VEGAS

QUARTERLY REPORT

Q109

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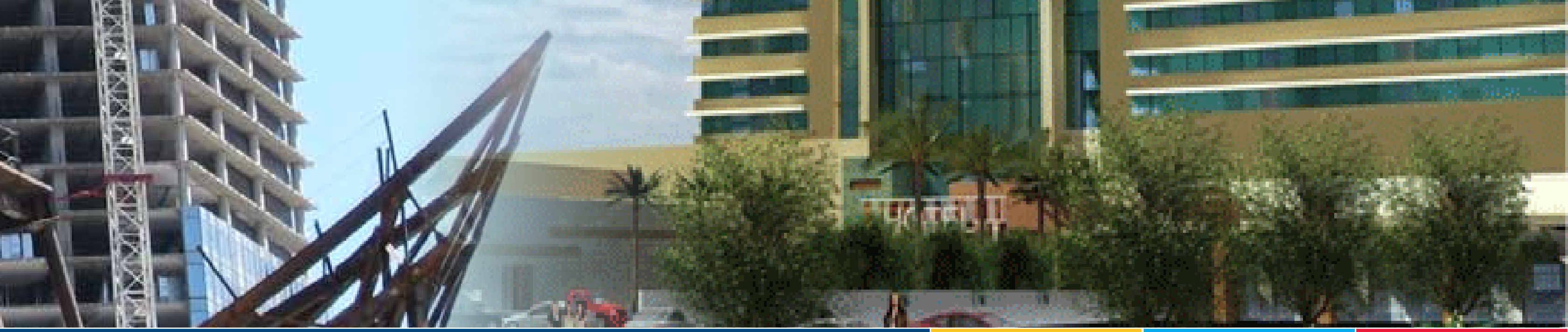

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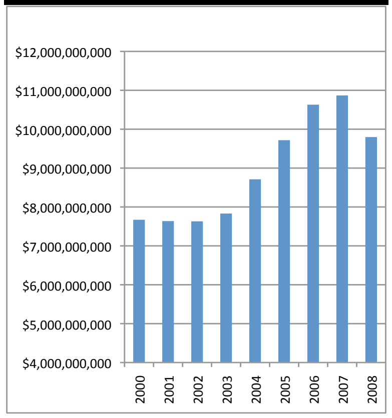
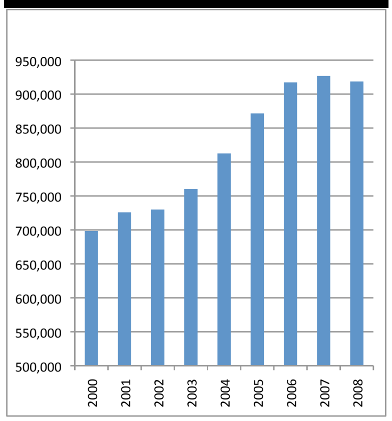
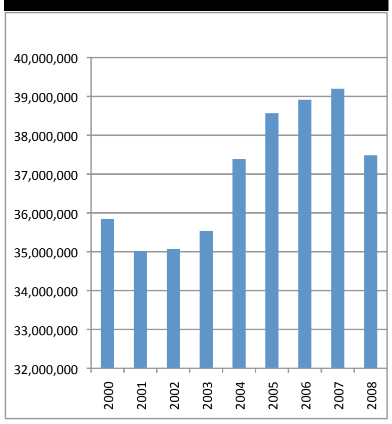
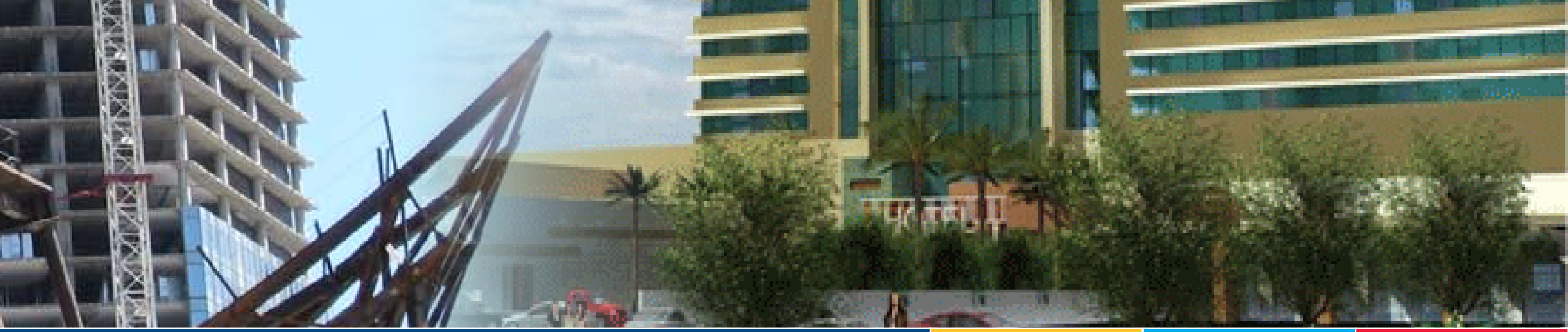


LAS VEGAS MSA EMPLOYMENT



LAS VEGAS MSA VISITOR VOLUME





Economic Review

Now that we all know that Southern Nevada, and indeed much of the world, is experiencing an economic recession, it is important to understand how we got here and how we're going to get back to economic growth. For Southern Nevada, two of our key engines of growth failed in 2007. Throughout the 1990's and 2000's, Southern Nevada was one of the country's fastest growing metropolitan areas. The availability of jobs, affordable homes, a warm climate and exciting entertainment venues drew people to Southern Nevada from all over the United States. From 1990 to 2005, Clark County's population increased by approximately 250 percent, and construction employment grew at virtually the same rate. By 2002, we began to see the effect of the housing bubble that was caused by low interest rates and the encouragement of sub-prime loans by the federal government. The strong, but ultimately unsustainable, housing sales that resulted increased the demand for land in the Valley, driving up property values at an artificial rate. When the financial system collapsed under the weight of these risky loans, Southern Nevada was left with a significant inventory of new homes in the Valley and a dearth of new residential construction. The shock wave that would rock the local economy had begun.

The Las Vegas metropolitan area lost 21,300 construction jobs and 4,300 financial activities jobs as residential development slowed in 2007 and 2008. A lack of new home owners meant a decrease in demand for furniture, so furniture stores began to close, affecting not only the retail market, but also the industrial buildings that housed their goods. People all over the country were being more careful with their money and high fuel costs were making travel by car and plane less attractive. Visitor volume and gaming revenues in Clark County fell throughout 2007 and 2008, resulting in the loss of 10,600 jobs in the leisure & hospitality sector during those two years.

Just as there was a housing bubble in Southern Nevada in 2005/2006, there was a similar bubble in commercial real estate development. After the slow-down following the dot-com bust and the terrorist attacks on September 11th, 2001, a sharp spike in demand occurred for commercial space. Development of this space increased to meet this demand, but unfortunately did not react quickly enough to the decline in demand we began to experience in 2007/2008. This left commercial real estate in Southern Nevada both over-supplied and over-valued. This overstock in both residential and commercial real estate has left the formerly booming land market at a standstill. ❖

CLARK COUNTY ECONOMIC DATA

	Feb-09	Feb-08
UNEMPLOYMENT RATE	10.1%	5.1%
VISITOR VOLUME*	3.07M	3.51M
GAMING REVENUE*	$778M	$929M
TAXABLE SALES**	$2,904M	$3,486M
NEW HOME PERMITS	139	391
NEW HOME SALES	346	786

** January 2009 / 2008 | ** December 2008 / 2007*

INDUSTRIAL

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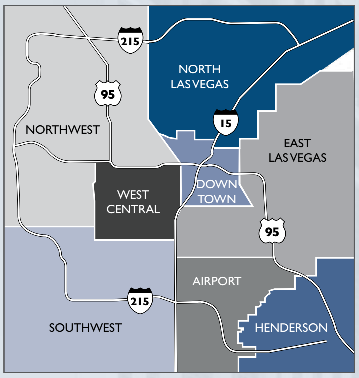


MARKET INDICATORS

	Q1-09	Q2-2009 Projected
VACANCY	↑	↑
NET ABSORPTION	↓	→
CONSTRUCTION	↑	↓
RENTAL RATE	→	↓

[1]Forward supply is a combination of space presently under construction in a quarter and space planned to begin construction within the next 4 quarters.

Industrial Review

The industrial market continued to struggle with low demand in the first quarter of 2009. Landlords and developers adjusted to the new realities of the marketplace by putting the brakes on new development. Leases signed this quarter were predominantly small in size and short in term. These deals mostly represented downsizing or bargain hunting by existing tenants, rather than new entries into the Valley. These small leases were overwhelmed by the large number of new availabilities that entered the market in the first quarter of 2009, keeping industrial vacancy on the rise.

Employment in traditionally industrial sectors continued to decline in the first quarter of 2009. Between February 2008 and February 2009, a total of 15,600 industrial jobs were lost, with the largest losses experienced by the construction sector. Over the same period, only two sectors of employment, education & health services and government, showed an increase in employment. The declines in construction employment were especially damaging to the local economy because construction employment accounted for 11.1 percent of total employment in the Valley, compared to just 5.5 percent for the United States as a whole . Unemployment in the Las Vegas MSA stood at 10.1 percent as of February 2009, up from 5.5 percent in February 2008.

A total of 739,048 square feet of new industrial space was completed this quarter, most of it in the Light Distribution category. Construction on most of this space began between February and June of 2008, before it was apparent that the nation was in a recession. Since then, approximately 307,000 square feet of new industrial space began construction. Vacancy in newly completed space stood at approximately 96 percent this quarter. Prominent new completions included Sunset Pointe Industrial Center

(104,000 square feet), The Arroyo South Business Center (380,000 square feet), Sun Arville Business Center (50,000 square feet), The Seven Series at Hughes Airport Center (103,000 square feet) and phase one of Buffalo/215 Business Park (73,000 square feet).

