

LAS VEGAS | NEVADA

RESEARCH & FORECAST REPORT



MARKET INDICATORS

	Q1-12	Projected Q2-12
VACANCY	↑	↑
NET ABSORPTION	↑	→
CONSTRUCTION	↓	↓
RENTAL RATE	↓	↓

CLARK COUNTY ECONOMIC DATA

	Latest Period	Year Ago
Unemployment Rate (Jan.)	13.1%	14.4%
Visitor Volume (Jan.)	3.4 M	3.4 M
Gaming Revenue (Jan.)	\$925 M	\$761 M
Taxable Sales YTD (Dec.)	\$2.99 B	\$2.25 B

SOURCE: THE CENTER FOR BUSINESS & ECONOMIC RESEARCH, UNLV

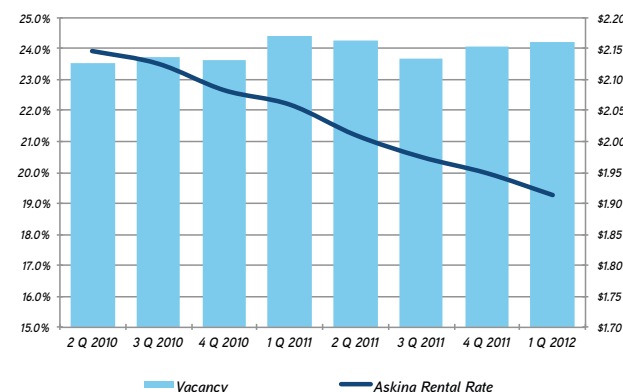
Office Improves, Still Weak

The office market's stumble in the fourth quarter of 2011 was not completely reversed in the first quarter of 2012, but net absorption was higher (though still negative) and gross absorption was much improved over a quarter ago and over one year ago. Despite that smidgeon of positive news, vacancy is once again moving in the wrong direction, increasing five-tenths of a point since hitting a low of 23.7 percent in the third quarter of 2011. Whoever would have thought that we could get misty over a 23.7 percent vacancy rate?

According to the Nevada Department of Employment, Training & Rehabilitation, between January 2011 and January 2012, a net of 3,300 office sector jobs were lost in Southern Nevada. The Professional & Business Services sector, which had been adding jobs in 2011, made a sharp about face and dropped 2,800 jobs, making it the hardest hit sector year-over-year. Financial Activities continued to show weakness, dropping 1,400 jobs over the past 12 months. Only the Health Care & Social Assistance sector added jobs, 900 to be precise, over the past year. Unemployment in the Las Vegas-Paradise MSA stood at 13.1 percent in January 2012.

Office completions in the first quarter of 2012 consisted of two 4,500 square foot Class C buildings on Horizon Ridge Parkway in Henderson. The remaining buildings at Horizon Ridge Professional Park were in various stages of construction or planning, and a second phase of that development is now in the planning stages as well. Two properties are currently in the pipeline for the Downtown submarket; the Federal Justice Tower and EVAPS Law Office Building. There are now rumors that the Howard Hughes Corporation is considering completing the two steel-framed office buildings started, and subsequently stopped, at the stalled Summerlin Mall project. Plans for completion of another building at Tivoli Village are also in the works. While office development is minimal in Southern Nevada these days (pre-recession, forward supply of office space averaged around 5 million square feet), it is notable that forward supply has never hit 0 square feet and only three quarters in the past five years saw no new office completions.

HISTORICAL VACANCY AND ASKING RATES



"Price wariness should continue for the foreseeable future as businesses remain in a survival frame of mind."



Office vacancy in Southern Nevada is now 24.2 percent and has been rising for the past two quarters since hitting a low of 23.7 percent in the third quarter of 2011. A surge of demand for commercial real estate (not only office, but industrial and retail as well) in the middle of 2011 has passed and demand has receded to levels we came to expect during the recession. The highest vacancy rates by submarket were in the Northwest (29.8 percent), East Las Vegas (26.8 percent), North Las Vegas (26.4 percent) and Henderson (25.3 percent) submarkets. Downtown continued to boast the market's lowest vacancy rate at 13.1 percent, but vacancy there increased quarter-over-quarter. All submarkets except Northwest and Southwest posted an increase in vacancy this quarter.

