

3Q23

# Las Vegas Office Market Overview

NEWMARK

# Market Observations

## Economy

- Las Vegas’s unemployment rate was 6.1% in August 2023, up 10 basis points from 12 months ago and higher than the national average. Local nonfarm year-over-year job growth (+4.5%) surpassed that of the nation’s (+2.7%).
- Construction, leisure/hospitality, manufacturing and business and professional each had 12-month employment growth of 6.0%+ in August. Industrial construction, tourism, a pro-business environment and population growth are some of the relevant factors. Still-high inflation will likely slow gains in the coming months.
- 12-month job growth in office-using employment sectors was healthy, but there were faint losses from July to August 2023.

## Major Transactions

- A balanced mix of direct new, renewals and subleases occurred thus far in 2023.
- An interesting leasing activity shift occurred from Southern submarkets to Northern submarkets as new construction deliveries to the South became fully occupied and pushed office users to look elsewhere within the region.
- Medical insurance, legal services and industrial-adjacent companies remained 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 nine months of 2023 contracted by 23,610 SF. Recent net absorption losses can be attributed to tenants renewing or relocating at smaller footprints.
- Under-construction activity is measured at best, representing only 1.4% of existing inventory. Most construction projects are built-to-suit, small scale or linked to mixed-use projects.
- Just 37,400 SF in new construction delivered in the third quarter of 2023.
- Total availability and vacancy averages are stable.
- 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 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, such as law firms and insurers. These industries will help bolster the office market with more traditional and diverse tenant profiles.
- Rents for sub-trophy buildings will likely soften as tenants pursue top-shelf space.

1. Economy
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# Economy

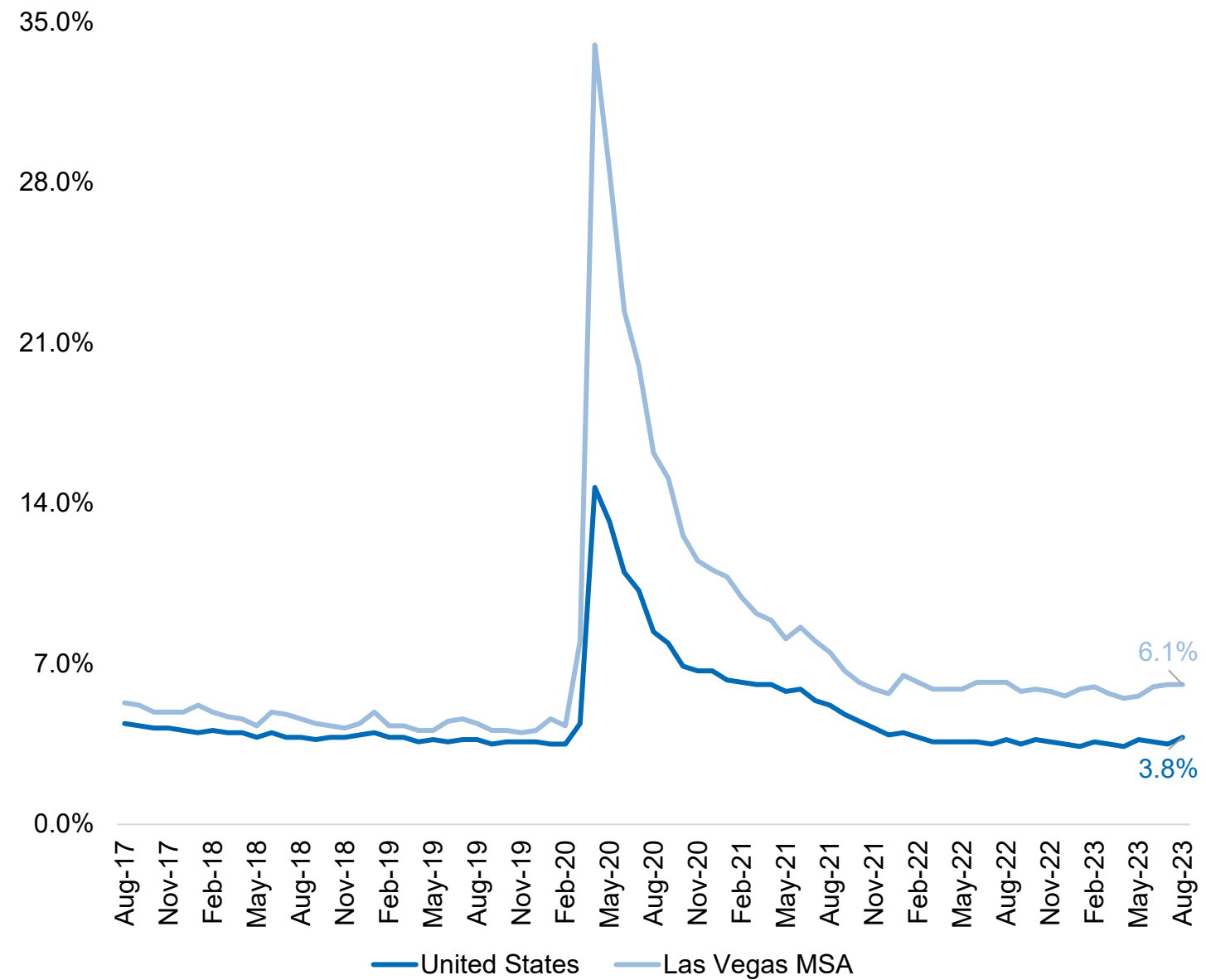




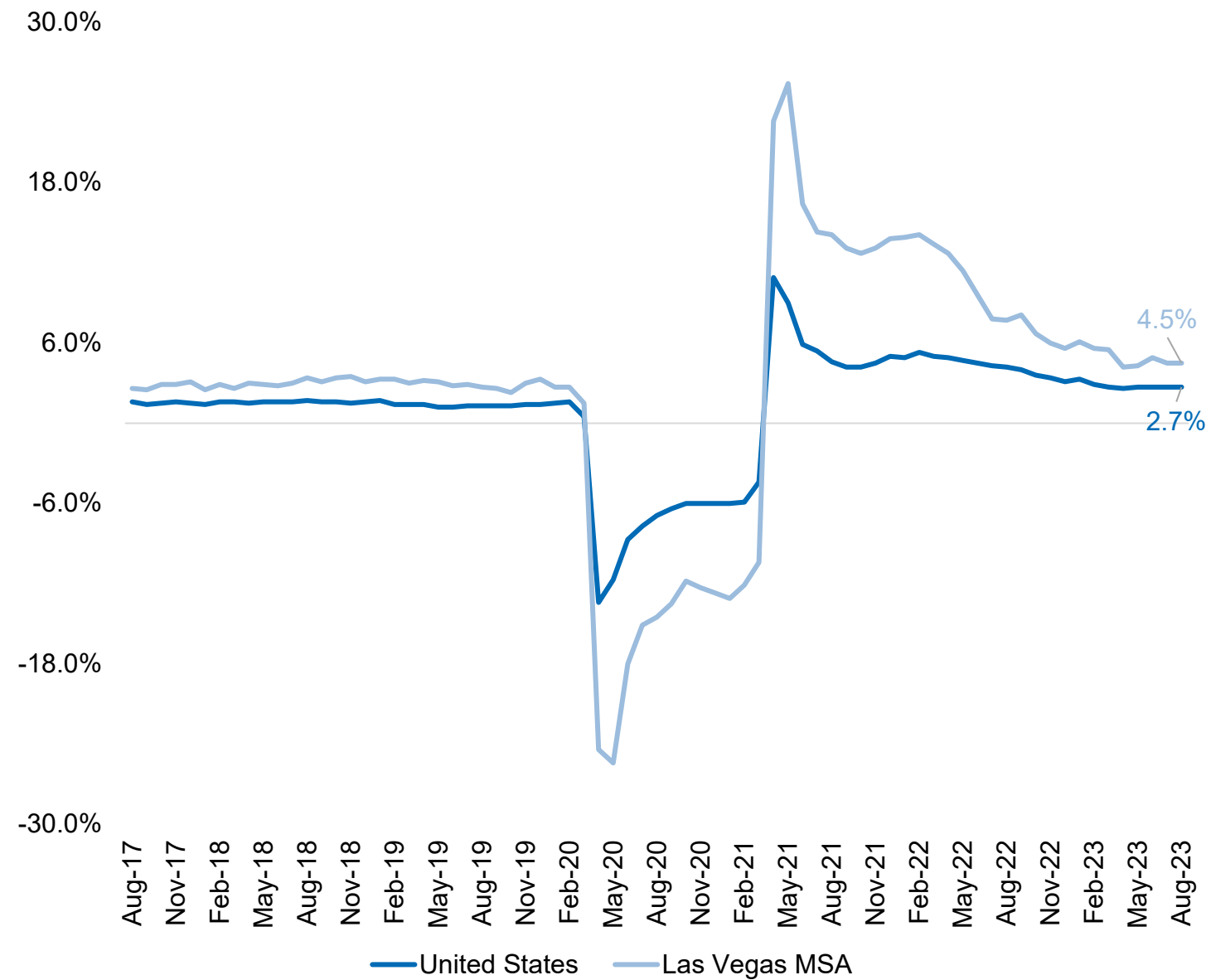
# Las Vegas Labor Market Still Recovering from Pandemic Disruption

Local unemployment is historically higher than the national average due to volatility in the tourism industry when the economy downcycles; hence, the 34.0% unemployment average at the start of the pandemic. Unemployment is higher, but the metro also recovers faster than the U.S. during periods of expansion, as evidenced by 12-month growth in August 2023.

