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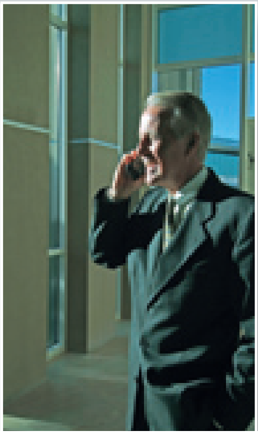

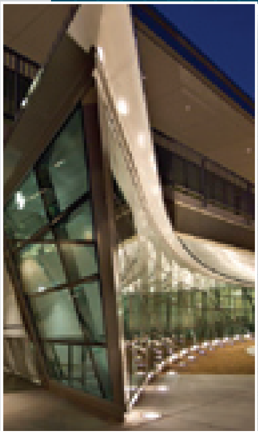

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From the editor ...

Dear readers,

As the Las Vegas Valley grows, the opportunity for in-depth coverage expands. The creation of this "Commercial Real Estate Guide" is a direct result of the flourishing real estate market here. Thanks for picking up the inaugural edition of CRE.

Southern Nevada's commercial real estate industry has transformed itself into an amazing beast. We've seen developers try to keep up with the needs of a sprawling community. The advent of vertical building in recent years has brought national and international attention to the city for a whole different reason. People are paying attention to more than the gaming industry. They are watching the natural evolution of a growing city.

In the debut of this guide, we showcase a collection of some of the top real estate experts in the city. They're all here, all in one place, for the very first time. That feature, dubbed "Realty Check," examines the industrial, retail and office aspects of commercial real estate. These guys know their stuff.

We have plans to produce a Fall edition of CRE as well. Let us know what you think of this concept and help us mold it into a must-read product for everyone from industry specialists to brokers and investors.

CRE is chock full of great facts and figures as well as analyses. We hope you find it useful.

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cre

Southern Nevada Commercial Real Estate Guide

Inside

A word from our sponsor...

Dear In Business Las Vegas readers,

Marnell Properties is pleased to be a sponsor of In Business' 2006 spring edition of the Commercial Real Estate Guide (CRE). Our community continues to develop into an even more prosperous city each and every day. Due to the increasing demand on existing companies, new businesses are created. This expands our market and the need for more commercial real estate in Southern Nevada.

For more than 25 years, the Marnell family of companies has been fortunate to be an integral part of the Las Vegas community. Each year has presented opportunities for us to contribute to the look and lifestyle of this great city. Best known for our innovative hotel and resort projects on the Las Vegas Strip, the city's growth and increasing national profile also presents us with opportunities to apply our talents to the development of distinctive commercial projects to meet the needs of new and growing businesses.

At Marnell Properties we develop unique properties and environments that advance the expectations of our customers. We endeavor to contribute to those principles in a responsible and sustainable way through our efforts to create value in our development projects, in our way of conducting business and through our support of industry and community organizations.

The Commercial Real Estate Guide is a helpful resource; we hope you find it informative and valuable.

Brad Schnepf
President, Marnell Properties

cre | Realty Check: Meet the experts

JEREMY AGUERO/BRIAN GORDON | Principal Analysts | Applied Analysis

Jeremy has been with Applied Analysis since its inception in 1997. His areas of expertise include economic analysis, operational model development and fiscal impact analysis. He attended the University of Nevada, Las Vegas where he graduated with honors in 1996. He has worked for clients in the private and public sectors, and undertaken projects of local, regional and national significance.

Brian's areas of expertise with Applied Analysis include market analysis, financial advisory services, business consulting, accounting, financial reporting, and economic modeling. He attended the University of Nevada, Las Vegas where he graduated with honors, obtaining a Bachelor of Science degree in Business Administration with an emphasis in accounting. Following his graduation, Gordon took a position with Arthur Andersen in Las Vegas and also performed a rotation in Andersen's Silicon Valley office. SEE COLUMN, PAGE 14

MARK MUSSER

**Senior Investment Associate |
The Bentley Group Real Estate Advisors**

Mark works in the marketing and sales of Retail and Office Properties for The Bentley Group. He has been involved in the Las Vegas market for more than five years and helped broker over $100 million in real estate transactions. Mark earned his Bachelor of Science degree in real estate from the Pennsylvania State University. He is a member of National Association of Office and Industrial Properties (NAIOP), Certified Commercial Investment Member (CCIM) and the International Counsel of Shopping Centers (ICSC).

SEE COLUMN, PAGE 27

JOHN RESTREPO

Principal | Restrepo Consulting Group LLC

John directs Restrepo Consulting Group's economic and financial consulting activities. He has analyzed regional economic and real estate trends in Nevada, Arizona, California, Texas and areas throughout the southeastern U.S. His 24 years of urban and real estate economics experience has given him a broad range of skills and technical expertise in assessing the effects of local, regional, and national economic trends on urban real estate markets. John's clients include a variety of prominent private and public organizations concerned with urban development and growth.

SEE COLUMN, PAGE 6

GARY SIROKY

President | CORE Construction

Gary Siroky has made many significant contributions to the growth of the Las Vegas Valley in both the commercial and industrial areas during his more than 17 years in the construction industry. As president of CORE Construction since 2002, he has been responsible for the complete restructuring of the company to properly position it for controlled growth in the public and private sectors. CORE Construction is a privately owned company with offices in Nevada, Arizona, Florida, Illinois and Texas.

