

MARKETBEAT OFFICE SNAPSHOT



LAS VEGAS, NEVADA

A Cushman & Wakefield Alliance Research Publication

Q1 2012



OVERVIEW

Analyzing the Las Vegas commercial real estate market is a lot like predicting the weather. The market continues to change quarter by quarter surprising us with unpredictable outcomes. We had hoped to once again see an improvement during the first of the year; however the market turned slightly down. Major office centers witnessed key tenants leaving, including the Wells Fargo Financial Center which lost Wells Fargo as the main tenant causing the majority of the center to be vacant. Hughes Airport Center (4Q11 vacancy of 13.9% to 1Q12 41.0%) and Hughes Center (ending 1Q12 with (49,663) sf of net absorption) also saw a big spike in vacancy and net absorption. The uptick in vacancy also caused net absorption to return to the negatives, after finally making it to a positive year end number at the end of 2011. It's not a great start to 2012, but like the weather, the storm will pass and a sunny day is in the future for the Las Vegas commercial real estate market.

VACANCY – NORTHWEST SUBMARKET - SPOTLIGHT

The office vacancy rate increased during the first quarter to 24.4%, compared to 23.8% in the fourth quarter. Of the nine Las Vegas submarkets, the Downtown submarket experienced the lowest vacancy rate of 19.6%. While analyzing the submarkets we took a good look at the Northwest submarket this quarter. The Northwest submarket is known to have the highest vacancy rate for the last years. This high vacancy is due mostly to three major office parks: Cheyenne Corporate Center (319,554 sf total with 135,540 sf vacancy), Las Vegas Tech Center (363,020 sf total with 131,871 sf vacancy) and the office building Montecito Point (187,410 sf all vacant). Most of the buildings in these three centers are over 50% vacant; keeping the vacancy rate in the Northwest high. Removing these centers out of the equation, the balance of the Northwest submarket would actually be at a 15.6% vacancy rate, taking over the Downtown submarket spot as the lowest vacancy rate submarket. This shows that while the Northwest submarket has the highest vacancy of any submarket at 32.3% vacancy rate, activity remains strong in the area.

Sublease space and direct net absorption also showed increases (net absorption show a negative increase) during the quarter. Available sublease space showed a slight rise from fourth quarter at 438,652 square feet (sf) to the current total of sublease space of 453,247 sf (1.1% of the total market). Direct net absorption, the measure of space leased from one reporting period to the next, for the first quarter remained at a negative number at (353,858) sf from (93,048) sf net absorption of fourth quarter 2011. This jump in negative absorption can be blamed on three major centers losing large tenants, causing some buildings to be completely vacated. This is mostly

likely following the national trend of corporate downsizing. Like tornado weather storms, if the tornado hits in an open field you're ok, but sometimes it will hit a few buildings and cause major damage. This is what happened this quarter; just a few buildings becoming vacated caused a quarterly downturn in the market.

PRICING

Average asking lease rates were the only drops we witnessed during the first quarter. At the end of 2011, the market reported average asking rents of \$1.91 per square foot / full service gross (psf/FSG). The current asking lease rate at the end of 2012 dropped to \$1.88 psf / FSG. This rate is lower than the rate we witnessed during first quarter in 2011 at \$2.00 psf/FSG. Landlords are starting to level off with price adjustments but still offering high concessions. While lease rates are stabilizing, they are still lower than the rates we have seen in the past.

OUTLOOK

We've weathered the big storm and a very flat year in market activity in 2011, however, we still expect, even with the uptick in vacancy during the first quarter, lower vacancy rates and slightly higher asking lease rates over the next few years. Market improvement is dependent on continued job growth and an improving economy. Overall, compared to 2011, vacancy is not rising and lease rates are not falling as fast. We do not expect to see any more negative swings in the labor market or the commercial real estate market like we have seen in the past few years; however we can never predict when the next tornado effect might occur. We are cautiously optimistic that we might also see a growth in loan servicers releasing more product into the market as they witness buyer's activity growing. Depending on how much and/or how fast the distressed properties are released, vacancy rates may rise. We will be watching and tracking the release of distressed product type for the next few years as the deleveraging continues to play out.

