

# Las Vegas Valley Executive Summary

## Commercial Real Estate Markets - 1<sup>st</sup> Quarter 2015

### INDUSTRIAL



### OFFICE



### RETAIL



# RCG ECONOMICS

RCG Economics  
3900 Paradise Road, Suite 209  
Las Vegas, NV 89169  
T: (702) 967-3188  
F: (702) 967-3196  
W: [www.rcg1.com](http://www.rcg1.com)

**UNLV** | LIED INSTITUTE FOR  
REAL ESTATE STUDIES  
LEE BUSINESS SCHOOL

University of Nevada, Las Vegas  
Lied Institute for Real Estate Studies  
Lee Business School  
4505 Maryland Parkway  
Box 456001  
Las Vegas, NV 89154-6001  
T: (702) 895-3362  
F: (702) 895-4090  
W: [business.unlv.edu/lie](http://business.unlv.edu/lie)

## Contributors

John Restrepo - Co-Editor (RCG)  
[jrestrepo@rcg1.com](mailto:jrestrepo@rcg1.com)  
Edward Coulson, Ph.D - Co-Editor (UNLV)  
[n.edward.coulson@gmail.com](mailto:n.edward.coulson@gmail.com)  
Hubert Hensen - Real Estate Economist (RCG)  
[hhensen@rcg1.com](mailto:hhensen@rcg1.com)  
Peter Counts - Data Analyst (UNLV)  
[counts@unlv.nevada.edu](mailto:counts@unlv.nevada.edu)

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4505 South Maryland Parkway  
BEH 530B  
Las Vegas, Nevada 89154  
www.liedinstitute.com

June 3, 2015

Re: Commercial Real Estate Survey: 1<sup>st</sup> Quarter, 2015

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,

John Restrepo  
RCG Economics

Edward Coulson, Ph.D  
Lied Institute for Real Estate Studies-UNLV

3900 Paradise Road, Suite 209  
Las Vegas, Nevada 89169  
www.rcg1.com



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# Las Vegas Industrial Survey

1<sup>st</sup> Quarter 2015



WARM SPRINGS CROSSING

# LAS VEGAS INDUSTRIAL SURVEY

## SUMMARY

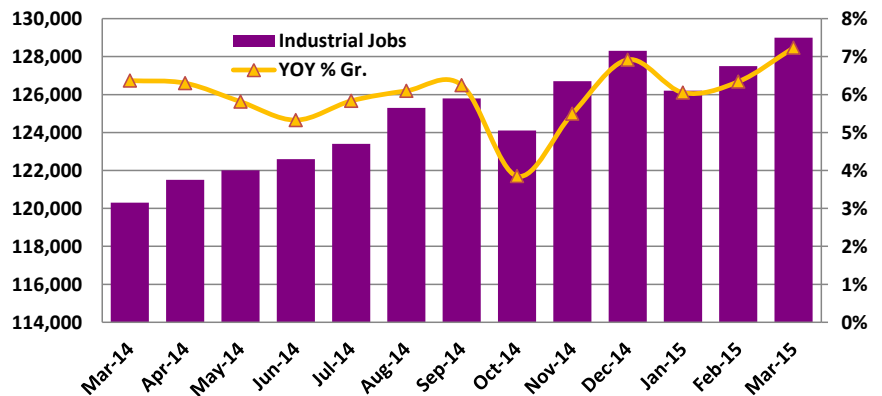
The Las Vegas Valley's ("the Valley") industrial market<sup>1</sup> ended Q1, 2015 with an inventory of 108.3 million square feet ("sf"). Net absorption (net demand) during Q1 was 609,600 sf. The quarter ended with an industrial vacancy rate of 6.7%, 4.4 percentage-points less than in Q1, 2014. At \$0.58 per square foot ("psf") NNN<sup>2</sup>, the average monthly asking rent for industrial space was lower than Q4 (\$0.59 psf), but higher than Q1, 2014 (\$0.54 psf). At the end of Q1, 2015, there were 5.9 million sf of industrial forward-supply<sup>3</sup> (3.5 million sf under construction and 2.4 million sf in the planning stages). Nearly all under-construction space was in Warehouse/Distribution buildings. Performance metrics for the Valley's industrial market in the last four quarters indicate that the industrial market has now mostly recovered and is again beginning to grow, while still healing in some sub-types and sub-markets.

## INDUSTRIAL-RELATED JOBS

Total nonfarm employment for the Las Vegas MSA rose by 25,100 jobs from March 2014 through March 2015, a 2.9% increase. During that time the "headline" unemployment rate declined 1.3 points to 7.2 percent.

Jobs in industrial space-using industries represented 16% (129,000 jobs) of all private jobs in Clark County at the end of Q1, 2015. This was 8,700 more (+7.2%) than existed in March 2014.<sup>4</sup> Since September 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 (+6,400 jobs, +14.8%) and the Transportation & Warehousing sector (+1,500 jobs, +4.3%) have shown the greatest job gains since March 2014.

**Clark County Total\* Industrial Jobs and Annual Growth: Mar-14 to Mar-15**



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

## Industrial Employment

Industry Sector	Jan			Feb			Mar		
	2015	2014	% Ch.	2015	2014	% Ch.	2015	2014	% Ch.
Nat. Resources	400	300	33.3%	400	300	33.3%	400	300	33.3%
Construction	47,300	42,400	11.6%	48,600	43,000	13.0%	49,600	43,200	14.8%
Manufacturing	20,800	21,000	-1.0%	20,900	20,900	0.0%	20,900	20,900	0.0%
Wholesale Trade	21,400	20,700	3.4%	21,400	20,900	2.4%	21,600	20,900	3.3%
Transp. & Warehousing	36,300	34,600	4.9%	36,200	34,800	4.0%	36,500	35,000	4.3%
<b>Total</b>	<b>126,200</b>	<b>119,000</b>	<b>6.1%</b>	<b>127,500</b>	<b>119,900</b>	<b>6.3%</b>	<b>129,000</b>	<b>120,300</b>	<b>7.2%</b>

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

## VACANCY & RENTS

The Valley's total industrial vacancy rate (direct vacant space plus sublease vacant space) decreased to 6.7% in Q1, down from 7.2% in Q4 and plunging from 11.1% in Q1, 2014. With this drop, the industrial market is now well below the generally accepted 10% stabilized 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 currently in the works.

On a submarket basis, the lowest industrial vacancy rates in Q1 were in Henderson and North Las Vegas, both at 4.9%. The East Las Vegas submarket posted the highest vacancy rate among the Valley's seven submarkets at 10.8%, a 0.1 percentage-point improvement over the previous quarter's 10.9% rate. For the largest industrial submarket (the South-

## INDUSTRIAL MARKET

west), the vacancy rate increased by 0.2 percentage points from 7.3% in Q4 to 7.5% in Q1. The North Las Vegas and Northwest submarkets saw significant vacancy rate drops since Q4, by 1.5 and 1.9 percentage-points, respectively. Aside from the Southwest, the Henderson submarket was the only other area to record an increase in vacancy rate for the quarter, from 4.3% to 4.9%. The East Las Vegas submarket was the only one that did not improve on a year-over-year basis.

While the overall industrial market experienced a sizable drop in vacancy in Q1, just two of the five product types saw corresponding drops. Warehouse/Distribution fell 1 percentage-point from a 6.5% vacancy rate in Q4, 2014 to 5.5% in Q1, 2015 while Light Distribution dropped 1.1 percentage-points from 9.3% to 8.2% during the same period. Light Industrial, on the other hand, held steady at 5.4%. However, Incubator and R&D/Flex took a step back in Q1. The Incubator vacancy rate increased 0.9 percentage-points from 7.8% to 8.7% and the R&D/Flex vacancy rate ticked up 0.2 points from 15.0% to 15.2%. Still, both subtypes are vastly improved compared to Q1, 2014. We expect that for the remainder of 2015, absorption will continue to be high as new Warehouse/Distribution space opens up and other subtypes continue to recover. The vacancy rate should begin to level off, however, as new supply begins to meet demand.

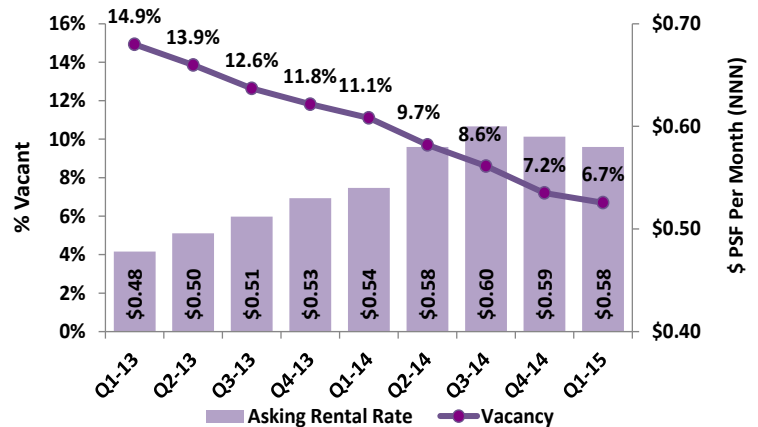
Monthly asking rents for industrial space (calculated on a NNN basis — or not accounting for any operating expenses) fell slightly for the quarter. Hitting \$0.58 per sf in Q1, 2015, rents are down \$0.01 since Q4's \$0.59 but up \$0.04 since Q1, 2014's \$0.54 psf.

### DEMAND

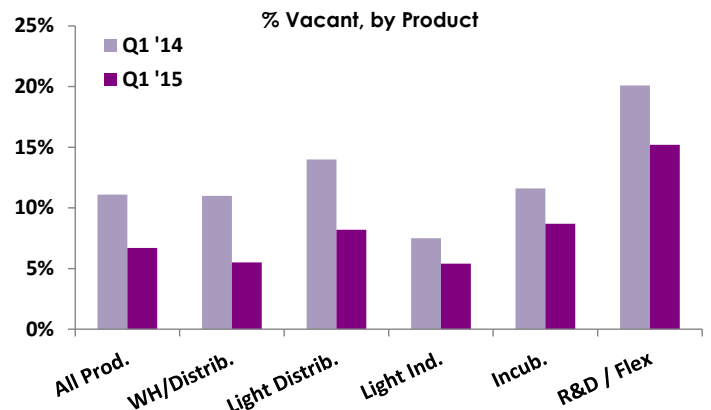
Demand (defined as total net absorption) in Q1 in the Valley's industrial market was positive for the 10th straight quarter with 609,600 sf of net space absorbed compared to 862,100 sf of absorption during Q1, 2014. On a Y-O-Y basis, Q1 saw 5.3 million sf of absorption compared to 4.8 million absorbed during the four quarters ending in Q1, 2014. However, the supply of Warehouse/Distribution space in the Valley is now dwindling. There's simply not much space left available. These figures, in tandem with the low vacancy rate, strongly indicate that, not only has most of the Valley's industrial market fully recovered from the Great Recession, but that many of its product types in certain size ranges are supply-constrained.

