

RESEARCH & FORECAST REPORT



Office Stays Positive

While it may not always be pretty, Southern Nevada’s office market continues to improve. Net absorption increased in the second quarter of 2014, reaching 444,818 square feet. This net absorption, coupled with a lack of new completions, brought office vacancy down to 19.8 percent, two percentage points lower than one year ago. Asking lease rates increased slightly to \$1.87 per square foot (psf) on a Full Service Gross (FSG) basis.

According to the Nevada Department of Employment, Training & Rehabilitation, between April 2013 and April 2014 a net of 2,770 jobs were created in employment sectors associated with professional office product. Over the past twelve months, the market has added 5,400 professional & business services jobs, 700 health care jobs, and 100 financial services jobs. Unemployment in the Las Vegas-Paradise MSA stood at 7.4 percent as of April 2014, down from 9.9 percent in April 2013. Since April 2013, total employment in Southern Nevada has increased by 16,800 jobs.

No new office projects were completed in the second quarter of 2014. The Federal Justice Tower, a 129,000 square foot Class A building, remains under construction Downtown, with little apparent progress made on the project since the fourth quarter of 2013. Forward supply of office space now stands at 961,934 square feet, with approximately 13 percent of that space being in build-to-suit projects. Approximately 35 percent of the 833,000 square feet of speculative office space, or 291,000 square feet, that is planned or under construction is slated for completion in 2014.

It is striking that a market with such high vacancy in its office market can boast almost 600,000 square feet of speculative office product either under construction or planned to begin construction soon. One could argue, of course, that overall vacancy of 19.8 percent does not necessarily mean that there are no niches in the market that need to be filled by new developments. Looking at the speculative office in the pipeline, though, we find Class A development in the Northwest and Southwest submarkets, with 28.8 percent and 26.8 percent vacancy respectively, Class B development in Henderson, with 13.2 percent vacancy and Class C development in the Southwest, with 16.0 percent vacancy. This argument might hold water for the Class B and Class C developments, but one must be skeptical about the need for more suburban Class A office space.

MARKET INDICATORS

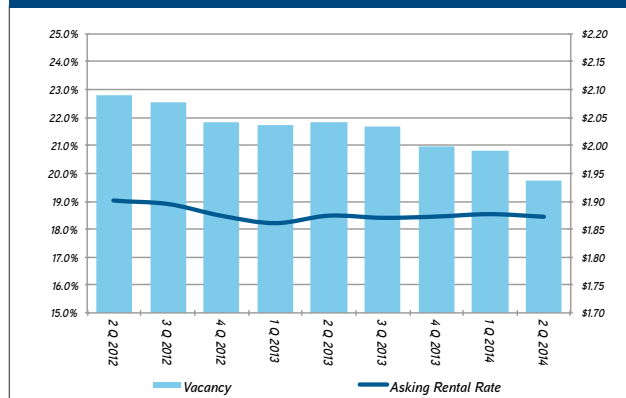
	Q2-14	Q3-14 PROJECTED
VACANCY	↓	↓
NET ABSORPTION	↑	↓
CONSTRUCTION	↓	↑
RENTAL RATE	↓	↓

CLARK COUNTY ECONOMIC DATA

	CURRENT	YEAR AGO
Jobs (1000s) (APR. 2014)	871.4	845.9
Visitor Volume (2014 YTD)	13.6 MM	13.0 MM
Gaming Revenue (2014 YTD)	\$3.19 BB	\$3.28 BB
Taxable Sales (2013 YTD)	\$8.6 BB	\$7.9 BB
Commercial Occupancy (Q2)	87.9%	85.4%

