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Las Vegas Valley Executive Summary Industrial Market - 1st Quarter 2014



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April 17, 2014

Re: *Commercial Real Estate Survey: 1st 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,

John Restrepo
RCG Economics

Marcus Conklin
Lied Institute for Real Estate Studies-UNLV

LAS VEGAS VALLEY INDUSTRIAL MARKET

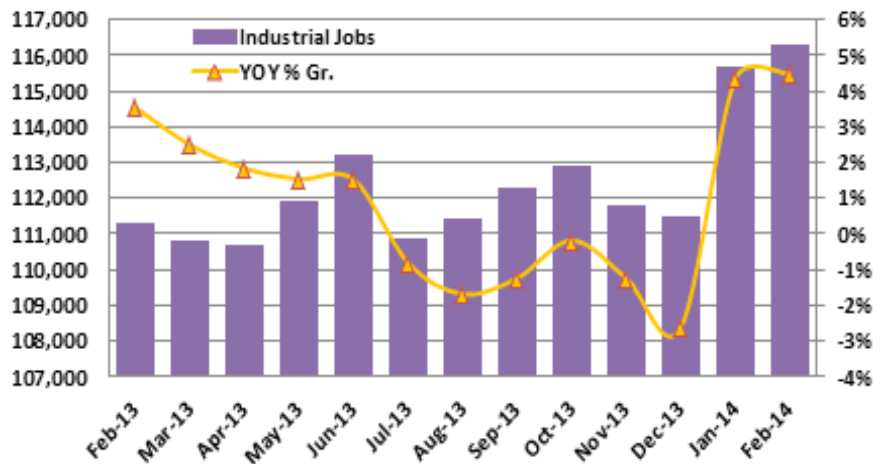
SUMMARY

The Las Vegas Valley's ("the Valley") industrial market¹ ended Q1 2014 with an inventory of 107.7 million square feet ("sf"). Demand during Q1 was 862,000 sf. The quarter ended with an industrial vacancy rate of 11.1%, 3.8 percentage points less than the same time last year. At \$0.54 per square foot ("psf") NNN², the average asking rent for industrial space was above last quarter (\$0.53 psf) and the same quarter last year (\$0.48 psf). At the end of Q1 2014, there were 1 million sf of industrial forward-supply³ (all under construction as we recorded no space in the planning stages). All under construction space was for warehouse/distribution and light industrial buildings. Although industrial employment has yet to stabilize, performance metrics for the Valley's industrial market in the last four quarters indicate that we are now in the midst of a recovery.

INDUSTRIAL-RELATED JOBS

Employment in the industrial sector represents 15% of all private employment in Clark County. There were 116,300 such jobs as of February 2014, 5,000 more (+4.5%) than in the same month in the prior year.⁴ After finally turning positive between May 2012 and June 2013, annual industrial employment growth dipped back into negative territory during the six-month period of July 2013 to December 2013, though in the last two months has come back and posted strong growth (>4%). These losses were largely in the construction and transportation & warehousing industries. In these last two months, however, hiring in these industries has rebounded, especially in construction (~8%).

Clark County Total* Industrial Jobs and Annual Growth (Feb-13 to Feb-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	Dec			Jan			Feb		
	2013	2012	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Nat. Resources	300	300	0.0%	300	300	0.0%	300	300	0.0%
Construction	40,900	40,200	1.7%	39,700	38,800	2.3%	40,400	39,200	3.1%
Manufacturing	21,000	20,500	2.4%	20,800	20,200	3.0%	20,900	20,300	3.0%
Wholesale	20,700	20,300	2.0%	20,500	20,000	2.5%	20,500	20,000	2.5%
Transp. & Warehousing	34,900	33,800	3.3%	34,400	33,800	1.8%	34,200	33,500	2.1%
Total	117,800	115,100	2.3%	115,700	113,100	2.3%	116,300	113,300	2.6%

Source: Nevada Department of Employment, Training & Rehabilitation.

