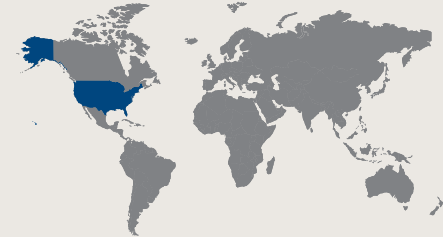
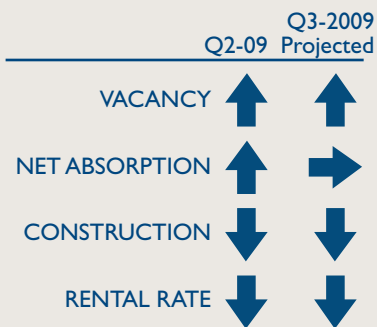


# Market Research

OFFICE | SECOND QUARTER | 2009



## MARKET INDICATORS



## CLARK COUNTY ECONOMIC DATA

	APR-09	APR-08
UNEMPLOYMENT RATE***	11.1%	5.7%
VISITOR VOLUME*	3.55 M	3.86 M
GAMING REVENUE**	\$786 M	\$872 M
TAXABLE SALES**	\$2,758 M	\$3,226 M
NEW HOME PERMITS	410	760
NEW HOME SALES	325	149

\* FEBRUARY 2009 / 2008  
 \*\* MARCH 2009 / 2008  
 \*\*\* MAY 2009 / 2008


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## MARKET SNAPSHOT

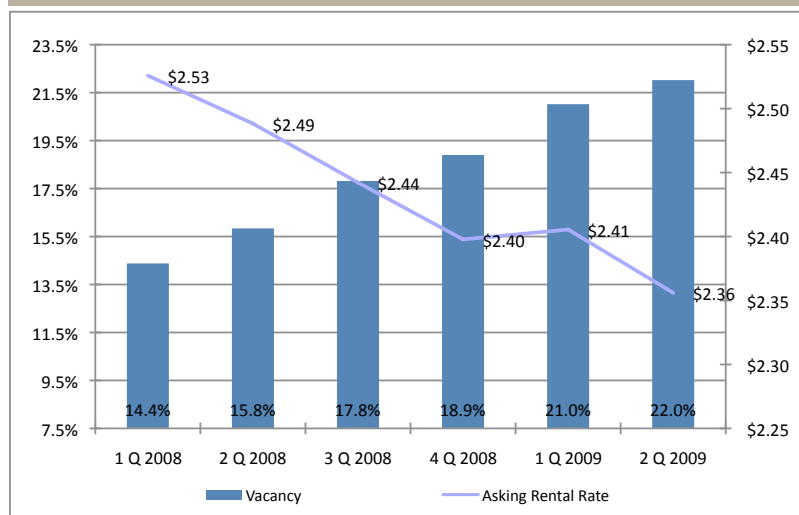
	Q2-09	Q1-09	Q2-08	Q-O-Q Change	Y-O-Y Change
Vacancy Rate	22.0%	21.0%	15.8%	+1.0 (+4.8%)	+6.2 (+39%)
Asking Rent (psf FSG)	\$2.36	\$2.41	\$2.49	-\$0.05 (-2.1%)	-\$0.13 (-5.2%)
Net Absorption (sf)	-297,715	-352,749	-170,986	+55,034 (+15.6%)	-126,729 (-74.1%)
New Completions (sf)	143,481	631,690	468,484	-488,209 (-77.3%)	-325,003 (-69.4%)

## Office Review

The Las Vegas office market experienced its sixth straight month of negative net absorption, with occupied square footage contracting to 31.9-million square feet from a high of 33.7-million square feet in the second quarter of 2007. The volume of lease and sale transactions improved over last quarter, but continues to be outpaced by the number of availabilities entering the market. The amount of space currently and actively under construction is now dwarfed by the amount of space for which construction has stopped. Commercial bankruptcies and foreclosures are beginning to have an impact on the Las Vegas office market. A number of “zombie” buildings (existing buildings with vacancies that cannot be leased while the building is in financial limbo) are now haunting the market.