SEE COLUMN, PAGE 30


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Figure 2

Record-low vacancy rates show tight industrial market in 2005

John Restrepo
Restrepo Consulting Group

Southern Nevada was one of the fastest growing metropolitan areas in the country in 2005. The major force behind this growth was an incredibly healthy local economy, which, in turn, was driven by resort/tourism industry expansion, non-gaming business expansion and strong in-migration. These factors had a major impact on the demand for commercial and residential real estate.

According to the Nevada State Demographer, the Clark County population grew by more than 60,000 residents, or by 3.8 percent, from 1.7 million in 2004 to 1.8 million in 2005. In 2005, nearly 15,500 jobs were created in the leisure and hospitality industries and 18,100 jobs were created in the Valley's industrial-using sectors, such as the construction, manufacturing, transportation and warehousing and wholesale industries.

According to the Nevada Department of Employment, Training and Rehabilitation, the 2005 unemployment rate reached a low of 3.5 percent compared to 3.8 percent at the end of 2004.

In 2005, economic expansion was reflected in a variety of trends:

- Large-scale development and redevelopment along the entire length of the Las Vegas Strip and development in downtown;
- Supply-constrained commercial real estate markets;
- One of the strongest housing markets in the nation; and
- The Valley's role as an important player in the industrial expansion of the Southwest U.S.

Much of this growth manifested itself in the demand for industrial space in 2005. This rapid economic growth posed challenges to industrial developers in 2005 as land became scarce and construction costs soared. Rising development costs left developers looking for creative ways to build, including "vertical" industrial projects, a strategy unheard of just two years ago.

Despite the strong demographic and economic news, there are some potential clouds on the horizon for our industrial market. According to preliminary research by Restrepo Consulting Group and Colliers International, the Valley's West Central and Southwest submarkets, alone, could lose approximately 4 million square feet ("sf") of existing industrial space over the next 10 years. This loss would be largely due to right-of-way needs and the development of mixed-use/high-rise residential projects and casino-resorts.

For example, at the end of 2005, 15 high-rise condominium and condo-hotels, with a combined 7,600 units, “went vertical” in the Valley. The older industrial submarkets that border the resort corridor, west of I-15, especially the West Central, are primary “adaptive reuse” candidates. Specifically, much of this “redevelopment” is occurring in the area bordered by Russell (south) and Sahara (north), and Valley View (west) and Dean Martin (east). One of the first high-rise residential projects in this area to “go vertical” is the 1,500-unit Panorama Towers. It has four towers ranging from 33 to 44 stories and located on Dean Martin Drive just south of Harmon and west of I-15.

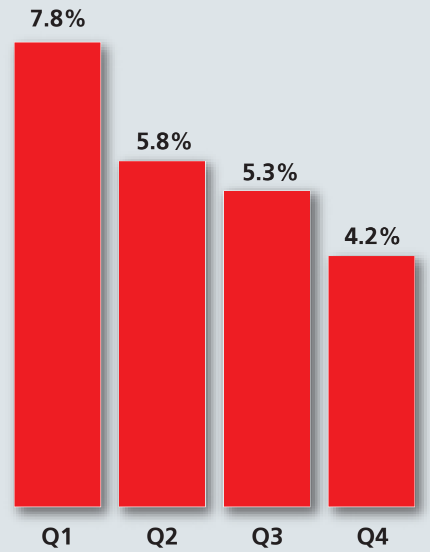
Record low vacancy

As noted, at the end of 2005, the Valley’s industrial vacancy rate stood at 4.2 percent (see Figure 1), and many observers were concerned at the end of 2004 when the vacancy rate stood 7.9 percent. At 4.2 percent, the Valley’s speculative industrial market is essentially at “full occupancy.” This is the lowest recorded vacancy rate since Restrepo Consulting Group and Colliers International began tracking the Valley’s industrial market.

At the end of 2005, the lowest vacancy rates were experienced in the Airport (3.9 percent), Southwest (3.3 percent) and West Central (2.3 percent) submarkets. North Las Vegas (4.8 percent), East Las Vegas (8.1 percent) and Northwest (22.6 percent) all had vacancies higher than the Valley average.

Figure 1

Vacancy rate by quarter, 2005



At the end of last year, industrial projects completed between 2003 and 2005, some still in lease-up, averaged 8.5 percent vacant. Projects built between 2000 and 2002 averaged 3.2 percent, while projects built between 1995 and 1999 were 3.1 percent vacant. And, finally, projects completed prior to 1995 averaged 4.2 percent vacant. Clearly, all of the market’s segments were operating at full throttle in 2005.

Developers love a supply-constrained market – in the short-run at least. But as they say, “too much of a good thing, is not necessarily good.” Such a tight market does not bode well when competing with other Western cities and states for economic development and diversification. And that’s exactly where we are today – at an increasingly competitive disadvantage relative to our primary competitor cities such as Phoenix, Salt Lake City and Denver when it comes to available industrial space. We’re even becoming less competitive than some industrial centers in Southern California, like the Inland Empire.

Demand on steroids

As mentioned, strong economic growth was the main driver in 2005. Annual net absorption (the amount of space leased over a period of time and factoring in space vacated) totaled 6.4 million sf, an increase of 21 percent above the 5.3 million sf absorbed in 2004.

