

The Calm Before The Storm

- > Office vacancy decreased to 12.1 percent in the first quarter of 2020
- > Southern Nevada's office inventory rebounded from 2019's decrease
- > Asking rents remained stable at \$2.22 psf

There was no other way to describe Southern Nevada's office market in 2019 than "strange", with an overall reduction in office inventory for the first time since we started tracking the market 20 years ago. The first quarter of 2020 offered a refreshing change, posting 225,720 square feet of net absorption, up from one year ago. New construction in the first quarter reversed the decrease in inventory experienced in 2019. This sent office vacancy down to 12.1 percent, while the weighted average asking rate for office space remained stable at \$2.22 per square foot (psf) on a full service gross (FSG) basis. All would be well, if not for the emergence of the COVID-19 pandemic.

Economic Indicators

Office
Employment



Office
SF/Job



Sublease
Vacancy



Market Indicators

Relative to prior period	Q1 2020	Q2 2020*
VACANCY	↓	↑
NET ABSORPTION	↓	↓
COMPLETIONS	↑	↑
RENTAL RATE	↔	↔

*Projected

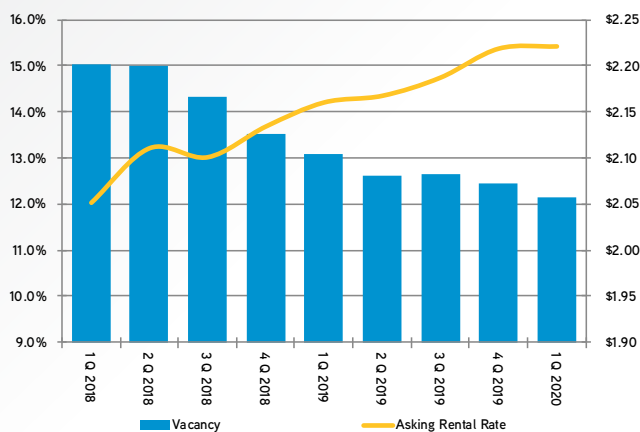
Summary Statistics

Las Vegas Market	Q1-19	Q4-19	Q1-20
Vacancy Rate	13.1%	12.4%	12.1%
Asking Rent (PSF, FSG)	\$2.16	\$2.22	\$2.22
Net Absorption (SF)	213,584	-70,505	225,720
New Completions (SF)	15,867	-184,840	96,849

Overall Asking Rents

Per Square Foot	Q1-19	Q4-19	Q1-20
Class A	\$2.73	\$2.77	\$2.73
Class B	\$2.17	\$2.27	\$2.29
Class C	\$1.81	\$1.83	\$1.85

Historical Vacancy Rates and Asking Lease Rates



"Making predictions of future performance is never easy due to potential x-factors emerging that disrupt markets, and COVID-19 was such an x-factor."

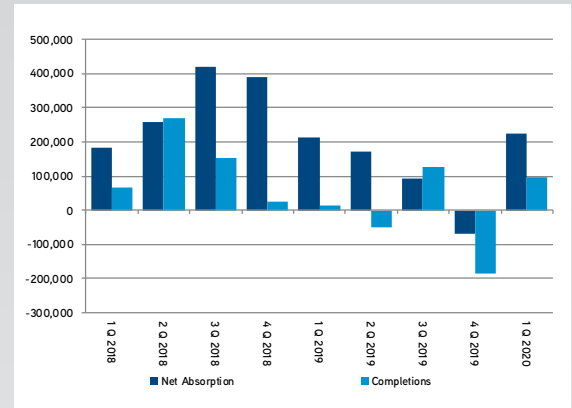
According to the Nevada Department of Employment, Training and Rehabilitation, Southern Nevada’s office job market added 4,100 jobs between February 2019 and February 2020. Over this period, Southern Nevada added 2,100 jobs in health care and social assistance, 1,700 jobs in the administration and support sector, 1,000 jobs in financial activities and 700 jobs in professional, scientific and technical work. Southern Nevada lost 1,000 jobs in management of companies and 200 jobs in information.

