

3Q24

Las Vegas Office Market Overview



Market Observations

Economy

- Las Vegas’s unemployment rate was 6.1% in August 2024, up 40 basis points compared to 12 months ago. Local nonfarm year-over-year job growth (+3.7%) once again surpassed that of the nation’s (+1.5%).
- Construction, government, manufacturing and other services each had 12-month employment growth over 5.0% in August. Industrial construction, a pro-business environment and population growth are some of the relevant factors. Still-high inflation is slowing gains so far in 2024 and will likely continue in the coming months.
- 12-month job growth in office-using employment sectors was healthy but has slowed as national trends influence local market dynamics.

Major Transactions

- Larger leases are rare with smaller and mid-size deals below 10,000 SF more common in the wake of users reevaluating space needs in cost-savings efforts, hybrid work models and inflation.
- Leasing activity continued to slow from 2023 into 2024 as users exercise more caution before committing to space.
- Finance, legal services and industrial-adjacent companies were active.
- Development has been progressively moving away from the Strip and closer to Summerlin and Henderson, which is where several C-suite executives reside.

Leasing Market Fundamentals

- Office occupancy in the third quarter of 2024 increased by 92,660 SF, lowering vacancy by 20 basis points quarter-over-quarter.
- Under-construction activity is measured at best, representing only 0.7% of existing inventory. Most construction projects are built-to-suit, small scale or linked to mixed-use projects.
- Asking rents were up from 12 months ago, but the rate of growth has slowed significantly relative to prior years.
- Sublease availability increased moderately quarter-over-quarter. Tenant downsizing continues but the velocity of large blocks entering the market has slowed, with small subleases making up the bulk of availability.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors will approach deals with greater caution, which will impact leasing and sales activity.
- While market vacancy will increase further as some tenants downsize, the rise in vacancy will not be as steep as coastal markets, where, anecdotally, work-from-home averages are higher.
- The metro’s high population growth favors long-term demand for population-serving industries. These industries will help bolster the office market via more-traditional and diverse tenant profiles.

1. Economy
2. Market Fundamentals
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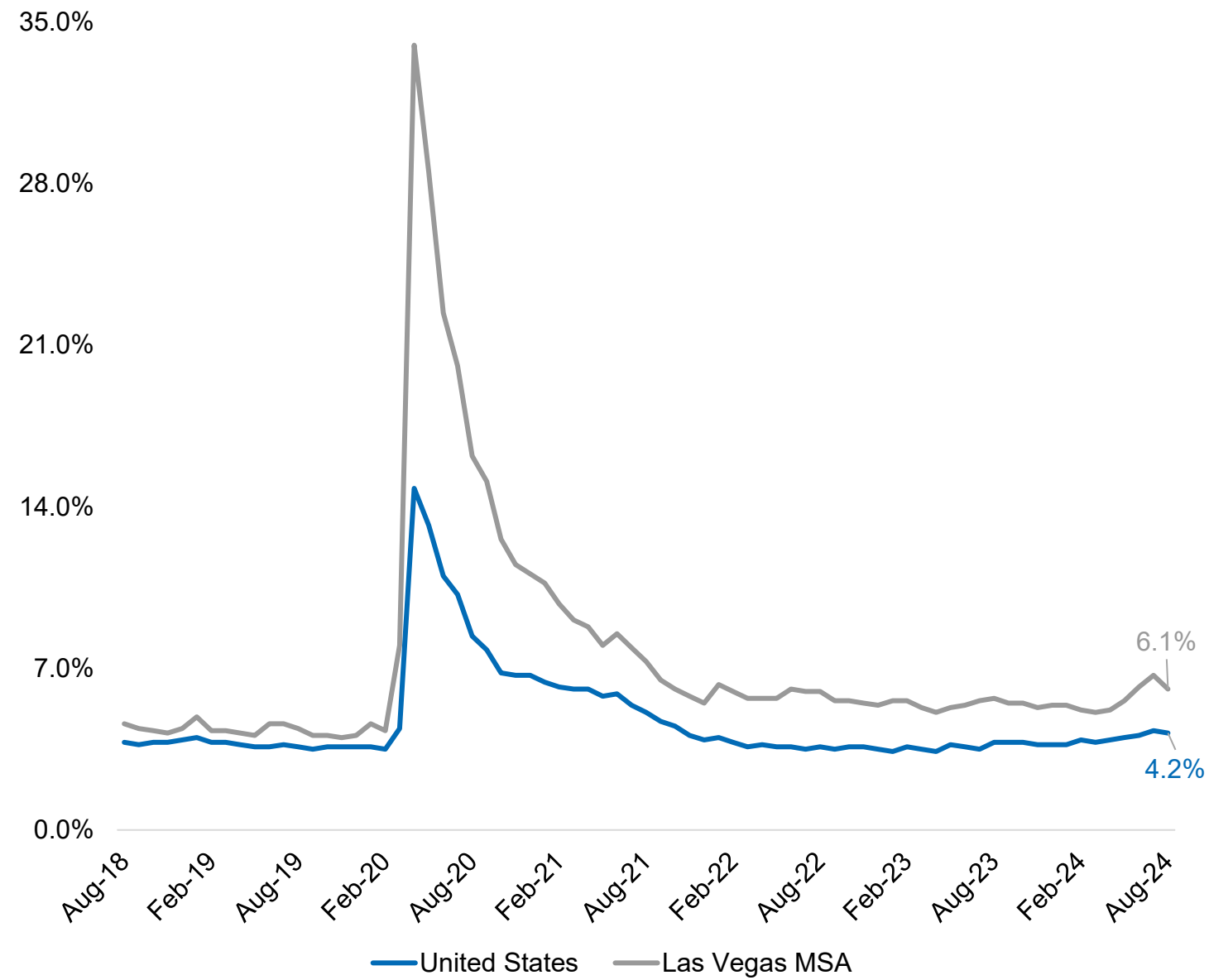
Economy