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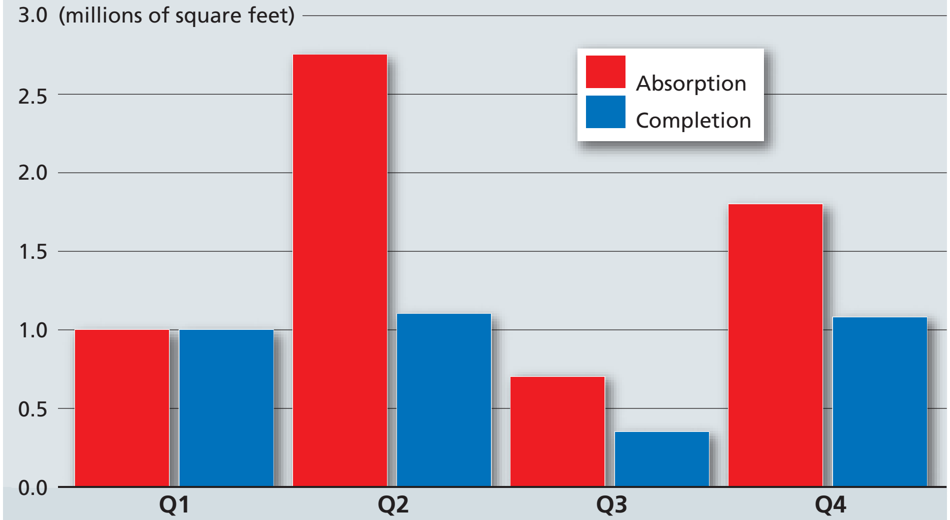
Figure 2

Absorption and completions by quarter, 2005



North Las Vegas and the Southwest led with an annual industrial absorption of 2.6 million sf and 1.9 million sf, respectively, followed by Airport (739,000 sf), Henderson (505,000 sf), West Central (498,000 sf) and East Las Vegas (338,000 sf).

On a product basis, demand for Warehouse/Distribution space led the way with 3.5 million sf, making up more than 55 percent of the space absorbed during the year. Most of this demand was in North Las Vegas, our traditional center of warehouse and distribution activity. This demand was followed by Light Industrial (1.4 million sf), Light Distribution (1 million sf) and R&D/Flex (337,000 sf).

Where's the supply?

Despite strong demand at the end of 2005, only 3.5 million sf of for-lease industrial space were completed last year. This resulted in an absorption-to-completion ratio of 1.8, meaning that there were nearly two sf of demand for each square foot of supply built. Another way of looking at it the Valley's speculative inventory only grew by 4 percent (87.5 million sf from 84 million sf), while demand grew by 21 percent (6.4 million sf from 5.3 million sf) between 2004 and 2005 (See Figure 2).

The top three markets for completions were North Las Vegas (1.3 million sf), Southwest (1.25 million sf) and Henderson (543,500 sf). There were no completions in East Las Vegas and West Central. Warehouse/Distribution space made up 2 million sf (57 percent) of these completions.

The one silver lining in this supply-constrained cloud was the amount of forward supply at the end of 2005, which stood at 8.3 million sf. Of this amount, 55 percent was under construction, and Warehouse/Distribution projects accounted for 72 percent of this space. The remainder, or 3.7 million sf, was in the planning stages.

If the same level of industrial demand occurs in 2006 as happened in 2005, much of the for-lease vacant, under construction and planned space currently tracked by RCG and Colliers will be absorbed in just under two years (7.5 quarters), assuming no additional supply is added or existing space is vacated. This is a very significant statistic to monitor considering the cost and entitlement barriers to industrial development in the Valley.

Rents: Where are they headed?

Rent is the "other" major market indicator. The increased demand for industrial space and the scarcity of available developable land finally started putting upward pressure on asking rents in 2005, tipping the market in favor of landlords.

The Valley's average monthly asking rent reached $.67 NNN per square foot ("psf") at the end of 2005, an increase of 20 percent, or $.11, from the year-end 2004 average. On the other hand, Tenant Improvement Allowances ("TIs") remained flat last year at $30-$35 psf, and tenants were lucky to get one month of free rent on a five-year lease. At the end of 2005, "base rent" increases ranged from 4 to 5 percent.

Year-over-year increases in asking rents occurred throughout the Valley, resulting in the following rents: Airport ($.81), North Las Vegas ($.56), North-

Figure 3

Inflation* adjusted industrial asking-rent (per square foot), 2001-2005

*Inflation adjusted asking-rents set in 2001 dollars west ($.73), Southwest ($.83), West Central ($.72) and East Las Vegas ($.40 psf). By product, R&D Flex had the highest asking rent at $1.23 psf, while Warehouse/Distribution had the lowest at $.46 psf.

Now here is where it gets interesting. After adjusting for inflation, the Valley's average industrial rent at the end of 2005 was below the Quarter 1, 2001, average (see Figure 3). According to the U.S. Department of Labor, the consumer price index for western urban regions rose by 12.3 percent between 2001 (base-year) and 2005. Adjusting the year-end 2005 average for inflation reduced the Valley's asking rent from $.67 to $.60 psf – the asking rent at the end of 2001 was $.57 psf. This explains why industrial construction has lagged demand – rents have not kept up with costs, adversely impacting yields, causing many industrial projects not to "penciling out" and, in turn, not being built as a result.

On a much brighter note, our research indicates that industrial rents should jump by 10 percent or more over the next two years making up for the "tenant's" market that has existed for at least the last five years. However, it is difficult to say how high asking rents can go up, to make up for rising land and construction costs, before tenants say "enough is enough." The question isn't whether or not industrial developers will respond, but how will they, and their tenants, respond to these rapidly changing market conditions. We anticipate that some developers will build new types of industrial products, while others will move to other geographic markets in Nevada and other states, and some will do a mix of both.

