

1Q24

# Las Vegas Office Market Overview





# Market Observations

## Economy

- Las Vegas’s unemployment rate was 5.2% in February 2024, down 80 basis points from 12 months ago and still higher than the national average. Local nonfarm year-over-year job growth (+3.4%) surpassed that of the nation’s (+1.8%).
- Government and manufacturing each had 12-month employment growth of +5.0% in February. Industrial construction, tourism, 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 affecting the financial activities and information sectors influence local job contraction.

## 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 first quarter of 2024 contracted by 193,722 SF. Partially occupied construction deliveries and tenant givebacks contributed to an increase in vacancy.
- Under-construction activity is measured at best, representing only 1.0% of existing inventory. Most construction projects are built-to-suit, small scale or linked to mixed-use projects.
- Just under 150,000 SF in new construction delivered in the first quarter of 2024.
- Asking rents are up from one year ago.

## 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.

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# Economy

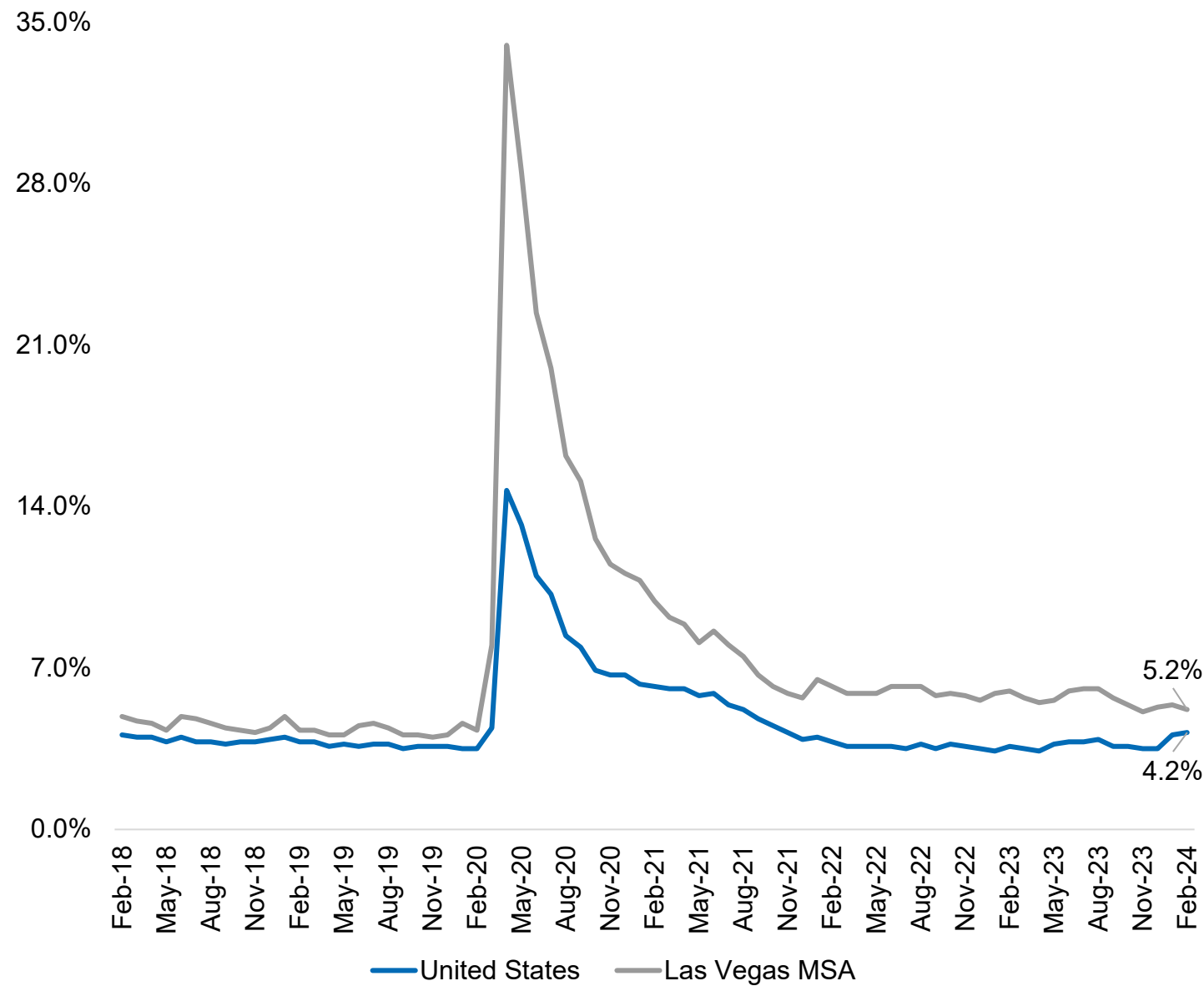




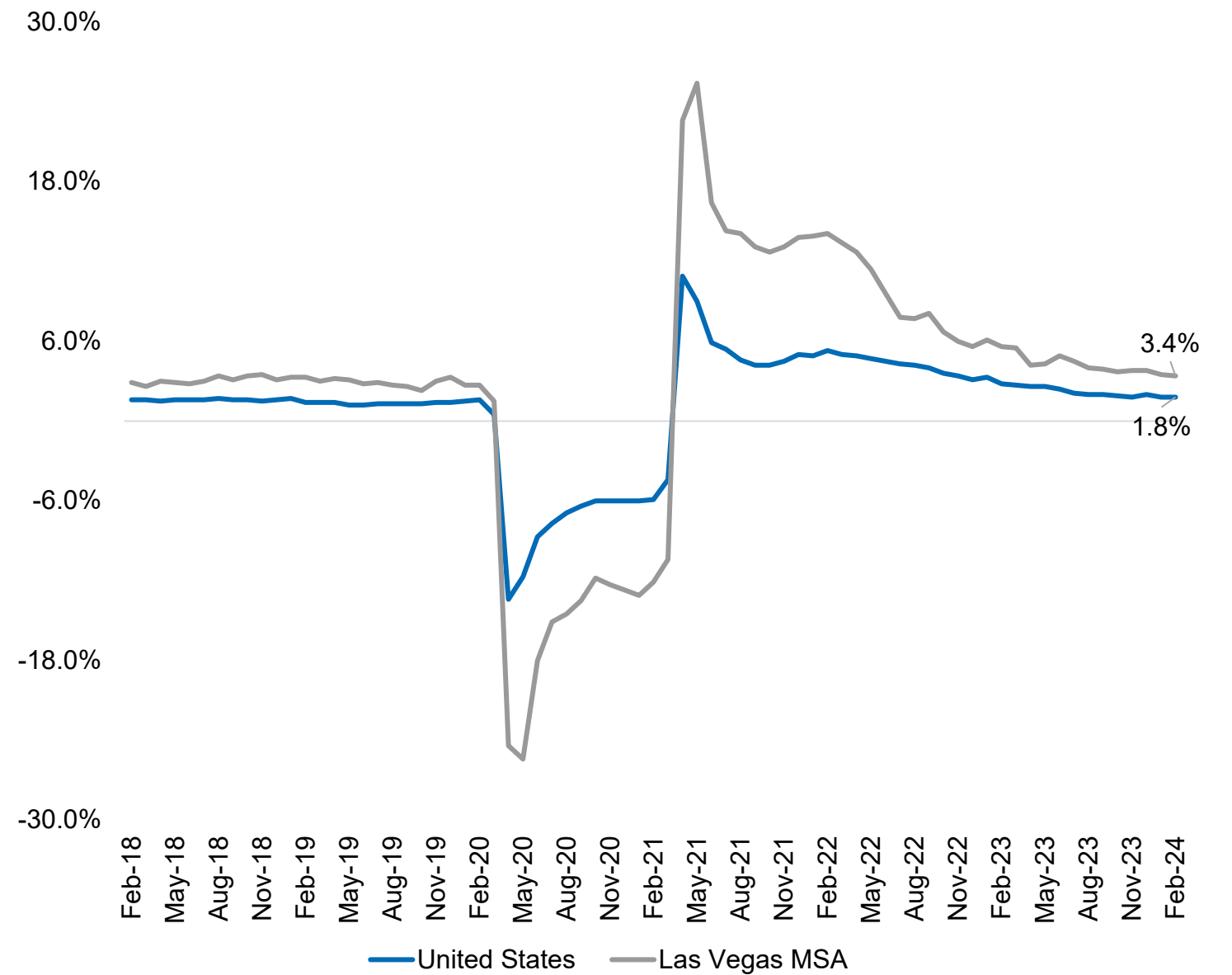
# High Employment Growth Aids Las Vegas Metro Economic Recovery

After being hit hard by the onset of the pandemic due to the Metro's sensitivity to changes in the hospitality industry, the local economy has made strides in recovering jobs in recent years. Unemployment remains higher than the national average (5.2% versus 4.2%, respectively), but overall job recovery and growth is occurring faster as evidenced by the recent 12-month employment growth rate: a 3.4% gain, 160 basis points higher than the nation.

Unemployment Rate, Not Seasonally Adjusted



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

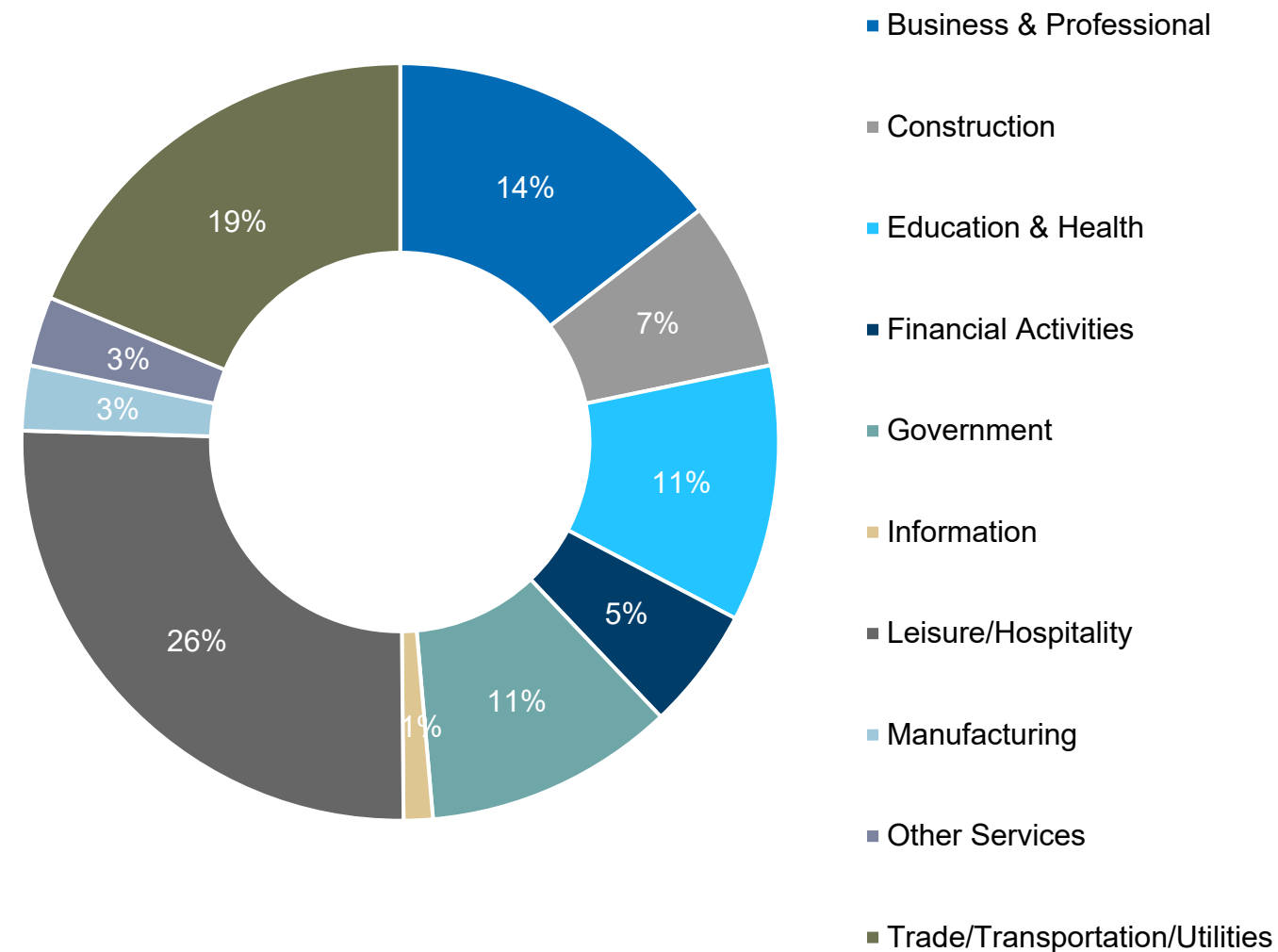


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA  
 Note: February 2024 data is preliminary.

