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LIED INSTITUTE FOR
REAL ESTATE STUDIES
LEE BUSINESS SCHOOL

Las Vegas Speculative Office Survey

1st Quarter 2015



UNITED HEALTH CARE BUILDING Courtesy of Colliers



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June 3, 2015

Re: Speculative Office Real Estate Survey: 1st 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

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LAS VEGAS SPECULATIVE OFFICE SURVEY

SUMMARY

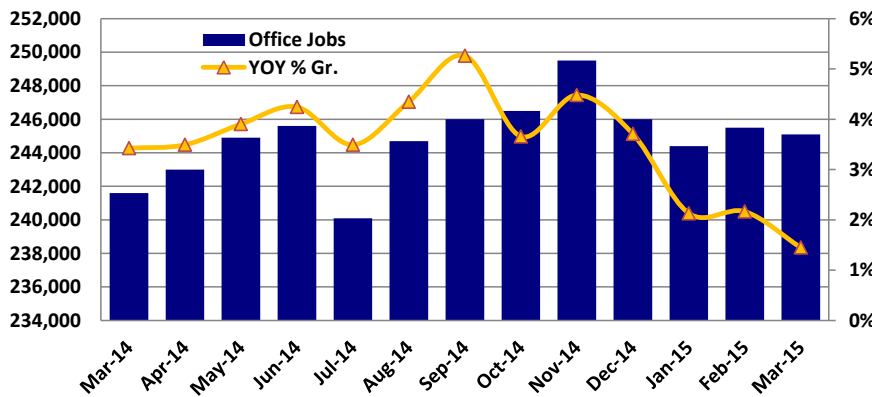
The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market¹ saw 212,900 sf of space completed at the end of Q1, 2015, upping the total inventory to 43.0 million sf. Vacancy was 21.7% at the end of Q1, up from 21.3% in Q4, 2014. The -12,300 sf of net absorption in Q1 marked the first decline in demand in six quarters. At \$1.89 per square foot ("psf") FSG², 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%
Total	244,400	239,300	2.1%	245,500	240,300	2.2%	245,100	241,600	1.4%

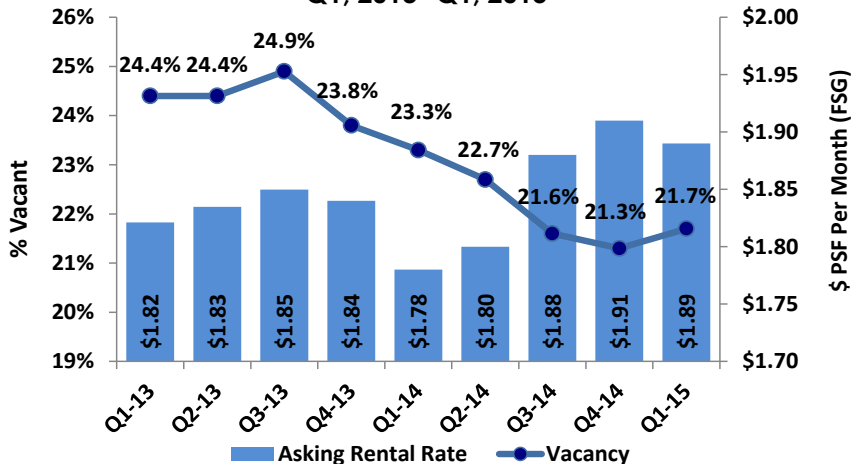
Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

(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 2014.³ 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

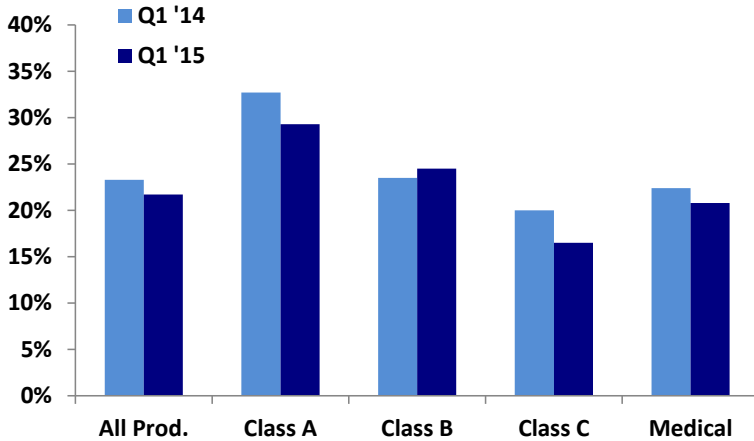
Total vacancy in Q1 (directly vacant space plus vacant sublease space) in the Valley's spec office market increased 0.4 points to 21.7%. This marks the first time in six quarters that the vacancy rate worsened.

