



FORECAST 2015

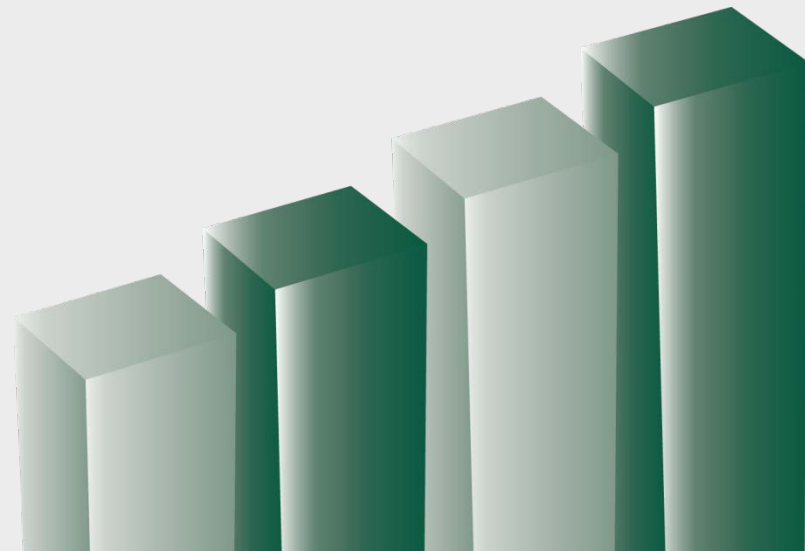
SOUTHERN NEVADA'S

COMMERCIAL MARKET LANDSCAPE

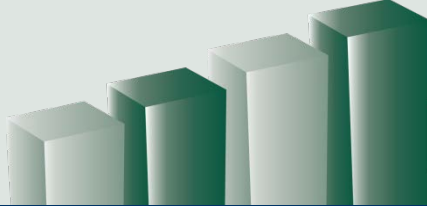
Presented:
January 15, 2015

Mega Trends: 2015 & Beyond

How Others See Us



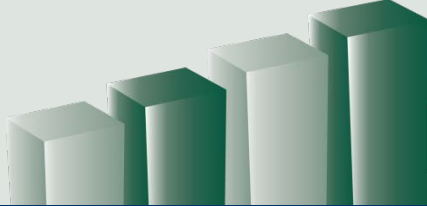
SoNv among MSAs with average development & redevelopment opportunities.



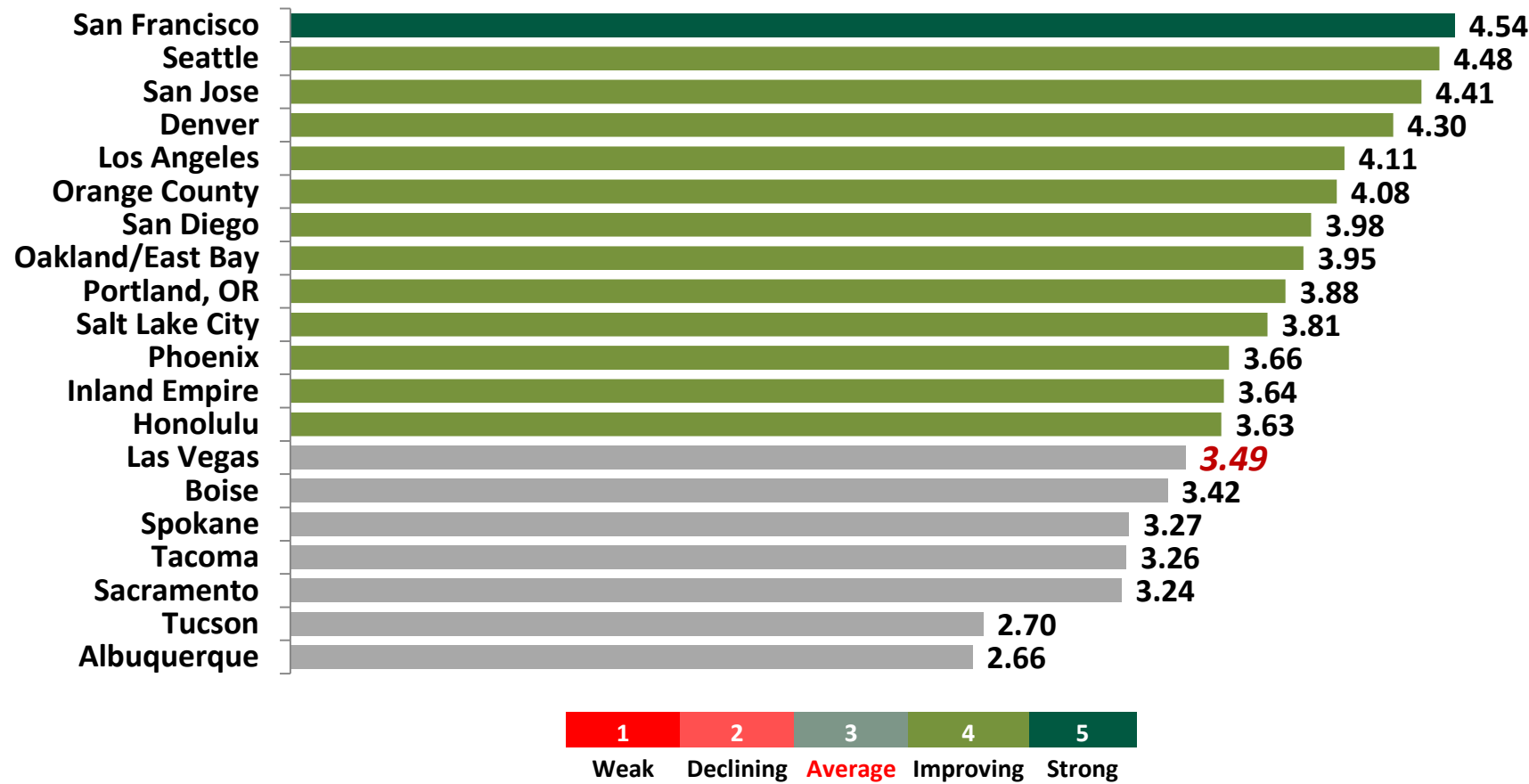
2015 Metro Perspective: Top 10 Metros for Development/Redevelopment: Opportunities + Las Vegas MSA (Of 60 Largest Metros)