Employment in sectors traditionally associated with office space contracted for the fourth straight quarter. Between May 2008 and May 2009, a total of 11,700 office jobs were lost, with the largest losses experienced by the professional & business services sector. The bright spot for office employment has been the health care and social assistance sector, which has posted quarterly gains in employment in every quarter since the second quarter of 2004. Increases in occupied office space usually follow 6 to 12 months behind employment increases in these sectors. The Valley now has 151 square feet of occupied office space per office employee. This is higher than in the pre-recession days

## VACANCY VS RENTAL RATE





*“The bright spot for office employment has been the health care and social assistance sector, which has posted quarterly gains in employment in every quarter since the second quarter of 2004.”*

of 2007, and might indicate that the lag between new employment and increased occupancy of office space will be longer rather than shorter as employers find ways to squeeze more people into their existing space. Unemployment in the Las Vegas MSA stood at 11.1 percent as of May 2009, up from 5.7 percent in May 2008.

Office inventory increased by 143,481 square feet in the second quarter of 2009. Two projects in the Southwest, totaling 271,000 square feet, were completed this quarter, while Turnberry Associates repurposed 128,000 square feet of their Town Square project into hotel space. This is the lowest level of new office completions we have recorded since we began tracking the Las Vegas office market in 1999. Vacancy in newly completed space stood at approximately 70 percent.

Forward supply of office space in the Valley stood at 543,214 square feet in the second quarter of 2009. This was less than half the forward supply recorded in the first quarter of 2009, when almost 1.4 million square feet of office space was either under construction or planned to begin construction by the end of 2009. Construction on several projects has been stopped and many proposed projects are unable to find financing. Almost half of the Valley's forward supply was in the Class A category, with Class C office space accounting for 32 percent of forward supply.

## OFFICE EMPLOYMENT

	May 2009	May 2008	Change
Financial Activities	45,200	47,800	-2,600
Professional & Business Services	105,100	115,900	-10,800
Health Care & Social Assistance	62,100	60,700	+1,400
Total	212,400	224,400	-12,000

Source: Nevada Department of Employment, Training and Rehabilitation.

The Northwest and Henderson submarkets now have more forward supply space than the Southwest submarket, which had led in that category since 2007. Three office projects in the Southwest submarket have stopped construction in 2009. Over the past five years, the Southwest submarket's inventory of office space has increased by 5.2 million square feet (457% growth), while the amount of occupied office space has only increased by 3.6 million square feet (363% growth). Office vacancy in the Southwest submarket is the highest in the Valley at 29.2%.

Vacancy in the Las Vegas office market stood at 22% in the second quarter of 2009. This represented a 1-point increase from last quarter and a 6.2-point increase from four quarters ago. Office vacancy has been increasing steadily since the third quarter of 2006, when it stood at 8.6%. If one included sub-lease space, the Las Vegas Valley had a total of 9,672,368 square feet of office space in search of a tenant this quarter, an increase of approximately 438,000 square feet since last quarter and 2.8 million square feet since the second quarter of 2008. Companies

<sup>1</sup>Forward supply is a combination of space presently under construction in a quarter and space planned to begin construction within the next 4 quarters.

## MARKET ACTIVITY

## SECOND QUARTER TRANSACTIONS

## LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	LEASE TERM	SIZE	LEASE RATE	TYPE
Beltway Corporate Center	June 2009	120 months	14,776 sf	\$2.68 MG	Class B Professional Office
Desert Inn Office Center II	May 2009	120 months	10,175 sf	\$1.65 FSG	Class C Professional Office
MCA Office Building	May 2009	65 months	7,752 sf	\$1.98 NNN	Class C Professional Office
Centre at Spanish Trails II	May 2009	60 months	5,840 sf	\$1.60 NNN	Class B Professional Office
2011 Pinto Lane	May 2009	84 months	4,738 sf	\$2.38 MG	Medical Office

## SALES ACTIVITY

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE	PRICE/SF	TYPE
Pebble Place	April 2009	\$15,000,000	51,878 sf	\$289.14	Class B Professional Office
Cheyenne West Professional Center	May 2009	\$1,175,000	5,000 sf	\$235.00	Medical Office

vacating large spaces this quarter included home developers, mortgage companies, title companies and banks. Assuming a pre-housing bubble net absorption of 350,000 square feet per quarter, the Valley now has a seven year supply of office space.