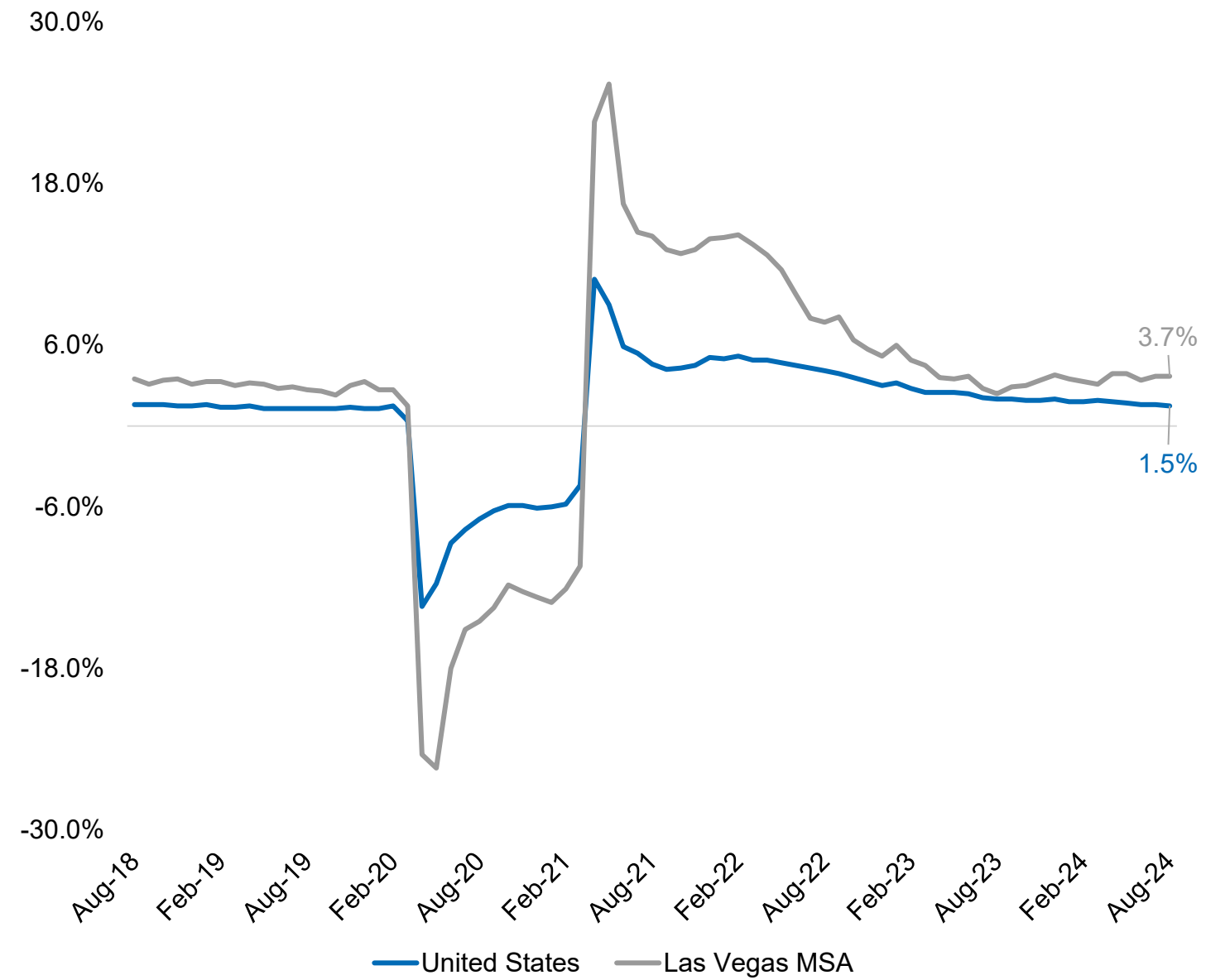
Las Vegas Job Gains: Stronger than the Nation

Local nonfarm employment grew by 4.0% on an annual basis from August 2023 to August 2024, vastly exceeding the U.S.' average. Much of this can be linked to local population growth, along with Nevada's lower business costs and less regulation relative to the Southwest's coastal markets.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



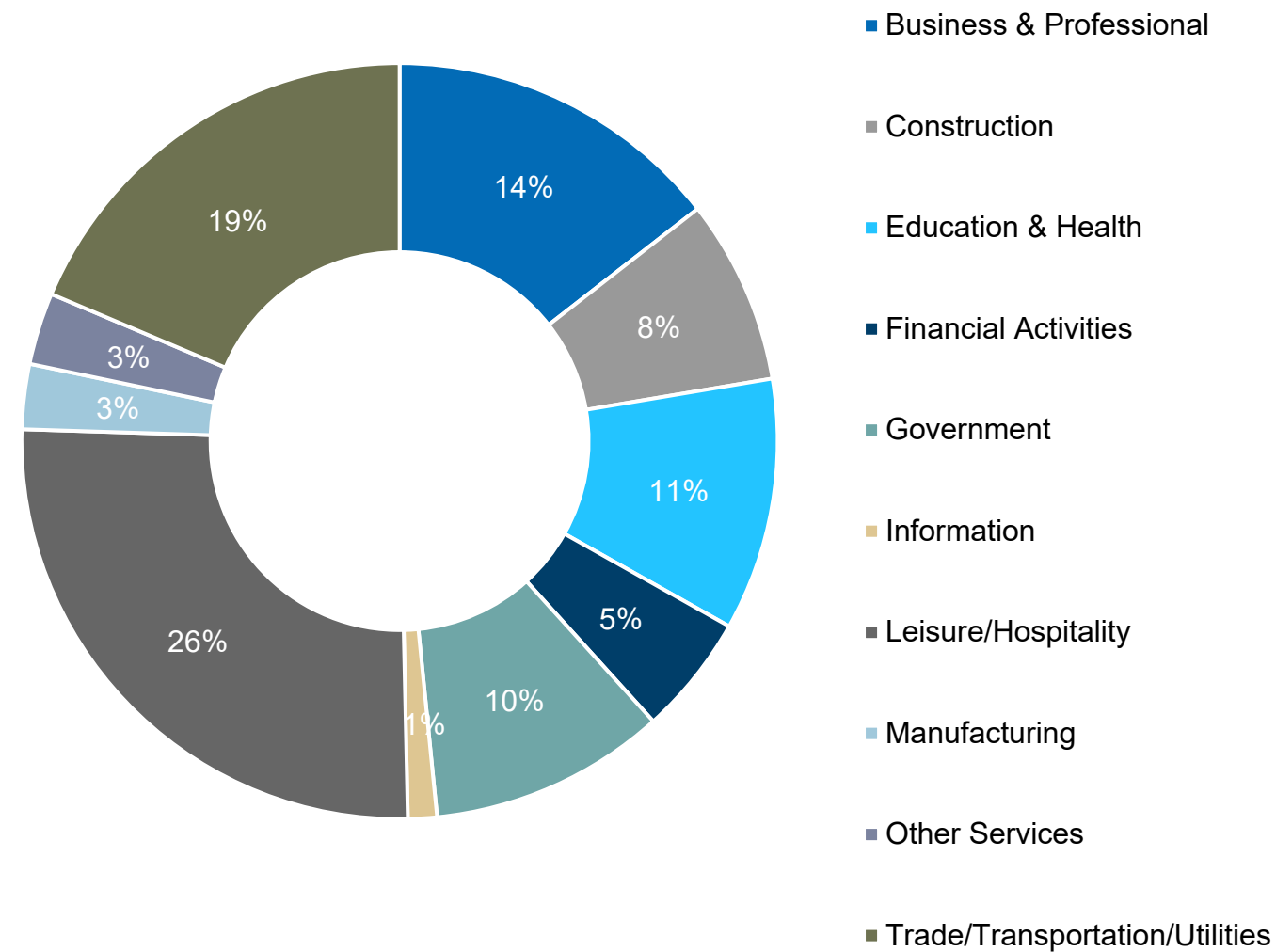
Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

Note: Las Vegas' unemployment is historically higher than the U.S. average due to volatility in the tourism industry when the economy downcycles; hence, the 34.0% unemployment average at the start of the pandemic.