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,

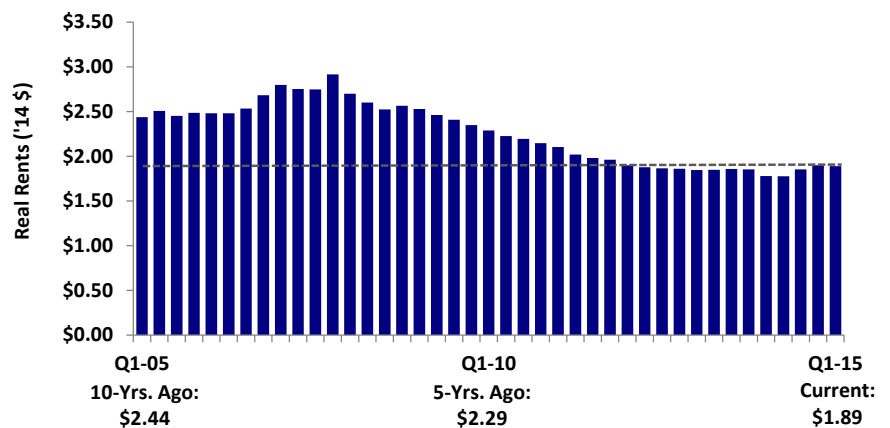
as well. The West Central rate climbed 2.2 percentage-points to 25.6% while the North Las Vegas market increased by 2.0 points, up to 10.2%.

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%.

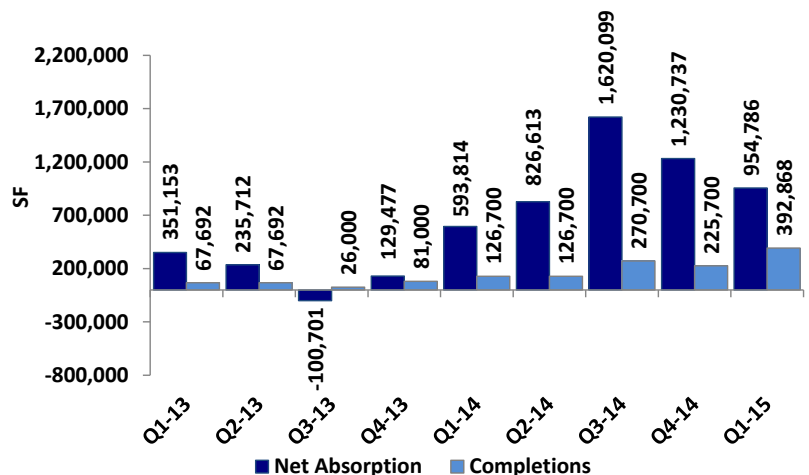
However, the quarter's vacancy rate is still 1.6 percentage-points lower than in Q1, 2014. The data suggest that the Valley's overall spec office market is slowly recovering, but still remains weak with a high overall vacancy rate. Also, with relatively high job numbers in office-using space, it may 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

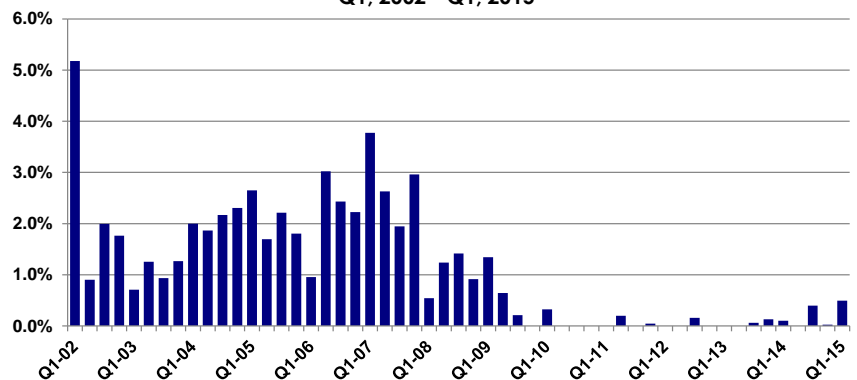
The first quarter of 2015 saw two completions totaling 212,900 square feet – as mentioned previously, the 198,100 sf Class A Summerlin One building in the Northwest and a 15,800 sf expansion of the Pecos Springs Business Park (Class C space in the Airport submarket). During the past 22 quarters (since 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 supply⁴ 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



