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Las Vegas Speculative Office Survey

3rd Quarter 2014



HUGHES CENTER



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October 27, 2014

Re: *Speculative Office Real Estate Survey: 3rd 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,

John Restrepo
RCG Economics

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LAS VEGAS SPECULATIVE OFFICE SURVEY

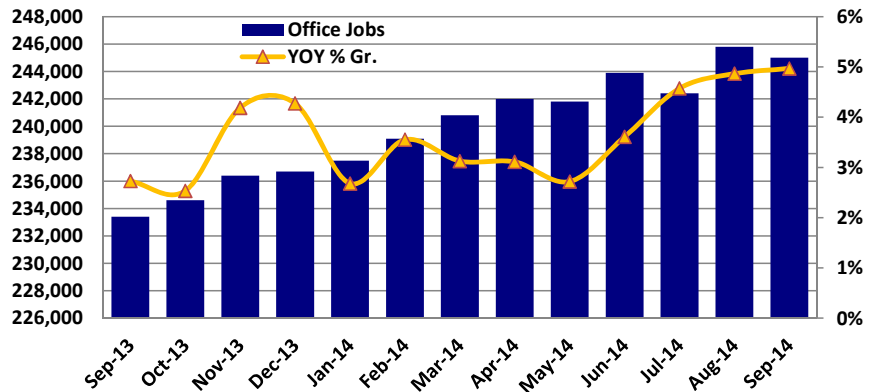
SUMMARY

The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market¹ saw 170,000 sf of space completed at the end of Q3, 2014, upping the total inventory to 42.8 million sf. Vacancy was 21.6% at the end of Q3, down from 22.7% for Q2, 2014. The 600,900 sf of net absorption in Q3 marked four straight quarters of rising demand. At \$1.88 per square foot ("psf") FSG,² the average monthly asking rent rose for the second quarter in a row. At the end of the quarter, there are 290,900 sf of spec office space under-construction and 272,000 sf of space in the planning stages. Most of this under-construction space is concentrated in Class A product in the Northwest sub-market.

OFFICE-RELATED JOBS

Employment in the office-space using sector, a critical indicator of the health of the local economy, comprised 31% (245,000 jobs) of private employment in Clark County at the end of Q3 (September 2014). This was 11,600 more (+5.0%) than existed in September 2013.³ Job growth this year has been fairly strong with 3.7% average monthly growth during the last nine months. Job

Clark County Total* Office Jobs and Annual Growth: Sep-13 to Sep-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	Jul			Aug			Sep		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Information	9,500	10,000	-5.0%	9,600	9,700	-1.0%	9,900	9,600	3.1%
Financial Activities	44,400	43,100	3.0%	44,500	43,200	3.0%	44,500	43,200	3.0%
Prof. & Business	115,200	108,800	5.9%	117,700	111,200	5.8%	116,700	110,200	5.9%
Health Care & Social Assist.	73,300	69,900	4.9%	74,000	70,300	5.3%	73,900	70,400	5.0%
Total	242,400	231,800	4.6%	245,800	234,400	4.9%	245,000	233,400	5.0%

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

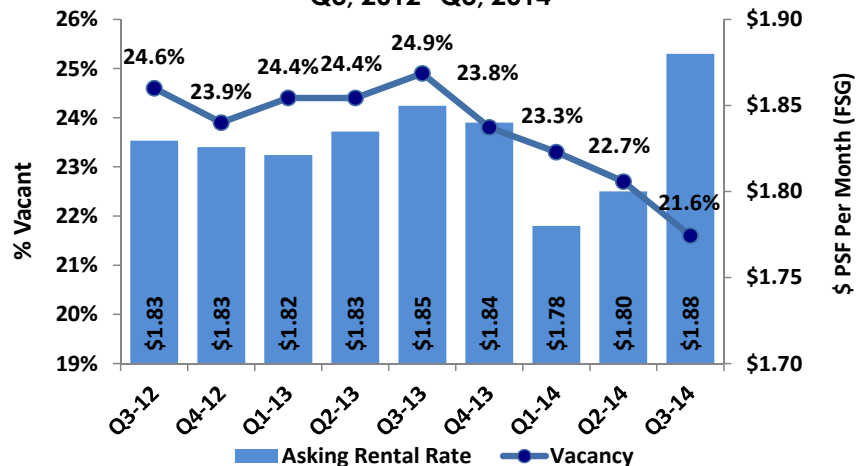
growth in the Professional and Business sector has been especially strong, posting a 5.3% average gain in the same nine-month period. However, the Information sector has been very weak this year, with -0.5% average monthly growth.

