

4Q23

Las Vegas Office Market Overview



Market Observations

Economy

- Las Vegas’s unemployment rate was 5.1% in November 2023, down 70 basis points from 12 months ago and still higher than the national average. Local nonfarm year-over-year job growth (+3.8%) surpassed that of the nation’s (+1.8%).
- Construction, leisure/hospitality, and manufacturing each had 12-month employment growth of +5.0% in November. 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, however.
- 12-month job growth in office-using employment sectors was healthy, with a 16.9% increase in office-using employment before the pandemic disruption.

Major Transactions

- A balanced mix of direct new, renewals and subleases occurred in 2023.
- Leasing activity for 2023 remained heavily concentrated in the Southern submarkets as new construction deliveries over the past couple years fill to capacity. Top-tier space will become increasingly more difficult to find in this area and will push users to other portions of the region and/or consider sublease space.
- Finance, 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 2023 increased by 56,422 SF. Office vacancy has found stabilization with a balance of square feet entering the market at a similar pace as what is leaving the market.
- Under-construction activity is measured at best, representing only 1.3% of existing inventory. Most construction projects are built-to-suit, small scale or linked to mixed-use projects.
- Just 32,900 SF in new construction delivered in the fourth quarter of 2023.
- 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, such as law firms and insurers. These industries will help bolster the office market via more-traditional and diverse tenant profiles.
- Rents for sub-trophy buildings will likely soften as tenants pursue top-shelf space.

1. Economy
2. Market Fundamentals
3. Appendix

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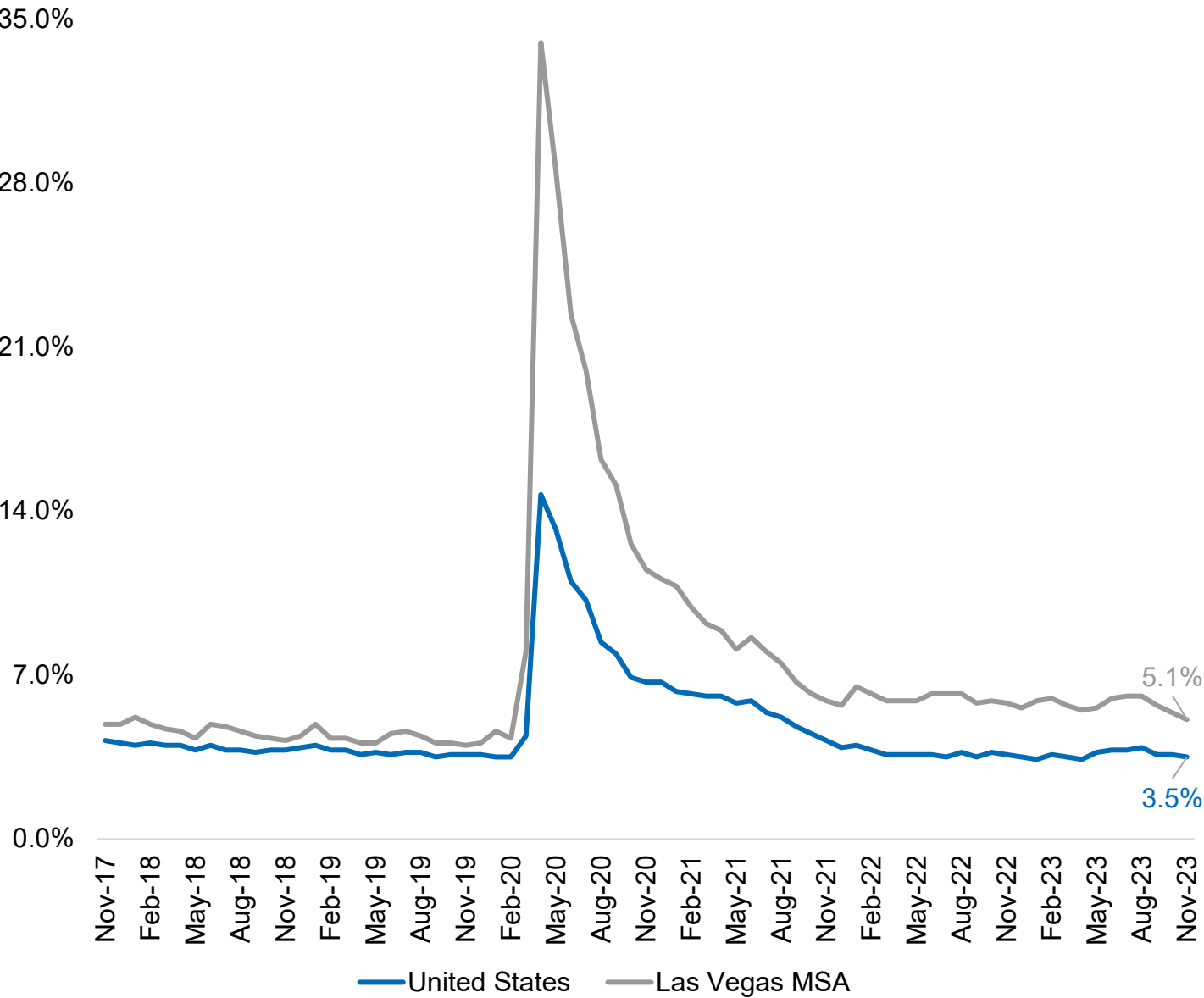
Economy



