

# MARKETBEAT

## Las Vegas

### Office Q2 2018



#### LAS VEGAS OFFICE

##### Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Las Vegas Employment	0.98M	1.0M	▲
Las Vegas Unemployment	5.2%	4.4%	▼
U.S. Unemployment	4.3%	3.8%	▼

May 2017/2018 used to represent Q2 for Las Vegas

##### Market Indicators (All Classes)

	Q2 17	Q2 18	12-Month Forecast
Overall Vacancy	13.8%	11.7%	▼
Net Absorption (sf)	317K	256K	▲
Under Construction (sf)	548K	422K	▲
Average Asking Rent	\$1.61	\$1.61	▲

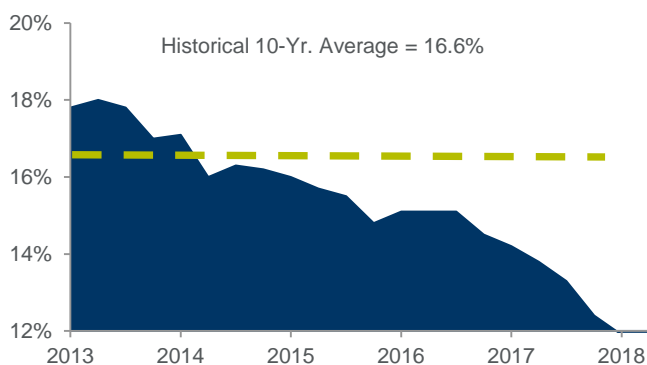
\*Rental rates gross, \$psf/monthly

##### Net Absorption/Asking Rent (Gross Rent Overall, Monthly)

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy – All Classes, incl. Sublease



## Economy

The Las Vegas employment market continued to record job growth, adding 27,700 jobs (+2.8%) year-over-year through May 2018.<sup>1</sup> Of the 27,700 jobs added, 3,000 (or 11%) were office jobs consisting of two sectors: professional and business services and financial activities. During the same time period, the unemployment rate decreased 80 basis points (bps), dropping to 4.4%. Also worth noting, the current rate is 210 bps below the 28-year average of 6.5%.

All employment sectors are expected to grow at a combined growth rate of 3.3% in 2018. Las Vegas's economy of \$111.1 billion<sup>2</sup> as measured by gross regional product is forecasted to grow an additional 5.1% in 2018 and 4.2% in 2019, above its 10-year average of 2.2%.<sup>3</sup>

## Market Overview

Office vacancy (including sublease) decreased to 11.7% in Q2 2018, down 20 bps from last quarter and 210 bps from a year ago. This was the seventh consecutive quarter of decreasing vacancy. Occupancy grew by 255,500 square feet (sf) across all classes in Q2, bringing year-to-date net absorption to 737,450 sf. This year's mid-year activity was just as strong as last year's (777,700 sf absorbed in Q1 and Q2) in comparison to the previous five years (108,000 sf average).

Tenants absorbed the majority of space in Northwest, Southwest and West submarkets, combined 194,000 sf. At the end of Q2 2018, overall vacancy was the lowest in Central North submarket (5.3%) followed by Downtown (7.9%) and Southwest (7.7%) submarkets. Central East (18.7%) and Southeast (18.1%) submarkets recorded the highest overall vacancy. In Q2 2018, Class A overall vacancy was 12.7%, down 240 bps from a year ago. Class B overall vacancy was 12.0%, down 190 bps from a year ago. Of the 10 properties, totaling 421,900 sf currently under construction countywide, 9 (totaling 360,700) are scheduled for completion in 2018. Two Summerlin, a 144,580-sf six story LEED Certified Class A project in West submarket, is the largest project currently under construction with estimated completion in Q4 2018.

## Sales Activity

Las Vegas office market kicked off 2018 by recording over \$340.2 million in sales activity – the strongest mid-year activity since 2005. Private investors continue to be the leading buyers of office properties, accounting for nearly 80% of activity followed by institutional buyers (20%) who have become notably more active over the last five years.<sup>4</sup> The current and forecasted growth in Southern Nevada along with favorable rates of return in comparison to other regional markets has been the key driver.