Unemployment in the Las Vegas-Paradise MSA was 3.9 percent in February 2020, compared to 4.2 percent in February 2019. From February 2019 to February 2020, total employment in Southern Nevada increased by 12,900 jobs, a 2.2 percent increase. This would be a good sign about the trajectory of the economy if not for the COVID-19 x-factor that arose during the first quarter of this year, and whose impact is unlikely to be felt fully until the second quarter of the year.

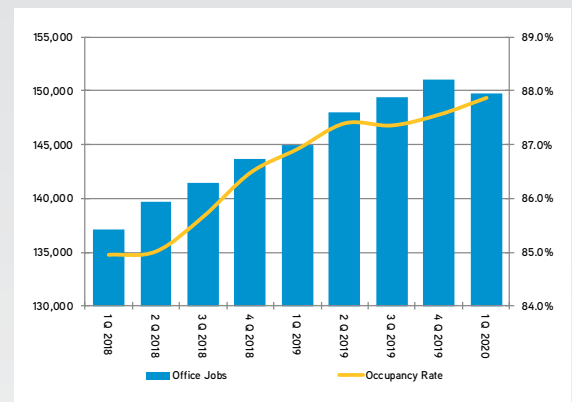
Southern Nevada’s office inventory increased this quarter by 96,849 square feet, effectively reversing the net decrease in inventory experienced in 2019. Most of the quarter’s completions were located in the Southwest submarket, generally in the vicinity of the I-215 Beltway. One property was completed in Henderson. A total of 86,600 square feet is scheduled for completion in the second quarter of 2020, and is currently 41 percent pre-leased. It is worth noting that the new projects being developed in Southern Nevada are designed to serve the population shift from east to west, rather than to serve the market expansion you that would occur because of increased office employment.

Southern Nevada’s office market had 225,720 square feet of net absorption in the first quarter of 2020, an increase from the 213,584 square feet of net absorption in the first quarter of 2019. Net absorption this quarter was highest in the Southwest submarket at 141,201 square feet, followed by 130,634 square feet in the Airport submarket and 75,370 square feet in the Northwest submarket. Net absorption was negative 86,749 square feet in the Airport submarket last quarter, making this quarter’s positive net absorption a welcome sign.

Historical Net Absorption vs. Completions



Occupancy vs. Office Employment



	FEB 2019	FEB 2020	CHANGE
Administration and Support	81,900	83,600	+1,700
Financial Activities	52,500	53,500	+1,000
Health Care and Social Assistance	93,600	95,700	+2,100
Information	11,700	11,500	-200
Management of Companies	22,700	21,700	-1,000
Professional, Scientific and Technical	44,600	45,300	+700

Source: Nevada Department of Employment, Training and Rehabilitation.

Vacancy by Size Range

SIZE RANGE	Q1, 2019		Q4, 2019		Q1, 2020		ANNUAL CHANGE	
	Units	Total SF	Units	Total SF	Units	Total SF	Units	Total SF
TINY (0 TO 2,500 SF)	851	1,358,745	740	1,183,512	736	1,171,934	(115)	(186,811)
SMALL (2,501 TO 5,000 SF)	391	1,526,854	377	1,654,976	386	1,600,159	(5)	73,305
MEDIUM (5,001 TO 10,000 SF)	169	1,225,520	170	1,305,855	166	1,236,229	(3)	10,709
LARGE (10,001 TO 25,000 SF)	64	896,174	87	1,435,306	77	1,201,452	13	305,278
HUGE (20,001 SF +)	36	999,395	22	1,112,604	14	786,918	(22)	(212,477)

Demand for office space over the past quarter came primarily from engineering and management, health services and financial activities tenants. In the lease comps we tracked in the first quarter of 2020, local tenants took 59.0 percent of the leased space, followed by tenants headquartered in the Midwest at 29.0 percent, Southeast at 4.5 percent and Southwest at 3.1 percent.