VACANCY & RENTS

The Valley's total industrial vacancy rate (directly vacant space plus vacant sublease space) was 11.1% in Q1, down from the 11.8% recorded for the previous quarter and the 14.9% in Q1, 2013. Vacancy levels have shown notable improvements in all quarters since peaking in Q4 of 2012 when the vacancy rate stood at 15.5%.

On a submarket basis, the lowest industrial vacancy rate in Q1 was found in East Las Vegas, at 7.4%. The Northwest submarket continues to post the highest rate among the Valley's seven submarkets at 18.1%, a slight worsening compared to Q4. This rate is 0.2 percentage points over the previous quarter's 17.9%. Among

the larger industrial submarkets, the vacancy rate in the Airport area declined the most, falling by 2.5 percentage points from 17.2% in Q4 2013 to 14.7% in Q1 2014. This was followed by North Las Vegas' 1.6 percentage point drop to 9.6%. West Central, Northwest and Henderson submarkets saw vacancy increase quarter over quarter, by 1.3, 0.2 and 1.0 percentage points, respectively.

All but incubator space experienced a decrease in vacancy over Q4. The largest drop, -2.3 percentage points, was in R&D/Flex space. Vacancy rose slightly in Incubator space (+0.4 percentage point). Light Industrial space had the lowest vacancy among all industrial types at 7.5%, while R&D/Flex space had the highest vacancy rate at 20.1%.

However, relative to Q1 2013, all product types experienced lower vacancy rates. R&D/Flex space saw the biggest change Y-O-Y with a 6.1 percentage point drop, while Warehouse/Distribution experienced the next largest decline - 5.6 percentage points. The decreases in vacancy rates for Light Distribution, Light Industrial and Incubator space were 3.6, 1.6 and 0.9 points, respectively. Overall, the industrial vacancy rate dropped from 14.9% to 11.1%, a 3.8-point improvement.

Monthly asking rents for industrial space (calculated on a NNN basis — or not accounting for any operating expenses) have risen over the past four quarters. At \$.54 per sf in Q1 2014, rents are up \$.01 since last quarter's \$.53 and \$.03 since Q1 2013's \$.48 psf.

DEMAND

Demand in the Valley's industrial market (defined as total net absorption) was positive for the 6th straight quarter with 862,100 sf of net space absorbed in Q1 2014. For 2013 overall, net absorption totaled over 4.6 million sf, a major turnaround compared to 2012's -317,400 sf total and is the largest amount absorbed since 2007. The year-over-year ("YOY") difference in Q1 is about +6,500 sf, so we look poised for another good year in 2014. This is an important indicator of Southern Nevada's ongoing economic recovery.

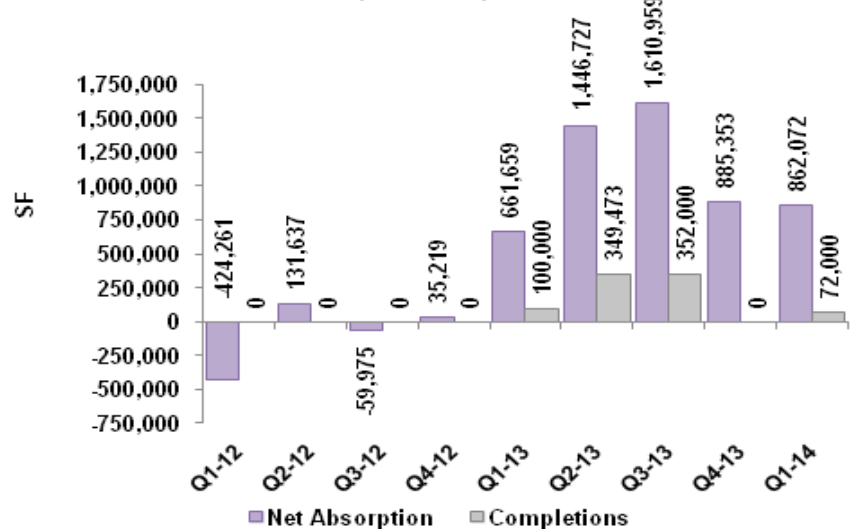
By submarket, North Las Vegas saw the most net absorption this quarter with 497,500 sf of more space occupied over last quarter. The East Las Vegas, Airport and Southwest submarkets also posted increases ranging between 23,000 sf and 356,100 sf. Negative net absorption this quarter was recorded in the Northwest (-2,900 sf), West Central (-152,000 sf) and Henderson (-69,000 sf).