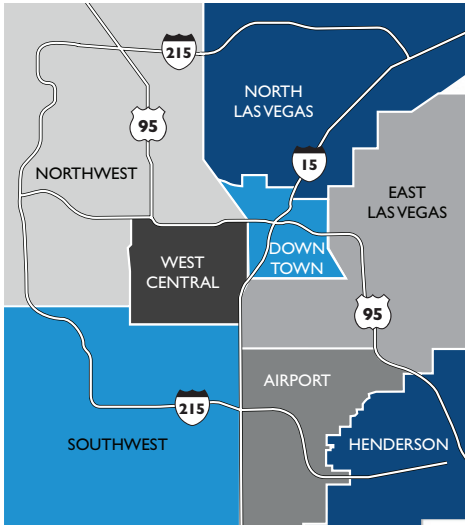
SOURCE: THE CENTER FOR BUSINESS & ECONOMIC RESEARCH, UNLV

HISTORICAL VACANCY RATES AND ASKING LEASE RATES



“We think demand for office space will remain stable in the second half of 2014, with the potential for higher vacancy rates in the first half of 2015 when some larger speculative developments are completed.”

John M. Stater
Colliers, Research & GIS Manager



MARKET SUMMARY

	Q2-14	Q1-14	Q2-13
Vacancy Rate	19.8%	20.8%	21.9%
Asking Rent (PSF, NNN)	\$1.87	\$1.88	\$1.87
Net Absorption (SF)	444,818	127,494	-32,167
New Completions (SF)	0	96,200	10,000

Southern Nevada’s office market had 444,818 square feet of net absorption in the second quarter of 2014 and 572,312 square feet in the first half of 2014. This is significantly higher than net absorption in the first half of 2013, when the market absorbed 35,697 square feet. Over the past four quarters, net absorption totaled 1.39 million square feet. This is lower than during the last major period of recovery for Southern Nevada’s office market in 2004. Office-related employment growth in 2004 was 7.5 percent. Office-related employment growth was 7.7 percent in 2012, but was significantly lower in 2013 (3.8 percent), and looks as though it may be lower still in 2014. This lack of employment growth had seemed like the reason for the tepid recovery experienced in Southern Nevada’s office market over the past two years, but now this same lack of employment growth does not appear to be holding back office net absorption. This suggests that net absorption should have been higher over the past three years, with pent-up demand in 2012 and 2013 now translating into high net absorption in 2014.

Office vacancy has been decreasing for four quarters, reaching 19.8 percent in the second quarter of 2014. Office vacancy reached a high of 23.3 percent in the first quarter of 2012, meaning that vacancy has decreased by 3.5 percentage points over the past ten quarters. This decrease may not have been rapid, but it was steady, with only a small regression in the first half of 2013.

Office vacancy decreased in six of the Valley’s eight submarkets, with the largest decreases in Northwest, Airport and Henderson. Two submarkets experienced a quarter-over-quarter increase in vacancy, namely North Las Vegas

and West Central. This is the reverse of what happened in the first quarter, when vacancy decreased for Southern Nevada as a whole, but was up, though only slightly, in most of the Valley’s submarkets.

Vacancy in Class A office stood at 25.5 percent in the second quarter of 2014, down from a high of 33.3 percent in the second quarter of 2011 and down from the 29.0 percent vacancy recorded in the second quarter of 2013. Class B product saw vacancy decrease by 1.7 points over the past four quarters to 18.3 percent, while vacancy in Class C office decreased by 2.0 points to 19.3 percent over the same period.

Of the office deals we tracked in 2014, the most active industries were financial activities (including real estate and insurance services), business and personal services, engineering and management, and health services. Local companies took 33 percent of the space in the deals we have tracked in 2014, while 25 percent of this space was taken by companies headquartered in the Southeast, 18 percent by companies in the Northeast and 14 percent by companies in the Southwest United States.

The amount of distressed office space (i.e. office properties that have received a notice of default or are at some stage in the foreclosure process) decreased to 3,956,000 million square feet in the second quarter of 2014, compared to 4,131,000 square feet of distressed office space at the end of 2013. This decrease was due primarily to sales and other resolutions of distressed Class B and C office.

