Las Vegas Office

Market Summary
The Las Vegas office market vacancy rates declined slightly this quarter to 9.4%, accompanied by a similar rise in average rental rates to $1.73 psf. Absorption outpaced new construction by 4,000 sq. ft., and 18-month forward supply stood at approximately 7.9% 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.

Office employment in the valley as of May 2000 numbered 98,400 people, which was up 0.7% from the 1st quarter 2000. This growth was primarily in the service category, but the finance, insurance and real estate category did show slight growth in employment as well.

Office construction was very restrained, and well below that in the previous quarter. Class “C” office projects predominated in most submarkets, with 185,000 sq. ft. of this product type completed this quarter. Class “B” product accounted for 33,000 sq. ft. of new construction, and no new Class “A” product was delivered this quarter. This slow-down in new construction does not appear to be the beginning of a trend, however, as there was 753,000 sq. ft. under construction at quarter’s end, with another 1.55 million sq. ft planned to begin construction within the next twelve months.

There was 222,000 sq. ft. absorbed this quarter. That brings the total at mid-year 2000 to 671,000 square feet. Class “B” absorption was particularly low, at 14,000 sq. ft. This can be attributed to the changing requirements Class “B” tenants now have for the space they occupy (i.e. more parking, and larger floor plates), and the very low Class “B” vacancy rate. Absorption was highest this quarter in East the Las Vegas (116,000 sq. ft.) and the Northwest submarkets (58,000 sq. ft.). Class “C” and Class “A” office product had the highest absorption levels this quarter at 131,000 sq. ft. and 77,000 sq. ft. respectively.

Vacancy rates declined this quarter by 0.06 points, to 9.45%. Class “A” office product continued to have the highest vacancy rate (10.7%), but also posted the largest decline in vacancy (2.3 points.) Class “C” vacancy actually increased this quarter to 9.9% from 9.3%. This was due to new construction outpacing absorption levels. Weighted average rental rates rebounded this quarter, back to $1.73 from $1.72 in the previous quarter. In the long-term, rental rates are expected to rise gradually in Southern Nevada as the market continues to tighten.

Emerging Trends
A lack of speculative Class “C” office product with large floor plates is leading to a great many call centers and customer service centers moving into light industrial and industrial flex product. There are several flex products located in the Henderson, Airport, and Northwest submarkets that have been built out as 100% office, and many more such projects are under construction. Most speculative Class “C” office projects...
The Northwest, Henderson, and Airport submarkets remained healthy this quarter, even though all experienced a rise in their vacancy rates. Levels of newly completed construction were down in all three submarkets this quarter, as were absorption levels. We believe that this is a temporary slow-down, probably related to the slower growth in the national and local economies, as well as to Las Vegas’ transition into a more mature office market. All three submarkets continue to attract call centers and hi-tech companies, and this trend is not expected to change over the next several years.

The West Valley had very healthy absorption (45,000 sq. ft.) this quarter, yet still saw vacancy rates rise 0.3 points to 5.3%. East Las Vegas had the most absorption in the Las Vegas valley this quarter, at 116,000 sq. ft. Vacancy rates in the East Las Vegas submarket dropped 2.1 points this quarter, to 11.4%. The next twelve months should see the completion of several infill neighborhood office projects (Class “C”) in East Las Vegas, the West Valley, and the Airport submarket.

The first of what are expected to be many new office projects has been announced in the Southwest submarket. Colonial Bank Plaza will consist of two Class “B” office buildings, totaling over 110,000 sq. ft. There are two other Class “C” projects planned to begin construction in the Southwest in the next twelve months, and an additional 175,000 sq. ft. of office product proposed. As the I-215 nears completion, the Southwest will become the focus for office development in the Las Vegas valley.
LAS VEGAS INDUSTRIAL

Market Summary
The Southern Nevada industrial vacancy rate remained stable this quarter, declining slightly to 7.77% from 7.84% in the previous quarter. Vacancy rates were over 1.4 points lower than they were one year ago. New development continued to be lower than historical levels over the previous five years, as developers are depleting already scarce land inventories, and are attempting to find new developable land that meets minimum return criterion. However, new development levels were up from last year, as were absorption levels, pointing to the beginning of a recovery after the 1999 slow-down.