By submarket, North Las Vegas saw the highest net absorption with 485,000 sf. The Airport (+121,200 sf), West Central (+82,600 sf), Northwest (+24,700 sf) and East Las Vegas (+2,800 sf) submarkets also posted increases in net absorption. Only the Southwest (-26,200 sf) and Henderson (-80,600 sf) submarkets reported negative net absorption in Q1.

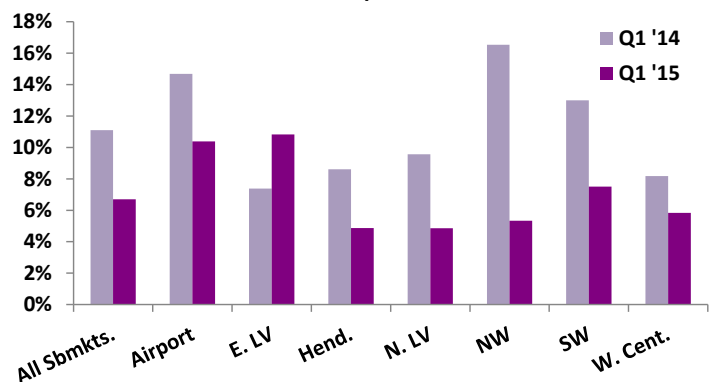
**Las Vegas Valley Industrial Market  
Historical Vacancy vs. Monthly Asking Rent:  
Q1, 2013 - Q1, 2015**



**Las Vegas Valley Industrial Market  
Vacancy Trends: Q1, 2014 v. Q1, 2015**



**% Vacant, by Submarket**



## INDUSTRIAL MARKET

On a Y-O-Y basis, the top submarkets were the Southwest (1.9 million sf) and North Las Vegas (1.7 million sf). Only East Las Vegas experienced negative absorption (-97,200 sf) on the year.

Product demand in Q1 was positive in three of the five subtypes. Warehouse/Distribution led the way with 458,800 sf absorbed for the quarter, followed by Light Distribution with 186,800 sf of absorption. Light Industrial (+50,000 sf) space also saw growth. However, Incubator and R&D/Flex had negative absorptions, with -77,100 sf of space absorbed for Incubator and -8,800 sf for R&D/Flex space.

Strong demand for Warehouse/Distribution space has driven the Valley's positive net absorption over the last year. About 5.3 million sf of industrial space has been absorbed in that time, with over 3.0 million sf absorbed in Warehouse/Distribution space alone. All other products were also positive over the year: Light Distribution (+1.0 million sf), Light Industrial (+689,900 sf), R&D/Flex (+286,600 sf) and Incubator (+237,400 sf).

### SUPPLY

There was one completion during Q1, 2015, increasing inventory to 108.3 million sf. In the last three years, no new space was completed in 2012, 801,500 sf of industrial space was completed in 2013 and 609,400 sf of space opened in 2014. The drop-off post-recession is quite striking, as seen in the chart.

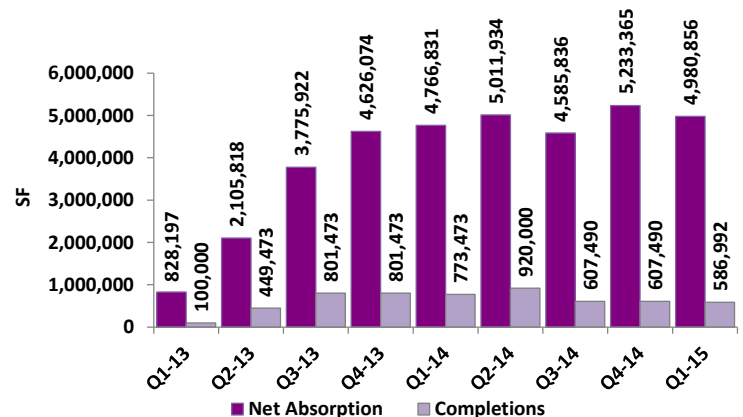
The first quarter of 2015 saw the completion of the MMC Contractors West 51,502 sf Light Industrial building in the Southwest submarket. In 2014, four projects were completed: VadaTech's 72,000-square-foot Light Industrial facility (Q1), Nicholas & Brothers Food Distributors' 200,000-square-foot Warehouse/Distribution building (Q2), a 296,000-square-foot FedEx Ground distribution center (Q2) and the Tapia Brothers' 39,500-square-foot Warehouse expansion (Q3).

Industrial space scheduled to open in 2015 should dwarf the previous few years in completions. Openings of several large speculative Warehouse/Distribution centers, which are meant to meet the demand for large storage space in the Valley, should drive nearly 6.5 million square feet of new Industrial space this year.

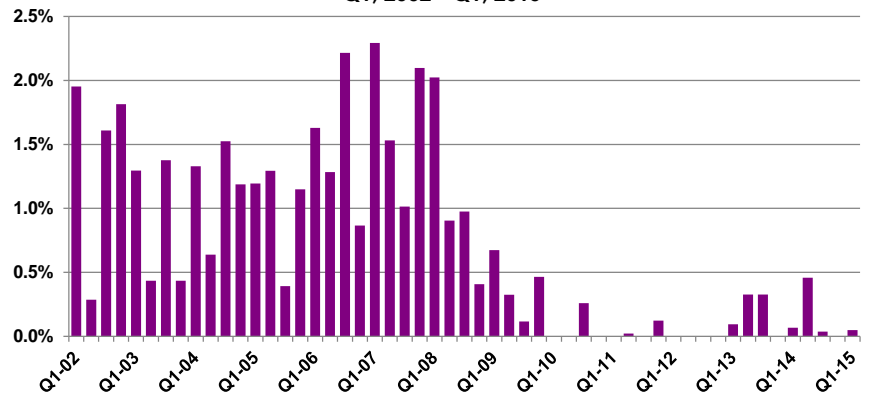
There were 13 projects under construction at the end of the first quarter, which support the ongoing trend of new Warehouse/Distribution development:

- Konami Gaming's expansion (193,000 sf in Airport),
- TJ Maxx's expansion (400,000 sf in North Las Vegas),
- Spielo's new Warehouse/Distribution building (45,500 sf in Southwest),
- Ainsworth Americas Headquarters (190,000 sf of Light Industrial in Southwest),
- Pauls Corporation Industrial Buildings (443,000 sf of Warehouse/Distribution in North Las Vegas),
- VSR Industries' expansion (28,000 sf in Henderson),
- The LogistiCenter Cheyenne (381,000 sf of Warehouse/Distribution in East Las Vegas),

**Las Vegas Valley Industrial Market**  
Historical YOY Net Absorption vs. Completions:  
Q1, 2013 - Q1, 2015



**Las Vegas Valley Industrial Market**  
Completions as a % of Inventory:  
Q1, 2002 - Q1, 2015



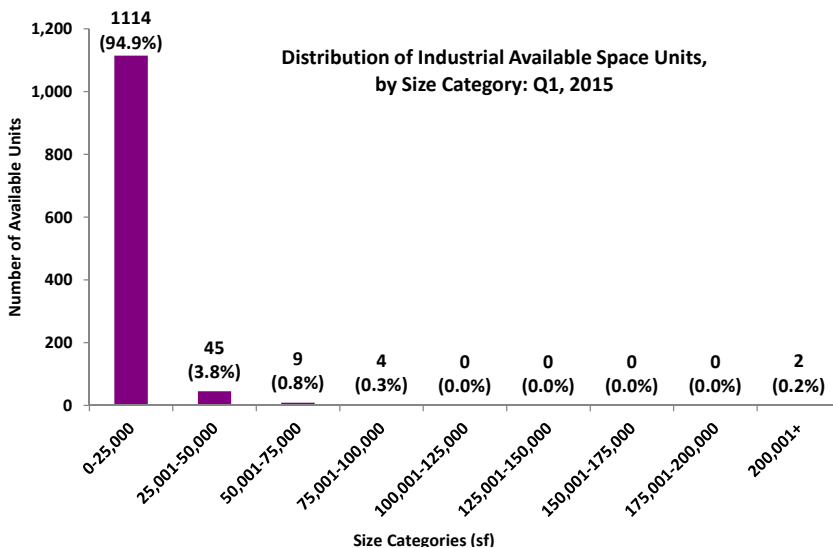
## INDUSTRIAL MARKET

- Cheyenne Distribution Center #3 (163,800 sf of Warehouse/Distribution in Southwest),
- Jones Corporate Park (400,000 sf of Warehouse/Distribution in Southwest),
- Las Vegas Corporate Center No. 19 (464,200 sf in North Las Vegas),
- Supernap 9 (SWITCH) (575,000 sf in Southwest),
- Catamaran Warehouse (110,000 sf in Southwest) and
- the Republic Services Recycling Expansion (110,000 sf in North Las Vegas).

On top of all the ongoing construction, there are five additional projects in the planning stages. They are:

- Sunrise Industrial Park #9-10 (787,800 sf of Warehouse/Distribution in East Las Vegas),
- The Blue Diamond Business Center expansion (1.1 million sf of Warehouse/Distribution in Southwest),
- Henderson Freeway Crossing (455,200 sf of Warehouse/Distribution in Henderson),
- Sunpoint Business Center (297,000 sf of Warehouse/Distribution in East Las Vegas) and
- Supernap 10 (SWITCH) (240,000 sf of Warehouse/Distribution in Southwest).

These projects are helping power the economic recovery in Southern Nevada and its ongoing positioning as a regional



distribution hub. Additionally, 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. 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. This is limiting the growth potential of existing businesses, too, because of the inability to expand operations and, thus, expand hiring. However, these new projects coming down the pipeline should help ease the existing shortage issues.

### FURTHER THOUGHTS

After a very strong 2013 and 2014 injected confidence into Southern Nevada's industrial market, helping it to stabilize, an even stronger 2015 seems to indicate that the speculative developments now in the pipeline are certainly justified. Southern Nevada has not seen net absorption levels like these since 2007, the year immediately preceding the Great Recession. Net absorption in industrial product has only been negative in two of the last 17 quarters.

Jobs in industrial space-using industries represented 16% (129,000 jobs) of all private jobs in Clark County at the end of Q1, 2015. This was 8,700 more (+7.2%) than existed in March 2014. Since September 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 Valley's total industrial vacancy rate (direct vacant space plus sublease vacant space) decreased to 6.7% in Q1, down from 7.2% in Q4 and plunging from 11.1% in Q1, 2014. With this drop, the industrial market is now well below the generally accepted 10% stabilized vacancy rate.

By submarket, North Las Vegas saw the highest net absorption with 485,000 sf. Product demand in Q1 was positive in three of the five subtypes. Warehouse/Distribution led the way with 458,800 sf absorbed for the quarter.