VACANCY & RENTS

Total vacancy this quarter (directly vacant space plus vacant sublease space) in the Valley's spec office market dropped 1.1 points to 21.6%. This gain marks four consecutive quarters with an improving vacancy rate and is the first quarter to dip below 22% since Q1, 2010.

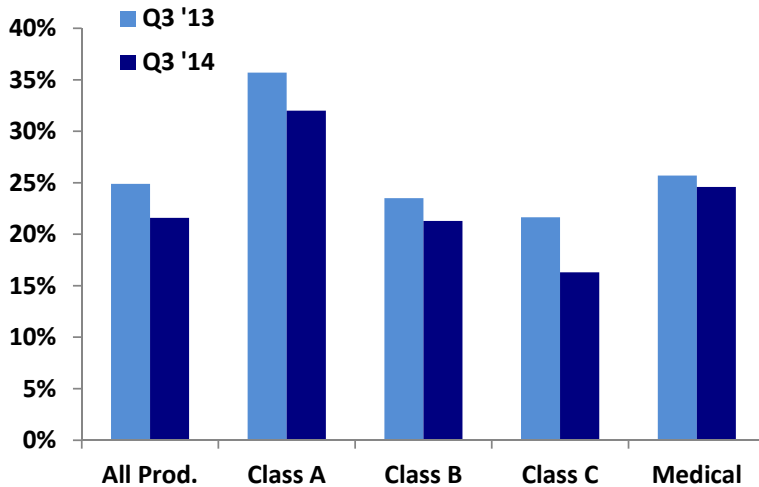
The North Las Vegas submarket now sports the lowest office market vacancy rate at 14.9%, due to high demand for its Class C space. There are two other submarkets in the Valley with a vacancy

Las Vegas Valley Office Market Historical Vacancy vs. Monthly Asking Rent: Q3, 2012- Q3, 2014



SPECULATIVE OFFICE MARKET

**Las Vegas Valley Office Market
Vacancy Trends: Q3, 2013 v. Q3, 2014**
% Vacant, by Product



below 20%: the Airport and Downtown markets are at 17.4% and 15.3%, respectively. East Las Vegas has the highest vacancy rate at 25.0%, followed by West Central at 23.2%.

The East Las Vegas submarket vacancy rate plummeted by 4.8 percentage points since Q2, leading the way in Q3, along with North Las Vegas' 4.8 point drop; West Central dropped by 2.6 points and Airport declined by 2.3 points. The other submarkets saw vacancy rates rise, but not by much. The Southwest submarket had the largest (+1.2%) rise mainly due to increased vacancy in medical space. That said, its Class A vacancy rate decreased in spite of the opening of 170,000 sf of Class A office space at the Gramercy.

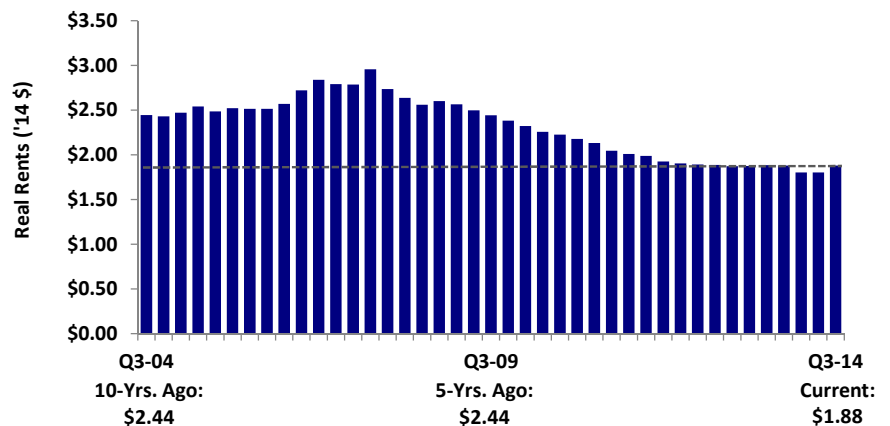
Still, the driver of the improving office vacancy

