

Office

3RD QUARTER REPORT 2010



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Office Market Overview



AT A GLANCE

- Overall vacancy rates finally showed a decrease from 23.3% in the second quarter to the current rate of 23.1%. This is the first decrease the market has seen since 2008. Four out of the nine submarkets reflected a decrease in vacancy; unfortunately the rest had an increase in vacancy. Building sales activity has increased, as distressed buildings are slowly finding their way to the market.
- Developers have halted any new development based on the current fundamentals of limited to no financing, high vacancy and greatly reduced tenant demand at much lower effective rates.
- Average rental rates in the Las Vegas office market were at \$2.01 per square foot per month (psf/mo) (FSG). This is an increase from last quarter rental rates of \$1.89 psf/mo (FSG).
- The economic outlook is starting to go on a positive track with vacancy and net absorption both showing decreasing numbers.
- There are, however, concerns on the still rising unemployment rates for Las Vegas, which is the highest in the country and how it will continue to affect the Las Vegas economy. Unemployment ticked up to 14.7%, which is an indication that the market has not bottomed.



OFFICE MARKET INDICATORS

	Current	Change since	
		3Q09	3Q10
Vacancy	23.18%	↓	↑
Lease Rates (FSG)	\$2.01	↑	↔
Net Absorption*	(93,187)	↓	↓
Construction	N/A	↓	↓

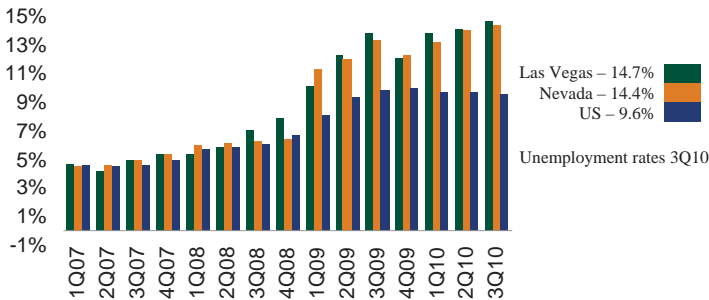
**The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive specified trend over a period.)*

NATIONAL AND STATE EMPLOYMENT AND UNEMPLOYMENT OVERVIEW

The recession, which is said to have started in December 2007 and ended in June 2009, continues to impact the national unemployment rate, which is currently 9.6%. This unemployment rate is a 28 year high for the country and equals roughly 15 million unemployed workers who are now drawing unemployment insurance benefits. In August, 27 states recorded unemployment rate increases. The highest regional jobless rates were in the Western part of the country, while the Northeast recorded the lowest rates. In May, Nevada took over the top spot from Michigan for the nation's highest unemployment rate, at 14.4%. The states with the next highest rates were Michigan, 13.1% and California at 12.4%. The Las Vegas economy also continues to be impacted by downturns and high employment rate, currently 14.7%, in all major sectors, including gaming, construction,



financial and real estate. The recession will most likely be a “jobless recovery.” Since World War II there have been a total of 11 recessions and in the most recent recessions before the 2007 recession, job growth lagged long after the recession. In fact it took several years for the unemployment rate to return back to pre recession levels. Employment growth is critical to future economic growth and the return to a healthy commercial market which may take several years to accomplish.



