



Las Vegas Commercial Brokerage, LLC  
3930 Howard Hughes, Suite 180  
Las Vegas, NV 89169

## news release

for immediate release

702.733.7500 main  
702.862.8242 fax  
[www.gelasvegas.com](http://www.gelasvegas.com)

Contacts:	Kristen Campbell	Dave A. Dworkin
Phone:	702.733.7500	702.733.7500
Email:	<a href="mailto:kcampbell@gelasvegas.com">kcampbell@gelasvegas.com</a>	<a href="mailto:ddworkin@gelasvegas.com">ddworkin@gelasvegas.com</a>

### **Grubb & Ellis Predicts Commercial Real Estate Will Decline More Slowly in 2010, Recovery to Begin in Early 2011**

*Chief Economist Bob Bach: "Freefall is over, confidence to make decisions returns"*

LAS VEGAS (Jan. 5, 2010) – Grubb & Ellis Company (NYSE: GBE), a leading real estate services and investment firm, today released its 2010 Real Estate Forecast, which indicates that 2010 commercial real estate fundamentals will decline more slowly than in 2009, with most property types reaching bottom near the end of the year and beginning a slow recovery starting in 2011.

“The national economy has begun a slow and cautious recovery, but the labor market, which often lags the broader economy, will turn around only gradually with sustained improvement unlikely before the second half of 2010. Because commercial real estate lags the labor market, it still has a ways to go before reaching its own low point,” said Bob Bach, senior vice president, chief economist of Grubb & Ellis. “The good news is that the freefall we saw in 2009 is over and the future is more certain, giving owners and users of real estate the confidence to begin making decisions again.”

“Optimism is rarely lacking in Las Vegas, and the city’s creativeness and resiliency are extremely positive,” said Joseph E. Kupiec, Sr., Managing Director of Grubb & Ellis|Las Vegas. “Commercial real estate is a business of opportunity, and we believe there will be many such opportunities for our clients in the coming year.”

#### **Commercial Real Estate Investment Transaction Volume to Grow in 2010**

The investment market, which saw transaction volume maintain artificially low levels in 2009 as banks, CMBS servicers and other lenders delayed working through distressed assets, will start to see some of these assets finally come to market in 2010, prompting an increase in sales volume of 20 to 30 percent over 2009 levels. Prices, already down 40 percent from their peak in Oct. 2007, may decline another 10 to 20 percent in order to meet buyers’ expectations.

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“Many have called commercial real estate ‘the next shoe to drop,’ but that’s really an exaggeration,” said Bach. “It implies that commercial real estate could wreak damage on the financial system equivalent to the subprime residential mortgage losses, which is highly unlikely because the value of outstanding commercial mortgages is a fraction of the value of outstanding residential mortgages. Nevertheless, losses will mount over the next several years. If banks aren’t lending because they’re coping with losses in their real estate portfolios, this could impede the economic recovery.” Overall, the fact that banks will likely start writing off their losses on distressed assets in 2010 means that the capital accumulating on the sidelines will start being deployed, and highly leveraged buildings, many without the capital necessary to attract tenants, will transfer to new ownership, removing what was a major impediment to recovery in the investment market.

The condition of the Las Vegas market in recent years has left many investors hesitant to put their money into commercial product. It has become difficult to assess the true value of commercial property due to the lack of sales transactions, the number of special or unique deals that have taken place, and the overall devaluation of real estate during the downturn in the economy. Many investors are still waiting for the market to hit bottom before committing to an investment, while others feel that now is the time to buy.

### **Office Vacancy Rates Will Reach Modern-Day Record**

Nationally, the office market begins 2010 approaching record-high vacancy rates and the most sublease space available since the “dot-bomb” era. According to Grubb & Ellis, a recovery in the office sector is heavily dependent upon employment, and the slow job growth inherent in a sluggish recovery will delay recovery in the office market.

“Early 2010 may see a few isolated months of hiring, but sustained growth in employment is unlikely before the second half of the year,” said Bach. “The fact that the recession has come and gone, however, should provide the certainty necessary for tenants to start making decisions. We may see leasing volume increase in 2010 as a result.”

The national office market’s vacancy rate is expected to reach 18.5 to 19 percent by the end of 2010, the highest on record since Grubb & Ellis began tracking the national market in 1986. Other leasing fundamentals are also expected to continue to deteriorate, albeit at a slower pace before reaching a growth point in 2011. The company expects the market to register an additional 25 million square feet of negative net absorption and rental rates to decline 2 percent in 2010, compared to 62 million square feet of negative net absorption and a 5-percent reduction in rental rates in 2009.

