

Office Market Report

Compared to 2009:

Vacancy



Net Absorption

NEGATIVE



Lease Rates

DOWN



Construction

DOWN



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Market Highlights

- Market Overview** - With little demand for office space and approximately five years of excess inventory on the market, office product witnessed another quarter of increased vacancy. The vacancy rate increased 24 basis points from the previous quarter to end the year at 24.2 percent. Compared to a year ago, the vacancy rate has climbed 1.3 percentage points while average asking rents have fallen 7.2 percent over the same period.
- Inventory** - Inventory in the office market remained the same as the previous quarter at 49.7 million square feet. During 2010, the market witnessed 105,800 square feet of new construction, which represented the lowest annual tally since the early 1990s, as the market patiently waits for excess supply to shrink.
- Demand** - During the quarter, the market witnessed 118,700 square feet of negative net absorption pushing the vacancy rate upward to 24.2 percent of inventory, or 12.1 million square feet. For the second consecutive year, the market witnessed annual negative net absorption. During 2010, the market posted 559,200 square feet of net move-outs as professional office employment struggled.
- Future Supply** - Looking forward, a handful of projects totaling 616,800 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 in the central/north submarket. Tivoli Village, a mixed-use development project in the northwest submarket is moving forward, which

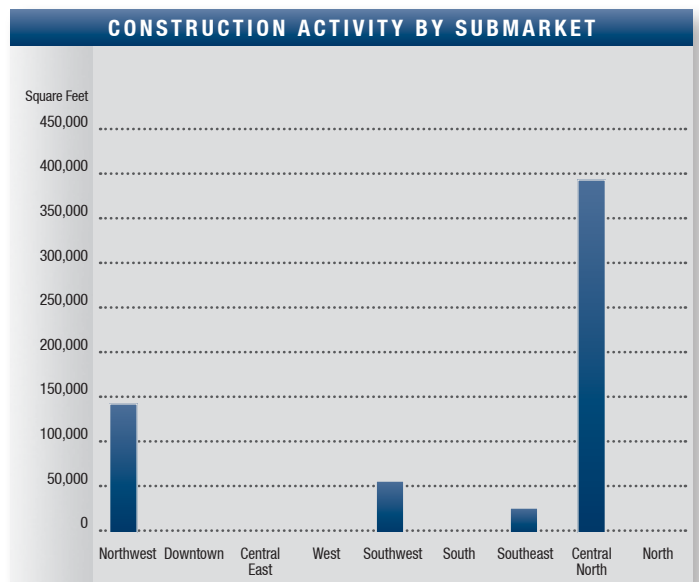
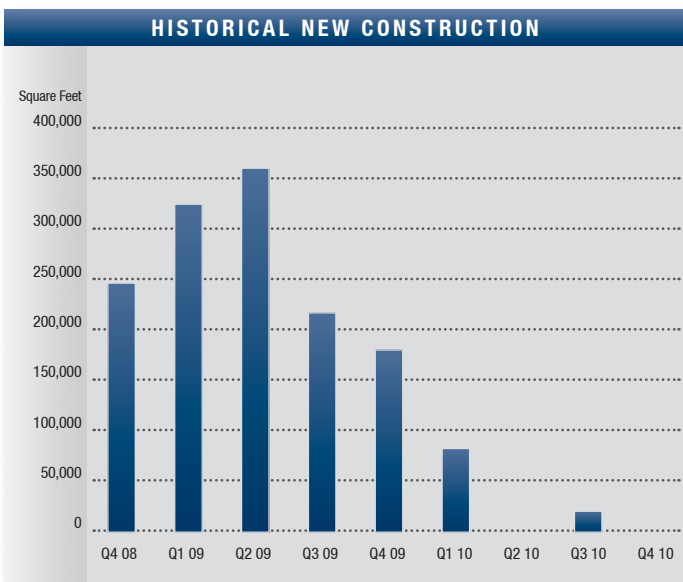
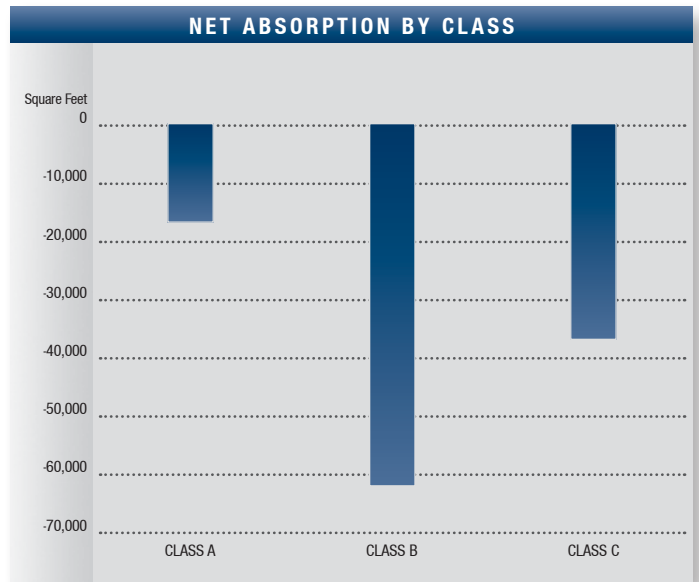
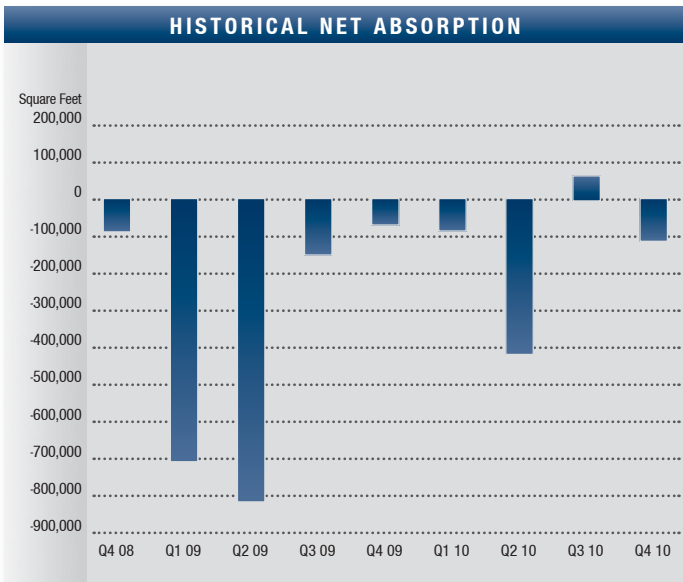
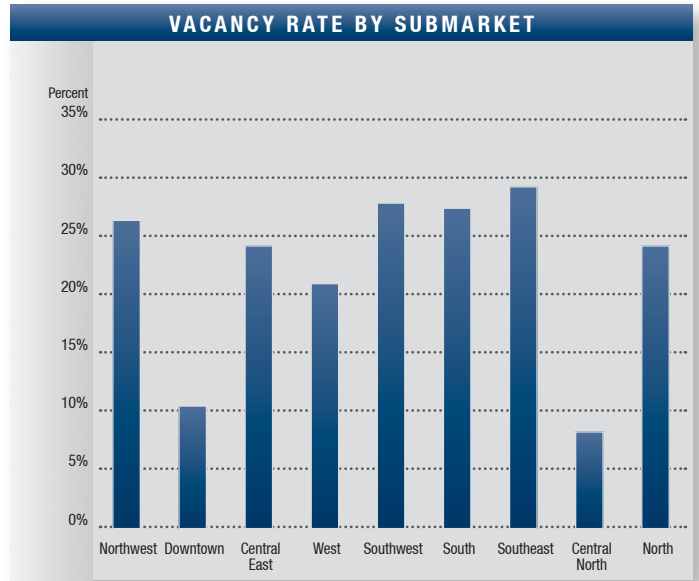
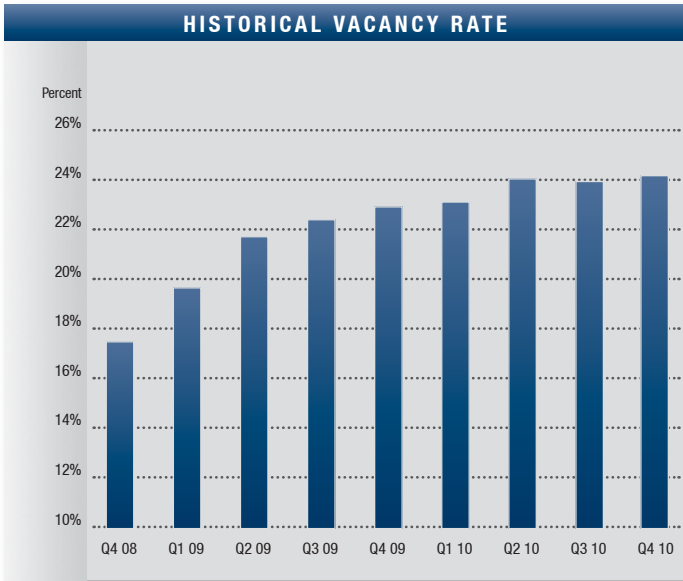
will include 145,000 square feet of Class A product in the first phase. An additional 54,000 square feet is being developed in the southwest, and a smaller three-building project totaling 27,800 square feet in the south portion of the valley is underway. Nearly 2.6 million square feet remain planned, and until market conditions improve, tenants are in tow, and vacancies decline considerably, these projects will likely not move forward in the near term.