Forward supply of industrial space in the Valley stood at 2.2-million square feet in the first quarter of 2009. This was 1.6-million square feet lower than last quarter. Most of this forward supply (60 percent) was in Warehouse/Distribution buildings, with the balance in Light Industrial, Light Distribution and Incubator. The North Las Vegas submarket had the lion's share of this forward supply space (1.8-million square feet). Forward supply in the Southwest submarket once rivaled that of North Las Vegas, but has recently fallen to a mere 341,675 SF, with most of that space under construction.

Industrial vacancy increased to 11.1 percent this quarter, a 0.8-point increase from one quarter ago and a 4.2-point increase from one year ago. Industrial vacancy has increased for the past eleven quarters, from a low of 3.1 percent in the second quarter of 2006. The last time industrial vacancy was close to the present rate was in the fourth quarter of 2003, when it stood at 10 percent. The Valley's highest vacancy rate was in the Northwest submarket, at 24.5 percent. The lowest was in East Las Vegas, at 8.5 percent. All submarkets except North Las Vegas experienced an increase in vacancy rates this quarter over last.

The weighted average asking rental rate for industrial space remained stable this quarter at $0.76 per square foot (psf) on a triple-net basis (NNN). If adjusted for inflation, the average asking rental rate has decreased by $0.05 since the second quarter of 2006. The 405 new direct lease availabilities that entered the industrial market this quarter had an average asking rental rate of $0.65 psf NNN.

The inventory of owner/user industrial properties available for sale increased this quarter to 4,065,448 square feet, an increase of almost 3,000,000 square feet since the first quarter of 2008. The inventory of industrial buildings up for sale as investments has increased from 241,053 square feet in the first quarter of 2008 to 1,050,278 square feet this quarter. Asking prices for both owner/user and investment properties declined over the same period. Similar declines have been seen in the number of industrial buildings selling for either owner/user or investment purposes and in the prices those sales have commanded.

Warehouse/Distribution continued to be the healthiest product type in the Valley. It had the lowest vacancy rate among product types at 6.3 percent and the highest net absorption at 26,403 SF this quarter. The average asking rental rate for Warehouse/Distribution decreased this quarter by $0.02 to $0.58 psf NNN. The strongest Warehouse/Distribution submarket was North Las Vegas, with a 4.3 percent vacancy rate, $0.49 psf NNN average asking rental rate and 114,382 SF of net absorption. Warehouse/Distribution vacancy has not yet begun to approach the high of 11.5 percent experienced in the first quarter of 2004. Recent tenants have cited the state of Nevada's pro-business policies as well as competitive asking rents as reasons they leased Warehouse/Distribution space in Southern Nevada.

Demand for Light Distribution space was impacted negatively by weak employment numbers in both the leisure & hospitality and retail sectors. Light Distribution space in the Southwest, which often services the resort casinos on the Las Vegas "Strip",

MARKET SNAPSHOT

	Q4-08	Q1-09	Change
Vacancy Rate	10.3%	11.1%	+0.8
Asking Rent	$0.76	$0.76	$0.00
Net Absorption (sf)	1,830	-221,213	-219,383
New Completions (sf)	495,411	739,048	+243,637

"If we see sustained employment gains in 2010, we will see a corresponding increase in demand for industrial space in 2011."

experienced an 8.9-point increase in vacancy over the past twelve months, from 8.6 percent in the first quarter of 2008 to the current 17.1 percent.

Development of Light Industrial space became quite popular over the past two years as land values exploded due to the housing bubble. From 2007 to present, over 2.2-million square feet of Light Industrial space was completed in the Las Vegas Valley. Over that same period, Light Industrial vacancy increased from 3.8 percent to 11.2 percent. Much of the Light Industrial space that is now on the market is for sale. Since sales are now almost non-existent, we think Light Industrial vacancy will remain high for the foreseeable future.

Vacancy in Incubator space stood at 14.1 percent this quarter, an increase of 7.5-points since the first quarter of 2008 and a clear sign that the creation of new businesses in the Las Vegas Valley has decreased significantly. A reinvigoration of the market for Incubator space will be an indicator that recovery is ahead.

The Las Vegas industrial market will not experience significant recovery without a marked increase in employment, especially in the construction and leisure & hospitality sectors. New leisure & hospitality jobs will boost demand for Light Distribution space near the Las Vegas "Strip", and the resulting revival of retail jobs throughout the Valley will help both the Incubator and R&D/Flex markets. While Warehouse/Distribution space remains comparatively healthy, increasing unemployment in California and Arizona could prove harmful.

On the upside for the local economy, institutional problems in California could drive employers and entrepreneurs to the more pro-business environment of Nevada. The Nevada Development Authority (NDA) has seen a slight uptick in inquiries from California over the last few months. If we see sustained employment gains in 2010, we will see a corresponding increase in demand for industrial space in 2011.

REGIONAL WAREHOUSE / DISTRIBUTION	
Market	Asking Rent (Q4-08)
Las Vegas, NV	$0.65 psf NNN
Inland Empire, CA	$0.86 psf NNN
Phoenix, AZ	$0.64 psf NNN
Reno, NV	$0.23 psf NNN

Metrics for Recovery

Despite the somewhat bleak picture painted above, the national and local economies will recover. We think that several metrics can be established to predict how quickly that recovery will occur for the commercial real estate market. The health of the commercial real estate market is tied directly to employment. Employees take up space, and thus increases in employment eventually translate into demand for more space. Our study of the Southern Nevada real estate market for the past ten years has taught us that there is usually a 9 to 12 month lag between employment gains and increases in occupied square footage. Employment will, therefore, be the best indicator of impending recovery for the real estate market. Of primary importance to the Southern Nevada economy is employment in the leisure & hospitality and construction sectors. Gaming revenue is probably the best indicator of employment growth in the leisure & hospitality sector. Renewed employment growth in construction requires an increase in demand for new homes. A good indicator of renewed demand for new homes, and thus an increase in construction jobs, is a shrinking gap between the median price for a new home and the median price for an existing home. As employment in leisure & hospitality and construction grows, employment in other sectors will follow suit and we will begin to see an increase in demand for commercial space.

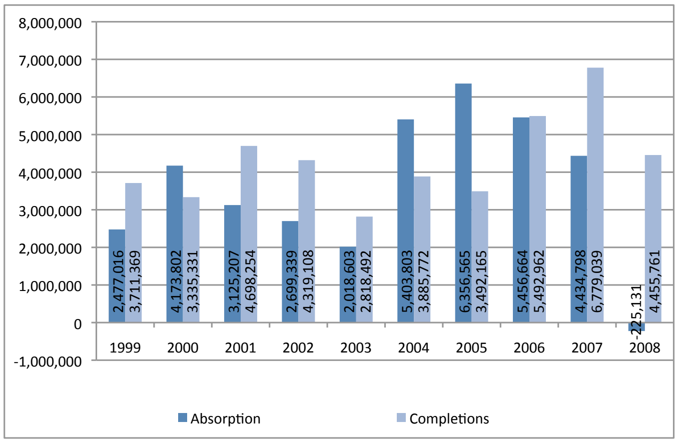
Looking Ahead

The Congressional Budget Office and Federal Reserve chairman Ben Bernanke recently predicted that economic recovery should begin by the end of 2009, while some economists have offered more dire predictions for the future. Whoever turns out to be correct, there can be no doubt that we are seeing the imposition of business fundamentals in our economy. Businesses that want to stay in business will need to show a profit. Lenders who want to stay in business will have to lend money only to people who can pay it back. For genuine recovery, American citizens, businesses and governments will need to pay down their debts, which will require both time and discipline. In the meantime, growth, when it comes, could be slower than we have become accustomed. We think that if there is an end to the recession in the last quarter of 2009, we will see gains in employment in 2010 and increases in the occupancy of commercial real estate in 2011. ❖

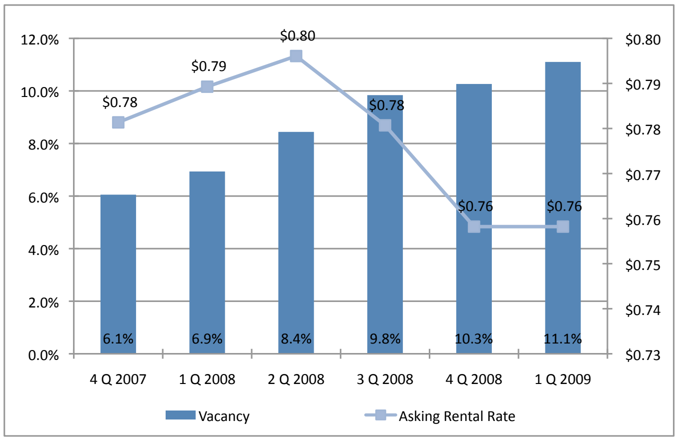
INDUSTRIAL EMPLOYMENT			
	Feb 2008	Feb 2009	Change
Construction	95,200	82,200	-13,000
Manufacturing	25,800	24,100	-1,700
Transportation & Warehousing	34,200	33,900	-300
Wholesale	24,000	23,400	-600
TOTAL	179,200	163,600	-15,600

Source: Nevada Department of Employment, Training and Rehabilitation.