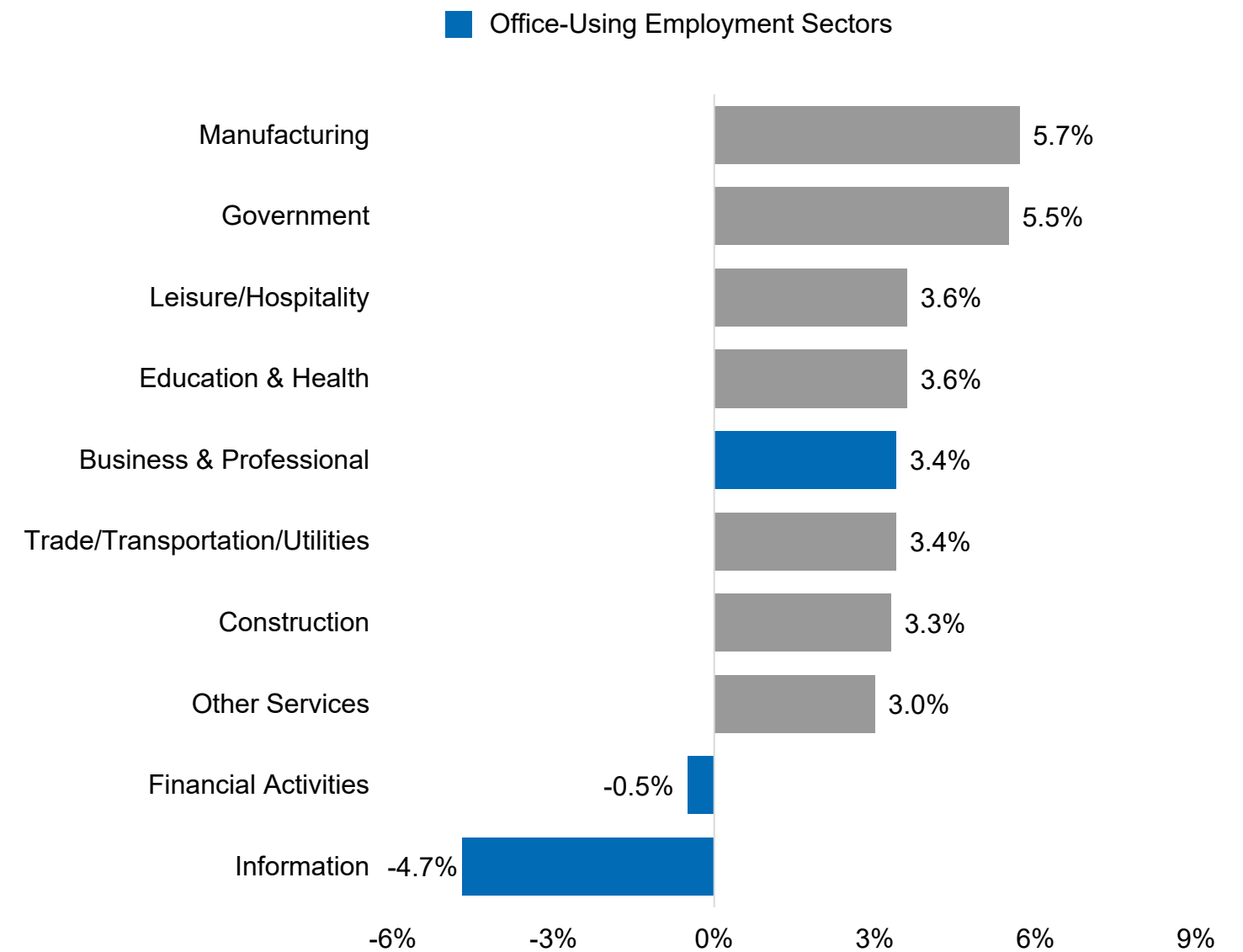
# Job Growth Finds Equilibrium Across Most Sectors

Leisure/hospitality continues to be the dominant sector, comprising 25.6% of overall employment. Still dominant, but less so given that the average was 32.7% during the 2010s, a gradual decrease that illustrates continued diversification within the local economy. Annual job growth hovered near 3.5% for six out of the ten industry sectors, mirroring the overall Metro job growth. Strong job gains continued in manufacturing and government, while financial activities and information retracted, a trend felt across the nation.