rate continues to be demand for Class C space, which posted a 2.3 percentage-point drop to 16.3%. The Class B market, which is smaller, also showed signs of life with a 2.0% improvement in vacancy. The Medical product type saw its vacancy rate increase again from 22.8% to 24.6%. Meanwhile, the Class A market crept up in overall vacancy rate and still has the highest rate at 32.0%. The vacancy rate for the Class B market stands at 21.3%.

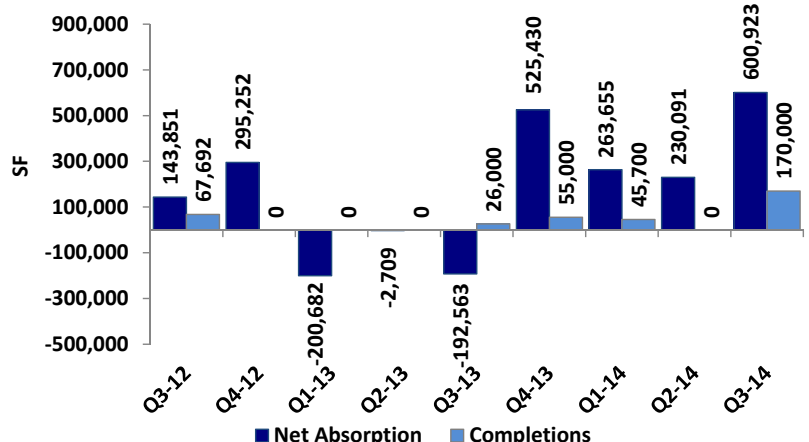
This quarter's vacancy rate is 3.3% points better than Q3, 2013. The data suggest that the Valley's overall spec office market is finally starting to improve, but still remains weak with a high overall vacancy rate. Still, the market is at its lowest vacancy rate since Q4, 2009. This, in addition to strong office-using job growth each month of 2014, points to a brighter future for the spec office market.

Average monthly asking office rent (calculated on a full-service gross basis—or accounting for all operating expenses) was \$1.88 per square foot ("psf") in Q3, \$0.08 more than the \$1.80 psf asking rent in the previous quarter. After a trend of decreases beginning in Q4, 2007, rents began to stabilize in 2012. It remains to be seen whether the asking rates are starting to increase, but this quarter's rise is a good sign.

**Las Vegas Valley Office Market
Inflation-Adjusted Monthly Rent: Q3, 2004 - Q3, 2014 (Baseline)**



**Las Vegas Valley Office Market
Historical Net Absorption vs. Completions:
Q3, 2012 - Q3, 2014**



SPECULATIVE OFFICE MARKET

DEMAND

Valley-wide spec office total net absorption in Q3 was positive for the 4th straight quarter at 600,900 sf. On a year-over-year basis, net absorption totaled 1,517,900 sf, much more than in Q3, 2013 when there was 100,700 sf of negative absorption. This is a good indication that the Office market is turning things around.