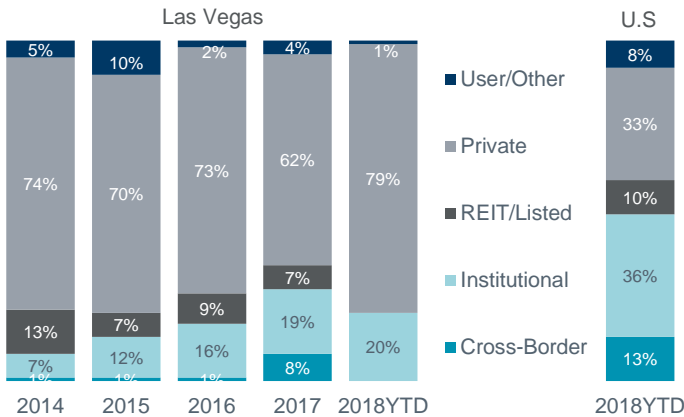
## Outlook

- Continued economic expansion and resulting job growth will drive occupancy and rent growth in 2018 and beyond. Leasing within the 5,000 to 20,000 sf range will continue to be the main driver of activity. Tenant requirements remain strong, especially for Class A buildings. Absorption will continue to outpace deliveries, with speculative development starting to gain momentum and tenants relocating to the suburban and beltway markets. Based on a lack of new deliveries, tenants may be forced to lease in less desirable submarkets.
- Low business costs and no personal income tax will continue to positively affect population growth and provide a competitive advantage over other West markets.

Sources: <sup>1</sup>www.bls.gov <sup>2</sup>bea.gov <sup>3</sup>GDP as of 2016. (f) by Moody's Analytics economy.com <sup>4</sup>RCA.

## Who is Buying in Las Vegas?

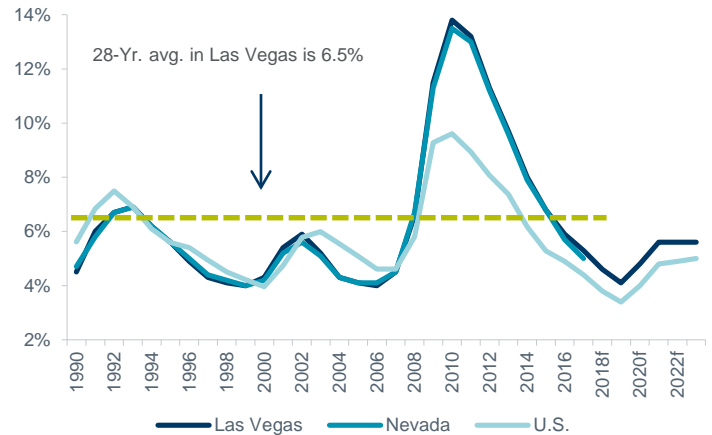
PRIVATE INVESTORS ARE THE LEADING BUYERS



Source: RCA sales of all sizes 6/28/18. Rounded figures may not add up to 100%.

## Unemployment Rate in Comparison

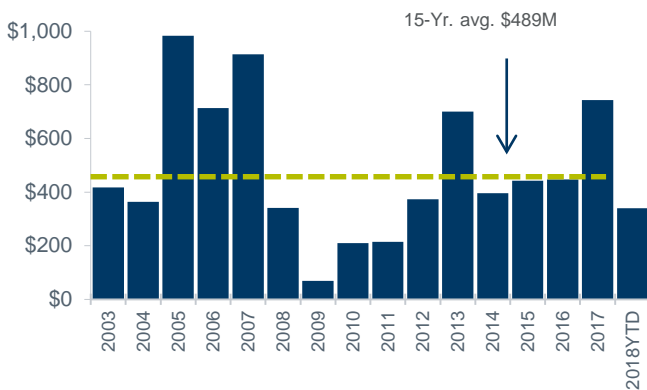
LAS VEGAS 28-YR. (1990 – 2017) ANNUAL AVERAGE RATE IS 6.5%



Source: BLS.gov (f) by Moody's Analytics as of 5/2018.

