



ECONOMIC DEVELOPMENT PARTNERSHIP

INDUSTRIAL DEVELOPMENT  
**MARKET DEMAND  
AND ANALYSIS**  
FOR THE GREATER OMAHA / COUNCIL BLUFFS REGION  
**NOVEMBER 2017**

Prepared By



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# Executive Summary

## Project Overview

The purpose of this study was to examine the historical trends in relation to industrial demand, assess current available industrial land sites and buildings, and consider trends and availability to comparable communities as identified by the Greater Omaha Chamber of Commerce. The results of the analysis are provided in three memos. The first memo is designed to establish the framework around the local area’s industrial position based on prospect inquiries and how available sites compare to established benchmarks. The second memo looked at how the Omaha MSA compares to the established comparable markets. The third and final memo looked at development best practices to establish some potential alternative approaches to drive development.

## Local Area Position

Vacancy rates in the Omaha area have hovered at an average of 3.2 percent from 2014 to 2016. Industrial buildings have not grown substantially as far as market size. Vacancy rates hovered through early 2014; which brought Sergeants Pet Products, Waldinger Corporation, and Grapel NA’s new construction projects. This impacted absorption rates, and increased as a result of sustained low vacancy. This means that users are purchasing lesser-quality stock at higher prices.

*Table 1: Omaha MSA - Industrial Building Availability*

	Market Size (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)	Deliveries as % of Market Size
Q4 2016	68,291,937	\$5.27	410,472	3.2%	548,405	0.80%
Q2 2016	68,638,408	\$5.11	22,811	3.1%	238,900	0.35%
Q4 2015	68,372,811	\$4.72	470,568	3.0%	197,410	0.29%
Q2 2015	68,222,531	\$4.53	32,668	2.9%	305,663	0.45%
Q4 2014	68,152,586	\$4.26	1,400,000	3.0%	534,484	0.78%
Q2 2014	68,035,144	\$4.28	1,011,807	3.3%	12,800	0.02%

Source: Xceligent, CoStar, and CBRE|MEGA Marketview Reports

## Manufacturing and Warehousing Building Demand

The region experienced an overall increase in manufacturing and warehousing building demand (100 percent increase) over the analysis period. There is excess demand that the market size is unable to accommodate. Prospects seeking existing sites or buildings are forced to markets outside of the local region due to the lack of inventory. Additional demand is assumed beyond what is reflected in prospect activity. The region’s inability to immediately provide inventory for consideration can be assumed to lead to missed investment opportunities without those collecting prospect data being aware. Hence, the totals for demand are likely higher than what is quantitatively represented.

*Table 2: Manufacturing Building Demand*

	2012	2013	2014	2015	2016	Total
Under 100,000 sq. ft.	12	10	20	19	21	82
100,000 - 200,000 sq. ft.	2	3	8	1	1	15
200,000+ sq. ft.	2	0	3	4	2	11
<b>Total</b>	<b>16</b>	<b>13</b>	<b>31</b>	<b>24</b>	<b>24</b>	<b>108</b>

Source: May 2017 Greater Omaha Economic Development Partnership

*Table 3: Warehouse Building Demand*

	2012	2013	2014	2015	2016	Total
Under 100,000 sq. ft.	3	2	7	6	10	28
100,000 - 200,000 sq. ft.	0	1	3	0	1	5
200,000+ sq. ft.	1	0	3	0	2	6
<b>Total</b>	<b>4</b>	<b>3</b>	<b>13</b>	<b>6</b>	<b>13</b>	<b>39</b>

Source: May 2017 Greater Omaha Economic Development Partnership

Land space for new industrial projects can be predominantly found in Council Bluffs, but there still exists a shortage of variety and sizeable tracts for development. Pricing for rail-served sites is comparable, if not low, but the lack of availability is a concern. This data set is too small to set a good comparison for rail-served property and questions remain on the true readiness of these rail-served sites. Rail is difficult to site as users will have specific requirements which makes it much harder to match sites with needs.

*Table 4: Omaha MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	11	\$2.48	13	\$0.97
Rail Served Sites	1	\$0.98	2	\$0.64

Source: Loopnet, CoStar

Not necessarily year-to-year, but growth is occurring in site inquiries. Sites that remain are largely deemed obsolete to current industrial needs and demand. Low facility vacancy rates puts pressure on site availability, which is nearly non-existent. Understanding that industrial prospects desire land variety, availability, associated costs, and an affirmative ability to operate within their chosen sites within increasingly tight timeframes that come with their site selection decisions, the region is largely incapable of meeting prospect needs. Industrial prospects consider as many as 70 siting characteristics in their search of appropriate land tracts for development and the inability to identify a site, let alone understand infrastructure and service characteristics, within the region is problematic.

Sites of over 25 acres of land space are often sought by national-level prospects. The Omaha market does not currently have sufficient sites to host these opportunities. The 10- to 25-acre sites are likely to be used for local demand. Beyond prospecting for new industrial company investment opportunities, a conscious understanding of sites available for expanding regional companies is vital to maintaining current levels of capital investment and jobs. Current market analysis proves that expansion projects could additionally pose a challenge for the region.

The region continues to see prospecting activity, however, and Omaha in particular is garnering interest from site selectors and end-users for manufacturing projects. However, the national trend in industrial growth is based in warehousing and logistics projects. At this time, the Greater Omaha Metro Region is incapable of accommodating this emerging industry to a large extent.

*Table 5: Manufacturing Site Demand*

	2012	2013	2014	2015	2016	Total
Under 10 acres	1	2	2	8	7	20
10 - 25 acres	3	7	12	7	5	34
Over 25 acres	3	7	15	3	5	33
<b>Total</b>	<b>7</b>	<b>16</b>	<b>29</b>	<b>18</b>	<b>17</b>	<b>87</b>

Source: May 2017 Greater Omaha Economic Development Partnership

Local/regional user growth in the 10- to 25-acre range is of highest demand. This is assumed to be the case because the companies desiring sites of this size are most often located within or near the community, currently.

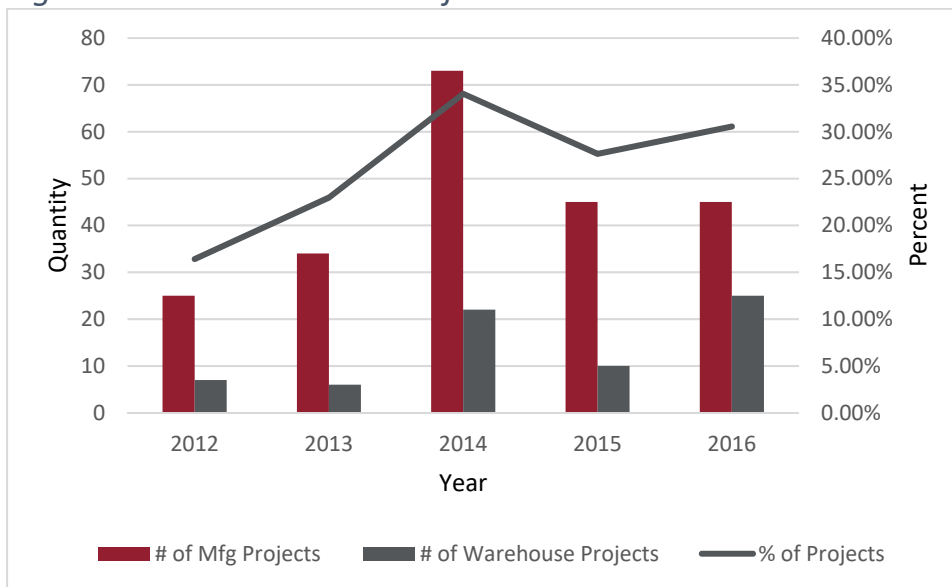
To grow interest from outside and national site selection-oriented projects, the community must position sites in-excess of 25 acres of land space. A variety of sites and the facilities to accompany these users currently does not exist in the region.

*Table 6: Warehouse Site Demand*

	2012	2013	2014	2015	2016	Total
Under 10 acres	0	0	1	1	4	6
10 - 25 acres	0	1	4	4	6	15
Over 25 acres	1	1	3	1	2	8
<b>Total</b>	<b>1</b>	<b>2</b>	<b>8</b>	<b>6</b>	<b>12</b>	<b>29</b>

Source: May 2017 Greater Omaha Economic Development Partnership

*Figure 1: Total Industrial Projects 2012-2016*



Source: May 2017 Greater Omaha Economic Development Partnership

Manufacturing use is still the most common inquiry received regarding building/ground. Growth occurred throughout the analysis period in the percentage of projects seen by the Greater Omaha Chamber based on overall projects tracked.

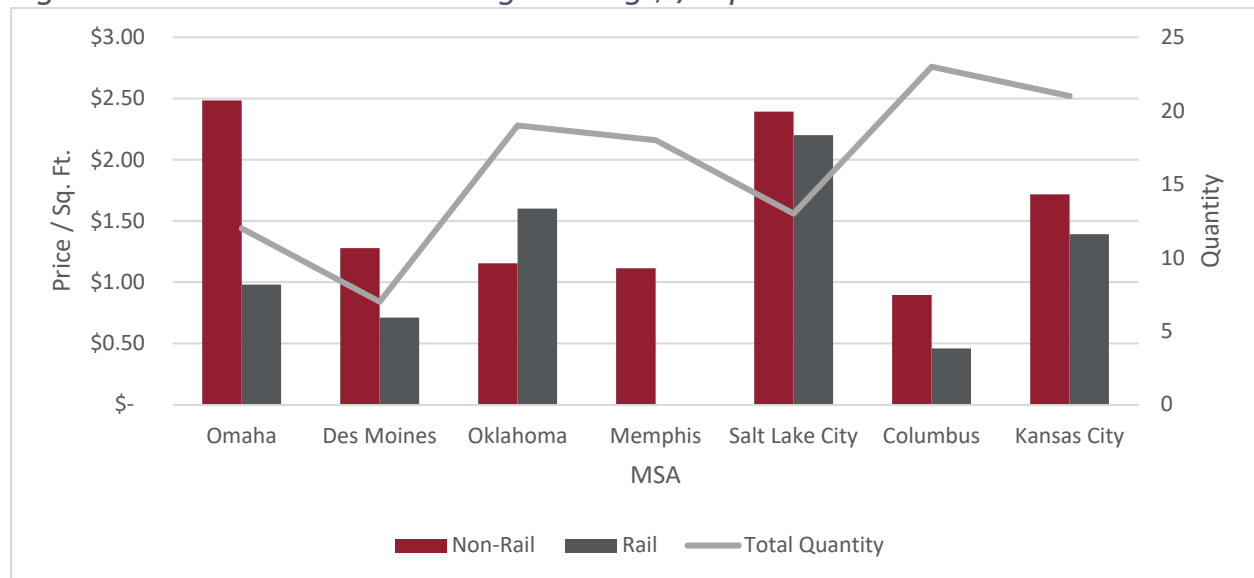
## Market Drivers

The GOEDP recognizes the following markets as competitors in site selection solicitations: Kansas City, KS/MO; Memphis, TN; Salt Lake City, UT; Columbus, OH; Des Moines, IA; Oklahoma City, OK. These markets vary widely in their location, but have similar attributes in-relation to existing industry mix, workforce attributes, and locational proximity to predominant clusters. Those with significant growth trends are doing so as a result of both public and private developer investment in site preparedness and facility-build activities, many of which are completed on a speculative basis. The following represent predominant industrial growth segments within the assessed communities:

- Warehousing, Distribution, and Logistics:
  - Including e-commerce and industrial products and parts handling
- Manufacturing:
  - Including food processing, automotive and suppliers, chemical, pharmaceutical and advanced technical, and parts assembly

Warehousing and distribution projects are, by far, the driver of private developer speculative investment, involving approximately 80 percent of all the square footage added within all of the comparable communities over the analysis period of 2014-2016.

*Figure 2: 25-50 Acre Sites Average Asking \$ / Sq. Ft.*

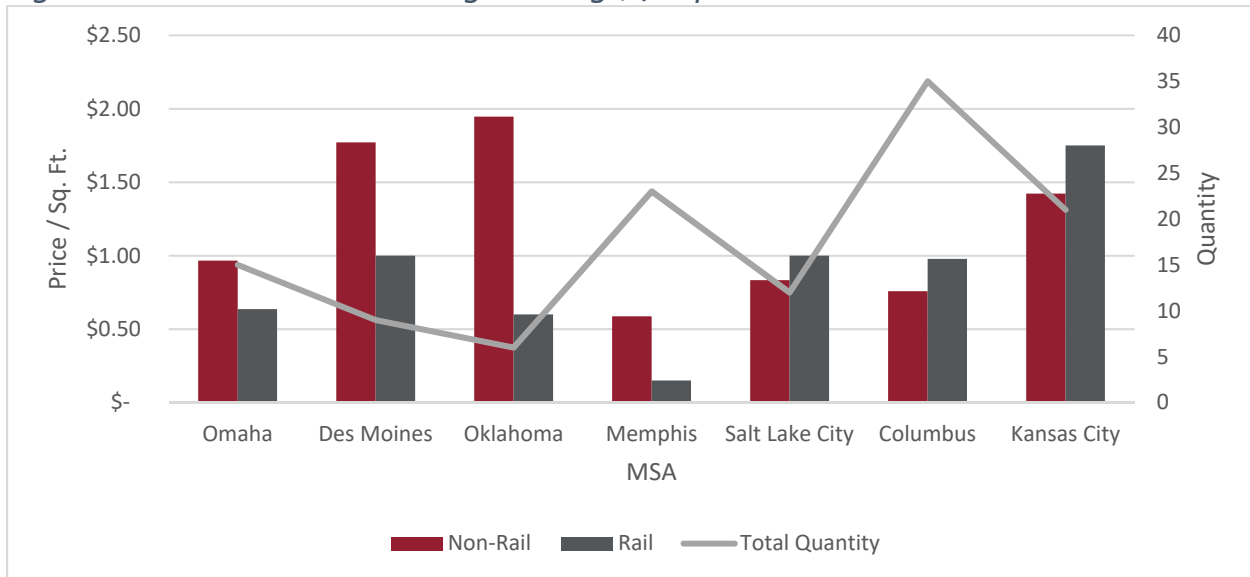


Source: Loopnet, CoStar, and Xceligent

Omaha offers a higher price, per square foot, for non-rail served sites than anyone in the comparative markets. Fewer rail-served properties are suspected to be the driver of higher price points. Rail property pricing is more in-line with the comparable markets, but the lack of sites is not optimal and creates a supply/demand issue.



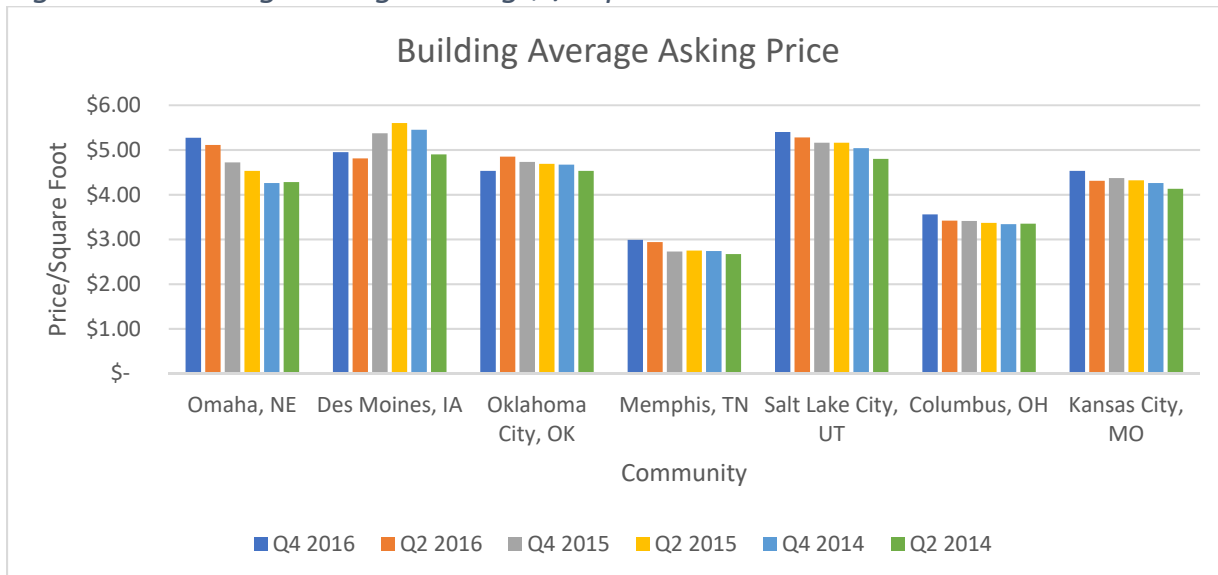
Figure 3: 50+ Acre Sites Average Asking \$ / Sq. Ft.



Source: Loopnet, CoStar, and Xceligent

Omaha’s 50+ acre inventory pricing is competitive with comparable markets, however inventory for these sites is far-less than in competitor markets. 50+ acre sites often include rail service, which is ideal for warehousing and logistics. Many competitor markets are in a lull, having recently filled existing parks. Markets with unmet demand are seeing higher-than-average price per square foot for land.

Figure 4: Building Average Asking \$ / Sq. Ft.

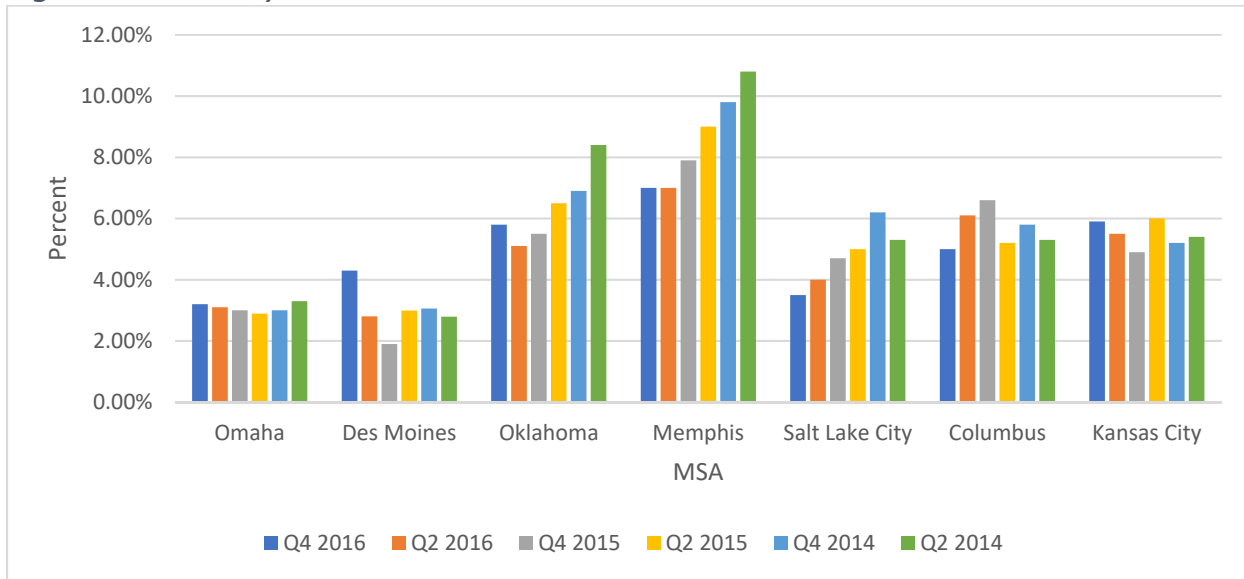


Source: Loopnet, CoStar, and Xceligent



Competition and lack of existing facility quantity is driving land prices. Another factor affecting land price is the lack of ready sites; meaning that of sites identified, there is still an abundance of those with unclear off-site and on-site improvement needs for shovel readiness. Some escalation has occurred in competitor markets such as Kansas City, Salt Lake, and Columbus due to rapid industrial growth and scarcity for development projects.

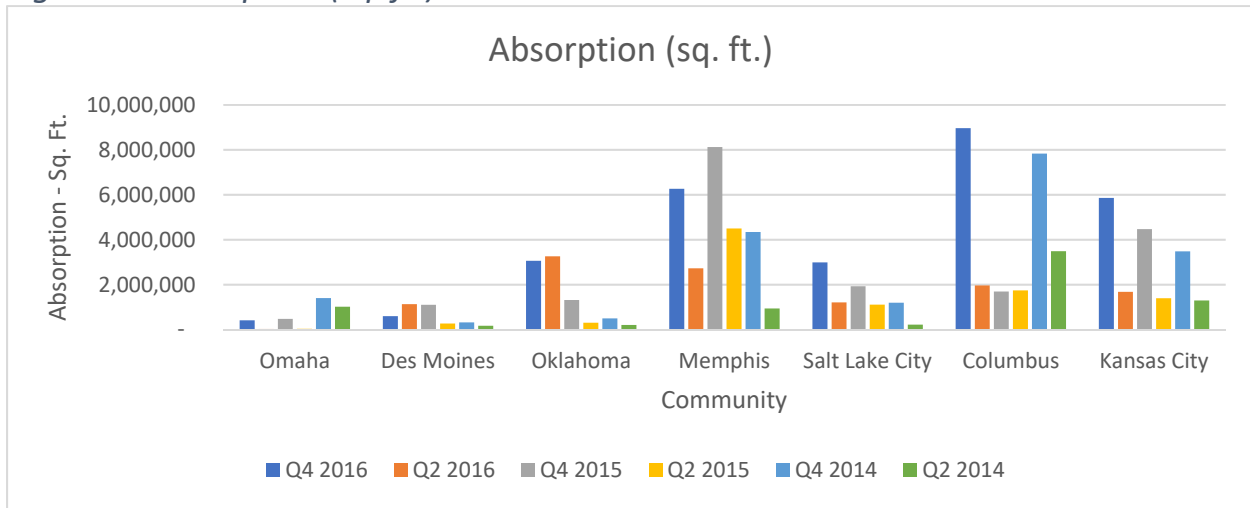
Figure 5: Vacancy Rates



Source: CBRE Marketview Reports and CoStar

Omaha has the lowest vacancy rate of all the competitor communities. Omaha’s industrial vacancy indicates obsolescence with little movement within the low vacancy spectrum. Omaha’s 3.1 percent industrial vacancy equates to 60,400 square feet of identified industrial space and minimal shovel-ready site availability which is a substantial and critical problem. Increases in vacancy in Kansas City can be explained through speculative development that is not yet leased.

Figure 6: Absorption (sq. ft.)

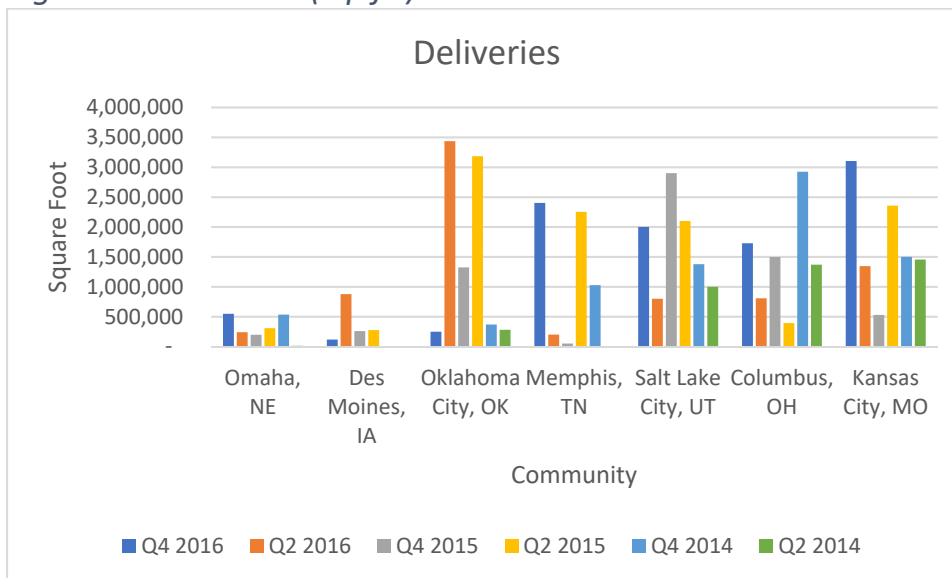


Source: CBRE Marketview Reports and CoStar

Net absorption in a market reflects the net change in physically occupied space from one point in time to another. There is a direct correlation between the lack of vacancy within the industrial building availability and low levels of available industrial sites. No vacancy and/or no facilities equals no absorption and the result is missed development opportunities.

Markets with a well-defined business case for development absorption and proven track records such as Kansas City and Columbus are growing rapidly. Once a growth trend is established, it becomes easier to continue to attract private development interest and their tenants.

Figure 7: Deliveries (sq. ft.)



Source: CBRE Marketview Reports and CoStar

Where a business case exists, industrial developers are fronting speculative development that is proving to substantially drive the level of deliveries to the market. Omaha has been outpaced by comparison communities of new inventory deliveries on a per-square-foot basis. Those communities with warehousing and logistics attributes are in position to gain considerably in this market. Where a defined business case has been established, private investment and speculative development have occurred at high rates. Omaha needs to assess their business case for industrial development and align market drivers to identification of sites to create velocity for private development.

A site is not a site; it is advantageous to have a variety of sites positioned for specific purposes or attraction of multiple industrial verticals. Considerations may include site size, access, infrastructure, and permitting. There are many factors that fuel private development. These include the following:

- Defined business case for identified industrial verticals
- Identified land tracts to host specialized industrial vertical needs
- Understood logistical advantages as it pertains to sites positioned
- Rail-access (dual-Class I access being of prime opportunity)
- Inland port availability (currently not allowed within Nebraska due to the lack of enabling legislation for this form of development)
- Evidence of rapid industrial facility and land absorption rates
- Tax abatement availability (currently not allowed within Nebraska)

These attributes all combine for a proactive approach to align sites to industry verticals. Tax abatement can artificially lower the cost of investment which is important to speculative development. This drives the markets; gives the developer a break to allow time to fill the spec. While TIF is not nearly as attractive, it is better than no incentive options.

## EDC/Jurisdiction “acting as developer” Drivers

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Another option for developer-led (private investment) is EDC or jurisdictionally-led development. This form of economic development preparedness is viable in instances where private development is not willing or cannot carry the facility and site development levels necessary to accommodate demand. To bring about development opportunities for housing, retail, and commercial investment, evidence of a healthy and sustainable primary economy must exist. Primary development is the driver that creates a multiplier effect, brings new jobs, and brings money in. As the money cycles through the community it creates more jobs, which drives the need for schools, and other facilities.