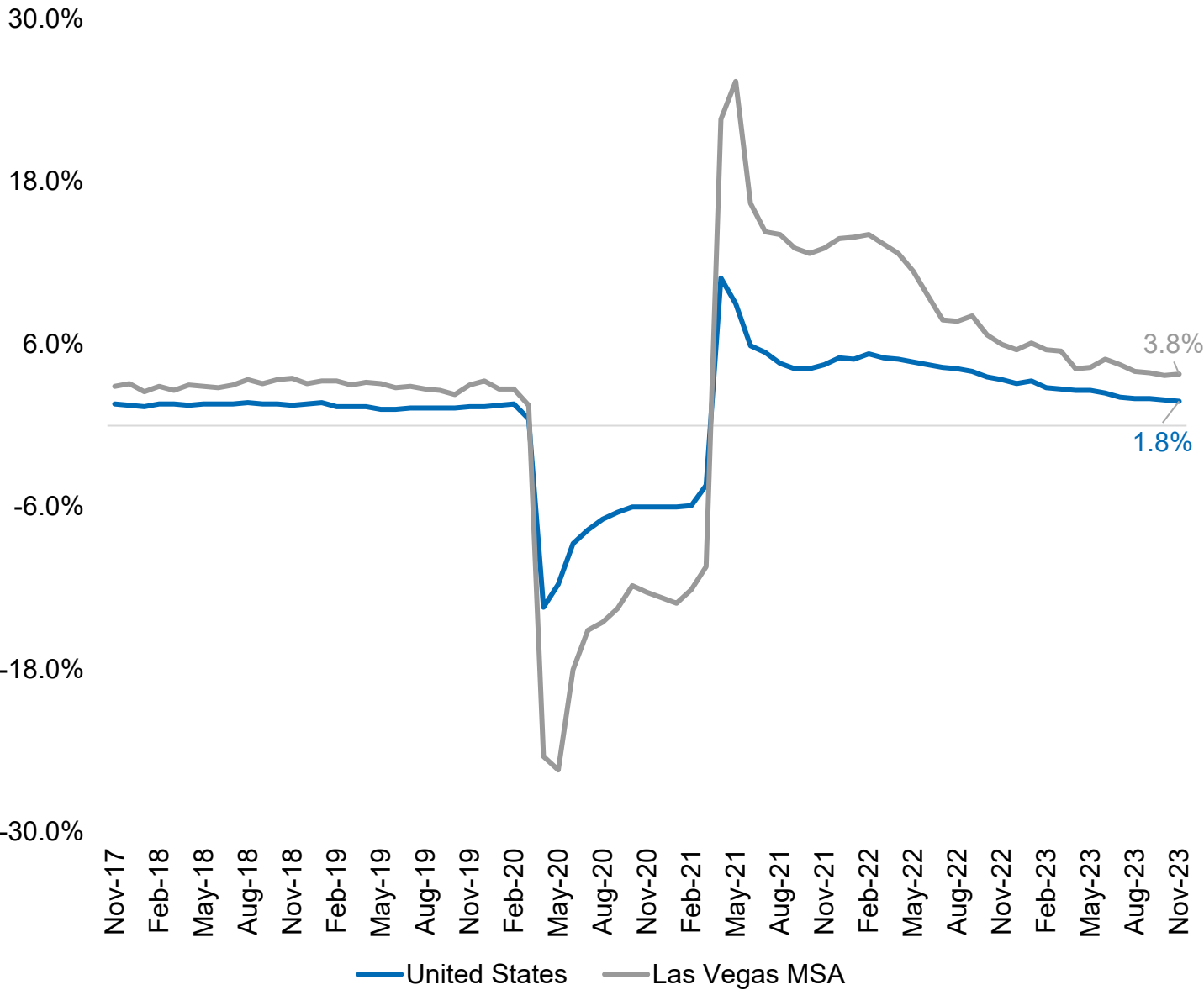
Las Vegas Labor Market Still Recovering from Pandemic Disruption

Local unemployment is historically higher than the national average due to volatility in the tourism industry when the economy downcycles; hence, 34.0% unemployment 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 the recent 12-month employment growth rate: a 3.8% gain, which was 200 basis points higher than the nation.

Unemployment Rate, Not Seasonally Adjusted



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

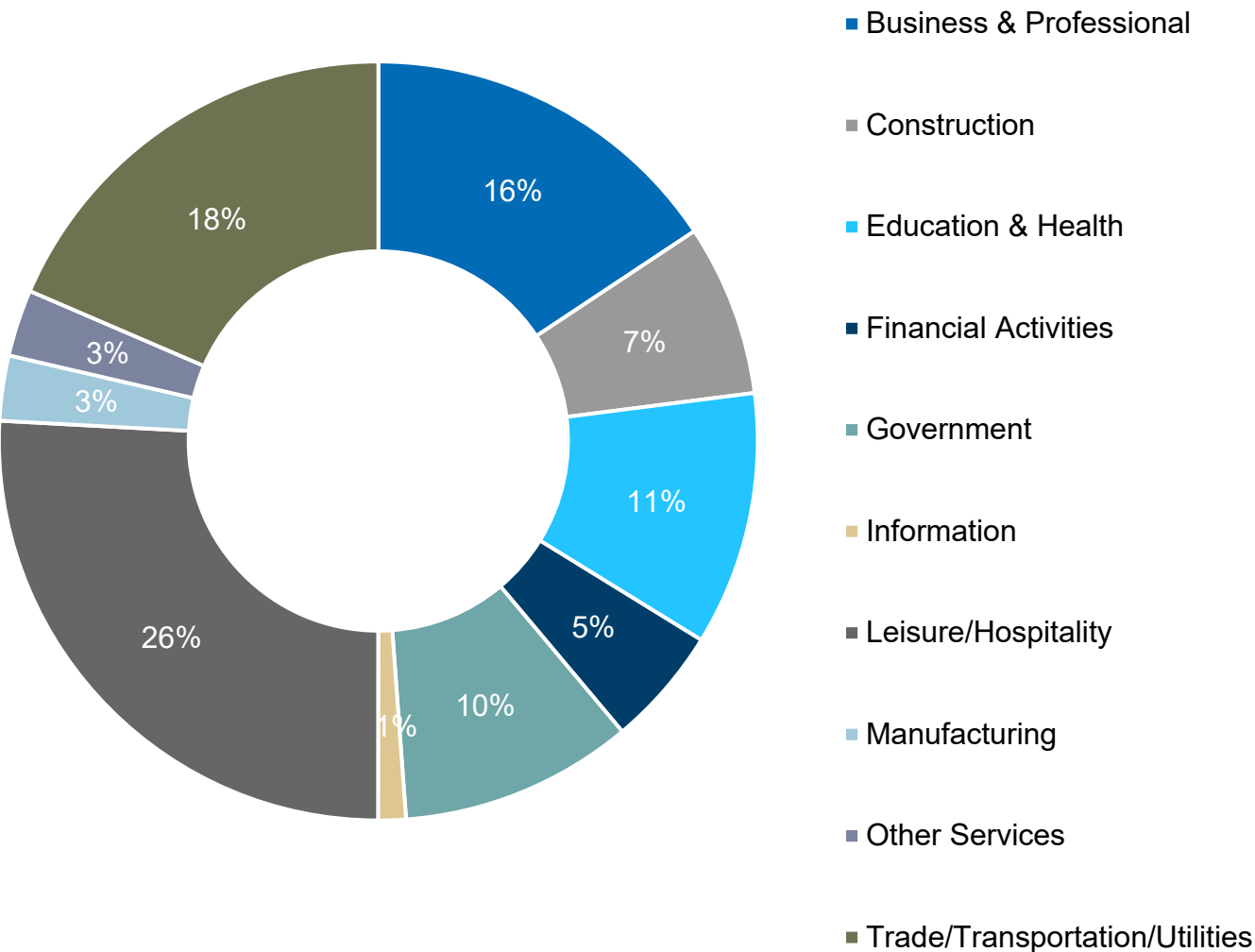


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA
Note: November 2023 data is preliminary.