## Office Sales Volume in Las Vegas in Millions

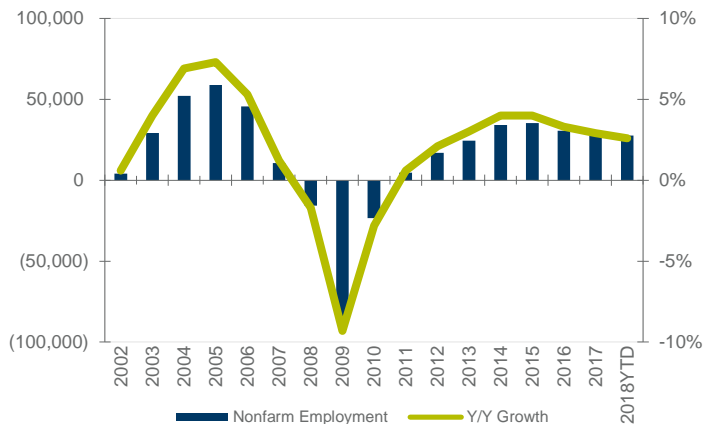
2017 SALES OF \$744M ABOVE 15-YR. AVERAGE



Source: RCA sales of all sizes. 6/28/18.

## Nonfarm Employment Annual Growth Rate vs. Net Change

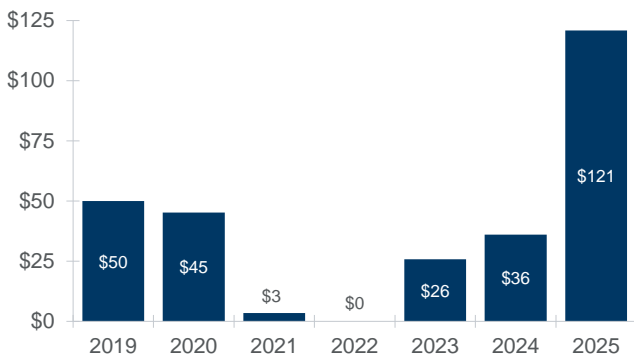
27,700 JOBS WERE ADDED GROWING 2.8% Y/Y VS 2.0% 15-YR. AVERAGE



Source: BLS.gov. 2018YTD jobs added between May 2017 and May 2018.

## Las Vegas Annual Loan Maturity by Property Type (\$M)

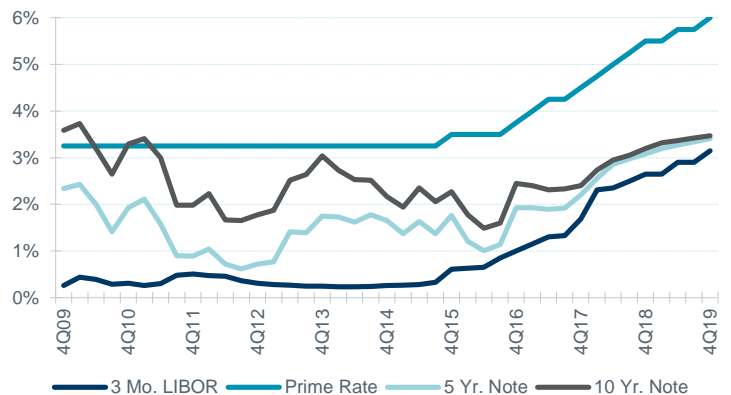
\$50M IN LOANS WILL BE DUE IN 2019



Source: Trepp, LLC – 6/29/18, based on original loan value.

## Interest Rates – U.S. Economic Forecast

RATES PROJECTED TO SLOWLY INCREASE OVER NEXT TWO YEARS



Source: Wells Fargo U.S. Economic Forecast – 6/6/18.

