

# Las Vegas Valley Executive Summary

## Commercial Real Estate Markets - 3<sup>rd</sup> Quarter 2014

### INDUSTRIAL



### OFFICE



### RETAIL



# RCG ECONOMICS

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October 27, 2014

Re: Commercial Real Estate Survey: 3<sup>rd</sup> Quarter, 2014

Dear Reader,

RCG Economics and the UNLV Lied Institute for Real Estate Studies are excited to produce the *Lied-RCG Commercial Real Estate Survey* ("the Survey") containing the most comprehensive, timely and accurate data and analysis on the Las Vegas Valley's industrial, speculative office and anchored retail markets.

RCG Economics has partnered with the Lied Institute to produce objective and independent quarterly surveys on the health and state of the commercial real estate market. RCG is a leader in real estate market research and analysis, including commercial real estate and economic forecasting. The Lied Institute seeks to advance real estate knowledge through research, student scholarship, certificate programs and community outreach activities.

The Survey is born of our commitment to excellence in serving those organizations requiring superior up-to-date market analysis and data to make key decisions. Developing this Private-Public Partnership to collect, analyze and release unbiased information is further proof of this commitment. Equally important, the data herein are collected as close as possible to the end of each quarter.

This survey documents historical and current market conditions at the Valley and submarket levels. The data contained within are organized and tracked by our in-house research analysts and economists to provide the best analysis of Las Vegas' commercial real estate markets. The survey contains a variety of meaningful market indicators, including:

- ◆ Total existing inventory
- ◆ New and planned construction activity
- ◆ Vacancy and occupancy levels
- ◆ Net Absorption
- ◆ "Coupon" or quoted monthly rents

Further, our three commercial (industrial, office and retail) databases contain benchmark building data, by submarket, dating back to 1996. This information allows us to develop "custom" studies for our readers and clients. It is through this survey and our other services and products, that we remain the "Source for Decision Makers."

Regards,

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## Las Vegas Industrial Survey

3rd Quarter 2014



BELTWAY BUSINESS PARK

# LAS VEGAS INDUSTRIAL SURVEY

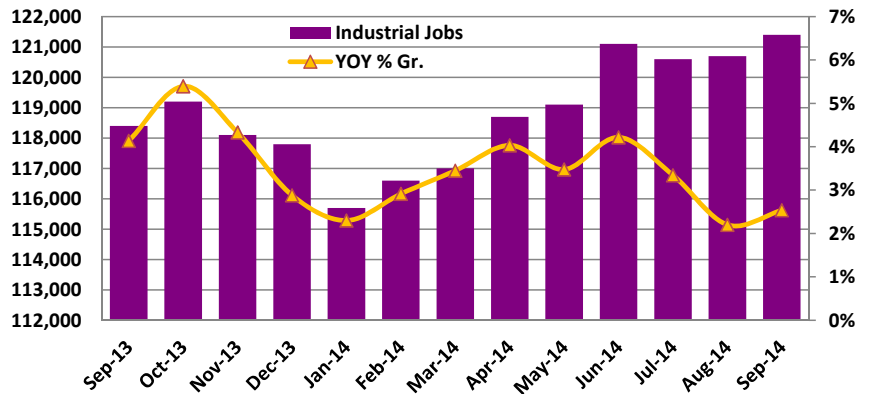
## SUMMARY

The Las Vegas Valley's ("the Valley") industrial market<sup>1</sup> ended Q3, 2014 with an inventory of 107.9 million square feet ("sf"). Net absorption (net demand) during Q3 was 1,184,000 sf. The quarter also ended with an industrial vacancy rate of 8.6%, 4.0 percentage points lower than the same time last year. At \$0.60 per square foot ("psf") NNN<sup>2</sup>, the average monthly asking rent for industrial space was higher than Q2 (\$0.58 psf) and Q3, 2013 (\$0.51 psf). At the end of Q3, there were 3.4 million sf of industrial forward-supply<sup>3</sup> (1.8 million sf under construction and 1.6 million sf in the planning stages). All under-construction space was in Warehouse/Distribution buildings. Performance metrics for the Valley's industrial market in the last four quarters indicate that we are now in the midst of a recovery, and in some submarkets, fully recovered and growing once again.

## INDUSTRIAL-RELATED JOBS

Jobs in the industrial space-using sector represented 16% (121,400 jobs) of all private jobs in Clark County at the end of September 2014. This was 3,000 more (+2.5%) than existed in September 2013.<sup>4</sup> Since November 2012, industrial sector job growth has posted solid year-over-year growth (>2%) every month, outpacing population growth and helping lower the unemployment rate. The Construction sector (+1,200 jobs, +2.8%) and the Manufacturing sector (+900 jobs, +4.3%) have shown the greatest job gains since September 2013.

**Clark County Total\* Industrial Jobs and Annual Growth: Sep-13 to Sep-14**



\*Natural resources, construction, manufacturing, and transportation & warehousing industries. Source: Nevada Department of Employment, Training and Rehabilitation; calculated by RCG Economics.

## Industrial Employment

Industry Sector	Jul			Aug			Sep		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Nat. Resources	300	300	0.0%	300	300	0.0%	300	300	0.0%
Construction	43,500	41,000	6.1%	43,200	42,400	1.9%	43,600	42,400	2.8%
Manufacturing	21,400	20,900	2.4%	21,600	20,900	3.3%	21,800	20,900	4.3%
Wholesale Trade	20,500	20,500	0.0%	20,600	20,600	0.0%	20,700	20,600	0.5%
Transp. & Warehousing	34,900	34,000	2.6%	35,000	33,900	3.2%	35,000	34,200	2.3%
<b>Total</b>	<b>120,600</b>	<b>116,700</b>	<b>3.3%</b>	<b>120,700</b>	<b>118,100</b>	<b>2.2%</b>	<b>121,400</b>	<b>118,400</b>	<b>2.5%</b>

Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

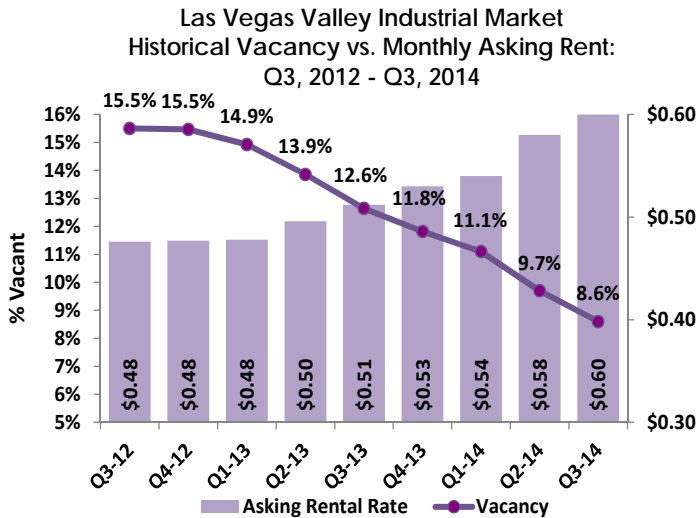
## VACANCY & RENTS

On the heels of nearly 1.2 million sf of absorption, the Valley's total industrial vacancy rate (direct vacant space plus sublease vacant space) decreased to 8.6% in Q3, down from 9.7% in Q2 and plunged from the 12.6% recorded in Q3, 2013. With this decrease, the industrial market is now well below the generally accepted 10% stabilized market vacancy rate. Vacancy levels have shown notable improvement in all quarters since peaking in Q3, 2012 when the rate stood at 15.5%. This change is reflected in the increased demand for industrial space since Q1, 2013 and the slew of projects in the works at of the end of Q3.

On a submarket basis, the lowest industrial vacancy rate in Q3 was still in Henderson at 6.0%, up a bit from 5.4% in Q2. The Northwest submarket posted the highest vacancy rate among the Valley's seven submarkets at 13.1%, but is still 2.0 percentage points lower than the previous quarter's 15.1% rate. For the largest industrial submarket (the Southwest), the vacancy rate declined by 1.8 percentage points from 11.0% last quarter to 9.2% this quarter. It's an excellent sign that the Valley's largest industrial submarket now has a vacancy rate of less than 10%. The Airport and

## INDUSTRIAL MARKET

North Las Vegas submarkets also saw vacancy rate drops since Q2, by 3.0 and 0.9 percentage points, respectively. Other than the Henderson submarket, the East Las Vegas submarket was the only area to record an increase in vacancy rate for the quarter, from 6.3% to 10.2%; however, as it makes up only about 2% of total industrial market space, it is prone to large swings in vacancy rate with minimal change in occupied space. The West Central market remains unchanged at 7.1% vacant. On a year-over-year basis, every submarket has improved.



rate dropped from 12.6% to 8.6%, a 4.0-point improvement. This big drop is unlikely to happen a year from now, though, since the Valley's industrial market appears to be moving to a supply-constrained state.

Monthly asking rents for industrial space (calculated on a NNN basis — or not accounting for any operating expenses) have risen for six quarters. Reaching \$0.60 per sf in Q3, 2014, rents are up \$0.02 since last quarter's \$0.58 and \$0.09 since Q3, 2013's \$0.51 psf.

### DEMAND

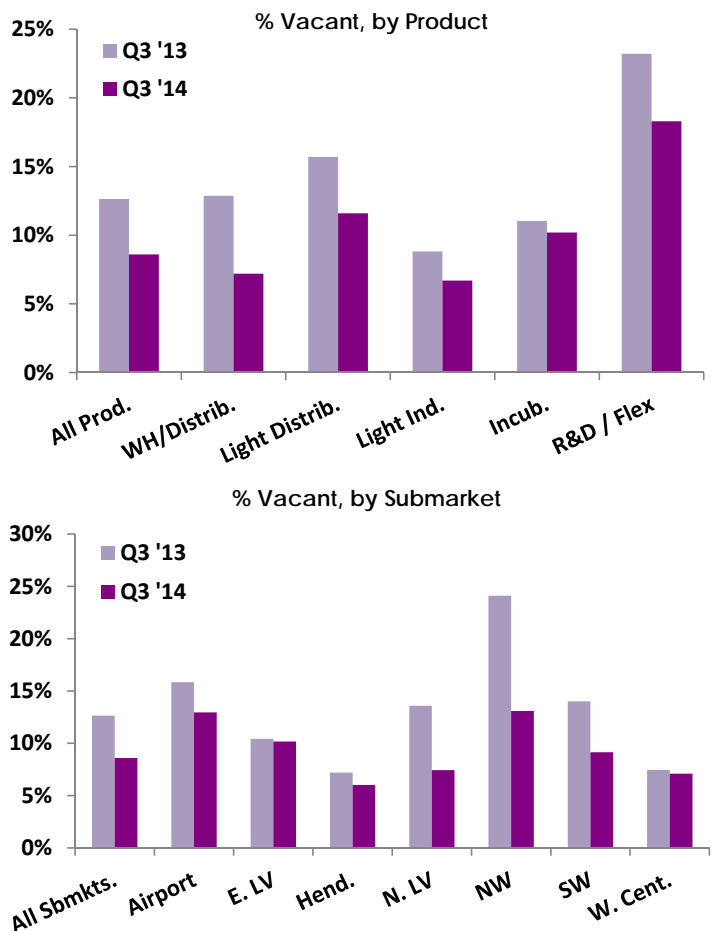
Q3 demand (defined as total net absorption) in the Valley's industrial market was positive for the 8th straight quarter with 1,184,000 sf of net space absorbed. Year-to-date net absorption is 3,700,000 sf compared to 3,740,700 at the same time in 2013. These figures strongly indicate that, not only has most of the Valley's industrial market fully recovered from the Great Recession, but that it is back on an upward and strong growth trajectory.