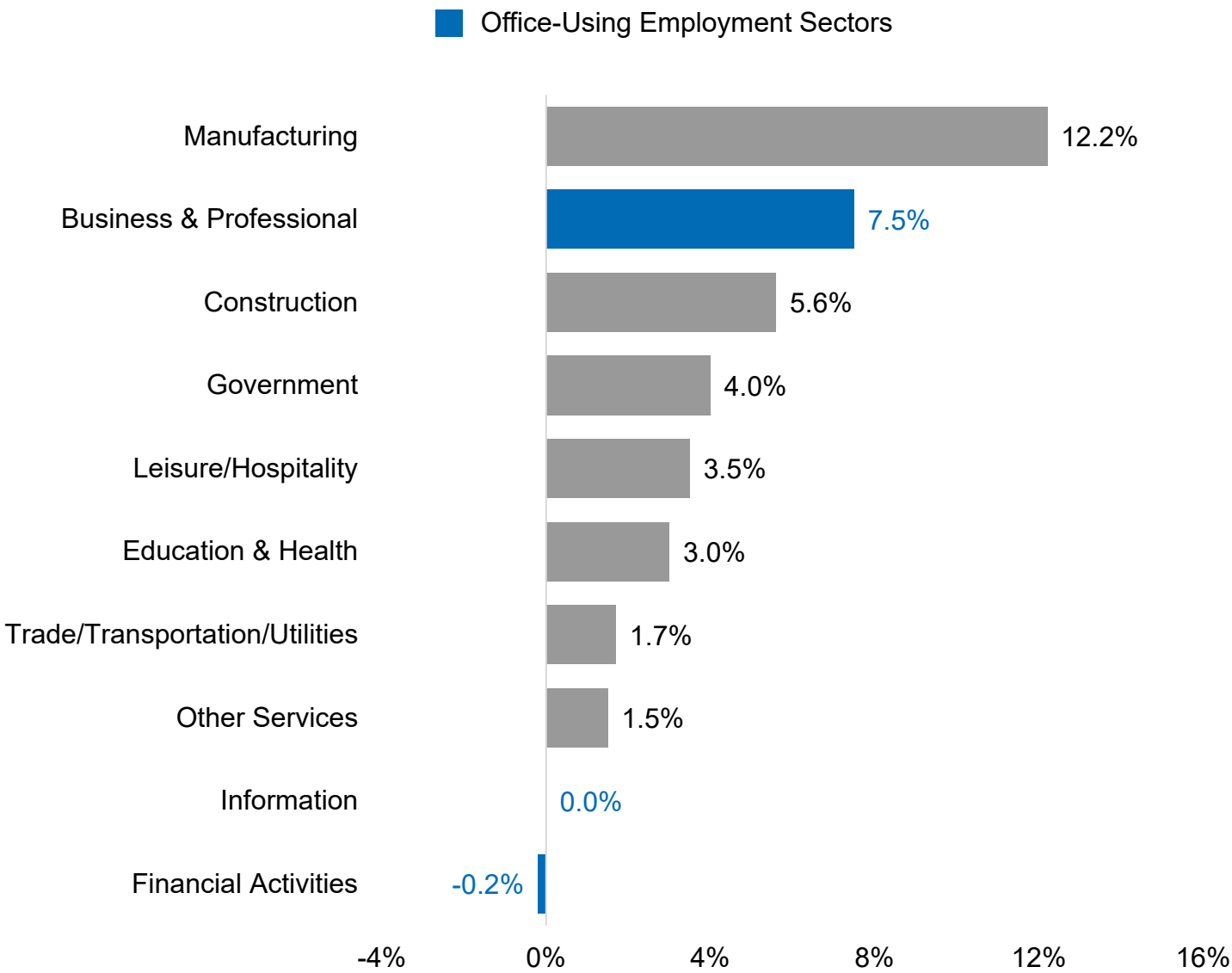
Job Growth Becoming More Balanced between All Sectors

Leisure/hospitality continues to be the dominant sector, comprising 25.8% 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 have steadily been increasing most months to meet the needs of a growing population. Strong job gains in manufacturing, meanwhile, are reflective of Nevada’s business-friendly environment: a Right-to-Work state that does not have any corporate and personal income taxes.

Employment by Industry, November 2023



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

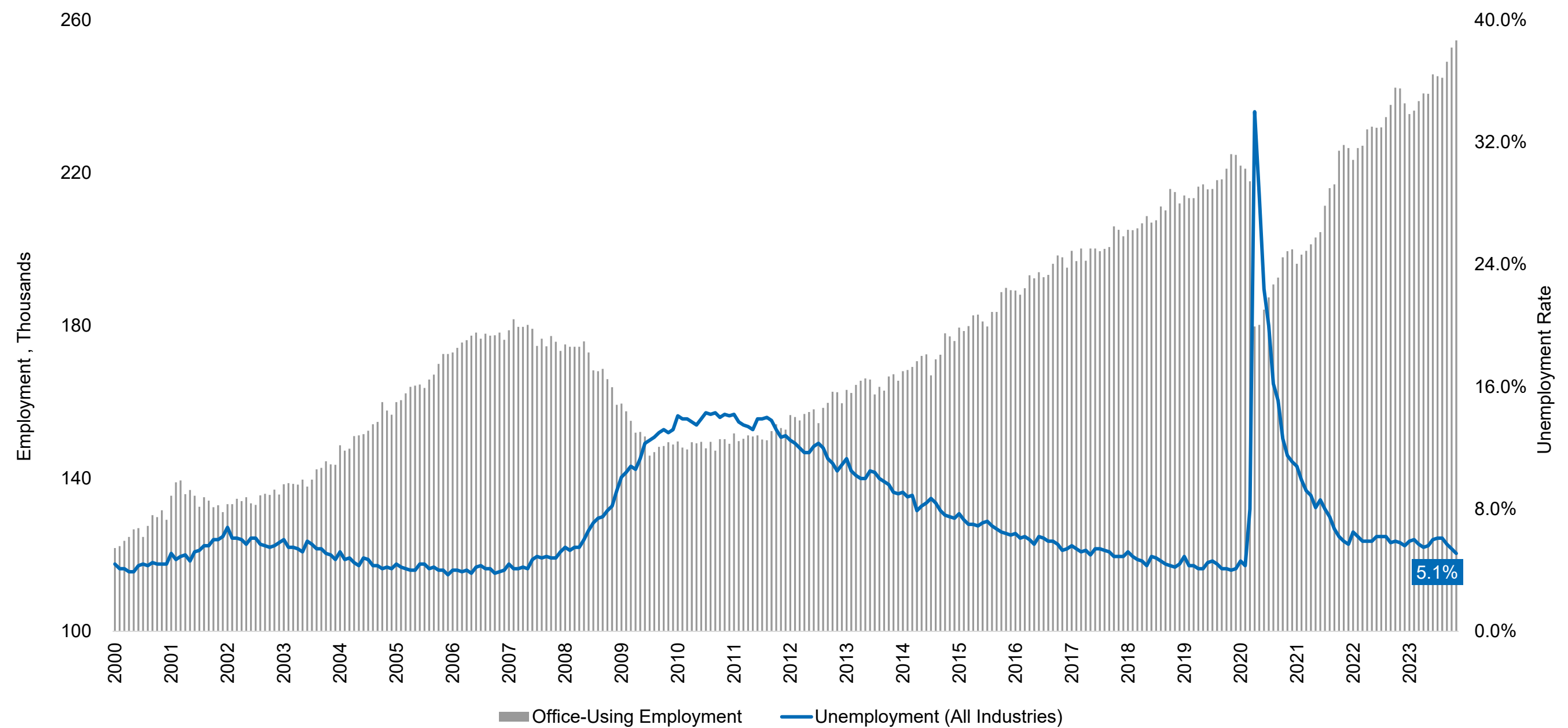


Source: U.S. Bureau of Labor Statistics, Las Vegas MSA
Note: November 2023 data is preliminary.

