



BELTWAY BUSINESS CENTER

**RCG
ECONOMICS**

UNLV

LIED INSTITUTE FOR
REAL ESTATE STUDIES
LEE BUSINESS SCHOOL

Las Vegas Valley Executive Summary

Office Market - 1st Quarter 2014



HUGHES CENTER



LIED INSTITUTE FOR
REAL ESTATE STUDIES
LEE BUSINESS SCHOOL

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

**RCG
ECONOMICS**

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

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

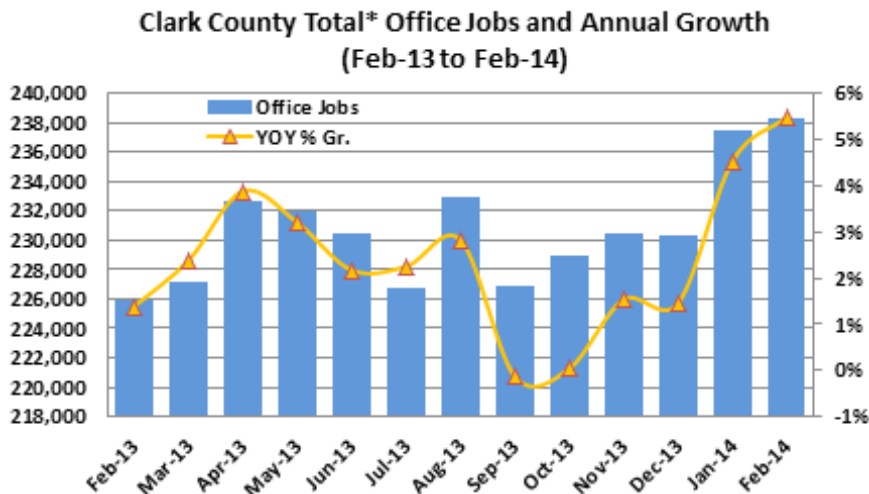
LAS VEGAS VALLEY OFFICE MARKET

SUMMARY

The Las Vegas Valley's ("the Valley") speculative office market¹ saw 45,700 square feet ("sf") of space completed at the end of Q1, 2014 though inventory remained at 42.4 million sf. In the last five quarters, Q3, 2013 was the only other quarter to see new space completed. Vacancy was 22.7% at the end of Q1, 2014, slightly down from the 23.7% vacancy recorded for the Q1, 2013. The 180,500 sf of net absorption in Q1 marked a second straight quarter of increase in demand. At \$1.78 per square foot ("psf") FSG², asking rent for office space in Q1 continued its slide from Q4 2013's \$1.84 psf and Q3 2013's \$1.85 psf. At the end of the quarter, there were 574,000 sf of office space under-construction and no space in the planning stages. Much of this under-construction space was concentrated in Class A product in the northwest and southwest submarkets.

OFFICE-RELATED JOBS

Employment in the office sector is an integral driver in our local economy, comprising 31% of all private employment in Clark County. There were 238,300 jobs in sectors that traditionally occupy offices as of February 2014, 12,400 more (+5.5%) than in February 2013.³ Throughout 2013, year-over-year ("YOY") growth in office-related employment had been moderate, averaging 2%. How-



*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	Dec 2012			Jan 2013			Feb 2014		
	2013	2012	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Information	9,700	9,900	-2.0%	9,600	9,100	5.5%	9,600	9,200	4.3%
Financial Activities	44,000	42,800	2.8%	43,500	42,500	2.4%	43,600	42,900	1.6%
Prof. & Business	113,000	106,800	5.8%	115,400	111,500	3.5%	116,000	110,100	5.4%
Health Care & Social Assist.	70,000	68,600	2.0%	69,000	68,200	1.2%	69,100	68,700	0.6%
Total	236,700	228,100	3.8%	237,500	231,300	2.7%	238,300	230,900	3.2%

Source: Nevada Department of Employment, Training & Rehabilitation.

