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Real Estate Services

Office Market Report

Compared to last quarter:



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Market Highlights

- ◆ **Market Overview** – The Las Vegas office market continued to struggle for stabilization as pricing declined to a three-year low, vacancy reached a new high and office-using employment remains down 4.3 percent over last year. With occupied space at a level not seen in nearly three years combined with a continuing expansion of inventory throughout 2009, the office sector is expected to remain relatively weak as it attempts to shed four years of excess supply.
- ◆ **Vacancy** – During the quarter, the vacancy rate edged up from 22.6 percent to 23.0 percent, representing the smallest quarterly increase in over a year. Five quarters of negative net absorption totaling over 2.0 million square feet has taken its toll on fundamentals in the office market. The record-high vacancy rate has pushed up nearly 5.5 points over the last year and nearly tripled since its low of 8.1 percent during the third quarter of 2005.
- ◆ **Inventory** – A pre-leased build-to-suit medical office building was delivered during the quarter. The 48,800-square-foot medical office project sits on the northwest corner of Horizon Ridge Parkway and Jeffreys Street in the south submarket. Tenants include Horizon Surgical Center and Foot and Ankle Surgical Group. The 957,700 square feet completing construction during 2009 is on par with the lowest levels of expansion since the last economic downturn in 2002, when just over 918,700 square feet were completed. This latest addition brings market-wide inventory to 49.5 million square feet.
- ◆ **Future Supply** – By the end of the 2009, a limited number of projects totaling 414,800 square feet remained actively

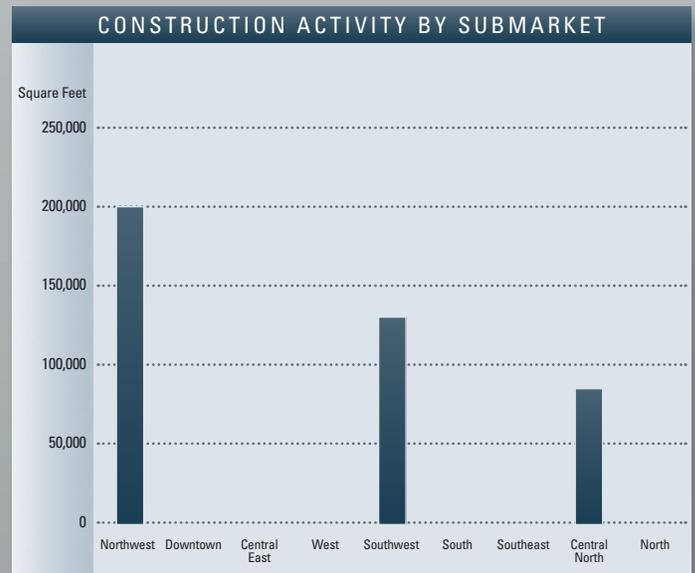
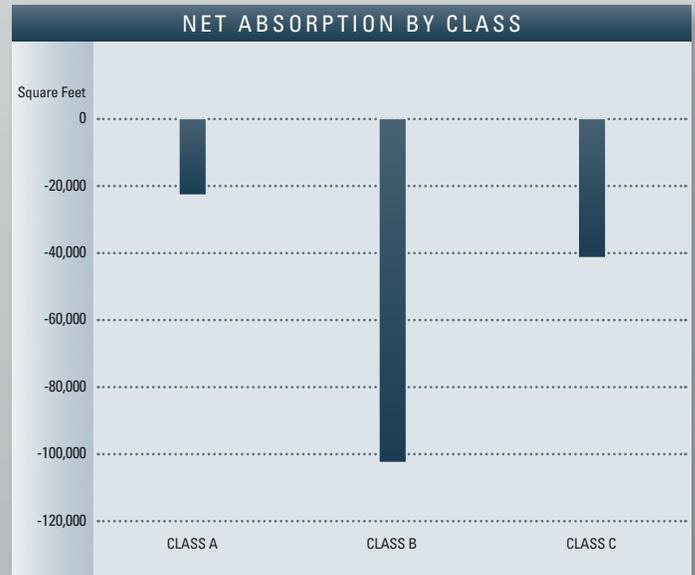
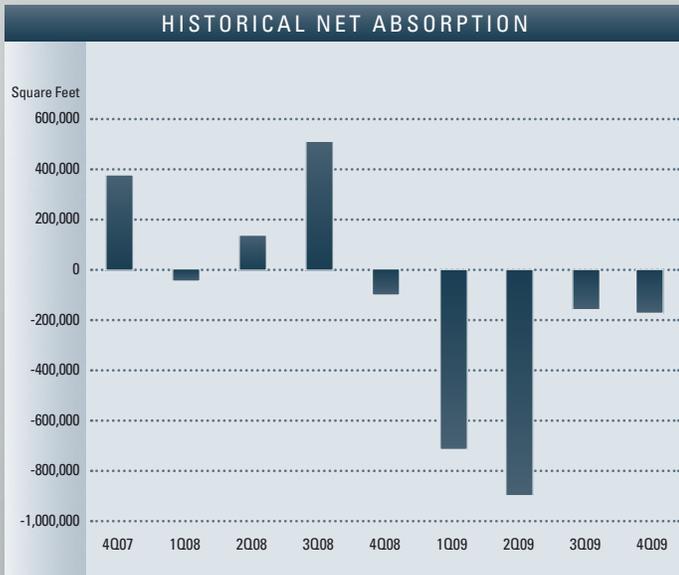
under construction. The Campos Office building, an 84,800-square-foot build-to-suit government facility will likely finish in early 2010, while the remaining speculative space is not expected to be delivered for several quarters. Approximately 0.8 million square feet remain in projects that have stalled or delayed construction activity and for reporting purposes, this space is included within the 3.8 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 persisted, pushing 60,400 southern Nevadans out of work during the past 12 months (employment is down 6.7 percent year-over-year). Unemployment levels have dipped to 12.1 percent from its high of 13.9 percent reached earlier in the year, largely due to seasonality and fewer people looking for work. Job losses remain particularly high in construction (down 20,300 jobs or 23.1 percent) and are likely to worsen as casino and other commercial projects finish construction.
- ◆ **Looking Forward** – With several years of excess inventory, we are likely to see lenders become more involved in managing distressed commercial assets. Quicker short sales or the restructuring of notes may play a pivotal role in resetting price points, potentially moving tenants and buyers off the sidelines. The downturn largely caused by the housing bubble, cheap credit, and exuberant consumer spending will take time to correct. Creative measures on the part of lenders, tenants, and landlords will be required as market dynamics adjust to the new market realities.

