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Office Market Report

Compared to last quarter:



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Market Highlights

- ◆ **Market Overview** – The Las Vegas office market continued to report negative absorption or net move-outs, declining pricing, and a vacancy rate edging higher. With Las Vegas unemployment reaching new heights (13.4 percent) and instability in the broader economy, investments in the commercial office market and the human capital that occupies it will remain limited.
- ◆ **Vacancy** – During the quarter, approximately 55 percent of completions were sourced to owner-user buildings while a modest supply of tenant-seeking speculative space entered an already over-supplied market. The amount of occupied space valley-wide fell to 38.2 million, a level not witnessed since the second quarter of 2007. The average vacancy rate reached 22.7 percent, which represented a 0.7-point increase from the preceding quarter (Q2 2009). Compared to the prior year (Q3 2008), vacancies were up 5.7 points from 17.0 percent. It is important to note that the vacancy rate among speculative space reach 24.8 percent at the end of the quarter.
- ◆ **Inventory** – Completions during the quarter totaled 214,628 square feet, located in the south and southwest submarkets. On an annualized basis, new supply has dwindled and less than one million square feet of new supply is expected to enter the market during 2009, a figure not seen since 2003. We expect even less development in 2010 with a plug on the development pipe until the supply-demand imbalance corrects itself.
- ◆ **Project Completions** – The southwest submarket witnessed the completion of a handful of buildings: a two-story office building located in the Durango Business Park at Durango Commons (56,000 square feet); Crisci Corporate Offices (16,600 square feet) along West Flamingo Road; and additional space at the Nevada Cancer Institute (102,000 square feet) near