1 Houston	4.62	Weak
2 Dallas/Fort Worth	4.24	Declining
3 San Jose	4.20	Average
4 Seattle	4.19	Improving
5 New Orleans	4.17	Strong
6 New York—Brooklyn	4.15	
7 Denver	4.14	
8 San Francisco	4.09	
9 Nashville	4.06	
10 Minneapolis/St. Paul	4.05	
57 Las Vegas	3.17	
58 Milwaukee	3.17	
59 Spokane	3.17	
60 Birmingham	3.17	

SoNV lags in projected economic strength among western metros.

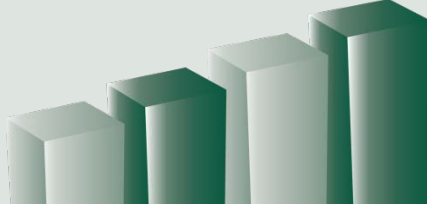


2015 Strength of Economy Scores (Out of 5): Local Outlook: West Region

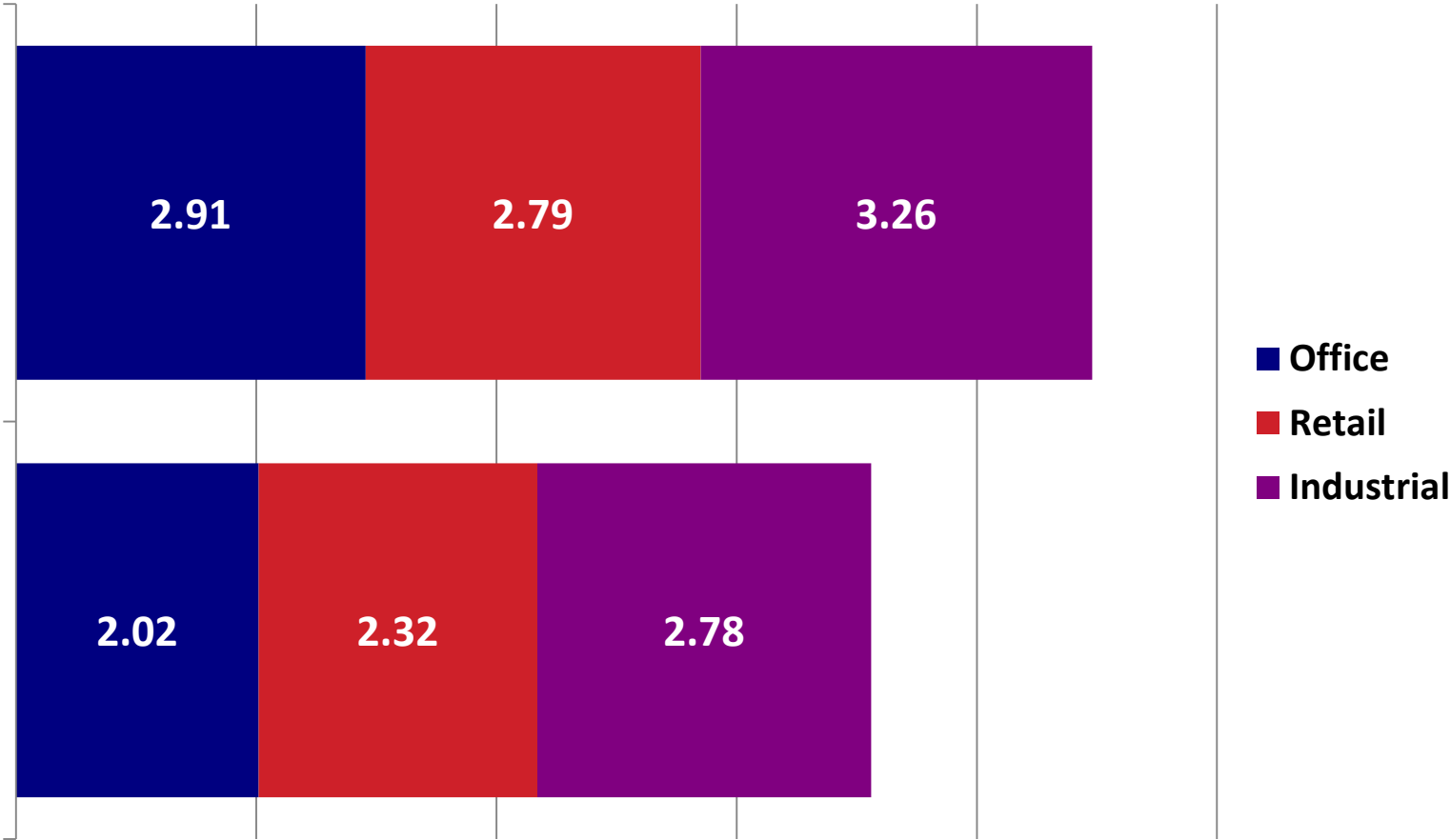


Note: Average score of local market participants' opinion on strength of local economy, investor demand, capital availability, development & redevelopment opportunities, public/private investments & local development community.

SoNV CRE lags investment prospects lag other western metros, cont'd.



2015 Sector Investment Prospects (Out of 5): Las Vegas & Western Region