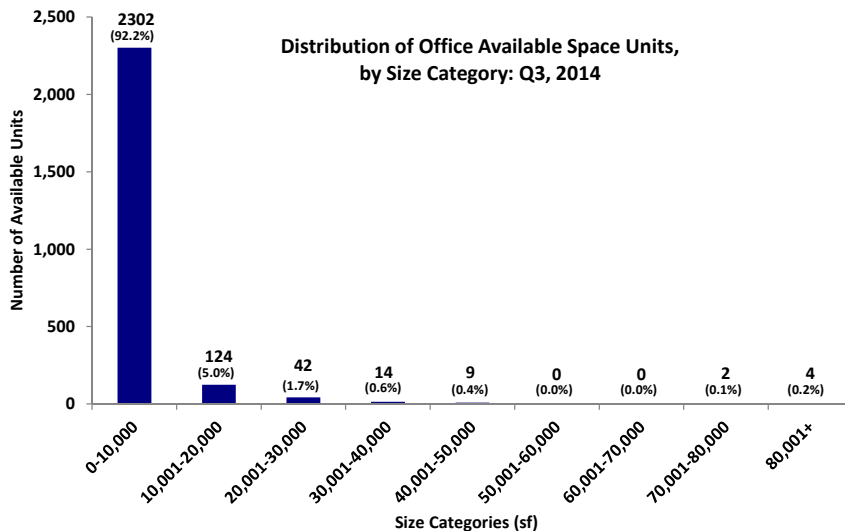
Most submarkets saw significant improvement this quarter. The East Las Vegas (+292,600 sf) and West Central (+138,400 sf) submarkets were the main engines of this quarter's growth, but Airport (+118,000 sf) came on strong, as well. The Southwest (+54,500 sf), Henderson (+48,100 sf) and North Las Vegas (+37,200 sf) submarkets also showed solid improvement. The Downtown and the Northwest (-30,900 and -57,000, respectively) submarkets, however, took a small step back.

By product, all three professional subtypes experienced positive absorption. Vacant Class A (+101,100 sf), Class B (+271,400 sf) and Class C (+354,700 sf) office space decreased for the quarter. Meanwhile, the Medical submarket (-126,400 sf) continued its slide.

SUPPLY

The third quarter of 2014 saw 170,000 sf of new speculative Class A office space completed. This space was all in the new Gramercy property – 200,000 sf total, of which 170,000 sf is office space. This brings year-to-date completions to 215,700 sf. During the past 20 quarters (since Q1, 2010), there have now been only six quarters where new space has entered the market. However, four of these quarters have occurred in the last five quarters, indicating that developers believe that the long awaited office market turnaround, though still anemic, is here. Still, post-recession completions pale compared to the boom years, especially between 2006 and 2007, when annual office completions ranged between 0.75 million sf and 4.3 million sf.

The number of under-construction and planned projects has also increased this quarter. We have recorded four spec office projects in the forward supply⁴ pipeline that should be completed within the next three quarters. One development underway is in the Northwest, the office component of Downtown Summerlin, One Summerlin, (198,000 sf - Class A). This is set to open in the Q1, 2015. We also expect the new Cadence Marketing Center (10,000 sf - Class A) to open in Henderson in Q4, 2014. Phase 2 of Tivoli Village (68,000 sf - Class A) in the Northwest market is scheduled for a Q2, 2015 opening. There is also a Class C project in the works: construction has begun on a 15,788-square-foot expansion of the Pecos Springs Business Park. This property is expected to expand in phases, starting with this space.



Regarding planned spec office space, 42,000 sf of Class B space in the Seven Hills Plaza D development are expected to break ground soon, as is the 80,000-square-foot Class C development dubbed The Square. In addition, there has been much fanfare around the recently proposed Union Village medical community going up in Henderson. Phase 1 of this project will include 150,000 sf of Medical office space.

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 (194,000 sf), we estimate that there still remains about a 6.8-year supply of speculative office

SPECULATIVE OFFICE MARKET

space in the Valley that must be absorbed to reach a 10% “normalized” vacancy. However, this is a half-year improvement from last quarter.

The chart above details the distribution of the size of available office space in the Valley.

FURTHER THOUGHTS

Of the three commercial markets (Industrial, Office and Retail) we track, the speculative office market is the most directly dependent on job growth. Southern Nevada office jobs have now seen 37 months of YOY employment increases with at least 2% monthly growth (+11,600 jobs, +5.0% for September). 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 Q3, there were only 15 units of space in this size range.