Employment by Industry, February 2024



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

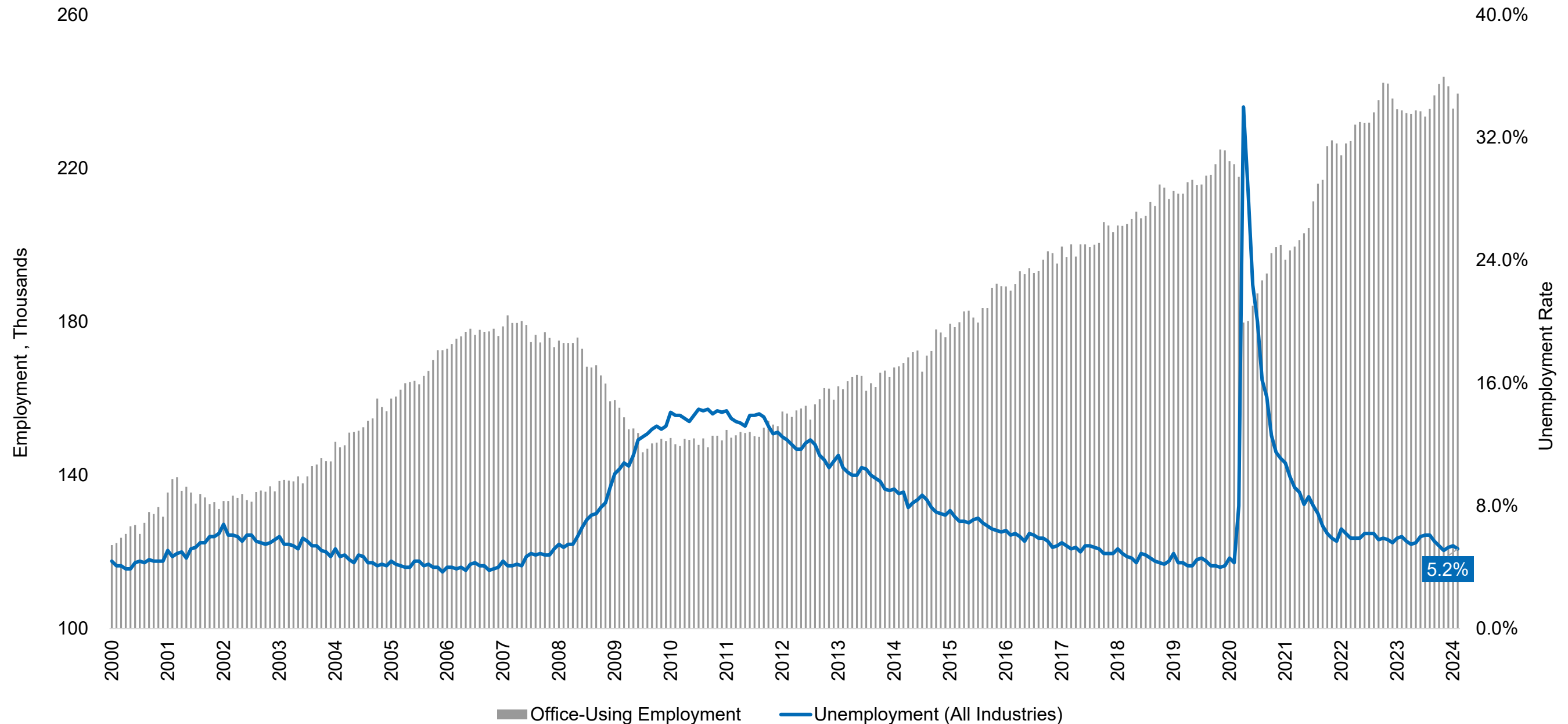


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA  
 Note: February 2024 data is preliminary.

# Office-Using Employment Growth Deescalates Moving into 2024

After an immediate drop of 17.4% in local office-using employment at the start of the pandemic, office job losses were recovered by October 2021 and are now 10.1% higher than pre-pandemic levels. National trends of contractions in the information and financial activities sectors in the past year recently reached the Metro and has slowed office job growth to 1.9% compared to the 3.4% overall Metro job growth.

## Office-Using Employment\* and Unemployment Across All Industries



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

Note: February 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

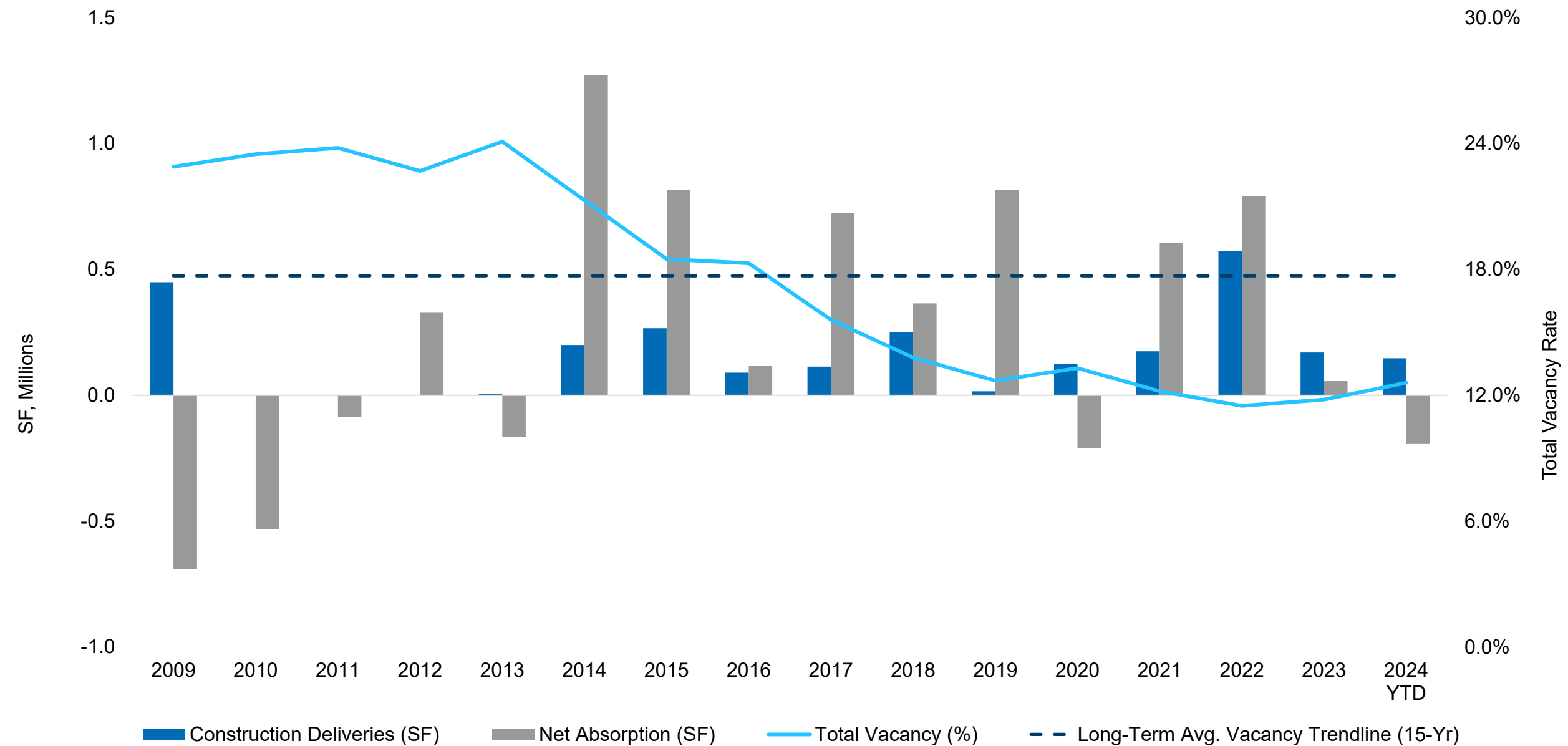




# Vacancy Rises at Start of 2024 But Remains Lower Than Historical Average

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 recent years' economic uncertainty. Total vacancy increased slightly as deliveries came online with partial occupancy and a few once-occupied available spaces became vacant. Users are taking a methodical approach to their space needs in the current economic climate.

