

FIRST QUARTER MARKET REPORT • 2000

LAS VEGAS OFFICE

MARKET OVERVIEW

The Las Vegas office market experienced a modest decline in vacancy rates, accompanied by a slight rise in rental rates in this first quarter of 2000. New construction and absorption were balanced, and 18-month forward supply stood at 8.0% of the standing office inventory. Based on projected employment growth of 9.3% over the same period, one could say the Las Vegas office market is currently under-supplied, but only by a slight margin.

Office employment in the valley currently numbers 97,300 people, which is up 1.8% from the 4th quarter 1999. This growth was entirely in the service category, as finance, insurance and real estate actually saw a slight decline in employment.

Office construction remained moderate. Neighborhood Class "C" infill office parks predominated in the Airport, East Las Vegas and West Valley submarkets, all of which have well-established residential populations. Henderson (Green Valley) and the Northwest (Summerlin) continued to dominate new Class "A" and Class "B" office development. Both Henderson and the Northwest are becoming hubs for the fledgling hi-tech component of the Southern Nevada economy.

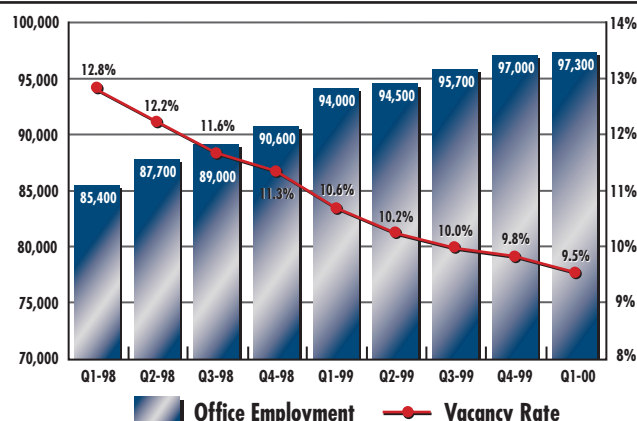
Absorption was generally healthy across the board this quarter, but was highest in Henderson (118,000 sq. ft.) and the Northwest (114,000 sq. ft.) The Downtown submarket posted yet another negative absorption (-14,000 sq. ft.) this quarter. Class "B" office space had the highest absorption this quarter at 262,000 sq. ft.

Vacancy rates declined this quarter by 0.3 points, to 9.5%. Class "A" office space continued to have a high vacancy rate (13.0%), but strong absorption rates suggest this is due only to the large amount of new product which has come online in recent quarters. Weighted average lease rates actually declined slightly this quarter, to \$1.72 from \$1.73 last quarter. In the long-term, lease rates are expected to rise in Southern Nevada as the market tightens.

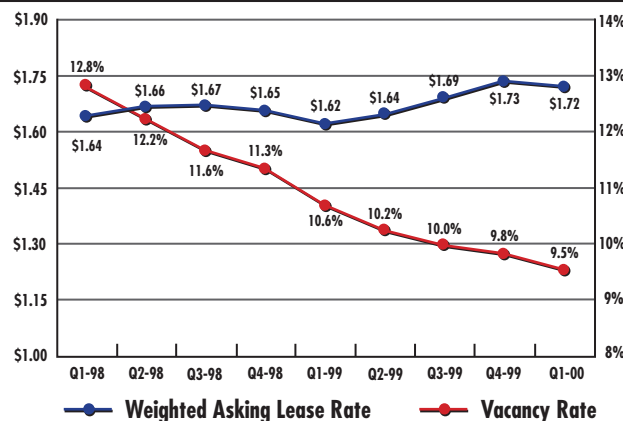
EMERGING TRENDS

Call centers and customer service centers are the hottest growth area in the Southern Nevada office market. These companies are primarily looking for Class "B" and industrial flex space, offering 20,000 to 50,000 sq. ft. of contiguous space, with high parking ratios. Such properties generally need to be existing or in the pipe to accommodate these users. Such requirements are now causing developers to search for ways to supply more parking for existing buildings, and to put projects on hold to re-think their current development plans.