As noted above, Valley-wide net absorption in Q3 was positive for the 4th straight quarter at 600,900 sf. On a year-over-year basis, net absorption totaled 1,517,900 sf compared to Q3, 2013 when a minus 100,700 sf were absorbed. This is a good indication that the Office market is turning things around.

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 rates 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 remain concerned that Southern Nevada’s municipalities will continue to be pressured to 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.

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

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

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

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

SPECULATIVE OFFICE MARKET GLOSSARY

Office property buildings or building parks tracked include speculative, multi-tenant properties with at least 10,000 square feet of usable office space. Building characteristics were used to define the appropriate subtype classification (i.e., professional or medical). These characteristics can include rents, location, quality of building systems (e.g., mechanical, elevator and utility systems), finishes (e.g., lobby and hallway design/ materials), and amenities. A property must exhibit one or more of the typical building characteristics to be considered a specific classification.

Class A

Class A properties are the highest quality buildings in the market with steel frame construction, typically mid-rise (3 - 4 stories) or high-rise (5 stories or more).

- High asking gross rent (FSG) with a typical premium of 20-30% of office rents in the local market,
- Location within a central business area,
- Capacity to meet current tenant requirements and anticipated future tenant needs,
- Building finishes that are of high quality and competitive with new construction, and
- Maintenance, management and upkeep amenities above average.

Class B

Class B properties have buildings with steel frame, reinforced concrete or concrete tilt-up construction - usually low-rise (1 - 2 stories) or mid-rise (3 - 4 stories).

- Asking gross rent (FSG) typically in a specified range between asking gross rents for Class A and Class C buildings,
- Average to good location,
- Adequate capacity to deliver services currently required by tenants,
- Building finishes with average to good design and materials, and
- Maintenance, management and upkeep amenities that are considered average.

Class C

Class C properties have buildings with wood construction and are usually low-rise (1 - 2 stories).

- Asking gross rent (FSG) typically in the bottom 10-20% of office rents in the marketplace,
- Depends primarily on lower prices rather than desirable locations to attract occupants,
- Capacities that may not meet current tenant needs,
- Building finishes that show a dated appearance, and
- Maintenance, management and upkeep amenities that are below average.

Medical

An office building in which 50% or more of its available space under the various building classifications above consists of medical office use.

Speculative Office Market Matrix

Las Vegas, Nevada
Third 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	183	330	94	388	388	275	2,084
Total Rentable SF	5,094,766	3,835,861	6,134,382	6,017,268	783,529	8,735,919	6,763,103	5,406,541	42,771,369
Total Vacant SF	888,841	586,715	1,536,255	1,350,147	117,132	2,011,328	1,494,454	1,256,600	9,241,472
Total Occupied SF	4,205,925	3,249,146	4,598,127	4,667,121	666,397	6,724,591	5,268,649	4,149,941	33,529,897
Total Vacant (%)	17.4%	15.3%	25.0%	22.4%	14.9%	23.0%	22.1%	23.2%	21.6%
Completions QTD	0	0	0	0	0	0	170,000	0	170,000
Completions YOY	0	55,000	0	42,700	0	0	170,000	0	267,700
Total Net Absorption QTD	117,961	-30,913	292,637	48,071	37,221	-56,997	54,534	138,409	600,923
Total Net Absorption YOY	309,436	124,788	481,725	125,502	48,922	200,008	207,770	19,788	1,517,939
Asking Rents (\$ PSF)	\$1.82	\$1.77	\$1.74	\$2.12	\$1.95	\$2.04	\$2.07	\$1.33	\$1.88
Under Constuction SF	15,788	0	0	10,000	0	265,080	0	0	290,868
Planned SF	0	0	0	192,000	0	0	80,000	0	272,000

