

Office Market Report

Compared to last quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Construction

DOWN

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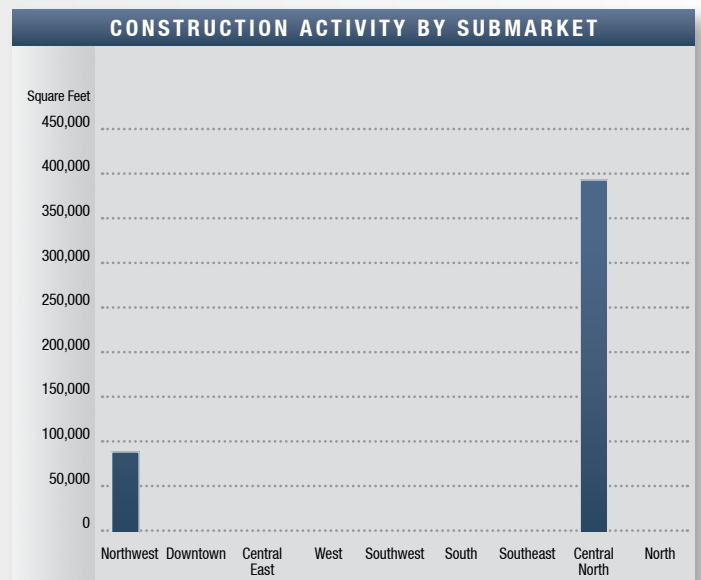
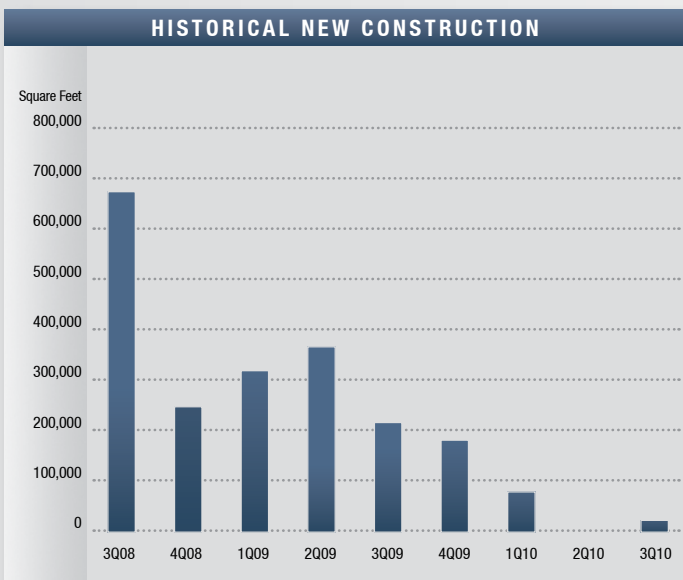
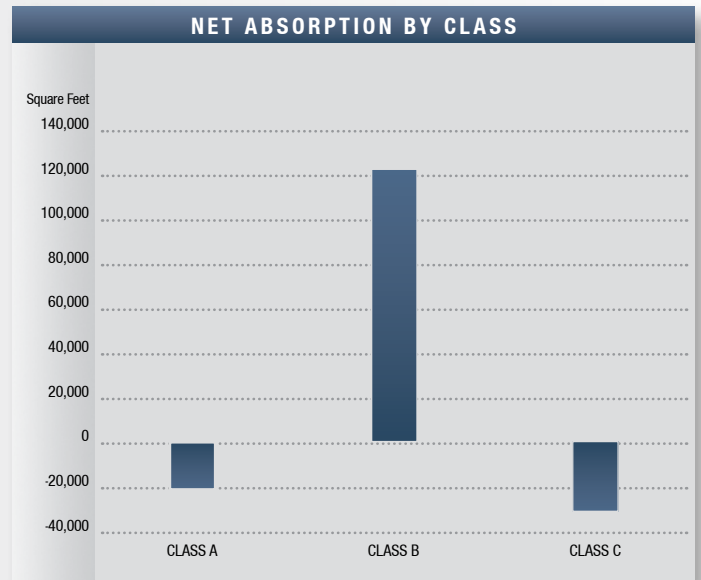
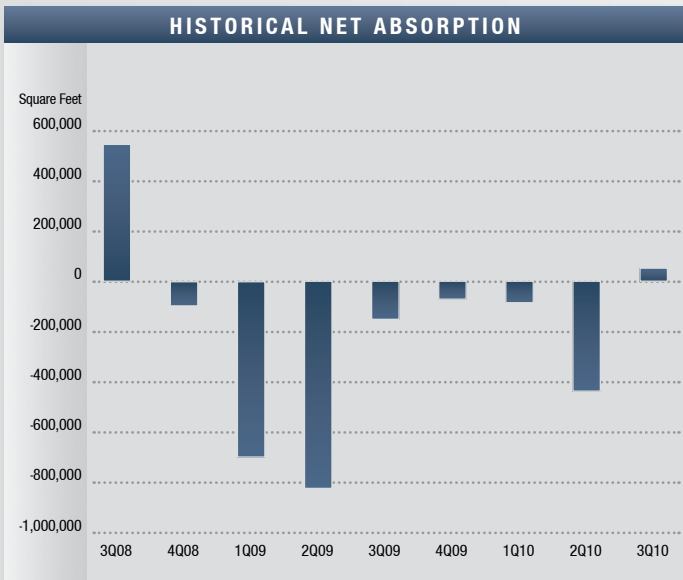
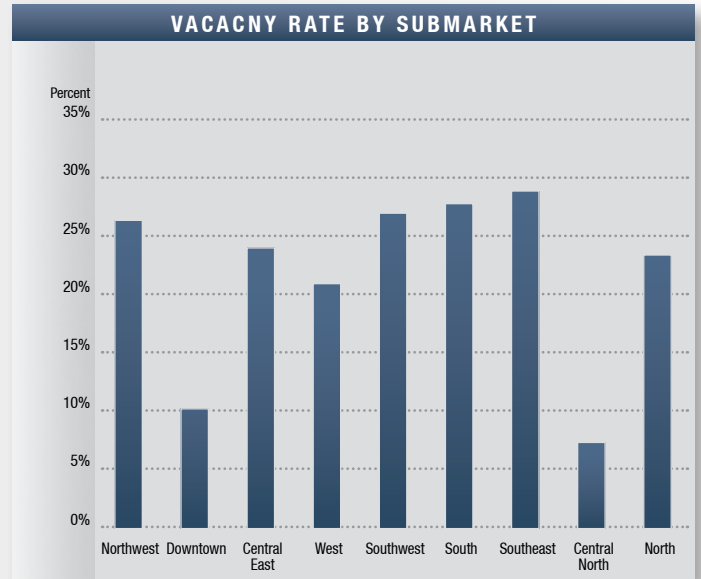
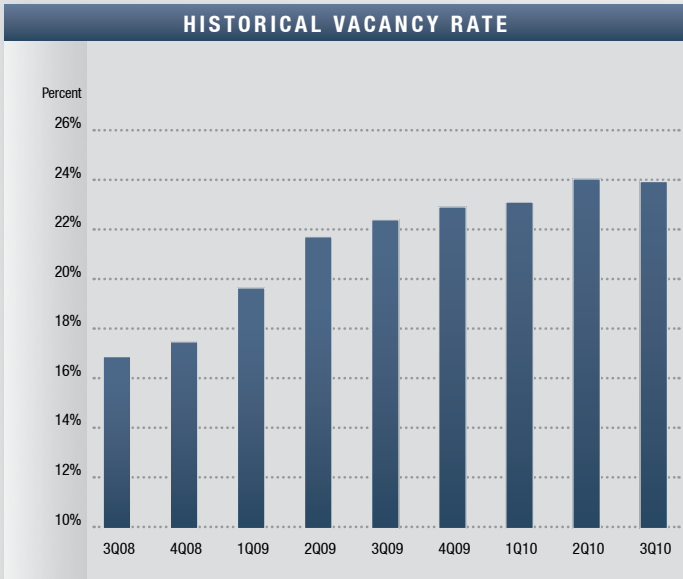
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Market Highlights