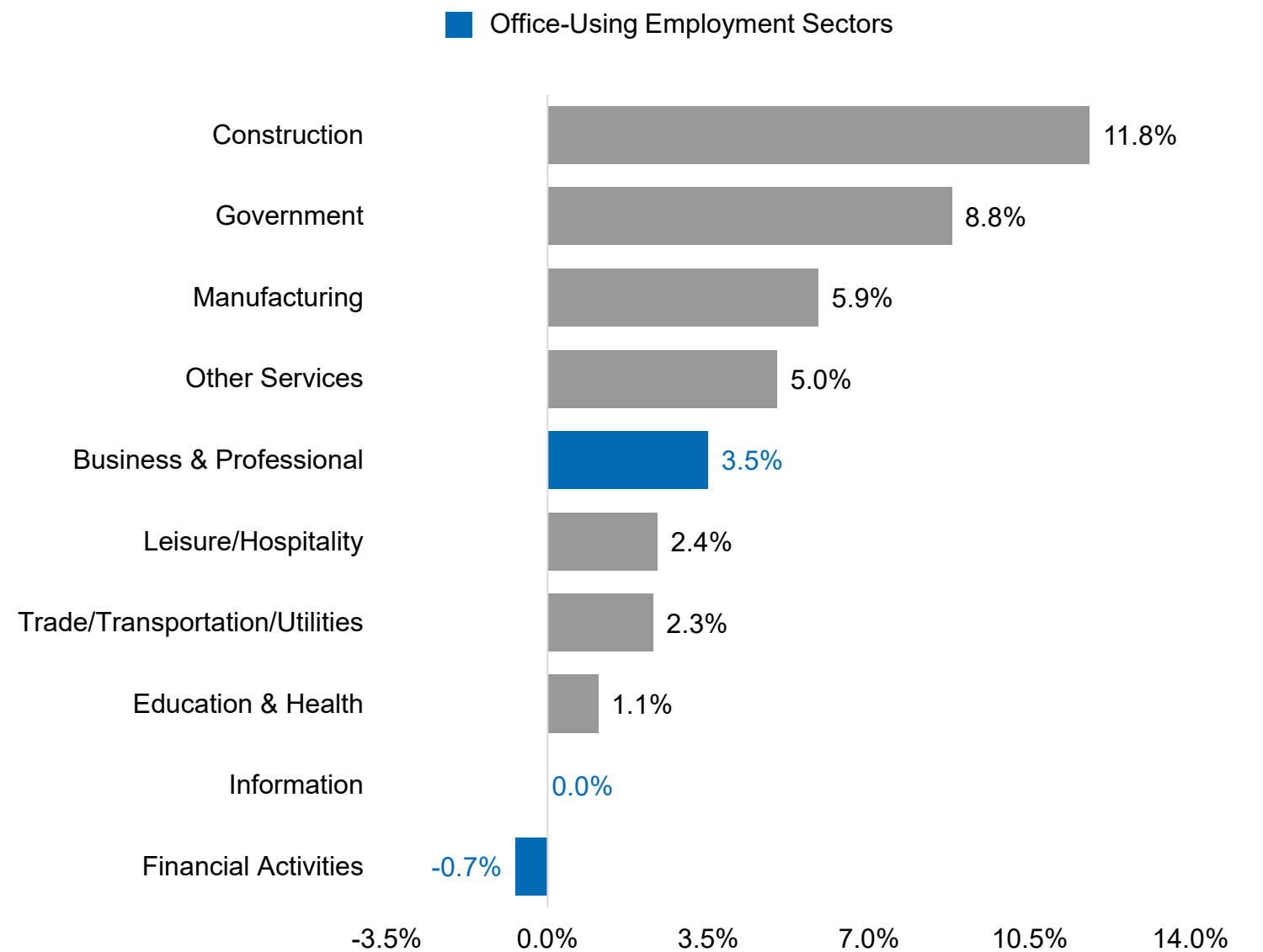
A Growing Population is Driving Employment Growth in a Myriad of Sectors

Leisure/hospitality continues to be the dominant sector, comprising 25.8% of overall employment. Still dominant, but less so when considering the average was 32.7% in 2010, a gradual decrease that illustrates continued diversification within the local economy.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

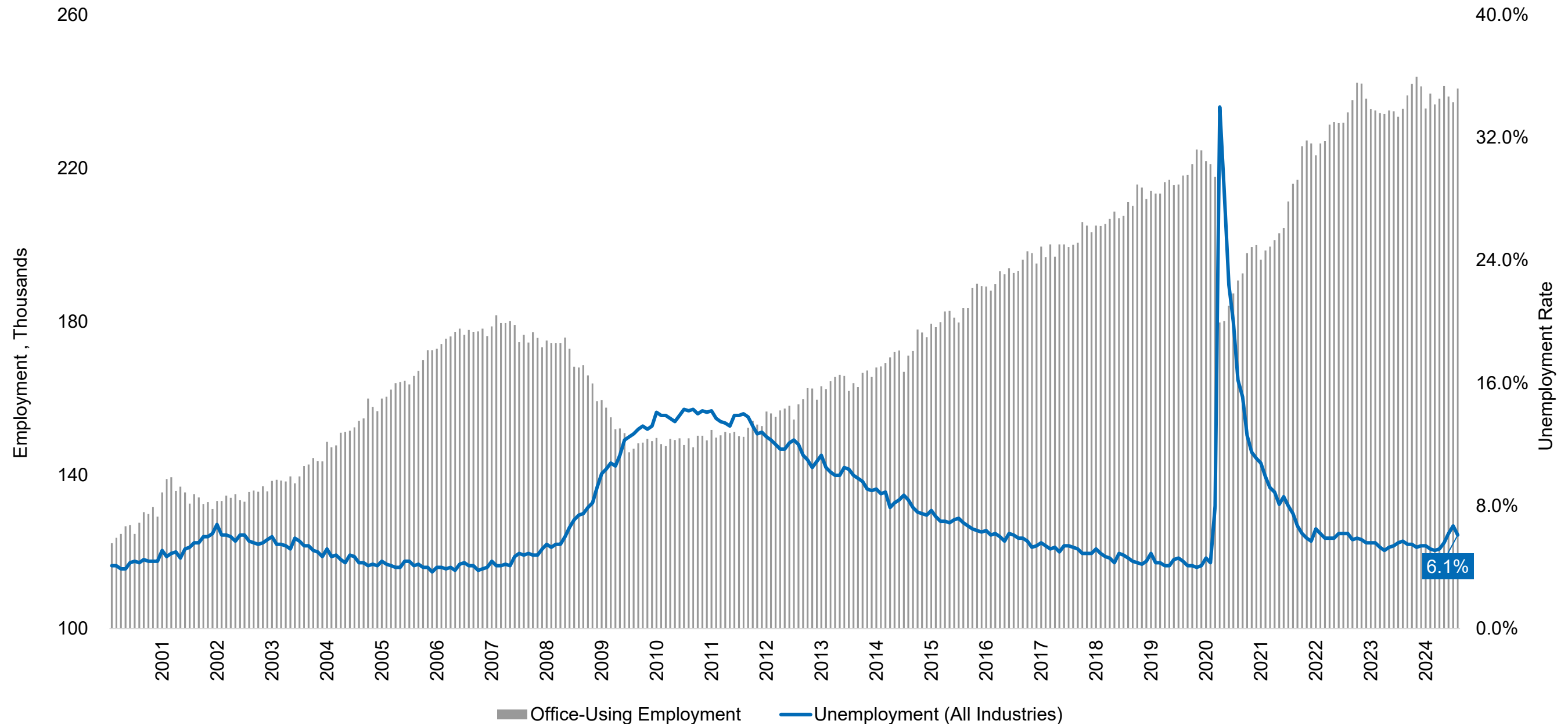


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA
 Note: August 2024 data is preliminary.

