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Las Vegas Speculative Office Survey

4th Quarter 2014



HUGHES CENTER



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February 27, 2015

Re: *Speculative Office Real Estate Survey: 4th 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

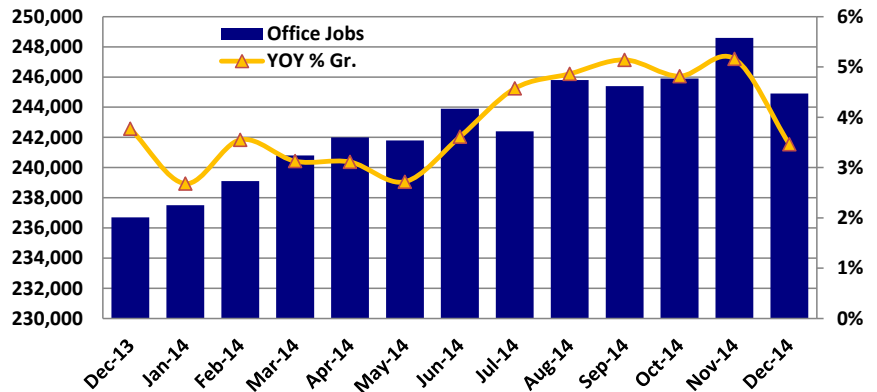
SUMMARY

The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market¹ saw 10,000 sf of space completed at the end of Q4, 2014, upping the total inventory to 42.8 million sf. Vacancy was 21.3% at the end of Q4, down from 21.6% in Q3, 2014. The 136,600 sf of net absorption in Q4 marked five straight quarters of rising demand. At \$1.91 per square foot ("psf") FSG², the average monthly asking rent rose for the third quarter in a row. At the end of the quarter, there were 281,000 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 submarket.

OFFICE-RELATED JOBS

Employment in the office-space using sector, a critical indicator of the health of the local economy, comprised 31% (244,900 jobs) of private employment jobs in Clark County at the end of Q4 (December 2014). This was 8,200 more (+3.5%) than existed in December 2013.³ Job growth this year has been fairly strong with 3.9% average monthly growth during 2014. Job growth in the Professional and Business sector has

Clark County Total* Office Jobs and Annual Growth: Dec-13 to Dec-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	Oct			Nov			Dec		
	2014	2013	% Ch.	2014	2013	% Ch.	2014	2013	% Ch.
Information	9,800	9,800	0.0%	9,800	9,700	1.0%	9,700	9,700	0.0%
Financial Activities	44,400	44,200	0.5%	44,500	44,400	0.2%	43,900	44,000	-0.2%
Prof. & Business	118,300	111,500	6.1%	120,500	112,900	6.7%	117,300	113,000	3.8%
Health Care & Social Assist.	73,400	69,100	6.2%	73,800	69,400	6.3%	74,000	70,000	5.7%
Total	245,900	234,600	4.8%	248,600	236,400	5.2%	244,900	236,700	3.5%

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

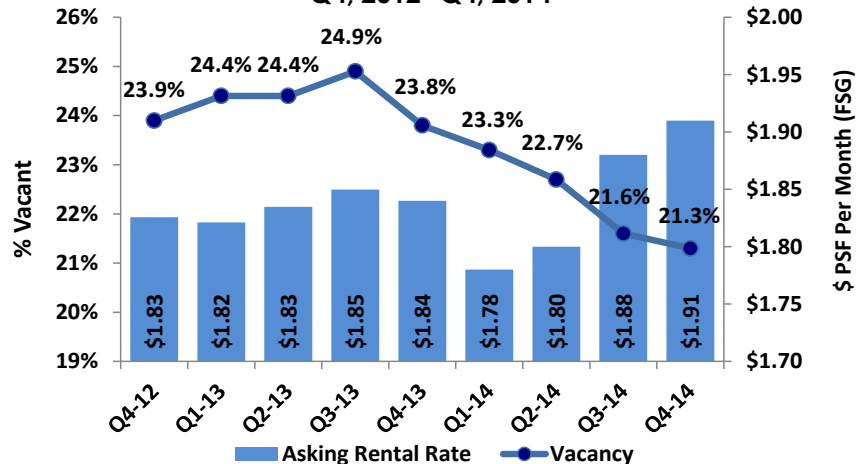
been especially strong, posting a 5.4% average gain in the same 12-month period. However, the Information sector has been very weak this year, with -0.4% average monthly growth.