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	AVERAGE ASKING RENT* (ALL Classes)	AVERAGE ASKING RENT* (CLASS A)
Central East	300	8,410,721	36,487	1,535,199	18.7%	-18,842	-18,516	61,146	\$1.66	\$2.53
Central North	70	2,194,580	0	116,572	5.3%	2,089	15,949	0	\$1.54	\$2.25
Downtown	108	4,854,283	14,518	366,661	7.9%	14,278	66,498	15,658	\$2.34	\$2.80
North	139	2,290,474	1,943	258,618	11.4%	-4,995	200	0	\$1.20	-
Northwest	359	9,868,287	13,076	1,284,700	13.2%	77,944	-25,578	0	\$1.83	\$2.11
Southeast	118	1,874,111	0	338,463	18.1%	18,721	43,940	44,000	\$1.40	\$2.18
South	572	12,046,032	23,398	1,294,775	10.9%	50,653	69,452	47,664	\$1.54	\$2.34
Southwest	479	11,464,482	54,930	824,509	7.7%	60,608	452,948	102,162	\$1.62	\$1.90
West	373	7,346,606	191,174	731,577	12.6%	55,045	132,557	151,239	\$1.51	\$2.48
<b>TOTAL</b>	<b>2,518</b>	<b>60,349,576</b>	<b>335,526</b>	<b>6,751,074</b>	<b>11.7%</b>	<b>255,501</b>	<b>737,450</b>	<b>421,869</b>	<b>\$1.61</b>	<b>\$2.34</b>
Class A	106	11,941,045	75,767	1,435,440	12.7%	-37,190	307,012	243,406	\$2.34	
Class B	1,927	42,450,023	259,759	4,825,550	12.0%	288,581	401,249	178,463	\$1.47	
Class C	485	5,958,508	0	490,084	8.2%	4,110	29,189	0	\$1.09	
<b>TOTAL</b>	<b>2,518</b>	<b>60,349,576</b>	<b>335,526</b>	<b>6,751,074</b>	<b>11.7%</b>	<b>255,501</b>	<b>737,450</b>	<b>421,869</b>	<b>\$1.61</b>	<b>\$2.34</b>

\*Rental rates reflect gross asking rents \$psf/monthly. Vacancy rate and net absorption includes direct and sublease. Inventory includes properties of 5,000 sf and larger.

## Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	LANDLORD	TRANSACTION TYPE	SUBMARKET
1450 Center Crossing Rd./ 10600 W. Charleston Rd.	132,000	Diamond Resorts International	Hines and Health Management Solutions	Renewal	West
1451 Center Crossing Road	58,950	CVS	Oaktree Capital Management LP	Direct/New	Northwest
Magnum Tower on Sunset	28,000	Undisclosed	Magnum Opes Corporation	Direct/New	Southwest
The Gramercy Office Building 2	24,078	Lennar	HMS	Sublease/New	Southwest
2370 Corporate Circle	22,650	P3 Health Group	Vegas.com	Sublease	South

