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Las Vegas Speculative Office Survey 2nd Quarter 2014



HUGHES CENTER



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July 24, 2014

Re: *Speculative Office Real Estate Survey: 2nd 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,

Handwritten signature of John Restrepo in black ink.

John Restrepo
RCG Economics

Handwritten signature of Marcus Conklin in black ink.

Marcus Conklin
Lied Institute for Real Estate Studies-UNLV

The logo for RCG Economics, with 'RCG' in a larger font above 'ECONOMICS'.

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LAS VEGAS SPECULATIVE OFFICE SURVEY

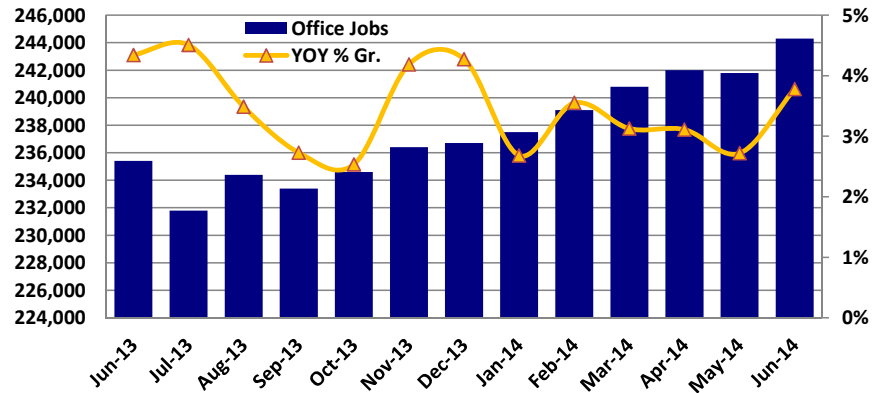
SUMMARY

The Las Vegas Valley's ("the Valley") multi-tenant, speculative office market¹ saw no space completed in Q2, 2014, as inventory remained at 42.5 million sf. Vacancy was 22.7% at the end of Q2, down from the 24.4% 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") FSG², 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 - 8,900 more (+3.8%) than in June 2013.³ Throughout 2013, year-over-year ("YOY") growth in office-related jobs had been moderate, averaging 4%. This year has gotten off to a good start, too, with 3.2% average monthly growth in office jobs in the first six months. Growth in professional and business jobs has been especially strong, showing a 5.0% 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	9,600	-2.1%	9,500	9,700	-2.1%	9,700	10,700	-9.3%
Financial Activities	43,500	43,400	0.2%	44,100	43,700	0.9%	44,100	43,600	1.1%
Prof. & Business	118,200	112,300	5.3%	117,000	112,600	3.9%	117,800	111,500	5.7%
Health Care & Social Assist.	70,900	69,400	2.2%	71,200	69,400	2.6%	72,700	69,600	4.5%
Total	242,000	234,700	3.1%	241,800	235,400	2.7%	244,300	235,400	3.8%

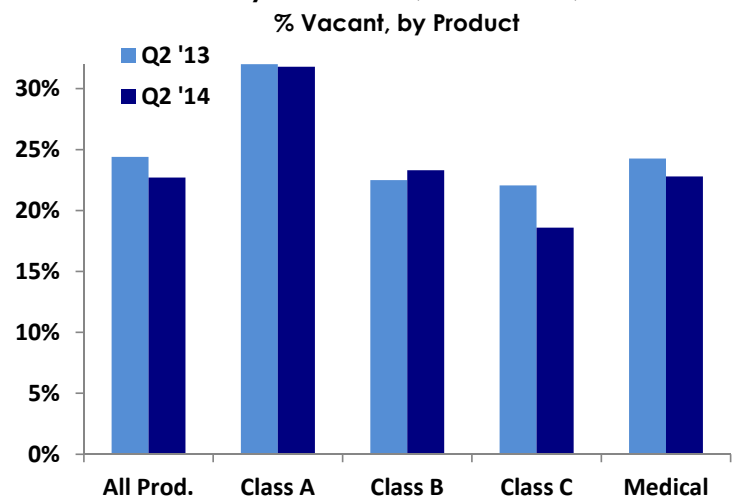
Source: Nevada Department of Employment, Training & Rehabilitation ("DETR").