The growth of e-commerce along with multi-channel (Internet, mobile, bricks-and-mortar) selling by traditional and



non-traditional retailers is becoming the long-term driver of the demand for industrial space in Southern Nevada, as it has in other parts of the U.S. Southern Nevada's location adjacent to Southern California, one of country's largest population centers, will make it an important regional warehouse-distribution-fulfillment enclave. Additionally, John Boyd of the Boyd Co. told the Las Vegas Review-Journal that "Internet commerce and a growing middle class in Mexico are boosting demand for distribution space. Companies are bringing back production once based in China as labor costs there soar. Las Vegas is poised to capitalize: Hundreds of trucks come into the market each week loaded with goods, but because there are few factories here, they mostly leave empty — creating a "fundamental advantage" for distributors that locate here." (See [LVRJ](#) for more.)

Furthermore, the possible approval of recreational marijuana via ballot initiative in the November 2016 election will have a potentially significant impact on the demand for warehousing and product manufacturing space in the region.

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<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

First Quarter, 2015

## SUBMARKETS

TOTAL INDUSTRIAL MARKET	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	501	149	534	1,015	81	1,280	648	4,208
Total Rentable SF	14,127,625	2,823,817	13,068,916	31,691,519	1,336,299	33,188,535	12,016,433	108,253,144
Total Vacant SF	1,466,428	305,812	637,022	1,539,189	71,305	2,491,869	701,386	7,213,011
Total Occupied SF	12,661,197	2,518,005	12,431,894	30,152,330	1,264,994	30,696,666	11,315,047	101,040,133
Total Vacant (%)	10.4%	10.8%	4.9%	4.9%	5.3%	7.5%	5.8%	6.7%
Completions QTD	0	0	0	0	0	51,502	0	51,502
Completions YOY	0	0	296,000	239,490	0	51,502	0	586,992
Total Net Absorption QTD	121,207	2,773	-80,564	485,001	24,727	-26,220	82,639	609,563
Total Net Absorption YOY	607,948	-97,226	759,326	1,710,118	149,669	1,865,846	281,175	5,276,856
Asking Rents (\$ PSF)	\$0.76	\$0.42	\$0.61	\$0.40	\$0.65	\$0.61	\$0.66	\$0.58
Under Construction SF	193,000	381,804	28,000	1,580,993	0	1,336,500	0	3,520,297
Planned SF	0	1,084,331	0	0	0	1,332,280	0	2,416,611

WAREHOUSE/DISTRIBUTION	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	78	18	78	177	5	140	52	548
Total Rentable SF	4,844,394	907,075	6,757,019	18,745,949	223,661	13,066,312	1,939,836	46,484,246
Total Vacant SF	313,273	156,854	107,790	808,900	0	1,081,132	73,282	2,541,231
Total Occupied SF	4,531,121	750,221	6,649,229	17,937,049	223,661	11,985,180	1,866,554	43,943,015
Total Vacant (%)	6.5%	17.3%	1.6%	4.3%	0.0%	8.3%	3.8%	5.5%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	296,000	239,490	0	0	0	535,490
Total Net Absorption QTD	59,892	-5,980	10,956	559,960	0	-166,077	0	458,751
Total Net Absorption YOY	77,849	-147,459	628,417	1,286,719	50,367	1,045,676	97,503	3,039,072
Asking Rents (\$ PSF)	\$0.57	\$0.32	\$0.68	\$0.26	\$0.00	\$0.51	\$0.50	\$0.43
Under Construction SF	193,000	381,804	0	1,580,993	0	1,146,500	0	3,302,297
Planned SF	0	1,084,331	0	0	0	1,332,280	0	2,416,611

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	300,701	0	191,280	263,189	3,800	569,581	123,599	1,452,150
Total Occupied SF	2,868,428	340,675	1,380,423	4,585,745	47,200	6,361,055	652,148	16,235,674
Total Vacant (%)	9.5%	0.0%	12.2%	5.4%	7.5%	8.2%	15.9%	8.2%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	37,940	0	895	-21,666	0	88,992	80,598	186,759
Total Net Absorption YOY	278,140	24,368	9,827	301,234	13,413	399,600	-2,649	1,023,933
Asking Rents (\$ PSF)	\$0.74	\$0.00	\$0.50	\$0.41	\$0.65	\$0.62	\$0.45	\$0.57
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  
First Quarter, 2015

## SUBMARKETS

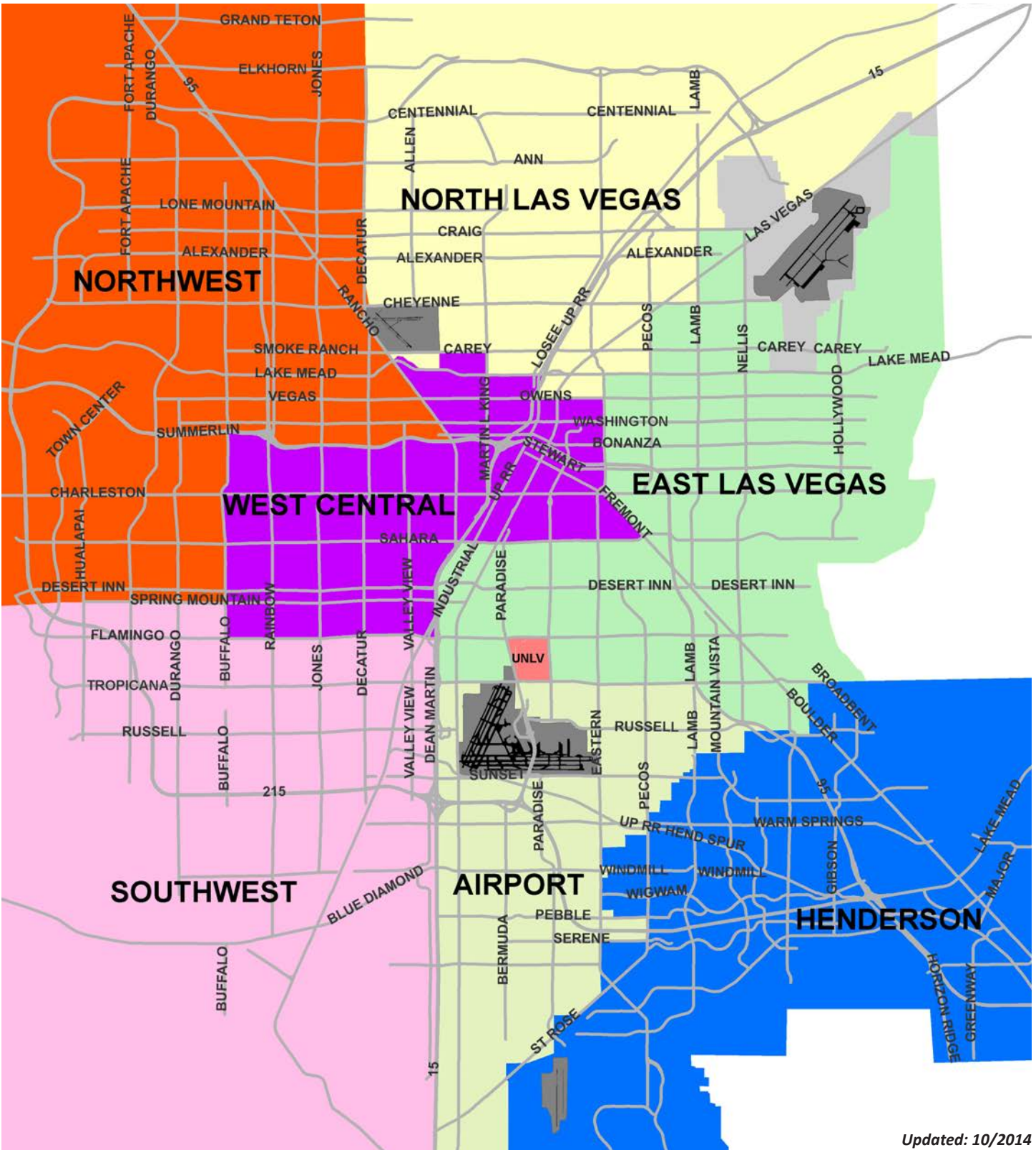
LIGHT INDUSTRIAL	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	199	91	313	594	16	741	482	2,436
Total Rentable SF	3,076,809	1,135,150	3,057,009	6,755,260	290,111	9,172,544	6,622,403	30,109,286
Total Vacant SF	352,590	95,892	173,224	314,266	0	383,584	300,921	1,620,477
Total Occupied SF	2,724,219	1,039,258	2,883,785	6,440,994	290,111	8,788,960	6,321,482	28,488,809
Total Vacant (%)	11.5%	8.4%	5.7%	4.7%	0.0%	4.2%	4.5%	5.4%
Completions QTD	0	0	0	0	0	51,502	0	51,502
Completions YOY	0	0	0	0	0	51,502	0	51,502
Total Net Absorption QTD	60,355	-8,050	-63,412	-31,361	5,914	73,687	12,821	49,954
Total Net Absorption YOY	4,893	-20,698	41,849	109,812	0	342,382	211,613	689,851
Asking Rents (\$ PSF)	\$0.82	\$0.50	\$0.68	\$0.42	\$0.00	\$0.59	\$0.68	\$0.60
Under Construction SF	0	0	28,000	0	0	190,000	0	218,000
Planned SF	0	0	0	0	0	0	0	0

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	213,828	37,652	26,656	59,575	7,091	186,136	173,721	704,659
Total Occupied SF	1,500,793	260,971	430,250	501,977	92,234	2,310,245	2,284,894	7,381,364
Total Vacant (%)	12.5%	12.6%	5.8%	10.6%	7.1%	7.5%	7.1%	8.7%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-24,992	12,818	-6,996	-29,210	1,555	-2,906	-27,416	-77,147
Total Net Absorption YOY	88,364	57,732	23,773	-1,301	3,038	73,938	-8,185	237,359
Asking Rents (\$ PSF)	\$0.75	\$0.71	\$0.54	\$0.63	\$0.75	\$0.74	\$0.82	\$0.75
Under Construction 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	286,036	15,414	138,072	93,259	60,414	271,436	29,863	894,494
Total Occupied SF	1,036,636	126,880	1,088,207	686,565	611,788	1,251,226	189,969	4,991,271
Total Vacant (%)	21.6%	10.8%	11.3%	12.0%	9.0%	17.8%	13.6%	15.2%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-11,988	3,985	-22,007	7,278	17,258	-19,916	16,636	-8,754
Total Net Absorption YOY	158,702	-11,169	55,460	13,654	82,851	4,250	-17,107	286,641
Asking Rents (\$ PSF)	\$0.88	\$0.51	\$0.79	\$0.72	\$0.64	\$0.91	\$0.96	\$0.81
Under Construction 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