By submarket, the Southwest, for the second straight quarter, saw the highest net absorption with 616,700 sf. The Airport (+420,600 sf), North Las Vegas (+305,800 sf), Northwest (+26,500 sf) and West Central (+3,000 sf) submarkets also posted increases in net absorption. Only the East Las Vegas (-109,300 sf) and Henderson (-79,200 sf) submarkets reported negative net absorption this quarter, and they were minimal losses.

Every product type experienced a drop in vacancies this quarter. The largest drop, by percentage point, is in R&D/Flex space, which decreased 2.2 points, from 20.5% to 18.3%. Next is light distribution, dropping by 2.0 points. Light Industrial space had the lowest vacancy among all industrial types at 6.7% at the end of Q3, while R&D/Flex space remains the highest.

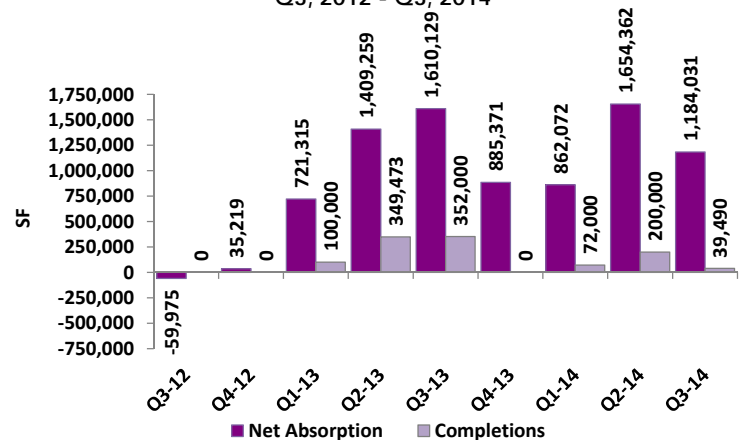
Relative to Q3, 2013, all product types have improved as well. Warehouse/Distribution space experienced the biggest Y-O-Y change with a 5.7 percentage point drop, while R&D/Flex had the second steepest decline at 4.9 percentage points. The drops in vacancy rates for Light Distribution, Light Industrial and Incubator space were 4.1, 2.1 and 0.8 points, respectively. As noted above, the end result is that the overall market industrial vacancy

### Las Vegas Valley Industrial Market Vacancy Trends: Q3, 2013 v. Q3, 2014



Product demand in Q3 showed improvements in all five subtypes. Warehouse/Distribution led the way with 481,900 sf absorbed for the quarter, followed by Light Distribution with 355,100 sf of absorption. R&D/Flex (+129,600 sf) and Incubator (+128,900 sf) space also saw strong growth, when considering their smaller size. Light Industrial rounded things out with 88,600 sf of space absorbed. Strong demand for Warehouse/Distribution space has driven the Valley's positive net absorption over the last year. About 4.6 million sf of industrial space has been absorbed in that time, with a little over 2.8 million sf absorbed in Warehouse/Distribution space alone. All other products were also positive over the year: Light Distribution (717,400 sf), Light Industrial (692,200 sf), R&D/Flex (286,400 sf) and Incubator (66,100 sf).

Las Vegas Valley Industrial Market  
Historical Net Absorption vs. Completions:  
Q3, 2012 - Q3, 2014



## SUPPLY

There were 39,500 sf of completions during Q3, 2014, increasing the number of buildings the RCG/UNLV tracks to 4,206 while the inventory remained around 107.9 million sf. Over the past year, 311,500 sf have been brought to market, in the form of three build-to-suit ("BTS") spaces. In comparison to recent years, no new space was completed in 2012 and 801,400 sf of industrial space was completed in 2013. This year, three projects have been completed thus far, totaling about 311,500 sf: VadaTech's 72,000-square-foot Light Industrial facility (Q1), Nicholas & Brothers Food Distributors' 200,000-square-foot Warehouse/Distribution building (Q2) and the Tapia Brothers' 39,500-square-foot Warehouse expansion (Q3). Plus, if all goes according to schedule, there should be about 889,000 sf of more industrial space opening next quarter.

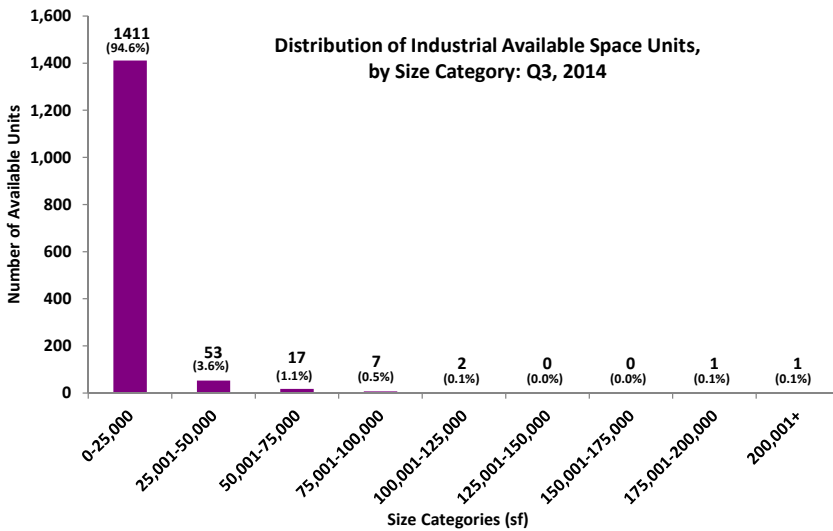
Still, the space set to open next quarter is just a fraction of the new space in the works. With the Industrial market now seemingly healthy, there is a lot of movement on the new construction and planning scene. There were six projects under construction at the end of the third quarter, which supports the ongoing trend toward warehouse/distribution developments:

- Konami Gaming's expansion (193,000 sf in Airport),
- The new FedEx Ground Distribution Center (296,000 sf in Henderson),
- TJ Maxx's expansion (400,000 sf in North Las Vegas),
- Fab.com's Warehouse/Distribution center (450,000 sf in North Las Vegas),
- Spielo's new Warehouse/Distribution building (45,500 sf in Southwest) and
- The Las Vegas Corporate Center No. 19 (464,200 sf in North Las Vegas).

On top of all this construction, there are now five other projects well into the planning stages. They include:

- The LogistiCenter Cheyenne (381,000 sf of Warehouse/Distribution in East Las Vegas),
- Sunrise Industrial Park #9-10 (787,800 sf of Warehouse/Distribution in East Las Vegas),
- Cheyenne Distribution Center #3 (163,800 sf of Warehouse/Distribution in Southwest),
- The Blue Diamond Business Center expansion (167,300 sf of Warehouse/Distribution in Southwest) and
- The new Ainsworth Americas Headquarters (190,000 sf of Light Industrial in Southwest).

Many of these projects are part of the economic recovery of Southern Nevada and its ongoing positioning as regional distribution hub. As the chart below demonstrates, there is a critical shortage of available industrial space over 100,000 sf. This shortage is dampening the rate of economic development in the region, because there is mounting evidence that Southern Nevada has lost a number of prospective businesses to other markets due to the shortage in these large



industrial spaces. Additionally, this is limiting the growth potential of existing businesses, because of the inability to expand operations and, thus, hiring. These new projects aim to help remedy the existing issues.

**FURTHER THOUGHTS**

As an important indicator of the steadily improving Southern Nevada economy, the industrial market has finally reached a healthy supply-demand balance with a vacancy rate of 8.6%. The last time Southern Nevada had an industrial vacancy rate this low was in Q2, 2008. Local businesses continue to expand and the attention by firms from outside the state on the Las Vegas area continues to grow. The

result: the Valley's industrial market saw net absorption of 1,184,000 sf this quarter and 3,700,000 sf year-to-date for 2014.

The Valley's industrial market has seen remarkable turnaround considering the depth and breadth of the Great Recession. This turnaround speaks to the market's locational attributes, which are a fundamentally healthy; and to the hard work of all those parties promoting and developing Southern Nevada. However, the region is now starting to face what it did during the boom period just prior to the advent of the Great Recession - an industrial space shortage. This shortage is sure to pose potentially significant economic development and growth challenges. As shown above, at the end of Q3, there were only four available contiguous spaces above 100,000 sf, less than half of what was available last quarter. How and when Southern Nevada's public policy makers and the development community address this shortage is a critical issue.

We would like, again, to refer our readers to a survey and market study RCG conducted (See <http://www.rcg1.com/industrial-building-survey-comparative-market-analysis-march-2014/>) for the Las Vegas Global Economic Alliance (<http://www.nevadadevelopment.org/>) on this shortage issue and its effects on Southern Nevada's economic development efforts.

We continue to encourage local government officials to think long-term and not convert "employment" land, especially office and industrial acreage, to residential uses. Short-term demand for a certain type of development — i.e. home-building — due to unusual market and lending conditions should not trump long-term planning. Nevada needs a healthy commercial/jobs-housing balance to support continued economic growth and economic development.

<sup>1</sup> Includes all single and multi-tenant for-lease and owner-occupied industrial Warehouse/Distribution, Light Distribution, Light Industrial, Incubator and R&D Flex properties with roll-up doors in the Las Vegas Valley.

<sup>2</sup> All industrial rents in this report are quoted on a monthly triple net (NNN) per square foot basis and does not include additional expenses such as taxes, insurance, maintenance, janitorial and utilities. Rents are based on the direct vacant space in projects, not the average of leases in projects.

<sup>3</sup> Forward-supply is a combination of space presently under construction in a quarter and space planned to begin construction within the next 4 quarters.

<sup>4</sup> Includes the following industries: Natural Resources, Construction, Manufacturing, and Transportation & Warehousing and Wholesale Trade from the Nevada Department of Employment, Training and Rehabilitation's latest employment statistics.



## INDUSTRIAL MARKET GLOSSARY

Properties tracked have loading dock-grade-level doors. Building characteristics were used to define the appropriate sub-type classification. These characteristics can include a building's primary use, size, type of loading doors, clear heights and parking ratios. A property must exhibit one or more of the typical building characteristics to be classified into subtypes.

**Warehouse/Distribution**

These buildings are the largest among the subtypes and are used for warehousing and distributing materials and merchandise. Warehouse facilities are primarily used for storage and distribution buildings are warehouse facilities designed to accommodate the freight and movement of products/goods.

- Multi- or single-tenant,
- Building/park size of at least 10,000 square feet,
- Dock-high doors (or grade-level doors) and clear heights of at least 16 feet, and
- Parking ratios of: 1-2/1,000 square feet - traditional warehouse/distribution  
3-4/1,000 square feet - high velocity warehouse/distribution.

**Light Distribution**

These buildings are primarily used as a distribution transfer center for the transshipment of products/goods (usually to change the mode of transport or for consolidation or deconsolidation of goods before shipment).

- Multi- or single-tenant,
- Building/park size of at least 5,000 square feet, usually characterized by long narrow buildings,
- Cross-dock doors (or several dock high doors) with 12-16 feet clear height to accommodate transfer to/from multiple trucks, and
- Parking ratios of: 1-2/1,000 square feet - traditional warehouse/distribution  
3-4/1,000 square feet - high velocity warehouse/distribution.

