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Las Vegas Speculative Office Survey

2nd Quarter 2015



UNITED HEALTH CARE BUILDING



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August 5, 2015

Re: Speculative Office Real Estate Survey: 2nd Quarter, 2015

Dear Reader,

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

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

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

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

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

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

Regards,

John Restrepo
RCG Economics

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LAS VEGAS SPECULATIVE OFFICE SURVEY

SUMMARY

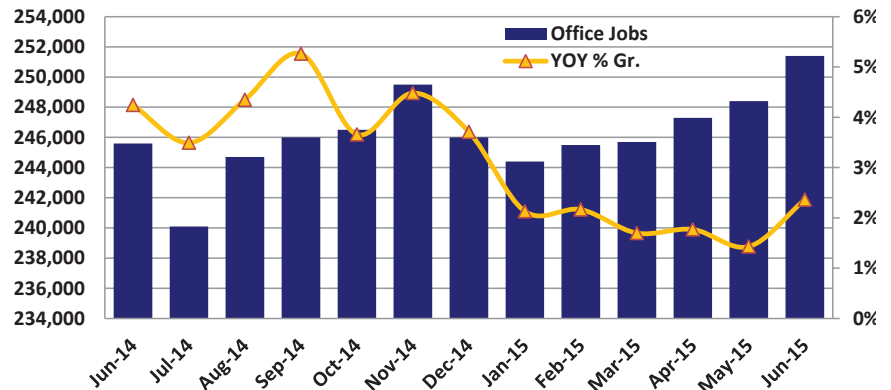
The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market¹ saw no new space completed during Q2, 2015, keeping the total inventory at 43.0 million sf. The vacancy rate was 21.6% at the end of Q2, down from 21.7% in Q1, 2015. The 29,900 sf of net absorption in Q2 wiped out the minor loss in Q1 and marked positive demand for seven out of eight quarters. At \$2.14 per square foot ("psf") FSG², 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.

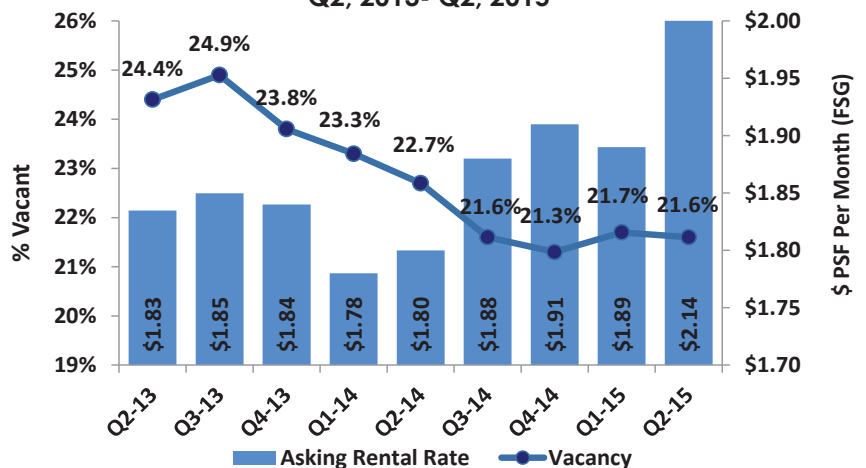
Office Employment

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%
Total	247,300	243,000	1.8%	248,400	244,900	1.4%	251,400	245,600	2.4%

