

MARKET REPORT

OFFICE

Las Vegas Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

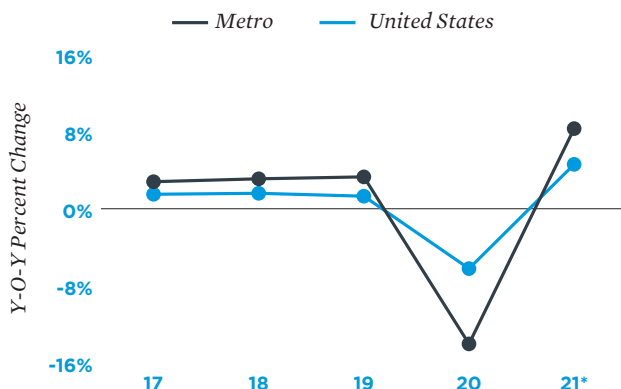
4Q/21

Las Vegas' Office Fundamentals Outperform National Averages; Investors Target Mid-Tier Assets

Employment growth spurs standout absorption. The April through June stretch of 2021 could mark a turning point in Las Vegas' office recovery. The three-month span represented the strongest quarter for office demand in seven years as tenants absorbed roughly 670,000 square feet of space. This activity lowered availability 100 basis points on a quarterly basis, placing vacancy below the prior five-year average at the onset of the second half. Job creation has spurred recent demand for space with traditional office-using companies increasing headcounts by 6,000 during the first half. These firms have since added 4,200 positions in July and August combined, laying the groundwork for near-term positive leasing activity.

Tenants attracted to newer vintages of suburban space. Home to the metro's highest asking rent, Southwest Las Vegas entered July with its lowest vacancy rate since at least 2007, supported by demand for upper and mid-tier space. In the second quarter, media firm VisCap committed to 20,000 square feet at a Class B property and International Game Technology subleased the entirety of its more than 200,000-square-foot building of the same class designation. Additionally, Class A leasing was positive this spring, with more than 140,000 square feet absorbed. These fundamentals warrant the submarket's construction pipeline, which as of September included nearly 760,000 square feet slated for delivery prior to 2022. Of this space, roughly half is pre-leased.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**75,000
JOBS**

will be created

EMPLOYMENT:

Headcounts in Las Vegas grow at a faster pace than the national average, enabling the market to recoup half of the 147,800 jobs lost last year. Still, local unemployment will remain above the U.S. mean, as the metro entered September with an 8.4 percent rate.



**890,000
SQ. FT.**

will be completed

CONSTRUCTION:

Developers increase office inventory by 1.6 percent in 2021, the highest annual volume since 2009. Completions are concentrated in Southwest Las Vegas with deliveries sparse in other submarkets.



**10
BASIS POINT**

decrease in vacancy

VACANCY:

Strong job creation by traditional office-using firms supports leasing activity, allowing absorption to keep pace with supply additions. Vacancy will fall to 15.1 percent by year-end, a rate 20 basis points below the prior five-year average.



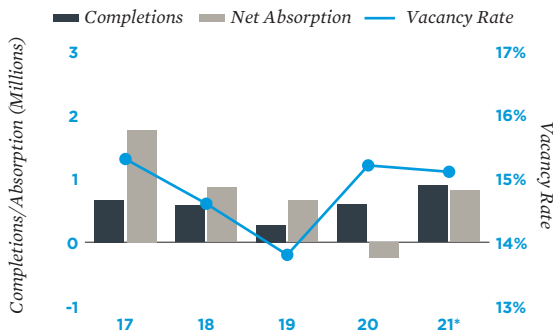
**2.3%
INCREASE**

in asking rent

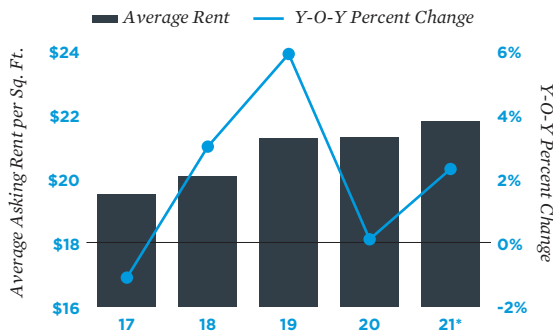
RENT:

Driven by more pronounced rent growth in the Class B/C segment, the metro's average asking rent rises for a fourth consecutive year to \$21.80 per square foot. This mean market rate, however, trails the prior peak reached in 2007 by 14 percent.

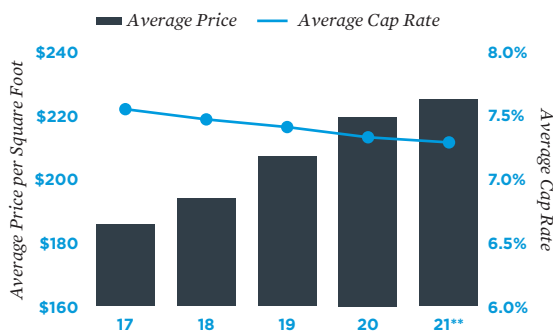
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q21 - 12-Month Period

CONSTRUCTION
530,000 sq. ft. completed

- Driven by completions in the southern portion of the metro, inventory increased by 1.0 percent during the past four quarters ended in June.
- As of mid-September, nearly 1.2 million square feet of office space was being built with deliveries extending into 2022. At 267,000 square feet, 1700 Pavilion in Summerlin represents the largest project underway.

VACANCY
80 basis point increase in vacancy Y-O-Y

- Las Vegas' vacant stock grew by 540,000 square feet over the last 12 months, pushing office availability up to 14.7 percent.
- Move-outs at Class B/C properties accounted for nearly 70 percent of the space that re-entered the market during the past year, increasing vacancy in the segment 90 basis points to 14.5 percent.

RENT
3.7% increase in the average asking rent Y-O-Y

- Submarkets with more than 5 million square feet of inventory all recorded positive rent growth over the past year, lifting the metro's average asking rent to \$21.62 per square foot.
- The Class B/C sector registered a 4.2 percent bump in mean marketed rent while the Class A segment notched a 1.6 percent uptick.

Investment Highlights

- Deal flow fell by more than 10 percent during the last 12 months ended in June; however, the second quarter of 2021 was the strongest three-month span for sales activity since the onset of the pandemic. Trades closed from April through June accounted for 40 percent of the transactions executed over the past year.
- Class B assets built in the 1990s and early 2000s drove recent sales velocity. The high volume of mid-tier trades pushed the metro's average price point up 6 percent to \$225 per square foot. Despite falling slightly to 7.3 percent, Las Vegas' mean cap rate is the highest among major Mountain markets, with returns rarely falling below 6 percent.
- Since last July, medical office trades have accounted for one-third of all transactions with local and out-of-state investors equally active in the subsector. These buyers are primarily acquiring smaller buildings at a 7 percent average cap rate.
- Investors focused on traditional office properties are pursuing listings in areas of locally tight vacancy and above-average rent growth. Summerlin and other western neighborhoods off Bruce Woodbury Beltway are top destinations followed by Henderson and St. Rose Parkway.