**Light Industrial**

These buildings are primarily used for light industrial manufacturing (rather than heavy industrial manufacturing that uses large amounts of raw materials, power and space) to produce and/or assemble products/goods for consumers as end-users.

- Multi- or single-tenant,
- Building/park size of at least 7,000 square feet,
- Grade-level doors (or dock-high doors) and clear heights usually between 13 feet and 18 feet, and
- Parking ratio of 4+/1,000 square feet.

**Incubator**

Buildings or portions of buildings that accommodate companies in the early phase of growth. The typical user generally needs 1,000 to 3,000 square feet of warehouse space plus 5% to 20% earmarked for office space with the remaining being the warehouse space. Because of its lower space needs, an incubator tenant is usually a low-volume business needing more less frequent packing and unpacking activity and smaller shipment sizes.

- Multi-tenant,
- Building/park size of at least 5,000 square feet,
- Grade-level doors with clear heights less than 15 feet, and
- Parking ratio: Less than 3/1,000 square feet.

**R&D/Flex**

These buildings are the smallest among the subtypes and are designed to allow its occupants to easily alternate uses as industrial space or office space. This may include:

- Industrial space generally as light industrial or incubator; and
- Office space generally as research and development (R&D) parks.
- Multi- or single-tenant,
- Building/park size of at least 2,000 square feet,
- Grade-level doors with clear heights less than 15 feet, and
- Parking ratio of 3-4/1,000 square feet.

# Industrial Market Matrix

Las Vegas, Nevada

Third Quarter, 2014

## SUBMARKETS

TOTAL INDUSTRIAL MARKET	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	501	149	533	1,015	81	1,279	648	4,206
Total Rentable SF	14,127,625	2,823,817	12,770,916	31,691,519	1,336,299	33,137,033	12,016,433	107,903,642
Total Vacant SF	1,828,680	287,354	770,114	2,355,870	174,865	3,033,281	853,808	9,303,972
Total Occupied SF	12,298,945	2,536,463	12,000,802	29,335,649	1,161,434	30,103,752	11,162,625	98,599,670
Total Vacant (%)	12.9%	10.2%	6.0%	7.4%	13.1%	9.2%	7.1%	8.6%
Completions QTD	0	0	0	39,490	0	0	0	39,490
Completions YOY	0	0	72,000	239,490	0	0	0	311,490
Total Net Absorption QTD	420,569	-109,318	-79,199	305,783	26,485	616,706	3,005	1,184,031
Total Net Absorption YOY	407,605	7,192	217,108	2,154,735	147,492	1,608,622	43,082	4,585,836
Asking Rents (\$ PSF)	\$0.81	\$0.40	\$0.60	\$0.41	\$1.08	\$0.59	\$0.74	\$0.60
Under Construction SF	193,000	0	296,000	1,314,203	0	45,500	0	1,848,703
Planned SF	0	1,168,760	0	163,790	0	241,500	0	1,574,050

WAREHOUSE/DISTRIBUTION	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	78	18	77	177	5	140	52	547
Total Rentable SF	4,844,394	907,075	6,459,019	18,745,949	223,661	13,066,312	1,939,836	46,186,246
Total Vacant SF	398,334	150,874	124,450	1,361,133	13,367	1,206,458	73,282	3,327,898
Total Occupied SF	4,446,060	756,201	6,334,569	17,384,816	210,294	11,859,854	1,866,554	42,858,348
Total Vacant (%)	8.2%	16.6%	1.9%	7.3%	6.0%	9.2%	3.8%	7.2%
Completions QTD	0	0	0	39,490	0	0	0	39,490
Completions YOY	0	0	0	239,490	0	0	0	239,490
Total Net Absorption QTD	98,352	-141,174	15,716	216,335	0	292,636	0	481,865
Total Net Absorption YOY	168,036	-138,081	111,254	1,646,110	37,000	999,618	-282	2,823,655
Asking Rents (\$ PSF)	\$0.54	\$0.35	\$0.66	\$0.35	\$0.49	\$0.48	\$0.51	\$0.43
Under Construction SF	193,000	0	296,000	1,314,203	0	45,500	0	1,848,703
Planned SF	0	1,168,760	0	163,790	0	0	0	1,332,550

LIGHT DISTRIBUTION	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	68	19	37	167	1	181	40	513
Total Rentable SF	3,169,129	340,675	1,571,703	4,848,934	51,000	6,930,636	775,747	17,687,824
Total Vacant SF	401,204	0	284,322	425,098	3,800	817,102	119,784	2,051,310
Total Occupied SF	2,767,925	340,675	1,287,381	4,423,836	47,200	6,113,534	655,963	15,636,514
Total Vacant (%)	12.7%	0.0%	18.1%	8.8%	7.5%	11.8%	15.4%	11.6%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	221,897	20,300	-110,137	98,328	13,413	140,398	-29,100	355,099
Total Net Absorption YOY	146,953	30,676	-93,755	377,907	20,891	215,512	19,224	717,408
Asking Rents (\$ PSF)	\$0.66	\$0.00	\$0.48	\$0.35	\$0.65	\$0.59	\$0.46	\$0.52
Under Construction SF	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0

# Industrial Market Matrix

## Las Vegas, Nevada Third Quarter, 2014

### SUBMARKETS

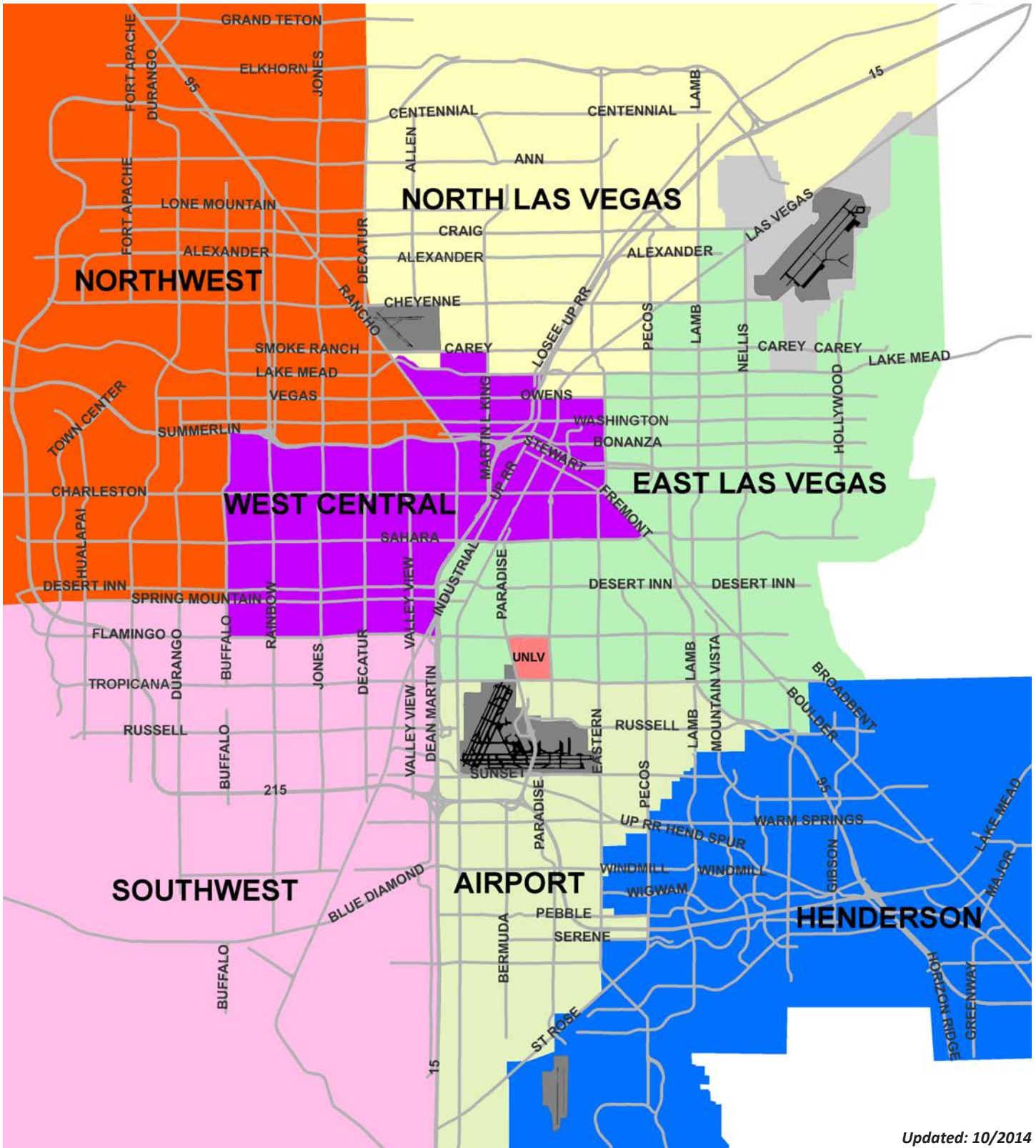
LIGHT INDUSTRIAL	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	199	91	313	594	16	740	482	2,435
Total Rentable SF	3,076,809	1,135,150	3,057,009	6,755,260	290,111	9,121,042	6,622,403	30,057,784
Total Vacant SF	378,816	65,383	206,480	380,813	4,920	570,374	416,921	2,023,707
Total Occupied SF	2,697,993	1,069,767	2,850,529	6,374,447	285,191	8,550,668	6,205,482	28,034,077
Total Vacant (%)	12.3%	5.8%	6.8%	5.6%	1.7%	6.3%	6.3%	6.7%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	72,000	0	0	0	0	72,000
Total Net Absorption QTD	-16,769	3,500	-22,039	-12,112	2,092	61,791	72,128	88,591
Total Net Absorption YOY	44,897	76,927	103,153	103,115	22,391	211,026	130,685	692,194
Asking Rents (\$ PSF)	\$1.11	\$0.56	\$0.69	\$0.42	\$0.39	\$0.63	\$0.80	\$0.70
Under Constuction SF	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	241,500	0	241,500

INCUBATOR	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	89	13	29	31	4	120	62	348
Total Rentable SF	1,714,621	298,623	456,906	561,552	99,325	2,496,381	2,458,615	8,086,023
Total Vacant SF	294,388	51,698	24,706	72,407	1,922	170,119	206,407	821,647
Total Occupied SF	1,420,233	246,925	432,200	489,145	97,403	2,326,262	2,252,208	7,264,376
Total Vacant (%)	17.2%	17.3%	5.4%	12.9%	1.9%	6.8%	8.4%	10.2%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	59,834	5,056	11,543	3,232	13,282	62,427	-26,509	128,865
Total Net Absorption YOY	-28,324	52,824	40,097	-21,329	9,839	87,561	-74,538	66,130
Asking Rents (\$ PSF)	\$0.80	\$0.45	\$0.55	\$0.56	\$0.65	\$0.77	\$0.82	\$0.75
Under Constuction SF	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0