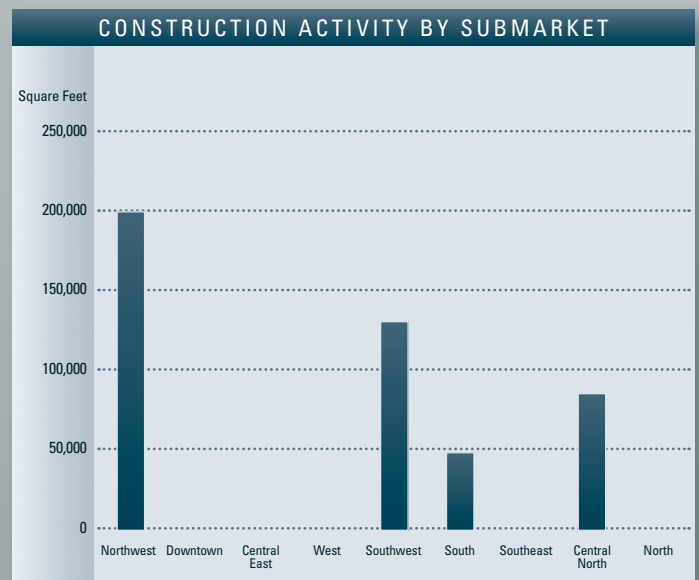
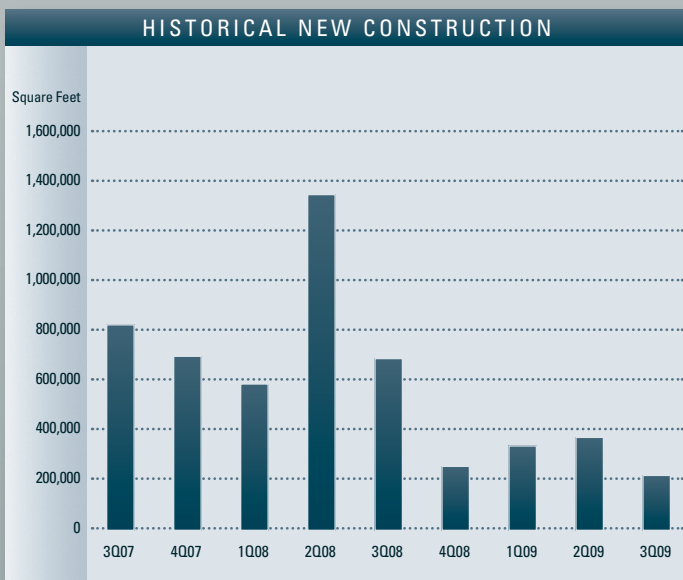
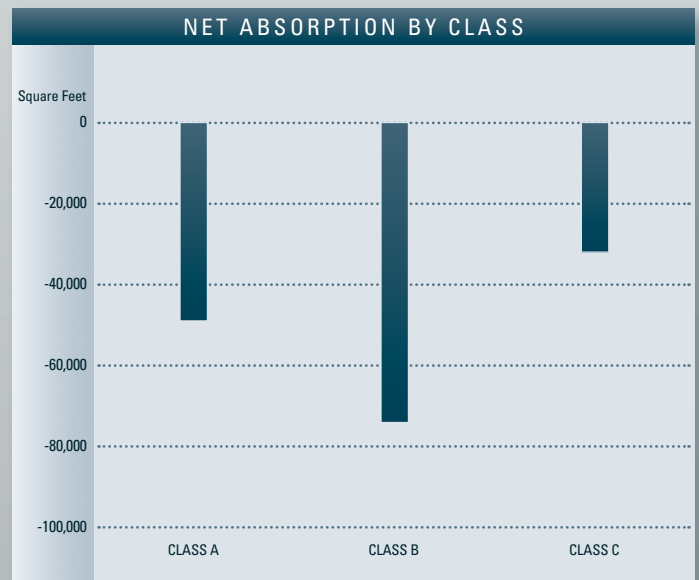
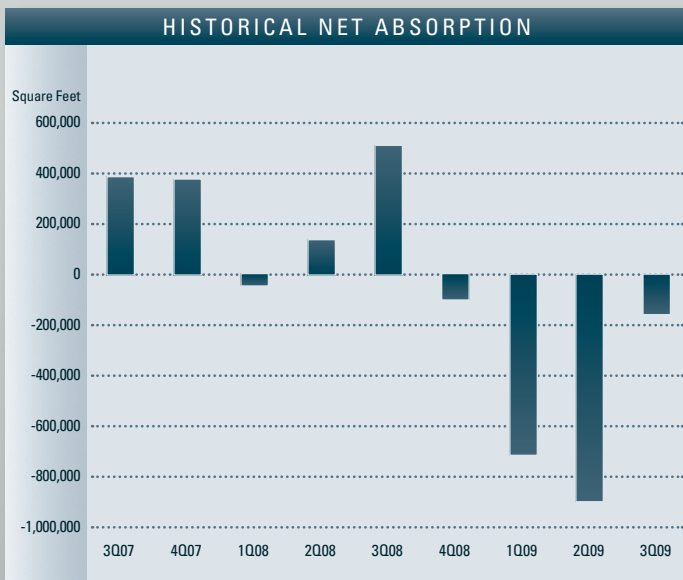
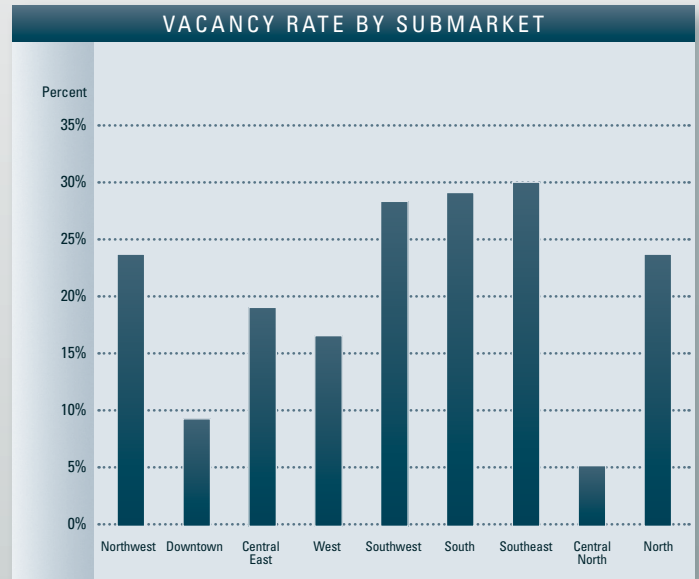
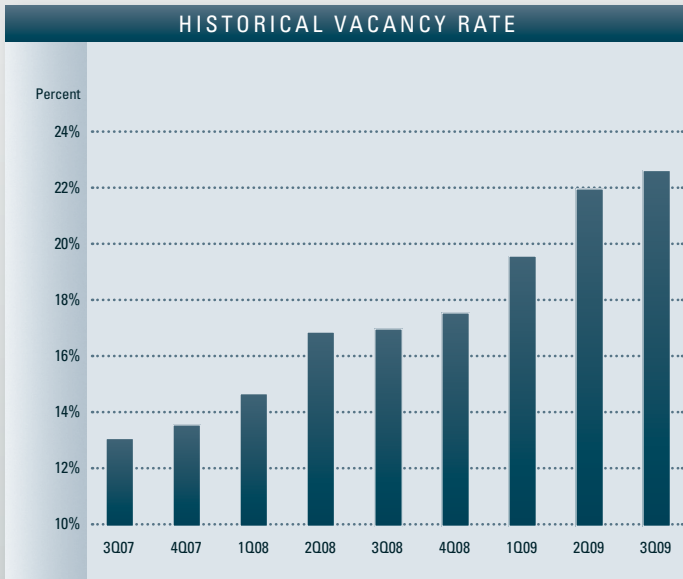
Interstate 215 and Town Center Drive. The south submarket reported a 40,000-square-foot office building completing construction near Horizon Ridge and Eastern Avenue. With the latest additions, market-wide inventory reached 49.5 million square feet.