Overall Office-Using Employment At Highest Levels Despite Pandemic Disruption

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 16.9% higher than pre-pandemic levels. Contractions in the business and professional services sector mid-year led to growth stagnation but were recovered in the last quarter of 2023.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Las Vegas MSA
Note: November 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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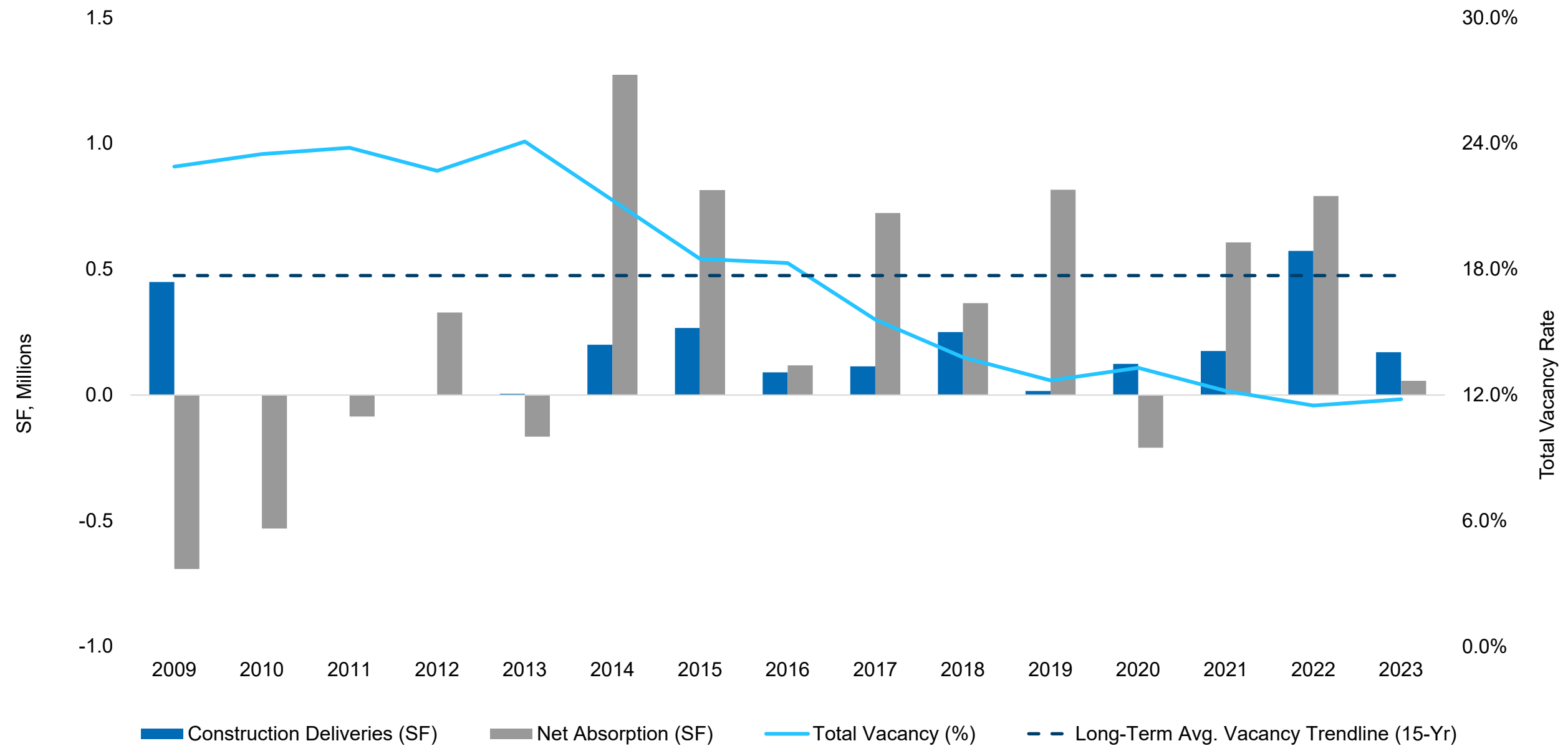
Market Fundamentals



Vacancy Remains Stable and Well Below Metro Historical Average

The metro’s efforts to diversify its economy after the Global Financial Crisis (GFC) 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, ending in positive annual net absorption and lowered vacancy from 2021 onwards.

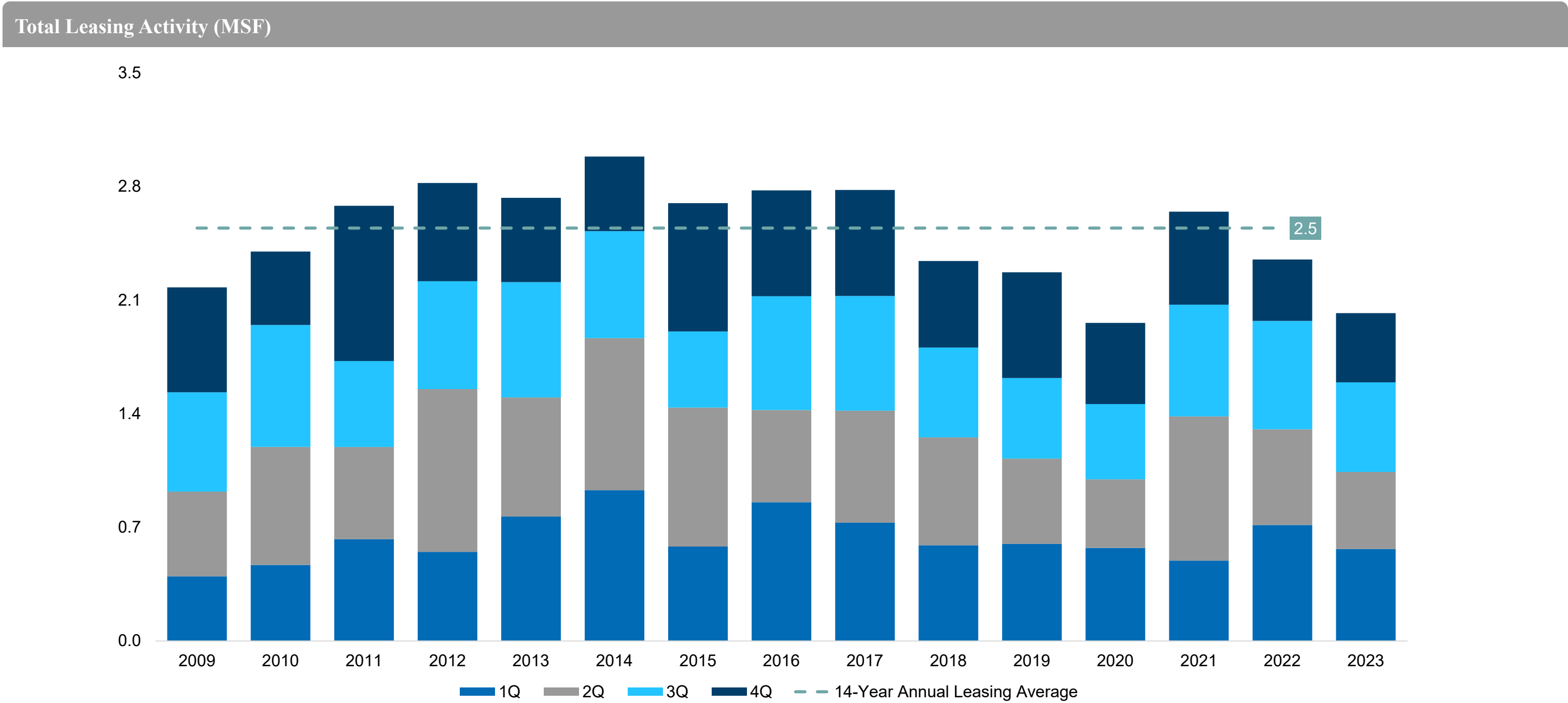
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Slowed to 2020 Levels

