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Las Vegas Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- The Las Vegas unemployment rate spiked to a high of 33.3 percent in April 2020 and moderated to **9.0 percent** in April 2021. This massive variance was attributable to the pandemic's outsized impact on the leisure and hospitality industry, which employs more than one quarter of the Las Vegas labor force.
- Post-COVID office-using job losses totaled **8.8 percent** compared with leisure and hospitality job losses that totaled 25.3 percent. This discrepancy underscores the disproportionate impact that the pandemic had on the discretionary segments of the local economy.



Office demand

- Leasing activity has improved as office occupiers return to work. Post-COVID leasing activity decreased by an annualized rate of **31.9 percent** compared with the prior 20-year average, though year-over-year quarterly leasing activity increased by **46.7 percent**.
- NYU's Langone Health, the university's medical system, recently signed a 38,000-square-foot lease and opened a customer service center in Blackstone's Hughes Center. Emblematic of strong healthcare demand, NYU ultimately plans to grow the site to 400 employees.



Office supply

- The Q2 2021 vacancy rate totaled **15.8 percent**. During the aftermath of the Global Financial Crisis, the Las Vegas total vacancy rate surpassed 20.0 percent from 2010 through 2014.
- Vacant sublease space by increased **57.0 percent** from the same period one year ago. The sublease market, accounting for **1.0 msf** of vacant space, continues to drag broader market fundamentals.

Key takeaways



Pricing trends

- Net effective rents increased by **3.8 percent** year-to-date through June 2021, signaling that demand is increasing as occupiers return to work and tenants that postponed their real estate decisions re-enter the market.
- Until real momentum is witnessed through the reduction of available space, only a moderate rise in rents will continue quarter-over-quarter.



Capital markets

- Investment sales dollar volume is returning to pre-COVID levels. Annualized dollar volume from 2020 to Q2 2021 decreased by rate of just **15.2 percent** compared with the prior five-year average.
- Asset pricing softened by **6.8 percent** from the peak in November 2019 to June 2021.

01.

Economic and demographic trends

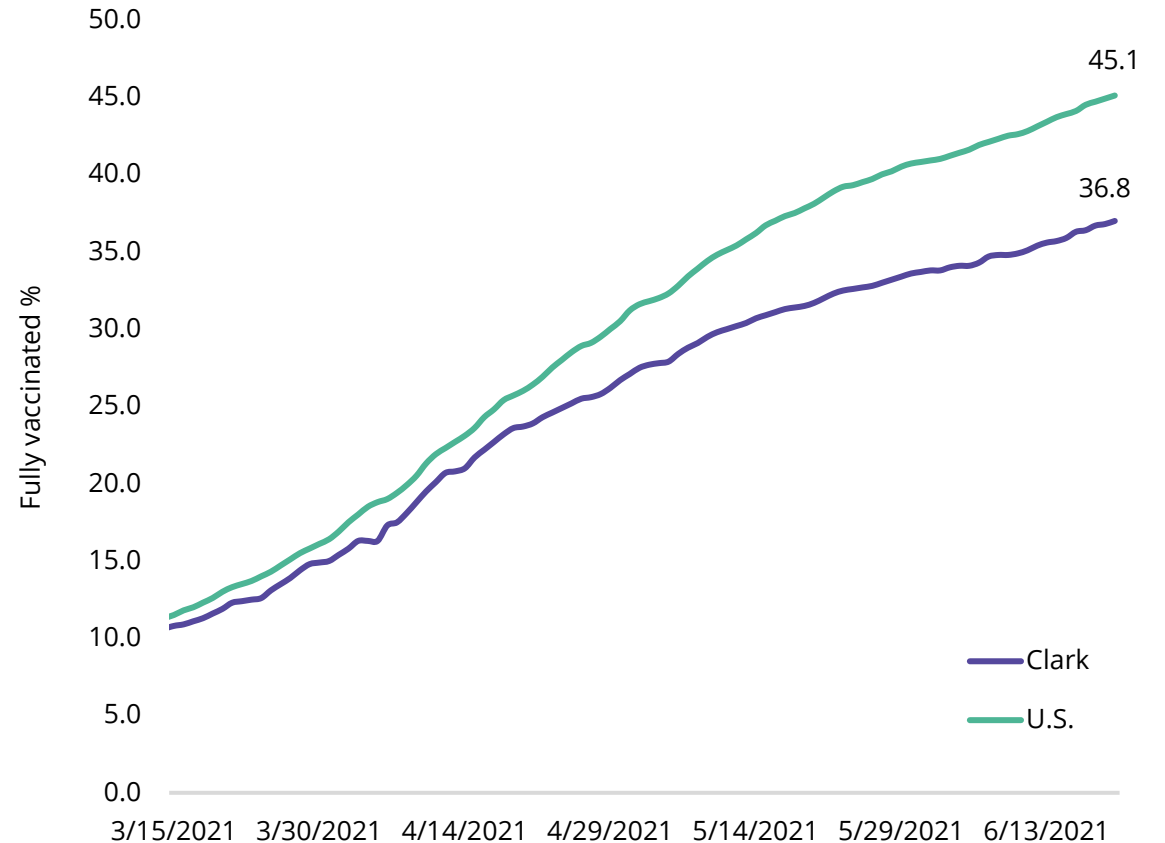
The pandemic immediately shocked the Las Vegas economy, though there have been incremental signs of a recovery as the city reopens.

Vaccination rates

36.8%

Share of total Las Vegas population that is fully vaccinated

The proportionate share of Las Vegas vaccination rates was below the U.S. average, though the Clark County Commission dropped its plans to tie business occupancy limits to public vaccination rates and have since reopened without social distancing rules. These reopening efforts should usher the recovery of the economy and tourism.