Office-Using Employment Growth Stabilizing

After an immediate drop of 17.4% in local office-using employment at the start of the pandemic, office job losses were recouped by October 2021 and are now 8.9% higher than pre-pandemic levels. While national trends of contractions in the information and financial activities recently reached the Metro, overall office-using employment was up 2.3% over the last 12 months. Good, but slightly lower than total nonfarm job gains of 3.7% over the same period.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

Note: August 2024 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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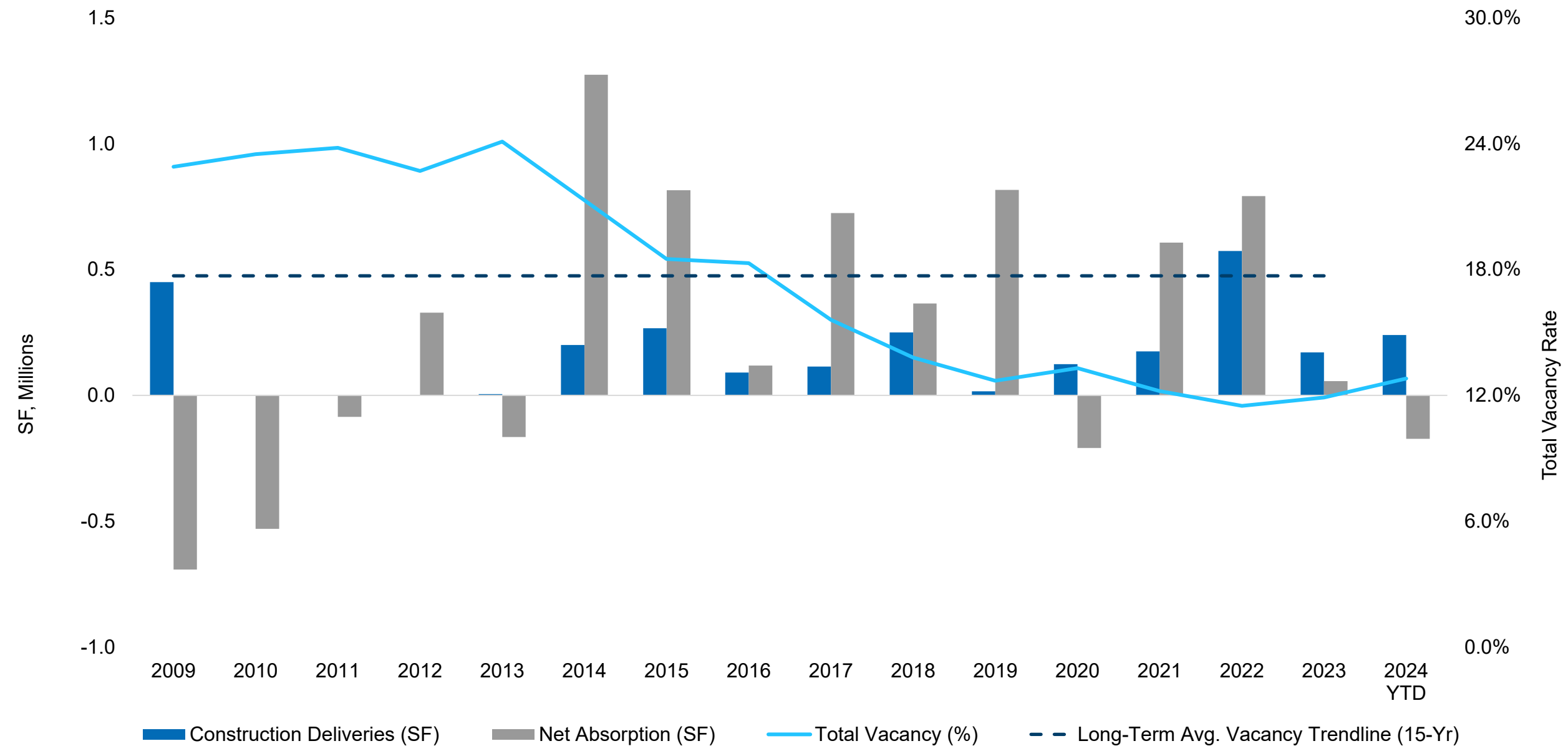
Market Fundamentals



Vacancy Rises at Start of 2024 But Remains Lower Than Long-Term Average

Las Vegas' efforts to diversify its economy after the Global Financial Crisis (GFC) resulted in the region being able to recover quickly from the pandemic's economic disruption and remain insulated from the economic uncertainty of recent years. Total vacancy increased slightly as deliveries came online (239,662 SF) in 2024 thus far with partial occupancy and a few once-occupied available spaces becoming vacant. Tenants are taking a methodical approach to their space needs in today's environment.