Several existing office properties are now owned by banks or the FDIC. These properties, often referred to as “zombie buildings”, contribute to the vacancy rate in the Valley but are not truly “on the market”. Zombie buildings currently constitute 460,000 total square feet, of which 333,000 square feet are vacant. The impact of these buildings on the Valley’s vacancy rate is small at the moment, but could become more pronounced as other buildings are foreclosed upon.

The Valley’s highest vacancy rate this quarter was in the Southwest submarket, at 29.2 percent. The Airport, Henderson, North Las Vegas and Southwest submarkets all had total vacancy higher than the Valley average. The Downtown and West Central submarkets, which experienced very little new office construction since 2003, had the Valley’s lowest vacancy rates at 9.6 percent and 13.3 percent respectively.

After a small bump last quarter, asking rents dipped this quarter to \$2.36 per square foot (psf) on a full service gross (FSG) basis. This was a decrease of \$0.05. Asking rents have generally been on the decline since the fourth quarter of 2007, which corresponds to the beginning of the current recession. Of those availabilities that were active last quarter, 22% had their asking rent reduced (by an average of \$0.25) while 2% had their asking rent

OFFICE SALES			
	Q1-09	Q4-08	Q1-08
Owner/User Sales			
Space for Sale (sf)	1,147,903	1,246,053	979,811
Average Asking Price/SF	\$241	\$226	\$174
Space Sold (sf)	5,000	80,314	165,042
Average Price/SF	\$235	\$155	\$170
Investment Sales			
Space for Sale (sf)	1,126,734	1,336,827	876,480
Average Asking Price/SF	\$211	\$246	\$221
Average Cap Rate	7.6%	7.6%	7.1%
Space Sold (sf)	70,275	0	207,035
Average Price/SF	\$295	n/a	\$297
Average Cap Rate	7.8%	n/a	6.2%

increased (by an average of \$0.16). Availabilities that were new to the market this quarter had an average asking rent of \$2.18 psf FSG.

Since the first quarter of 2008, the Valley has seen the amount of office space for sale on both an owner/user basis and investment basis nearly double. Asking prices for investment sales have dropped from \$330 psf to \$211 psf over the same period. The asking price for owner/user space has actually increased from \$217 psf to \$241 psf. Some of this increase can be explained by the fact that many office buildings constructed since 2005 that were intended for lease are now being marketed as owner/user sales. These smaller, newer office buildings and condos usually command higher prices.

Owner/user sales have remained anemic, with only 5,000 square feet selling in the second quarter of 2009. Investment sales were better than last quarter, but given that there

OFFICE DEVELOPMENT PIPELINE					
Project	Type	Submarket	Size	Pre-Leasing	Completion
IBEX Medical Building	Medical	Henderson	40,000 SF	34%	Unknown
Tivoli Village	Class A	Northwest	200,000 SF	31%	Unknown
Sansone St Rose Coronado	Class A	Henderson	62,000 SF	0%	2010

OFFICE CONSTRUCTION STOPPED					
Project	Type	Submarket	Size	Pre-Leasing	Completion
Summerlin Centre Office	Class A	Northwest	200,000 SF	34%	Unknown
ManhattanWest	Class A	Southwest	73,818 SF	31%	Unknown
Copper Pointe Business Park	Class B	Southwest	37,123 SF	0%	2010
The Park at Spanish Ridge-8876	Class B	Southwest	35,663 SF	31%	Unknown
Windmill Office Plaza	Class C	Airport	34,767 SF	0%	2010



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## OFFICE MARKET STATISTICS

### SECOND QUARTER 2009

EXISTING PROPERTIES			DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION SF		U/C & PROPOSED SF			AVG RENTS
Type	Bldgs	Total Inventory Sq Ft	Sq Ft	Rate	Sq Ft	Rate	Sq Ft	Rate	Vacancy Rate Previous Q	Current Period	YTD	Completed This Qtr Sq Ft	Completed YTD	Under Constr	Rate

## SUB MARKETS

### AIRPORT SUBMARKET

A	6	660,478	387,372	58.7%	58,414	8.8%	445,786	67.5%	77.3%	35,814	102,850	(127,659)	(127,659)	-	\$3.26
B	37	1,833,602	290,777	15.9%	47,067	2.6%	337,844	18.4%	11.2%	(99,239)	(116,165)	-	-	-	\$2.36
C	250	2,608,873	704,349	27.0%	24,855	1.0%	729,204	28.0%	29.6%	43,741	36,313	-	-	-	\$2.02
MED	9	117,194	1,600	1.4%	0	0.0%	1,600	1.4%	11.7%	12,075	25,383	-	-	-	\$1.70
TOTAL	302	5,220,147	1,384,098	26.5%	130,336	2.5%	1,514,434	29.0%	29.9%	(7,609)	48,381	(127,659)	(127,659)	-	\$2.44