The weighted average asking rental rate for office space in Southern Nevada decreased by

(Continued on page 5)

LEASE & SALES ACTIVITY

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	LEASE TERM	SIZE SF	LEASE RATE	TYPE
Siena Office Park	April 2014	65 months	16,000 SF	\$1.25 NNN	Class B
Green Valley Corporate Center	April 2014	60 months	9,000 SF	\$2.02 FSG	Class A
View Point Professional Office	April 2014	45 months	8,000 SF	\$1.47 NNN	Class B
Origin Business Park	April 2014	19 months	3,000 SF	\$1.30 MG	Class B
Century Park	April 2014	53 months	2,000 SF	\$1.36 FSG	Class C

SALES ACTIVITY

PROPERTY ADDRESS	SALES DATE	SALES PRICE	SIZE SF	PRICE/SF	TYPE
Marnell Corporate Center	April 2014	\$18,064,000	83,000 SF	\$217	Class A/C
Corporate Center The Curve	April 2014	\$6,200,000	88,000 SF	\$70	Class B
Cliff Shadows Business Park	April 2014	\$2,825,000	31,000 SF	\$91	Class B
Eastern Canyon Plaza	April 2014	\$1,585,000	30,000 SF	\$53	Class C
Rancho Gowan Business Park	April 2014	\$1,530,000	22,000 SF	\$69	Class C