Looking forward

With a projected population and employment growth of over 3 percent in 2006, current indicators suggest a very healthy economy for the foreseeable future. This, combined with Southern Nevada's geographic strengths, strongly suggests that the industrial market should continue to remain tight. On the supply side, new types of industrial development will have to be built to accommodate demand as it grows and evolves, and some of our more traditional industrial products will no longer be built.

The industrial space in the planning pipeline should keep vacancies in check by maintaining a relative balance between supply and demand over the next two years. However, the diminishing amount of available land combined with escalating development costs will continue to be a challenge for developers. As a result, nearby outlying areas, such as Apex, Pahrump, Ivanpah, Kingman, Moapa and Mesquite could become "industrial/business suburbs" to Las Vegas.

Southern Nevada's speculative industrial market has been evolving over the years and will continue to do so. Looking forward into 2006 and 2007, vacancies are expected to stay low, finally pushing rents up as developers pass on higher operating and construction costs to tenants – to a point.

While higher rents may be beneficial in the short-run, they can have a negative impact on our economic diversification efforts, if we lose our edge compared to other Southwestern U.S. markets. We cannot overstate how important economic diversification is to the sustainability and quality of life of Southern Nevada. Relatively affordable commercial real estate costs and proximity to major western markets have been Southern Nevada's major strengths in attracting new companies here for many years.

However, market realities are different now and we have to be creative and nimble in what, where and how we build industrial space to remain at the leading edge of the Southwest's "diversification revolution."

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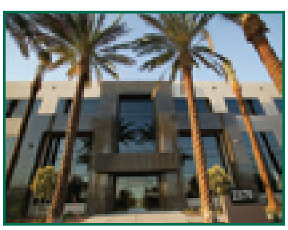


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Breaking stereotypes

Valley companies fill needs with high-end, 'green' Class A projects

By Danielle Birkin
Contributing writer

As the emerging Southern Nevada market for high-end commercial office space continues to mature, local developers are keeping pace with a plethora of new projects, and – when it comes to environmentalism, energy-efficiency and conservation – some of them are seeing green.

This includes the Molasky Group of Companies, which broke ground last fall on Molasky Corporate Center, Las Vegas' first "green" Class A office building. Located downtown at Grand Central and City parkways, the project will stand 16 stories tall and encompass 285,000 square feet of office space, including 20,000 square feet of retail, when it opens for business in the summer of 2007. The center is also expected to be one of about 200 buildings in the country to earn the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) designation. Indeed, the $100 million building will be the largest and among the first on the West Coast to

The Marnell Corporate Center is the only Class A office campus in the airport submarket. The office complex will eventually consist of eight buildings, a restaurant and a hotel. The center's third and fourth buildings are shown at top, while a rendering of the fifth is above.

earn LEED's silver rating, a level above standard certification, according to Richard Worthington, Molasky Group president and CEO.

"This is very prestigious because it's a very rigorous process to prove a building is actually a green building," Worthington said. "The LEED approach utilizes recycled materials, energy conservation systems and sustainable development technologies, like rapidly renewable materials and reusing a brown sealed site. The LEED system is about a point system – the more points the more green the building is."

The confirmed tenants include the Southern Nevada Water Authority, which will occupy 135,000 square feet; the Las Vegas Valley Water District, which will occupy 52,000 square feet; 24-Hour Fitness; and Jason's Deli.

Worthington, who said the Molasky Group of Companies also completed the 100,000-square-foot IRS building and the 40,000-square-foot Social Security building last year, noted that the three-acre Molasky Corporate Center is part and parcel with the city council and the mayor's vision to revitalize downtown.

"We're very excited about Molasky Corporate Center playing a role in that renaissance," he said.

Glen, Smith & Glen Development also has a pair of high-end green office projects in the works, according to Kenneth Smith, the company's managing partner. This includes Warm Springs West, a $50 million, 20-acre business park on Warm Springs Road near the new St. Rose hospital, and a $75 million, 20-acre expansion to its Park at Spanish Ridge, which is located at Interstate 215 near Russell Road.

Warm Springs West will include 240,000 square feet of office product for lease and for sale, while the Park at Spanish Ridge expansion project will encompass 650,000 square feet. Both projects will break ground in fall 2006 and are being planned with the LEED process in mind, with attention to details such as building orientation, inset windows, drainage systems, higher efficiency in air conditioning and heating systems, and increased insulation in walls.

"All the little subtle things that add up to a more efficient building and site," Smith said, adding that the company is also taking advantage of LEED's new designation, a rating system for core and shell construction, which allows developers to get points for the "guts" of the building by establishing a green infrastructure.

Smith went on to address the myth that green construction is more expensive.

"That's not true when it's done from the start," he said. "With the expansion of the Park at Spanish Ridge we have a good comparison. The first 20 acres

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The Tririga building lies on Via Austi Parkway in Las Vegas.

were not planned as green although it was something we were interested in. We went green with the expansion and are essentially doing the same building with more forethought and environmental care up front so we end up with a product that's cleaner and better to live and work in, and it turns out not to be any more expensive. As a philosophy, we're going to move all of our projects in the green direction."

There are myriad other new office projects in the work in the valley as well, with demand strong as absorption rates outpace new construction, according to Grubb & Ellis' Office Market Trends Las Vegas report for the fourth quarter of 2005, which indicated that the local office market is making a spirited recovery, with vacancy rates dropping to 9 percent over the course of the last year.

