

# Las Vegas Valley Executive Summary

## Commercial Real Estate Markets - 2<sup>nd</sup> Quarter 2014

### INDUSTRIAL



### OFFICE



### RETAIL



# RCG ECONOMICS

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July 24, 2014

Re: *Commercial Real Estate Survey: 2<sup>nd</sup> Quarter, 2014*

Dear Reader,

RCG Economics and the UNLV Lied Institute for Real Estate Studies are excited to produce the *Lied-RCG Commercial Real Estate Survey* ("the Survey") containing the most comprehensive, timely and accurate data and analysis on the Las Vegas Valley's industrial, speculative office and anchored retail markets.

RCG Economics has partnered with the Lied Institute to produce objective and independent quarterly surveys on the health and state of the commercial real estate market. RCG is a leader in real estate market research and analysis, including commercial real estate and economic forecasting. The Lied Institute seeks to advance real estate knowledge through research, student scholarship, certificate programs and community outreach activities.

The Survey is born of our commitment to excellence in serving those organizations requiring superior up-to-date market analysis and data to make key decisions. Developing this Private-Public Partnership to collect, analyze and release unbiased information is further proof of this commitment. Equally important, the data herein are collected as close as possible to the end of each quarter.

This survey documents historical and current market conditions at the Valley and submarket levels. The data contained within are organized and tracked by our in-house research analysts and economists to provide the best analysis of Las Vegas' commercial real estate markets. The survey contains a variety of meaningful market indicators, including:

- ◆ Total existing inventory
- ◆ New and planned construction activity
- ◆ Vacancy and occupancy levels
- ◆ Net Absorption
- ◆ "Coupon" or quoted monthly rents

Further, our three commercial (industrial, office and retail) databases contain benchmark building data, by submarket, dating back to 1996. This information allows us to develop "custom" studies for our readers and clients. It is through this survey and our other services and products, that we remain the "Source for Decision Makers."

Regards,

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ARROWHEAD COMMERCE CENTER

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## Las Vegas Industrial Survey 2nd Quarter 2014



BELTWAY BUSINESS PARK

# LAS VEGAS INDUSTRIAL SURVEY

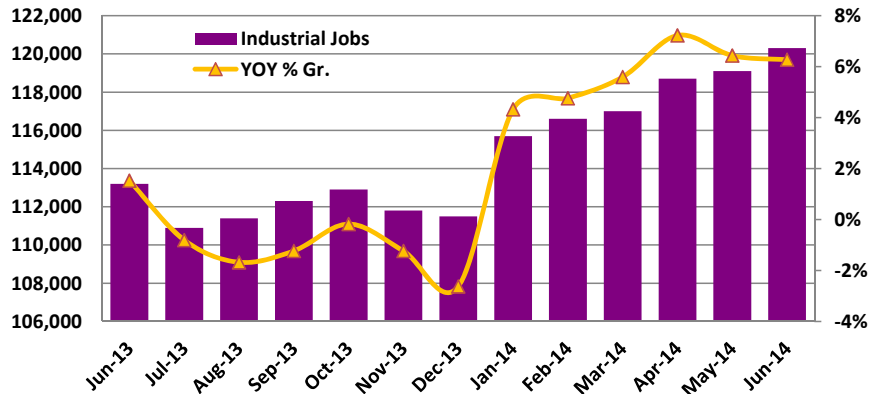
## SUMMARY

The Las Vegas Valley's ("the Valley") industrial market<sup>1</sup> ended Q2, 2014 with an inventory of 107.7 million square feet ("sf"). Net absorption (net demand) during Q2 was 1,456,000 sf. The quarter ended with an industrial vacancy rate of 9.7%, 4.2 percentage points lower than the same time last year. At \$0.58 per square foot ("psf") NNN<sup>2</sup>, the average monthly asking rent for industrial space was higher than Q1 (\$0.54 psf) and Q2, 2013 (\$0.50 psf). At the end of Q2, there were 1 million sf of industrial forward-supply<sup>3</sup> (all under construction - no space fitting our criteria was recorded as being in the planning stages). All under-construction space was in warehouse/distribution and light industrial buildings. Performance metrics for the Valley's industrial market in the last four quarters indicate that we are now in the midst of a recovery.

## INDUSTRIAL-RELATED JOBS

Jobs in the industrial space-using sector represented 15% of all private jobs in Clark County in June. There were 120,300 such jobs at the end of June 2014, 7,100 more (+6.3%) than in June 2013.<sup>4</sup> After finally turning positive on a monthly basis between May 2012 and June 2013, annual industrial employment growth dipped back into negative territory in the six-month period between July 2013 and December 2013. However, since January, industrial sector job growth has returned and posted strong growth (>4%) in each of the last six months. Manufacturing (+1,000 jobs, +4.9%) and transportation & warehousing (+600 jobs, +1.8%) have both shown significant year-over-year growth, but construction jobs are leading the way with 13.7% growth (+5,200 jobs) since May 2013.

Clark County Total\* Industrial Jobs and Annual Growth (Jun-13 to Jun-14)



\*Natural resources, construction, manufacturing, and transportation & warehousing industries. Source: Nevada Department of Employment, Training and Rehabilitation; calculated by RCG Economics.

## Industrial Employment

Industry Sector	Apr 2013			May 2013			Jun 2013		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Nat. Resources	300	300	0.0%	300	300	0.0%	300	300	0.0%
Construction	42,300	37,000	14.3%	42,300	37,100	14.0%	43,100	37,900	13.7%
Manufacturing	21,200	20,200	5.0%	21,300	20,200	5.4%	21,400	20,400	4.9%
Wholesale	20,600	20,400	1.0%	20,700	20,500	1.0%	20,800	20,500	1.5%
Transp. & Warehousing	34,300	32,800	4.6%	34,500	33,800	2.1%	34,700	34,100	1.8%
<b>Total</b>	<b>118,700</b>	<b>110,700</b>	<b>7.2%</b>	<b>119,100</b>	<b>111,900</b>	<b>6.4%</b>	<b>120,300</b>	<b>113,200</b>	<b>6.3%</b>

Source: Nevada Department of Employment, Training & Rehabilitation.

## VACANCY & RENTS

On the heels of nearly 1.5 million sf of absorption, the Valley's total industrial vacancy rate (directly vacant space plus vacant sublease space) decreased to 9.7% in Q2, down from 11.1% in Q1 and 13.9% in Q2, 2013. Vacancy levels have shown notable improvement in all quarters since peaking in Q3, 2012 when the vacancy rate stood at 15.5%. This change is reflected in the increased demand for industrial space since Q1, 2013.

On a submarket basis, the lowest industrial vacancy rate in Q2 was found in Henderson at 5.4%, down from 8.6% last quarter, a 3.2 percentage-point downward change. The Northwest submarket continues

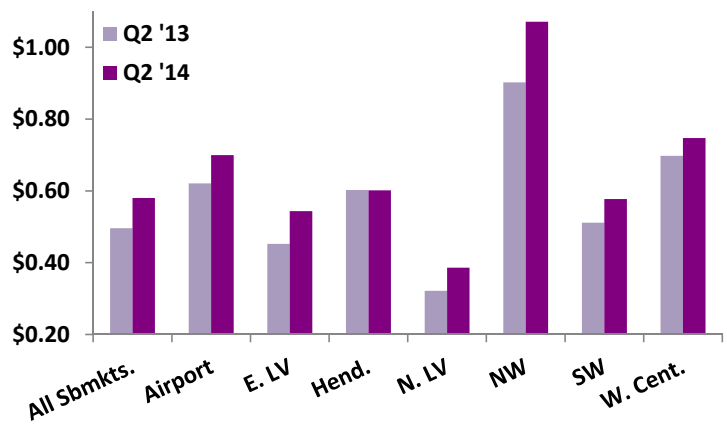
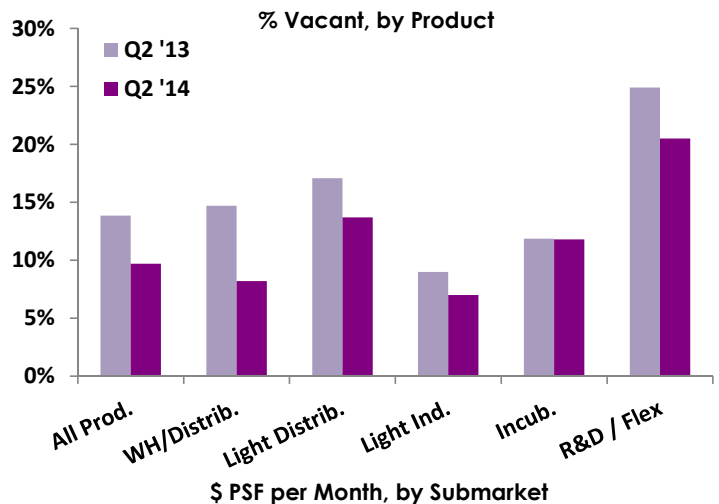


to post the highest rate among the Valley's seven submarkets at 16.6%, but 1.5 percentage points lower than the previous quarter's 18.1% rate. For the largest industrial submarket (the South-west), the vacancy rate declined by 2.0 percentage points from 13.0% in Q1, 2014 to 11.0% this quarter. The North Las Vegas, East Las Vegas and West Central submarkets also saw vacancy rate decreases from Q1 by 1.2, 1.1 and 1.0 percentage points, respectively. The Airport submarket was the only area to record an increase in vacancy rate for the quarter, from 14.7% to 15.9%. However, on a year-over-year basis, every submarket has improved.