CORPORATE CENTER, Ph. 3

**ROG**  
**ECONOMICS**

**UNLV**

LIED INSTITUTE FOR  
REAL ESTATE STUDIES  
LEE BUSINESS SCHOOL

# Las Vegas Speculative Office Survey

1<sup>st</sup> Quarter 2015



UNITED HEALTH CARE BUILDING

# LAS VEGAS SPECULATIVE OFFICE SURVEY

## SUMMARY

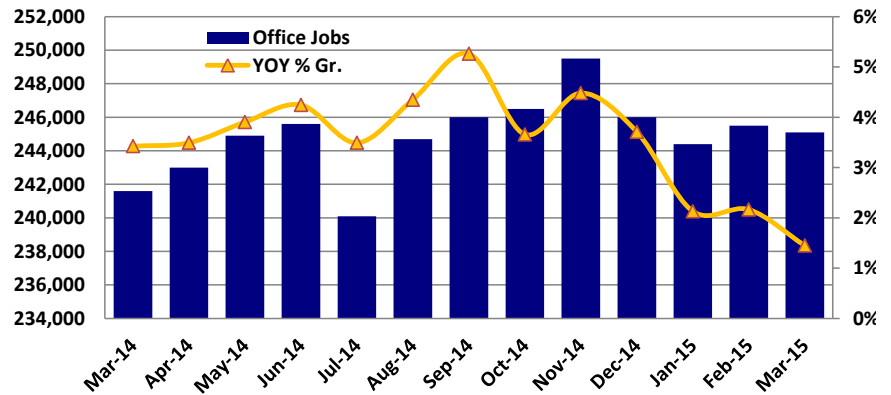
The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market<sup>1</sup> saw 212,900 sf of space completed at the end of Q1, 2015, upping the total inventory to 43.0 million sf. Vacancy was 21.7% at the end of Q1, up from 21.3% in Q4, 2014. The -12,300 sf of net absorption in Q1 marked the first decline in demand in six quarters. At \$1.89 per square foot ("psf") FSG<sup>2</sup>, the average monthly asking rent also declined for the first time in four quarters. At the end of the quarter, there were 218,000 sf of spec office space under-construction and 158,600 sf of space in the planning stages. Most of this under-construction space is concentrated in Class C product in the Southwest submarket.

## OFFICE-RELATED JOBS

Total nonfarm employment for the Las Vegas MSA increased by 25,100 jobs from March 2014 through March 2015, a 2.9% increase. During that time the "headline" unemployment rate declined 1.3 points to 7.2 percent.

Employment in the office-space using sector, a critical indicator of the health of the local economy, comprised 31%

**Clark County Total\* Office Jobs and Annual Growth: Mar-14 to Mar-15**



\*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	Jan			Feb			Mar		
	2015	2014	% Ch.	2015	2014	% Ch.	2015	2014	% Ch.
Information	10,200	9,800	4.1%	10,100	9,900	2.0%	10,100	9,700	4.1%
Financial Activities	42,600	43,200	-1.4%	42,700	43,400	-1.6%	42,900	43,500	-1.4%
Prof. & Business	119,200	115,500	3.2%	119,600	115,600	3.5%	118,800	116,500	2.0%
Health Care & Social Assist.	72,400	70,800	2.3%	73,100	71,400	2.4%	73,300	71,900	1.9%
<b>Total</b>	<b>244,400</b>	<b>239,300</b>	<b>2.1%</b>	<b>245,500</b>	<b>240,300</b>	<b>2.2%</b>	<b>245,100</b>	<b>241,600</b>	<b>1.4%</b>

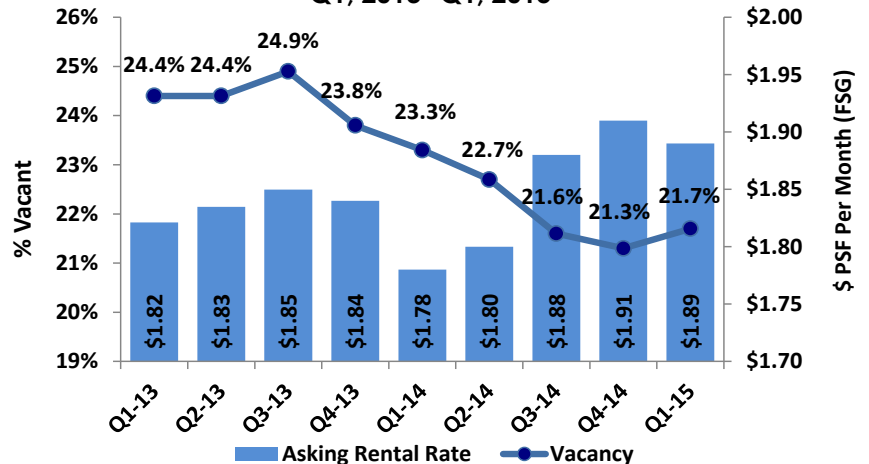
Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

(245,100 jobs) of private employment jobs in Clark County at the end of Q1 (March 2015). This was 3,500 more (+1.4%) than existed in March 2014.<sup>3</sup> Office-space using job growth so far in the year has been weaker than at the same time in 2014 with 1.9% average monthly growth compared to 3.6%. However, job growth in the Professional & Business Services sector has been stronger than the average, posting a 2.0% (2,300 jobs) average gain in the same 12-month period. The Financial Activities sector, on the other hand, was very weak in Q1, with -1.4% (-600 jobs) average monthly growth.

## VACANCY & RENTS

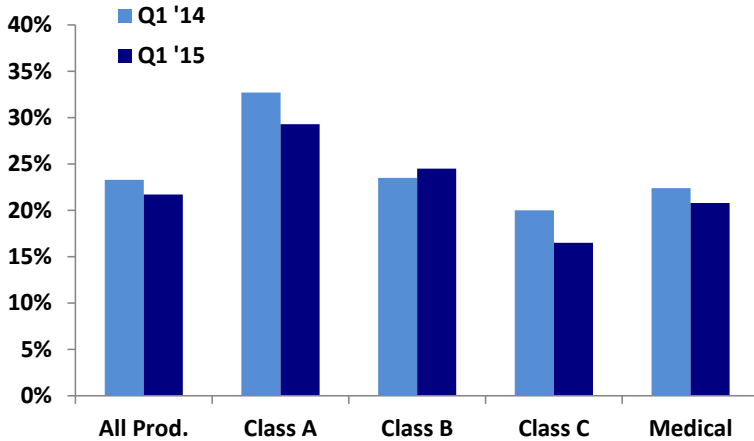
Total vacancy in Q1 (directly vacant space plus vacant sublease space) in the Valley's spec office market increased 0.4 points to 21.7%. This marks the first time in six quarters that the vacancy rate worsened.

**Las Vegas Valley Office Market Historical Vacancy vs. Monthly Asking Rent: Q1, 2013- Q1, 2015**



# SPECULATIVE OFFICE MARKET

**Las Vegas Valley Office Market  
Vacancy Trends: Q1, 2014 v. Q1, 2015**  
% Vacant, by Product



The North Las Vegas submarket has the lowest office market vacancy rate at 10.2%, due to high demand for its Class C space. There are two other submarkets in the Valley with a vacancy rate below 20%: the Airport and Downtown submarkets are at 16.4% and 13.0%, respectively. East Las Vegas has the highest vacancy rate at 28.4%, followed by West Central at 25.6%.

The East Las Vegas submarket saw the largest decrease in vacancy rate for the quarter, with a 1.6-point improvement. Airport had the second largest decrease, with 1.5 percentage-points. Southwest dropped by 0.2 points. Henderson saw the largest increase in the vacancy rate this quarter, with a 2.8 percentage-point increase. The other submarkets saw vacancy rates rise,

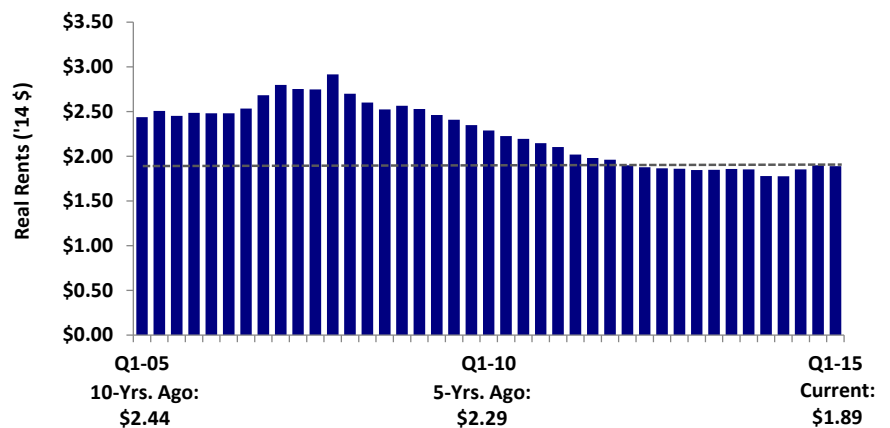
as well. The West Central rate climbed 2.2 percentage-points to 25.6% while the North Las Vegas market increased by 2.0 points, up to 10.2%.

The main driver of the higher office vacancy rate in Q1 was a lack of demand for Class A space, which posted a 1.8 percentage-point increase to 29.3%. However, this rise was, in part, caused by the completion of the 197,100 sf One Summerlin building. This new building increased the amount of total Class A space by 3.2%. The Class B and Class C markets saw a slight increase in their vacancy rates of 0.6 and 0.4 percentage-points. The Class B market rate went up to 24.5% and the Class C rate increased to 16.5%. The Medical product type saw its vacancy rate fall from 22.2% to 20.8%.

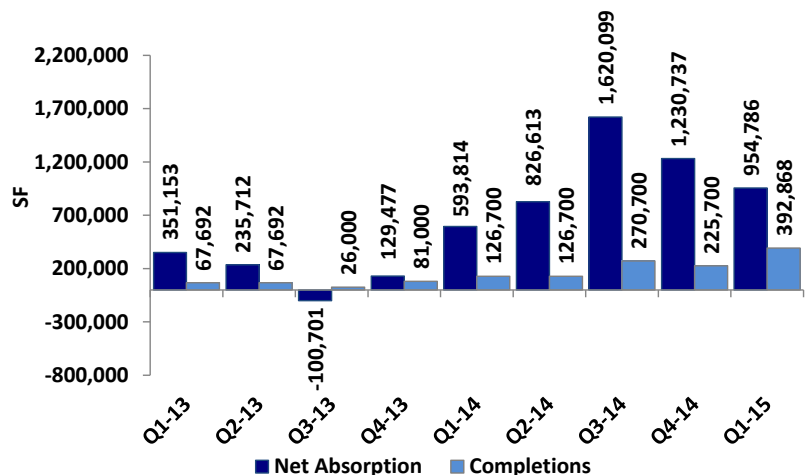
However, the quarter's vacancy rate is still 1.6 percentage-points lower than in Q1, 2014. The data suggest that the Valley's overall spec office market is slowly recovering, but still remains weak with a high overall vacancy rate. Also, with relatively high job numbers in office-using space, it may simply be that the Las Vegas office market just has too much space. It will likely take years of natural growth to get the office vacancy rate down to appreciable levels.