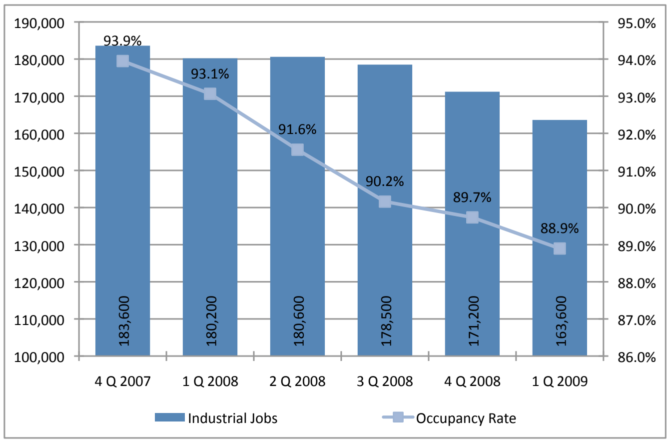
HISTORICAL NET ABSORPTION VS COMPLETIONS



VACANCY VS RENTAL RATE



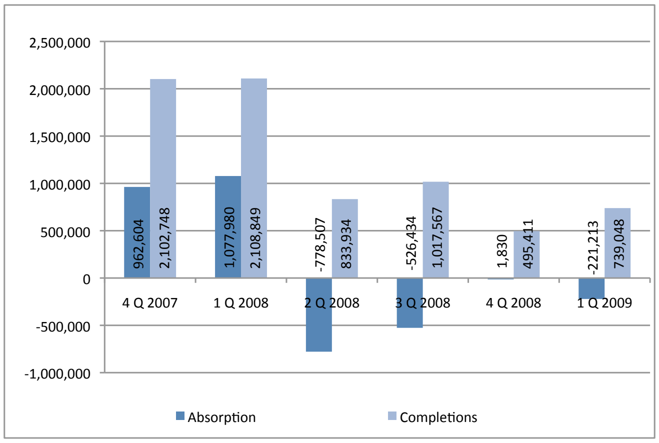
OCCUPANCY VS INDUSTRIAL EMPLOYMENT



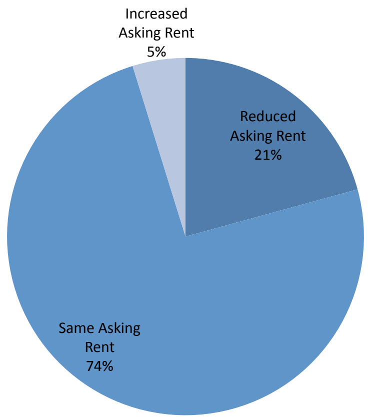
INDUSTRIAL SALES			
	Q1-09	Q4-08	Q1-08
Owner/User Space for Sale	4,065,448 sf	3,786,706 sf	1,097,783 sf
Average Asking Price/SF	$152	$152	$230
Owner/User Space Sold	112,560 sf	123,342 sf	253,975 sf
Number of Sales	5	13	27
Average Price/SF	$80	$154	$153
Investment Space for Sale	1,050,278 sf	944,290 sf	214,053 sf
Average Asking Price/SF	$137	$149	$207
Average Cap Rate	7.3%	7.3%	7.7%
Investment Space Sold	149,358 sf	0 sf	340,793 sf
Number of Sales	1	0	15
Average Price/SF	$83	n/a	$128
Average Cap Rate	5.6%	n/a	6.7%

INDUSTRIAL DEVELOPMENT PIPELINE					
Project	Type	Submarket	Size	Pre-Leasing	Completion
JDV Procyon @ Ponderosa	Warehouse/ Distribution	Southwest	122,000 SF	0%	Q3-09
LoftWorks @ Tenaya	Light Industrial	Southwest	96,000 SF	0%	Q2-09
4455 Alto Ln	Warehouse/ Distribution	North Las Vegas	95,000 SF	BTS	Q2-09
Walnut Business Park A/B	Light Industrial	North Las Vegas	90,000 SF	0%	Q2-09
5180 Rogers St	Light Industrial	Southwest	20,000 SF	BTS	Q2-09

HISTORICAL NET ABSORPTION VS COMPLETIONS



PRICE CHANGES EXISTING INDUSTRIAL DIRECT LEASE AVAILABILITIES



Market Comparisons

SUBMARKET AREA	AIRPORT	EAST LAS VEGAS	HENDERSON	NORTH LAS VEGAS	NORTHWEST	SOUTHWEST	WEST CENTRAL	TOTALS
TOTAL INDUSTRIAL MARKET								
NUMBER OF EXISTING PROPERTIES	497	148	533	1,011	81	1,263	655	4,188
TOTAL RENTABLE SQUARE FEET	13,719,122	2,823,817	12,681,067	31,144,764	1,335,401	31,799,956	11,977,718	105,481,845
VACANT SQUARE FEET	1,860,491	240,990	1,920,072	3,043,824	327,580	3,291,576	1,035,356	11,719,889
SUBLEASE SQUARE FEET	148,223	27,198	57,351	404,135	22,269	298,726	48,113	1,006,015
PERCENT VACANT	13.6%	8.5%	15.1%	9.8%	24.5%	10.4%	8.6%	11.1%
COMPLETIONS QTD	102,694	0	104,300	0	0	532,054	0	739,048
COMPLETIONS YTD	102,694	0	104,300	0	0	532,054	0	739,048
VACANT SQUARE FEET, END OF PREVIOUS QTR	1,650,194	233,300	1,824,283	3,271,728	310,324	2,737,419	724,454	10,751,702
NET ABSORPTION QTD	-107,603	-7,690	8,511	227,904	-17,256	-22,103	-310,902	-229,139
NET ABSORPTION YTD	-107,603	-7,690	8,511	227,904	-17,256	-22,103	-310,902	-229,139
AVERAGE LEASE RATE	$0.81	$0.57	$0.72	$0.63	$0.83	$0.88	$0.78	$0.76
SQ. FT. CURRENTLY UNDER CONSTRUCTION	25,200	0	0	380,880	0	237,875	0	643,955
SQ. FT. CURRENTLY PLANNED	37,630	0	0	1,421,164	0	103,800	0	1,562,594
WAREHOUSE/DISTRIBUTION								
NUMBER OF EXISTING PROPERTIES	77	17	76	174	5	131	52	532
TOTAL RENTABLE SQUARE FEET	4,765,458	907,075	6,307,032	18,347,103	223,661	11,930,245	1,939,836	44,420,410
VACANT SQUARE FEET	463,931	0	701,170	796,228	145,910	533,466	139,395	2,780,100
SUBLEASE SQUARE FEET	0	20,798	0	253,604	0	168,750	0	443,152
PERCENT VACANT	9.7%	0.0%	11.1%	4.3%	65.2%	4.5%	7.2%	6.3%
COMPLETIONS QTD	0	0	0	0	0	0	0	0
COMPLETIONS YTD	0	0	0	0	0	0	0	0
VACANT SQUARE FEET, END OF PREVIOUS QTR	504,278	0	619,506	910,610	145,910	598,439	27,400	2,806,143
NET ABSORPTION QTD	40,347	0	-81,664	114,382	0	64,973	-111,995	26,043
NET ABSORPTION YTD	40,347	0	-81,664	114,382	0	64,973	-111,995	26,043
AVERAGE LEASE RATE	$0.63	$0.00	$0.53	$0.49	$0.49	$0.69	$0.86	$0.58
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	0	95,000	0	121,875	0	216,875
SQ. FT. CURRENTLY PLANNED	0	0	0	1,117,565	0	0	0	1,117,565

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Market Comparisons

SUBMARKET AREA	AIRPORT	EAST LAS VEGAS	HENDERSON	NORTH LAS VEGAS	NORTHWEST	SOUTHWEST	WEST CENTRAL	TOTALS
LIGHT DISTRIBUTION								
NUMBER OF EXISTING PROPERTIES	65	19	36	167	1	181	41	510
TOTAL RENTABLE SQUARE FEET	2,950,737	340,675	1,696,226	4,764,045	50,000	6,911,178	751,242	17,464,103
VACANT SQUARE FEET	433,233	42,504	431,156	813,672	0	1,209,067	48,611	2,978,243
SUBLEASE SQUARE FEET	117,029	0	37,072	130,534	0	98,821	800	384,256
PERCENT VACANT	14.7%	12.5%	25.4%	17.1%	0.0%	17.5%	6.5%	17.1%
COMPLETIONS QTD	0	0	0	0	0	429,458	0	429,458
COMPLETIONS YTD	0	0	0	0	0	429,458	0	429,458
VACANT SQUARE FEET, END OF PREVIOUS QTR	309,375	26,300	441,395	953,445	0	789,230	21,400	2,541,145
NET ABSORPTION QTD	-123,858	-16,204	10,239	139,773	0	9,621	-27,211	-7,640
NET ABSORPTION YTD	-123,858	-16,204	10,239	139,773	0	9,621	-27,211	-7,640
AVERAGE LEASE RATE	$0.70	$0.59	$0.62	$0.61	$0.00	$0.87	$0.67	$0.73
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	0	0	0	0	0	0
SQ. FT. CURRENTLY PLANNED	0	0	0	234,034	0	70,200	0	304,234
LIGHT INDUSTRIAL								
NUMBER OF EXISTING PROPERTIES	196	91	315	593	16	733	488	2,432
TOTAL RENTABLE SQUARE FEET	2,803,928	1,135,150	2,994,662	6,690,913	290,111	8,939,490	6,608,193	29,462,447
VACANT SQUARE FEET	302,053	120,474	443,953	1,110,203	39,528	780,854	495,358	3,292,423
SUBLEASE SQUARE FEET	5,700	6,400	0	14,500	0	9,926	46,877	83,403
PERCENT VACANT	10.8%	10.6%	14.8%	16.6%	13.6%	8.7%	7.5%	11.2%
COMPLETIONS QTD	0	0	104,300	0	0	102,596	0	206,896
COMPLETIONS YTD	0	0	104,300	0	0	102,596	0	206,896
VACANT SQUARE FEET, END OF PREVIOUS QTR	262,854	121,268	350,082	1,069,986	35,969	631,011	431,922	2,903,092
NET ABSORPTION QTD	-39,199	794	10,429	-40,217	-3,559	-47,247	-63,436	-182,435
NET ABSORPTION YTD	-39,199	794	10,429	-40,217	-3,559	-47,247	-63,436	-182,435
AVERAGE LEASE RATE	$0.82	$0.50	$0.87	$0.65	$1.10	$0.87	$0.71	$0.76
SQ. FT. CURRENTLY UNDER CONSTRUCTION	25,200	0	0	185,080	0	116,000	0	326,280
SQ. FT. CURRENTLY PLANNED	37,630	0	0	69,565	0	33,600	0	140,795

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	LEASE TERM	SIZE	LEASE RATE	TYPE
1840 Aerojet Way	Feb 2009	126 months	102,948 SF	$0.40 NNN	Warehouse/Distribution
4500 S Wynn Rd	Feb 2009	6 months	40,163 SF	$0.50 NNN	Warehouse/Distribution
4010 W Hacienda Ave	Jan 2009	36 months	5,927 SF	$0.61 NNN	R&D/Flex
6960 W Warm Springs Rd	Jan 2009	60 months	8,945 SF	$0.97 NNN	Light Distribution
3935 W Reno Ave	Feb 2009	12 months	4,242 SF	$0.85 NNN	Incubator

