LAS VEGAS | NEVADA

RESEARCH & FORECAST REPORT

MARKET INDICATORS

	Q3-11	Projected Q4-11
VACANCY	↓	↓
NET ABSORPTION	↑	↓
CONSTRUCTION	↑	↓
RENTAL RATE	↓	↓

CLARK COUNTY ECONOMIC DATA

	Current Period	Year Ago
Unemployment Rate	14.2%	15.5%
Visitor Volume	23,242,000	22,171,000
Gaming Revenue	$5,386 M	$5,110 M
Taxable Sales YTD	$14.731 B	$13.992 B
Residential Permits	338	338
Commercial Permits	19	13
New Home Sales	366	333
Existing Home Sales	4,938	3,313

SOURCE: THE CENTER FOR BUSINESS & ECONOMIC RESEARCH, UNLV

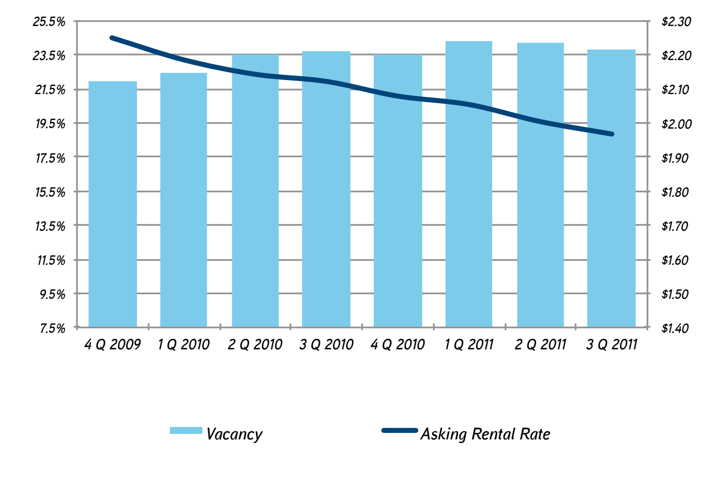
Office Market Review

Momentum continued to build for Southern Nevada's office market in the third quarter, with a second quarter of positive net absorption that surpassed last quarter's positive net absorption. Unfortunately, virtually all of this net absorption could be attributed to the completion of the 300,000 square foot Las Vegas Metropolitan Police Department's new headquarters and the sale of 100,000 square feet of office space to Ameriprise Financial. Some of the success in stimulating demand for office is due to asking lease rates, which have fallen $0.15 per square foot (psf) on a full service gross basis (FSG) over the past year. The main reason the office market is seeing some positive numbers, though, is employment gains in the office sector. The office market was the first commercial real estate market to fall in the "Great Recession", and it is now looking as though it will be the first to recover.

According to the Nevada Department of Employment, Training & Rehabilitation, between August 2010 and August 2011, a net of 5,000 jobs were created in sectors traditionally associated with office space. The Professional & Business Services sector added 4,700 jobs over the past 12 months, while the Health Care & Social Assistance sector added 4,200 jobs over the same period. The Financial Activities sector continued to shed jobs at a quick pace, losing 3,900 jobs over the past twelve months. Unfortunately, year-over-year gains in jobs are starting to flag, an object of concern to a market desperately in need of recovery. Unemployment in the Las Vegas-Paradise MSA stood at 14.2 percent in August 2011.

Three office buildings were completed in the third quarter of 2011, the Las Vegas Metropolitan Police Department's new 300,000 square foot headquarters and two small buildings at Horizon Ridge Professional Park. The remaining five buildings at Horizon Ridge Professional Park are the only office buildings currently in the pipeline. All five are planned, but it is unknown when they will begin construction.

HISTORICAL VACANCY AND ASKING RATES



"The past two quarters of positive net absorption brought year-to-date net absorption into positive territory."

While uncertainty in the national economy keeps us from being completely bullish about Southern Nevada's office market, two quarters of positive net absorption and a falling vacancy rate do make us think the worst is over. Vacancy now stands at 23.8 percent. While this is much higher than what we consider a normal or healthy office vacancy, it is down from one quarter ago and roughly even with vacancy one year ago. This suggests that the office market has made it over the hump and is heading for better days – provided the national and global economies cooperate.

