

Office Market Report

Compared to previous quarter:

Vacancy



UP

Net Absorption



DOWN

Lease Rates



DOWN

Construction



DOWN

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Prepared by:

Jerry J. Holdner, Jr. – Lic.#01145748

Vice President of Market Research

VOIT Real Estate Services – Lic.#01333376

e-mail: jholdner@voitco.com

Market Highlights

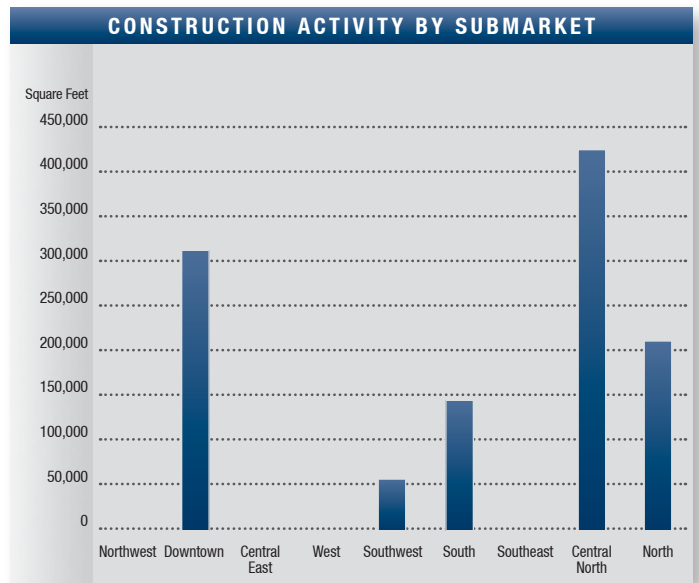
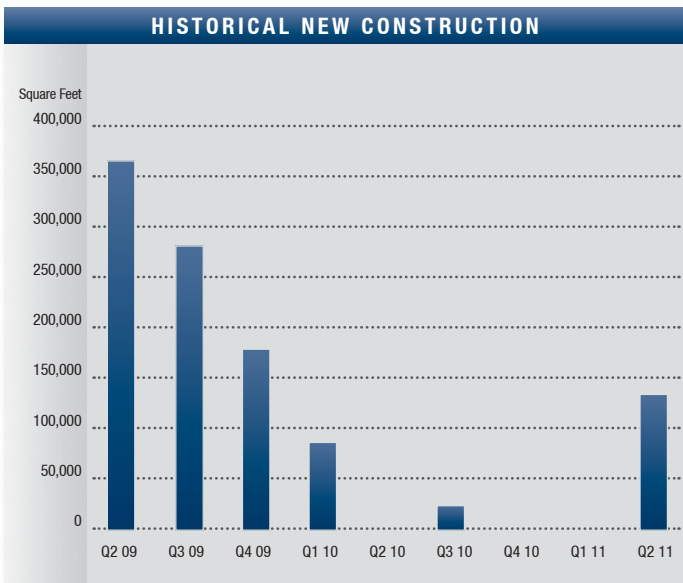
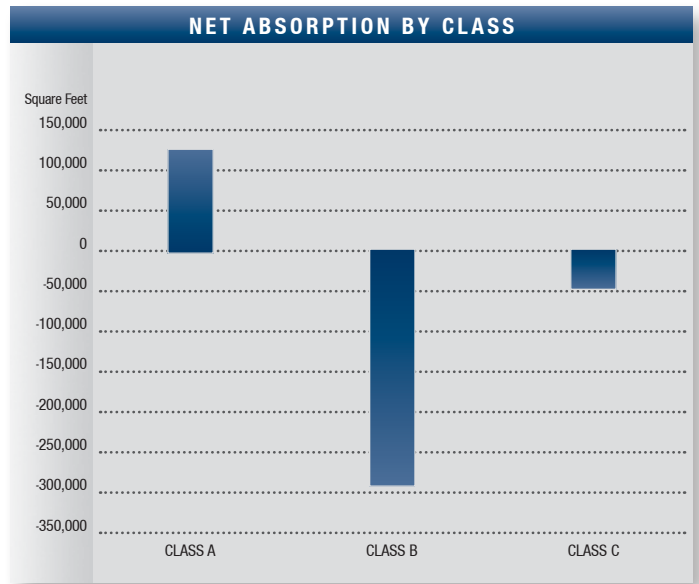
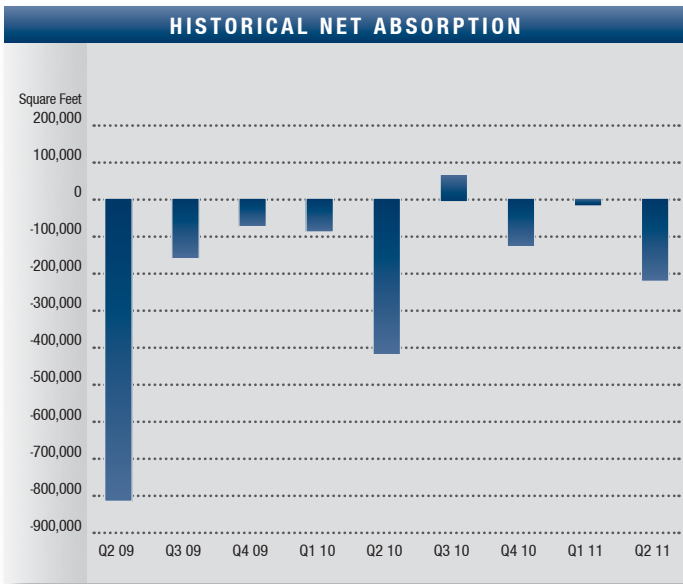
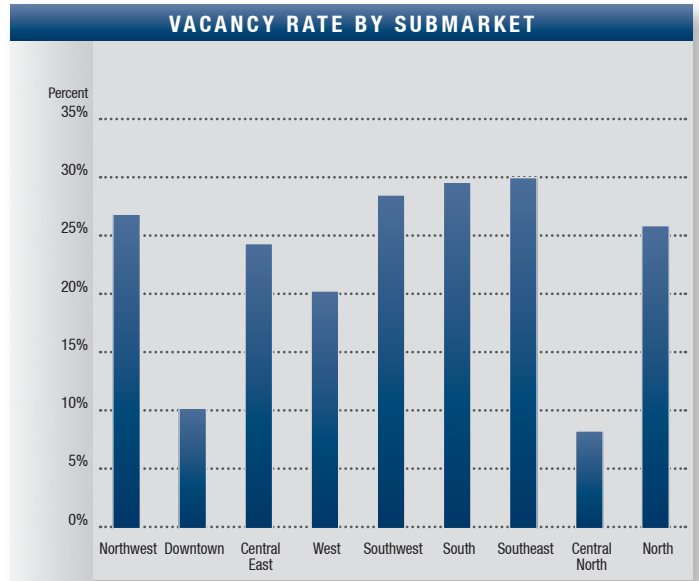
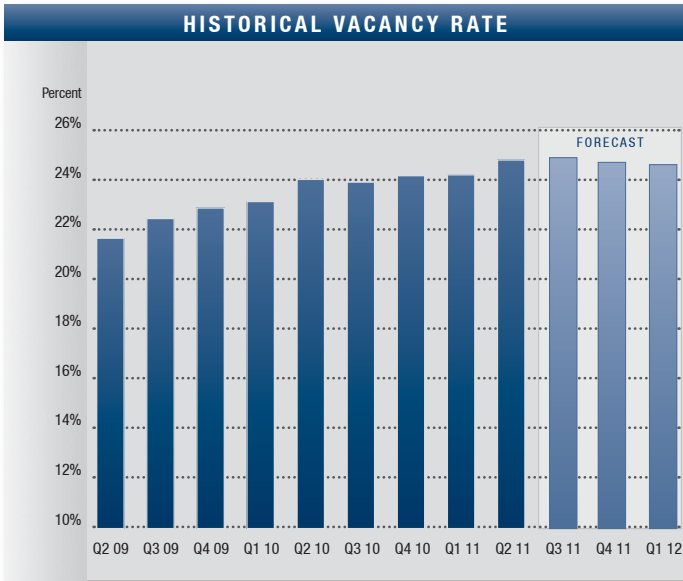
- Market Overview** - The vacancy rate ticked upward after a year of relatively little movement. The vacancy rate reached a new high as it rose to 24.8 percent, up 0.7 percentage points from the prior quarter. Prices continued to decline, with valley wide average asking rents dipping to \$2.03 per square foot per month, a 4.7–percent drop from the same period a year ago.
- Inventory** - The market witnessed inventory growth during the second quarter as more than 132,000 square feet completed construction in two projects. An 8,200 square foot three–story, partially preleased building completed construction on the City of Henderson’s historic Water Street. Phase I of Tivoli Village delivered 124,000 square feet to the market. As the vacancy rate is at an all–time high, the market will likely see limited new inventory in the near term.
- Demand** - During the quarter, the vacancy rate ascended to 24.8 percent (12.5 million square feet) as the market witnessed 222,200 square feet of negative net absorption. Demand is limited as office–using employment remains significantly down from pre–recession levels. Since the recession began, more than 4.9 million square feet has been added to market, while 1.7 million square feet of negative net absorption has occurred over the same period.
- Future Supply** - Seven projects totaling 1.1 million square feet remain actively under construction. The majority of the projects being constructed are for