Only 812,000 sq. ft of new industrial product was added this quarter, most of which was Distribution (325,000 sq. ft.) or Flex product (211,000 sq. ft.). Construction of Light Distribution (155,000 sq. ft.) and Light Industrial product (90,000 sq. ft.) was quite restrained this quarter, as was construction of Incubator product (31,000 sq. ft.). East Las Vegas had most of the new construction this quarter (475,000 sq. ft.), followed by North Las Vegas (148,000 sq. ft.) and the Airport (141,000 sq. ft.). Construction levels in the Southwest were very restrained this quarter, possibly anticipating the forthcoming Majestic Runway Construction levels in the Southwest (176,000 sq. ft.) submarkets also posted very strong posting levels far outpacing new construction. The Airport (313,000 sq. ft.), North Las Vegas (259,000 sq. ft.), and Southwest (176,000 sq. ft.) submarkets also posted very strong absorption numbers this quarter. Henderson again saw negative absorption, due to another major vacation of space in the Pacific Business Park. Absorption in new industrial projects in Henderson remained robust. East Las Vegas saw low absorption levels this quarter, indicating that it may take some time to absorb the new industrial product added this quarter.

Absorption was strong this quarter for Light Distribution (370,000 sq. ft.) and Incubator (127,000 sq. ft.) product, both posting levels far outpacing new construction. The Airport (313,000 sq. ft.), North Las Vegas (259,000 sq. ft.), and Southwest (176,000 sq. ft.) submarkets also posted very strong absorption numbers this quarter. Henderson again saw negative absorption, due to another major vacation of space in the Pacific Business Park. Absorption in new industrial projects in Henderson remained robust. East Las Vegas saw low absorption levels this quarter, indicating that it may take some time to absorb the new industrial product added this quarter.

Employment growth in the Southern Nevada industrial sector continued to be flat, with a total 1,000 new jobs added in April and May, according to the Nevada Department of Employment, Training, and Rehabilitation. Manufacturing, wholesale and transportation & utility jobs grew just slightly (+0.4 to 0.5%). Construction jobs had the largest growth (+0.8%).

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
Las Vegas is becoming an important location for telecom switch & data facilities. Several companies are building or planning to build facilities of this kind in the Las Vegas valley this year. Many more are applying to enter the market. This is due to our now being considered a “tier 1” location for telecom infrastructure, bringing us to the same level as such cities as Denver, New York City, Los Angeles, and San Jose.

The movement of these companies into industrial product reverses the trend seen in most cities, where such companies usually seek space in office buildings. Here, however, these companies are constructing very basic 20,000 to 30,000 sq. ft. light industrial buildings, with an emphasis on security, i.e. no windows and no identifying signs.

Land prices continue to be 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 1990’s. While land prices are not expected to end commercial development in the valley, they will dictate what kind of product is built, and where.

Product Overview
The market for Distribution product suffered somewhat in 1999, with the exit of several large tenants from Southern Nevada. In
2000, it is recovering nicely. Although vacancy rates did rise this quarter (to 8.9% from 8.5%), absorption levels were very healthy, and distribution product was pre-leasing very well. In fact, lack of speculative distribution development in the valley has lead to companies moving into other markets because they require standing inventory that Las Vegas cannot presently provide. There was 1.27 million sq. ft. of distribution product under construction in the valley, with another 1.37 million sq. ft. planned to begin construction in the next twelve months. This would increase the Southern Nevada inventory of Distribution product by 14%. In the meantime, companies interested in expanding or bringing their operations to Las Vegas are turning to build-to-suit construction.

Light Distribution product continued to be the work-horse of the Las Vegas industrial market. This was especially true in the Airport submarket, which absorbed 193,000 sq. ft. This quarter saw the completion of only 155,000 sq. ft. of Light Distribution product, located primarily in the Airport and East Las Vegas submarkets. Total absorption (370,000 sq. ft.) outpaced new completions by a margin of nearly two-to-one. Only 289,000 sq. ft. of Light Distribution product was under construction, or planned to begin construction in the next twelve months, indicating that the market for Light Distribution product should tighten in the coming quarters.