- Economic Considerations** - As Nevada continues to hold the highest unemployment (14.3 percent seasonally adjusted) and foreclosure rate in the country, the Las Vegas valley continues to struggle with a relatively weak economic outlook. One bright spot following the national economic recovery is leisure and business travel to the region. During the fourth quarter, visitor volume and gaming revenue moved upward, a possible sign that the core tourism industry is beginning to recover. Anecdotal evidence also suggests convention attendance will be returning to more impactful levels in 2012.

- Looking Forward** - With elevated foreclosures and bank restructurings in the commercial market, demand remaining slim, and little construction in the pipeline, the market is likely to witness further reductions in pricing. As nearly 12.1 million square feet of office space sits empty, much of it for more than a year, the market is likely to witness existing tenants seek out more favorable lease terms as leases commitments expire and building owners and lenders find themselves with an abundance of capacity.

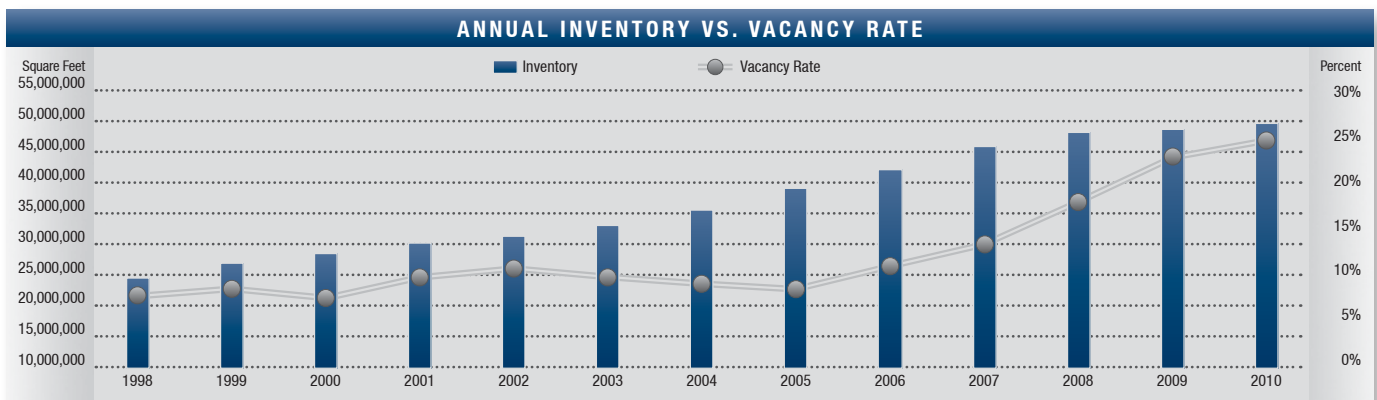
OFFICE MARKET OVERVIEW

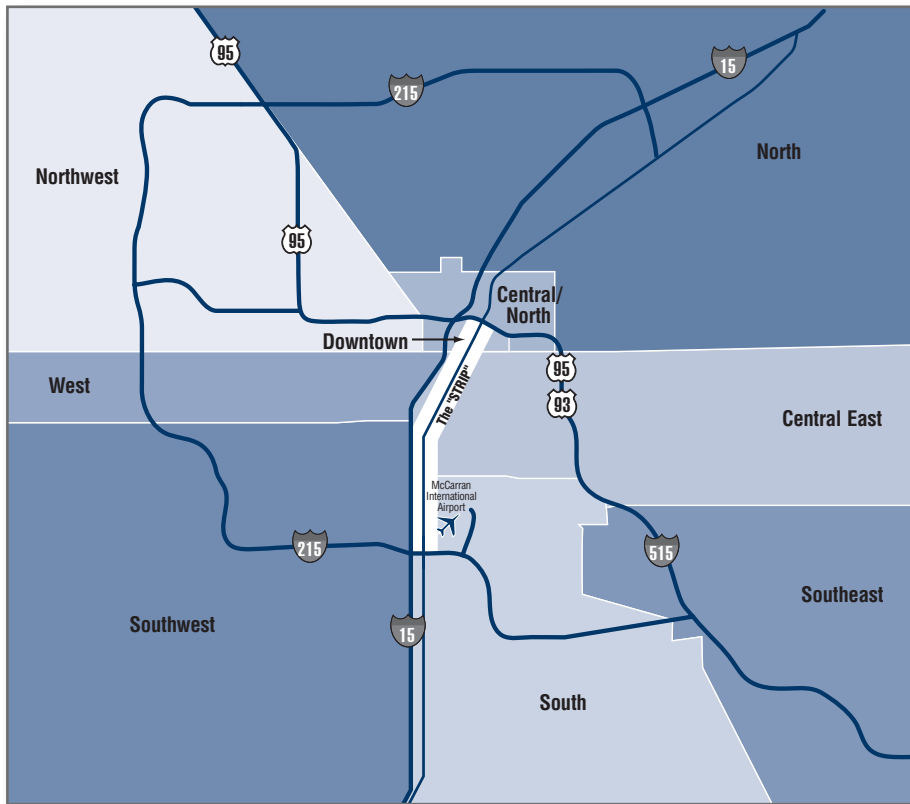
	2010	2009	2008	2010 vs. 2009
Under Construction	616,800	619,800	2,147,200	(0.5%)
Planned Construction	2,590,200	3,653,900	4,387,700	(29.1%)
Vacancy	24.2%	23.0%	17.6%	5.2%
Net Absorption	(559,200)	(1,781,300)	532,000	N/A



