

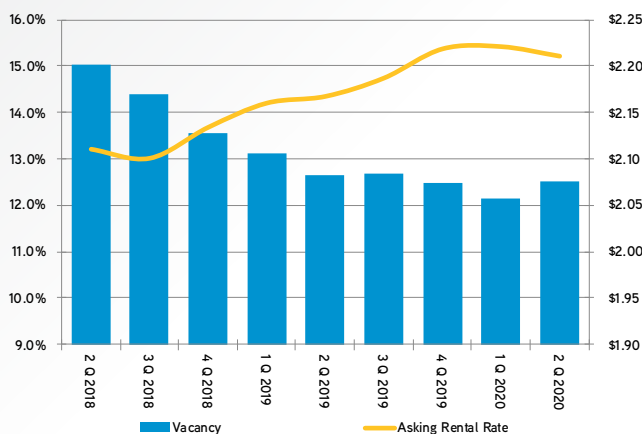
Weathering the Storm

- > Office vacancy increased to 12.5 percent in the second quarter of 2020
- > Southern Nevada's office inventory increased by 65,000 square feet
- > Asking rents decreased at \$2.21 psf

When an office market loses more than 48,000 jobs, even if those losses are intended to be temporary, it should come as no surprise that it also suffers an increase in vacancy.

Southern Nevada saw office vacancy increase to 12.5 percent, while inventory expanded by 65,000 square feet. Net absorption was 10,083 square feet. The weighted average asking rate for office space remained stable at \$2.21 per square foot (psf) on a full service gross (FSG) basis.

Historical Vacancy Rates and Asking Lease Rates



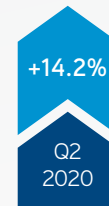
“While approximately 10,000 square feet of net absorption is nothing to brag about, any positive net absorption in the face of the massive job losses experienced over the past two months is remarkable.”

Economic Indicators

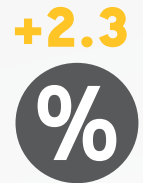
Office
Employment



Office
SF/Job



Sublease
Vacancy



Market Indicators

Relative to prior period	Q2 2020	Q3 2020*
VACANCY	↑	↑
NET ABSORPTION	↓	↓
COMPLETIONS	↓	↓
RENTAL RATE	↓	↓

*Projected

Summary Statistics

Las Vegas Market	Q2-19	Q1-20	Q2-20
Vacancy Rate	12.6%	12.2%	12.5%
Asking Rent (PSF, FSG)	\$2.17	\$2.22	\$2.21
Net Absorption (SF)	172,064	249,552	10,083
New Completions (SF)	-50,661	120,681	65,000

Overall Asking Rents

Per Square Foot	Q2-19	Q1-20	Q2-20
Class A	\$2.73	\$2.73	\$2.79
Class B	\$2.18	\$2.29	\$2.26
Class C	\$1.83	\$1.85	\$1.83

According to the Nevada Department of Employment, Training and Rehabilitation, Southern Nevada’s office job market lost 48,600 jobs between May 2019 and May 2020. Over this period, Southern Nevada lost 19,500 jobs in the administration and support sector, 13,000 jobs in health care and social assistance, 10,000 jobs in management of companies, 3,100 jobs in professional, scientific and technical, 2,500 jobs in information and 500 jobs in financial activities.

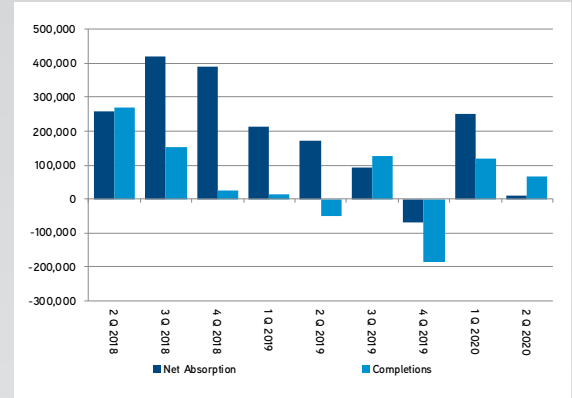
Unemployment in the Las Vegas-Paradise MSA was 33.5 percent in April 2020, compared to 4.0 percent in April 2019. From May 2019 to May 2020, total employment in Southern Nevada decreased by 220,300 jobs, a 10.8 percent decrease. May 2020 numbers were slightly better than April 2020 numbers, which suggests that the Valley could be seeing recovery from the employment devastation caused by the COVID-19 business closures that began in March 2020.