Unemployment Rate, Seasonally Adjusted



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

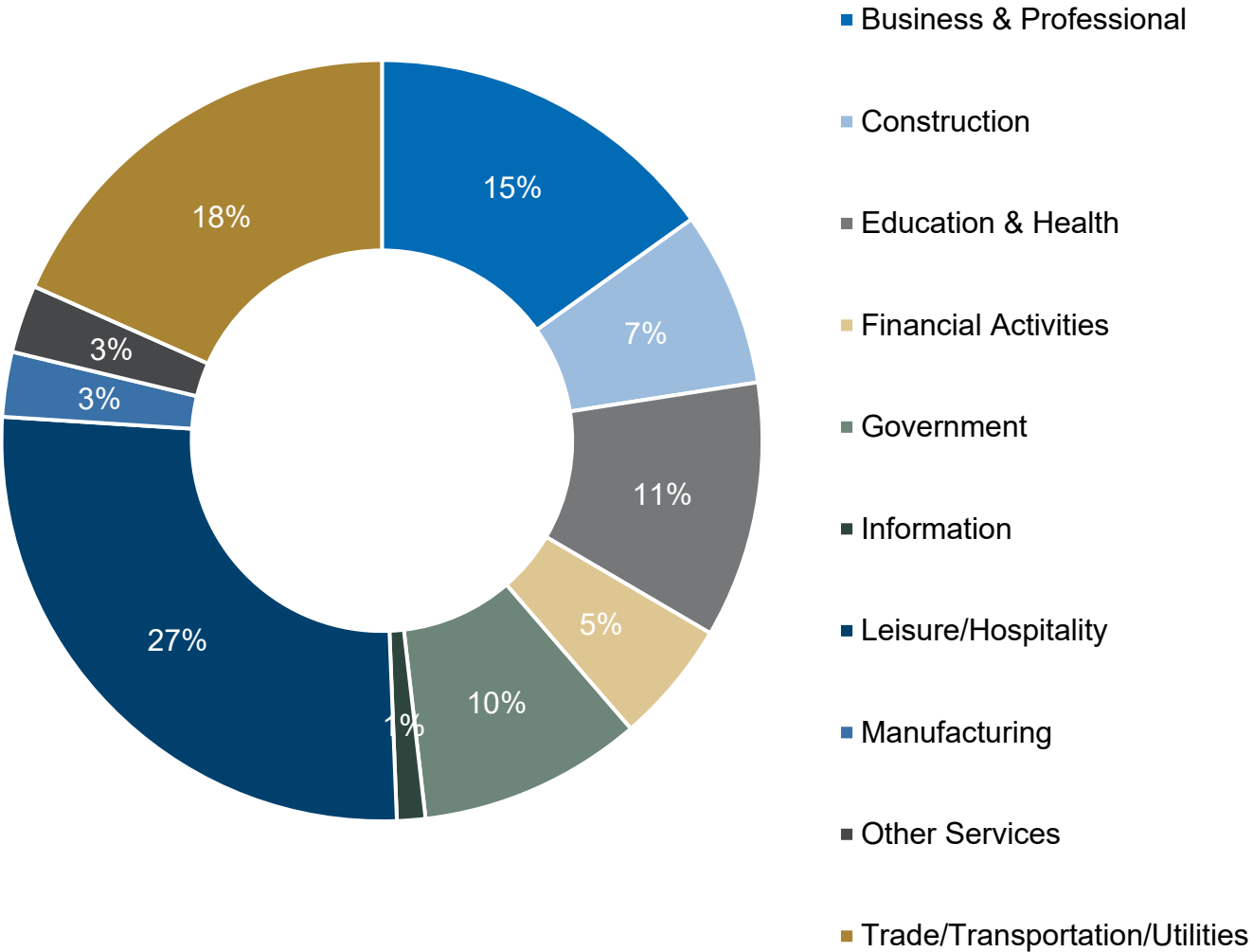


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

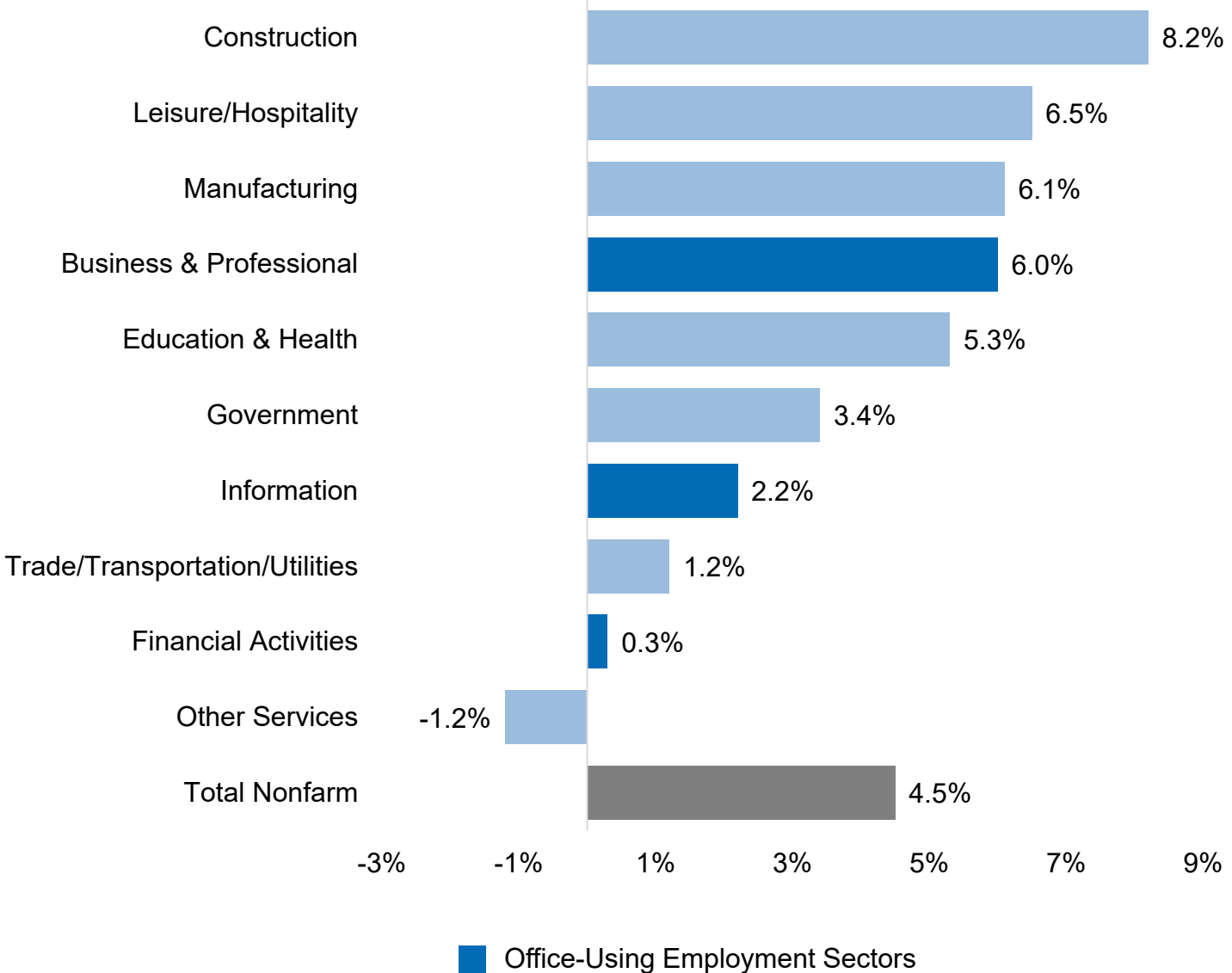
# Job Growth Becoming More Balanced between All Sectors

Leisure/hospitality continues to be the dominant sector, comprising 26.7% 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. Education and health services and business and professional employment is increasing to meet the needs of a growing population, while the construction industry is expanding primarily from development on the Strip, as well as industrial and multifamily construction.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