VACANCY & RENTS

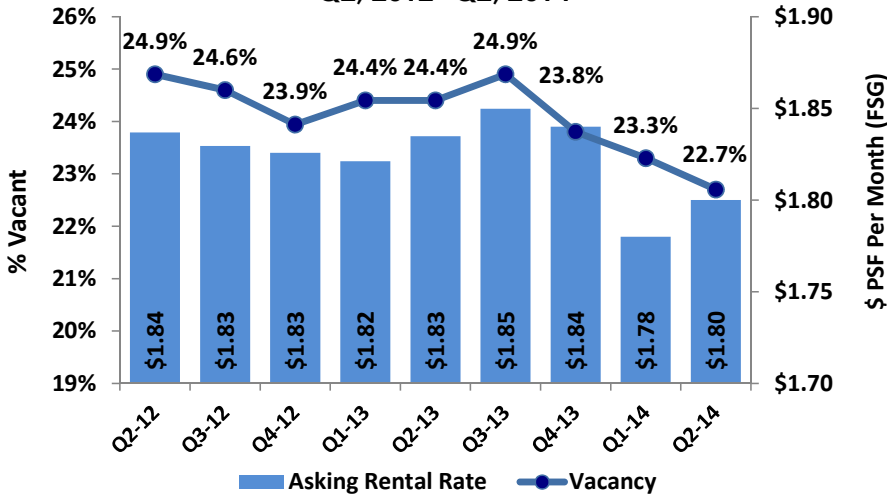
Total vacancy in Q2 (directly vacant space plus vacant sublease space) in the Valley's spec office market dropped 0.6 points to 22.7%. This gain marks three consecutive quarters of a dropping vacancy rate, though it has been at or above 22% since Q2, 2010.

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. East Las Vegas has the highest vacancy rate at 29.8%, followed by West Central at 25.8%. The Downtown submarket led the way in Q2 with a vacancy rate drop of 2.0 percentage points from Q1, while North Las Vegas dropped 1.7, Henderson dropped 1.4, East Las Vegas dropped 1.0, Airport

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**

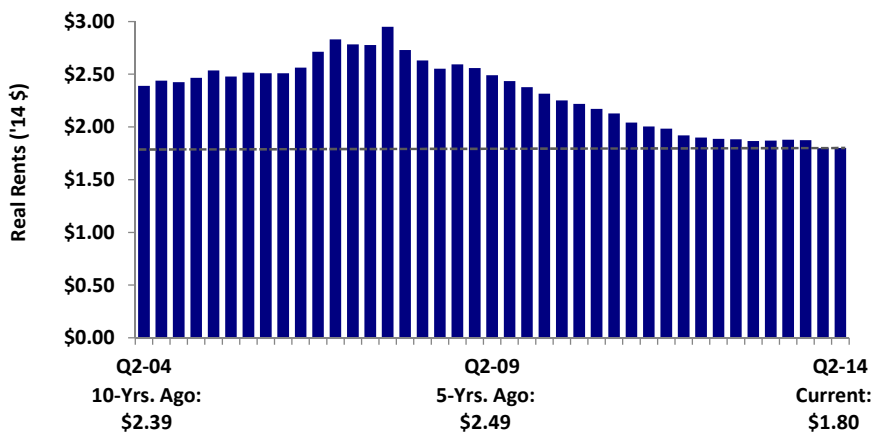


dropped 0.9 and Northwest dropping 0.7 percentage points. The other submarkets saw vacancy rates rise. Southwest (+0.3%) and West Central (+0.8%) vacancy rates saw slight increases.

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 0.9 and 0.2 percentage point 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 31.8%. 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 relatively weak. However, this quarter's data give us hope that the office market might be finally starting to show signs of improvement, since it reached its lowest vacancy rate in about four years and dropped 2.2 percentage points in the last three quarters. This is complemented with solid year-over-year office-using job growth each month of 2014.