Southern Nevada’s office inventory increased this quarter by 65,000 square feet. One class C office property was completed in Southwest. A total of 21,600 square feet is scheduled for completion in the third quarter of 2020.

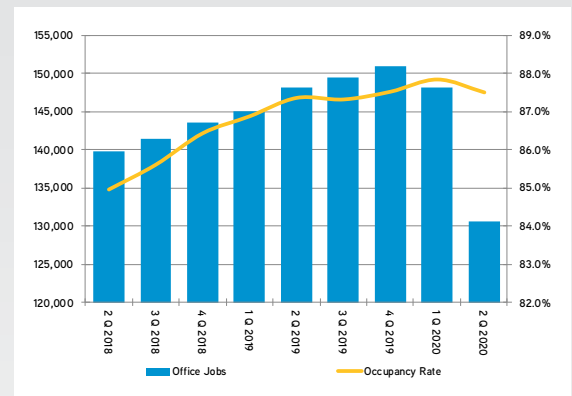
Southern Nevada’s office market had 10,083 square feet of net absorption in the second quarter of 2020, a significant decrease from the 172,064 square feet of net absorption in the second quarter of 2019. Net absorption this quarter was highest in the Henderson submarket, at 96,994 square feet, followed by 61,839 square feet in the Southwest submarket and 22,770 square feet in the West Central submarket. Net absorption was negative 101,167 square feet in the East Las Vegas submarket, followed by Northwest at negative 37,345 square feet, Airport at negative 24,491 square feet, North Las Vegas at negative 5,597 square feet and Downtown at negative 2,920 square feet.

Demand for office space in the second quarter came primarily from education and social services, professional and business services and financial activities tenants. In the lease comps we tracked this quarter, local tenants took 42.5 percent of the leased space, followed by tenants headquartered in the Southwest at 23.9 percent, Great Plains at 18.5 percent and Southeast at 6.6 percent.

Historical Net Absorption vs. Completions



Occupancy vs. Office Employment



	MAY 2019	MAY 2020	CHANGE
Administration and Support	82,900	63,400	- 19,500
Financial Activities	53,900	53,400	- 500
Health Care and Social Assistance	94,800	81,800	- 13,000
Information	12,300	9,800	- 2,500
Management of Companies	22,800	12,800	- 10,000
Professional, Scientific and Technical	44,600	41,500	- 3,100

Source: Nevada Department of Employment, Training and Rehabilitation.

Vacancy by Size Range

SIZE RANGE	Q2, 2019		Q1, 2020		Q2, 2020		ANNUAL CHANGE	
	Units	Total SF	Units	Total SF	Units	Total SF	Units	Total SF
TINY (0 TO 2,500 SF)	824	1,300,863	736	1,171,934	737	1,224,059	(87)	(76,804)
SMALL (2,501 TO 5,000 SF)	374	1,498,725	386	1,600,159	397	1,640,907	23	142,182
MEDIUM (5,001 TO 10,000 SF)	168	1,244,499	166	1,236,229	172	1,263,898	4	19,399
LARGE (10,001 TO 25,000 SF)	68	961,942	77	1,201,452	72	1,135,492	4	173,850
HUGE (25,001 SF +)	37	1,106,541	14	786,918	19	951,418	(18)	(155,123)

Southern Nevada's office vacancy rate increased to 12.5 percent in the second quarter of 2020, a 0.1-point decrease from one year ago and a 0.4-point increase from one quarter ago. Office vacancy increased in six of the Valley's eight submarkets this quarter. The largest increase was in East Las Vegas at 1.9 points, followed by North Las Vegas and Southwest at 0.8 points, Airport and Northwest at 0.4 points and Downtown at 0.1 points. Vacancy decreased in Henderson by 1.0 points and Downtown by 0.4 points.