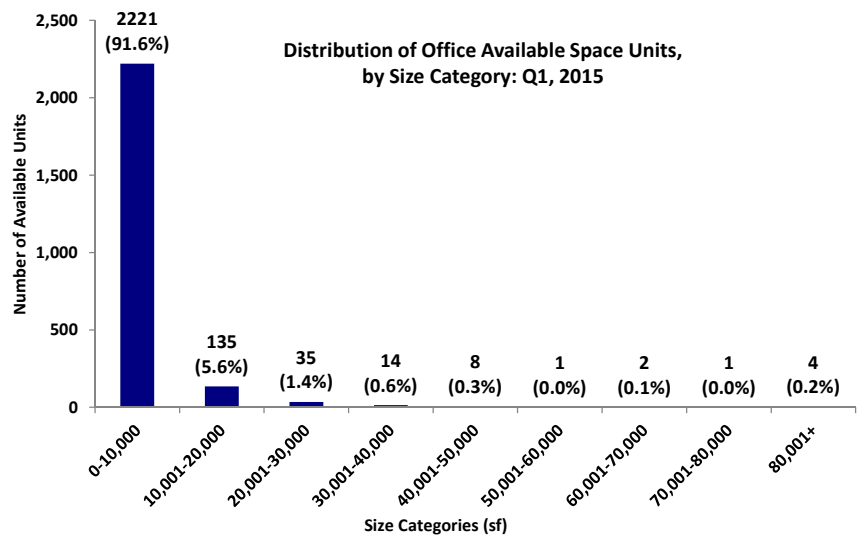
SPECULATIVE OFFICE MARKET

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.

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.

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

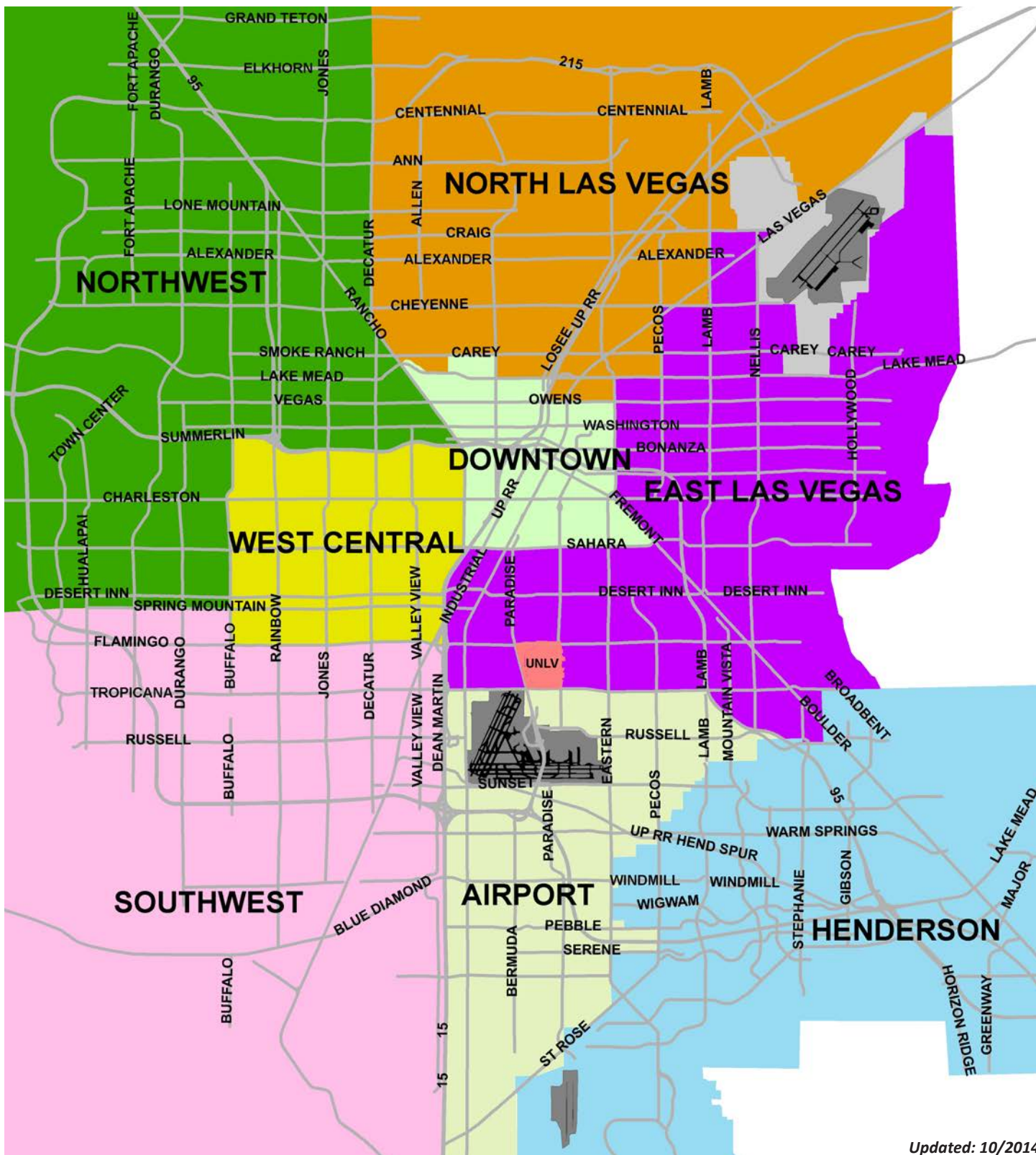
SUBMARKETS

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