## Historical Construction Deliveries, Net Absorption, and Vacancy

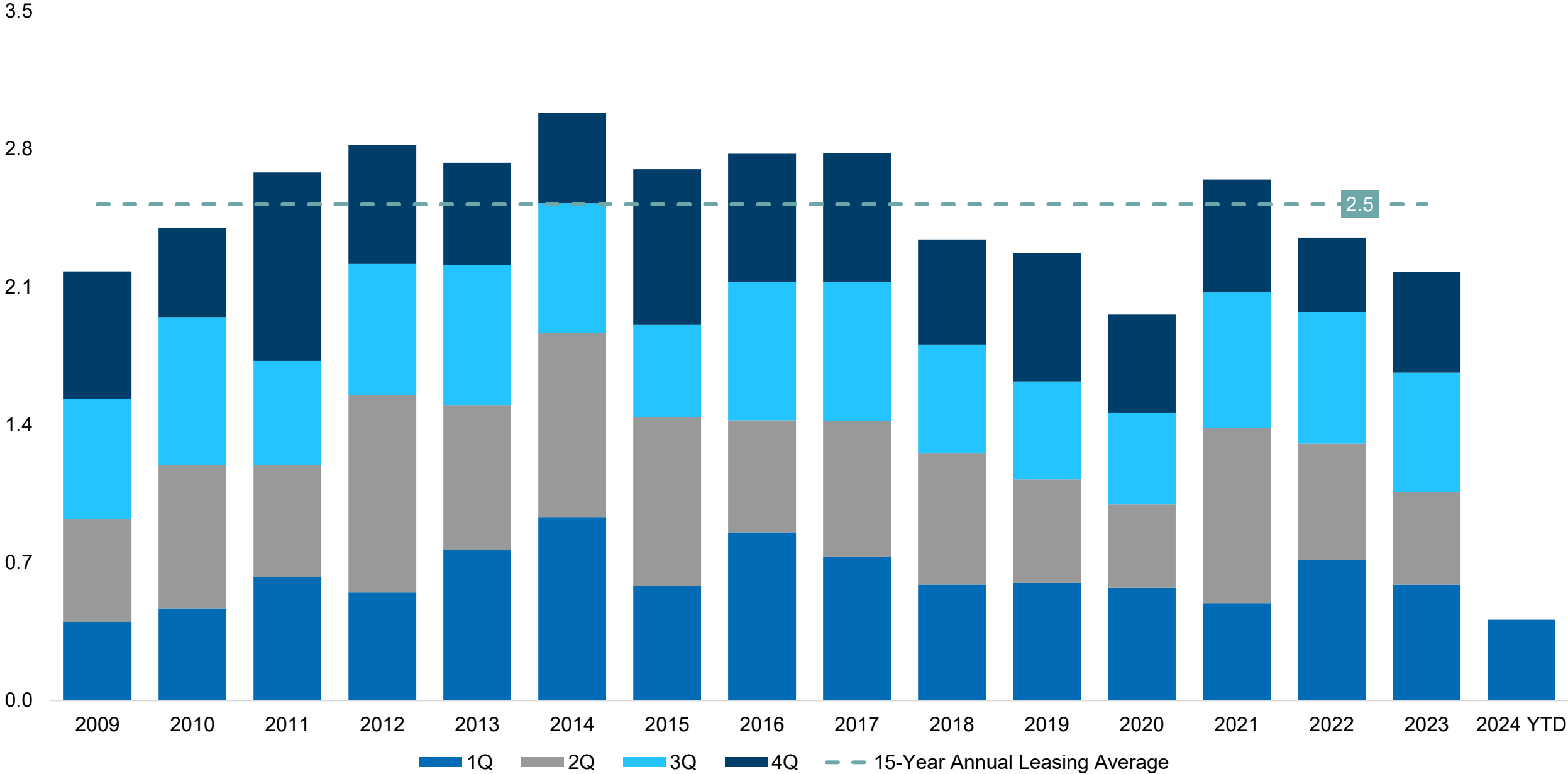


Source: Newmark Research

# 1Q24 Leasing Activity Among Lowest in 15 Years

Continuing a downward trend since 2022, leasing activity in the first quarter of 2024 remained tepid, second only to 2009's record low when surveying the past 15 years. Although Las Vegas remains attractive to users due to lowered costs 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)**