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Market Comparisons

SUBMARKET AREA	AIRPORT	EAST LAS VEGAS	HENDERSON	NORTH LAS VEGAS	NORTHWEST	SOUTHWEST	WEST CENTRAL	TOTALS
INCUBATOR								
NUMBER OF EXISTING PROPERTIES	92	13	29	31	4	120	62	351
TOTAL RENTABLE SQUARE FEET	1,876,327	298,623	456,906	561,552	99,427	2,496,381	2,458,615	8,247,831
VACANT SQUARE FEET	240,181	69,150	33,810	187,516	5,890	299,639	324,027	1,160,213
SUBLEASE SQUARE FEET	3,408	0	4,130	430	0	4,863	436	13,267
PERCENT VACANT	12.8%	23.2%	7.4%	33.4%	5.9%	12.0%	13.2%	14.1%
COMPLETIONS QTD	0	0	0	0	0	0	0	0
COMPLETIONS YTD	0	0	0	0	0	0	0	0
VACANT SQUARE FEET, END OF PREVIOUS QTR	222,423	72,051	33,390	191,926	5,890	228,722	223,747	978,149
NET ABSORPTION QTD	-17,758	2,901	-420	4,410	0	-70,917	-100,280	-182,064
NET ABSORPTION YTD	-17,758	2,901	-420	4,410	0	-70,917	-100,280	-182,064
AVERAGE LEASE RATE	$0.72	$0.67	$0.72	$0.85	$1.30	$0.85	$0.82	$0.80
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	0	100,800	0	0	0	100,800
SQ. FT. CURRENTLY PLANNED	0	0	0	0	0	0	0	0
R&D / FLEX								
NUMBER OF EXISTING PROPERTIES	67	8	77	46	55	98	12	363
TOTAL RENTABLE SQUARE FEET	1,322,672	142,294	1,226,241	781,151	672,202	1,522,662	219,832	5,887,054
VACANT SQUARE FEET	421,093	8,862	309,983	136,205	136,252	468,550	27,965	1,508,910
SUBLEASE SQUARE FEET	22,086	0	16,149	5,067	22,269	16,366	0	81,937
PERCENT VACANT	31.8%	6.2%	25.3%	17.4%	20.3%	30.8%	12.7%	25.6%
COMPLETIONS QTD	102,694	0	0	0	0	0	0	102,694
COMPLETIONS YTD	102,694	0	0	0	0	0	0	102,694
VACANT SQUARE FEET, END OF PREVIOUS QTR	351,264	13,681	379,910	145,761	122,555	490,017	19,985	1,523,173
NET ABSORPTION QTD	32,865	4,819	69,927	9,556	-13,697	21,467	-7,980	116,957
NET ABSORPTION YTD	32,865	4,819	69,927	9,556	-13,697	21,467	-7,980	116,957
AVERAGE LEASE RATE	$1.14	$0.62	$1.10	$1.06	$1.08	$1.15	$1.19	$1.12
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	0	0	0	0	0	0
SQ. FT. CURRENTLY PLANNED	0	0	0	0	0	0	0	0

SALES ACTIVITY

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE	PRICE/SF	TYPE
6340 Sunset Corporate Dr*	Jan 2009	$3,000,000	19,924 SF	$150.57	Warehouse/Distribution
4111 Oquendo Rd	Feb 2009	$1,650,000	10,528 SF	$156.72	Light Industrial
4628 Industry Center Dr	Feb 2009	$550,000	6,568 SF	$83.74	Light Industrial

** Source: CoStar COMPS*

OFFICE

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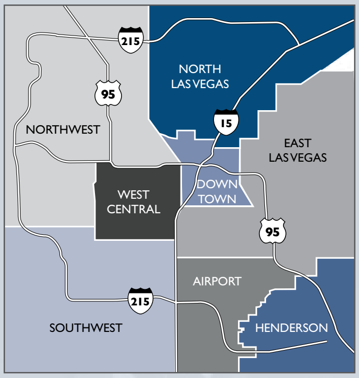


MARKET INDICATORS

	Q1-09	Q2-2009 Projected
VACANCY	↑	↑
NET ABSORPTION	↓	→
CONSTRUCTION	↑	↓
RENTAL RATE	↑	↓

Office Review

The Las Vegas office market continued to languish in the first quarter of 2009. New completions increased this quarter over last and net absorption fell dramatically. The transaction volume increased slightly over last quarter, but mostly represented office tenants looking to downsize or find lower rents, rather than the expansions or new business creation that was needed to fuel recovery. Landlords began to decrease asking rents and prices. The teaser rates that circulated in the fourth quarter of 2008 became the advertised asking rates of this quarter. Developers put new projects on hold, which should reduce the amount of vacant space that would otherwise have entered the market in 2009 and 2010.

Employment in sectors traditionally associated with office space decreased for the third straight quarter. Between February 2008 and February 2009, a total of 7,900 office jobs were lost, with the largest losses experienced by the professional and business services sector. The bright spot for office employment has been the health care and social assistance sector, which has posted quarterly gains in employment in every quarter since the second quarter of 2004. Since increases in occupied office space tend to lag about 6 to 12 months behind employment increases in these sectors, employment numbers are the best indicator of eventual recovery for the office market. Unemployment in the Las Vegas MSA stood at 10.1 percent as of February 2009, up from 5.1 percent in February 2008.

A total of 631,690 square feet (SF) of new office space was completed in the first quarter of 2009. All product types had new completions this quarter and new office product was located in the Northwest and Southwest submarkets. Most of this space began construction before the existence of the recession became readily apparent in mid-2008. Vacancy in this newly completed space stood at approximately 76 percent. Prominent new completions included Montecito Point (187,000 SF), The Arroyo Business Center (139,000 SF), 3755 Breakthrough Way at the Nevada Cancer Institute Campus (101,000 SF), Summerlin Medical Center (78,000 SF) and Centennial Hills Center (58,000 SF).

Forward supply of office space in the Valley stood at 904,000 SF in the first quarter of 2009. This was a significant drop from last quarter, when 1.8-million SF was either under construction or planned to begin construction by the end of 2009. Some construction on projects has been halted and many other proposed projects are presently unable to find financing. Over half of this forward supply was in Class A professional office. The Southwest had more forward supply space than any other submarket and its share of forward supply has increased since last quarter. Despite the fact that the Southwest submarket was very hot through the recent development bubble, the continued determination of developers to build in a submarket with one of the Valley's highest vacancy rates indicates their faith that population growth there will continue to be explosive when the local economy recovers.

Office vacancy increased for the tenth straight quarter, reaching 20.9 percent. The previous low was in the third quarter of 2006, when office vacancy stood at 8.7 percent. If one included sub-lease space, the Las Vegas Valley had a total of 9,137,967 square feet of office space in search of a tenant. Assuming a pre-housing bubble net absorption of 350,000 square feet per quarter, that represented a 6.5 year supply of office space. This over-supply of office space put downward pressure on asking rental rates. Many short-term "teaser rates" were now being promoted as full term asking rates, and even stalwarts of optimism like American Nevada Corp began to lower its published rates. These revaluations increased the volume of signed leases this quarter over last, with the odd side-effect of the average asking lease rate in decreasing by $0.01 as price-conscious tenants snapped up deals. When adjusted for inflation, the average asking rent for office space in the Valley actually decreased by $0.01 this quarter, and has decreased by $0.26 since it peaked in the fourth quarter of 2007.

The Valley's highest vacancy rate this quarter was in the Airport submarket, at 27.9 percent. East Las Vegas, Henderson, North Las Vegas, Northwest and Southwest all had total vacancy near or above 20 percent. The Downtown and West Central submarkets, which experienced very little new office construction since 2003, had the Valley's lowest vacancy rates at 9.2 percent and 13.5 percent respectively.

There has been a sharp increase in the available inventory of office properties for sale on either an owner/user or investment basis over the past year, with a corresponding decline in the inventory that has actually sold. The average asking price for owner/user sales dropped this quarter over last, but remains higher than in the first quarter of 2008. The average asking price for investment sales has dropped from $330 psf in the first quarter of 2008 to $246 psf this quarter. The average price of buildings that sold in the first quarter on an owner/user basis was $155 psf. There were no investment sales of office product this quarter.

Class A office properties had a higher vacancy rate than other property types, at 28.3 percent. They also had the Valley's highest availability rate of sub-lease

MARKET SNAPSHOT			
	Q4-08	Q1-09	Change
Vacancy Rate	18.6%	20.9%	+2.3
Asking Rent	$2.40	$2.41	+$0.01
Net Absorption (sf)	-64,076	-413,213	-349,137
New Completions (sf)	452,500	631,609	+179,109

"If government estimates of national economic recovery in the fourth quarter of 2009 are correct, we predict that the Valley office market will begin to see recovery in late 2010 or early 2011."

space at 3.3 percent. Much of the pain Class A office is feeling can be traced to the Airport and Southwest submarkets, both of which had vacancy rates exceeding 65 percent. In the case of the Airport submarket, one project, the Town Square development, represented 63 percent of the submarket's Class A vacancy. The problem in the Southwest comes down to ill-timed development, as the Southwest's Class A market expanded from 0 to 170,972 square feet in just three years, the same time period in which net absorption of such space dropped by over 500,000 square feet Valley-wide. In response to lower demand, asking rental rates for Class A professional office dropped Valley-wide by $0.05 per square foot (PSF) on a full service basis (FSG) this quarter over last.

Net absorption of the different classes of professional office space followed slightly different trajectories since the mini-recession of 2001/2002. Class A office saw conservative growth for most of this decade and then spiked in 2007, only to fall hard in 2008. First quarter 2009 performance suggests that demand for Class A office will continue to fall through 2009. Net absorption of Class B office peaked in 2004 and has decreased in each quarter thereafter. Demand for Class B space fell off a cliff in 2008 and seems likely to continue to fall at a similar rate through 2009.

Class C office space tends to cater to small businesses and incorporates more owner-user space than either Class A or B product. Net absorption of Class C product followed the residential bubble quite closely, expanding quickly in 2004 and 2005 and then contracting in 2007 and even more quickly in 2008. First quarter performance suggests that Class C office product faces a brighter year ahead than either Class A or Class B product. This change in trajectory might be a function of pricing. The average asking rental rate for Class C space increased from $1.71 psf FSG in the fourth quarter of 2002 to a peak of $2.50 psf FSG in the fourth quarter of 2007. Since then, it has decreased by $0.39 to $2.11 psf FSG.