Most companies seeking space in Light Distribution product service the Las Vegas "Strip", and thus prefer the Southwest submarket (6.2% vacancy). But the lack of standing vacant inventory in the Southwest has lead to these companies ranging into the Airport (7.6% vacancy) and Henderson (12.5% vacancy) submarkets. The recently completed I-215 beltway has made this shift in location possible, and is spurring industrial development in Henderson.

Two new speculative Flex projects came online this quarter with 0.0% occupancy, one in East Las Vegas (96,000 sq. ft.) and the other in North Las Vegas (95,000 sq. ft.). Neither East Las Vegas nor North Las Vegas is known for flex product. In fact, the North Las Vegas Flex market posted one of the highest vacancy rates in the city (59.0%), topped only by the Flex market in East Las Vegas (59.6%). This was due not only to the small amount of flex product in these two submarkets (only 571,000 sq. ft. combined), but also to the slow absorption of flex product at the Speedway Industrial Park (41,000 sq. ft. in the last twelve months.)

We predict that the new flex product in East Las Vegas may take some time to absorb because of competitive rates in other markets and location issues for most service industries. Owing to its proximity to the Northwest submarket, the new North Las Vegas flex projects should absorb quickly.

The market for incubator product in the Las Vegas valley continued to be strong. Only 31,000 sq. ft. of incubator product came online this quarter, and absorption stood at 127,000 sq. ft. This sent vacancy rates down one percentage point to 9.3%. This was still a relatively high rate of vacancy, but reasonable

### LAS VEGAS INDUSTRIAL MARKET SUMMARY - SECOND QUARTER, 2000

<table>
<thead>
<tr>
<th>Submarket</th>
<th>Square Feet</th>
<th>SF</th>
<th>%</th>
<th>Net Absorption</th>
<th>Planned Under Construction</th>
<th>Vacancy Rate</th>
<th>New Construction 2Q</th>
<th>YTD Construction</th>
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<td>7.84%</td>
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</tbody>
</table>
due to the high construction levels over the past few years. Forward supply of incubator product stood at just 5.2% of current inventory. Prospective developers of incubator product should be cautious, as companies seeking this type of space are becoming more cost-conscious as economic growth in Southern Nevada slows.

**Light industrial** product may well dominate industrial development in the near future, as smaller developers seek to meet the demand for industrial product left open by the withdrawal of the larger developers from the marketplace. Absorption for light industrial product was slow this quarter (76,000 sq. ft.), and vacancy rates increased to 3.2% from 3.0% in the previous quarter. Nevertheless, forward supply of light industrial product was very shallow, representing only 2.2% of current inventory. Should leasing of this product remain stable, the market will have no problem absorbing the 429,000 sq. ft. of new light industrial product added so far this year.

**Submarket Overview**

New development was light in the traditionally strong **Airport submarket** this quarter, with just 141,000 sq. ft. of product coming online. Most of this was Distribution (55,000 sq. ft.) and Light Distribution (56,000 sq. ft.) product. Absorption (313,000 sq. ft.) remained very strong this quarter, resulting in vacancy rates plunging to 5.1% from 6.9% in the previous quarter. Construction levels should pick up in the second half of the year, as there was 771,000 sq. ft. of product under construction or planned in the Airport submarket. So long as the submarket continues to absorb between 300,000 and 400,000 sq. ft. each quarter, vacancy rates will remain stable, and might even drop by the end of the year.

Plans for new projects in **Henderson** abounded, despite the submarket’s high vacancy rate of 11.5%. Even though only 34,000 sq. ft. of new industrial product was added this quarter in Henderson, the submarket still posted negative absorption (-69,000 sq. ft.) due to another vacation of space in the Pacific Business Park. First generation industrial product continued to absorb well in Henderson, however, so new development of well-located, well-designed product should continue to do well. Development in the second half of this year will focus on Light Industrial (116,000 sq. ft. under construction), and Flex product (75,000 sq. ft.) that should attract call center tenants due to their high parking ratios and large floor plates. Looking forward to 2001, Light Distribution and Light Industrial product will come to dominate development in Henderson, with 249,000 sq. ft. and 205,000 sq. ft. planned respectively. Both of these product types posted positive absorption (14,000 sq. ft. and 18,000 sq. ft.) this quarter. The extension of the I-215 beltway, combined with the lack of available space in the Airport and Southwest submarkets should increase demand for Light Distribution and Light Industrial product in Henderson. Flex product should also perform well, provided it is built to meet the minimum requirements of the call centers moving to Las Vegas.