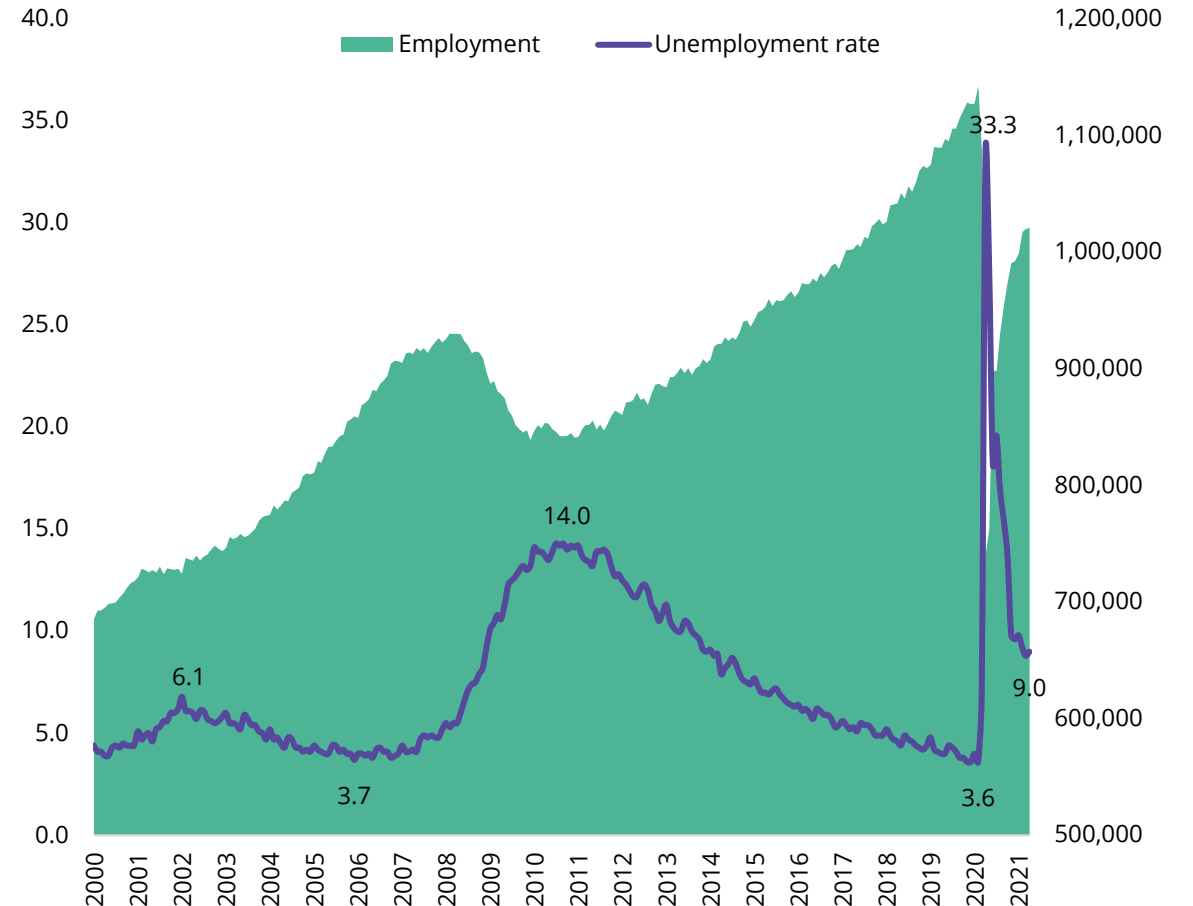
Source: CDC

Employment and unemployment rate

9.0%

Las Vegas unemployment rate as of April 2021, dipping below the height of the financial crisis

The unemployment rate of 9.0% as of April 2021 surpassed the average unemployment rates of 7.0% as of January 2000 to April 2020. The pandemic eliminated over 380,000 jobs between February 2020 and May 2020, though reopening efforts enabled the economy to add nearly 282,000 jobs from May 2020 to April 2021.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-8.8%

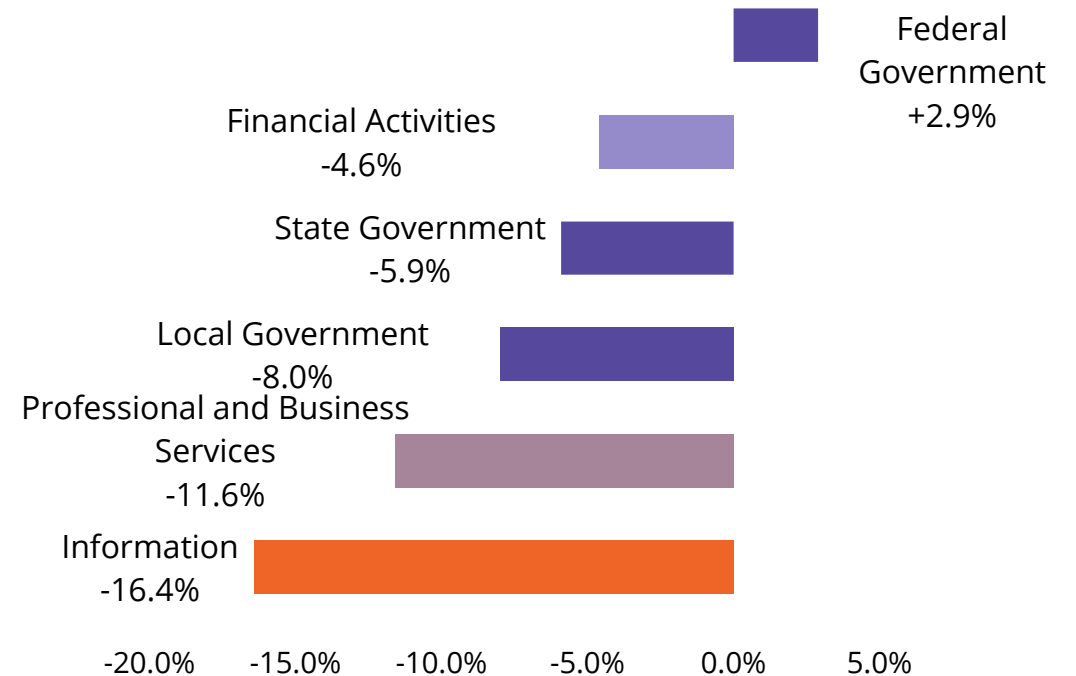
Change in office-using employment during the pandemic

