

# Las Vegas Valley Executive Summary

## Commercial Real Estate Markets - 2<sup>nd</sup> Quarter 2015

### INDUSTRIAL



### OFFICE



### RETAIL



# RCG ECONOMICS

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August 5, 2015

Re: Commercial Real Estate Survey: 2<sup>nd</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,

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## Las Vegas Industrial Survey 2<sup>nd</sup> Quarter 2015



WARM SPRINGS CROSSING

# LAS VEGAS INDUSTRIAL SURVEY

## SUMMARY

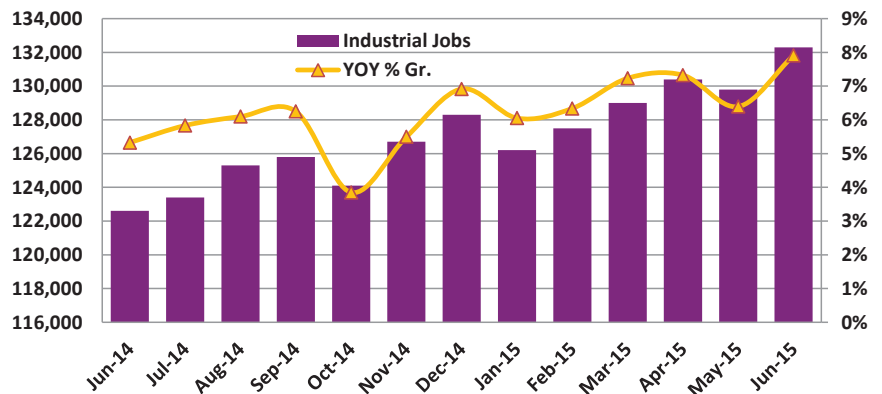
The Las Vegas Valley's ("the Valley") industrial market<sup>1</sup> ended Q2, 2015 with an inventory of 108.7 million square feet ("sf"). Net absorption (net demand) during Q1 was 948,800 sf. The quarter also ended with an industrial vacancy rate of 6.2%, 3.5 percentage-points less than the Q2, 2014 rate. At \$0.66 per square foot ("psf") NNN<sup>2</sup>, the average industrial monthly asking rent was \$0.08 higher than Q1 (\$0.58 psf) and Q2, 2014 (\$0.58 psf). At the end of Q2, 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 (94%) 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 in the Las Vegas MSA rose by 28,600 jobs from June 2014 through June 2015, a 3.2% increase. During that time the "headline" unemployment rate declined 1.0 point to 7.0%.

Jobs in industrial space-using industries represented 16% (132,300 jobs) of all private jobs in Clark County at the end of Q2, 2015. This was 9,700 more (+7.9%) jobs than existed in June 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 (+7,900 jobs, +17.8%) and the Wholesale Trade sector (+900 jobs, +4.3%) have shown the greatest job gains since June 2014.

**Clark County Total\* Industrial Jobs and Annual Growth: Jun-14 to Jun-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	Apr 2014			May 2014			Jun 2014		
	2015	2014	% Ch.	2015	2014	% Ch.	2015	2014	% Ch.
Nat. Resources	400	400	0.0%	400	400	0.0%	400	400	0.0%
Construction	50,900	43,900	15.9%	50,100	44,200	13.3%	52,400	44,500	17.8%
Manufacturing	21,000	21,000	0.0%	21,100	21,100	0.0%	21,400	21,100	1.4%
Wholesale Trade	21,700	20,900	3.8%	21,800	20,900	4.3%	21,900	21,000	4.3%
Transp. & Warehousing	36,400	35,300	3.1%	36,400	35,400	2.8%	36,200	35,600	1.7%
<b>Total</b>	<b>130,400</b>	<b>121,500</b>	<b>7.3%</b>	<b>129,800</b>	<b>122,000</b>	<b>6.4%</b>	<b>132,300</b>	<b>122,600</b>	<b>7.9%</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 6.2% in Q2, down from 6.7% in Q1 and plunging from 9.7% in Q2, 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%. In fact, Q2's vacancy rate is less than half of what it was at Q2, 2013. The return of the Valley's industrial market has been quite dramatic, to the point that supply shortages are common for certain types of space especially large units (75,000 sf +). In response there are a number of new projects in the works by the end of the year.

## INDUSTRIAL MARKET

On a submarket basis, the lowest vacancy rates in Q2 were in Henderson and North Las Vegas, at 5.3% and 5.1%, respectively. The Airport submarket posted the highest vacancy among the Valley's seven submarkets at 9.4%. But it was still a 1.0 percentage-point improvement over the previous quarter's 10.4%. For the largest industrial submarket (the Southwest), the vacancy rate declined by 1.5 percentage-points from 7.5% in Q1 to 6.0% in Q2.

On a year-over-year basis, the Northwest, Airport and Southwest submarkets saw the biggest drops in vacancy. The Northwest submarket vacancy rate was the most improved at 6.8 percentage-points, followed closely by the Airport submarket at 6.5 points. The Southwest experienced a 5.0-point decline, North Las Vegas a 3.2-point drop, while West Central and Henderson saw drops of 0.9 and 0.1 percentage-points. East Las Vegas was the only submarket to experience a rise in vacancies, moving up 2.3 points.

On the product basis, four of the five types saw vacancy rate drops in Q2. The largest came in R&D/Flex at 1.7 points. Warehouse/Distribution continued to fall, with another 0.4 percentage-points shaved off of its 5.5% vacancy rate in Q1 to 5.1% in Q2. Only the Incubator type had a worse rate this quarter than last, up 0.6 points.

On a year-over-year ("Y-O-Y") basis, every product's vacancy rate improved. R&D/Flex improved the most, again, posting a 7.0-point drop between Q2, 2014 and Q2, 2015. Light Distribution followed slightly behind at 6.3 percentage-points. Warehouse/Distribution, Incubator and Light Industrial rounded out the group with improvements of 3.1, 2.5 and 2.1 percentage-points.

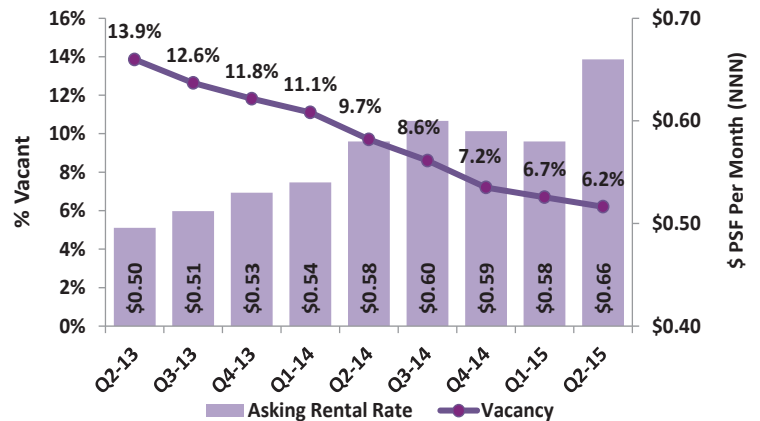
As noted above, the overall Industrial market has recovered from the Great Recession. Some submarkets and subtypes are doing better than others, such as Warehouse/Distribution on the strong end and R&D/Flex on the weaker end, but now the conversation has shifted away from which product types will recover faster to which ones are ready to expand faster, and how the industry will deal with looming shortages. Fortunately, as we note in the Supply section below, some relief is on the way.

Monthly industrial asking rents (calculated on a NNN basis (not accounting for any operating expenses) increased \$0.08, reaching \$0.66 psf in Q2, 2015. Rents are up the same \$0.08 since Q2, 2014, as well. Remember, the rents herein are based on quoted asking rents, not negotiated rents between owners and tenants.

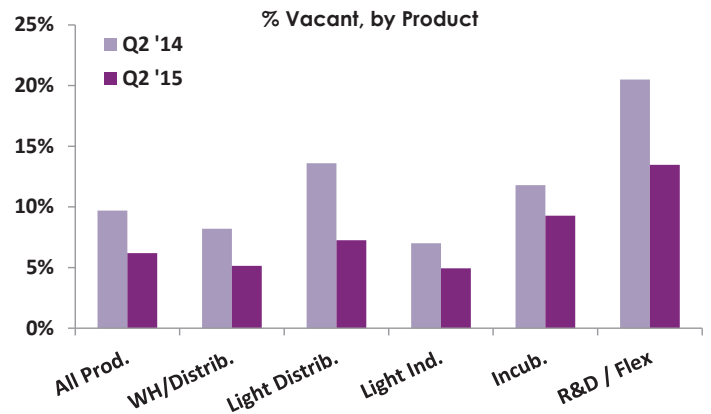
### DEMAND

Demand (defined as total net absorption) in Q2 in the Valley's industrial market was positive for the 11th straight quarter with 948,800 sf of net space absorbed compared

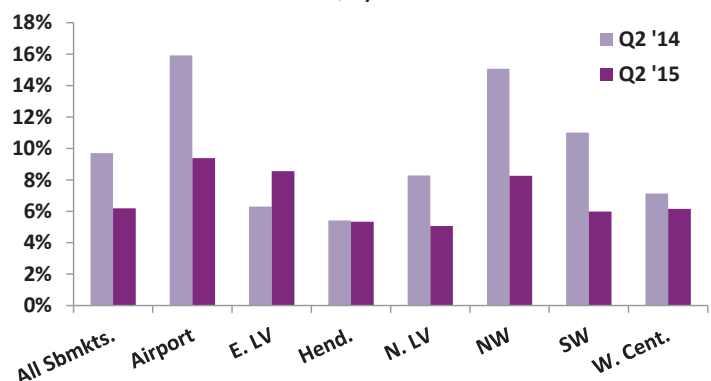
**Las Vegas Valley Industrial Market  
Historical Vacancy vs. Monthly Asking Rent:  
Q2, 2013 - Q2, 2015**



**Las Vegas Valley Industrial Market  
Vacancy Trends: Q2, 2014 v. Q2, 2015**



**% Vacant, by Submarket**



## INDUSTRIAL MARKET

to 1,654,400 sf of absorption during Q2, 2014. On a Y-O-Y basis, Q2 saw 4.3 million sf of absorption compared to 5.0 million during the four quarters ending in Q2, 2014. This decline is expected, though. The supply of Industrial space in the Valley is dwindling. There is simply less space available now. These figures, in tandem with the low vacancy rate, illustrate the fact that many product types and certain size ranges are supply-constrained.