When examined by the size range of vacant units (including vacant units for sublease), the second quarter of 2020 again showed improvement in demand for office suites on both extremes of size. Tiny units saw the strongest demand, with vacancy falling by 76,804 square feet year-over-year, while huge units saw vacancy fall by 155,123 square feet. All other size ranges saw a year-over-year increase in vacant space, with the largest increase being in office spaces sized from 10,001 to 25,000 square feet.

“We think the office market will continue to be challenged ...”

Office space available for sublease in Southern Nevada increased this quarter to 728,371 square feet from 552,177 square feet one year ago. Most of the available sublease space was in Class B properties and was located in the Northwest submarket. Increases in sublease space usually presage higher direct vacancy rates, but for the current recession this has not held true.

Office Development Schedule

PROJECT	CLASS	SUBMARKET	SIZE	PRE-LEASING
Q3-2020			21,600	0%
Camino Al Norte Business Park	C	North Las Vegas	21,600	0%
Q4-2020			100,165	26%
Narrative	A	Southwest	100,165	26%
Q1-2021			118,434	0%
Magnum Towers	A	Southwest	118,434	0%
Q2-2021			260,000	0%
215 Rainbow	A	Southwest	160,000	0%
Village at Saint Rose	A	Henderson	100,000	0%

The weighted average asking rental rate for office space in Southern Nevada was \$2.21 psf FSG in the second quarter of 2020. This was \$0.04 higher than one year ago. The Southwest submarket was the Valley's most expensive, with an asking rate of \$2.50 psf, followed closely by \$2.47 psf in Downtown. The Valley's lowest average asking rate was in the East Las Vegas submarket at \$1.86 psf, followed by \$1.87 psf in West Central. Class A office buildings saw their average asking rate increase by \$0.06 psf since last quarter, while the average asking rent decreased by \$0.03 psf for Class B buildings and \$0.02 psf for Class C buildings.

Investment sales at mid-year 2020 are on pace to beat 2019 sales, with sales volume of \$172.9 million in 37 sales totaling 805,069 square feet with an average sales price of \$214.74 psf. The average cap rate was 7.2 percent at mid-year. Sales were notably higher in 2017 and 2018, and have now returned to levels seen in 2016 and again in 2019. Sales for the remainder