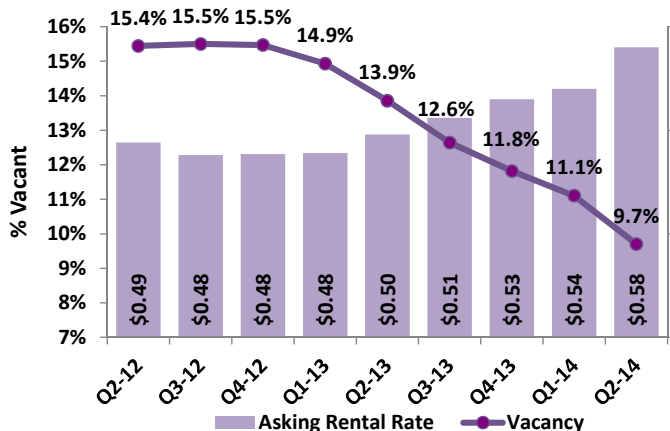
By product type, both Incubator (+0.1 to 11.8%) and R&D/Flex (+0.4 to 20.5%) space experienced increases in vacancy in Q2 over the previous quarter. The largest drop, -2.8 percentage points, was in Warehouse & Distribution space, which is also the largest product type. Light Industrial space had the lowest vacancy among all industrial types at 7.0%, while R&D/Flex space had the highest vacancy rate at 20.5%.

However, relative to Q2, 2013, all product types have experienced lower vacancy rates. Warehouse & Distribution space has seen the biggest change YoY with a 6.5 percentage point drop, while R&D/Flex experienced the next largest decline at 4.4 percentage points. The decreases in vacancy rates for Light Distribution, Light Industrial and Incubator space were 3.4, 2.0 and 0.1 points, respectively. Overall, the industrial vacancy rate dropped from 13.9% to 9.7%, a 4.2-point improvement.

### Las Vegas Valley Industrial Market Vacancy Trends: Q2, 2013 v. Q2, 2014



### Las Vegas Valley Industrial Market Historical Vacancy vs. Monthly Asking Rent: Q2, 2012 - Q2, 2014



Monthly asking rents for industrial space (calculated on a NNN basis — or not accounting for any operating expenses) have risen over the past four quarters. At \$.58 per sf in Q2, 2014, rents are up \$.04 since last quarter's \$.54 and \$.08 since Q2, 2013's \$.50 psf.

#### DEMAND

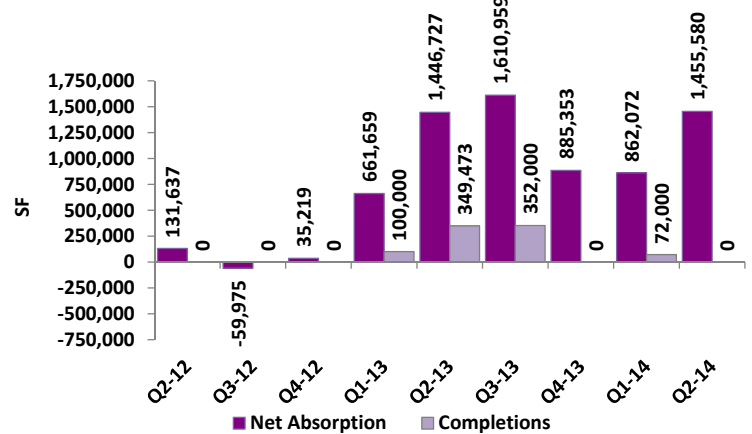
Demand in the Valley's industrial market (defined as total net absorption) was positive for the 7th straight quarter with 1,455,600 sf of net space absorbed in Q2, 2014. Year-to-date net absorption has been 2,317,700 sf compared to 2,108,400 for first half of 2013. It should also be

noted that 2013 experienced 4.6 million sf of net absorption, the largest amount absorbed since 2007. The year-to-date ("YTD") difference in this year's first two quarters compared to last year's first two quarters is about +209,300 sf, so 2014 continues to look like it will be an even stronger year for growth in industrial demand. This is a good indicator of Southern Nevada's ongoing economic recovery.

By submarket, the Southwest saw the highest net absorption with 656,200 sf this quarter. The East Las Vegas (+30,600 sf), Henderson (+409,400 sf), North Las Vegas (+387,700 sf), Northwest (+20,800 sf) and West Central (+125,700 sf) submarkets also posted increases in net absorption. Only the Airport submarket reported negative net absorption this quarter with -174,900 sf.

Product demand in Q2 showed improvements for Warehouse/Distribution, Light Distribution and Light Industrial, but decreased for both Incubator and R&D/Flex space. Warehouse/Distribution led the way with 1,274,500 sf absorbed for the quarter, much greater than the 196,200 sf absorbed last quarter. Negative net absorption was -27,900 sf for R&D/Flex space and just -4,300 sf for Incubator space. The Valley's positive net absorption over the last year was driven by the strong demand for Warehouse/Distribution space. There were 4.8 million sf of industrial space absorbed in that time, with a little over 3.0 million sf absorbed in Warehouse/Distribution space. All other products were also positive over the year: Light Industrial (853,400 sf), Light Distribution (598,700 sf), R&D/Flex (256,800 sf) and Incubator (8,700 sf).

**Las Vegas Valley Industrial Market  
Historical Net Absorption vs. Completions:  
Q2, 2012 - Q2, 2014**



## SUPPLY

There were no industrial completions during Q2, 2014 and inventory remained 107.7 million sf in 4,205 buildings. Over the past year, 424,000 sf were brought to the market, in the form of three build-to-suit ("BTS") spaces primarily as Light Industrial buildings. In comparison to recent years, we see that no new space was completed in 2012 and only 152,000 sf was completed in 2011. One project has been completed year-to-date: VadaTech's 72,000-square-foot manufacturing facility, a light industrial building.

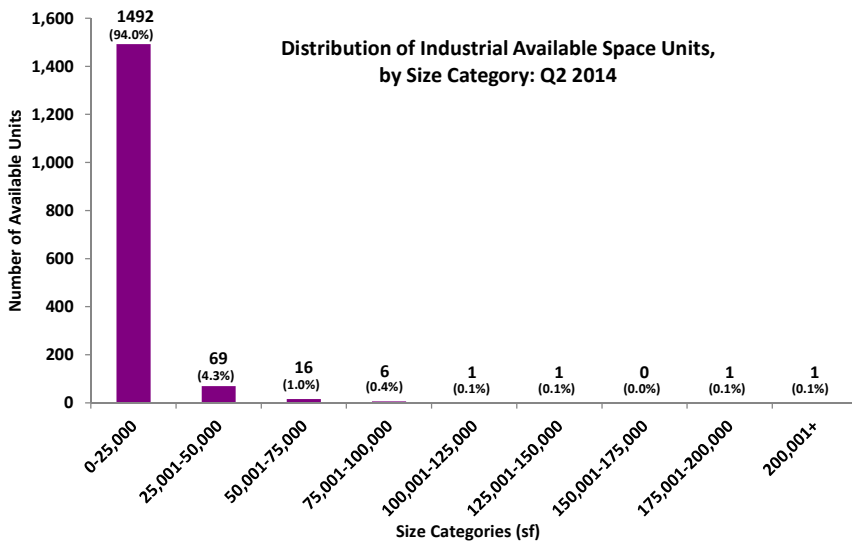
There were five projects under construction by the end of the quarter, which support the trend of BTS warehouse/distribution developments: Konami Gaming's expansion (193,000 sf in Airport); FedEx Distribution Center (296,000 sf in Henderson); Nicholas & Company (200,000 sf in North Las Vegas); and TJ Maxx's expansion (300,000 sf in North Las Vegas). There are also 40,000 sf of BTS Light Industrial space for the Tapia Brothers expansion ready to open in Q3.

An important measure of the near-term health of the commercial markets is the potential number of years of available supply. This quarter marks a milestone for the Valley industrial market, because the vacancy rate dipped below the 10% stabilized vacancy rate to 9.7%. This is a signal, concerning the health of the industrial market, for which the industry has long been waiting.

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

## FURTHER THOUGHTS

As an important indicator of the steadily improving Southern Nevada economy, the industrial market has finally reached a healthy supply-demand balance with a vacancy rate of 9.7%. Local businesses continue to expand and the attention by firms from outside the state on the Las Vegas area continues to grow. The result: the Valley's industrial market saw net absorption of 1,456,000 sf this quarter and



2,317,700 sf year-to-date for 2014. This is a remarkable turnaround considering the depth and breadth of the Great Recession. However, the region is still facing a looming economic development and growth challenge in the form of a lack of available space with 100,001 sf or more. As shown above, at the end of Q2, there were only four buildings in this size range, less than half of what was available last quarter.

We would like, again, to refer our readers to a survey and market study RCG conducted (See <http://www.rcg1.com/industrial-building-survey-comparative-market-analysis-march-2014/>) for the Las Vegas Global Economic Alliance (<http://www.nevadadevelopment.org/>) on this shortage issue and its effects on Southern Nevada’s economic development efforts.

We continue to encourage local government officials to think long-term and not convert “employment” land, especially office and industrial acreage, to residential uses. Short-term demand for a certain type of development — i.e. homebuilding — due to unusual market and lending conditions should not trump long-term planning. Nevada needs a healthy commercial/jobs-housing balance to support continued economic growth and economic development.

<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 subtype classification. These characteristics can include a building's primary use, size, type of loading doors, clear heights and parking ratios. A property must exhibit one or more of the typical building characteristics to be classified into subtypes.

### Warehouse/Distribution

These buildings are the largest among the subtypes and are used for warehousing and distributing materials and merchandise. Warehouse facilities are primarily used for storage and distribution buildings are warehouse facilities designed to accommodate the freight and movement of products/goods.