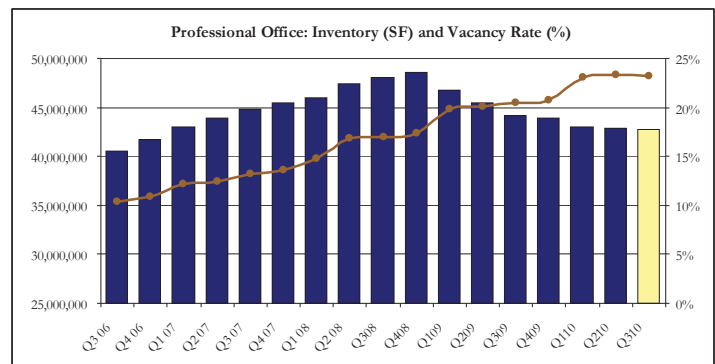
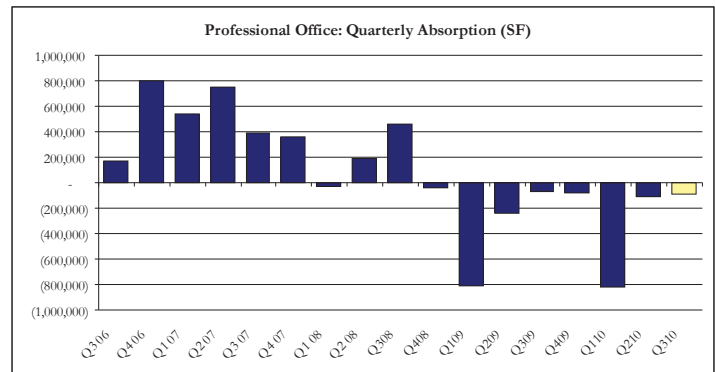
ECONOMIC INDICATORS			
	2009	2010F	2011F
National			
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Regional			
Unemployment	12.1%	14.7%	14.5%
Employment Growth	-6.2%	-1.8%	0.4%

Source: Moody's | Economy.com

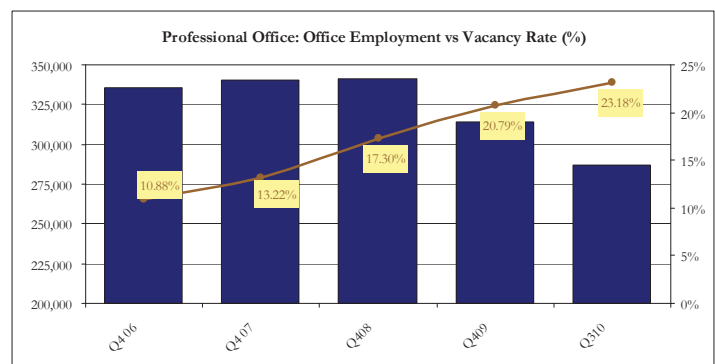
OFFICE MARKET

Vacancies

The office vacancy rate finally saw a drop this quarter, to 23.18%, in comparison to 23.31% in the second quarter. The Downtown submarket continues to show the lowest vacancy rate at 16.23% along with Central West at 19.17% and West submarket at 21.23%. The high vacancy rates in the next submarkets are driven by weak tenant demand and marginal stability, combined with lease concessions, defaults and downsizing. The highest vacancy submarkets are the Northwest at 42.35%, Central East at 24.15% and Southeast submarket at 23.69%. Vacancy rates by class types have shown increases during the quarter with Class A increasing to 35.27% from 32.38%, Class C increasing to 20.30% from 19.03%. Class B is the only class that showed a decrease to 22.35% from 23.95%. Available sublease space rose in 3rd quarter with current availabil-

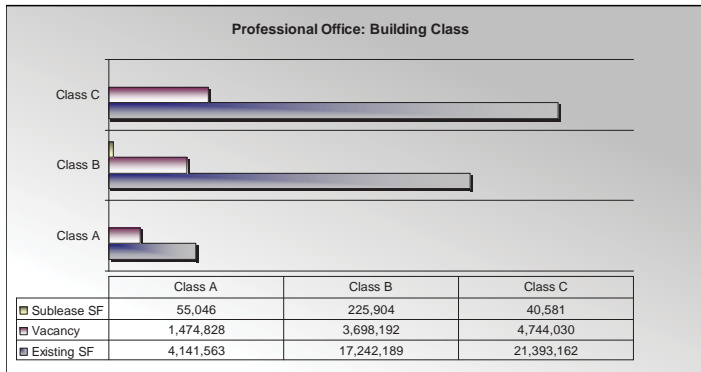
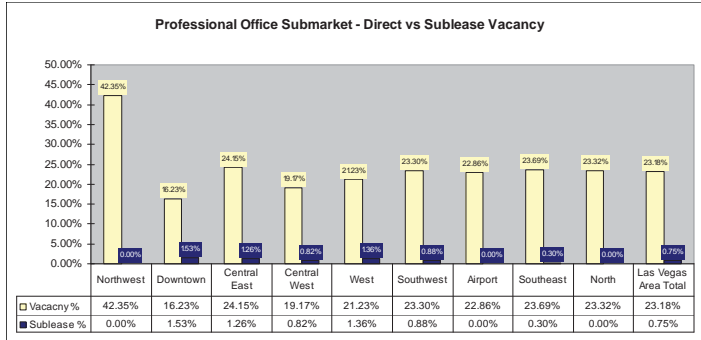