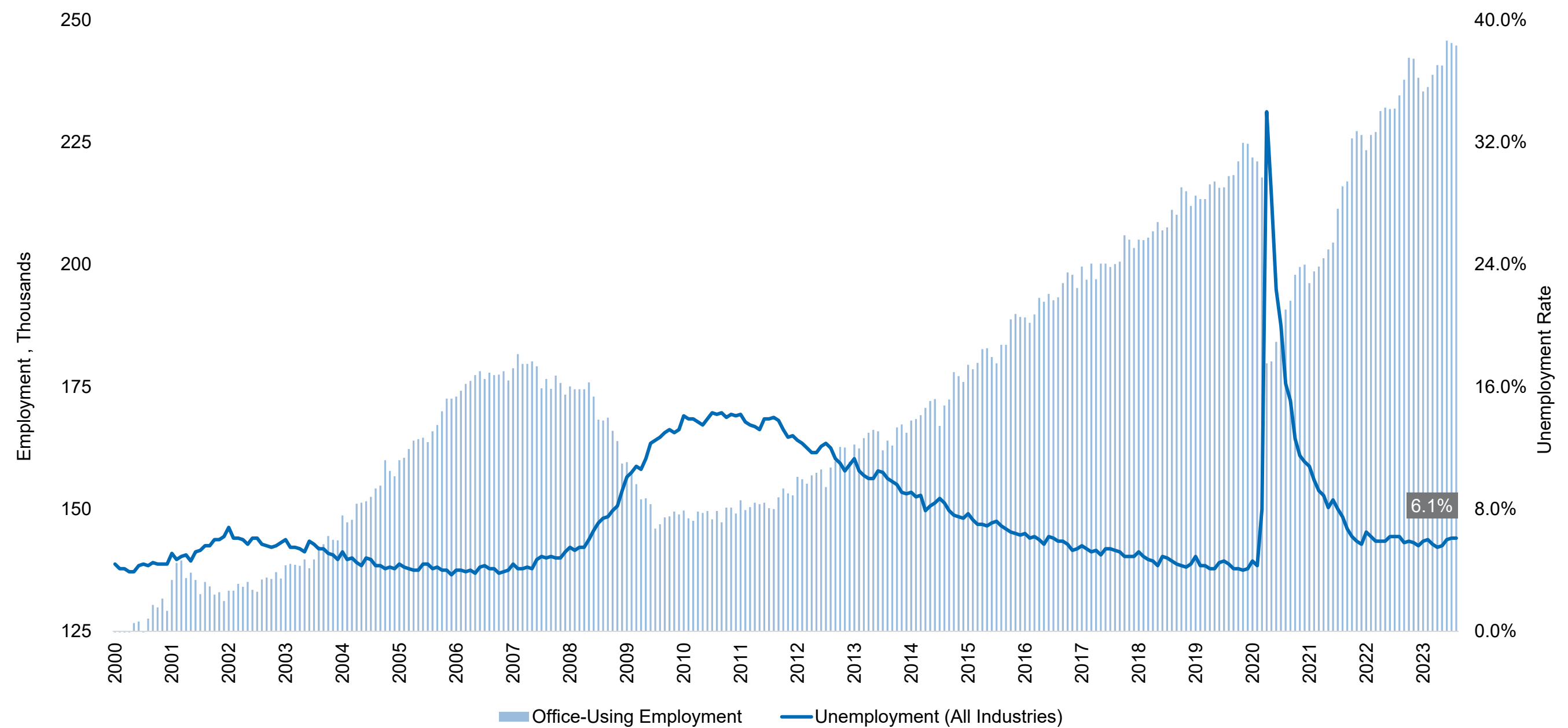


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA

# Overall Office-Using Employment Declined but Still Stronger than Pre-Pandemic

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 10.3% higher than pre-pandemic levels. Recent contractions in the business and professional services sector led to a decrease in overall office-using employment from July into August and may continue to dampen office employment growth for the coming quarters.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Las Vegas MSA  
Note: August 2023 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

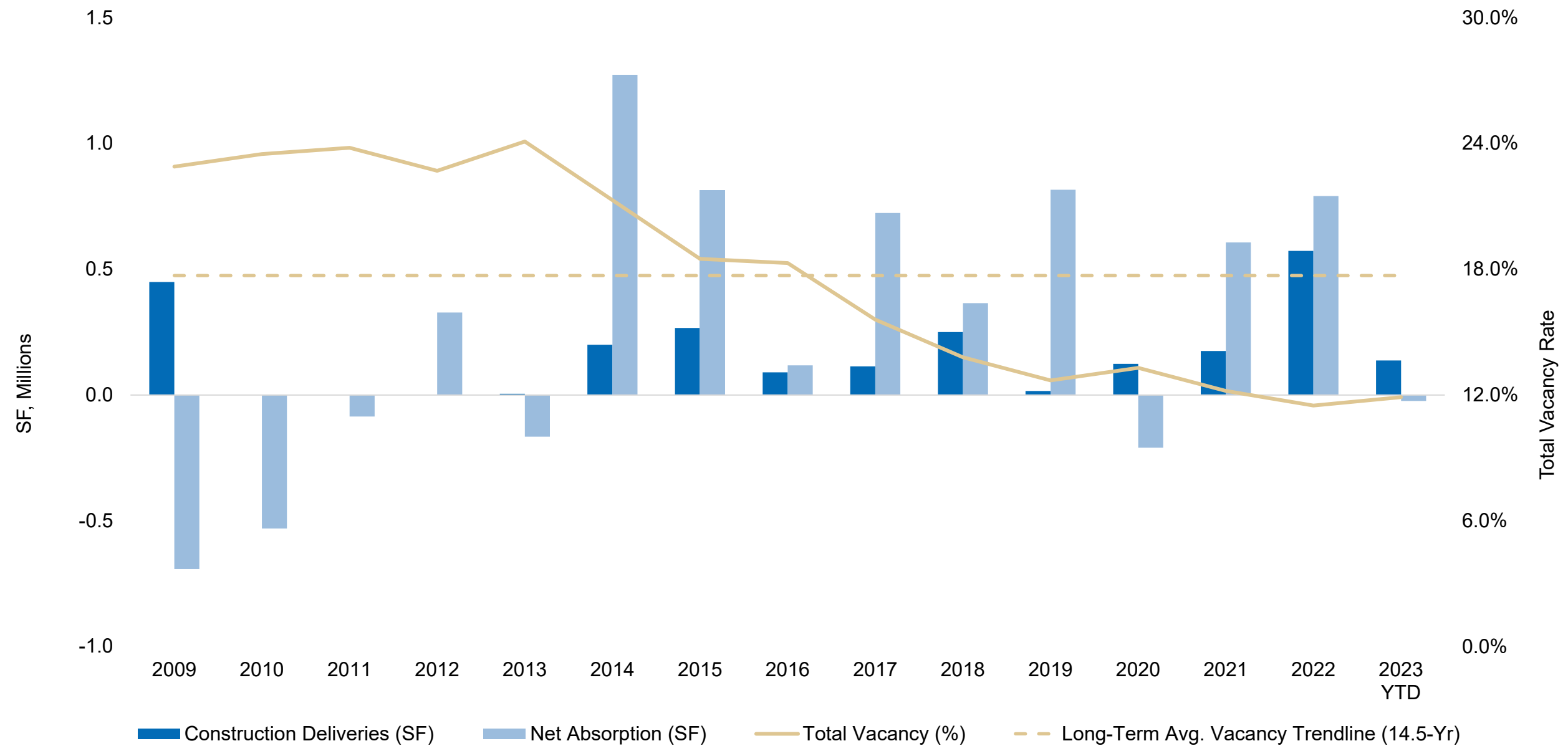




# Vacancy Remains Stable and Well Below Metro Historical Average

The metro’s efforts to diversify its economy after the Global Financial Crisis became evident in the speed in which the region has been able to recover from the pandemic’s economic disruption. Total vacancy did not see a sharp increase in either direct or sublet space, while steady construction and absorption gains have made the metro one of the more stable office markets in the Southwest region.