Four of the seven submarkets had positive absorption in Q2. The Southwest saw the highest net absorption with 505,600 sf. The North Las Vegas (+376,200), Airport (+140,500 sf) and East Las Vegas (+64,300 sf) submarkets also posted increases in net absorption. The Henderson (-60,100), Northwest (-39,100 sf) and West Central (-38,600 sf) submarkets reported relatively small negative net absorption in Q2.

On a Y-O-Y basis, the top submarkets were the Southwest (1.7 million sf) and North Las Vegas (1.5 million sf). The Airport submarket (923,300) has also had a good year. Only East Las Vegas (-97,200 sf) and Henderson (-6,200) experienced negative absorption over the year. This negative absorption does not warrant much concern, especially for Henderson, which is at a 5.3% vacancy rate; it speaks more to the quality of the remaining vacant space here. All submarkets are under the 10% stabilized rate and we expect to see negative economic development and growth impacts until this situation is remedied.

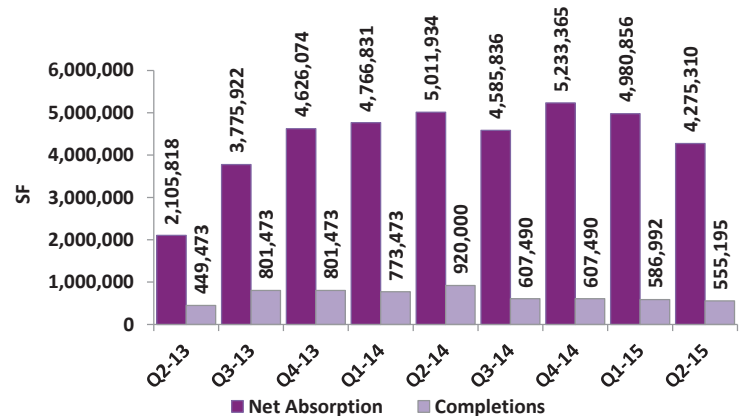
Demand in Q1 was positive in four of the five product types. Warehouse/Distribution led the way with 589,400 sf absorbed, followed by Light Distribution with 169,300 sf of absorption. Light Industrial (+133,300 sf) and R&D/Flex (+101,800 sf) space also saw growth. However, Incubator experienced negative absorption with -44,900 sf of space absorbed, not a significant number.

Strong demand for Warehouse/Distribution space has driven the Valley's industrial market over the last year. About 4.3 million sf of industrial space has been absorbed in that time, with 1.9 million sf absorbed in Warehouse/Distribution space alone. All other products were also positive Y-O-Y: Light Distribution (+1.1 million sf), Light Industrial (+676,600 sf), R&D/Flex (+416,300 sf) and Incubator (+200,900 sf).

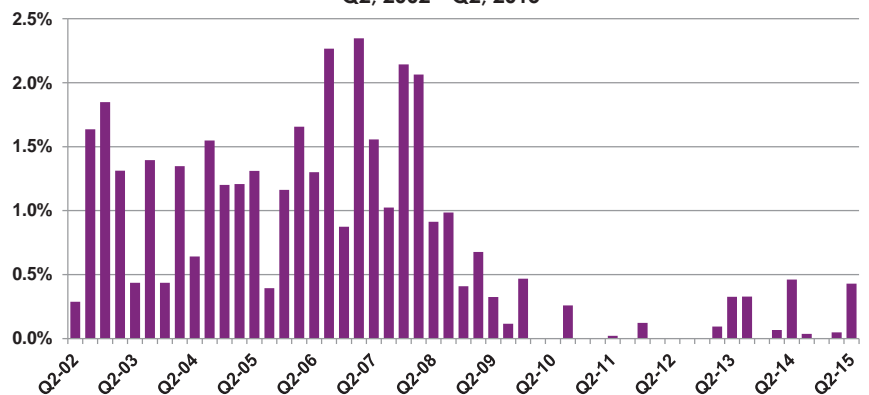
### SUPPLY

There was only one completion during Q1, 2015. Still, the one completion of just over 464,000 sf increased inventory to 108.7 million sf. Over 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. Halfway into 2015, there has been 545,705 sf of new space brought to market. That figure should more than double by the end of the year. As stated above, this situation is not demand-driven. It has been driven by the lack of industrial construction that occurred because of the Great Recession, a still-tight credit environment, land shortages, rising prices, infrastructure constraints and other delays.

Las Vegas Valley Industrial Market  
Historical YOY Net Absorption vs. Completions:  
Q2, 2013 - Q2, 2015



Las Vegas Valley Industrial Market  
Completions as a % of Inventory:  
Q2, 2002 - Q2, 2015



The only Q2 completion was Las Vegas Corporate Center #19, a 464,203 sf Warehouse/Distribution center in North Las Vegas (<http://voit.reapplications.com/filecabinet/Trans/049042/3700%20Bay%20Lake%20Brochure.pdf>). The first quarter of 2015 saw the completion of the MMC Contractors West's 51,502 sf Light Industrial building in the Southwest submarket. By comparison, in 2014, four projects were completed: VadaTech's 72,000 sf Light Industrial facility (Q1), Nicholas & Brothers Food Distributors' 200,000 sf Warehouse/Distribution building (Q2), a 296,000 sf FedEx Ground distribution center (Q2) and the Tapia Brothers' 39,500 sf Warehouse expansion (Q3).

Industrial space still scheduled to open in 2015 should dwarf the previous few years' completions. Openings of several large speculative Warehouse/Distribution centers, which are meant to meet the demand for large storage space in the Valley, should produce 5.5 million sf more of new Industrial space this year. This new space is a welcome respite for a market that has become severely supply-constrained and that is a critical player in Southern Nevada's continued economic growth and development

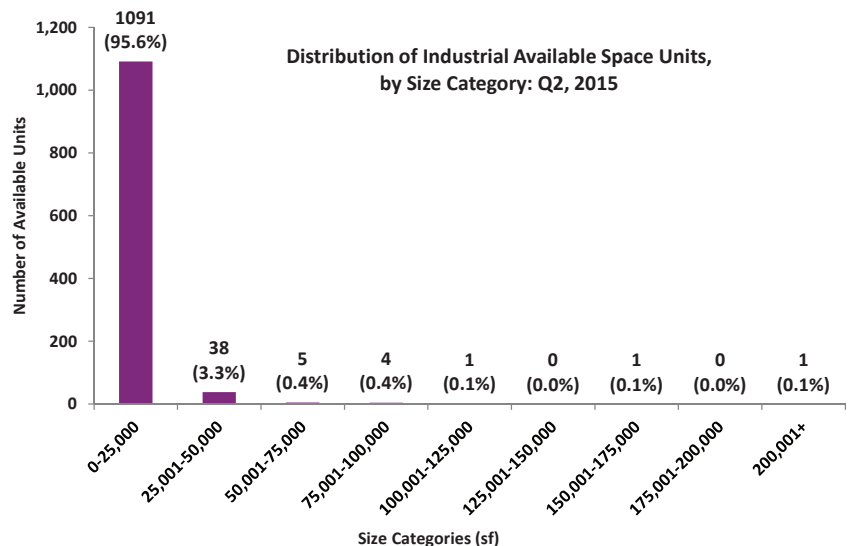
There were 13 projects under construction at the end of Q2, which support the ongoing trend of new Warehouse/Distribution development:

- 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),
- Cheyenne Distribution Center #3 (163,800 sf of Warehouse/Distribution in Southwest),
- Jones Corporate Park (400,000 sf of Warehouse/Distribution in Southwest),
- Henderson Freeway Crossing (455,200 sf in Henderson),
- 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 four 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),
- 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 to accommodate and/or power Southern Nevada' long-awaited economic recovery and its positioning as a distribution hub. Additionally, as the chart below demonstrates, the critical shortage of available industrial space over 100,000 sf has affected the region's rate of economic recovery and growth during the last few years. However, as we've noted several times, relief is on the way; the new projects coming down the pipeline





should help ease the existing shortage issues.

### FURTHER THOUGHTS

The improving economic conditions experienced in 2013 and 2014 injected confidence and helped stabilize the Valley's industrial market. Now, an even stronger economy in 2015 is illustrating 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 the Great Recession officially started. Industrial net absorption has only been negative in two of the last 18 quarters.

Jobs in industrial space-using industries represented 16% (132,300 jobs) of all private jobs in Clark County at the end of Q2, 2015. This was 9,700 more (+7.9%) jobs than existed in June 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 Construction sector (+7,900 jobs, +17.8%) and the Wholesale Trade sector (+900 jobs, +4.3%) have shown the greatest job gains since June 2014.

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On a submarket basis, the lowest vacancy rates in Q2 were in Henderson and North Las Vegas, at 5.3% and 5.1%, respectively. The Airport submarket posted the highest vacancy among the Valley's seven submarkets at 9.4%. But, it was still a 1.0 percentage-point improvement over the previous quarter's 10.4%. For the largest industrial submarket (the Southwest), the vacancy rate declined by 1.5 percentage-points from 7.5% in Q1 to 6.0% in Q2.

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, will make it an important regional warehouse-distribution-fulfillment enclave. Additionally, 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. And, now there is a growing hope that Southern Nevada can be a player in advanced manufacturing, especially in the renewal energy, robotics (drone) and water management industries.

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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 sf,
- Dock-high doors (or grade-level doors) and clear heights of at least 16 feet, and
- Parking ratios of: 1-2/1,000 sf - traditional warehouse/distribution  
3-4/1,000 sf - 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 sf, 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 sf - traditional warehouse/distribution  
3-4/1,000 sf - 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 sf,
- Grade-level doors (or dock-high doors) and clear heights usually between 13 feet and 18 feet, and
- Parking ratio of 4+/1,000 sf.

**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 sf 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 sf,
- Grade-level doors with clear heights less than 15 feet, and
- Parking ratio: Less than 3/1,000 sf.

**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 sf,
- Grade-level doors with clear heights less than 15 feet, and
- Parking ratio of 3-4/1,000 sf.