Leasing activity in 2023 barely surpassed 2020’s levels by 3.1%, the Metro’s lowest in recent years. Although Las Vegas has not been hit with large increases in vacancy or negative net absorption, ongoing space reductions, a cloudy economic outlook and the higher cost of capital are expected to dampen leasing activity in the coming quarters.

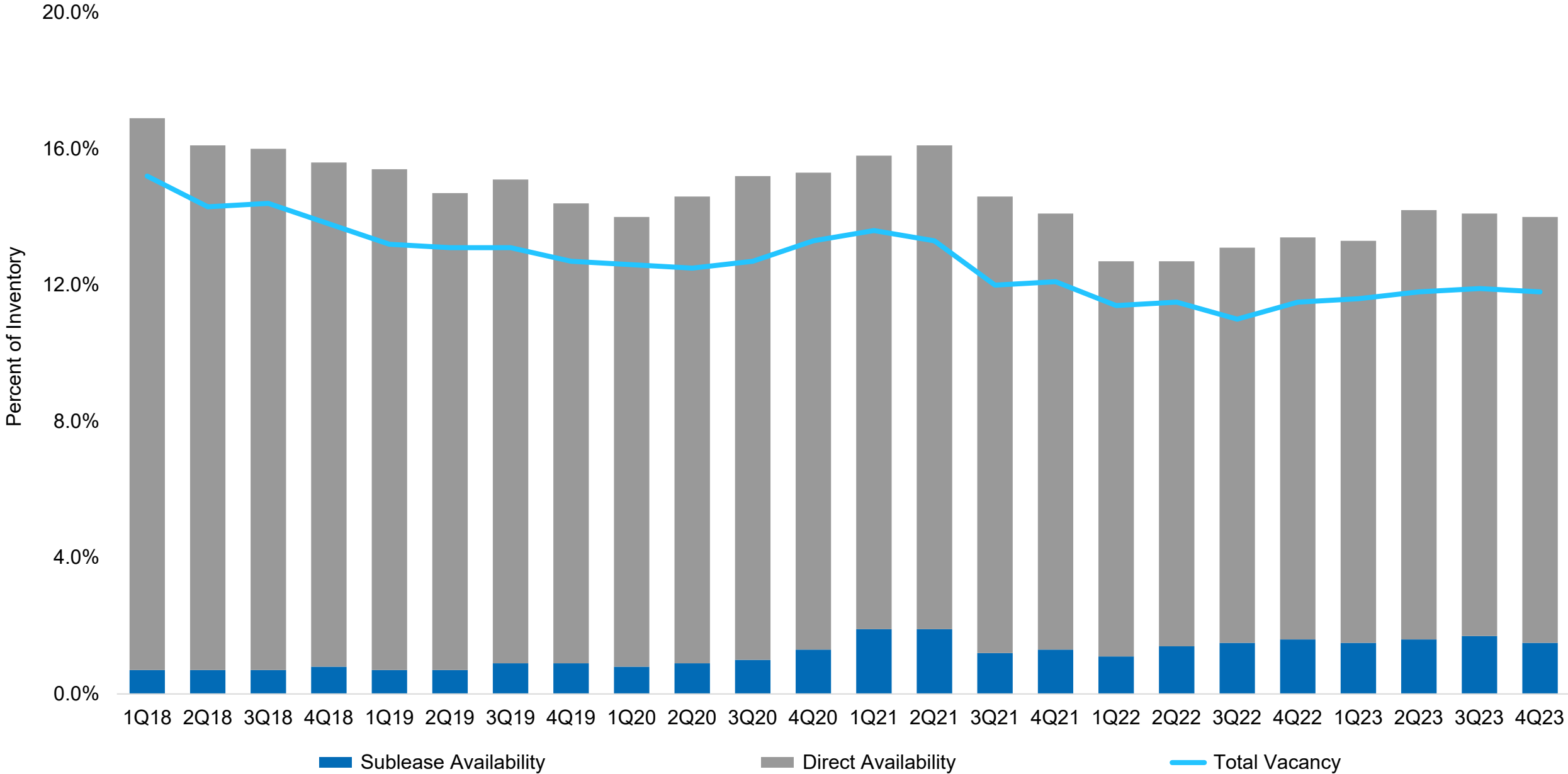


Source: Newmark Research

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 upwards or downwards quarter over quarter in 2023. Although the office market is stabilized, stagnation in both supply and demand could lead to rental growth losses as space remains on market longer than the historical average.