The **North Las Vegas submarket** posted high vacancy rates, as the Speedway Industrial Park continued to slowly fill its 1.4 million sq. ft. of product. An additional 148,000 sq. ft. of new product was built in North Las Vegas this quarter; most of it located at the North Port Business Center. Absorption levels remained stable at 259,000 sq. ft., thus sending vacancy rates down again this quarter, to 13.2%. There was strong pre-leasing activity on speculative distribution product in North Las Vegas, and it is expected that the 477,000 sq. ft. of distribution product under construction in that submarket will fill rapidly. After Dermody and ProLogis complete their buildings currently under construction, the Operating Engineers Pension Fund (Golden Triangle) will be the only major developer of speculative distribution product in North Las Vegas with standing first generation product for the next year. Dermody is currently purchasing another 100+ acre site, and should have vertical product within twelve months.

**East Las Vegas** dominated new development this quarter, with 475,000 sq. ft. of new product coming online. Most of this was Distribution (270,000 sq. ft.) product. Flex (96,000 sq. ft.) and Light Distribution (85,000 sq. ft.) also posted record construction levels in this submarket. As most of this product was completed unoccupied, vacancy rates jumped from 4.1% in the previous quarter to 12.2%. Nonetheless, absorption stood at 63,000 sq. ft., which was 9,000 sq. ft. more than in the previous quarter. Another 303,000 sq. ft. of Distribution product was under construction in East Las Vegas, most of it already being pre-leased.

**Market Outlook**

Moderate construction levels over the second half of the year, combined with strong pre-leasing and build-to-suit activity will lead to slightly lower vacancy rates by the end of the year. This market tightening will continue into 2001, especially as concerns Distribution product, and will result in slightly higher average rental rates.
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
The strong first quarter performance of the Las Vegas retail sector was followed by an equally strong performance in the second quarter of 2000. Retail development was strong throughout the valley, with 981,000 sq. ft. of product coming online this quarter. Leasing activity leveled out this quarter, with net absorption this quarter (548,000 sq. ft.) less than that seen in the previous quarter (798,000 sq. ft.). The first quarter is generally a stronger quarter than the second, as companies look to prepare for the fourth quarter holiday rush.

Emerging Trends
The intersection of Marks & Sunset was the hottest growth area in the Las Vegas valley. Located in the Henderson submarket, near the Sunset Station, no less than 1.2 million sq. ft. of retail is planned for this busy intersection. That is on top of another 2.4 million sq. ft. of retail space either under construction or planned in the Henderson submarket. Most of that space is located near the I-215 beltway. Henderson vacancy rates increased to 7.5% from 2.3% in the previous quarter. This increase was due to the large amount of space that has come online this year in Henderson (766,000 sq. ft.). We feel confident, based on the entrance of companies such as The Great Indoors, R.C. Wiley, and other big box retailers, that this space will be absorbed, although the sheer amount of retail space slated to come online could draw out the absorption timeframe.

In the coming 18-months, we expect to see the intersection of US-95 & Centennial in the Northwest submarket become another major hub of retail development in the valley. There is currently 1.9 million sq. ft. of retail space planned for this quadrant, including the 880,000 sq. ft. Centennial Centre, which is now under construction. The Northwest submarket has had very light construction activity so far this year. The next six months, however, should be much more active, with 1.7 million sq. ft. currently under construction in the Northwest. Vacancy rates stood at 0.7% this quarter, unchanged from last quarter.

Over the next eighteen-months the Southwest submarket will see a great deal of retail development. Currently, the Southwest submarket stands at only 912,000 sq. ft., making it the smallest submarket in Las Vegas. Three new shopping centers (1.3 million sq. ft.) are currently planned or proposed for the Southwest, coming online in late 2001 through 2003. This would more than double this submarket’s current inventory. As the master-planned communities of Rhodes Ranch, Coronado Ranch, Compass Point, and Southern Highlands are further developed, the Southwest will join the Northwest and Henderson as one of the most active submarkets in Las Vegas retail.