preleased government users. The largest project is a 390,000–square–foot government building, which will be occupied by the Las Vegas Metropolitan Police Department in the central/north submarket. New city halls for Las Vegas (310,000 square feet) and North Las Vegas (210,400 square feet) are also under construction, leaving only 229,800 square feet of construction attributable to the private sector. Approximately 2.6 million square feet remain planned, and until broader economic conditions improve and the count of office–using employees rises significantly, it is likely these projects will not move forward.

- Economic Considerations** - After three months of significant expansion in the labor market, May 2011 employment figures were disappointing. Joined with the end of the Federal Reserve’s second round of quantitative easing and no plans for further efforts to jumpstart the economy, the pace of future economic growth remains uncertain. For the consumer, inflation is impacting almost everything but housing, and a lack of real growth in income has confidence on uneasy ground. It is likely that job reports will have to show stronger improvement more consistently before the tide buoys all.
- Looking Forward** - With a new high in the vacancy rate, downward pressure on pricing will likely continue, forcing landlords to operate within tighter margins and lenders to suffer with underperforming assets.

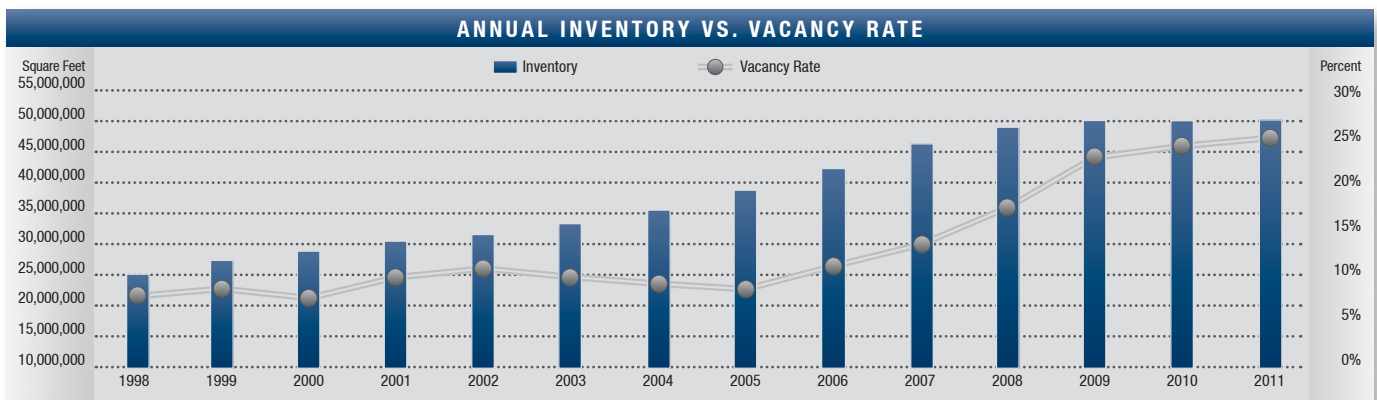
OFFICE MARKET OVERVIEW

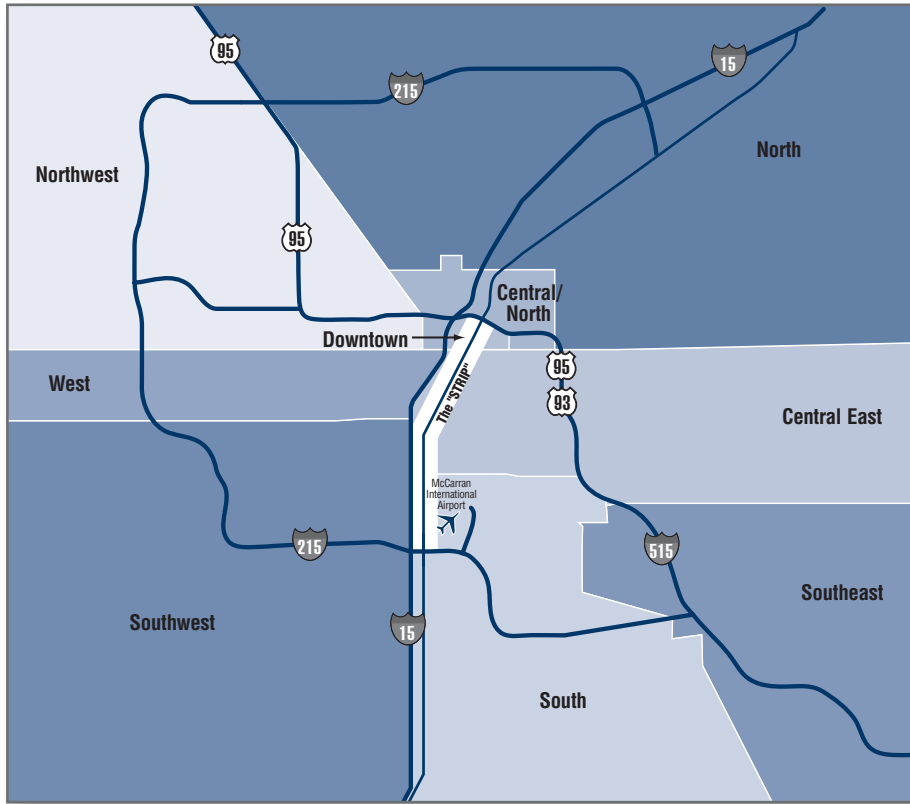
	Q2 2011	Q1 2011	Q2 2010	Q2 2011 vs. Q2 2010
Under Construction	1,140,000	1,178,000	1,076,000	5.9%
Planned Construction	2,640,000	2,755,000	2,878,000	(8.3%)
Vacancy	24.8%	24.1%	24.0%	0.8 points
Net Absorption	(222,000)	(14,000)	(420,000)	N/A