Less than optimal Las Vegas real estate prospects: investment, development & homebuilding.



2015 Top 10 U.S. Metros to Watch Plus Las Vegas: Overall Real Estate Prospects (5 is Highest Score)

	Market (Of 75 Largest Markets)	Investment	Development	Homebuilding
1	Houston (1, 1, 2)	4.01	3.80	4.21
2	Austin (2, 4, 1)	3.85	3.68	4.33
3	San Francisco (3, 2, 5)	3.82	3.75	3.80
4	Denver (5, 5, 4)	3.66	3.54	3.87
5	Dallas/Fort Worth (9, 8, 3)	3.56	3.43	3.98
6	Los Angeles (6, 6, 6)	3.65	3.52	3.73
7	Charlotte (7, 7, 7)	3.61	3.44	3.71
8	Seattle (4, 3, 17)	3.70	3.72	3.34
9	Boston (8, 9, 14)	3.58	3.37	3.39
10	Raleigh/Durham (16, 17, 9)	3.42	3.24	3.57
64	Las Vegas (62, 64, 64)	2.59	2.46	2.58

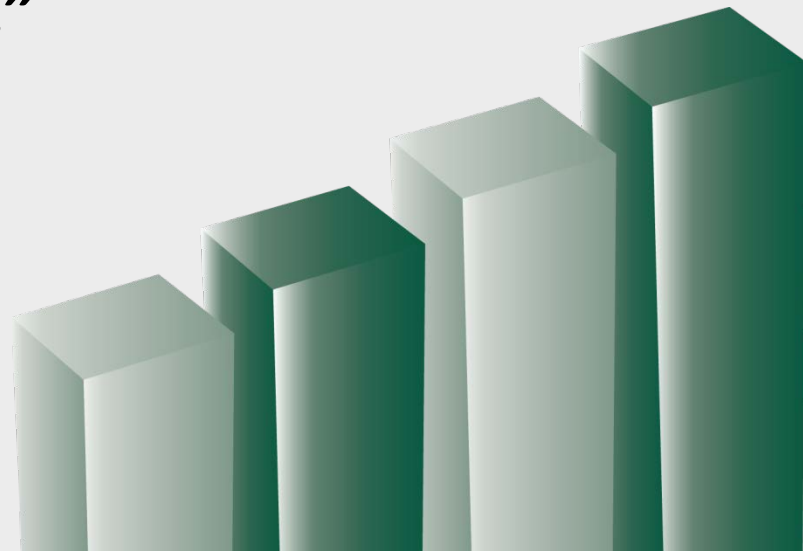
Note: Numbers in parentheses are rankings for, in order, investment, development & homebuilding.

Mega Trends: 2015 & Beyond

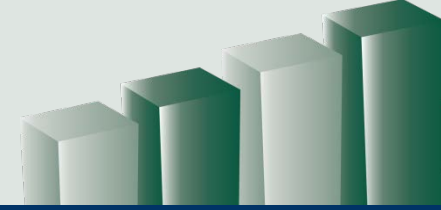
What We're Saying

“The only function of economic forecasting is to make astrology look respectable.”