Average monthly asking office rent (calculated on a full-service gross basis—or accounting for all operating expenses) was \$1.89 per square foot ("psf") in Q1, \$0.02 less than

**Las Vegas Valley Office Market  
Inflation-Adjusted Monthly Rent: Q1, 2005 - Q1, 2015 (Baseline)**



**Las Vegas Valley Office Market  
Historical YOY Net Absorption vs. Completions:  
Q1, 2013 - Q1, 2015**





## SPECULATIVE OFFICE MARKET

the \$1.91 psf asking rent in the previous quarter. After a trend of decreases, beginning in Q4, 2007, rents began to stabilize in 2012. Even with the decrease in asking rents in the first quarter, signs still appear to show that office rent value is slowly improving.

### DEMAND

Valley-wide spec office total net absorption in Q1 was only slightly negative at -12,300 sf. On a year-over-year basis, however, net absorption totaled 1,009,800 sf, significantly more than the 538,800 sf of Y-O-Y absorption for the same period in 2014. However, Q1, 2014 was a stronger quarter with 208,700 sf of Q-O-Q absorption. So while it may have been a mediocre quarter, there is still reason to be optimistic.

Four of the eight submarkets saw improvement over the quarter. The Northwest (+98,600 sf) and East Las Vegas (+98,100) submarkets were the main engines of Q1's growth, but Airport (+85,100 sf) and Southwest (+11,800 sf) showed improvement, as well. The Henderson (-167,900 sf) and West Central (-118,900 sf) submarkets were the main culprits in Q1's negative absorption. The North Las Vegas (-15,600 sf) and Downtown (-3,500 sf) submarkets round out the group with minor losses in occupied space. Y-O-Y, net absorption was highest for the Airport submarket with 228,700 sf.

Class B and Class C both experienced negative absorption (-77,800 sf and -57,100 sf) in Q1. However, Class A (+27,600 sf) and Medical (+95,100 sf) office absorption improved on a net basis for the quarter. Y-O-Y, net absorption, by product, was highest for Class C space, posting 543,600 sf of growth.

### SUPPLY

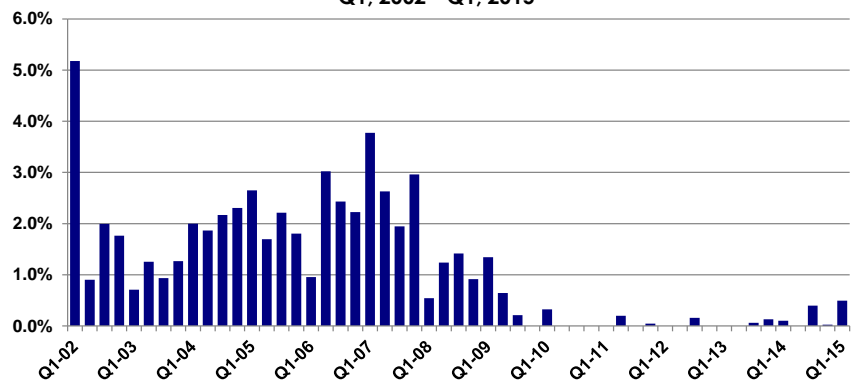
The first quarter of 2015 saw two completions totaling 212,900 square feet – as mentioned previously, the 198,100 sf Class A Summerlin One building in the Northwest and a 15,800 sf expansion of the Pecos Springs Business Park (Class C space in the Airport submarket). During the past 22 quarters (since Q4, 2009), there have been only ten quarters where new space has entered the market. However, six of those quarters have been in the last seven quarters, indicating that developers believe that the office market can support certain types of new inventory. Still, post-recession completions pale compared to the boom years, when annual office completions ranged between 750,000 sf and 4.3 million sf.

We have recorded six spec office projects in the forward supply<sup>4</sup> pipeline that should be completed within the next three to five quarters. Phase 2 of Tivoli Village (68,000 sf - Class A) in the Northwest market is scheduled for a Q2, 2015 opening. In addition, there has been much fanfare around the Union Village medical community that started construction in Henderson. Phase 1 of this project will include 150,000 sf of Medical office space scheduled to open in 2016.

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 the Southwest. A new two-building project in the Cadence community in Henderson is expected to bring another 30,000 sf of Class C space. There is another Class C project in the works: planning has begun on a 6,565 square-foot expansion of the Pecos Springs Business Park, continuing the planned build-out of this project that just wrapped up construction on another part of its expansion in Q1.

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 (21.7%) and the average quarterly absorption in the last 10

Las Vegas Valley Office Market  
Completions as a % of Inventory:  
Q1, 2002 - Q1, 2015



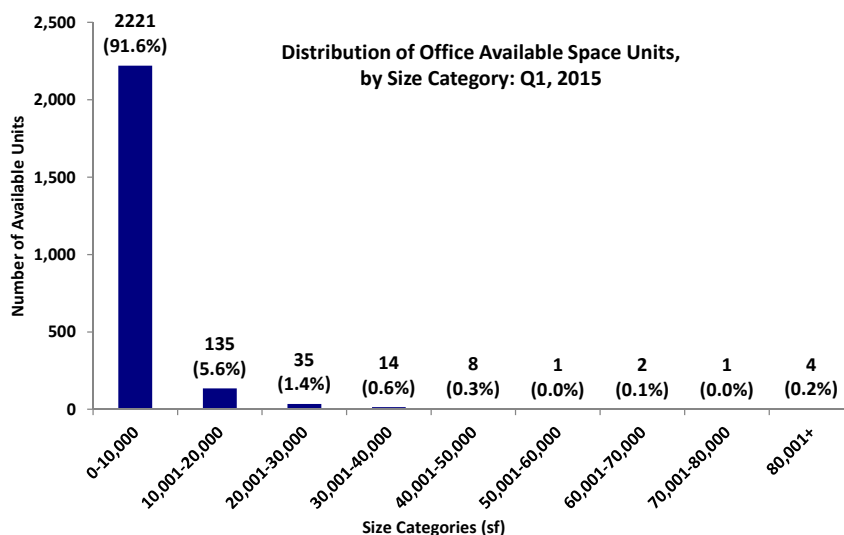
## SPECULATIVE OFFICE MARKET

years (173,400 sf), we estimate that there still remains about a 7.5-year supply of speculative office space in the Valley that must be absorbed to reach a 10% “normalized” vacancy rate.

Below is a chart detailing the distribution of available office space in the Valley, by size. And, it shows there is only a very small of space available in units above 30,000 sf. In fact, 91.6% of all space that is currently on the market is in units of 10,000 sf or less.

### FURTHER THOUGHTS

While it is true that Southern Nevada’s office market’s recovery has lagged behind that of the industrial and retail markets, 2015 is seeing some moderate improvements. Net Y-O-Y absorption in the period ending Q1 was 1.0 million sf. If this trend continues through the end of 2015, office vacancy might drop below 20 percent for the first time in six years.



Employment in the office-space using sector, a critical indicator of the health of the local economy, comprised 31% (245,100 jobs) of private employment jobs in Clark County at the end of Q1 (March 2015). This was 3,500 more (+1.4%) than existed in March 2014. More office jobs usually translates into more office occupancy, but a combination of caution by office users and changes wrought by technology are leading to less demand for office space than would normally be indicated by the Valley’s level of employment growth.

Mobile phone technology, the movement towards open offices and shared workspaces, and the replacement of individual medical practices by medical groups have decreased the amount of office space used per worker. Larger job gains are required now to produce the net absorption experienced 10 or 20 years ago.

While new office construction can stimulate demand for office space in markets that are lacking the kind of office space required by users, this is most likely not the case in Southern Nevada, where office vacancy has been very high. Since 2013, office inventory has expanded by only 516,600 sf. Furthermore, much of this space was completed in order to begin recouping costs on partially completed buildings that had construction halted due to the onset of the Great Recession.

Based on the average quarterly absorption of the last 10 years (173,400 sf), we estimate that there are 7.6 years of spec office supply in the Valley that must be absorbed to reach a 10 percent “normalized” vacancy.

<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  
First Quarter, 2015

## SUBMARKETS

TOTAL OFFICE MARKET	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	317	119	183	331	94	389	388	275	2,096
Total Rentable SF	5,125,013	3,835,861	6,134,382	6,027,268	783,529	8,932,999	6,763,103	5,406,541	43,008,696
Total Vacant SF	839,413	499,627	1,740,718	1,308,265	79,789	2,028,222	1,460,220	1,384,314	9,340,568
Total Occupied SF	4,285,600	3,336,234	4,393,664	4,719,003	703,740	6,904,777	5,302,883	4,022,227	33,668,128
Total Vacant (%)	16.4%	13.0%	28.4%	21.7%	10.2%	22.7%	21.6%	25.6%	21.7%
Completions QTD	15,788	0	0	0	0	197,080	0	0	212,868
Completions YOY	15,788	0	0	10,000	0	197,080	170,000	0	392,868
Total Net Absorption QTD	85,092	-3,453	98,066	-167,874	-15,569	98,562	11,787	-118,907	-12,296
Total Net Absorption YOY	228,718	134,608	148,600	182,400	88,179	192,730	69,534	-34,983	1,009,786
Asking Rents (\$ PSF)	\$1.88	\$1.81	\$1.45	\$2.05	\$1.72	\$2.08	\$2.21	\$1.65	\$1.89
Under Constuction SF	0	0	0	150,000	0	68,000	0	0	218,000
Planned SF	6,565	0	0	72,000	0	0	80,000	0	158,565

PROFESSIONAL CLASS A	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	6	5	10	13	0	22	4	2	62
Total Rentable SF	665,904	795,116	1,472,466	838,068	0	1,813,312	567,112	227,624	6,379,602
Total Vacant SF	92,704	198,162	355,529	365,595	0	599,775	162,603	95,331	1,869,699
Total Occupied SF	573,200	596,954	1,116,937	472,473	0	1,213,537	404,509	132,293	4,509,903
Total Vacant (%)	13.9%	24.9%	24.1%	43.6%	0.0%	33.1%	28.7%	41.9%	29.3%
Completions QTD	0	0	0	0	0	197,080	0	0	197,080
Completions YOY	0	0	0	10,000	0	197,080	170,000	0	377,080
Total Net Absorption QTD	26,511	-65,017	-12,144	-54,150	0	87,549	44,861	0	27,610
Total Net Absorption YOY	64,675	-10,006	-19,241	59,161	0	268,405	167,214	-39,790	490,418
Asking Rents (\$ PSF)	\$2.59	\$2.65	\$2.77	\$2.24	\$0.00	\$2.32	\$2.59	\$1.90	\$2.27
Under Constuction SF	0	0	0	0	0	68,000	0	0	68,000
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	349,823	141,240	660,991	366,555	60,735	619,507	698,891	523,567	3,421,309
Total Occupied SF	1,586,198	1,633,856	405,566	1,823,199	140,061	2,118,044	1,706,241	1,142,479	10,555,644
Total Vacant (%)	18.1%	8.0%	62.0%	16.7%	30.2%	22.6%	29.1%	31.4%	24.5%
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	19,021	55,908	-49,567	-43,898	-4,075	-21,836	30,733	-64,135	-77,849
Total Net Absorption YOY	76,464	95,942	-168,410	41,594	57,369	-59,750	-70,332	-109,150	-136,273
Asking Rents (\$ PSF)	\$1.91	\$1.76	\$1.36	\$1.90	\$1.67	\$1.94	\$2.31	\$1.61	\$1.81
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  
First Quarter, 2015