OFFICE VACANCY RATES VS OFFICE EMPLOYMENT



OFFICE VACANCY RATES VS ASKING LEASE RATES



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Lack of parking, and a perceived lack of security will leave the Downtown submarket largely out of this new growth. Two major Class "A" office projects have been cancelled there in recent years, and two more have been put on an indefinite hold. The Pauls Corporation is moving ahead with its plans to build a new Class "A" office building at Fourth Street & Lewis, now that the city has finally agreed to clear the remaining obstacles to this development. We will likely see it completed in mid-2001 at the earliest. Whether this building will attract new businesses to the Downtown submarket, or just cannibalize current Downtown tenants remains to be seen.

The new federal building will most likely relocate some government tenants from surrounding office buildings, and thus raise downtown vacancy rates in the short-term. In the long-term, it should stimulate the return of law firms from the suburbs to Downtown. Despite the best efforts of Mayor Goodman, it seems as though the increasingly prohibitive land costs in the suburbs are still not high enough to push development inward to Downtown.

The Northwest, Henderson, and Airport submarkets are still the hottest growth areas in the valley. The Northwest submarket is Mayor Goodman's favorite for "high-tech" development. The

Mayor recently announced his intention of putting a new college campus surrounded by a technology park in the Kyle Canyon masterplan, the last undeveloped area in the Northwest. Henderson has announced plans for its own state college campus as well, located very near downtown Henderson. Ultimately, technology growth in the valley should gravitate towards the Northwest and Henderson submarkets. Lack of a suitable education infrastructure, however, has been singled-out as a key obstacle of "dot-com" growth in the Las Vegas valley.

East Las Vegas and the West Valley, the two most mature suburban office submarkets, have had rather flat absorption this quarter. Current development in these submarkets is focused on infill neighborhood office parks (Class "C"), which cater both to professional and medical users. Hughes Center, in East Las Vegas, has seen healthy absorption in its new Class "A" office building, which opened last quarter.

The Southwest still has the valley's highest vacancy, but this is due primarily to the small size of its office market. With the expansion of the I-215 Beltway, and the future development of master-planned communities in the area, this submarket should come to dominate the Class "B" and Class "C" office markets in the very near future.

LAS VEGAS OFFICE MARKET SUMMARY - FIRST QUARTER, 2000

	Rentable	Vacancy		Sublease	Net	New	Under	Planned	Weighted
	Square Feet	SF	%	Available	Absorption	Construction	Construction	Construction	Average
				(SF)	1q2000	1q2000	1q2000	1q2000	Asking Lease
					(SF)	(SF)	(SF)	(SF)	Rate Per SF
									Per Month*
Downtown	1,287,000	88,000	6.8%	0	-14,000	0	25,000	110,000	\$1.86
East Las Vegas	4,986,000	674,000	13.5%	22,000	54,000	24,000	49,000	105,000	\$1.69
Airport	1,312,000	143,000	10.9%	4,000	93,000	91,000	55,000	131,000	\$1.72
Henderson	994,000	52,000	5.2%	9,000	118,000	98,000	87,000	370,000	\$1.76
Southwest	551,000	82,000	14.9%	10,000	49,000	26,000	0	0	\$1.58
West Valley	4,511,000	224,000	5.0%	37,000	35,000	68,000	34,000	39,000	\$1.65
Northwest	2,795,000	300,000	10.7%	22,000	114,000	142,000	249,000	61,000	\$1.84
Class A	3,780,000	493,000	13.0%	41,000	86,000	0	73,000	280,000	\$2.07
Class B	4,745,000	334,000	7.0%	43,000	262,000	307,000	175,000	155,000	\$1.73
Class C	7,911,000	736,000	9.3%	19,000	101,000	142,000	251,000	381,000	\$1.49
TOTAL	16,436,000	1,563,000	9.5%	103,000	449,000	449,000	499,000	816,000	\$1.72

LAS VEGAS INDUSTRIAL

MARKET OVERVIEW

The Southern Nevada industrial vacancy rate declined slightly this quarter, to 7.8% from 7.9%. Development has slowed down considerably from levels seen five-years ago, as developers are depleting already scarce land inventories, and are attempting to find new projects that meet minimum return criterion. Absorption remains strong, especially in the Light Distribution and Light Industrial product types.