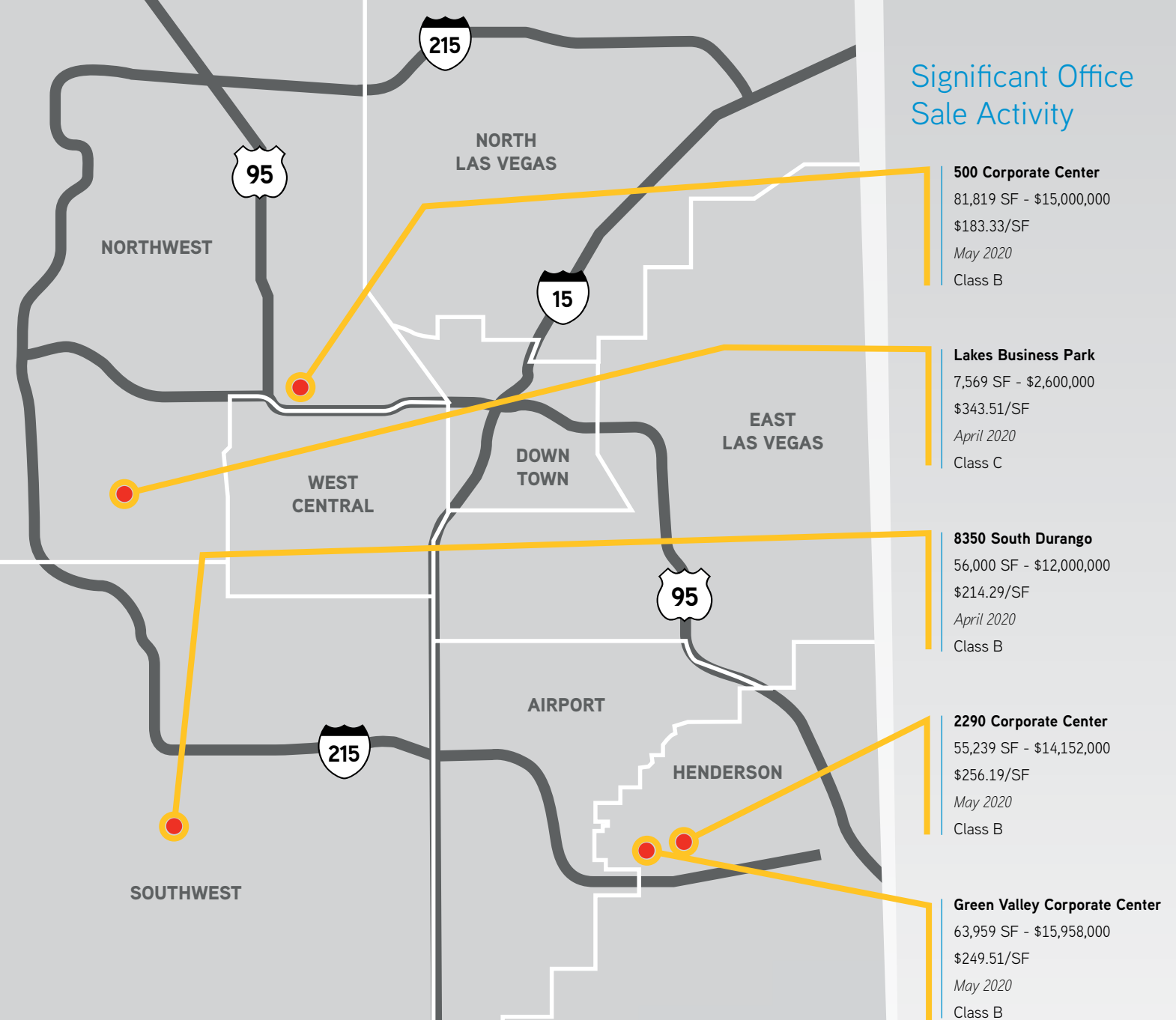
of the year could be boosted by lower interest rates, but could just as likely be hampered due to uncertainty in the true value of office real estate.

Southern Nevada's office market has, so far, showed surprising resilience in the face of the business closures enacted to stem the spread of COVID-19. While approximately 10,000 square feet of net absorption is nothing to brag about, any positive net absorption in the face of the massive job losses experienced over the past two months is remarkable. Anecdotal evidence suggests that most office tenants continued to pay their rent over the past few months, but the eviction moratorium imposed until July makes it difficult to know how vulnerable the market is to future vacancies. We think the office market will continue to be challenged by the job losses already experienced and the uncertainty regarding evictions, utilization of office space post-pandemic and whatever other upheavals 2020 has in store for us.

Office Investment Sales

	2016	2017	2018	2019	2020 YTD
No. Sales	45	99	94	42	37
Square Footage	1,448,701	3,560,210	3,731,240	1,432,424	805,069
Sales Volume	\$200.9 MM	\$652.6 MM	\$658.2 MM	\$313.6 MM	\$172.9 MM
Average Price/SF	\$138.70	\$183.31	\$176.42	\$175.24	\$214.74
Average Cap Rate	7.8%	7.5%	8.3%	7.6%	7.2%
Average Sale Size (SF)	32,200	36,000	39,700	34,100	21,800