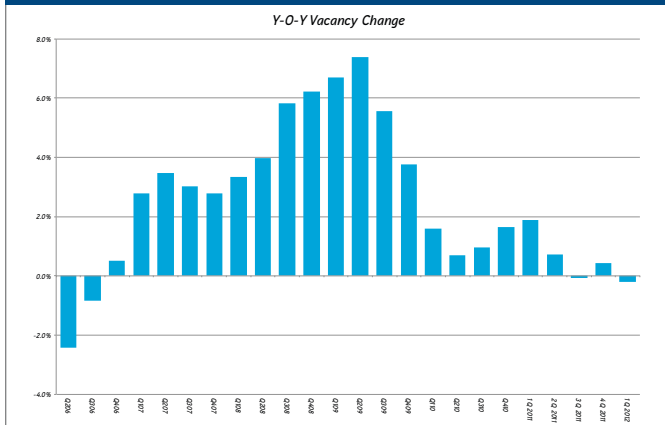
Class A office, despite some significant challenges early in the recession, continued to lead the office market. Class A vacancy dropped to 30.5 percent from 31.2 percent last quarter and 32.5 percent one year ago. This might be a case of "flight to quality", with Class A asking rents now standing at \$2.45 psf FSG, just \$0.47 higher than Class B asking rents. At the height of the market, that gap was \$0.51 and Class A asking rents were \$3.18 psf FSG. Class B vacancy is up from last quarter and from last year, and now stands at 22.7 percent. Class C vacancy is

even with one year ago and up one-tenth of a point from last quarter.

Net absorption was a negative 40,278 square feet this quarter. This is by no means good, but it is better than last quarter. Net absorption has now been negative for two straight quarters after going positive for two quarters in the middle of 2011. Job growth, or the lack thereof, lies at the heart of this negative net absorption, and we can expect to see negative net absorption continue until growth in key employment sectors like Leisure & Hospitality turn into growth in employment sectors associated with office space. Downsizing still typifies much of the activity in the office market. This year, for example, Phoenix University is consolidating its operations in the Nevada Cancer Institute Campus, leaving large vacancies in the Northwest and Southwest submarkets.

Class A had the best performance among office classes this year, with 41,127 square feet of net absorption. Class B office gave back 62,133 square feet of occupied space, the worst performance in the market this quarter, while Class C space surrendered 19,272 square feet of space. Two submarkets, the Southwest and Northwest, posted positive net absorption this quarter of approximately 110,000 square feet. These two submarkets dominated office leasing during the run-up to the recession, and perhaps are beginning to reassert that dominance despite being the two most expensive submarkets in town.

Y-O-Y OFFICE VACANCY CHANGE



LEASE AND SALES ACTIVITY

LEASE ACTIVITY

PROPERTY NAME	LEASE DATE	LEASE TERM	SIZE	LEASE RATE	TYPE
Cheyenne Corporate Center 3	Mar 2012	120 months	34,000 SF	\$1.77 MG	Class B Office
7690 Sahara	Mar 2012	84 months	10,000 SF	\$1.05 NNN	Class C Office
101 Convention Center	Feb 2012	12 months	7,500 SF	\$1.00 FSG	Class B Office
Sahara Buffalo Professional Center	Mar 2012	60 months	4,500 SF	\$1.84 MG	Class B Office
Canyon Plaza	Mar 2012	12 months	3,500 SF	\$0.98 MG	Class C Office

SALES ACTIVITY

PROPERTY NAME	SALE DATE	SALE PRICE	SIZE	PRICE/SF	TYPE
Green Valley Corporate Center South	Jan 2012	\$10,300,000	68,000 SF	\$151	Class A Office
4300 Tropicana	Feb 2012	\$10,000,000	348,000 SF	\$29	Class C Office
Coronado Bay Business Park	Jan 2012	\$1,900,000	23,000 SF	\$82	Class C Office
National Title Office Park	Feb 2012	\$1,200,000	17,000 SF	\$69	Class C Office
Sunset Dapple Plaza	Jan 2012	\$1,100,000	4,000 SF	\$254	Class C Office