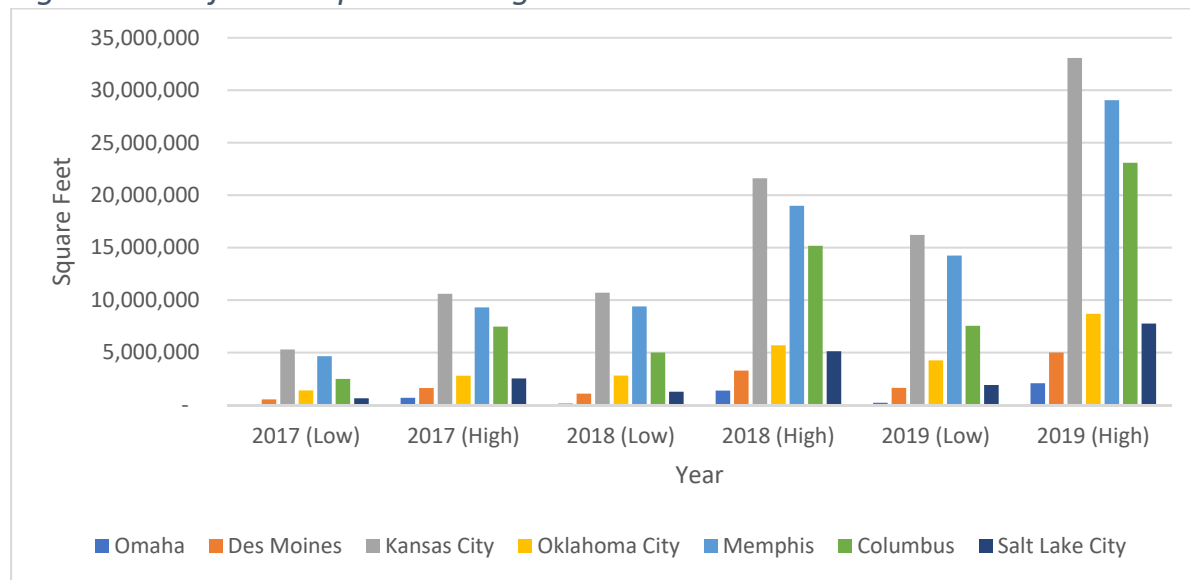
Evidence of acceptable square-footage absorption in the primary sector is a driver that assists as a catalyst in achieving private investment. Long or lacking industrial absorption timeframes are detrimental to achieving investment from private developers, which requires involvement of economic development corporations and jurisdictions to engage to prepare for economic development opportunities.

Site preparedness for economic development requires the following activities:

- Controlled site availability
- Identified diligence for both natural and built environment factors
- Identified areas of mitigation, timelines, costs, and permitting requirements
- Aligned sites to targeted use types to ensure appropriate infrastructure service and capacity development
- Identified capital improvements for investment by the public sector to support development attraction and service suitability
- Phased development options for the control of costs to achieve a desirable return-on-investment (ROI)
- Consideration of multi-jurisdictional cooperation for infrastructure upgrades
- Streamlined entitlement processes

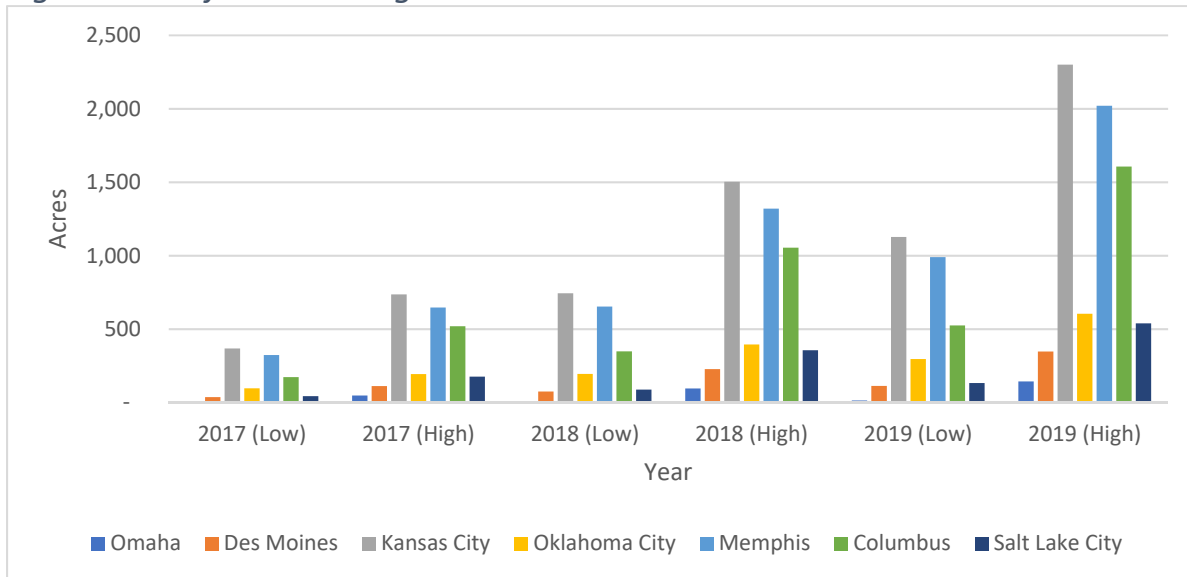
Trajectory is not all an encompassing expression of need; instead these figures are based on historical development. This trajectory can be vastly improved with development of a business case showing demand. There has been little activity over the past 3 years within the region in either speculative or private industrial development. This evidence of demand can help to define the market need and bolster private development interest.

*Figure 8: Projected Square Footage Needed*



Source: CBRE/MEGA 2017

Figure 9: Projected Acreage Needed



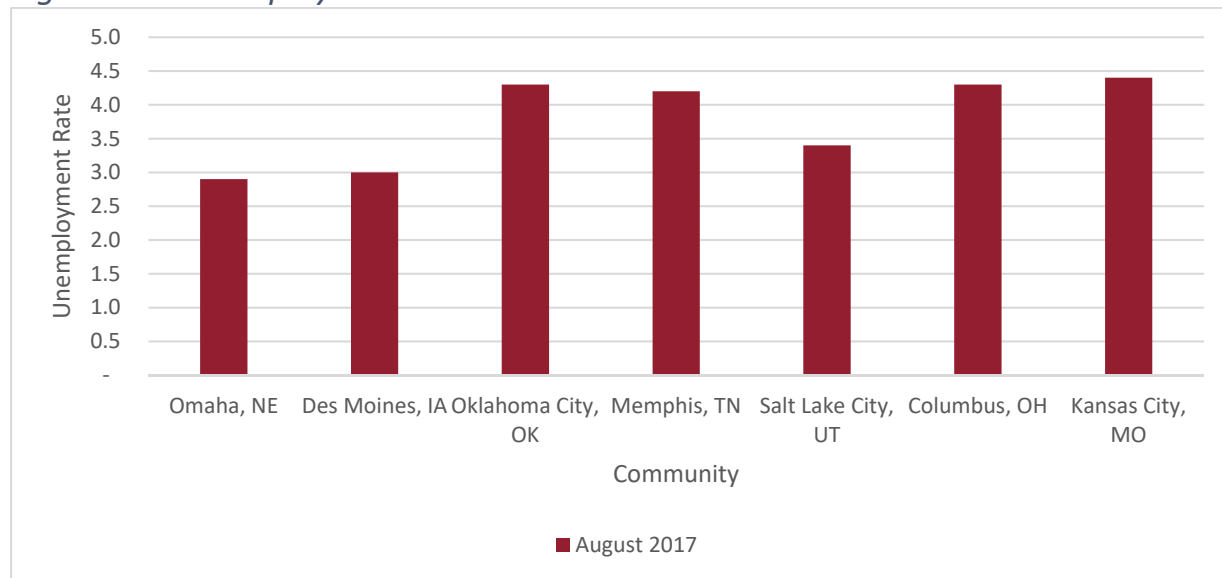
Source: CBRE/MEGA 2017

## Conclusion

The challenge facing the Omaha region includes a lack of available and controlled sites that align to industry demand and this skews land prices and is further impacted by the high costs associated with development. To change the course of the current projection, best practices for development and marketing programs need to be implemented. This includes looking at who is doing it well, developer incentives, utility partnering, entitlement/permitting programs, and cost/revenue sharing programs. There are qualitative drivers that can also be uncovered by looking at private developer feedback. The Omaha area does not get a lot of national attention and building industrial facilities are more costly and require longer timelines.

In order to attract industry, policies need to be enacted that attract industrial developers. This can include fast-track permitting and the addition of equity models that could help drive investment, including granting tax credits to increase investment. Another option is the development of port authorities, legislation for cost sharing and revenues similar to Iowa's 28J legislation, interlocal agreements for infrastructure. Establishing a port designation creates the ability to issue bonds. The goal is to match skills from existing workforce to offset the low unemployment.

Figure 10: Unemployment Rates



Source: Bureau of Labor Statistics, Aug. 2017

# Memo 1: Target Markets and Siting Needs

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## Introduction

The ability to provide quality inventory in both land sites and available buildings to prospective primary development end-users is critical to attracting new capital investment and job creation on a local level. While any new employment opportunity added to a local economy is positive, primary employment is deemed to have the greatest benefit because of the likelihood of additional economic activity that may occur. Primary users are those defined as not selling to the end user but rather outside of the general region or to downline companies, which provides for a multiplier of local revenues and the capture of dollars from outside the trade region. It is not uncommon to see site selector inquiries for this type of development that include as many as 70 questions pertaining to the natural and built environment. Requests often include minute specifications on building features, detailed information requested on prevailing workforce wages, and rates on bundled utility services.

Prospect inquiries help to develop a story that may not be immediately obvious such as a connection to the supply chain, an existing cluster, predominance of available land, or developer preferences. Because of the importance of primary employment and the increased level of competition between municipal and state economic development offices, these opportunities can be incredibly difficult to attract; therefore, developing an environment that is attractive to developers, efficient for business, and aligned to market supports the alignment of preparedness efforts to proactively create a business case with land and building assets to entice users.

Olsson Associates knows how to assess land assets and how to understand existing tracts within the subject region function to optimize their potential usefulness. However, it is really the alignment of prospect activity, qualitative information on what is being demanded by existing industries for colocation and how the region compares in competitiveness to other regions that gives us a complete picture of the quality of building and land inventory within this region.

It is our belief that if we are to align attributes found within the sites in the subject region to existing demand, we will be able to strategize how the availability of land assets compares to other successful locations, and what needs to occur to prepare subject sites within the region to ensure site readiness. By taking this approach, we are opening the door to excellent qualitative and quantitative information that will be vital to the economic development community as it looks to position assets not only to prospective end-users but also to developers who may be interested in speculatively developing property or facilities within the region.



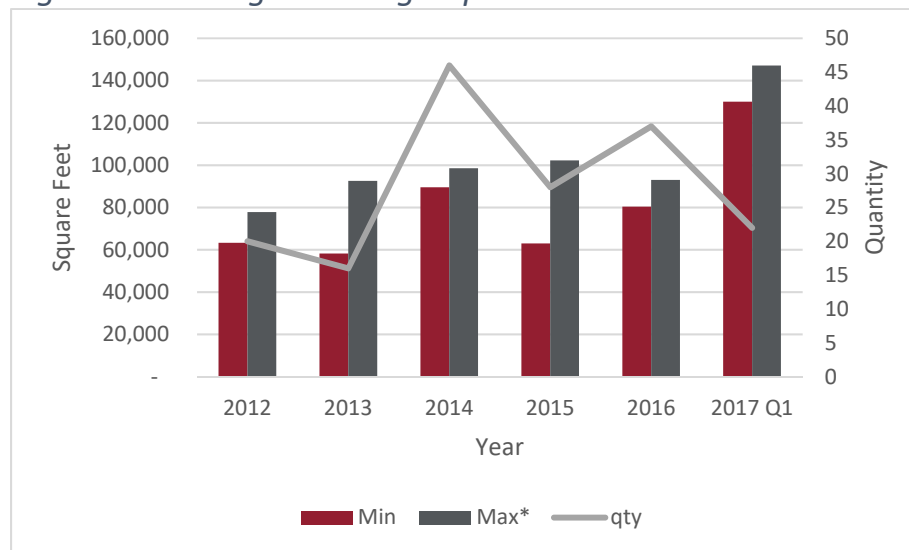
## Prospect Inquiries

Because regional demand is driven by prospect inquiries, the first step in this analysis is to gauge individual industrial segment demand on the local, regional, and state levels. To begin, prospect data was provided by the Greater Omaha Economic Development Partnership for the six counties. The data provided included:

- The number of inquiries
- The location
- The predominance of building versus land requests
- The type of growth (new to market vs. expansion) and type of construction (new vs. existing)
- The average land/building request size and requested features
- The top industries' segments represented by prospects

Information received pertaining to prospect requests shows that, so far in 2017, while the number of inquiries currently shows fewer inquiries, the overall average building size and land acreage requested has increased. Since the 2017 figures only include the first quarter, it can be assumed that the number of inquiries will increase and continue the upward trend that started in 2015.

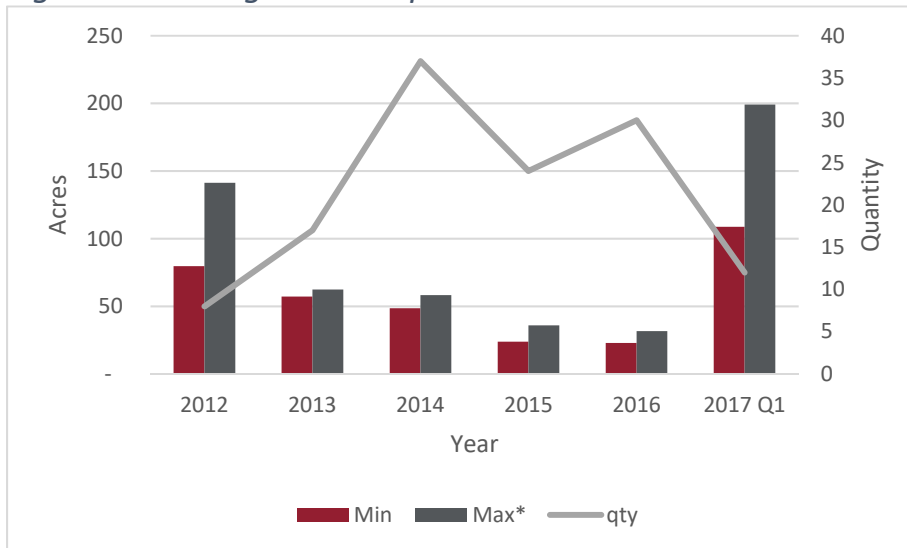
*Figure 1: Average Building Inquiries*



\*If no maximum was listed; the minimum value was used.

Source: Greater Omaha Economic Development Partnership 2017.

Figure 2: Average Land Inquiries

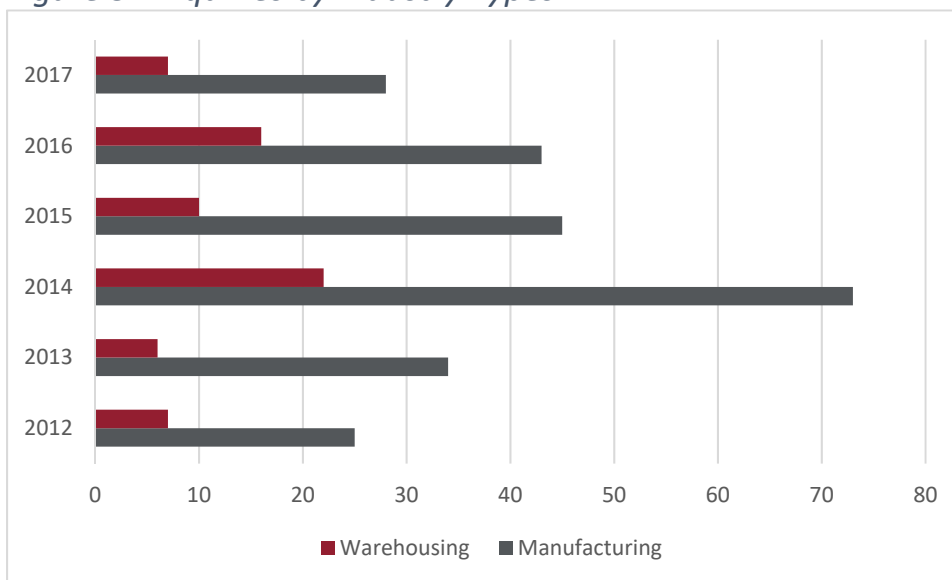


\*If no maximum was listed; the minimum value was used.

Source: Greater Omaha Economic Development Partnership 2017.

The two industries that stand out above the rest are warehousing and manufacturing. Historically, manufacturing inquiries have far exceeded warehousing inquiries, and 2017 has been keeping with that trend. Again, while the proportions will likely stay intact, the overall number will increase.

Figure 3: Inquiries by Industry Types



Source: Greater Omaha Economic Development Partnership 2017.

## Alignment to Targets

Merely having a parcel of land does not make it a viable connect for a prospect inquiry. As each industry has different factors that weigh into its locating decision, it is important to also consider which targets work best within the state.

### State of Nebraska Targets<sup>1</sup>

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The Nebraska Department of Economic Development is located in Lincoln, Nebraska, and is the economic development body responsible for intercepting state-level primary development inquiries, hosting prospective end-users, setting agenda and policy directives for consideration of incentive and business tax climate, and determining strategy for effective recruitment of primary capital investment and job creation within Nebraska. Factors that are of greatest consideration for site selection are often managed at the state level, namely, the business operating climate from a state tax perspective and workforce availability as understood by a state's Department of Labor. As such, it is assumed that most prospects begin their searches at the state level. The following are targets that they have provided.

#### Food and Agriculture

Agriculture remains one of Nebraska's primary economic strengths. Bolstering the state's global leadership within the industry, the state capitalizes on its diverse agriculture industry, taking the lead in quality and safety of products, the diversity of value-added products, and its research and development capabilities. The Nebraska Food Processing Center, with its food science and technology focus, offers consulting, market research, product development, and pilot plant services to Nebraska companies.

#### Distribution and Logistics

Its central location in the United States positions the state well for distribution and logistics industries. The local labor costs and availability of warehousing are attractive features for this industry. Combining foreign trade zone with truck, rail, air, and water transportation alternatives creates a speed to markets like nowhere else.

#### Water Technology

Water is among the world's most precious commodities. As a leader in agriculture, Nebraska depends on the efficient use of water resources, as well as the quality and safety of water, to maintain a competitive edge in agricultural production. International business and government leaders will be introduced to world-class companies in Nebraska that use state-of-the-art manufacturing systems to produce innovative irrigation systems, pollution monitoring controls, and water purification equipment.

#### Research and Technology Centers

Aligning food and agriculture with the local strength of bioscience and medical technologies, engineering, learning and research institutes, and especially the Nebraska Innovation Campus, makes Nebraska a draw for the research and technology industry.

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<sup>1</sup> *Target Industries*. Nebraska Department of Economic Development, <http://www.neded.org/business/international-trade-and-investment/reverse-trade-mission/target-industries>. June 2017.

### Alternative Energy

High fuel and energy prices have increasingly fueled interest in Green Power around the world, and Nebraska is a leader in this area as well. Nebraska is a gold mine of untapped energy that can help spearhead the United States in the effort to “Go Green” and reduce dependence on nonrenewable energy sources. Nebraska is concentrating its Green Power into biofuels, wind energy, solar energy, and geothermal energy.

## Benchmarks

To establish minimums for industries, local benchmarks have been established through the “GO Ready Site Certification Program.” These benchmarks help align specific properties to general use types. Although these benchmarks help with general guidance, many other factors can come into play.

*Table 1: “GO Ready Site Certification” Benchmarks*

Industry Type	Minimum Acreage	Highway Access	Water (gpd)*	Wastewater (gpd)*	Natural Gas (mcf/mo)*	Electric Supply (MW)*	Telecom Access
General Manufacturing	15	5 miles	20,000	17,500	Available	1	Redundant
Heavy Industrial	50	5 miles	100,000	75,000	Available	2	Redundant
Large Heavy Industrial	250	5 miles	250,000	200,000	Available	5	Redundant
Clean Tech / Advanced Manufacturing	25	5 miles	75,000	60,000	Available	3	Diverse Redundant Fiber
Warehouse / Distribution	25	1 mile	15,000	12,500	N/A	0.5	Redundant
Food Processing	25	5 miles	100,000	75,000	Available	1	Redundant
Small Data Center	10	N/A	40,000	30,000	No	1	Redundant
Large Data Center	50	N/A	100,000	75,000	No	10	Redundant

\* gpd – gallons per day; mcf/mo – metric cubic feet per month; MW – megawatts

**Notes:** At present, rail access is not a stated priority of sites identified by/for the Omaha Chamber of Commerce. Therefore, the inclusion of rail within the context of any of the above industry types should be considered on a case-by-case basis.

Source: Greater Omaha Economic Development Partnership “GO Ready Program”, 2017.

## Developer Preferences

The Omaha area market has a few challenges when it comes to attracting developers. One major concern is availability of sites. The locations that are generally desirable to current development demand (such as access to interstate and near consumers) have minimal sites available within the Omaha metro region. Developers interested in larger tracts of industrial land that are accessible via necessary infrastructure don't tend to find these in their preferred areas.

In many cases, the site or sites best suited to industrial development tend to be those that are controlled/owned by a single owner, contain within them large areas of undivided or encumbered greenfield land, and represent a land use pattern that will not conflict with the surrounding properties. Since these areas of land tend to be on the outskirts of town, there also comes the expense of extending utilities to these properties, which makes "developed" shovel-ready sites expensive.

Another challenge is the high cost of lands that are not supported by current lease prices. With this comes consideration of the time expected to sell out. When businesses invest, they look at how long it will take to sell the land minimizing their carry cost.

Lastly, the overall market size and location have an impact on attracting development. Given the population, current access to certain services and amenities relative to other major metropolitan area; many consider Omaha to be a second-tier city. This perception of what Omaha is and can provide to an industry and its employees can have an impact on investors' considerations when considering a smaller market which requires longer travel distances to reach larger populations.

## Study Area Top Industries

Location quotients (LQ) give a good idea of an area's strength. When comparing the industry employment levels of the county to the state, the LQ provides an indication of an industry's strength relative to that location. Federal statistical agencies use the standard established by North American Industry Classification System (NAICS) for classifying organizations for collecting, analyzing, and publishing statistical data associated with the U.S. business economy. While some of the NAICS codes listed below have a high LQ, the NAICS sector may not have a particularly high impact on what will be sought by site selectors.

These industries are compared to available sites listed in the Omaha Go Ready program; these sites are considered development ready. Additionally, these sites are compared to the Go Ready benchmarks previously mentioned in this memo.



Cass County, Nebraska

*Table 2: Cass County, Nebraska – Top 10 Industries by Location Quotient*

NAICS Sub-Sector	Quarterly Establishments	Total Quarterly Wages (\$)	Average Weekly Wage (\$)	Cass Co. LQ (Total Quarterly Wages)	Nebraska LQ (Total Quarterly Wages)
NAICS 212 Mining, except oil and gas	4	3,715,835	1,612	40.01	0.65
NAICS 484 Truck transportation	36	4,236,763	1,078	8.34	2.70
NAICS 447 Gasoline stations	16	723,701	346	5.29	1.79
NAICS 111 Crop production	16	672,795	715	4.89	1.43
NAICS 311 Food manufacturing	6	2,335,758	867	4.61	3.79
NAICS 445 Food and beverage stores	10	1,769,366	354	3.42	0.98
NAICS 441 Motor vehicle and parts dealers	13	2,079,942	745	3.06	1.17
NAICS 332 Fabricated metal product manufacturing	5	1,304,717	799	2.44	0.88
NAICS 623 Nursing and residential care facilities	4	1,670,665	558	2.34	1.53
NAICS 424 Merchant wholesalers, nondurable goods	15	1,539,733	998	1.70	1.29

Source: U.S. Bureau of Labor Statistics. Q3 2016.

Cass County has a predominance of primary industries, including **mining, except oil and gas; truck transportation; food manufacturing; fabricated metal product manufacturing; and merchant wholesalers**. Generally, these industries would look for *medium* or *large* sites. Alternatively, these industries might choose to locate within an industrial park because of the proscribed development pattern and identified access typically available within industrial parks.

Cass County has the Fourmile Industrial Park (~65 acres), which appears to meet the size criteria for general manufacturing, heavy industrial, clean tech/advanced manufacturing, warehouse/distribution, food processing, and small or large data center. While utility infrastructure appears to be available to the site, an understanding of available capacity is still needed.

Dodge County, Nebraska

*Table 3: Dodge County, Nebraska – Top 10 Industries by Location Quotient*

NAICS Sub-Sector	Quarterly Establishments	Total Quarterly Wages (\$)	Average Weekly Wage (\$)	Dodge Co. LQ (Total Quarterly Wages)	Nebraska LQ (Total Quarterly Wages)
NAICS 311 Food manufacturing	16	22,492,838	835	14.38	3.79
NAICS 321 Wood product manufacturing	5	4,434,592	815	12.19	0.82
NAICS 484 Truck transportation	35	6,269,762	1,135	4.00	2.7
NAICS 451 Sports, hobby, music instrument, book stores	8	853,611	504	3.07	1.34
NAICS 447 Gasoline stations	25	1,139,554	364	2.7	1.79
NAICS 446 Health and personal care stores	20	2,158,924	625	2.52	1.01
NAICS 112 Animal production and aquaculture	10	465,180	702	2.29	5.13
NAICS 623 Nursing and residential care facilities	15	4,853,466	511	2.20	1.53
NAICS 424 Merchant wholesalers, nondurable goods	35	5,935,577	1,066	2.11	1.29
NAICS 332 Fabricated metal product manufacturing	8	3,422,489	805	2.07	0.88

Source: U.S. Bureau of Labor Statistics. Q3 2016.

Dodge County has a predominance of primary industries, including **food manufacturing; wood product manufacturing; truck transportation; merchant wholesalers; and fabricated metal product manufacturing**. Generally, these industries look for *medium* or *larger* sites. Alternatively, these industries might choose to locate within an industrial park because of the proscribed development pattern and identified access typically available within industrial parks.

Dodge County has the Morningside North Business Park (~45 acres), T Road Industrial Park (~46 acres), T Road North Industrial Park (~52 acres), and the Fremont Business Park (~80 acres). Morningside North Business Park and the two T Road properties appear to meet the size criteria for general manufacturing, heavy industrial, clean tech/advanced manufacturing, warehouse/distribution, food processing, and small or large data center. Nevertheless, the currently stated division of the Morningside property into six lots will need to be considered and controlled for its continued ability to support this level of industrial development. The Fremont Business Park appears to meet the size criteria for all the benchmarked industries. Utility infrastructure is available to the Fremont Business Park and the

Morningside North Business Park, but there is insufficient utility understanding for the two T Road properties. Lastly, an understanding of available capacity for all sites is still needed.

Douglas County, Nebraska

*Table 4: Douglas County, Nebraska – Top 10 Industries by Location Quotient*

NAICS Sub-Sector	Quarterly Establishments	Total Quarterly Wages (\$)	Average Weekly Wage (\$)	Douglas Co. LQ (Total Quarterly Wages)	Nebraska LQ (Total Quarterly Wages)
NAICS 533 Lessors of nonfinancial intangible assets	12	6,378,767	3,152	5.01	2.11
NAICS 518 Data processing, hosting and related services	53	83,643,024	1,482	4.65	2.01
NAICS 551 Management of companies and enterprises	274	392,125,461	2,278	2.91	1.56
NAICS 524 Insurance carriers and related activities	622	247,344,537	1,288	2.5	1.63
NAICS 442 Furniture and home furnishings stores	77	23,980,051	685	2.48	1.37
NAICS 311 Food manufacturing	62	89,077,769	918	2.12	3.79
NAICS 712 Museums, historical sites, zoos, and parks	10	6,940,251	478	2.11	1.12
NAICS 323 Printing and related support activities	81	22,080,831	893	1.78	1.12
NAICS 515 Broadcasting, except Internet	24	22,456,625	1,122	1.73	1.07
NAICS 561 Administrative and support services	1,137	268,616,273	774	1.44	1.00

Source: U.S. Bureau of Labor Statistics. Q3 2016.

Douglas County has a predominance of primary industries, including **data processing, hosting and related services; food manufacturing; and printing and related support services**. Generally, these industries look for *small* or *medium* sites. Alternatively, these industries might choose to locate within an industrial park or business park because of the proscribed development pattern and identified access typically available within industrial parks.