R&D / FLEX	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	67	8	77	46	55	98	12	363
Total Rentable SF	1,322,672	142,294	1,226,279	779,824	672,202	1,522,662	219,832	5,885,765
Total Vacant SF	355,938	19,399	130,156	116,419	150,856	269,228	37,414	1,079,410
Total Occupied SF	966,734	122,895	1,096,123	663,405	521,346	1,253,434	182,418	4,806,355
Total Vacant (%)	26.9%	13.6%	10.6%	14.9%	22.4%	17.7%	17.0%	18.3%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	57,255	3,000	25,718	0	-2,302	59,454	-13,514	129,611
Total Net Absorption YOY	76,043	-15,154	56,359	48,932	57,371	94,905	-32,007	286,449
Asking Rents (\$ PSF)	\$0.86	\$0.51	\$0.78	\$0.75	\$1.12	\$0.87	\$0.68	\$0.89
Under Constuction SF	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0

# LAS VEGAS VALLEY

## INDUSTRIAL SUBMARKET MAP



Updated: 10/2014



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# Las Vegas Speculative Office Survey

## 3rd Quarter 2014



HUGHES CENTER

# LAS VEGAS SPECULATIVE OFFICE SURVEY

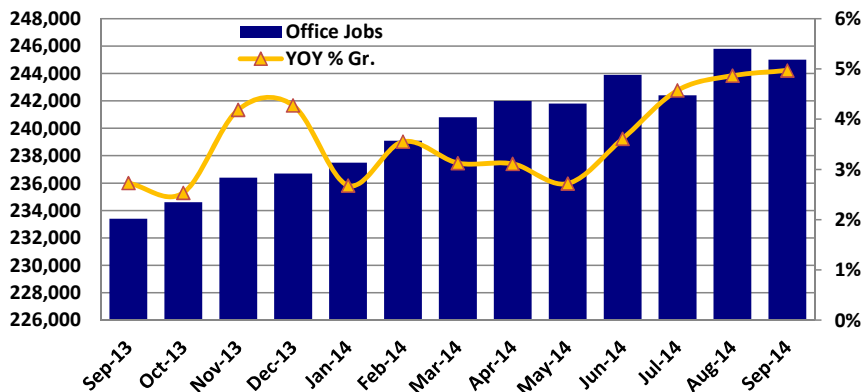
## SUMMARY

The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market<sup>1</sup> saw 170,000 sf of space completed at the end of Q3, 2014, upping the total inventory to 42.8 million sf. Vacancy was 21.6% at the end of Q3, down from 22.7% for Q2, 2014. The 600,900 sf of net absorption in Q3 marked four straight quarters of rising demand. At \$1.88 per square foot ("psf") FSG,<sup>2</sup> the average monthly asking rent rose for the second quarter in a row. At the end of the quarter, there are 290,900 sf of spec office space under-construction and 272,000 sf of space in the planning stages. Most of this under-construction space is concentrated in Class A product in the Northwest sub-market.

## OFFICE-RELATED JOBS

Employment in the office-space using sector, a critical indicator of the health of the local economy, comprised 31% (245,000 jobs) of private employment in Clark County at the end of Q3 (September 2014). This was 11,600 more (+5.0%) than existed in September 2013.<sup>3</sup> Job growth this year has been fairly strong with 3.7% average monthly growth during the last nine months. Job

**Clark County Total\* Office Jobs and Annual Growth: Sep-13 to Sep-14**



\*Information, financial activities, professional & business and health care & social assistance. Source: Nevada Department of Employment, Training and Rehabilitation; calculated by RCG Economics.

## Office Employment

Industry Sector	Jul			Aug			Sep		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Information	9,500	10,000	-5.0%	9,600	9,700	-1.0%	9,900	9,600	3.1%
Financial Activities	44,400	43,100	3.0%	44,500	43,200	3.0%	44,500	43,200	3.0%
Prof. & Business	115,200	108,800	5.9%	117,700	111,200	5.8%	116,700	110,200	5.9%
Health Care & Social Assist.	73,300	69,900	4.9%	74,000	70,300	5.3%	73,900	70,400	5.0%
<b>Total</b>	<b>242,400</b>	<b>231,800</b>	<b>4.6%</b>	<b>245,800</b>	<b>234,400</b>	<b>4.9%</b>	<b>245,000</b>	<b>233,400</b>	<b>5.0%</b>

Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

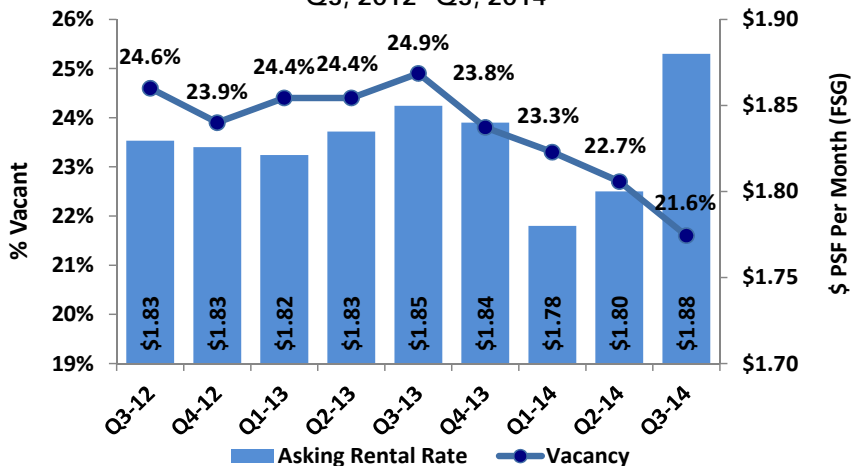
growth in the Professional and Business sector has been especially strong, posting a 5.3% average gain in the same nine-month period. However, the Information sector has been very weak this year, with -0.5% average monthly growth.

## VACANCY & RENTS

Total vacancy this quarter (directly vacant space plus vacant sublease space) in the Valley's spec office market dropped 1.1 points to 21.6%. This gain marks four consecutive quarters with an improving vacancy rate and is the first quarter to dip below 22% since Q1, 2010.

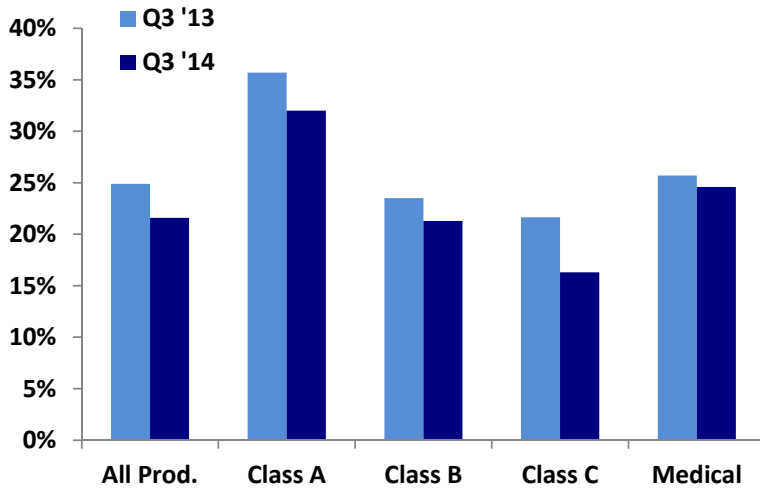
The North Las Vegas submarket now sports the lowest office market vacancy rate at 14.9%, due to high demand for its Class C space. There are two other submarkets in the Valley with a vacancy

**Las Vegas Valley Office Market Historical Vacancy vs. Monthly Asking Rent: Q3, 2012- Q3, 2014**



# SPECULATIVE OFFICE MARKET

**Las Vegas Valley Office Market  
Vacancy Trends: Q3, 2013 v. Q3, 2014**  
% Vacant, by Product



below 20%: the Airport and Downtown markets are at 17.4% and 15.3%, respectively. East Las Vegas has the highest vacancy rate at 25.0%, followed by West Central at 23.2%.

The East Las Vegas submarket vacancy rate plummeted by 4.8 percentage points since Q2, leading the way in Q3, along with North Las Vegas' 4.8 point drop; West Central dropped by 2.6 points and Airport declined by 2.3 points. The other submarkets saw vacancy rates rise, but not by much. The Southwest submarket had the largest (+1.2%) rise mainly due to increased vacancy in medical space. That said, its Class A vacancy rate decreased in spite of the opening of 170,000 sf of Class A office space at the Gramercy.

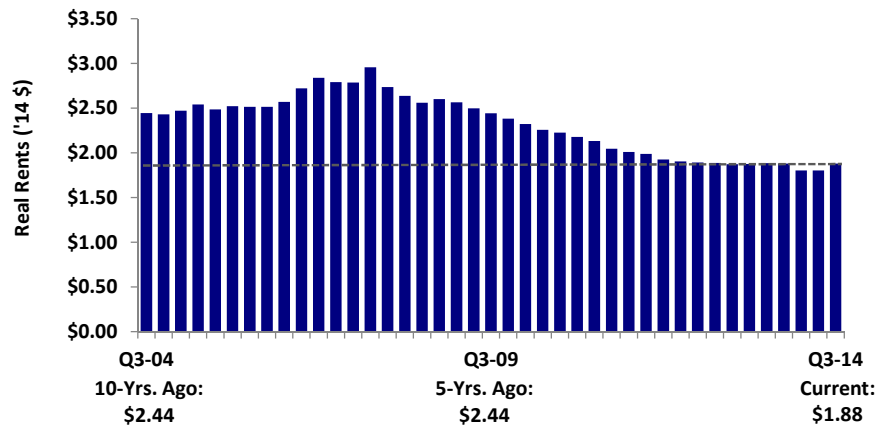
Still, the driver of the improving office vacancy

rate continues to be demand for Class C space, which posted a 2.3 percentage-point drop to 16.3%. The Class B market, which is smaller, also showed signs of life with a 2.0% improvement in vacancy. The Medical product type saw its vacancy rate increase again from 22.8% to 24.6%. Meanwhile, the Class A market crept up in overall vacancy rate and still has the highest rate at 32.0%. The vacancy rate for the Class B market stands at 21.3%.

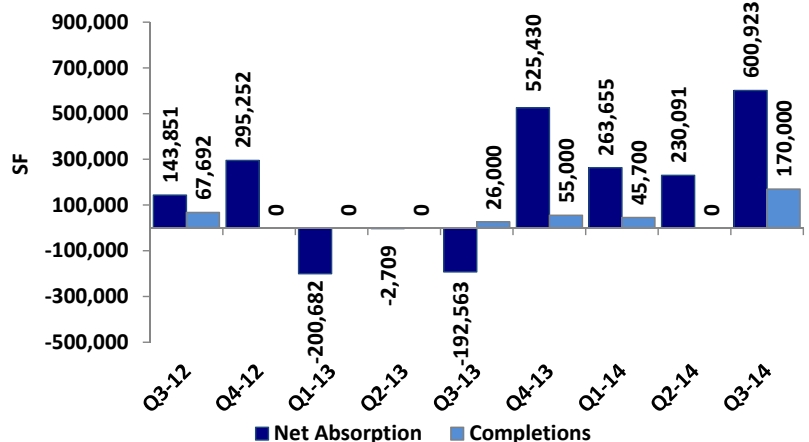
This quarter's vacancy rate is 3.3% points better than Q3, 2013. The data suggest that the Valley's overall spec office market is finally starting to improve, but still remains weak with a high overall vacancy rate. Still, the market is at its lowest vacancy rate since Q4, 2009. This, in addition to strong office-using job growth each month of 2014, points to a brighter future for the spec office market.