Las Vegas MSA job losses have declined by 11.9% since the start of the pandemic, while office-using jobs contracted by 8.8%. This recession's impact on the labor market has been less severe than the global financial crisis, when job losses totaled 10.3%.

[VIEW DASHBOARD](#)

Total change in Las Vegas MSA* job gains/(losses)

February 2020 to April 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

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Office occupier conditions

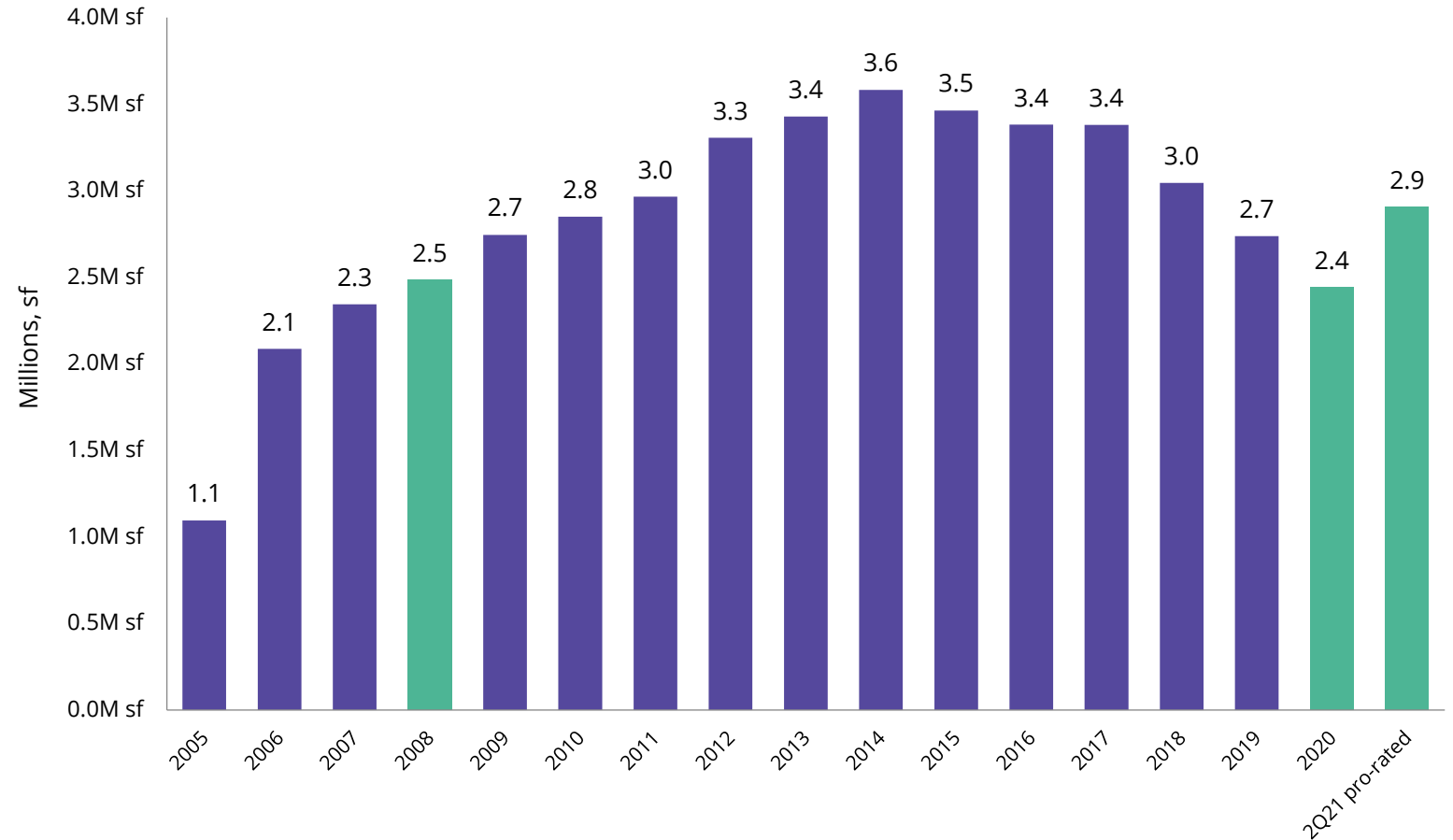
Leasing velocity has been resilient to date in 2021, hinting at a potential recovery from elevated sublease supply risk.

Office leasing activity

-31.9%

**2020 to pro-rated 2021
vs. prior 20-year annual
average leasing activity**

Leasing activity temporarily stalled in 2020 to a level that was last reported in 2007, though 2021 activity levels are positioned to rebound. Healthier leasing velocity hints at the start of a recovery.