Douglas County has the *Jensen Property* (size unknown) and *204<sup>th</sup> and Fort Street* (~211 acres). Little information was provided for the Jensen Property. The 204<sup>th</sup> and Fort site appears to meet the size criteria for most of the benchmarked industries; however, the intended uses are limited to data centers, technology, research, or low-impact office. Utility infrastructure appears to be available to the Fort

Street site, but an understanding of available capacity is still needed. At present, no utility information is understood for the Jensen Property.

Sarpy County, Nebraska

*Table 5: Sarpy County, Nebraska – Top 10 Industries by Location Quotient*

NAICS Sub-Sector	Quarterly Establishments	Total Quarterly Wages (\$)	Average Weekly Wage (\$)	Sarpy Co. LQ (Total Quarterly Wages)	Nebraska LQ (Total Quarterly Wages)
NAICS 484 Truck transportation	78	73,541,065	791	9.77	2.70
NAICS 327 Nonmetallic mineral product manufacturing	11	7,591,510	1,021	3.19	1.21
NAICS 238 Specialty trade contractors	443	70,707,166	999	2.85	1.19
NAICS 493 Warehousing and storage	17	10,486,762	658	2.59	0.91
NAICS 522 Credit intermediation and related activities	80	44,556,533	1,119	2.26	1.24
NAICS 451 Sports, hobby, music instrument, book stores	31	2,608,598	378	1.96	1.34
NAICS 323 Printing and related support activities	14	4,125,300	874	1.87	1.12
NAICS 441 Motor vehicle and parts dealers	52	15,846,099	980	1.57	1.17
NAICS 423 Merchant wholesalers, durable goods	146	32,863,631	1,227	1.52	1.02
NAICS 511 Publishing industries, except Internet	8	13,066,504	1,157	1.48	0.56

Source: U.S. Bureau of Labor Statistics. Q3 2016.

Sarpy County has a predominance of primary industries, including **tuck transportation; nonmetallic mineral produce manufacturing; warehousing and storage; printing and related support services; and merchant wholesales (durable goods)**. Generally, these industries look for medium or larger sites. Alternatively, these industries might choose to locate within an industrial park because of the proscribed development pattern and identified access typically available within industrial parks.

Sarpy County has the Bellevue Industrial Park, which is made up of three different development areas: Area A (~500 acres), Area B (~249 acres), and Area C (~450 acres). This collection of sites meets the size criteria for all the benchmarked industries. While utility infrastructure appears to be available to the sites, additional information regarding available capacity to each site is still needed.

Washington County, Nebraska

*Table 6: Washington County, Nebraska – Top 10 Industries by Location Quotient*

NAICS Sub-Sector	Quarterly Establishments	Total Quarterly Wages (\$)	Average Weekly Wage (\$)	Washington Co. LQ (Total Quarterly Wages)	Nebraska LQ (Total Quarterly Wages)
NAICS 325 Chemical manufacturing	5	18,351,941	1,650	18.47	0.93
NAICS 112 Animal production and aquaculture	7	966,745	817	7.27	5.13
NAICS 441 Motor vehicle and parts dealers	13	8,980,435	1,216	6.53	1.17
NAICS 333 Machinery manufacturing	4	3,100,380	1,113	3.15	1.20
NAICS 236 Construction of buildings	50	2,409,155	903	1.80	0.96
NAICS 237 Heavy and civil engineering construction	12	1,703,150	983	1.73	1.03
NAICS 484 Truck transportation	29	1,774,049	858	1.73	2.70
NAICS 447 Gasoline stations	12	449,264	355	1.62	1.79
NAICS 238 Specialty trade contractors	70	5,099,437	865	1.51	1.19
NAICS 623 Nursing and residential care facilities	4	2,057,574	516	1.42	1.53

Source: U.S. Bureau of Labor Statistics. Q3 2016.

Washington County has a predominance of primary industries that include **machinery manufacturing** and **tuck transportation**. Generally, these industries look for medium or larger sites. Alternatively, these industries might choose to locate within an industrial park because of the proscribed development pattern and identified access typically available within industrial parks

Washington County has the Blair South Business Park (~338 acres), which meets the size criteria for all the benchmarked industries; however, if the properties are taken individually, there are limitations. While utility infrastructure appears to be available to the site, an understanding of available capacity is still needed.



Mills County, Iowa

*Table 7: Mills County, Iowa – Top 10 Industries by Location Quotient*

NAICS Sub-Sector	Quarterly Establishments	Total Quarterly Wages (\$)	Average Weekly Wage (\$)	Mills Co. LQ (Total Quarterly Wages)	Iowa LQ (Total Quarterly Wages)
NAICS 524 Insurance carriers and related activities	15	5,286,552	1,326	5.10	1.98
NAICS 447 Gasoline stations	7	323,951	289	2.72	2.35
NAICS 811 Repair and maintenance	13	876,789	1,156	2.59	1.40
NAICS 424 Merchant wholesalers, nondurable goods	14	1,074,946	899	1.36	1.37
NAICS 517 Telecommunications	5	532,238	1,087	1.34	0.65
NAICS 441 Motor vehicle and parts dealers	7	782,516	945	1.32	1.19
NAICS 423 Merchant wholesalers, durable goods	8	1,268,719	1,262	1.00	0.95
NAICS 445 Food and beverage stores	4	427,058	385	0.95	1.27
NAICS 522 Credit intermediation and related activities	9	1,050,204	1,058	0.91	1.59
NAICS 484 Truck transportation	9	357,127	693	0.81	2.17

Source: U.S. Bureau of Labor Statistics. Q3 2016.

Mills County has a predominance of primary industries that include **merchant wholesalers (both durable and nondurable goods)** and **truck transportation**. Generally, these industries look for medium or larger sites. Alternatively, these industries might choose to locate within an industrial park because of the proscribed development pattern and identified access typically available within industrial parks.

Mills County also has the Interstate 29 and Highway 370 Property (155 acres) and Highway 34 and Interstate 80 (~90 acres). Both sites meet the size criteria for all the benchmarked industries. Utility infrastructure appears to be available to the Highway 34 and Interstate 80 site; however, an understanding of available capacity at this site is still needed. At present, no utility information is understood for the Interstate 29 and Highway 370 Property.

Pottawattamie County, Iowa

*Table 8: Pottawattamie County, Iowa – Top Ten Industries by Location Quotient*

NAICS Sub-Sector	Quarterly Establishments	Total Quarterly Wages (\$)	Average Weekly Wage (\$)	Pottawattamie Co. LQ (Total Quarterly Wages)	Iowa LQ (Total Quarterly Wages)
NAICS 311 Food manufacturing	10	33,535,751	856	8.97	4.08
NAICS 721 Accommodation	37	20,702,999	578	6.52	0.85
NAICS 447 Gasoline stations	49	4,117,652	378	4.08	2.35
NAICS 484 Truck transportation	91	10,268,688	975	2.74	2.17
NAICS 326 Plastics and rubber products manufacturing	4	4,348,257	909	2.35	1.71
NAICS 451 Sports, hobby, music instrument, book stores	14	1,442,594	363	2.17	1.04
NAICS 452 General merchandise stores	21	7,936,938	416	2.15	1.11
NAICS 441 Motor vehicle and parts dealers	49	10,667,486	950	2.13	1.19
NAICS 623 Nursing and residential care facilities	31	10,725,131	575	2.03	1.62
NAICS 624 Social assistance	96	8,025,419	485	1.88	1.02

Source: U.S. Bureau of Labor Statistics. Q3 2016.

Pottawattamie County has a predominance of primary industries that include **food manufacturing, truck transportation, and plastics and rubber products manufacturing**. Generally, these industries look for medium or larger sites. Alternatively, these industries might choose to locate within an industrial park because of the proscribed development pattern and identified access typically available within industrial parks.

Pottawattamie County has the Bussey/Adkins Property (~161 acres), Brandt Root’s Property (~134 acres), the Underwood Property (~106 acres), the Shelby Site (~37 acres), and the South Point Business Park (~100 acres). The Shelby Site meets the size criteria for general manufacturing, clean tech/advanced manufacturing, warehouse/distribution, food processing, and small data center. All the other sites also meet the size criteria for heavy industrial and for large data center. Utility infrastructure appears to be available to the Bussey/Adkins Property and the Underwood Property; however, an understanding of available capacity to these sites is still needed. At present, no utility information is understood for the Brant Root’s Property, the Shelby Site, or the South Point Business Park.



## Conclusions

A broad-based view of the subject region proves the following:

- Site infrastructure and capacity information is lacking as it pertains to positioning properties identified within the subject region for prospective development.
- Controlled sites and facilities are limited, causing the subject region to lose prospective development opportunities.
- Many actual or prospective industrial sites were reviewed that are believed to can accommodate the predominant industrial verticals; however, preparedness of these sites is insufficient to effectively court prospective development. Information is key for positioning in a site selection search, but a full understanding of how the market aligns to site attributes is lacking on many sites reviewed within the subject region.
- As the state of Nebraska continues to adjust its tax scenario to improve its corporate tax environment attributes, it will be necessary to effectively communicate how changes will affect lower national ratings moving forward for asset-intensive and employee-intensive industries considering these reforms.

In order to effectively align sites to market opportunities, it will be necessary to prepare sites within the subject region to accommodate the varying sizes, accesses, and utility service levels of sites as well as their proximities to workforce and product supply.

# Memo 2: Industrial Absorption

*Market Competitiveness Related to Supply and Demand for the Greater Omaha/Council Bluffs CSA and Comparable Communities*

## Introduction

The key to attracting and spurring primary development is by ensuring there are desirable sites available to prospective end-users. A look at regional history can determine whether supply of the right type of sites is meeting demand. Studying comparable communities highlights what the Greater Omaha/Council Bluffs CSA can do to better drive demand.

## Supply / Demand Data

Greater Omaha Economic Development Partnership provided data from 2012 through 2016 regarding project inquiries. The percent of industrial projects dipped slightly in 2015 but have generally been increasing (**Table 1** and **Figure 1**).

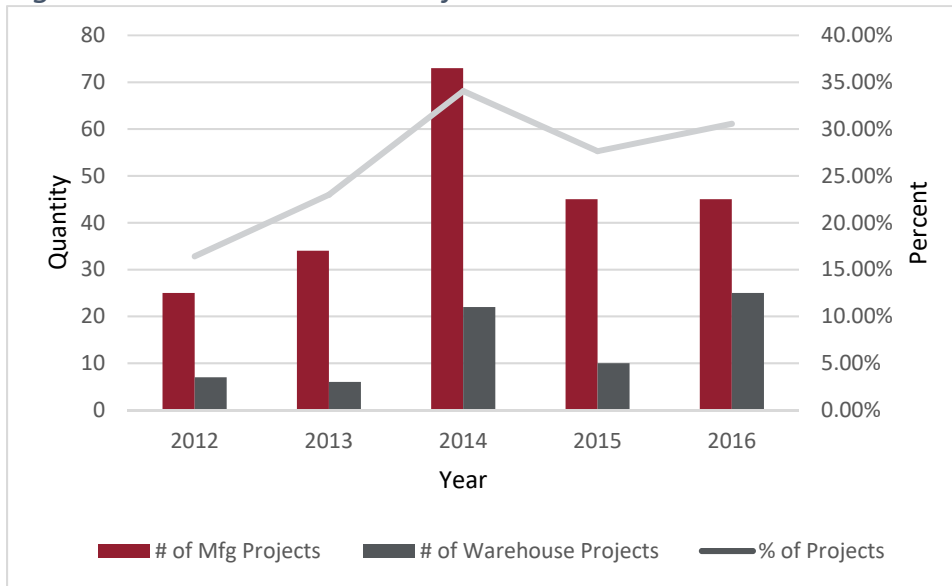
*Table 1: Total Industrial Projects - 2012 - 2016*

	2012	2013	2014	2015	2016	Total
Total Projects	195	174	279	199	229	1,076
Total Industrial Projects	32	40	95	55	70	292
Percent of Projects	16.41%	22.99%	34.05%	27.64%	30.57%	27.14%
Number of Manufacturing Projects	25	34	73	45	45	222
Number of Warehouse Projects	7	6	22	10	25	70

*Source: May 2017 Greater Omaha Economic Development Partnership*

Manufacturing is Nebraska’s number two revenue source. In 2014, the Greater Omaha Metro Region, much like a good portion of the Midwestern United States, saw a significant surge in economic activity within the manufacturing sector. The primary reason for this recovery was the strength of the agricultural sector, as much of Midwest manufacturing is tied to either agricultural product inputs or to serving the agricultural community. Secondly, the Midwest escalated to full recovery from the recessionary setbacks of 2007 through 2009 because of stabilized interest rates, favorable lending terms, and increased domestic and global trade opportunities. The Greater Omaha Metro Region shows an acceleration of project completions from 2014-2016, aside from a flat 2015, that mirrors national trends.

Figure 1: Total Industrial Projects 2012-2016



Source: May 2017 Greater Omaha Economic Development Partnership

Total inquiries experienced a peak in 2014, and stabilized in the years following. In 2016 the overall number of warehouse inquiries increased. A smaller percentage of industrial inquiries were seeking a building larger than 100,000 square feet (20 percent) while 80 percent of the industrial demand that was seeking a site, desired more than 10 acres.

Table 2: 100,000+ Square Feet – Industrial Buildings Demand (2012-2016)

	Manufacturing	Warehousing	Total	Percent of Projects	Percent of Building Requests
100,000+ sq. ft.	18	11	29	10%	20%

Source: May 2017 Greater Omaha Economic Development Partnership

Table 3: 10+ Acres – Industrial Site Demand (2012-2016)

	Manufacturing	Warehousing	Total	Percent of Projects	Percent of Site Requests
10+ acres	67	26	93	32%	80%

Source: May 2017 Greater Omaha Economic Development Partnership

Industrial development demand is relatively difficult to track as many opportunities bypass communities that do not appear at the outset of initial MLS or industrial property database searches to have land or facilities to accommodate an end-user’s specific needs. However, it is valuable to understand direct solicitations for buildings and sites, by tranche, and to mark trends in accommodating known demand and estimating future demand.

## Manufacturing Demand

*Table 4: Manufacturing Building Demand*

	2012	2013	2014	2015	2016	Total
Under 100,000 sq. ft.	12	10	20	19	21	82
100,000 - 200,000 sq. ft.	2	3	8	1	1	15
200,000+ sq. ft.	2	0	3	4	2	11
<b>Total</b>	<b>16</b>	<b>13</b>	<b>31</b>	<b>24</b>	<b>24</b>	<b>108</b>

Source: May 2017 Greater Omaha Economic Development Partnership

Direct solicitations for buildings of up to 100,000 square feet (sq. ft.) increased over 100 percent during the analysis period of 2012-2016. These are assumed to predominantly comprise local and regional development needs for existing companies or for suppliers to existing companies. Aside from a spiked year of high levels of local and national economic activity in 2014, the demand for 100,000-200,000 square-foot facilities was nearly non-existent within the Greater Omaha Metro Region. A flat trend of between two and four inquiries annually existed in the 200,000+ square-foot-facilities tranche for the years 2012-2016.

Aside from the quantitative analysis, it is important to note that the search for facilities of larger than 100,000 square feet is often for users that are not found within the local market, rather, they are prospective end-users that will use online real estate listing information to begin their site search. If facilities are deemed unsuitable, obsolete, or non-existent, they do not solicit facility information from the local economic development corporation. Therefore, **it should be noted that prospective end-users who may have been interested in locating within the Greater Omaha Metro Region may have decided against it because inventory appeared to be unavailable in the initial search efforts.**

*Table 5: Manufacturing Site Demand*

	2012	2013	2014	2015	2016	Total
Under 10 acres	1	2	2	8	7	20
10 - 25 acres	3	7	12	7	5	34
Over 25 acres	3	7	15	3	5	33
<b>Total</b>	<b>7</b>	<b>16</b>	<b>29</b>	<b>18</b>	<b>17</b>	<b>87</b>

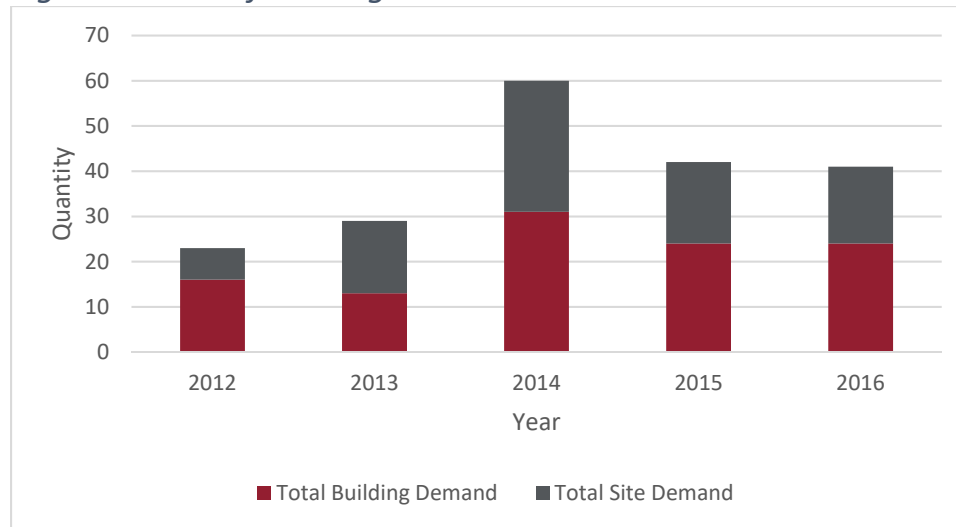
Source: May 2017 Greater Omaha Economic Development Partnership

Through 2007-2009 recession, the U.S. as a whole, saw a mass degradation in manufacturing product output and the closure of numerous manufacturing facilities. Although 2007-2009 were years of manufacturing loss, the years that followed offered significant industrial real estate acquisition opportunities for companies and investors. The years 2010-2013 largely became a buyer's market with

manufacturing facilities selling at 50-75 percent of previously assessed market value, depending upon location and facility condition.

By 2014, the Midwest saw a resurgence of economic activity in the industrial sector, but site selectors and end-users were often unable to find suitable facilities for operations. Since the majority of relevant and operational but vacant facilities were purchased at a bargain from 2010 through 2013, what remained were facilities that either required significant rehabilitation or suffered from full obsolescence to the current market.

*Figure 2: Manufacturing Demand*



*Source: May 2017 Greater Omaha Economic Development Partnership*

Generally, industrial site selection begins with deciding whether or not the end-user prefers to purchase an existing building or purchase land for the construction of a new facility. On average, 60 percent of industrial end-users prefer an existing facility while 40 percent prefer land tracts for construction of a new facility. Pursuant to the national trend, the site selection and end-user community began to realize there were very few industrial facility vacancies and by the end of 2012 total building and site demand began to shift toward favoring land tract acquisition for new construction within the Greater Omaha Metro Region.

Much like what was witnessed throughout the United States during the 2014-2016 timeframe, industrial development interest increased, with a mass surge occurring in 2014. As a positive indicator, approximately 36 percent of all land inquiries during this analysis period were for users desiring greater than 25 acres of contiguous development ground. However, while the U.S. as a whole, saw increases in land sales for industrial development opportunity throughout the entire 2014-2016 timeframe, the Greater Omaha Metro Region saw a significant decline in inquiries between 2015 and 2016. As will be discussed later in this memo, there is substantiation as to why those inquiries decreased with the main factor pointing to a lack of available and prepared land space for the accommodation of new industrial construction.

## Warehouse Demand

*Table 6: Warehouse Building Demand*

	2012	2013	2014	2015	2016	Total
Under 100,000 sq. ft.	3	2	7	6	10	28
100,000 - 200,000 sq. ft.	0	1	3	0	1	5
200,000+ sq. ft.	1	0	3	0	2	6
<b>Total</b>	<b>4</b>	<b>3</b>	<b>13</b>	<b>6</b>	<b>13</b>	<b>39</b>

Source: May 2017 Greater Omaha Economic Development Partnership

While the predominant size for warehousing sought within the Greater Omaha Metro Region was for facilities under 100,000 square feet, apparent increases in demand were found between 2012 and 2016.

Currently, industrial vacancy for warehousing space within the Greater Omaha Metro Region and the entire Midwest, is at an all-time low. Warehousing demand has largely been spurred by supply-chain modernization. This growth began in 2012 in primary markets that handle bulk good distributions, but is now spreading to regional, Tier II markets such as the Greater Omaha Metro Region. The need for a deeper supply-chain presence to cover regional locations poised to accelerate growth in secondary markets is evident. Pent-up demand exists across most U.S. Tier II markets due, in part, to the slow response of warehouse development, which has led to a growing supply/demand imbalance.

In viewing the inquiries for warehousing space and combining this with average rents that have pushed past pre-recession levels, the opportunity for increased development is here. For example, during the second quarter of 2016, the Omaha Industrial market reported total absorption of 22,811 square feet with a total vacancy rate of 3.1 percent. Warehousing and distribution facility growth of 22,603 square feet out-performed both flex space and research and development space by 19,167 square feet and light industrial space by -3,962 for the quarter. Of the 15,457,619 square feet of total warehouse/distribution inventory available within the Greater Omaha Metropolitan Statistical Area (MSA), only 60,400 square feet of space was available for lease.

Warehouse building demand is at a critical state for the Greater Omaha Metro Region in each of the tranches. Facilities do not exist to accommodate this rapidly growing sector of the economy and inquiries are believed to not entirely reflect true demand.



*Table 7: Warehouse Site Demand*

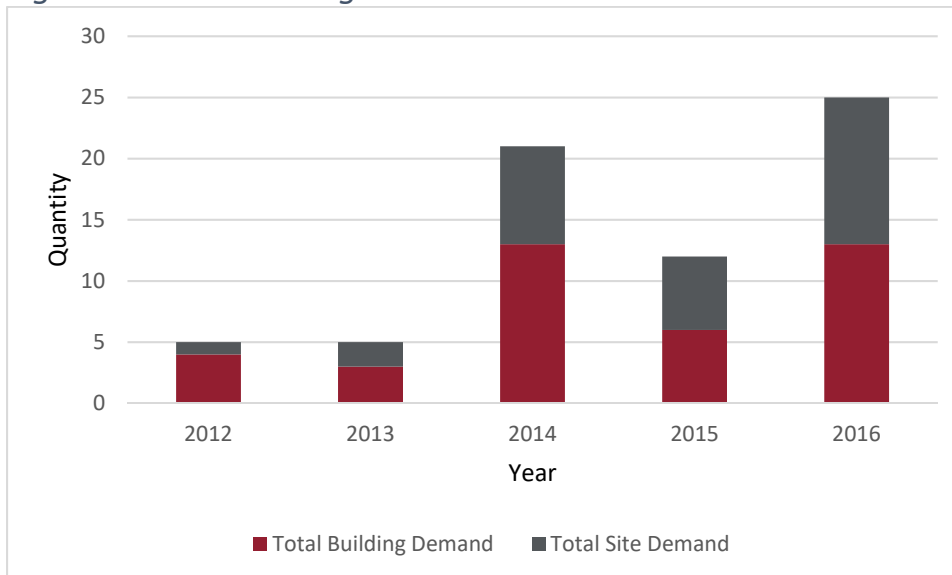
	2012	2013	2014	2015	2016	Total
Under 10 acres	0	0	1	1	4	6
10 - 25 acres	0	1	4	4	6	15
Over 25 acres	1	1	3	1	2	8
<b>Total</b>	<b>1</b>	<b>2</b>	<b>8</b>	<b>6</b>	<b>12</b>	<b>29</b>

Source: May 2017 Greater Omaha Economic Development Partnership

In the same vein as the warehousing facilities surge, site demand for warehousing development has accelerated significantly between 2014-2016. Primary markets saw the majority of demand from the e-commerce boom that began in 2012. By 2014, Tier II markets, such as the Greater Omaha Metro Region, were poised to take advantage of the enhancements in supply-chain logistics and the shift in consumer purchasing patterns to more online transactions. Markets with available and prepared land tracts, proximity to consumer hubs, excellent four-lane transportation access, and applicable development incentives have been able to take advantage of the surge of inquiries such as those seen in the Greater Omaha Metro Region. In total, 41 percent of all warehousing site inquiries by developers and end-users occurred in the year 2016, which is in-line with national trends and data for this form of development.

The unfortunate reality is that with a 3.1 percent industrial vacancy rate, only 60,400 of identified facilities square footage ready for accommodation, and no identified or shovel-ready greenfield sites available for industrial warehouse development, the Greater Omaha Metro Region is incapable of supplying much, if any, of this demand.

*Figure 3: Warehousing Demand*



Source: May 2017 Greater Omaha Economic Development Partnership



## Industrial Property Asking Price

The price of available land, and how that compares to comparable tracts in the other communities, can have a significant impact on how developers see a community. For this purpose, we have segmented the land and buildings in order to compare them within their different tranches.

## Omaha and Comparative Communities

In the tables that follow, “Market Size” refers to the total square feet of all existing single and multitenant industrial properties greater than 5,000 square feet. “YTD Net Absorption” refers to the total net change in physically occupied space from quarter to quarter, and is also expressed in square feet. “Vacancy Rate” is the total of all vacant square feet, including both direct and sublease space, divided by the total amount of existing inventory. “Deliveries” refers to square footage of buildings completed during a specified period of time.

There were some considerations when looking at available industrial land in these areas. The land had to be actively posted for sale, listed as industrial, and able to be delivered for construction or improvements within 18 months. The average price per square foot includes fully developed lots as well as greenfield sites needing to be improved. When a range of asking prices was given, a simple average was used.

*Table 8: Omaha MSA - Industrial Building Availability*

	Market Size (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)	Deliveries as % of Market Size
Q4 2016	68,291,937	\$5.27	410,472	3.2%	548,405	0.80%
Q2 2016	68,638,408	\$5.11	22,811	3.1%	238,900	0.35%
Q4 2015	68,372,811	\$4.72	470,568	3.0%	197,410	0.29%
Q2 2015	68,222,531	\$4.53	32,668	2.9%	305,663	0.45%
Q4 2014	68,152,586	\$4.26	1,400,000	3.0%	534,484	0.78%
Q2 2014	68,035,144	\$4.28	1,011,807	3.3%	12,800	0.02%

*Source: Xceligent, CoStar, and CBRE|MEGA Marketview Reports*

The generally flat market size compared to deliveries is largely due to either demolition or removal from consideration. Buildings may be removed from the data set because they are converted to another use or due to being no longer considered “competitive” for industrial use.

