second quarter. Average asking rents strengthened significantly in the second of half of 2019 to $6.18 psf, up from $5.49 in the first half of the year. Overall local industrial inventory finished the year at 32,940,711 square feet, up from 32,905,453 square feet at the end of the second quarter. Although only about 35,000 square feet was delivered to the market in the second half of the year, space available for lease dropped to 760,571 square feet from 890,561 square feet at the end of the second quarter leading to positive net absorption of 165,248 square feet.

The Lincoln market had 40 sale transactions involving industrial property in the second half of 2019 totaling $29,560,315. Notable sales include the purchase of 5401 Cornhusker Hwy (26,900 square feet) by Star City Heating & Air from Bryant Heating & Air for $985,000, and the purchase of 1030 SW 6th Street (92,580 square feet) by Lincoln Leasing Company from Broadview Properties for $5,300,000.

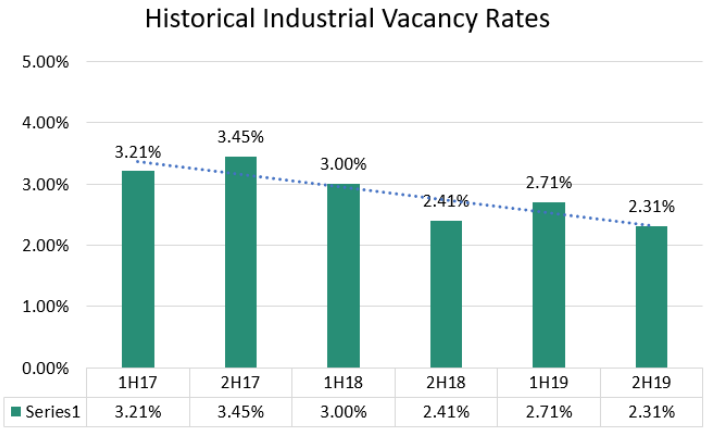
The outlook for the industrial real estate market in Lincoln for 2020 remains strong. With a limited amount of speculative industrial construction set to deliver new space in the first half of 2020, steady demand fueled by distribution users and the trades should keep asking rents high given the limited supply. These strong underlying fundamentals position the industrial sector well for the first half of 2020.

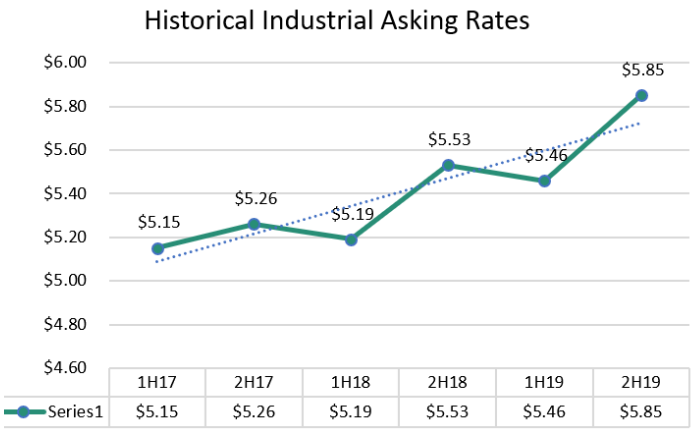
Type	Buyer/Lessee	Seller/Lessor	Address	Size/Price
Sale	Star City Management	Bryant Air COND & HTG CO	5401 Cornhusker	$985,000
Sale	Lincoln Leasing Company	Broadview Properties, LLC	1030 SW 6th St.	$5,300,000
Lease	A. Stucki Company	U.S. Property Management	5500 N 58th St.	53,700 sq.ft.
Lease	Van Sickle Paint Manufacturing Co.	Platinum Real Estate	1421 Kingbird Rd.	46,560 sq.ft.

Industrial Second Half of 2019

Submarket	Total Sq.Ft.	Vacant Sq. Ft.	Vacancy %	Net Absorption	Weighted Avg. Asking Rate
CBD	703,598	16,501	2.35%	(6,310)	$7.00
NE	12,064,556	309,864	2.57%	38,386	$5.14
NW	11,544,605	298,957	2.59%	125,508	$5.20
SE	690,286	13,115	1.9%	17,344	$6.79
SW	7,937,666	122,134	1.54%	(9,680)	$6.77
Total	**32,940,711**	**760,571**	**2.31%**	**165,248**	**$5.85**

Submarket	Total Sq.Ft.	Vacant Sq. Ft.	Vacancy %	Net Absorption	Weighted Avg. Asking Rate
General Industrial	11,316,412	304,533	2.69%	(64,162)	$6.19
Manufacturing	10,233,570	132,880	1.30%	13,000	$4.5
R&D/Flex	2,608,868	72,355	2.77%	12,566	$6.28
Warehouse/ Distribution	8,781,861	250,803	2.86%	203,844	$5.12
Total	**32,940,711**	**760,571**	**2.31%**	**165,248**	**$5.85**





Industrial Terms and Definitions

Inventory: Industrial inventory includes all multi-tenant, single-tenant, owner-occupied, and condo buildings.

Industrial Building Types: Industrial buildings are categorized as Warehouse/Distribution, General Industrial, R&D/Flex, Manufacturing, and Condo units. They are divided by their physical characteristics, including percent office build-out, clear height, typical bay depth, suite size, type of loading, and typical uses.

Vacancy: The vacancy rate is the amount of physically vacant space divided by the inventory.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year.