Product demand in Q1 showed improvements for Warehouse/Distribution, Light Distribution, Light Industrial and R&D/Flex, but decreased for Incubator space. Light Distribution led the way with 318,000 sf absorbed for the quarter, but less than the 478,700 sf absorbed in Q4, 2013. The negative net absorption in the Incubator space was -30,900 sf. The Valley's positive net absorption for the last year was driven by the strong demand for Warehouse/Distribution space with nearly 3.0 million sf absorbed for the year. All other products were also positive for the year: Light Industrial (749,600 sf), Light Distribution (641,100 sf), R&D/Flex (361,600 sf) and Incubator (72,500 sf).

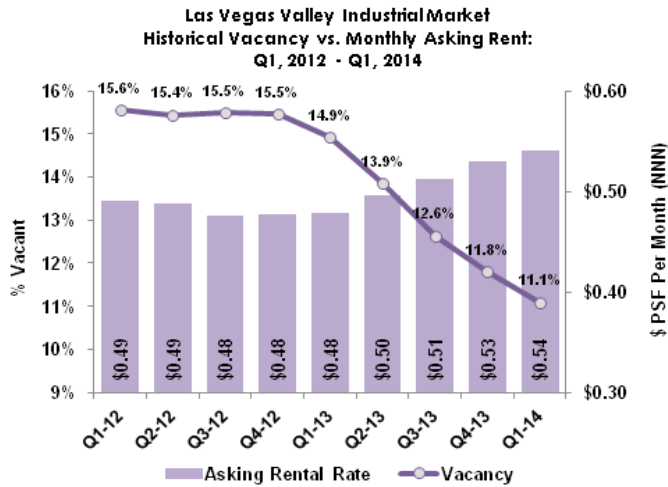
SUPPLY

There were 72,000 sf of industrial completions during Q1, 2014 (one project in Henderson) and inventory inched up to 107.7 million sf in 4,201 buildings. For the year, 801,500 sf were brought to the market in 2013,

**Las Vegas Valley Industrial Market
Historical Net Absorption vs. Completions:
Q1, 2012 - Q1, 2014**



all in the form of six built-to-suit spaces primarily as Warehouse/Distribution buildings. In comparison to the previous recent years, we see that no new space was completed in 2012 and only 152,000 sf was completed in 2011. The completed project is VadaT-ech's 72,000 sf manufacturing facility, a light industrial building.



There were four projects under construction by the end of the quarter, which support the trend of build-to-suit warehouse/distribution developments: Konami Gaming's expansion (193,000 sf in Airport); FedEx Distribution Center (296,000 sf in Henderson); Nicholas & Company (200,000 sf in North Las Vegas); and TJ Maxx's expansion (300,000 sf in North Las Vegas).

An important measure of the near-term health of the commercial markets is the potential number of years of available supply. With the vacancy rate at 11.1% and assuming a 10-year quarterly absorption average of 545,000 sf, we estimate that it will take approximately one year for the industrial market to reach a 10% stabilized vacancy rate.