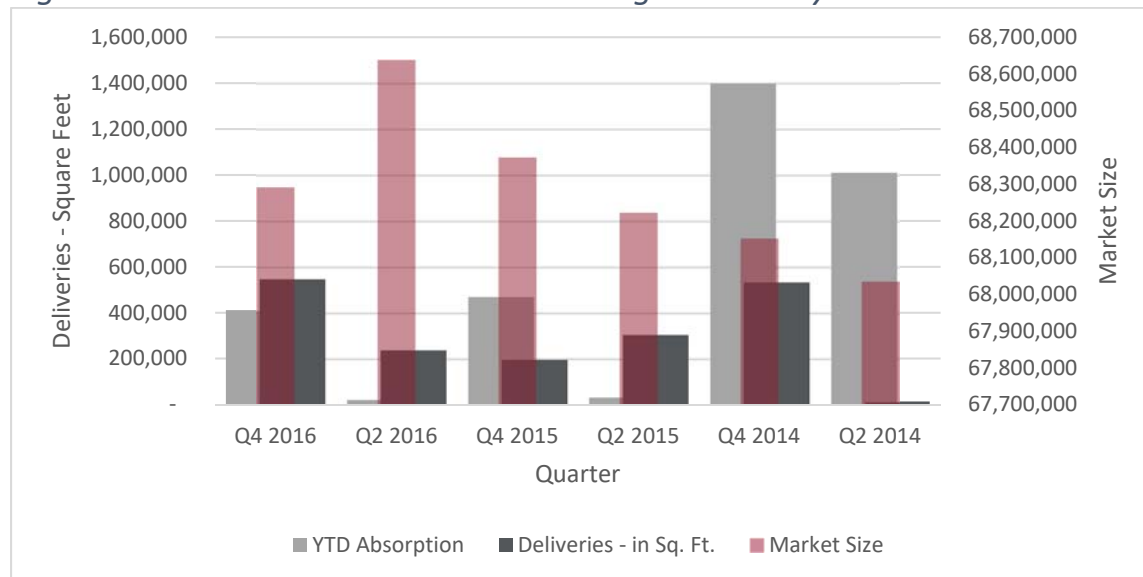
2014 was a strong year for industrial development growth in the Greater Omaha Metro Region. Positive absorption of 1,400,000 square feet led to a shortage of space within certain industrial verticals, notably in warehousing. Rents increased in response to a year-end vacancy rate of 3 percent with the majority of vacancy being in the “flex” segment of the market. Several large users relocated during this year,

including Perrigo (Sargeants) Pet Products, Waldinger Corporation, and Grapel North America, and left behind several quality “infill” industrial vacancies.

2014 also brought about construction costs that were 10-20 percent higher than seen in 2012 and 2013, placing pressure to increase rental rates. Low interest rates helped to offset the higher construction costs, but appeared to play a role in depressing new construction starts to offset increasing demand. While 2014 boasted an overall industrial facility vacancy of only 3 percent, areas of the Greater Omaha Metro Region with high growth demand were also the areas with the lowest regional vacancies, including Sarpy County East (0.0%), Sarpy County West (1.7%), South Central Omaha (1.8%), and Northwest Omaha (1.2%).

From 2014 through 2016, the Greater Omaha Metro Region industrial market saw an uptick in local industrial user demand with sales in the 10,000 square-foot facility range as the primary growth contributor for this period. Properties east of 42<sup>nd</sup> Street and in the airport industrial tracts continued to lag in demand, largely assumed to be because of location. During this period, Des Moines-based developer R&R Realty purchased 76 acres of greenfield space in Sarpy County for the speculative development of an industrial park. This was the first outside developer entering our market with a speculative industrial building since 1999 when Kansas City Life built two buildings in Council Bluffs. Developing vertically, this is the first out-of-market developer to enter the market for speculative industrial development activity in the past decade. While Council Bluffs’ economic development team expanded its business park, there was no new industrial park space developed in the Omaha Metropolitan Area offering future land available for sale to industrial occupiers and buyers.

Figure 4: Omaha MSA - Industrial Building Availability



Source: Xceligent and CBRE|MEGA Marketview Reports

The lack of shovel-ready sites continues to create pressure on users to look for existing facilities. A market that averages a 3.0 percent industrial facility vacancy rate, not only causes prospective purchasers to look elsewhere, but also causes artificial inflation in rents as supply is not capable of accommodating demand. CBRE reports that as of Q4 2016, “numerous individuals are attempting to purchase leased and vacant industrial buildings,” something that has not happened within recent history within the Greater Omaha Metro Region. By the end of 2016, vacancy rates remained at 3.2 percent for the entirety of the region. Additionally, the overall asking rate of \$5.27 per square foot has increased from \$4.72 per square foot for the same period in 2015, in light of lesser quality stock and availability.

*Table 9: Omaha MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	11	\$2.48	13	\$0.97
Rail Served Sites	1	\$0.98	2	\$0.64

*Source: Loopnet, CoStar*

Overall, the Omaha market has a fairly limited number of sites available for sale. According to the MarketView reports, as of Q4 2016, the prospect of new industrial parks with available land potential is limited to the business park in Council Bluffs. When considering rail-served sites, the data set is really too small to provide accurate information. There are a limited number of areas in town that the market perceives as desirable, primarily based on interstate access and proximity to consumers. This is likely what has caused the price per square foot for 25-50 acre sites to be the highest amongst the comparable communities.

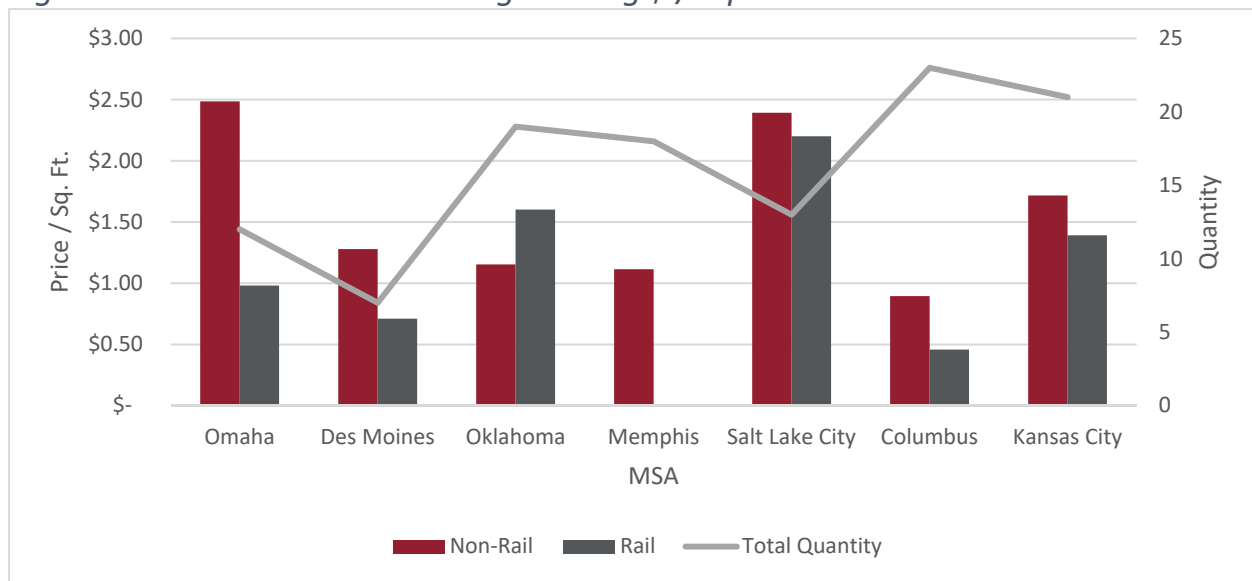
The larger sites (50+ acres) are primarily undeveloped and require varying amounts of infrastructure to make them shovel ready. This varying level of developability is likely driving down the average price per square foot.

## Market Comparisons

In assessing the Greater Omaha Metro Region’s industrial development activity with comparable markets that have been identified as traditionally competing for site selector inquiries, developer investment, and have market similarities, the following general observations have been made. Comparable data is based on properties or buildings listed for sale.

What was assessed as a period of rapid industrial development growth throughout the U.S. and was evidenced, on average, within the comparable markets, was not experienced in the Greater Omaha Metro Region. There are several factors that come into play that we will look at across the comparable markets.

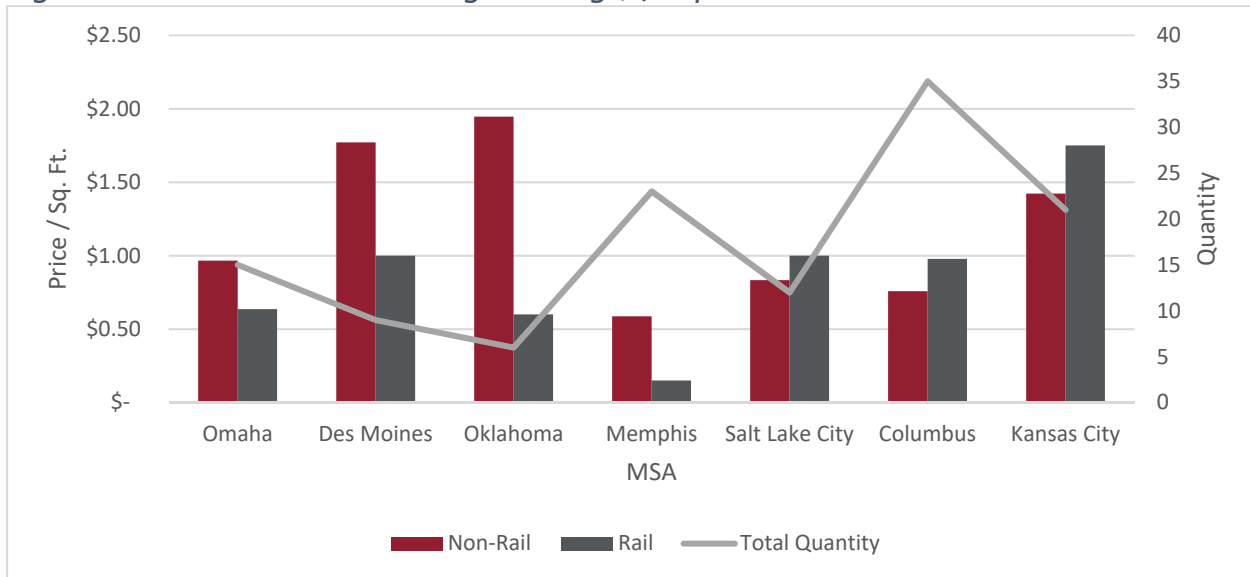
*Figure 5: 25-50 Acre Sites Average Asking \$ / Sq. Ft.*



Source: Loopnet, CoStar, and Xceligent

Comparing greenfield sites across markets it very difficult as each site may vary in its level of preparedness. Some sites may still be lacking service to the periphery where others may have services to and through the site. Omaha has a higher price per square foot average within the non-rail served 25- to 50-acre site tranche than any of the comparable markets. While average prices for rail-served sites are more in line with the comparable communities, there are considerably fewer rail-served site developments occurring nationally than non-rail served site developments. The Greater Omaha Metro Region’s availability of rail-served site inventory is extremely low, somewhat skewing the comparison. Combine the high sales price for non-rail served sites with the low availability of rail-served sites and the average prices asked, and the conclusion is these factors severely hinder the region’s ability to compete against comparable communities for industrial development opportunities.

Figure 6: 50+ Acre Sites Average Asking \$ / Sq. Ft.

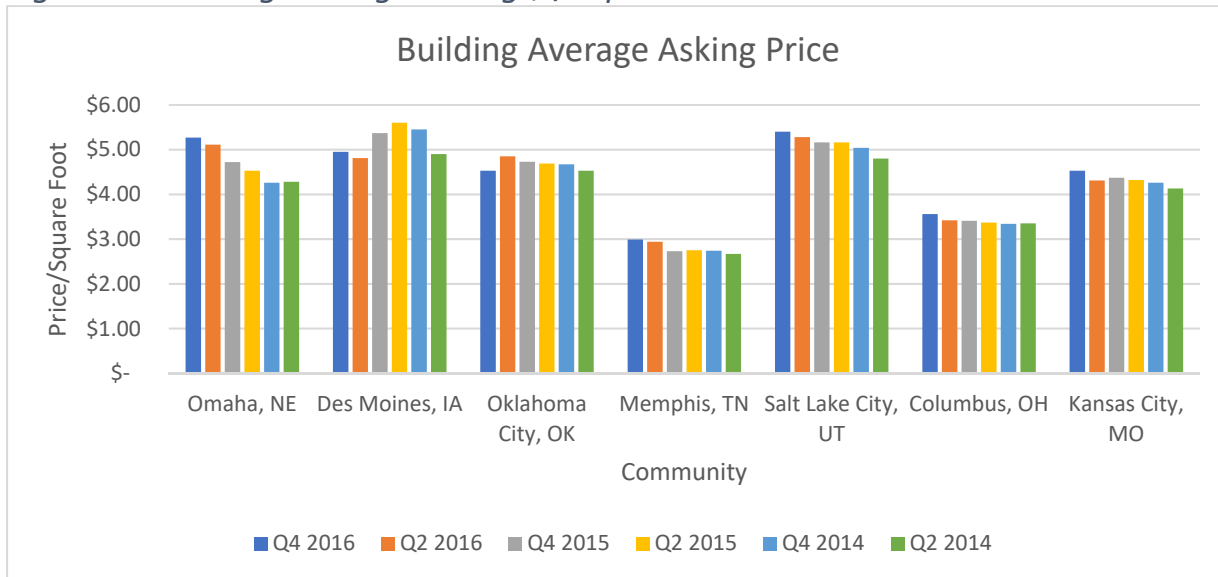


Source: Loopnet, CoStar, and Xceligent

While the Greater Omaha Metro Region’s asking price on a per square foot basis for the 50+ acre tranche is within the general range of competitor communities, and in most cases lower, it is important to note the quantity that is available within competitor markets. For example, markets such as Columbus, Ohio, are sitting with at least 33 sites that are identified as development-ready within this tranche. Higher levels of site availability afford opportunities to match site characteristics to end-users and increased inventory not only assists in the capture of end-users with specific site needs, but increased inventory also drives pricing. Within the communities that are seeing extraordinary amounts of speculative development activity, such as Columbus, Ohio, it is likely that average asking prices will begin to climb as inventory decreases. While the region is generally competitive as it pertains to rail-served sites, the number of these sites is significantly lower than the number of sites within the communities receiving large amounts of private developer interest.

The Greater Omaha Metro Region must secure additional 50+ acre sites to aid in bolstering not only the quantity of sites that can be positioned, but the quality of those sites as it pertains to specified user demand and, in a sense, creating the ability to cast a wider net to entice more industrial development activity. Development sites are not all equal or all suitable to all end-users, hence, it is necessary to align the market drivers for the Greater Omaha Metro Region to site availability that can effectively accommodate growth demand.

Figure 7: Building Average Asking \$ / Sq. Ft.



Source: Loopnet, CoStar, and Xceligent

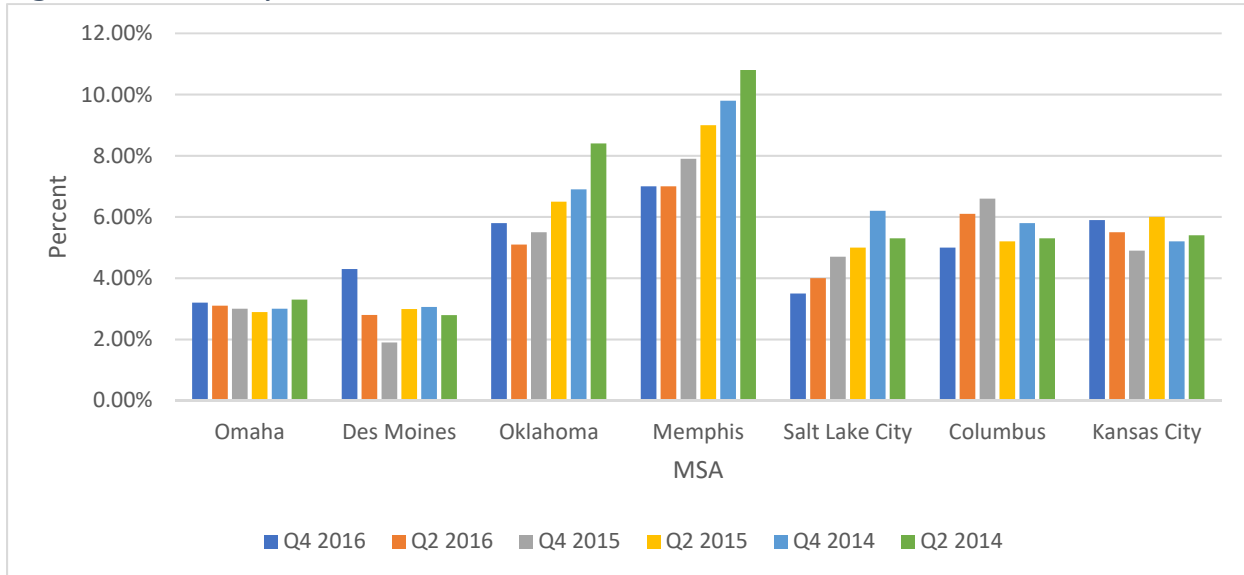
While reporting methods may vary amongst the reporting agencies, the trends are very similar across the comparable communities. Most communities asking prices have been increasing over the last few years with the exception of Des Moines and Oklahoma City that have experienced a slight dip in 2016. Memphis and Columbus have lower rates primarily since they are big distribution communities and have a lot of supply. Kansas City’s rates are likely a result of higher construction costs. Omaha suffers from a two-prong problem; they experience similar high construction rates and an overall lack of available sites.

### Overall Market Vacancy

The Greater Omaha Metro Region posts extraordinarily low vacancy rates for the analysis period of 2014-2016. While there has been a limited amount of new construction deliveries and new build-to-suit facilities added to overall regional inventory during this time, the amount does not equate to deliveries experienced within most of the comparable markets.



Figure 8: Vacancy Rates



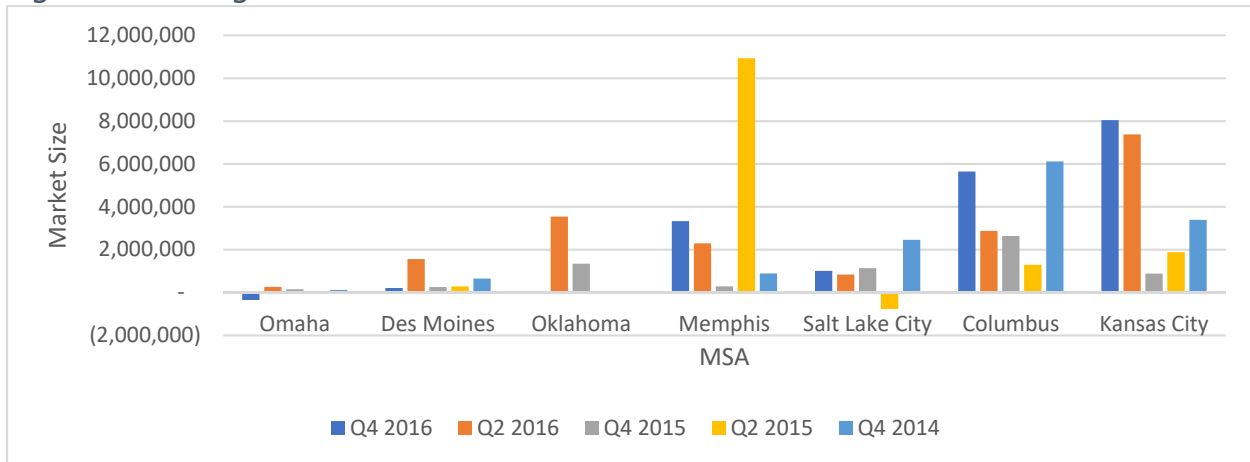
Source: CBRE Marketview Reports and CoStar

As a direct correlation, trajectory for new development opportunities is based upon demand found within historical periods and, in this instance, the years of 2014-2016. Because the region has been incapable of increasing inventory both in sites and buildings and attracting developer interest, particularly on a speculative basis, site selection decisions have swayed from the Omaha region toward areas that can provide faster growth rates and accommodation through ready inventory. Communities such as Kansas City, Columbus, and Memphis have all effectively positioned themselves to ensure vacancy rates do not strangle incoming opportunities and all markets have shown the ability to achieve quick absorption to fill facilities delivered as speculative.

The lack of vacancy also poses a serious concern for expanding, local industrial companies. The local environment poses concerns for the long-term retention of users who are in need of site relocation within the local market, particularly those seeking new facilities to accommodate growth needs.



Figure 9: Change in Market Size



Source: CBRE Marketview Reports and CoStar

The size of an area’s industrial market indicates the amount of owner-occupied and leased industrial property exists in a community within the timeframe of assessment. The Omaha region has had virtually no movement in the size of the overall market from 2014-2016 with communities identified as competitive for development efforts showing evidence of capturing these opportunities.

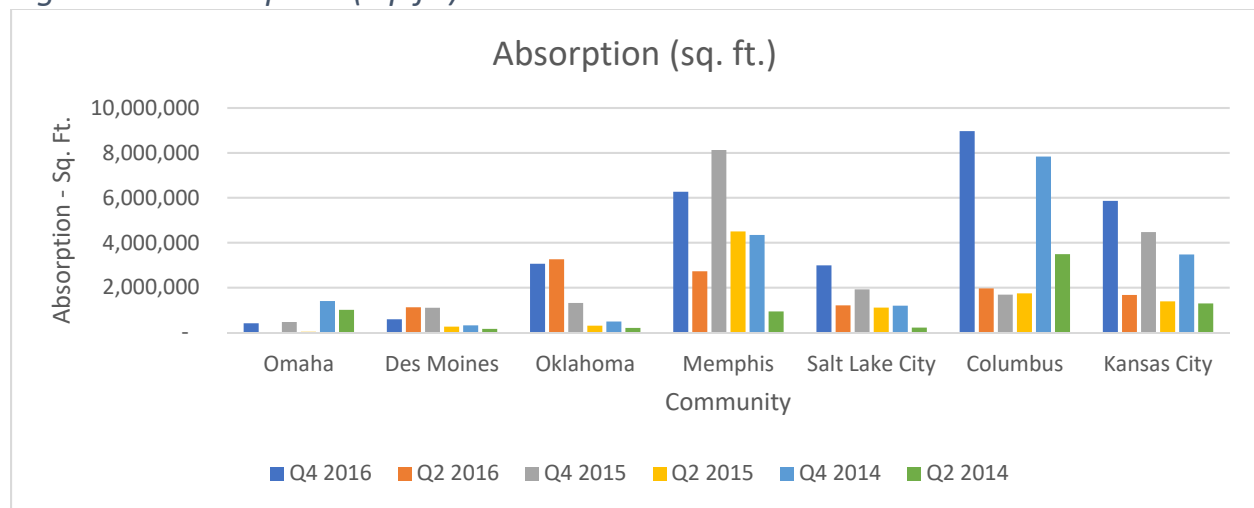
The volume of industrial sites and facilities impacts the ability to attract industrial developers, site selectors, and industrial end-users. Because the Omaha region lacks inventory within both the available land and available buildings sectors, the region has been incapable of attracting attention for investment and these opportunities have opted to locate within markets that can prove availability of quality, development-ready inventory.

Communities such as Kansas City, Memphis, and Columbus have assessed factors that create a strong business case for developers seeking to add inventory within their markets. They have effectively proven that volumes exist for expansion or new development activity, and they have aligned policies and local incentives to attract developers and end-users. These communities have learned to work in a multijurisdictional fashion to support infrastructure capacity readiness and to align sites to end-user demand. They have strategically identified market drivers that provide speculative industrial developers with risk mitigation so developers can hit their goal of achieving full absorption of properties at rates and within timelines acceptable to their desired ROI. Additional information regarding these best practices will be addressed in Memo 3.

## Net Absorption

Net absorption in a market reflects the net change in physically occupied space from quarter to quarter. As a direct correlation to the lack of vacancy within industrial building availability and the low levels of available industrial sites to offer, the Omaha regional market has experienced a relatively flat absorption position from 2014 through 2016. **The conclusion here is the same as that drawn from the analysis of the change in market size—available sites and buildings inventory are catalysts for industrial market absorption growth. The lack of availability in both sectors is the prime factor in flat results within the Omaha region over the analysis period.**

Figure 10: Absorption (sq. ft.)



Source: CBRE Marketview Reports and CoStar

Markets such as Kansas City and Columbus were among those identified as having performed assessments regarding market demand and activity with excellent tracking of both end-user expansion needs and site selector interest. Their well-defined strategies of understanding market drivers allowed them to effectively position themselves for developer interest. Both the Kansas City and Columbus markets saw the majority of industrial growth over the analysis period in speculative warehousing and distribution projects.

The Omaha regional market experienced minimal movement in the size of their overall industrial market reflecting in a small amount of positive net absorption over the analysis period. This can be attributed to the lack of inventory in both sites and buildings and has led to low-level growth trajectory assumptions and an absent business case for speculative investment on the part of the industrial development community.

## Land and Building Projected Needs

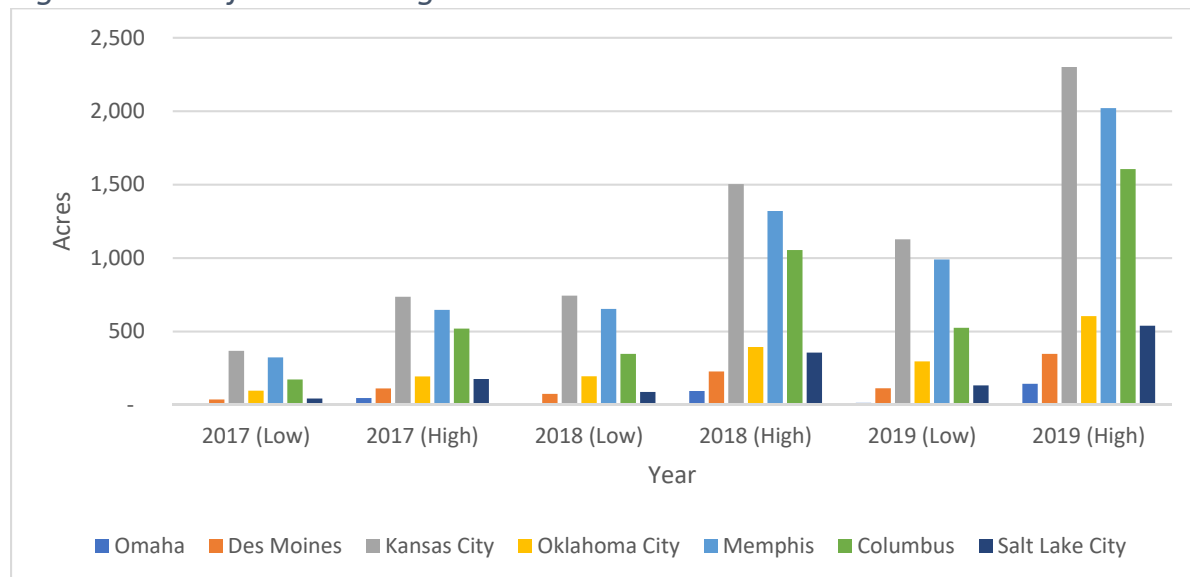
A final qualitative assessment was made on future industrial growth trajectories for the Greater Omaha Metro Region, and the comparable communities. The Omaha region’s ability to effectively prepare and accommodate end-user and developer requests for sites and buildings hinges upon the preparedness of inventory available for site selection. High and low projections for each market are a percentage estimate of future growth based on the historical growth from 2014 through 2016 for each market.