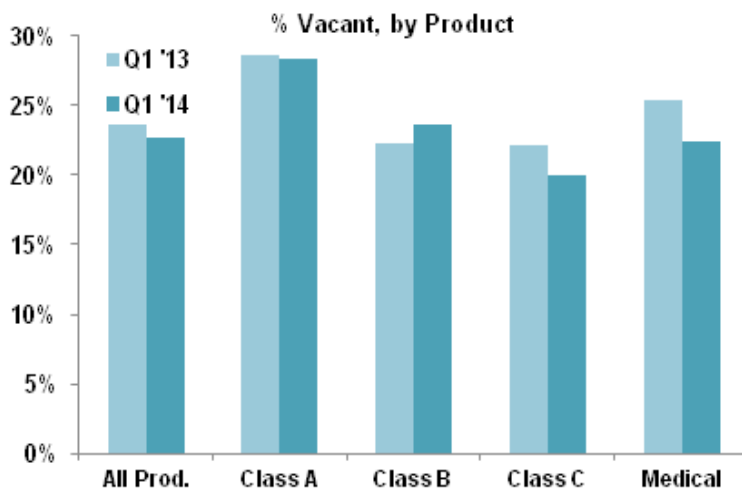
ever, 2014 has gotten off to a good start with 5% average monthly growth in office jobs in the first two months. Professional and business jobs have been especially strong, showing gains of 6.2% and 7.6%, respectively, in the first two months of the first quarter.

VACANCY & RENTS

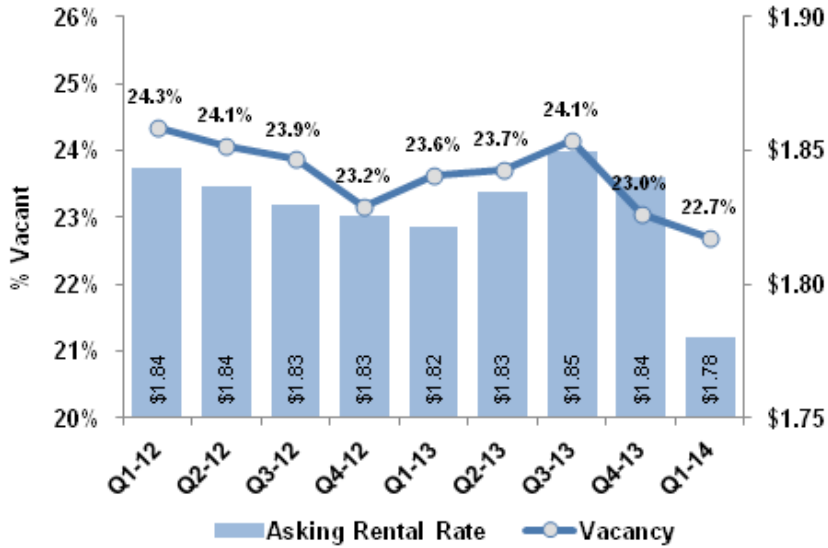
Total vacancy this quarter (directly vacant space plus vacant sublease space) in the Valley's office market dropped 0.4 points to 22.7%. This gain marks the start of a two-quarter streak with dropping vacancy rates. Vacancy has been above the 22% mark since Q2, 2010.

Downtown maintains the lowest vacancy rate at 16.8% and is the only submarket in the Valley

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



**Las Vegas Valley Office Market
Historical Vacancy vs. Monthly Asking Rent:
Q1, 2012- Q1, 2014**



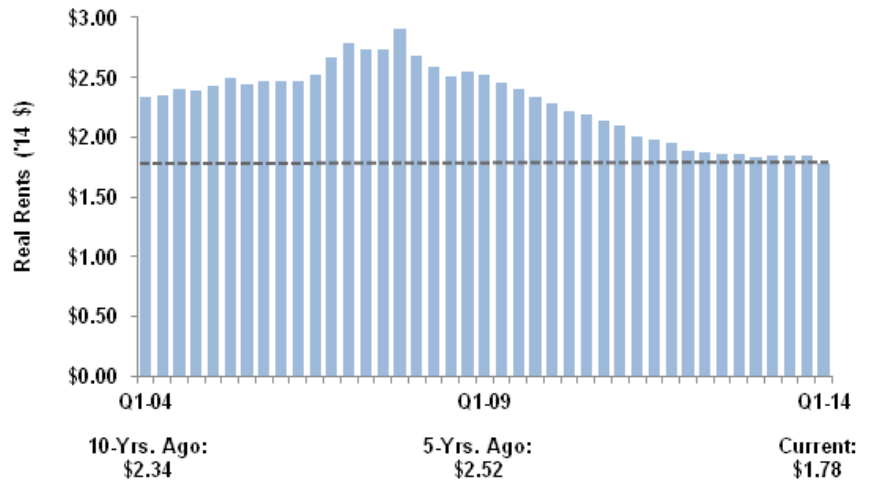
with a vacancy below 20%. East Las Vegas continues to have the highest rate at 26.2%, followed by West Central at 25%. The Southwest submarket led the way with a vacancy rate drop over last quarter of 1.5 percentage points, while North Las Vegas dropped 1.3, West Central dropped 1.0 and East Las Vegas improved 0.5 percentage points. The other submarkets saw vacancy rates either rise or stagnate. Downtown and Northwest vacancy rates remain unchanged. However, the airport rate rose 0.3 percentage points and in Henderson it went up 0.5 percentage points.