Marnell Properties' Marnell Corporate Center, the only Class A office campus in the airport submarket, is among the projects that are helping to position Southern Nevada as a commercial contender. The $100 million-plus project has been in the works for several years and began as a means to house the Marnell family of companies' various business units on one cohesive campus.

At build out, the master-planned office complex – which now has five completed and fully occupied buildings plus Panevino Restaurant – will sit on 37 acres on Sunset Road across from McCarran International Airport and feature about 750,000 square feet of Class A office space, making it the second-largest Class A corporate center in the valley. It will eventually include at least eight office buildings, the restaurant and a hotel. In addition to Marnell entities, tenants include Cox Media, NAI Horizon, Nevada Development Authority, Lennar Corp. and a law firm.

The design philosophy for the campus is based on contemporary design and timeless architecture such as glass and metal panels. Each building is being designed with its own identity, tied together with similar high-quality details and finishes, generous landscaping and open pedestrian areas.

> "The LEED system is about a point system – the more points the more green the building is."
>
> **Richard Worthington**
> Molasky Group president and CEO

"Typically what you see in Southern Nevada is identical buildings or a cluster of buildings where the common element is the parking lot," said Ralph Murphy, executive vice president of Marnell Properties. "What we've created is very uncommon, so we have an environment that is unique and much more friendly."

Added Mitch Trageton, executive vice president of Marnell Architecture: "We've tried to create architecture that in 20 years will still be in style and won't be dated, and we tried to give each building its own identity and create the center not just as a collection of

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buildings but as a place."

Centra Properties also has several major office developments recently completed or in the works, including Centra Point, a $100 million, 450,000-square-foot master planned Class A office park that sits on 30 acres off Interstate 215 near Sunset Road and Durango Drive in West Village, a suburban downtown set to encompass approximately 700 acres in the burgeoning southwest valley, according to Frank Beck, Centra's chief development officer. The eighth and final office building in Centra Point, which has already leased out most of its space, was completed in March 2006 and also includes a small retail component. Current tenants include Pulte Homes, Stewart Title, GC Wallace, Vestin Mortgage and Westar Credit Union.

West Village will also include Project Durango, Centra's 65-acre joint venture with KB Home that will include about 600,000 square feet of office space and 1,300 residential units in a mixed-use environment.

"Employers see West Village as a great location with regional usage," Beck said. "Long-term I'm bullish on office development, particularly in the southwest because of the location relative to residential, especially at West Village because we have entitlements to more density and height."

Beck said that another Centra project in the works–Town Square-Las Vegas, a $750 million regional lifestyle center on Las Vegas Boulevard South near I-15 and I-215 – will add more than 200,000 square feet of additional Class A office space to the company's portfolio. With a projected opening date of mid-2007, the development with venture partner Turnberry Associates will be a mixed-use complex of 1.9 million total square feet.

"I think a lot of users are looking at places that have a mix of uses and amenities and also have residential nearby," Beck said, adding that office development has been relatively steady in recent years, despite escalating land prices. "To buy commercial land on the open market today we must get creative in development projects in order to make them work."

The Molasky Corporate Center will be the city's first "green" Class A office building. It will be 16 stories at completion.

Worthington of Molasky Group also agreed that the local high-end office market has remained strong as it continues to mature.

"Las Vegas has historically been a market with the emphasis placed on Class B space – the focus was mostly on back-office operations," he said. "As the market has grown more sophisticated there has been greater emphasis on Class A and space and I see that emphasis continuing in the future." cre

Commercial markets grow at record pace in 2005; stability critical in '06

With the close of 2005 more than two months behind us, a look back at changes in the commercial real estate industry may give Southern Nevada developers a chance to celebrate a record-setting pace, and gauge the potential of 2006. Last year's commercial real estate market performance was somewhat comparable to the residential sector in 2003 – strong equity inflow and a robust pace of sales.

A feverish pace of inventory expansions was matched with equally impressive demand for space. The perfect storm of 2005 in the commercial sector, which included the confluence of record-low interest rates, unprecedented consumer spending levels, record home sales, nation leading employment growth and phenomenal population expansion, will not be repeated in the near term. General economic strength remains in the storm's wake, but market sentiment has tended to shift from how fast the market might grow to how fast the market might slow down. Key supply and demand considerations include:

Jeremy Aguero

Brian Gordon
Applied Analysis

- Population Growth – Nation-leading population growth for communities of its size, provided Las Vegas will increasing demand for products and services. It will also spur construction activity into 2007.
- Employment Growth – Record employment growth of 7.0 percent in 2005 afforded residents the ability to purchase necessary, and not-so-necessary, products and services, while employers supporting the community's core industries enjoyed the ripple effect of such expansions. Particular strength in the construction, professional services and health care occupations, helped the economy grow outside its hotel-casino core.
- Home Equity – Coming off unprecedented residential price appreciation, homeowners generated an estimated $21 billion in new value (wealth), a large portion of which likely entered the market generating additional demand. For every one college graduate who found housing unaffordable, there were five households who witnessed a 30 percent increase in household wealth. Many of those household extracted a portion of that new money, using it to purchase cars, take vacations and furnish their homes.
- Product Type Shift – The office and industrial markets witnessed a shift away from for-rent product to for-sale

Continued on Page 16

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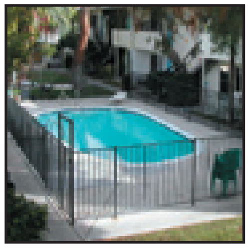