Average monthly asking office rent (calculated on a full-service gross basis—or accounting for all operating expenses) was \$1.88 per square foot ("psf") in Q3, \$0.08 more than the \$1.80 psf asking rent in the previous quarter. After a trend of decreases beginning in Q4, 2007, rents began to stabilize in 2012. It remains to be seen whether the asking rates are starting to increase, but this quarter's rise is a good sign.

**Las Vegas Valley Office Market  
Inflation-Adjusted Monthly Rent: Q3, 2004 - Q3, 2014 (Baseline)**



**Las Vegas Valley Office Market  
Historical Net Absorption vs. Completions:  
Q3, 2012 - Q3, 2014**



## SPECULATIVE OFFICE MARKET

### DEMAND

Valley-wide spec office total net absorption in Q3 was positive for the 4th straight quarter at 600,900 sf. On a year-over-year basis, net absorption totaled 1,517,900 sf, much more than in Q3, 2013 when there was 100,700 sf of negative absorption. This is a good indication that the Office market is turning things around.

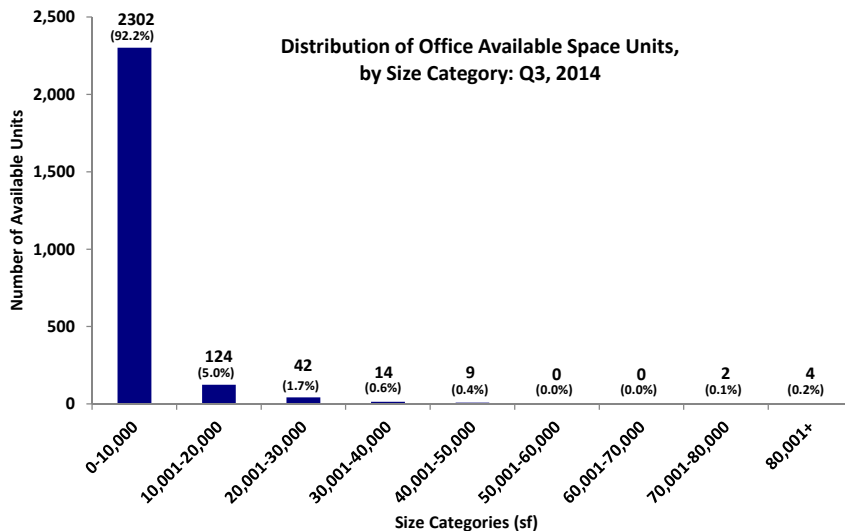
Most submarkets saw significant improvement this quarter. The East Las Vegas (+292,600 sf) and West Central (+138,400 sf) submarkets were the main engines of this quarter's growth, but Airport (+118,000 sf) came on strong, as well. The Southwest (+54,500 sf), Henderson (+48,100 sf) and North Las Vegas (+37,200 sf) submarkets also showed solid improvement. The Downtown and the Northwest (-30,900 and -57,000, respectively) submarkets, however, took a small step back.

By product, all three professional subtypes experienced positive absorption. Vacant Class A (+101,100 sf), Class B (+271,400 sf) and Class C (+354,700 sf) office space decreased for the quarter. Meanwhile, the Medical submarket (-126,400 sf) continued its slide.

### SUPPLY

The third quarter of 2014 saw 170,000 sf of new speculative Class A office space completed. This space was all in the new Gramercy property – 200,000 sf total, of which 170,000 sf is office space. This brings year-to-date completions to 215,700 sf. During the past 20 quarters (since Q1, 2010), there have now been only six quarters where new space has entered the market. However, four of these quarters have occurred in the last five quarters, indicating that developers believe that the long awaited office market turnaround, though still anemic, is here. Still, post-recession completions pale compared to the boom years, especially between 2006 and 2007, when annual office completions ranged between 0.75 million sf and 4.3 million sf.

The number of under-construction and planned projects has also increased this quarter. We have recorded four spec office projects in the forward supply<sup>4</sup> pipeline that should be completed within the next three quarters. One development underway is in the Northwest, the office component of Downtown Summerlin, One Summerlin, (198,000 sf - Class A). This is set to open in the Q1, 2015. We also expect the new Cadence Marketing Center (10,000 sf - Class A) to open in Henderson in Q4, 2014. Phase 2 of Tivoli Village (68,000 sf - Class A) in the Northwest market is scheduled for a Q2, 2015 opening. There is also a Class C project in the works: construction has begun on a 15,788-square-foot expansion of the Pecos Springs Business Park. This property is expected to expand in phases, starting with this space.



Regarding planned spec office space, 42,000 sf of Class B space in the Seven Hills Plaza D development are expected to break ground soon, as is the 80,000-square-foot Class C development dubbed The Square. In addition, there has been much fanfare around the recently proposed Union Village medical community going up in Henderson. Phase 1 of this project will include 150,000 sf of Medical office space.

An important measure of the near-term health of the commercial markets is the potential number of years of available supply. Given the high vacancy rate (21.6%) and the average quarterly absorption in the last 10 years (194,000 sf), we estimate that there still remains about a 6.8-year supply of speculative office



space in the Valley that must be absorbed to reach a 10% “normalized” vacancy. However, this is a half-year improvement from last quarter.

The chart above details the distribution of the size of available office space in the Valley.

### FURTHER THOUGHTS

Of the three commercial markets (Industrial, Office and Retail) we track, the speculative office market is the most directly dependent on job growth. Southern Nevada office jobs have now seen 37 months of YOY employment increases with at least 2% monthly growth (+11,600 jobs, +5.0% for September). This growth has started to whittle down the 20%+ vacancy rate that has ruled the Valley’s office market during the past 5 years. Like the industrial market, a potential economic development and growth challenge continues to face the region in the form of a lack of available contiguous office space of 40,001 sf or more. At the end of Q3, there were only 15 units of space in this size range.

As noted above, Valley-wide net absorption in Q3 was positive for the 4th straight quarter at 600,900 sf. On a year-over-year basis, net absorption totaled 1,517,900 sf compared to Q3, 2013 when a minus 100,700 sf were absorbed. This is a good indication that the Office market is turning things around.

The reluctance of most lenders to provide financing at terms that make sense to many developers continues in the aftermath of the Great Recession. This has been driven by stubbornly high Valley-wide vacancy rates and low rents during the last five plus years, because office-using job growth has taken a beating since the end of 2007.

As with the industrial market, we remain concerned that Southern Nevada’s municipalities will continue to be pressured to convert “employment” land to residential uses. Short-term demand for a certain type of development — i.e. single family residential — due to unusual market and lending conditions should not trump long-term economic considerations. Nevada needs a healthy jobs-housing balance to support continued economic growth and development.

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<sup>1</sup> Includes all for-lease (speculative only) professional office Class A, Class B, Class C and Medical office properties greater than or equal to 10,000 sf of gross leasable area. Does not include government buildings.

<sup>2</sup> All office rents in this report are quoted on a monthly full-service gross (FSG) psf basis inclusive of taxes, insurance, maintenance, janitorial and utilities.

<sup>3</sup> Includes the following industries: Information, Financial Activities, Professional & Business and Health Care & Social Assistance from the Nevada Department of Employment, Training and Rehabilitation’s latest employment statistics.

<sup>4</sup> Forward-supply is a combination of space presently under construction in a quarter and space planned to begin construction within the next 4 quarters.

**SPECULATIVE OFFICE MARKET GLOSSARY**

Office property buildings or building parks tracked include speculative, multi-tenant properties with at least 10,000 square feet of usable office space. Building characteristics were used to define the appropriate subtype classification (i.e., professional or medical). These characteristics can include rents, location, quality of building systems (e.g., mechanical, elevator and utility systems), finishes (e.g., lobby and hallway design/ materials), and amenities. A property must exhibit one or more of the typical building characteristics to be considered a specific classification.

**Class A**

Class A properties are the highest quality buildings in the market with steel frame construction, typically mid-rise (3 - 4 stories) or high-rise (5 stories or more).

- High asking gross rent (FSG) with a typical premium of 20-30% of office rents in the local market,
- Location within a central business area,
- Capacity to meet current tenant requirements and anticipated future tenant needs,
- Building finishes that are of high quality and competitive with new construction, and
- Maintenance, management and upkeep amenities above average.

**Class B**

Class B properties have buildings with steel frame, reinforced concrete or concrete tilt-up construction - usually low-rise (1 - 2 stories) or mid-rise (3 - 4 stories).

- Asking gross rent (FSG) typically in a specified range between asking gross rents for Class A and Class C buildings,
- Average to good location,
- Adequate capacity to deliver services currently required by tenants,
- Building finishes with average to good design and materials, and
- Maintenance, management and upkeep amenities that are considered average.

**Class C**

Class C properties have buildings with wood construction and are usually low-rise (1 - 2 stories).

- Asking gross rent (FSG) typically in the bottom 10-20% of office rents in the marketplace,
- Depends primarily on lower prices rather than desirable locations to attract occupants,
- Capacities that may not meet current tenant needs,
- Building finishes that show a dated appearance, and
- Maintenance, management and upkeep amenities that are below average.

**Medical**

An office building in which 50% or more of its available space under the various building classifications above consists of medical office use.

# Speculative Office Market Matrix

Las Vegas, Nevada  
Third Quarter, 2014

## SUBMARKETS

TOTAL OFFICE MARKET	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	307	119	183	330	94	388	388	275	2,084
Total Rentable SF	5,094,766	3,835,861	6,134,382	6,017,268	783,529	8,735,919	6,763,103	5,406,541	42,771,369
Total Vacant SF	888,841	586,715	1,536,255	1,350,147	117,132	2,011,328	1,494,454	1,256,600	9,241,472
Total Occupied SF	4,205,925	3,249,146	4,598,127	4,667,121	666,397	6,724,591	5,268,649	4,149,941	33,529,897
Total Vacant (%)	17.4%	15.3%	25.0%	22.4%	14.9%	23.0%	22.1%	23.2%	21.6%
Completions QTD	0	0	0	0	0	0	170,000	0	170,000
Completions YOY	0	55,000	0	42,700	0	0	170,000	0	267,700
Total Net Absorption QTD	117,961	-30,913	292,637	48,071	37,221	-56,997	54,534	138,409	600,923
Total Net Absorption YOY	309,436	124,788	481,725	125,502	48,922	200,008	207,770	19,788	1,517,939
Asking Rents (\$ PSF)	\$1.82	\$1.77	\$1.74	\$2.12	\$1.95	\$2.04	\$2.07	\$1.33	\$1.88
Under Constuction SF	15,788	0	0	10,000	0	265,080	0	0	290,868
Planned SF	0	0	0	192,000	0	0	80,000	0	272,000

PROFESSIONAL CLASS A	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	6	5	10	12	0	21	4	2	60
Total Rentable SF	665,904	795,116	1,472,466	828,068	0	1,616,232	567,112	227,624	6,172,522
Total Vacant SF	115,252	171,982	345,915	374,739	0	672,825	222,004	74,843	1,977,560
Total Occupied SF	550,652	623,134	1,126,551	453,329	0	943,407	345,108	152,781	4,194,962
Total Vacant (%)	17.3%	21.6%	23.5%	45.3%	0.0%	41.6%	39.1%	32.9%	32.0%
Completions QTD	0	0	0	0	0	0	170,000	0	170,000
Completions YOY	0	0	0	0	0	0	170,000	0	170,000
Total Net Absorption QTD	38,582	14,886	-3,258	-22,905	0	-24,504	107,777	-9,437	101,141
Total Net Absorption YOY	79,967	33,759	38,638	86,065	0	9,348	92,131	-7,271	332,637
Asking Rents (\$ PSF)	\$2.61	\$2.49	\$2.86	\$2.45	\$0.00	\$2.07	\$2.60	\$1.95	\$2.38
Under Constuction SF	0	0	0	10,000	0	265,080	0	0	275,080
Planned SF	0	0	0	0	0	0	0	0	0