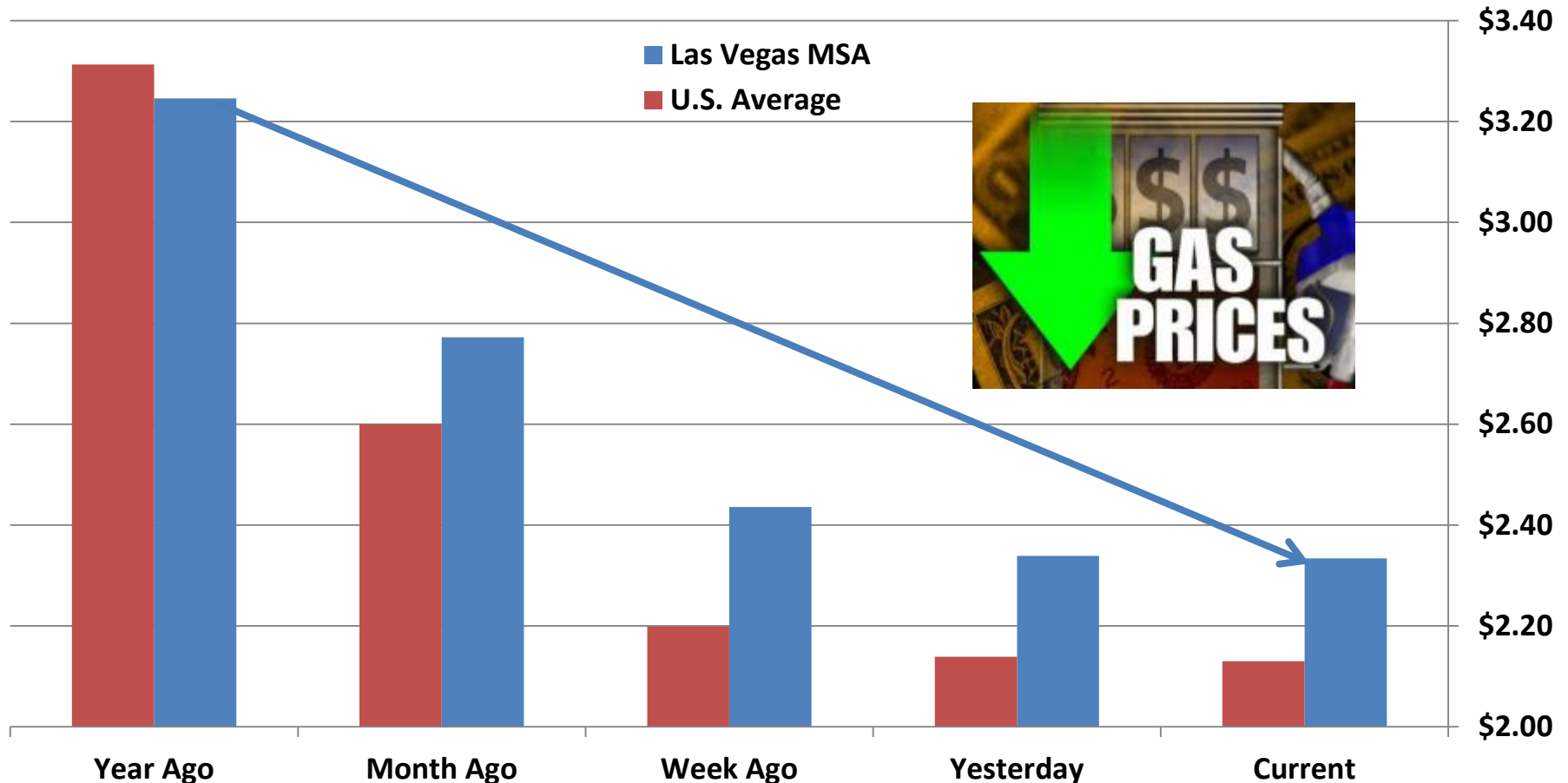
-- John Kenneth Galbraith



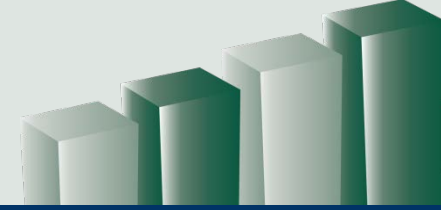
Gas prices down 28% in Las Vegas MSA from a year ago. Price will stabilize @ low level