The improvement in the office vacancy rate this quarter was due to demand for Class A and Class C space, which posted 1.2 and 1.0 point drops to 28.4% and

20.0%, respectively. The two other product types saw vacancy rate increases. While, the Class A market partially drove some of the improvement in the overall vacancy rate, it still has a highest rate. Vacancy for Class B and Class C are similar to the Medical Office rate, at 23.6%, 20.0% and 22.4%, respectively.

When considering the past several years of data, there has been little improvement in vacancy rates since Q1 2011 and in asking rent price since Q1 2012 on both the submarket and product type levels, suggesting that the Valley's office market may be stable. Sadly, this stability exists at a vacancy rate around 20%, giving us a sizable surplus of office space.

**Las Vegas Valley Office Market
Inflation-Adjusted Monthly Rent: Q1, 2004 - Q1, 2014 (Baseline)**

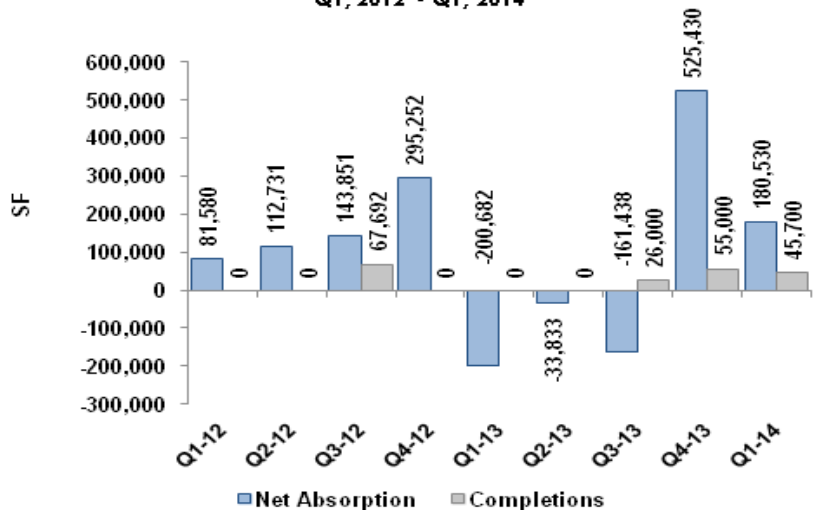


Average monthly asking office rent (calculated on a full-service gross basis—or accounting for all operating expenses) was \$1.78 per square foot ("psf") in Q1, \$0.06 less than the \$1.84 psf asking rent in the previous quarter. After a trend of decreases beginning in Q4 2007, rents began to stabilize in 2012.

DEMAND

Valley-wide speculative office total net absorption was positive for the second straight quarter at 180,500 sf during Q1. An on annual basis, net absorption for 2013 totaled 129,500 sf, a significant drop from 2012 when 633,400 sf was absorbed but better than 2011's -746,400 sf.

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



Most of this quarter's improvement occurred in the Southwest and West Central submarkets, where a combined 152,400 sf were absorbed. Most submarkets saw an increase in demand compared to last quarter, except for the Airport and Northwest (-12,400 and -3,200, respectively).

Class A (73,900 sf) and Class C (160,800 sf) office space recorded positive absorption on a net basis for the quarter, while the Medical (-7,900 sf) and Class B markets (-46,300 sf) recorded negative absorption.

SUPPLY

The first quarter of 2014 saw 45,700 sf of new office product completed. The completion of phase two of the Seven Hills Plaza accounts for all this new space. With this, completions during the first quarter have already surpassed last year's totals. In 2013, only 26,000 square feet of spec office space were completed in the Valley. This was the lowest rate of annual completions recorded since we started tracking the market over 20 years ago. Of the past 17 quarters since Q1, 2010, there have been only five where new space has entered the market. In comparison, the amount of annual office completions during the boom years—from 2003 to 2008—ranged between 1.1 million sf and 4.3 million sf.

A higher level of completions are expected in 2014 as we've record three more completed speculative office projects in the forward supply⁴ pipeline. One development underway is in the Northwest, the office component of the Shops at Summerlin (198,000 sf-Class A). We also expect the new Cadence Marketing Center (10,000 sf-Class A) to open in Henderson. The Gramercy's two 100,000-sf Class A buildings in the Southwest are also expected to open this year.

