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The Omaha Office Space Market: 1980-1984

By Donald A. Nielsen and Murray Frost

Introduction

This article is an update of the Omaha office space market study that was published in the February, 1983 issue of the Review of Applied Urban Research.¹ The purpose of this article is to provide a profile of the spatial concentration of the Omaha office space market² over the period 1980 through 1984 by examining the evolving spatial pattern of development as well as office space distribution delineated on the basis of zip code areas. It identifies the current levels and trends for vacancies and rents for these areas.

Previous market studies conducted have been broad-based, concentrating on the entire Omaha geographical area or large sub-areas. They have allowed only general market findings to be reported. The present study is a micro-study that examines market characteristics by zip code area.

Data Sources

As data sources, this study employs the telephone surveys conducted by the Midlands Business Journal published as Office Space Directories for 1980, 1982, and 1984.³ Also included is a February, 1985 telephone survey, conducted by the R. J. Wilson Company on the Omaha downtown office space market.

One caveat should be noted. The consistency of the data varies from survey to survey. That is to say, for a variety of reasons, a number of buildings surveyed in one year may not have been included in the survey for another year.

Sometimes this difference is logical—such as the construction or demolition of an office building. Sometimes, however, the difference may be due to a building owner or agent being cooperative one year but not the next, or a building may be considered off the office-space market because its single occupant entered a long-term lease. (In other words the building is treated as owner-occupied office space which is usually omitted from these surveys.) Thus, minor inconsistencies in levels and trends between some zip code areas appear in some of the tables. Therefore, any conclusions about the distribution and increases of office space across time periods are subject to the limitations of the methodologies of these surveys. However, while totally consistent data sources are not available, the authors feel that some helpful insights concerning the office space market are revealed from a comparison of the surveys with respect to vacancies and rental rates as well as the evolving development patterns and concentration of office space by zip code areas analyzed for Omaha and its immediate Douglas County environs.

Geographical Concentration

The past five years has witnessed a burgeoning of office space growth in Omaha and its immediate environs. Historically, office space was concentrated in the downtown zone (east of 24th Street to the Missouri River) and the adjacent midtown zone (24th Street to 60th Street). However, between 1965 and 1980, most new office space was constructed west of 60th Street and east of 156th Street between Harrison Street on the south and Redick on the north, with the heaviest concentration occurring in the area bounded by 72nd Street on the east and 156th Street on the west and between Pacific on the south and Blanco on the north or in zip code areas 68114 and 68154.

Omaha and its immediate Douglas County environs contained more than 4.1 million square feet of office space prior to 1965, according to surveys conducted by the Omaha Chamber of Commerce and by Harold Hornbeck and Armin K. Ludwig. Nearly 60 percent of this space (2.4 million square feet) was concentrated downtown. One-quarter of the total (1.1 million square feet) was located in the midtown area, while only 15 percent (644,000 square feet) was suburban.

During the decade 1965-1975, an additional 3.2 million square feet were added to Omaha's stock of office space, a gain of 76 percent. More than 60 percent of this gain (1.9 million square feet) was suburban. Midtown received 5 percent of the gain (less than 200,000 square feet), while downtown accounted for approximately one-third (just over one million square feet) of the increment.

During the period 1976-1980, approximately 2.8 million additional square feet
were added to Omaha's inventory of standing stock of office space by 3.74 percent. This increase was distributed between downtown which received 22 percent (2.57 million square feet), the midtown area which received 2.4 percent (660,000 square feet), and the suburban area west of 60th Street which received 75.6 percent (2.1 million square feet).

According to the Midlands Business Journal surveys, by 1980 Omaha and its environs in the zip code area of study had nearly 7.4 million square feet of office space. By zip code area two nodes stood out: The downtown area (zip code area 68102) had nearly 7.4 million square feet of office space, or 18.8 percent of the total. Zip code area 68114 (or 18.8 percent of the total). Zip code area 68144 (or 18.8 percent of the total). Zip code area 68154 (or 18.8 percent of the total). Zip code area 68110 and 68112 had an increase of 13.4 percent, while the rates rose by 9.8 percent for zip code area 68114. During the same period, rates in zip code area 68110 increased by 13.4 percent, while the rates rose by 9.8 percent for zip code area 68114.

Vacancy Trends

Table 1-3 present profiles of the levels and trends of vacancy rates and rental prices between 1980 and 1984 for the various zip code areas in the metropolitan area.