MARKET COMPARISONS

OFFICE MARKET

TYPE	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	PLANNED CONSTRUCTION SF	WEIGHTED AVG ASKING RENTAL RATE
AIRPORT SUBMARKET																
A	6	605,557	197,598	32.6%	820	0.1%	198,418	32.8%	34.9%	13,667	53,121	-	-	-	-	\$2.69
B	42	2,266,595	325,607	14.4%	9,284	0.4%	334,891	14.8%	14.9%	10,049	6,168	-	-	-	-	\$2.00
C	286	3,025,601	703,443	23.2%	344	0.0%	703,787	23.3%	25.4%	64,074	59,716	-	-	7,894	-	\$1.64
Total	334	5,897,753	1,226,648	20.8%	10,448	0.2%	1,237,096	21.0%	22.3%	87,790	119,005	-	-	7,894	-	\$1.90
DOWNTOWN																
A	6	1,103,341	139,960	12.7%	4,626	0.4%	144,586	13.1%	12.7%	(4,771)	(665)	-	-	129,000	-	\$2.78
B	38	2,464,892	250,528	10.2%	-	0.0%	250,528	10.2%	13.0%	70,911	93,164	-	49,200	-	-	\$1.70
C	109	1,449,268	145,605	10.0%	-	0.0%	145,605	10.0%	9.3%	(10,739)	56,200	-	-	-	-	\$1.44
Total	153	5,017,501	536,093	10.7%	4,626	0.1%	540,719	10.8%	11.9%	55,401	148,699	-	49,200	129,000	-	\$1.91
EAST LAS VEGAS																
A	10	1,353,083	318,380	23.5%	10,869	0.8%	329,249	24.3%	24.4%	5,549	(17,172)	-	-	-	-	\$2.86
B	23	1,542,404	505,801	32.8%	-	0.0%	505,801	32.8%	33.1%	5,494	(26,907)	-	-	-	42,000	\$1.30
C	145	2,452,806	575,745	23.5%	1,287	0.1%	577,032	23.5%	24.9%	34,412	47,506	-	-	-	-	\$1.29
Total	178	5,348,293	1,399,926	26.2%	12,156	0.2%	1,412,082	26.4%	27.2%	45,455	3,427	-	-	-	42,000	\$1.65
HENDERSON																
A	10	689,488	271,164	39.3%	9,505	1.4%	280,669	40.7%	45.6%	37,908	25,817	-	-	-	-	\$2.38
B	70	2,368,630	313,584	13.2%	-	0.0%	313,584	13.2%	13.8%	(20,670)	(8,714)	-	47,000	-	-	\$2.15
C	233	2,238,055	440,375	19.7%	2,395	0.1%	442,770	19.8%	22.3%	55,410	80,863	-	-	15,000	-	\$1.71
Total	313	5,296,173	1,025,123	19.4%	11,900	0.2%	1,037,023	19.6%	21.5%	72,648	97,966	-	47,000	15,000	-	\$2.02
NORTH LAS VEGAS																
A	-	-	-	n/a	-	n/a	-	n/a	n/a	-	-	-	-	-	-	\$-
B	6	200,796	92,072	45.9%	-	0.0%	92,072	45.9%	41.6%	(8,448)	(8,448)	-	-	-	-	\$1.73
C	54	498,137	65,707	13.2%	-	0.0%	65,707	13.2%	12.7%	(2,393)	(5,946)	-	-	-	8,000	\$1.56
Total	60	698,933	157,779	22.6%	-	0.0%	157,779	22.6%	21.0%	(10,841)	(14,394)	-	-	-	8,000	\$1.66
NORTHWEST																
A	22	1,625,415	468,804	28.8%	6,321	0.4%	475,125	29.2%	37.3%	132,386	90,086	-	-	268,000	125,000	\$2.22
B	89	3,462,381	603,592	17.4%	7,893	0.2%	611,485	17.7%	17.0%	(32,301)	(41,317)	-	-	87,000	-	\$2.08
C	299	3,142,958	508,912	16.2%	-	0.0%	508,912	16.2%	17.7%	46,536	54,432	-	-	-	-	\$1.78
Total	410	8,230,754	1,581,308	19.2%	14,214	0.2%	1,595,522	19.4%	21.3%	146,621	103,201	-	-	355,000	125,000	\$2.02
SOUTHWEST																
A	3	397,112	106,488	26.8%	-	0.0%	106,488	26.8%	32.2%	21,576	34,490	-	-	200,000	-	\$2.65
B	75	2,782,520	592,535	21.3%	41,983	1.5%	634,518	22.8%	21.9%	17,304	17,176	-	-	-	-	\$2.32
C	292	3,305,952	528,069	16.0%	7,675	0.2%	535,744	16.2%	17.0%	25,990	84,037	-	-	-	80,040	\$1.76
Total	370	6,485,584	1,227,092	18.9%	49,658	0.8%	1,276,750	19.7%	20.0%	64,870	135,703	-	-	200,000	80,040	\$2.11
WEST CENTRAL																
A	2	227,624	28,052	12.3%	-	0.0%	28,052	12.3%	14.3%	-	2,188	-	-	-	-	\$2.24
B	46	1,671,842	387,268	23.2%	-	0.0%	387,268	23.2%	24.5%	21,795	31,867	-	-	-	-	\$1.56
C	197	2,863,756	686,403	24.0%	-	0.0%	686,403	24.0%	22.6%	(38,921)	(55,350)	-	-	-	-	\$1.45
Total	245	4,763,222	1,101,723	23.1%	-	0.0%	1,101,723	23.1%	22.9%	(17,126)	(21,295)	-	-	-	-	\$1.51
MARKET TOTAL																
A	59	6,001,620	1,530,446	25.5%	32,141	0.5%	1,562,587	26.0%	29.4%	206,315	187,865	-	-	597,000	125,000	\$2.52
B	389	16,760,060	3,070,987	18.3%	59,160	0.4%	3,130,147	18.7%	19.0%	64,134	62,989	-	96,200	87,000	42,000	\$1.89
C	1,615	18,976,533	3,654,259	19.3%	11,701	0.1%	3,665,960	19.3%	20.2%	174,369	321,458	-	-	22,894	88,040	\$1.59
Total	2,063	41,738,213	8,255,692	19.8%	103,002	0.2%	8,358,694	20.0%	21.1%	444,818	572,312	-	96,200	706,894	255,040	\$1.87
QUARTERLY COMPARISON AND TOTALS																
Q2-14	2,063	41,738,213	8,255,692	19.8%	103,002	0.2%	8,358,694	20.0%	21.1%	444,818	572,312	-	96,200	706,894	255,040	\$1.87
Q1-14	2,063	41,774,813	8,700,510	20.8%	96,347	0.2%	8,796,857	21.1%	21.3%	127,494	127,494	96,200	96,200	597,000	234,934	\$1.88
Q4-13	2,061	41,678,613	8,731,804	21.0%	163,859	0.4%	8,895,663	21.3%	22.1%	309,801	852,224	-	627,354	693,200	154,894	\$1.87
Q3-13	2,056	41,678,613	9,041,605	21.7%	161,458	0.4%	9,203,063	22.1%	22.3%	506,726	542,423	575,231	627,354	625,200	22,000	\$1.87
Q2-13	2,049	41,103,382	8,973,100	21.8%	190,114	0.5%	9,163,214	22.3%	22.1%	(32,167)	35,697	10,000	52,123	753,431	342,818	\$1.87
Q1-13	2,046	41,093,382	8,930,933	21.7%	145,506	0.4%	9,076,439	22.1%	22.3%	67,864	67,864	42,123	42,123	562,771	244,000	\$1.86
Q4-12	2,044	41,051,259	8,956,674	21.8%	204,908	0.5%	9,161,582	22.3%	23.2%	302,044	610,257	-	81,192	500,323	344,000	\$1.87