- Multi- or single-tenant,
- Building/park size of at least 10,000 square feet,
- Dock-high doors (or grade-level doors) and clear heights of at least 16 feet, and
- Parking ratios of: 1-2/1,000 square feet - traditional warehouse/distribution  
3-4/1,000 square feet - high velocity warehouse/distribution.

### Light Distribution

These buildings are primarily used as a distribution transfer center for the transshipment of products/goods (usually to change the mode of transport or for consolidation or deconsolidation of goods before shipment).

- Multi- or single-tenant,
- Building/park size of at least 5,000 square feet, usually characterized by long narrow buildings,
- Cross-dock doors (or several dock high doors) with 12-16 feet clear height to accommodate transfer to/from multiple trucks, and
- Parking ratios of: 1-2/1,000 square feet - traditional warehouse/distribution  
3-4/1,000 square feet - high velocity warehouse/distribution.

### Light Industrial

These buildings are primarily used for light industrial manufacturing (rather than heavy industrial manufacturing that uses large amounts of raw materials, power and space) to produce and/or assemble products/goods for consumers as end-users.

- Multi- or single-tenant,
- Building/park size of at least 7,000 square feet,
- Grade-level doors (or dock-high doors) and clear heights usually between 13 feet and 18 feet, and
- Parking ratio of 4+/1,000 square feet.

### Incubator

Buildings or portions of buildings that accommodate companies in the early phase of growth. The typical user generally needs 1,000 to 3,000 square feet of warehouse space plus 5% to 20% earmarked for office space with the remaining being the warehouse space. Because of its lower space needs, an incubator tenant is usually a low-volume business needing more less frequent packing and unpacking activity and smaller shipment sizes.

- Multi-tenant,
- Building/park size of at least 5,000 square feet,
- Grade-level doors with clear heights less than 15 feet, and
- Parking ratio: Less than 3/1,000 square feet.

### R&D/Flex

These buildings are the smallest among the subtypes and are designed to allow its occupants to easily alternate uses as industrial space or office space. This may include:

- Industrial space generally as light industrial or incubator; and
- Office space generally as research and development (R&D) parks.
- Multi- or single-tenant,
- Building/park size of at least 2,000 square feet,
- Grade-level doors with clear heights less than 15 feet, and
- Parking ratio of 3-4/1,000 square feet.

# Industrial Market Matrix

## Las Vegas, Nevada Second Quarter, 2014

SUBMARKETS								
TOTAL INDUSTRIAL MARKET	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	501	149	533	1,014	81	1,279	648	4,205
Total Rentable SF	14,127,625	2,823,817	12,770,916	31,452,029	1,336,299	33,137,033	12,016,433	107,664,152
Total Vacant SF	2,249,249	178,036	690,915	2,622,163	221,508	3,649,987	856,813	10,468,671
Total Occupied SF	11,878,376	2,645,781	12,080,001	28,829,866	1,114,791	29,487,046	11,159,620	97,195,481
Total Vacant (%)	15.9%	6.3%	5.4%	8.3%	16.6%	11.0%	7.1%	9.7%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	222,000	0	72,000	0	0	130,000	0	424,000
Total Net Absorption QTD	-174,873	30,550	409,433	387,654	20,842	656,226	125,748	1,455,580
Total Net Absorption YOY	566,553	149,024	302,967	2,194,321	210,872	1,350,801	39,426	4,813,964
Asking Rents (\$ PSF)	\$0.70	\$0.54	\$0.60	\$0.39	\$1.07	\$0.58	\$0.75	\$0.58
Under Construction SF	193,000	0	296,000	540,000	0	0	0	1,029,000
Planned SF	0	0	0	0	0	0	0	0

WAREHOUSE/DISTRIBUTION	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	78	18	77	176	5	140	52	546
Total Rentable SF	4,844,394	907,075	6,459,019	18,506,459	223,661	13,066,312	1,939,836	45,946,756
Total Vacant SF	496,686	9,700	140,166	1,537,978	13,367	1,499,094	73,282	3,770,273
Total Occupied SF	4,347,708	897,375	6,318,853	16,968,481	210,294	11,567,218	1,866,554	42,176,483
Total Vacant (%)	10.3%	1.1%	2.2%	8.3%	6.0%	11.5%	3.8%	8.2%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	130,000	0	130,000
Total Net Absorption QTD	-105,564	-305	300,041	318,151	37,000	627,714	97,503	1,274,540
Total Net Absorption YOY	233,688	20,565	117,365	1,836,601	31,907	854,767	1,423	3,096,315
Asking Rents (\$ PSF)	\$0.43	\$0.45	\$0.70	\$0.34	\$0.49	\$0.49	\$0.47	\$0.43
Under Construction SF	193,000	0	296,000	500,000	0	0	0	989,000
Planned SF	0	0	0	0	0	0	0	0

LIGHT DISTRIBUTION	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	68	19	37	167	1	181	40	513
Total Rentable SF	3,169,129	340,675	1,571,703	4,848,934	51,000	6,930,636	775,747	17,687,824
Total Vacant SF	623,101	20,300	174,185	523,426	34,426	957,500	90,684	2,423,622
Total Occupied SF	2,546,028	320,375	1,397,518	4,325,508	16,574	5,973,136	685,063	15,264,202
Total Vacant (%)	19.7%	6.0%	11.1%	10.8%	67.5%	13.8%	11.7%	13.7%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-44,260	4,068	26,922	40,997	0	11,681	30,266	69,674
Total Net Absorption YOY	116,877	41,943	14,375	217,966	10,299	143,391	53,856	598,707
Asking Rents (\$ PSF)	\$0.63	\$0.79	\$0.45	\$0.32	\$0.70	\$0.52	\$0.44	\$0.50
Under Construction SF	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0

# Industrial Market Matrix

## Las Vegas, Nevada Second Quarter, 2014

### SUBMARKETS

LIGHT INDUSTRIAL	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	199	91	313	594	16	740	482	2,435
Total Rentable SF	3,076,809	1,135,150	3,057,009	6,755,260	290,111	9,121,042	6,622,403	30,057,784
Total Vacant SF	362,047	68,883	184,441	368,701	9,957	632,165	489,049	2,115,243
Total Occupied SF	2,714,762	1,066,267	2,872,568	6,386,559	280,154	8,488,877	6,133,354	27,942,541
Total Vacant (%)	11.8%	6.1%	6.0%	5.5%	3.4%	6.9%	7.4%	7.0%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	222,000	0	72,000	0	0	0	0	294,000
Total Net Absorption QTD	-4,564	6,311	30,632	55,377	-9,957	42,299	23,485	143,583
Total Net Absorption YOY	274,267	49,587	105,351	79,887	20,955	273,642	49,761	853,449
Asking Rents (\$ PSF)	\$0.88	\$0.52	\$0.67	\$0.37	\$0.90	\$0.63	\$0.79	\$0.63
Under Constuction SF	0	0	0	40,000	0	0	0	40,000
Planned SF	0	0	0	0	0	0	0	0