Gross absorption, which was anemic in the fourth quarter of 2011, rebounded strongly in the first quarter of 2012. Gross absorption in Southern Nevada stood at 1,095,815 square feet, fully 400,000 square feet more than one quarter ago and one year ago. Not counting the two quarter surge of demand experienced in mid-2011, this is the highest quarterly gross absorption recorded since the first quarter of 2010. Since this gross absorption did not translate into net absorption, it is a good bet that much of the activity consisted of existing Southern Nevada businesses moving within the Valley, and probably to smaller spaces.

Of the office deals we have tracked so far in 2012, the most active industries have been Financial Services, Business Services and Legal Services. Local companies made up 68 percent of the tenants taking space so far this year and 56 percent of the total office space taken. Regional companies made up 20 percent of the tenants taking space and 38 percent of the total office space taken. California companies are coming to Southern Nevada at a quicker pace than in 2011, accounting for 32 percent of the deals we have recorded so far in 2012, compared to 24 percent in 2011.

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) stayed virtually the same this quarter compared to last, at 5,160,000 square feet. Bargain hunters continued to snap up distressed office, but not at the rate they were in 2011. In all, only 87,000 square feet of distressed office product sold thus far in 2012 at an average sales price of \$86 per square foot. Sales have flagged so far this year compared to last, perhaps because desirable distressed product is becoming scarce.

The weighted average asking rental rate decreased this quarter to \$1.91 per square foot (psf) on a full service gross (FSG) basis. This was a decrease of \$0.15 from twelve months ago. Asking rents have been declining since the onset of the Great

Recession in 2007/2008. The largest year-over-year decrease in asking rents was in Class A and Class B office, which saw average asking rents drop by \$0.17 psf. Class C asking rents dropped \$0.11 psf over the same period. Price wariness should continue for the foreseeable future as businesses remain in a survival frame of mind.

Available office sublease space was increasing in the third and fourth quarters of 2011 – a distressing sign since increases in sublease space soon translate into increases in directly leasable space. Fortunately, space available for sublease declined in the first quarter of 2012, hitting 336,739 square feet. This is still higher than one year ago, but at least is once again heading in the right direction.

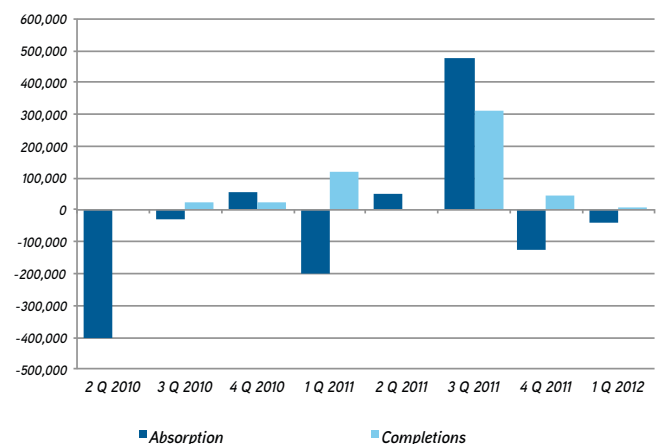
The amount of office space available for sale on an owner/user basis increased by 9,000 square feet over last quarter and now stands at 1,024,000 square feet. The average asking price for owner/user space this quarter was \$126 psf, a decrease of \$7 from last quarter. Owner/user sales were up in the first quarter of 2012, and in fact hit a four year high. A total of 389,548 square feet traded in the first quarter at an average price of \$39. This average price was heavily influenced by the sale of the old Southwest Gas facility at 4300 W. Tropicana Ave, which traded for only \$29 psf. Factoring that sale out, the average sales price for owner/user space was \$121 psf, a healthy increase over last quarter. Distressed sales accounted for only 3 percent of owner/user sales this quarter. Those sales went for an average of \$99 psf, compared to \$130 for comparable non-distressed owner/user sales.