*Table 10: Projected Acreage Needed*

	2017 (Low)	2017 (High)	2018 (Low)	2018 (High)	2019 (Low)	2019 (High)
Omaha	5	48	10	95	14	144
Des Moines	37	112	75	228	114	347
Kansas City	368	737	744	1,503	1,128	2,300
Oklahoma City	97	194	196	395	296	604
Memphis	324	647	654	1,321	991	2,021
Columbus	173	520	348	1,055	525	1,606
Salt Lake City	44	176	88	356	133	539

Source: CBRE/MEGA 2017

*Figure 11: Projected Acreage Needed*



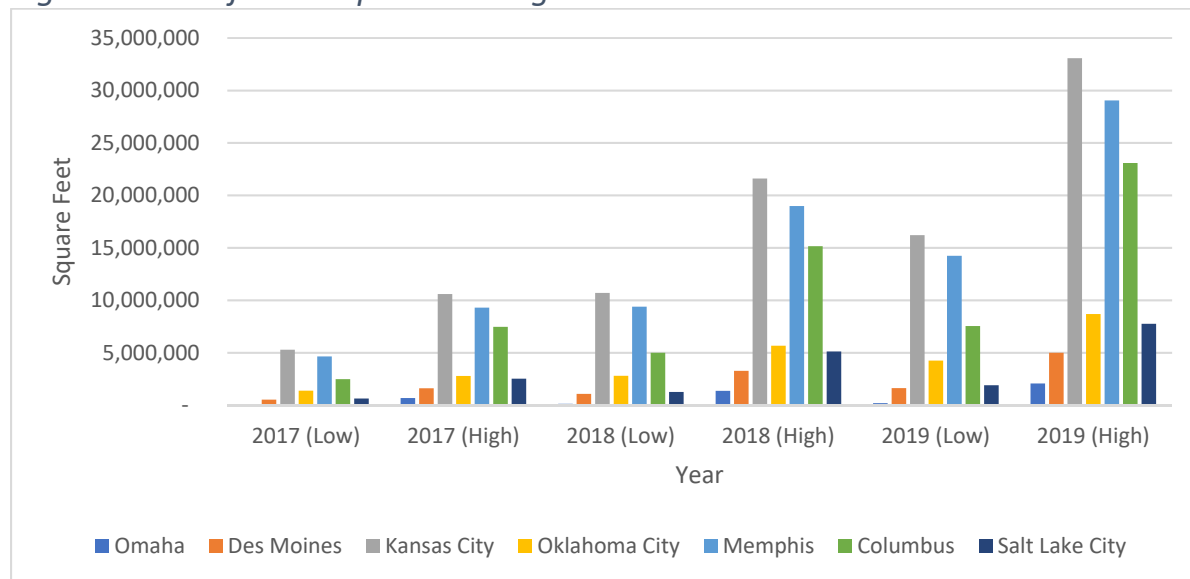
Source: CBRE/MEGA 2017

Table 11: Projected Square Footage Needed

	2017 (Low)	2017 (High)	2018 (Low)	2018 (High)	2019 (Low)	2019 (High)
Omaha	68,292	682,919	136,652	1,372,668	205,081	2,069,314
Des Moines	538,556	1,615,669	1,082,498	3,279,808	1,631,879	4,993,871
Kansas City	5,296,323	10,592,646	10,698,572	21,608,997	16,208,866	33,066,003
Oklahoma City	1,391,791	2,783,582	2,811,418	5,678,507	4,259,437	8,689,230
Memphis	4,652,709	9,305,418	9,398,473	18,983,054	14,239,151	29,047,794
Columbus	2,489,940	7,469,820	5,004,779	15,163,734	7,544,767	23,088,466
Salt Lake City	633,445	2,533,779	1,270,057	5,118,234	1,909,852	7,754,378

Source: CBRE/MEGA 2017

Figure 12: Projected Square Footage Needed

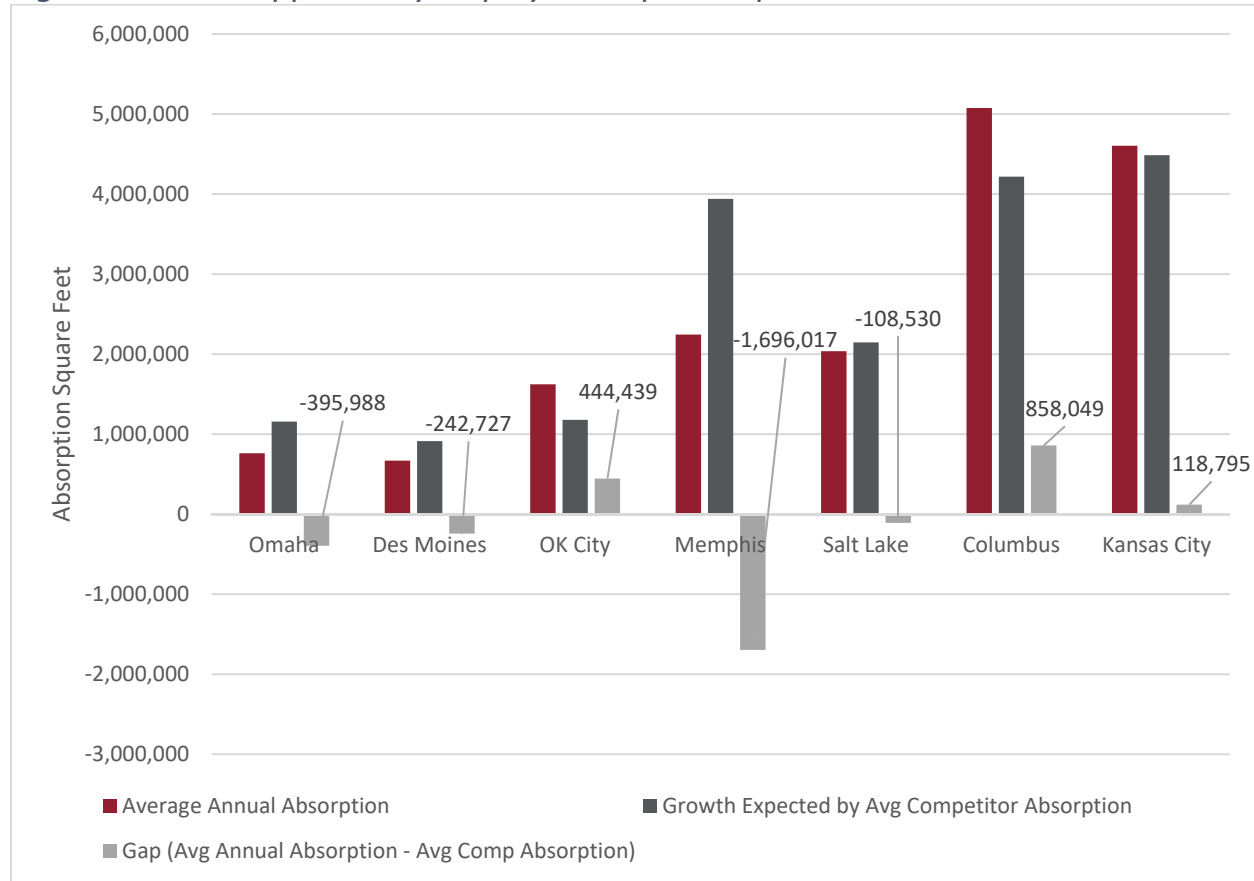


Source: CBRE/MEGA 2017

Trajectories for industrial development are difficult to predict, largely because the assumption of need is based upon the change in historical square footage. Industrial companies are base economic contributors meaning that in many instances, they are manufacturing, assembling, or storing goods that will not be sold within the local community, but outside of the general trade region. This creates a multiplier impact that drives the local commercial and retail economic sectors. Because the Omaha region has been bottle-necked without inventory, it is very difficult to know exactly what the levels of demand were. There are no metrics to quantify mere interest in a market, especially when preliminary site and building searches revealed a minimal amount of available inventory.

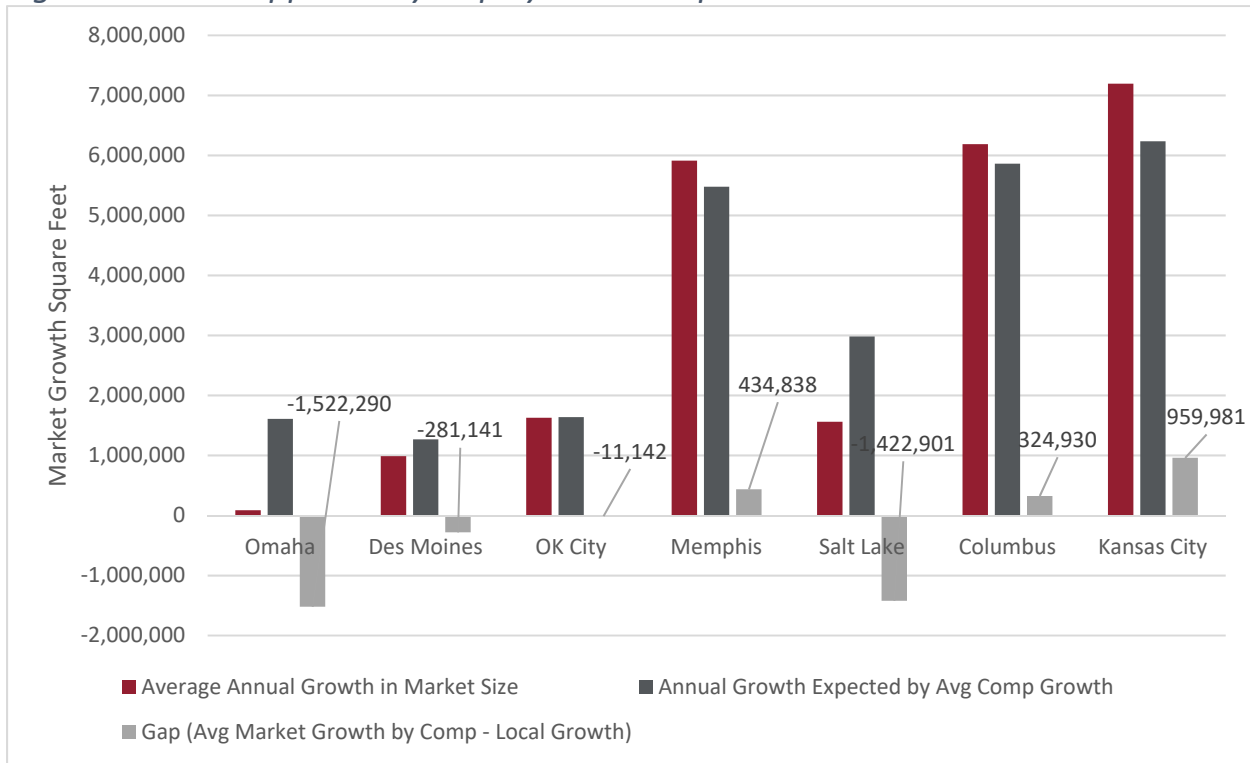
Since projections can have some variation in approach, additional analysis was conducted by the Omaha Chamber and the potential results result are shown in **Figures 13, 14, 15, and 16.**

*Figure 13: Lost Opportunity Gap by Absorption Square Feet - 2014-2016*



Source: Omaha Chamber 2017

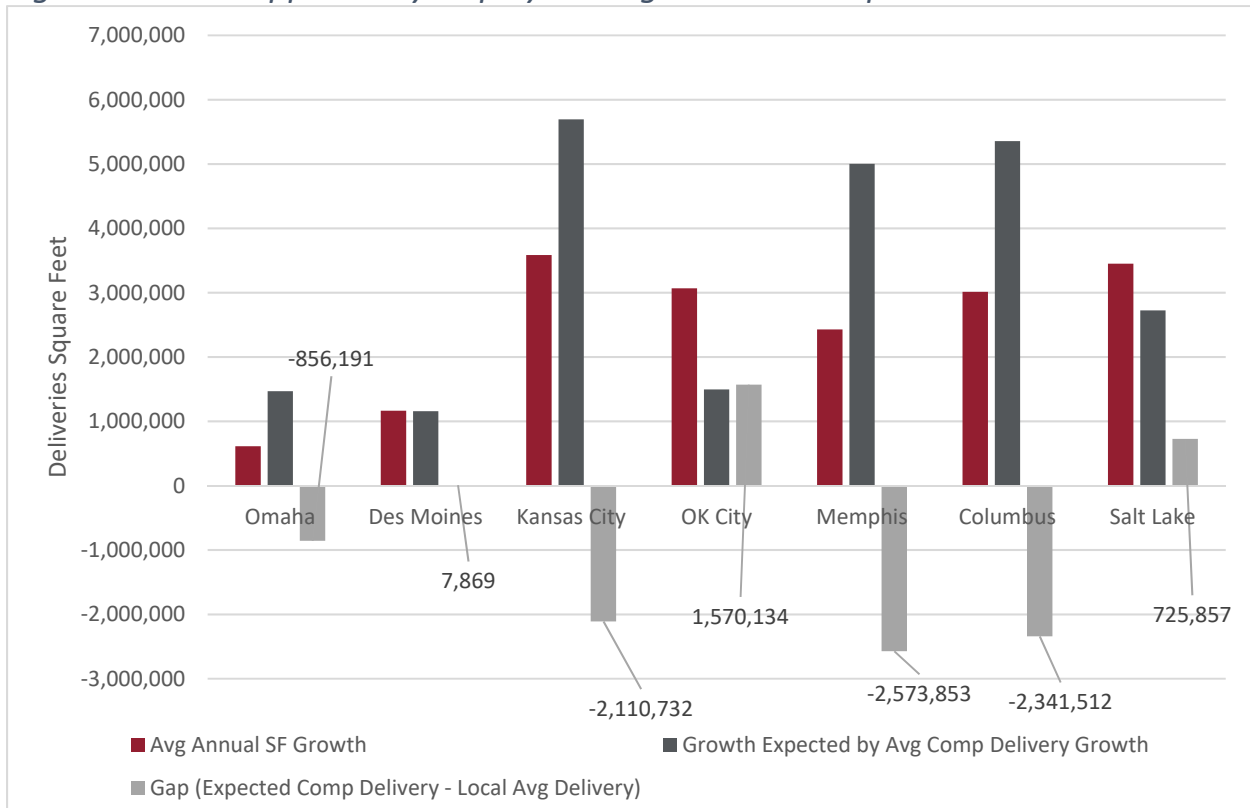
Figure 14: Lost Opportunity Gap by Market Square Feet - 2014-2016



Source: Omaha Chamber 2017

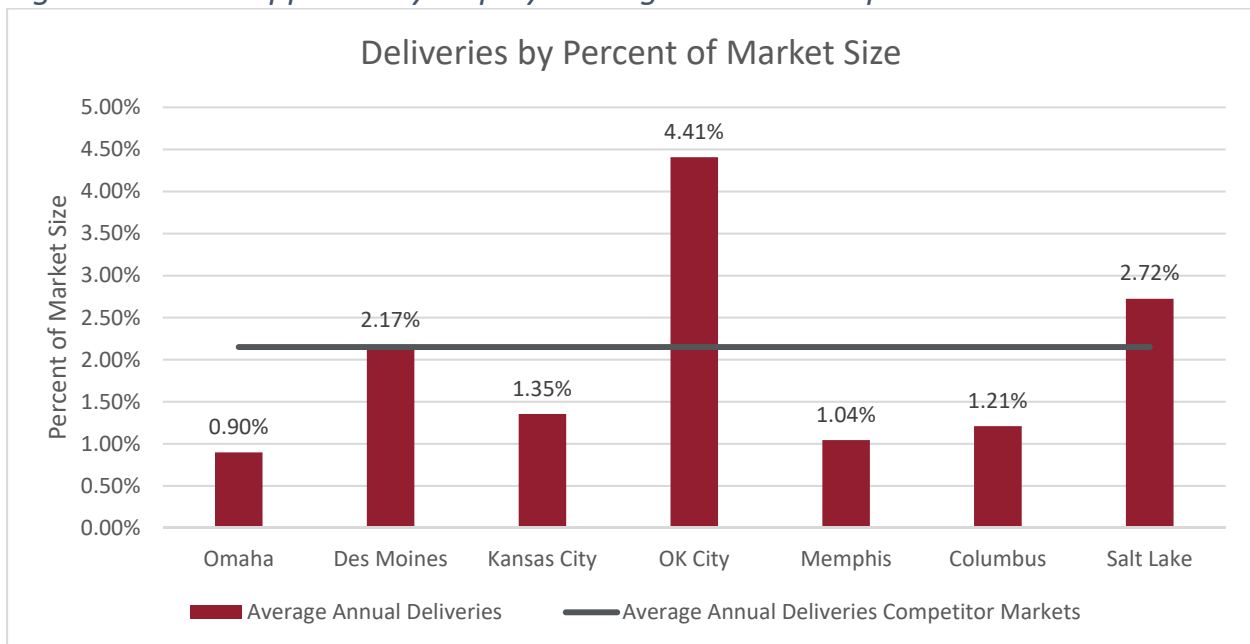


Figure 15: Lost Opportunity Gap by Average Deliveries Square Feet



Source: Omaha Chamber 2017

Figure 16: Lost Opportunity Gap by Average Deliveries Square Feet



Source: Omaha Chamber 2017

## Comparable Markets – Des Moines

2014 brought a year of positive industrial growth trends for the Greater Des Moines Metro Region that would last through 2016. The regional industrial market experienced 316,263 square feet of positive absorption and saw vacancy rates drop from 3.6 percent in year-end 2013 to 3.1 percent by year-end 2014. Notable transactions were found in the leasing of 108,606 square feet by the Baker Group, the development of flex industrial warehousing space of 253,770 square feet by Anderson Properties LLC, and speculative industrial general warehousing space of 181,492 square feet by InSite Real Estate LLC.

*Table 12: Des Moines MSA - Industrial Building Availability*

	Market Size (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)*	Deliveries as % of Market Size
Q4 2016	53,855,626	\$4.95	591,441	4.30%	208,548	0.39%
Q2 2016	53,647,078	\$4.81	1,125,772	2.80%	1,558,568	2.91%
Q4 2015	52,088,510	\$5.37	1,099,802	1.90%	258,407	0.50%
Q2 2015	51,830,103	\$5.60	264,164	2.99%	275,733	0.53%
Q4 2014	51,544,370	\$5.45	316,263	3.06%	-	-
Q2 2014	50,895,065	\$4.90	164,936	2.79%	-	-

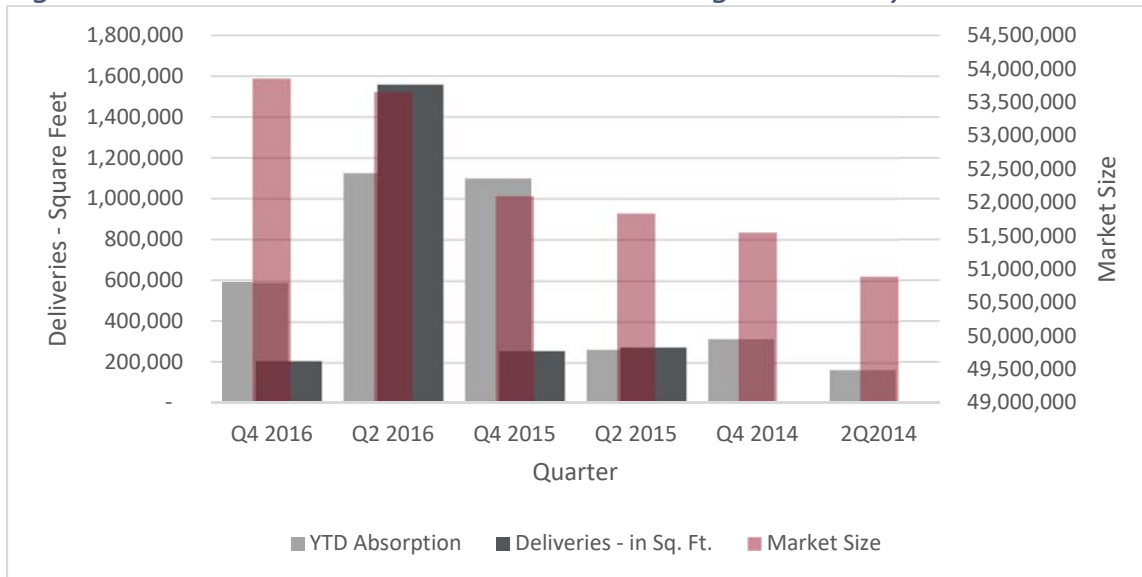
\*Assumptions made on total inventory; no data available for 2014

Source: Xceligent Market Trends

The largest area of growth in available facilities was found in the western submarkets of Des Moines and the largest segment of industrial facilities growth was within the 25,000 to 50,000 square-foot tranche. The delivery of several large, speculative warehousing facilities in Q4 2014 led to a net negative absorption within the warehousing and distribution vertical of -272,747 square feet, but the overall absorption for 2014 within this vertical was 5,151 square feet. Of the 316,263 square feet that were absorbed by the Greater Des Moines Metro Region during 2014, over half of that total was in the light industrial vertical. Manufacturing posted no absorption, and flex space comprised approximately 45 percent of total absorption.

2015 saw the utilization of speculative properties completed with 185,082 square feet of space absorbed being within the warehousing and distribution sector. Despite the positive absorption, the vacancy rate increased from 2.87 percent for all industrial property to 2.99 percent. While much of the speculative space added to the market in 2014 was leased by year-end, 2015's continued growth in construction activity was a contributing factor in the vacancy rate increase over this duration.

Figure 17: Des Moines MSA - Industrial Building Availability



Source: Xceligent Market Trends

In 2015, the region expanded with the absorption of a total of 1.1 million square feet. As a result of positive absorption through the year, the total vacancy rate fell 0.5 percent from the 2.4 percent reported at year-end 2014 to 1.9 percent for 2015. The drop in vacancy occurred despite almost 1.0 million square feet of new industrial inventory delivered between year-end 2014 and year-end 2015. Not all submarkets within the Greater Des Moines Metro Region saw growth, but the north submarket saw a disproportionate share of absorption, hosting 492,722 square feet of new absorption. The south submarket experienced negative absorption of -10,418 square feet.

The Des Moines region was effectively positioned for economic diversification and those efforts proved successful in 2015. All specific use types within the industrial sector reported healthy absorption in Q4 2015, with warehousing and distribution adding 242,216 square feet, light industrial adding 193,891 square feet, and research and development adding 87,402 square feet. MYA Logistics was amongst the most notable projects in the region in 2015, leasing 202,616 square feet of warehousing space and making it the largest single transaction within Q4 2015.

2016 was another year of growth within the Des Moines region. Overall occupancy of warehouse space in the Greater Des Moines Metro Region steadily improved over the three previous years, hovering at 5 percent vacancy rates through 2016. Over 190,000 square feet of net new warehouse space had been added to the market through 2016. Facilities within the western and northeastern Des Moines submarkets were in particular demand. While the central business district of Des Moines experienced a decline in warehousing and industrial inventory, this declination was viewed as a sign of positive community development growth as most properties within the district were converted to downtown residential dwellings. Growth was driven by an increase in demand from warehouse, distribution, manufacturing, and sports/entertainment occupiers. Through 2016, lease rates remained stable with nominal rent reductions and concessions. Generally, net lease rates for warehousing ranged between

\$2.50 per square foot to \$4.95 per square foot depending upon the age and quality of the facility and factors such as clear height, loading capabilities, and interstate access.

Within the region, total industrial facilities inventory and occupancy increased through 2016, resulting in a positive aggregate absorption of over 1,000,000 square feet for the second year in a row. The northeast submarket led with 886,627 square feet of absorption followed by the western submarket with 335,540 square feet of positive absorption. Industrial facility repositioning and new delivery growth is trending away from the central business district and general south submarkets and both experienced negative absorption for 2016.

New industrial deliveries added to the overall growth of the Des Moines industrial market. In Q2 2016, 877,000+ square feet of space was added with facilities within the Corporate Woods Industrial Center, at 802 SW Cherry Street (three buildings), and at 6990 NE 14<sup>th</sup> Street, as well as the UPI Industrial Park. By Q4 2016, additional deliveries of an 18,000 square-foot building at 6166 Industry Drive and a 100,000 square-foot building within Jackson Industrial Park and occupied by Dee Zee Manufacturing added to the industrial facility landscape.

Des Moines has shown strong growth trends from 2014 through 2016 and is anticipated to continue to attract additional opportunities through their efforts to identify target markets, align those targets with ready sites, and court developers to shore gaps in vacancy.

*Table 13: Des Moines MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	5	\$1.28	8	\$1.77
Rail Served Sites	2	\$0.71	1	\$1.00

*Source: Loopnet, CoStar, and Xceligent*

Transportation routes are a definite asset for the Des Moines area. Interstate 80 and Interstate 35 provide a more ideal north / south transportation route than the Interstate 80 and Interstate 29 system that serves the Omaha / Council Bluffs region. While both interstate systems connect to Kansas City, the system in Des Moines reaches the larger market of Minneapolis. This connection to Minneapolis as well as the proximity to global trade hub of Chicago, has a spillover effect on the types of industrial products produced.

Overall inventory in Des Moines is also fairly low. The price per square foot is lower in 25-50 acre sites and higher for the larger 50+ acre sites. In addition to the sites represented in the table, the Des Moines area has four certified sites. All of these are over 50 acres and for those that listed a price, the average price per square foot was well below the previously stated averages.

## Comparable Markets – Kansas City

Of all of the comparable communities assessed as a part of this study, it can be safely stated that the Kansas City metro region has positioned themselves amongst the best for taking advantage of anticipated industrial growth opportunities through the analysis period.

*Table 14: Kansas City MSA - Industrial Building Availability*

	Market (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)	Deliveries as % of Market Size
Q4 2016	264,816,141	\$4.53	5,861,932	5.90%	3,103,546	1.17%
Q2 2016	256,773,475	\$4.31	1,675,446	5.50%	1,344,973	0.52%
Q4 2015	249,394,019	\$4.37	4,468,612	4.90%	529,901	0.21%
Q2 2015	248,509,911	\$4.32	1,388,879	6.00%	2,357,519	0.95%
Q4 2014	246,624,667	\$4.26	3,477,628	5.20%	1,500,000	0.61%
Q2 2014	243,231,441	\$4.13	1,292,190	5.40%	1,456,291	0.60%

Source: CBRE Marketview Reports and CoStar

In 2014, within the Greater Kansas City Metro Region, net absorption totaled 3.5 million square feet. The overall vacancy rate fell 3.5 percent since Q3 of 2011 and ended at 5.2 percent. Lease rates rose to \$4.26 per square foot by Q4 of 2014. By the end of 2014, the Greater Kansas City Metro Region had posted 13 consecutive quarters of positive net absorption, delivering 1.5 million square feet of new industrial space. A total of an additional 3.9 million square feet of new industrial space was completed in 2014.

In addition, 2014 brought some notable project completions. Kubota Tractor leased 436,866 square feet at Logistics Park Kansas City in Edgerton, Kansas and Flexsteel Industries Inc. announced the addition of 14 jobs at the 500,150 square-foot distribution facility it purchased within that same park. NorthPoint Development announced plans for the construction of a new 400,000 square-foot speculative warehouse at the site of the Public Levee in the Fairfax district of Kansas City, Kansas.

Logistics Park Kansas City, a partnership development between BNSF Railway and NorthPoint Development, was a major catalyst for new facility growth within the greater Kansas City region throughout 2014. This site is in excess of 1,000 acres and has the ability to provide intermodal access and connectivity, including the Inland Port XI facility boasting 765,160 square feet of warehousing space. Additional large-scale development completions were found in the Lenexa Logistics Centre, including a 354,055 square-foot speculative warehouse completed by Block LLC. The expansion of the FedEx facility in Kansas City, Missouri, by 250,000 square feet, a 240,920 square-foot expansion for LMV Automotive in Heartland Meadows Industrial Park, and a 222,500 square-foot build-to-suit industrial building for NOAA in Grandview, Missouri, also provided significant square footage growth to this booming market during 2014. Speculative development was on an upward trend from 2013 and continued on that trend through 2014 with over 2.3 million square feet of industrial space completed on a speculative basis.



As overall vacancy rates in the Greater Kansas City Metro Region fell 3.5 percent from Q3 2011 through Q4 2014, regional vacancy was tracked. The highest average vacancy by Q4 2014 was found in Platte County, Missouri, at 10.0 percent, and the lowest was in Wyandotte County, Kansas, at 2.7 percent. Substantial new users such as Flexsteel Industries helped to drive down vacancy rates. During the same period, lease rates held relatively steady at approximately \$4.50 per square foot and the unemployment rate has held steady at 3.6 percent since 2009.