Note: Due to reclassifications of, and adjustments to, data between reporting periods, the commercial market data for the latest quarter may not necessarily be comparable to a previously reported quarter.



Office Market Overview

ity at 321,531 sf (0.75% of the total market) of available sublease space. Net absorption, the measure of space leased from one reporting period to the next, for the 3rd quarter showed an improvement again, but was still in the negatives at -93,187. The Airport submarket showed the greatest amount of positive absorption with over 149,364 sf for the quarter while the Southeast submarket posted the least amount with -102,243 sf of negative absorption.



Pricing (Average Asking Rents)

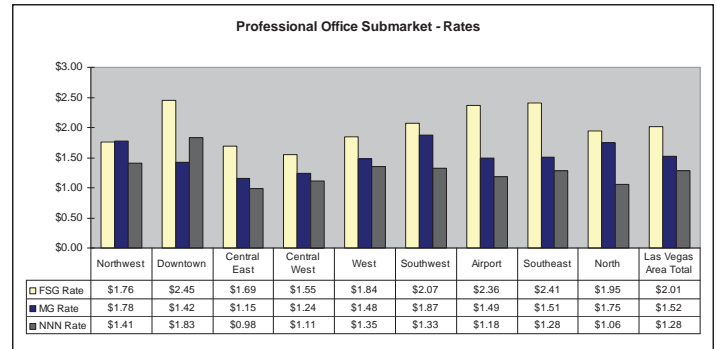
The latest performance contributed to price erosion as landlords and building owners compete for a limited number of users. By 3rd quarter 2010, the market reported average asking rents of \$2.01 sf/FSG, a rise from the 2nd quarter \$1.89 sf/FSG rate, however still a drop from the \$2.06 sf/FSG from 1st quarter 2010. Elevated tenant improvement allowances and free rent concessions are impacting returns for landlords and ultimately lenders. We expect this trend to continue throughout the rest of 2010 as inventory levels remain elevated.

Most of the submarkets showed asking rental rates decline with the highest declines in Central West submarket at \$1.55 sf/FSG from \$1.80 sf/FSG and Central East at \$1.69 sf/FSG from \$1.89 sf/FSG. Even with market rates declining overall, some submarkets did see a slight rise in asking rates. Southeast submarket rose

to \$2.41 sf/FSG from \$1.93 sf/FSG and Airport rose to \$2.36 sf/FSG from \$1.93 sf/FSG.

Average asking rents by class ranged from the Top Tier Class A segment showing \$2.82 sf/FSG. Lower Tier Class A building rates remained stable at \$2.62 sf / FSG. Also, above the valley average asking rates were Top Tier Class B buildings that reported average asking rents of \$2.31 sf/FSG. However the Lower Tier Class B buildings were below the market average at \$1.92 sf/FSG. Pricing for Class C properties has average rates around \$1.60 sf/FSG (Top Tier C) and \$1.56 sf/FSG (Lower Tier C). Please Note: the average asking rates do not take in consideration free rent & rental concessions.