Historical Construction Deliveries, Net Absorption, and Vacancy

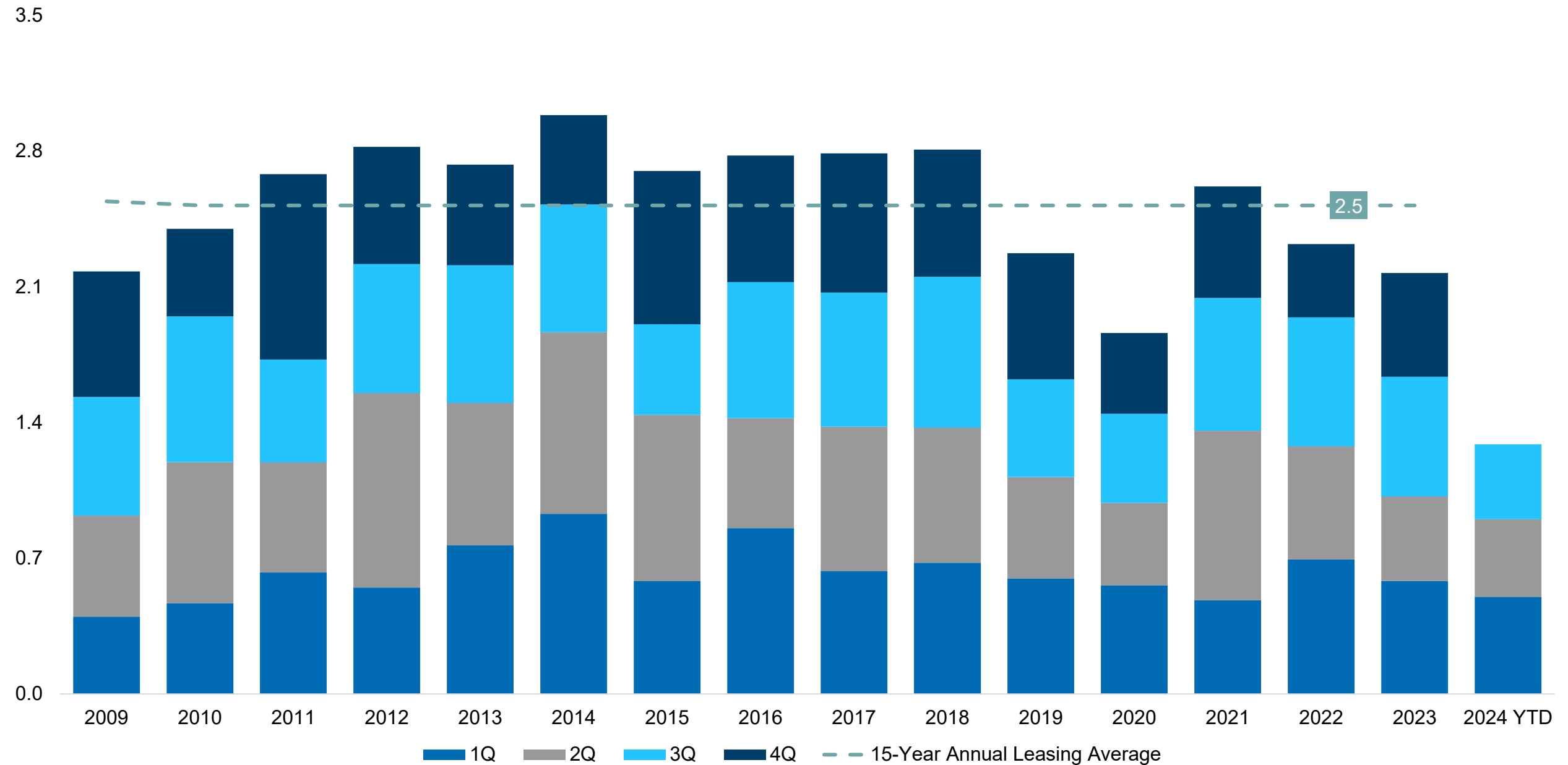


Source: Newmark Research

Current Leasing Activity at a 15-Year Low

Continuing a downward trend since 2021, leasing activity in the first nine months of 2024 was tepid, hitting a record low when surveying the past 15 years. Although Las Vegas remains attractive to users due to lowered costs, population growth and its central location in the Southwest region, ongoing space reductions across almost all office tenant types, a cloudy economic outlook and the higher cost of capital have dampened leasing activity. Slower leasing volumes will persist in the coming quarters.

Total Leasing Activity (MSF)

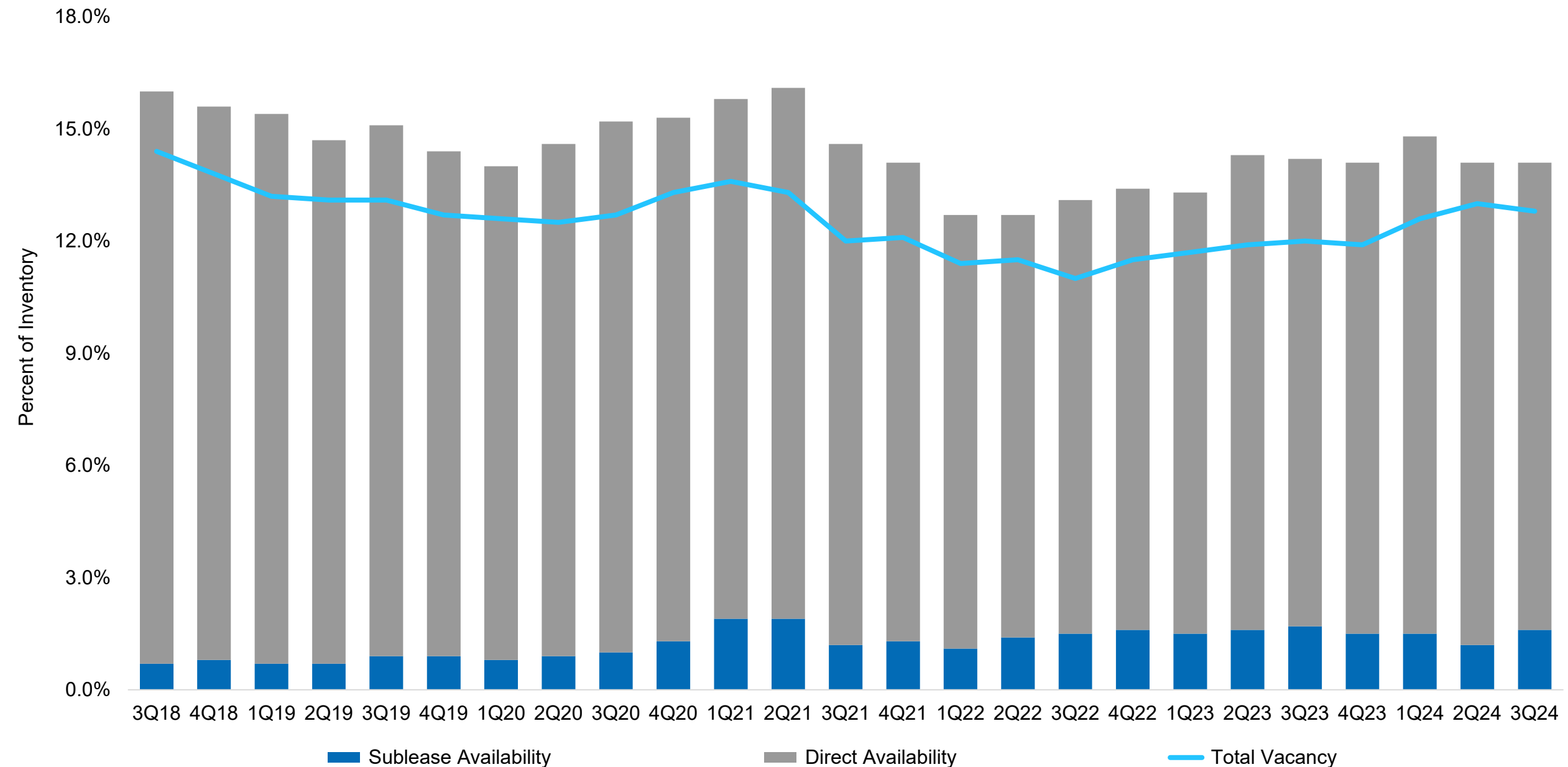


Source: Newmark Research

Traditional Office User Base Keeps Vacancy and Availability Stable

Direct and sublet availability are much lower than other portions of the country due to Las Vegas' mostly traditional occupier base, which prioritized office-first (over hybrid) work models. Sublease availability experienced a marginal increase quarter-over-quarter as a handful of smaller subleases entered the market with tenant right-sizing occurring. Although the office market is stabilized, stagnation in both supply and demand could lead to declining rents as space remains on market longer than the historical average.