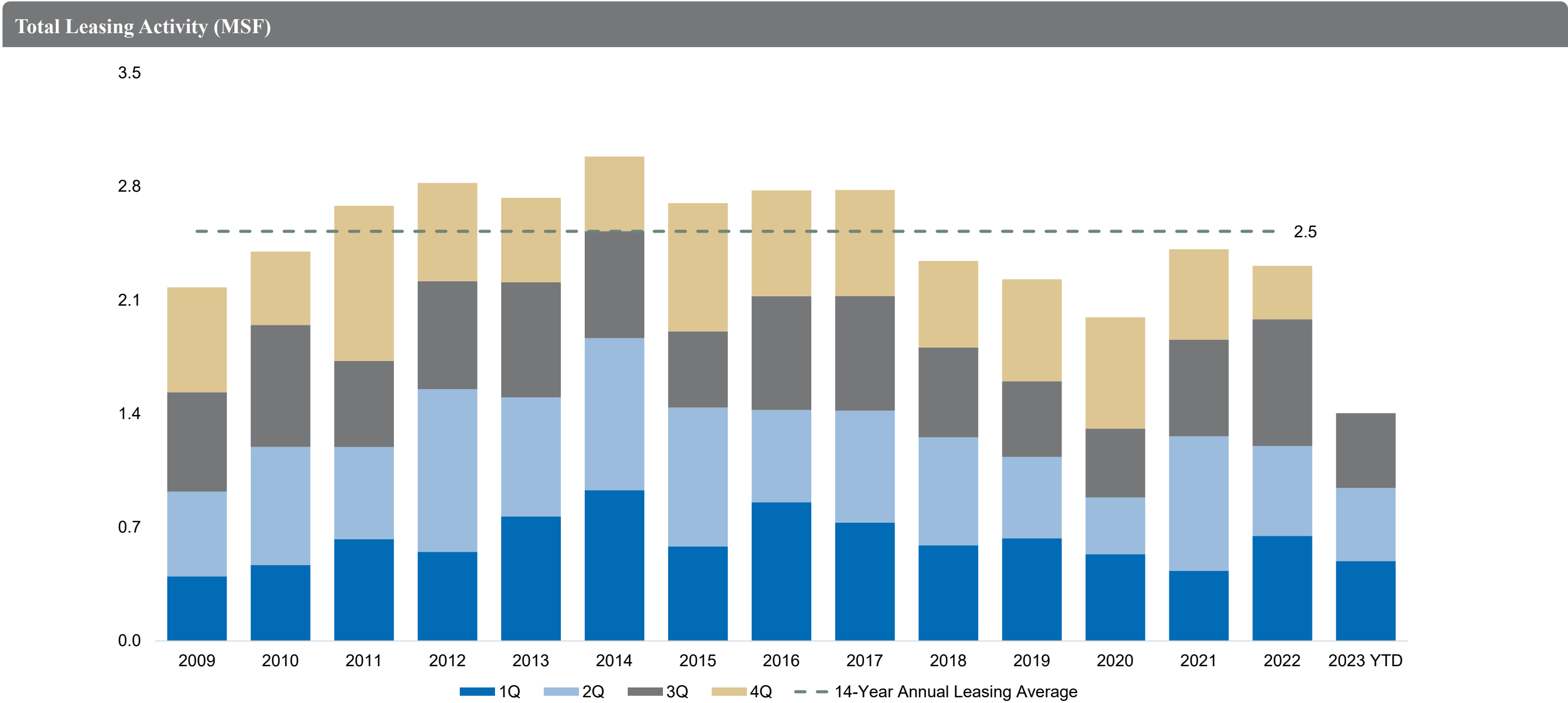
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Has Slowed

Leasing activity in the third quarter of 2023 barely surpassed activity in the second quarter and is the third-lowest activity volume the market has experienced since the GFC. Ongoing space reductions, a cloudy economic outlook and the higher cost of capital are all factors, with lower leasing volume expected in the coming quarters.



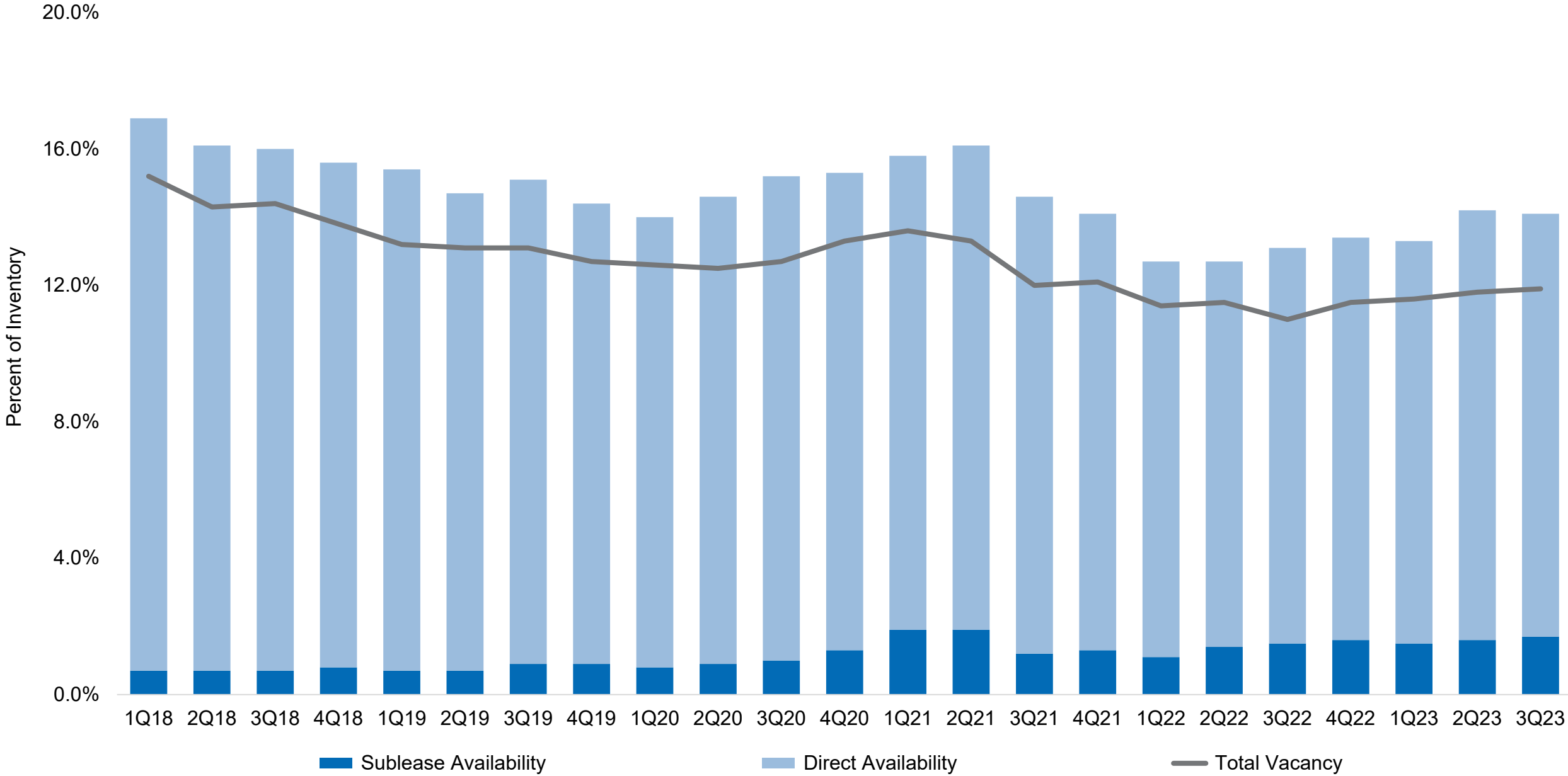
Source: Newmark Research



# Direct Availability Sees Small Losses; Sublease Availability Sees Small Gains

Sublease availability increased by 10 basis points quarter over quarter but remains much lower than other portions of the country due to the metro’s office users utilizing more traditional office space that has had less demand for hybrid or work-from-home models. Direct availability lowered by 20 basis points, causing total availability and total vacancy to experience little movement quarter over quarter.