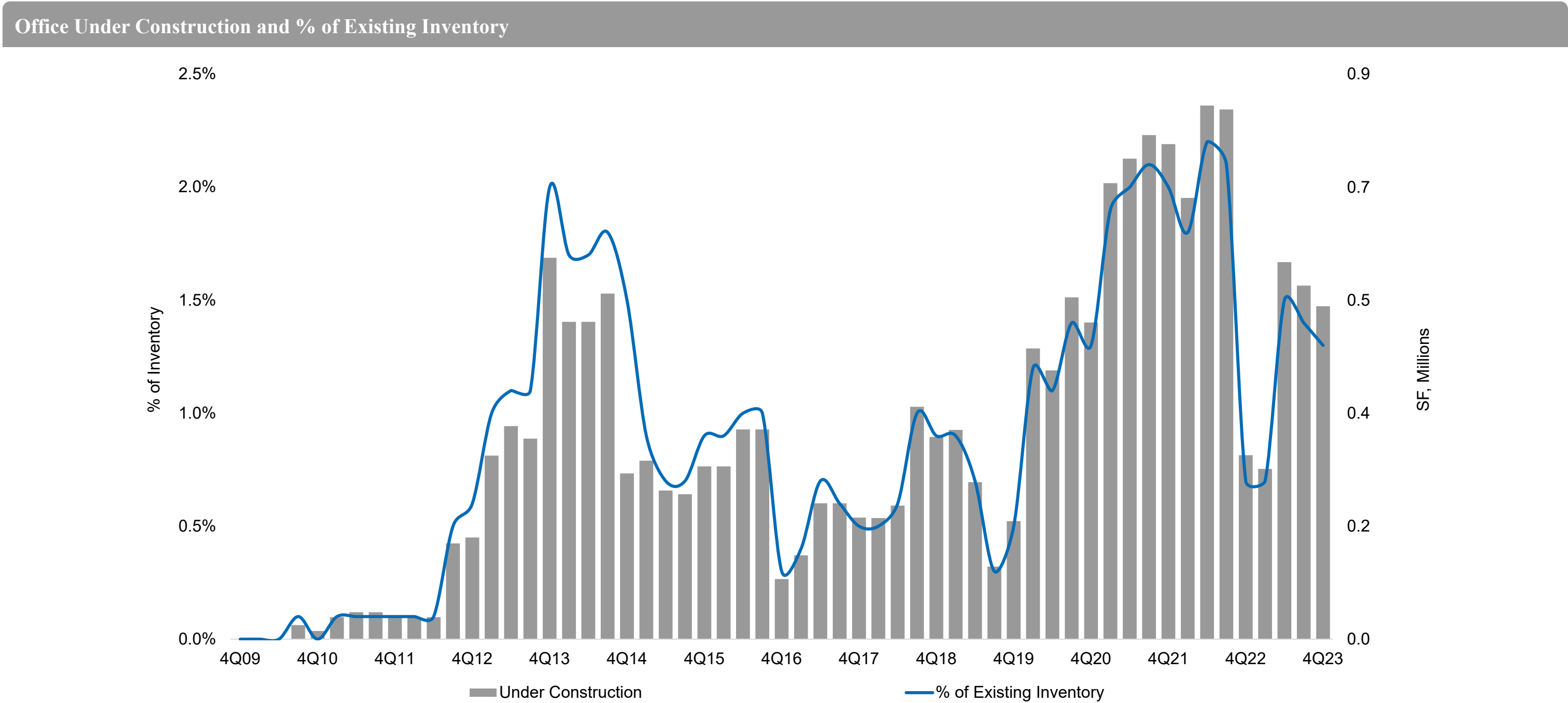
Available Space and Total Vacancy as Percent of Overall Market



Source: Newmark Research

Measured Development Persists in Office Product

Despite inflation and higher 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 16.9 MSF 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.