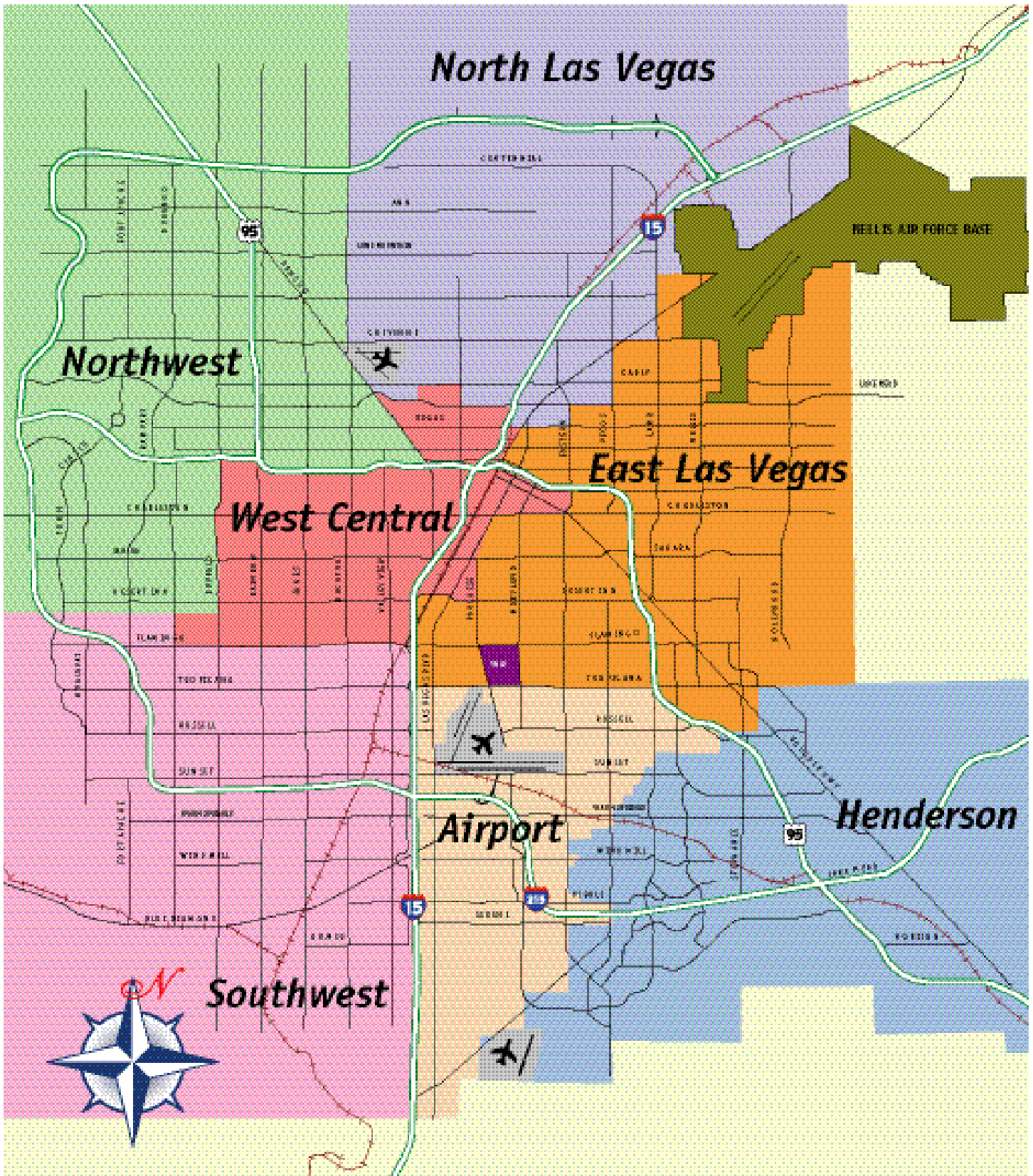
INCUBATOR	Airport	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	89	13	29	31	4	120	62	348
Total Rentable SF	1,714,621	298,623	456,906	561,552	99,325	2,496,381	2,458,615	8,086,023
Total Vacant SF	354,222	56,754	36,249	75,639	15,204	232,546	179,898	950,512
Total Occupied SF	1,360,399	241,869	420,657	485,913	84,121	2,263,835	2,278,717	7,135,511
Total Vacant (%)	20.7%	19.0%	7.9%	13.5%	15.3%	9.3%	7.3%	11.8%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-52,030	38,630	14,180	-17,365	-912	27,528	-14,362	-4,331
Total Net Absorption YOY	-73,611	54,780	32,050	-4,812	6,919	40,559	-47,154	8,731
Asking Rents (\$ PSF)	\$0.76	\$0.45	\$0.50	\$0.54	\$0.65	\$0.74	\$0.96	\$0.75
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	413,193	22,399	155,874	116,419	148,554	328,682	23,900	1,209,021
Total Occupied SF	909,479	119,895	1,070,405	663,405	523,648	1,193,980	195,932	4,676,744
Total Vacant (%)	31.2%	15.7%	12.7%	14.9%	22.1%	21.6%	10.9%	20.5%
Completions QTD	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0
Total Net Absorption QTD	31,545	-18,154	37,658	-9,506	-5,289	-52,996	-11,144	-27,886
Total Net Absorption YOY	15,332	-17,851	33,826	64,679	140,793	38,442	-18,460	256,761
Asking Rents (\$ PSF)	\$0.85	\$0.73	\$0.77	\$0.79	\$1.15	\$0.91	\$0.75	\$0.90
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





BELTWAY BUSINESS CENTER

**RCG**  
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## Las Vegas Speculative Office Survey 2nd Quarter 2014



HUGHES CENTER

# LAS VEGAS SPECULATIVE OFFICE SURVEY

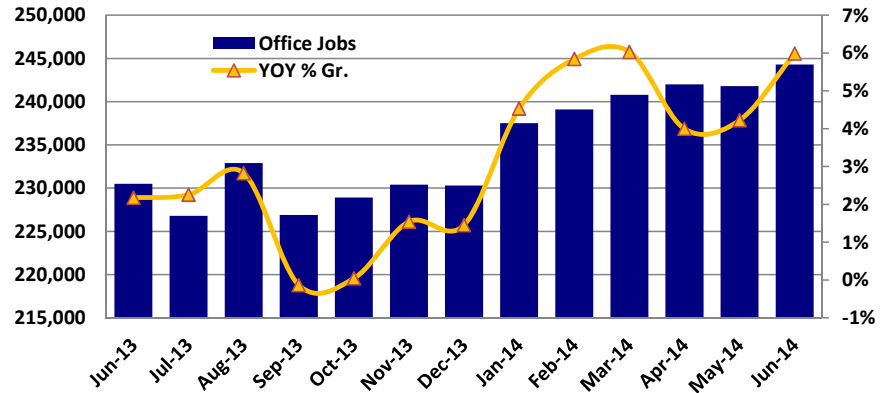
## SUMMARY

The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market<sup>1</sup> saw no space completed by the end of Q2, 2014 as inventory remained at 42.5 million sf. Vacancy was 22.0% at the end of Q2, down from the 23.7% vacancy recorded for Q2, 2013. The 230,100 sf of net absorption in Q2 marked the 3rd straight quarter of rising demand. At \$1.80 per square foot ("psf") FSG<sup>2</sup>, the average monthly asking rent increased for the first time in three quarters. At the end of the quarter, there were 534,000 sf of spec office space under-construction and no space in the planning stages. Much of this under-construction space was concentrated in Class A product in the Northwest and Southwest submarkets.

## OFFICE-RELATED JOBS

Employment in the office sector, a critical indicator of the health of the local economy, comprised 31% of private employment in Clark County at the end of the second quarter. There were 244,300 jobs in sectors that traditionally occupy office space at the end of June 2014 - 13,800 more (+6.0%) than in June 2013.<sup>3</sup> Throughout 2013, year-over-year ("YOY") growth in office-related jobs had been moderate, averaging 2%. However, 2014 has gotten off to a good start with 5.1% average monthly growth in office jobs in the first six months. Growth in professional and business jobs has been especially strong, showing a 6.5% gain in the same six month period.

Clark County Total\* Office Jobs and Annual Growth (Jun-13 to Jun-14)



\*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			May			Jun		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Information	9,400	9,400	0.0%	9,500	9,200	3.3%	9,700	9,200	5.4%
Financial Activities	43,500	43,200	0.7%	44,100	42,000	5.0%	44,100	41,600	6.0%
Prof. & Business	118,200	110,900	6.6%	117,000	111,600	4.8%	117,800	110,600	6.5%
Health Care & Social Assist.	70,900	69,200	2.5%	71,200	69,200	2.9%	72,700	69,100	5.2%
<b>Total</b>	<b>242,000</b>	<b>232,700</b>	<b>4.0%</b>	<b>241,800</b>	<b>232,000</b>	<b>4.2%</b>	<b>244,300</b>	<b>230,500</b>	<b>6.0%</b>

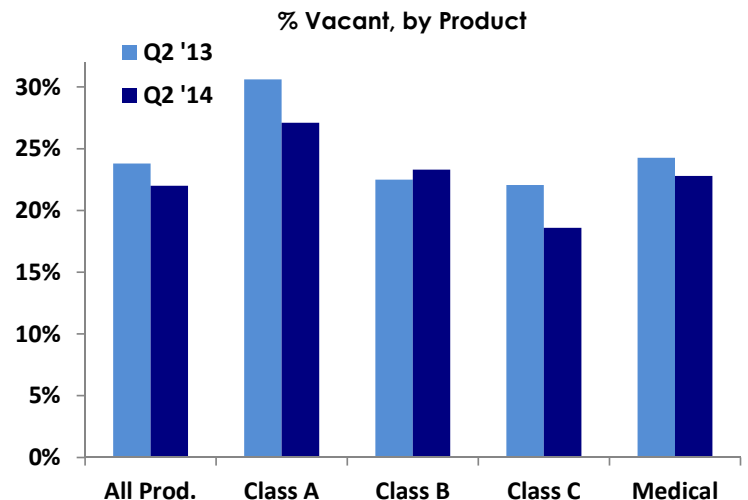
Source: Nevada Department of Employment, Training & Rehabilitation.

## VACANCY & RENTS

Total vacancy this quarter (directly vacant space plus vacant sublease space) in the Valley's spec office market dropped 0.7 points to 22.0%. This gain marks three consecutive quarters of a dropping vacancy rate, though it has been at or above 22% since Q2, 2010.

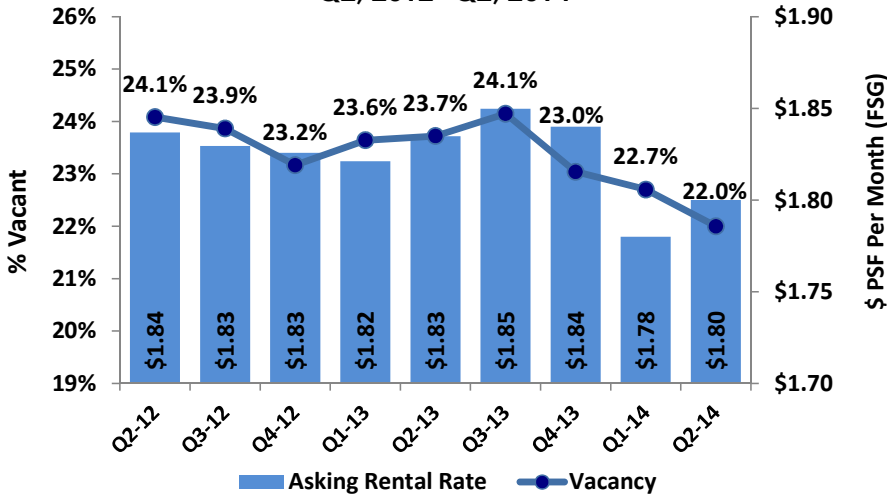
Downtown maintains the lowest vacancy rate at 14.5%; however, there are now three submarkets in the Valley with a vacancy below 20%. The Airport and North Las Vegas markets are at 19.8% and 19.7%, respectively. West Central has the highest vacancy rate at 25.8%, followed by East Las Vegas at 25.2%. The Downtown submarket led the way in Q2 with a vacancy rate drop of 2.3 percentage points from Q1, while Henderson and North Las Vegas dropped

