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## Las Vegas Anchored Retail Survey 2nd Quarter 2014



THE DISTRICT AT GREEN VALLEY RANCH



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REAL ESTATE STUDIES  
LEE BUSINESS SCHOOL

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July 24, 2014

Re: Anchored Retail 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,

John Restrepo  
RCG Economics

Marcus Conklin  
Lied Institute for Real Estate Studies-UNLV

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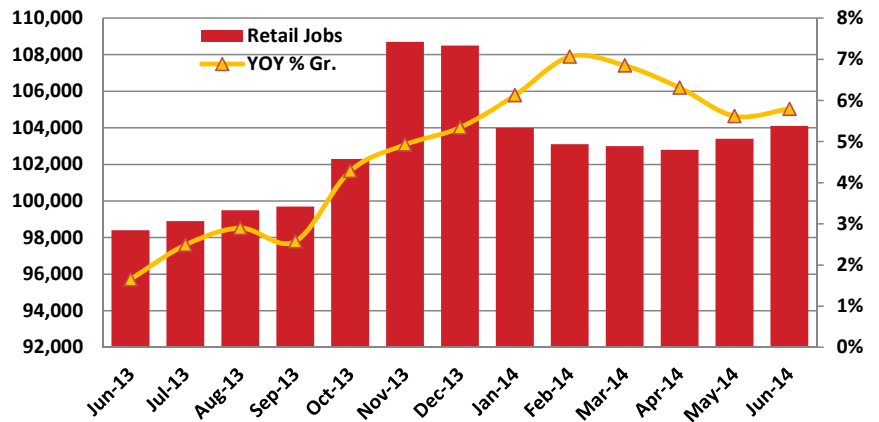
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# LAS VEGAS ANCHORED RETAIL SURVEY

## 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			May			Jun		
	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>

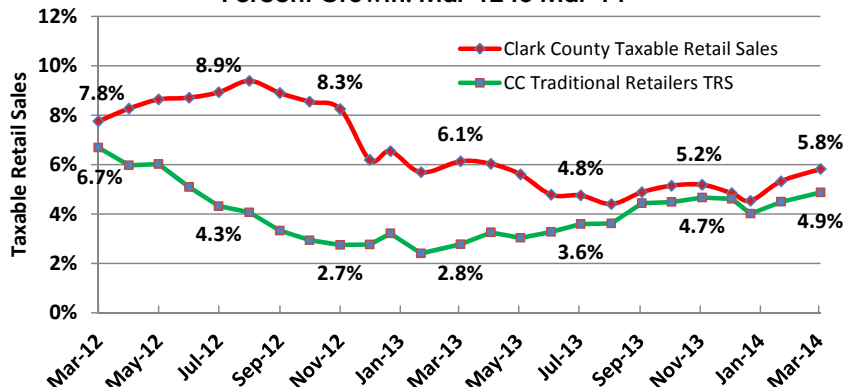
Source: Nevada Department of Employment, Training & Rehabilitation.

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.

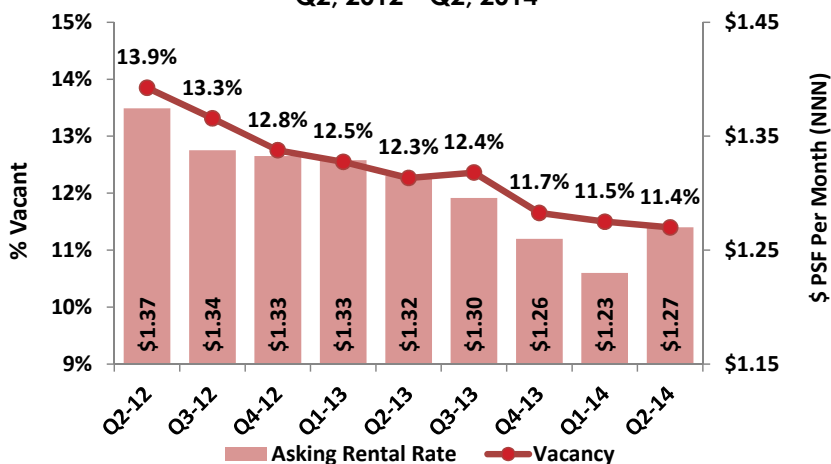
The three traditional retail sectors with the largest sales dollar growth during the March-March period, according to the Nevada Department of Taxation, are "miscellaneous store retailers" (+\$87M, +158%), "food services and drinking places" (+\$87M, +11%) and "health and personal care stores" (+\$7M, +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