VACANCY & RENTS

Total vacancy this quarter (directly vacant space plus vacant sublease space) in the Valley's spec office market dropped 0.3 points to 21.3%. This gain marks five consecutive quarters with an improving vacancy rate.

The North Las Vegas submarket now sports the lowest office market vacancy rate at 8.2%, due to high demand for its Class C space. There are three other submarkets in the Valley with a vacancy rate below 20%: the Airport, Downtown and Henderson markets are at 17.8%, 12.9% and 18.9%, respectively. East Las

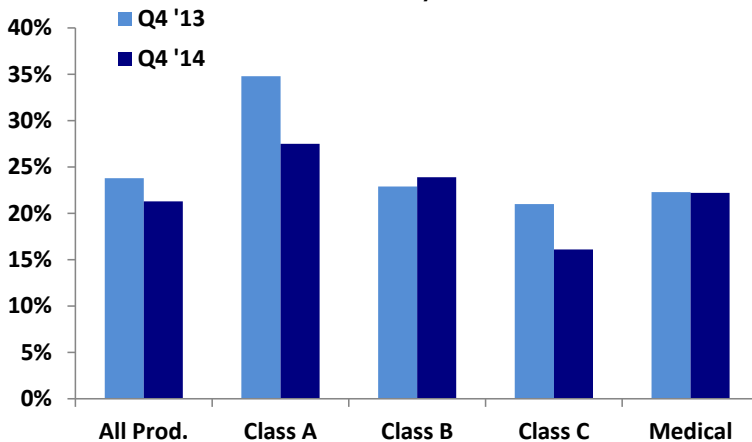
Las Vegas Valley Office Market Historical Vacancy vs. Monthly Asking Rent: Q4, 2012- Q4, 2014



SPECULATIVE OFFICE MARKET

Las Vegas Valley Office Market Vacancy Trends: Q4, 2013 v. Q4, 2014

% Vacant, by Product



rate of 2.6 percentage-points to 23.9%. The Medical product type saw its vacancy rate fall from 24.6% to 22.2%. While, the Class A market partially drove some of the improvement in the overall vacancy rate, it still has the highest rate at 27.5%.

The quarter's vacancy rate is 2.5% points better than in Q4, 2013. The data suggest that the Valley's overall spec office market is recovering, but still remains weak with a high overall vacancy rate. Still, the market is at its lowest vacancy rate since Q1, 2010. This, in tandem with strong office-using job growth in 2014, indicates 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 \$1.91 per square foot ("psf") in Q4, \$0.03 more than the \$1.88 psf asking rent in the previous quarter. After a trend of decreases beginning in Q4, 2007, rents began to stabilize in 2012. Signs now appear to show that Office rent value is finally beginning to improve.

DEMAND

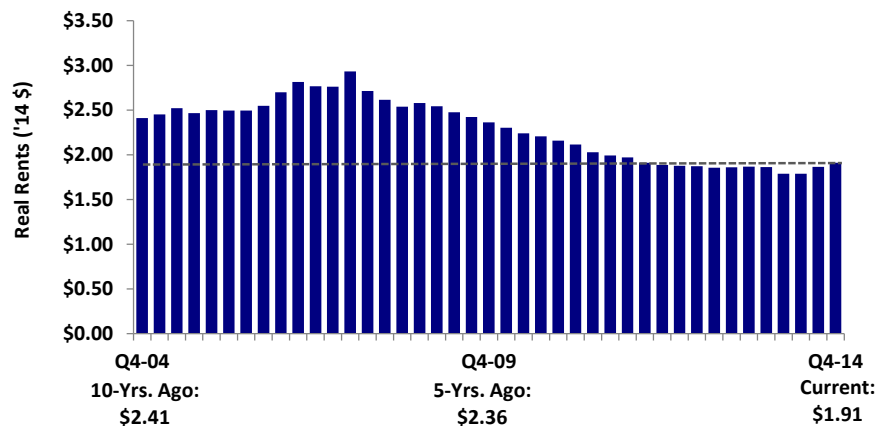
Valley-wide spec office total net absorption in Q4 was positive for the 5th straight quarter at 136,100 sf. On a year-over-year basis, net absorption totaled 1,230,800 sf, much more than in Q4, 2013, when year-over-year

Vegas has the highest vacancy rate at 30%, followed by West Central at 23.4%.