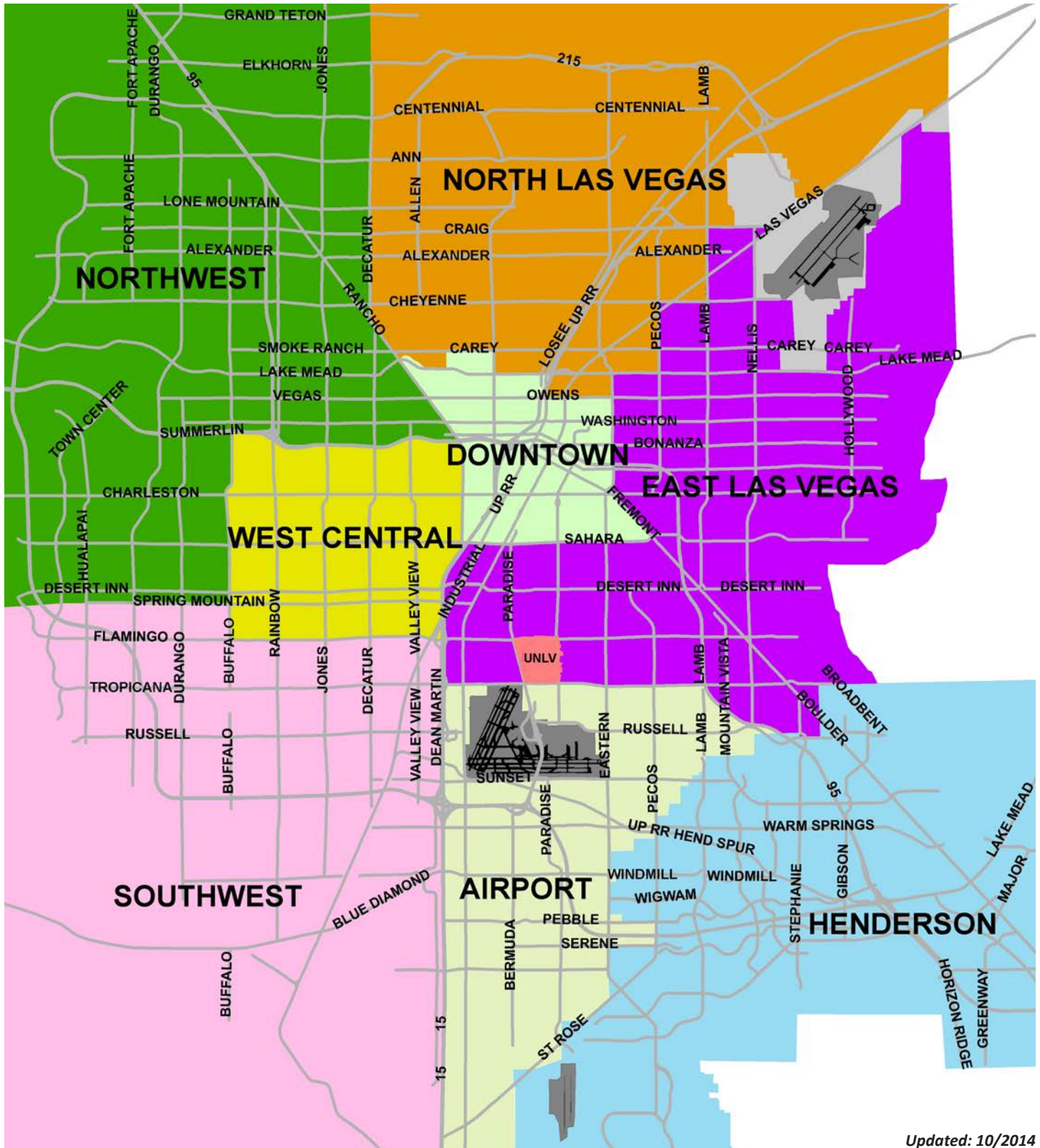
## SUBMARKETS

PROFESSIONAL CLASS C	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	263	66	110	144	76	210	272	187	1,328
Total Rentable SF	2,394,558	877,606	2,051,408	1,618,430	482,290	2,234,002	3,058,831	2,761,393	15,478,518
Total Vacant SF	384,254	108,903	381,155	295,104	10,362	379,993	419,344	576,093	2,555,208
Total Occupied SF	2,010,304	768,703	1,670,253	1,323,326	471,928	1,854,009	2,639,487	2,185,300	12,923,310
Total Vacant (%)	16.0%	12.4%	18.6%	18.2%	2.1%	17.0%	13.7%	20.9%	16.5%
Completions QTD	15,788	0	0	0	0	0	0	0	15,788
Completions YOY	15,788	0	0	0	0	0	0	0	15,788
Total Net Absorption QTD	35,200	17,365	43,714	-13,987	-2,802	4,457	-79,391	-61,677	-57,121
Total Net Absorption YOY	79,274	42,329	201,880	22,665	24,975	33,379	30,482	108,577	543,561
Asking Rents (\$ PSF)	\$1.68	\$1.38	\$1.46	\$1.77	\$1.48	\$1.71	\$1.97	\$1.63	\$1.69
Under Construction SF	0	0	0	0	0	0	0	0	0
Planned SF	6,565	0	0	30,000	0	0	80,000	0	116,565

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	12,632	51,322	343,043	281,011	8,692	428,947	179,382	189,323	1,494,352
Total Occupied SF	115,898	336,721	1,200,908	1,100,005	91,751	1,719,187	552,646	562,155	5,679,271
Total Vacant (%)	9.8%	13.2%	22.2%	20.3%	8.7%	20.0%	24.5%	25.2%	20.8%
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	4,360	-11,709	116,063	-55,839	-8,692	28,392	15,584	6,905	95,064
Total Net Absorption YOY	8,305	6,343	134,371	58,980	5,835	-49,304	-57,830	5,380	112,080
Asking Rents (\$ PSF)	\$1.83	\$2.23	\$1.63	\$2.28	\$2.39	\$2.27	\$2.00	\$1.71	\$2.02
Under Construction SF	0	0	0	150,000	0	0	0	0	150,000
Planned SF	0	0	0	0	0	0	0	0	0

# LAS VEGAS VALLEY

## SPECULATIVE OFFICE SUBMARKET MAP



Updated: 10/2014



ARROYO MARKET SQUARE

**RCG  
ECONOMICS**

**UNLV**

LIED INSTITUTE FOR  
REAL ESTATE STUDIES  
LEE BUSINESS SCHOOL

# Las Vegas Anchored Retail Survey

## 1<sup>st</sup> Quarter 2015



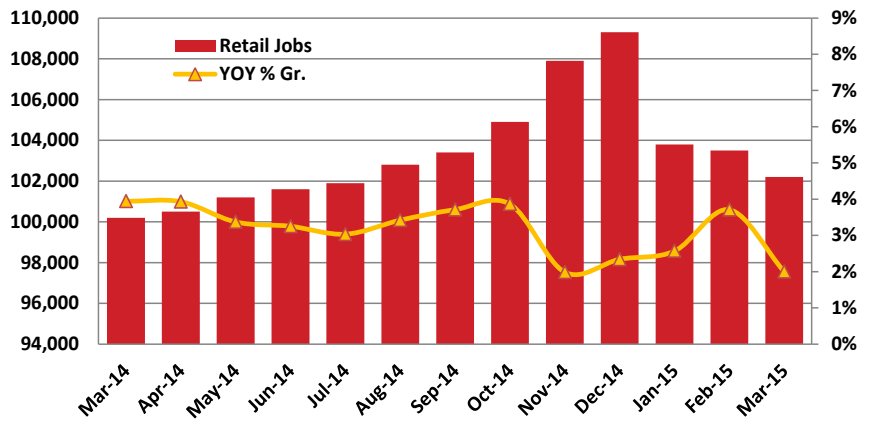
THE DISTRICT AT GREEN VALLEY RANCH

# LAS VEGAS ANCHORED RETAIL SURVEY

## SUMMARY

The Las Vegas Valley's ("the Valley") anchored retail market<sup>1</sup> inventory remained 44.3 million square feet ("sf") in Q1, 2015 - there were no completions recorded during the quarter. For the first time in six quarters, the Valley experienced negative demand with -253,600 sf. The vacancy rate rose slightly to 11.9% in Q1, 2015 from 11.4% in Q4, 2014 and 11.6% in Q1, 2014. Average monthly asking rents decreased to \$1.02 per square foot ("psf") NNN<sup>2</sup> in Q1; \$0.08 lower than the previous quarter and \$0.21 lower than Q1, 2014. 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: Mar-14 to Mar-15**



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

## RETAIL JOBS

Total nonfarm employment for the Las Vegas MSA increased by 25,100 jobs from March 2014 through March 2015, a 2.9% increase. During this period the "headline" unemployment rate declined 1.3 points to 7.2 percent.

### Retail Employment

Industry Sector	Jan 2014			Feb 2014			Mar 2014		
	2015	2014	% Ch.	2015	2014	% Ch.	2015	2014	% Ch.
Gen. Merch. & Cloth./Accessories	39,600	38,300	3.4%	38,300	37,000	3.5%	38,100	36,800	3.5%
Food & Bev. Stores	16,300	15,400	5.8%	16,300	15,300	6.5%	16,300	15,500	5.2%
Health & Personal Care Stores	7,000	6,600	6.1%	7,000	6,700	4.5%	6,900	6,700	3.0%
Other Stores	40,900	40,900	0.0%	41,900	40,800	2.7%	40,900	41,200	-0.7%
<b>Total</b>	<b>103,800</b>	<b>101,200</b>	<b>2.6%</b>	<b>103,500</b>	<b>99,800</b>	<b>3.7%</b>	<b>102,200</b>	<b>100,200</b>	<b>2.0%</b>

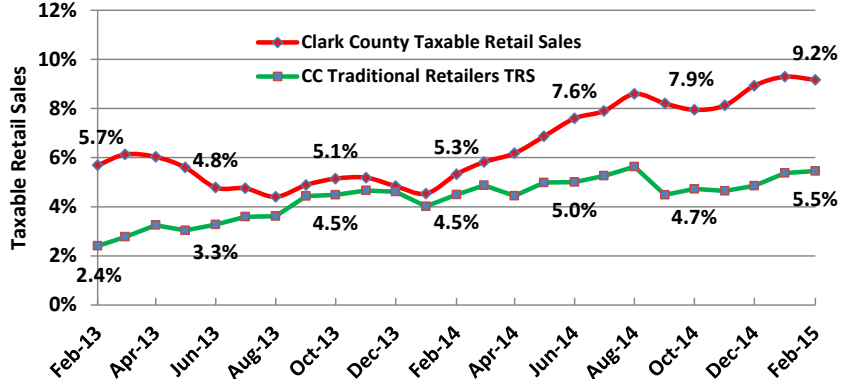
Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

There were 102,200 jobs in the Las Vegas retail sector at the end of March 2015, accounting for 13% of total private sector jobs. This represents 2,000 (+2.0%) more jobs than were recorded in March 2014. General Merchandise and Clothing/Accessories jobs rose by 3.5% (+1,300 jobs), but Food & Beverage Stores showed the strongest growth percentage-wise, increasing 5.2% (+800 jobs) in the last year. Other Stores<sup>4</sup> showed a small decline. Employment in the retail sector has been increasing on a year-over-year ("Y-O-Y") basis since May 2010 and has shown modest gains (+2.8%) so far during 2015.