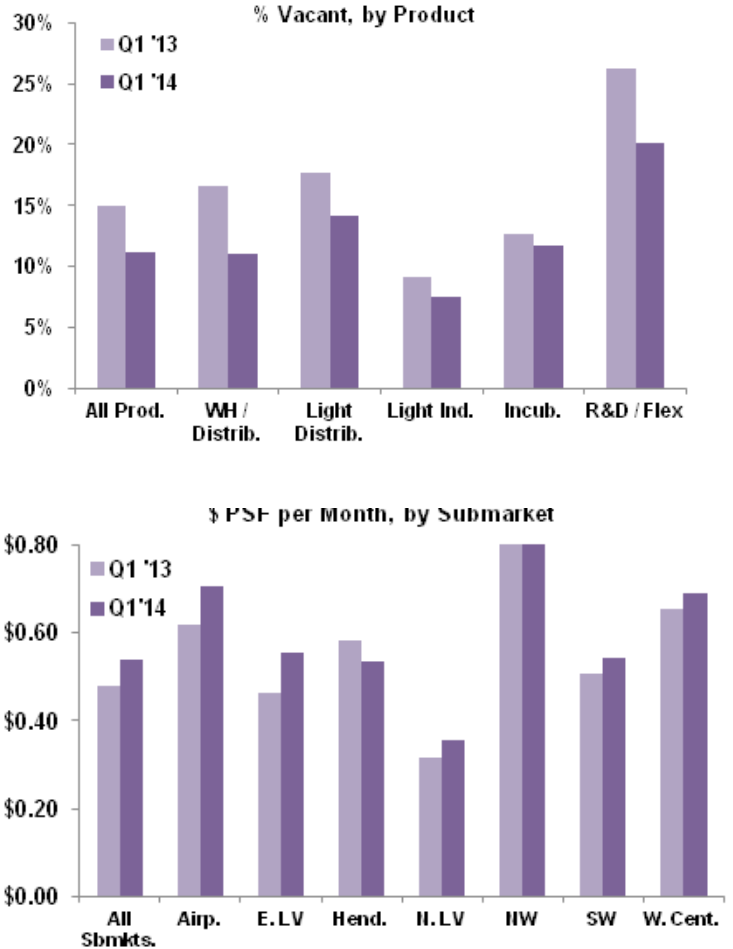
One of the economic development challenges facing Southern Nevada is the lack of space of a certain size. There is critical shortage of space over 100,000 sf. This shortage is hampering the rate of economic development because there is evidence that the region has lost a number of prospective businesses to competing Western metros due to the lack of large industrial spaces. Additionally, this shortage is limiting the growth potential of existing businesses, because of the inability to expand operations and hiring. This challenge is clearly illustrated in the following chart.

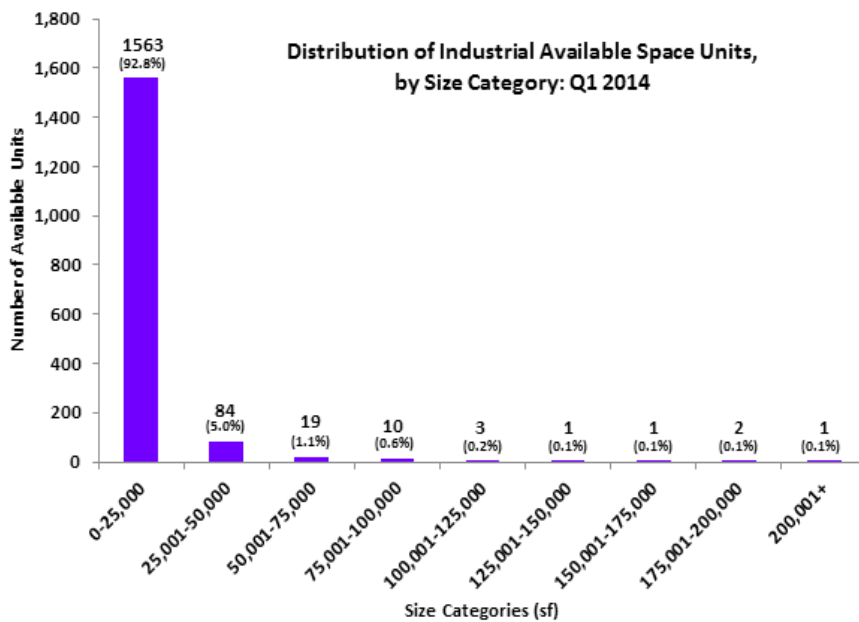
FURTHER THOUGHTS

As an important indicator of the steadily improving Southern Nevada economy, the industrial market continues to move toward a very healthy supply-demand balance. Local businesses continue to expand and the attention by firms from outside the state continues to grow. The result: the Valley's industrial market saw net absorption of 862,100 sf this quarter and 4.6 million sf for 2013. This is a remarkable turnaround considering the depth and breadth of the Great Recession. That said, there is a looming economic development and growth challenge facing the region. It's in the form of a dearth of available space of 100,000 sf or more in the market. As shown in the chart, above at the end of Q1, there were only eight buildings in this size range.