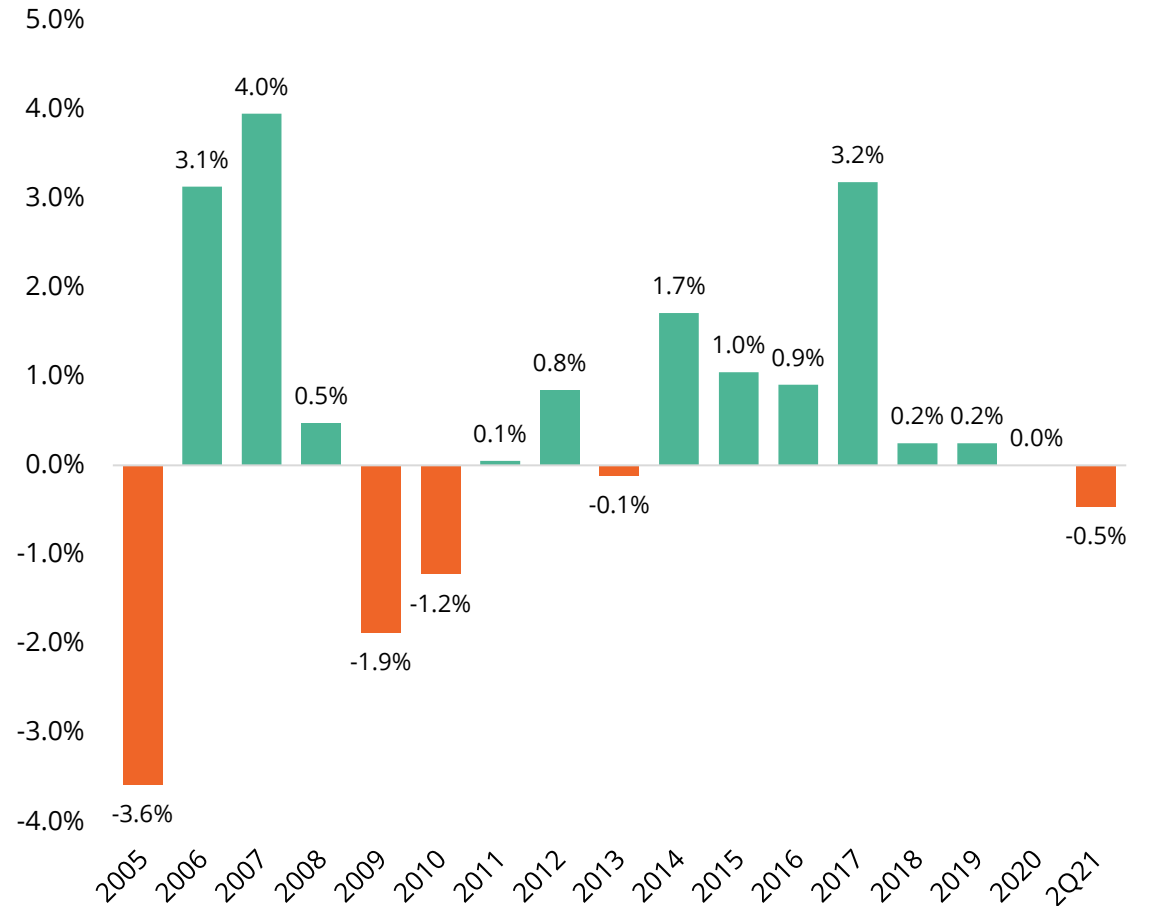
Source: AVANT by Avison Young

Absorption

-0.5%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to Q2 2021 has totaled 208,000 sf, amounting to -0.5% of the existing stock. The post-COVID levels of negative absorption are less severe than the Dot-com recession (-3.6%) and the Global Financial Crisis (-3.1%).