Office occupancy tends to track closely with employment in sectors traditionally associated with office. While these sectors have contracted by 14,000 jobs since they peaked in the first quarter of 2007, the office occupancy rate has declined by 10 points, from 89.1 percent to 79.1 percent. During that same two year period, occupied office square footage actually grew through the four quarters of 2007 before declining for the four quarters of 2008. From the first quarter of 2007 to the first quarter of 2009, total occupied office space has increased by over 700,000 square feet. Currently, the Valley is supporting 149 square feet of occupied office space per office job, compared to 137 square feet per office job in the first quarter of 2007, and 117 square feet per office job in the first quarter of 2003. These numbers suggest that there might be a long way to go before demand for office space increases.

We think that local firms will continue to downsize through 2009, and probably for six to twelve months after the Las

[1]Forward supply is a combination of space presently under construction in a quarter and space planned to begin construction within the next 4 quarters.

Vegas Valley has experienced sustained increases in office employment. Asking rents should continue to decline, as landlords compete for scarce tenants. Most lease activity in 2009 will consist of tenants moving within the Valley, searching for lower rent or smaller spaces. If government estimates of national economic recovery in the fourth quarter of 2009 are correct, we predict that the Valley office market will begin to see recovery in late 2010 or early 2011.

Metrics for Recovery

Despite the somewhat bleak picture painted above, the national and local economies will recover. We think that several metrics can be established to predict how quickly that recovery will occur for the commercial real estate market. The health of the commercial real estate market is tied directly to employment. Employees take up space, and thus increases in employment eventually translate into demand for more space. Our study of the Southern Nevada real estate market for the past ten years has taught us that there is usually a 9 to 12 month lag between employment gains and increases in occupied square footage. Employment will, therefore, be the best indicator of impending recovery for the real estate market. Of primary importance to the Southern Nevada economy is employment in the leisure & hospitality and construction sectors. Gaming revenue is probably the best indicator of employment growth in the leisure & hospitality sector. Renewed employment growth in construction requires an increase in demand for new homes. A good indicator of renewed demand for new homes, and thus an increase in construction jobs, is a shrinking gap between the median price for a new home and the median price for an existing home. As employment in leisure & hospitality and construction grows, employment in other sectors will follow suit and we will begin to see an increase in demand for commercial space.

OFFICE EMPLOYMENT

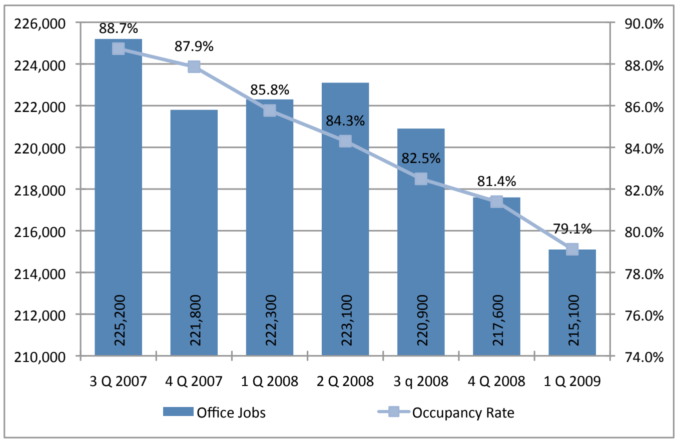
	Feb 2008	Feb 2009	Change
Financial Activities	48,100	45,600	-2,500
Professional & Business Services	115,100	107,800	-7,300
Health Care & Social Assistance	59,800	61,700	+1,900
Total	223,000	215,100	-7,900

Source: Nevada Department of Employment, Training and Rehabilitation.

Looking Ahead

The Congressional Budget Office and Federal Reserve chairman Ben Bernanke recently predicted that economic recovery should begin by the end of 2009, while some economists have offered more dire predictions for the future. Whoever turns out to be correct, there can be no doubt that we are seeing the imposition of business fundamentals in our economy. Businesses that want to stay in business will need to show a profit. Lenders who want to stay in business will have to lend money only to people who can pay it back. For genuine recovery, American citizens, businesses and governments will need to pay down their debts, which will require both time and discipline. In the meantime, growth, when it comes, could be slower than we have become accustomed. We think that if there is an end to the recession in the last quarter of 2009, we will see gains in employment in 2010 and increases in the occupancy of commercial real estate in 2011. ❖

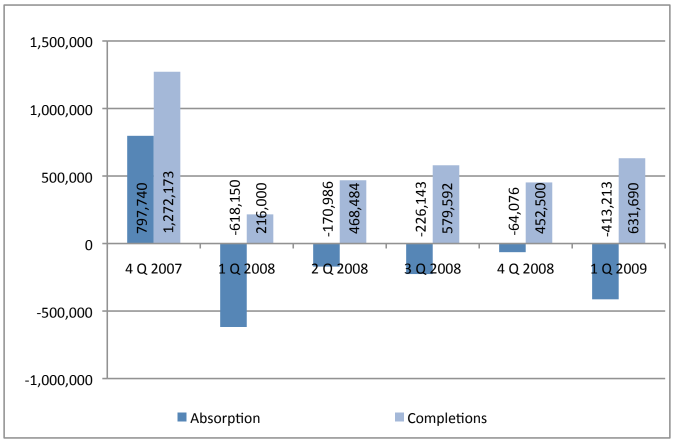
OCCUPANCY VS OFFICE EMPLOYMENT



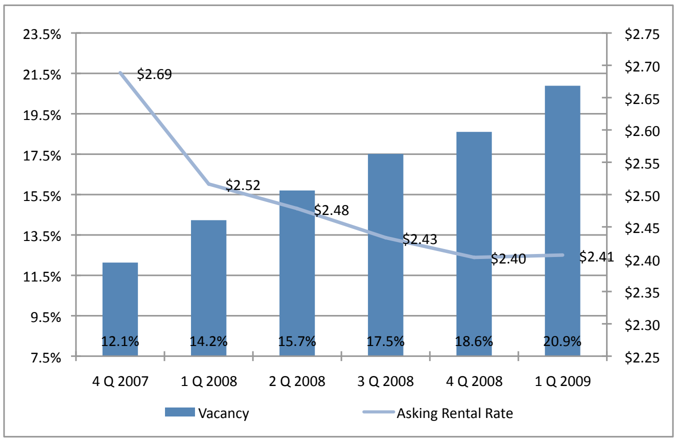
OFFICE SALES			
	Q1-09	Q4-08	Q1-08
Owner/User Space for Sale	1,246,053 sf	1,234,264 sf	523,697 sf
Average Asking Price/SF	$226	$237	$217
Owner/User Space Sold	80,314 sf	118,846 sf	144,784 sf
Number of Sales	8	12	16
Average Price/SF	$155	$113	$162
Investment Space for Sale	1,336,827 sf	1,564,228 sf	434,157 sf
Average Asking Price/SF	$246	$264	$330
Average Cap Rate	7.6%	7.3%	6.8%
Investment Space Sold	0 sf	174,595 sf	436,150 sf
Number of Sales	0	4	15
Average Price/SF	n/a	$160	$265
Average Cap Rate	n/a	6.9%	7.2%

OFFICE DEVELOPMENT PIPELINE					
Project	Type	Submarket	Size	Pre-Leasing	Completion
Rainbow Sunset Pavilion	Class A	Southwest	226,000 SF	16%	Q2-09
Tivoli Village	Class A	Northwest	200,000 SF	0%	2010
Pecos Springs Business Park	Class C	Airport	78,000 SF	0%	Unknown
Corporate Center the Curve C	Class B	Southwest	45,000 SF	100%	Q3-09
5180 Rogers St	Light Industrial	Southwest	20,000 SF	BTS	Q2-09

HISTORICAL NET ABSORPTION VS COMPLETIONS



VACANCY VS RENTAL RATE



Market Comparisons

SUBMARKET AREA	AIRPORT	DOWNTOWN	EAST LAS VEGAS	HENDERSON	NORTH LAS VEGAS	NORTHWEST	SOUTHWEST	WEST CENTRAL	TOTALS
TOTAL OFFICE MARKET									
NUMBER OF EXISTING PROPERTIES	301	110	176	305	93	389	387	270	2,031
TOTAL RENTABLE SQUARE FEET	5,294,688	3,368,823	5,940,975	5,556,399	774,805	8,315,014	6,184,324	5,179,664	40,614,692
VACANT SQUARE FEET	1,478,640	311,514	1,127,248	1,317,047	180,386	1,750,623	1,618,512	699,537	8,483,507
SUBLEASE SQUARE FEET	117,062	35,255	72,481	77,548	3,000	193,864	133,636	21,614	654,460
PERCENT VACANT	27.9%	9.2%	19.0%	23.7%	23.3%	21.1%	26.2%	13.5%	20.9%
COMPLETIONS QTD	0	0	0	0	0	366,104	265,586	0	631,690
COMPLETIONS YTD	0	0	0	0	0	366,104	265,586	0	631,690
VACANT SQUARE FEET, END OF PREVIOUS QTR	1,560,138	229,183	980,778	1,162,158	171,833	1,353,319	1,316,580	664,615	7,438,604
NET ABSORPTION QTD	81,498	-82,331	-146,470	-154,889	-8,553	-31,200	-36,346	-34,922	-413,213
NET ABSORPTION YTD	81,498	-82,331	-146,470	-154,889	-8,553	-31,200	-36,346	-34,922	-413,213
AVERAGE LEASE RATE	$2.56	$2.42	$2.00	$2.56	$2.26	$2.51	$2.46	$2.09	$2.41
SQ. FT. CURRENTLY UNDER CONSTRUCTION	77,610	0	0	40,000	22,000	200,000	271,140	0	610,750
SQ. FT. CURRENTLY PLANNED	0	0	0	62,364	0	84,265	146,604	0	293,233