During 1980, the Omaha office market within the zip code areas studied, including the downtown area, had a vacancy rate of 10.8 percent with 8.7 percent of the total office space (zip code 68102) being available and 8.8 percent being vacant in area 68114. Zip code area 68154 experienced a vacancy rate of 12 percent in 1980. In 1982, the overall vacancy rate for the city had risen to 15.6 percent with buildings downtown having a 15.1 percent vacancy rate and zip code areas 68114 and 68154 experiencing vacancy rates of 11.4 percent and 9.2 percent, respectively. By 1984, the overall vacancy rate for the study zip code areas had climbed to 20 percent, with the downtown rate rising to 20.1 percent and the vacancy rate for zip code area 68114 decreased to 5.6 percent, while the rate decreased to 25.0 percent for zip code area 68154.

Clearly, adding additional space between 1980 and 1984 more than offset the loss in smaller office space, while the other areas were able to absorb much of the new space. The increasing space between 1980 to 1984 can be explained by three factors. One is the construction of additional buildings. The second is the increase in the renovation and conversion of existing older buildings which had previously been used for purposes other than office space, possibly due to the tax incentives for renovating older structures provided by the United States Economic Recovery Tax Act. The third factor was the general decline in the economy during 1980-1982 which resulted in a decrease in the rate of office space absorption as a result of business conditions in the Omaha economy. Thus, generally speaking, vacancies increased in most of the zip code areas due to increases in the supply of added space which did not have sufficient demand to absorb the additional space due to the suffering economy.

Rental Rate Trends

Generally speaking, the overall average rental rates for the Omaha office market within the zip code areas studied increased at an average annual rate of 6.3 percent over the period 1980 to 1984. Within the downtown area (zip code 68102), the average annual rental rates increased at a rate of 8.2 percent, but the rates rose by 9.8 percent for zip code area 68114. During the same period, rates in zip code area 68110 increased by 13.4 percent, while the rates rose by 9.8 percent for zip code area 68114. Other areas that experienced significant increases in their average annual rates were zip code areas 68106 (9.9 percent), 68112 (13.4 percent), and 68114 (18.5 percent). During the period from 1980 to 1984, one area (zip code area 68040) experienced an average annual rate decline of 3 percent, while zip code area 68112 remained constant at $6.00 per square foot (see Table 4).

Absorption Rates

Of the 2.8 million square feet added to the total Omaha office space market between 1980 and 1984, only approximately 2.0 million square feet were absorbed. The annual absorption rate, therefore, was only 49.0 percent, or approximately 500,000 square feet per year over the four-year period. The 1.7 million square feet vacant at the time of the 1980 study...
would suggest a more than three-year supply of available office space (if a 5 percent vacancy rate—or 95 percent occupancy rate—were considered acceptable, then only a 2.3-year supply existed). See Table 5.

The absorption patterns varied by zip code area, however. Although the overall annual rate for the study area from 1980 to 1984 was 494.8 thousand square feet per year, the downtown area absorbed new space at an annual rate of 102.2 thousand square feet. This was more than any other single zip code area. With 95 percent occupancy as a goal, the downtown area had a four-year supply of available space. The other predominant office space node (zip code 68114), however, had less than a two-month supply. Zip code area 68137 also had less than a one-year supply (.4), while 68131, 68144, and 68154 each had less than a two-year supply (1.6, 1.5, and 1.8, respectively).

February, 1985 Downtown Office Space Market Survey

A survey of the downtown office space market was conducted in late February, 1985. The 37 buildings surveyed are not identical with the list reported in the 1984 Midlands Business Journal (the list adds two buildings omitted from the 1984 list which had been listed earlier and which are fully occupied—one of them is primarily, but not totally, occupied by a single tenant—as well as a building scheduled for renovation and reporting 40 percent of the space occupied or pre-leased).

This survey indicated downtown office space is filling up. This was due primarily to a large block of previously vacant space being reported as not available for renting because it is currently under negotiation with a high probability of the lease being signed in the very near future. As a result the 1984 vacancy rate of 20.1 percent was reduced to almost half of that—10.8 percent. See Table 6.

An additional important aspect of this office space is that little of it is available in large blocks.

The 37 buildings in the downtown survey reported more than three million square feet (3,015,276). Of this 327,110 square feet were vacant and available for leasing, according to the building agents...
TABLE 6
DOWNTOWNOMAHA OFFICE SPACE SURVEY

Name of Building  Location  Total Building Square Feet  Available Square Feet for Leasing  Total Leasing Vacant  Rent per Square Foot  Year Built