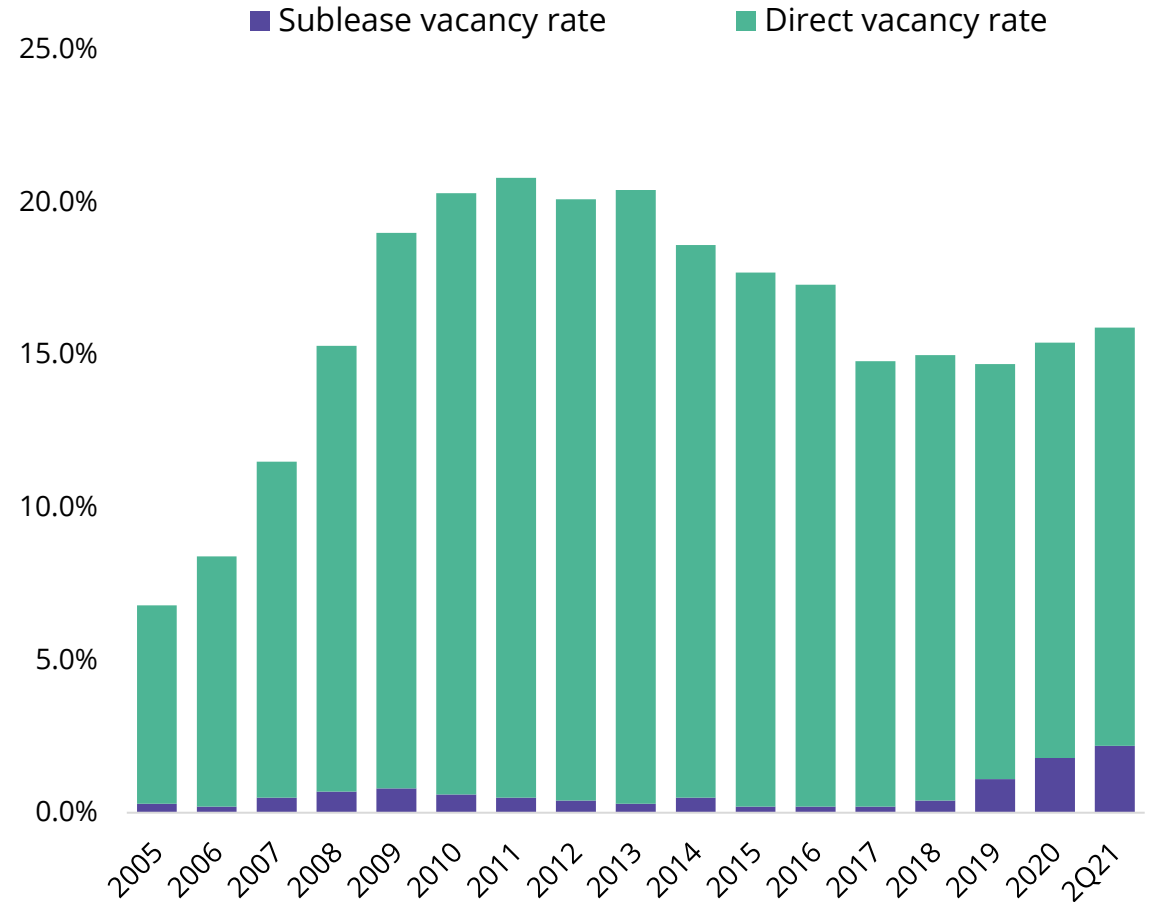
Source: AVANT by Avison Young

Vacancy rate

15.9%

Las Vegas vacancy as of Q2 2021

The Q2 2021 vacancy rate is elevated by recent historical standards but is not as severe as the previous downturn. In 2011, the total vacancy rate peaked at 20.8% in the wake of the Global Financial Crisis. However, there is no recent historical precedent for the sublease vacancy rate, which reached 2.2% in Q2 2021.



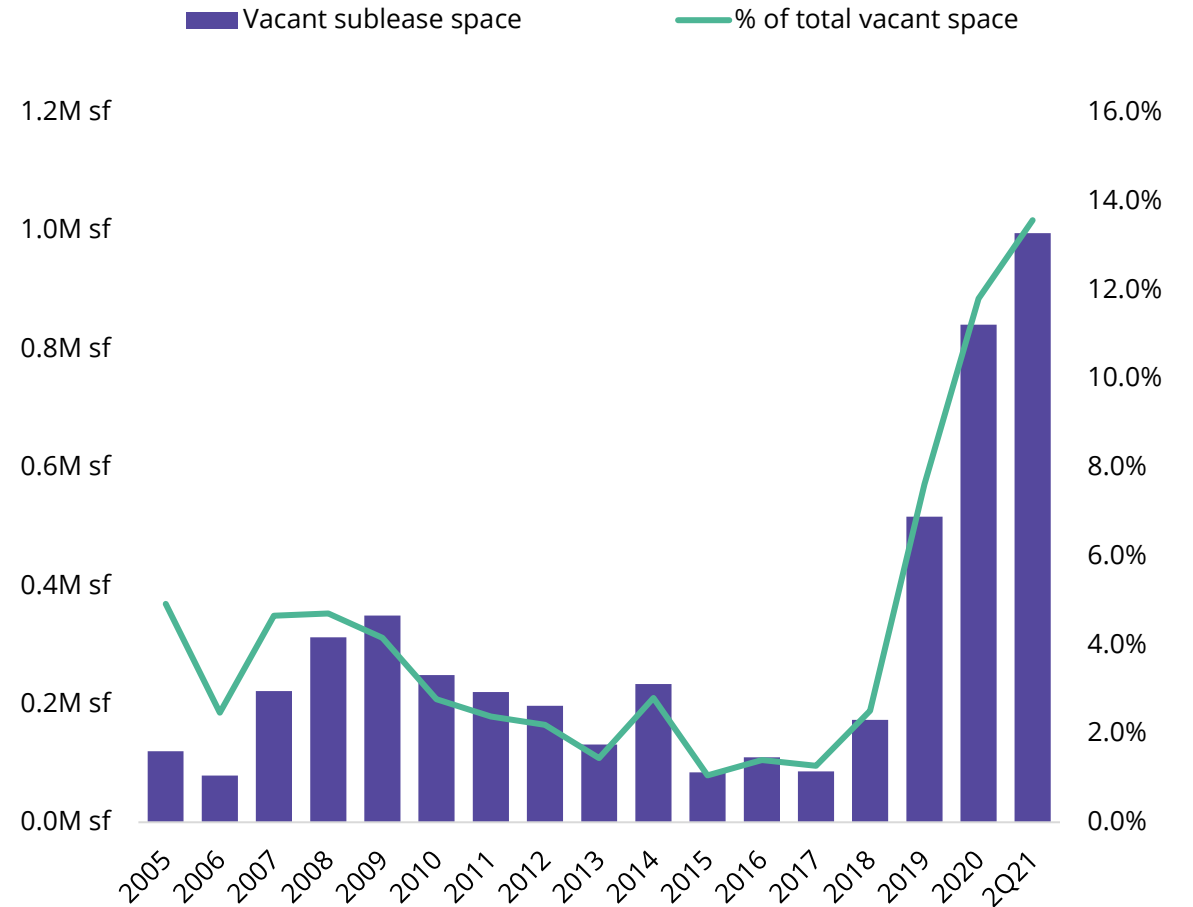
Source: AVANT by Avison Young

Vacant sublease space

1.0 msf

Post-2005 record level of sublease vacant space

The Q2 2021 share of sublease-to-total vacant space of 13.6% has surpassed the Global Financial Crisis peak of 4.8%. The scale of total sublease vacant space, which is 1.8x greater than the Global Financial Crisis peak in 2009, could complicate the market's recovery from the pandemic.