	INVENTORY				VACANCY RATES		ABSORPTION	
	Number of Bldgs.	Net Rentable Square Feet	Square Feet Under Construction	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2010	Net Absorption Q4 2010	New Inventory Q4 2010
Northwest								
Class A	24	1,938,331	145,000	115,000	648,096	33.4%	(2,066)	–
Class B	224	5,667,629	–	245,519	1,367,806	24.1%	12,256	–
Class C	9	162,002	–	–	37,634	23.2%	(7,900)	–
Northwest Total	257	7,767,962	145,000	360,519	2,053,536	26.4%	2,290	–
Downtown								
Class A	8	1,692,502	–	–	111,179	6.6%	(5,310)	–
Class B	40	1,103,119	–	–	180,578	16.4%	–	–
Class C	24	605,723	–	–	62,431	10.3%	–	–
Downtown Total	72	3,401,344	–	–	354,188	10.4%	(5,310)	–
Central East								
Class A	13	1,491,632	–	173,210	329,533	22.1%	(3,851)	–
Class B	107	3,974,849	–	–	1,069,573	26.9%	(43,046)	–
Class C	57	1,514,068	–	–	290,247	19.2%	(15,286)	–
Central East Total	177	6,980,549	–	173,210	1,689,353	24.2%	(62,183)	–
West								
Class A	7	975,077	–	200,000	90,434	9.3%	–	–
Class B	242	5,489,896	–	–	1,261,015	23.0%	(18,929)	–
Class C	38	599,923	–	–	148,207	24.7%	(1,178)	–
West Total	287	7,064,896	–	200,000	1,499,656	21.2%	(20,107)	–
Southwest								
Class A	14	1,039,530	–	346,628	363,613	35.0%	5,082	–
Class B	305	7,288,701	54,000	876,002	1,959,343	26.9%	(28,708)	–
Class C	20	334,783	–	–	73,964	22.1%	2,600	–
Southwest Total	339	8,663,014	54,000	1,222,630	2,396,920	27.7%	(21,026)	–
South								
Class A	23	1,964,711	–	–	744,808	37.9%	(2,084)	–
Class B	454	8,453,284	27,761	491,419	2,153,562	25.5%	30,599	–
Class C	17	139,712	–	–	19,782	14.2%	2,890	–
South Total	494	10,557,707	27,761	491,419	2,918,152	27.6%	31,405	–
Southeast								
Class A	3	265,015	–	–	178,510	67.4%	–	–
Class B	93	1,710,472	–	27,200	406,342	23.8%	(13,945)	–
Class C	12	123,737	–	–	29,483	23.8%	(22)	–
Southeast Total	108	2,099,224	–	27,200	614,335	29.3%	(13,967)	–
Central/North								
Class A	1	220,000	–	–	–	0.0%	–	–
Class B	24	961,583	390,000	–	47,782	5.0%	–	–
Class C	9	368,055	–	–	79,674	21.6%	(12,223)	–
Central/North Total	34	1,549,638	390,000	–	127,456	8.2%	(12,223)	–
North								
Class A	1	45,376	–	–	20,014	44.1%	(9,447)	–
Class B	80	1,432,903	–	115,213	351,626	24.5%	(1,130)	–
Class C	5	176,638	–	–	31,061	17.6%	(7,047)	–
North Total	86	1,654,917	–	115,213	402,701	24.3%	(17,624)	–
Las Vegas Total								
Class A	94	9,632,174	145,000	834,838	2,486,187	25.8%	(17,676)	–
Class B	1,569	36,082,436	471,761	1,755,353	8,797,627	24.4%	(62,903)	–
Class C	191	4,024,641	–	–	772,483	19.2%	(38,166)	–
Las Vegas Total	1,854	49,739,251	616,761	2,590,191	12,056,297	24.2%	(118,745)	–

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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