PROFESSIONAL CLASS B	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	42	27	18	68	8	73	71	46	353
Total Rentable SF	1,936,021	1,775,096	1,066,557	2,189,754	200,796	2,737,551	2,405,132	1,666,046	13,976,953
Total Vacant SF	302,724	206,495	345,191	381,408	66,282	550,451	690,492	439,923	2,982,966
Total Occupied SF	1,633,297	1,568,601	721,366	1,808,346	134,514	2,187,100	1,714,640	1,226,123	10,993,987
Total Vacant (%)	15.6%	11.6%	32.4%	17.4%	33.0%	20.1%	28.7%	26.4%	21.3%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	55,000	0	42,700	0	0	0	0	97,700
Total Net Absorption QTD	94,449	-21,922	184,510	10,528	33,334	4,034	-31,969	-1,528	271,436
Total Net Absorption YOY	202,030	116,628	122,119	66,658	40,331	-24,332	-109,235	-34,123	380,076
Asking Rents (\$ PSF)	\$1.80	\$1.41	\$1.36	\$1.90	\$1.71	\$2.09	\$2.27	\$1.07	\$1.80
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	42,000	0	0	0	0	42,000

# Speculative Office Market Matrix

Las Vegas, Nevada  
Third Quarter, 2014

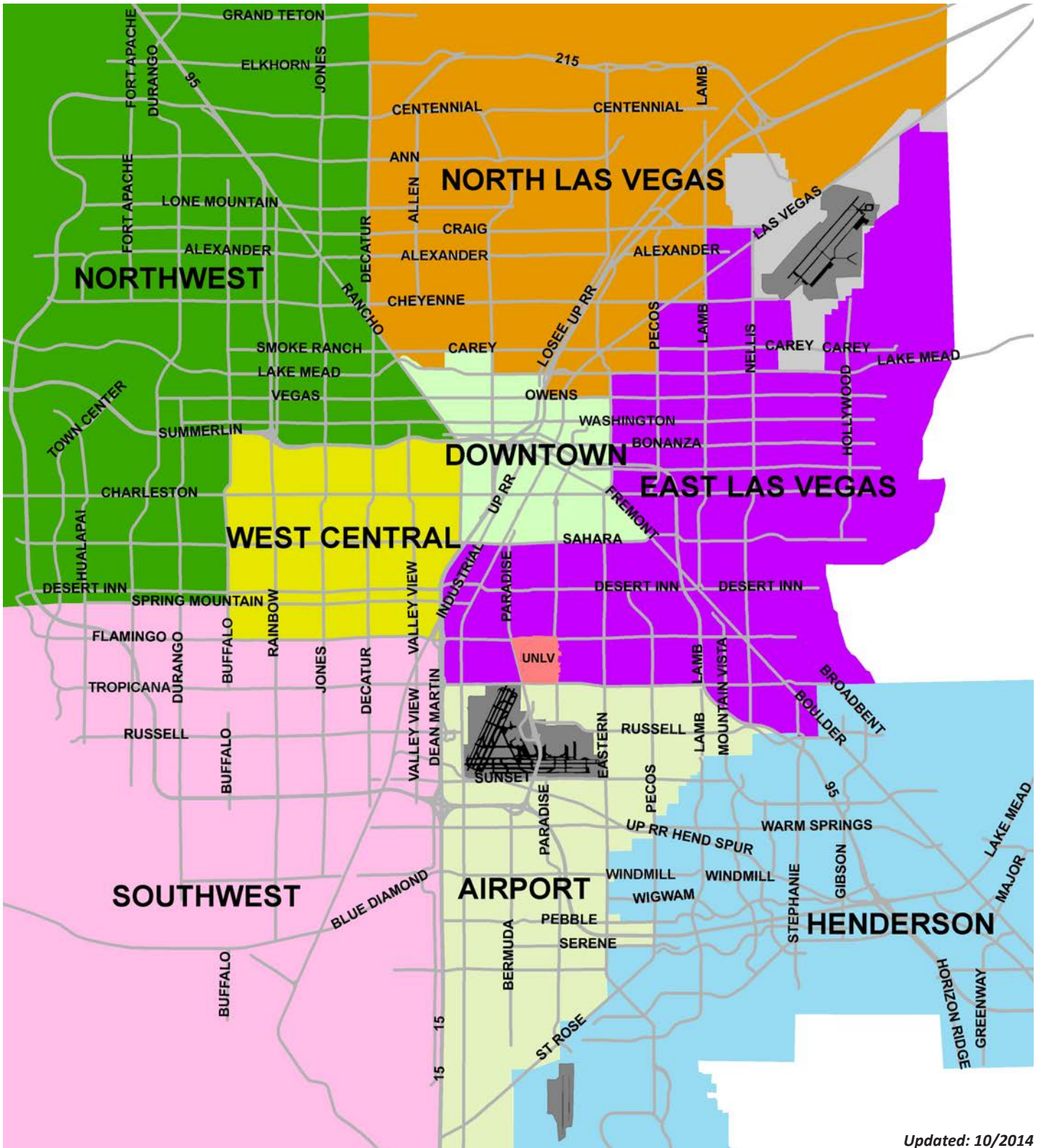
## SUBMARKETS

PROFESSIONAL CLASS C	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	253	66	110	144	76	210	272	187	1,318
Total Rentable SF	2,364,311	877,606	2,051,408	1,618,430	482,290	2,234,002	3,058,831	2,761,393	15,448,271
Total Vacant SF	453,388	154,080	358,381	277,028	19,670	325,355	395,137	533,458	2,516,497
Total Occupied SF	1,910,923	723,526	1,693,027	1,341,402	462,620	1,908,647	2,663,694	2,227,935	12,931,774
Total Vacant (%)	19.2%	17.6%	17.5%	17.1%	4.1%	14.6%	12.9%	19.3%	16.3%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-17,355	-15,231	99,757	51,232	14,467	31,939	48,508	141,413	354,730
Total Net Absorption YOY	34,540	-50,172	280,217	48,398	15,631	161,649	158,613	180,037	828,913
Asking Rents (\$ PSF)	\$1.65	\$1.41	\$1.34	\$1.78	\$2.36	\$1.79	\$1.76	\$1.32	\$1.58
Under Constuction SF	15,788	0	0	0	0	0	0	0	15,788
Planned SF	0	0	0	0	0	0	80,000	0	80,000

MEDICAL OFFICE	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	6	21	45	106	10	84	41	40	353
Total Rentable SF	128,530	388,043	1,543,951	1,381,016	100,443	2,148,134	732,028	751,478	7,173,623
Total Vacant SF	17,477	54,158	486,768	316,972	31,180	462,697	186,821	208,376	1,764,449
Total Occupied SF	111,053	333,885	1,057,183	1,064,044	69,263	1,685,437	545,207	543,102	5,409,174
Total Vacant (%)	13.6%	14.0%	31.5%	23.0%	31.0%	21.5%	25.5%	27.7%	24.6%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	2,285	-8,646	11,628	9,216	-10,580	-68,466	-69,782	7,961	-126,384
Total Net Absorption YOY	-7,101	24,573	40,751	-75,619	-7,040	53,343	66,261	-118,855	-23,687
Asking Rents (\$ PSF)	\$1.70	\$2.07	\$1.70	\$2.30	\$2.31	\$2.14	\$1.39	\$1.80	\$1.93
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	150,000	0	0	0	0	150,000

# LAS VEGAS VALLEY

## SPECULATIVE OFFICE SUBMARKET MAP



Updated: 10/2014



ARROYO MARKET SQUARE

**RCG**  
**ECONOMICS**

**UNLV**

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LEE BUSINESS SCHOOL

# Las Vegas Anchored Retail Survey

## 3rd Quarter 2014



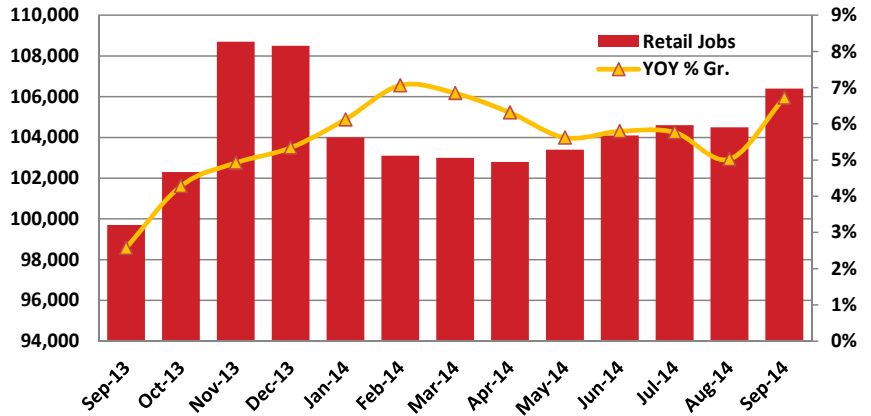
THE DISTRICT AT GREEN VALLEY RANCH

# LAS VEGAS ANCHORED RETAIL SURVEY

## SUMMARY

The Las Vegas Valley's ("the Valley") anchored retail market<sup>1</sup> inventory remained at 44.0 million square feet ("sf") in Q3, 2014 - there were no completions recorded during the quarter. We again see positive change in retail space demand. With a combined 201,500 sf, there have now been four straight quarters of net positive absorption. This helped push vacancy down to 11.0% from 11.5% last quarter and 12.4% in the same quarter last year. Average monthly asking rents decreased to \$1.22 per square foot ("psf") NNN<sup>2</sup> in Q3; \$0.05 lower than the previous quarter and \$0.08 lower than Q3, 2013. There are 278,700 sf of forward-supply<sup>3</sup> space, comprised of two Community Centers that are under construction.

**Clark County Total\* Retail Jobs and Annual Growth: Sep-13 to Sep-14**



Source: Nevada Department of Employment, Training and Rehabilitation; calculated by RCG Economics.