	INVENTORY				VACANCY RATES		ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet Under Construction	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q2 2011	Net Absorption Q2 2011	Net Absorption YTD 2011	New Inventory Q2 2011	New Inventory YTD 2011
Northwest										
Class A	25	2,062,331	–	115,000	681,672	33.1%	69,480	90,424	124,000	124,000
Class B	220	5,618,717	–	245,519	1,424,577	25.4%	(78,702)	(62,271)	–	–
Class C	13	210,914	–	–	37,634	17.8%	–	5,500	–	–
Northwest Total	258	7,891,962	–	360,519	2,143,883	27.2%	(9,222)	33,653	124,000	124,000
Downtown										
Class A	8	1,692,502	310,000	–	111,515	6.6%	(336)	(336)	–	–
Class B	18	936,513	–	–	183,442	19.6%	588	(2,864)	–	–
Class C	48	1,052,352	–	–	76,922	7.3%	(5,851)	(14,491)	–	–
Downtown Total	74	3,681,367	310,000	–	371,879	10.1%	(5,599)	(17,691)	–	–
Central East										
Class A	13	1,491,632	–	173,210	334,540	22.4%	716	(5,007)	–	–
Class B	61	2,528,322	–	–	629,152	24.9%	20,711	4,495	–	–
Class C	104	2,984,595	–	–	740,130	24.8%	(15,899)	(13,957)	–	–
Central East Total	178	7,004,549	–	173,210	1,703,822	24.3%	5,528	(14,469)	–	–
West										
Class A	7	975,077	–	200,000	90,434	9.3%	–	–	–	–
Class B	213	4,606,559	–	–	957,970	20.8%	(20,605)	68,673	–	–
Class C	70	1,533,170	–	–	391,827	25.6%	(18,108)	(9,248)	–	–
West Total	290	7,114,806	–	200,000	1,440,231	20.2%	(38,713)	59,425	–	–
Southwest										
Class A	14	1,039,530	–	346,628	321,065	30.9%	30,069	42,548	–	–
Class B	293	6,930,574	54,000	926,002	2,062,997	29.8%	(74,416)	(68,082)	–	–
Class C	34	770,079	–	–	109,136	14.2%	(2,245)	873	–	–
Southwest Total	341	8,740,183	54,000	1,272,630	2,493,198	28.5%	(46,592)	(24,661)	–	–
South										
Class A	23	1,964,711	–	–	716,372	36.5%	23,076	28,436	–	–
Class B	442	8,337,519	142,761	491,419	2,307,691	27.7%	(111,381)	(240,301)	–	–
Class C	30	367,107	–	–	129,286	35.2%	(12,558)	(23,332)	–	–
South Total	495	10,669,337	142,761	491,419	3,153,349	29.6%	(100,863)	(235,197)	–	–
Southeast										
Class A	3	265,015	–	–	155,305	58.6%	–	23,205	–	–
Class B	92	1,698,956	–	27,200	440,589	25.9%	(3,711)	(33,850)	8,155	8,155
Class C	14	143,408	–	–	36,842	25.7%	399	399	–	–
Southeast Total	109	2,107,379	–	27,200	632,736	30.0%	(3,312)	(10,246)	8,155	8,155
Central/North										
Class A	1	220,000	–	–	–	0.0%	–	–	–	–
Class B	15	648,611	423,000	–	37,858	5.8%	(1,890)	(14,955)	–	–
Class C	18	681,027	–	–	91,235	13.4%	4,280	13,318	–	–
Central/North Total	34	1,549,638	423,000	–	129,093	8.3%	2,390	(1,637)	–	–
North										
Class A	1	45,376	210,400	–	20,014	44.1%	–	–	–	–
Class B	71	1,283,183	–	115,213	377,191	29.4%	(25,819)	(25,565)	–	–
Class C	14	326,358	–	–	31,061	9.5%	–	–	–	–
North Total	86	1,654,917	210,400	115,213	428,266	25.9%	(25,819)	(25,565)	–	–
Las Vegas Total										
Class A	95	9,756,174	520,400	834,838	2,430,917	24.9%	123,005	179,270	124,000	124,000
Class B	1,425	32,588,954	619,761	1,805,353	8,421,467	25.8%	(295,225)	(374,720)	8,155	8,155
Class C	345	8,069,010	–	–	1,644,073	20.4%	(49,982)	(40,938)	–	–
Las Vegas Total	1,865	50,414,138	1,140,161	2,640,191	12,496,457	24.8%	(222,202)	(236,388)	132,155	132,155

This survey consists of buildings greater than 5,000 square feet. **Note:** Planned inventory includes projects that previously commenced construction but are not actively underway.





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