### DOWNTOWN SUBMARKET

A	4	700,065	45,006	6.4%	28,790	4.1%	73,796	10.5%	10.5%	-	-	-	-	-	\$3.27
B	21	1,383,829	218,056	15.8%	6,465	0.5%	224,521	16.2%	14.1%	(29,401)	(129,224)	-	-	-	\$2.52
C	55	744,537	34,003	4.6%	0	0.0%	34,003	4.6%	6.5%	14,300	31,796	-	-	-	\$1.78
MED	29	527,631	26,631	5.0%	0	0.0%	26,631	5.0%	5.4%	1,919	1,915	-	-	-	\$2.04
TOTAL	109	3,356,062	323,696	9.6%	35,255	1.1%	358,951	10.7%	10.3%	(13,182)	(95,513)	-	-	-	\$2.51

### EAST LAS VEGAS SUBMARKET

A	9	1,351,642	154,462	11.4%	120,865	8.9%	275,327	20.4%	14.1%	(14,894)	(87,250)	-	-	-	\$3.43
B	17	1,038,569	308,070	29.7%	10,184	1.0%	318,254	30.6%	27.2%	(34,258)	(45,883)	-	-	-	\$1.62
C	99	1,962,076	388,060	19.8%	1,711	0.1%	389,771	19.9%	18.6%	(28,255)	(30,743)	-	-	-	\$1.60
MED	58	1,589,188	351,109	22.1%	1,104	0.1%	352,213	22.2%	22.3%	2,954	(57,047)	-	-	-	\$1.98
TOTAL	183	5,941,475	1,201,701	20.2%	133,864	2.3%	1,335,565	22.5%	20.1%	(74,453)	(220,923)	-	-	-	\$1.95

### HENDERSON SUBMARKET

A	11	787,274	275,666	35.0%	6,730	0.9%	282,396	35.9%	35.3%	(50)	(4,566)	-	-	62,364	\$3.01
B	64	2,131,542	532,426	25.0%	45,855	2.2%	578,281	27.1%	20.6%	(141,250)	(187,119)	-	-	-	\$2.45
C	144	1,526,219	437,127	28.6%	35,138	2.3%	472,265	30.9%	28.3%	(27,317)	(87,493)	-	-	-	\$2.15
MED	96	1,226,594	248,355	20.2%	1,521	0.0%	249,876	20.4%	19.9%	(7,910)	(52,238)	-	-	40,000	\$2.49
TOTAL	315	5,671,629	1,493,574	26.3%	89,244	1.6%	1,582,818	27.9%	24.5%	(176,527)	(331,416)	-	-	102,364	\$2.47

### NORTH LAS VEGAS SUBMARKET

A	-	0	0	N/A	0	N/A	0	N/A	N/A	-	-	-	-	-	\$-
B	8	200,796	73,798	36.8%	0	0.0%	73,798	36.8%	37.1%	600	(11,500)	-	-	-	\$2.47
C	72	448,624	119,336	26.6%	3,000	0.7%	122,336	27.3%	21.1%	(27,652)	(26,536)	-	-	22,000	\$2.05
MED	13	125,385	13,418	10.7%	0	0.0%	13,418	10.7%	11.4%	886	3,317	-	-	-	\$2.02
TOTAL	93	774,805	206,552	26.7%	3,000	0.4%	209,552	27.0%	23.7%	(26,166)	(34,719)	-	-	22,000	\$2.20

### NORTHWEST SUBMARKET

A	19	1,471,232	478,760	32.5%	38,504	2.6%	517,264	35.2%	27.4%	(110,654)	(131,381)	-	187,410	200,000	\$2.50
B	70	2,464,950	508,873	20.6%	70,148	2.8%	579,021	23.5%	25.2%	(15,282)	(72,775)	-	-	-	\$2.46
C	210	2,155,633	483,016	22.4%	19,792	0.9%	502,808	23.3%	24.2%	14,719	10,459	-	-	-	\$2.19
MED	95	2,305,341	373,850	16.2%	7,447	0.3%	381,297	16.5%	17.3%	17,341	68,621	-	178,694	-	\$2.52
TOTAL	394	8,397,156	1,844,499	22.0%	135,891	1.6%	1,980,390	23.6%	23.2%	(93,876)	(125,076)	-	366,104	200,000	\$2.41