Las Vegas Valley Office Market  
Vacancy Trends: Q2, 2013 v. Q2, 2014





### Las Vegas Valley Office Market Historical Vacancy vs. Monthly Asking Rent: Q2, 2012- Q2, 2014



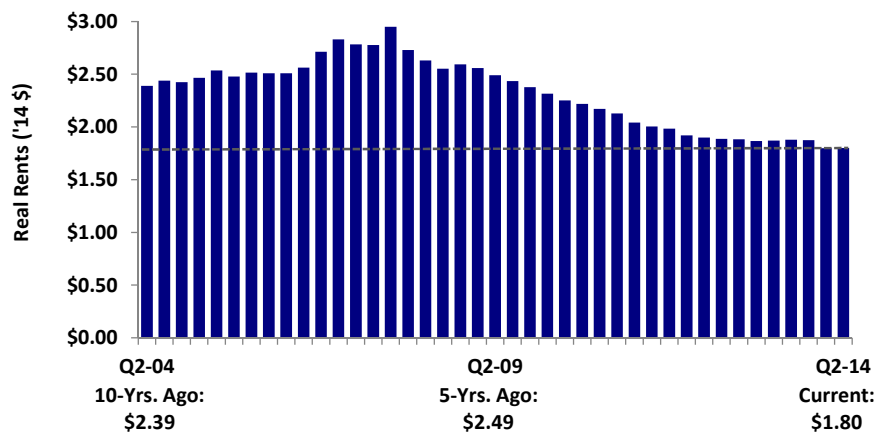
1.7, East Las Vegas dropped 1.0, Airport dropped 0.9 and Northwest dropping 0.6 percentage points. The other submarkets saw vacancy rates rise. Southwest (+0.3%) and West Central (+0.8%) vacancy rates saw slight increases.

The improving office vacancy rate this quarter was mainly due to demand for Class C space, which posted a 1.4 percentage-point drop to 18.6%. The Class A and Class B markets, which are smaller, also showed strengthening with 1.3% and 0.3% improvements in vacancies. The Medical product type saw its vacancy rate increase from 22.4% to 22.8%. While, the Class A market partially drove some of the improvement in the overall vacancy rate, it still has a highest rate at 27.1%.

The vacancy rate for the Class B market stands at 23.3%.

When considering the past several years' worth of data, there has been little improvement in vacancy rates since Q1, 2011 and in asking rents since Q1, 2012, by submarket and product type. This suggests that the Valley's overall spec office market has stabilized but still remains weak with an elevated overall vacancy rate. However, this quarter's data give us hope that the office market might be finally starting to show signs of recovery, since it reached its lowest vacancy rate in four years and dropping 2.1 percentage points in the last three quarters. This is complemented with strong office-using job growth each month of 2014.

### Las Vegas Valley Office Market Inflation-Adjusted Monthly Rent: Q2, 2004 - Q2, 2014 (Baseline)



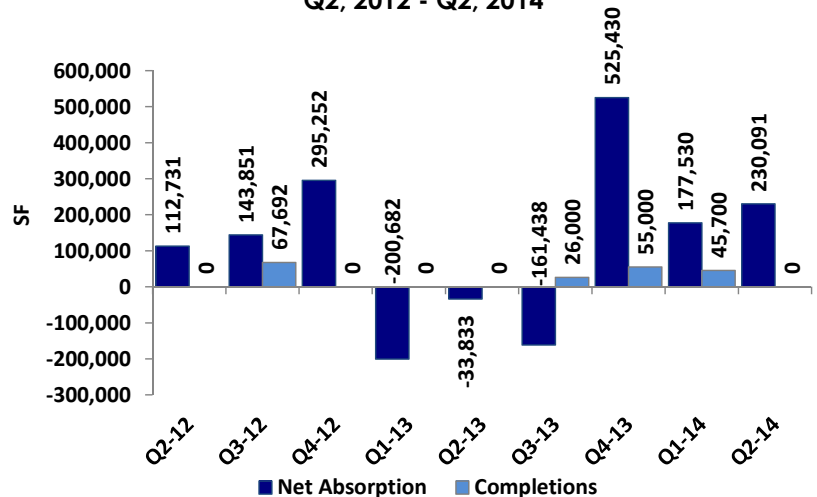
Average monthly asking office rent (calculated on a full-service gross basis—or accounting for all operating expenses) was \$1.80 per square foot ("psf") in Q2, \$0.02 more than the \$1.78 psf asking rent in the previous quarter. After a trend of decreases beginning in Q4, 2007, rents began to generally stabilize in 2012.

### DEMAND

Valley-wide speculative office total net absorption was positive for the 3rd straight quarter at 230,100 sf during Q2. On a year-over-year basis, net absorption totaled 771,600 sf, very similar to Q2, 2013 when 756,400 sf were absorbed.

Most submarkets saw significant improvement this quarter. The Henderson (+82,400 sf) and

### Las Vegas Valley Office Market Historical Net Absorption vs. Completions: Q2, 2012 - Q2, 2014



Downtown (+78,400 sf) submarkets led the way, but East Las Vegas (+60,400 sf) and Airport (+45,500 sf) also showed good improvement. The Northwest (+14,500 sf) and North Las Vegas (+13,600 sf) submarkets also saw an increase in demand compared to last quarter, while the Southwest and West Central (-19,400 and -45,700, respectively) had negative absorption.

Class A (19,300 sf), Class B (30,600 sf) and Class C (211,800 sf) office space recorded positive absorption on a net basis for the quarter, while the Medical submarket (-31,600 sf) receded.

## SUPPLY

The second quarter of 2014 saw no new speculative office space completed. Year-to-date completions stand at only 42,700 sf. During the past 18 quarters (since Q1, 2010), there have been only five quarters where new space has entered the market. In comparison, the amount of annual office completions during the boom years—from 2003 to 2008—ranged between 1.1 million sf and 4.3 million sf.

Still, 2014 should be a better year and there are a few expected completions to come. We have recorded three spec office projects in the forward supply pipeline that should be completed this year. One development underway is in the Northwest, the office component of Downtown Summerlin, aka One Summerlin, (198,000 sf-Class A). We also expect the new Cadence Marketing Center (10,000 sf-Class A) to open in Henderson. The Gramercy’s two 100,000-sf Class A buildings in the Southwest are also expected to open this year.

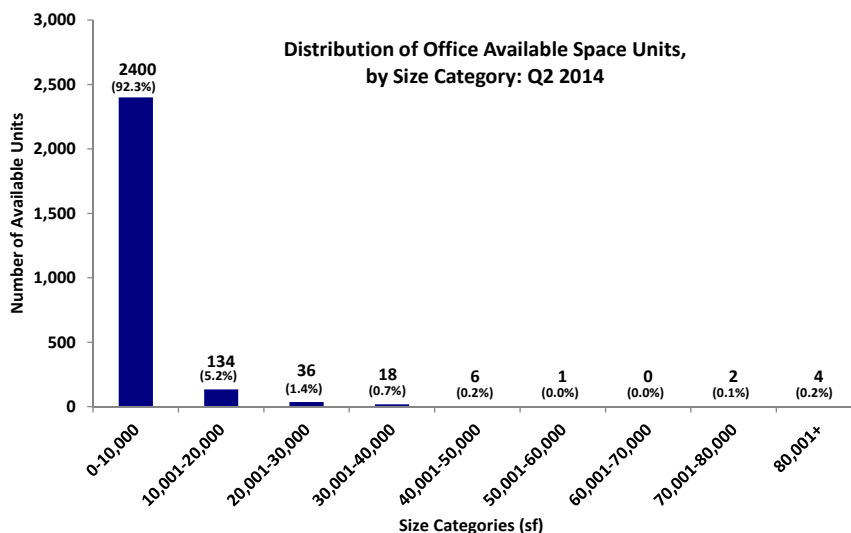
An important measure of the near-term health of the commercial markets is the potential number of years of available supply. Given the very high vacancy rate (22.0%) and the average quarterly absorption of the last 10 years (193,800 sf), we estimate that there still remains about a 7-year supply of speculative office supply in the Valley that must be absorbed to reach a 10% “normalized” vacancy.

We also understand, that certain projects in certain locations perform better than the market-wide averages. But, it is important to note that macro market conditions do affect project-specific performance. Secondly, the credit markets do look at the macro picture when deciding if they are going to lend to specific projects.

Below is a chart detailing the distribution of the size of available office space in the Valley.

## FURTHER THOUGHTS

Of the three generally recognized commercial markets (Industrial, Office and Retail), the speculative office market is the most directly dependent on job growth. Southern Nevada has now seen 9 months of YOY employment growth (+15,400 jobs). This growth has started to whittle down the 20%+ vacancy rate that has ruled the Valley’s office market during the past 5 years. Like the industrial market, a potential economic development and growth challenge continues to face the region in the form of a lack of available contiguous office space of 40,001 sf or more. At the end of Q2, there were only 13 units of space in this size range.



The reluctance of most lenders to provide financing at terms that make sense to many developers continues in the aftermath of the Great Recession. This has been driven by stubbornly high Valley-wide vacancy rate and low rents during the last five plus years, because office-using job growth has taken a beating since the end of 2007. As with the industrial market, we strongly suggest that, Southern Nevada’s municipalities think long-term and not convert “employment” land to residential uses. Short-term demand for a certain type of development — i.e. single family residential — due to unusual market and lending conditions should not trump long-term economic considerations. Nevada needs a healthy jobs-housing balance to support continued economic growth and development.