# Industrial Market Matrix

Las Vegas, Nevada  
Second 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	32,155,722	1,336,299	33,188,535	12,016,433	108,717,347
Total Vacant SF	1,325,909	241,466	697,135	1,627,203	110,401	1,986,281	740,003	6,728,398
Total Occupied SF	12,801,716	2,582,351	12,371,781	30,528,519	1,225,898	31,202,254	11,276,430	101,988,949
Total Vacant (%)	9.4%	8.6%	5.3%	5.1%	8.3%	6.0%	6.2%	6.2%
Completions QTD	0	0	0	464,203	0	0	0	464,203
Completions YOY	0	0	0	503,693	0	51,502	0	555,195
Total Net Absorption QTD	140,519	64,346	-60,113	376,189	-39,096	505,588	-38,617	948,816
Total Net Absorption YOY	923,340	-63,430	-6,220	1,498,653	90,949	1,715,208	116,810	4,275,310
Asking Rents (\$ PSF)	\$0.77	\$0.40	\$0.63	\$0.65	\$0.93	\$0.65	\$0.68	\$0.66
Under Constuction SF	193,000	381,804	483,170	1,116,790	0	1,336,500	0	3,511,264
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	19,210,152	223,661	13,066,312	1,939,836	46,948,449
Total Vacant SF	251,563	124,874	177,790	1,017,670	0	787,170	57,000	2,416,067
Total Occupied SF	4,592,831	782,201	6,579,229	18,192,482	223,661	12,279,142	1,882,836	44,532,382
Total Vacant (%)	5.2%	13.8%	2.6%	5.3%	0.0%	6.0%	2.9%	5.1%
Completions QTD	0	0	0	464,203	0	0	0	464,203
Completions YOY	0	0	0	503,693	0	0	0	503,693
Total Net Absorption QTD	61,710	31,980	-70,000	255,433	0	293,962	16,282	589,367
Total Net Absorption YOY	245,123	-115,174	-37,624	1,024,001	13,367	711,924	16,282	1,857,899
Asking Rents (\$ PSF)	\$0.60	\$0.27	\$0.61	\$0.47	\$0.00	\$0.57	\$0.49	\$0.51
Under Constuction SF	193,000	381,804	455,170	1,116,790	0	1,146,500	0	3,293,264
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	269,178	6,400	191,766	223,858	3,800	455,543	132,331	1,282,876
Total Occupied SF	2,899,951	334,275	1,379,937	4,625,076	47,200	6,475,093	643,416	16,404,948
Total Vacant (%)	8.5%	1.9%	12.2%	4.6%	7.5%	6.6%	17.1%	7.3%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	31,523	-6,400	-486	39,331	0	114,038	-8,732	169,274
Total Net Absorption YOY	353,923	13,900	-17,581	299,568	13,413	501,957	-41,647	1,123,533
Asking Rents (\$ PSF)	\$0.73	\$0.68	\$0.51	\$0.42	\$0.65	\$0.63	\$0.45	\$0.57
Under Constuction 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  
Second Quarter, 2015

## SUBMARKETS

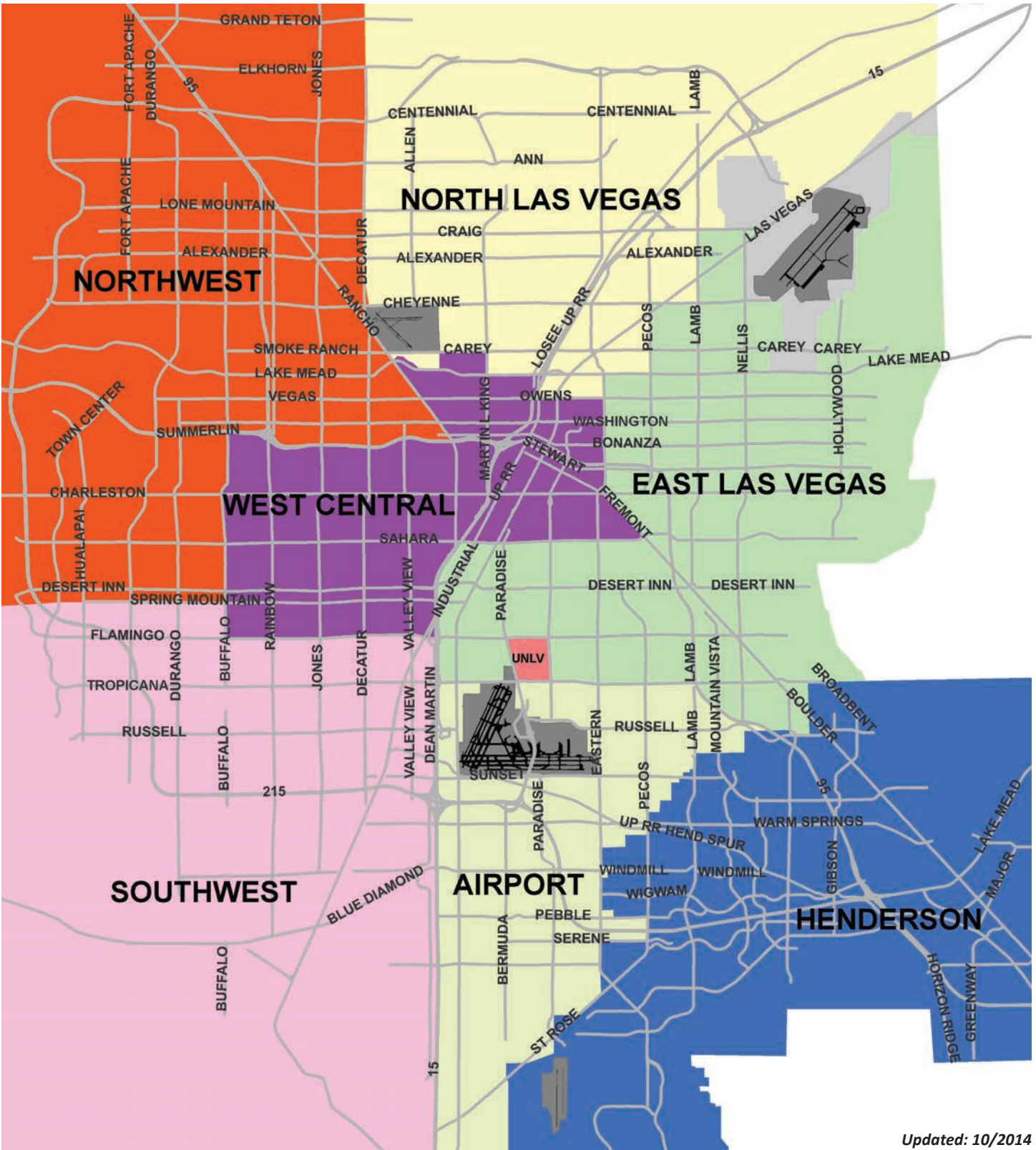
LIGHT INDUSTRIAL	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	199	91	313	594	16	741	482	2,436
Total Rentable SF	3,076,809	1,135,150	3,057,009	6,755,260	290,111	9,172,544	6,622,403	30,109,286
Total Vacant SF	378,518	58,150	155,793	217,088	2,808	355,854	318,979	1,487,190
Total Occupied SF	2,698,291	1,077,000	2,901,216	6,538,172	287,303	8,816,690	6,303,424	28,622,096
Total Vacant (%)	12.3%	5.1%	5.1%	3.2%	1.0%	3.9%	4.8%	4.9%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	51,502	0	51,502
Total Net Absorption QTD	-25,928	37,742	17,431	97,178	-2,808	27,730	-18,058	133,287
Total Net Absorption YOY	-16,471	10,733	28,648	151,613	4,204	327,813	170,070	676,610
Asking Rents (\$ PSF)	\$0.81	\$0.61	\$0.71	\$0.45	\$1.36	\$0.65	\$0.69	\$0.66
Under Constuction 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	193,219	36,628	24,307	62,819	3,580	216,641	212,391	749,585
Total Occupied SF	1,521,402	261,995	432,599	498,733	95,745	2,279,740	2,246,224	7,336,438
Total Vacant (%)	11.3%	12.3%	5.3%	11.2%	3.6%	8.7%	8.6%	9.3%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	20,609	1,024	2,349	-3,244	3,511	-30,505	-38,670	-44,926
Total Net Absorption YOY	161,003	20,126	11,942	12,820	11,624	15,905	-32,493	200,927
Asking Rents (\$ PSF)	\$0.75	\$0.45	\$0.58	\$0.64	\$0.65	\$0.77	\$0.82	\$0.74
Under Constuction 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	233,431	15,414	147,479	105,768	100,213	171,073	19,302	792,680
Total Occupied SF	1,089,241	126,880	1,078,800	674,056	571,989	1,351,589	200,530	5,093,085
Total Vacant (%)	17.6%	10.8%	12.0%	13.6%	14.9%	11.2%	8.8%	13.5%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	52,605	0	-9,407	-12,509	-39,799	100,363	10,561	101,814
Total Net Absorption YOY	179,762	6,985	8,395	10,651	48,341	157,609	4,598	416,341
Asking Rents (\$ PSF)	\$0.90	\$0.51	\$0.88	\$1.46	\$0.94	\$0.87	\$1.03	\$1.00
Under Constuction 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

**RCG**  
**ECONOMICS**

**UNLV**

LIED INSTITUTE FOR  
REAL ESTATE STUDIES  
LEE BUSINESS SCHOOL

# Las Vegas Speculative Office Survey

2<sup>nd</sup> Quarter 2015



UNITED HEALTH CARE BUILDING

# LAS VEGAS SPECULATIVE OFFICE SURVEY

## SUMMARY

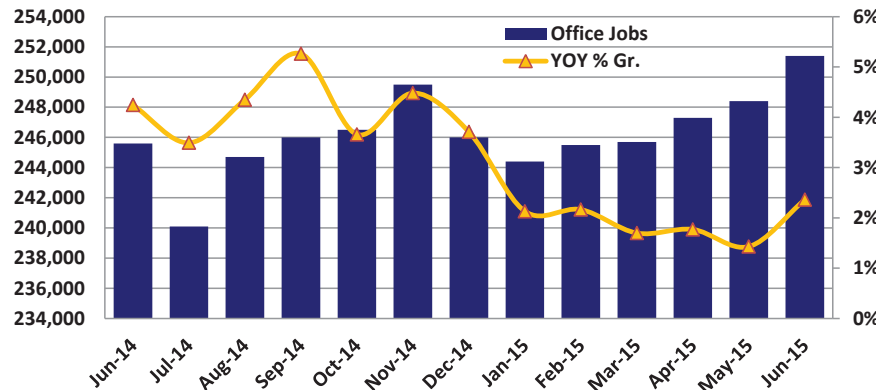
The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market<sup>1</sup> saw no new space completed during Q2, 2015, keeping the total inventory at 43.0 million sf. The vacancy rate was 21.6% at the end of Q2, down from 21.7% in Q1, 2015. The 29,900 sf of net absorption in Q2 wiped out the minor loss in Q1 and marked positive demand for seven out of eight quarters. At \$2.14 per square foot ("psf") FSG<sup>2</sup>, the average monthly asking rent in the Spec Office market was at 2009 levels. At the end of the quarter, there were 265,000 sf of spec office space under-construction and 283,600 sf of space in the planning stages. Most of this under-construction space is due to the Union Village project in the Henderson submarket.