Available Space and Total Vacancy as Percent of Overall Market

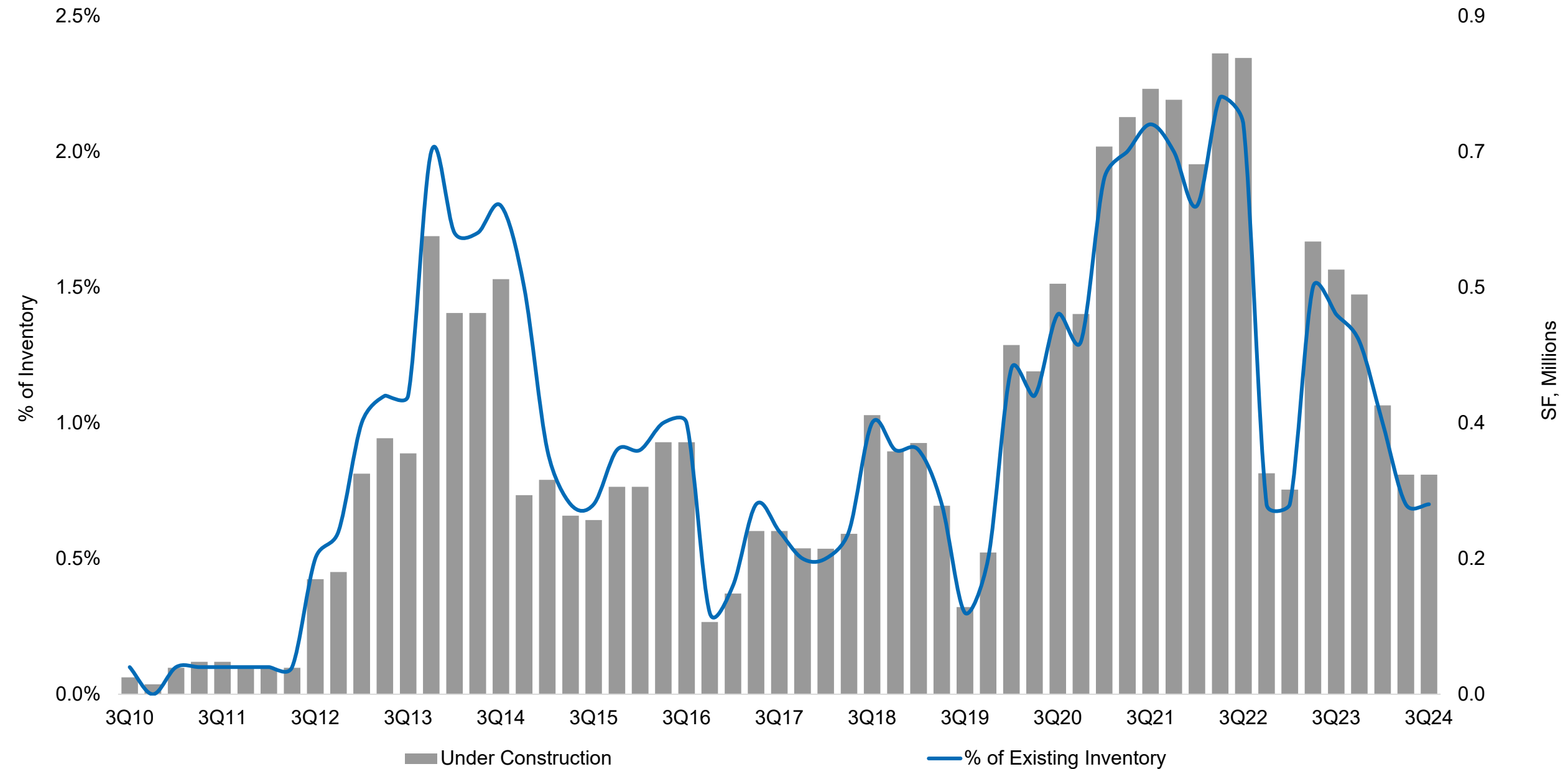


Source: Newmark Research

Measured Development Aids in Keeping Vacancy Increases Under Control

Despite inflation and higher construction costs, developers broke ground on office product in 2023 in the form of built-to-suit or speculative product tied to mixed-use projects; Las Vegas' affordability and access to surrounding regions make it attractive to office users. Moving into 2024, developers have paused traditional office projects with no new starts in the third quarter as they watch how the market absorbs underway product.