## TAXABLE RETAIL SALES

Clark County taxable sales continue to steadily climb. On a 12-month moving total basis, these sales reached \$37.0 billion in February, a 9.2% spike compared to February 2014. This brings the region's sales to a new all-time high and well above the December 2007 peak of \$36.3 billion.

**Clark County Total Taxable Retail Sales ("TRS") vs. Traditional Retailers TRS, Percent Growth: Feb-13 to Feb-15**



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



# ANCHORED RETAIL MARKET

Top 5 Traditional Retailers (Feb-15)	Taxable Retail Sales	YoY Change	YoY % Change
Electronics and Appliance Stores	\$92,569,164	\$22,052,024	31.3%
General Merchandise Stores	\$261,308,301	\$21,732,766	9.1%
Food Services and Drinking Places	\$735,800,010	\$20,287,053	2.8%
Building Material and Garden Equipment and Supplies	\$99,285,446	\$12,874,022	14.9%
Miscellaneous Store Retailers	\$58,088,903	\$8,786,734	17.8%

Source: Nevada Department of Taxation. Note: The reason the DETR and Taxation retail categories do not match exactly is that DETR only reports three types of traditional retailer categories.

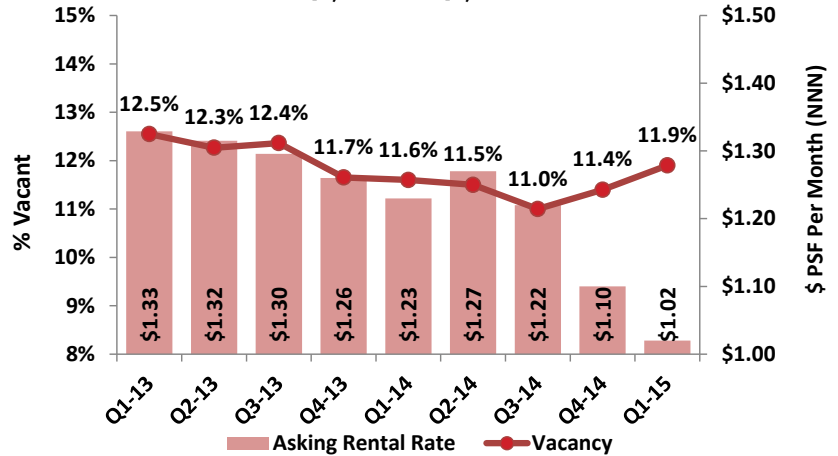
Moreover, the average year-over-year growth over the last 39 months is 7.1%.

The three traditional retail sectors with the largest taxable sales growth, on an absolute basis, during the February 2014-February 2015 period, according to the Nevada Department of Taxation, were "Electronics and Appliance Stores" (+\$22M, +31%), "General Merchandise Stores" (+\$22M, +9.1%) and "Food Services and Drinking Places" (+\$20M, +2.8%). Solid growth in taxable sales among traditional retail outlets have continued into 2015. Below is a table of the top five performing year-over-year traditional retailer types.

## VACANCY & RENTS

The average valley-wide anchored retail vacancy rate increased to 11.9% (based on currently vacant space that is being actively marketed) in Q1, 2015. This is a 0.5 percentage-point increase from Q4 and a 0.3 percentage-point increase from Q1, 2014 (11.6%). The average valley-wide anchored retail vacancy rate remains 3.4 percentage-points lower than the record high of 15.3% that occurred in Q2, 2011. The increase in vacancy rate in Q1 was mainly due to the recent availabilities of former Food4Less retail anchor sites.

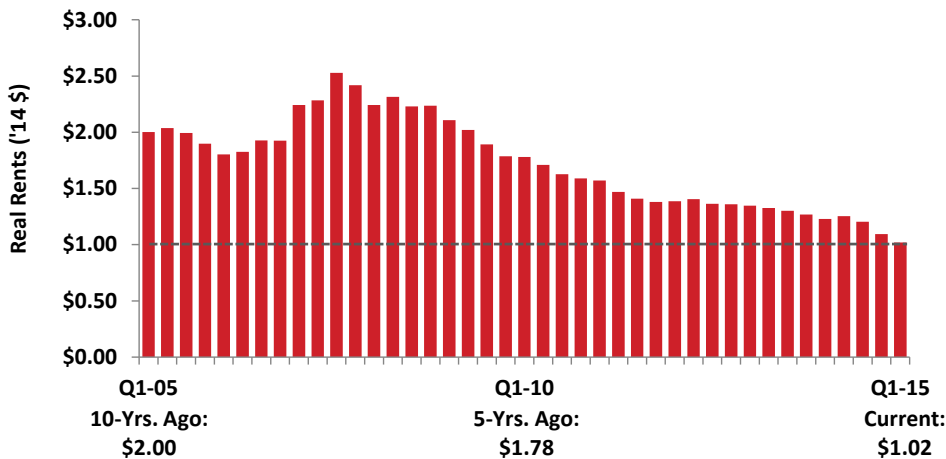
**Las Vegas Valley Retail Market  
Historical Vacancy vs. Monthly Asking Rent:  
Q1, 2013 - Q1, 2015**



The highest submarket vacancies at the end of Q1 were Downtown (20.0%), University East (17.5%), North Las Vegas (15.0%) and West Central (13.2%). Three submarkets had vacancy rates below 10%:

Northwest (9.3%), Southwest (7.3%) and Northeast (4.9%). Relative to the previous quarter, vacancy rates rose in four submarkets and decreased in the other four. The improved submarkets in Q1, 2015 were Northeast, Northwest, Southwest and West Central, with improvements of 1.2, 0.4, 1.4 and 0.7 percentage-points, respectively. However, the four submarkets that lost occupied space and outweighed the gains of the other four were Downtown, Henderson, North Las Vegas and University East, which saw vacancy rates rise by 7.4, 2.0, 2.0 and 1.4 percentage-points, respectively.

**Las Vegas Valley Retail Market  
Inflation-Adjusted Asking Rent: Q1, 2005 - Q1, 2015 (Baseline)**



## ANCHORED RETAIL MARKET

By product type, vacancy improved in Power Centers only during the first quarter, decreasing by 0.6 points. Community and Neighborhood Centers, on the other hand, lost ground, with vacancy rates rising by 0.1 and 1.9 percentage-points. Both Community and Neighborhood Centers ended the quarter with a 12.7% vacancy rate.

Monthly asking rents decreased in Q1 for the third consecutive quarter. Asking rents have fallen back to a new low, reaching \$1.02 psf in Q1 (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 dropping vacancies. In fact, from tax and vacancy rate data, we know that high-end retail is thriving.

### DEMAND

There was a total net absorption of -253,600 sf in Q1, 2015, compared to +42,600 sf during the first quarter in 2014. This was the first quarter with negative net absorption since Q3, 2013. On a Y-O-Y basis, net anchored retail absorption was just 24,500 sf, valley-wide.

Net absorption declined in the Henderson (-175,500 sf), North Las Vegas (-98,300 sf), University East (-85,200 sf) and Downtown (-78,800 sf) submarkets in Q1. The other four submarkets recorded positive net absorption, led by the Southwest submarket with 82,600 sf.

On an annual basis, only five of eight submarkets were in positive territory, totaling just 24,200 sf of net absorption. During the same period in 2014, Y-O-Y absorption was 436,900 sf.

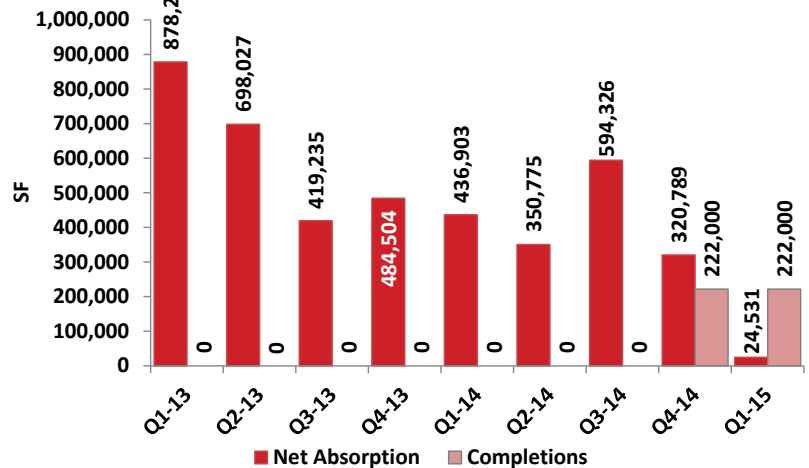
Net absorption was positive in Power Centers (+65,400 sf), but it was not nearly enough to offset the losses in Community Centers (-25,800 sf) and Neighborhood Centers (-293,300 sf). The large drop in Neighborhood Center absorption was primarily caused by the recent closings of Las Vegas Valley Food4Less stores.

Power Centers also led the way on a Y-O-Y basis, adding 230,900 sf of occupied space, while Neighborhood Centers saw most of its gains wiped out by a bad quarter, posting 88,200 sf of growth. Community Centers, on the other hand, saw -294,600 sf of absorption on the year.