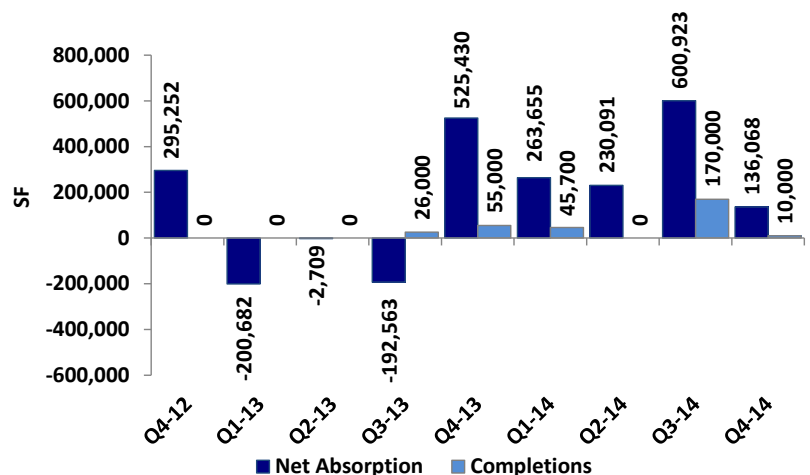
The North Las Vegas submarket saw the largest decrease in the vacancy rate this quarter, with a 6.7-point decrease. Downtown had the second largest decrease, with 2.4 percentage-points. Southwest dropped by 0.3 points. East Las Vegas saw the largest increase in the vacancy rate this quarter, with a 5 percentage-point increase. The other submarkets saw vacancy rates rise, but not by much.

The driver of the improved office vacancy rate in Q4 was demand for Class A space, which posted a 4.5 percentage-point drop to 27.5%. The Class C market saw a slight decrease in the vacancy rate of 0.2 percentage-points. The Class B market saw an increase in the vacancy

Las Vegas Valley Office Market Inflation-Adjusted Monthly Rent: Q4, 2004 - Q4, 2014 (Baseline)



Las Vegas Valley Office Market Historical Net Absorption vs. Completions: Q4, 2012 - Q4, 2014



SPECULATIVE OFFICE MARKET

absorption was just 129,500 sf.

Five of the eight submarkets saw improvement this quarter. The Henderson (+219,800 sf) submarket was the main engine of this quarter's growth, but Downtown (+90,500 sf) and Northwest (+81,600 sf) showed improvement, as well. North Las Vegas (+52,900 sf) and Southwest (+22,400 sf) submarkets also showed solid improvement. The East Las Vegas (-302,500 sf), Airport (-20,000 sf), and West Central (-8,800 sf) submarkets, however, took a step back.

Class B was the sole professional subtype to experience negative absorption (360,500 sf) in Q4. Class A (+287,000 sf) and Class C (+34,000 sf) office absorption improved on a net basis for the quarter. Meanwhile, the Medical submarket absorbed 175,000 sf of space.

SUPPLY

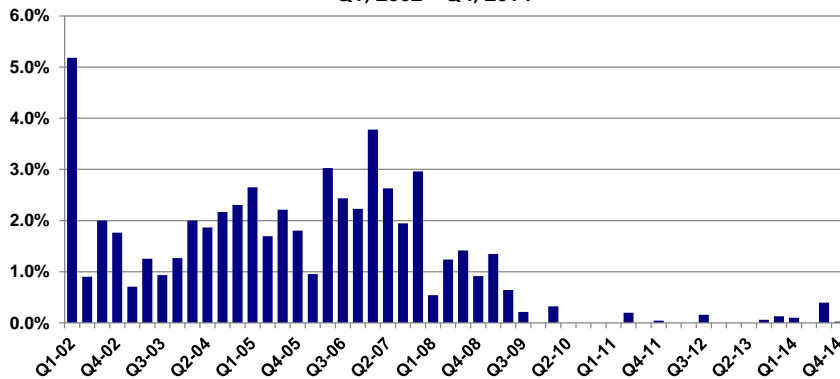
The fourth quarter of 2014 saw one completion of 10,000 square feet of Class A office space. This brings year-to-date completions to 222,700 sf. During the past 20 quarters (since Q1, 2010), there have now been only eight quarters where new space has entered the market. However, five of these quarters have occurred in the last six quarters, indicating that developers believe that the long-awaited office market turnaround, though still anemic, has arrived. Still, post-recession completions pale compared to the boom years, when annual office completions ranged between 0.75 million sf and 4.3 million sf.