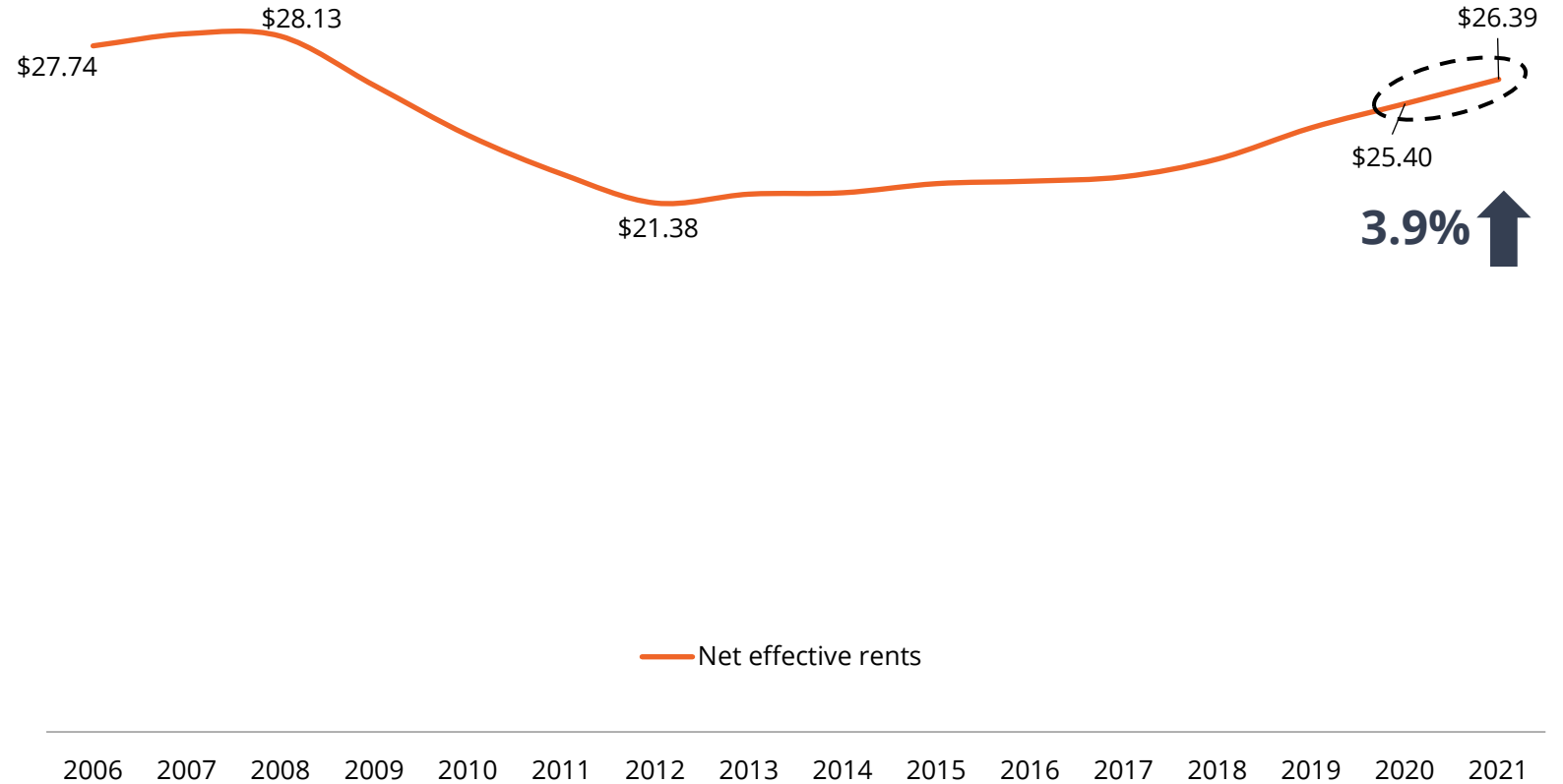
Source: AVANT by Avison Young

Net effective rents

+3.9%

Year-to-date change in net effective rent

Net effective rents increased by 0.1% quarter-over-quarter in June 2021, signaling that demand has risen modestly as office occupiers return to work and tenants that postponed their real estate decisions re-enter the market.



Source: AVANT by Avison Young

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Las Vegas office development pipeline