Southern Nevada's office vacancy rate decreased to 12.1 percent in the first quarter of 2020, a 1-point decrease from one year ago. Vacancy remained higher than the pre-2006 average of 9.0 percent, but has shown significant improvement over the past two years, and is now the lowest it has been since 2007.

Office vacancy decreased in four of the Valley's eight submarkets this quarter. The largest decrease was in Airport at 2.1 points, followed by Southwest at 1.0 points, Northwest at 0.8 points and East Las Vegas at 0.1 points. Vacancy increased in Henderson by 1.9 points, West Central by 0.6 points and Downtown by 0.4 points.

When examined by the size range of vacant units (including vacant units for sublease), the first quarter of 2020 showed improvement in demand for office suites on both extremes of size. Tiny units saw the strongest demand, with vacancy falling by 186,811 square feet year-over-year, while huge units saw vacancy fall by 212,477 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.

Office space available for sublease in Southern Nevada decreased this quarter to 712,327 square feet from 758,636 square feet one year ago. Most of the available sublease space was in Class B properties and was located in the Northwest submarket. The significant increase in available sublease space that occurred in 2019 can point to larger problems in the market in the future.

“We think office demand will be weak through the middle of 2020, with the potential to improve slightly in the fourth quarter.”

Office Development Schedule

PROJECT	CLASS	SUBMARKET	SIZE	PRE-LEASING
Q2-2020			86,600	41%
Camino Al Norte Business Park	C	North Las Vegas	21,600	0%
Canyon Ridge Business Park	C	Southwest	65,000	55%
Q3-2020			118,434	0%
Magnum Towers	A	Southwest	118,434	0%
Q4-2020			100,165	26%
Narrative	A	Southwest	100,165	26%
Q1-2021			160,000	0%
215 Rainbow	A	Southwest	160,000	0%

The weighted average asking rental rate for office space in Southern Nevada was \$2.22 psf FSG in the first quarter of 2020. This was \$0.06 higher than one year ago. The Southwest submarket was the Valley's most expensive, with an asking rate of \$2.52 psf, followed closely by \$2.45 psf in Downtown. The Valley's lowest average asking rate was in the East Las Vegas submarket at \$1.87 psf, followed by \$1.92 psf in West Central. Class A office buildings saw their average asking rate decrease by \$0.04 psf since last quarter, while the average asking rent increased by \$0.02 psf for Class B and Class C buildings.

Investment sales in the first quarter of 2020 showed an improvement over 2019, with sales volume of \$107.1 million in 30 sales totaling 514,106 square feet with an average sales price of \$208.40 psf. The average cap rate was 7.0 percent. On average, the size of properties that sold was much lower in the first quarter of 2020 than in the previous year, which goes some way to explaining the increase in the average price per square foot of