- Full Service Gross (FSG): A lease requiring the owner to pay all operating expenses, such as cleaning, maintenance and repairs, utilities, insurance and ad valorem taxes.



MEDICAL OFFICE MARKET

Now that the Health Care reform bill became law, Nevada will need to prepare for not only a requirement for more health care employees, but also more facilities. So far the latter part of this statement has been fulfilled, as the amount of available medical office space in the valley has already outgrown the number of doctors to fill it. As a result, the medical office space market has experienced an increase in vacancy from 2nd quarter 2010 at 15.61% climbing to 15.66% during 3rd quarter 2010. However, with the Health Care reform bill, we expect vacancy to see a significant drop in the next year or two. It's been estimated that more than 32 million additional Americans will now be covered with health insurance which will create a need for a substantial amount of new medical office space (roughly 60 million sf National). Also to come on line soon, are the nearly 80 million aging baby boomers who will also need more medical care over the next decade.



Office Market Overview

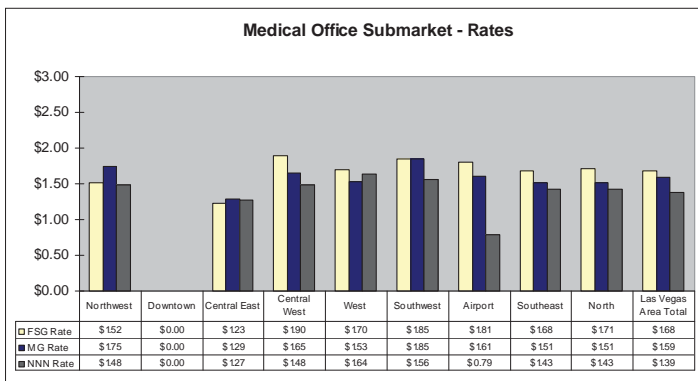
Commerce / Cushman & Wakefield
Las Vegas Office Market Report Q3 2010
Medical Buildings

	Inventory				Vacancy		Demand & Supply			Pricing			
	No. of Bldgs.	Existing SF	Under Const. SF	Planned SF	Vacancy		Net Space Occupied	Gross Space Leased	New Supply	Sub Lease	Asking Rent (FSG)		
					SF	Rate					Low	High	W Avg.
Northwest	76	2,080,073	-	-	241,600	11.61%	(28,003)	15,521	-	-	\$0.85	\$2.25	\$1.52
Downtown	2	29,985	-	-	-	0.00%	-	-	-	-	-	-	-
Central East	52	1,876,846	-	-	337,104	17.96%	5,874	43,729	-	17,764	\$0.50	\$2.10	\$1.23
Central West	68	1,742,095	-	-	151,140	8.68%	(20,395)	12,962	-	8,714	\$1.00	\$2.45	\$1.90
West	44	1,436,350	-	-	239,954	16.71%	8,956	37,410	-	-	\$0.99	\$2.25	\$1.70
Southwest	53	1,575,852	-	-	331,387	21.03%	(2,567)	43,295	-	-	\$1.00	\$2.25	\$1.85
Airport	8	82,043	-	-	16,077	19.60%	180	180	-	-	\$0.79	\$1.85	\$1.81
Southeast	87	1,893,365	-	-	421,960	22.29%	6,630	54,992	-	6,838	\$0.65	\$2.80	\$1.68
North	14	487,626	-	-	15,499	3.18%	7,600	7,600	-	-	\$0.50	\$1.95	\$1.06
Total	404	11,204,235	-	-	1,754,721	15.66%	(21,725)	215,689	-	33,316	\$0.50	\$2.80	\$1.59