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

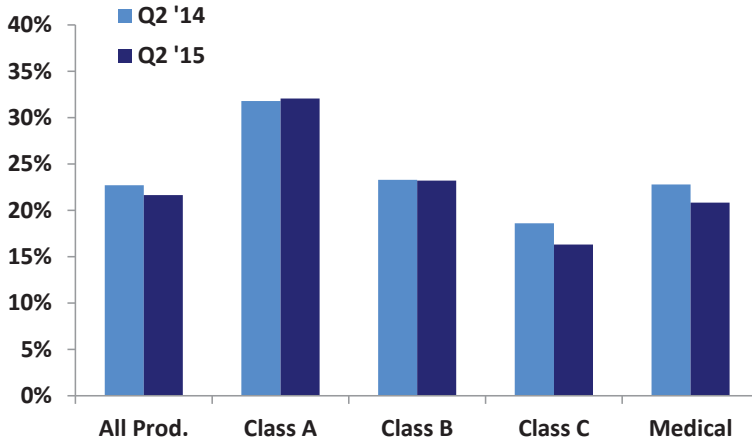
jobs) of all private payroll jobs in Clark County at the end of Q2 (June 2015). This was 5,800 more (+2.4%) than existed in June 2014.³ Overall, office-using job growth so far in this year has been weaker than during the same period in 2014 with 2.4% average monthly growth compared to 4.2%. However, 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

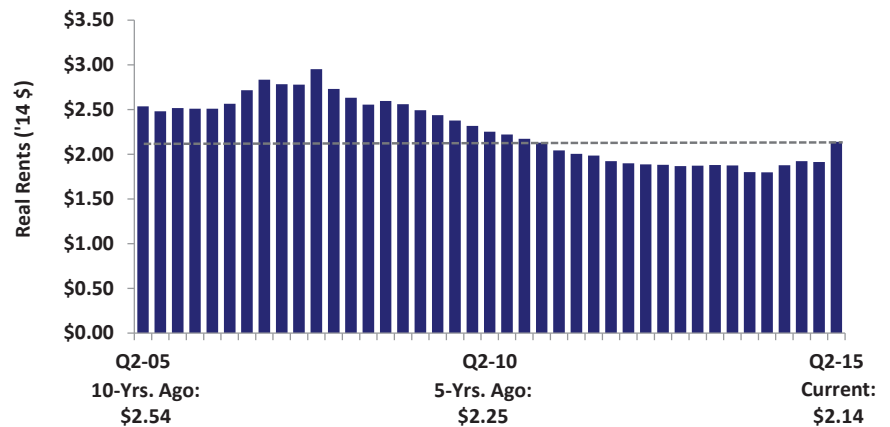
20%: the Airport and Downtown submarkets are at 17.9% and 16.6%, respectively. East Las Vegas had the highest vacancy rate at 28.0%, followed by Northwest at 22.9%.

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.

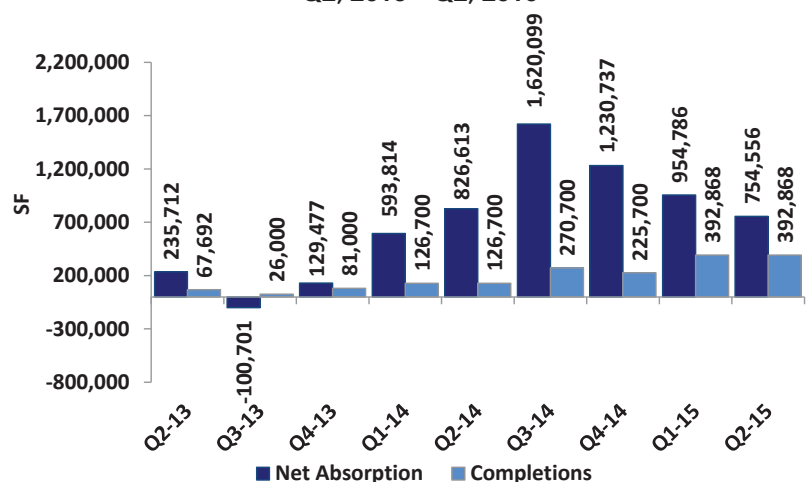
In Q2, Class A space again had a poor showing, posting a 2.8-point increase in vacancy, up to 32.1%. However, the losses in Class A space were balanced-out by gains in Class B and Class C products. The Class B and Class C markets saw declines in their vacancy rates of 1.3 and 0.2 percentage-points, respectively. 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.