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

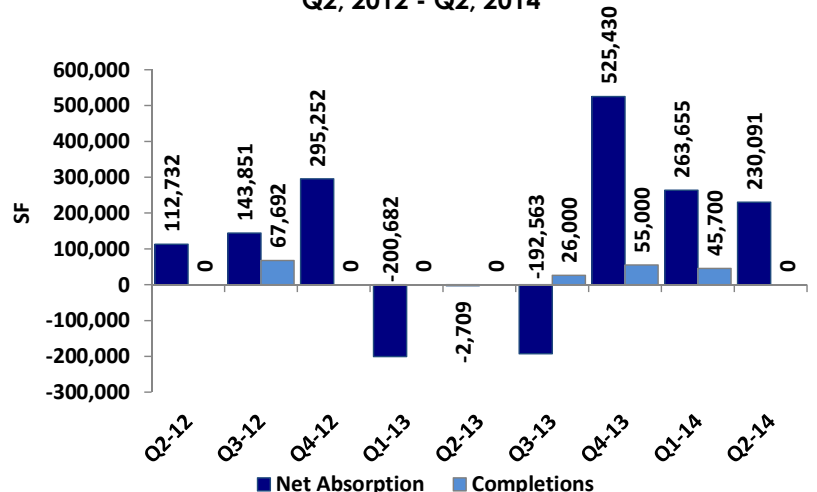


The market-wide average monthly asking office rent (calculated on a full-service gross basis—or accounting for all operating expenses) was \$1.80 per square foot ("psf") in Q2, \$0.02 more than the \$1.78 psf asking rent in the previous quarter. After a trend of decreases beginning in Q4, 2007, rents 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 in Q2. On a year-over-year basis, net absorption totaled 826,600 sf, an improvement compared to Q2, 2013 when 235,700 sf were absorbed.

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



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

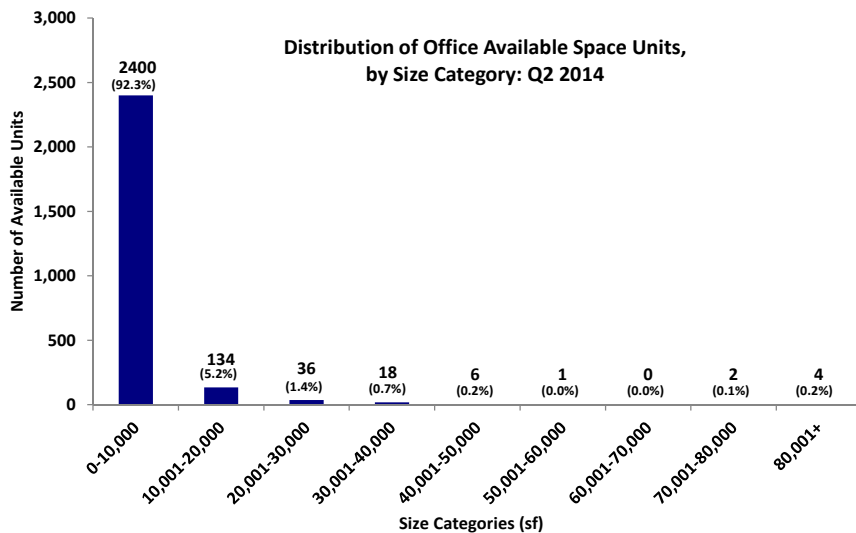
An important measure of the near-term health of the commercial markets is the potential number of years of available supply. Given the very high vacancy rate (22.7%) and the average quarterly absorption of the last 10 years (193,800 sf), we estimate that there still remains about a 7.5-year supply of 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 (+8,900 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 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 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.

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
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	183	330	94	388	387	275	2,083
Total Rentable SF	5,094,766	3,835,861	6,134,382	6,017,268	783,529	8,735,919	6,593,103	5,406,541	42,601,369
Total Vacant SF	1,006,802	555,802	1,828,892	1,398,218	154,353	1,954,331	1,378,988	1,395,009	9,672,395
Total Occupied SF	4,087,964	3,280,059	4,305,490	4,619,050	629,176	6,781,588	5,214,115	4,011,532	32,928,974
Total Vacant (%)	19.8%	14.5%	29.8%	23.2%	19.7%	22.4%	20.9%	25.8%	22.7%
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	188,543	17,598	8,763	260,598	202,619	-157,405	826,613
Asking Rents (\$ PSF)	\$1.74	\$1.87	\$1.42	\$2.08	\$1.70	\$1.94	\$2.14	\$1.36	\$1.80
Under Constuction 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	10	12	0	21	3	2	59
Total Rentable SF	665,904	795,116	1,472,466	828,068	0	1,616,232	397,112	227,624	6,002,522
Total Vacant SF	153,834	186,868	342,657	351,834	0	648,321	159,781	65,406	1,908,701
Total Occupied SF	512,070	608,248	1,129,809	476,234	0	967,911	237,331	162,218	4,093,821
Total Vacant (%)	23.1%	23.5%	23.3%	42.5%	0.0%	40.1%	40.2%	28.7%	31.8%
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	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	24,829	-35,996	2,241	206,495
Asking Rents (\$ PSF)	\$2.41	\$2.34	\$2.75	\$2.34	\$0.00	\$2.08	\$2.63	\$2.02	\$2.25
Under Constuction 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 Constuction 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