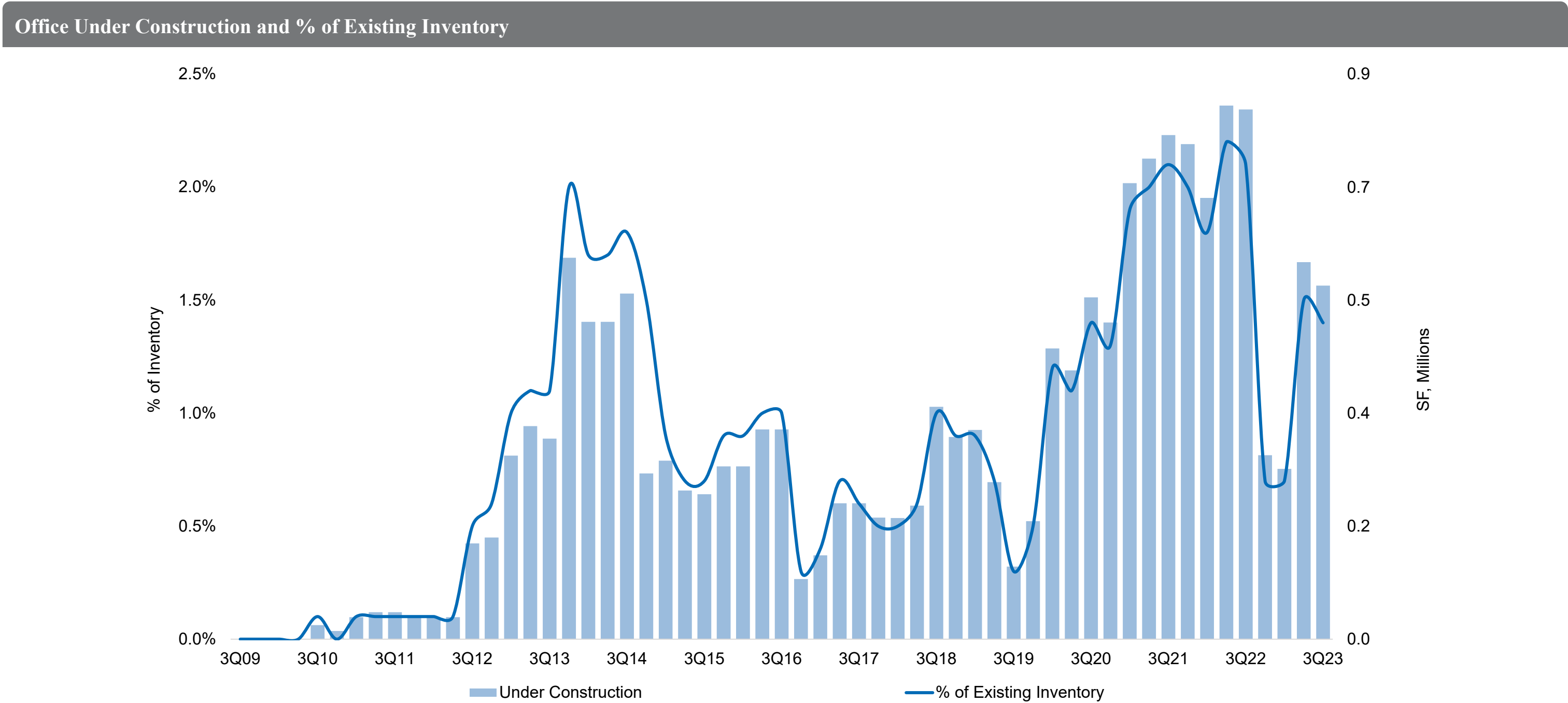
Available Space and Total Vacancy as Percent of Overall Market



Source: Newmark Research

# Measured Development Persists in Office Product

Despite inflation and increases in construction costs, more developers are breaking ground on office product in the form of built-to-suit or speculative product tied to mixed-use projects as the metro’s affordability and access to surrounding regions helps make Las Vegas more attractive to office users. When compared to the 17.8 million SF industrial pipeline, it is very clear that although office development has had modest gains in recent years, developers are turning more towards industrial product in the current economic climate.



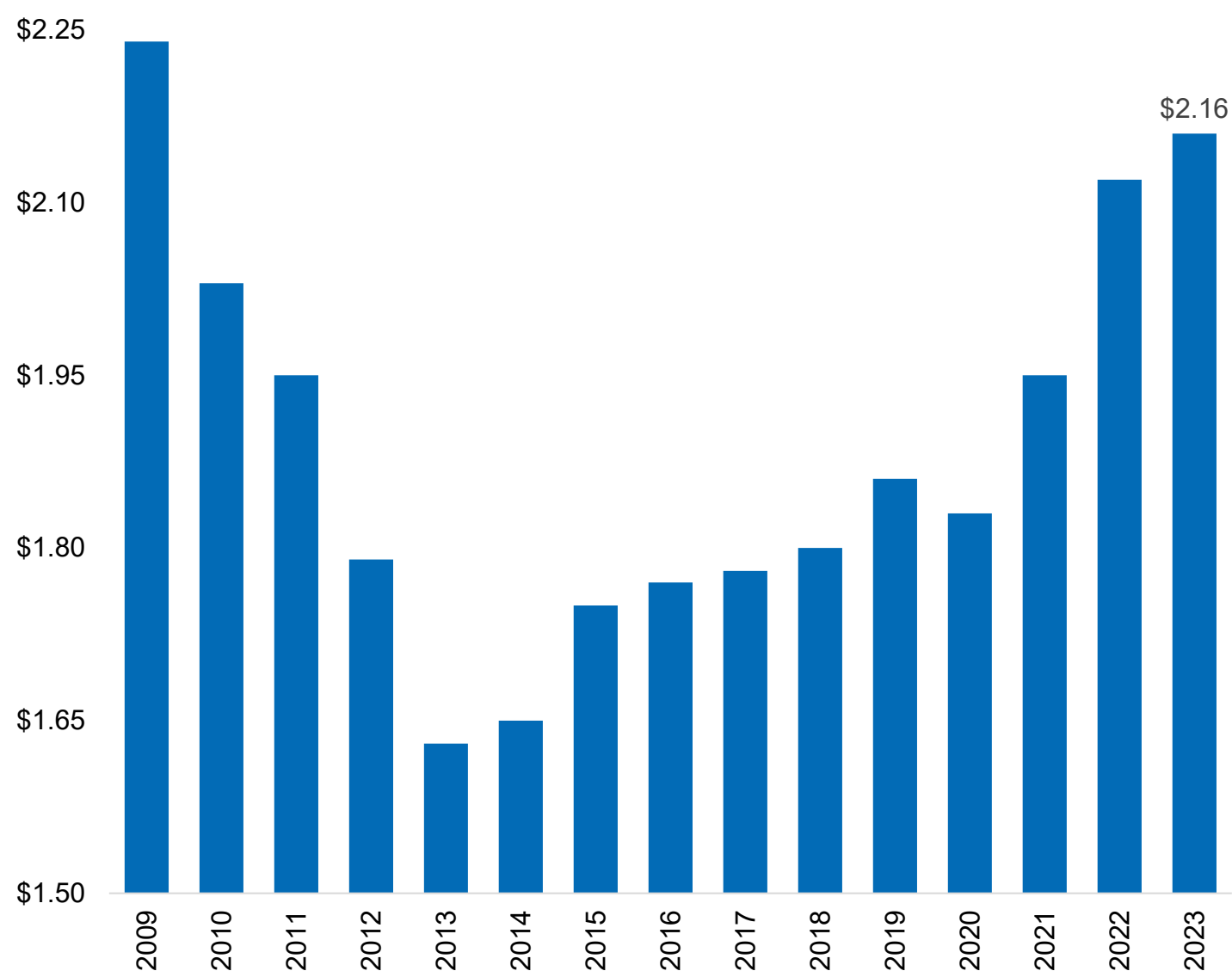
Source: Newmark Research



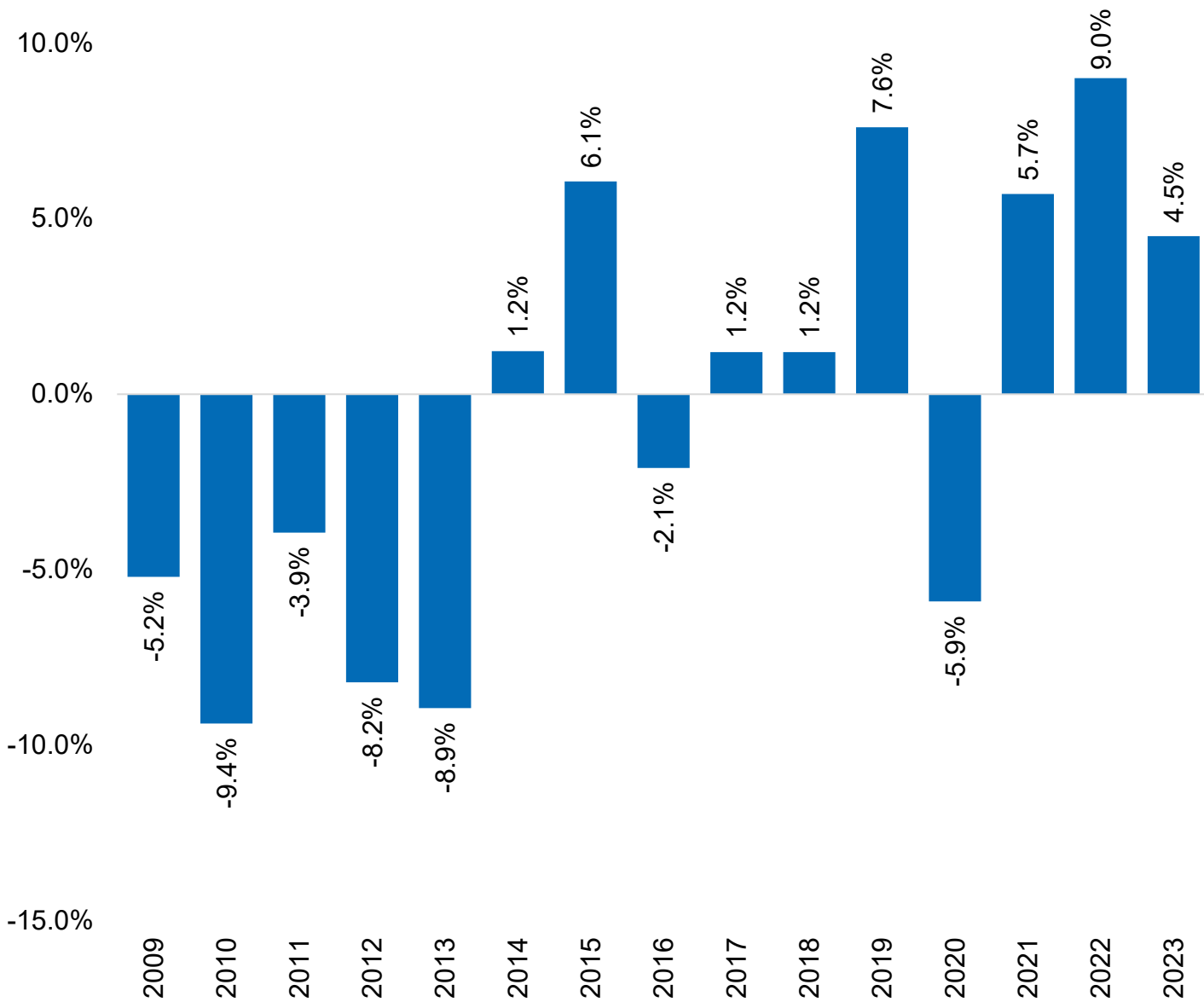
# Asking Rents Inch Closer to Pre-GFC Levels