PROFESSIONAL CLASS A	Airport	Downtown	East Las Vegas	Henderson	North Las Vegas	Northwest	Southwest	West Central	Totals
Number of Properties	6	5	10	12	0	21	4	2	60
Total Rentable SF	665,904	795,116	1,472,466	828,068	0	1,616,232	567,112	227,624	6,172,522
Total Vacant SF	115,252	171,982	345,915	374,739	0	672,825	222,004	74,843	1,977,560
Total Occupied SF	550,652	623,134	1,126,551	453,329	0	943,407	345,108	152,781	4,194,962
Total Vacant (%)	17.3%	21.6%	23.5%	45.3%	0.0%	41.6%	39.1%	32.9%	32.0%
Completions QTD	0	0	0	0	0	0	170,000	0	170,000
Completions YOY	0	0	0	0	0	0	170,000	0	170,000
Total Net Absorption QTD	38,582	14,886	-3,258	-22,905	0	-24,504	107,777	-9,437	101,141
Total Net Absorption YOY	79,967	33,759	38,638	86,065	0	9,348	92,131	-7,271	332,637
Asking Rents (\$ PSF)	\$2.61	\$2.49	\$2.86	\$2.45	\$0.00	\$2.07	\$2.60	\$1.95	\$2.38
Under Constuction SF	0	0	0	10,000	0	265,080	0	0	275,080
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	302,724	206,495	345,191	381,408	66,282	550,451	690,492	439,923	2,982,966
Total Occupied SF	1,633,297	1,568,601	721,366	1,808,346	134,514	2,187,100	1,714,640	1,226,123	10,993,987
Total Vacant (%)	15.6%	11.6%	32.4%	17.4%	33.0%	20.1%	28.7%	26.4%	21.3%
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	94,449	-21,922	184,510	10,528	33,334	4,034	-31,969	-1,528	271,436
Total Net Absorption YOY	202,030	116,628	122,119	66,658	40,331	-24,332	-109,235	-34,123	380,076
Asking Rents (\$ PSF)	\$1.80	\$1.41	\$1.36	\$1.90	\$1.71	\$2.09	\$2.27	\$1.07	\$1.80
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	42,000	0	0	0	0	42,000