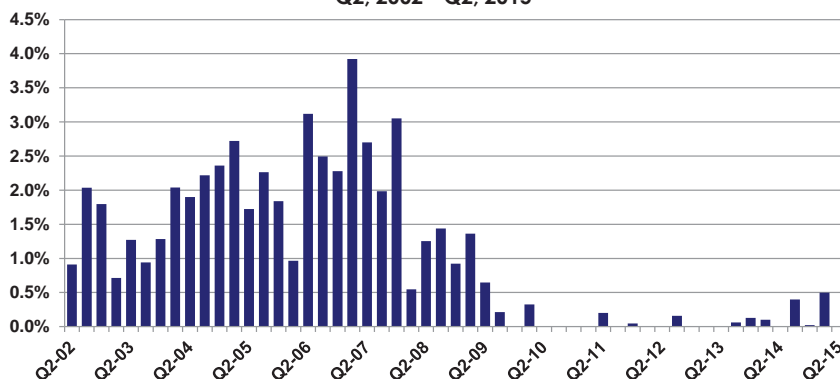
On a product-basis, Class A experienced -175,700 sf of absorption. Class B and Class C, however, gained enough ground (+177,100 sf and +28,500 sf, respectively) in Q2 to offset those losses. Medical office didn’t see much change, with only -100 sf of space absorbed. However, Y-O-Y, net absorption was 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 supply⁴ 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.

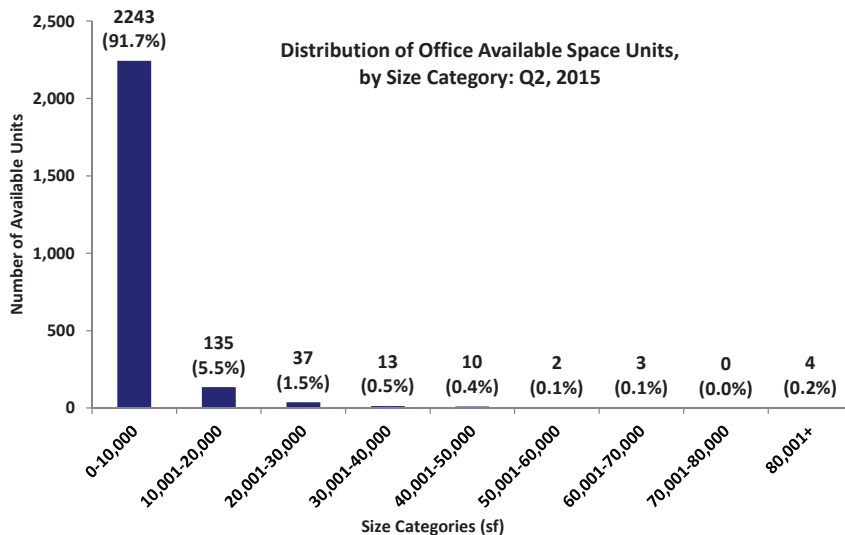
In addition, there has been much fanfare surrounding the Union Village mixed-use development that began construction in Henderson (<http://lasvegassun.com/news/2015/jul/10/henderson-hospital-foundation-pouring-unionvillage/>). Phase 1 of this project will include 150,000 sf of Medical office space scheduled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

¹ Includes all for-lease (speculative only) professional office Class A, Class B, Class C and Medical office properties greater than or equal to 10,000 sf of gross leasable area. Does not include government buildings.

² All office rents in this report are quoted on a monthly full-service gross (FSG) psf basis inclusive of taxes, insurance, maintenance, janitorial and utilities.

³ Includes the following industries: Information, Financial Activities, Professional & Business and Health Care & Social Assistance from the Nevada Department of Employment, Training and Rehabilitation's latest employment statistics.