### SOUTHWEST SUBMARKET

A	3	397,112	322,180	81.1%	1,488	0.4%	323,668	81.5%	77.7%	35,309	10,309	226,140	226,140	-	\$3.10
B	54	2,190,900	527,457	24.1%	26,232	1.2%	553,689	25.3%	25.6%	(3,749)	38,190	45,000	146,000	-	\$2.68
C	248	2,733,405	757,622	27.7%	53,593	2.0%	811,215	29.7%	30.4%	30,536	65,871	-	164,586	-	\$2.30
MED	83	1,104,047	270,331	24.5%	10,662	1.0%	280,993	25.5%	26.5%	22,249	19,601	-	-	-	\$2.14
TOTAL	388	6,425,464	1,877,590	29.2%	91,975	1.4%	1,969,565	30.7%	29.3%	84,345	133,971	271,140	536,726	-	\$2.52

### WEST CENTRAL SUBMARKET

A	2	227,624	47,606	20.9%	0	0.0%	47,606	20.9%	20.5%	(861)	(861)	-	-	-	\$2.30
B	44	1,462,137	120,546	8.2%	0	0.0%	120,546	8.2%	8.7%	6,090	9,268	-	-	-	\$2.12
C	166	2,714,158	435,647	16.1%	31,309	1.2%	466,956	17.2%	16.8%	(977)	(11,028)	-	-	-	\$1.96
MED	58	775,745	85,985	11.1%	0	0.0%	85,985	11.1%	11.8%	5,501	(22,548)	-	-	-	\$2.03
TOTAL	270	5,179,664	689,784	13.3%	31,309	0.6%	721,093	13.9%	13.9%	9,753	(25,169)	-	-	-	\$2.02

## MARKET TOTAL

A	54	5,595,427	1,711,052	30.6%	254,791	4.6%	1,965,843	35.1%	31.6%	(55,336)	(110,899)	98,481	285,891	262,364	\$2.97
B	315	12,706,325	2,580,003	20.3%	205,951	1.6%	2,785,954	21.9%	19.7%	(316,489)	(515,208)	45,000	146,000	-	\$2.38
C	1,244	14,893,525	3,359,160	22.6%	169,398	1.1%	3,528,558	23.7%	23.6%	19,095	(11,361)	-	164,586	22,000	\$2.07
MED	441	7,771,125	1,371,279	17.6%	20,734	0.3%	1,392,013	17.9%	18.5%	55,015	(12,996)	-	178,694	40,000	\$2.26
TOTAL	2,054	40,966,402	9,021,494	22.0%	650,874	1.6%	9,672,368	23.6%	22.5%	(297,715)	(650,464)	143,481	775,171	324,364	\$2.36

## QUARTERLY COMPARISON AND TOTALS

Q2-09	2,054	40,966,402	9,021,494	22.0%	650,874	1.6%	9,672,368	23.6%	22.5%	(297,715)	(650,464)	143,481	775,171	324,364	\$2.36
Q1-09	2,031	40,822,921	8,580,298	21.0%	607,106	1.5%	9,187,404	22.5%	21.0%	(352,749)	(352,749)	631,690	631,690	610,750	\$2.41
Q4-08	1,995	40,191,231	7,595,859	18.9%	845,496	2.1%	8,441,355	21.0%	19.8%	(63,028)	(1,149,888)	452,548	1,717,326	1,449,840	\$2.40
Q3-08	1,979	39,738,683	7,080,283	17.8%	802,454	2.0%	7,882,737	19.8%	17.4%	(297,724)	(1,086,860)	580,294	1,264,778	1,627,030	\$2.44
Q2-08	1,939	39,158,389	6,202,265	15.8%	620,177	1.6%	6,822,442	17.4%	15.0%	(170,986)	(789,136)	468,484	684,484	1,322,921	\$2.49