- ◆ **Future Supply** – At the close of the quarter, a limited number of projects with approximately 462,900 square feet remain actively under construction. While these are likely to finish in the near term, approximately 0.8 million square feet remains in projects that have stalled or delayed construction activity. For reporting purposes, this space is included within the 3.9 million square feet of planned space that is unlikely to move forward in the near term.
- ◆ **Economic Considerations** – Economic conditions continued to deteriorate in Las Vegas as job losses continued, pushing 60,400 southern Nevada's out of work during the past 12 months (down 6.7 percent year-over-year). As a result, unemployment levels rose to 13.4 percent, up from 7.0 percent one year ago. Job losses remain particularly high in the most prominent sectors - construction (down 21,400 jobs or 22.6 percent) and leisure and hospitality (down 18,700 jobs or 6.9 percent).
- ◆ **Looking Forward** – National economic contraction has slowed and growth in a variety of leading indicators is expected, yet Las Vegas has yet to reap the benefits of a recession that is 'very likely over.' Due to years of overbuilding, three and a half years of excess inventory on the books, and an expectation of growing commercial foreclosures, average price points may soon be dictated by lenders. An abundance of more favorable lease opportunities will be available as contraction in the business and office-using market continues.

OFFICE MARKET OVERVIEW

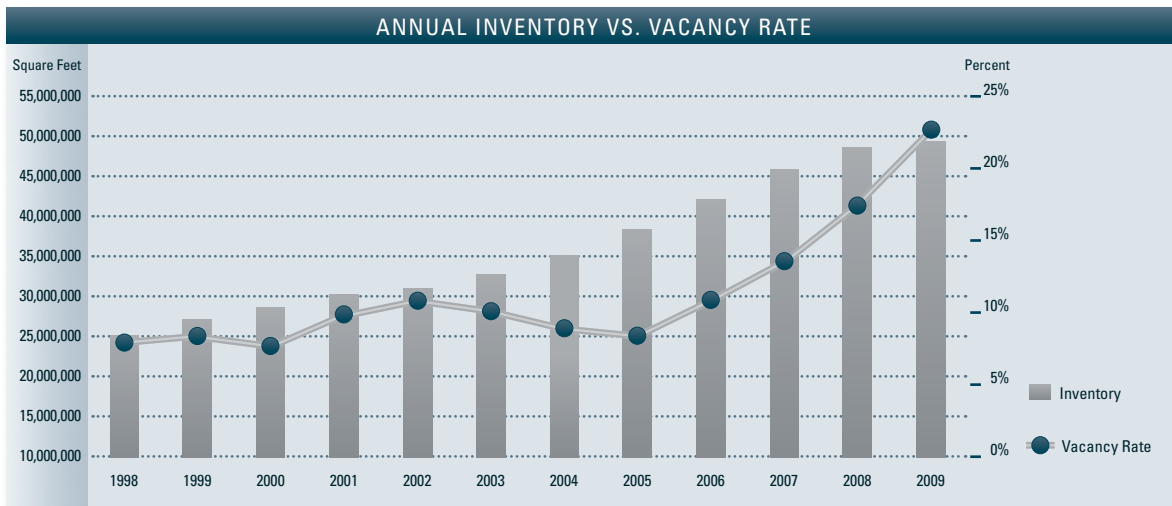
	Q3 2009	Q2 2009	Q3 2008	% CHANGE VS. Q3 2008
Under Construction	462,900	1,445,000	2,431,600	-80.96%
Planned Construction	3,913,600	3,591,300	4,394,500	-10.94%
Vacancy	22.7%	22.0%	17.0%	33.59%
Net Absorption	-154,600	-893,000	515,500	N/A