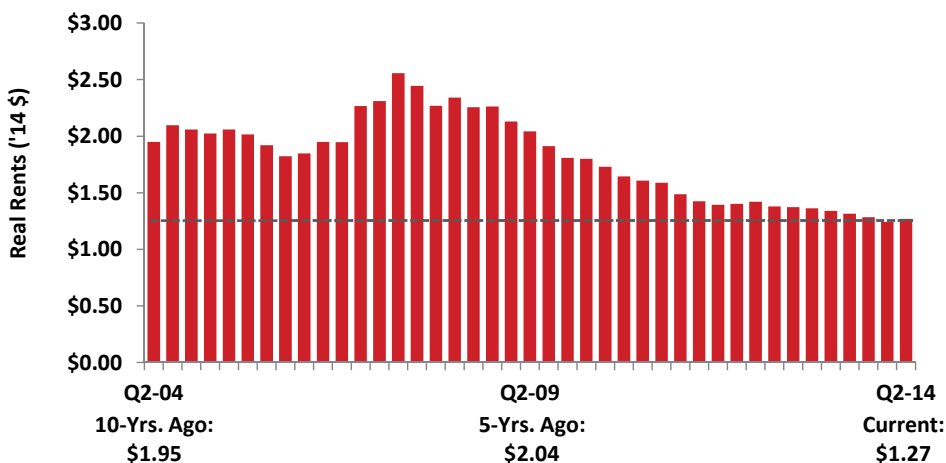
Since the record high of 15.3% in Q2, 2011, the average Valley-wide vacancy rate (directly vacant space plus vacant sub-lease space) in the anchored retail market declined to 11.4% in Q2, 2014. This is 0.1 percentage points below Q1, and 0.9 percentage points below Q2, 2013 when vacancy was 12.3%.

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.

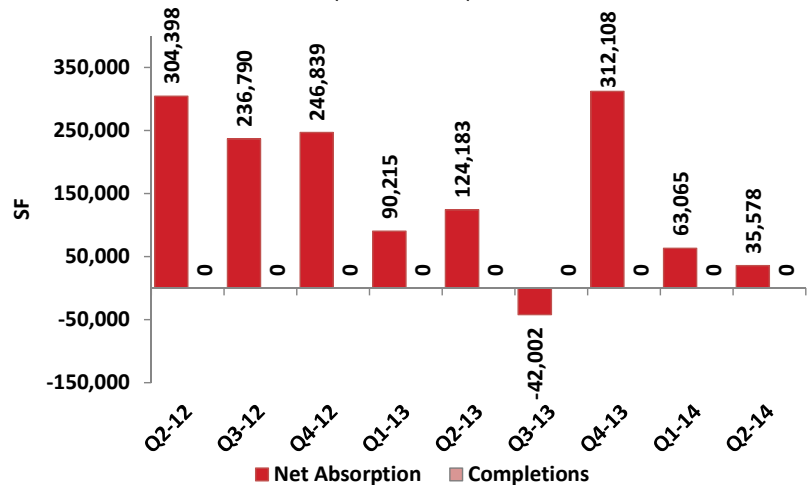
From what we know today, we do not see much new retail development taking place in 2014. This will help the Valley's anchored retail market to continue to move toward a 10% stabilized vacancy rate. Our latest estimates indicate that this will happen in about five quarters (based on the average quarterly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