THE INFORMATION CONTAINED IN THIS REPORT WAS PROVIDED BY SOURCES DEEMED TO BE RELIABLE, HOWEVER, NO GUARANTEE IS MADE AS TO THE ACCURACY OR RELIABILITY. AS NEW, CORRECTED OR UPDATED INFORMATION IS OBTAINED, IT IS INCORPORATED INTO BOTH CURRENT AND HISTORICAL DATA, WHICH MAY INVALIDATE COMPARISON TO PREVIOUSLY ISSUED REPORTS.

were no investment sales last quarter, this is not entirely shocking. The average price of investment sales has only fallen by \$2 psf over the past twelve months, but the average cap rate has increased from 6.2% to 7.8%.

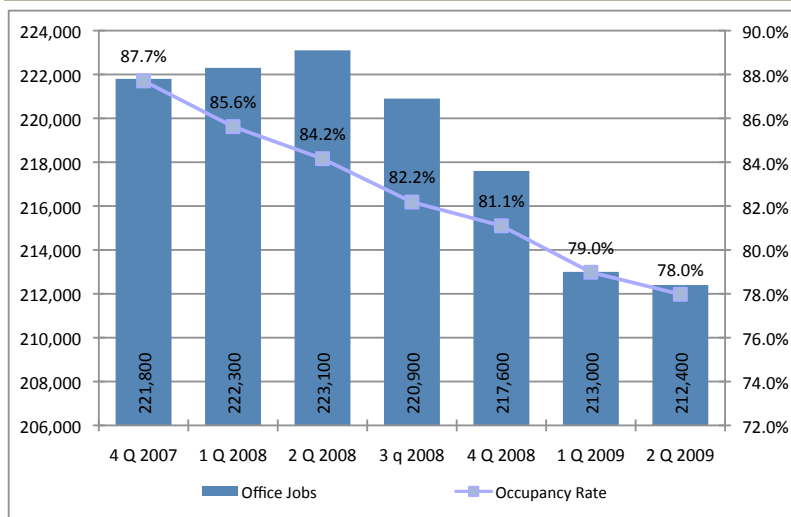
Rainbow Sunset Pavilion B, which began construction in June 2007, was finally completed at 84 percent vacancy. This drove Class A vacancy in the Southwest submarket to 81.1%, the highest in the Valley. Vacant square feet in the Airport submarket declined by 163,000 square feet, mostly due to the repurposing of office space at Town Center. Centennial Corporate Center, one of the Valley's zombie buildings, contributed to the -111,000 square feet of net absorption in the Northwest submarket. Overall, Class A office space in the Las Vegas Valley has a vacancy rate of 30.6%. Asking rents dropped \$0.06 this quarter to \$2.97 psf FSG. This is the first time asking rents have dropped below \$3.00 psf FSG since the beginning of the recession in the fourth quarter of 2007.

The amount of Class B space available for sublease decreased by over 100,000 square feet this quarter. Class B net absorption decreased, with only the Southwest and West Central submarkets posting positive net absorption year-to-date. Asking rents declined by \$0.04 this quarter to \$2.38 psf FSG.

Class C and Medical office space both posted positive net absorption this quarter. Positive net absorption in Medical space is not surprising, given that employment in the health care & social assistance sector has been on the rise since the second quarter of 2004. The positive net absorption for Class C could represent business owners leaving more expensive Class A and Class B space for more affordable Class C space.

Economies around the globe, including that of the United States, are showing some promising signs of imminent recovery. Many economists are predicting that recovery will begin in the fourth quarter of this year. Since many of the tenants that have vacated office space in the Las Vegas Valley were associated with the construction industry (developers, title companies, mortgage companies), recovery in the Las Vegas office market may lag behind the rest of the country by as much as a year. There are some positive signs in the local home market, but many problems remain and recovery will be hampered by lower immigration into the Valley and the higher interest rates expected for next year. We predict that absorption may improve in the second half of 2009, but will continue to be negative. Office vacancy could begin to level off and decline in late 2010 or early 2011.

OCCUPANCY VS OFFICE EMPLOYMENT



## 294 RETAILS IN 61 COUNTRIES ON 6 CONTINENTS

USA 94  
Canada 22  
Latin America 17  
Asia Pacific 64  
EMEA 97

\$1.6 billion in Revenue  
1.1 billion sq. ft. under management  
12,749 Professionals

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