STATS ON THE GO

	1Q11	1Q12	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	23.5%	24.4%	0.9pp	↔
Direct Asking Rents (psf/mo)	\$2.00	\$1.88	-6.0%	↔
YTD Leasing Activity (sf)	907,528	268,747	-70.4%	▲

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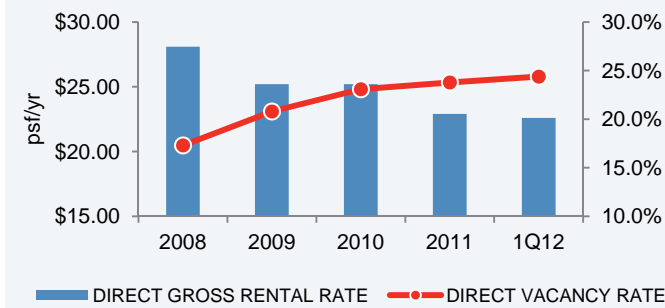


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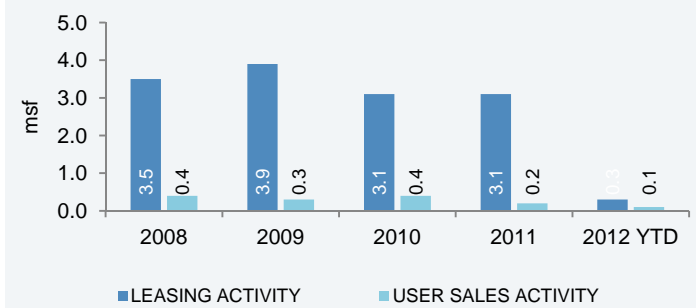
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DIRECT RENTAL VS. VACANCY RATES



OVERALL OCCUPIER ACTIVITY



MARKET HIGHLIGHTS

Significant IQ12 Lease Transactions	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
7690 W Sahara Ave	West	Micro Gaming Technology	C	10,000
302 East Carson Ave	Downtown	Zappos.com	A	25,000
7710 West Cheyenne Road	Northwest	N/A- Office Tech Space	B	33,980
Significant IQ12 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
1057 Whitney Ranch Dr	South East	Killer Whales, LLC	\$800,000 / \$38 psf	21,000
1 East Charleston Blvd	Downtown	The Quivx, LLC	\$1,400,000 / \$65 psf	21,575
6010 Durango Dr	Southwest	LV Quanta Investments LLC	\$1,602,065 / \$65 psf	24,459
Significant IQ12 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
Windmill Office Plaza	Airport	N/A	1Q12	51,156
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
N/A				