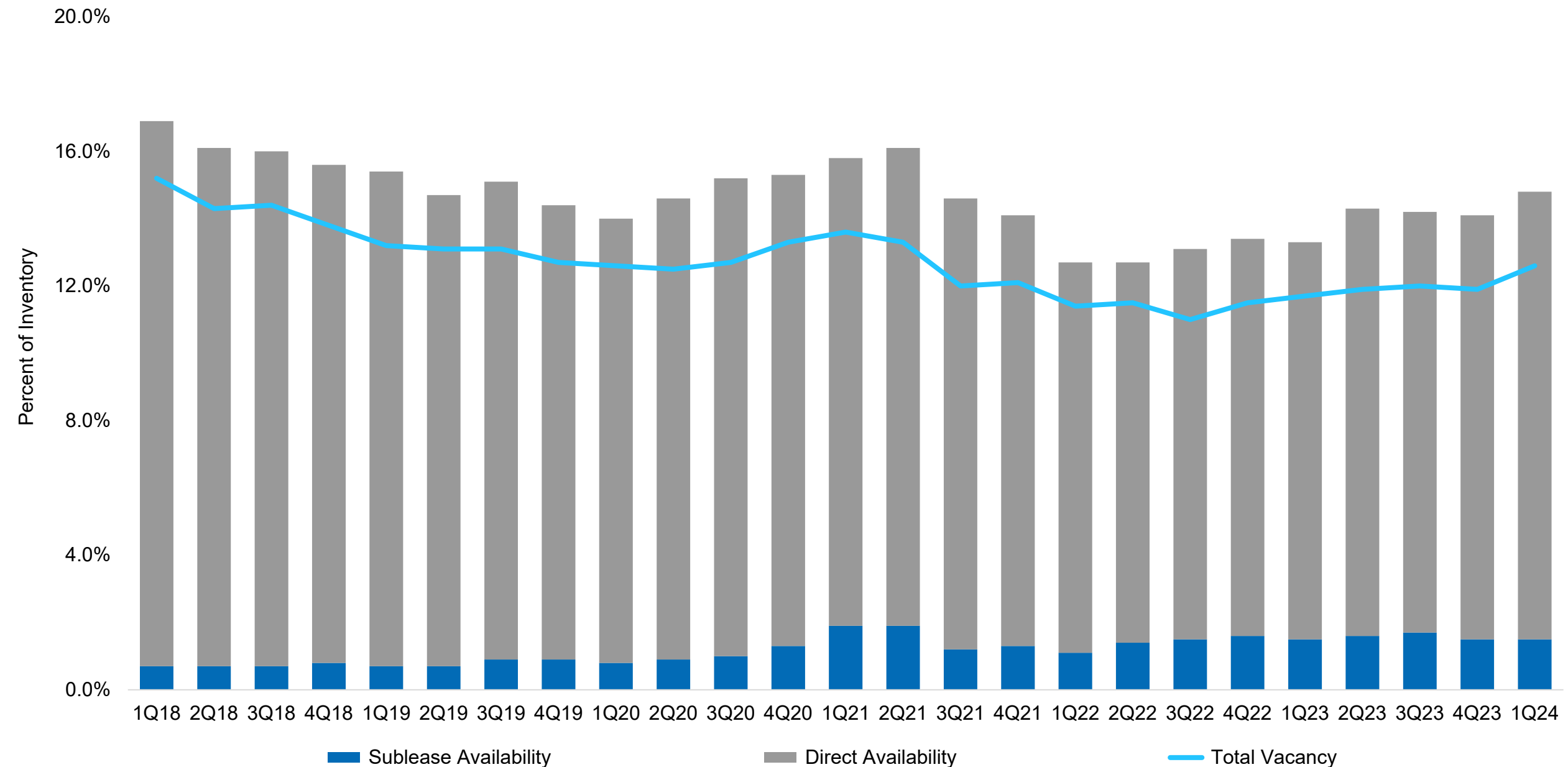
Source: Newmark Research



# 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 and direct availability both saw minimal movement quarter-over-quarter in 2023. 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

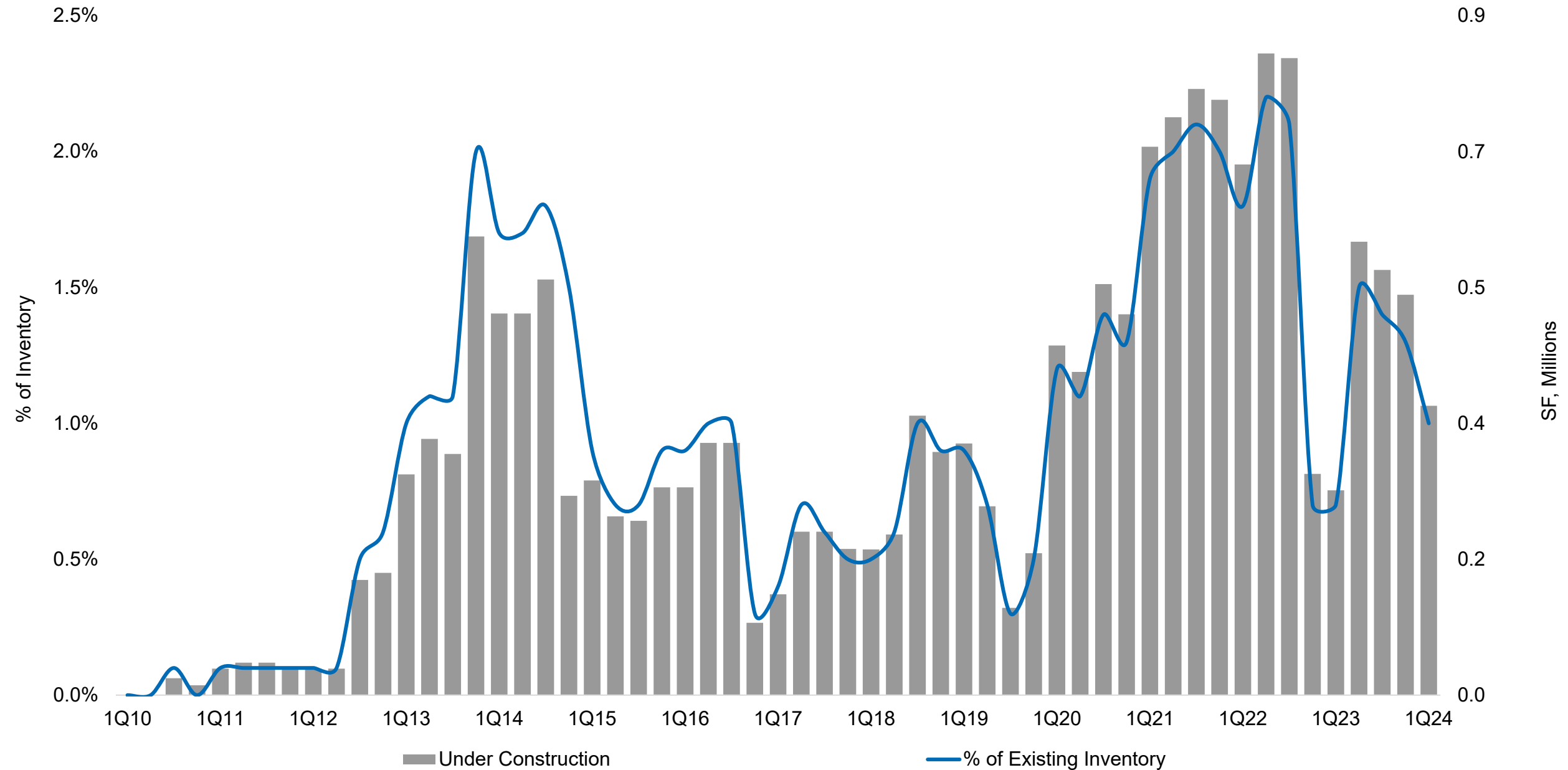


Source: Newmark Research

# 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 as they watch how the market absorbs underway product.

## Office Under Construction and % of Existing Inventory



Source: Newmark Research



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## Sublease Availability Concentrated to Downtown and Western Submarkets