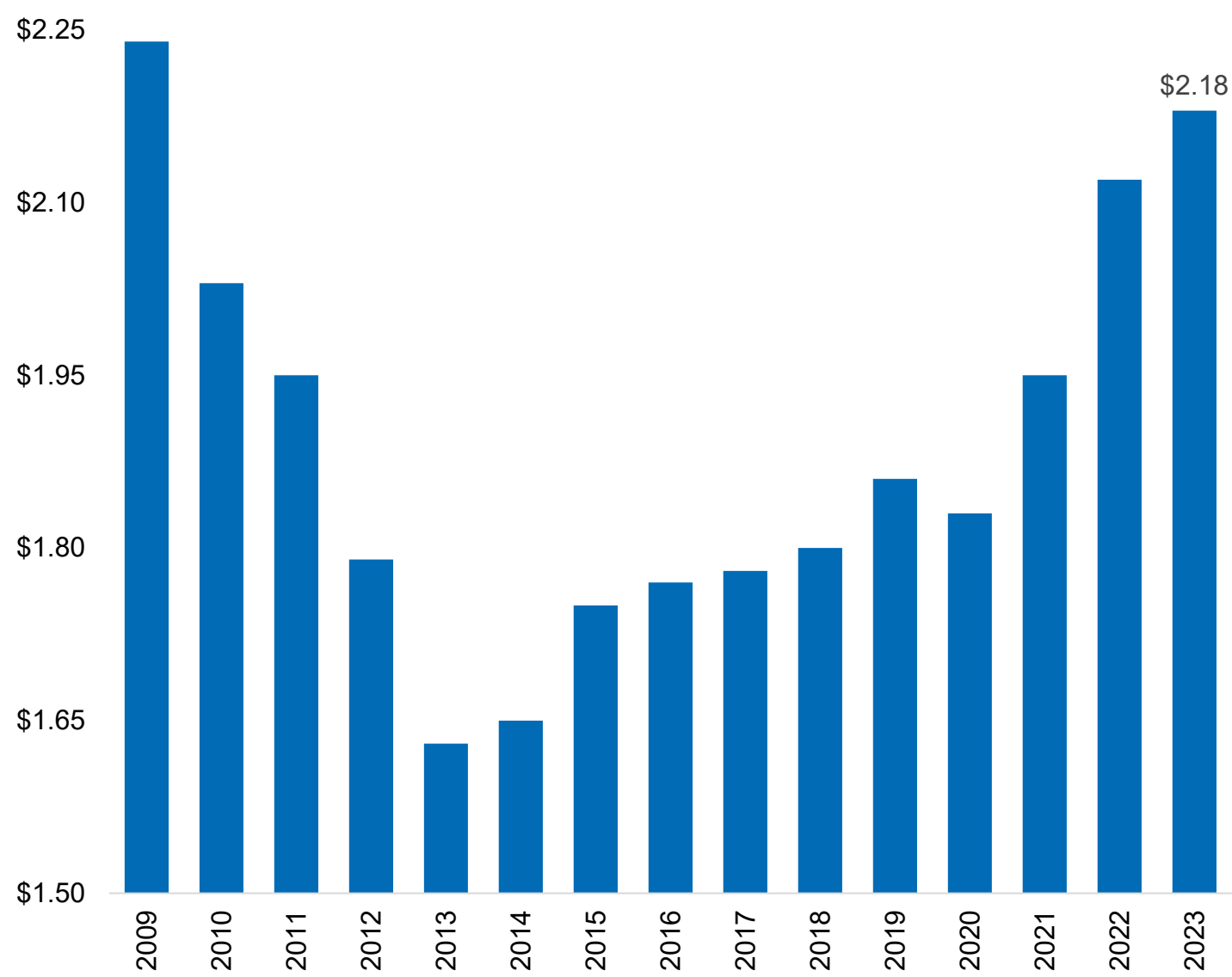


Source: Newmark Research

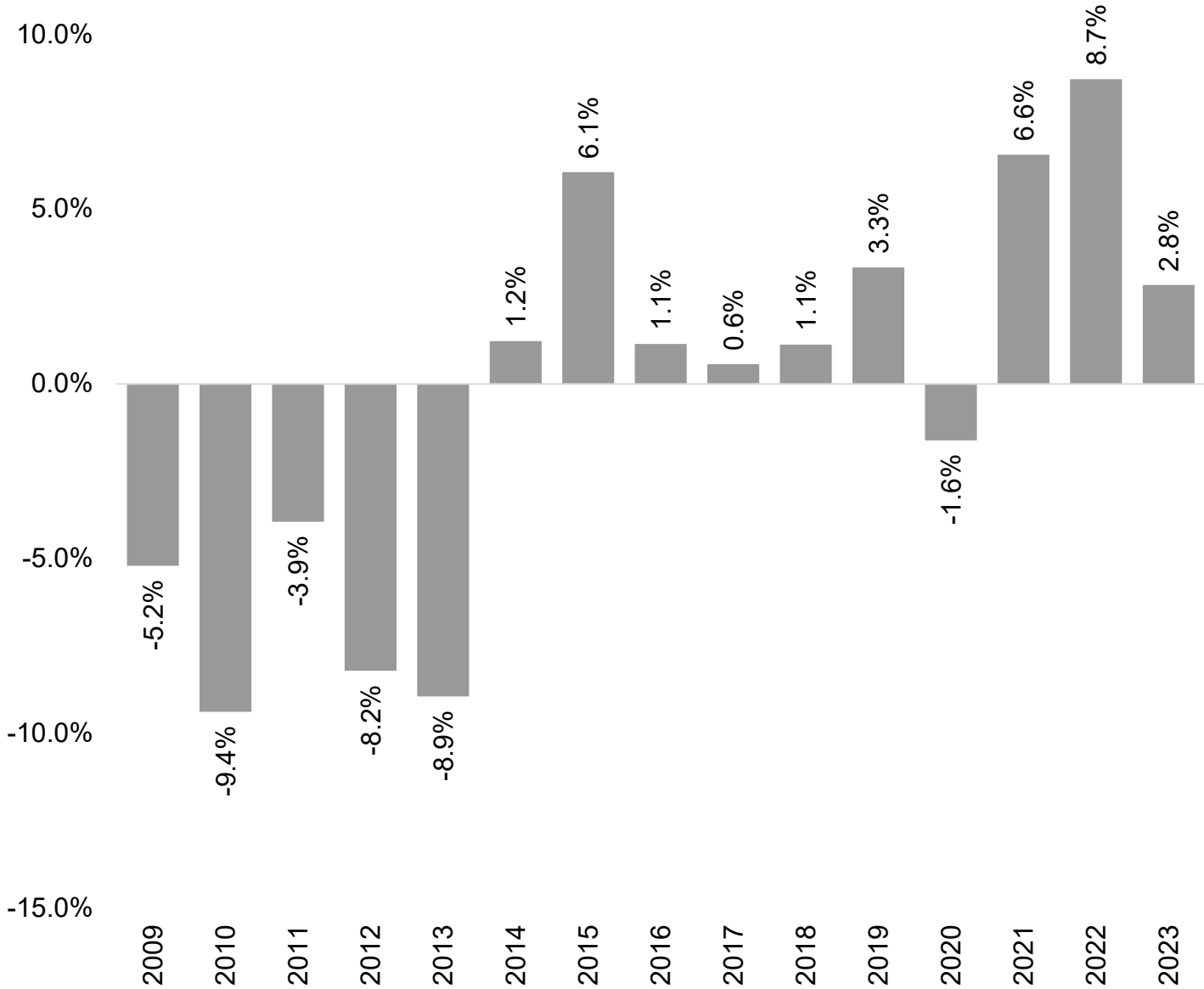
Asking Rents Inch Closer to Pre-GFC Levels

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 2.7% below the high of \$2.24/SF back in 2009. Rent growth will continue, but at a slower pace than recent years.*

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



Year-over-Year Asking Rent Growth Rate

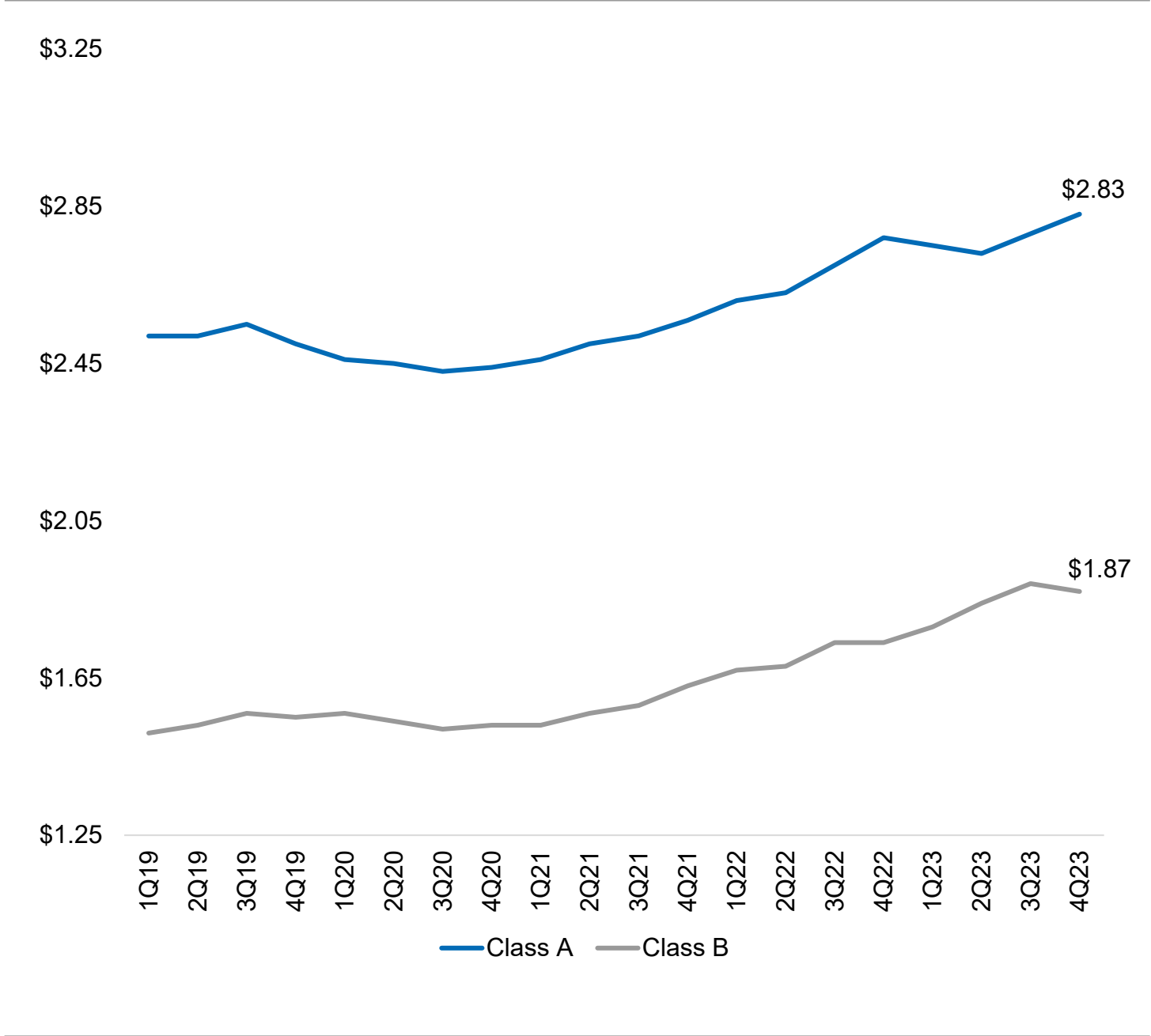


Source: Newmark Research
Note: Year-over-year growth exceeded 3% in three of the last five years.