A. C. Nelson  1800 Harvey  26,704  0  0  $4.00  1905
Armis Charter  1630 Farnam  97,733  0  0  $2.50  1911
Bradley Brinks  1616 and Douglas  380,000  3,000  0  $0.50-$1.50  1904 (1982 Renovation)
Burlington Plaza  1904 Farnam  30,000  5,000  0  $1.25  1903 Renovation
Capital Plaza  1815 Capitol  83,796  0  0  N/A  1966
Central Park Plaza  222 S. 11th  419,138  10,000  0  24  15.00  1982
Continental Bldg.  200 S. 11th  65,432  410  0  7  14.07  1965
Empire State Building  200 S. 11th  30,000  0  0  11.50  1900 (1976 Renovated)
Eisw ELECT Building  1834 Douglas  48,000  7,500  0  $9.99-19.56  1905
Farm Credit Building  209 S. 11th  120,000  0  0  9.00  1925-1934
Farm Building  1613 Farnam  95,000  0  0  7.50  1900
First National Center  16th and Dodge  235,000  3,000  0  1.80  1972
Hispanic Ford Plaza  (formerly Barin Blvd.)  20th & Harvey  20,000  0  0  N/A  1910 (1984 Renovation)
Historic Omaha Library  18th & Harvey  25,225  0  0  13.00  1982 Cover/Rehab.
Kansas Building  318 S. 13th  440,000  4,000  0  $3.00-$9.00  1894
LaCrest Landmark  101 Farnam  26,000  7,500  20,53  13.50  1983 Cover/Rehab.
Douglas Building (formerly Memphis Tower)  19th & Douglas  120,000  80,000  0  $5.00-$9.00  1917
New Aquila Court  1615 Howard  65,144  16,000  23,1  24  $9.25-$5.50  1920
 Omaha Grain Exchange  1915 Harvey  77,500  14,769  19.1  6.85  1916
Woodworth Building  120 South 16th  80,000  0  0  9.00  1916 Remodeled
Graem Graphic Arts  (formerly Main Office)  19th & Douglas  30,000  0  0  19.1  6.85  1982
Granary for sale  406 S. 12th  22,000  0  0  N/A  1920
Professional Tower (formerly Medical Arts)  106 S. 17th  135,000  20,000  0  15.00  1901 (1970 Renovation)
Securities Building  301 S. 16th  15,000  4,000  0  $1.25  1900
Civilic Center Commons (formerly Security Title)  314 S. 15th  11,000  11,000  100.0  N/A  1900
Service Life Building  19th & Farnam  41,064  1,500  37  7.75  1970
The Law School  260 S. 15th  27,000  12,000  15,000  5.25  1922
Woodmen Tower  1720 Farnam  370,000  1,083  0.2  14.75  1899
W. F. Inc.  (formerly Farmers Building)  18th & California  10,000  0  0  8.00  1975
The Yellow Building  1300 Harvey  20,000  3,132  16.7  7.50  1879 (1983 Renovation)
Five Fourteen South 14th  614 S. 16th  6,000  0  0  $10.00-$13.00  1893 Renovation
Coffee Building  112 S. 11th  4,000  0  0  3.75  1893 Renovation
Redick Tower  1054 Harvey  24,500  24,500  100.0  12.50  1966 Renovation underway
A. K. Red Stone Building  1016 Douglas  40,000  0  0  12.00  1981 Renovation
Faison Building  1722 S. 15th  21,750  5,075  21  12.50  1986 Cover/Rehab.
Baker Building  306 S. 15th  31,500  0  0  $5.00-$5.50  1929
First National Bank Building  1503 Farnam  88,700  69,641  60.0  12.50  1916 (1985 Renovation) (40% protected)
Union Pacific-East Addition  1418 Dodge  190,000  0  0  12.50  1972

Totals  3,015,276  327,110  10.8  $10.95

*Leasing agent reported an additional 87,000 square feet as vacant but under negotiation with a high probability of being leased in the very near future.


The dual-node office space market that developed earlier continued in the 1980's. The downtown area (zip code 68102) and the 72nd Street-1-680 corridor along Dodge Street (zip code 68114) continued as major office space markets. Other areas also exhibited increases. Rental rates increased over the years, with some newer buildings reporting rates as high as $14.50 per square foot.

The absorption of new office space varied by zip code area with several areas showing very short supplies. This has encouraged further office space expansion (e.g., approximately 400,000 square feet were reported under construction and still more space is being planned by several developers). Since the development of new office space may take several years to complete, a continuation of the cyclical pattern of office space supply and demand found in most communities will continue in Omaha as well.

Data on rental rates should be interpreted cautiously given the inconsistencies in the data base used in these analyses, as noted earlier. In addition the absorption rates refer to a time period that included the recession of 1981-82 as well as the large increases of office space added in the 1983-84 recovery period.

The data and analysis in this section treat the space under negotiation as not available for rental.

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The views and opinions expressed in the Review are those of the individual authors and do not necessarily represent those of the University of Nebraska at Omaha.

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