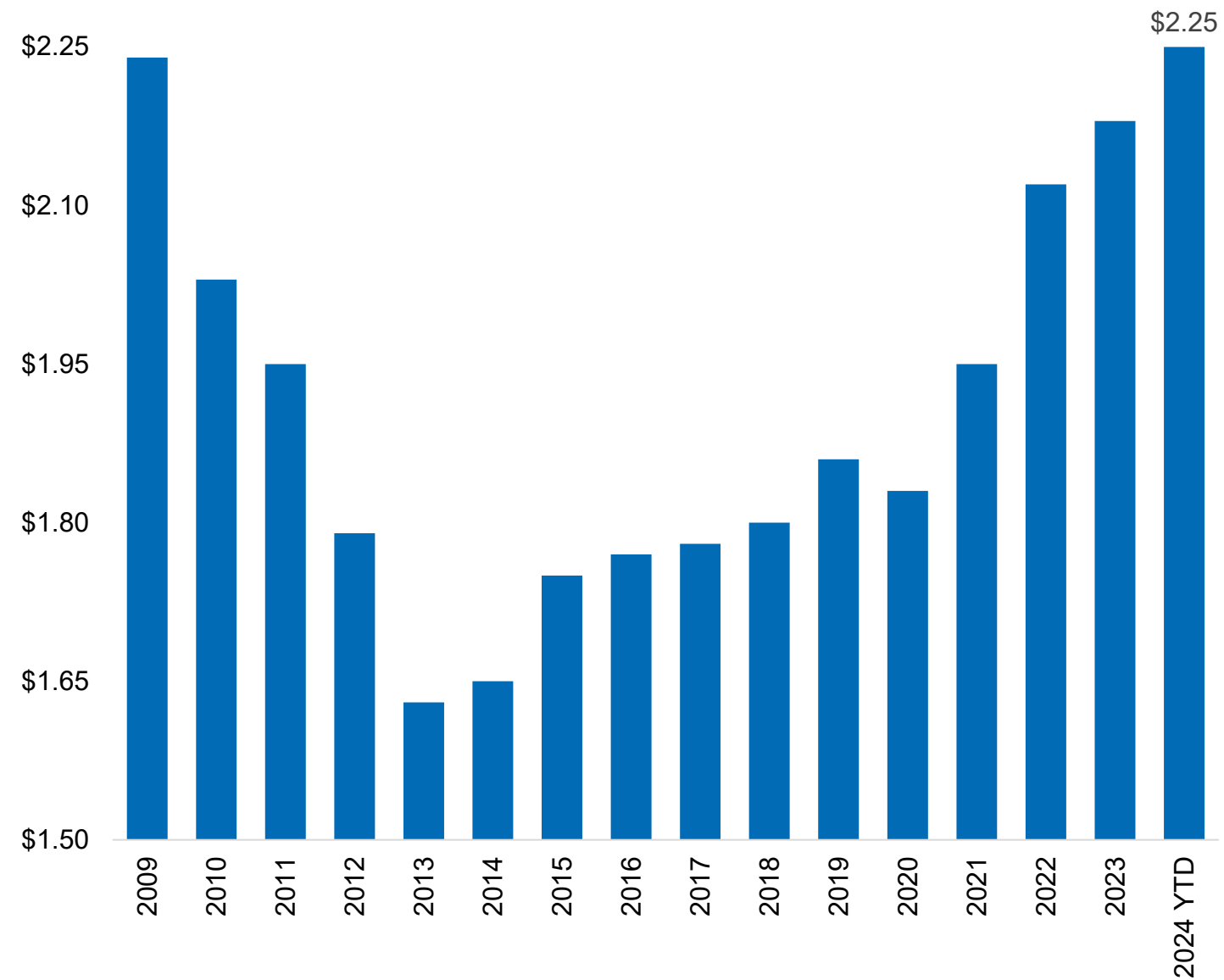
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# Asking Rents Surpass Pre-GFC Levels for First Time

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 \$2.25/SF in the first 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