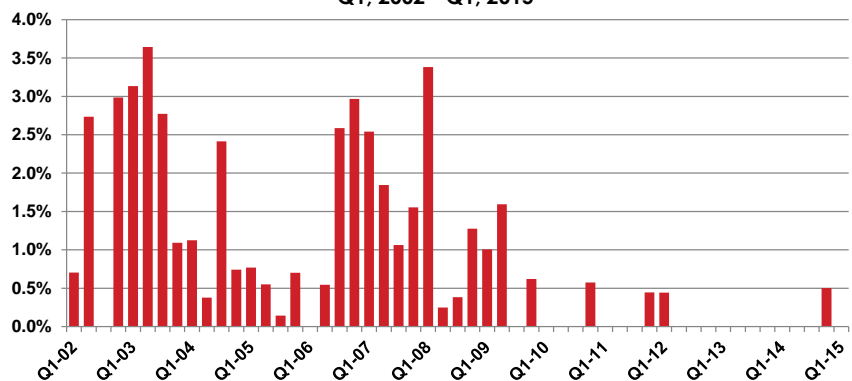
### SUPPLY

No new anchored retail space was completed during Q1, 2015. In the last 12 months, only Q4, 2014 had any completions. Prior to that, there were only two quarters in 19 (since Q1, 2010) that saw new anchored retail space brought to market. The Valley's total anchored retail inventory is currently 44.3 million sf in 267 shopping centers.

**Las Vegas Valley Retail Market  
Historical YOY Net Absorption vs. Completions  
Q1, 2013 - Q1, 2015**



**Las Vegas Valley Retail Market  
Completions as a % of Inventory:  
Q1, 2002 - Q1, 2015**



## ANCHORED RETAIL MARKET

There are two construction projects totaling 278,700 sf in the works. These are 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 anchored retail development taking place in 2015. This will help the Valley's anchored retail market to move toward the 10% stabilized vacancy rate. Our latest estimates indicate that this will happen in about seven quarters (based on the average quarterly absorption rate of 163,000 sf over the last 10 years).

### FURTHER THOUGHTS

As noted, Clark County taxable sales continue to steadily climb. On a 12-month moving total basis, these sales reached \$37.0 billion in February, a 9.2% spike compared to February 2014. This brings the region's sales to a new all-time high and well above the December 2007 peak of \$36.3 billion. Moreover, the average year-over-year growth over the last 39 months is 7.1%.

There were 102,200 jobs in the Clark County retail sector at the end of March 2015, accounting for 13% of total private sector jobs. This represents 2,000 (+2.0%) more jobs than were recorded in March 2014. If consumer spending continues to grow through 2015, expansion by existing retailers and new retail concepts could pick up in Southern Nevada. For example, Haggen Inc. of Bellingham, Washington recently purchased seven Vons and Albertsons stores in the Las Vegas Valley. It will be converting them to Haggen Food & Pharmacy stores during the next couple of months. In 2014, Albertsons and Safeway revealed that they would be merging and disposing of some of their locations around the country for regulatory reasons. Seven stores in Las Vegas, Henderson and Boulder City will be converted to Haggen starting June 7.

In the short-run, the drop in gasoline prices has essentially given Southern Nevadans a "raise" and an increase in spending and savings power, but as these price cuts retrench, as they are starting to do, spending could be curtailed since consumers will have to return to depending on rising wages and incomes. Wages and incomes have been stagnant for some time when adjusted for inflation.

There is also the potential diversion of disposable income into health insurance, as required by the ACA. Neither is likely to put an end to the recovery, but both could act as headwinds. The third is stagnant wages after adjusting for inflation and the fourth is stagnant average hours worked per week.

If consumer spending remains strong, the outlook for the local retail market is positive. Retail employment is showing growth and vacancy has generally been declining since Q2, 2011. Rents continue to drop as well, and this should help stimulate demand for retail space.

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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  
First Quarter, 2015**

## SUBMARKETS

TOTAL RETAIL MARKET	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	9	54	27	21	59	23	40	34	267
Total Rentable SF	1,105,851	8,680,068	4,910,743	2,542,317	10,810,588	5,783,835	6,050,227	4,379,055	44,262,684
Total Vacant SF	220,995	1,140,605	734,483	124,365	1,010,627	421,099	1,056,873	578,015	5,287,062
Total Occupied SF	884,856	7,539,463	4,176,260	2,417,952	9,799,961	5,362,736	4,993,354	3,801,040	38,975,622
Total Vacant (%)	20.0%	13.1%	15.0%	4.9%	9.3%	7.3%	17.5%	13.2%	11.9%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	222,000	0	0	0	222,000
Total Net Absorption QTD	-78,830	-175,514	-98,303	31,611	41,508	82,597	-85,177	28,464	-253,644
Total Net Absorption YOY	-100,902	122,936	-97,670	123,760	264,194	22,046	-322,673	12,840	24,531
Asking Rents (\$ PSF)	\$0.42	\$1.33	\$1.02	\$1.11	\$1.20	\$1.94	\$0.57	\$0.98	\$1.02
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

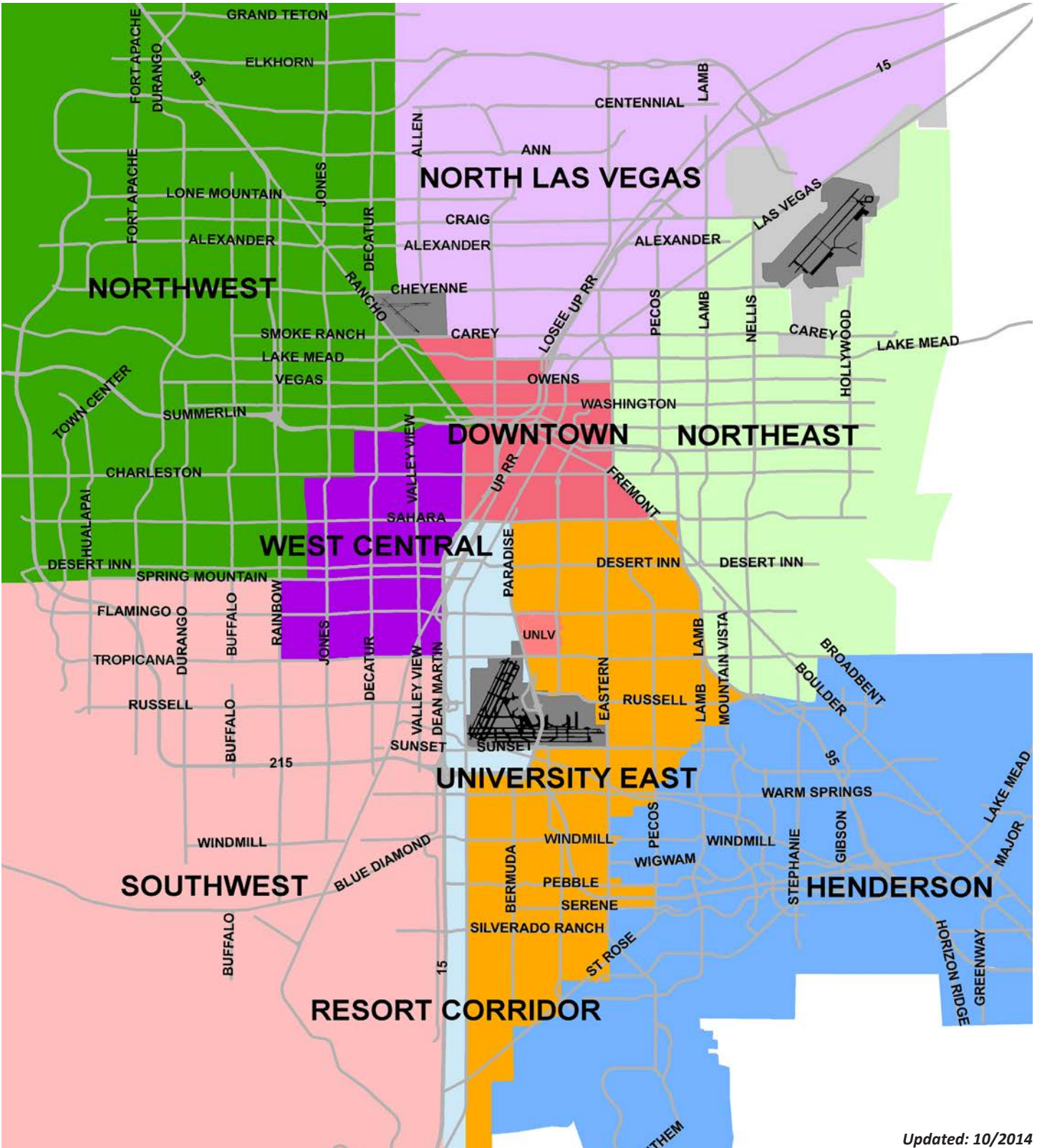
POWER CENTERS	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	0	8	2	0	7	1	3	3	24
Total Rentable SF	0	2,962,288	987,713	0	2,840,846	944,314	1,210,223	1,138,224	10,083,608
Total Vacant SF	0	590,165	0	0	61,995	7,200	139,170	138,155	936,685
Total Occupied SF	0	2,372,123	987,713	0	2,778,851	937,114	1,071,053	1,000,069	9,146,923
Total Vacant (%)	0.0%	19.9%	0.0%	0.0%	2.2%	0.8%	11.5%	12.1%	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	-11,086	0	0	29,326	0	44,549	2,630	65,419
Total Net Absorption YOY	0	-23,020	8,493	0	107,323	40,611	32,648	64,839	230,894
Asking Rents (\$ PSF)	\$0.00	\$1.66	\$0.00	\$0.00	\$1.13	\$1.50	\$1.26	\$1.31	\$1.47
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	20	9	19	15	107
Total Rentable SF	678,690	2,920,692	1,755,463	1,407,552	4,314,234	3,216,421	2,761,028	1,649,146	18,703,226
Total Vacant SF	184,884	183,215	224,476	20,196	418,462	310,368	740,539	296,261	2,378,401
Total Occupied SF	493,806	2,737,477	1,530,987	1,387,356	3,895,772	2,906,053	2,020,489	1,352,885	16,324,825
Total Vacant (%)	27.2%	6.3%	12.8%	1.4%	9.7%	9.6%	26.8%	18.0%	12.7%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	222,000	0	0	0	222,000
Total Net Absorption QTD	-78,830	-5,042	-10,901	75,222	-4,890	76,336	-105,130	27,459	-25,776
Total Net Absorption YOY	-96,702	122,716	-63,682	96,785	128,042	-30,947	-446,645	-4,117	-294,550
Asking Rents (\$ PSF)	\$0.52	\$1.17	\$0.84	\$1.45	\$1.67	\$2.19	\$0.35	\$0.79	\$0.88
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	36,111	367,225	510,007	104,169	530,170	103,531	177,164	143,599	1,971,976
Total Occupied SF	391,050	2,429,863	1,657,560	1,030,596	3,125,338	1,519,569	1,901,812	1,448,086	13,503,874
Total Vacant (%)	8.5%	13.1%	23.5%	9.2%	14.5%	6.4%	8.5%	9.0%	12.7%
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	-159,386	-87,402	-43,611	17,072	6,261	-24,596	-1,625	-293,287
Total Net Absorption YOY	-4,200	23,240	-42,481	26,975	28,829	12,382	91,324	-47,882	88,187
Asking Rents (\$ PSF)	\$0.35	\$1.10	\$1.13	\$1.05	\$0.93	\$1.61	\$1.06	\$1.15	\$0.99
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