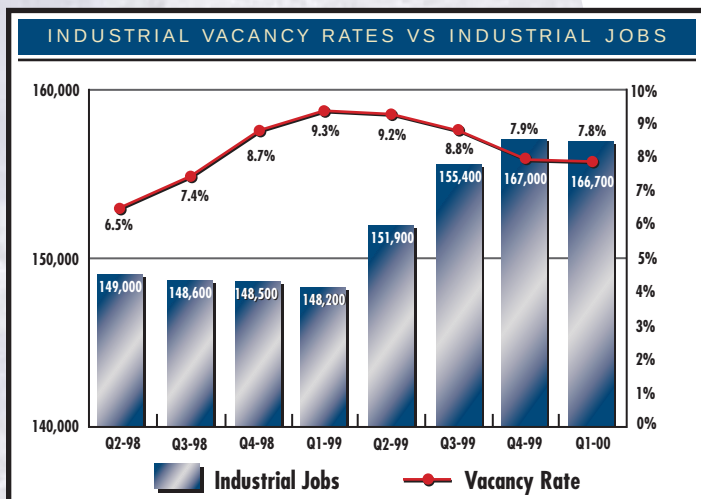
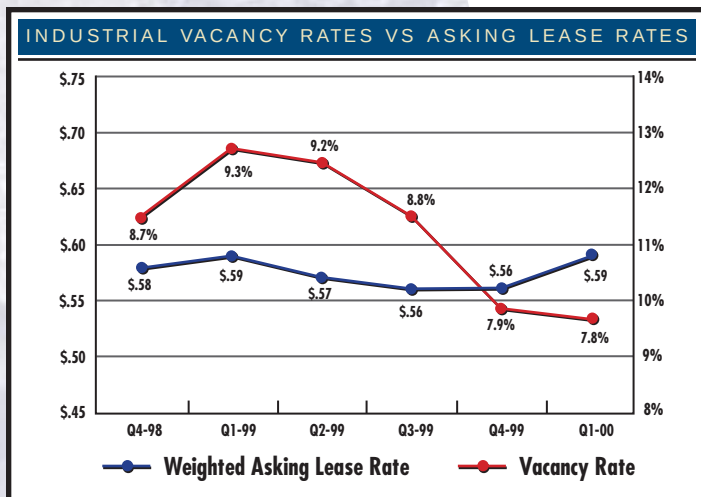
Over 1.2 million sq. ft of new industrial product was added this quarter, spread evenly amongst Light Distribution (344,000 sq. ft.), Light Industrial (339,000 sq. ft.), Incubator (343,000 sq. ft.) and Distribution (204,000 sq. ft.) product. The Airport and Southwest submarkets continued to be the most popular places to build, while North Las Vegas and East Las Vegas posted very restrained levels of construction.

Absorption was strong across the board this quarter, but especially for Light Distribution (346,000 sq. ft.) and Light Industrial

(294,000 sq. ft.) product. The Airport and Southwest submarkets had the strongest absorption this quarter, at 404,000 sq. ft. and 327,000 sq. ft. respectively. North Las Vegas was not far behind, posting a strong absorption of 284,000 sq. ft.

Employment growth in the Southern Nevada industrial sector was flat. Manufacturing and construction jobs declined by 1.7% and 3.0% respectively. Transportation & utility jobs had the greatest growth, measuring 5.6% this quarter. Industrial sector employment grew by 6.3% over this time last year. The greatest increase was in transportation & utilities (12.6%).

Current estimates are for job growth in the neighborhood of 44% over the next ten years in Southern Nevada. This is the strongest predicted job growth of any city in the United States. So long as Southern Nevada keeps growing at this rate, there will be a demand for well-located and well-developed industrial product. It is with this in mind that we predict slightly lower levels of construction this year, with continued healthy absorption, and thus lower vacancy rates.



EMERGING TRENDS

Land prices have become the greatest obstacle to profitable development of commercial real estate in the valley. On average, land prices have risen by 50% to 70% since the early 1990s. While land prices are not expected to end commercial development in the valley, they will dictate what kind of product is built, and where.

Dermody Properties has nearly run out of developable land, as has Thomas & Mack at McCarran Center. Majestic remains a major developer in the Airport/Southwest, having just announced a new 68-acre, 1,100,000-sq. ft. development on Industrial Road, to be built over the next three to five years. This development is expected to consist primarily of Light Distribution and Light Industrial buildings. Operating Engineers still has nearly 300 acres of vacant land to develop in North Las Vegas. EJM Development is developing in the Airport and Southwest submarkets. These parks are focused on light distribution and flex product with two distribution buildings planned in the Airport submarket totaling 320,000 sq. ft.