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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 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  
Second Quarter, 2014

## SUBMARKETS

TOTAL OFFICE MARKET	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	307	119	182	330	94	388	387	275	2,082
Total Rentable SF	5,094,766	3,835,861	6,013,558	6,017,268	783,529	8,735,919	6,593,103	5,406,541	42,480,545
Total Vacant SF	1,006,802	555,802	1,514,102	1,398,218	154,353	1,954,331	1,378,988	1,395,009	9,357,605
Total Occupied SF	4,087,964	3,280,059	4,499,456	4,619,050	629,176	6,781,588	5,214,115	4,011,532	33,122,940
Total Vacant (%)	19.8%	14.5%	25.2%	23.2%	19.7%	22.4%	20.9%	25.8%	22.0%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	55,000	0	68,700	0	0	0	0	123,700
Total Net Absorption QTD	45,541	78,433	60,426	82,447	13,615	14,541	-19,234	-45,678	230,091
Total Net Absorption YOY	170,096	135,801	188,542	17,598	8,763	205,598	202,619	-157,405	771,613
Asking Rents (\$ PSF)	\$1.74	\$1.87	\$1.42	\$2.08	\$1.70	\$1.94	\$2.14	\$1.36	\$1.80
Under Construction SF	0	0	0	10,000	0	324,000	200,000	0	534,000
Planned SF	0	0	0	0	0	0	0	0	0

PROFESSIONAL CLASS A	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	6	5	9	12	0	21	3	2	58
Total Rentable SF	665,904	795,116	1,351,642	828,068	0	1,616,232	397,112	227,624	5,881,698
Total Vacant SF	153,834	186,868	27,867	351,834	0	648,321	159,781	65,406	1,593,911
Total Occupied SF	512,070	608,248	1,323,775	476,234	0	967,911	237,331	162,218	4,287,787
Total Vacant (%)	23.1%	23.5%	2.1%	42.5%	0.0%	40.1%	40.2%	28.7%	27.1%
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	3,545	1,288	-6,369	62,922	0	-32,221	36	-9,865	19,336
Total Net Absorption YOY	43,509	17,945	12,383	141,584	0	-30,171	-35,996	2,241	151,495
Asking Rents (\$ PSF)	\$2.41	\$2.34	\$2.75	\$2.34	\$0.00	\$2.08	\$2.63	\$2.02	\$2.25
Under Construction SF	0	0	0	10,000	0	266,000	200,000	0	476,000
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	397,173	184,573	529,701	391,936	99,616	554,485	658,523	438,395	3,254,402
Total Occupied SF	1,538,848	1,590,523	536,856	1,797,818	101,180	2,183,066	1,746,609	1,227,651	10,722,551
Total Vacant (%)	20.5%	10.4%	49.7%	17.9%	49.6%	20.3%	27.4%	26.3%	23.3%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	55,000	0	42,700	0	0	0	0	97,700
Total Net Absorption QTD	29,114	52,609	-37,120	16,213	18,488	5,272	-29,964	-23,978	30,634
Total Net Absorption YOY	76,330	137,609	-65,202	-8,613	-5,318	-36,223	-28,933	-108,972	-39,322
Asking Rents (\$ PSF)	\$1.83	\$1.79	\$1.32	\$1.96	\$1.58	\$1.82	\$2.28	\$1.08	\$1.75
Under Construction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0	0

# Speculative Office Market Matrix

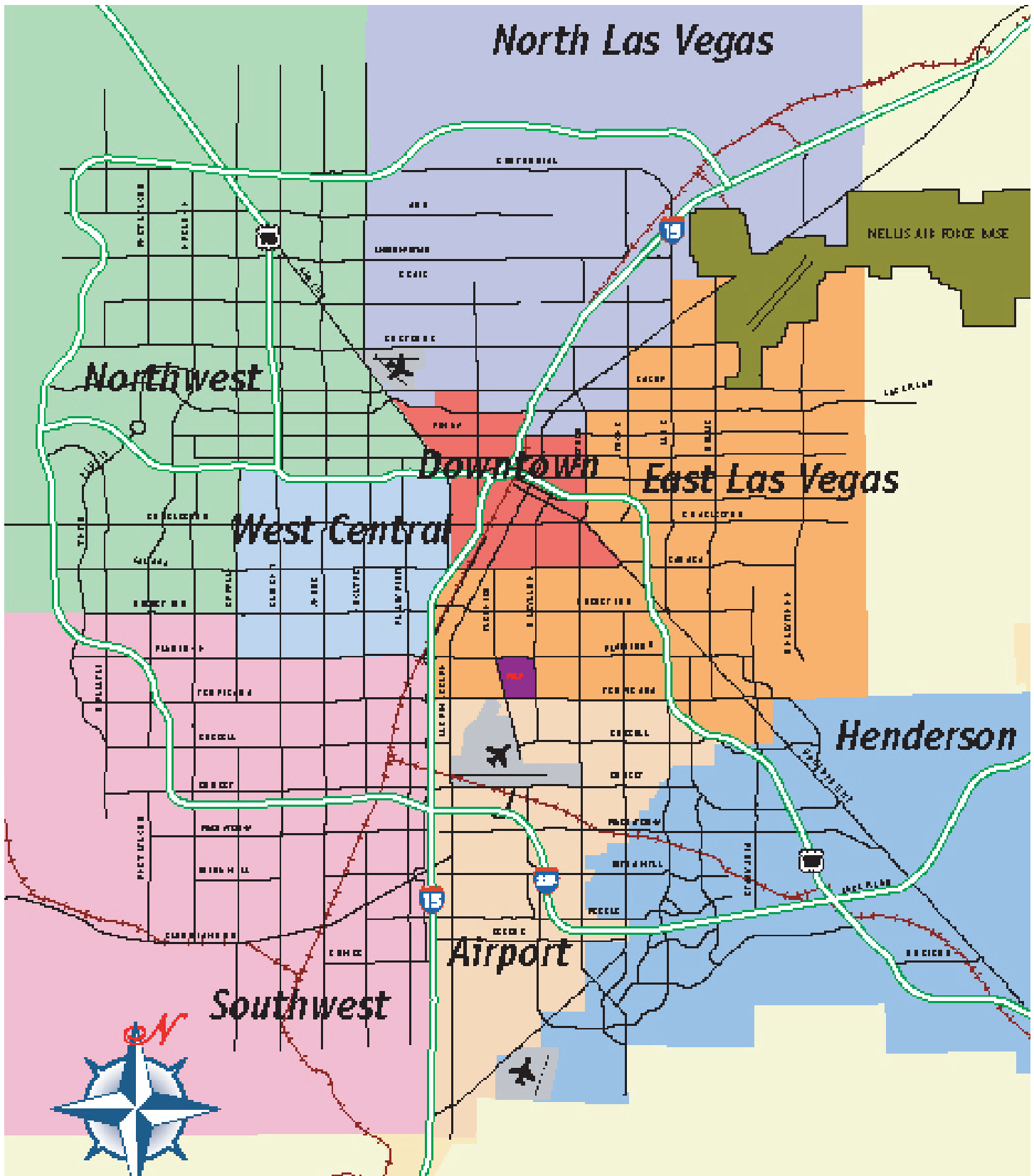
## Las Vegas, Nevada Second Quarter, 2014

SUBMARKETS									
PROFESSIONAL CLASS C	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	253	66	110	144	76	210	272	187	1,318
Total Rentable SF	2,364,311	877,606	2,051,408	1,618,430	482,290	2,234,002	3,058,831	2,761,393	15,448,271
Total Vacant SF	436,033	138,849	458,138	328,260	34,137	357,294	443,645	674,871	2,871,227
Total Occupied SF	1,928,278	738,757	1,593,270	1,290,170	448,153	1,876,708	2,615,186	2,086,522	12,577,044
Total Vacant (%)	18.4%	15.8%	22.3%	20.3%	7.1%	16.0%	14.5%	24.4%	18.6%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	26,000	0	0	0	0	26,000
Total Net Absorption QTD	11,707	12,383	124,897	-10,491	1,200	56,078	6,181	9,799	211,754
Total Net Absorption YOY	59,643	-52,971	212,239	-30,537	10,541	150,183	131,505	76,141	556,743
Asking Rents (\$ PSF)	\$1.46	\$1.43	\$1.30	\$1.72	\$1.23	\$1.78	\$1.83	\$1.37	\$1.55
Under Construction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	0	0	0	0	0	0

MEDICAL OFFICE	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	6	21	45	106	10	84	41	40	353
Total Rentable SF	128,530	388,043	1,543,951	1,381,016	100,443	2,148,134	732,028	751,478	7,173,623
Total Vacant SF	19,762	45,512	498,396	326,188	20,600	394,231	117,039	216,337	1,638,065
Total Occupied SF	108,768	342,531	1,045,555	1,054,828	79,843	1,753,903	614,989	535,141	5,535,558
Total Vacant (%)	15.4%	11.7%	32.3%	23.6%	20.5%	18.4%	16.0%	28.8%	22.8%
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	1,175	12,153	-20,982	13,803	-6,073	-14,588	4,513	-21,634	-31,633
Total Net Absorption YOY	-9,386	33,219	29,123	-84,835	3,540	121,809	136,043	-126,816	102,697
Asking Rents (\$ PSF)	\$1.05	\$2.00	\$1.58	\$2.28	\$2.31	\$2.04	\$1.79	\$1.80	\$1.89
Under Construction SF	0	0	0	0	0	58,000	0	0	58,000
Planned SF	0	0	0	0	0	0	0	0	0