We have recorded three 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, (197,000 sf - Class A). This is set to open in the Q1, 2015. 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.

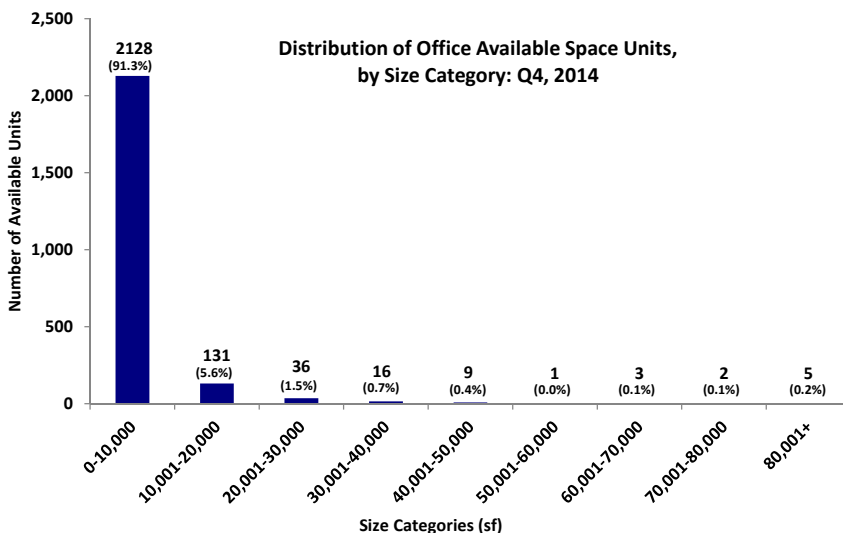
Regarding planned spec office space, 42,000 sf of Class B space in the Seven Hills Plaza D development are expected to break ground soon, as is the 80,000-square-foot Class C development dubbed The Square. In addition, there has been much fanfare around the recently proposed Union Village medical community 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 (21.3%) and the average quarterly absorption in the last 10 years (191,000 sf), we estimate that there still remains about a 6.5-year supply of speculative of-

Las Vegas Valley Office Market
Completions as a % of Inventory:
Q1, 2002 - Q4, 2014



Distribution of Office Available Space Units,
by Size Category: Q4, 2014



office space in the Valley that must be absorbed to reach a 10% “normalized” vacancy.

To the right is a chart detailing the distribution of available office space in the Valley, by size.

FURTHER THOUGHTS

While it is true that Southern Nevada’s office market’s recovery has lagged behind that in the industrial and retail markets, 2014 saw a significant increase in demand. Net absorption in 2014 was double that in 2012, the last year of strong office recovery. If this trend continues through 2015, office vacancy might drop below 20 percent for the first time in six years.

Office-using employment in 2013 increased by 8,600 jobs. 2014 saw almost as much employment growth, adding 8,200 jobs. This level of job growth is consistent with 2012, giving Southern Nevada three years of strong job growth. More office jobs usually translates into more office occupancy, but a combination of caution by office users and changes wrought by technology are leading to less demand for office space than would normally be indicated by the Valley’s level of employment growth.

Mobile phone technology, the movement towards open offices and shared workspaces, and the replacement of individual medical practices by medical groups have 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.

The Valley has also suffered from the relatively high level of speculative office construction in Southern Nevada over the past five quarters. 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 so high. Since 2013, office inventory has expanded by over 300,000 sf.

Based on the average quarterly absorption of the last 10 years (187,852 sf), we estimate that there are 6.8 years of spec office supply in the Valley that must be absorbed to reach a 10 percent “normalized” vacancy.