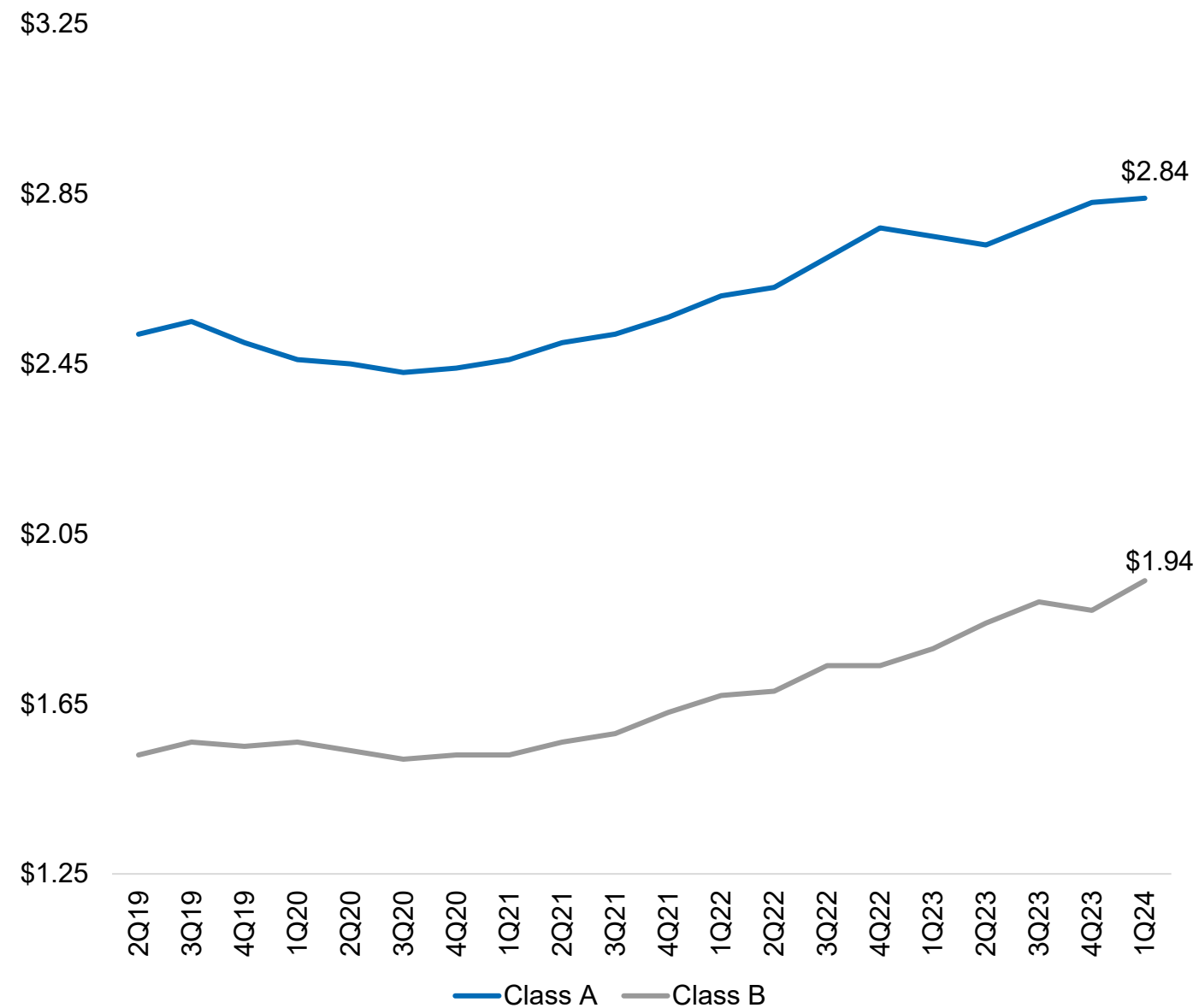
Source: Newmark Research



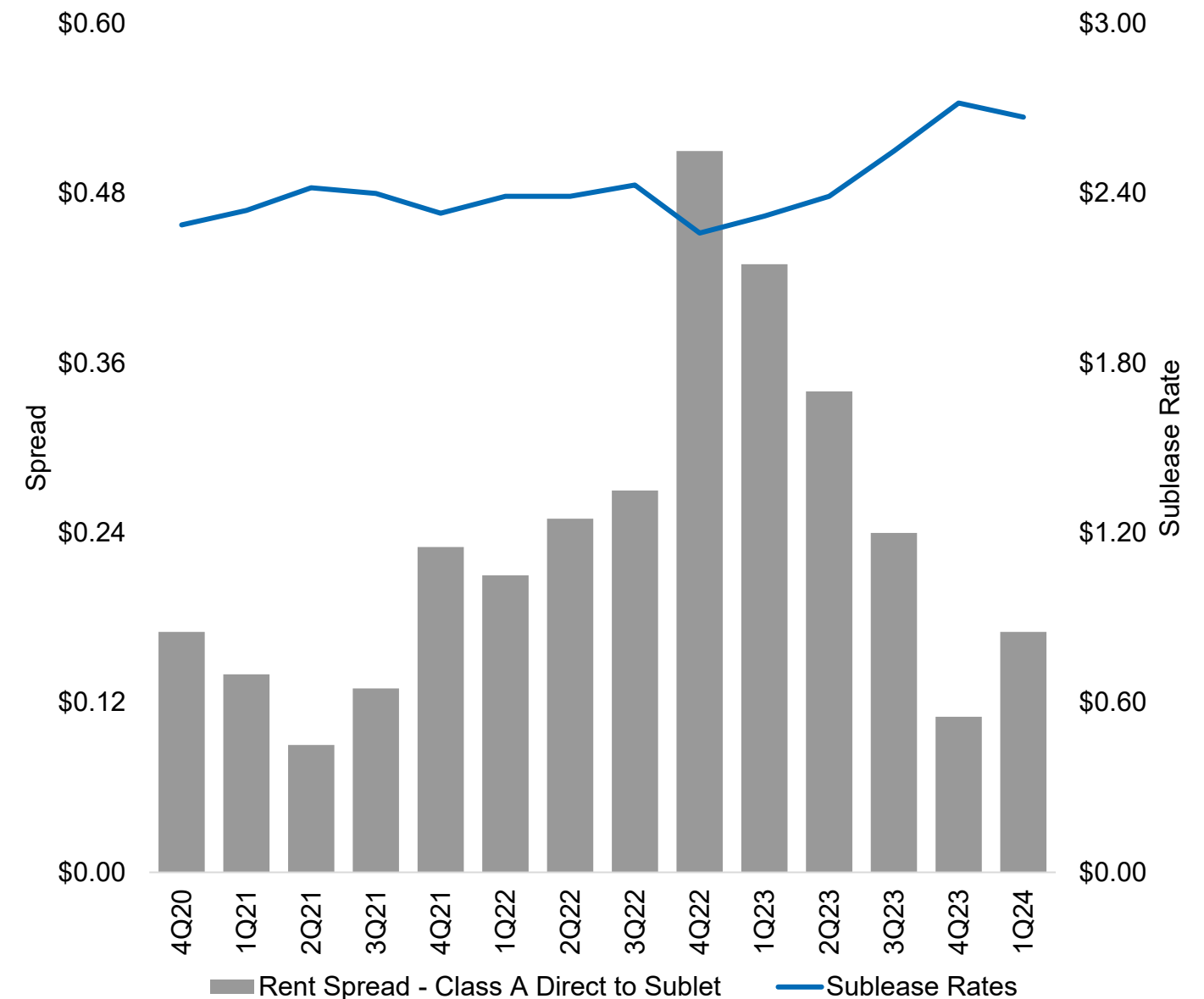
# Class B Rental Growth Exceeds Class A; Sublet Rates Decline in 1Q24

As office users become more cost-sensitive in the current economic climate, more have been turning to Class B space as a happy medium between A- and C-caliber space. In turn, Class B rental rates have moved upwards at a faster pace. Sublease rates meanwhile declined by 1.8% quarter-over quarter.

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



Sublease Asking Rates



Source: Newmark Research

# Larger Leases Signed in 1Q24 Concentrated to Financial Sector

Despite a small contraction in employment among the financial activities sector in the Metro, numerous leases signed during the first quarter of 2024 belonged to users within that industry.

## Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
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>				
RSM US	Two Summerlin	West	Lease Renewal	13,718
<i>RSM US, accounting and tax firm, renewed a portion of the fourth floor in Two Summerlin.</i>				
Humana Real Estate Company	1650 W. Craig Rd.	Central East	Lease Renewal	10,185
<i>Recommitting to the same footprint, Humana Real Estate Company renewed for 10,185 SF in the Central East submarket.</i>				
Unify Financial Federal Credit Union	Koll Canyon Plaza	West	Lease Renewal	9,775
<i>Signing for 9,775 SF, the tenant renewed to stay at Canyon Plaza for another term.</i>				



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## Total Sales Volume Down Dramatically at Beginning of 2024

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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 buildings to occupy in lieu of leasing.

## Notable Sale Transactions – Last 12 Months

Buyer	Building(s)	Submarket	Price	Square Feet	Quarter Closed
State of Nevada	McCarran Center	South	\$84,310,272	292,880	Q3 2023
<i>Comprised of six buildings, Thomas &amp; Mack sold the McCarran Center to the State of Nevada in a portfolio sale.</i>					
Las Vegas Valley Water District	330 S. Valley View Blvd.	Northwest	\$21,250,000	166,409	Q1 2024
<i>Las Vegas Valley Water District will occupy as an owner-user as an expansion to current location near the property.</i>					
Tomchi Group	10750 W. Charleston Blvd.	Northwest	\$21,100,000	69,548	Q3 2023
<i>BP Airways sold to Tomchi Group in an all-cash deal in buyer's first acquisition within the Metro.</i>					
Partners Capital Inc	Green Valley Corporate Center South	South	\$17,300,000	91,700	Q3 2023
<i>Occupied by a diverse mix of tenants with over 80% occupancy, Green Valley Corporate Center South was purchased in a long-term redevelopment play into a lifestyle center.</i>					



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# Appendix





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# Las Vegas Metro Office Submarket Map and High-Level Statistics | 1Q24



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## Las Vegas Metro Office Submarket Statistics | 1Q24

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

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