



10100 W. Charleston Blvd.  
Suite 200  
Las Vegas, Nevada 89135

t: 702.967.3333  
f: 702.314.1439

www.appliedanalysis.com

# PRESS RELEASE

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Contact:  
Brian R. Gordon, Principal  
Applied Analysis  
(702) 967-3333

## Second Quarter 2010 Office Market Performance Measures Released

### *Leading Real Estate Research Firm Notes Pricing Falls As Market Continues Contracting*

After releasing its second quarter 2010 office market report today, local business advisory firm Applied Analysis noted the Las Vegas Valley office market has yet to stabilize as vacancies edged upward exerting downward pressure on average asking rents. During the second quarter, the market reported 426,800 square feet of negative net absorption, pushing the amount of occupied space down for the seventh consecutive quarter and to a level not seen since late 2006.

No new inventory was added to the office market during the second quarter of 2010. A handful of projects totaling 611,000 square feet remain under construction and are likely to complete by late 2010 or early 2011. The majority of the 2.5 million square feet on the drawing board will likely remain that way until market conditions improve.

Local economic conditions continued to contract during the quarter challenging the office market and its ability to reverse its two-year down cycle. The vacancy rate rose to 24.1 percent by the end of the second quarter, up from 23.3 percent in the previous quarter (Q1 2010) and significantly higher than the 21.8 percent reported one year ago (Q2 2009). Excluding owner-occupied and built-to-suit properties, vacancy rates in speculative buildings rose to 26.5 percent at quarter's end, which represented an increase from 25.7 percent during the first quarter of 2010 and 24.2 percent one year ago. Average asking rents fell to \$2.13 per square foot per month, a decline of 1.4 percent from the \$2.16 reported during the previous quarter (Q1 2010) and 8.2 percent from the \$2.32 posted during the same period a year ago (Q2 2009). Valley-wide average asking rents matched levels reported five years ago.

### Las Vegas Valley Quarterly Comparison Commercial Office Space

	2Q 2010 (current quarter)	1Q 2010 (previous quarter)	2Q 2009 (same quarter one year prior)
Office Inventory (SF)	49.7 million	49.7 million	49.2 million
Under Construction (SF)	611,000	611,000	1,446,000
Vacancy Rate	24.1%	23.3%	21.8%
Average Asking Rent (PSF)	\$2.13	\$2.16	\$2.32
Completions (SF) - Quarter	-	85,000	365,000
Completions (SF) - Trailing 12 Months	478,000	843,000	1,622,000
Net Absorption (SF) - Quarter	-427,000	-93,000	-820,000
Net Absorption (SF) - Trailing 12 Months	-765,000	-1,159,000	-1,100,000

**Note:** Inventory figures exclude approximately 0.8 million square feet of space in projects that have stalled or delayed construction activity. These projects have been reported as planned for reporting purposes until construction activity re-commences.

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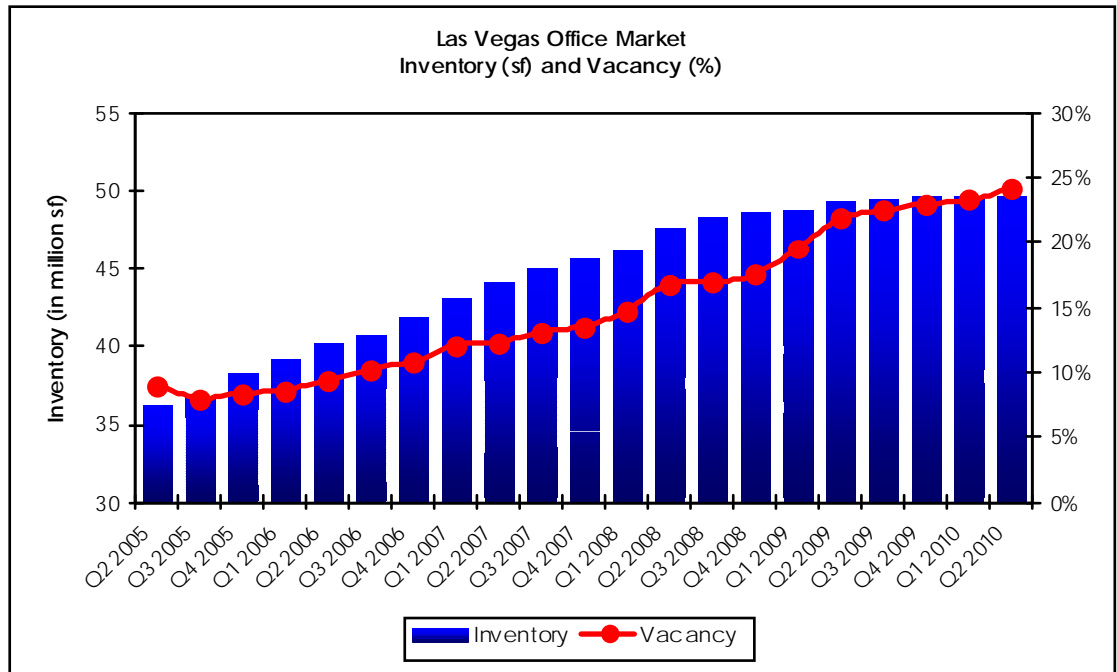
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**Highlights:**