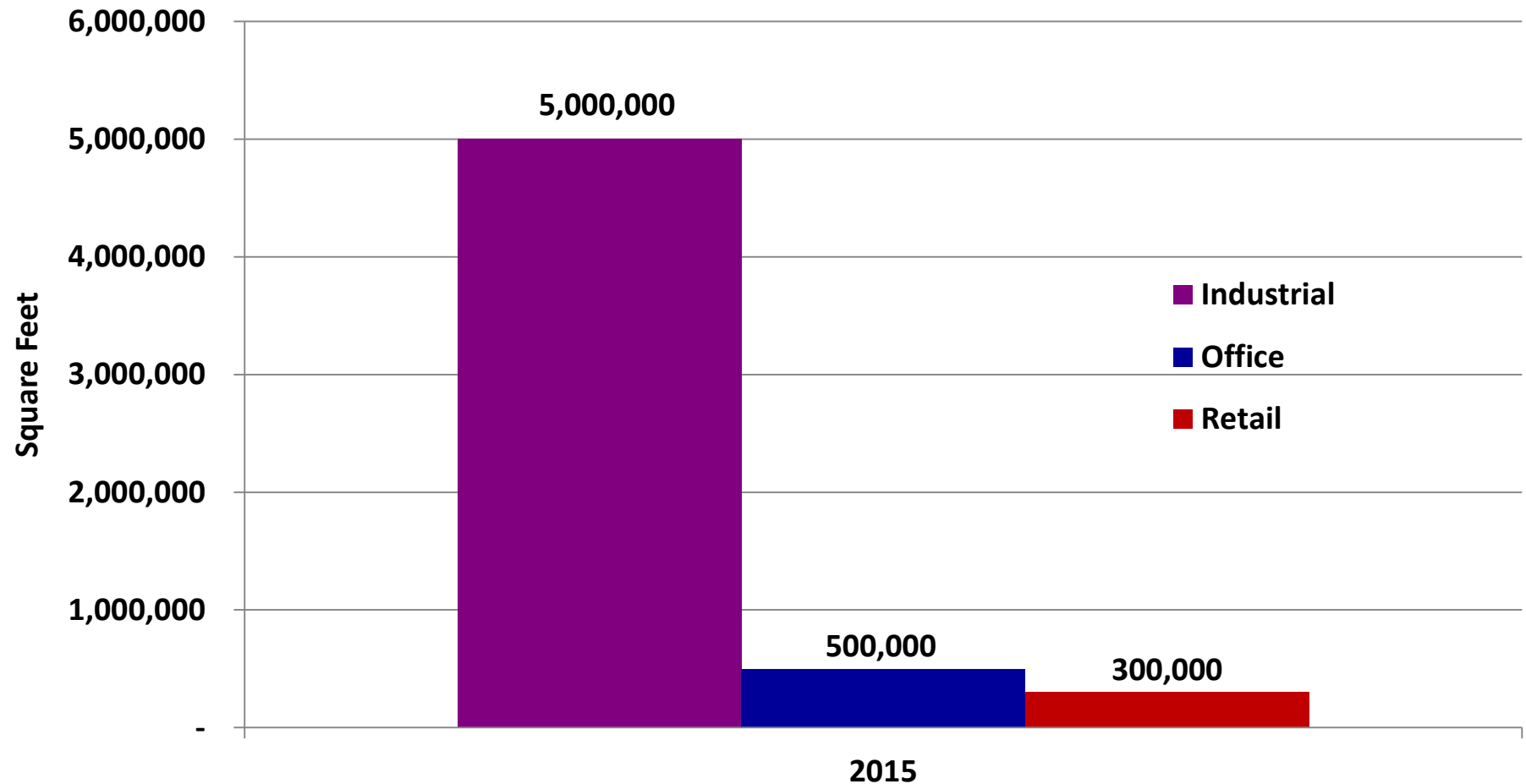
Price of Regular Unleaded per Gallon: 1/12/2015
US & Las Vegas MSA



Las Vegas industrial space has greatest growth potential this year.



Commercial Real Estate Growth Forecast: 2015

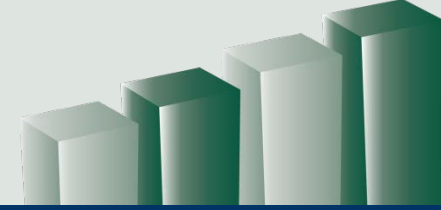


Mega Trend #1: Changing demographics & monetary policy driving demand.



- **SoNv's Millennials larger than baby boom generation: 560,000 vs 430,000 (2014).**
- **“Gen Z”. Fewer household formations, new consumers & workforce players into the 2020s.**
- **Baby boomers – working & retired = major factor in commercial real estate for 20+ years.**
- **“Incident Hazard”: Inevitable & vexing. AKA = geopolitical competition, cyber-warfare, terrorism & climate change.**
- **Cap rates will trend down but gap from 10-yr U.S. Treasury yield will be wide compared to historical trends.**

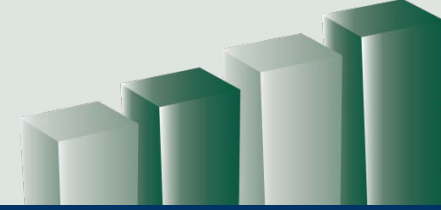
Mega Trend #2. Retirement funds crucial to economy, older generation.