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

SPECULATIVE OFFICE MARKET GLOSSARY

Office property buildings or building parks tracked include speculative, multi-tenant properties with at least 10,000 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

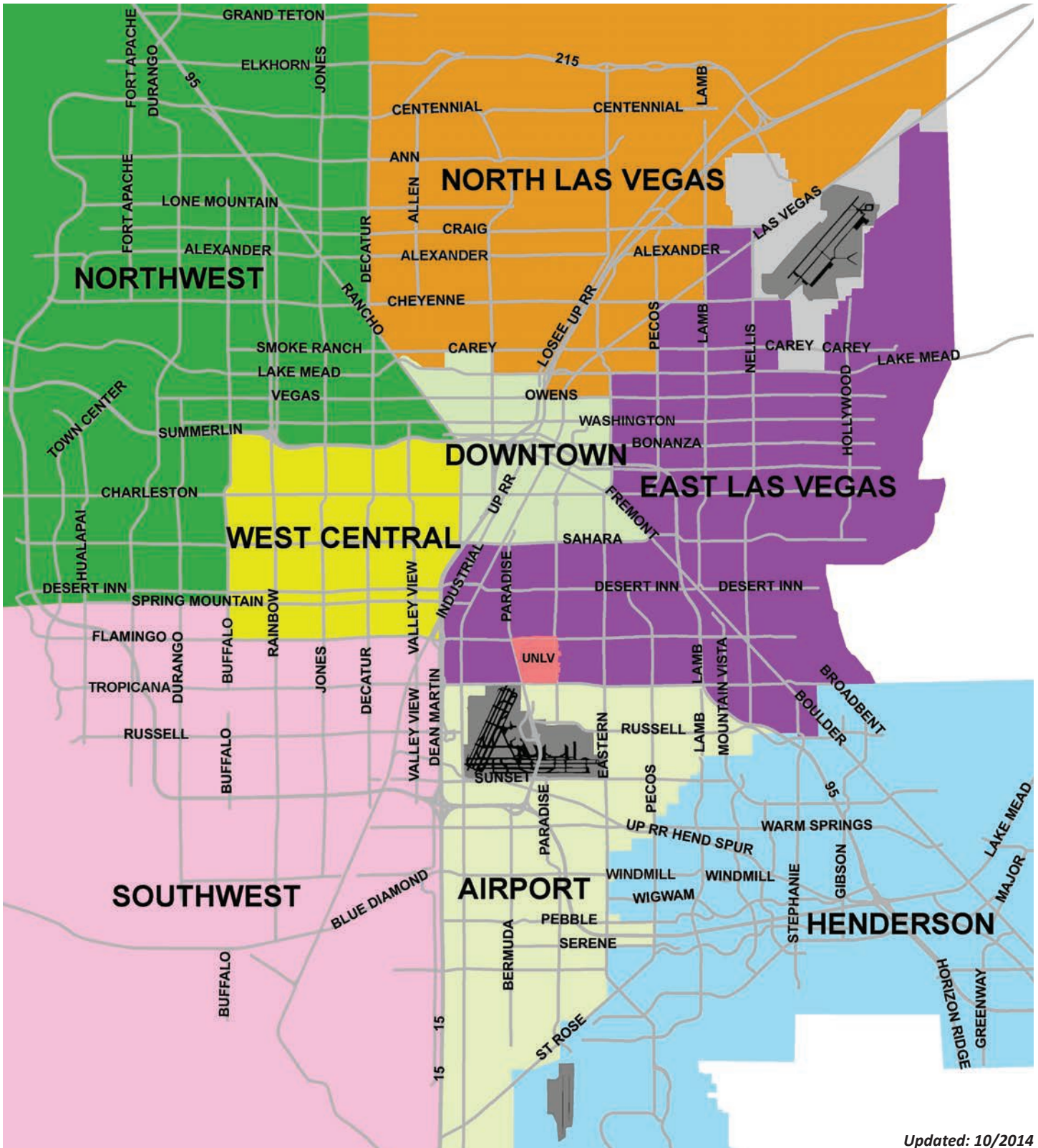
Las Vegas, Nevada
Second Quarter, 2015

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