

# MARKET REPORT

OFFICE

Las Vegas Metro Area

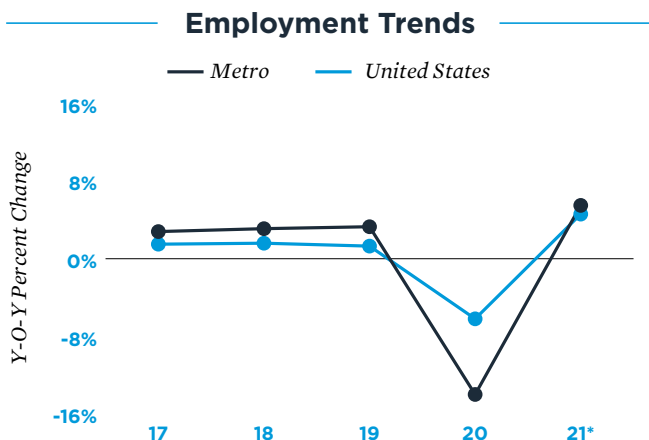
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2Q/21

## Las Vegas Office Market a Regional Standout, Attracting Yield-Focused Investors

**Sector avoids exaggerated spike in availability.** Despite the local economy being hit hard by the health crisis, Las Vegas' office segment posted a lower increase in vacancy than nearly all major West Coast and Mountain markets over the past 12 months. Historically susceptible to abrupt changes in vacancy due to its comparably smaller office inventory, the metro has registered continual improvement in leasing executions volume since the initial months of the pandemic. This activity has supported a vacancy rate on par with the prior five-year average and partially offset a recent rise in sublet space. Credit One Bank expanding its local operations by occupying 150,000 square feet and the Federal Bureau of Investigation renewing a 107,000-square-foot commitment highlight the list of recent executions. Still, hurdles remain as 10,000-square-foot-plus agreements have been sparse and job gains among traditional office-using firms were minimal during the first quarter of 2021.

**Near-term supply headwinds mitigated by strong pre-leasing.** Delivery volume reaches a 12-year high in 2021 yet inventory additions will minimally impact vacancy. A medical office property along St. Rose Parkway with a major commitment in place and a fully leased building in Spring Valley comprise 60 percent of the space slated for finalization. Remaining supply additions are in Southwest Las Vegas, where vacancy is below the metro average. Moving forward, office construction may temper as no projects are underway with a scheduled completion date beyond this year.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2021 Outlook



**50,000  
JOBS**

*will be created*

### EMPLOYMENT:

In the second half of last year, 47 percent of the 280,900 jobs lost during the early months of the pandemic were recovered. In 2021, the employment base will expand 5.5 percent, though growth will be led by sectors that are not primary users of office space.



**950,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Supply additions increase on a year-over-year basis in 2021, expanding Las Vegas' office inventory by 1.7 percent. Still, the metro represents the only major Mountain market to record less than 1 million square feet of completions this year.



**180  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Some companies' reluctance to maintain or expand their real estate footprints combined with the market's relatively smaller office stock will translate to a second straight year of increased availability, pushing vacancy up to 16.9 percent.



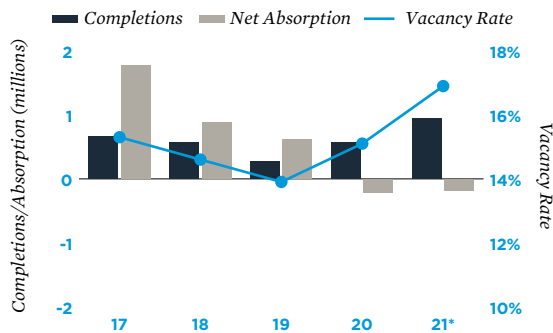
**2.1%  
DECREASE**

*in asking rent*

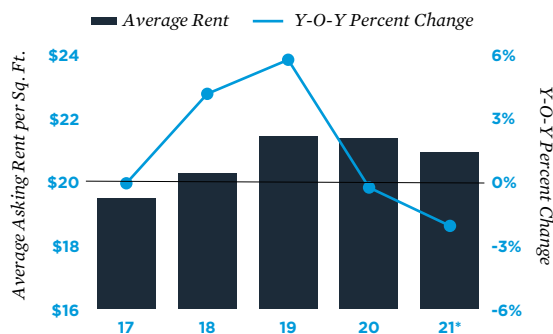
### RENT:

Rising vacancies, namely in the Class B/C segment, will keep asking rents on a downward trajectory, falling to an average of \$20.90 per square foot in 2021. Last year, a 0.3 percent reduction was posted.

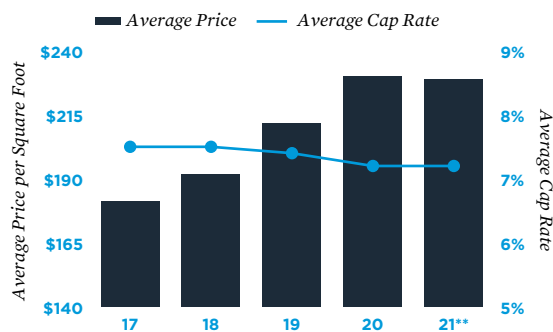
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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## 1Q21 – 12-Month Period



### CONSTRUCTION

**444,000** square feet completed

- Deliveries rose slightly over the past 12 months ended in March when compared with the prior yearlong span; however, the Raiders' headquarters in Henderson accounted for 70 percent of recent supply additions.
- Entering May, construction was underway on 962,000 square feet of space. Medical office projects account for 45 percent of this volume.



### VACANCY

**240** basis point increase in vacancy Y-O-Y

- Driven by Class B/C moveouts, Las Vegas' vacant stock increased by nearly 1.4 million square feet over the past four quarters, lifting office availability to 15.7 percent.
- One-third of the space that entered the leasing market during the last year was in Central East Las Vegas, raising vacancy to 26.0 percent.



### RENT

**1.7%** increase in the average asking rent Y-O-Y

- A 2.4 percent increase in Class B/C marketed rent pushed the metro's average asking rate to \$21.59 per square foot in March.
- Moderate rent growth was recorded for a second consecutive 12-month period despite the mean Class A rate dipping 0.6 percent to \$28.26 per square foot.

## Investment Highlights

- Sales activity returned to a pre-pandemic pace during the first quarter of 2021 as buyers achieved greater clarity on pricing and companies' plans to resume in-office operations. Nonetheless, transaction velocity over the past 12 months ended in March fell approximately 29 percent on an annual basis.
- Class B transactions have accounted for roughly 80 percent of total closings since the onset of the pandemic, driving average pricing 6 percent during the past four quarters to \$229 per square foot. The high proportion of mid-level trades also reduced the metro's mean cap rate 20 basis points to 7.2 percent.
- Investors have focused on the south, southwestern and western portions of Las Vegas over the past year as these submarkets house most of the metro's professional and business services-related tenants.
- Returns in the 6 percent range at the low end and discounted pricing to coastal metros will maintain out-of-state buyer interest in the market with investors targeting both traditional and medical office assets.