EMPLOYMENT

	Jan 2012	Jan 2011	Change
Financial Activities	38,400	39,800	-1,400
Professional & Business Services	99,900	102,700	-2,800
Health Care & Social Assistance	64,600	63,700	+900
TOTAL	202,900	206,200	-3,300

Source: Nevada Department of Employment, Training and Rehabilitation.

HISTORICAL ABSORPTION VS. COMPLETIONS



OFFICE DEVELOPMENT PIPELINE

PROJECT	TYPE	SUBMARKET	SIZE	PRE-LEASING	COMPLETION
Horizon Ridge Professional Park	Class C	Henderson	4,500	0%	Q2-12
Horizon Ridge Professional Park	Class C	Henderson	8,190	0%	2012
Horizon Ridge Professional Park Ph 2	Class C	Henderson	13,430	0%	2012/13
EVAPS Law Office Building	Class B	Downtown	55,000	n/a	2012/13
Federal Justice Tower	Class A	Downtown	129,000	100%	2012

MARKET COMPARISONS

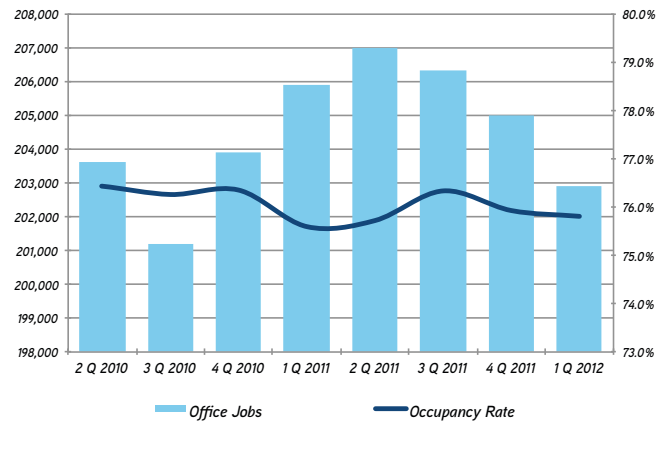
OFFICE MARKET

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	232,343	38.4%	-	0.0%	232,343	38.4%	40.5%	13,119	13,119	-	-	-	-	\$2.71
B	43	2,001,710	302,637	15.1%	32,498	1.6%	335,135	16.7%	16.4%	(10,775)	(10,775)	-	-	-	-	\$1.84
C	266	2,883,058	810,795	28.1%	19,918	0.7%	830,713	28.8%	28.0%	(24,159)	(24,159)	-	-	-	-	\$1.59
Total	315	5,490,325	1,345,775	24.5%	52,416	1.0%	1,398,191	25.5%	25.1%	(21,815)	(21,815)	-	-	-	-	\$1.84
DOWNTOWN																
A	5	807,588	83,135	10.3%	7,706	1.0%	90,841	11.2%	9.1%	(17,675)	(17,675)	-	-	129,000	-	\$2.55
B	32	2,273,742	321,282	14.1%	1,500	0.1%	322,782	14.2%	14.3%	2,059	2,059	-	-	-	55,000	\$1.98
C	80	1,102,048	142,025	12.9%	-	0.0%	142,025	12.9%	12.3%	(6,842)	(6,842)	-	-	-	-	\$1.52
Total	117	4,183,378	546,442	13.1%	9,206	0.2%	555,648	13.3%	12.7%	(22,458)	(22,458)	-	-	129,000	55,000	\$1.95
EAST LAS VEGAS																
A	9	1,351,642	305,970	22.6%	42,071	3.1%	348,041	25.7%	24.3%	(23,609)	(23,609)	-	-	-	-	\$2.84
B	19	1,409,555	481,106	34.1%	4,867	0.3%	485,973	34.5%	33.8%	(5,312)	(5,312)	-	-	-	-	\$1.23
C	141	2,404,834	595,853	24.8%	6,851	0.3%	602,704	25.1%	24.7%	(11,666)	(11,666)	-	-	-	-	\$1.32
Total	169	5,166,031	1,382,929	26.8%	53,789	1.0%	1,436,718	27.8%	27.1%	(40,587)	(40,587)	-	-	-	-	\$1.62
HENDERSON																
A	11	787,274	261,393	33.2%	17,824	2.3%	279,217	35.5%	32.7%	(29,144)	(29,144)	-	-	-	-	\$2.59
B	68	2,285,225	560,882	24.5%	26,728	1.2%	587,610	25.7%	26.8%	26,358	26,358	-	-	-	-	\$2.13
C	221	2,144,487	498,067	23.2%	3,074	0.1%	501,141	23.4%	21.6%	(30,390)	(30,390)	9,000	9,000	4,500	8,190	\$1.68
Total	300	5,216,986	1,320,342	25.3%	47,626	0.9%	1,367,968	26.2%	25.6%	(33,176)	(33,176)	9,000	9,000	4,500	8,190	\$2.05
NORTH LAS VEGAS																
A	-	-	-	n/a	-	n/a	-	n/a	n/a	-	-	-	-	-	-	\$-