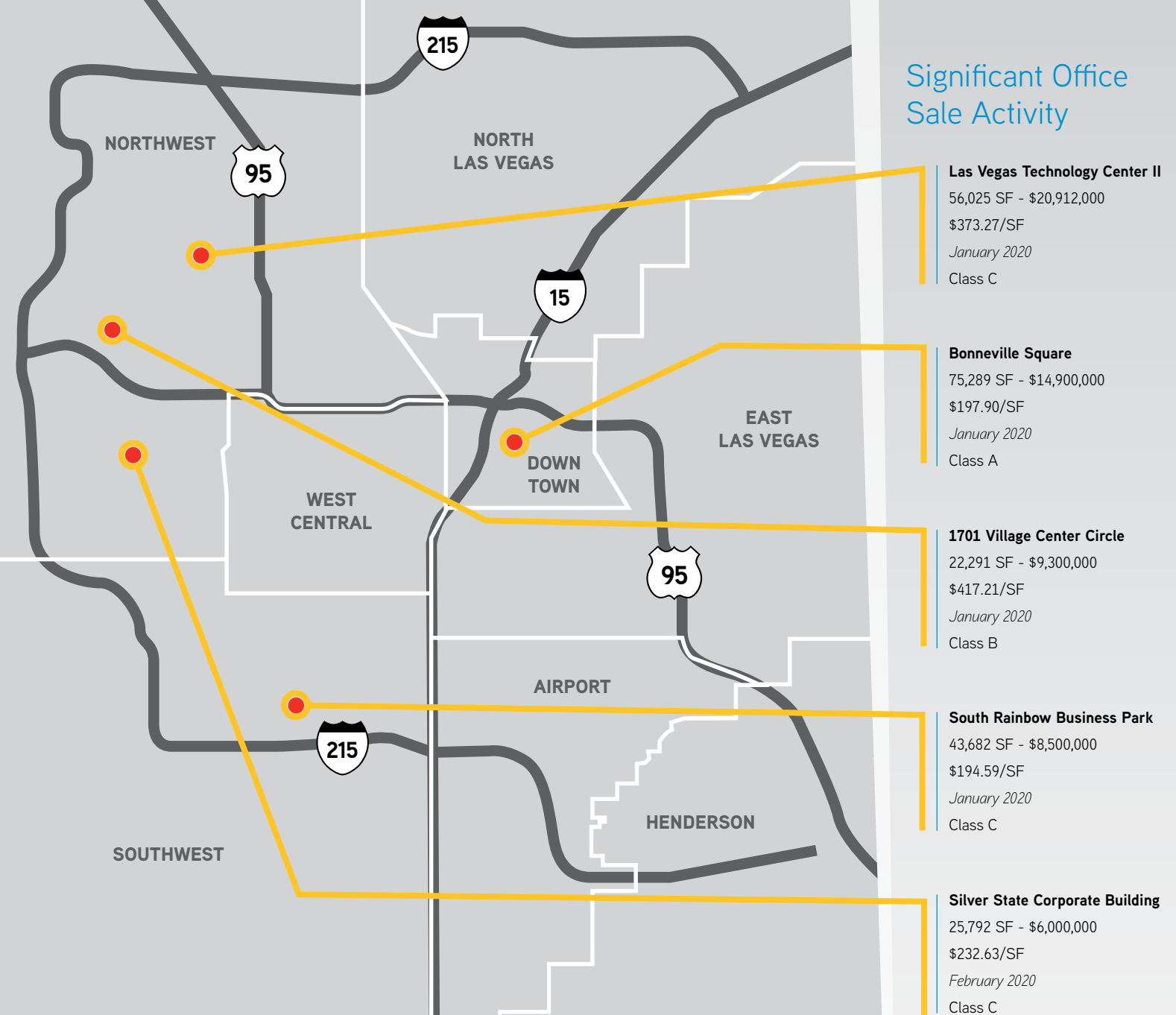
these properties. With the recent lowering of the interest rate by the Fed, it is reasonable to expect an increase in commercial real estate sales this year.

While we would like to celebrate the strong demand Southern Nevada's office market posted in the first quarter of 2020 without reservation, the COVID-19 pandemic makes that impossible. Making predictions of future performance is never easy due to potential x-factors emerging that disrupt markets, and COVID-19 was such an x-factor. Hopefully, the impact on markets of the preventative measures being taken to slow this virus' spread will be temporary, but at this point the full extent of the impact cannot be known. One potential result of expanded work-from-home schemes this year might be to further reduce the average footprint of office workers moving forward. We think office demand will be weak through the middle of 2020, with the potential to improve slightly in the fourth quarter.