Recently, RCG Economics conducted a survey and market study (See <http://www.rcg1.com/industrial-building-survey-comparative-market-analysis-march-2014/>) on the impact of available inventory size on economic

**Las Vegas Valley Industrial Market
Vacancy Trends: Q1, 2013 v. Q1, 2014**





development efforts for the Las Vegas Global Economic Alliance (<http://www.nevadadevelopment.org/>). The findings were sobering. More than 9,000 potential jobs went uncreated across the Las Vegas Valley in the past 12 months, as at least 75 companies opted for regional competitors with a wider selection of big industrial sites. When asked why they skipped over Las Vegas in 2013, the shortage of building inventory was the top answer given by potential newcomers, with 93.8% of companies citing it.

Of the companies surveyed that were looking to relocate and/or expand, 93% were manufacturing or warehousing businesses that needed large spaces. About 70% said they needed 100,000 to

300,000 sf, while 28.6% said they needed more than 300,000 sf. Unfortunately for them — and for Las Vegas — the local market has just 10 spaces of 100,000 sf or more on the market now..

Factors that have held back local, large-scale industrial development include relatively high land prices, lack of railroad access, and too little emphasis on building big spaces.

Additional reasons include the reluctance of many lenders to provide financing for speculative development in Southern Nevada in the aftermath of the Great Recession, along with the fact that a number of developers believe industrial rents are not yet at the level needed to support new development. Also, our less than robust recovery makes many developers hesitant to raise rents for fear of losing existing tenants or being unable to attract new tenants. All of these factors combined have created a “shortage” of large industrial buildings, which in turn, has made Southern Nevada less attractive than some of its competitors like Phoenix and Salt Lake City.

Local municipalities need to think long term and not convert commercial land uses, especially office and industrial acreage, to residential uses. Short-term demand for a certain type of development — i.e. homebuilding — 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.

¹ 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.

² 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.

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

⁴ 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 subtype 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, 2014

SUBMARKETS								
TOTAL INDUSTRIAL MARKET	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	500	149	532	1,014	81	1,277	648	4,201
Total Rentable SF	14,127,625	2,823,817	12,770,916	31,452,029	1,336,299	33,137,033	12,016,433	107,664,152
Total Vacant SF	2,074,376	208,586	1,100,348	3,009,817	242,350	4,306,213	982,561	11,924,251
Total Occupied SF	12,053,249	2,615,231	11,670,568	28,442,212	1,093,949	28,830,820	11,033,872	95,739,901
Total Vacant (%)	14.7%	7.4%	8.6%	9.6%	18.1%	13.0%	8.2%	11.1%
Completions QTD	0	0	72,000	0	0	0	0	72,000
Completions YOY	222,000	0	72,000	86,000	0	393,473	0	773,473
Total Net Absorption QTD	356,079	22,952	-68,954	497,456	-2,936	209,780	-152,305	862,072
Total Net Absorption YOY	585,499	172,483	-177,223	2,817,125	218,324	1,318,011	-129,107	4,805,111
Asking Rents (\$ PSF)	\$0.70	\$0.55	\$0.54	\$0.36	\$0.99	\$0.54	\$0.69	\$0.54
Under Construction SF	193,000	0	296,000	500,000	0	0	0	989,000
Planned SF	0	0	0	0	0	0	0	0