SUBMARKET AREA	AIRPORT	DOWNTOWN	EAST LAS VEGAS	HENDERSON	NORTH LAS VEGAS	NORTHWEST	SOUTHWEST	WEST CENTRAL	TOTALS
PROFESSIONAL CLASS A									
NUMBER OF EXISTING PROPERTIES	6	4	9	11	0	19	2	2	53
TOTAL RENTABLE SQUARE FEET	788,137	700,065	1,351,642	787,274	0	1,471,232	170,972	227,624	5,496,946
VACANT SQUARE FEET	550,845	45,006	139,568	275,616	0	368,106	131,349	46,745	1,557,235
SUBLEASE SQUARE FEET	58,414	28,790	57,525	2,396	0	34,778	1,488	0	183,391
PERCENT VACANT	69.9%	6.4%	10.3%	35.0%	N/A	25.0%	76.8%	20.5%	28.3%
COMPLETIONS QTD	0	0	0	0	0	187,410	0	0	187,410
COMPLETIONS YTD	0	0	0	0	0	187,410	0	0	187,410
VACANT SQUARE FEET, END OF PREVIOUS QTR	617,881	45,006	67,212	271,100	0	159,969	20,377	46,745	1,228,290
NET ABSORPTION QTD	67,036	0	-72,356	-4,516	0	-20,727	-110,972	0	-141,535
NET ABSORPTION YTD	67,036	0	-72,356	-4,516	0	-20,727	-110,972	0	-141,535
AVERAGE LEASE RATE	$3.32	$3.27	$3.46	$3.02	$0.00	$2.69	$2.45	$2.29	$3.02
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	0	0	0	200,000	226,140	0	426,140
SQ. FT. CURRENTLY PLANNED	0	0	0	62,364	0	0	73,818	0	136,182

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	LEASE TERM	SIZE	LEASE RATE	TYPE
7878 W Sahara Ave	Jan 2009	26 months	2,564 SF	$1.20 NNN	Class C
4955 S Durango Dr	Feb 2009	12 months	1,065 SF	$1.72 MG	Class C
7312 W Cheyenne Ave	Feb 2009	12 months	864 SF	$1.50 NNN	Class C

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SUBMARKET AREA	AIRPORT	DOWNTOWN	EAST LAS VEGAS	HENDERSON	NORTH LAS VEGAS	NORTHWEST	SOUTHWEST	WEST CENTRAL	TOTALS
PROFESSIONAL CLASS B									
NUMBER OF EXISTING PROPERTIES	37	21	17	64	8	68	56	44	315
TOTAL RENTABLE SQUARE FEET	1,833,724	1,383,829	1,038,569	2,131,182	200,796	2,406,988	2,156,900	1,462,137	12,614,125
VACANT SQUARE FEET	166,030	188,655	273,812	391,176	74,398	493,591	484,299	126,636	2,198,597
SUBLEASE SQUARE FEET	33,468	6,465	9,109	47,681	0	128,177	89,234	0	314,134
PERCENT VACANT	9.1%	13.6%	26.4%	18.4%	37.1%	20.5%	22.5%	8.7%	17.4%
COMPLETIONS QTD	0	0	0	0	0	0	101,000	0	101,000
COMPLETIONS YTD	0	0	0	0	0	0	101,000	0	101,000
VACANT SQUARE FEET, END OF PREVIOUS QTR	174,612	88,832	262,187	345,307	62,298	436,098	427,638	129,814	1,926,786
NET ABSORPTION QTD	8,582	-99,823	-11,625	-45,869	-12,100	-57,493	44,339	3,178	-170,811
NET ABSORPTION YTD	8,582	-99,823	-11,625	-45,869	-12,100	-57,493	44,339	3,178	-170,811
AVERAGE LEASE RATE	$2.40	$2.47	$1.74	$2.49	$2.51	$2.57	$2.68	$2.14	$2.43
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	0	0	0	0	45,000	0	45,000
SQ. FT. CURRENTLY PLANNED	0	0	0	0	0	0	35,663	0	35,663
PROFESSIONAL CLASS C									
NUMBER OF EXISTING PROPERTIES	249	56	92	140	72	207	246	166	1,228
TOTAL RENTABLE SQUARE FEET	2,555,633	757,298	1,961,576	1,464,243	448,624	2,131,453	2,752,405	2,714,158	14,785,390
VACANT SQUARE FEET	748,090	49,303	359,805	409,810	91,684	497,735	710,284	434,670	3,301,381
SUBLEASE SQUARE FEET	25,180	0	4,743	24,380	3,000	23,462	42,914	21,614	145,293
PERCENT VACANT	29.3%	6.5%	18.3%	28.0%	20.4%	23.4%	25.8%	16.0%	22.3%
COMPLETIONS QTD	0	0	0	0	0	0	164,586	0	164,586
COMPLETIONS YTD	0	0	0	0	0	0	164,586	0	164,586
VACANT SQUARE FEET, END OF PREVIOUS QTR	740,662	66,799	357,317	349,634	92,800	493,475	578,633	424,619	3,103,939
NET ABSORPTION QTD	-7,428	17,496	-2,488	-60,176	1,116	-4,260	32,935	-10,051	-32,856
NET ABSORPTION YTD	-7,428	17,496	-2,488	-60,176	1,116	-4,260	32,935	-10,051	-32,856
AVERAGE LEASE RATE	$2.04	$1.53	$1.62	$2.24	$2.08	$2.27	$2.31	$2.06	$2.11
SQ. FT. CURRENTLY UNDER CONSTRUCTION	77,610	0	0	0	22,000	0	0	0	99,610
SQ. FT. CURRENTLY PLANNED	0	0	0	0	0	84,265	0	0	84,265

SALES ACTIVITY

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE	PRICE/SF	TYPE
4441 S Eastern Ave	Feb 2009	$1,100,000	5,184 SF	$212.19	Class C
6859 S Eastern Ave	Feb 2009	$487,500	2,775 SF	$175.68	Class C

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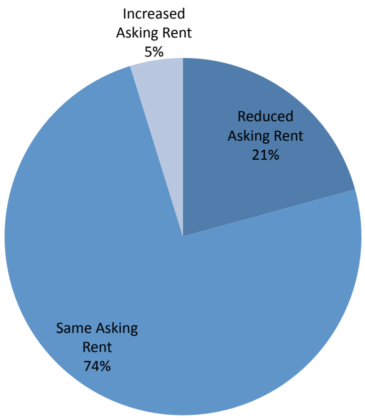
SUBMARKET AREA	AIRPORT	DOWNTOWN	EAST LAS VEGAS	HENDERSON	NORTH LAS VEGAS	NORTHWEST	SOUTHWEST	WEST CENTRAL	TOTALS
MEDICAL OFFICE									
NUMBER OF EXISTING PROPERTIES	9	29	58	90	13	95	83	58	435
TOTAL RENTABLE SQUARE FEET	117,194	527,631	1,589,188	1,173,700	125,385	2,305,341	1,104,047	775,745	7,718,231
VACANT SQUARE FEET	13,675	28,550	354,063	240,445	14,304	391,191	292,580	91,486	1,426,294
SUBLEASE SQUARE FEET	0	0	1,104	3,091	0	7,447	0	0	11,642
PERCENT VACANT	11.7%	5.4%	22.3%	20.5%	11.4%	17.0%	26.5%	11.8%	18.5%
COMPLETIONS QTD	0	0	0	0	0	178,694	0	0	178,694
COMPLETIONS YTD	0	0	0	0	0	178,694	0	0	178,694
VACANT SQUARE FEET, END OF PREVIOUS QTR	26,983	28,546	294,062	196,117	16,735	263,777	289,932	63,437	1,179,589
NET ABSORPTION QTD	13,308	-4	-60,001	-44,328	2,431	51,280	-2,648	-28,049	-68,011
NET ABSORPTION YTD	13,308	-4	-60,001	-44,328	2,431	51,280	-2,648	-28,049	-68,011
AVERAGE LEASE RATE	$2.42	$2.25	$2.00	$2.67	$2.16	$2.59	$2.48	$2.06	$2.39
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	0	40,000	0	0	0	0	40,000
SQ. FT. CURRENTLY PLANNED	0	0	0	0	0	0	37,123	0	37,123

PRICE CHANGES EXISTING OFFICE DIRECT LEASE AVAILABILITIES



RETAIL

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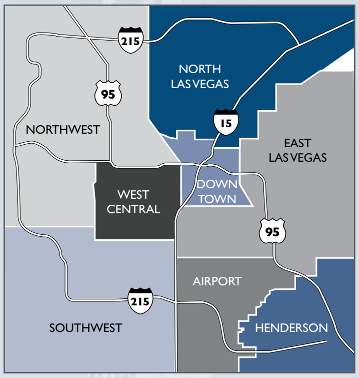


MARKET INDICATORS

	Q1-09	Q2-2009 Projected
VACANCY	↑	↑
NET ABSORPTION	↓	→
CONSTRUCTION	↓	↑
RENTAL RATE	↓	↓

Retail Review

The Las Vegas Valley retail market had an uneven performance in 2008, with quarterly net absorption ranging between -416,000 square feet and 1.2-million square feet. Despite those ups and downs, vacancy rose steadily through 2008, and continued to rise in the first quarter of 2009 to a ten-year high of 7.5 percent. The $0.08 decline in the average asking rental rate reflected the weak prospects for future demand that most landlords have come to accept. Despite this, developers were poised to bring as much as 1.3-million square feet of new retail product on the market in 2009.

In 2008, retail employment dropped in the first quarter and then seemed to hit a plateau of about 102,000 jobs through the rest of the year. In February 2009, retail employment dropped to 95,800 jobs, a loss of 4,100 jobs since February 2008. Most signs pointed to a continuance of this trend through 2009, with recent or expected closures of local outlets by such retailers as Circuit City, Longs Drugs, Vons, Albertsons, Great Indoors, Mervyns, Chili's, Dillard's, Zappo's, Shoe Pavilion and Linens-n-Things. Target is one of the few retailers that plans to expand, with three new stores under construction in Southern Nevada.