In 2015, the Greater Kansas City Metro Region saw an additional 4.0 million square feet in new industrial space delivered. And while vacancy rates fell 3.7 percent since Q4 2011, ending at 4.9 percent for Q4 2015, lease rates rose to \$4.37 per square foot. Net absorption was over 1.5 million square feet in Q4 2015 alone, and totaled over 4.4 million square feet for 2015. Riding on the trend of speculative starts in 2014, developers saw real opportunity in this market, breaking ground or completing over 8.1 million square feet of speculative industrial space in 2015. By year-end 2015, 2.2 million square feet of this space was already leased.

Net absorption totaled over 4.4 million square feet in 2015; nearly 1 million square feet greater than the 2014 total of 3.5 million square feet. Since the Greater Kansas City Metro Region began to recover in 2011, net absorption through 2015 totaled over 13.8 million square feet within their industrial market. Growth in the market is largely being driven by the e-commerce and automotive/equipment manufacturing industries. Notable deals of over 200,000 square feet were signed in 2015 including S&S Activewear, Excel Industries, Kubota Tractor, Jet.com, and Harley-Davidson.

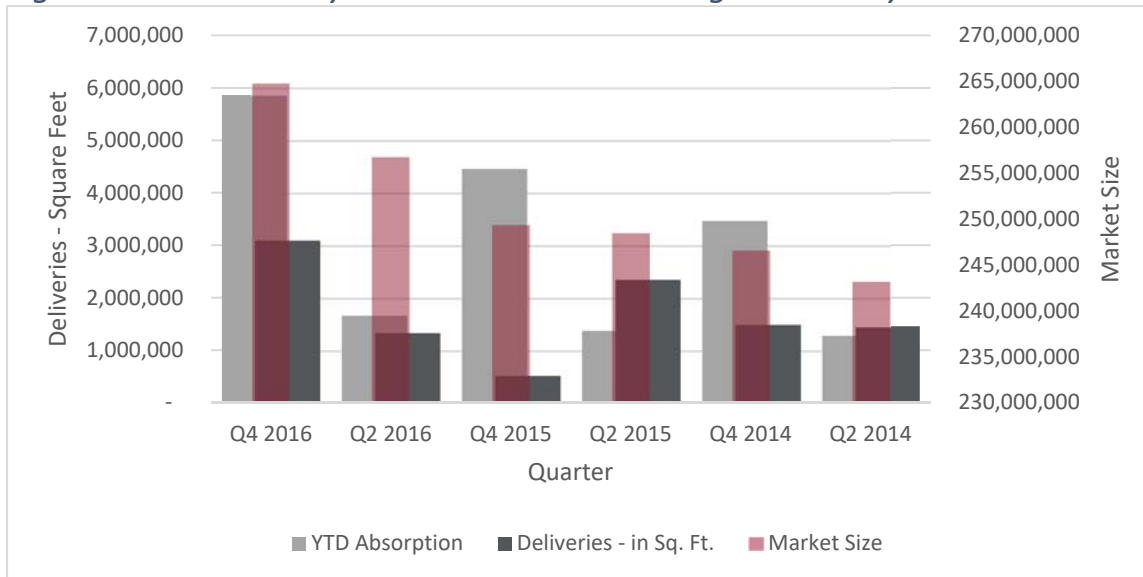
As in 2014, the logistics parks found within the Greater Kansas City Metro Region supplied the majority of new development ground and facility square-foot additions through 2015, and developers are banking on opportunities continuing well into the future. Assumptions that 2016 would fare favorably in terms of industrial speculative absorption were evident in the nearly abundant supply of 6.1 million square feet of speculative space available in buildings under construction or already completed with multiple new speculative projects on the horizon for the 2016.

Within the Greater Kansas City Metro Region, developers began to change their projects to attract users from the anticipated e-commerce boom and this also changed the style of construction design for warehousing and speculative facilities. New projects expanded from 32 foot clear heights to 36 foot or greater clear heights, which allows e-commerce shippers to store more of their products vertically rather than on the footprint of the built square footage. Additionally, logistics park developers began allocating more land for employee parking, facility buffering, truck staging, and trailer storage.

While the entirety of the Greater Kansas City Metro Region saw considerable growth during 2015, the submarket of Johnson County, Kansas, saw extraordinary growth at as much as 6 times that of regional partner Jackson County, Missouri.



Figure 18: Kansas City MSA - Industrial Building Availability



Source: CBRE Marketview Reports and CoStar

As if this weren't enough, 2016 accelerated this growth by significant proportions. Throughout 2016, the industrial market delivered a total of 8.8 million square feet of new industrial space with 8.0 million square feet completed on a speculative basis. A total of 11.1 million square feet of speculative space reached completion since the beginning of 2015. Net absorption posted 2.0 million square feet in Q4 2016 and totaled 5.8 million square feet in 2016. By year-end 2016, the greater Kansas City industrial market posted 21 consecutive quarters of positive net absorption. However, in spite of significant absorption, vacancy rates rose 1.1 percent, year-over-year throughout that 21-quarter period. The rise in vacancy is due to the historic volume of speculative deliveries, with completions increasing over 160 percent compared to 2015. With 4.5 million square feet of speculative deliveries under construction through Q4 2016, it is anticipated that 2017 will end as a record-setting year for speculative development within the Greater Kansas City Metro Region.

In 2016, CVS Pharmacy announced that they will build a new 762,000 square-foot distribution center in Skyport Industrial Park in the Platte County submarket with ground breaking occurring in Q1 2017. This development is anticipated to create over 360 new jobs when operations commence in 2018. An additional 840,000 square-foot build-to-suit facility broke ground for a major automotive manufacturing company in the Fairfax Industrial District. The \$55 million facility will serve as a logistics center for the management of critical manufacturing components used at the neighboring Fairfax Assembly Plant. The new facility is expected to employ approximately 500 people at completion. In addition, a major e-commerce company leased 446,500 square feet of existing space at the Midwest Distribution Center in New Century, Kansas. The same company also broke ground on an 855,000 square-foot build-to-suit distribution center in Kansas City, Kansas, and since this facility was constructed with a substantial mezzanine level, usable space of 2.3 million square feet is expected to be occupied in the near-term. A glance at all announced industrial projects for 2016 shows the addition of 6,000 new jobs to the Greater Kansas City Metro Region.

2017 is expected to match, if not exceed, 2016 totals for industrial development with 6.8 million square feet (4.5 million square feet speculative, 2.3 million square feet build-to-suit) already underway with expected 2017 completions. The most significant factors in the growing demand are attributed to growth in the e-commerce and motor vehicle production verticals, verticals the Kansas City development community has keenly assessed, anticipated, and is prepared to accommodate.

*Table 15: Kansas City MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	19	\$1.72	20	\$1.42
Rail Served Sites	2	\$1.39	1	\$1.75

*Source: Loopnet, CoStar, Xceligent*

Kansas City is a very large, active industrial market. CenterPoint Intermodal Center in Southeast Kansas City has generated large demand for space. This 310-acre site is certified through Missouri’s site certification program. There are an additional two certified sites in the area, one approximately 67-acre site, and one approximately 180-acre site.

## Comparable Markets – Oklahoma City

A review of the Greater Oklahoma City Metro Region from 2014 through 2016 shows a market that continues to both see and perform to accommodate demand.

In 2014, the region’s industrial market continued to trend in a positive direction. Trends were driven by positive absorption of existing industrial space along with rising lease rates in four out of five metro area submarkets. With multiple quarters of positive growth, increased speculative construction began to capture Oklahoma City’s growing industrial market.

*Table 16: Oklahoma City MSA - Industrial Building Availability*

	Market Size (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)	Deliveries as % of Market Size
Q4 2016	69,589,552	\$4.53	3,059,711	5.80%	248,442	0.36%
Q2 2016	69,593,456	\$4.85	3,258,962	5.10%	3,435,875	4.94%
Q4 2015	66,055,367	\$4.73	1,315,836	5.50%	1,323,500	2.00%
Q2 2015	64,707,659	\$4.69	305,295	6.50%	3,185,140*	4.92%
Q4 2014	64,707,659	\$4.67	492,690	6.90%	368,000*	0.57%
Q2 2014	64,707,659	\$4.53	205,000	8.40%	280,000*	0.43%

\*Under Construction not Deliveries

Source: CBRE Marketview Reports and CoStar

Of specific note during 2014 was the development of two speculative buildings along the I-35 corridor in the southeast submarket. Those two projects alone added over 370,000 square feet of space. Additional developments occurred within the southwest and northwest markets that were build-to-suit facilities for the oilfield services industry. With the increase in construction, demand for industrial land became increasingly apparent through Q4 2014.

During 2014, industrial vacancy dropped to 8.4 percent over a 6-month period. This drop is attributable to the rise in lease rates and the lessening of concessions offered by landlords across the market at this time. Three out of the five Greater Oklahoma City Region’s submarkets experienced increases in lease rates; the highest increase was found in the southwest submarket where average lease rates increased consistently. By year-end 2014, lease rates averaged \$4.53 per square foot. High construction costs, paired with low interest rates, caused sale prices to remain high. The average asking price for the market ranged from a low of \$28.85 per square foot in the northeast submarket to a high of \$47.99 per square foot in the southwest submarket. The active northeast market also boasted nearly 44.6 percent of all new industrial facility square footage under construction during 2014 with 125,000 square feet. City wide, 280,000 square feet were under construction in the Greater Oklahoma Metro Region by year-end 2014.

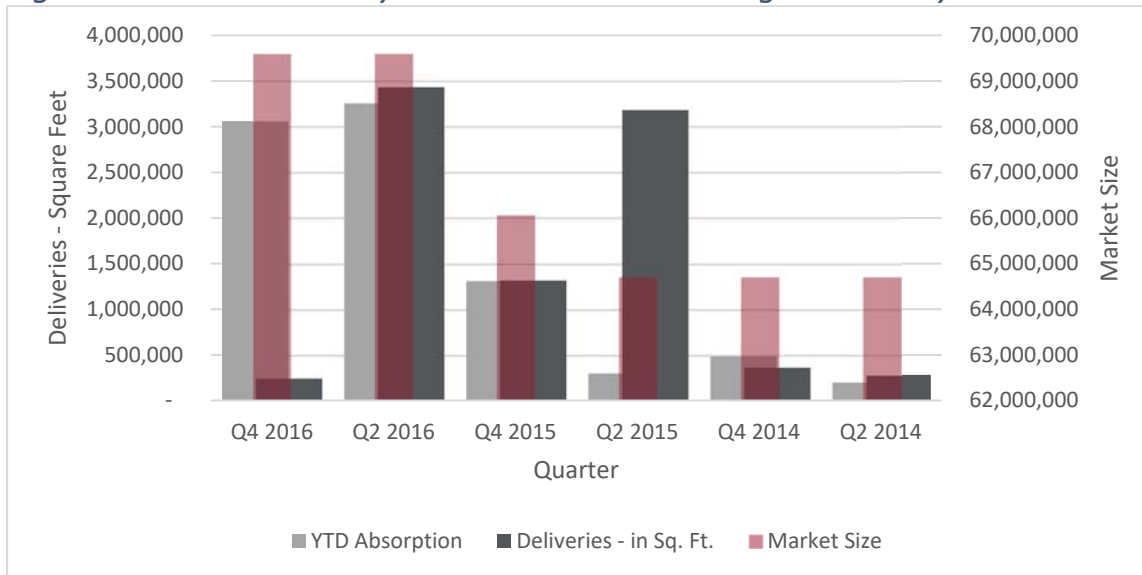
While Oklahoma City's industrial market continued to see increasing demand and high interest in new construction in 2014, analyses indicated Oklahoma City as a hub market for opportunities within the distribution and warehousing sectors and development followed suit. In the active southwest submarket, located next to Will Rogers World Airport and Interstates 40, 35, 44, and 240, significant project developments and expansions were announced. Hobby Lobby began construction on a new 1.9 million square-foot distribution warehouse, adding to their nearly 6 million square feet of space in the southwest submarket. This expansion, among other factors, is deemed as contributing to the rise in land prices within the southwest submarket as land availability became uncomfortably scarce when compared to demand.

Oklahoma City's industrial growth has remained strong since the recession, largely aided by the strength of the oil and gas industry and the growth of industries such as retail distribution and aerospace. Hobby Lobby was not alone in their large-scale investment in the region during 2014. Companies such as Baker Hughes, Schulmerger, and Boeing were all occupiers who opened and expanded operations within the general vicinity. Boeing's announcement of local investment in the second half of 2014 brought with it the promise of 900 new jobs to Oklahoma City, and the region has effectively courted the up- and down-line demand/supply opportunities that reside within industrial verticals such as aerospace. Boeing joined the nearly 500 other aerospace companies in Oklahoma who currently have an overall \$12 billion economic impact on the state.

Vacancy rates in Oklahoma City experienced a decline overall from 8.4 percent in the first half of 2014 to 6.9 percent in the second half of 2014. Vacancy rates had been on a steady decline since the recession as demand drivers from multiple industries were attracted to Oklahoma City's ideal location in the central United States. Additionally, asking rates within the region were also on a steady increase. By year-end 2014, industrial demand was strong with a year total of 490,000 square feet. Assumptions were that demand drivers for 2015 would likely level off from oil and natural gas companies and from contractors with a demand shift to distribution and warehousing development who found value in the Greater Oklahoma City Metro Region's low cost of business, infrastructure, and cost of living.

The Greater Oklahoma City Metro Region clearly understands their industrial vertical niche markets and have aligned land and facilities to accommodate these end-users. As a result, the area has garnered large-scale interest in developer-led, speculative development in 2015. Approximately 427,000 square feet of industrial space was constructed during this year with only 8 percent pre-leased. However, developers recognized that as quality space remained limited in the Oklahoma City region, speculative deliveries had the ability to attract tenants seeking new and more efficient space for their operations. Through 2015, Oklahoma City's investment sales market remained active as the market gained interest in institutional, Real Estate Investment Trust (REIT) ownership, and conduit financing as nearly 30 of the sales in the first half of 2015 were within the investment market segment. Of particular interest to the investment market is Oklahoma City's key location at the crossroads of I-35 and I-40. Boasting the region's fastest growing population, this area continued to attract national investor attention for industrial products.

Figure 19: Oklahoma City MSA - Industrial Building Availability



Source: CBRE Marketview Reports and CoStar

The Greater Oklahoma City Metro Region took advantage of their proximity to I-35 and I-40 to become a formidable location for distribution and warehousing hub development along the northern edge of the I-35 Texas Triangle mega-region. Through 2015, the industrial market remained resilient despite low energy prices that impacted their largest industrial vertical of oil and gas. While Oklahoma City’s economy was a diamond in the rough during the recession years, oil prices collapsed from a high of \$114 per barrel in April of 2011 to \$37 per barrel in December of 2015. Because of the duration of the per-barrel oil price decline, concerns over the stability of Oklahoma City’s economy were on the rise. The State of Oklahoma’s rural areas lost significant numbers of jobs in 2015 as a result of the declining oil and gas industry. However, with net absorption of 1,315,836 square feet, a year-end vacancy rate of 5.5 percent, and new construction totals at 3.2 million square feet, the Greater Oklahoma City Metro Region effectively weathered the contraction of energy-related companies and their downsizing.

By 2016, the amount of industrial square footage deliveries drove record absorption levels in both built-to-suit and speculative products. The region’s industrial market was driven in the first half of 2016 by new deliveries that boosted the market to 3.3 million square feet of absorption as they attributed 3.1 million square feet of the first half of 2016 net absorption. Oklahoma City’s locational advantages for distribution and logistics tenants across the U.S. became increasingly localized and new construction within the market was evidence of demand for warehousing product. By 2016, speculative development projects that started in 2015 were generally leased-up pre-delivery or promptly after delivery, evidenced by the decline in vacancy through the first half of 2016 to 5.1 percent.

Overall construction rates dropped through the first half of 2016 with larger projects such as Mathis Brothers Furniture’s 350,000 square-foot distribution center and Hobby Lobby’s 2 million square-foot building reached completion. In addition, two projects totaling 181,000 square feet were completed speculatively and delivered fully vacant, impacting vacancy rates. However, eight additional industrial properties totaling 760,000 square feet pre-leased, and with a total availability of 415,000 square feet,



were delivered during this time period. The largest development was the addition of a new FedEx warehouse and distribution center in the northwest submarket.

Diversification has been the key to the Greater Oklahoma City Metro Region’s continued industrial growth. In 2016, the market was driven by verticals other than oil and gas, but the energy sector still added to this growth. Baker Hughes completed construction on a 380,000 square-foot research and development facility in the northwest submarket and Reel Power signed a 98,000 square-foot lease in the southwest submarket. Energy tenants have seen their impact on growth in the industrial market diminish in comparison to previous years when oil was at \$100 per barrel or higher. The majority of large leases in the industrial market during the first half of 2016 were for distribution and warehousing tenants. The Federal Aviation Administration (warehousing), West Worldwide Services (distribution), Insulation Distributors (distribution), and General Supply Services (warehousing) signed leases totaling 377,000 square feet. These transactions are evidence of the increasing diversity of users demanding space in the Oklahoma City regional industrial market and helped offset the previous contracting demand from energy tenants.

While the absorption for Oklahoma City in the first half of 2016 hit a record mark of 3.3 million square feet, only 250,000 square feet of absorption was attributed to non-new construction deliveries. The majority of this leasing was driven by smaller tenants under the 40,000 square-foot threshold. However, demand for space remains high and has translated to fast-rising land prices in the southwest as desirable and available land has started to become increasingly scarce. As a result, companies such as Hobby Lobby have amassed approximately 900 acres of land for which much is not developed to ensure opportunities for continued growth within important freight and logistics opportunity areas like the southwest submarket.

With net industrial facility absorption of 3.3 million square feet, an average vacancy rate of 5.1 percent, average asking prices of \$4.85 per square foot, and deliveries of 3.4 million square feet within the first half of 2016, the Greater Oklahoma City Metro Region is poised to see continued growth through 2017.

*Table 17: Oklahoma City MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	11	\$1.15	5	\$1.95
Rail Served Sites	8	\$1.60	1	\$0.60

*Source: Loopnet, CoStar, and Xceligent*

Oklahoma has three certified sites in their area with more sites nearby, and provides more rail-served options. These sites range from 40 acres to 160 acres. Only one site, the Oklahoma City 44th Street Business Park, had a listed price which equates to \$1.36 per square foot. Two of the three sites are rail served.



## Comparable Markets – Memphis

The Memphis MSA finished 2014 robustly as the market posted 2.5 million square feet of net absorption within Q4 of this year. Consequently, this became the sixth consecutive quarter of positive net absorption, which amounted to the strongest year the Greater Memphis Metro Region had experienced since 2000. Net absorption for the entirety of 2014 totaled 4.3 million square feet and as a result, vacancy dropped from 10.6 percent in Q3 of 2014 to 9.8 percent in Q4 of 2014.

*Table 18: Memphis MSA - Industrial Building Availability*

	Market Size (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)	Deliveries as % of Market Size
Q4 2016	232,635,461	\$2.99	6,263,684	7.00%	2,401,644	1.03%
Q2 2016	229,302,729	\$2.94	2,725,803	7.00%	200,000	0.09%
Q4 2015	227,011,888	\$2.73	8,126,503	7.90%	50,000	0.02%
Q2 2015	226,723,173	\$2.75	4,498,300	9.00%	2,253,920	0.99%
Q4 2014	215,792,223	\$2.74	4,343,859	9.80%	1,027,000	0.48%
Q2 2014	214,899,207	\$2.67	936,452	10.80%	-	-

Source: CBRE Marketview Reports and CoStar

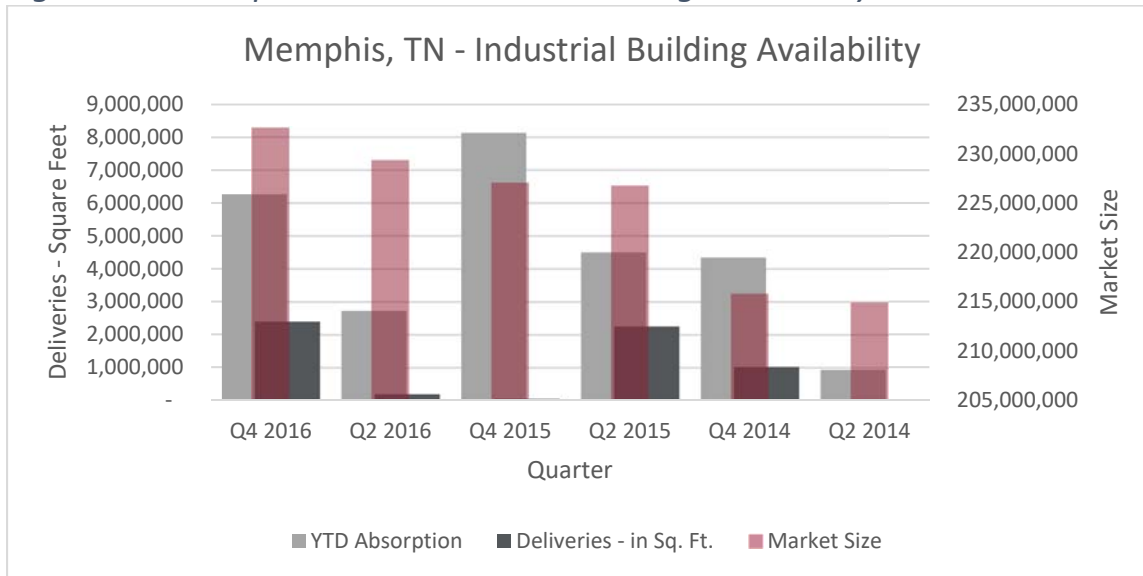
Despite the fact that 12.8 million square feet of positive net industrial absorption occurred within the Memphis region over the previous five-year period, a limited supply of new space had been added to the market since 2008. For that reason, the total vacancy rate for the market decreased, the need for new construction became apparent, and Panattoni Development began construction on a speculative 554,000 square-foot warehouse. This project was delivered in Q1 2015 within the Gateway Global Logistics Center’s 1,500 acres, located adjacent to the Norfolk Southern’s Intermodal terminal that opened in July 2012. This vital industrial park also saw the development of a 1 million square-foot Volvo distribution center in 2014.

The Greater Memphis Metro Region saw a significant uptick in the warehousing and distribution sector in 2014. Target leased 900,000 square feet to open a distribution center, creating 600 jobs, and Exeter purchased the 922,500 square-foot Technicolor distribution facility making Exeter the owner of over 9 million square feet within the greater Memphis market, which now comprises the largest portfolio of any other investor locally. However, it is also during the 2014 timeframe that the region saw an influx of interest from outside developers with momentum that continued into 2015. In addition, Hillwood Investment Property announced two speculative warehouse projects of 798,000 square feet and 293,700 square feet within the region.

While average asking rental rates for the region increased by a mere \$0.02 to \$2.74 per square foot from Q3 to Q4 of 2014, this mirrored the national growth trend. As the supply of product decreased, the demand for space continued, and rental rates subsequently increased. The increase led to a strong increase in investor appetites for product as companies sought quality investments in growing

secondary markets. Throughout the year, three categories of tenants were most active in leasing: e-commerce, third-party logistics, and pharmaceutical/medical companies. During Q4 2014, third-party logistics company, Nickey Warehouse, leased space totaling 318,000 square feet amongst two facilities. Increased activity from third-party logistics companies such as Nickey Warehouse were strong indicators of overall market health and provided indication of a growing local industrial market.

Figure 20: Memphis MSA - Industrial Building Availability



Source: CBRE Marketview Reports and CoStar

Based upon more than 15 million SF of available space and the number of known, active end-users seeking space, and absorption topping 4 million SF for the year, 2015 was anticipated to bring another year of strong absorption and increased development activity

2015 brought significant growth to the Greater Memphis Metro Region with over 8.1 million square feet of absorption reported for the year. In Q4 alone, the Memphis MSA reported absorption of over 1.5 million square feet. The year-end total of 8.1 million square feet almost doubled the 2014 net absorption level and made 2015 the strongest year for industrial development new starts that has been seen within this region in over 15 years. Memphis' central location, strong distribution network, quality developers, and continued rebound of the overall economy are believed to have played the most significant factors in this record-setting development year.

The region ended 2015 with industrial vacancy levels at 7.9 percent, which has steadily declined since Q4 2013. The decreasing vacancy rate fueled the appetite for new construction in the industrial market and the region's low-cost environment and access to robust transportation networks, made the area a prime contender for construction developments. Within 2015, development trends favored the following industrial segments: e-commerce, apparel/retail, consumer products, food, pharmaceutical, and third-party logistics companies.

Significant amounts of speculative developments ensued in the Memphis submarkets, including Desoto and Marshall Counties. Hillwood Investment started two speculative warehouse projects (see above) in 2014 that were live by Q3 2015, adding over 1 million square feet of additional space to the market. National developers such as ProLogis added approximately 902,700 square feet of industrial warehousing space in 2015. Panattoni’s 554,000 square feet of speculative warehousing product that was delivered in 2014, was fully leased by Q4 2015, further proving positive development opportunities for other national developers looking to enter the Greater Memphis Metro Region.

The successes of 2014 and 2015 led to a strong 2016 with record-setting construction deliveries. The region’s industrial market saw more than 6 million square feet of positive net absorption for the year and experienced the most deliveries of additional industrial space in a single quarter at 2.4 million square feet for Q4 2016. The majority of new deliveries were in warehousing and were added as build-to-suit projects. From Q3 to Q4 of 2016, availability declined from 12.1 percent to 11.0 percent and vacancy declined from 8.2 percent to 7.0 percent.

The major theme of 2016 was construction completions. The Fayette County submarket experienced the most positive net absorption activity in the submarket’s history with 1.5 million square feet completed in Q4 2016. Notable projects included Niagara Bottling’s purchase of a speculative facility completed in the Gateway Global Logistics Center. Also within the Logistics Center, TBC Corporation occupied their 1.5 million square-foot build-to-suit facility. Significant leasing activity from companies such as Ford Motor Company’s expansion of 366,017 square feet also added to regional growth.

2016 ended with the promise of considerable distribution center construction projects to be completed in 2017. Trends indicate that 2017 will bring about another potential record-setting year in industrial facility construction starts and deliveries with concentration in the warehousing and logistics sectors.

*Table 19: Memphis MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	18	\$1.11	22	\$0.59
Rail Served Sites	-	None	1	\$0.15

*Source: Loopnet, CoStar, and Xceligent*

The Memphis market encompasses three different states, which appears to spur competition between Tennessee, Mississippi, and Arkansas. This area has a large number of industrial sites offered for sale with very few being rail-served. The average price per square foot is very reasonable for these sites. Since Memphis has a large distribution market, it enjoys wide acceptance of industrial users. With three states supporting and competing for industrial users they keep their barrier to entry low which also keeps prices in check. While Tennessee boasts they are “#1 in certified sites/shovel-ready programs by *Area Development*,” there are no certified sites available in Shelby County or in the neighboring states.

## Comparable Markets – Columbus

The Greater Columbus Metro Region saw significant amounts of investment in 2014 with a large number of square footage delivered as speculative. Total net absorption in 2014 was approximately 4.6 million square feet and average leasing rates remained high at \$3.34 per square foot, coming from a sustained increase of \$0.15 per square foot over average asking rates posted in 2013.