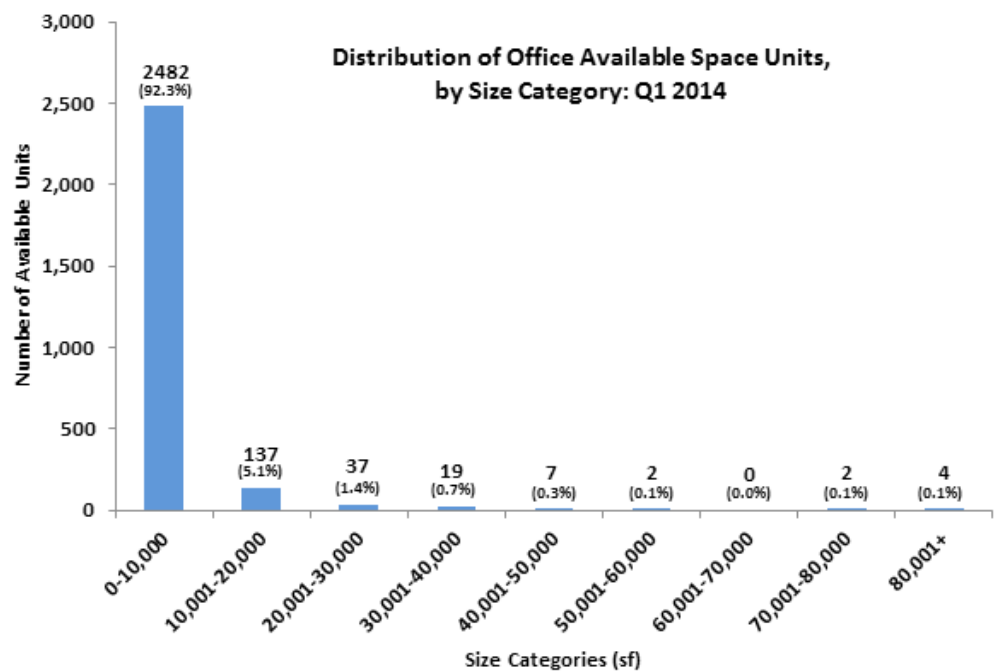
An important measure of the near-term health of the commercial markets is the potential number of years of available supply. Given the very high vacancy rate (22.7%) and the average quarterly absorption of the last 10 years (205,000 sf), we estimate that there are about 7 years worth of speculative office supply in the Valley that must be absorbed to reach a 10% "normalized" vacancy.

FURTHER THOUGHTS

As an important indicator of the steadily improving Southern Nevada job market, the office market continues to try and find its footing. There is also potential economic development and growth challenge facing the region. It's in the form of a lack of available contiguous office space of 40,000 sf or more. At the end of Q1, there were only 16 units of space in this size range.

There continues to be reluctance by most lenders to provide financing for speculative office development in Southern Nevada in the aftermath of the Great Recession. This is driven by the historically high Valley-wide

vacancy rate and low rents, which are driven by weak office-using job growth. As with the industrial market, Southern Nevada's municipalities need to think long-term and not convert commercial land uses 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 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.

² 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.

³ 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.

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

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.

Office Market Matrix

Las Vegas, Nevada

First Quarter, 2014

SUBMARKETS

TOTAL OFFICE MARKET	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	307	118	182	323	94	390	387	275	2,076
Total Rentable SF	5,094,766	3,780,861	6,013,558	5,945,568	783,529	8,793,919	6,593,103	5406541	42,411,845
Total Vacant SF	1,052,343	634,235	1,574,528	1,480,665	167,968	2,023,872	1,359,754	1349331	9,642,696
Total Occupied SF	4,042,423	3,146,626	4,439,030	4,464,903	615,561	6,770,047	5,233,349	4057210	32,769,149
Total Vacant (%)	20.7%	16.8%	26.2%	24.9%	21.4%	23.0%	20.6%	25.0%	22.7%
Completions QTD	0	0	0	45,700	0	0	0	0	45,700
Completions YOY	0	55,000	0	71,700	0	0	0	0	126,700
Total Net Absorption QTD	-12,444	2,351	29,500	2,115	9,857	-3,210	96,856	55505	180,530
Total Net Absorption YOY	76,623	-91,801	145,385	-154,136	11,567	405,348	208,855	-91153.03127	510,689
Asking Rents (\$ PSF)	\$1.79	\$1.84	\$1.40	\$2.04	\$1.60	\$1.94	\$2.08	\$1.36	\$1.78
Under Constuction SF	0	0	0	50,000	0	324,000	200,000	0	574,000
Planned SF	0	0	0	0	0	0	0	0	0