The impending McCarran land disposition has been offered as one possible solution to the land cost issue. Approximately 5,200 acres of land are to be auctioned off in the "shadow" of the McCarran International Airport flight path in the Southwest submarket. However, even this potential solution is problematic. High assessed land values and small parcel sizes will likely not bring the kind of industrial development most in demand in the Southwest, namely light distribution.

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Distribution product continues to lease well in Southern Nevada where vacancy was at 8.5%, up slightly from 8.4% a quarter ago. This is due to the 240,000 sq. ft. recently vacated this quarter at Pacific Business Center in the Henderson submarket.

CyberBills, Inc has become the first "dot-com" to occupy distribution product in Southern Nevada. The company, an online bill paying service, leased 115,000 sq. ft. at the Black Mountain Industrial Center in Henderson.

Although the vacancy rate for Distribution product in North Las Vegas remains high, North Las Vegas developers are finding they have more interested tenants than remaining space. Assuming this trend continues, the supply of Distribution product could dwindle to a level that would not leave tenants with expansion options. ProLogis's new building in the Las Vegas Corporate Center will come online later this year almost 50% occupied by Komatsu Equipment, who leased approximately 100,000 sq. ft. for their North Las Vegas distribution hub. We feel that, with the lack of planned speculative Distribution product, built-to-

suits will become more prevalent.

Light Distribution product remains in very high demand, especially in the Southwest and Airport submarkets, which absorbed 122,000 sq. ft and 117,000 sq. ft. respectively. This quarter saw the completion of 344,000 sq. ft. of light distribution space, primarily in the Airport and Henderson submarkets. Total absorption (346,000 sq. ft.) matched construction.

Construction of Light Distribution product has been somewhat restrained in recent quarters. Developers have focused on building flex and incubator product due primarily to high land costs and relatively flat rental rates for light distribution product.

While businesses which service the Las Vegas "Strip" would prefer to move into light distribution space in the Southwest submarket (6.7% vacancy), they are now ranging into the Airport (13.0% vacancy) and Henderson (14.1% vacancy) submarkets. The recently completed beltway has made this shift in location possible. Several planned light distribution projects in the Airport and Henderson submarkets will likely maintain this

LAS VEGAS INDUSTRIAL MARKET SUMMARY - FIRST QUARTER, 2000

Submarket	Rentable Square Feet	Vacancy		Net	Net	Planned Construction	Under Construction	New	New
				Absorption	Absorption			Construction	Construction
				1stQ	YTD			1st Q	Construction
		2000	YTD	2000	YTD				
		SF	%	(SF)	(SF)	(SF)	(SF)	(SF)	(SF)
Central	5,804,000	150,000	2.6%	39,000	39,000	-	-	-	-
East Las Vegas	4,354,000	177,000	4.1%	54,000	54,000	432,000	428,000	51,000	51,000
North Las Vegas	12,450,000	1,776,000	14.3%	284,000	284,000	750,000	953,000	134,000	134,000
Northwest	494,000	6,000	1.2%	11,000	11,000	20,000	24,000	-	-
Airport	9,668,000	668,000	6.9%	404,000	404,000	363,000	126,000	435,000	435,000
Henderson	6,370,000	732,000	11.5%	46,000	46,000	466,000	28,000	171,000	171,000
Southwest	17,419,000	1,118,000	6.4%	327,000	327,000	746,000	74,000	439,000	439,000
West Valley	4,886,000	192,000	3.9%	13,000	13,000	-	-	-	-
Building Type									
Distribution	17,928,000	1,519,000	8.5%	167,000	167,000	897,000	946,000	204,000	204,000
Light Distribution	13,165,000	1,518,000	11.5%	346,000	346,000	112,000	85,000	344,000	344,000
Light Industrial	15,921,000	485,000	3.0%	294,000	294,000	264,000	280,000	339,000	339,000
Flex	4,837,000	304,000	6.3%	162,000	162,000	477,000	147,000	-	-
Incubator	9,594,000	993,000	10.4%	209,000	209,000	1,027,000	175,000	343,000	343,000
Total	61,445,000	4,819,000	7.8%	1,178,000	1,178,000	2,777,000	1,633,000	1,230,000	1,230,000

trend into 2001.