## OFFICE-RELATED JOBS

Total nonfarm employment in the Las Vegas MSA rose by 28,600 jobs from June 2014 through June 2015, a 3.2% increase. During this period, the "headline" unemployment rate declined 1.0 point to 7.0%.

Employment in the office-using sector, a critical indicator of the health of the local economy, comprised 31% (251,400

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



\*Information, financial activities, professional & business and health care & social assistance. Source: Nevada Department of Employment, Training and Rehabilitation; calculated by RCG Economics.

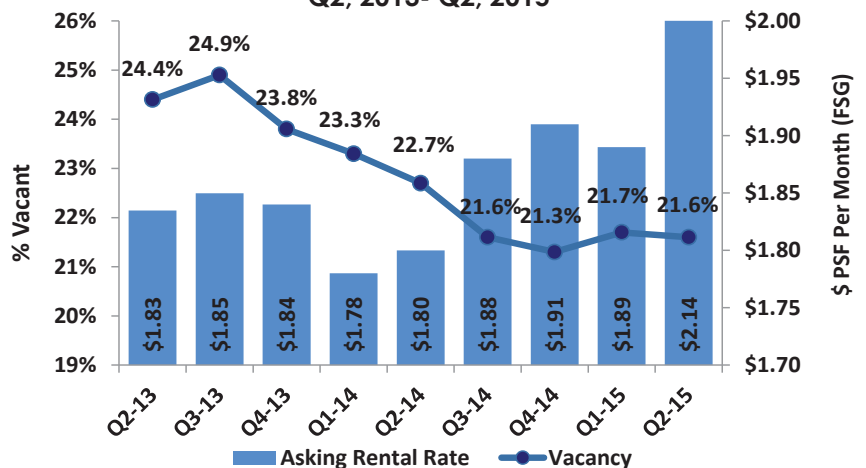
## Office Employment

Industry Sector	Apr 2014			May 2014			Jun 2014		
	2015	2014	% Ch.	2015	2014	% Ch.	2015	2014	% Ch.
Information	10,100	10,900	-7.3%	10,600	11,700	-9.4%	10,700	12,200	-12.3%
Financial Activities	42,500	43,400	-2.1%	42,600	44,100	-3.4%	42,900	43,900	-2.3%
Prof. & Business	120,300	116,500	3.3%	119,900	116,600	2.8%	122,500	116,700	5.0%
Health Care & Social Assist.	74,400	72,200	3.0%	75,300	72,500	3.9%	75,300	72,800	3.4%
<b>Total</b>	<b>247,300</b>	<b>243,000</b>	<b>1.8%</b>	<b>248,400</b>	<b>244,900</b>	<b>1.4%</b>	<b>251,400</b>	<b>245,600</b>	<b>2.4%</b>

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

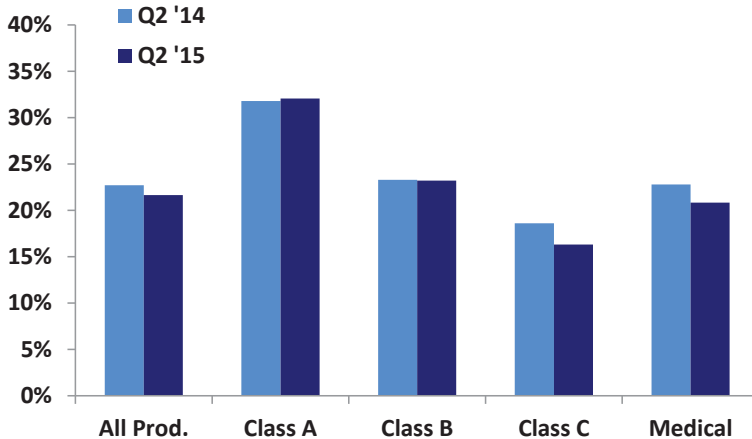
jobs) of all private payroll jobs in Clark County at the end of Q2 (June 2015). This was 5,800 more (+2.4%) than existed in June 2014.<sup>3</sup> Overall, office-using job growth so far in this year has been weaker than during the same period in 2014 with 2.4% average monthly growth compared to 4.2%. However, Professional & Business Services job growth has been stronger than a year ago, posting a 5.0% (5,800 jobs) gain in the same 12-month period (compared to 4.6% in June 2014). This actually accounted for all growth in office-using jobs over the year County-wide. The other three sectors, combined, saw no net growth. The Health Care & Social Assistance sector grew by 2,500

**Las Vegas Valley Office Market Historical Vacancy vs. Monthly Asking Rent: Q2, 2013- Q2, 2015**



## SPECULATIVE OFFICE MARKET

**Las Vegas Valley Office Market**  
**Vacancy Trends: Q2, 2014 v. Q2, 2015**  
 % Vacant, by Product



jobs (3.4%), but Information (-1,500 jobs, -12.3%) and Financial Activities (-1,000 jobs, -2.3%) counter-balanced that growth.

### VACANCY & RENTS

Total spec office vacancy in the Valley in Q2 (directly vacant space plus vacant sublease space) decreased 0.1 points to 21.6%. This halted Q1's vacancy increase and continues the improving trend.

The North Las Vegas submarket continued to have the lowest office market vacancy rate, dipping under the 10% mark to 9.0% due to a relatively small base of space. North Las Vegas is by far the smallest submarket for Office space. This said, there were two other submarkets in the Valley with a vacancy rate below

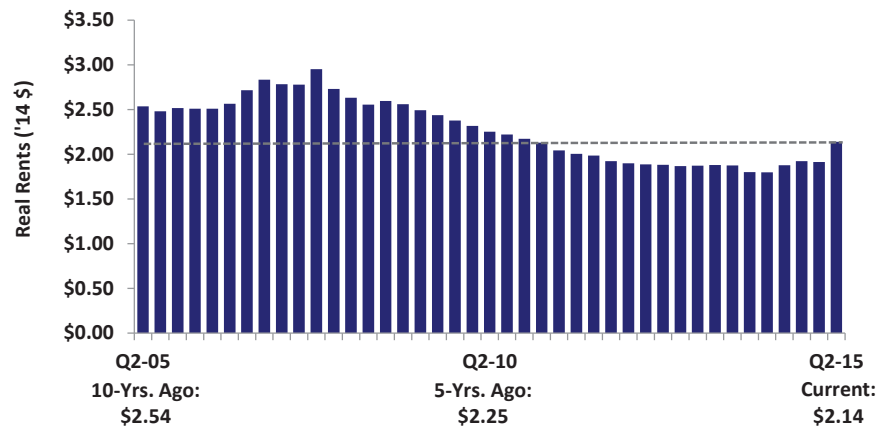
20%: the Airport and Downtown submarkets are at 17.9% and 16.6%, respectively. East Las Vegas had the highest vacancy rate at 28.0%, followed by Northwest at 22.9%.

The West Central submarket saw the largest drop in vacancy rate this quarter, with a 3.6-point improvement. North Las Vegas saw the second largest decrease, with 1.2 percentage-points. The Southwest recorded a decline of 0.2 points, while Henderson dropped 0.3 points. Downtown experienced the largest increase in the vacancy rate this quarter, with a 3.6 percentage-point jump. The Airport (+1.5%) and Northwest (+0.2%) submarkets saw vacancy rates rise, as well. Partially, these rises are due to quality of the remaining available space, which make it less desirable to many tenants.

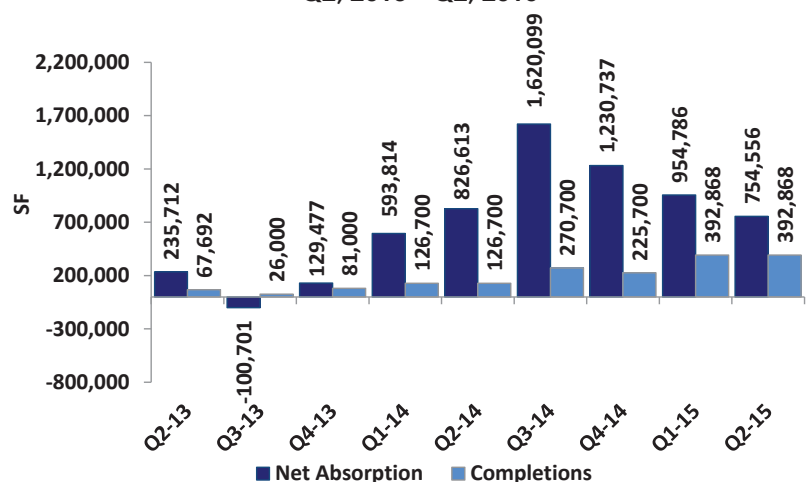
In Q2, Class A space again had a poor showing, posting a 2.8-point increase in vacancy, up to 32.1%. However, the losses in Class A space were balanced-out by gains in Class B and Class C products. The Class B and Class C markets saw declines in their vacancy rates of 1.3 and 0.2 percentage-points, respectively. The Class B market rate went down to 23.2% and the Class C rate fell to 16.3%. The Medical space saw no change in its vacancy rate, remaining 20.8%.

On a year-over-year ('Y-O-Y') basis, the Valley-wide spec office vacancy rate is 1.1 percentage-points lower than in Q2, 2014. The data suggest that the overall market is

**Las Vegas Valley Office Market**  
**Inflation-Adjusted Monthly Rent: Q2, 2005 - Q2, 2015 (Baseline)**



**Las Vegas Valley Office Market**  
**Historical YOY Net Absorption vs. Completions:**  
 Q2, 2013 - Q2, 2015





## SPECULATIVE OFFICE MARKET

slowly recovering, but still continues to struggle, despite healthy office-using job growth. Simply put, way too much office space was built during the boom. It will take several years of natural population and job growth to move the spec office vacancy rate back toward its natural 10% equilibrium level.