PROFESSIONAL CLASS A	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	6	5	9	12	0	21	3	2	58
Total Rentable SF	665,904	795,116	1,351,642	828,068	0	1,616,232	397,112	227624	5,881,698
Total Vacant SF	157,379	188,156	21,498	414,756	0	671,100	159,817	55541	1,668,247
Total Occupied SF	508,525	606,960	1,330,144	413,312	0	945,132	237,295	172083	4,213,451
Total Vacant (%)	23.6%	23.7%	1.6%	50.1%	0.0%	41.5%	40.2%	24.4%	28.4%
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	30,185	-8,330	28,700	0	39,536	-15,682	-505	73,904
Total Net Absorption YOY	51,889	-99,652	28,700	-37,381	0	81,325	-34,027	22449.57616	13,304
Asking Rents (\$ PSF)	\$2.42	\$2.34	\$2.85	\$2.45	\$0.00	\$2.10	\$2.59	\$2.94	\$2.32
Under Constuction SF	0	0	0	50,000	0	266,000	200,000	0	516,000
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	26	18	66	8	75	71	46	352
Total Rentable SF	1,936,021	1,720,096	1,066,557	2,144,054	200,796	2,795,551	2,405,132	1666046	13,934,253
Total Vacant SF	426,287	237,182	492,581	408,149	118,104	559,757	628,559	414417	3,285,036
Total Occupied SF	1,509,734	1,482,914	573,976	1,735,905	82,692	2,235,794	1,776,573	1251629	10,649,217
Total Vacant (%)	22.0%	13.8%	46.2%	19.0%	58.8%	20.0%	26.1%	24.9%	23.6%
Completions QTD	0	0	0	45,700	0	0	0	0	45,700
Completions YOY	0	55,000	0	45,700	0	0	0	0	100,700
Total Net Absorption QTD	-26,610	13,268	-24,193	83,775	-6,053	-98,124	-1,024	12636	-46,325
Total Net Absorption YOY	17,793	47,278	10,289	22,843	-27,194	-45,422	-10,326	-95269.94906	-80,008
Asking Rents (\$ PSF)	\$1.88	\$1.87	\$1.36	\$1.86	\$1.52	\$1.86	\$2.18	\$1.07	\$1.74
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0	0

Office Market Matrix

Las Vegas, Nevada

First Quarter, 2014

SUBMARKETS									
PROFESSIONAL CLASS C	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	253	66	110	139	76	210	272	187	1,313
Total Rentable SF	2,364,311	877,606	2,051,408	1,592,430	482,290	2,234,002	3,058,831	2761393	15,422,271
Total Vacant SF	447,740	151,232	583,035	317,769	35,337	413,372	449,826	684670	3,082,981
Total Occupied SF	1,916,571	726,374	1,468,373	1,274,661	446,953	1,820,630	2,609,005	2076723	12,339,290
Total Vacant (%)	18.9%	17.2%	28.4%	20.0%	7.3%	18.5%	14.7%	24.8%	20.0%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	26,000	0	0	0	0	26,000
Total Net Absorption QTD	17,041	-41,856	63,125	-42,605	-6,181	-213	138,641	32849	160,801
Total Net Absorption YOY	19,201	-67,400	34,998	-42,550	27,599	163,447	140,719	83194.98501	359,209
Asking Rents (\$ PSF)	\$1.49	\$1.30	\$1.26	\$1.73	\$1.23	\$1.75	\$1.85	\$1.38	\$1.53
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0	0

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	751478	7,173,623
Total Vacant SF	20,937	57,665	477,414	339,991	14,527	379,643	121,552	194703	1,606,432
Total Occupied SF	107,593	330,378	1,066,537	1,041,025	85,916	1,768,491	610,476	556775	5,567,191
Total Vacant (%)	16.3%	14.9%	30.9%	24.6%	14.5%	17.7%	16.6%	25.9%	22.4%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-2,875	754	-1,102	-67,755	22,091	55,591	-25,079	10525	-7,850
Total Net Absorption YOY	-12,260	27,972	71,398	-97,048	11,162	205,998	112,488	-101527.6434	218,183
Asking Rents (\$ PSF)	\$1.62	\$1.91	\$1.58	\$2.02	\$2.39	\$2.02	\$1.80	\$1.69	\$1.83
Under Constuction SF	0	0	0	0	0	58,000	0	0	58,000
Planned SF	0	0	0	0	0	0	0	0	0

LAS VEGAS VALLEY

OFFICE SUBMARKET MAP