Speculative Office Market Matrix

Las Vegas, Nevada
Third Quarter, 2014

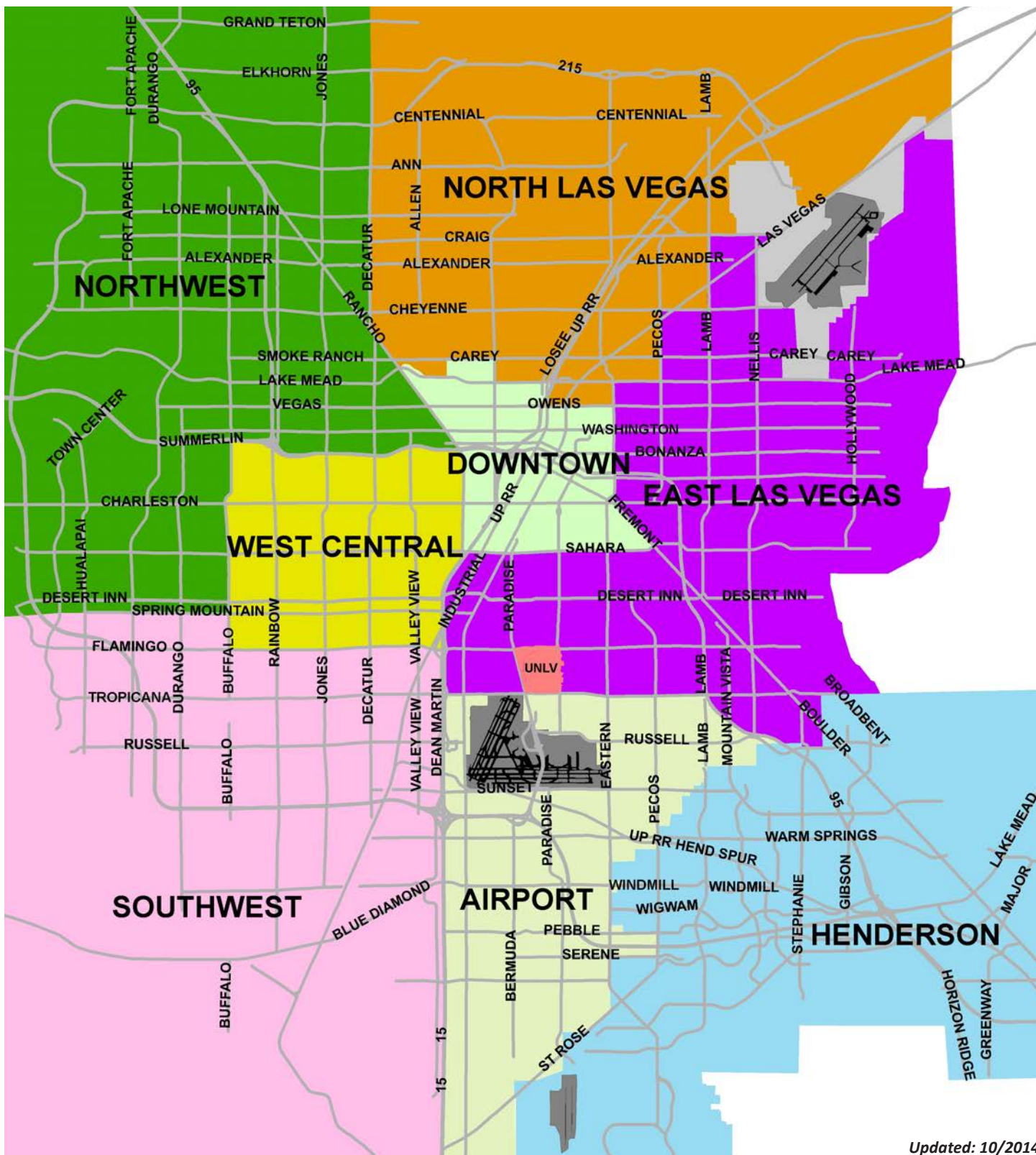
SUBMARKETS

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	453,388	154,080	358,381	277,028	19,670	325,355	395,137	533,458	2,516,497
Total Occupied SF	1,910,923	723,526	1,693,027	1,341,402	462,620	1,908,647	2,663,694	2,227,935	12,931,774
Total Vacant (%)	19.2%	17.6%	17.5%	17.1%	4.1%	14.6%	12.9%	19.3%	16.3%
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	-17,355	-15,231	99,757	51,232	14,467	31,939	48,508	141,413	354,730
Total Net Absorption YOY	34,540	-50,172	280,217	48,398	15,631	161,649	158,613	180,037	828,913
Asking Rents (\$ PSF)	\$1.65	\$1.41	\$1.34	\$1.78	\$2.36	\$1.79	\$1.76	\$1.32	\$1.58
Under Constuction SF	15,788	0	0	0	0	0	0	0	15,788
Planned SF	0	0	0	0	0	0	80,000	0	80,000

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	17,477	54,158	486,768	316,972	31,180	462,697	186,821	208,376	1,764,449
Total Occupied SF	111,053	333,885	1,057,183	1,064,044	69,263	1,685,437	545,207	543,102	5,409,174
Total Vacant (%)	13.6%	14.0%	31.5%	23.0%	31.0%	21.5%	25.5%	27.7%	24.6%
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	2,285	-8,646	11,628	9,216	-10,580	-68,466	-69,782	7,961	-126,384
Total Net Absorption YOY	-7,101	24,573	40,751	-75,619	-7,040	53,343	66,261	-118,855	-23,687
Asking Rents (\$ PSF)	\$1.70	\$2.07	\$1.70	\$2.30	\$2.31	\$2.14	\$1.39	\$1.80	\$1.93
Under Constuction SF	0	0	0	0	0	0	0	0	0
Planned SF	0	0	0	150,000	0	0	0	0	150,000

LAS VEGAS VALLEY

SPECULATIVE OFFICE SUBMARKET MAP



Updated: 10/2014