* RENEWAL - NOT INCLUDED IN LEASING ACTIVITY STATISTICS

		No. of Bldgs.	Inventory			Vacancy		Demand & Supply				Pricing		
			Existing SF	Under Const. SF	Planned SF	Vacancy SF	Rate	Net Space Occupied	Gross Space Leased	New Supply	Sub Lease	Asking Rent (FSG)		
												Low	High	W Avg.
Northwest	Class TTA	1	187,410	-	-	187,410	100.00%	-	-	-	-	\$2.10	\$2.10	\$2.10
	Class LTA	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class TTB	1	49,532	-	-	16,169	32.64%	(221)	-	-	-	\$1.45	\$1.85	\$1.99
	Class LTB	24	770,383	-	-	228,254	29.63%	(17,578)	-	-	-	\$0.89	\$2.50	\$1.99
	Class TTC	89	1,371,076	-	-	336,219	24.52%	41,958	41,958	-	-	\$0.45	\$2.25	\$1.49
	Class LTC	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
Total	115	2,378,401	-	-	768,052	32.29%	24,159	41,958	-	-	\$0.45	\$2.50	\$1.89	
Downtown	Class TTA	3	655,254	-	-	50,426	7.70%	(2,777)	-	-	6,143	\$2.50	\$2.85	\$2.67
	Class LTA	1	103,951	-	-	12,123	11.66%	-	-	-	-	\$2.35	\$2.35	\$2.35
	Class TTB	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTB	11	474,872	-	-	146,552	30.86%	15,159	25,000	-	-	\$1.35	\$2.50	\$2.25
	Class TTC	7	215,154	-	-	78,822	36.64%	(9,250)	-	-	-	\$1.40	\$1.90	\$1.65
	Class LTC	38	638,701	-	-	120,449	18.86%	-	-	-	-	\$0.75	\$2.25	\$1.81
Total	60	2,087,932	-	-	408,372	19.56%	3,132	25,000	-	6,143	\$0.75	\$2.85	\$2.15	
Central East	Class TTA	5	995,120	-	-	192,505	19.34%	(46,092)	10,479	-	27,277	\$2.85	\$3.15	\$3.10
	Class LTA	5	387,590	-	-	119,349	30.79%	(3,571)	4,915	-	-	\$2.65	\$2.75	\$2.69
	Class TTB	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTB	6	529,138	-	-	204,466	38.64%	-	-	-	-	\$0.85	\$1.75	\$1.29
	Class TTC	84	2,772,707	-	-	772,626	27.87%	(20,553)	6,036	-	-	\$0.32	\$1.60	\$1.24
	Class LTC	49	1,175,494	-	-	169,345	14.41%	-	-	-	12,287	\$0.50	\$1.50	\$1.24
Total	149	5,860,049	-	-	1,458,291	24.89%	(70,216)	21,430	-	39,564	\$0.32	\$3.15	\$1.91	
Central West	Class TTA	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTA	1	157,624	-	-	4,310	2.73%	-	-	-	7,291	\$2.75	\$2.75	\$2.18
	Class TTB	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTB	66	2,879,574	-	-	778,259	27.03%	(142,052)	-	-	44,869	\$0.75	\$1.85	\$1.47
	Class TTC	141	2,674,232	-	-	523,900	19.59%	(18,755)	5,414	-	7,189	\$0.49	\$2.00	\$1.37
	Class LTC	51	710,592	-	-	106,142	14.94%	(3,202)	895	-	-	\$0.42	\$2.00	\$1.65
Total	259	6,422,022	-	-	1,412,611	22.00%	(164,009)	6,309	-	59,349	\$0.42	\$2.75	\$1.67	
West	Class TTA	1	143,633	-	-	39,148	27.26%	-	-	-	4,128	\$2.50	\$2.85	\$2.87
	Class LTA	5	591,152	-	-	275,552	46.61%	23,493	23,493	-	-	\$1.95	\$2.40	\$2.23
	Class TTB	15	928,871	-	-	257,697	27.74%	4,354	4,354	-	-	\$1.25	\$2.30	\$2.03
	Class LTB	60	1,768,524	-	-	327,689	18.53%	(1,741)	1,951	-	55,286	\$0.70	\$2.75	\$1.70
	Class TTC	267	3,456,448	-	-	743,531	21.51%	1,261	18,098	-	72,230	\$0.50	\$3.00	\$1.38
	Class LTC	10	237,829	-	-	38,543	16.21%	-	-	-	-	\$0.70	\$1.35	\$1.43