- Interesting Factoid from:
 - *Defined Contribution Real Estate Council helping retirement plan managers & members realize higher returns via investing in “institutional quality real estate”.*
 - *\$12.6 trillion in IRAs & defined contribution (DC) funds.*
 - *These large investment pools will be “identifying & taking advantage of the benefits of having high quality commercial property in a mixed asset portfolio.”*

Source: ULI-PwC Emerging Trends 2014.

Mega Trend #3: Technology: Sleeping with the enemy.

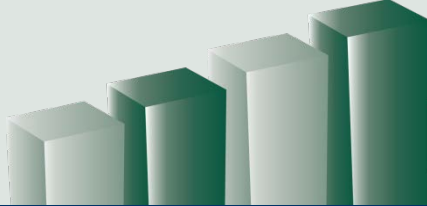


- Technology's "creative destruction" now THE source of CRE demand.
 - *Relentless driver of how space is used, location preference & how much space will be demanded.*
 - *All CRE sectors will continue to face the permanent tsunami of technological change.*

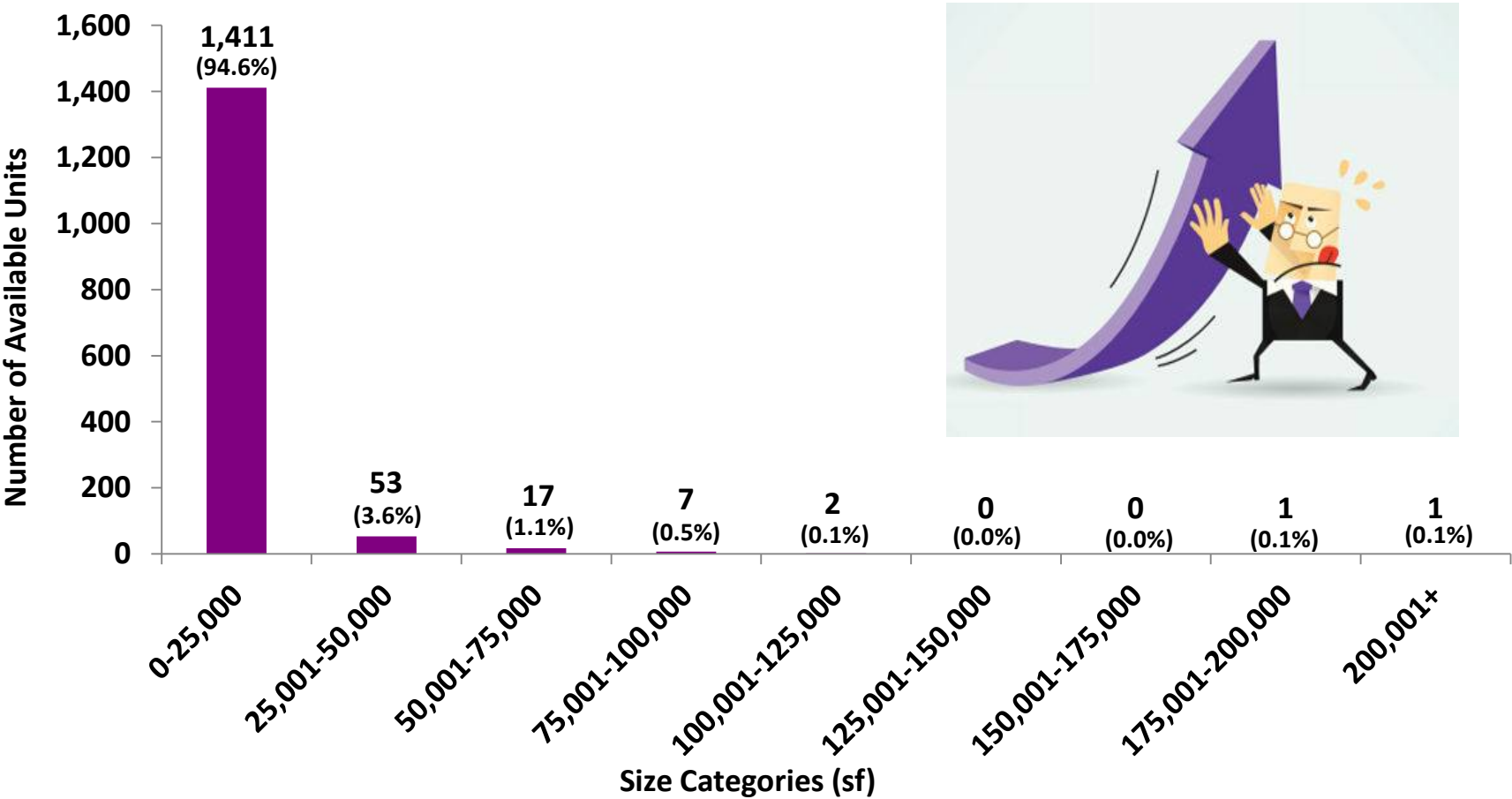
INDUSTRIAL MARKET



“THE problem that needs fixing”.