- Market Overview** – While one period does not infer a trend, the office market in Las Vegas showed signs of life after years of downturn. With little inventory remaining in the development pipeline, the absorption of second-generation space outpaced new inventory resulting in a slight decline of the vacancy rate. Nevertheless, with the vacancy rate remaining near its all-time high, a reduction in pricing continued in the third quarter.
- Inventory** – Inventory in the office market moved slightly upward to 49.7 million square feet by the close of the third quarter as a 21,000-square-foot office project completed construction. Over the past year, the market witnessed 283,900 square feet of new construction, which represented the lowest annual tally since the 1990s, suggesting the development community is responding to the more than 4 years of excess capacity in the market.
- Demand** – During the quarter, the market reported 68,900 square feet of positive net absorption. The latest period represents the first positive demand witnessed in two years. Vacancies edged downward to 24.0 percent of inventory, or 11.9 million square feet. This is the first time the vacancy rate has declined since the second quarter of 2005.
- Future Supply** – Looking forward, only two buildings totaling 475,000 square feet remain actively under construction. The largest project is a 390,000-square-foot government building, which will be occupied by the Las Vegas Metropolitan Police Department. Tivoli Village, a mixed-use development project in the northwest submarket is moving forward, which will include 85,000 square feet of Class A product in the first phase. Nearly 2.5 million square feet remain planned, and until market conditions improve and vacancies decline considerably, these projects will likely not move forward in the near term.
- Economic Considerations** – Clouds continue to hover over the economic environment in southern Nevada. In August, the unemployment rate declined 10 basis points from its peak of 14.8 percent reached during the prior month. While the decline is welcome, the unemployment rate remains up 1.7 percentage points from a year ago and one of the highest in the country. While the national recession was officially declared over in June 2009, the southern Nevada labor market continues to struggle, particularly in key sectors such as construction and casino-hotel gaming which have shed 13,500 and 2,000 jobs, respectively, during the last year. There have been some bright spots, with 3,600 jobs added in professional and business services and 1,600 jobs in food services and drinking places.
- Looking Forward** – With little construction activity remaining, demand in the office market will continue to be driven by pricing, which has fallen sharply over the last two years. Additionally, many spaces have been returned to the lender, only to see further price reductions due to the weak demand environment. With the office market holding 11.9 million square feet of vacant space, average asking prices will likely continue falling until underlying fundamentals report sustained improvements.