# LAS VEGAS VALLEY

## SPECULATIVE OFFICE SUBMARKET MAP







ARROYO MARKET SQUARE

**RCG**  
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# Las Vegas Anchored Retail Survey

## 2nd Quarter 2014



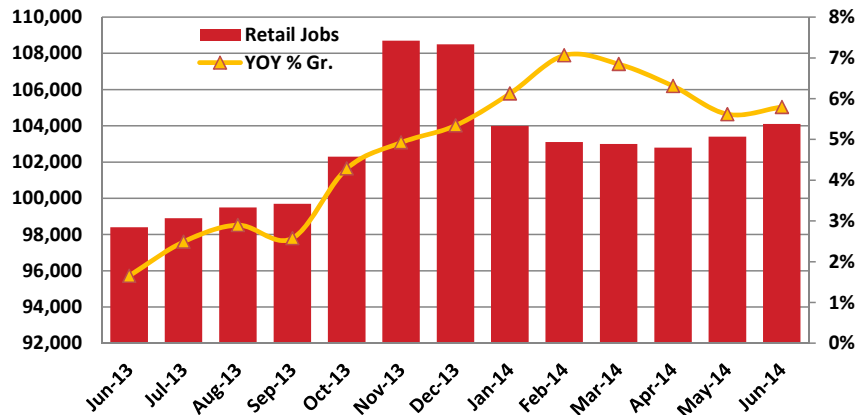
THE DISTRICT AT GREEN VALLEY RANCH

# LAS VEGAS ANCHORED RETAIL SURVEY

## SUMMARY

The Las Vegas Valley's ("the Valley") anchored retail market inventory remained at 44.0 million square feet ("sf") in Q2, 2014 - there were no completions recorded during the quarter. We again see positive change in retail space demand. With a combined 35,600 sf, there have now been three straight quarters of net positive absorption. This helped push vacancy down to 11.4% from 11.5% last quarter and 12.3% in the same quarter last year. Average monthly asking rents increased to \$1.27 per square foot ("psf") NNN in Q2; \$0.04 higher than the previous quarter but \$0.05 lower than Q2, 2013. There are 278,700 sf of forward-supply space, comprised of two Community Centers that are under construction.

Clark County Total\* Retail Jobs and Annual Growth (Jun-13 to Jun-14)



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

## RETAIL JOBS

There were 104,100 jobs in the retail sector at the end of June 2014, accounting for 13% of total private sector jobs in Clark County. This represented 5,700 (+5.8%) more jobs than was recorded in June 2013. General merchandise and clothing/accessories jobs rose 4.7% (+900 jobs), but "other stores" showed the strongest growth, posting 10.0% growth (+4,000 jobs) in the last year. Growth between the first

### Retail Employment

Industry Sector	Apr 2013			May 2013			Jun 2013		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Gen. Merch. & Cloth./Accessories	37,300	36,000	3.6%	37,400	36,300	3.0%	37,600	36,700	2.5%
Food & Bev. Stores	15,500	14,700	5.4%	15,600	14,900	4.7%	15,700	15,000	4.7%
Health & Personal Care Stores	6,600	6,500	1.5%	6,700	6,600	1.5%	6,700	6,600	1.5%
Other Stores	43,400	39,500	9.9%	43,700	40,100	9.0%	44,100	40,100	10.0%
<b>Total</b>	<b>102,800</b>	<b>96,700</b>	<b>6.3%</b>	<b>103,400</b>	<b>97,900</b>	<b>5.6%</b>	<b>104,100</b>	<b>98,400</b>	<b>5.8%</b>

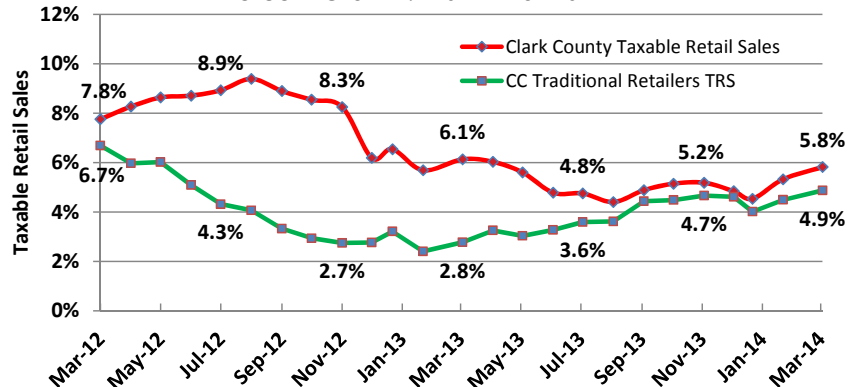
Source: Nevada Department of Employment, Training & Rehabilitation.

and second quarters of 2014 was +1,100 jobs. Employment in the retail sector has been increasing on a year-over-year ("YOY") basis since May 2010 and has shown relatively strong gains (+5.0%) in the last 12 months.

## TAXABLE RETAIL SALES

Clark County taxable sales continue to steadily climb. On a 12-month rolling total basis, taxable sales reached \$46.8 billion in March, a 4.8% increase from March 2013. This brings us to around November 2008 levels, and getting closer to the March 2007 peak. Even better is that the figure for this March was \$3.34 billion, the highest single month since December 2007. This is only the third time that taxable sales in Clark County have broken through the monthly \$3 billion mark in the last 6 years, and two of those instances have been in the last 4 months (the other

Clark County Total Taxable Retail Sales ("TRS") vs. Traditional Retailers TRS, Percent Growth: Mar-12 to Mar-14



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

Top 5 Traditional Retailers	Taxable Retail Sales	YoY Change	YoY % Change
Miscellaneous Store Retailers	\$141,739,272	\$86,869,208	158.32%
Food Services and Drinking Places	\$884,939,781	\$86,535,036	10.84%
Health and Personal Care Stores	\$70,345,682	\$6,851,673	10.79%
Building Material and Garden Equipment and Supplies	\$108,995,936	\$5,366,546	5.18%
Electronics and Appliance Stores	\$87,758,961	\$3,692,569	4.39%

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.

being December 2013). This is also the first non-December month to exceed \$3 billion in taxable sales since August 2008.

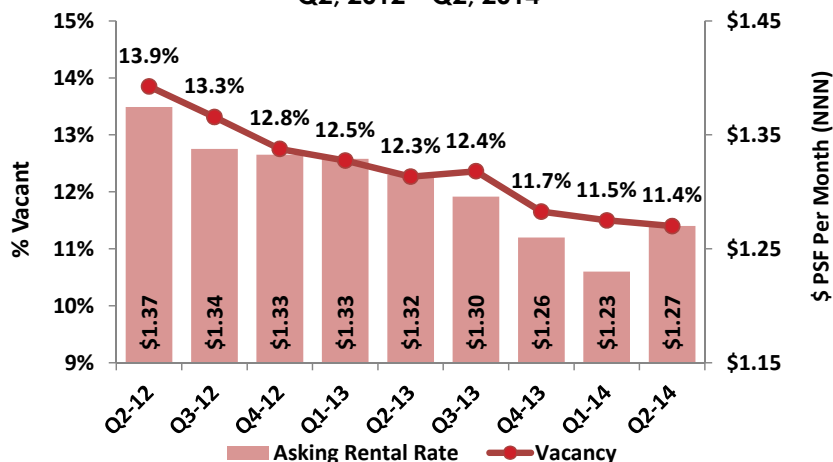
The three traditional retail sectors with the largest sales dollar growth during the March-March period, according to the Nevada Department of Taxation, are "miscellaneous store retailers" (+\$87M, +158%), "food services and drinking places" (+\$87M, +11%) and "health and personal care stores" (+\$7M, +11%). March was a good month for taxable sales in the Valley and shows that the recovery continues to take hold in Southern Nevada. Below is a table of the top five performing traditional retailer types for March 2013-2014.

### VACANCY & RENTS

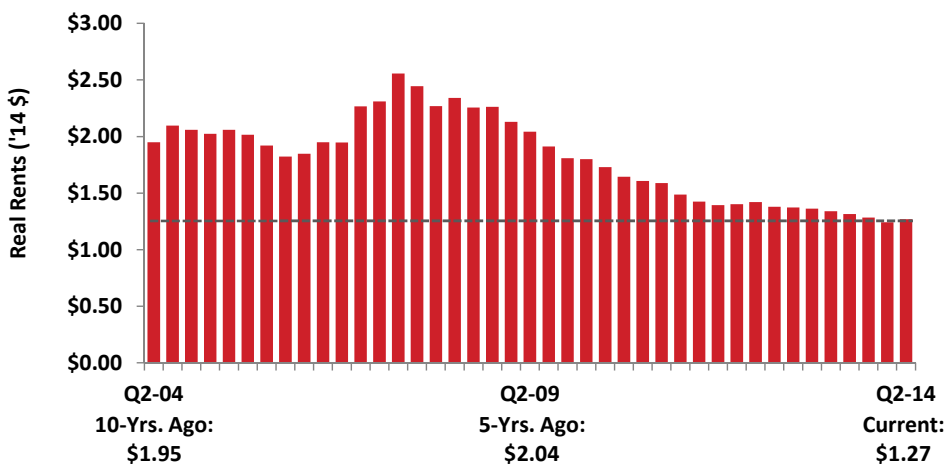
Since the record high of 15.3% in Q2, 2011, the average Valley-wide vacancy rate (directly vacant space plus vacant sub-lease space) in the anchored retail market declined to 11.4% in Q2, 2014. This is 0.1 percentage points below Q1, and 0.9 percentage points below Q2, 2013 when vacancy was 12.3%.

The highest submarket vacancies at the end of Q2 were in Henderson (14.7%), West Central (14.4%) and North Las Vegas (14.2%). While the overall vacancy rate improved, only three submarkets had vacancy rates below 10%: Southwest (6.5%), Downtown (7.6%) and Northeast (9.4%), compared to four last quarters. Relative to the previous quarter, vacancy rates increased in four of the submarkets and decreased in the other four. The largest improvements were in the University East and Downtown submarkets, which saw vacancy rates drop 1.5 and 1.4 percentage points to 10.6% and 7.6%, respectively, in Q2, 2014.