## RETAIL JOBS

There were 106,400 jobs in the Clark County retail sector at the end of September 2014, accounting for 14% of total private sector jobs. This represents 6,700 (+6.7%) more jobs than were recorded in Sep-

### Retail Employment

Industry Sector	Jul			Aug			Sep		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Gen. Merch. & Cloth./Accessories	37,600	36,800	2.2%	37,600	37,000	1.6%	37,900	37,000	2.4%
Food & Bev. Stores	15,700	15,200	3.3%	15,600	15,200	2.6%	15,800	15,300	3.3%
Health & Personal Care Stores	6,700	6,600	1.5%	6,700	6,500	3.1%	6,800	6,500	4.6%
Other Stores	44,600	40,300	10.7%	44,600	40,800	9.3%	45,900	40,900	12.2%
<b>Total</b>	<b>104,600</b>	<b>98,900</b>	<b>5.8%</b>	<b>104,500</b>	<b>99,500</b>	<b>5.0%</b>	<b>106,400</b>	<b>99,700</b>	<b>6.7%</b>

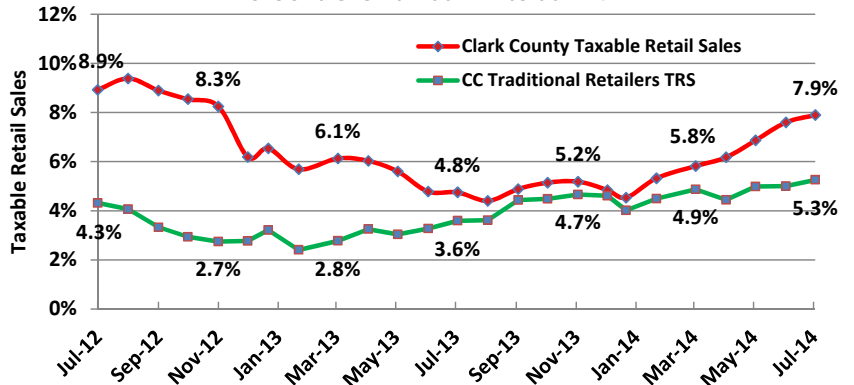
Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

tember 2013. General merchandise and clothing/accessories jobs rose by 2.4% (+900 jobs), but "other stores"<sup>4</sup> continued to show the strongest growth, posting 12.2% growth (+5,000 jobs) in the last year. Total retail job growth between the second and third quarters was +2,300. Employment in the retail sector has been increasing on a year-over-year ("YOY") basis since May 2010 and has shown strong gains (+6.1%) during 2014.

## TAXABLE RETAIL SALES

Clark County taxable sales continue to steadily climb. On a 12-month moving total basis, these sales reached \$35.3 billion in July, a 7.9% spike from July 2013. This brings the region's sales to around October 2008 levels, and nearer to the December 2007 peak. Moreover, the average year-over-year growth over the last 32 months is 6.8%. The economy, job growth and wages still need to improve, but at least we see that taxable sales are rebounding nicely. It's incredibly important the South-

**Clark County Total Taxable Retail Sales ("TRS") vs. Traditional Retailers TRS, Percent Growth: Jul-12 to Jul-14**



Source: Nevada Department of Taxation; calculated by RCG Economics.

## ANCHORED RETAIL MARKET

### Top 5 Traditional Retailers

	Taxable Retail Sales	YoY Change	YoY % Change
Food Services and Drinking Places	\$752,583,719	\$49,187,527	6.99%
General Merchandise Stores	\$238,446,657	\$10,079,499	4.41%
Electronics and Appliance Stores	\$93,094,479	\$9,733,663	11.68%
Clothing and Clothing Accessories Stores	\$278,651,763	\$9,005,406	3.34%
Furniture and Home Furnishings Stores	\$56,021,748	\$8,633,373	18.22%

Source: Nevada Department of Taxation. Note: The reason the DETR and Taxation retail categories do not match

ern Nevada economy that tourist spending has rebounded (it makes up around 30%-35% taxable sales in Clark County).

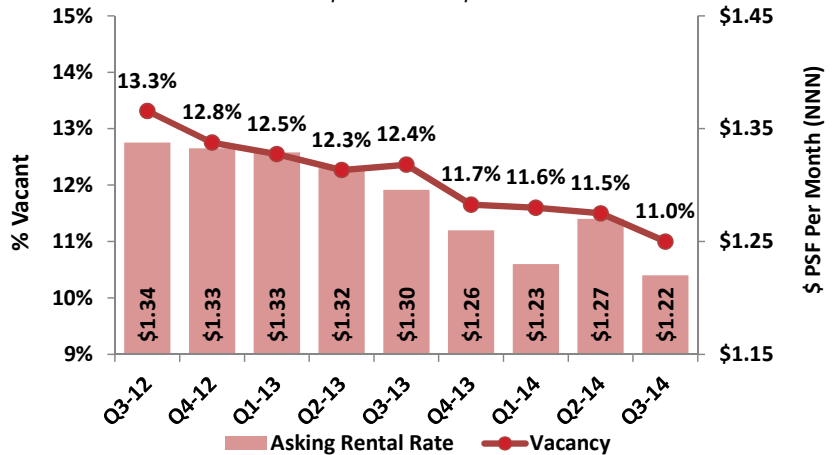
The three traditional retail sectors with the largest taxable sales growth, on an absolute basis, during the July 2013-July 2014 period, according to the Nevada Department of Taxation, were "food and drinking places" (+\$49M, +7%), "general merchandise stores" (+\$10M, +4.4%) and "electronics and appliance stores" (+\$10M, +12%). July was a good month for taxable sales and shows that the recovery continues to take hold in Southern Nevada. Below is a table of the top five performing year-over-year traditional retailer types.

### VACANCY & RENTS

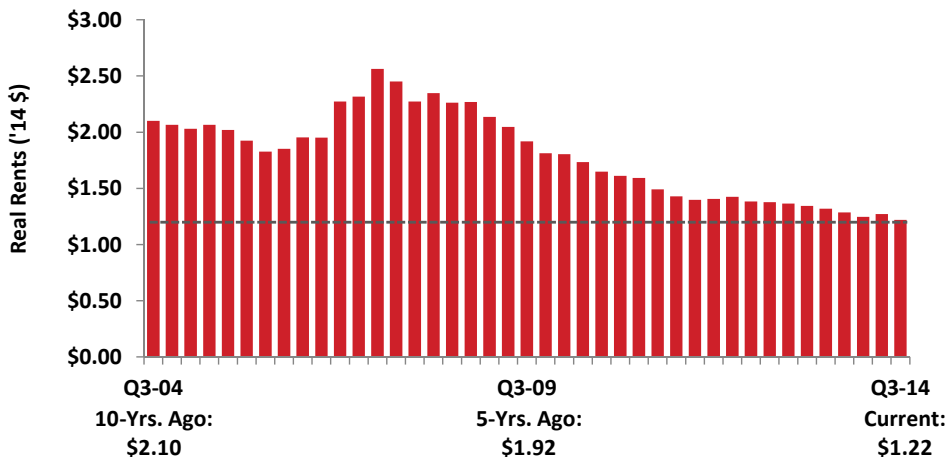
Since the record high of 15.3% in Q2, 2011, the average Valley-wide anchored retail vacancy rate (directly vacant space plus vacant sublease space) declined to 11.0% in Q3, 2014. This is a 0.5 percentage point improvement over Q2, and it is 1.4 percentage points less than Q3, 2013 when the average vacancy was 12.4%.

The highest submarket vacancies at the end of Q3 were North Las Vegas (13.6%), West Central (13.5%) and Henderson (13.1%). While the overall vacancy rate improved, only three submarkets had vacancy rates below 10%: Southwest (7.3%), Northwest (9.7%) and Northeast (5.6%) Southwest and Northwest are important

Las Vegas Valley Retail Market  
Historical Vacancy vs. Monthly Asking Rent:  
Q3, 2012 - Q3, 2014



Las Vegas Valley Retail Market  
Inflation-Adjusted Asking Rent: Q3, 2004 - Q3, 2014 (Baseline)



residential areas and the Northeast is the home of Nellis Air Force Base and a thriving Hispanic community. Relative to the previous quarter, vacancy rates decreased in five submarkets, rose in two and remained unchanged in one. The largest improvements in Q3, 2014 were in the Northeast and Henderson submarkets, which saw vacancy rates drop 3.4 and 1.6 percentage points to 5.6% and 13.1%, respectively.

Vacancy improved in both Neighborhood and Community Centers during the third quarter. They combined for 416,300 sf of absorption.



## ANCHORED RETAIL MARKET

Community Centers still have the lowest overall vacancy rate among the three product types at 9.3%. The Power Center vacancy rate increased to 13.0% while Neighborhood Centers dropped to 11.8% at the end of Q3.

Monthly asking rents decreased in Q3 after rising for the first time in nine quarters in Q2. However, that increase now appears to have been more of an anomaly with asking rents falling back to a new low, reaching \$1.22 psf in Q3 (calculated on a NNN basis; not accounting for any operating expenses). We would like to remind our readers that the rents we quote in our surveys are based on the space that is available in the open market. They do not necessarily reflect the health of the overall market. The irony is that as the more desirable space is absorbed, leaving the less desirable space, rents tend to go down even with a dropping vacancy. As long as the vacancy rate continues to fall, and the retail real estate market improves, we expect to see new anchored retail development in next 12-18 months.

### DEMAND

Total net absorption has risen four quarters in a row, posting 201,500 sf of gains in Q3, 2014 after last quarter's 40,600 sf improvement. The results a year ago, in Q3, 2013, were far less encouraging, with -42,000 sf of absorption.

Net absorption declined in the University East and Southwest submarkets this quarter, with -104,000 sf and -46,200 sf, respectively. The remaining submarkets recorded positive net absorption, led by Henderson with 135,500 sf.

Net absorption was positive in both Neighborhood Centers (+257,100 sf) and Community Centers (+159,100 sf), more than offsetting the loss in Power Centers (-214,700 sf).

### SUPPLY

No new anchored retail space was completed in the Valley during Q3, 2014, or has been completed since Q1, 2012. There have only been two quarters in the past 19 (since Q1, 2010) that saw new anchored retail space brought to market, and none within the last 10 quarters. The Valley's total anchored retail inventory has remained at 44.0 million sf in 266 shopping centers.

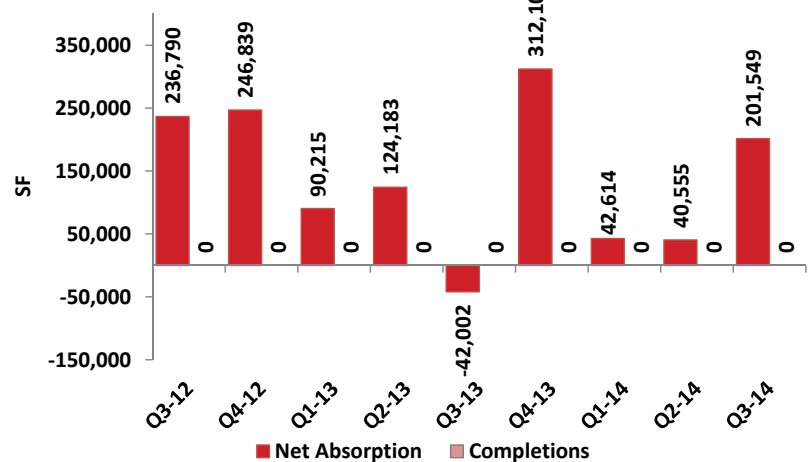
Forward-supply activity at the end of Q3 is unchanged since the previous quarter: there are no anchored centers planned for development, while 278,700 sf remain under-construction. Under-construction retail space includes two Community Centers being built in phases, including the 138,700-square-foot Green Valley Crossing in Henderson and the 140,000-square-foot Decatur @ Target shopping center in the Northwest.

From what we know today, we do not see much new retail development taking place in the remainder of 2014 or early 2015. This will help the Valley's anchored retail market to continue to move toward the 10% stabilized vacancy rate. Our latest estimates indicate that this will happen in about four quarters (based on the average quarterly absorption rate of 183,400 sf over the last 10 years).