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
Fourth 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	331	94	388	388	275	2,085
Total Rentable SF	5,094,766	3,835,861	6,134,382	6,027,268	783,529	8,735,919	6,763,103	5,406,541	42,781,369
Total Vacant SF	908,717	496,174	1,838,784	1,140,391	64,220	1,929,704	1,472,007	1,265,407	9,115,404
Total Occupied SF	4,186,049	3,339,687	4,295,598	4,886,877	719,309	6,806,215	5,291,096	4,141,134	33,665,965
Total Vacant (%)	17.8%	12.9%	30.0%	18.9%	8.2%	22.1%	21.8%	23.4%	21.3%
Completions QTD	0	0	0	10,000	0	0	0	0	10,000
Completions YOY	0	0	0	52,700	0	0	170,000	0	222,700
Total Net Absorption QTD	-19,876	90,541	-302,529	219,756	52,912	81,624	22,447	-8,807	136,068
Total Net Absorption YOY	131,182	140,412	111,159	349,389	113,605	90,958	154,603	139,429	1,230,737
Asking Rents (\$ PSF)	\$1.91	\$1.83	\$1.48	\$2.11	\$1.64	\$2.23	\$2.17	\$1.57	\$1.91
Under Constuction SF	15,788	0	0	0	0	265,080	0	0	280,868
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	13	0	21	4	2	61
Total Rentable SF	665,904	795,116	1,472,466	838,068	0	1,616,232	567,112	227,624	6,182,522
Total Vacant SF	119,215	133,145	343,385	311,445	0	490,244	207,464	95,331	1,700,229
Total Occupied SF	546,689	661,971	1,129,081	526,623	0	1,125,988	359,648	132,293	4,482,293
Total Vacant (%)	17.9%	16.7%	23.3%	37.2%	0.0%	30.3%	36.6%	41.9%	27.5%
Completions QTD	0	0	0	10,000	0	0	0	0	10,000
Completions YOY	0	0	0	10,000	0	0	170,000	0	180,000
Total Net Absorption QTD	-3,963	38,837	2,530	73,294	0	182,581	14,540	-20,488	287,331
Total Net Absorption YOY	38,164	85,196	15,698	142,011	0	220,392	106,671	-40,295	567,837
Asking Rents (\$ PSF)	\$2.58	\$2.29	\$2.77	\$2.41	\$0.00	\$3.69	\$2.59	\$1.90	\$2.72
Under Constuction SF	0	0	0	0	0	265,080	0	0	265,080
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	368,844	197,148	611,424	322,657	56,660	597,671	729,624	459,432	3,343,460
Total Occupied SF	1,567,177	1,577,948	455,133	1,867,097	144,136	2,139,880	1,675,508	1,206,614	10,633,493
Total Vacant (%)	19.1%	11.1%	57.3%	14.7%	28.2%	21.8%	30.3%	27.6%	23.9%
Completions QTD	0	0	0	0	0	0	0	0	0
Completions YOY	0	0	0	42,700	0	0	0	0	42,700
Total Net Absorption QTD	-66,120	9,347	-266,233	58,751	9,622	-47,220	-39,132	-19,509	-360,494
Total Net Absorption YOY	30,833	53,302	-143,036	166,267	55,391	-136,038	-102,089	-32,379	-107,749
Asking Rents (\$ PSF)	\$1.90	\$1.80	\$1.39	\$1.91	\$1.66	\$1.87	\$2.32	\$1.63	\$1.82
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