Significant Office Sale Activity



Lease Activity

Property Name	Lease Date	Lease Term	Size	Lease Rate	Type
Desert Inn Office Center II	May 2020	36 months	20,394 SF	\$1.75 NNN	Class C
Campus Village	May 2020	60 months	14,000 SF	\$1.37 MG	Class C
Stephanie Beltway Centre	May 2020	39 months	7,753 SF	\$2.09 MG	Class B
Marnell Corporate Center	May 2020	38 months	5,912 SF	\$2.39 FSG	Class A
Gardner Plaza	Mar 2020	60 months	5,788 SF	\$2.12 NNN	Class B

Market Comparisons - Las Vegas

Office Market

CLASS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	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	729,174	124,836	17.1%	7,351	132,187	18.1%	16.3%	(13,108)	4,098	-	-	-	150,000	\$2.74
B	2,403,646	306,380	12.7%	-	306,380	12.7%	12.3%	(10,371)	32,992	-	-	-	-	\$2.22
C	3,229,959	345,829	10.7%	9,688	355,517	11.0%	11.0%	(1,012)	69,053	-	-	-	-	\$1.79
Total	6,362,779	777,045	12.2%	17,039	794,084	12.5%	12.1%	(24,491)	106,143	-	-	-	150,000	\$2.12
DOWNTOWN SUBMARKET														
A	1,236,654	250,257	20.2%	5,060	255,317	20.6%	19.3%	(16,658)	(2,910)	-	-	-	-	\$2.82
B	2,369,470	225,759	9.5%	-	225,759	9.5%	10.5%	21,882	21,472	-	-	-	-	\$2.50
C	1,419,499	140,378	9.9%	-	140,378	9.9%	9.3%	(8,144)	(39,223)	-	-	-	-	\$1.79
Total	5,025,623	616,394	12.3%	5,060	621,454	12.4%	12.3%	(2,920)	(20,661)	-	-	-	-	\$2.47
EAST LAS VEGAS SUBMARKET														
A	1,353,083	310,758	23.0%	9,167	319,925	23.6%	24.0%	7,545	51,567	-	-	-	-	\$2.91
B	1,564,289	360,813	23.1%	-	360,813	23.1%	18.9%	(65,624)	(118,351)	-	-	-	-	\$1.44
C	2,549,301	432,117	17.0%	-	432,117	17.0%	15.3%	(43,088)	(28,816)	-	-	-	-	\$1.46
Total	5,466,673	1,103,688	20.2%	9,167	1,112,855	20.4%	18.5%	(101,167)	(95,600)	-	-	-	-	\$1.86
HENDERSON SUBMARKET														
A	583,905	165,093	28.3%	-	165,093	28.3%	28.3%	192	7,452	-	-	-	555,000	\$2.76
B	2,649,902	413,792	15.6%	5,000	418,792	15.8%	17.6%	87,673	(7,673)	-	47,664	-	30,000	\$2.40
C	2,213,526	180,235	8.1%	750	180,985	8.2%	8.6%	9,129	40,623	-	-	-	-	\$1.91
Total	5,447,333	759,120	13.9%	5,750	764,870	14.0%	15.1%	96,994	40,402	-	47,664	-	585,000	\$2.36
NORTH LAS VEGAS SUBMARKET														
A	-	-	n/a	-	-	n/a	n/a	-	-	-	-	-	-	\$-
B	240,860	48,943	20.3%	-	48,943	20.3%	17.9%	(5,907)	(5,952)	-	-	-	-	\$2.11
C	504,461	11,366	2.3%	-	11,366	2.3%	2.3%	310	240	-	-	9,600	12,000	\$1.96
Total	745,321	60,309	8.1%	-	60,309	8.1%	7.3%	(5,597)	(5,712)	-	-	9,600	12,000	\$2.08
NORTHWEST SUBMARKET														
A	2,112,587	233,144	11.0%	66,605	299,749	14.2%	15.2%	39,970	96,254	-	-	-	-	\$2.57
B	3,713,479	437,912	11.8%	30,401	468,313	12.6%	10.2%	(88,954)	(67,798)	-	-	-	-	\$2.40
C	3,466,494	232,312	6.7%	7,683	239,995	6.9%	7.5%	11,639	9,569	-	-	-	37,100	\$2.04
Total	9,292,560	903,368	9.7%	104,689	1,008,057	10.8%	10.3%	(37,345)	38,025	-	-	-	37,100	\$2.35
SOUTHWEST SUBMARKET														
A	701,640	64,756	9.2%	37,154	101,910	14.5%	14.1%	-	603	-	-	-	1,017,818	\$3.23
B	3,485,152	480,068	13.8%	77,711	557,779	16.0%	14.7%	16,847	86,009	-	73,017	-	252,232	\$2.62
C	3,646,758	345,343	9.5%	29,465	374,808	10.3%	9.9%	44,992	116,428	65,000	65,000	-	-	\$2.19
Total	7,833,550	890,167	11.4%	144,330	1,034,497	13.2%	12.4%	61,839	203,040	65,000	138,017	-	1,270,050	\$2.50
WEST CENTRAL SUBMARKET														
A	157,624	29,215	18.5%	-	29,215	18.5%	18.5%	-	(13,461)	-	-	-	-	\$2.42
B	2,030,723	151,184	7.4%	257,000	408,184	20.1%	20.0%	(2,061)	(769)	-	-	-	-	\$2.02
C	3,022,942	382,249	12.6%	-	382,249	12.6%	13.5%	24,831	8,228	-	-	-	-	\$1.78
Total	5,211,289	562,648	10.8%	257,000	819,648	15.7%	16.2%	22,770	(6,002)	-	-	-	-	\$1.87
MARKET TOTAL														
A	6,874,667	1,178,059	17.1%	125,337	1,303,396	19.0%	18.9%	17,941	143,603	-	-	-	1,722,818	\$2.79
B	18,457,521	2,424,851	13.1%	370,112	2,794,963	15.1%	14.3%	(46,515)	(60,070)	-	120,681	-	282,232	\$2.26
C	20,052,940	2,069,829	10.3%	47,586	2,117,415	10.6%	10.5%	38,657	176,102	65,000	65,000	9,600	49,100	\$1.83
Total	45,385,128	5,672,739	12.5%	543,035	6,215,774	13.7%	13.3%	10,083	259,635	65,000	185,681	9,600	2,054,150	\$2.21