The overall average monthly spec office rent (calculated on a full-service gross basis—or accounting for all operating expenses) was \$2.14 per square foot (“psf”) in Q2, \$0.25 more than the \$1.89 psf asking rent in the previous quarter. This was a large increase. It may simply be an anomaly, or there may be other forces at work. This should be sorted out in the next quarter or two. Remember, the rents herein are based on quoted asking rents, not negotiated rents between owners and tenants.

### DEMAND

Valley-wide spec office net absorption in Q2 was only slightly positive at 29,900 sf. On a Y-O-Y basis, however, net absorption totaled 754,600 sf, a bit less than the 826,600 sf recorded for the same period in 2014. Y-O-Y absorption has now been trending down for three quarters, after peaking in Q3, 2014 at 1,620,100 sf of space. As we’ve noted, there is reason to believe that this is partially due to the quality of the remaining available space.

Five of the eight submarkets in the Valley saw improvement this quarter. The West Central (+195,600 sf) submarket was the main engine of Q2’s growth. Four other submarkets also contributed: East Las Vegas (+24,800 sf), Henderson (+18,700), North Las Vegas (+9,600) and Southwest (+11,600 sf) showed some improvement, as well. The Airport (-76,500 sf), Downtown (-137,400) and Northwest (-16,700 sf) submarkets, on the other hand, saw negative demand.

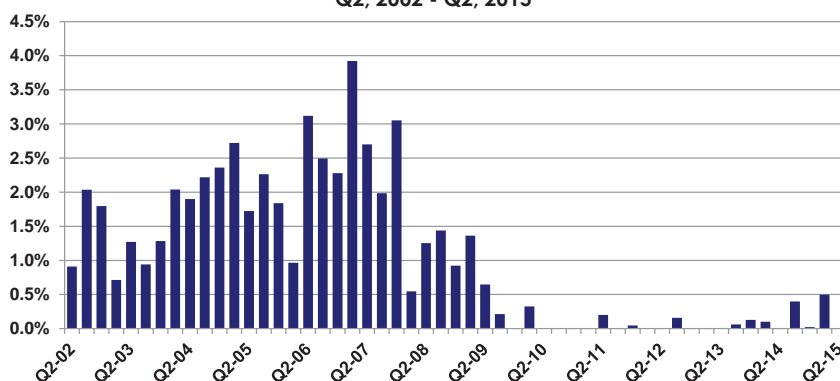
On a product-basis, Class A experienced -175,700 sf of absorption. Class B and Class C, however, gained enough ground (+177,100 sf and +28,500 sf, respectively) in Q2 to offset those losses. Medical office didn’t see much change, with only -100 sf of space absorbed. However, Y-O-Y, net absorption was positive for all product types. Class C space led the way, posting 360,300 sf of growth with Class B rounding out the group with just 10,200 sf of absorption over the year.

### SUPPLY

The second quarter of 2015 saw no spec office completions. During the past 23 quarters (since Q4, 2009), there have been only 10 quarters where new space has entered the market.

However, six of those quarters have been during the last eight quarters, indicating that rising demand is encouraging developers and lenders to begin providing product. Between Q2, 2014 and Q2, 2015, Y-O-Y completions rose to 392,900 sf. Still, post-recession completions pale compared to the boom years, when annual office completions ranged between 1.1 million (Q4, 2003) sf and 4.3 million sf (Q4, 2007). We do not anticipate any significant changes in completions per quarter for the foreseeable future. Completions as a share of inventory peaked at 4% in Q1, 2007, at the peak of Southern Nevada’s age of “irrational exuberance”. Q2 ended at about 0.5%.

Las Vegas Valley Office Market  
Completions as a % of Inventory:  
Q2, 2002 - Q2, 2015



We have recorded three spec office projects in the forward supply<sup>4</sup> pipeline that should be completed within the next two to four quarters. Phase 2 of Tivoli Village (68,000 sf - Class A) in the Northwest market is scheduled for a Q2, 2016 opening. The Corona del Mar Corporate Center is set to open in Q3, 2015 and the Pecos Springs Business expansion is to continue its rollout with a new building in Q4, 2015.

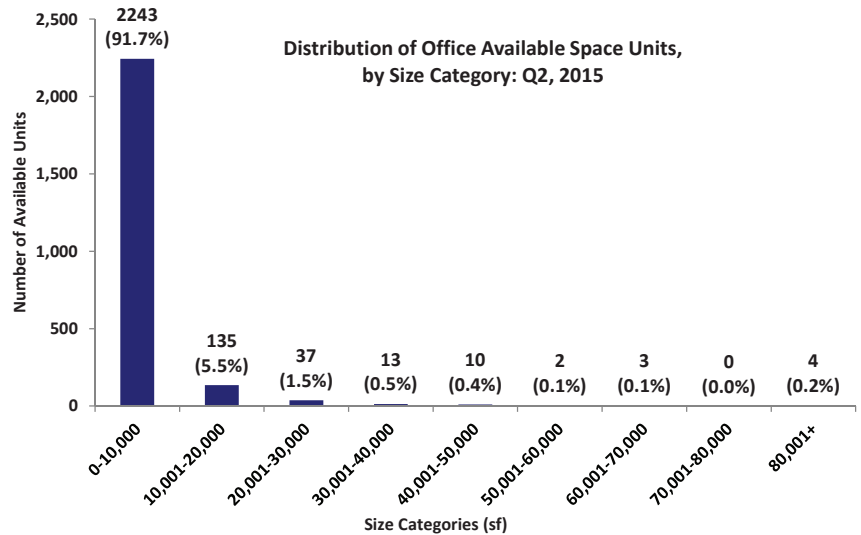
In addition, there has been much fanfare surrounding the Union Village mixed-use development that began construction in Henderson (<http://lasvegassun.com/news/2015/jul/10/henderson-hospital-foundation-pouring-unionvillage/>). Phase 1 of this project will include 150,000 sf of Medical office space scheduled to open in 2016.

Regarding planned space, 42,000 sf of Class B product in the Seven Hills Plaza D development are expected to break ground soon, as is the 80,000-sf 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.

In addition to these, a major new project has been announced. The Grid (<http://www.loopnet.com/xNet/MainSite/Listing/Profile/Profile.aspx?LID=19158870>) will be a 125,000-sf Class A spec office building in Downtown. It looks like a fairly ambitious project and it is moving forward despite the 33.3% Class A vacancy rate in that submarket, so it would seem that the developers think that a unique high quality development could do well when it is set to open in 2017. Hopefully, they're right.

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 (21.6%) and the average quarterly absorption in the last 10 years (153,600 sf), we estimate that there still remains about an 8.5-year supply of speculative office space in the Valley that must be absorbed to reach a 10% "normalized" vacancy rate.

Right is a chart detailing the distribution of available office space in the Valley, by size. It shows there is only a very small amount of space available in units above 30,000 sf. In fact, 91.7% 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 Q2 was 754,600 sf an almost 25% drop from Q1. We’re hoping that the overall office vacancy rate breaks the 20% by the end of year. It’s been 6 years since the region has seen this.

Employment in the office-using sector comprised 31% (251,400 jobs) of all private payroll jobs in Clark County at the end of Q2 (June 2015). This was 5,800 more (+2.4%) than existed in June 2014. This was 5,800 more (+2.4%) than existed in June 2014.

The demand for spec office space continues to be affected by the caution of office users and changes wrought by technology. This is constraining office demand despite the growth in office-using jobs. As we continue to note, mobile phone technology, the movement towards open offices and shared workspaces, and the replacement of individual medical practices by medical groups has 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.

## SPECULATIVE OFFICE MARKET

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.

As noted above, given the high vacancy rate (21.6%) and average quarterly absorption in the last 10 years, we forecast that the overall spec office market has an 8.5-year supply that must be absorbed before a 10% "normalized" vacancy rate is reached.

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<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 sf 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  
Second 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	915,960	637,035	1,715,876	1,289,529	70,153	2,044,872	1,448,577	1,188,705	9,310,707
Total Occupied SF	4,209,053	3,198,826	4,418,506	4,737,739	713,376	6,888,127	5,314,526	4,217,836	33,697,989
Total Vacant (%)	17.9%	16.6%	28.0%	21.4%	9.0%	22.9%	21.4%	22.0%	21.6%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	15,788	0	0	10,000	0	197,080	170,000	0	392,868
Total Net Absorption QTD	-76,547	-137,408	24,842	18,736	9,636	-16,650	11,643	195,609	29,861
Total Net Absorption YOY	106,630	-81,233	113,016	118,689	84,200	106,539	100,411	206,304	754,556
Asking Rents (\$ PSF)	\$2.20	\$2.30	\$1.50	\$2.33	\$1.69	\$2.08	\$2.98	\$1.63	\$2.14
Under Constuction SF	0	0	0	150,000	0	68,000	47,000	0	265,000
Planned SF	6,565	125,000	0	72,000	0	0	80,000	0	283,565

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	150,254	264,947	327,847	333,289	0	732,802	154,514	81,758	2,045,411
Total Occupied SF	515,650	530,169	1,144,619	504,779	0	1,080,510	412,598	145,866	4,334,191
Total Vacant (%)	22.6%	33.3%	22.3%	39.8%	0.0%	40.4%	27.2%	35.9%	32.1%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	10,000	0	197,080	170,000	0	377,080
Total Net Absorption QTD	-57,550	-66,785	27,682	32,306	0	-133,027	8,089	13,573	-175,712
Total Net Absorption YOY	3,580	-78,079	14,810	28,545	0	112,599	175,267	-16,352	240,370
Asking Rents (\$ PSF)	\$2.48	\$2.11	\$2.92	\$2.30	\$0.00	\$2.19	\$2.60	\$1.93	\$2.25
Under Constuction SF	0	0	0	0	0	68,000	0	0	68,000
Planned SF	0	125,000	0	0	0	0	0	0	125,000