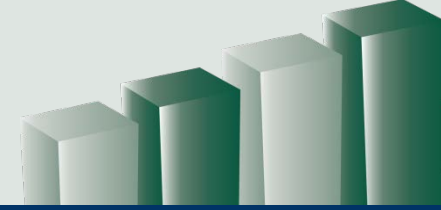


Distribution of Industrial Available Space Units, by Size Category: Q4, 2014



Mega Trends, cont'd.

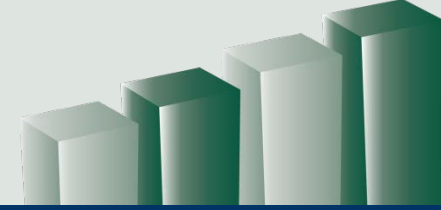
Industrial real estate market: 2015.



- Industrial will continue to lead as an investment option.
- Vacancy has bottomed out & is now at its lowest level in 6 years.
- Since 2010, Valley's industrial market has seen growing demand with low supply growth.
- Completions expectation: 5 - 6 MSF of completions.
- Mkt will continue to see shortage of contiguous spaces of 100K+ SF, but some improvement (~2 MSF) of new spec space under construction in this category, as of Q1'15).
- Omni-channel sales aka bricks & mortar + online presence = wave of future
- Net absorption projected above long-run average.
- Submarkets - Strongest demand fundamentals: North Las Vegas & Henderson.
- Product - Strongest demand fundamentals: Warehouse & Light Industrial.

Mega Trends, cont'd.

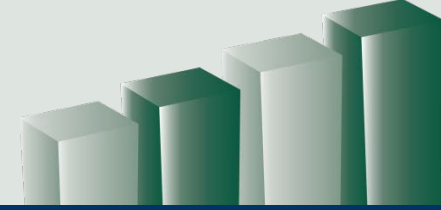
Industrial real estate market: 2015.



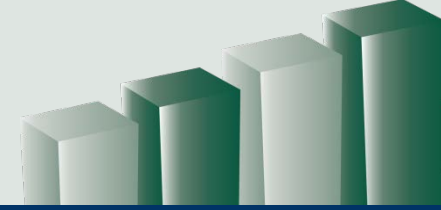
- **Industrial strength - recovery of US & SoNv economies & strong e-demand from e-commerce users.**
- **E-commerce & medicinal pot = main drivers in 2015 & beyond for Warehouse/Distribution Centers.**
- **Why? SoNv's proximity to SoCal & Port of Long Beach.**
- **SoNv's Industrial market also well-positioned due to improving consumer sentiment & spending, & construction.**
- **Spec development is back:**
 - ***Prologis' Las Vegas Corporate Center #19 opening Q1 '15 (464K SF)***
 - ***Cheyenne Distribution Center #3 slated for late 2015 (164K SF).***

OFFICE MARKET





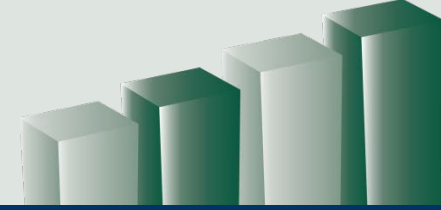
- **SoNv spec office vacancy rate remained elevated - 21% - in Q4, 2014.**
- **Demand now recuperating - Office vacancy dropped slightly from post-Recession high but rent growth still weak.**
- **2014: Net absorption exceeded deliveries. 2015: expected to see greatest yearly gain since 2007.**
- **Professional services & health care jobs, averaged yrly growth rate of 4.9% during the last 2 yrs, will continue to see robust increases.**
- **Smaller sf/worker trend continues, but space quality may become primary way to attract best employees. Quality of physical workplace will reign over density.**
- **The live/work/play trend here to stay. More adaptability & types of space, design may overrule cost slashing as an essential factor.**



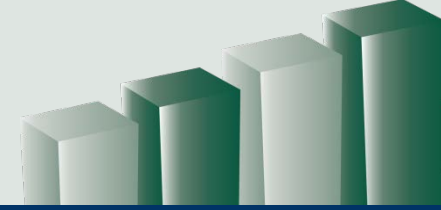
- SoNv's new tech sector is demanding newer & remodeled space, especially in Downtown LV - emergence of tech-savvy Gen-Y folks & entrepreneurs.
- While vacancy still high, office-using jobs have grown such that building will return in upscale suburban submarkets.
- Urban living, especially in Downtown CLV, will boost office demand in Valley's core.
- Lowest vacancy rate: Downtown LV ended Q4, 2014 with 15%.
- Return of Medical Office demand will begin in 2015 & beyond as boomers continue aging.