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 is only 3.6% below the metro high of \$2.24/SF back in 2009. Rental rate growth is expected to continue but at slower growth rates than experienced in recent years where year-over-year growth exceeded 5% in three of the last five years.

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



Year-over-Year Asking Rent Growth Rate

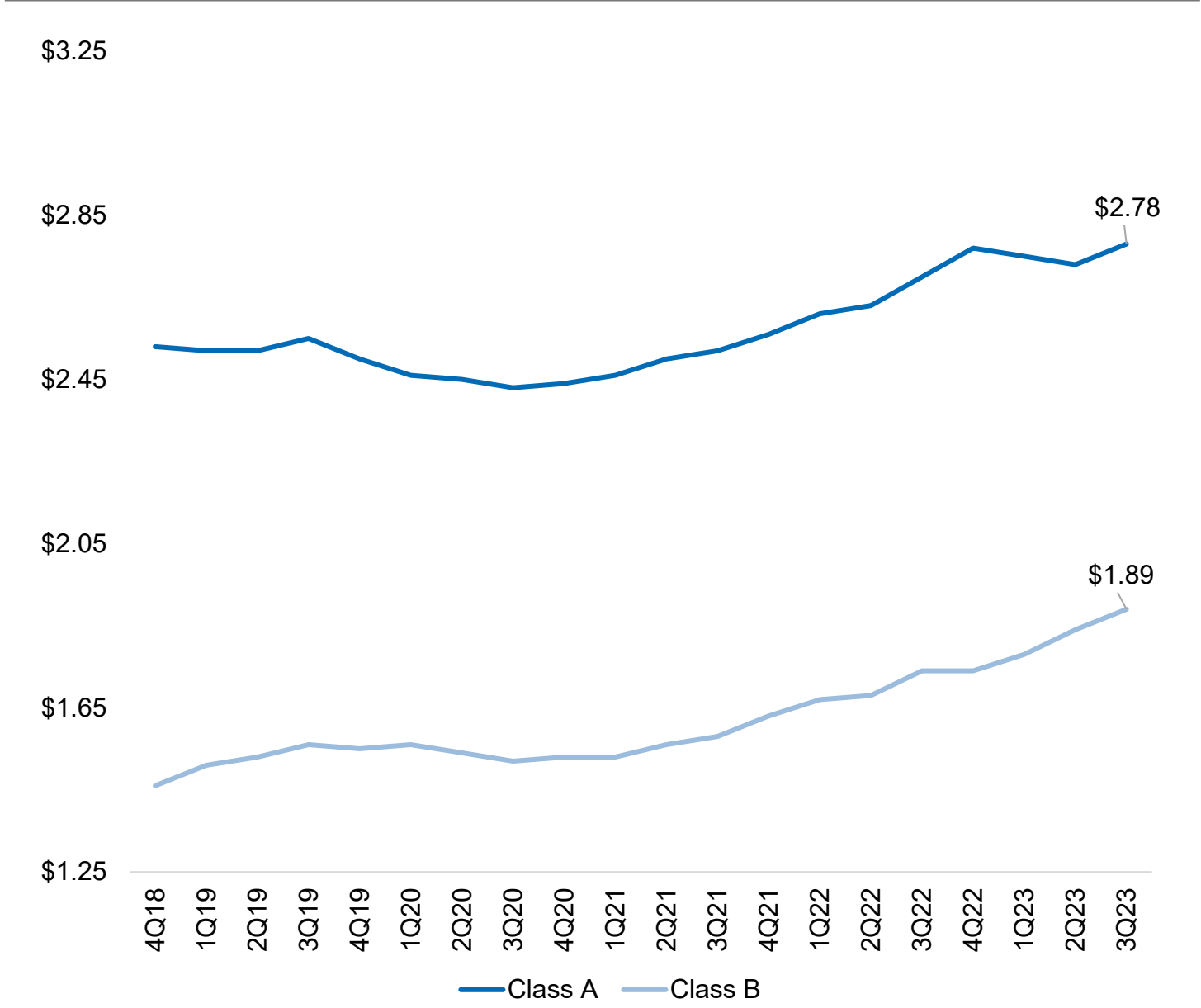


Source: Newmark Research

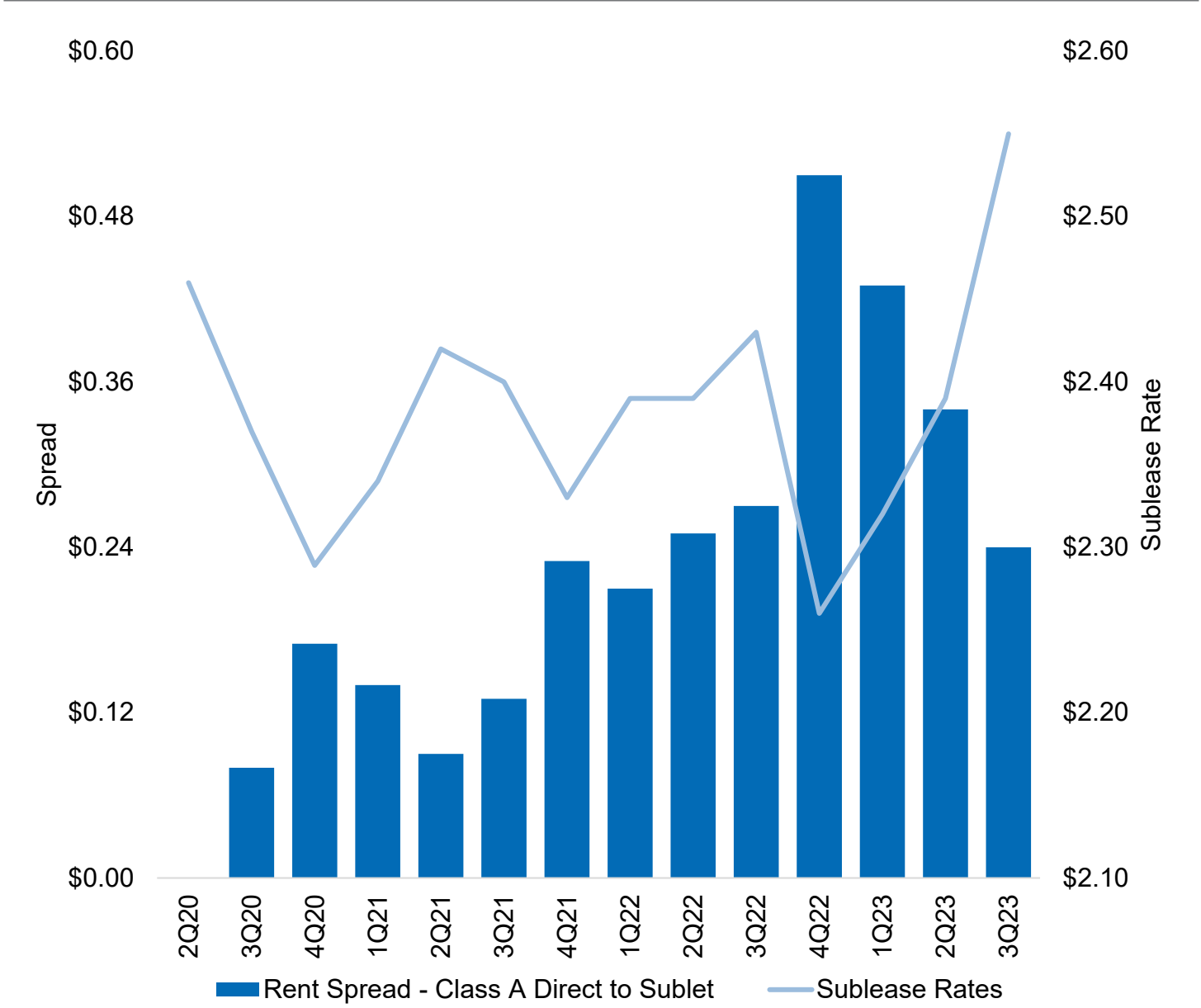
# Rent Spread Between Sublet and Class A Direct Rates Continues to Close

Las Vegas has less sublease space than surrounding metros. Since Class A space comprises the bulk of available sublease space, the delta between sublease rents and direct rents has been closing since the start of 2023, moving from a \$0.51/SF differential to a \$0.24/SF gap by the end of the third quarter of 2023.