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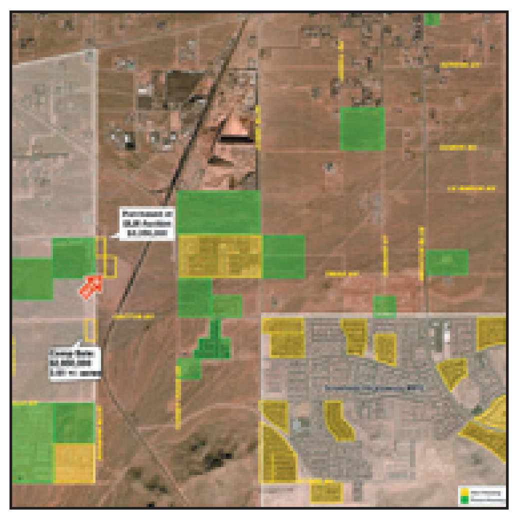

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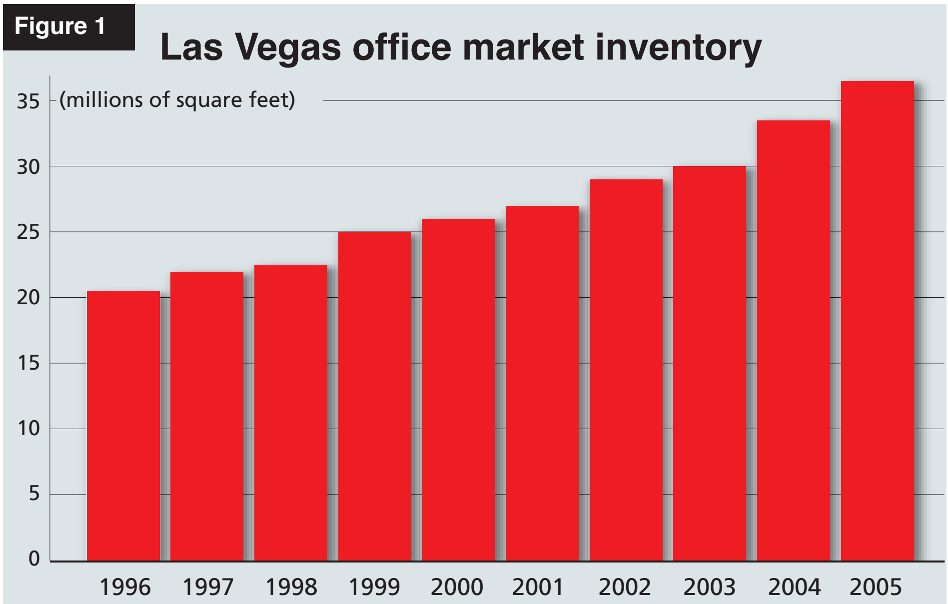

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office condominiums and industrial freestanding structures. This shift provided an added layer of demand driven by the user and investor markets seeking out Las Vegas property and business owners investing in their future by acquiring space, rather than leasing. Higher interest rates will act as a damper on this trend, a trend already occurring.

- Interest Rates – Record low interest rates in 2004 sparked purchasers of space to start thinking ahead about buying, rather than leasing. Last year brought a number of interest rate increases, slowing investment trends and recapturing some previously freed up investment capital. At the same time, rates during the design stages of development for projects that were completed in 2005 were at record low levels just one year prior. This ability to borrow at rates substantially lower than the rise in land values provided the incentive for developers to move forward with projects.
- Land Prices – Breaking the $700,000 per acre threshold, land price increases acted as a double-edge sword. On the one hand, new land equity was used to finance development activity for many who would have found such options unavailable without the unprecedented increases. On the other hand, land purchased at retail during late 2005 and present has limited feasibility at current rental rates.
- Construction Costs – Land is not the only thing that doubled in price during the past year. The cost of concrete, steal and lumber has also increased, to say nothing of record setting labor price escalations. At the close of 2005, Southern Nevada's unemployment rate stood at 3.5 percent. For all practical purposes, this means that everyone who wants a job has one.
- Supply Chain Issues – The wicked stepsister of construction cost increases, supply chaining is becoming a heightened issue. Banks and other investors are not only asking about project marketability, they are also asking how Southern Nevada will practically import sufficient raw materials to construct the $20 billion plus in construction activity already on the books.
- The Gaming Ripple Effect – Like it or not, the gaming industry remains the driver of Southern Nevada's economy, accounting for just under 30 percent of the metro area workforce. The bad news are the economic diversity implications of this conditions; however, as one learned economist recently said, when the economy is expanding, it is good to be on the fast horse. Casino-hotel projects with announced completion dates will add more than 35,000 new rooms to the market by the close of 2010. This is more new rooms constructed than in any five-year period in Las Vegas' history. While everyone is asking questions regarding employee housing, historical precedent would at least suggest increases in the office, retail and industrial sectors will follow this industry-specific construction boom.

The market demonstrated tremendous equilibrium with demand approximating new supply during a period of never-before-seen market expansion.

Office

The Valley's office market closed out 2005 with its largest expansion in history. During the fourth quarter, the market grew by 1.2 million square feet, its single-largest quarterly gain in history. For the year, the office market expanded by 3.2 million square feet, nearly 1.0 million square feet better than 2004's total of 2.2 million square feet.

As of year-end, the office market consisted of 37.4 million square feet in 1,348 buildings with unoccupied space totaling 3.1 million square feet, an 8.4 percent vacancy rate. For the year, net absorption totaled 3.2 million square feet, better than 2004's previous record pace of 2.3 million square feet. Fundamentals in the sector supported the healthy performance.