One new retail center, Desert Marketplace, was completed this quarter, while we reclassified an older freestanding Wal-Mart as a Neighborhood Center due to the addition of inline retail space. Several projects were under construction in the Valley, including three that should be completed by the end of the year: Deer Springs Town Center (688,000 square feet), The Edge at Mountain's Edge (296,000 square feet) and the Target-anchored center at 6097 N. Decatur Blvd (390,000 square feet). Including these centers, forward supply of retail space in the Valley reached 3,958,112 square feet. Although this was a 427,250 square foot decrease from last quarter, it still represents a high level of retail development given the current economic conditions. This is especially true since half of the space currently under construction only went vertical in the latter-half of 2008. Most of the Valley's forward supply of retail was in the form of Power Centers and Community Centers, with only 427,000 square feet of Neighborhood Centers planned or under construction.

Vacancy in retail centers has risen for the past six months, and was 4.1-points higher this quarter than in the first quarter of 2008. Vacancy increases of 2-points or more were experienced in every submarket but Downtown, Henderson and the Southwest. Power Centers had the lowest vacancy rate and experienced the smallest increase in vacancy this quarter. Vacancy in Community Centers and Neighborhood Centers increased this quarter by about 2-points.

The amount of retail product for sale on both an owner/user basis and investment basis increased in the first quarter of 2009 to 140,921 square feet and 273,256 square feet respectively from one year ago. The average price for both types of product decreased. Sales of owner/user retail product increased in the first quarter of 2009 to 175,542 square feet, while investment sales declined to 16,200 square feet . The average cap rate for retail product has increased from 6.7% in the first quarter of 2008 to 7.8% in the first quarter of 2009.

The number of vacant units that are 10,000 square feet in size or larger increased dramatically over last quarter, and now represents 42 percent of all vacant retail space. The number of these units available for lease or sale increased from 49 to 54 between the fourth quarter of 2008 and the first quarter of 2009, with four more such units to be vacated by the end of the year. Retailers that have left these spaces include Rite-Aid, Pier One, Smith's Food & Drug, Wickes Furniture, Raley's, Thomasville, Sav-On, Walgreens, Sport's Authority, Lucky's, Albertson's, Long's Drugs, Sportsman's Warehouse and Office Max.

Most submarkets had substantial decreases in their average asking rent this quarter over last, with asking rents increasing in Henderson and the Northeast and remaining stable in the Downtown submarket. Neighborhood Centers had the highest average asking rent, at $1.97 per square foot (psf) on a triple-net (NNN) basis, a decline of $0.19 from last quarter. The average asking rent in Power Centers showed a similar decrease of $0.20 to $1.88 psf NNN, while the average asking rent of Community Centers increased slightly to $1.96 psf NNN. Overall, the Valley's lowest asking rents were found in the Downtown, Northeast and West Central submarkets, while the Northwest and Southwest submarkets had the highest asking rents. Adjusted for inflation, the average asking rental rate for retail space was $0.06 lower this quarter than it was in the first quarter of 2007, and virtually the same as it was at the end of 2003.

The Las Vegas Valley retail market has seen vacancy increase dramatically since 2006, when it averaged 2.8 percent for the year. While some of this increase is due to the same oversupply problems experienced by the office and industrial sectors, much of the cause can be attributed to the rapid expansion of big box retailers that took place in the early 2000's. Most of these retailers were selling the same products as their competitors at roughly the same price, and all at the same time that online retailers like Amazon.com and brick & mortar retailers like Wal-Mart were taking advantage of their respective business models to offer comparable or better selection at lower prices. The mini-recession of 2001/2002 took some

MARKET SNAPSHOT

	Q4-08	Q1-09	Change
Vacancy Rate	5.8%	7.5%	+2.3
Asking Rent	$2.04	$1.96	-$0.08
Net Absorption (sf)	338,720	-243,124	-581,844
New Completions (sf)	536,000	477,250	-58,750

"… developers were poised to bring as much as 1.3-million square feet of new retail product on the market in 2009."

of these retailers out of the market, especially in computer sales. Other anchor spots were vacated at that time due to consolidation among large grocery store chains with locations in Southern Nevada. The current recession is now poised to remove several more of these big box retailers from the local scene. Given this situation, and the fact that a quick recovery fueled by debt-funded consumer spending is unlikely, we think that the Southern Nevada retail market will take longer to recover after this recession than after past recessions.

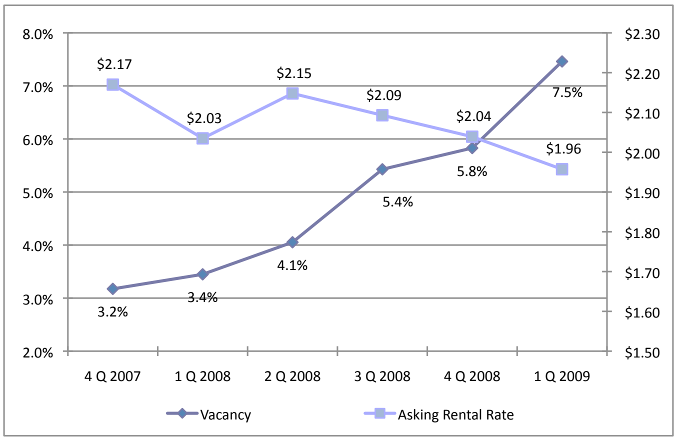
Metrics for Recovery

Despite the somewhat bleak picture painted above, the national and local economies will recover. We think that several metrics can be established to predict how quickly that recovery will occur for the commercial real estate market. The health of the commercial real estate market is tied directly to employment. Employees take up space, and thus increases in employment eventually translate into demand for more space. Our study of the Southern Nevada real estate market for the past ten years has taught us that there is usually a 9 to 12 month lag between employment gains and increases in occupied square footage. Employment will, therefore, be the best indicator of impending recovery for the real estate market. Of primary importance to the Southern Nevada economy is employment in the leisure & hospitality and construction sectors. Gaming revenue is probably the best indicator of employment growth in the leisure & hospitality sector. Renewed employment growth in construction requires an increase in demand for new homes. A good indicator of renewed demand for new homes, and thus an increase in construction jobs, is a shrinking gap between the median price for a new home and the median price for an existing home. As employment in leisure & hospitality and construction grows, employment in other sectors will follow suit and we will begin to see an increase in demand for commercial space.

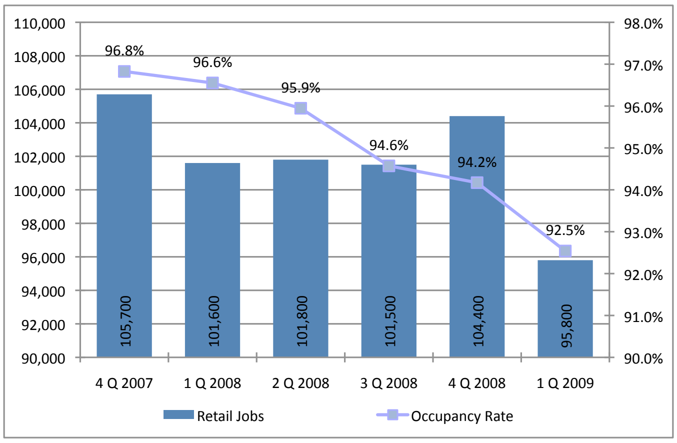
Looking Ahead

The Congressional Budget Office and Federal Reserve chairman Ben Bernanke recently predicted that economic recovery should begin by the end of 2009, while some economists have offered more dire predictions for the future. Whoever turns out to be correct, there can be no doubt that we are seeing the imposition of business fundamentals in our economy. Businesses that want to stay in business will need to show a profit. Lenders who want to stay in business will have to lend money only to people who can pay it back. For genuine recovery, American citizens, businesses and governments will need to pay down their debts, which will require both time and discipline. In the meantime, growth, when it comes, could be slower than we have become accustomed. We think that if there is an end to the recession in the last quarter of 2009, we will see gains in employment in 2010 and increases in the occupancy of commercial real estate in 2011. ❖

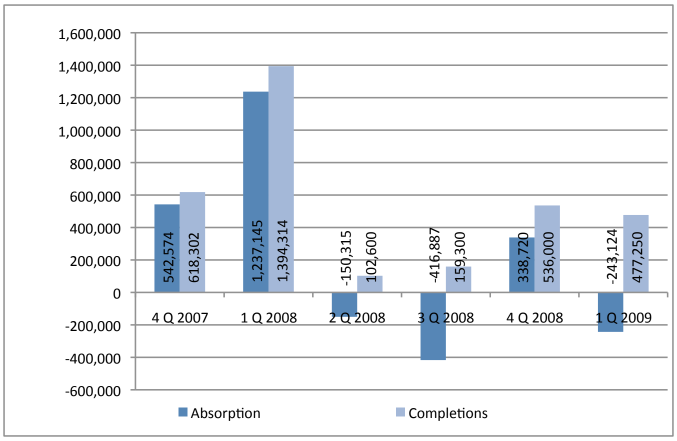
VACANCY VS RENTAL RATE



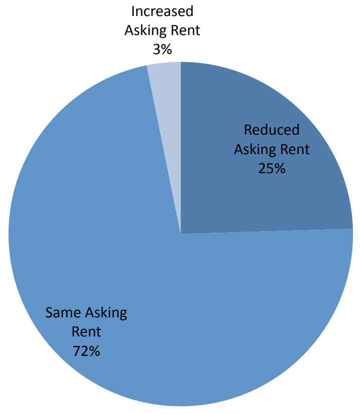
OCCUPANCY VS RETAIL EMPLOYMENT



HISTORICAL NET ABSORPTION VS COMPLETIONS



PRICE CHANGES EXISTING RETAIL DIRECT LEASE AVAILABILITIES



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RETAIL SALES			
	Q1-09	Q4-08	Q1-08
Owner/User Space for Sale	140,921 sf	52,100 sf	82,400 sf
Average Asking Price/SF	$173	$179	$207
Owner/User Space Sold	175,542 sf	17,416 sf	10,306 sf
Number of Sales	4	3	2
Average Price/SF	$120	$312	$514
Investment Space for Sale	273,256 sf	335,920 sf	91,359 sf
Average Asking Price/SF	$276	$338	$243
Average Cap Rate	n/a	7%	7%
Investment Space Sold	16,200 sf	312,900 sf	451,363 sf
Number of Sales	1	13	22
Average Price/SF	$199	$198	$282
Average Cap Rate	7.8%	7.4%	6.7%