Office Investment Sales

	2016	2017	2018	2019	2020 YTD
No. Sales	45	99	94	42	30
Square Footage	1,448,701	3,560,210	3,731,240	1,432,424	514,106
Sales Volume	\$200.9 MM	\$652.6 MM	\$658.2 MM	\$313.6 MM	\$107.1 MM
Average Price/SF	\$138.70	\$183.31	\$176.42	\$175.24	\$208.40
Average Cap Rate	7.8%	7.5%	8.3%	7.6%	7.0%
Average Sale Size (SF)	32,200	36,000	39,700	34,100	17,100

Significant Office Sale Activity



Lease Activity

Property Name	Lease Date	Lease Term	Size	Lease Rate	Type
Hughes Airport Center	Jan 2020	126 months	17,248 SF	\$2.16 FSG	Class B
City Center West	Jan 2020	65 months	3,807 SF	\$2.33 FSG	Class A
City Center West	Feb 2020	63 months	2,695 SF	\$2.31 FSG	Class A
Marnell Corporate Center	Jan 2020	25 months	2,120 SF	\$2.44 FSG	Class A
Festival Office Park	Mar 2020	38 months	1,200 SF	\$1.42 NNN	Class C

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	111,728	15.3%	7,351	119,079	16.3%	21.6%	17,206	17,206	-	-	-	150,000	\$2.65
B	2,403,646	296,009	12.3%	-	296,009	12.3%	16.1%	43,363	43,363	-	-	-	-	\$2.22
C	3,229,959	344,817	10.7%	9,688	354,505	11.0%	13.1%	70,065	70,065	-	-	-	-	\$1.80
Total	6,362,779	752,554	11.8%	17,039	769,593	12.1%	15.2%	130,634	130,634	-	-	-	150,000	\$2.09
DOWNTOWN SUBMARKET														
A	1,236,654	233,599	18.9%	5,060	238,659	19.3%	20.2%	13,748	13,748	-	-	-	-	\$2.74
B	2,369,470	247,641	10.5%	-	247,641	10.5%	10.4%	(410)	(410)	-	-	-	-	\$2.52
C	1,419,499	132,234	9.3%	-	132,234	9.3%	7.1%	(31,079)	(31,079)	-	-	-	-	\$1.81
Total	5,025,623	613,474	12.2%	5,060	618,534	12.3%	11.9%	(17,741)	(17,741)	-	-	-	-	\$2.45
EAST LAS VEGAS SUBMARKET														
A	1,353,083	318,303	23.5%	6,186	324,489	24.0%	27.2%	44,022	44,022	-	-	-	-	\$2.81
B	1,564,289	295,189	18.9%	-	295,189	18.9%	15.5%	(52,727)	(52,727)	-	-	-	-	\$1.38
C	2,565,752	389,029	15.2%	-	389,029	15.2%	15.7%	14,272	14,272	-	-	-	-	\$1.47
Total	5,483,124	1,002,521	18.3%	6,186	1,008,707	18.4%	18.5%	5,567	5,567	-	-	-	-	\$1.87
HENDERSON SUBMARKET														
A	583,905	165,285	28.3%	-	165,285	28.3%	29.6%	7,260	7,260	-	-	-	555,000	\$2.75
B	2,625,395	453,801	17.3%	5,000	458,801	17.5%	12.5%	(119,178)	(119,178)	23,832	23,832	-	53,832	\$2.42
C	2,213,526	189,364	8.6%	750	190,114	8.6%	10.0%	31,494	31,494	-	-	-	-	\$1.88
Total	5,422,826	808,450	14.9%	5,750	814,200	15.0%	13.3%	(80,424)	(80,424)	23,832	23,832	-	608,832	\$2.36
NORTH LAS VEGAS SUBMARKET														
A	-	-	n/a	-	-	n/a	n/a	-	-	-	-	-	-	\$-
B	240,860	43,036	17.9%	-	43,036	17.9%	17.8%	(45)	(45)	-	-	-	-	\$2.16
C	504,461	11,676	2.3%	-	11,676	2.3%	2.3%	(70)	(70)	-	-	21,600	-	\$3.32