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



Sublease Asking Rates



Source: Newmark Research



# Large Leasing Activity Moved from Southern Submarkets to the Northwest

Overall leasing stayed even from the second quarter of 2023 into the third quarter of 2023, with an interesting shift from Southern submarket dominance over to the Northwest. Most recent new office deliveries occurred to the South and led to an increase in leasing activity and rates as tenants filled new developments. Although the Northwest submarket still contracted in occupancy in the third quarter of 2023, leasing was stronger than previous quarters, with those tenants moving in before the end of 2023, and will increase occupancy within the region.

Notable 3Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Giving Home Healthcare	Crossing Business Center	Northwest	Direct Lease	30,122
Home healthcare company, Giving Home Healthcare, leased the entirety of the second floor of 10190 Covington Cross Drive in the Crossing Business Center office park.				
Thorndal Armstrong	Alan Bible Federal Building	Downtown	Direct Lease	17,686
Downtown Las Vegas welcomed legal group, Thorndal Armstrong on Las Vegas Boulevard.				
Rebel Oil Company	Corporate Pointe	Northwest	Direct Lease	13,635
Rebel Oil Company, headquartered locally, signed a seven-year lease in the Northwest submarket.				
Alliance North America	1770 Raiders Way	South	Lease Expansion	12,000
Recently delivered in 2022, Alliance North America expanded to take the entire building for a total of 24,000 SF.				
Fox Rothschild	One Summerlin	Northwest	Lease Renewal	11,108
One Summerlin kept the law firm, Fox Rothschild, as an office tenant for another term.				

Source: Newmark Research

# Sales Activity Also Saw Strong Focus in the Northwest

Four of the top five office transactions occurred within the Northwest as buyers turned to purchasing older, historically well-performing buildings or ones that hold promise for renovation/redevelopment.

Notable 3Q23 Sale Transactions				
Buyer	Building(s)	Submarket	Price	Square Feet
State of Nevada	McCarran Center	Northwest	\$84,310,272	292,880
Thomas & Mack sold six buildings in McCarran Center to the State of Nevada for government occupancy.				
Tomchi Group	Corporate Pointe	Northwest	\$21,000,000	68,346
Tomchi Group purchased 10750 W Charleston Blvd in the Corporate Pointe office park for \$21 million.				
Partners Capital	Green Valley Corporate Center South	Northwest	\$17,250,000	100,769
Two buildings in the Green Valley Corporate Center South office park, 2500 & 2550 Paseo Verde Pkwy were purchased by Partners Capital, for a total of 100,769 SF with plans to convert the buildings into a lifestyle retail center in the near future.				
Harpeth Capital	Centennial Hills Center 7	Northwest	\$4,450,000	9,663
Harpeth Capital purchased Centennial Hills Center 7 for \$460.52/SF with a blend of traditional and medical office use tenants in place.				

Source: Newmark Research



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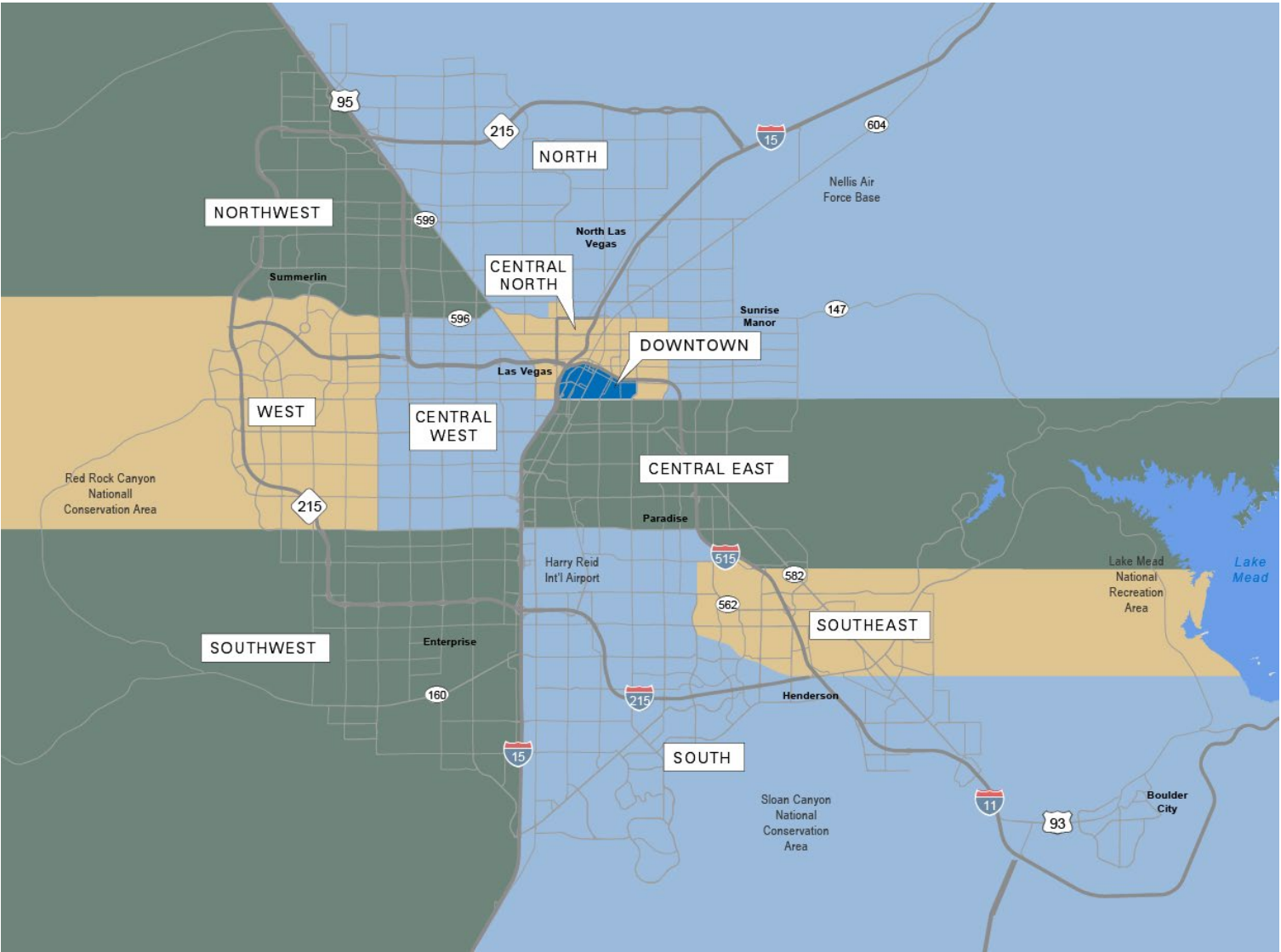
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# Appendix





# Las Vegas Metro Office Submarket Map and High-Level Statistics | 3Q23



Market Summary				
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	39.7 M	39.7 M	39.1 M	↑
Vacancy Rate	11.9%	11.8%	11.0%	↔
Quarterly Net Absorption (SF)	-18,953	-43,392	208,314	↔
Average Asking Rent/SF	\$2.17	\$2.16	\$2.08	↔
Under Construction (SF)	563,262	600,662	843,937	↔
Deliveries (SF)	37,400	0	6,195	↑