Office Under Construction and % of Existing Inventory



Source: Newmark Research

Sublease Availability Concentrated to Eastern and Western Submarkets

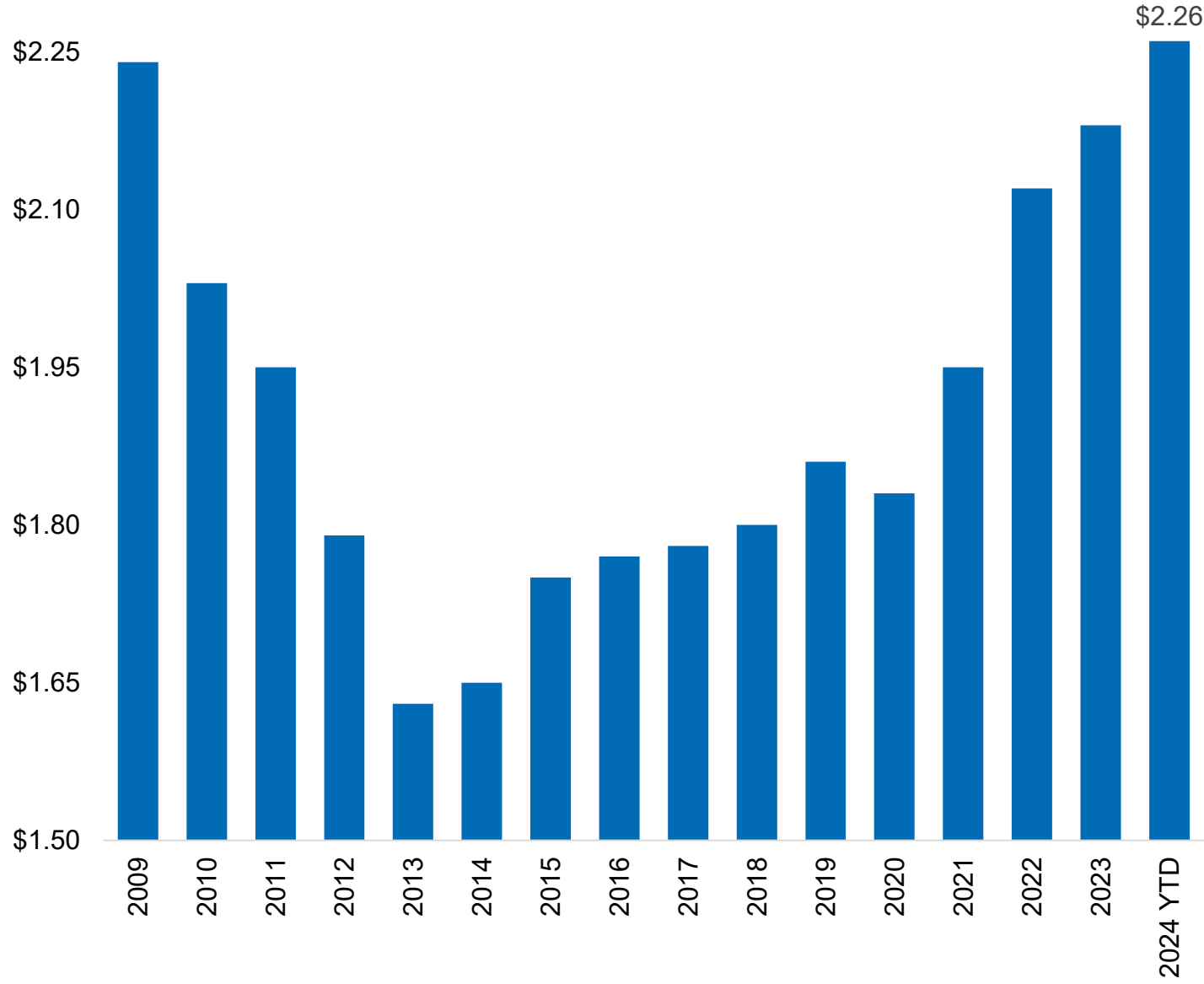


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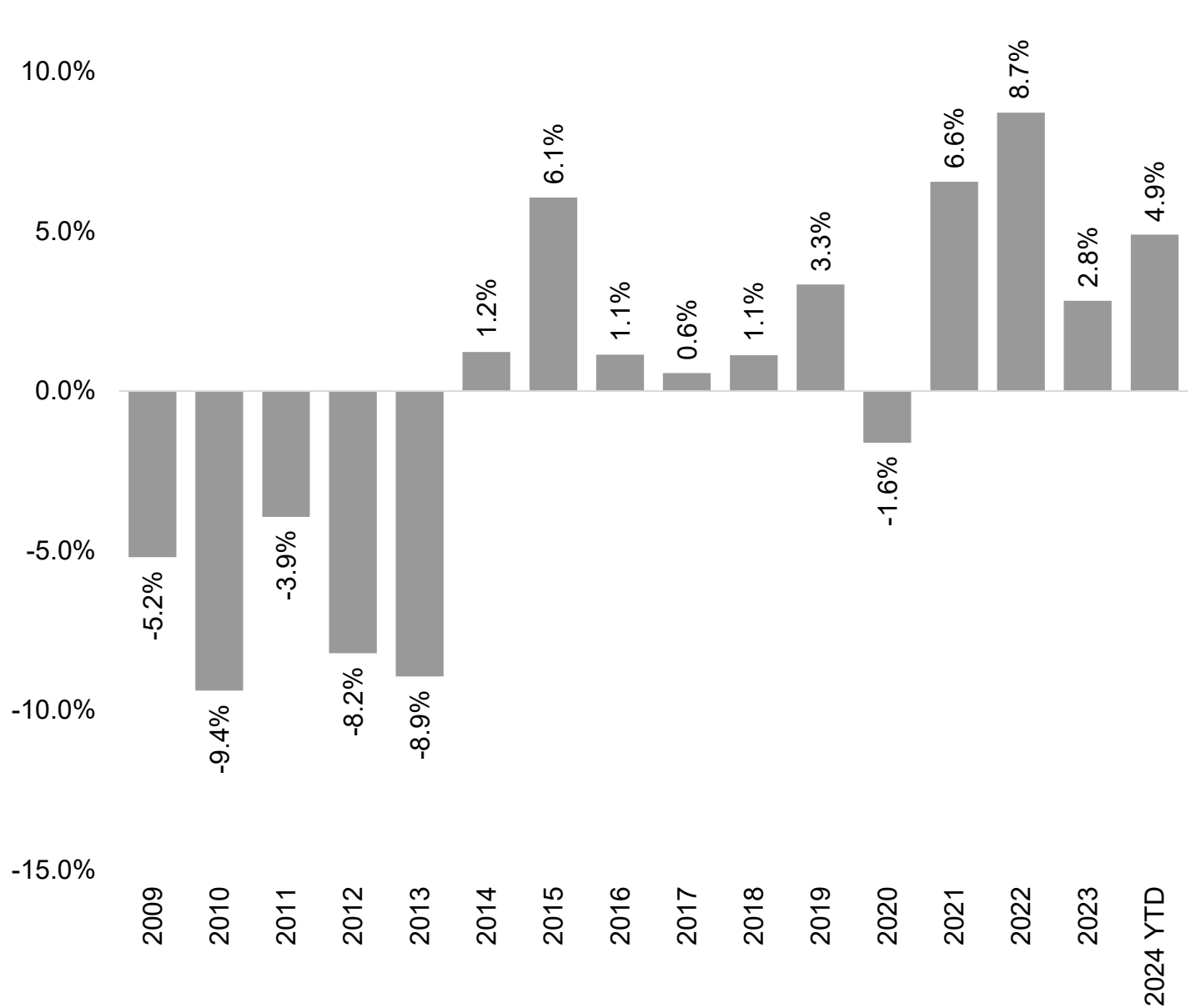
Asking Rents Surpass Pre-GFC Levels in 2024

After a sharp 37.4% drop in asking rates between 2009 and 2012 due to the negative impact of the GFC, the metro has very slowly made gains and cleared its high set back in 2009 for the first time; coming in at \$2.26/SF in the third quarter of 2024. Rent growth will continue, but with slower velocity as experienced in recent years.

