



DECEMBER 2015 | ISSUE 7

Welcome to another issue of Nevada State Bank's Commercial Real Estate Newsletter. As we wrap up another year, it's time to reflect on the state of the local real estate market, and it turns out that 2015 has been a good year for the market in general and also for Nevada State Bank. Here are just a few of the deals we've finalized over the past few months:

- A \$29 million construction loan for a 215-unit multifamily project in Henderson
- A \$30 million mortgage on a power center in Henderson
- A \$6.4 million mortgage for an industrial project
- A \$12.9 million mortgage for a 43,000 SF medical office building
- A \$13 million construction loan for a 300,000 SF industrial project in North Las Vegas
- An \$11 million construction loan for a 70,000 SF retail center in the southwest valley
- Mortgages totaling \$20 million for three single-tenant retail buildings in California

I hope this past year has been a good one for you as well, but the question on most brokers' minds is, "What's ahead for 2016"? I invite you to read the accompanying article on the office market in which John Stater of Colliers, Rick Myers of Thomas & Mack Development Group, and Brian Gordon of Applied Analysis give us their predictions for the coming year. The Economic Briefing in this newsletter is also of interest to brokers, since it concerns the state of the construction industry in Nevada – how and why it's recovering from the recession.

Here at Nevada State Bank, we have been helping developers and owners finance commercial real estate projects for 56 years, through several boom-and-bust cycles. This gives us a unique, long-range perspective on the Nevada marketplace that allows us to see the possibilities inherent in each phase of the business cycle. As evidenced by the above list of projects, our affiliation with Zions Bancorporation allows us to finance projects in other states within the Zions footprint.

This newsletter is designed to be passed along, so feel free to forward this email to your business associates and encourage them to sign up for a free subscription at www.nsbank.com/cre. That web page also includes a link to previous issues of the newsletter.

I hope you find this newsletter enjoyable and useful. For any additional questions, please contact me during regular business hours.

Sincerely,

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Southern Nevada Office Market Outlook

To find out what's ahead for the office market in Southern Nevada, we asked three local experts for their opinions: Brian Gordon, CPA, principal analyst at Applied Analysis; Rick Myers, president, Thomas & Mack Development Group; and John Stater, research manager at the Las Vegas office of Colliers International. Although the office market has been struggling for several years, they are all cautiously optimistic about its ongoing recovery.

Has the office market recovered from the recession?

Gordon stated, "The southern Nevada office market is still in the recovery phase of the post-recession cycle, but it has yet to fully recover." While Stater agreed with Gordon's assessment, in Myers' opinion, "Some product types in some submarkets are very strong, and others in some markets will never recover." Stater noted that technology is driving changes in the demand for office space, which he labeled a "moving target." He explained, "We're seeing a transition in how office space is used. Just a few years ago, we estimated that each full-time employee would need 300 square feet of office space. Now it's more like 250 square feet, and it may get down to 200 as more people work from home, digital files replace paper documents, and server rooms are replaced by cloud storage."

What factors are driving the market's recovery?

Stater noted that the economic recovery has made businesses more willing to "take the plunge" and expand their operations, releasing some of the pent-up demand for office space. The improving housing market is also good news for commercial real estate. "Locally, the residential market is better, which means mortgage companies and other companies related to construction are expanding and may need more office space," he said. Gordon stated, "The continued expansion of southern Nevada's population base will be a source of potential demand as new consumers require professional, business and medical services. Increased demand should translate into additional jobs within these office-using sectors, which expanded by 2.4 percent in the past 12 months."

In 2016, do you see vacancy rates in the office market going up or down?

Gordon predicted that "positive demand trends should prevail" and said the market-wide vacancy rate could drop by another full percentage point by the end of 2016. A year from now, the overall vacancy rate should be around 16.5 percent from its current rate around 18%, according to Stater. He predicts the vacancy rate will continue to decline at the same rate it did in 2015, barring the ever-present threat of another recession.

In 2016, do you see rental rates in the office market increasing or decreasing?

"Overall rental rates have remained relatively flat through 2015," said Gordon. "In the coming year, pricing is expected to report modest increases, and the market-wide average is expected to experience increases in the low single-digit range." Stater expects market rents to stay around \$1.95 per square foot for the coming year.



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A note of caution

Myers cautioned that, since office buildings come in many shapes and sizes, using overall vacancy rates and rental rates “misrepresents the market.” He added, “Talking about the rental rates for office buildings is like talking about prices of cars. There are way too many different kinds of cars (make, model, year, category, new, used, condition, etc.) to put an average ‘rate’ on the price of a car.” He noted some office users are driven strictly by price, while others need higher-end “image” space to attract employees and clients. Some need huge blocks of space for call centers, while others need smaller buildings. He said the currently high overall vacancy rate in the Southern Nevada market “does not reflect the fact that if you are a large user looking for office space in Las Vegas, you have very few choices to consider.”

What lies ahead?

Stater said although the market is getting healthier, “We don’t need much construction in the near future. In fact, zero construction would be just fine. We may go through two or three more years of recovery before new construction makes sense.” In Gordon’s opinion, “The recent trend lines are encouraging, and the underlying fundamentals provide reasons for optimism going forward.”



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