There is some concern, however, as to the cost of the reform from employer cost to construction cost. As in the general office complexes around Las Vegas, for medical offices, the past years have been filled with challenges from rising construction costs and over building of the medical condos in certain submarkets. According to Mike Young, chief executive of Venture, “The cost of building a medical office is roughly 20% higher than standard commercial space, thus the cost of purchasing or leasing is (typically) higher.” With the slowdown of home building, the demand for medical offices in the suburban areas has also become soft with significant vacancies beginning to occur in the Southwest and Southeast submarkets. In the past, the Southwest submarket has been the hot location to build medical offices, with two major hospitals opening up fairly close to each other. Most of this added vacancy has been due to over-built medical offices in the area. Other submarkets have held steady during the year, with a relatively low vacancy rate.

and most likely continue to increase. In a report produced by UNLV’s CBER “Southern Nevada business will continue to struggle with the after effects of the deepest recession in the US since the Great Depression. To date, Southern Nevada has not enjoyed the same level of increase in business activity as the rest of the US.” The local economy will not pick up until we see robust growth in hiring and according to the survey with only 10 % of business anticipated to hire more workers, the recovery will be very slow for the Las Vegas area. We are optimistic that the bottom is near and compared to last year, vacancy is not rising and lease rates are not falling as fast or as far as we were witnessing. Some early signs of stabilization may come from the growth from the federal government, health care sector, energy and clean technology companies needing office space.

On a national outlook, the Federal Government continues to monitoring the weakness of the commercial real estate market. The Feds believe that the weakness of commercial loans, even though it is not considered as much as a threat as thought at the beginning of the year, is still a serious problem because the whole economy could be hit, much like the housing bust has caused. Troubled commercial real estate loans could be the primary force behind bank failures this year. Elizabeth Warren, chair of the TARP Congressional Oversight panel stated that “around half of all commercial mortgages will be underwater by the end of 2010, posing a very serious problem for the economy over the next three years.”



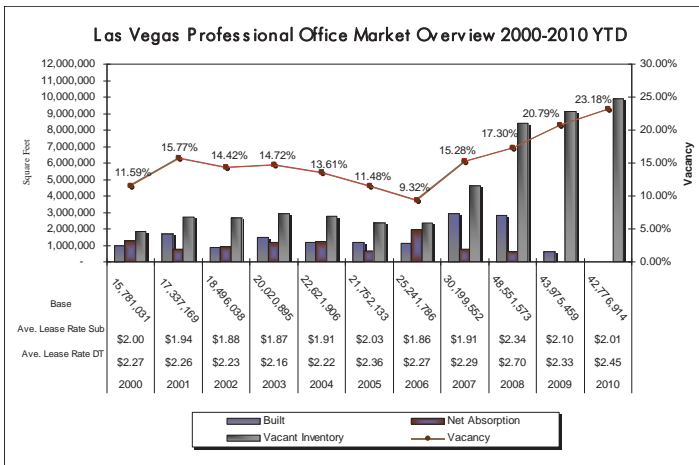
PERFORMANCE BY PRODUCT TYPE & CLASSIFICATION

OUTLOOK

We still expect to not see any true recovery until the middle of next year. The market will continue to be impacted by cautious consumer/companies activity, causing vacancies to remain elevated

While broader market trends are clear, by providing basic break out of the office product types, it is also important to understand the performance of detailed key sectors within the commercial office market. At Commerce, we know the importance of updating





if an older building. Quality tenants. Building(s) location considered premier with high market perception standards. Typically higher rent with excellent building finishes, multiple building amenities and high efficiencies. Lower Tier Class A will have 3 or more floors, concrete and steel construction.

Top Tier Class B: Building(s) location considered excellent with medium market perception standards. Renovated and in good locations. Typically lower rent than Class “A” with good building finishes, some building amenities and medium efficiencies. Built after 2000. Concrete and steel construction.

Lower Tier Class B: Buildings competing for a wide range of office users with average rents for the area. Building finishes are fair to good for the area and systems are adequate, but the buildings do not compete with class A at the same price. They are less appealing to tenants than Class A properties, and may be deficient in a number of respects including floor plans, condition and facilities. They lack prestige and must depend chiefly on a lower price to attract tenants and investors. Such buildings offer utilitarian space without special attractions and have ordinary design. Built before 2000. Wood frame and tilt wall construction.