B	8	200,796	77,211	38.5%	-	0.0%	77,211	38.5%	39.6%	2,262	2,262	-	-	-	-	\$1.59
C	49	426,417	109,956	25.8%	-	0.0%	109,956	25.8%	21.2%	(19,749)	(19,749)	-	-	-	-	\$1.50
Total	57	627,213	187,167	29.8%	-	0.0%	187,167	29.8%	27.1%	(17,487)	(17,487)	-	-	-	-	\$1.54
NORTHWEST																
A	21	1,709,415	700,177	41.0%	4,128	0.2%	704,305	41.2%	44.3%	52,925	52,925	-	-	-	-	\$2.13
B	82	2,988,470	611,274	20.5%	22,549	0.8%	633,823	21.2%	22.0%	18,268	18,268	-	-	-	-	\$2.19
C	281	2,925,851	704,499	24.1%	16,011	0.5%	720,510	24.6%	26.1%	39,285	39,285	-	-	-	-	\$1.80
Total	384	7,623,736	2,015,950	26.4%	42,688	0.6%	2,058,638	27.0%	28.6%	110,478	110,478	-	-	-	-	\$2.03
SOUTHWEST																
A	3	397,112	177,485	44.7%	-	0.0%	177,485	44.7%	56.2%	45,511	45,511	-	-	-	-	\$2.56
B	70	2,714,887	698,998	25.7%	65,999	2.4%	764,997	28.2%	28.6%	23,909	23,909	-	-	-	-	\$2.40
C	303	3,298,374	677,299	20.5%	42,415	1.3%	719,714	21.8%	23.1%	40,994	40,994	-	-	-	-	\$1.85
Total	376	6,410,373	1,553,782	24.2%	108,414	1.7%	1,662,196	25.9%	27.4%	110,414	110,414	-	-	-	-	\$2.18
WEST CENTRAL																
A	2	227,624	35,339	15.5%	-	0.0%	35,339	15.5%	15.5%	-	-	-	-	-	-	\$1.96
B	46	1,672,458	476,603	28.5%	-	0.0%	476,603	28.5%	21.4%	(118,902)	(118,902)	-	-	-	-	\$1.79
C	165	2,654,339	636,660	24.0%	2,069	0.1%	638,729	24.1%	23.8%	(6,745)	(6,745)	-	-	-	-	\$1.56
Total	213	4,554,421	1,148,602	25.2%	2,069	0.0%	1,150,671	25.3%	22.5%	(125,647)	(125,647)	-	-	-	-	\$1.67
MARKET TOTAL																
A	57	5,886,212	1,795,842	30.5%	71,729	1.2%	1,867,571	31.7%	32.6%	41,127	41,127	-	-	129,000	-	\$2.45
B	368	15,546,843	3,529,993	22.7%	154,141	1.0%	3,684,134	23.7%	23.2%	(62,133)	(62,133)	-	-	-	55,000	\$1.97
C	1,506	17,839,408	4,175,154	23.4%	90,338	0.5%	4,265,492	23.9%	23.8%	(19,272)	(19,272)	9,000	9,000	4,500	8,190	\$1.63
Total	1,931	39,272,463	9,500,989	24.2%	316,208	0.8%	9,817,197	25.0%	24.9%	(40,278)	(40,278)	9,000	9,000	133,500	63,190	\$1.91
QUARTERLY COMPARISON AND TOTALS																
Q1-12	1,931	39,272,463	9,500,989	24.2%	316,208	0.8%	9,817,197	25.0%	24.9%	(40,278)	(40,278)	9,000	9,000	133,500	63,190	\$1.91
Q4-11	1,929	39,263,463	9,451,711	24.1%	322,029	0.8%	9,773,740	24.9%	24.4%	(124,705)	198,682	45,579	478,023	142,500	8,190	\$1.95
Q3-11	1,928	39,217,884	9,281,427	23.7%	294,361	0.8%	9,575,788	24.4%	25.0%	477,331	323,387	312,444	432,444	-	26,190	\$1.98
Q2-11	1,925	38,905,440	9,446,314	24.3%	266,009	0.7%	9,712,323	25.0%	25.2%	48,637	(153,944)	-	120,000	332,444	26,190	\$2.01
Q1-11	1,925	38,905,440	9,494,951	24.4%	312,812	0.8%	9,807,763	25.2%	24.5%	(202,581)	(202,581)	120,000	120,000	312,444	26,190	\$2.06