OFFICE MARKET OVERVIEW

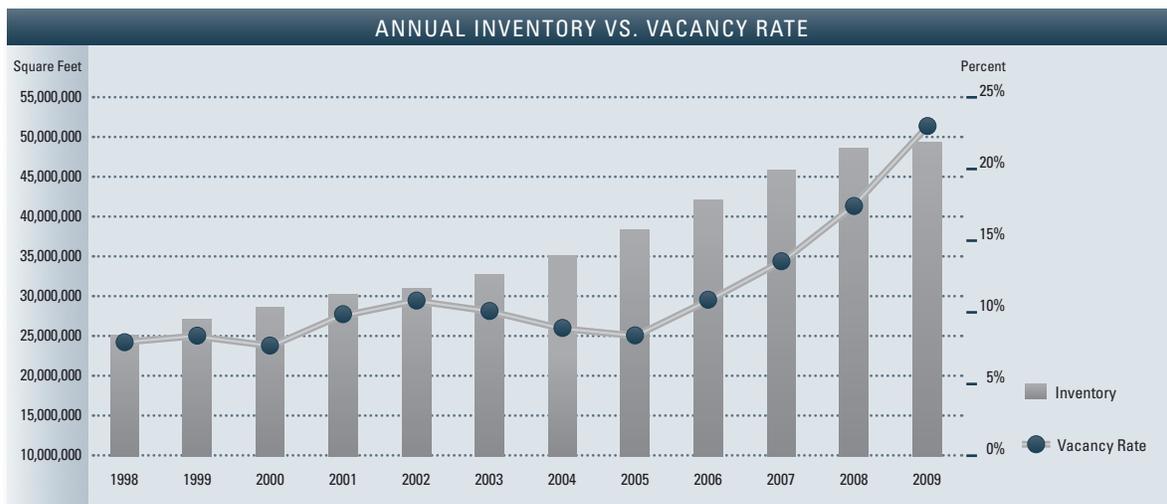
	2009	2008	2007	2009 VS. 2008
Under Construction	414,800	2,202,200	3,555,800	-88.33%
Planned Construction	3,830,600	4,667,200	6,876,300	-44.29%
Vacancy	23.0%	17.6%	13.6%	69.12%
Net Absorption	-1,926,000	532,000	2,064,000	N/A