Top Tier Class C: A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market. Such buildings typically have below-average maintenance and management, and could have mixed or low tenant prestige, inferior elevators, and/or mechanical/electrical systems. These buildings lack prestige and must depend chiefly on a lower price to attract tenants and investors. 15 to 25 years old. Wood frame and tilt wall construction. Smaller buildings, Garden Style design.

Lower Tier Class C: Older, un-renovated and of any size in average to fair condition. Basic Space in a no-frills older building. Below –Average maintenance and management. Mixed or low tenant prestige. Inferior elevators and mechanical/ electrical systems. Class C Buildings are typically 15 to 25 years old but are maintaining steady occupancy.

Medical: A building is considered medical if greater than 55% of its rentable area is occupied by medical tenants.

Full Service Gross (FSG): A lease requiring the owner to pay all operating expenses, such as cleaning, maintenance and repairs, utilities, insurance and ad valorem taxes.

SIGNIFICANT 3Q 10 NEW LEASE TRANSACTIONS			
BUILDING	TENANT	SF	BUILDING CLASS
9075 W Diablo Dr #250	Public Utilities Commission of Nevada	14,000	B
4040 S Eastern	Black & Veatch Corp	10,693	B
4337 W Sunset Rd	Superior Traffic Services	10,500	B

SIGNIFICANT 3Q 10 SALE TRANSACTIONS			
BUILDING	BUYER	SF	PURCHASE PRICE
5550 Painted Mirage Rd	US Bancorp	125,760	\$11,712,000
1701 W Charleston	Bank of America	121,102	\$9,000,000