- **Lowest vacancy rate:** Class C space (17.5%)
- **Highest vacancy rate:** Class A space (25.4%)
- **Vacancy rates for speculative space:** 26.5% (non-speculative space is 5.8%)
- **Construction activity:** Limited construction activity in the office sector continues:
  - Tivoli Village – Located at the northeast corner of Alta Drive and Rampart Boulevard, the mixed-use project contains 200,000 square feet of office space
  - Three buildings at Horizon Ridge Professional Park totaling 21,000 square feet in Henderson
  - A build-to-suit, 390,000-square-foot government building at the northeast corner of Alta Drive and Martin L. King Boulevard for Las Vegas Metropolitan Police
- **Annual employment decline** (May 2010):
  - All employees: -30,700 (-3.7%)
  - Leisure and hospitality: -5,300 (-2.1%)
  - Construction: -16,500 (-25.4%)
  - Office-using positions: -2,800 (-0.9%)
- **Las Vegas unemployment rate** – 14.1% (up from 11.3% one year ago)
- **Average asking lease rates** – Despite single-digit declines in reported average asking rents, effective rents based on transactional data and landlord concessions suggest pricing is down by well into the double-digit range. With average asking rents at \$2.13 per square foot, the following reflects pricing by class:
  - Class A - \$2.65 psf (down from \$2.81 psf in Q2 2009);
  - Class B - \$2.02 psf (down from \$2.20 psf in Q2 2009); and
  - Class C - \$1.68 psf (down from \$1.81 psf in Q2 2009).

**Jurisdictional Comparison  
 Commercial Office Space**

	Unincorporated Clark County	City of Las Vegas	City of Henderson	City of North LV	Valley-wide Total
Office Inventory (SF)	23.5 million	18.3 million	6.8 million	1.0 million	49.7 million
Under Construction (SF)	-	590,000	21,000	-	611,000
Vacancy Rate - 2010 Q2	27.1%	20.4%	24.6%	19.6%	24.1%
Vacancy Rate - 2009 Q2	25.3%	17.0%	23.2%	22.1%	21.8%
Average Asking Rates - 2010 Q2	\$2.14	\$2.06	\$2.25	\$2.01	\$2.13
Average Asking Rates - 2009 Q2	\$2.32	\$2.29	\$2.40	\$2.09	\$2.32
Net Absorption (SF) - 2010 Q2	-193,500	-209,400	-9,600	-14,300	-426,800
Net Absorption (SF) - 2009 Q2	-408,800	-381,100	-13,400	-17,100	-820,400



**Commentary:**

According to Applied Analysis Project Manager Jake Joyce, "With market fundamentals correcting to levels existing well before the recession that began 30 months ago, it is likely that it will take at least that long to recover. That being understood, the typical leasing cycle will allow for the majority of the office users to take advantage of a historic drop in prices with lease expirations or renewals taking place during this window."

Applied Analysis Principal Brian Gordon added, "The level of contraction within the office market creates challenges for property owners and lenders as price points have generally pushed the value of office product to levels below replacement costs. Strategic defaults have been a hot topic in the residential market for the past six months; similar situations may prevail in the commercial sector assuming owners and financiers are unable to 'work out' viable solutions when values remain suppressed and top-line revenues are insufficient to service debt and operating costs. Should material foreclosure activity occur, the market may experience more pronounced price declines going forward."



Applied Analysis is a Nevada-based advisory services firm providing a wide range of consultation services for public and private entities. The company utilizes extensive experience in economics, information technology and finance to provide a wide range of services, including urban economic consulting, financial advisory services, market analysis, public policy analysis, hospitality industry and gaming consulting, and information system and technology consulting. Applied Analysis has offices at 10100 West Charleston Blvd., Suite 200, and can be reached at 702-967-3333. The firm's Web site can be accessed at [www.appliedanalysis.com](http://www.appliedanalysis.com).