The highest vacancy rates in Southern Nevada were in the Northwest (28.2 percent), North Las Vegas (26.3 percent) and East Las Vegas (26.1 percent) submarkets. Downtown continued to boast the market's lowest vacancy rate at 11.9 percent, bolstered by the completion of the LVMPD headquarters. Among submarkets, vacancy quarter-over-quarter increased in East Las Vegas, Henderson, North Las Vegas, Northwest and West Central and decreased in Airport, Downtown and Southwest. The largest increase (3 points) was in North Las Vegas, while the largest decrease (2.7 points) was in the Airport submarket.

Class A office space, which has shown the weakest performance in office over the past few years, saw a significant decrease in vacancy this quarter over last, from 33.1 percent to 30.5 percent, due in large part to the sale of 280 Pilot Road, a 99,000 square foot building, to Ameriprise Financial. Class B office also showed a decline in vacancy, while Class C office posted an increase. Class B office continued to have the lowest vacancy rate of all office classes at 21.5 percent.

Net absorption was a positive 375,276 square feet this quarter, the highest net absorption of office space in Southern Nevada since the fourth quarter of 2007, the quarter before the market fell off a cliff. Taking away the net absorption derived from the completion of the LVMPD headquarters, net absorption was still the highest it has been in two years. The past two quarters of positive net absorption brought year-to-date net absorption into positive territory. The past two years have seen positive net absorption in the fourth quarter of the year, raising hopes that 2011 will be the first year since 2007 to have overall positive net absorption – the lowest positive net absorption in more than a decade, but positive just the same.

OFFICE MARKET SUMMARY

	Q3-11	Q2-11	Q3-10	Q-O-Q Change	Y-O-Y Change
Vacancy Rate	23.8%	24.2%	23.8%	-1.5%	0.2%
Asking Rent (PSF, FSG)	$1.97	$2.00	$2.12	-1.8%	-7.2%
Net Absorption (SF)	375,276	37,889	-33,550	890.5%	1218.6%
New Completions (SF)	312,444	0	23,749	n/a	1215.6%

LEASE AND SALES ACTIVITY

LEASE ACTIVITY

PROPERTY NAME	LEASE DATE	LEASE TERM	SIZE	LEASE RATE	TYPE
Charleston Pavilion Center	Aug 2011	66 months	5,400 sf	$2.56 MG	Class A Office
Fourth Street	Aug 2011	36 months	4,900 sf	$1.04 MG	Class C Office
Diablo Medical Center	June 2011	42 months	4,700 sf	$1.05 MG	Class B Office
Galleria Corporate Center	Aug 2011	36 months	3,900 sf	$1.20 MG	Class C Office
Desert Professional Center	Jul 2011	96 months	3,800 sf	$2.00 NNN	Class B Office

SALES ACTIVITY

PROPERTY NAME	SALE DATE	SALE PRICE	SIZE	PRICE/SF	TYPE
Mountain Vista	Jul 2011	$2,600,000	40,000 sf	$66	Class C Office
Coronado Bay	Jul 2011	$4,200,000	32,000 sf	$130	Class C Office
Nevso Drive	Jul 2011	$850,000	12,000 sf	$74	Class C Office
Pecos Commons	Jul 2011	$735,000	7,000 sf	$98	Class C Office
Horizon Ridge Professional	Jul 2011	$1,500,000	6,000 sf	$240	Class C Office

Class A office posted the best performance among office classes this quarter, with 145,000 square feet of net absorption absent any new completions. Class B office had the highest net absorption at 243,000 square feet. Class C posted negative 12,000 square feet of net absorption. Not surprisingly, Downtown had the highest net absorption among submarkets (322,000 square feet) while the worst performance belonged to the Northwest (negative 76,000 square feet), once Southern Nevada's office champ. The Northwest also has one of the highest average asking rates in the Valley, though the Southwest found a way to have both a higher asking rate and 145,000 square feet of positive net absorption.

Gross absorption has been erratic for the office market over the past three years, reversing course in terms of growth or decline seven different times. The last two quarters have shown growth, with gross absorption rising from 742,000 square feet in the first quarter of 2011 to 1,634,000 square feet in the third quarter of 2011. This is the highest gross absorption number in three years and suggests, along with the drop in vacancy, that Southern Nevada's office market is currently in a cautious expansion.

Of the office deals we have tracked so far in 2011, the most active industries have been Education and Social Services, Business Services, Real Estate, Legal Services and Financial Services. Local companies made up 51 percent of the tenants taking space so far this year, but only 45 percent of the total office space taken. National companies made up 28 percent of the tenants taking space and 37 percent of the total office space taken. California companies have stepped up their presence in Southern Nevada since last quarter, but so far fewer are coming here in 2011 than in 2010. California companies accounted for 17 percent of the deals we have recorded so far in 2011, compared to 20 percent in 2010.