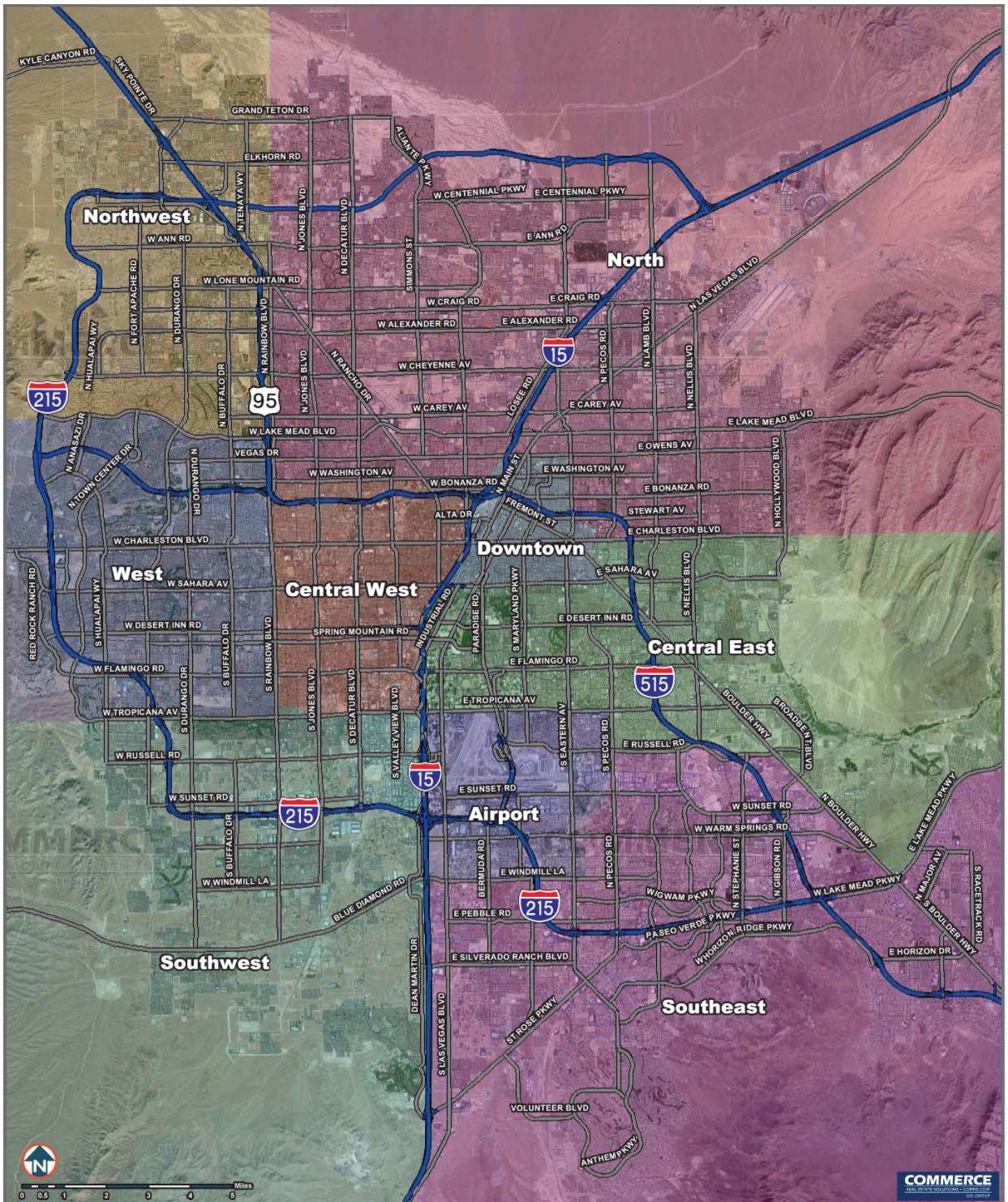
GLOSSARY/MAJOR MARKET DEFINITIONS

Top Tier Class A: Describes the highest quality office space locally available. The architecture of Class A office structures always prioritizes design and visual appeal over cost, and sometimes over practicality — a Class A building can be considered a monument and a testament to the success and power of its tenants. Generally 100,000 sq. ft. or larger (five or more floors), concrete and steel construction, built since 1980, business /support amenities, strong identifiable location/access. Most prestigious buildings competing for premier office users with above average rents for the area. Buildings have high quality standard finishes, state-of-the-art systems, exceptional accessibility and suggest a definitive market presence.

Lower Tier Class A: Investment – grade property, well located and offering high-quality space. Good design, above-average workmanship and materials. Well maintained and managed, exceptionally so



Office Market Overview



**COMMERCE | FULL SERVICE
COMMERCIAL REAL ESTATE
SOLUTIONS**

Commerce Real Estate Solutions has been among the top commercial real estate brokerage firms in the Intermountain West for over 30 years. From our headquarters in Salt Lake City and offices in Provo/Orem, Clearfield and St. George, Utah, Las Vegas, Nevada and Seattle and Bellevue Washington we offer a full range of brokerage services, valuation and consulting, client representation and property/facility management. Our alliance with Cushman & Wakefield extends our reach worldwide.

Meeting your real estate objectives is our number one goal at Commerce Real Estate Solutions. Whether you're looking to lease, own, develop or sell commercial properties, we have the team of professionals to get it done for you. Our seasoned agents are recognized both regionally and nationally for their first-rate performance; and because of their success, they tend to stay with our company longer. The average tenure of Commerce agents is one of the longest in the industry.

That means you're getting an experienced agent when you do business with us. You're also gaining access to our Information Services Group, which includes our Geographic Information System (GIS), the industry standard-bearer in mapping, Graphic Design and Marketing, and Research.

At Commerce we have a complete understanding of the real estate market. Our comprehensive database allows our agents to feel, track and analyze every movement in the industry and to see opportunities as soon as they arise. Combine this with the



global resources of Cushman & Wakefield and you get the most innovative and progressive real estate brokerage in the Intermountain West: Commerce Real Estate Solutions.

Doing business in a brisk and nuanced marketplace is complex and difficult. We can help. Our experience, knowledge, innovative thinking, networking infrastructure and unmatched service make Commerce the clear choice for your commercial real estate needs.