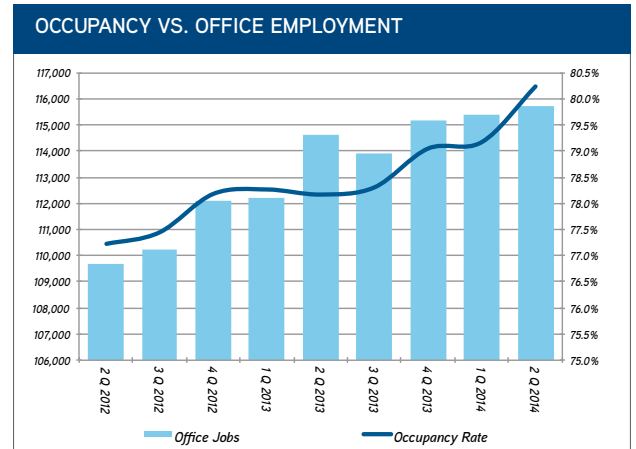
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OFFICE PIPELINE					
PROJECT	TYPE	SUBMARKET	SIZE (SF)	BTS/SPEC	COMPLETION
Federal Justice Tower	Class A	Downtown	129,000	BTS	2014
BUILD-TO-SUIT TOTAL			129,000		
Centennial Hills Center	Class B	Northwest	87,000	Spec	2015
Chronicle at Cadence	Class C	Henderson	15,000	Spec	Q3-14
Executive Park at the Ridges	Class C	Northwest	8,000	Spec	2015
Pecos Springs Business Park	Class C	Airport	8,000	Spec	Q3-14
Seven Hills Plaza D	Class B	Henderson	42,000	Spec	2015
Summerlin One	Class A	Northwest	325,000	Spec	2015
The Square	Class C	Southwest	80,000	Spec	2015
The Gramercy	Class A	Southwest	200,000	Spec	2014
Tivoli Village	Class A	Northwest	68,000	Spec	2014
SPECULATIVE TOTAL			833,000		
TOTAL			962,000		

SALES ACTIVITY					
	2010	2011	2012	2013	2014 YTD
No. Sales	23	59	87	90	23
Square Footage	1,024,000	2,484,000	3,929,000	3,512,000	763,000
Sales Volume	\$130 MM	\$182.4 MM	\$261.0 MM	\$571.9 MM	\$101.1 MM
Average Price/SF	\$126.96	\$73.42	\$89.11	\$162.83	\$132.53
Average Cap Rate	9.0%	9.7%	8.2%	7.6%	8.1%
Average Sale Size (SF)	45,000	42,000	34,000	39,000	33,000

**Cap rates on office properties offered for sale as investments*

DISTRESSED OFFICE SQUARE FOOTAGE					
PRODUCT TYPE	2010	2011	2012	2013	2014 YTD
Class A	677,000	511,000	458,000	458,000	458,000
Class B	1,978,000	2,041,000	1,941,000	1,712,000	1,677,000
Class C	2,688,000	2,637,000	2,104,000	1,942,000	1,875,000
TOTAL	5,343,000	5,189,000	4,503,000	4,148,000	4,010,000



“The office market bounced back from weakness in the first two quarters of 2013 to produce four quarters of fairly strong demand.”