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The Las Vegas market dynamic has been greatly affected in recent years by a rising unemployment rate, a significant decline in tourism and convention attendance, and a large amount of canceled or delayed commercial projects. Development of new office product has almost come to a standstill and vacancy continues to rise due to companies downsizing, closing other locations or going out of business altogether. Bank-owned properties are on the rise and are expected to continue to increase in the year ahead. However, not all aspects of the real estate market are negative.

Opportunities for tenants continue to be abundant. Concessions, such as several months of free rent, large tenant improvement allowances and assistance with moving costs remain popular efforts aimed at attracting new tenants. Leasing activity of medical office space has outperformed professional office space and is expected to do well in the year ahead. Even with a downturn in the economy, the demand for health care remains.

### **Recovery in Sight for Industrial Market**

Despite increases in vacancy and negative net absorption, economic indicators that generate demand for industrial space saw upticks in late 2009. These include global trade, freight shipments, manufacturing activity and even retail sales. This, along with the weakness of the dollar, hints that a recovery in the industrial market could be on the horizon.

Leading market indicators for the industrial sector turned earlier than those for the retail and office markets, which are promising, Grubb & Ellis reports. The company also noted that the industrial sector is less dependent on job growth than the office, retail and multi housing sectors, which means it could recover earlier, with vacancy rates beginning a gradual recovery in late 2010 and rental rates following in the second half of 2011.

Vacancy in the industrial sector is expected to reach 11.4 percent by the end of 2010, 70 basis points higher than year-end 2009. Landlords will have to weather 75 million square feet of negative net absorption, though that figure represents less than half of the 158 million square feet of negative net absorption in 2009. Warehouse rents will decline 5 percent, an improvement over the 6 percent decline in 2009.

Although there are numerous opportunities in Las Vegas for tenants to relocate at more affordable rates, many are using those opportunities as leverage to negotiate with their existing landlords and renew for one to three years. With a rise in commercial foreclosures in 2009 and a likely increase in 2010, it has not been unusual for tenants to research their landlord's financials before renewing or relocating. In 2010, bank-owned properties will offer some of the best deals available.

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### **Retail Sector Faces “New Normal”**

With a significant recovery in job growth unlikely to get underway until later in 2010, Grubb & Ellis expects the national retail vacancy rate to continue to climb, contributing to additional negative net absorption. Recovery in retail will be weak in 2010, but it will begin to generate demand for retail real estate starting in 2011.

”It’s unlikely the shock of the Great Recession will produce a generation of frugal consumers like the Great Depression did, but on the other hand, retail sales will not bounce back to their debt-fueled levels of 2006 and 2007 anytime soon. Retailers and owners of retail real estate will need to adapt to a ‘new normal’ in consumer attitudes that may last for some time, including more conservatism and attention to value as households rebuild their savings,” he noted.

For the Las Vegas market, the wait-and-see attitude of 2009 has now carried over into 2010. While the battle to attract new tenants continues, the trend amongst recent deals has favored renewals. Those quality tenants who have made their payments on time and have, thus far, been able to weather the economic storm are in a better position to negotiate rent modifications with their landlords and renew their leases for another one to three years. Forward momentum in the Las Vegas retail market has slowed quite a bit in recent years; however, it has not stopped entirely. The number of store openings has been less than what it used to be, but deals are still getting done.

### **Multi Housing to Benefit from Boomers’ Babies**

Similarly to the other sectors of commercial real estate, job growth is key for a robust recovery in the multi housing arena. The apartment market suffered in 2009 as the growing wave of residential foreclosures increased the supply of shadow units – unsold condominiums and houses being offered for rent. Longer term, apartments will benefit from the return of homeownership rates to pre-bubble levels or less, as well as increased volume of 20- to 29-year-old apartment seekers as the boomers’ kids move out on their own.

Editor’s Note: The complete Grubb & Ellis Forecast and regional forecasts are available on the Grubb & Ellis Company Web site: [www.grubb-ellis.com](http://www.grubb-ellis.com).

### **About Grubb & Ellis**

Named to *The Global Outsourcing 100*<sup>TM</sup> in 2009 by the International Association of Outsourcing Professionals<sup>TM</sup>, Grubb & Ellis Company (NYSE: GBE) is one of the largest and most respected commercial real estate services and investment companies in the world. Our 6,000 professionals in more than 130 company-owned and affiliate offices draw from a unique platform of real estate services, practice groups and investment products to deliver comprehensive, integrated solutions to real estate owners, tenants and investors. The firm’s transaction, management, consulting and investment services are supported by highly regarded proprietary market research and extensive local expertise. Through its investment subsidiaries, the company is a leading sponsor of real estate investment programs that provide individuals and institutions the opportunity to invest in a broad range of real estate investment vehicles, including public non-traded real estate investment trusts (REITs), tenant-in-common (TIC) investments suitable for tax-deferred 1031 exchanges, mutual funds and other real estate investment funds. For more information, visit [www.grubb-ellis.com](http://www.grubb-ellis.com).

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