Source: Newmark Research

# Las Vegas Metro Office Submarket Statistics | 3Q23

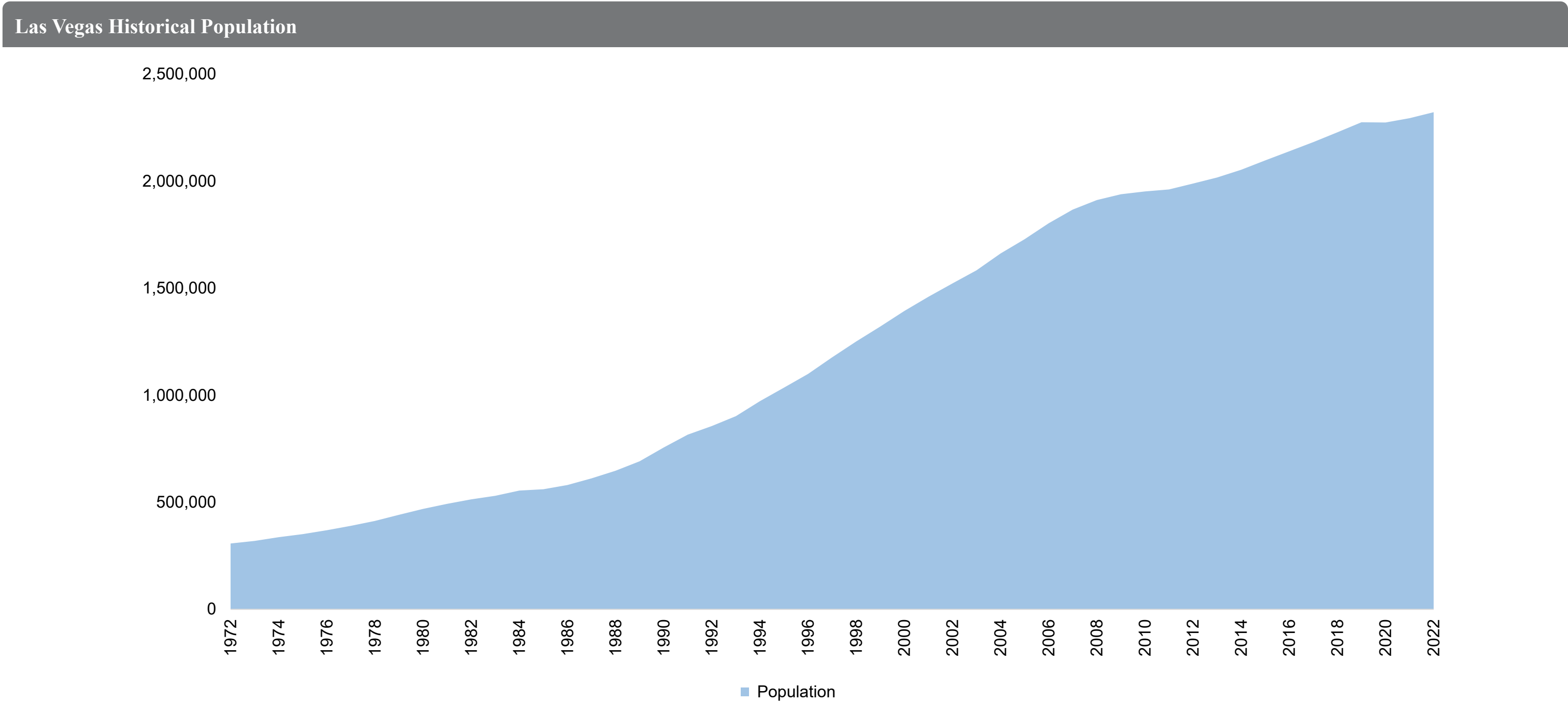
	Total Inventory (SF)	Under Construction (SF)	Vacancy Rate	Net Quarterly Absorption (SF)	Year-to-Date Absorption (SF)	Average Asking Rent (Price/SF)	Class A Asking Rent (Price/SF)
Central East	5,891,930	0	20.2%	-53,829	-57,169	\$2.17	\$2.94
Central North	581,141	0	0.7%	1,079	-339	\$1.77	N/A
Downtown	2,179,147	0	11.2%	5,718	69,750	\$2.14	\$2.62
North	1,026,045	0	4.1%	1,386	47,813	\$1.69	N/A
Northwest	5,959,910	0	16.3%	-42,189	-160,073	\$2.19	\$2.61
South	9,340,146	234,160	9.3%	-2,759	26,618	\$2.05	\$2.55
Southeast	1,315,138	0	18.2%	-30,223	-38,599	\$1.77	\$2.99
Southwest	8,134,224	329,102	8.5%	149,186	31,116	\$2.39	\$2.69
West	5,291,390	0	9.2%	-47,302	57,273	\$2.32	\$3.39
Las Vegas	39,719,071	563,262	11.9%	-18,953	-23,610	\$2.17	\$2.78

Source: Newmark Research



# Population Has Increased Seven Times Over the Past Five Decades

The Las Vegas office market is driven by population growth and the businesses and government agencies that provide services to residents. Over the past 10 years, the metro’s population grew by 16.8% and will demand more diversified office tenants to service the needs of the growing population.

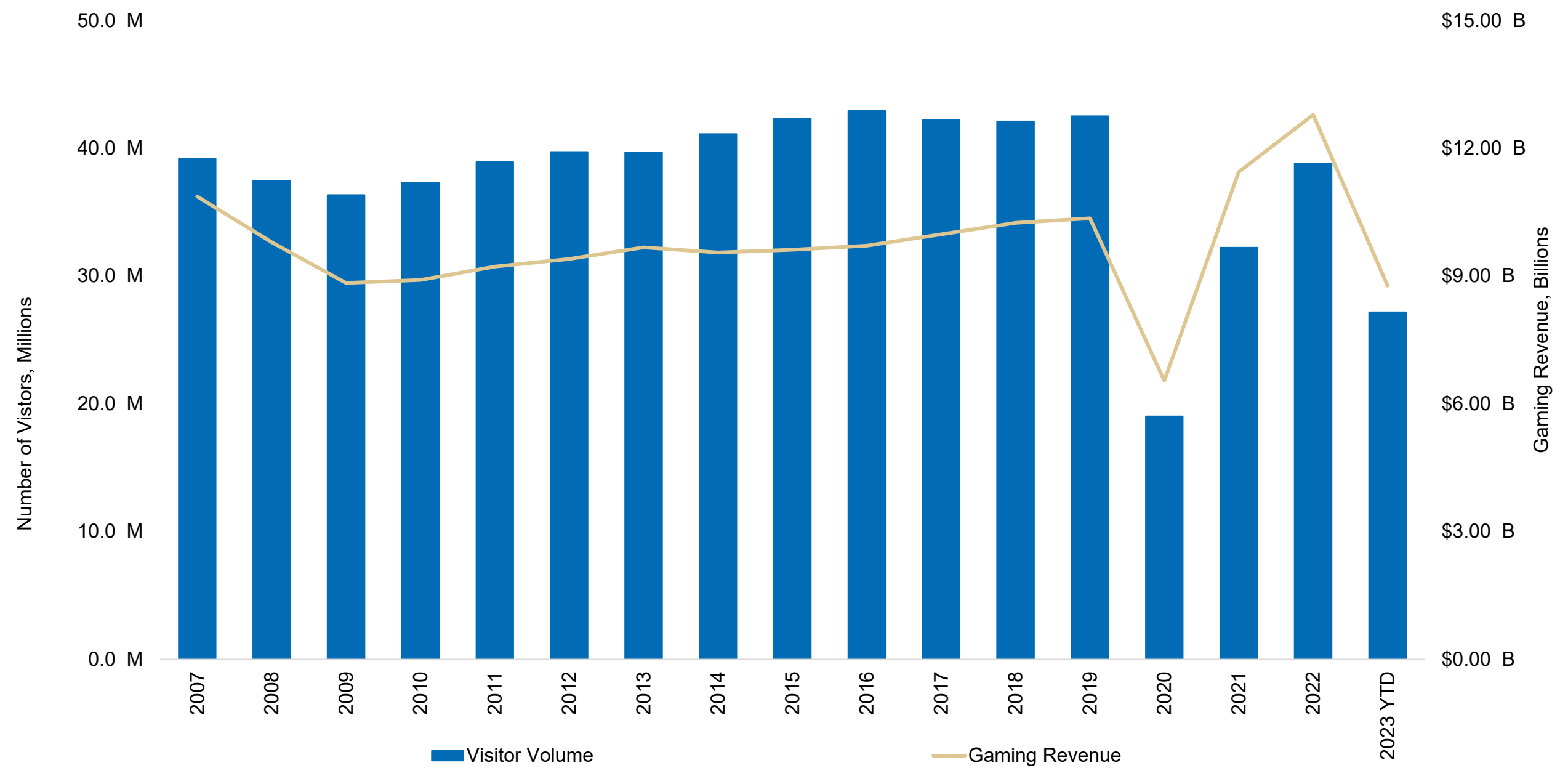


Source: Newmark Research, U.S. Census Bureau, Moody's Analytics

# Tourism Activity Rebounded in 2022, but is Now Showing Signs of Slowing

Las Vegas tourism and gaming revenue rebounded significantly in 2021 and 2022 after a sudden drop in 2020 that came from COVID-19 social distancing measures at the time. The totals for 2023 will likely come close to, but not surpass, those of 2022, due to today’s more-restrained consumer spending.

Tourist Visitor Volume and Gaming Revenue Totals



Source: Newmark Research, Las Vegas Convention and Visitors Authority

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