Office Average Asking Rent, \$/SF/Month, FS



Year-over-Year Asking Rent Growth Rate

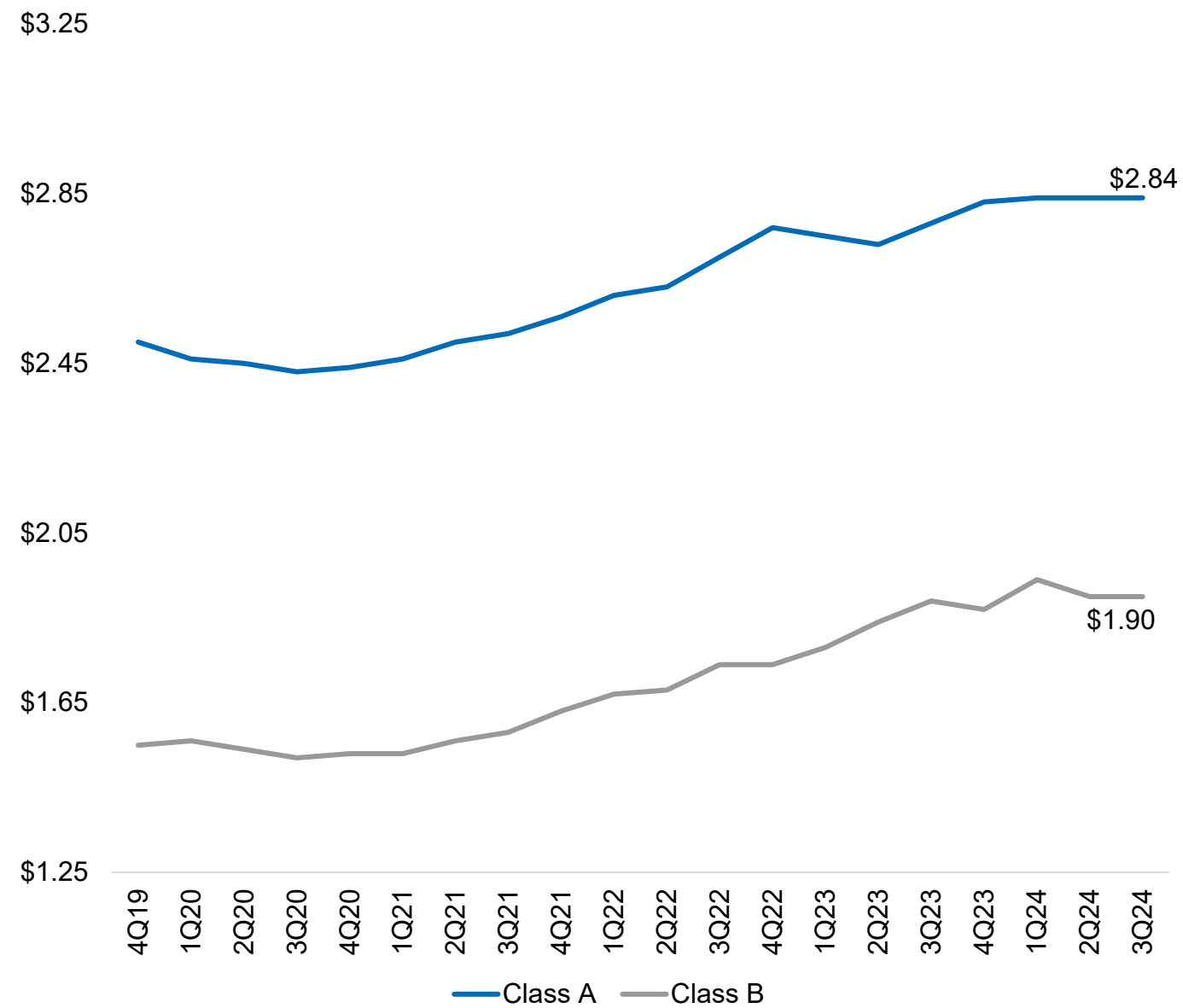


Source: Newmark Research

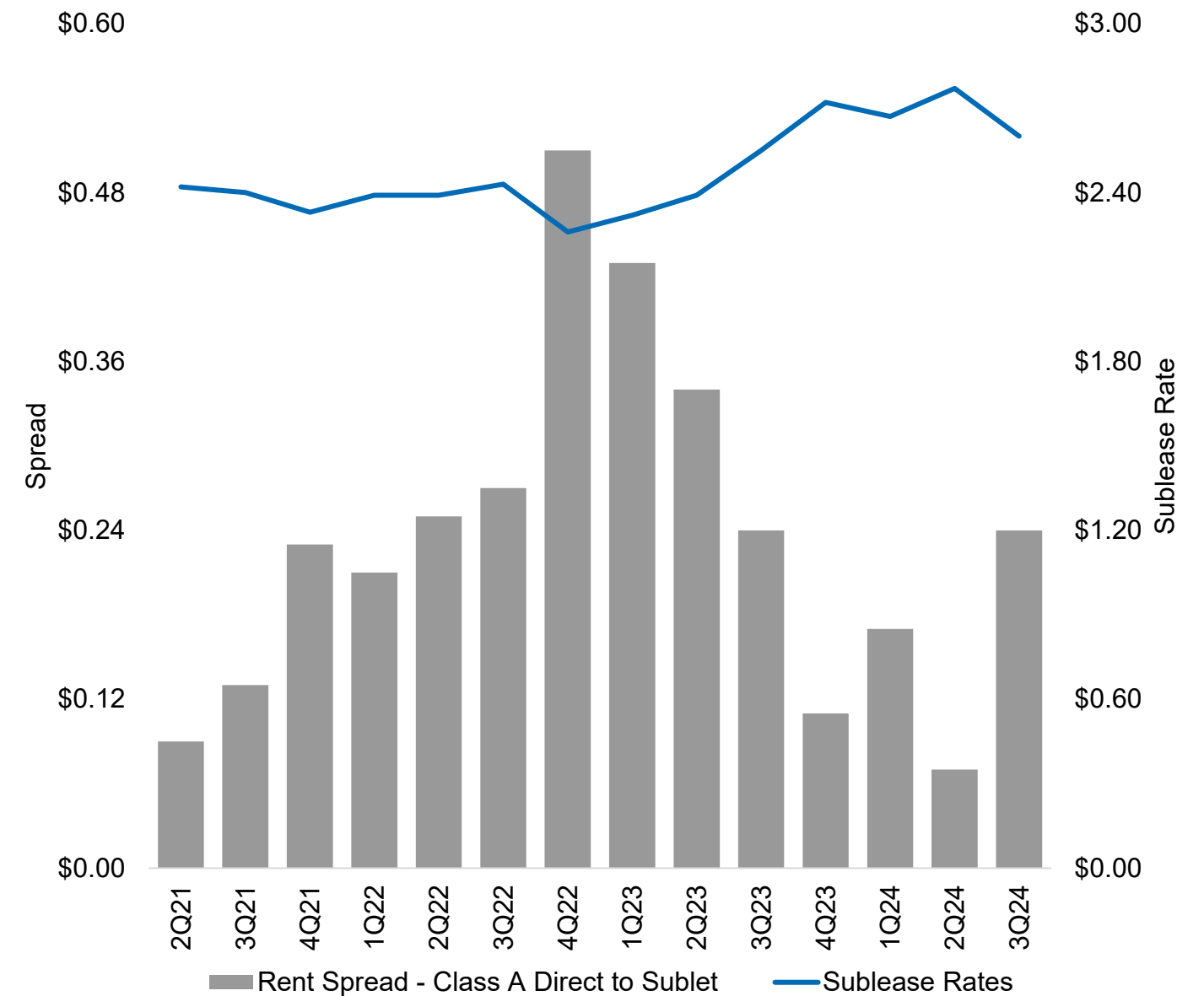
Class A and Class B Asking Rates Unchanged Quarter-over-Quarter

As office users become more cost-sensitive in the current economic climate, Class A and B direct rents have held steady as landlords are bullish to fill vacancies. Sublease rates decreased as smaller, lower quality subleases have started to enter the market, increasing the delta between direct and sublet rates to \$0.24/SF.

Class A and Class B Asking Rents, \$/SF/Month, FS



Sublease Asking Rates



Source: Newmark Research

Larger Leases Concentrated in Southern Submarkets

The southern submarkets experienced the most development in recent years, attracting new office companies searching for quality product at lower rates than other Southwest Metros in the region. Traditional office users such as finance and law both made strong moves in the Metro thus far in 2024.

Notable 2024 YTD Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Confidential	Hughes Airport Center	South	Direct Lease	32,843
<i>A confidential Fortune 500 retailer took 32,843 SF in the Hughes Airport Center.</i>				
Village Capital	Green Valley Corporate Center South 6	South	Direct Lease	31,087
<i>Mortgage banking firm, Village Capital, leased 31,087 SF in Green Valley Corporate Center South.</i>				
Lennar Homes	Rainbow Sunset Pavilion	Southwest	Direct Lease	28,549
<i>Lennar Homes, a residential construction company, took 28,549 SF on the third floor in Rainbow Sunset Pavilion.</i>				
Southwest Airlines	Hughes Tech Center	South	Direct Lease	22,607
<i>Hughes Tech Center welcomed Southwest Airlines as a new tenant in 2024.</i>				

Total Sales Volume Down Dramatically; Lower than 2020 Levels

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Office Product Attractive to Private, Opportunistic Buyers



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Sales Activity Notable Among Owner-User and Redevelopment Plays

Some office users made the move to purchase in lieu of leasing. Office sales were stronger among medical office developments in comparison to traditional office as investors seek stabilized product in the current economic climate.

Notable Sale Transactions – Last 12 Months

Buyer	Building(s)	Submarket	Price	Square Feet	Closed
Las Vegas Valley Water District	330 S. Valley View Blvd	Northwest	\$21,250,000	166,409	2024 1Q
<i>Las Vegas Valley Water District will occupy as an owner-user as an expansion to current location near the property.</i>					
Urban Land of Nevada	Sheq Properties Portfolio	South / Southwest	\$21,049,243	68,625	2024 1Q
<i>Urban Land of Nevada purchased buildings 3185 St. Rose Pkwy in Henderson and 8860 W Sunset Rd in Las Vegas in a portfolio sale. Both buildings were 100% occupied at closing.</i>					
DataBank	LAS1 Data Center	South	\$17,249,270	36,800	2024 2Q
<i>Databank purchased the building from Thomas & Mack Company in efforts to own and control its own real estate.</i>					
Capital West Development	3051 W. Horizon Ridge Pkwy	South	\$6,000,000	23,359	2023 4Q
<i>Capital West Development purchased the 23,359-SF vacant building with plans to redevelop to medical office.</i>					

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Appendix



Las Vegas Metro Office Submarket Map and High-Level Statistics | 3Q24



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Las Vegas Metro Office Submarket Statistics | 3Q24

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Metro's Population Has Grown by 7.3x over Five Decades

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2024 Visitor Volume and Gaming Revenue on Track to Match 2022 and 2023 Levels

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