Flex product has remained high in demand, posting a strong absorption rate of 162,000 sq. ft. with no newly completed projects this quarter. Approximately 360,000 sq. ft. of flex product is expected to come online in the next 18-months, which we expect will be easily absorbed.

The arrival of call centers and customer service centers in the Las Vegas valley may bring a boom in the flex market. There are a number of such businesses looking for 20,000 - 50,000 sq. ft. of flex space, well parked, and located in areas with strong labor markets.

The start-up nature of the Las Vegas economy has kept incubator product healthy. Over 340,000 sq. ft. of incubator space came on-line this quarter, with absorption standing at 209,000 sq. ft. Vacancy rates for this product remain high (10.4%) due to the high construction rates of the past few years. Forward supply of incubator space stands at approximately 7.0% of current inventory. Prospective developers of this space should be cautious, as companies seeking this type of space are becoming more cost-conscious as economic growth in Southern Nevada slows.

Light industrial space may well dominate industrial development in the near future, as smaller developers seek to meet the demand for industrial space left open by the withdrawal of the larger developers from the marketplace. Absorption for light

industrial space was strong this quarter (294,000 sq. ft.) Forward supply of light industrial product is very shallow, representing only 3.4% of current inventory. Should leasing of this product remain stable, the market will have no problem absorbing these new projects.

Lack of desirable, readily available product in the Southwest submarket has stimulated the already robust Airport submarket. It continues to develop (435,000 sq. ft.) and absorb (404,000 sq. ft.) space at a brisk pace. The proposed new freight airport in the Ivanpah valley is not expected to have any adverse effects on the Airport submarket in the long-term. The Ivanpah airport would primarily attract regional distribution users, while the Airport submarket tends to attract manufacturing, retail and back-office operations.

Henderson should be a hot market in the coming 18-months. With no new distribution product under construction the only space available is second-generation space vacated by Ocean Spray. This has opened the door for distribution tenants to expand in this market. Once leased, the market for distribution product in Henderson will enjoy low construction levels and vacancy rates should decrease. Based on current land values, the lease rates for this product type will have to increase for developers to begin building this product again in the Henderson submarket. Development in the near future will center on light distribution space, with approximately 300,000 sq. ft. currently planned for 2000. The extension of the I-215 beltway should increase demand for light distribution and distribution space in Henderson.

The North Las Vegas submarket continues to post high vacancy rates, as the Speedway Industrial Park slowly fills its 1.4 million sq. ft. of space. The continued popularity of the Las Vegas Speedway as a sports venue has begun to stimulate interest by the racing-related businesses the park was intended to serve. North Las Vegas absorbed 280,000 sq. ft. of space, bringing vacancy rates down to 14.3%. Only 134,000 sq. ft. of space was completed in North Las Vegas this quarter, but 953,000 sq. ft. is under construction, and due to come online before the end of the year. There is strong activity on the majority of these new projects.

East Las Vegas continues to see distribution development in the northern part of that submarket. There is increased development in the southeastern section of this submarket (Whitney), especially of light distribution and light industrial product. Vacancy rates remain low (4.1%), and absorption (54,000 sq. ft.) matched new construction (51,000 sq. ft.)



LAS VEGAS LAND

MARKET SUMMARY

Land prices continued to escalate in most submarkets during this quarter. Permit and development fees continued to increase as well.

- The Clark County Department of Aviation began selling, leasing and trading parcels in the "Cooperative Management Area". This activity is fueling active speculation and positioning among commercial developers and land speculators.
- Del Webb's Coventry Homes agreed to sell its 400-acre vacant land holdings near Rhodes Ranch in the southwest submarket to Pardee Homes.
- Master-planned developments experienced strong demand from area home builders looking for land to continue operations, while keeping an eye open for larger land plays elsewhere in the valley.
- The Bureau of Land Management sales program will increasingly affect valley land values by controlling the amount of land released at each auction. These sales may keep prices for private land holdings from too rapid an escalation.