Total	358	7,126,457	-	-	1,682,160	23.60%	27,367	47,896	-	131,644	\$0.50	\$3.00	\$1.94	
Southwest	Class TTA	1	220,718	-	-	121,999	55.27%	-	-	-	-	\$2.45	\$2.75	\$2.60
	Class LTA	1	108,533	-	-	47,734	43.98%	6,107	6,107	-	-	\$2.15	\$2.15	\$2.25
	Class TTB	29	1,488,304	-	-	360,355	24.21%	(10,842)	-	-	44,694	\$1.35	\$2.40	\$2.44
	Class LTB	60	1,656,019	-	-	247,649	14.95%	21,890	26,959	-	37,880	\$0.75	\$2.75	\$1.91
	Class TTC	134	1,535,778	-	-	306,878	19.98%	5,123	8,555	-	6,700	\$0.65	\$1.85	\$1.35
	Class LTC	6	115,851	-	-	38,886	33.57%	-	-	-	-	\$0.40	\$2.75	\$1.58
Total	231	5,125,203	-	-	1,123,501	21.92%	22,278	41,621	-	89,274	\$0.40	\$2.75	\$2.02	
Airport	Class TTA	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTA	4	384,464	-	-	113,445	29.51%	(8,286)	-	-	-	\$2.25	\$2.75	\$2.49
	Class TTB	15	1,043,732	-	-	172,496	16.53%	(1,559)	-	-	21,498	\$0.70	\$2.50	\$1.69
	Class LTB	34	1,668,364	-	-	324,755	19.47%	(93,241)	-	-	34,977	\$0.29	\$1.95	\$1.85
	Class TTC	161	1,804,451	-	-	585,074	32.42%	(40,263)	13,703	51,156	-	\$0.50	\$2.00	\$1.00
	Class LTC	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
Total	214	4,901,011	-	-	1,195,770	24.40%	(143,349)	13,703	51,156	56,475	\$0.29	\$2.75	\$1.76	
Southeast	Class TTA	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTA	4	405,796	-	-	218,356	53.81%	(13,979)	1,881	-	13,949	\$1.90	\$2.45	\$2.11
	Class TTB	20	872,950	-	-	204,265	23.40%	(9,583)	-	-	7,271	\$1.72	\$2.65	\$2.24
	Class LTB	57	1,793,651	-	-	516,608	28.80%	(13,579)	1,664	-	5,182	\$0.95	\$2.25	\$1.88
	Class TTC	320	4,079,748	-	-	1,016,112	24.91%	3,187	67,285	-	44,396	\$0.45	\$2.25	\$1.53
	Class LTC	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
Total	401	7,152,145	-	-	1,955,341	27.34%	(33,954)	70,830	-	70,798	\$0.45	\$2.65	\$1.94	
North	Class TTA	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTA	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class TTB	-	-	-	-	-	0.00%	-	-	-	-	-	-	-
	Class LTB	4	132,667	-	-	84,425	63.64%	-	-	-	-	\$0.55	\$1.92	\$2.04
	Class TTC	65	1,299,367	-	-	311,075	23.94%	(14,437)	-	-	-	\$0.45	\$1.50	\$1.29
	Class LTC	18	265,572	-	-	21,914	8.25%	(4,829)	-	-	-	\$0.70	\$1.30	\$1.50
Total	87	1,697,606	-	-	417,414	24.59%	(19,266)	-	-	-	\$0.45	\$1.92	\$1.61	
Las Vegas Total	Class TTA	11	2,202,135	-	-	591,488	26.86%	(48,869)	10,479	-	37,548	\$2.10	\$3.15	\$2.67
	Class LTA	21	2,139,110	-	-	790,869	36.97%	3,764	36,396	-	21,240	\$1.90	\$2.75	\$2.33
	Class TTB	80	4,383,389	-	-	1,010,982	23.06%	(17,851)	4,354	-	73,463	\$0.70	\$2.65	\$2.08
	Class LTB	322	11,673,192	-	-	2,858,657	24.49%	(231,142)	55,574	-	178,194	\$0.29	\$2.75	\$1.82
	Class TTC	1,268	19,208,961	-	-	4,674,237	24.33%	(51,729)	161,049	51,156	130,515	\$0.32	\$3.00	\$1.37
	Class LTC	172	3,144,039	-	-	495,279	15.75%	(8,031)	895	-	12,287	\$0.40	\$2.75	\$1.54
Total	1,874	42,750,826	-	-	10,421,512	24.38%	(353,858)	268,747	51,156	453,247	\$0.29	\$3.15	\$1.88	

Las Vegas Professional Office Market Overview 2000-2012 YTD