John M. Stater
Colliers, Research & GIS Manager

(Continued from page 2.)

EMPLOYMENT			
	APR 2014	APR 2013	CHANGE
Financial Activities	43,500	43,400	+ 100
Professional & Business Services	117,700	112,300	+ 5,400
Health Care & Social Assistance	53,700	53,000	+ 700
TOTAL	211,000	206,000	+ 5,000

Source: Nevada Department of Employment, Training and Rehabilitation

\$0.01 this quarter to \$1.87 per square foot (psf) on a full service gross (FSG) basis. Asking lease rates have hovered around \$1.87 for the past seven quarters, after a sharp decline in 2010 and 2011, before experiencing a slower decline in 2012 and then flattening in 2013. Given the strong net absorption over the past four quarters, the lack of upward movement in asking rents suggests that these low rates may be a key driver of this demand.

Sharp increases in sublease space often predict increases in direct vacant space to come. In the first quarter of 2014, available sublease space jumped from a low 186,390 to 427,367 square feet, the highest it has been since 2010. All of the additional sublease space on the market came from the recent cessation of Citibank's call center operations in the Northwest submarket. While this does represent a large increase in sublease space, it does not represent a surge in sublease activity throughout Southern Nevada, just the addition of a single large building to the sublease availability. In the second quarter, available sublease space increased again, to 440,164 square feet.

The number and the total square footage of investment sales in the first half of 2014 decreased from the pace set in 2013. In the first half of 2014, 763,000 square feet in 23 buildings was sold at an average price of \$132.53 per square foot. Properties offered for sale as investments had an average cap rate of 8.1 percent in the first half of 2014, up from 7.6 percent in 2013. Distressed investment sales totaled 342,000 square feet of distressed office selling at an average price of \$127.06 per square foot. Non-distressed investment properties sold for an average of \$136.98. While this does not indicate a trend (non-distressed properties have sold for twice as much as distressed properties over the past two years), it does indicate that non-distressed properties are not always as well-located or well designed as distressed properties, and therefore do not necessarily command higher prices.

The office market bounced back from weakness in the first two quarters of 2013 to produce four quarters of fairly strong demand. Net absorption over the past four quarters totaled 1.39 million square feet. That averages to about 350,000 square feet per quarter, approximately half the absorption levels seen before the boom in demand experienced in 2006 and 2007. This points to the challenge the office market must deal with in the future. Office users are taking less space per employee than they used to, sometimes because people are working remotely, sometimes because people are working part time and sharing desks, and often simply because the technological advances have reduced the amount of space a worker needs to get their job done. Whatever the reason, landlords will have to work harder to attract and retain tenants, and this will likely result in slower growth in the rental rates they can command. We think demand for office space will remain stable in the second half of 2014, with the potential for higher vacancy rates in the first half of 2015 when some larger speculative developments are completed. Aside from Summerlin One and The Gramercy, office development will remain subdued. Asking rents will continue to remain near \$1.87 FSG until vacancy drops below 18 percent.

485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

- > \$2.1 billion in annual revenue
- > 1.46 billion square feet under management
- > Over 15,800 professionals

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GLOSSARY

OFFICE DEFINITIONS

- Class A Office:** Buildings with steel frame construction, high end exterior finish, distinctive lobbies featuring upgraded finishes, amenities including on-site security, state-of-the-art communications and data infrastructure and covered parking. Class A buildings are usually multi-story.
- Class B Office:** Buildings with steel frame, reinforced concrete or concrete tilt-up construction. Class B buildings contain common bathrooms and hallways, and their lobbies may have granite and hardwood detailing. Class B buildings are often multi-story.
- Class C Office:** Buildings of wood frame construction. Class C buildings are often garden-style and are built around courtyards.

GENERAL DEFINITIONS

- Vacant SF:** Space in a building that is unoccupied and offered for lease by the owner of the property.
- Sublease SF:** Space in a building that is offered for sublease by the primary tenant. This space may or may not be occupied.
- Net Absorption:** Difference in occupied square footage from one period to another.