15 properties

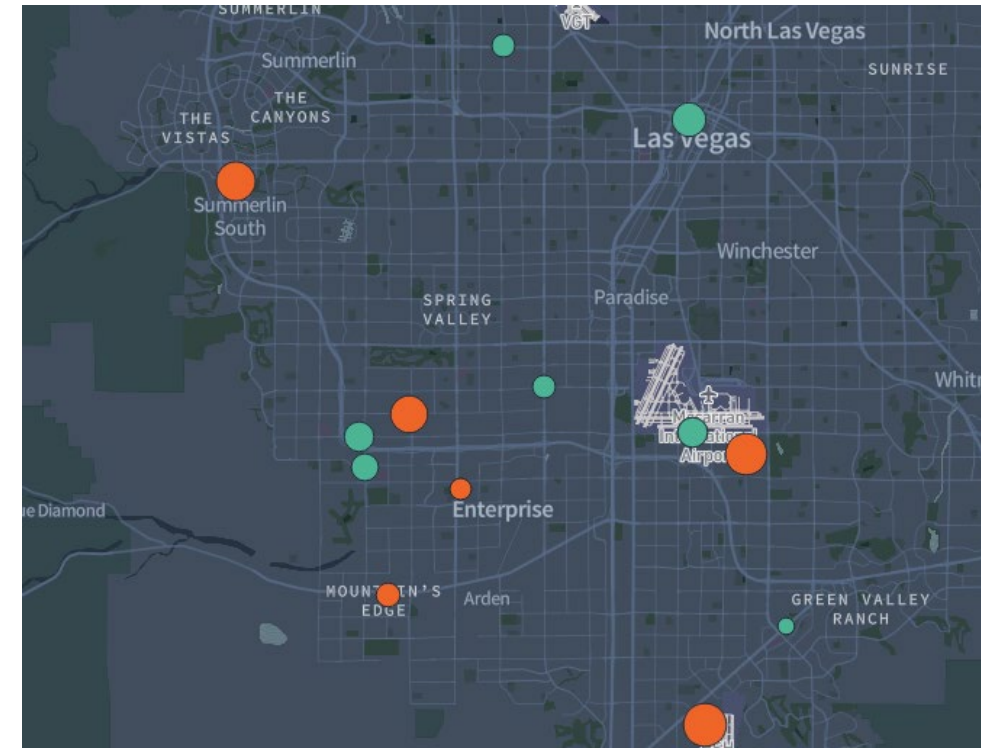
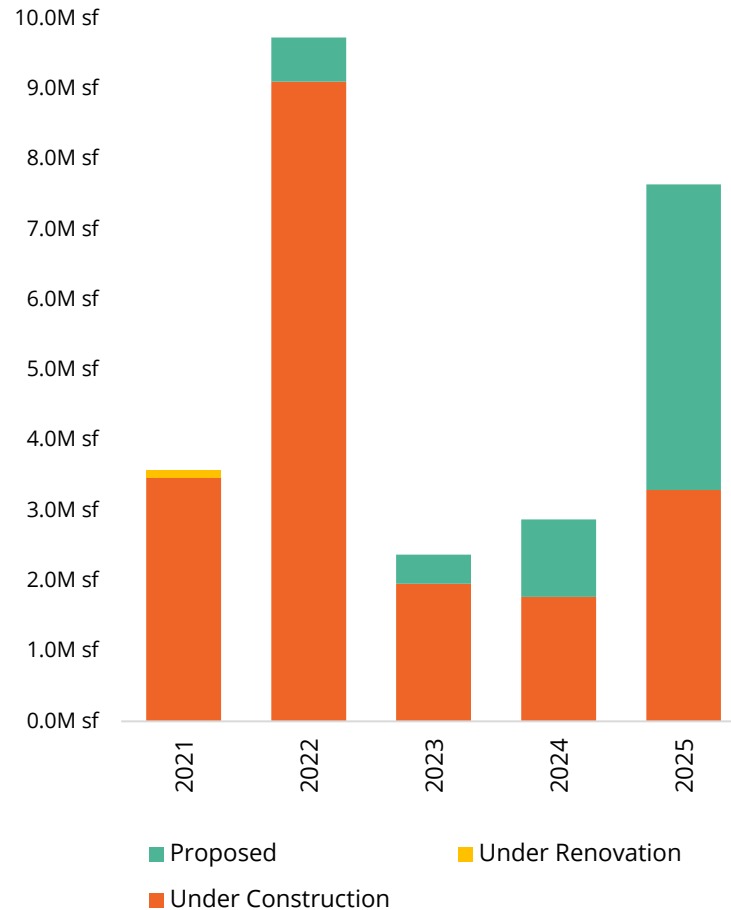
proposed or under construction

2.4 msf

proposed or under construction

8.3%

share of office inventory



Source: AVANT by Avison Young

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Capital market conditions

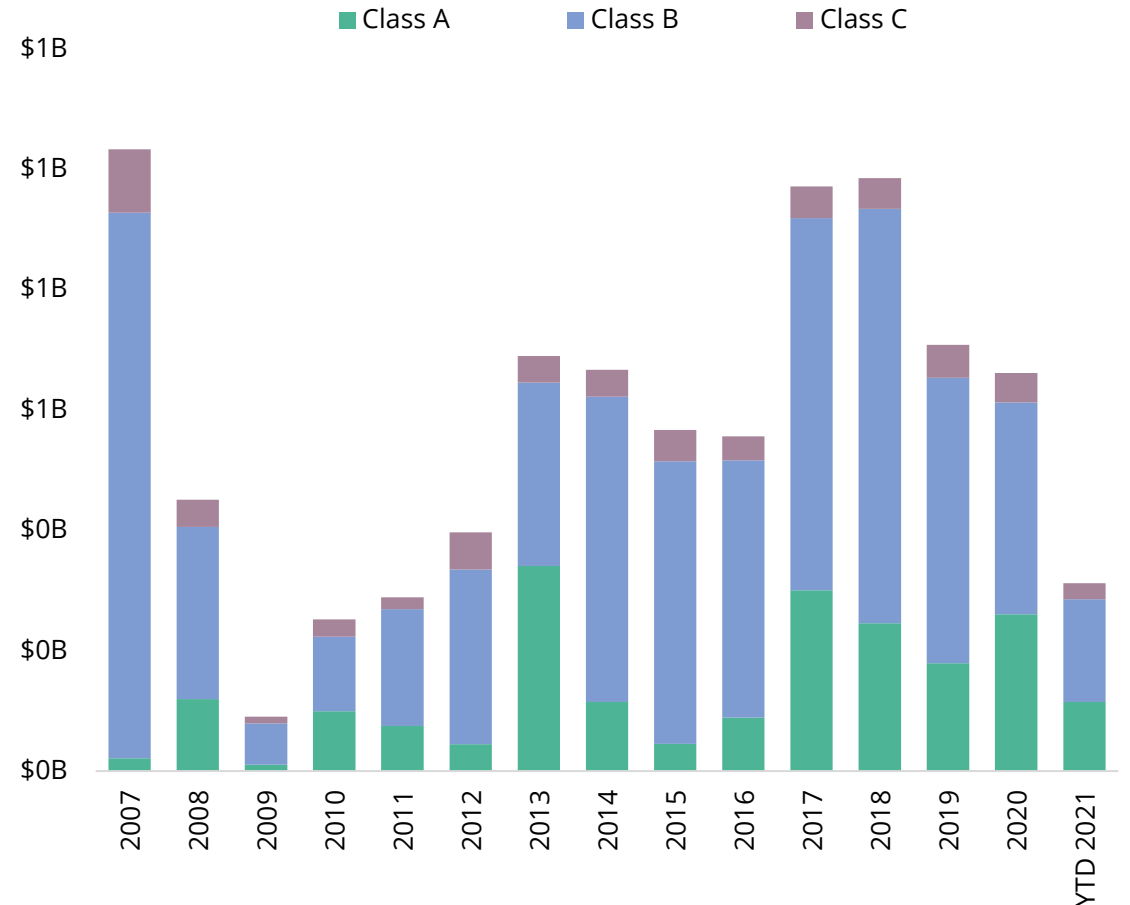
Pent-up investor demand sidelined by pandemic concerns over the past year has the acquisition spigot open again.