RETAIL MARKET



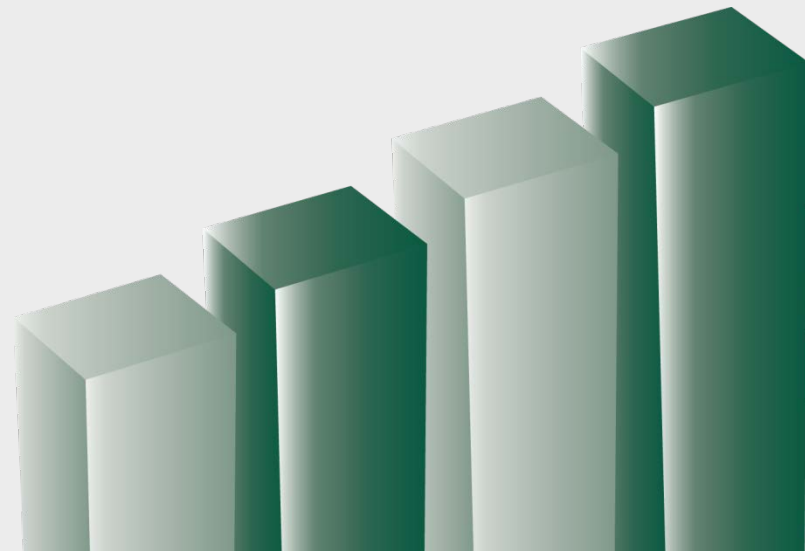


- **Weak spot: Centers serving lower & middle-income households.**
- **Our mantra: Stagnant wage & salary growth plus generally weak consumer spending is still compressing spending by these 2 markets.**
- **Also: E-commerce has been a boon for S. NV's Industrial market, but not so much for some retail chains.**
- **Like rest of US, SoNV discount retailers looking to reduce space needs to best compete with online retailers.**
- **Rent growth at centers serving these types of retailers will be sluggish as chains reduce & eliminate space needs.**
- **Retail vacancy rates remain largely stuck amid sluggish income gains & face prospect of another round of major store closings .**



- **Bright Spot for SoNv's Retail sector:**
 - *“Class A” centers in preferred residential areas are holding up better. For example, Q3 Anchored retail vacancy in Summerlin was 9.7%.*
 - *Upmarket centers serving SoNv's upper-middle & upper-income consumers will see healthy performance in 2015.*
 - *2015 will also be a good year for grocery-anchored centers, because of the return of SoNv's housing market.*
 - *SoNv's anchored retail market is approaching a sub-10% (11.0%) vacancy rate.*

Conclusion In Pictures

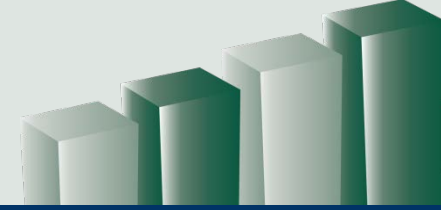


While 2015 definitely won't be another 2004 . . .

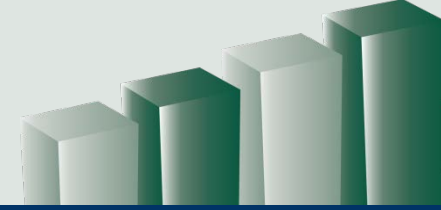


To infinity
and beyond...

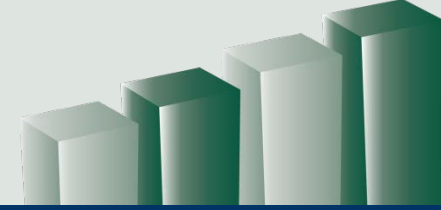
It definitely won't be another 2008 either . . .



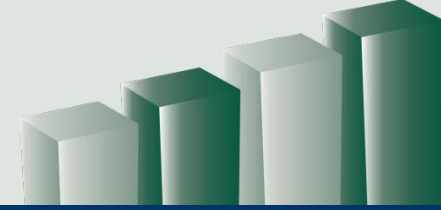
It's not even another 2009 – 2013.



It's going to look more like this . . . A bit wobbly but definitely a better year.



- ✓ Fed Policy
- ✓ Corporate Profits
- ✓ Gas Prices
- ✓ Job Growth
- ✓ Population Growth



Thanks!

**RCG
ECONOMICS**



RCG ECONOMICS

Contact:

John Restrepo

702-967-3188

jrestrepo@rcg1.com

www.rcg1.com

Twitter: @rcgeconomics