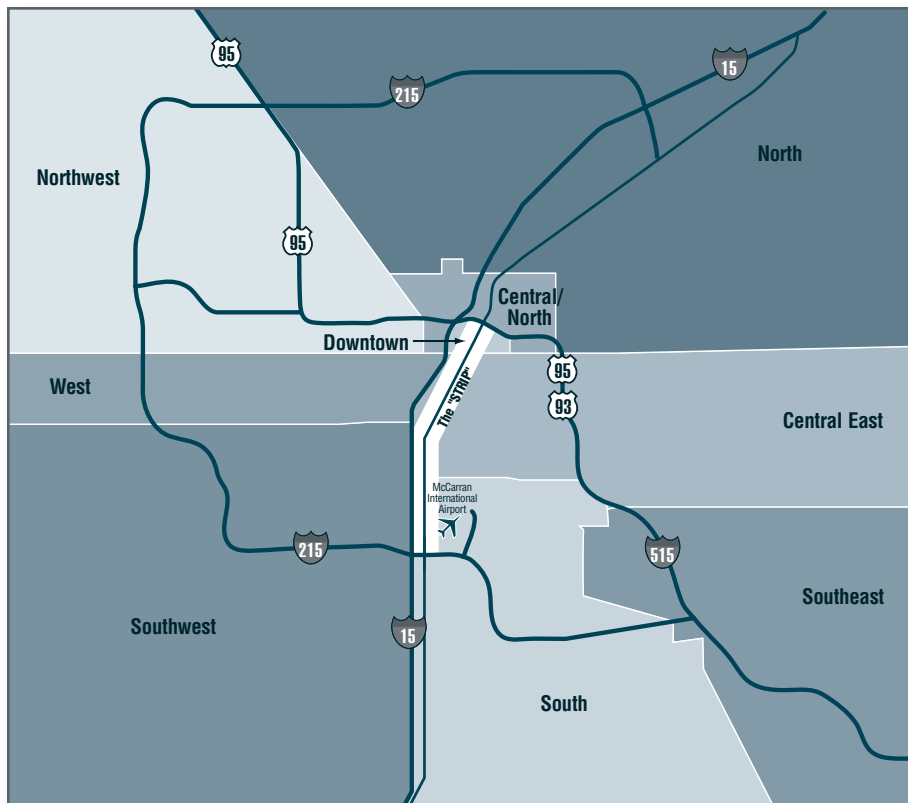
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	INVENTORY				VACANCY		ABSORPTION	
	Number of Buildings	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2009	Net Absorption 3Q2009	New Inventory 3Q2009
Northwest								
Class A	24	1,938,331	200,000	-	583,343	30.1%	(5,883)	-
Class B	224	5,667,306	-	266,299	1,241,437	21.9%	(110,450)	-
Class C	9	162,002	-	-	15,042	9.3%	-	-
Northwest Total	257	7,767,639	200,000	266,299	1,839,822	23.7%	(116,333)	-
Downtown								
Class A	8	1,692,502	-	-	67,676	4.0%	(12,853)	-
Class B	40	1,103,119	-	-	188,707	17.1%	19,884	-
Class C	24	605,723	-	-	58,761	9.7%	-	-
Downtown Total	72	3,401,344	-	-	315,144	9.3%	7,031	-
Central East								
Class A	13	1,491,632	-	173,210	241,721	16.2%	9,239	-
Class B	109	4,059,138	-	-	873,384	21.5%	(31,214)	-
Class C	55	1,429,486	-	-	207,976	14.5%	(15,410)	-
Central East Total	177	6,980,256	-	173,210	1,323,081	19.0%	(37,385)	-
West								
Class A	7	975,077	-	200,000	67,407	6.9%	(8,051)	-
Class B	242	5,489,301	-	149,469	1,005,729	18.3%	(12,396)	-
Class C	38	599,926	-	-	96,861	16.1%	(11,201)	-
West Total	287	7,064,304	-	349,469	1,169,997	16.6%	(31,648)	-
Southwest								
Class A	14	1,039,530	-	416,628	490,963	47.2%	8,672	-
Class B	304	7,158,801	130,000	1,221,974	1,860,954	26.0%	73,085	174,628
Class C	20	334,783	-	-	67,261	20.1%	90	-
Southwest Total	338	8,533,114	130,000	1,638,602	2,419,178	28.4%	81,847	174,628
South								
Class A	23	1,966,113	-	81,214	763,113	38.8%	(39,975)	-
Class B	452	8,384,237	48,047	748,999	2,263,477	27.0%	3,414	40,000
Class C	17	139,712	-	-	26,212	18.8%	(2,968)	-
South Total	492	10,490,062	48,047	830,213	3,052,802	29.1%	(39,529)	40,000
Southeast								
Class A	3	265,015	-	-	172,557	65.1%	0	-
Class B	93	1,710,017	-	116,336	435,772	25.5%	(47,587)	-
Class C	12	123,737	-	-	19,108	15.4%	(2,355)	-
Southeast Total	108	2,098,769	-	116,336	627,437	29.9%	(49,942)	-
Central/North								
Class A	1	220,000	-	370,000	-	0.0%	-	-
Class B	23	876,769	84,814	-	41,325	4.7%	2,292	-
Class C	9	368,055	-	-	30,533	8.3%	-	-
Central/North Total	33	1,464,824	84,814	370,000	71,858	4.9%	2,292	-
North								
Class A	1	45,376	-	-	17,641	38.9%	-	-
Class B	80	1,432,903	-	169,500	350,040	24.4%	29,110	-
Class C	5	176,638	-	-	24,014	13.6%	-	-
North Total	86	1,654,917	-	169,500	391,695	23.7%	29,110	-
Las Vegas Total								
Class A	94	9,633,576	200,000	1,241,052	2,404,421	25.0%	(48,851)	-
Class B	1,567	35,881,591	262,861	2,672,577	8,260,825	23.0%	(73,862)	214,628
Class C	189	3,940,062	-	-	545,768	13.9%	(31,844)	-
Total	1,850	49,455,229	462,861	3,913,629	11,211,014	22.7%	(154,557)	214,628

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.





PRODUCT TYPE

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