Properties available for sale on an investment basis decreased to 837,000 square feet from last year's 1,125,000 square feet. The average asking price for investment sales was \$121 psf, a \$24 psf decrease from the fourth quarter of 2011, a possible indication that the most desirable investment properties have already traded. Unlike sales of owner/user space, office investment sales hit a two year low, with only 143,000 square feet trading in the first quarter of 2012 at an average price of \$116 psf. Of that, 52 percent was distressed space, which sold at an average price of \$83 psf. Non-distressed investments sold for an average of \$151 psf.

If the surge in demand experienced in 2011 raised hopes for a speedy conclusion to the Valley's real estate woes, the past two quarters have been like a splash of ice cold reality. Recovery cannot occur until the office sector sees steady, significant job growth, and that kind of growth may still be a year away. This year, the story in Las Vegas will likely be of the resurgence of Downtown. The downtown redevelopment group of Zappo's founder Tony Hsieh plans to inject large amounts of cash into that submarket, and in a market as quiet as this one has been, developers and investors are bound to take notice.

OCCUPANCY VS. OFFICE EMPLOYMENT



522 offices in 62 countries on 6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

- \$1.8 billion in annual revenue
- \$1.25 billion square feet under management
- Over 12,300 professionals

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DISTRESSED OFFICE PROPERTIES

Product Type	2012	2011	2010
Class A	698,000 sf	698,000 sf	677,000 sf
Class B	1,753,000 sf	1,739,000 sf	1,897,000 sf
Class C	2,709,000 sf	2,725,000 sf	2,834,000 sf
TOTAL	5,160,000 sf	5,162,000 sf	5,408,000 sf

OWNER/USER SALES ACTIVITY

Owner User Space	2012 YTD	2011	2010
Space for Sale (sf)	1,023,000	1,015,000	1,444,000
Average Asking Price/SF	\$126	\$133	\$171
Space Sold (sf)	390,000	528,000	510,000
Average Price/SF	\$39	\$104	\$125

INVESTMENT SALES ACTIVITY

Investment Space	2012 YTD	2011	2010
Space for Sale (sf)	837,000	1,125,000	1,504,000
Average Asking Price/SF	\$121	\$145	\$133
Average Cap Rate	8.7%	9.1%	9.0%
Space Sold (sf)	143,000	2,056,000	1,024,000
Average Price/SF	\$116	\$85	\$96
Average Cap Rate	n/a	6.9%	8.8%



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