

Office Market Report

Compared to 2010

Vacancy



UP

Net Absorption



NEGATIVE

Lease Rates



DOWN

Construction



DOWN

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Market Highlights

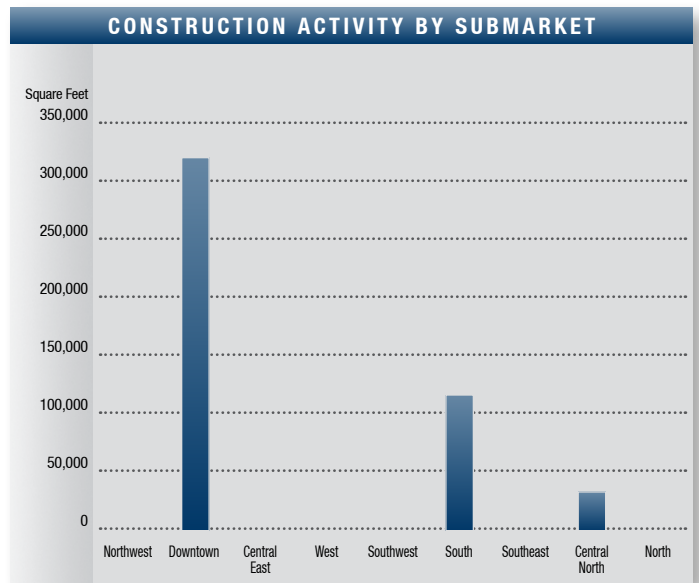
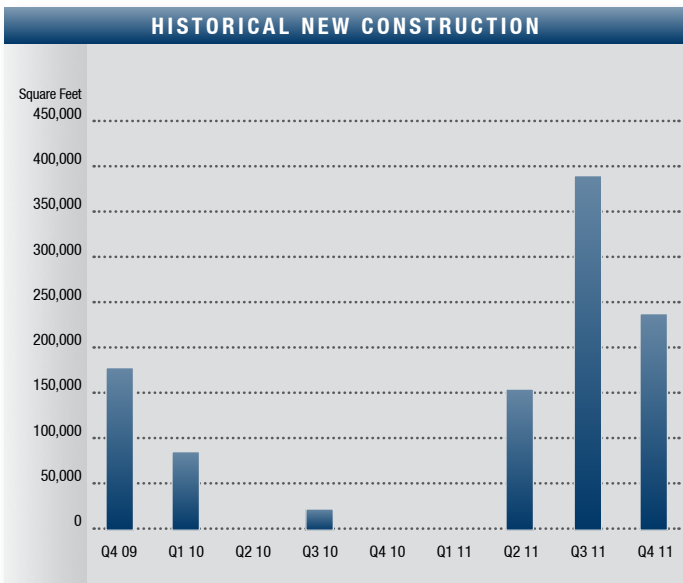
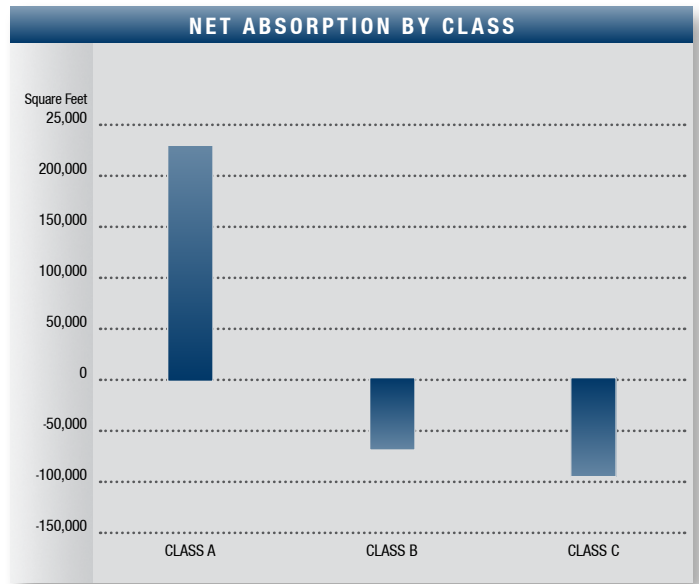
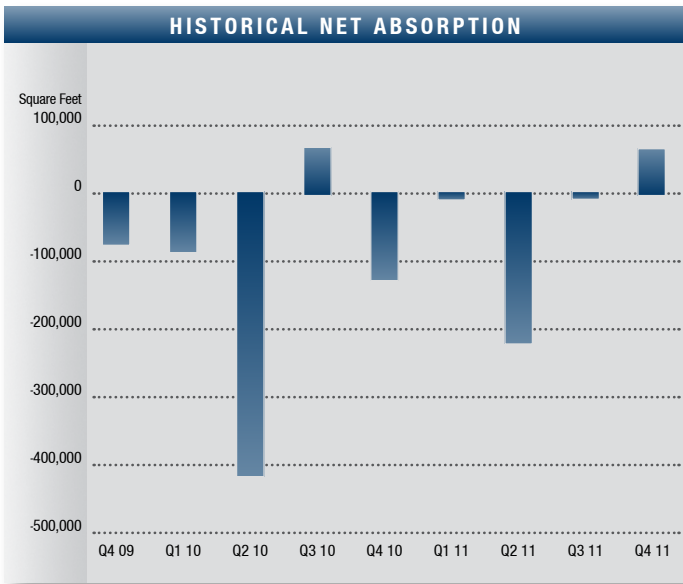
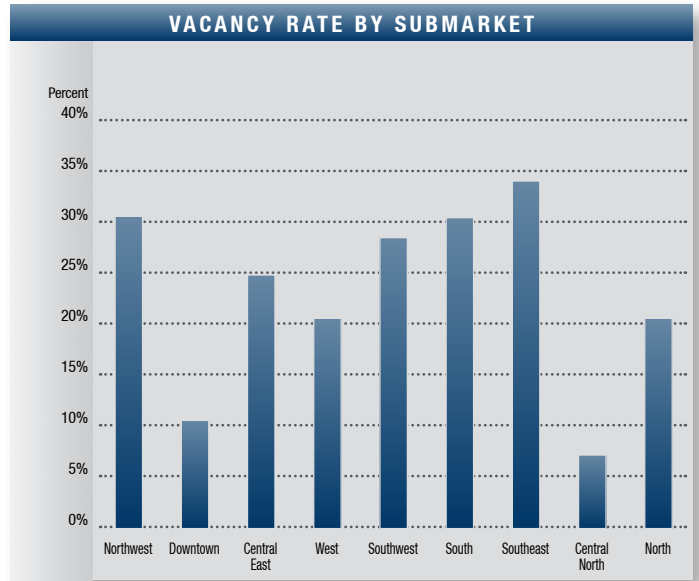
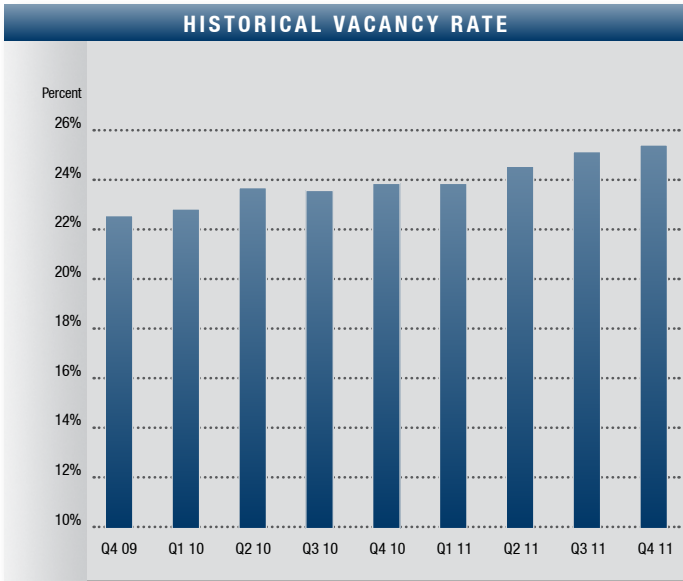
- Market Overview** – Fundamentals in the office market continued to remain fragile, as supply levels remain elevated relative to demand. The sector reported a vacancy rate of 25.3 percent at the end of the fourth quarter of 2011, a rise of 1.5 percentage points over the last 12 months and a 0.3–percentage–point increase from the preceding quarter (Q3 2011).
- Inventory** – Two new projects totaling nearly 238,200 square feet were delivered during the quarter, the largest being a new North Las Vegas City Hall which added 210,400 square feet to the market. Additional speculative space comprising 27,800 square feet completed construction in the south submarket. At the end of 2011, total inventory stood at 51.6 million square feet. With the vacancy rate at an all–time high, the market reported more than five years of effective inventory at historical absorption levels.
- Demand** – During the quarter, demand increased as the overall market witnessed 66,000 square feet of positive net absorption, driven largely by the 210,400 square feet of positive absorption sourced to the build–to–suit City Hall building. Excluding this non–speculative building, other inventory in the sector reported negative net absorption of 144,400 square feet.
- Future Supply** – The office sector reported 466,900 square feet actively under construction across four projects, three–quarters of which is sourced to non–speculative or government users. Government users include a new Las Vegas City Hall (310,000 square feet) expected to finish in the first quarter of 2012 and a U.S. Department of Homeland Security facility (8,900 square feet). It is also important to note that of