*Table 20: Columbus, Ohio, MSA - Industrial Building Availability*

	Market Size (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)	Deliveries as % of Market Size
Q4 2016	248,993,994	\$3.56	8,964,403	5.00%	1,728,574	0.69%
Q2 2016	243,346,986	\$3.42	1,961,074	6.10%	808,474	0.33%
Q4 2015	240,471,904	\$3.41	1,687,993	6.60%	1,497,050	0.62%
Q2 2015	237,837,952	\$3.37	1,743,942	5.20%	392,000	0.16%
Q4 2014	236,547,207	\$3.34	7,832,719	5.80%	2,923,639	1.24%
Q2 2014	230,432,011	\$3.35	3,486,332	5.30%	1,369,046	0.59%

Source: CBRE Marketview Reports and CoStar

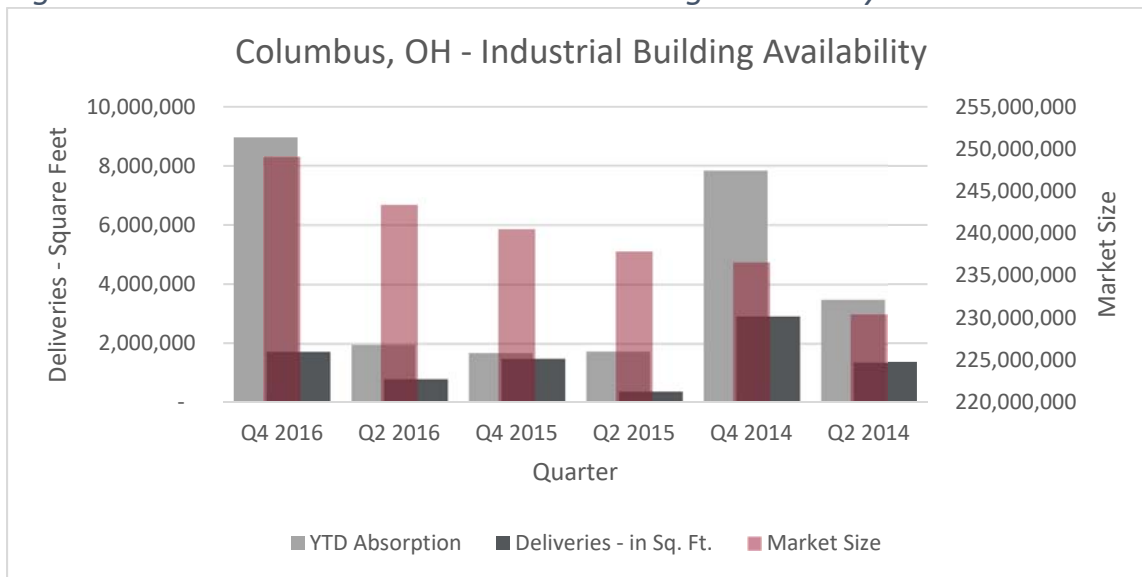
At the close of Q4 2014, four major industrial speculative projects were completed. VanTrust delivered a 717,717 square-foot distribution building, and Pizzuti additionally developed 652,195 square feet of distribution facility space. Opus completed construction on a 484,015 square-foot distribution center and Prologis additionally completed 410,152 square feet of warehousing space. Two build-to-suit projects were also completed: a 340,460 square-foot distribution center for American Showa and a 355,000 square-foot manufacturing building for Sumitomo near the Honda plant in Marysville. Aside from the Sumitomo facility build, the previously stated projects were all located within the Rickenbacker Airport property.

The Columbus regional industrial market saw considerable growth in modernized bulk warehousing construction projects throughout 2014. Bulk warehouses are defined as facilities that are at least 100,000 square feet. Modernized bulk warehouses are defined as being constructed post-1998 and providing clear-heights of 28 feet and taller. Approximately 3.0 million square feet of 2014 net absorption was attributed to modern bulk warehouse development and comprised 66 percent of 2014's net absorption totals. Activity was strongest in the southeastern Columbus submarket, primarily in the area surrounding Rickenbacker Airport and the Norfolk Southern Intermodal Terminal.

Modernized bulk warehousing was a major driver of industrial product and demand growth in 2014. Vacancy of this form of product reached a record low early in 2014 at 2.1 percent and held below 3.0 percent for much of 2014. The increase in vacancy was attributed to the delivery of speculative development completions.

2015 brought considerable growth in logistics company development and new construction starts. Columbus started this year in a strong position, which was reflected in overall leasing activity and numerous distribution projects that were either planned or underway for completion at that time. Plans were announced for a \$34.3 million expansion of the Rickenbacker Intermodal Terminal, allowing over 40 percent more freight to move through the hub. The majority of modern distribution space and new construction that occurred in the Greater Columbus Metro Region occurred either within or near the Rickenbacker Intermodal Terminal.

*Figure 21: Columbus MSA - Industrial Building Availability*



Source: CBRE Marketview Reports and CoStar

Modern bulk warehouse product drove the Columbus industrial market in 2014 and continued to do so through the first half of 2015. Approximately 1.1 million square feet, or 66 percent of total market net absorption during the first half of 2015, could be attributed to modern bulk warehousing development. Vacancy dropped to a level of 2.2 percent in Q3 2014 and, as a result of the limited availability and apparent demand, new speculative construction came to meet that demand, resulting in vacancy rates increasing to 6.5 percent by Q4 2014.

Approximately 3.2 million square feet of new industrial product was under construction at the close of Q2 2015 with 2.2 million square feet of that product delivered as speculative and 900,000 square feet completed as build-to-suit. Asking rates for new speculative construction began to rise during this period at an average rate of \$0.09 per square foot quarter-over-quarter from 2014 through the end of 2015.



*Table 21: Columbus MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	21	\$0.89	28	\$0.76
Rail Served Sites	2	\$0.46	7	\$0.98

*Source: Loopnet, CoStar, and Xceligent*

Columbus has a very active industrial market and competes with Indianapolis and Cincinnati for distribution centers serving the East Coast. Columbus, also enjoys wide acceptance of industrial users due in part to its industrial manufacturing history. Additionally, its Midwest / Eastern location with 1 day truck access to most large markets along the East coast creates demand and velocity when large distributors look to site warehouses which desires quick access to large population bases. Due to this, Columbus has a low barrier to entry and there are a large number of industrial sites offered for sale, which speaks to the culture and acceptance of industrial activity in Ohio. Ohio does have a certified sites program, however there are no certified sites in the Columbus area.



## Comparable Markets – Salt Lake City

At the close of 2014, the Greater Salt Lake City Metro Region experienced the highest levels of new construction seen in the past six years. Speculative construction within the regional industrial market soared and this healthy trend helped to open a tight leasing market for large warehousing space in response to the developing local industry need.

*Table 22: Salt Lake City MSA - Industrial Building Availability*

	Market Size (sq. ft.)	Average Asking Cost / Square Foot	YTD Absorption (sq. ft.)	Vacancy Rate	Deliveries (sq. ft.)	Deliveries as % of Market Size
Q4 2016	126,688,965	\$5.40	2,990,719	3.50%	2,000,000	1.58%
Q2 2016	125,676,283	\$5.28	1,207,366	4.00%	800,000	0.64%
Q4 2015	124,840,059	\$5.16	1,923,644	4.70%	2,900,000	2.32%
Q2 2015	123,700,943	\$5.16	1,109,378	5.00%	2,100,000	1.70%
Q4 2014	124,465,959	\$5.04	1,195,429	6.20%	1,377,000	1.11%
Q2 2014	122,009,245	\$4.80	216,446	5.30%	999,894	0.82%

Source: CBRE Marketview Reports and CoStar

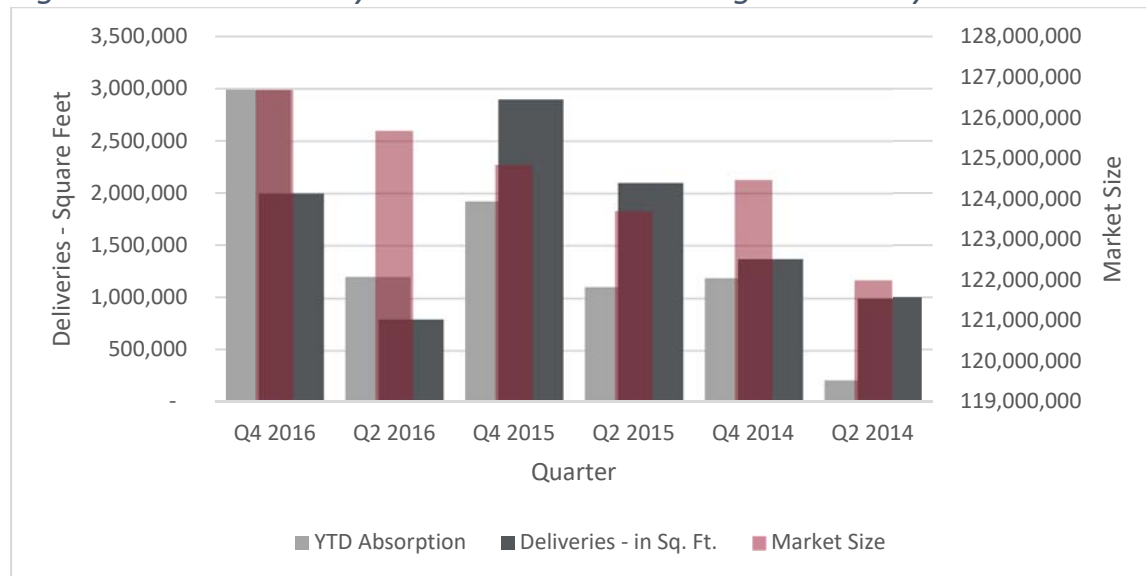
After a pre-recession peak of 3.3 million square feet of new industrial construction in 2006, construction levels plummeted more than 90 percent by year-end 2009. Over the next two years, construction was dominated by owner-user and build-to-suit developments. A strong resurgence of industrial demand locally, fueled by low operating costs, superior regional transportation access, and a rapid local economic recovery, led to decreased availability and vacancy amidst a limited supply. As a result, the subdued construction environment changed in 2014, with 3.1 million square feet of industrial product breaking ground, 90 percent of which was speculative. The largest single building to be constructed occurred in Q4 of 2014 at 496,520 square feet, and while some of the 3.1 million square feet of construction starts that began in 2014 were complete at year end, all were capable of reaching completion by the second half of 2015.

In accordance with demand, most new projects were high-clear, Class-A warehousing and distribution spaces. The northwest quadrant of Salt Lake County was the most desired location for new industrial development opportunity. New, available supply completed on a speculative basis, opened what was a tight market and over the course of 2014, this new construction helped to push availability to a level of 8.5 percent across the region. As demand for space remained high, this jump in availability was only temporary. All the 483,286 square feet of speculative product delivered in 2014 was leased by year-end. While leasing activity was strongest for spaces between 20,000 and 50,000 square feet, which comprised one-third of all leasing activity in 2014, additions of new speculative construction space coming on-line brought additional increases in leasing volume through 2015.

Both user and investment sales were strong within the Greater Salt Lake City Metro Region through 2014. The investment sale of the Sun Products building, a facility of 418,092 square feet, occurred during Q4 2014 and was the largest single transaction of that year. Demand for ownership from users was strong as low interest rates encouraged many occupiers to contemplate ownership versus leasing. The only negative experience was the limited supply of vacant industrial facilities, which continued to limit total sales activity in 2014. Demand was poised to remain constant through 2015.

The banner year that began in 2014 did, in fact, continue into 2015. After three consecutive quarters of high leasing and record construction activity regionally, Q4 of 2015 cemented what can easily be considered one of the strongest and most dynamic years for industrial real estate in Salt Lake City's history. By year-end 2015, construction completions reached an all-time high with leasing reaching its second highest yearly total in the past decade. The advancement of the Greater Salt Lake City's Metro Region can be attributed to many drivers, but two are particularly relevant to 2015's growth. First, recent revolutions in logistics hub placement and e-commerce preferences led to an increased need for warehousing, distribution, and logistics services. Salt Lake City's regional intermodal access combined with rising costs in larger, primary markets led to the capture of emerging projects seeking cost and locational advantages found within the region. In 2015, 50 percent of the top 25 lease transactions in Salt Lake City were distribution and logistics firms. Second, the local economy is thriving and diverse. In 2015, Salt Lake was up in 10 out of 11 private sector industries, with year-over-year growth of 4.3 percent in manufacturing and 5.0 percent in transportation, warehousing, and utilities. The year 2015 ended with an availability rate of 6.7 percent, leasing activity of 4.4 million square feet, net absorption of 1.9 million square feet, and with over 1.6 million square feet under construction.

Figure 22: Salt Lake City MSA - Industrial Building Availability



Source: CBRE Marketview Reports and CoStar

Because of increased industrial construction activity that occurred through 2015, activity surged to provide an exceptional 2016 within the Greater Salt Lake City Metro Region. Both strong demand and continued user-driven expansion led to the signing of multiple, large-users signing leases in Q4 2016. With only two signed leases of over 100,000 square feet entering Q4 2016, that number tripled by year-end.

Development continued as a headline throughout the year, with a significant increase of speculative projects and big-box build-to-suits coming to completion. With sustained and elevated levels of construction moving into 2017, the balance of supply and demand has continued to be under close observation by the development community. Market fundamentals are healthy, to date, with steady lease rates, strong absorption, and decreasing vacancy showing a thriving market. While 3.5 million square feet of speculative industrial space was delivered to the market between 2014 and 2016, 35.8 percent of that space remained vacant and available at year-end 2016. Still, there continues to be a trend of speculative construction and product breaking ground into 2017. A combined total of 628,787 square feet of speculative development broke ground during Q4 2016 alone, all of which was uncommitted, with the majority catering to small-box and mid-bay users. Such development has been deemed justifiable by the development community considering the steady pace of leasing activity, tenant demand, favorable rates, and tight vacancy levels.

Owner-user projects continued to be prominent in size in 2016. Post Foods' lease and commitment to a 901,183 square-foot facility during Q4 2016 was a key marker of this trend and will also be the largest building in Salt Lake County once completed. Freeport West, the developer of Post's building, also completed a 418,612 square-foot building for Enlinx during the same Q4 2016 period, which was the largest property under construction over the past year. Projects such as these contributed to another stellar year for construction activity with 2.0 million square feet completed and over 2.4 million square feet under construction by year-end 2016. 2017 began with the second-highest level of active construction in the past five years.

The Salt Lake City regional industrial market is poised to maintain a steady pace of momentum streaming through 2017, and potentially beyond, pending the current cycle's longevity. 2016 can be summarized as a period of growth with commitments from large users and a steady flow of small- to mid-box activity. Historically strong net absorption, one of the lowest post-recession vacancies, and rising asking rates are leading fundamentals sustaining multiyear growth. Economically a diverse marketplace, favorable projects on continued labor growth, and an affordable business climate all continue to boost the commercial real estate climate and expectations for growth within Salt Lake City's regional industrial market are solid through 2017.

*Table 23: Salt Lake City MSA - Industrial Land Availability*

	25 - 50 Acres		50+ Acres	
	Number of Sites for Sale	Average Cost / Square Foot	Number of Sites for Sale	Average Cost / Square Foot
Non-Rail Served Sites	11	\$2.39	11	\$0.83
Rail Served Sites	2	\$2.20	1	\$1.00

*Source: Loopnet and CoStar*

Salt Lake City does not seem to have a reputation for being a large industrial or distribution market. Salt Lake City’s market tends to favor more high tech/cleaner industries resulting in fewer opportunities. There were fewer sites noted for sale in Salt Lake City which is reflected in the higher prices. Additionally, Utah does not have a certified sites program so there are no additional sites for consideration.

# Memo 3: Industrial Development Best Practices

*A Comparable Analysis of Economic Development Best Practices and Industrial Developer Preferences*

## Introduction

Sites and facilities should be identified and readied in accordance with demand. There is an apparent strangulation of absorption opportunity that has occurred, per the analysis within the previous memos, as less facilities and land inventory exists than an accommodate regional demand. It is not recommended that the Greater Omaha Metro Region simply increases inventory to attract site selectors; the Greater Omaha Metro Region should be seeking to understand its market fully at all times and work to proactively seek end-users that have a logical business case for existing within the market.

Site selection decisions begin with attributes that include the presence of available facilities and or land tracts. If the Greater Omaha Metro Region positions well from other standpoints such as workforce availability, supply chain proximity, or tax advantages, but cannot provide either land or facilities inventory to support prospective end-user development needs, the community is in significant danger of losing an opportunity to host that development opportunity.

As the Greater Omaha Metro Region considers opportunities to enhance industrial developer interest, the following are examples of best practices found within the following categories of economic development enhancement:

- Specialized marketing programs
- Local developer incentives
- Utility partnering
- Entitlement/fast-tracked permitting programs
- Cost and revenue sharing arrangements
- Inland port development
- Small community best practices



## Specialized Marketing Programs

### Think KC, Kansas City Area Development Corporation (KCADC)

The Kansas City Area Development Corporation (KCADC) is a national leader in identifying target markets that have a sound business case for development within the greater Kansas City metropolitan market, a market which encompasses 18 counties split between two states.

KCADC was amongst the first to fully recognize the vast differences in the industrial verticals with excellent market play potential throughout their region and sought to customize packaged development incentives, land preparedness, workforce training, and entitlement offerings to enhance the competitiveness of the region for opportunities within their identified industrial target verticals of distribution, e-commerce, manufacturing, animal health, technology, finance, and the data center industries. Corridors with specialized marketing, information, staff, allied studies, research, and incentives exist to effectively entice local developers and partners such as BNSF to invest, even on a speculative basis.

KCADC's industrial corridors were developed on a per-vertical basis to not only add precision to the information disseminated to the site selection community, but to also provide for the pre-assessment of specialized industry siting needs, to identify the most viable tracts of ground to meet assumed site selection criterion, and to align meaningful development incentives specifically crafted to attract users within each targeted vertical.

KCADC's methods involve considerable real estate market analysis combined with logistics and workforce studies that assist in proving supply chain and cluster development opportunities within their targeted industrial verticals. This incredibly successful model has allowed KCADC to effectively gauge their competitiveness for targeted forms of development and streamline their marketing approach to proactively identify and attract development interest based upon a solid business case.

Their red box campaign is recognizable throughout the site selection industry. Because KCADC does significant amounts of market research within the industrial verticals that are best-suited to their region, they are capable of isolating site selector groups and individually developing relationships with those that are most relevant to the local economy. Approximately every three months, local Kansas City artisans, entrepreneurs, and retailers provide small gifts from the Kansas City region to add to a red cardboard box that is then strategically sent to site selectors. Along with the box, site selectors receive current market statistics proving which business opportunities are relevant to the industrial sectors they are targeting and the quality of place through the gifts that are sent.

There are many excellent industrial development marketing campaigns that exist throughout the United States. The Greater Omaha Metro Region is encouraged to research the following for additional information:

- Northeast Indiana Partnership's "Turn Up" Campaign
- Enterprise Florida's "The Future is Here" Campaign
- Columbus, Ohio's "2020" Campaign
- REDI Cincinnati familiarization tours
- Kentucky Cabinet for Economic Development's "Think Kentucky" Campaign
- Team Texas regional economic development marketing



## Local Developer Incentives

### City of Des Moines, Iowa

The development community finds value in development incentives, particularly those that will assist them in garnering a desirable rate of return on investment. The challenge is that not every development incentive applies equally to each developer, and depends upon the form of industrial development undertaken.

Some of the most valuable development incentives are the ability to provide tax abatements, tax increment financing, sanitary improvement districts, or a combination of these three.

The City of Des Moines, Iowa, is capable of customizing local development incentives that range from self-supporting municipal improvement districts (SSMID), to tax increment financing (TIF), to property tax exemptions (abatements). These tax incentives are directly targeted to the developer and, when coupled with Des Moines' unique capabilities for providing direct financial incentives, make Des Moines a leader for best practices.

Des Moines offers developers loan opportunities via the public sector that are obtained at rates below market with less equity than a standard commercial construction or standard term rate commercial loan. A revolving loan fund exists for the ability to multiply economic opportunity through the recycling of repaid economic development loans provided by the city and can be accessed by both developers and end-users. As an extraordinary and somewhat rare financial incentive, the Des Moines market can offer land for private redevelopment as well as sites within their established land banking program. In an effort to spur job create, sites are sold at a reduced cost with the city providing various incentives for both industrial and mixed-use development such as subsidized acquisition, demolition, and other site preparedness activities as well as infrastructure and other area amenities. Loan pooling, equity financing, and loan guarantees are all offerings provided by the City of Des Moines that directly impact developers and open paths to offset development risk.

## Utility Partnering

### Duke Energy (Charlotte, North Carolina)

The traditional model of utility companies serving as backseat partners to the economic development community in hopes of enticing industrial development opportunities is becoming increasingly a notion of the past. Within recent years, utility providers have opted to take a considerably more progressive approach in economic development partnering.

Duke Energy has seen more than \$3.5 billion in corporate investment that will help to create over 12,000 jobs across their six-state territory by concentrating their economic development efforts on the primary pillars of site readiness, industrial recruitment, and economic development. Duke's site readiness program is tailored to the needs of each state, with options for site enhancement offered to best align programs to developer and end-user needs. Staff is encouraged to actively participate in the identification of prospective industrial sites, to work with local and state economic development partners to identify likely end-user targets, and to identify development partners to participate in the development of tracts. The advantage to Duke's process is that they use knowledge of their own assets to identify sites with significant power advantages and potential off-site infrastructure improvements rather than deploying the more common method of allowing the local development or economic development community to dictate the location of prospective industrial development ground for planning and positioning. Multiple mega-site (1,000+ acres) projects have been identified and readied through Duke's site readiness program.

### Alliant Energy (Cedar Rapids, Iowa)

A recent analysis of long-range transportation planning and freight and logistics flows undertaken jointly by the Iowa Department of Transportation (IDOT) and the Iowa Economic Development Authority (IEDA) has been a catalyst for significant development investment on the part of Alliant Energy in Cedar Rapids, Iowa. With a study that provides quantitative backing for economic development and logistics hub activity, Alliant Energy has aligned their known electric and short-line railway (CRANDIC) assets to identified market drivers and additional natural and built environment factors to identify a mega-site (1,000+ acres) to accommodate large-tract industrial park development space. This proactive move is allowing Alliant Energy to effectively forecast capital improvements programming to ready sites for both developer interest as well as direct sales to end-user clients.

### Tennessee Valley Authority (Nashville, Tennessee)

Tennessee Valley Authority (TVA) achieved \$7.8 billion in investment from 224 companies, that are expected to create 76,200 jobs across seven states and 80,000 square miles of TVA territory in 2016 through an innovative and comprehensive approach involving education, investment, and planning. In 2015, to better prepare communities, the TVA economic development team ramped up promotion to consultants of its "InvestPrep™" program, a product development readiness initiative that helps communities market industrial sites and buildings. This program's sites have surpassed an extensive examination of site selection criterion, due diligence, and market readiness. TVA recognized their own potential land assets for redevelopment opportunity and worked to ensure that those sites were positioned for investment capture. Topping the list of major announcements within TVA territory in 2016 was the investment by Google of \$600 million in a 75-job data center at the site of a retiring TVA

coal-fired power plant. In addition, TVA's rural development staff created an economic development course for training elected officials. The main purpose was to ensure that local policies, incentives, timelines, and land use planning aligned to create developer-friendly communities. The ability to recognize the vast differences in development needs within the territory they serve through the creation of programs to shore any perceived deficiencies in service, land availability, entitlements achievement, and workforce availability have allowed communities within the TVA territory to effectively court and win developer and end-user investment interest.

## Entitlement/Fast-Tracked Permitting Programs

### Memphis, Tennessee

The ability or inability to quickly achieve development permits is a critical factor in developer and end-user investment decision-making.

Memphis, Tennessee, provides multiple programs that allow developers to understand how their construction schedules will be impacted by development entitlements. The One-Stop-Shop (OSS) program is designed to facilitate and expedite regulatory and permitting processes, while also answering questions on building and fire codes, taxation, utilities, permitting, and any issues. When the timing is appropriate, Memphis arranges a confidential One-Stop-Shop session with each developer. During this session, developer representatives are introduced to key resource people in local and state governments as well as members of the economic development team at the Greater Memphis Chamber to field questions, provide appropriate documents for review, and discuss perceived issues requiring attention or mitigation prior to approvals. The team is comprised of the professionals who are capable of initiating and reviewing permit applications, and provides a direct contact between the developer, his/her representatives, and those capable of making decisions. The ability to quickly and efficiently identify the correct sources for necessary permitting saves considerable amounts of time and carry costs to the developer, making this a valuable service.

In addition, through Shelby County, Tennessee's (Memphis region) Fast Track Permitting program, the Office of Construction Code Enforcement and developers have the ability to cut through red tape or delays which are occasionally associated with construction permitting. Through this program, review of plans is expedited with prioritized meetings between county, city, design, and construction personnel to ensure an efficient construction approval process.

## Cost and Revenue Sharing

### Virginia

While led at the state level, Virginia's revenue sharing program for attracting regional economic development opportunities is a model that is attractive to both developers and end-users, alike.

Legislation exists at the state level through two general law provisions—the Voluntary Settlement Agreement and the Economic Growth Sharing Agreement—that allows multiple jurisdictions to enter into a revenue, tax base, or economic growth sharing agreement to provide for public services and facilities that will assist any type of economic development project.

While cost and revenue sharing agreements are common in many states in the U.S., this set of legislation is crafted with the idea of cooperative economic development at the forefront. The law promotes cooperation among localities. A single jurisdiction working alone is often not able to attract developer interest, either because of lack of infrastructure or an inability to achieve concessions necessary to ensure for timely development, or both. The state recognized that in many regions of Virginia, counties or outlying suburban or rural areas have the land, but the cities have the infrastructure capacity, service, and capital to support industrial development growth. With cost and revenue sharing, the supporting entities recoup proportionate amounts of tax revenue and share in the costs to extend infrastructure, maintain or build transportation access, and provide for educational services to support employee growth. Additionally, the competition for siting projects within nearby jurisdictions is reduced since all participating jurisdictions will benefit from the joint agreement.

A solid example of this agreement and the power it provides in pooling resources to attract new businesses is found between the City of Bedford and County of Bedford, VA. The City of Bedford had adequate water and sewer system capacity, but had little vacant land suitable for interested industrial developers or end-users. The County of Bedford had no sewer or water facilities in the areas surrounding the city, but it did have ample vacant land. Under the provisions of their cost and revenue sharing agreement, the localities agreed to jointly fund utility improvements and other infrastructure for five industrial parks and share the resulting tax revenues.

While most economic development regional entities tout their primary interest of ensuring growth for the entire region, a true fairness exists in programs such as Virginia's, where the cost and revenue sharing program ensures all participating parties a portion of the returns from their economic development investments. And because industrial parks are more easily developed with the support of multiple funding sources that ensure the availability of needed infrastructure capacity, these agreements are sought after and desired by developers looking to have multiple land options for industrial development so they can achieve optimal return on their investment.

## Inland Port Development

In a country where the manufacturing base is declining, and global imports are increasing, there is mounting demand for industrial real estate that will accommodate the needs of importing companies. These companies must find locations that can support the many functions of the new distribution patterns required for foreign-made and U.S.-consumer demanded goods.

Inland ports are located outside of crowded port areas, where land is scarce or not available at all. The advantages of inland ports are well documented because of their positive impact on regional industrial development and because they create space for more buildings in proximity to intermodal sites, thus relieving pressure in port areas and on roadways.

Within the past three years, industrial real estate demand has increased between 6 percent to 10 percent annually. This increase is being driven by importing companies seeking strategic locations that can support the many functions of the new distribution patterns required for foreign-made goods as well as the e-commerce boom. Consumer purchasing habits have changed, leaving big box retail locations in lieu of positioning themselves with mega-facility distribution centers capable of serving a larger regional populace.