The amount of distressed office space (i.e. office properties that have received a notice of default or are at some stage in the foreclosure process) decreased again this quarter to 5.1 million square feet, a decrease of 9,000 square feet from last quarter. There is still more office space in the distressed category now than there was one year ago, but the trend here is clearly our friend, as interest in buying properties in Southern Nevada appears to be on the rise. In all, 1,548,000 square feet of distressed office product has sold so far in 2011 at an average sales price of $72 per square foot.

The weighted average asking rental rate decreased this quarter to $1.97 per square foot (psf) on a full service gross (FSG) basis. This was a decrease of $0.04 from last quarter and a decrease of $0.15 from twelve months ago. Asking rents have been declining since the onset of the Great Recession. The largest decrease was for Class A office, which saw its average asking rent drop from $2.56 psf FSG in the second quarter of 2011 to $2.51 psf FSG in the third quarter of 2011. Class B saw a similar drop of $0.04 in asking rents, and Class C office asking rents remained stable at $1.70 psf. While net absorption is picking up and vacancy rates have now decreased over the past two quarters, asking rates may continue to drop for the next two or three quarters as much of the leasing activity is in the form of businesses relocating to less expensive space.

EMPLOYMENT

	Aug 2011	Aug 2010	Change
Financial Activities	35,900	39,800	-3,900
Professional & Business Services	102,800	98,100	+4,700
Health Care & Social Assistance	67,300	63,100	+4,200
TOTAL	206,000	201,000	+5,000

Source: Nevada Department of Employment, Training and Rehabilitation.

DISTRESSED OFFICE PROPERTIES

	Q3-11	Q2-11	Q3-10
Class A	698,000 sf	698,000 sf	752,000 sf
Class B	1,716,000 sf	1,672,000 sf	1,437,000 sf
Class C	2,681,000 sf	2,734,000 sf	2,540,000 sf
TOTAL	5,095,000 sf	5,104,000 sf	4,729,000 sf

OWNER/USER SALES ACTIVITY

Owner User Space	2011 YTD	2010	2009
Space for Sale (sf)	1,092,000	1,444,000	910,000
Average Asking Price/SF	$136	$171	$219
Space Sold (sf)	348,000	463,000	91,000
Average Price/SF	$112	$125	$182

INVESTMENT SALES ACTIVITY

Investment Space	2011 YTD	2010	2009
Space for Sale (sf)	1,292,000	1,504,000	891,000
Average Asking Price/SF	$90	$133	$228
Average Cap Rate	9.2%	9.0%	7.8%
Space Sold (sf)	934,000	925,000	439,000
Average Price/SF	$84	$104	$159
Average Cap Rate	6.9%	8.8%	10.1%

OFFICE DEVELOPMENT PIPELINE

PROJECT	TYPE	SUBMARKET	SIZE	PRE-LEASING	COMPLETION
Horizon Ridge Professional Park	Class C	Henderson	26,190	0%	2011/12