the estimated 2.6 million square feet being planned for future development, nearly one–third (approximately 800,000 square feet) includes projects that have stalled or delayed construction activity. As active projects continue to wind down, current market conditions suggest any future development plans are unlikely to move forward without significant pre–leasing requirements.

- Economic Considerations** – Within a still battered economy, selected indicators continue to gain strength, a signal that consumers and business owners may once again be gaining confidence. Taxable retail sales have increased in 11 of the past 12 months; in October 2011 (the latest data available), sales volume was up 5.1 percent compared to the previous year. Core employment (defined as total employment less construction and government sectors) posted a net gain of 14,900 jobs over the last year, largely in retail, leisure and hospitality, and education and health services. Tourism and gaming continued posting gains in gaming revenue, room rates, and visitor volume, all suggesting the recovery cycle is underway within the industry.
- Looking Forward** – Pricing continues to slide downward under pressure from a supply–demand imbalance, and is now at a rate not seen in more than six years. While this spurs opportunity in a tenant’s market, limited demand among office users across all product classes remains a concern for both landlords and lenders. The recovery phase of the latest cycle, when it arrives, is expected to be drawn out over a period of five years or more.

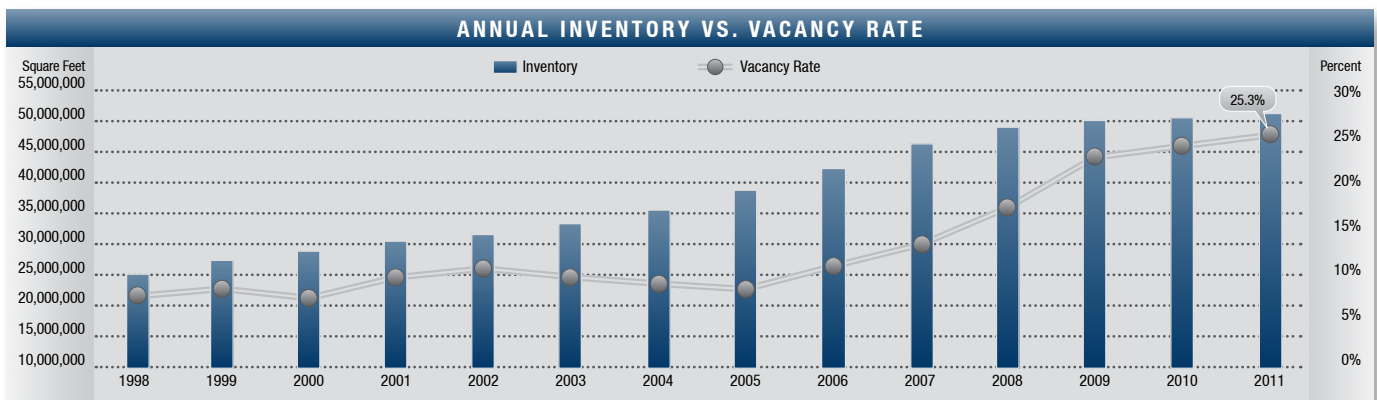
OFFICE MARKET OVERVIEW

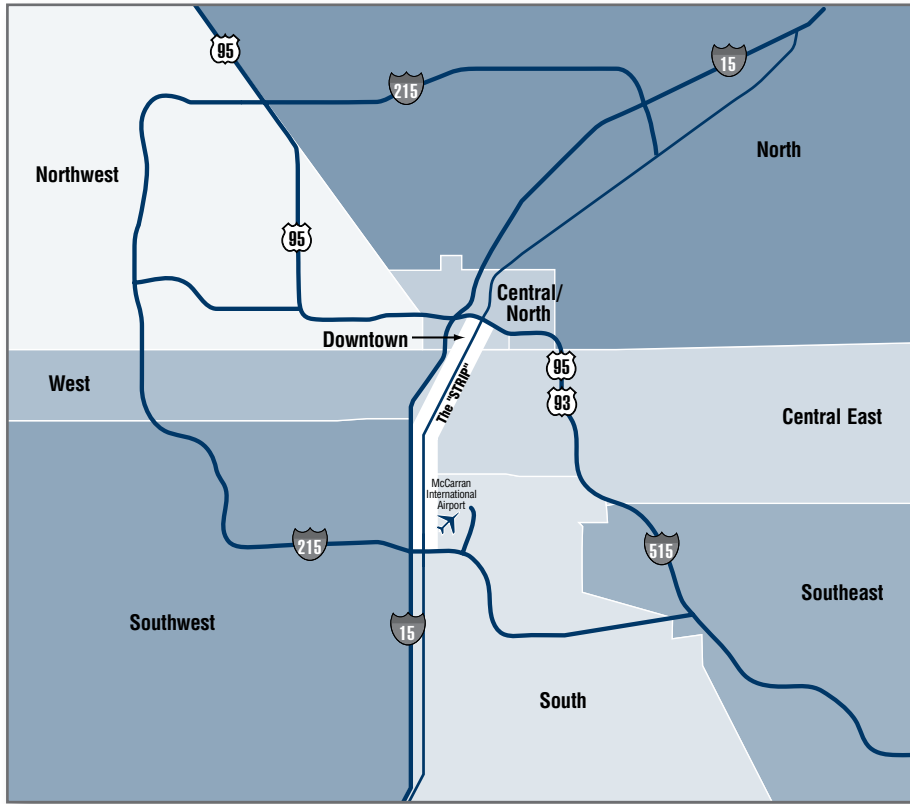
	2011	2010	2009	2011 vs. 2010
Under Construction	466,900	1,091,300	830,200	(57.2%)
Planned Construction	2,640,200	2,788,200	4,046,900	(5.3%)
Vacancy	25.3%	23.8%	22.5%	6.3%
Net Absorption	(174,900)	(570,500)	(1,775,800)	N/A