RETAIL DEVELOPMENT PIPELINE				
	Population (2008 estimate)	Projected Annual Population Growth (2008-2013)	Occupied Retail Space (Q1-09)	Projected Annual Occupied Retail Growth (2008-2009)
Downtown	87,368	1.2%	1,057,792	0.0%
Henderson	235,628	3.3%	7,856,044	0.0%
North Las Vegas	253,306	5.9%	3,612,831	17.6%
Northeast	278,308	1.6%	2,390,836	0.0%
Northwest	442,093	3.4%	9,423,929	3.8%
Southwest	152,592	6.2%	5,385,131	5.1%
University East	190,098	1.8%	5,638,414	0.0%
West Central	104,071	0.4%	3,904,692	0.0%

Market Comparisons

SUBMARKET AREA	DOWNTOWN	HENDERSON	NORTH LAS VEGAS	NORTHEAST	NORTHWEST	SOUTHWEST	UNIVERSITY EAST	WEST CENTRAL	TOTALS
TOTAL RETAIL MARKET									
NUMBER OF EXISTING PROPERTIES	10	52	25	21	54	23	40	34	259
TOTAL RENTABLE SQUARE FEET	1,202,410	8,447,726	3,910,931	2,532,791	10,131,866	5,783,835	6,047,194	4,379,055	42,435,808
VACANT SQUARE FEET	144,618	591,682	298,100	141,955	707,937	398,704	408,780	474,363	3,166,139
SUBLEASE SQUARE FEET	13,312	44,438	16,796	18,614	112,004	6,747	47,293	0	259,204
PERCENT VACANT	12.0%	7.0%	7.6%	5.6%	7.0%	6.9%	6.8%	10.8%	7.5%
COMPLETIONS QTD	0	0	0	0	50,000	427,250	0	0	477,250
COMPLETIONS YTD	0	0	0	0	50,000	427,250	0	0	477,250
VACANT SQUARE FEET, END OF PREVIOUS QTR	144,618	579,901	242,505	100,083	411,145	346,734	271,665	349,114	2,445,765
NET ABSORPTION QTD	0	-11,781	-55,595	-41,872	-246,792	375,280	-137,115	-125,249	-243,124
NET ABSORPTION YTD	0	-11,781	-55,595	-41,872	-246,792	375,280	-137,115	-125,249	-243,124
AVERAGE LEASE RATE	$1.21	$1.93	$2.21	$1.64	$2.30	$2.27	$1.90	$1.43	$1.96
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	276,080	999,812	0	390,000	296,000	0	0	1,961,892
SQ. FT. CURRENTLY PLANNED	0	1,515,620	480,600	0	0	0	0	0	1,996,220
POWER CENTERS									
NUMBER OF EXISTING PROPERTIES	0	8	1	0	7	1	3	3	23
TOTAL RENTABLE SQUARE FEET	0	2,962,288	300,000	0	2,840,846	944,314	1,210,223	1,138,224	9,395,895
VACANT SQUARE FEET	0	169,838	7,480	0	101,296	45,665	27,854	72,728	424,861
SUBLEASE SQUARE FEET	0	25,569	0	0	1,266	5,300	25,129	0	57,264
PERCENT VACANT	N/A	5.7%	N/A	N/A	3.6%	N/A	2.3%	6.4%	4.5%
COMPLETIONS QTD	0	0	0	0	0	0	0	0	0
COMPLETIONS YTD	0	0	0	0	0	0	0	0	0
VACANT SQUARE FEET, END OF PREVIOUS QTR	0	157,511	7,480	0	67,043	45,665	16,553	63,063	357,315
NET ABSORPTION QTD	0	-12,327	0	0	-34,253	0	-11,301	-9,665	-67,546
NET ABSORPTION YTD	0	-12,327	0	0	-34,253	0	-11,301	-9,665	-67,546
AVERAGE LEASE RATE	$0.00	$1.75	$3.38	$0.00	$1.73	$3.17	$2.38	$1.26	$1.88
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	687,713	0	0	0	0	0	687,713
SQ. FT. CURRENTLY PLANNED	0	1,400,000	0	0	0	0	0	0	1,400,000

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	LEASE TERM	SIZE	LEASE RATE	TYPE
4001 S Decatur Blvd	Feb 2009	66 months	1,227 SF	$1.73 NNN	Neighborhood Center
2548 Wigwam Pkwy	Feb 2009	60 months	1,200 SF	$2.52 NNN	Community Center
2548 Wigwam Pkwy	Mar 2009	60 months	1,200 SF	$2.21 NNN	Community Center
4604 W Sahara Ave	Jan 2009	36 months	1,160 SF	$1.40 NNN	Power Center

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Market Comparisons

SUBMARKET AREA	DOWNTOWN	HENDERSON	NORTH LAS VEGAS	NORTHEAST	NORTHWEST	SOUTHWEST	UNIVERSITY EAST	WEST CENTRAL	TOTALS
COMMUNITY CENTERS									
NUMBER OF EXISTING PROPERTIES	5	19	10	8	16	9	19	15	101
TOTAL RENTABLE SQUARE FEET	684,340	2,688,350	1,755,463	1,398,026	3,585,512	3,216,421	2,761,018	1,649,146	17,738,276
VACANT SQUARE FEET	139,118	147,378	181,384	78,225	351,920	152,866	165,036	260,216	1,476,143
SUBLEASE SQUARE FEET	13,312	7,713	16,796	18,614	10,000	0	0	0	66,435
PERCENT VACANT	20.3%	5.5%	10.3%	5.6%	9.8%	4.8%	6.0%	15.8%	8.3%
COMPLETIONS QTD	0	0	0	0	0	427,250	0	0	427,250
COMPLETIONS YTD	0	0	0	0	0	427,250	0	0	427,250
VACANT SQUARE FEET, END OF PREVIOUS QTR	139,118	132,450	142,517	75,244	167,806	101,465	152,270	181,732	1,092,602
NET ABSORPTION QTD	0	-14,928	-38,867	-2,981	-184,114	375,849	-12,766	-78,484	43,709
NET ABSORPTION YTD	0	-14,928	-38,867	-2,981	-184,114	375,849	-12,766	-78,484	43,709
AVERAGE LEASE RATE	$1.14	$1.90	$2.03	$1.56	$2.72	$2.33	$1.95	$1.29	$1.96
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	276,080	0	0	390,000	296,000	0	0	962,080
SQ. FT. CURRENTLY PLANNED	0	0	480,600	0	0	0	0	0	480,600
NEIGHBORHOOD CENTERS									
NUMBER OF EXISTING PROPERTIES	5	25	14	13	31	13	18	16	135
TOTAL RENTABLE SQUARE FEET	518,070	2,797,088	1,855,468	1,134,765	3,705,508	1,623,100	2,075,953	1,591,685	15,301,637
VACANT SQUARE FEET	5,500	274,466	109,236	63,730	254,721	200,173	215,890	141,419	1,265,135
SUBLEASE SQUARE FEET	0	11,156	0	0	100,738	1,447	22,164	0	135,505
PERCENT VACANT	1.1%	9.8%	5.9%	5.6%	6.9%	12.3%	10.4%	8.9%	8.3%
COMPLETIONS QTD	0	0	0	0	50,000	0	0	0	50,000
COMPLETIONS YTD	0	0	0	0	50,000	0	0	0	50,000
VACANT SQUARE FEET, END OF PREVIOUS QTR	5,500	289,940	92,508	24,839	176,296	199,604	102,842	104,319	995,848
NET ABSORPTION QTD	0	15,474	-16,728	-38,891	-28,425	-569	-113,048	-37,100	-219,287
NET ABSORPTION YTD	0	15,474	-16,728	-38,891	-28,425	-569	-113,048	-37,100	-219,287
AVERAGE LEASE RATE	$3.00	$2.05	$2.43	$1.73	$1.96	$2.02	$1.80	$1.77	$1.97
SQ. FT. CURRENTLY UNDER CONSTRUCTION	0	0	312,099	0	0	0	0	0	312,099
SQ. FT. CURRENTLY PLANNED	0	115,620	0	0	0	0	0	0	115,620

SALES ACTIVITY

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE	PRICE/SF	TYPE
4265 S Grand Canyon Dr*	Feb 2009	$8,800,000	79,294 SF	$110.98	Community Center
1300 S Nellis Blvd*	Feb 2009	$8,250,000	76,023 SF	$108.52	Community Center
1710 Horizon Ridge Pkwy	Jan 2009	$1,575,000	7,985 SF	$197.24	Strip Center
9011 W Flamingo Rd	Feb 2009	$2,421,540	2,940 SF	$823.65	Freestanding Retail

** Source: CoStar COMPS*

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About Colliers Las Vegas

Colliers International's reputation as the leading commercial real estate firm in Southern Nevada is derived from its commitment to provide its clients a value-added service based upon integrity, ability and experience.

Colliers International's local Las Vegas office specializes in all aspects of commercial real estate. The firm brings together experienced professionals in industrial, retail, office, land acquisitions/ dispositions; investment sales, resort/ mapping and construction management/ development coordination. The combination of the Las Vegas office's experienced brokers and staff presents a multi-disciplined team approach that has allowed the firm to successfully complete many of the largest and most complex real estate transactions in the Las Vegas market.

This approach allows us to provide our clients with a broad range of expertise including market research, financial analysis, building systems and design evaluation, operational and cost analysis, land planning and documentation review.

It has been Colliers International's experience that technology in the real estate industry is largely underutilized. Recently, the firm has embarked on a major capital investment effort to incorporate the latest in technological advancements and information systems into a state of the art database system. This database is a "one of a kind" system in Las Vegas and provides our clients with accurate "real time" real estate information on a level never before achieved.

In addition, the Las Vegas office has an in-depth understanding of the issues impacting the Las Vegas development process. It has become increasingly important to understand and implement effective construction management and real estate development procedures in today's competitive and complex real estate markets. Colliers International is committed to aiding and guiding its clients through the maze of procedures and criteria often required by lenders, public entities, contractors, architects, engineers, material suppliers, advisors, etc. We can assist in the analysis of real estate transactions by performing preliminary and full service feasibility studies, site analysis, zoning/mapping, architectural/engineer selection, and contractor/ subcontractor bidding and selection procedures. ❖

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