Total	745,321	54,712	7.3%	-	54,712	7.3%	7.3%	(115)	(115)	-	-	21,600	-	\$2.41
NORTHWEST SUBMARKET														
A	2,112,587	273,114	12.9%	48,330	321,444	15.2%	17.5%	56,284	56,284	-	-	-	-	\$2.58
B	3,714,441	348,958	9.4%	30,401	379,359	10.2%	10.7%	21,156	21,156	-	-	-	-	\$2.42
C	3,466,494	243,951	7.0%	16,181	260,132	7.5%	7.3%	(2,070)	(2,070)	-	-	-	37,100	\$1.99
Total	9,293,522	866,023	9.3%	94,912	960,935	10.3%	11.0%	75,370	75,370	-	-	-	37,100	\$2.35
SOUTHWEST SUBMARKET														
A	701,640	64,756	9.2%	34,187	98,943	14.1%	15.0%	603	603	-	-	-	1,017,818	\$3.15
B	3,485,152	423,898	12.2%	77,392	501,290	14.4%	14.8%	69,162	69,162	73,017	73,017	-	252,232	\$2.63
C	3,582,907	325,335	9.1%	29,465	354,800	9.9%	11.1%	71,436	71,436	-	-	65,000	-	\$2.27
Total	7,769,699	813,989	10.5%	141,044	955,033	12.3%	13.1%	141,201	141,201	73,017	73,017	65,000	1,270,050	\$2.52
WEST CENTRAL SUBMARKET														
A	157,624	29,215	18.5%	-	29,215	18.5%	10.0%	(13,461)	(13,461)	-	-	-	-	\$2.42
B	2,030,723	149,123	7.3%	257,000	406,123	20.0%	20.2%	1,292	1,292	-	-	-	-	\$2.19
C	3,024,042	407,080	13.5%	-	407,080	13.5%	12.9%	(16,603)	(16,603)	-	-	-	-	\$1.79
Total	5,212,389	585,418	11.2%	257,000	842,418	16.2%	15.7%	(28,772)	(28,772)	-	-	-	-	\$1.92
MARKET TOTAL														
A	6,874,667	1,196,000	17.4%	101,114	1,297,114	18.9%	20.9%	125,662	125,662	-	-	-	1,722,818	\$2.73
B	18,433,976	2,257,655	12.2%	369,793	2,627,448	14.3%	13.9%	(37,387)	(37,387)	96,849	96,849	-	306,064	\$2.29
C	20,006,640	2,043,486	10.2%	56,084	2,099,570	10.5%	11.0%	137,445	137,445	-	-	86,600	37,100	\$1.85
Total	45,315,283	5,497,141	12.1%	526,991	6,024,132	13.3%	13.7%	225,720	225,720	96,849	96,849	86,600	2,065,982	\$2.22
QUARTERLY COMPARISON AND TOTALS														
Q1-20	45,315,283	5,497,141	12.1%	526,991	6,024,132	13.3%	13.7%	225,720	225,720	96,849	96,849	86,600	2,065,982	\$2.22
Q4-19	45,218,434	5,626,012	12.4%	573,300	6,199,312	13.7%	14.0%	(70,505)	407,657	(184,840)	(92,929)	183,449	1,807,529	\$2.22
Q3-19	45,403,274	5,740,347	12.6%	604,612	6,344,959	14.0%	13.4%	92,514	478,162	126,705	91,911	183,734	1,788,197	\$2.19
Q2-19	45,276,569	5,706,156	12.6%	366,841	6,072,997	13.4%	13.6%	172,064	385,648	(50,661)	(34,794)	181,818	1,506,253	\$2.17
Q1-19	45,327,230	5,928,881	13.1%	254,807	6,183,688	13.6%	14.0%	213,584	213,584	15,867	15,867	132,590	737,281	\$2.16

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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

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