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	372,284	141,771	644,377	365,895	42,015	517,367	714,116	446,357	3,244,182
Total Occupied SF	1,563,737	1,633,325	422,180	1,823,859	158,781	2,220,184	1,691,016	1,219,689	10,732,771
Total Vacant (%)	19.2%	8.0%	60.4%	16.7%	20.9%	18.9%	29.7%	26.8%	23.2%
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	-22,461	-531	16,614	660	18,720	102,140	-15,225	77,210	177,127
Total Net Absorption YOY	24,889	42,802	-114,676	26,041	57,601	37,118	-55,593	-7,962	10,220
Asking Rents (\$ PSF)	\$2.54	\$1.77	\$1.42	\$1.96	\$1.59	\$1.89	\$2.39	\$1.77	\$1.94
Under Constuction SF	0	0	0	0	0	0	47,000	0	47,000
Planned SF	0	0	0	42,000	0	0	0	0	42,000

# Speculative Office Market Matrix

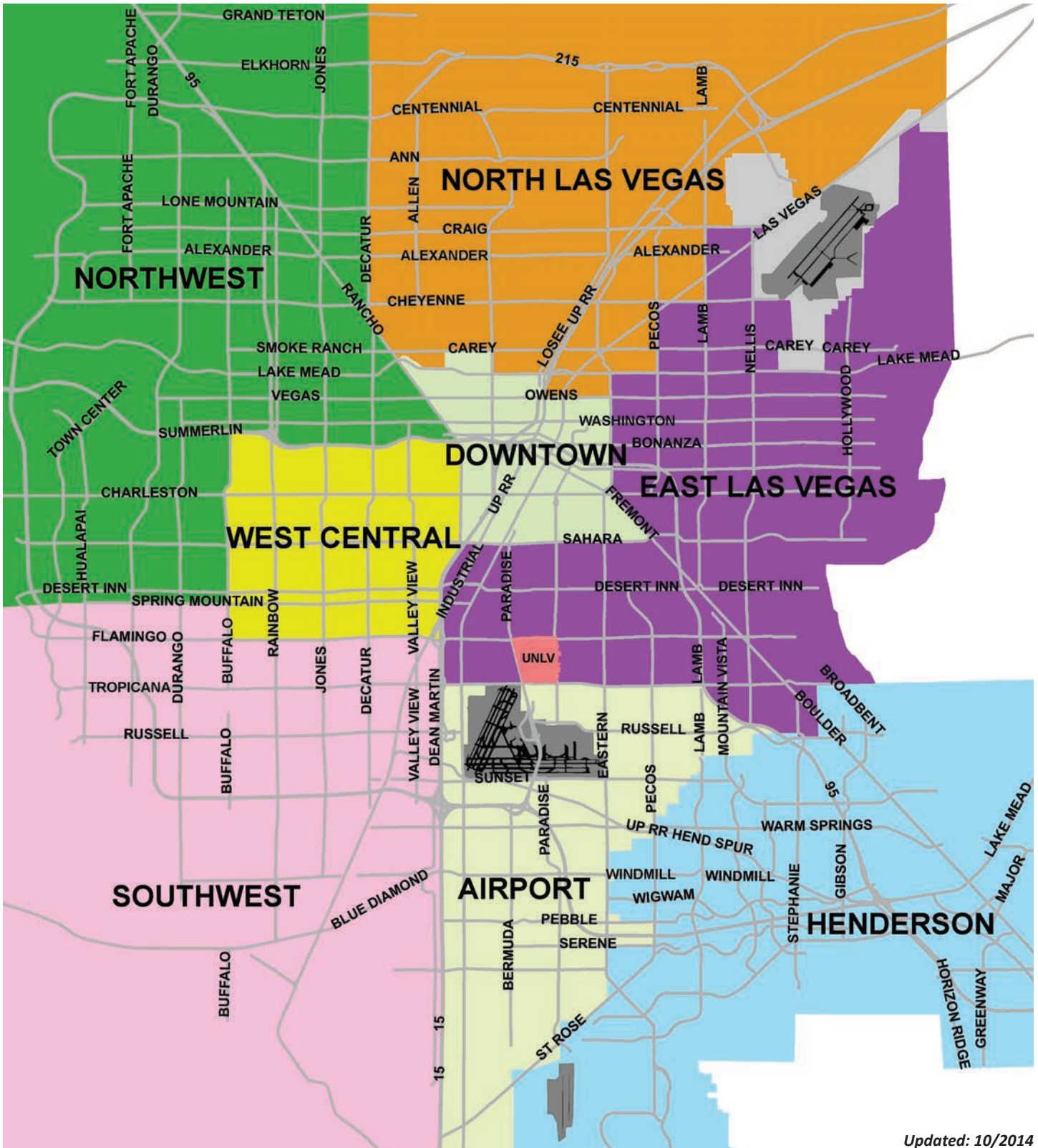
Las Vegas, Nevada  
Second Quarter, 2015

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	379,000	140,126	387,918	344,331	22,440	347,418	413,505	491,958	2,526,696
Total Occupied SF	2,015,558	737,480	1,663,490	1,274,099	459,850	1,886,584	2,645,326	2,269,435	12,951,822
Total Vacant (%)	15.8%	16.0%	18.9%	21.3%	4.7%	15.6%	13.5%	17.8%	16.3%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	15,788	0	0	0	0	0	0	0	15,788
Total Net Absorption QTD	5,254	-31,223	-6,763	-49,227	-12,078	32,575	5,839	84,135	28,512
Total Net Absorption YOY	72,821	-1,277	70,220	-16,071	11,697	9,876	30,140	182,913	360,319
Asking Rents (\$ PSF)	\$1.72	\$1.48	\$1.51	\$1.73	\$1.84	\$2.03	\$1.94	\$1.37	\$1.86
Under Constuction 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	14,422	90,191	355,734	246,014	5,698	447,285	166,442	168,632	1,494,418
Total Occupied SF	114,108	297,852	1,188,217	1,135,002	94,745	1,700,849	565,586	582,846	5,679,205
Total Vacant (%)	11.2%	23.2%	23.0%	17.8%	5.7%	20.8%	22.7%	22.4%	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	-1,790	-38,869	-12,691	34,997	2,994	-18,338	12,940	20,691	-66
Total Net Absorption YOY	5,340	-44,679	142,662	80,174	14,902	-53,054	-49,403	47,705	143,647
Asking Rents (\$ PSF)	\$1.83	\$2.25	\$1.60	\$2.23	\$1.94	\$2.22	\$1.85	\$1.74	\$2.09
Under Constuction 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

2<sup>nd</sup> Quarter 2015



THE DISTRICT AT GREEN VALLEY RANCH

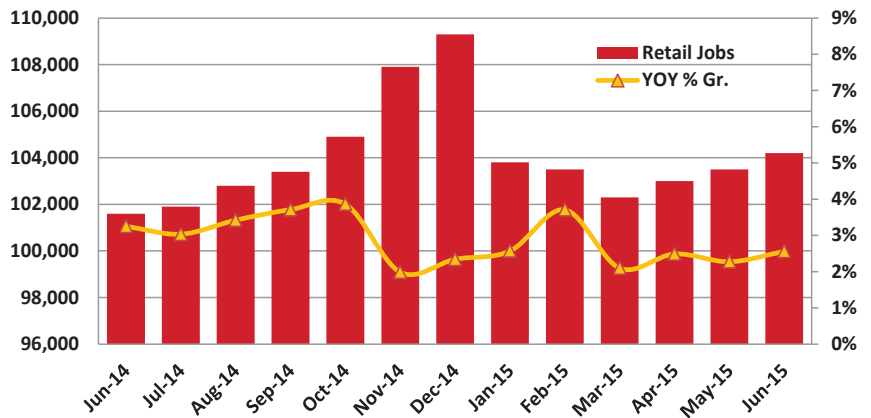


# LAS VEGAS ANCHORED RETAIL SURVEY

## SUMMARY

The Las Vegas Valley's ("the Valley") anchored retail market<sup>1</sup> remained 44.3 million square feet ("sf") in Q2, 2015 - there were no completions recorded during the quarter. Reversing the first quarter's loss, the Valley experienced net demand of 15,200 sf during Q2. The overall vacancy rate remained 11.9% in Q2, 2015, as it was in Q1, 2015, but it was up 0.4 points from the 11.5% recorded in Q2, 2014. Average monthly asking rents increased to \$1.29 per square foot ("psf") NNN<sup>2</sup> in Q2, \$0.27 higher than the previous quarter and \$0.02 higher than Q2, 2014. There are 278,700 sf of forward-supply<sup>3</sup> of anchored space in two Community Centers.

**Clark County Total\* Retail Jobs and Annual Growth: Jun-14 to Jun-15**



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

## RETAIL JOBS

Total nonfarm employment for the Las Vegas MSA rose by 28,600 jobs from June 2014 through June 2015, a 3.2% increase. During that time the "headline" unemployment rate declined 1.0 point to 7.0%.

There were 104,200 jobs in the Las Vegas retail sector at the end of June 2015, accounting for 13% of total private payroll jobs. This represents 2,600 (+2.6%) more jobs than were recorded in June 2014. General Merchandise and Clothing/Accessories jobs rose by 4.6% (+1,700 jobs) and Food & Beverage Stores increased 3.1% (+500 jobs) in the last year. Other Stores<sup>4</sup> increased by just 0.7% (+300 jobs) for the

### Retail Employment

Industry Sector	Apr			May			Jun		
	2015	2014	% Ch.	2015	2014	% Ch.	2015	2014	% Ch.
Gen. Merch. & Cloth./Accessories	38,100	36,900	3.3%	38,800	37,100	4.6%	39,000	37,300	4.6%
Food & Bev. Stores	16,500	15,600	5.8%	16,600	15,900	4.4%	16,600	16,100	3.1%
Health & Personal Care Stores	6,900	6,700	3.0%	6,900	6,800	1.5%	7,000	6,900	1.4%
Other Stores	41,500	41,300	0.5%	41,200	41,400	-0.5%	41,600	41,300	0.7%
<b>Total</b>	<b>103,000</b>	<b>100,500</b>	<b>2.5%</b>	<b>103,500</b>	<b>101,200</b>	<b>2.3%</b>	<b>104,200</b>	<b>101,600</b>	<b>2.6%</b>

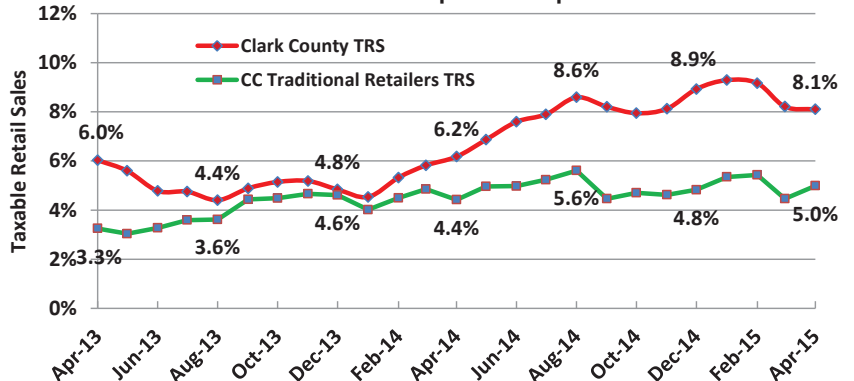
Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

year. 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 (+3.4% monthly average annual growth) 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 \$37.2 billion in April, an 8.1% jump compared to April 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 Y-O-Y growth over the last 41 months is 7.1%.