	INVENTORY				VACANCY RATES		ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet Under Construction	Square Feet Planned	Square Feet Vacant	Vacancy Rate Q4 2011	Net Absorption Q4 2011	Net Absorption 2011	New Inventory Q4 2011	New Inventory 2011
Northwest										
Class A	25	2,083,331	–	115,000	737,972	35.4%	(17,608)	55,124	–	145,000
Class B	209	5,314,917	–	245,519	1,476,656	27.8%	(9,655)	(249,160)	–	–
Class C	25	518,684	–	–	188,383	36.3%	(4,850)	(29,969)	–	–
Northwest Total	259	7,916,932	–	360,519	2,403,011	30.4%	(32,113)	(224,005)	–	145,000
Downtown										
Class A	8	1,692,502	318,909	–	94,575	5.6%	(12,100)	16,604	–	–
Class B	18	936,513	–	–	196,906	21.0%	(10,813)	(16,328)	–	–
Class C	49	1,060,938	–	–	84,263	7.9%	(5,011)	(21,832)	–	–
Downtown Total	75	3,689,953	318,909	–	375,744	10.2%	(27,924)	(21,556)	–	–
Central East										
Class A	13	1,491,632	–	173,210	273,782	18.4%	60,758	55,751	–	–
Class B	49	1,849,912	–	–	517,111	28.0%	(21,316)	(74,029)	–	–
Class C	119	3,704,299	–	–	950,007	25.6%	(24,018)	(33,269)	–	–
Central East Total	181	7,045,843	–	173,210	1,740,900	24.7%	15,424	(51,547)	–	–
West										
Class A	8	1,215,077	–	200,000	75,565	6.2%	–	14,869	–	–
Class B	201	4,300,665	–	–	932,390	21.7%	(20,026)	12,665	–	–
Class C	83	1,851,250	–	–	489,761	26.5%	(37,069)	(25,594)	–	–
West Total	292	7,366,992	–	200,000	1,497,716	20.3%	(57,095)	1,940	–	–
Southwest										
Class A	15	1,137,426	–	346,628	361,604	31.8%	43,103	2,009	–	–
Class B	292	6,913,800	–	926,002	2,019,215	29.2%	18,975	(37,349)	–	–
Class C	35	786,853	–	–	129,043	16.4%	(2,600)	(5,985)	–	–
Southwest Total	342	8,838,079	–	1,272,630	2,509,862	28.4%	59,478	(41,325)	–	–
South										
Class A	24	2,014,711	–	–	657,976	32.7%	(23,706)	86,832	–	–
Class B	439	8,281,976	115,000	491,419	2,382,597	28.8%	(5,101)	(363,930)	27,761	27,761
Class C	36	514,757	–	–	227,039	44.1%	(6,156)	(44,601)	–	–
South Total	499	10,811,444	115,000	491,419	3,267,612	30.2%	(34,963)	(321,699)	27,761	27,761
Southeast										
Class A	3	265,015	–	–	187,266	70.7%	(37,352)	(8,756)	–	–
Class B	86	1,603,387	–	27,200	449,066	28.0%	(30,355)	(62,258)	–	8,155
Class C	21	249,977	–	–	83,415	33.4%	(5,415)	(26,243)	–	–
Southeast Total	110	2,118,379	–	27,200	719,747	34.0%	(73,122)	(97,257)	–	8,155
Central/North										
Class A	1	220,000	–	–	–	0.0%	–	–	–	–
Class B	15	1,016,611	33,000	–	21,282	2.1%	–	388,999	–	390,000
Class C	19	703,027	–	–	112,824	16.0%	–	(5,649)	–	–
Central/North Total	35	1,939,638	33,000	–	134,106	6.9%	–	383,350	–	390,000
North										
Class A	2	255,776	–	–	7,833	3.1%	217,047	222,581	210,400	210,400
Class B	70	1,224,505	–	115,213	317,671	25.9%	8,916	(15,787)	–	–
Class C	16	342,658	–	–	46,481	13.6%	(9,620)	(9,620)	–	–
North Total	88	1,822,939	–	115,213	371,985	20.4%	216,343	197,174	210,400	210,400
Las Vegas Total										
Class A	99	10,375,470	318,909	834,838	2,396,573	23.1%	230,142	445,014	210,400	355,400
Class B	1,379	31,442,286	148,000	1,805,353	8,312,894	26.4%	(69,375)	(417,177)	27,761	425,916
Class C	403	9,732,443	–	–	2,311,216	23.7%	(94,739)	(202,762)	–	–
Las Vegas Total	1,881	51,550,199	466,909	2,640,191	13,020,683	25.3%	66,028	(174,925)	238,161	781,316

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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