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## Omaha: A Victory in Middle America

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*A long period of economic development in Omaha, Nebraska, has resulted in an attractive place to live and work.*

Jeff Beals

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There was a point in the 1980s when commercial real estate professionals in Omaha, Nebraska, had viable reasons to be pessimistic. Enron had left town, moving its multi-million dollar payroll to Houston. ConAgra, another major Omaha employer, was also threatening to leave. However, in the face of adversity, business leaders pulled together to improve the local business climate, and the state enacted competitive tax incentives.

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The result has been a long period of economic development. From 1990 to 2000, the Omaha economy increased the number of its jobs by 25 percent, while the population grew 16.1 percent. Now, companies are moving to Omaha rather than away from it.

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AFLAC, PayPal, Cargill, Union Pacific, Northern Natural Gas and The Gallup Organization are examples of national companies that are expanding in or relocating operations to the Omaha area. All combined, they are adding 2,000 jobs between 2003 and 2004, says Rod Moseman, vice president of economic development for the Greater Omaha Chamber of Commerce.

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While many metropolitan areas have struggled recently, Moseman says Omaha has weathered the storm. "We had a lot of 'pump-priming' projects underway before the national economic downturn," he says. "The diversity and constant growth make the Omaha economy stable and reliable."

With a metropolitan population approaching 750,000, Omaha has a diverse local economy featuring a mix of telecommunications, healthcare, agribusiness, insurance and transportation industries. Five Fortune 500 companies are headquartered in Omaha, and many others have branch offices in the area as well. Unemployment at the end of 2002 was 3.4 percent.

Downtown Omaha and the nearby Riverfront are in the midst of a building boom. Almost \$2 billion worth of construction has been completed recently, is underway or is planned to begin within the next year.

Located along the west bank of the Missouri River, Omaha is historically known as a river town. For years, downtown was separated from the river by a swath of brick warehouses and rusting factories. As the city grew to the west, many residents ignored the river's very existence and, until this year, there was no pedestrian access to the river from downtown.

The current wave of development is reconnecting downtown with its river roots. Anchoring the Riverfront is the \$291 million convention center and arena, scheduled to open in August. The building will seat up to 17,000 people in the arena and will provide 250,000 square feet of meeting and exhibition space. The \$71 million, 450-room Hilton Omaha Hotel will be connected to the convention center and arena by skywalk and should open in spring 2004.

Other Riverfront projects include Lewis and Clark Landing, a 23-acre recreation area located where a lead smelting plant once stood. The site features plazas, hiking trails, a boardwalk with river views, and Rick's Café Boatyard, a

20,000-square-foot destination restaurant.

To the north, the U.S. Park Service is building a regional headquarters and Gallup is preparing to move to its new corporate campus. Gallup is relocating more than 500 jobs to the Riverfront and will create "Gallup University," a training program that will attract 5,000 corporate executives to Omaha each year.

Construction will begin next year on the Riverfront's showpiece: a \$22.6 million pedestrian bridge with 230-foot towers that will span the Missouri River, connecting hiking and biking trails in Iowa and Nebraska. Completion is scheduled for 2005.

First National Bank of Omaha recently completed its new \$200 million, 1.1 million-square-foot office tower in the heart of downtown. At 633 feet, it is the tallest building in the five-state area. Two blocks to the east, Union Pacific is building a 1.1 million-square-foot, 19-story office building for \$260 million. When it is completed in 2004, the building will house 4,100 Union Pacific employees — 500 of whom are being transferred from St. Louis. Earlier this year, a food processing plant was razed to make way for Omaha's \$90 million performing arts center, which should open in 2005.

According to Moseman, downtown construction has not come at the expense of other parts of the metro area. Urban renewal is taking place outside downtown. On the near north side, Cintas is adding 120 jobs. In south Omaha, the former stockyards have been converted into a business park.

In midtown, the University of Nebraska Medical Center is finishing construction on a \$77 million, 10-story research center. In southwest Omaha, PayPal Inc. is preparing to move 500 Omaha employees into a new 115,000-square-foot operations headquarters.

The Air Force is playing its part in Omaha's economic growth as well. The U.S. Space Command, formerly of

Colorado Springs, Colorado, has been combined with Strategic Command at Offutt Air Force Base near Omaha. Moseman says he expects spin-off development for defense contractors and vendors wanting to locate close to the new command. Booz Allen Hamilton, one of the nation's largest management consulting firms, already has announced it will open a 150-employee office in Omaha this spring.

East of the river, Council Bluffs, Iowa, is also experiencing growth. A \$75 million arena/convention center opened in 2002. In addition, a 140,000-square-foot shopping center, 16-screen theater and hotel are scheduled to open in 2003. Developers are also planning a \$60 million, 77-acre theme park south of Interstate 29.

Trenton Magid, president of Coldwell Banker Commercial World Group, says one of the reasons for Omaha's growth is its strong public/private partnerships. "The Omaha community works well together," he says. "It's a great place to do business, because everyone genuinely wants to see the city do well."

Omaha is a conservative city that still grows every year, says John Hoich, president of Hoich Enterprises. "Omaha has had steady, 3 percent annual growth for 150 years," he says. "The workforce is strong, and people believe in fair business practices. It's a comfortable market for investors."

However, the construction boom has negatives aspects as well, says Richard Secor, senior vice president of business development at the Lund Company. "The speculative construction of the 1990s coupled with a number of new owner/user buildings is creating high levels of vacancy, particularly in the office market," he says. "[But], ample space can help attract new industry."