WAREHOUSE/DISTRIBUTION	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	78	18	77	176	5	138	52	544
Total Rentable SF	4,844,394	907,075	6,459,019	18,506,459	223,661	13,066,312	1,939,836	45,946,756
Total Vacant SF	391,122	9,395	440,207	1,856,129	50,367	2,126,808	170,785	5,044,813
Total Occupied SF	4,453,272	897,680	6,018,812	16,650,330	173,294	10,939,504	1,769,051	40,901,943
Total Vacant (%)	8.1%	1.0%	6.8%	10.0%	22.5%	16.3%	8.8%	11.0%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	86,000	0	393,473	0	479,473
Total Net Absorption QTD	175,998	-9,395	-152,937	340,807	0	-60,740	-97,503	196,230
Total Net Absorption YOY	213,836	44,764	-171,693	2,424,879	-17,025	574,602	-88,038	2,981,326
Asking Rents (\$ PSF)	\$0.43	\$0.56	\$0.48	\$0.33	\$0.49	\$0.45	\$0.43	\$0.40
Under Construction SF	193,000	0	296,000	500,000	0	0	0	989,000
Planned SF	0	0	0	0	0	0	0	0

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	578,841	24,368	201,107	564,423	34,426	969,181	120,950	2,493,296
Total Occupied SF	2,590,288	316,307	1,370,596	4,284,511	16,574	5,961,455	654,797	15,194,528
Total Vacant (%)	18.3%	7.2%	12.8%	11.6%	67.5%	14.0%	15.6%	14.1%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	93,647	0	-31,200	144,692	0	92,760	18,058	317,957
Total Net Absorption YOY	101,743	46,577	-42,906	204,015	38,593	276,283	15,754	640,058
Asking Rents (\$ PSF)	\$0.58	\$0.43	\$0.43	\$0.37	\$0.29	\$0.52	\$0.42	\$0.48
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, 2014

SUBMARKETS								
LIGHT INDUSTRIAL	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	198	91	312	594	16	740	482	2,433
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	357,483	75,194	215,073	424,078	0	674,464	512,534	2,258,826
Total Occupied SF	2,719,326	1,059,956	2,841,936	6,331,182	290,111	8,446,578	6,109,869	27,798,958
Total Vacant (%)	11.6%	6.6%	7.0%	6.3%	0.0%	7.4%	7.7%	7.5%
Completions QTD	0	0	72,000	0	0	0	0	72,000
Completions YOY	222,000	0	72,000	0	0	0	0	294,000
Total Net Absorption QTD	74,378	23,209	98,197	-16,842	11,644	84,355	-33,472	241,469
Total Net Absorption YOY	253,055	67,665	77,265	113,099	27,135	247,503	-36,108	749,614
Asking Rents (\$ PSF)	\$0.80	\$0.52	\$0.65	\$0.36	\$0.00	\$0.59	\$0.77	\$0.59
Under Construction SF	0	0	0	0	0	0	0	0
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	302,192	95,384	50,429	58,274	14,292	260,074	165,536	946,181
Total Occupied SF	1,412,429	203,239	406,477	503,278	85,033	2,236,307	2,293,079	7,139,842
Total Vacant (%)	17.6%	31.9%	11.0%	10.4%	14.4%	10.4%	6.7%	11.7%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-28,447	9,138	31,245	-8,600	0	-2,177	-32,039	-30,880
Total Net Absorption YOY	50	10,553	4,502	18,081	13,039	41,453	-15,200	72,479
Asking Rents (\$ PSF)	\$0.79	\$0.58	\$0.53	\$0.46	\$0.65	\$0.68	\$0.92	\$0.71
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	444,738	4,245	193,532	106,913	143,265	275,686	12,756	1,181,135
Total Occupied SF	877,934	138,049	1,032,747	672,911	528,937	1,246,976	207,076	4,704,630
Total Vacant (%)	33.6%	3.0%	15.8%	13.7%	21.3%	18.1%	5.8%	20.1%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	40,503	0	-14,259	37,399	-14,580	95,582	-7,349	137,296
Total Net Absorption YOY	16,814	2,924	-44,392	57,051	156,582	178,170	-5,516	361,634
Asking Rents (\$ PSF)	\$0.91	\$1.25	\$0.76	\$0.46	\$1.15	\$0.87	\$0.65	\$0.86
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