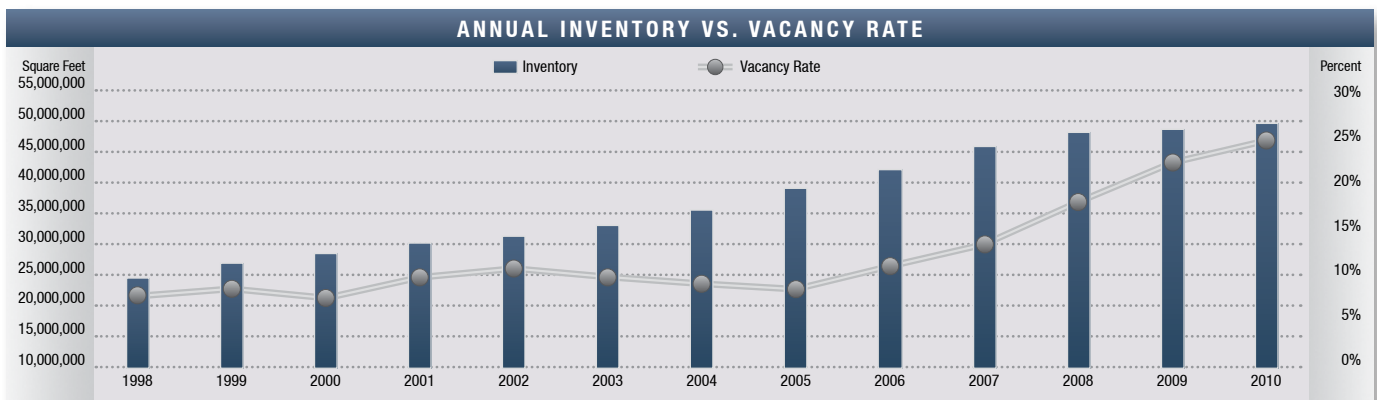
OFFICE MARKET OVERVIEW

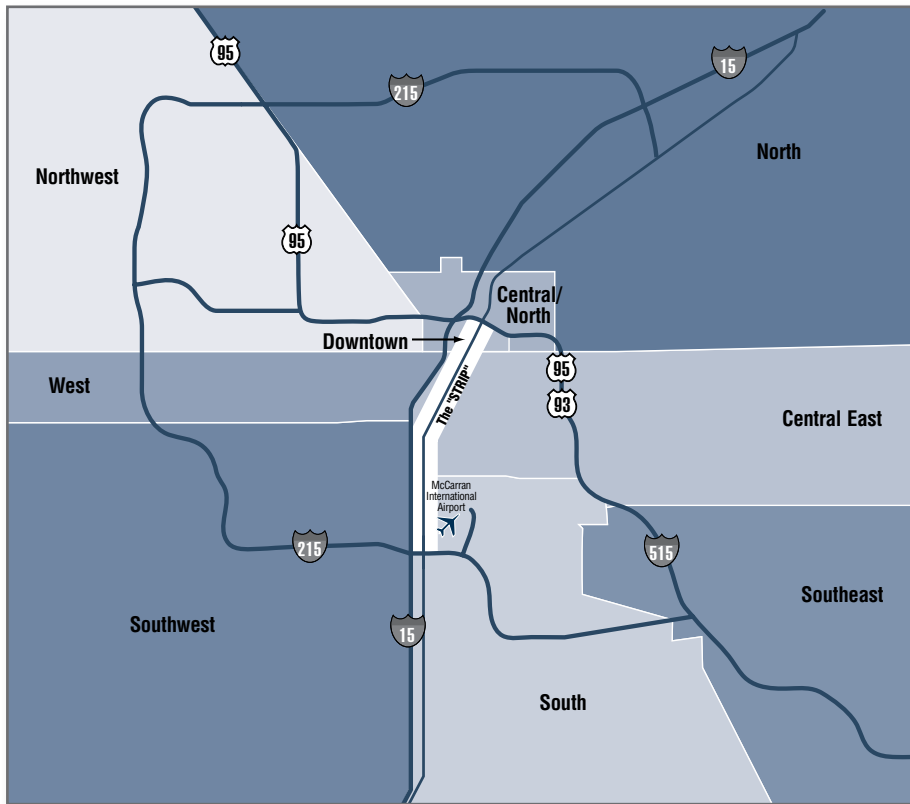
	3Q2010	2Q2010	3Q2009	% Change vs. 3Q2009
Under Construction	475,000	496,000	463,000	2.6%
Planned Construction	2,590,000	2,590,000	4,045,000	-36.0%
Vacancy	24.0%	24.1%	22.5%	6.6%
Net Absorption	69,000	-420,000	-168,000	N/A