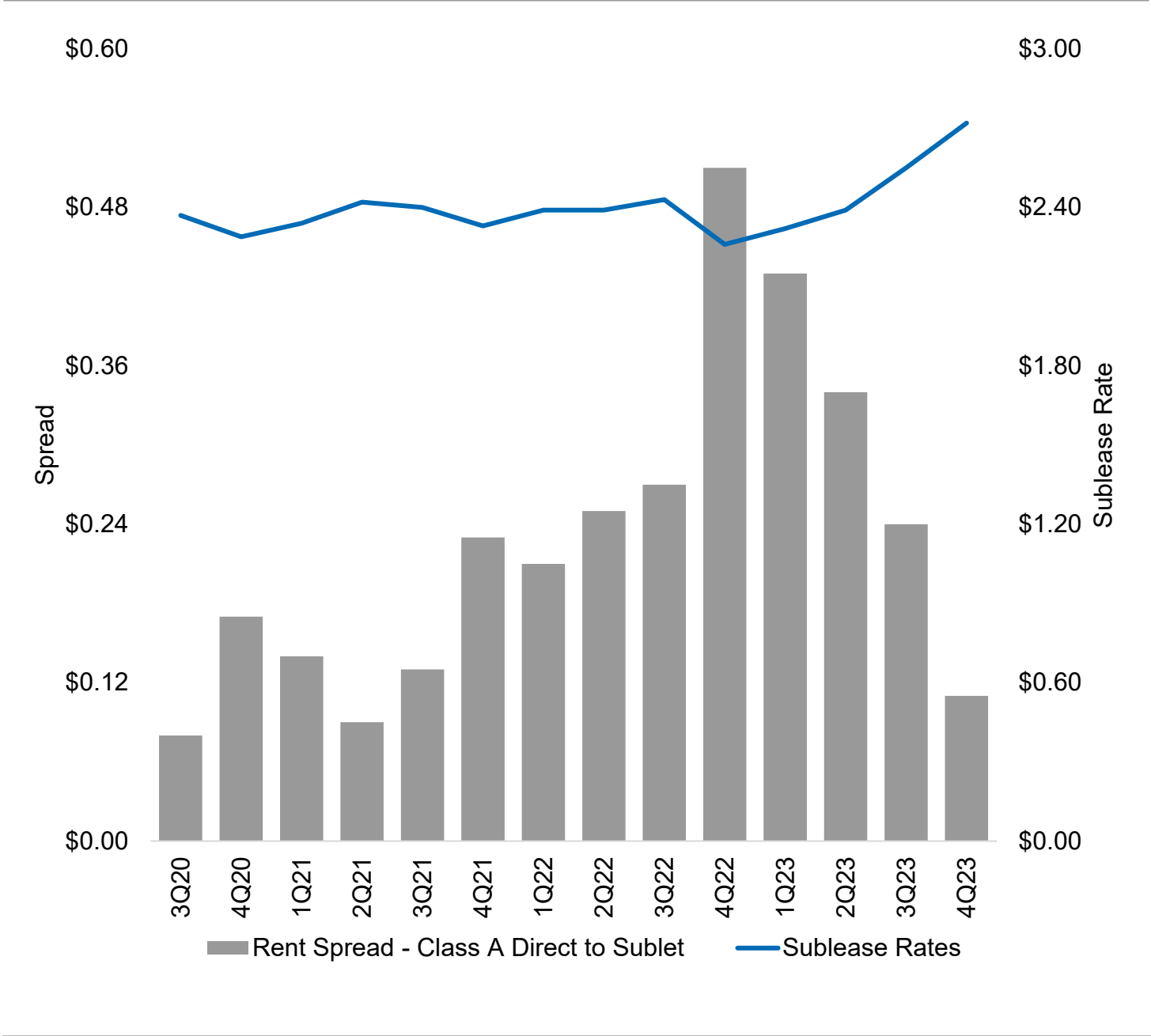
Rent Spread Between Sublet and Class A Direct Rates Closing

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 in the fourth quarter of 2022 to a \$0.11/SF gap by the end of the fourth quarter of 2023.

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



Sublease Asking Rates



Source: Newmark Research

Leasing Activity Concentrated to Southern Metro

Most recent construction deliveries were based in the South, and (in a flight-to-quality environment) this led to an increase in leasing activity and rates as tenants filled new developments such as Uncommons and Narrative. Financial service companies were active in the last quarter of 2023.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Snell & Wilmer	1700 Pavilion	West	Direct Lease	27,542
Law firm, Snell & Wilmer, leased a portion of the seventh floor in the new development.				
Wells Fargo Clearing Services	Uncommons – Building 4	Southwest	Pre-lease	16,132
Wells Fargo will take occupancy once the building delivers in 2024.				
US Bank	Narrative	Southwest	Direct Lease	12,366
US Bank committed to space on the fourth floor; the building finished construction in 2023.				
Hawaii Pacific University	6175 W. Sunset Rd.	Southwest	Direct Lease	11,837
The tenant opened a satellite location after committing to a 10-year lease term.				

Source: Newmark Research

Sales Activity Strong Among Owner-User Occupiers

Some office users made the move to purchase buildings to occupy in lieu of leasing. With more buildings available for sale in the West, that portion of the metro saw increased sales activity in the fourth quarter of 2023.

Notable 4Q23 Sale Transactions				
Buyer	Building(s)	Submarket	Price	Square Feet
Mozi Media	2960 W. Sahara Ave.	West	\$9,050,000	24,868
Mozi Media will occupy as an owner-user.				
Diversified Real Estate Group	1050 Indigo Dr.	Northwest	\$8,100,000	21,347
24 th Street Asset Management sold to Diversified Real Estate Group in a partial investment/owner-user deal.				
Brilliant International Academy	7401 W. Charleston Blvd.	West	\$6,900,000	34,034
After being on market for over five years, Brilliant International Academy purchased 7401 W. Charleston Blvd. to occupy.				
West Sahara Management	Great American Plaza A	West	\$5,800,000	26,671
Occupied by a diverse mix of tenants, Great American Plaza A was purchased at 100% occupancy.				

Source: Newmark Research

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Appendix



Las Vegas Metro Office Submarket Map and High-Level Statistics – 4Q23



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Las Vegas Metro Office Submarket Statistics – 4Q23



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Population Has Increased Seven Times Over the Past Five Decades



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Visitor Volume Almost at Pre-Pandemic Levels; Gaming Revenue Breaks Records



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