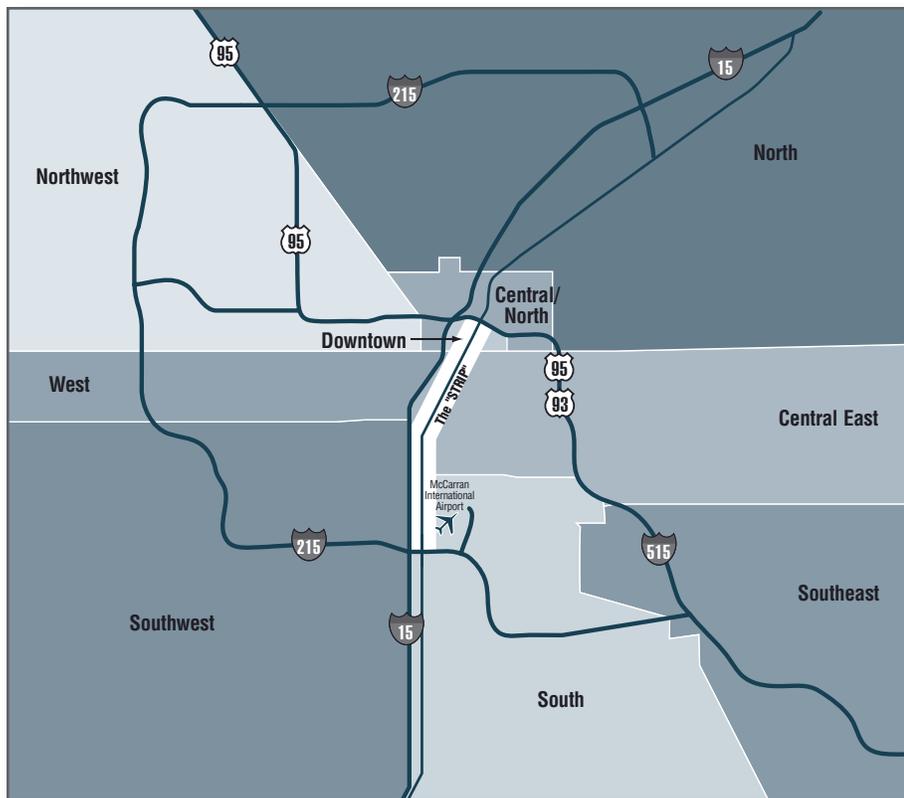
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	INVENTORY				VACANCY		ABSORPTION	
	Number of Buildings	Net Rentable Square Feet	Square Feet Under Construction	Square Feet Planned	Square Feet Vacant	Vacancy Rate 4Q2009	Net Absorption 4Q2009	New Inventory 4Q2009
Northwest								
Class A	24	1,938,331	200,000	-	641,654	33.1%	(58,311)	-
Class B	224	5,667,306	-	266,299	1,274,138	22.5%	(48,701)	-
Class C	9	162,002	-	-	13,449	8.3%	1,593	-
Northwest Total	257	7,767,639	200,000	266,299	1,929,241	24.8%	(105,419)	-
Downtown								
Class A	8	1,692,502	-	-	67,112	4.0%	564	-
Class B	40	1,103,119	-	-	182,824	16.6%	5,883	-
Class C	24	605,723	-	-	67,205	11.1%	(8,444)	-
Downtown Total	72	3,401,344	-	-	317,141	9.3%	(1,997)	-
Central East								
Class A	13	1,491,632	-	173,210	253,922	17.0%	(12,201)	-
Class B	109	4,059,138	-	-	921,249	22.7%	(47,865)	-
Class C	55	1,429,779	-	-	218,156	15.3%	(10,180)	-
Central East Total	177	6,980,549	-	173,210	1,393,327	20.0%	(70,246)	-
West								
Class A	7	975,077	-	200,000	94,921	9.7%	(27,514)	-
Class B	242	5,489,896	-	149,469	1,088,317	19.8%	(82,588)	-
Class C	38	599,926	-	-	113,631	18.9%	(16,770)	-
West Total	287	7,064,899	-	349,469	1,296,869	18.4%	(126,872)	-
Southwest								
Class A	14	1,039,530	-	416,628	460,312	44.3%	30,651	-
Class B	304	7,159,340	130,000	1,168,974	1,871,271	26.1%	(10,317)	-
Class C	20	334,783	-	-	68,476	20.5%	(1,215)	-
Southwest Total	338	8,533,653	130,000	1,585,602	2,400,059	28.1%	19,119	-
South								
Class A	23	1,966,113	-	81,214	718,216	36.5%	44,897	-
Class B	453	8,432,284	-	718,999	2,230,712	26.5%	80,812	48,047
Class C	17	139,712	-	-	26,212	18.8%	-	-
South Total	493	10,538,109	-	800,213	2,975,140	28.2%	125,709	48,047
Southeast								
Class A	3	265,015	-	-	172,557	65.1%	0	-
Class B	93	1,710,472	-	116,336	421,267	24.6%	14,505	-
Class C	12	123,737	-	-	24,428	19.7%	(5,320)	-
Southeast Total	108	2,099,224	-	116,336	618,252	29.5%	9,185	-
Central/North								
Class A	1	220,000	-	370,000	-	0.0%	-	-
Class B	23	876,769	84,814	-	43,158	4.9%	(1,833)	-
Class C	9	368,055	-	-	30,641	8.3%	(108)	-
Central/North Total	33	1,464,824	84,814	370,000	73,799	5.0%	(1,941)	-
North								
Class A	1	45,376	-	-	17,641	38.9%	-	-
Class B	80	1,432,903	-	169,500	361,296	25.2%	(11,256)	-
Class C	5	176,638	-	-	24,014	13.6%	-	-
North Total	86	1,654,917	-	169,500	402,951	24.3%	(11,256)	-
Las Vegas Total								
Class A	94	9,633,576	200,000	1,241,052	2,426,335	25.2%	(21,914)	-
Class B	1,568	35,931,227	214,814	2,589,577	8,394,232	23.4%	(101,360)	48,047
Class C	189	3,940,355	-	-	586,212	14.9%	(40,444)	-
Total	1,851	49,505,158	414,814	3,830,629	11,406,779	23.0%	(163,718)	48,047

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

CLASS A

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.

CLASS B

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

CLASS C

Buildings competing for tenants requiring functional space at rents below the area average.

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