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



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

## ANCHORED RETAIL MARKET

### Top 5 Traditional Retailers (Apr-15)

	Taxable Retail Sales	YoY Change	YoY % Change
Food Services and Drinking Places	\$841,419,432	\$115,370,495	15.9%
Furniture and Home Furnishings Stores	\$64,122,363	\$13,754,626	27.3%
Building Material and Garden Equipment and Supplies	\$123,457,437	\$12,594,593	11.4%
Food and Beverage Stores	\$97,327,009	\$5,457,605	5.9%
Gasoline Stations	\$26,234,299	\$2,615,711	11.1%

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.

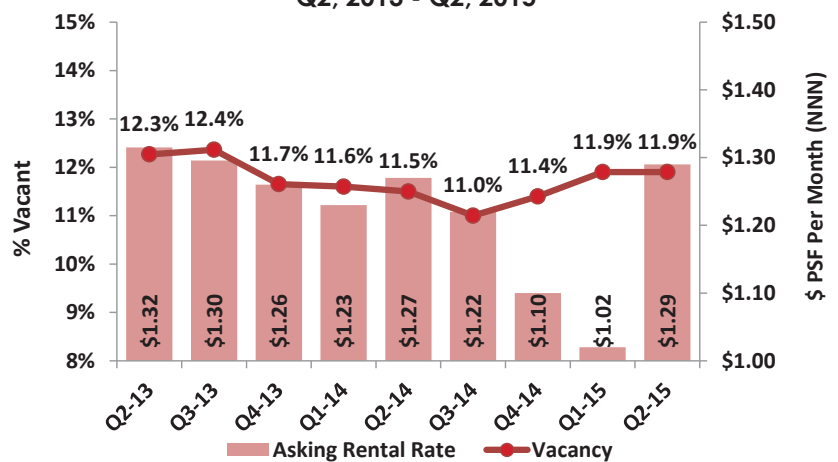
According to the Nevada Department of Taxation, the three traditional retail sectors with the largest taxable sales growth, on a dollar basis, during the April 2014-April 2015 period were "Food Services and Drinking Places" (+\$115.4M, +15.9%), "Furniture and Home Furnishings Stores" (+\$13.8M, +27.3%) and "Building Material and Garden Equipment and Supplies" (+\$12.6M, +11.4%). Solid growth in taxable sales among traditional retail outlets have continued throughout 2015. Below is a table of the top five best performing traditional retail sectors Y-O-Y.

### VACANCY & RENTS

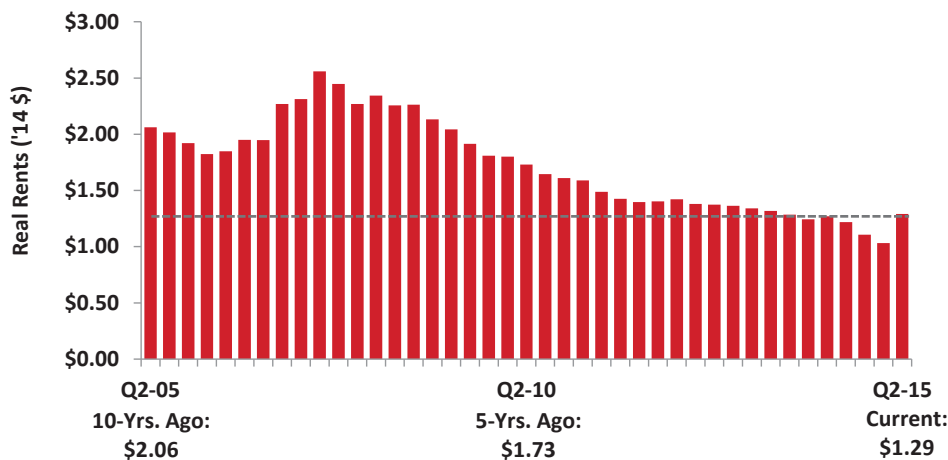
The average Valley-wide anchored retail vacancy rate remained at 11.9% (based on currently vacant space actively being marketed) in Q2. This is unchanged from Q1 and a 0.4 percentage-point increase from Q2, 2014 (11.5%). The average Valley-wide anchored retail vacancy rate is 3.4 percentage-points lower than the record high of 15.3% that occurred in Q2, 2011.

The highest submarket vacancies at the end of Q2 were Downtown (19.0%), University East (18.8%), West Central (15.4%) and North Las Vegas (13.2%). Three submarkets had vacancy rates below 10%: Northwest (9.9%), Southwest (5.4%) and Northeast (5.5%). Relative to the previous quarter, vacancy rates rose in

Las Vegas Valley Retail Market  
Historical Vacancy vs. Monthly Asking Rent:  
Q2, 2013 - Q2, 2015



Las Vegas Valley Retail Market  
Inflation-Adjusted Asking Rent: Q2, 2005 - Q2, 2015 (Baseline)



four submarkets and decreased in the other four. The improved submarkets in Q2, 2015 were Downtown, Henderson, North Las Vegas and Southwest, with improvements of 1.0, 0.6, 1.8 and 1.9 percentage-points, respectively. The other four submarkets were Northeast, Northwest, University East and West Central, which saw vacancy rates rise by 0.6, 0.6, 1.3 and 2.2 percentage-points, respectively.

By product type, vacancy rates improved in Power Centers and Community Centers during Q2, decreasing by 0.4 percentage-points. Neighborhood Centers, on

## ANCHORED RETAIL MARKET

the other hand, lost ground, with the vacancy rate rising by 0.5 percentage-points.

The overall anchored monthly asking rent increased in Q2, returning to the level seen before the drops of Q4, 2014 and Q1, 2015. The overall rent rose to \$1.29 psf in Q2 (calculated on a NNN basis; not accounting for any operating expenses). There is some volatility in the market, but it is also possible that the results suffered from statistical variation during Q4, 2014 and Q1, 2015 due the type of space was available in each quarter. Nevertheless, the Valley's anchored retail market appears to be doing well in certain submarkets, while it continues to struggle in others.

### DEMAND

There was a total of +15,200 sf of total net absorption in Q2, 2015, compared to +38,100 sf during Q2, 2014. On a Y-O-Y basis, net anchored retail absorption was just 1,600 sf, Valley-wide.

Net absorption declined in the Northeast (-15,400 sf), Northwest (-56,500 sf), University East (-81,500 sf) and West Central (-94,300 sf) submarkets in Q2. The other four submarkets recorded positive net absorption, led by the Southwest submarket with 108,900 sf.

On an annual basis, only five of eight submarkets were in positive territory in Q2, with a combined 638,300 sf of net absorption. The University East submarket was hardest hit, wiping out much of the Valley-wide growth with a -497,700 sf of net absorption comparing Q2, 2014 to Q2, 2015. Overall, the gains added up to a paltry 1,600 sf – essentially zero. During the same period in 2014, Y-O-Y absorption for the Valley was 350,800 sf.

Net absorption was positive in Power Centers (+5,000 sf) and Community Centers (84,200 sf), but was negative in Neighborhood Centers (-74,100 sf).

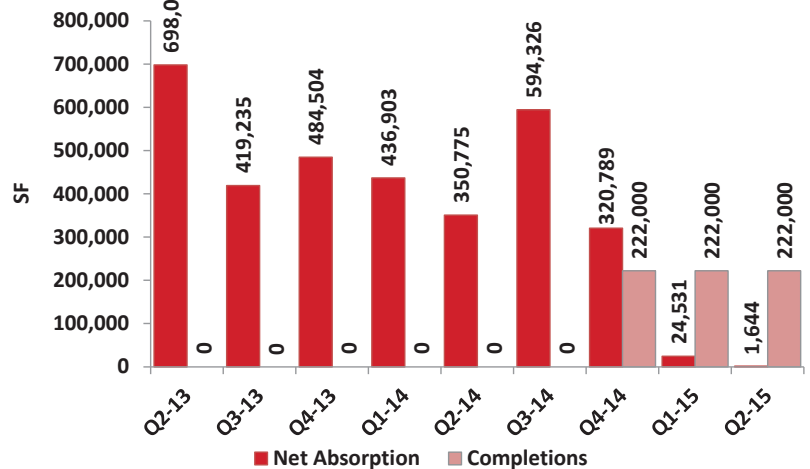
Power Centers also led the way on a Y-O-Y basis, adding 166,200 sf of occupied space on a net basis, while Community Centers and Neighborhood Centers switch positions, with Community Centers negative over the year (-201,600) and Neighborhood Centers gaining ground (+37,100).

### SUPPLY

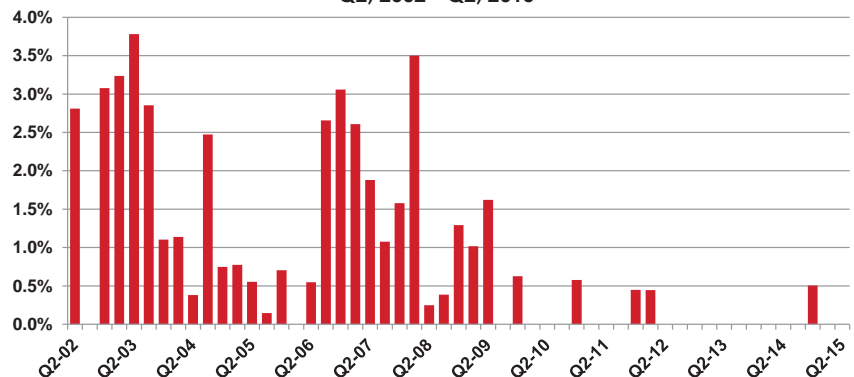
No new anchored retail space was completed during Q2, 2015. In the last 13 quarters, only Q4, 2014 had any completions. Prior to that, there have been only three quarters in 22 (since Q1, 2010), that saw new anchored retail space brought to market. The Valley's total anchored retail inventory is currently 44.3 million sf in 267 shopping centers.