Las Vegas Valley Retail Market  
Historical Vacancy vs. Monthly Asking Rent:  
Q2, 2012 - Q2, 2014



Las Vegas Valley Retail Market  
Inflation-Adjusted Asking Rent: Q2, 2004 - Q2, 2014 (Baseline)



Vacancy improved in Power and Community Centers during the second quarter. They combined for 76,500 sf of absorption. Community Centers have the lowest overall vacancy rate among the three product types at 10.0%. Power Center space stood at 10.9% vacant and Neighborhood Centers at 13.4% at the end of Q2.

Monthly asking rents rose for the first time in nine quarters, rising to \$1.27 psf in Q2 (calculated on



a NNN basis; not accounting for any operating expenses). While one quarter does not make a trend, we believe that this is a very good sign that the anchored retail market is (or is near) bottoming out. The continually declining vacancy rate is evidence of this. Once retail rents begin to rise consistently for a year or so, we expect to see renewed growth in new retail projects.

## DEMAND

Total net absorption has risen for three quarters in a row, posting 35,600 sf of gains in Q2, 2014 after last quarter's 63,100 sf. However, on a YOY basis, the 368,700 sf of net absorption this quarter is only about 25 percent of what it was in Q2, 2013, when year-over-year absorption approached 1.5 million sf.

Net absorption declined in the Henderson, North Las Vegas, Northwest and West Central submarkets this quarter, with -11,900 sf, -62,100 sf, -38,100 sf and -38,000 sf, respectively. The remaining submarkets recorded positive absorption, led by University East with 93,500 sf absorbed.

Net absorption was positive in both Power Centers (+69,700 sf) and Community Centers (+6,800 sf), offsetting the loss in Neighborhood Centers (-40,900 sf).

## SUPPLY

No new anchored retail space in the Valley was completed during Q2, 2014. There were only two quarters in the past four years (since Q1, 2010) that new anchored retail space was brought to the market, and none in the last eight quarters. The Valley's total anchored retail inventory has remained at 44.0 million sf in 266 shopping centers.

Lastly, forward supply activity at the end of Q2 was unchanged over the previous quarter: there were no anchored centers planned for development, while 278,700 sf remain under-construction. Under-construction retail space included two Community Centers being built in phases, including the 138,700-sf Green Valley Crossing in Henderson and the 140,000-sf Target-anchored center in the Northwest.

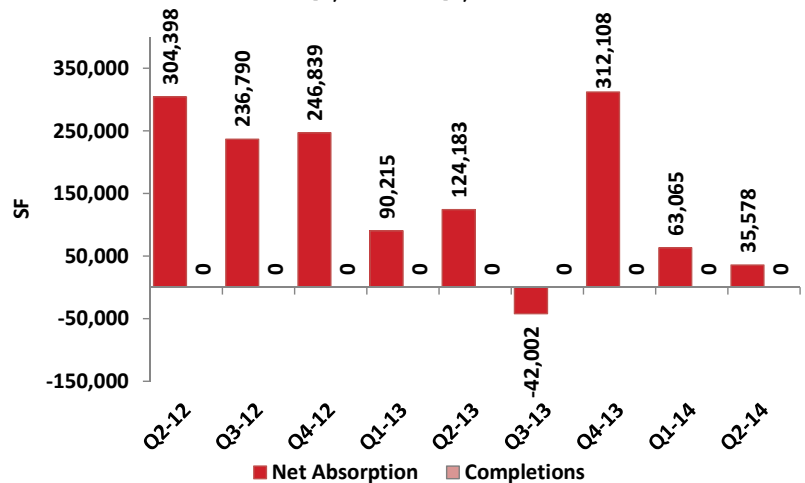
From what we know today, we do not see much new retail development taking place in 2014. This will help the Valley's anchored retail market to continue to move toward a 10% stabilized vacancy rate. Our latest estimates indicate that this will happen in about five quarters (based on the average quarterly absorption rate of 194,100 sf over the last 10 years).

## FURTHER THOUGHTS

As retail spending improves (taxable retails have been improving for the last 9 months), the demand for anchored space will continue to intensify. This is already moving the overall vacancy rate back to a 10% stable level, and it will ultimately start putting upward pressure on rents. This will encourage new retail center development, especially in the Valley's preferred residential areas in the southeast, southwest and the northwest. While not part of the anchored retail market inventory we track, the retail component of Downtown Summerlin remains scheduled to open in the fall of 2014. The project will have 125 shops and will be part of a 1.6 million sf mixed-use development comprised of retail, entertainment, office, a hotel and multiple family components.

The Las Vegas economy has stabilized and is moving forward moderately. Most economic and market indicators have seen continued improvement over a number of months, meaning that the Southern Nevada recovery has taken hold. We remain a bit worried that real (inflation adjusted) incomes continue to flounder, but barring any unforeseen events, we believe that wages and spending power will see some improvement in 2014 as the job market continues to solidify.

Las Vegas Valley Retail Market  
Historical Net Absorption vs. Completions  
Q2, 2012 - Q2, 2014





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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.

## RETAIL MARKET GLOSSARY

Retail properties tracked include shopping centers with at least 10,000 square feet 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 square feet, but can be as small as 125,000 square feet; 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 square feet, but can be over 500,000 square feet
- 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 square feet, but can range from 30,000 to 150,000 square feet
- Customer-base is within a two- to three-mile trade area

# Anchored Retail Market Matrix

## Las Vegas, Nevada Second Quarter, 2014

### SUBMARKETS

TOTAL RETAIL MARKET	Downtown	Henderson	North Las Vegas	Northeast	Northwest	Southwest	University East	West Central	Totals
Number of Properties	9	54	27	21	58	23	40	34	266
Total Rentable SF	1,105,851	8,680,068	4,910,743	2,542,317	10,588,588	5,783,835	6,050,227	4,379,055	44,040,684
Total Vacant SF	83,829	1,275,413	698,890	240,140	1,090,941	374,797	640,661	628,893	5,033,564
Total Occupied SF	1,022,022	7,404,655	4,211,853	2,302,177	9,497,647	5,409,038	5,409,566	3,750,162	39,007,120
Total Vacant (%)	7.6%	14.7%	14.2%	9.4%	10.3%	6.5%	10.6%	14.4%	11.4%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	15,813	-11,872	-62,077	7,985	-38,120	68,348	93,539	-38,038	35,578
Total Net Absorption YOY	67,481	15,254	-153,812	34,761	39,750	108,765	187,951	68,598	368,749
Asking Rents (\$ PSF)	\$1.31	\$1.31	\$1.55	\$1.18	\$1.18	\$1.82	\$1.08	\$1.00	\$1.27
Under Construction SF	0	138,738	0	0	140,000	0	0	0	278,738
Planned SF	0	0	0	0	0	0	0	0	0

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	594,038	8,493	0	122,906	0	171,818	200,600	1,097,855
Total Occupied SF	0	2,368,250	979,220	0	2,717,940	944,314	1,038,405	937,624	8,985,753
Total Vacant (%)	0.0%	20.1%	0.9%	0.0%	4.3%	0.0%	14.2%	17.6%	10.9%
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	-26,893	0	0	46,412	47,811	0	2,394	69,724
Total Net Absorption YOY	0	-19,092	1,424	0	5,817	47,568	-12,671	-5,014	18,032
Asking Rents (\$ PSF)	\$0.00	\$1.58	\$3.00	\$0.00	\$1.33	\$0.00	\$1.00	\$1.15	\$1.37
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	19	9	19	15	106
Total Rentable SF	678,690	2,920,692	1,755,463	1,407,552	4,092,234	3,216,421	2,761,028	1,649,146	18,481,226
Total Vacant SF	51,918	160,008	256,466	152,258	392,420	261,667	291,117	289,195	1,855,049
Total Occupied SF	626,772	2,760,684	1,498,997	1,255,294	3,699,814	2,954,754	2,469,911	1,359,951	16,626,177
Total Vacant (%)	7.6%	5.5%	14.6%	10.8%	9.6%	8.1%	10.5%	17.5%	10.0%
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	36,264	145,923	-95,672	-35,277	-67,916	17,754	2,777	2,949	6,802
Total Net Absorption YOY	7,200	154,057	-98,723	-34,641	-75,040	36,004	121,409	77,663	187,929
Asking Rents (\$ PSF)	\$1.32	\$1.14	\$1.55	\$1.02	\$1.48	\$1.91	\$1.10	\$0.78	\$1.28
Under Construction SF	0	138,738	0	0	140,000	0	0	0	278,738
Planned SF	0	0	0	0	0	0	0	0	0

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	31,911	521,367	433,931	87,882	575,615	113,130	177,726	139,098	2,080,660
Total Occupied SF	395,250	2,275,721	1,733,636	1,046,883	3,079,893	1,509,970	1,901,250	1,452,587	13,395,190
Total Vacant (%)	7.5%	18.6%	20.0%	7.7%	15.7%	7.0%	8.5%	8.7%	13.4%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	0	0	0	0	0	0
Total Net Absorption QTD	-20,451	-130,902	33,595	43,262	-16,616	2,783	90,762	-43,381	-40,948
Total Net Absorption YOY	60,281	-119,711	-56,513	69,403	108,973	25,192	79,213	-4,051	162,787
Asking Rents (\$ PSF)	\$1.27	\$1.13	\$1.51	\$1.33	\$1.01	\$1.72	\$1.18	\$1.24	\$1.20
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