MARKET COMPARISONS

OFFICE MARKET

TYPE	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	PLANNED CONSTRUCTION SF	WEIGHTED AVG ASKING RENTAL RATE
AIRPORT																
A	6	564,478	200,501	35.5%	-	0.0%	200,501	35.5%	55.0%	110,124	117,320	-	(80,000)	-	-	$2.68
B	43	2,001,710	285,395	14.3%	35,719	1.8%	321,114	16.0%	16.4%	6,452	(4,522)	-	-	-	-	$1.93
C	266	2,858,482	814,355	28.5%	19,918	0.7%	834,273	29.2%	29.6%	28,615	(4,521)	-	-	-	-	$1.63
Total	315	5,424,670	1,300,251	24.0%	55,637	1.0%	1,355,888	25.0%	27.4%	145,191	108,277	-	(80,000)	-	-	$1.86
DOWNTOWN																
A	5	807,588	64,366	8.0%	9,269	1.1%	73,635	9.1%	11.3%	17,282	3,224	-	-	-	-	$2.81
B	32	2,253,742	295,691	13.1%	1,500	0.1%	297,191	13.2%	15.0%	290,260	274,058	300,000	300,000	-	-	$2.10
C	80	1,101,666	133,321	12.1%	-	0.0%	133,321	12.1%	13.4%	14,561	11,908	-	-	-	-	$1.37
Total	117	4,162,996	493,378	11.9%	10,769	0.3%	504,147	12.1%	13.8%	322,103	289,190	300,000	300,000	-	-	$2.00
EAST LAS VEGAS																
A	9	1,351,642	271,619	20.1%	18,723	1.4%	290,342	21.5%	21.5%	(225)	(50,952)	-	-	-	-	$3.06
B	19	1,409,335	458,900	32.6%	-	0.0%	458,900	32.6%	29.9%	(37,727)	(33,113)	-	-	-	-	$1.25
C	141	2,404,834	617,126	25.7%	9,076	0.4%	626,202	26.0%	24.9%	(27,229)	(9,729)	-	-	-	-	$1.42
Total	169	5,165,811	1,347,645	26.1%	27,799	0.5%	1,375,444	26.6%	25.4%	(65,181)	(93,794)	-	-	-	-	$1.69
HENDERSON																
A	11	787,274	235,373	29.9%	13,949	1.8%	249,322	31.7%	31.9%	15,566	(3,278)	-	-	-	-	$2.44
B	68	2,275,287	585,961	25.8%	28,908	1.3%	614,869	27.0%	24.0%	(70,763)	(235,720)	-	-	-	-	$2.22
C	218	2,131,233	448,199	21.0%	2,104	0.1%	450,303	21.1%	21.3%	11,862	54,195	12,444	12,444	-	26,190	$1.84
Total	297	5,193,794	1,269,533	24.4%	44,961	0.9%	1,314,494	25.3%	24.1%	(43,335)	(184,803)	12,444	12,444	-	26,190	$2.13
NORTH LAS VEGAS																
A	-	-	-	n/a	-	n/a	-	n/a	n/a	-	-	-	-	-	-	$-
B	8	200,796	72,674	36.2%	-	0.0%	72,674	36.2%	35.9%	(564)	20,318	-	-	-	-	$1.76
C	49	426,417	92,029	21.6%	-	0.0%	92,029	21.6%	17.3%	(18,069)	(30,095)	-	-	-	-	$1.59
Total	57	627,213	164,703	26.3%	-	0.0%	164,703	26.3%	23.3%	(18,633)	(9,777)	-	-	-	-	$1.67
NORTHWEST																
A	21	1,594,415	719,478	45.1%	4,128	0.3%	723,606	45.4%	44.5%	(23,660)	(22,616)	-	85,000	-	-	$2.25
B	82	2,922,722	627,879	21.5%	43,619	1.5%	671,498	23.0%	22.9%	6,205	(398)	-	-	-	-	$2.18
C	281	2,907,739	744,514	25.6%	6,011	0.2%	750,525	25.8%	23.8%	(58,134)	(26,595)	-	-	-	-	$1.88
Total	384	7,424,876	2,091,871	28.2%	53,758	0.7%	2,145,629	28.9%	27.9%	(75,589)	(49,609)	-	85,000	-	-	$2.09
SOUTHWEST																
A	3	397,112	222,996	56.2%	-	0.0%	222,996	56.2%	62.6%	25,786	64,441	-	-	-	-	$2.59
B	70	2,715,179	648,089	23.9%	55,753	2.1%	703,842	25.9%	27.5%	48,511	16,274	-	-	-	-	$2.41
C	303	3,303,202	741,944	22.5%	43,615	1.3%	785,559	23.8%	25.9%	71,517	66,721	-	-	-	-	$1.91
Total	376	6,415,493	1,613,029	25.1%	99,368	1.5%	1,712,397	26.7%	28.9%	145,814	147,436	-	-	-	-	$2.20
WEST CENTRAL																
A	2	227,624	35,339	15.5%	-	0.0%	35,339	15.5%	15.5%	-	7,774	-	-	-	-	$2.00
B	46	1,672,458	353,614	21.1%	-	0.0%	353,614	21.1%	21.2%	240	(16,870)	-	-	-	-	$1.77
C	165	2,641,888	619,814	23.5%	2,069	0.1%	621,883	23.5%	22.2%	(35,334)	(64,646)	-	-	-	-	$1.59
Total	213	4,541,970	1,008,767	22.2%	2,069	0.0%	1,010,836	22.3%	21.5%	(35,094)	(73,742)	-	-	-	-	$1.67
MARKET TOTAL																
A	57	5,730,133	1,749,672	30.5%	46,069	0.8%	1,795,741	31.3%	33.8%	144,873	115,913	-	5,000	-	-	$2.51
B	368	15,451,229	3,328,203	21.5%	165,499	1.1%	3,493,702	22.6%	22.6%	242,614	20,027	300,000	300,000	-	-	$2.02
C	1,503	17,775,461	4,211,302	23.7%	82,793	0.5%	4,294,095	24.2%	23.9%	(12,211)	(2,762)	12,444	12,444	-	26,190	$1.70
Total	1,928	38,956,823	9,289,177	23.8%	294,361	0.8%	9,583,538	24.6%	24.9%	375,276	133,178	312,444	317,444	-	26,190	$1.97
QUARTERLY COMPARISON AND TOTALS																
Q3-11	1,928	38,956,823	9,289,177	23.8%	294,361	0.8%	9,583,538	24.6%	24.9%	375,276	133,178	312,444	317,444	-	26,190	$1.97
Q2-11	1,925	38,644,379	9,352,009	24.2%	266,009	0.7%	9,618,018	24.9%	25.1%	37,889	(242,098)	-	5,000	332,444	26,190	$2.00
Q1-11	1,925	38,644,379	9,389,898	24.3%	312,812	0.8%	9,702,710	25.1%	24.5%	(279,987)	(279,987)	5,000	5,000	312,444	26,190	$2.05
Q4-10	1,925	38,639,379	9,104,911	23.6%	349,015	0.9%	9,453,926	24.5%	24.5%	66,589	(552,585)	25,000	76,432	385,000	44,678	$2.08
Q3-10	1,924	38,614,379	9,146,500	23.7%	325,373	0.8%	9,471,873	24.5%	24.7%	(33,550)	(619,174)	23,749	51,432	385,000	44,678	$2.12