### FURTHER THOUGHTS

As retail spending improves (taxable retails have been improving for the last 14 months), the demand for anchored space will continue to intensify. This is already moving the overall vacancy rate back to a 10% stable level, and it will ultimately start putting upward pressure on rents. This will encourage new retail center development, especially in the Valley's preferred residential areas in the southeast, southwest and

Las Vegas Valley Retail Market  
Historical Net Absorption vs. Completions  
Q3, 2012 - Q3, 2014



the northwest. While not part of the anchored retail market inventory we track, the retail component of Downtown Summerlin in early October. As we noted last quarter, the project will have 125 shops and will be part of a 1.6 million sf mixed-use development comprised of retail, entertainment, office, a hotel and multiple family components.

The Las Vegas economy continues to stabilize and is moving forward moderately. Most economic and market indicators have seen continued improvement over a number of months, meaning that the Southern Nevada recovery has taken hold. We continue to be concerned that real (inflation adjusted) incomes continue to flounder, but barring any unforeseen events, we believe that wages, hours worked and spending power will see some improvement in 2015 as the job market continues to solidify.

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<sup>1</sup> Includes all anchored retail Power Center, Community Center and Neighborhood Center properties with 40,000 or more of gross leasable area in the Las Vegas Valley.

<sup>2</sup> All retail rents in this report are quoted on a monthly triple net (NNN) per square foot basis and does not include additional expenses such as taxes, insurance, maintenance, janitorial and utilities.

<sup>3</sup> Forward-supply is a combination of space presently under construction in a quarter and space planned to begin construction within the next 4 quarters.

<sup>4</sup> "Other stores" is made up of total retail less general merchandise/clothing, food & beverage stores and health & personal care stores.

## RETAIL MARKET GLOSSARY

Retail properties tracked include shopping centers with at least 10,000 square feet of usable space. These centers have several different stores or tenants and are anchored by one or more large, national tenant (i.e., Best Buy, Target, and Smith's). Characteristics of buildings were used to define the appropriate classification of properties into subtypes, such as tenant mix, size and trade area. A property must exhibit one or more of the typical building characteristics to be considered a specific classification.

### Power Center

Centers with a minimum of three, but usually five or more, anchor tenants that dominant in their categories

- Size typically more than 250,000 square feet, but can be as small as 125,000 square feet; almost all units designed for large tenants
- Customer-base is typically drawn from within a 15-mile trade area

### Community Center

Centers with stores that sell consumer goods, in addition to convenience goods and personal services.

- Typical anchor tenants include junior department stores and off-price/discount stores, and store that sell goods requiring comparison such as apparel and appliances; other tenants include drug stores and home improvement centers
- Size typically between 100,000 and 300,000 square feet, but can be over 500,000 square feet
- Customer-base is primarily within a five-mile trade area

### Neighborhood Center

Center with stores that sell convenience goods (e.g., food, sundries and takeout food) and provide personal services (e.g., dry cleaning and hair/nail care) that meet the day-to-day living needs to the immediate area.

- Typical anchor tenant is a supermarket
- Size tends to be smaller than 100,000 square feet, but can range from 30,000 to 150,000 square feet
- Customer-base is within a two- to three-mile trade area

# Anchored Retail Market Matrix

Las Vegas, Nevada  
Third Quarter, 2014

## SUBMARKETS

TOTAL RETAIL MARKET	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	9	54	27	21	58	23	40	34	266
Total Rentable SF	1,105,851	8,680,068	4,910,743	2,542,317	10,588,588	5,783,835	6,050,227	4,379,055	44,040,684
Total Vacant SF	111,795	1,139,878	665,509	142,141	1,030,422	420,948	744,604	592,192	4,847,489
Total Occupied SF	994,056	7,540,190	4,245,234	2,400,176	9,558,166	5,362,887	5,305,623	3,786,863	39,193,195
Total Vacant (%)	10.1%	13.1%	13.6%	5.6%	9.7%	7.3%	12.3%	13.5%	11.0%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	0	135,535	33,381	85,507	60,519	-46,151	-103,943	36,701	201,549
Total Net Absorption YOY	40,942	201,999	-124,388	175,818	23,916	48,240	142,066	88,233	596,826
Asking Rents (\$ PSF)	\$1.28	\$1.38	\$1.22	\$2.09	\$1.15	\$1.40	\$1.08	\$0.99	\$1.22
Under Constuction SF	0	138,738	0	0	140,000	0	0	0	278,738
Planned SF	0	0	0	0	0	0	0	0	0

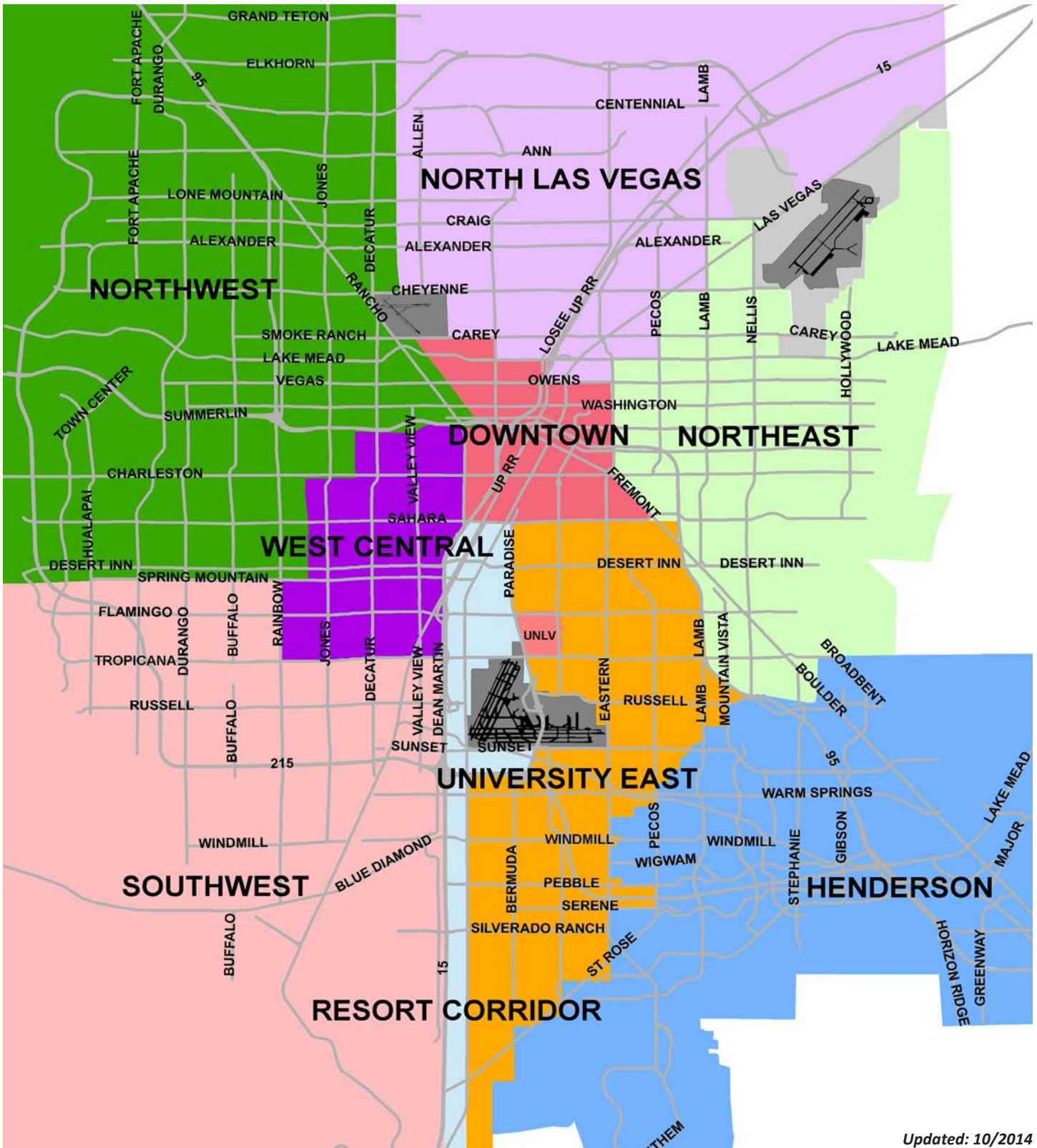
POWER CENTERS	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	0	8	2	0	7	1	3	3	24
Total Rentable SF	0	2,962,288	987,713	0	2,840,846	944,314	1,210,223	1,138,224	10,083,608
Total Vacant SF	0	625,304	1,740	0	130,506	7,200	340,537	207,270	1,312,557
Total Occupied SF	0	2,336,984	985,973	0	2,710,340	937,114	869,686	930,954	8,771,051
Total Vacant (%)	0.0%	21.1%	0.2%	0.0%	4.6%	0.8%	28.1%	18.2%	13.0%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	0	-31,266	6,753	0	-7,600	-7,200	-168,719	-6,670	-214,702
Total Net Absorption YOY	0	-69,028	6,753	0	-10,837	40,611	-168,719	-16,721	-217,941
Asking Rents (\$ PSF)	\$0.00	\$1.65	\$3.00	\$0.00	\$1.13	\$1.50	\$1.18	\$1.15	\$1.38
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0	0

COMMUNITY CENTERS	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	5	21	10	8	19	9	19	15	106
Total Rentable SF	678,690	2,920,692	1,755,463	1,407,552	4,092,234	3,216,421	2,761,028	1,649,146	18,481,226
Total Vacant SF	79,884	168,014	230,371	76,383	329,296	311,863	244,349	271,241	1,711,401
Total Occupied SF	598,806	2,752,678	1,525,092	1,331,169	3,762,938	2,904,558	2,516,679	1,377,905	16,769,825
Total Vacant (%)	11.8%	5.8%	13.1%	5.4%	8.0%	9.7%	8.8%	16.4%	9.3%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	0	-8,006	26,095	63,383	63,124	-50,196	46,768	17,954	159,122
Total Net Absorption YOY	-19,339	223,497	-54,855	48,848	-4,623	-27,375	210,903	86,170	463,226
Asking Rents (\$ PSF)	\$1.23	\$1.16	\$0.88	\$1.33	\$1.47	\$1.27	\$0.92	\$0.81	\$1.09
Under Constuction SF	0	138,738	0	0	140,000	0	0	0	278,738
Planned SF	0	0	0	0	0	0	0	0	0

NEIGHBORHOOD CENTERS	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	4	25	15	13	32	13	18	16	136
Total Rentable SF	427,161	2,797,088	2,167,567	1,134,765	3,655,508	1,623,100	2,078,976	1,591,685	15,475,850
Total Vacant SF	31,911	346,560	433,398	65,758	570,620	101,885	159,718	113,681	1,823,531
Total Occupied SF	395,250	2,450,528	1,734,169	1,069,007	3,084,888	1,521,215	1,919,258	1,478,004	13,652,319
Total Vacant (%)	7.5%	12.4%	20.0%	5.8%	15.6%	6.3%	7.7%	7.1%	11.8%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	0	174,807	533	22,124	4,995	11,245	18,008	25,417	257,129
Total Net Absorption YOY	60,281	47,530	-76,286	126,970	39,376	35,004	99,882	18,784	351,541
Asking Rents (\$ PSF)	\$1.43	\$1.11	\$1.52	\$1.22	\$1.05	\$1.68	\$1.14	\$1.12	\$1.23
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0	0

# LAS VEGAS VALLEY

## ANCHORED RETAIL SUBMARKET MAP



Updated: 10/2014