The more mature retail submarkets of East Las Vegas and North Las Vegas saw healthy construction activity, with a total of 299,000 sq. ft. of new product being completed this quarter. East Las Vegas vacancy rates climbed to 5.3% from 4.1% in the previous quarter. North Las Vegas vacancy rates climbed to 0.8% from 0.6% in the previous quarter. While absorption levels increased in both submarkets, the increase was not enough to keep vacancy rates stable. Nevertheless, increased absorption levels, combined with the very small amount of forward supply in both East Las Vegas and North Las Vegas, indicate that vacancy rates should fall by the end of the year, although not dramatically. The intersection of Craig Rd and Martin Luther King Blvd is certain to be the most sought after for retail expansion in the North Las Vegas submarket in the coming eighteen months.

Leasing activity was very heavy on new shopping centers, and we expect this trend will continue over the next twelve months. Those centers that came online this quarter did so 56% pre-leased. This quarter’s relatively low absorption came primarily as a result of weak performance in second generation retail projects and in power centers. The opening of Silverado Ranch Station at only 8.0% occupancy has driven power center vacancy rates up to 12.6% from only 2.5% in the previous quarter. This light occupancy is due to delays in construction as a result of anchor tenants negotiating tougher deals. In addition, a large home improvement chain attempted to purchase a portion of the project.

Regional centers (non-grocery anchored space) had the lowest vacancy rate in the valley this quarter at 1.7%, down 0.5 points from one quarter ago. Construction of this product type has been restrained, and thus the market for regional centers is expected to remain healthy in the short-term. Completed construction (202,000 sq. ft.) and absorption (230,000 sq. ft.) levels both fell by approximately 40% this quarter. Vacancy rates for regional centers should drop by the end of the quarter, though again, not dramatically. Lease rates should remain stable, or might possibly increase by the end of the year.

Community Centers (grocery-anchored centers) saw completed construction levels increase this quarter to 329,000 sq. ft. from 316,000 sq. ft. in the previous quarter. Absorption, however, decreased from a very healthy 372,000 sq. ft. last quarter to 275,000 sq. ft. this quarter. Vacancy rates increased to 2.1%. Although there is 1.3 million sq. ft. of new community center product coming online in the next twelve months, we do not expect any weakness in this market segment because retailers are expanding to meet the needs of growth.

The Suburban Enclosed Mall market is set to expand in the coming months. The Galleria Mall at Sunset is still considering a
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95,000 sq. ft. open-air expansion, though no date has been given for the ground-breaking. In the Northwest submarket, the Rouse Company is going ahead with plans to develop their mall site, a one million square foot enclosed mall featuring such anchors as Lord & Taylor, Robinsons-May, and Dillards. This will be the fourth suburban enclosed mall, joining the venerable Boulevard Mall, the Meadows Mall, and the aforementioned Galleria Mall at Sunset.

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 reported to be 98% pre-leased. Phase II of the Showcase Mall added 40,000 sq. ft. of new retail to the “Strip.” Sephora, a cosmetics store, opened their second store in Las Vegas last week in the Showcase Mall Phase II expansion, and early reports indicate brisk sales. Walgreens broke ground on their new 16,000 sq. ft. store in the Las Vegas Shopping Center, located at Las Vegas Blvd & Convention Center Way. Construction is expected to be completed in 90 to 120 days.

Approximately three-million square feet of new retail space is under construction or about to begin construction over the next twelve-months. Vacancy was approximately 1% in existing resort corridor mall product. New projects are pre-leasing very well.

Rental 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 37.0 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.

The center “Strip” is becoming the new frontier of resort corridor development as available land in the south “Strip” becomes scarce. MGM’s proposed new resort south of Bellagio will be the final major casino completed in the south “Strip” between Flamingo Road and Tropicana Avenue.

Meanwhile, the purchase of the Desert Inn by Steve Wynn has rejuvenated interest in the center “Strip”, and should provide the impetus for the next major center of development.

The Fashion Show Mall has already announced a one-million square foot expansion. This expansion, along with the Frontier’s proposed demolition and renovation, the Venetian’s Phase II, the recently announced purchase of the Hilton, and the proposed development of Silver City and the El Ranch, has sparked considerable interest in new and repositioned projects in the center “Strip”.

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