The amount of office space available for sublease increased this quarter to 317,000 square feet from last quarter's 289,000 square feet. The amount of office space available for sublease has been bouncing around for the past year after declining in 2010. Sublease space on the market peaked in the fourth quarter of 2008 at 904,000 square feet. If one included vacant sublease space with directly vacant space, the office vacancy rate this quarter was 24.6 percent.

The amount of office space available for sale on an owner/user basis now stands at 1,092,000 square feet, lower than the 1,444,000 square feet available for sale at the end of 2010. The average asking price for owner/user space sold so far in 2011 was $136 psf, a decrease of $35 psf from the end of 2010. Significant owner/user sale offerings included 4300 W Tropicana Ave (348,000 square feet), the Oakey Office Building (100,625 square feet) and Russell Gateway Professional Center (48,000 square feet). The key owner/user sale in the third quarter of 2011 occurred at 280 Pilot Road, a 99,000 square foot Class A office building, to Ameriprise Financial, which will occupy the building.

Properties available for sale on an investment basis decreased to 1,292,000 square feet from last year's 1,504,000 square feet. The average asking price for investment sales was $90 psf, a $43 psf decrease from last year. Significant investment properties for sale included 101 Convention Center Plaza (306,000 square feet), the East India Buildings (146,000 square feet), and the Mammoth Professional Building in Henderson (80,000 square feet).

Investment and owner/user sales activity is improved in 2011 over the past three years. Sales prices continue to decline for both investment and owner/user sales. The average cap rate declined for properties sold in 2011 versus properties sold in 2010, but the average cap rate for available properties has generally been increasing.

It seems as though Southern Nevada's office market is in a mild expansion, with office employment on the rise, net and gross absorption on the rise, and vacancy rates falling for two quarters in a row. A similar trend occurred at the end of 2009, though not quite so dramatic, so it is possible that these two positive quarters will be followed by more negativity in 2012. Most distressing is that virtually all of the positive absorption experienced this quarter can be attributed to two events; the completion of the LVMPD headquarters and the owner/user sale of 280 Pilot Road by Ameriprise Financial. Without those two deals, net absorption this quarter would have been negative 25,000 square feet. We would feel more comfortable about this expansion if it was broader based. Worse yet, the national economy appeared to be slowing or maybe entering a "business cycle" recession within the larger financial recession that began in 2008. If the national economy goes back into recession, Southern Nevada's office gains may be short lived.

512 offices in 61 countries on 6 continents

United States: 125
Canada: 38
Latin America: 18
Asia Pacific: 214
EMEA: 117

- $1.5 billion in annual revenue
- $979 million square feet under management
- Over 12,500 professionals

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