CUSHMAN & WAKEFIELD

Cushman & Wakefield is the world's largest privately-held commercial real estate services firm. Founded in 1917, it has 231 offices in 58 countries and 15,000 employees.

The firm represents a diverse customer base ranging from small businesses to Fortune 500 companies. It offers a complete range of services within four primary disciplines: Transaction Services, including tenant and landlord representation in office, industrial and retail real estate; Capital Markets, including property sales, investment management, valuation services, investment banking, debt and equity financing; Client Solutions, including integrated real estate strategies for large corporations and property owners, and Consulting Services, including business and real estate consulting. A recognized leader in global real estate research, the firm publishes a broad array of proprietary reports available on its online Knowledge Center at www.cushmanwakefield.com.



Office Market Overview

LAS VEGAS OFFICE TEAM



Adam Ballner



Keith W. Bassett



Dana Berggren, LEED AP,
CCIM



Carolyn Curtis, CCIM



Michael Dunn, CCIM, SIOR



Bob Hawkins



Scott Kendrick



Monty Montieth, CCIM



Gary Moreria



Neil Sorkin





GIS / MAPPING DEPARTMENT

The GIS / Mapping services group provides our agents and clients with the most current information available. Using GIS (Geographic Information Services) allows our clients a unique opportunity to visualize where their property is located. Additional market information includes:

- Daily traffic count information
- Local drive times
- Demographic information
- Population growth
- Major tenants in the region and trade areas

Some clients that have benefited from our mapping / GIS technology are; Wal-Mart, JoAnn's, Carmax, Toys-R-Us, Discount Tire, Lowe's Home Improvement, Shoe Carnival, Chase Bank, Staples, PacifiCorp, GSA, Intel, Fidelity Investments, Social Security Administration, Salt Lake City School District and JP Morgan Bank.

RESEARCH DEPARTMENT

The Commerce Real Estate Solutions Research team is charged with tracking the Utah, Nevada and Seattle commercial real estate markets and providing current market information. With access to industry databases and prime real estate tools, the research team is well-equipped to support the information needs of the local offices.

The Las Vegas researcher tracks leasing activity for 182 million square feet of office,

medical office, industrial and retail properties. In addition to tracking local properties, the research team prepares quality market reports and research economic and demographic trends. Working in tandem with the other office specialty support groups such as mapping, graphic design and marketing, the Research team strives to provide timely and quality information to enable Commerce professionals to better serve their clients.

MARKETING DEPARTMENT

The graphic design department at Commerce Real Estate Solutions employs eight full time

whatever materials necessary to successfully market their projects". This resource allows us to vividly show the retail prospect why they need to be located in a certain segment of town. This department uses the latest in Adobe design programs, and is integrated with our mapping and research departments.

WEB:WWW.COMRE.COM

Commerce Real Estate Solutions was at the forefront in the use of the World Wide Web by commercial real estate firms and has maintained a web site for over ten years. All of our commercial properties are listed and

"Commerce Real Estate Solutions is a regional real estate firm with international ties, dedicated first and foremost to our clients. With the industry's premier professionals, and industry leading technology, our mission is to exceed our clients' expectations through service excellence."

graphic designers. Each of our designers has a number of years of experience. Chris Valentin, the design director, has been with Commerce Real Estate Solutions for over fourteen years, and along with Matt Liapis, who has taught graphic design and mapping at the University of Utah. Our Las Vegas office consists a team of two well trained and professional designers with a combined 12 plus years of experience.

The founding principal behind the design department is "to provide our agents with

searchable by use, size, price, and location.

In addition to commercial properties, our Web site has agent profiles, information about Commerce Real Estate Solutions offices throughout the intermountain west, a company history, and links to valuable information including a link to the Cushman and Wakefield Web site. The Web site also has downloadable copies of all our Market Reviews dating back to 1996.



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