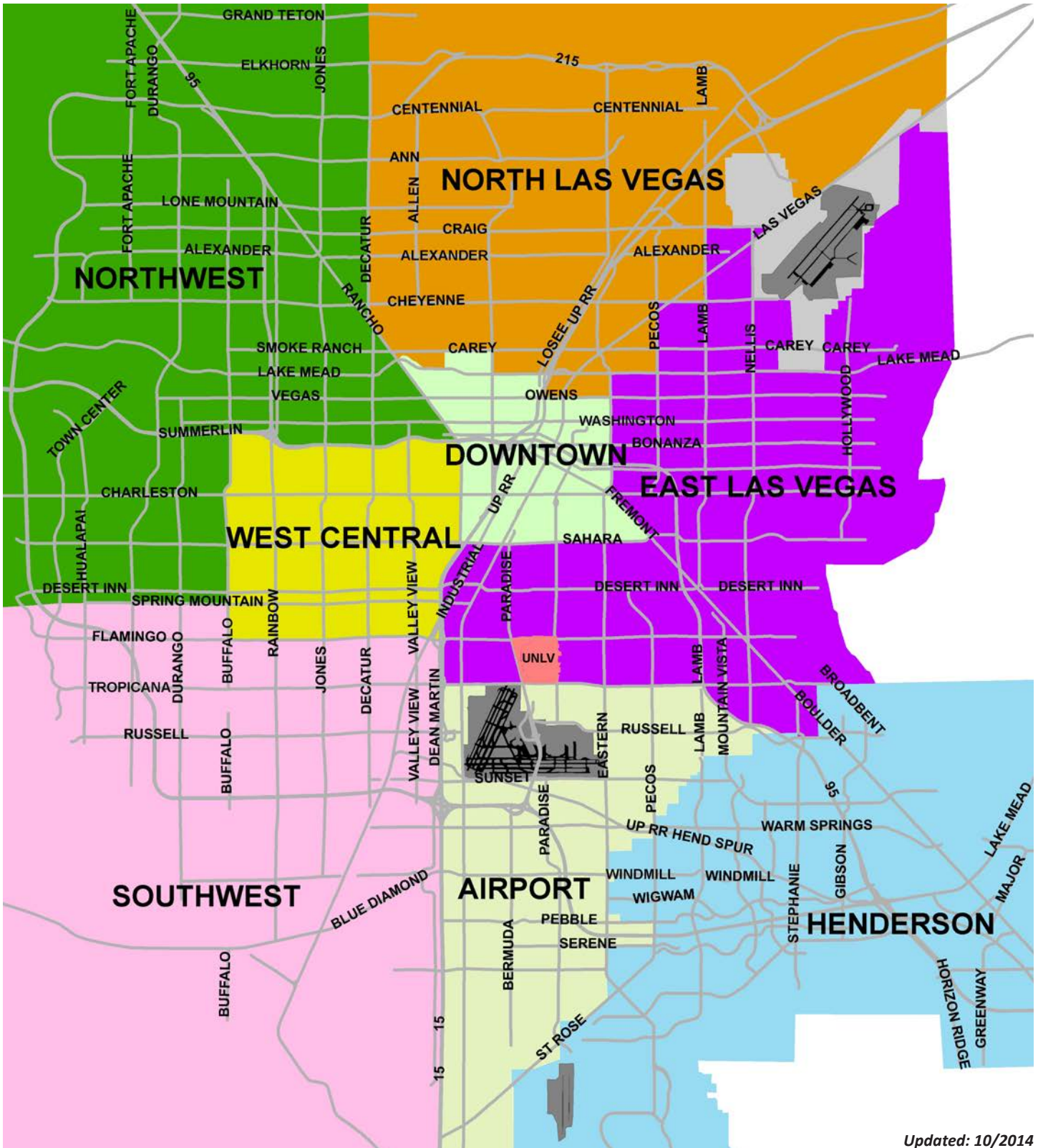
Las Vegas, Nevada Fourth Quarter, 2014

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	403,666	126,268	424,869	281,117	7,560	384,450	339,953	514,416	2,482,299
Total Occupied SF	1,960,645	751,338	1,626,539	1,337,313	474,730	1,849,552	2,718,878	2,246,977	12,965,972
Total Vacant (%)	17.1%	14.4%	20.7%	17.4%	1.6%	17.2%	11.1%	18.6%	16.1%
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	49,722	27,812	-66,488	-4,089	12,110	-59,095	55,184	19,042	34,198
Total Net Absorption YOY	61,115	-16,892	221,291	-5,953	21,596	28,709	248,514	203,103	761,483
Asking Rents (\$ PSF)	\$1.72	\$1.36	\$1.42	\$1.61	\$1.48	\$1.77	\$1.95	\$1.35	\$1.60
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	16,992	39,613	459,106	225,172	0	457,339	194,966	196,228	1,589,416
Total Occupied SF	111,538	348,430	1,084,845	1,155,844	100,443	1,690,795	537,062	555,250	5,584,207
Total Vacant (%)	13.2%	10.2%	29.7%	16.3%	0.0%	21.3%	26.6%	26.1%	22.2%
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	485	14,545	27,662	91,800	31,180	5,358	-8,145	12,148	175,033
Total Net Absorption YOY	1,070	18,806	17,206	47,064	36,618	-22,105	-98,493	9,000	9,166
Asking Rents (\$ PSF)	\$1.83	\$2.12	\$1.73	\$2.55	\$0.00	\$2.31	\$1.49	\$1.81	\$2.01
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