## **Retail**

Most Omaha brokers agree that retail is the area's strongest market segment. Secor estimates that overall

vacancy is 6 percent, with no major submarket exceeding 10 percent. Retail vacancy rates have remained steady since 1998.

Several national retailers have entered the market including Galyan's Trading Company, Dick's Clothing and Sporting Goods, Sharper Image, P.F. Chang's China Bistro, Red Robin, Scheels All Sports and Pottery Barn. Existing big box retailers such as The Home Depot, Lowe's Home Improvement Warehouse, Target and Wal-Mart Super Center continue to expand.

Bob Kurylo, vice president of brokerage for The Lerner Company, says the national retailers are enjoying success in the market. "Word gets out in the retail community that stores are doing well here," he says.

Most of the major big box retailers now have a presence in Omaha, Kurylo says. However, he expects to see additional linen and housewares big box locations and a significant wave of national brand name restaurants to enter the market.

"Restaurant chains are discovering Omaha," Kurylo says. "People see what restaurants are in the larger cities, and by the time they get here, they are eagerly waiting for them."

Kurylo's company recently worked with Carrabbas Grill and Timberlodge Steakhouse, locating them at 144th Street and West Maple Road. The company also is currently representing Chipotle, Nothing but Noodles and Flemming Steakhouse.

Magid says the hottest retail areas in Omaha continue to be West Center Road in the southwest and West Maple Road in the northwest. "National retailers are putting locations on both corridors," he says.

Construction of Omaha's first lifestyle shopping center kicks off this spring, says Rob Luellen, a partner in Quantum Real Estate. The local company is teaming up

with RED Development of Kansas City to develop Village Pointe, a 650,000-square-foot center on 71 acres at 168th Street and West Dodge Road. A 160,000-square-foot Scheels All Sports store is the first anchor to be announced. Opening is scheduled for spring 2004.

“This will probably be the nicest retail development Omaha has ever seen,” Luellen says. “All of the buildings will be designed in four-sided architecture, which shields docks and HVAC equipment.”

RED Development is also partnering with The Lund Company to rehabilitate Regency Court, a 160,000-square-foot center near Interstate 680 and West Dodge Road. Secor says Pottery Barn, Pottery Barn Kids and Williams-Sonoma have already committed, while negotiations continue with other national retailers.

## **Industrial**

The industrial market in Omaha is seeing little new construction, and vacancy remains at 9 percent, according to Steven Reeder, vice president at CB Richard Ellis MEGA.

“Due to the construction activity of the late 90s and the last 2 years, there’s a lot of readily available, developed land sites with interstate accessibility,” Reeder says. “I can remember 10 years ago, it was very difficult to find a 10-acre site that was ready to go.”

Because of the recent industrial building boom, Magid says there has been very little speculative construction. “We’re now seeing 50,000-square-foot spaces remain vacant for a year or more,” he says. “That never used to happen.”

Typical lease rates are \$4.50 per square foot to \$5 per square foot and have remained steady. “Omaha seems to have a hard time breaking the \$5 level,” Magid says.

Magid and Reeder agree that smaller industrial buildings

are faring better than the larger ones. Magid is representing Gateway I-80 Business Park, a 55-acre development with 5,000-square-foot to 10,000-square-foot flex buildings. Lots continue to sell in the development, because smaller users are looking for sites with interstate access and visibility, he says.

While speculative building is down, there is still some activity. Reeder is working with Kansas City Life Company, which is building 175,000 square feet in two speculative buildings near Interstate 80 in Council Bluffs.

The Interstate 80 corridor through suburban Sarpy County, Nebraska, continues to see the most construction. Several large users have built along that corridor in recent years, and now lots are being filled in with smaller, multi-tenant industrial buildings.

Reeder identifies several trends in the industrial market. Developers are making industrial buildings as flexible as possible with adaptable bay sizes. There is also a trend toward higher ceilings, multiple dock doors and upgraded exteriors.

## **Multifamily**

After experiencing tremendous growth in the number of apartment units during the 1990s, construction has slowed. According to the Institute of Real Estate Management, occupancy in Omaha during 2002 was 93 percent, and rent for a two-bedroom apartment averaged \$681 per month.

While the market is soft, says Bob Dean, vice president of operations at the Seldin Company, it is coming back. He points to apartment construction in northwest Omaha and in the central business district (CBD). "Downtown is doing really well," he says. "Our properties have 97 percent occupancy."

The CBD has seen extensive growth with most of the units built in refurbished warehouses. NuStyle Development, the

company responsible for much of the downtown construction, recently completed the 260-unit Old Market Lofts. Rents range from \$850 to \$1,250 per month. NuStyle is also currently renovating the historic Drake Court Apartments. The \$14 million project will contain 138 units.

Though jobs and population are increasing in Omaha, apartment construction is not growing as fast because people are taking advantage of low interest rates and buying houses, says Randy Lenhoff, president of Seldin. "Before there is another round of heavy construction, we still need to see a little more absorption," he says.

Hoich, who owns 800 apartment units in Omaha, says his units are 99 percent occupied. He says he is encouraged by the Omaha apartment market and plans to buy or build 200 more units by the end of the year.

Lenhoff and Hoich say they are seeing several new trends in Omaha's multifamily market such as garages being built under buildings, and amenities such as business centers, package delivery and concierge services. Lenhoff says developers are trying to add amenities that make apartments feel more like houses.

Lenhoff believes that apartments in Omaha provide a great value for tenants. "Omaha's apartment product compares well to other cities and costs less," he says.

*Jeff Beals is vice president of operations for Coldwell Banker Commercial World Group, based in Omaha, Nebraska.*

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