There is one construction project in the works. This is the 138,700-square-foot Green Valley Crossing in Henderson. The 140,000-square-foot Decatur @ Target shopping center in the Northwest is back

Las Vegas Valley Retail Market  
Historical YOY Net Absorption vs. Completions  
Q2, 2013 - Q2, 2015



Las Vegas Valley Retail Market  
Completions as a % of Inventory:  
Q2, 2002 - Q2, 2015



in the planning stages after dealing with setbacks due to the recession.

From what we know today, we do not see much new anchored retail development taking place in 2015. This will help the 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 159,800 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 \$37.2 billion in April, an 8.1% jump compared to April 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 Y-O-Y growth over the last 41 months is 7.1%.

There were 104,200 jobs in the Las Vegas retail sector at the end of June 2015, accounting for 13% of total private payroll jobs. General Merchandise and Clothing/Accessories jobs rose by 1,700 jobs and Food & Beverage Stores increased 500 jobs in the last year. Employment in the metro area's retail sector has been increasing on a Y-O-Y basis since May 2010 and has shown modest gains (+3.4% monthly average annual growth) so far during 2015.

Relatively low gasoline prices have essentially given Southern Nevadans a "raise" and an increase in spending power. According to AAA, as of July 29, the average price per gallon for regular unleaded gasoline in the Las Vegas MSA dropped by 13.4% from \$3.78 a year ago to \$3.27. However, between June 29 and July 29, the price of unleaded increased slightly, by \$0.06 per gallon, or 1.9%. Still, we expect gas prices to stay relatively stable and less expensive compared to one year prior over the summer.

Wages and incomes are just beginning to move forward on an inflation-adjusted basis after being stagnant for some time. Clark County 12-month moving average ("12-MMA") weekly earnings on an inflation-adjusted basis are starting to improve. They were up 1.5% in June compared to June 2014, reaching \$630 in 2007 dollars, marking 12 months of improvement.

Additionally, on a 12-MMA basis, the average number of hours worked per week in Clark County was 33.2 hours in June 2015, down 0.1 hours from May 2015 and 0.3 hours less than the 33.5 recorded in June 2014. As we've noted, stagnant and even dropping average hours worked have accompanied a dropping headline unemployment rate. Implication: companies continue to depend heavily on part-time workers. For this reason, the U-6 unemployment rate (includes discouraged and part-time workers) in Nevada remains the nation's highest at 15.2% (Q2).

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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 sf 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 sf, but can be as small as 125,000 sf; 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 sf, but can be over 500,000 sf
- 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 sf, but can range from 30,000 to 150,000 sf
- Customer-base is within a two- to three-mile trade area

# Anchored Retail Market Matrix

## Las Vegas, Nevada Second 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	209,777	1,085,243	647,054	139,813	1,067,079	312,186	1,138,391	672,351	5,271,894
Total Occupied SF	896,074	7,594,825	4,263,689	2,402,504	9,743,509	5,471,649	4,911,836	3,706,704	38,990,790
Total Vacant (%)	19.0%	12.5%	13.2%	5.5%	9.9%	5.4%	18.8%	15.4%	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	11,218	55,362	87,429	-15,448	-56,452	108,913	-81,518	-94,336	15,168
Total Net Absorption YOY	-95,482	190,170	51,836	87,835	245,862	62,611	-497,730	-43,458	1,644
Asking Rents (\$ PSF)	\$0.70	\$1.53	\$1.70	\$1.12	\$1.29	\$1.64	\$0.93	\$1.03	\$1.29
Under Construction SF	0	138,738	0	0	0	0	0	0	138,738
Planned SF	0	0	0	0	140,000	0	0	0	140,000

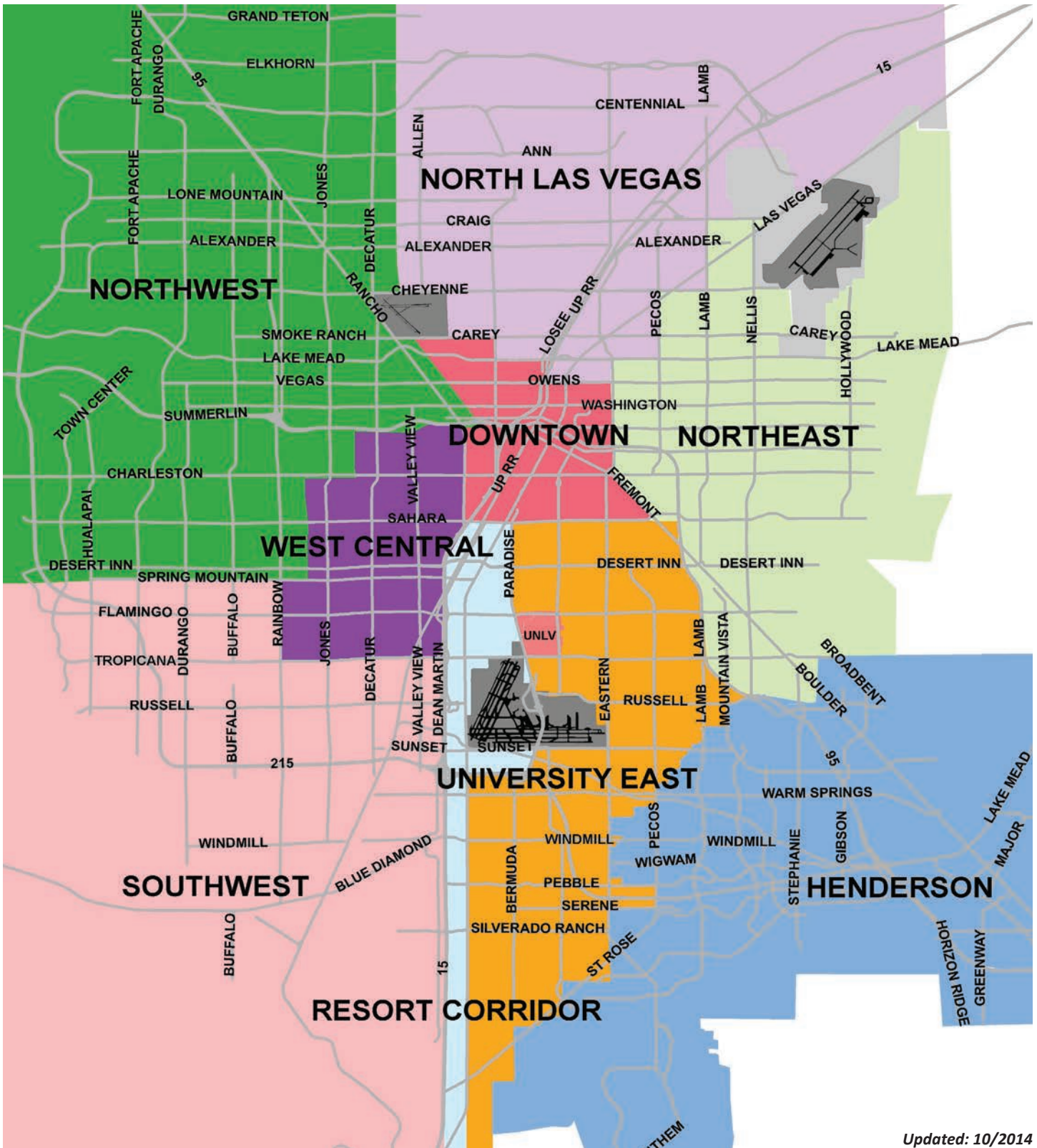
POWER CENTERS	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	0	8	2	0	7	1	3	3	24
Total Rentable SF	0	2,962,288	987,713	0	2,840,846	944,314	1,210,223	1,138,224	10,083,608
Total Vacant SF	0	568,332	1,740	0	69,925	0	124,170	167,538	931,705
Total Occupied SF	0	2,393,956	985,973	0	2,770,921	944,314	1,086,053	970,686	9,151,903
Total Vacant (%)	0.0%	19.2%	0.2%	0.0%	2.5%	0.0%	10.3%	14.7%	9.2%
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	21,833	-1,740	0	-7,930	7,200	15,000	-29,383	4,980
Total Net Absorption YOY	0	25,706	6,753	0	52,981	0	47,648	33,062	166,150
Asking Rents (\$ PSF)	\$0.00	\$1.90	\$3.00	\$0.00	\$1.39	\$0.00	\$1.41	\$1.11	\$1.61
Under Construction 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	179,516	143,242	123,659	38,804	468,938	211,728	758,292	369,978	2,294,157
Total Occupied SF	499,174	2,777,450	1,631,804	1,368,748	3,845,296	3,004,693	2,002,736	1,279,168	16,409,069
Total Vacant (%)	26.5%	4.9%	7.0%	2.8%	10.9%	6.6%	27.5%	22.4%	12.3%
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	5,368	39,973	100,817	-18,608	-50,476	98,640	-17,753	-73,717	84,244
Total Net Absorption YOY	-99,632	16,766	132,807	100,962	145,482	49,939	-467,175	-80,783	-201,634
Asking Rents (\$ PSF)	\$0.40	\$1.91	\$3.20	\$1.45	\$1.72	\$1.64	\$0.77	\$0.97	\$1.35
Under Construction SF	0	138,738	0	0	0	0	0	0	138,738
Planned SF	0	0	0	0	140,000	0	0	0	140,000

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	30,261	373,669	521,655	101,009	528,216	100,458	255,929	134,835	2,046,032
Total Occupied SF	396,900	2,423,419	1,645,912	1,033,756	3,127,292	1,522,642	1,823,047	1,456,850	13,429,818
Total Vacant (%)	7.1%	13.4%	24.1%	8.9%	14.4%	6.2%	12.3%	8.5%	13.2%
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	5,850	-6,444	-11,648	3,160	1,954	3,073	-78,765	8,764	-74,056
Total Net Absorption YOY	4,150	147,698	-87,724	-13,127	47,399	12,672	-78,203	4,263	37,128
Asking Rents (\$ PSF)	\$8.33	\$1.07	\$1.21	\$1.02	\$0.98	\$1.64	\$0.92	\$1.10	\$1.11
Under Construction 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