Office investment dollar volume

\$1.0B

Las Vegas office dollar volume 2020 to present

Office sales activity has been steady considering the prevailing economic and fundamental uncertainties brought on by the pandemic. The annualized post-COVID investment dollar volume is on pace to decrease by just 15.2% compared with the prior five-year average.



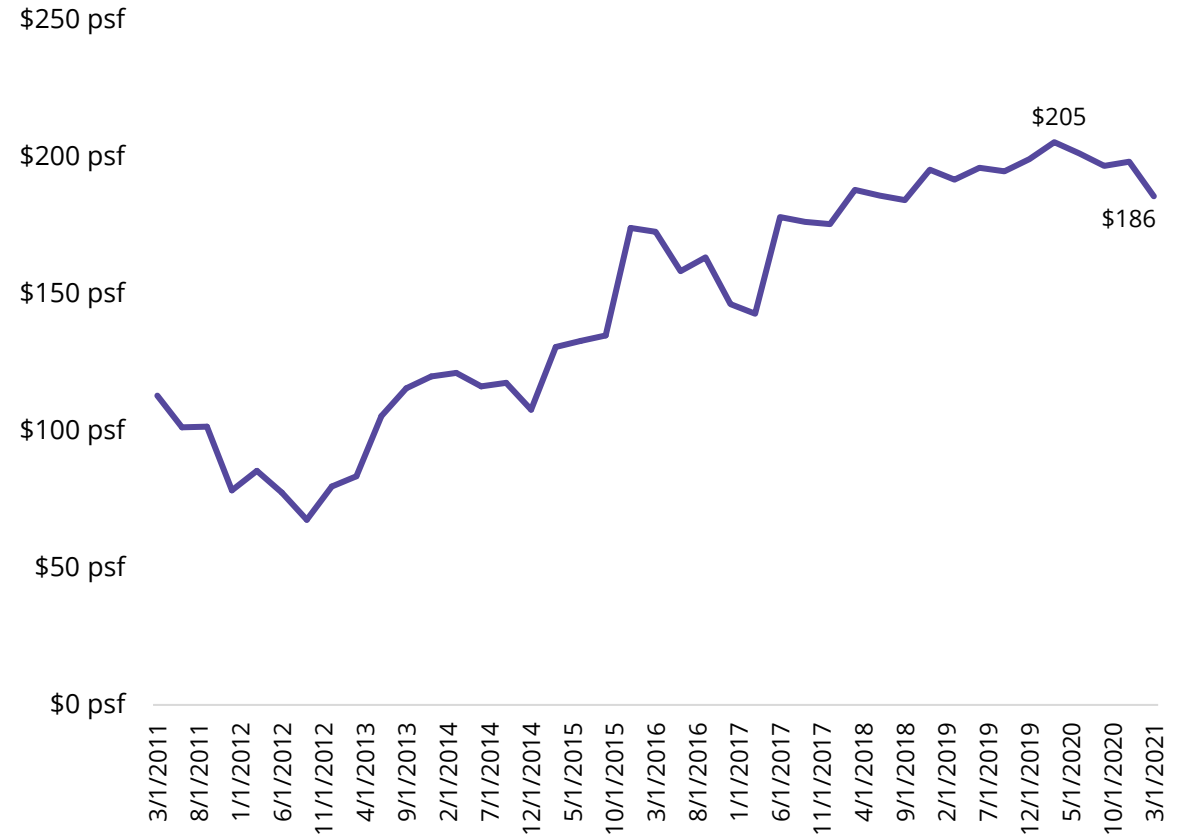
Source: AVANT by Avison Young, CoStar

Office asset pricing

-6.8%

Las Vegas office pricing from November 2019 to present

Pricing has softened during the pandemic, decreasing from \$205 psf in March 2020 to \$186 psf in June 2021, as investors have adopted more conservative underwriting approaches.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- **Las Vegas's economy could recover faster than expected.** Tourists are already returning, and prognosticators are forecasting a bullish summer, which is typically a slow season.
- **Tech companies are active** as indicated by a few representative executed leases. San Francisco-based LegalMatch expanded its presence in the second quarter and Pennsylvania-based FreeRateUpdate.com signed a new lease. Out-of-state office occupiers should continue to identify Las Vegas as an appealing option to expand and grow as other neighboring markets remain cost-prohibitive.
- **Office leasing demand is incrementally rising** as indicated by increasing year-to-date and quarter-over-quarter net effective rents.
- **Cap rates and asset pricing are poised to remain steady** based on the market's positive occupier and economic momentum.



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Let's talk

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