RESIDENTIAL ACREAGE COSTS

Inside master-planned community: \$120,000 to \$140,000

Outside master-planned community: \$80,000 to \$105,000

SUBMARKET OVERVIEW

- South: Commercial development is taking an increasing role in the south submarket as the number of rooftops nears complete build-out in many of the master-planned communities. Infill retail and office development has already begun.
- North Central: More activity in number of land sales is steadily increasing as construction appears for the northern leg of the I-215 beltway. Industrial developers and residential builders are competing for lower-cost land in this submarket. The City of North Las Vegas and Bureau of Land Management will auction 1,200 acres in November 2000.
- Southwest: The addition of freeway access to the West submarket will begin to bear fruit, securing residential market share in southwest residential communities. We believe that this in turn will begin to fuel commercial development over the next 24 months.
- Northeast: Less expensive land prices for infill parcels are attracting smaller "niche" developers.

DEMAND

- A combination of employment growth and population growth continues to drive demand for residential and commercial development. Many of the larger residential developers are seeking elusive large land parcels on which to develop master-planned communities. Until the Bureau of Land Management releases these large parcels for auction, the existing master-planned communities will see strong demand for land sales. The larger builders will continue building units at or near record levels.
- Residential development geared toward retirement living is expected to continue its records pace.

OUTLOOK

- Smaller residential builders will continue to face rising costs and shrinking profit margins that are already in the single-digits. They will continue to face strong competition and many will look to commercial development to provide additional revenue. Many mid-sized builders will continue to downsize or face extinction. Acquisitions by larger firms will continue.
- For the large, public homebuilder companies the outlook is strong over the short-term, as they continue to build on shrinking land holdings. Within 24 months, the market may see an increase in large land parcels released from the Bureau of Land Management. Between now and then, many builders will be facing the difficult task of finding and assembling acreage suitably priced for single-family homes.

LAS VEGAS SUBURBAN RETAIL

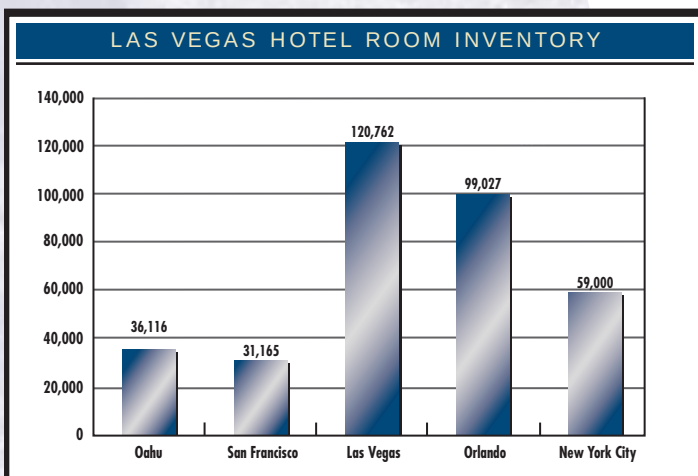
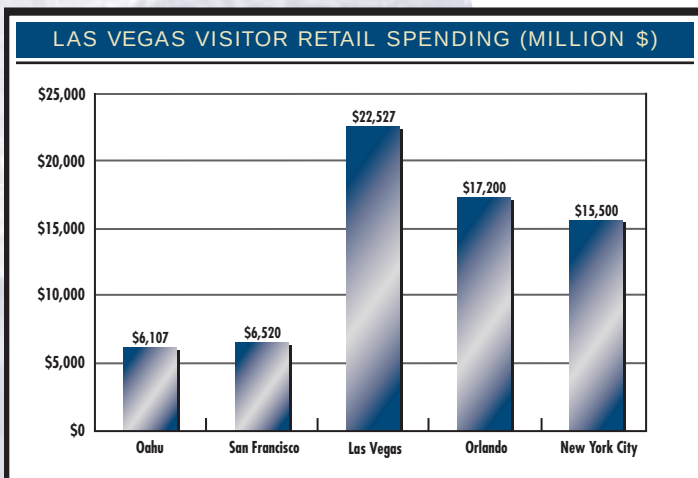
MARKET SUMMARY

Retail development has been strong throughout the valley, with just over 1,000,000 sq. ft. of product coming online this quarter. Leasing activity has been quite heavy this quarter, as local, regional and national tenants moved or expanded into secured quality locations in our new growth areas. The first quarter is generally a strong quarter, as companies look to prepare for the fourth quarter holiday rush.

The Marks / Sunset quadrant is the hottest growth area in the valley. Located in Henderson, near the Sunset Station, no less than 5 projects are currently planned for this busy intersection. In the coming 18-months, we expect to see the US-95 / Centennial quadrant become the next major hub of retail development in the valley.

