

Vacancy rates climb in local office market

BY HUBBLE SMITH – Las Vegas Business Press

A year-end market review from Commerce CRG showed a 12.4-percent vacancy rate on 44.7 million square feet of existing office space in Las Vegas, up from 11.5 percent in mid-year 2007.

That doesn't take into account more than 1 million square feet of "sublease" space available, or space that is empty but under lease contract, said Ken Marrama, research and marketing director for Commerce CRG. He adds another 2.1 percentage points to the vacancy rate, taking it to 14.5 percent.

"People want to sugarcoat it. I don't know why," Marrama said. "If investors and builders and developers come into the market and see all this sublease space and net absorption is going down, they want to know about it."

CRAIG L. MORAN/REVIEW-JOURNAL

Jessica Lorber speaks with land lord Hugh Newkirk at her tax season office located at 9300 Sun City Blvd.

Supply continues to outpace demand, John Restrepo of Restrepo Consulting Group said. He put fourth-quarter office vacancy at 12.2 percent for 38 million square feet of space, up from 10.9 percent the previous quarter and 9.3 percent in the fourth quarter 2006.

Last year marked the first time since second quarter 2005 that the valley's office vacancy has broken into double-digit territory, Restrepo said. Average monthly rental rates dropped to \$2.51 a square foot in the fourth quarter, down a penny from the third quarter and up from \$2.38 a year ago.

"Considering the large amount of forward supply in the pipeline, it is unlikely that we will see any significant increases in rents," Restrepo said.

"And we could see continuing vacancy increases during the next several quarters," he added.

Marrama calculated 4.3 million square feet of office space under construction, 7.4 million square feet planned and 5.5 million vacant, plus the sublease space.

"Nobody tracks just sublease space and it's a huge deal," Marrama said. "When your property is asking \$2.50 in rent and you've got sublease space right next door for \$2.10, where do you think they're going to go?"

Downtown Las Vegas, with 3.1 million square feet of office space, has one of the lower vacancy rates in the nation at 4.7 percent, he said, but adding 63,000 square feet of available sublease space takes vacancy rates to 6.7 percent.

It's worse in North Las Vegas where 72,000 square feet of sublease space in a submarket with 1.4 million square feet of inventory drives 19 percent direct vacancy up to 23 percent, Marrama said. He's showing sublease rents as low as \$1.15 a square foot in North Las Vegas.

"People are coming up with all kinds of tenant improvement deals, six months free rent on a long-term lease, 30-cent CAM (common area maintenance) allowance to get people to rent space," Marrama said.

"There's even companies offering 99 cents a square foot for the first six months. They're coming up with outrageous, unheard-of (tenant improvements). Our office can't keep up with sublease deals."

The west submarket has the most sublease space at 234,000 square feet and average rent of \$1.85 a square foot, compared with overall rent of \$2.26 a square foot.

Jessica Lorber, general manager for Jackson Hewitt tax service in Las Vegas, said her company is subleasing 800 square feet of office space from Newkirk Realty in Sun City Summerlin. The benefit is twofold, she said.

"First, obviously it gives us an entrance into Summerlin and Sun City where we don't have a strong presence," she said. "It's also a benefit to Newkirk. Real estate is up and down, so it's a nice partnership to complement each other's business."

Las Vegas' office market is likely to experience near-term volatility, though long-run projections look brighter, Brian Gordon, a principal of research firm Applied Analysis said in his fourth-quarter report.

The latest employment data point to the first decline in professional and business services since the six-month period following the Sept. 11, 2001, terrorist attacks, Gordon said. The preceding decline within that employment sector dates back to 1992.

Tenant improvement allowances on new construction will be a key pricing factor for many landlords and potential tenants, Gordon said.

Typical build-out costs have been running far higher than the \$40- to \$55-a-square-foot allowances now being offered.

"The downturn of the housing market is definitely impacting our office market," said Vic Donovan, managing partner of Colliers International in Las Vegas. "The valley's economic fundamentals are strong, but the office market leasing activity is slowing. Because of this, we expect that a lot of the planned space will go away."

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