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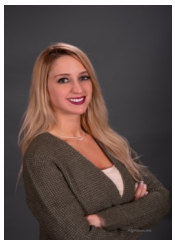

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Property Manager

Greenleaf Properties combines extensive industry expertise and detailed market knowledge to provide each client with

Acquisition

- Site Selection
- Investment & Market Value Analysis
- Contract Negotiations
- Due Diligence

Disposition

- Brokers Opinion of Value
- Analysis of Marketability
- Tax Discussions; 1031 Exchanges
- Contract Negotiations

Leasing

- Market Analysis
- LOI's and Lease Negotiations
- Strategic Marketing Plan

Tenant Representation

- Lease Negotiations
- Letters of Intent/Request for Proposals
- Tenant Improvements
- Sale/Leaseback Negotiations

Consulting

- Portfolio Analysis & Strategic Planning
- Broker's Opinion of Value
- Lease Audits

Property Management

- Facilities Maintenance
- Vendor Management
- Tenant Relations
- Budgets & Reconciliations

Memberships & Tools:

CCIM · LINCOLN CHAMBER OF COMMERCE · International Council of Shopping Centers · IREM · SIOR · NATIONAL ASSOCIATION of REALTORS® · STDB Site to do Business · RLT RETAIL LEASE TRAC · RealNex · MRCIE · CoStar · LoopNet™

HELPING YOU GROW: BUSINESSES, COMMUNITIES, FUTURES

Market Research & Methodology

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Greenleaf Properties is the leader in commercial real estate market knowledge and research in Lincoln, Nebraska. The Green Report is a quarterly market report that includes trends in vacancy rates, absorption rates, asking rents, building permits, and notable transactions.

Greenleaf Properties employs a full-time market analyst who tracks the market using a variety of tools and resources on a daily basis. In addition to utilizing information available on the subscription sites Costar, CCIM's Site to do Business, and MRCIE, Greenleaf maintains multiple in-house databases using Realnex. The powerful Realnex set of databases allows us to:

- Track occupancy in over 10,000 commercial properties in the Lincoln, NE greater statistical area.
- Maintain our own Sales Comparisons database by inputting property transfers from the Lancaster County Assessor in real time. Greenleaf tracks multi-family, retail, office, industrial, hotel/motel, fast food, convenience store, and unimproved land transfers.
- Maintain our own Lease Comparison database sourced from in-house deals, closed transactions on Costar, LoopNet, and MRCIE, as well as by reaching out to property owners and tenants.
- Track all property owners in Lancaster County across all use types.
- The comprehensive, real-time information we maintain in Realnex sets Greenleaf Properties apart in terms of local market expertise. In addition to producing the Green Report, the Realnex databases allow our agents to have the most accurate and up-to-date market data when working with clients.

Absorption: Refers to the change in occupancy over time. *Positive absorption* indicates a reduction in vacancy. *Negative absorption* indicates an increase in vacancy.

Submarket: Specific geographic boundaries that serve to allocate core areas in the overall market. 27th & O serves as the intersection of the form main submarkets with the Central Business District located approximately between 6th and 17th and R St. and L St.

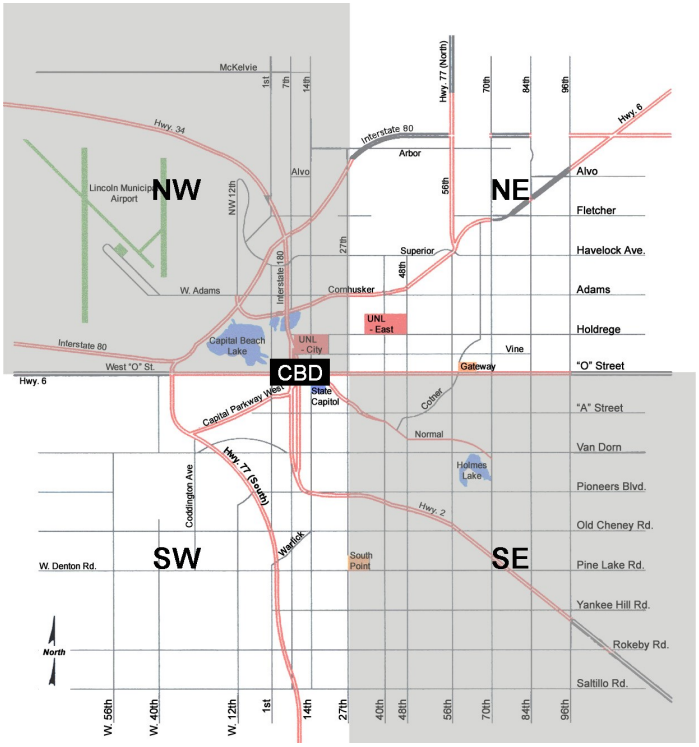
Subtype: Specific designation within each prospective use type. Subtype is determined by various factors including size, internal and external features, amenities, zoning permissions, and general quality of space.

Total Square Footage /Inventory: The physical footprint of properties being tracked. This report forgoes government, education, religious buildings and hospitals.

Vacancy: Refers to space that is not currently being occupied by a tenant, regardless of whether or not it is actively being marketed.

Weighted Asking Average Rate: The average asking rental rate skewed to reflect the according size of the space available. Negotiable and unavailable asking rates are excluded in this calculation

Lincoln divided by five submarkets



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