Inland ports provide a myriad of advantages for developers and end-users, alike. Advantages including tax abatements, structured long-term and revenue bond financing, infrastructure buy-downs, shared accessory services such as affiliated warehousing and rail access, and centralized workforce training programs are incredibly attractive incentives to development. Inland port best practices can be found in the examples that follow.

### Rickenbacker Inland Port, Columbus, Ohio

This port is serviced by Norfolk Southern and CSX. The majority of rail freight traveling to Columbus is international and has reached the Ohio Valley via the East and West Coast ocean ports. The Norfolk Southern Rickenbacker Intermodal Terminal, which covers 175 acres and can handle more than 400,000 containers annually, is located in the heart of the facility. The land development within the Inland Port has the capacity to grow to 70 million square feet of industrial space. More than 50 percent of the 2014 through 2016 industrial facilities square footage deliveries to the Columbus, Ohio, region were located within or adjacent to the Rickenbacker Inland Port. A driver of industrial speculative space development regionally, this port is providing for both up- and down-line growth opportunities within the regional distribution and warehousing market.

### Logistics Park Kansas City (LPKC), Edgerton, Kansas

The Kansas facility is on the transcontinental line between Chicago and the ports of Los Angeles and Long Beach and located in-proximity to the metropolitan area of Kansas City, Kansas. Its annual capacity of 500,000 container lifts could triple to 1.5 million upon full buildout, and is expected to attract 100 million square feet of new industrial development within a 350-mile radius.

LPKC is BNSF Railway's newest intermodal facility. The BNSF intermodal facility covers 440 acres with an initial investment by BNSF of \$250 million dollars. Inland Port I is the first speculative distribution center at LPKC. It is a 500,150 square foot, state-of-the-art, speculative distribution center developed by NorthPoint Development.



While the intermodal facility covers 440 acres, the logistics park is over 1,000 acres in entire land space. It is adjacent to BNSF Railway's intermodal facility with international, domestic, and direct rail service. It is also ideally positioned for surface transportation access along I-35 North/South, which exists as a "NAFTA Freeway" from Mexico to Canada. Flexible site options allow for the accommodation of tenants in excess of several million square feet in size. Flexible zoning and design criterion were developed at the outset to provide optimization of development space for individual user's needs.

Edgerton, Kansas, and partner jurisdictions combined to provide over \$100 million in public infrastructure investment as well as substantial incentives to ensure development costs were in-line with the market. Both build-to-suit and speculative facility options exist within this vast intermodal park and are combined with competitive lease rates, efficient movement of goods through reduced transportation costs, and access to the design of a heavy haul corridor for specialized distribution users. This site offers an incredible opportunity for the Kansas City metro region's warehousing and distribution facility growth. In fact, the facility can be assumed as the primary driver of growth within that sector regionally.

### CN RidgePort, Memphis, Tennessee

CN RidgePort Logistics Center is a master-planned, 800-acre development of Ridge Property Trust with a build-out potential of over 6 million square feet. Strategically located immediately off I-55 and within 12 miles of I-40, as well as within minutes of the International Port of Memphis, the Memphis International Airport, the UPS SuperHub, and the FedEx World Hub, CN RidgePort Logistics Center brings a wealth of resources to one central location adjacent to the newly designed and soon to be expanded CN intermodal terminal with easy access to major highways and rail service.

This inland port is experiencing rapid absorption of space by distribution, warehousing, and storage end-users. Its immediate accessibility to the \$200 million CN terminal built in 2005 has provided it with exposure to end-users interested in being within proximity of the terminal. In addition, this inland port provides direct access to 21,000 miles of CN's rail network, connecting the three U.S. coasts. Opportunities exist for build-to-suit, design build, and leasing of speculative warehousing space. A catalyst for absorption growth within the Memphis region, CN's RidgePort defines best practice for inland port development within the U.S.

## Small Community Best Practices

Preparation for industrial development opportunities necessitates a different course for smaller communities. The following are factors that are often identified as challenges to the development community:

- **Unidentified sites:** sites may be assumed to exist, but a clear path for the transaction of land to the developer or end-user is unknown
- **Sites are identified, but they are not understood:** while a site may be positioned by the brokerage or economic development community as being available, the diligence required to support the suitability of development opportunity to the prospective end-user is often unknown
- **Unidentified market:** whereas smaller communities are often engaged in economic development and direct developer marketing, the facts and figures necessary to support a business case for market opportunities is either undefined or under-defined creating unnecessary risk and ultimately leading developers and prospective end-users to look elsewhere
- **Lack of existing facilities and/or presence of obsolete facilities:** smaller communities most often suffer from a lack of existing facilities and, if they do have facilities available, it is common these facilities are below standard for prospective end-users; absorption rates are considerably lower for smaller community facilities
- **Identified market without alignment to facilities or land tract suitability:** the economic development community is often courted with opportunities to align their marketing efforts to attract end-users or site selector attention for projects that are not a reasonable fit for their communities
- **Unmitigated deficiencies, lack of a mitigation timelines, and unknown permitting requirements:** whether land or facilities are in consideration, the end-user and site selection community requires unwavering and exacting site details as it pertains to the schedule of development that will impact their prospects; developers desire the same information to ensure that they understand all-in costs and projected return

Because historical trends for industrial land and facilities absorption have traditionally been considerably lower, particularly within smaller community and rural markets, it is uncommon to find private developer activity within smaller communities outside of a general metropolitan market (those qualified as MSA by the U.S. Census or larger). Industrial developers must have deep financial resources and a willingness to sit on large amounts of capital for a long duration as they await build-out of the properties in which they invest. Absorption periods are exponentially longer and harder to predict within industrial markets than retail and commercial markets because retail and commercial demand is driven on a local basis and industrial demand is driven by larger regional, national, and even international demand factors.

The economic development corporation (EDC) model was built to address this very gap. Primary economic investment is critical to community economic health as the new money that is derived from industrial companies selling goods outside of the general market vicinity and bringing new money into the local market allows for the multiplication of jobs and revenues in the retail and commercial sectors. As such, to shore the gap created without the immediate local presence of developers to front the sites,

facilities, infrastructure, and capital necessary for development, economic development corporations are capable of stepping into this space, securing ground, transacting land or facilities deals, and defining the market capture strategy for securing primary industrial investment.

While smaller communities absolutely can and should seek industrial development opportunities, the following methods are recommended for preparing and positioning facilities and land tracts:

- **Market identification:** a thorough understanding of the primary drivers that impact a smaller community will allow for the creation of a business case that will set the stage for the identification of land tracts, facilities, and infrastructure service needs to support the identified market verticals. While consultant-led studies can provide information on local, regional, and national industry trends, the most effective assessments are found in the surveying of regional industrial end-users. Needs identified by local and regional existing companies often equate to an opportunity for the recruitment of companies that have a relational business case to move or expand operations within the community.
- **Site identification:** assuming facilities do not exist or are obsolete to serve identified market industrial verticals, the community or EDC should undertake an exercise to effectively identify land tracts that are suitable for industrial development opportunities. The size of the land tracts considered and prioritized should be dependent upon the expected pad site requirements of prospective users identified through market vertical research. Rather than purchasing land, the community or EDC should consider placing an option on identified tracts (a five-year minimum is desired, but if not achievable, renewable options should be required). Optioning ground allows for control of pricing and the capability to transact a land sale to the prospective industrial owner while allowing the site to maintain its current state and avoid significant amounts of capital outlay for land that may not be needed in the near-term. It is wise for a community or EDC to secure more ground than they believe they may need in option to accommodate future expansions or supplier opportunities in a contiguous nature.
- **Site diligence:** industrial sites are best-prepared when they can be deemed “shovel ready.” Shovel ready sites are those where all infrastructure to serve the site is sitting at the perimeter of the property, including expanded capacities necessary to serve the identified site size. Engineers who specialize in various forms of utility infrastructure can assess capacity information along with local officials and utility providers. In addition to understanding utility capacities, the identification of natural- and built-environment factors impacting the site should be thoroughly assessed and any factors found to need further investigation or mitigation should undergo assessment to ensure the eventual purchaser can identify how much mitigation is required, the amount of cost to perform the mitigation, and the timeline for completion.
- **Targeting viability:** because all land tracts and facilities are not equal, it is imperative that market targets are identified by the smaller community and business cases for development are vetted against available inventory of buildings and sites to ensure that tracts and facilities exist to accommodate these users. If attributes for utility or infrastructure service cannot be found that match to identified market verticals, then the targeting list for the community should be narrowed to focus on those industrial verticals which not only have a business case from a market perspective, but can also find a suitable home within the facilities and sites available.

- **Site master planning:** master planning is a critical step in how to position industrial sites. More than a pretty picture, master plans are created to identify how to work in and around natural environment features, optimize square footage availability, accommodate transportation and rail access points, ensure appropriate handling of storm-water runoff/drainage, and ensure flexibility in positioning the site to users. The ability to manipulate the site to the needs of individual end-users allows for cost savings to the community and EDC through enhanced ROI found in the optimization of the tract to fit user demand exactly, leaving excess space available to secure additional users for greater return.
- **Site costing and phasing:** end-users will demand immediacy of information in a site search as it pertains to costs for development of off-site infrastructure extensions and on-site infrastructure service. Communities and EDCs can effectively position sites that are shovel ready and simply optioned with minimum pre-build of both on- and off-site infrastructure if they are capable of proving how long it will take for improvements to occur, ensure that any capacity issues have been or can be quickly mitigated, and what the permitting process entails to ensure timely delivery of their facility (18 months, on average).
- **Facilities assessment:** for communities with vacant facilities, an architectural review of condition, and an assessment of facility specs are helpful to target end-user verticals and their identified needs. This valuable step determines if existing facilities provide opportunity or obsolescence and assists in the decision to support options end-users might seek.

## Industrial Developer Interviews

While the analysis of industrial vacancy and developer project activity within both the Greater Omaha Metro Region and comparable markets largely centered on quantitative current and historical facts, there is a component to developer decision-making that is qualitative. To provide a glimpse into how industrial developers screen prospective development opportunities, three interviews were conducted with national industrial development clients of Olsson Associates. The summaries of these interviews are included for consideration. The national developers interviewed are as follows:

- CenterPoint Development
- Block LLC
- NorthPoint Development

### CenterPoint Development: Jim Cross, Senior Vice President

CenterPoint Development is a national industrial development company that specializes in the development of large-tract industrial parks with concentrations on warehousing, multimodal projects, and e-commerce logistics opportunities. Clients associated with CenterPoint Development include Target, Wal-Mart, and Dollar Tree. Funding for generalized and speculative warehousing facilities within CenterPoint's parks is often derived from a lot of non-developer, private citizens who happen to have extraordinary amounts of personal net worth. Mr. Cross states that it is common to see 20 or more people with individual net worth in excess of \$40 million band together to invest in industrial park infrastructure and facilities within areas of growth because they are finding that, in the right market with the right growth factors, their rate of return is greater than that within other forms of real estate investment. CenterPoint believes the combined pool of investors is an effective method for raising capital to support project delivery.

CenterPoint is not particularly interested in doing a lot of speculative development on the facilities side, but almost always delivers speculative projects on the land and park development side. The company relies heavily upon the identified, high net worth investor pool to take the risk in that regard. If they can identify the facility tenant, whether occupied or a vacant speculative building, they will consider taking calculated risks with speculative development opportunities. Factors that exist for a favorable speculative project opportunity are evidence of an extraordinarily strong growth market, positive industrial absorption, low vacancy, and the presence of tax abatements to offset potential stagnation of absorption for the facility they build. Build-to-suit projects are by-far the most preferred form of investment for CenterPoint and their investors.

National market saturation, growth trends, and port activity are monitored closely by CenterPoint. For the Omaha region to be considered for national-level industrial developer investment, they must have inventory available and be able to show rapid absorption of built square footage, be able to prove that a return can be made on investment through market demand, and provide some commitment of financial incentives to assist in insulating these developers from losses due to lack of demand. Markets such as California and much of the east coast of the U.S. are deemed as "markets you can't build fast enough" because of the amount of demand that is driven by on-shoring and port activity. Communities such as Oakland and Long Beach, California are examples of markets with such predictably steady activity that speculative facility building is acceptable because they can reasonably predict that, once through the



entitlement process which can take as long as two years, they will have the facility they are constructing sold.

CenterPoint's niche market is in 300,000-500,000-square-foot warehousing and distribution projects as well as industrial park development within the Midwest. They can provide specialty project development of weapons complexes, atypical warehousing projects, general warehousing and distribution facilities, bulk modernized warehousing facilities, and the development/redevelopment of land space for industrial park (particularly multimodal) site creation. Among their more recent projects, are the redevelopment of the former Richards Gebaur Airport property and Bannister Federal Property as industrial park developments within the greater Kansas City metro region. However, CenterPoint seeks industrial development opportunities and has completed industrial park development projects across the entirety of the U.S.

#### **Block Real Estate Service LLC: Aaron Mesmer, Acquisitions and Investment Sales**

Block LLC is led out of the Kansas City region and has an extensive history of industrial and multi-use development projects throughout the U.S.

Block's interest in industrial development primarily resides in industrial parks and facilities to serve warehousing and distribution clients. Of particular interest is distribution facility developments classified as modernized bulk warehousing. They desire to develop build-to-suit properties for credit e-commerce and Tier I automotive companies and their suppliers, however, they also speculatively develop a large percentage of the industrial properties they deliver to the market.

When choosing site locations, Block is interested in communities that have well-defined logistics modeling the evidence of market capture opportunities. Communities with intermodal ports and big industrial nodes with dual rail access leading logistically to eventual connections with intermodal ports with large barge slip accommodation is desirable as statistics prove product volumes can provide faster absorption and growth opportunities. Also, areas that have eventual logistical connections to the Norfolk Port in Columbus, Ohio are of interest as they have two separate rail lines accessing this port that allow for redundancies of transportation service for goods in traversing the Appalachian Mountains, regardless of the season.

Block, like other industrial development companies, is taking note of the change in dynamics as it pertains to freight and goods movement. The inland empire of Long Beach, while still incredibly active, is starting to experience some competition in hub activity and Block is monitoring and analyzing ports and downline activity that proves opportunities exist for facility and intermodal development. Block rationalizes that communities like Kansas City and Dallas have seen intermodal development success as the costs to develop are less than in many other Tier I, more established port communities. Another significant driver of activity is the e-commerce boom and the ability to reach consumer populations within accepted market timeframes.

Block also seeks opportunities to develop near major automotive plant locations because of the known up- and down-line supplier proximity of development patterns. Communities like St. Louis, Kansas City, and Louisville have all been markets of interest for Block as Tier I automotive suppliers are generally required to exist within 10-12 miles of major automotive manufacturing and assembly operations.



Block seeks opportunities to invest in industrial facilities that are build-to-suit as well as existing facilities requiring repositioning for credit tenants. They are also heavily engaged in speculative industrial property development which comprises most of their portfolio. Because of the amount of speculative development they pursue, demand is the largest single factor in determining which communities provide them with the greatest opportunity for desirable industrial development investment returns. In addition, Block seeks markets where bulk or modernized warehousing opportunities exist. They prefer to engage in the development of facilities with efficient lighting, cross docking, multiple access doors, and considerable truck and trailer staging. They are not competing against the 1970s, 18-foot clear facilities and do not consider investment in existing industrial buildings they deem as obsolete. Block will extract available facilities from vacancy analysis within communities they have initial interest in for development, and will consider those in the adjustment of true industrial vacancy.

E-commerce is the trend that is changing the dynamic of how market opportunities are being assessed. Block is finding that companies most interested in locating within their industrial/logistics park properties are those distributing to smaller Midwestern communities. Customers with an odd number of distribution center facilities in the U.S. are likely to have a distribution center in the Midwest, based upon logistics configurations in accordance with the land space and hubs for distribution in the U.S., and those are the companies they are looking to attract. Block notes that the logistics game is ever-evolving and mega-hubs such as Memphis and Louisville are being watched closely for changing dynamics that inevitably trickle down to the Midwestern markets.

#### **NorthPoint Development: Chad Meyer, President & COO**

NorthPoint Development is an active national industrial development company involved in high-profile projects such as the Logistics Park Kansas City (LPKC) with BNSF. The company pursues a wide array of industrial development opportunities with a development preference for Tier II markets where considerable institutional competition exists. NorthPoint is in-process or has recently completed projects in New York, Kansas, Missouri, Ohio, Indiana, Texas, and Michigan.

NorthPoint carefully tracks market trends to determine if certain development factors exist to meet their desired ROI. The industrial parks they invest in are developed and must be well-located to provide excellent transportation access. They desire market rents to be within a range that is high enough to support new development (typically \$4.00 per square foot and higher). At least 100,000,000 square feet of space, a market showing absorption between a 1- and 3-year period, and industrial facility vacancies under 6 percent are sought. Investment decisions are driven by the rent scenario at the local level and if rents can provide adequate ROI.

As it pertains to industrial parks, NorthPoint engages in speculative development, but only after careful analysis that market demand exists for rapid absorption opportunities. Approximately 70 percent of the sites they develop are greenfield and they believe it to be imperative for full-disclosure of both infrastructure accessibility and capacities during the early decision-making process so that they can effectively assess timelines until development and calculate their expected return. If the market is particularly strong, NorthPoint will build 100 percent speculative, but prefer a 50 percent pre-leased scenario for facility and park builds. If the market shows a sustainable real estate base, with positive net absorption and average lease rates that can provide a return over development costs, NorthPoint will assume development opportunity exists.

## Interview Summary

When seeking opportunities for industrial park development, all three developers generally look to the following initial factors in considering if opportunities exist:

- **Market:** is there a healthy and growing market not only for industrial warehousing and distribution, but within the population, general community demography, and workforce counts.
- **Infrastructure:** does excellent four-lane infrastructure exist with connectivity to market hubs deemed valuable to known industrial clients.
- **Competition:** how much industrial site competition exists in available square footage and acres and how fast is industrial ground of similar service absorbed within the market; will those factors correlate to a positive return-on-investment (ROI) for the company and their investors.
- **Industrial Verticals:** since they are concentrated heavily in the distribution and warehousing sector, our interviewed developers are highly interested in whether or not hub activity for e-commerce can be defined or created for the market in-question.
- **Permitting and Entitlements:** fast-tracked permitting programs, willing jurisdictional support, and continued maintenance of support programs to ensure smooth operational flow for both the expanding park and facilities contained within are a critical decision factor; for example, the greater Kansas City region can permit projects entirely in 4 to 6 weeks and this time-savings equates to major project development and carry-cost savings experienced by all three interviewed development companies.
- **Land Concessions:** while deemed as beneficial, our interviewed developers don't view these as either an expectation or important to their decision-making process.
- **Tax Abatements:** deemed a critical factor is that of tax abatement availability; according to all three of our interviewed developers, the site selection process begins with an initial assessment of which of those communities provides tax abatements for an extended duration (typically 15 years) against those that don't provide much tax abatement duration or none at all and it is believed that communities that have opportunities to seize the exponentially growing e-commerce-related warehouse and distribution facility development opportunities will have the capability of offering abatements and those without will be left behind.
- **Industrial SID or TIF District Allowances:** while potentially a pass-through savings to the customer, all three of the interviewed developers view both TIF district and industrial SID options as cumbersome and a lesser option to offsetting development costs as compared to tax abatement availability.
- **Impact fee concessions:** these are deemed as helpful and somewhat valuable as all concessions can lead to cost savings, however, they are not deemed a decision-driver for a site selection.
- **Bundled utility rates:** our developers have found varying instances of concessions via utility rate bundling throughout the U.S. and believe that utility factors will play an increasing role in modernized industrial park developments, particularly for end-users with automation, cold storage, and other factors requiring electric loads in excess of 10 mega-watts of total park usage.
- **Rail access and development participation:** all three of the interviewed developers were somewhat dependent upon railroad willingness to serve, and site selection locations for new development opportunities hinge on railroad service, volumes, and routing primarily due to the

current strength of the warehousing and logistics sectors. This market strength raises the desire for rail, but does not necessarily eliminate other sites for development consideration. Their rationale for wanting rail presence has more to do with the access to a defined market to intermodal than the actual rail service, itself. The three developers prefer direct Class I participation, but also work with short-line rail companies with close-proximity connect and access to Class I rail lines. Factors such as distance from logistics hubs, the amount of rail switching activity, the ingress/egress, and whether the rail line connecting to their industrial developments are dedicated or not are all important decision-making factors in determining development opportunities. NorthPoint Development is in a joint venture with BNSF Railway at the KC Logistics Park and has found that relationship to be successful. They make development decisions based upon the positioning of new logistics park locations desired by railroad providers such as BNSF as these factors lead to known market capture opportunities. In the instance of all three developers interviewed, railroad interest and hub activity are immediate catalysts for development consideration.

- **Conduit financing vehicles:** all three interviewed developers stated that industrial development is an entirely different game than other forms of development with the big factor sitting in widely shifting absorption dynamics. As a result, it is more difficult to achieve standard bank financing at good rates with fixed, long-rate terms. Sometimes longer-term absorption scenarios can cause panic on the part of banking institutions, so rates and terms can be unfavorable for achieving an acceptable return on investment. The industrial developers we interviewed all stated that those considering industrial development opportunities must have considerable patience to wait out absorption slumps, extraordinary amounts of capital that is owned and not borrowed, and the willingness to thoroughly vet private investors. Although popular nationally, Public/Private Partnership (3P) opportunities are not entirely embraced by the industrial development community due to the lengthy applications and legal process involved. The goal is to enter as a developer, set the stage for absorption within the property and facilities completed, and exit quickly. Combined governmental participation scenarios do not typically meet that level of expediency.

## Recommendations

The three developers interviewed were all asked about the interest they may have in siting industrial projects within the Greater Omaha Metro Region. While there is not a negative connotation of Omaha, and developer Block Real Estate is currently active in the region with the development of Avenue One at 192<sup>nd</sup> and Dodge Streets in Omaha (mixed-use development), there is little known about the market that may exist for acceptable industrial absorption rates to achieve ROI. On the positive side, the Midwest has a general regional dominance as it pertains to overall national industrial growth.

As was indicated in *Memo 2: Industrial Absorption*, industrial development activity is strong and growing within markets that are already identified as having both a growing market and can prove quick absorption following (or even preceding in build-to-suit environments) the development of industrial park properties and facilities. These markets are earning additional development opportunities from this pool of developers because they have proven capabilities to provide an acceptable return on investment. The Omaha region is able to show prospect demand exists and that there is a bottleneck in lack of available facilities and sites, but needs to develop a track record that shows that private industrial development investment leads to absorption or return levels that are desired by the private sector by implementing the approaches listed above.

In addition, communities where significant development opportunity has occurred are those with tax policies, a business climate, and infrastructure appropriation that is suited to accommodate new developments effectively. There is an assumption of ease of process within communities that are active in securing speculative industrial park and facilities developments and these communities are also into second phases of support to continue development growth. As an example, Edgerton, Kansas, receives considerable praise from NorthPoint Development for their willingness to fast-track permitting, address community development needs arising from an onslaught of rapid employee growth, and deemed their infrastructure fair (including a progressive attitude and shared costs for extending infrastructure) for off-site capacity and extension upgrade costing to the developer, and has developed facilities for workforce development to support ever-changing and growing tenant needs. Developers currently have a plethora of development area options from which to choose and they appear to desire sites located within identified and well-defined markets.

While Omaha and the surrounding regional communities are not viewed negatively in the eyes of the developers interviewed, it is apparent that Omaha suffers from the lack of one incentive that is crucial to these developers—tax abatement capability. In addition, the Greater Omaha Metro Region is incapable of developing inland port capabilities to further support and provide incentive and bonding opportunities for industrial intermodal and general industrial park development. There are other states that suffer from being able to successfully pass along tax abatement options to developers, such as Texas, but they have found methods for bypassing these issues through the artificial lowering of initial land and as-built assessments for long-term durations (15 years) to get as close as possible to matching tax abatement options. In addition, the Greater Omaha Metro Region should consider lobbying for the development of special state-level enabling legislation to allow for the development of inland ports. This legislation does not exist today, but does exist in every state analyzed within the comp market pool. If inland port legislation were to be passed, it is then plausible that tax abatement opportunities may be able to be passed via state legislation that will be applicable only inside of designated inland ports, and

greatly enhancing the marketability of the Greater Omaha Metro Region for industrial developer activity.

In addition, the Omaha community suffers from a lack of controlled sites that can be transacted in a quick land sale, specifically, there is a lack of large-tract or rail-served properties within the GO Ready inventory. The GO Ready program contains many elements needed for development including: sites must be vetted for diligence, understood for interior infrastructure capacity, and capable of quick permitting. What is lacking from this program is the requirement of fully master planned tracts and per-square-foot (or per acreage) pricing that competes with competitor community pricing. Rail options must be understood and a defined market must be clearly known and displayed for developer interest to ensue. Among the most effective means of defining that market is thorough retention and expansion surveying of existing customers to gauge growth opportunities that could take advantage of newly developed industrial parks, particularly those accommodating warehousing and distribution needs, and those with rail-serve interest. The interviewed developers do not have a clear understanding of growth opportunities and potential drivers that could accelerate industrial absorption within the Omaha region, hence, a business case currently does not exist for investment opportunities.

As such, the trajectory for the Greater Omaha Metro Region is poor in comparison to the other regions. Limited activity leads to a trajectory of limited activity. However, unlike retail and commercial development that is dependent upon local community factors for significant growth changes, the industrial development outlook for the region can change if the following factors are to occur:

- The markets that have been defined by the regional and state-level economic development organizations cannot be accommodated with current land and facilities inventory. New land and facilities space will be necessary to recruit new economic development investment.
- Sites are identified to meet market demand, prices are controlled and within reasonable market averages as compared to the markets found within this report, proven ancillary access to attributes such as rail service, excellent surface transportation routes, and ample quantity of utility services is supplied.
- Financing vehicles through new funding sources are identified to assist in developing lacking infrastructure service so prospective sites can be mitigated and provided for.
- New legislation that allows for the development of inland ports to accommodate development opportunities for intermodal is enacted.
  - A case exists for inland port development as an option in Nebraska as much of the industrial growth within the comparable communities is happening within intermodal, inland port facilities; these facilities provide significant financial advantages to developers with options for enhanced incentives, multimodal facilities access, and bonding capabilities for expansion and infrastructure maintenance to support internal park growth



- New legislation as it pertains to tax abatement capabilities is enacted.
  - While currently disallowed by the Nebraska State Legislature, tax abatement availability is the primary catalyst behind market demand for consideration of development by the private sector
  - Tax Increment Financing and Sanitary Improvement District options for industrial are not deemed as competitive to the abatement option and this was listed as the most critical factor as to why Nebraska is generally incapable of attracting industrial developer attention
- New legislation that allows for the use of tax abatements within designated inland port developments is enacted.
  - It is anticipated that the Nebraska State Legislature will not have interest in seeing a statewide allowance of tax abatements for all projects and properties, but would potentially be willing to address the lack of competitiveness that exists for supporting Nebraska's industrial growth by allowing for abatements within designated development areas

It is advised that the Greater Omaha Metro Region considers the packaging of not only information pertaining to sites and facilities available, but information concluding that an untapped market exists IF private developer interest were to deliver inventory to support opportunities that are currently bypassing the region. Through the positioning of this information, it is assumed that the Greater Omaha Metro Region can positively impact the stagnate trajectory for future industrial land and facility availability needs and enhance growth opportunities locally.

The Greater Omaha Metro Region can change its industrial development absorption trajectory through diligence in site development, increased building development, analysis of market drivers, and enhancement of existing incentives. These changes will assist the Omaha region in effectively competing against comparable communities for future industrial development opportunities.