The Valley is seeing a trend in new office market activity, as office developments and market demand showed a locational shift. Office-using employers increasingly require accessibility, visibility and reduced commute times. As a result, 67 percent of new space was located within one mile of a major freeway during the final quarter of 2005. This trend will likely continue as Valley-wide densities increase and residential living expands to the periphery of the Valley.

Expectations for the office sector in 2006 remain less robust as future projects will be hard pressed to turn sufficient profits at today's economic climate. Concerns include a lag in office rents combined with rising develo-

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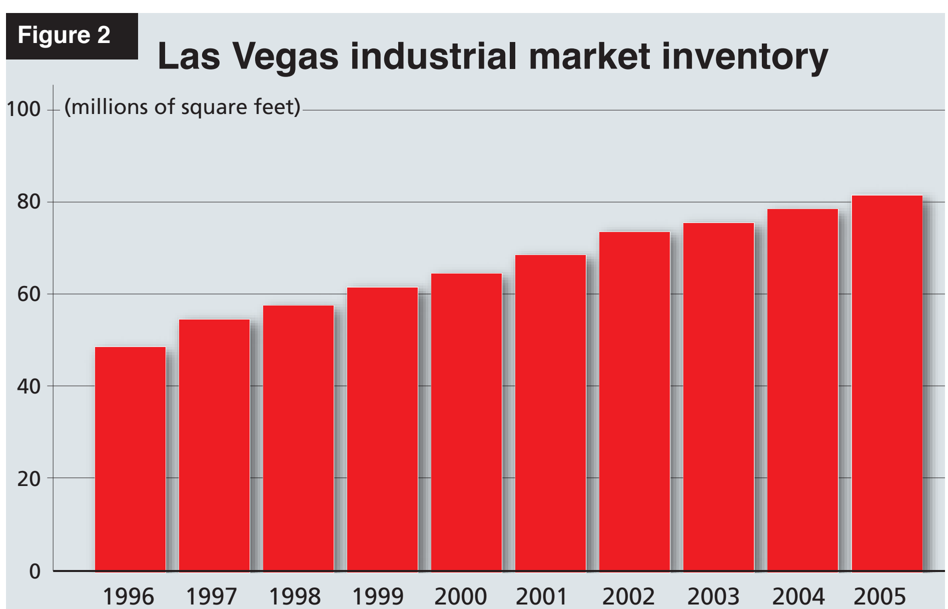

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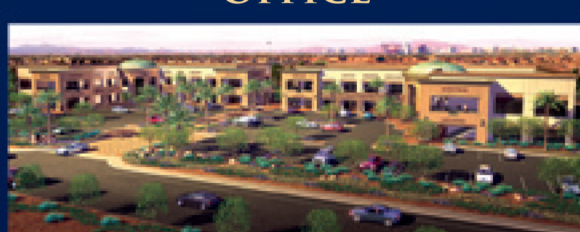

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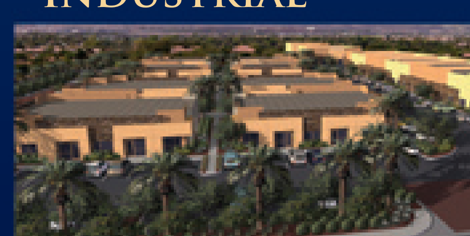

1. Cheyenne Fairways Business Center

Location: Cheyenne west of Durango fronting the Durango Hills Golf Club.

A 50,000 square foot office/retail development for lease, featuring two five thousand square foot retail buildings fronting Cheyenne and a two-story 40,000 square foot office building fronting the golf course. The office building will be located directly overlooking the 3rd and 4th greens and the entire length of the Durango Hills Golf Club. In keeping with the theme, Investment Equity is building an expansive putting green between the office building and the golf course, exclusively for the tenants. This project is well located within close proximity to the Mountain View Hospital, Summerlin, Desert Shores, the Las Vegas Tech Center and US-95, with restaurants and shopping nearby.

2. Copper Pointe Business Park

Location: Fronting the I-215 Beltway between Sunset and Russell.

This development is a 74,000 square foot high image office park, consisting of two (2) two-story buildings with units for lease or sale ranging from 2,500 to 37,000 square feet. The project is ideally situated fronting the I-215 Beltway and is within a 3-mile radius of three new hospitals, the proposed Stations Casino at Durango and the mixed-use retail/office/high-rise residential developments called "The Curve" and "Durango Village." All owners will enjoy the benefit of having signage on the freeway with excellent visibility and tremendous exposure.

3. Rainbow Corporate Center

Location: On the corner of Rainbow and Post, just north of the I-215 Beltway.

This development will be built in three phases, consisting of 12 medical/office buildings for lease or sale. Units will range from 2,000 to 15,000 square feet, totaling over 87,000 square feet. The project is situated close to the I-215 Beltway and within a 3-mile radius of three new hospitals. All owners will have high visibility with signage on their buildings as well as monument signs fronting Rainbow, visible to over one million cars that pass this site monthly.

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4. Stone Canyon Professional Park

Location: Sahara Avenue, between Belcastro Street and Tenaya Way.

A high image, mixed-use commercial business park with a prestigious address that sits across the street from the Mercedes Benz, BMW, Porsche, Jaguar and Aston Martin luxury automotive dealerships. It is an 83,000 square foot commercial project, comprised of a 15,000 square foot retail building for lease and a 68,000 square foot office campus, which will include single-story office buildings for lease or sale. The development will be enhanced with awnings, stone veneer features and a lushly landscaped courtyard. Owners and tenants will benefit from a pylon sign with an electronic color reader-board, visible to the 16 million cars that pass this site annually.