EMERGING TRENDS

Infill retail has become an increasingly hot product type in the past quarter. These projects are especially attractive due to their established populations and demographics.



Leasing activity should continue to be heavy in the next quarter, assuming the economy remains healthy. Properties will continue to pre-lease, and infill locations will become more difficult to locate.

In the last two to three years the real estate investment trusts (REITs) have been out of favor with Wall Street. We believe this will change significantly over the next 18 to 24 months. Wall Street capital will begin to flow out of technology stocks, and into old economy businesses like real estate. The real estate investment trusts are poised to take advantage of this trend.

REITs spent the early 1990's acquiring a great deal of property. In the past few years, in the down turn, they have sold off under-performing properties and assets that did not fit their business model. We believe the REITs are poised to take another run at the retail market, and that they will be responsible for much of the new retail growth in the near future. These REITs and equity-type real estate companies will partner with local developers, who offer local expertise, to build projects.

Nationally, there has been a resurgence of mixed-use developments. Mixed-use developments are projects that combine residential, retail, entertainment, office and sometimes hotels. This type of development is spreading quickly throughout the major urban areas of the country, especially in West Hollywood, West Palm Beach, Chicago and New York.

Developers are discovering that communities are quick to embrace such projects. People want to work, shop, and be entertained close to home, often within walking distance. Mixed-use properties also help to create a sense of community. This is by no means a new idea, as most of the great European cities have this type of core development.

Such mixed-use properties should work well in downtown Las Vegas. Companies like JH Schneider (doing such a project in West Hollywood) and StarwoodWasserman would look at putting together a mixed-use project for this valley. Residential will work in downtown if it is combined with the office and shopping elements. The tourist industry does not need to be involved in this kind of development. It could well be a project to bring new life into downtown.

LAS VEGAS RESORT CORRIDOR RETAIL

MARKET SUMMARY

The new Aladdin will open August 17, 2000 with 2,600 rooms, taking total room inventory in Las Vegas to 123,362. This is the highest room inventory for any city in the United States. Desert Passage, the upscale shopping mall at the Aladdin is set to open on August 17, 2000 with a 500,000 square foot retail project that is 97% preleased.

With 11,000 rooms introduced in the last year, hotel occupancy

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rates remain over 91%. These rooms are at the upper tier of room rates, averaging over \$150/night, compared to a market average of \$85/night.

The Stratosphere is to commence building on a new 1,000 room tower in the very near future.

A \$6.5 billion capital investment into our infrastructure (hotel inventory) has produced +/- 14,000 rooms (including the Aladdin), and resulted in 18 of 19 largest U.S. hotels being located in Las Vegas. Approximately 3.35 million square feet of new retail space is under construction or about to begin construction over the next 12 months.

PROJECT RETAIL	SPACE
Aladdin	500,000 sq. ft.
Fashion Show Mall	1,000,000 sq. ft.
Forum Shops expansion	300,000 sq. ft.
Showcase Mall expansion	100,000 sq. ft.
Venetian expansion	250,000 sq. ft.
Mandalay Bay	1,200,000 sq. ft.
TOTAL	3,350,000 Sq. Ft.

Vacancy is approximately 1% in existing resort corridor mall product. New projects are preleasing at a record clip.

Lease rates range from \$50.00 per sq. ft. to \$300.00 per sq. ft. (annually), depending on the product, size and location. Rates are holding steady.

EMERGING TRENDS & OUTLOOK

Las Vegas will see continued prosperity as new resorts bring affluent visitors with strong disposable income.

Tourism will continue to climb. The 34 million people who visited Las Vegas in 1999 should grow to 37-38 million visitors in 2000.

Retail sales will remain strong due to extended operating hours and consumers seeking shopping as a form of entertainment. Dollars spent per consumer will continue to increase as the latest six million-tourist increase provides excellent disposable income.

Look for further diversification of product on hotel campuses as mergers result in duplication of markets within brands. With an average of 4 hrs/day being spent on gaming, and length of stay expanding, today's tourist is looking to plan for 20 hours a day for non-gaming activities.

Hotel/casinos who come to understand that Las Vegas is in the entertainment business, as opposed to the gaming business, will be able to sustain attendance during these non-gaming hours, and will emerge the clear winners.

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