	INVENTORY			VACANCY RATES			ABSORPTION	
	Number of Bldgs.	Net Rentable Square Feet	Square Feet Under Construction	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2010	Net Absorption 3Q2010	New Inventory 3Q2010
Northwest								
Class A	24	1,938,331	85,000	115,000	646,030	33.3%	(22,040)	–
Class B	224	5,667,629	–	245,519	1,380,062	24.3%	77,873	–
Class C	9	162,002	–	–	29,734	18.4%	–	–
Northwest Total	257	7,767,962	85,000	360,519	2,055,826	26.5%	55,833	–
Downtown								
Class A	8	1,692,502	–	–	105,869	6.3%	(9,592)	–
Class B	40	1,103,119	–	–	180,578	16.4%	9,595	–
Class C	24	605,723	–	–	62,431	10.3%	(3,293)	–
Downtown Total	72	3,401,344	–	–	348,878	10.3%	(3,290)	–
Central East								
Class A	13	1,491,632	–	173,210	325,682	21.8%	(25,006)	–
Class B	107	3,974,849	–	–	1,026,527	25.8%	(22,979)	–
Class C	57	1,514,068	–	–	274,961	18.2%	(6,730)	–
Central East Total	177	6,980,549	–	173,210	1,627,170	23.3%	(54,715)	–
West								
Class A	7	975,077	–	200,000	90,434	9.3%	(893)	–
Class B	242	5,489,896	–	–	1,242,086	22.6%	(24,179)	–
Class C	38	599,923	–	–	147,029	24.5%	(3,847)	–
West Total	287	7,064,896	–	200,000	1,479,549	20.9%	(28,919)	–
Southwest								
Class A	14	1,039,530	–	346,628	368,695	35.5%	31,861	–
Class B	305	7,288,701	–	876,002	1,930,635	26.5%	46,391	–
Class C	20	334,783	–	–	76,564	22.9%	3,200	–
Southwest Total	339	8,663,014	–	1,222,630	2,375,894	27.4%	81,452	–
South								
Class A	23	1,964,711	–	–	742,724	37.8%	3,497	–
Class B	454	8,453,284	–	491,419	2,184,161	25.8%	6,260	21,000
Class C	17	139,712	–	–	22,672	16.2%	145	–
South Total	494	10,557,707	–	491,419	2,949,557	27.9%	9,902	21,000
Southeast								
Class A	3	265,015	–	–	178,510	67.4%	–	–
Class B	93	1,710,472	–	27,200	392,397	22.9%	16,762	–
Class C	12	123,737	–	–	29,461	23.8%	(9,625)	–
Southeast Total	108	2,099,224	–	27,200	600,368	28.6%	7,137	–
Central/North								
Class A	1	220,000	–	–	–	0.0%	–	–
Class B	24	961,583	390,000	–	47,782	5.0%	(1,613)	–
Class C	9	368,055	–	–	67,451	18.3%	(11,468)	–
Central/North Total	34	1,549,638	390,000	–	115,233	7.4%	(13,081)	–
North								
Class A	1	45,376	–	–	10,567	23.3%	–	–
Class B	80	1,432,903	–	115,213	350,496	24.5%	14,541	–
Class C	5	176,638	–	–	24,014	13.6%	–	–
North Total	86	1,654,917	–	115,213	385,077	23.3%	14,541	–
Las Vegas Total								
Class A	94	9,632,174	85,000	834,838	2,468,511	25.6%	(22,173)	–
Class B	1,569	36,082,436	390,000	1,755,353	8,734,724	24.2%	122,651	21,000
Class C	191	4,024,641	–	–	734,317	18.2%	(31,618)	–
Total	1,854	49,739,251	475,000	2,590,191	11,937,552	24.0%	68,860	21,000

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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