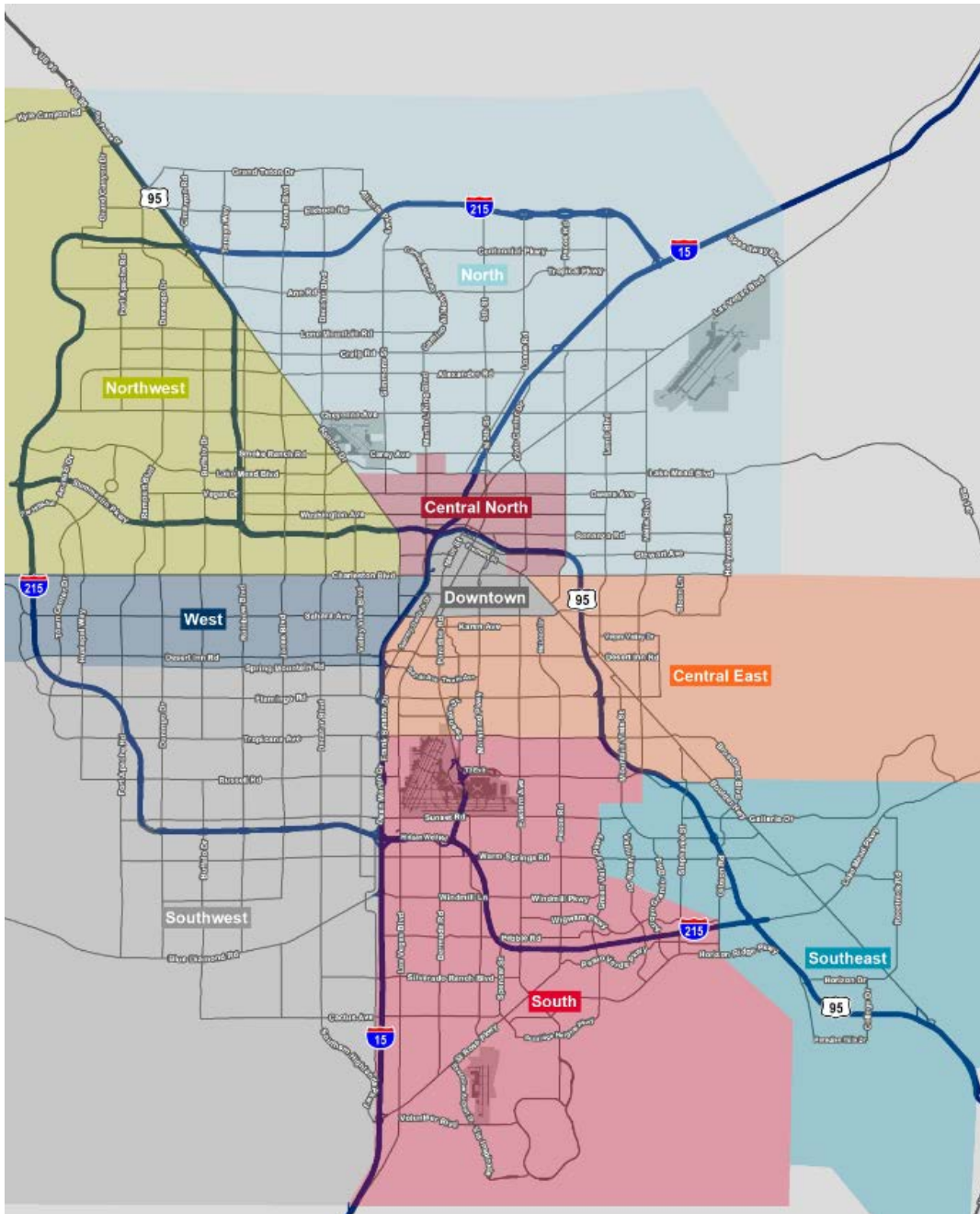
## Key Sale Transactions Q2 2018

PROPERTY	SF	BUYER	SELLER	PRICE / \$PSF	SUBMARKET
Paseo Verde Parkway / Corporate Center III, IV & V	271,114	JMA Ventures	American Nevada Company	\$51,750,000 / \$190.88	South
302 E. Carson Ave.	160,692	Derek Stevens	HighBrook Investors	\$36,693,986 / \$228.35	Downtown
Tech Parks V & IV	158,341	Buchanan Street Partners	American Nevada Company	\$27,765,000 / \$175.35	South
Marnell Corporate Center	93,650	Patriot Real Estate Holdings LLC	Dornin Investment Group	\$30,750,000 / \$328.35	South
Hughes Airport Center	87,706	MGM Resorts International	CIP Real Estate Property Services	\$14,300,000 / \$63.04	South

## Under Construction Q2 2018 – selected projects 10,000 sf+

PROPERTY	SF	PRELEASED		ADDRESS	CLASS	ESTIMATED COMPLETION	SUBMARKET
		SF	%				
10200-10220 West Flamingo	180,000	180,000	100%	10200-10220 W. Flamingo	A	2018	Southwest
Two Summerlin	144,574	51,435	36%	10845 Griffith Peak Dr.	A	2018	West
University Gateway	61,146	46,456	76%	4700 S. Maryland Pky.	B	2019	Central East
Gardner Plaza at St. Rose Pky.	23,832	681	3%	2635 Saint Rose Pky.	A	2018	South
San Martin Medical Center – Ph. III	22,000	11,000	50%	6910 Cimarron Rd.	B	2018	Southwest
601 E Bridger Ave	15,658	0	0%	601 E. Bridger Ave.	B	2018	Downtown

## OFFICE SUBMARKETS LAS VEGAS



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