QUARTERLY COMPARISON AND TOTALS

Q2-20	45,385,128	5,672,739	12.5%	543,035	6,215,774	13.7%	13.3%	10,083	259,635	65,000	185,681	9,600	2,054,150	\$2.21
Q1-20	45,199,447	5,497,141	12.2%	526,991	6,024,132	13.3%	13.8%	249,552	249,552	120,681	120,681	86,600	2,065,982	\$2.22
Q4-19	45,078,766	5,626,012	12.5%	573,300	6,199,312	13.8%	14.0%	(70,505)	407,657	(184,840)	(92,929)	183,449	1,807,529	\$2.22
Q3-19	45,263,606	5,740,347	12.7%	604,612	6,344,959	14.0%	13.5%	92,514	478,162	126,705	91,911	183,734	1,788,197	\$2.19
Q2-19	45,136,901	5,706,156	12.6%	366,841	6,072,997	13.5%	13.7%	172,064	385,648	(50,661)	(34,794)	181,818	1,506,253	\$2.17

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400 offices in
68 countries on
6 continents

ANZ: 54

United States: 159

Canada: 48

Latin America: 20

Asia Pacific: 45

EMEA: 114

\$3.5 billion in annual revenue
2 billion square feet under management
18,000+ professionals and staff

MARKET CONTACT:

Mike Mixer, SIOR
Executive Managing Director
+1 702 735 5700
mike.mixer@colliers.com

John Stater
Research & GIS Manager
+1 702 836 3781
john.stater@colliers.com



COLLIERS INTERNATIONAL | LAS VEGAS

3960 Howard Hughes Parkway, Suite 150
Las Vegas, Nevada 89169 | USA
+1 702 735 5700
www.colliers.com/lasvegas



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