5. McLeod Business Centre

Location: In the airport area on McLeod and Post just east of the Sunset/ McLeod intersection.

This 84,000 square foot office and office/warehouse project will consist of eight 5,000 square foot office buildings divisible to 1,250 square feet for lease or sale, and eight office/warehouse buildings ranging in size from 4,500 to 9,000 square feet. All buildings will be architecturally compatible with stone finishes on the exterior and are for lease or sale in a gray shell condition. Each owner will enjoy the benefit of having signage on their building as well as a monument sign.

6. Spanish Trail Business Park

Location: On the corner of Rainbow and Tropicana across the street from the award-winning master-planned community of Spanish Trail.

The 76,000 square foot mixed-use development will consist of a 10,000 square foot retail building for lease fronting Rainbow, and an office campus of eleven buildings with units for lease or sale from 2,050 square feet up to 10,000 square feet. All owners will have signage on their buildings as well as a location on one of the two pylon signs for the project. They will also have the luxury of having their personalized business messages displayed 24/7 on an electronic color reader-board located within the pylon signs fronting Rainbow and Tropicana.

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7. North Buffalo Business Centre

Location: On Buffalo just north of the Buffalo/Cheyenne intersection.

This development will have two 10,000 square foot single story buildings with units for lease or sale ranging from 2,500 to 10,000 square feet. The project enjoys the benefit of having both high visibility and a great location close to Mountain View Hospital, the Las Vegas Tech Center and US-95. Owners will have building signage and a monument sign fronting Buffalo, as well as an electronic reader-board for personalized business messages.

8. South Rainbow Business Park

Location: On the corner of Rainbow and Oquendo, 1/2 mile from Spring Valley Hospital.

This project is a 44,000 square foot development, consisting of two 22,000 square foot buildings. The recently completed buildings surround a lushly landscaped courtyard with paver stone walkways, featuring two striking nine-foot tall sculptures made out of copper and polished metal on each end of the courtyard. The office development will be anchored by a 22,000 square foot full service, state-of-the-art WaterMark Executive Suites. All tenants in the Executive Suites will have the same privileges as other larger tenants within the office development, in that they will enjoy having their name and business message displayed on the color reader-board 24/7, 365 days a year.

9. Tech Retail Center

On the northeast corner of Buffalo and Smoke Ranch.

This 14,000 retail development offers tenants high visibility and outstanding demographics and is anchored by the new Becker Steakhouse. It is located directly in front of the main entry to Desert Shores and is adjacent to the Las Vegas Tech Center, which includes two million square feet of existing or planned commercial space. This project is ideally situated in close proximity to Mountain View Hospital, US-95, Summerlin, as well as North and South Shores.

10. Southwest Business Park

Location: On the northeast and southeast corners of Rainbow and Ponderosa.

The Southwest Business Park is a 40,000 square foot medical/office project located on the northeast and southeast corners of South Rainbow and Ponderosa. The project includes eight single story 5,000 square foot buildings for sale. The project has close proximity to the I-215 Beltway and Spring Valley Hospital.

For more information please contact Bob Hommel at Investment Equity 702-871-4545

www.InvestmentEquity.com

From Page 16

pment costs and interest rates.

The average price of vacant land stood at $708,000 per acre in the third quarter of '05, and increases in construction costs continue in the double digits. By the close of last year, average rents reached $2.14 per square foot, up 11 percent. Future rental growth will likely exceed 15 percent by mid-2006 as costs rise, less for-rent speculative space is developed and demand in the office sector remains relatively robust.

Retail

The 2005 retail market ended with a below-average vacancy rate of 2.4 percent. For the year, the retail market expanded by 1.1 million square feet, below the 10-year average of 1.8 million square feet. A wave of retail development activity is currently underway, as projects containing 3.5 million square feet are expected to boost the 2006 tally.

At the end of 2005, the retail market consisted of 42.2 million square feet in 270 anchored centers with unoccupied space totaling 1.0 million square feet. This resulted in a 2.4-percent vacancy rate, down from 3.6 percent in the fourth quarter of 2004. For the year, net absorption totaled 1.1 million square feet. Demand during the year was a function of new supply and strong population growth. Looking forward, 2006 is expected to well outpace 2005's performance.

Demand for retail space remains positive, but well off the robust pace witnessed during 2004. Despite the relatively modest market performance during the final quarter of 2005, the remainder of this year holds high expectations, as above-average inventory additions are scheduled to come on-line. With tighter financing, rising short-term interest rates and increasing development costs, significant pre-leasing activity will likely support the next wave of development.

The Valley also saw in increase in the number of residential building permits in 2005, suggesting continued expansion and strong expectations by homebuilders. As a generally rule, retail developers time new projects and expansions to coincide with residential development clusters.

That having been said, some concerns exist in regards to slowdowns in the pace of growth in retail sales activity. This trend, combined with significantly higher lease rates may lead to some increased instability in the coming year. The Valley is still seeing strong economic and population growth, which contributes to continued rental increases in 2006.

Industrial

The Las Vegas Valley industrial market ended 2005 with the lowest vacancy rate since we began monitoring the market in the mid-1990s. For the year, the industrial market expanded by 3.5 million square feet, more than 1.2 million square feet better than 2004's completion total of 2.3 million square feet.

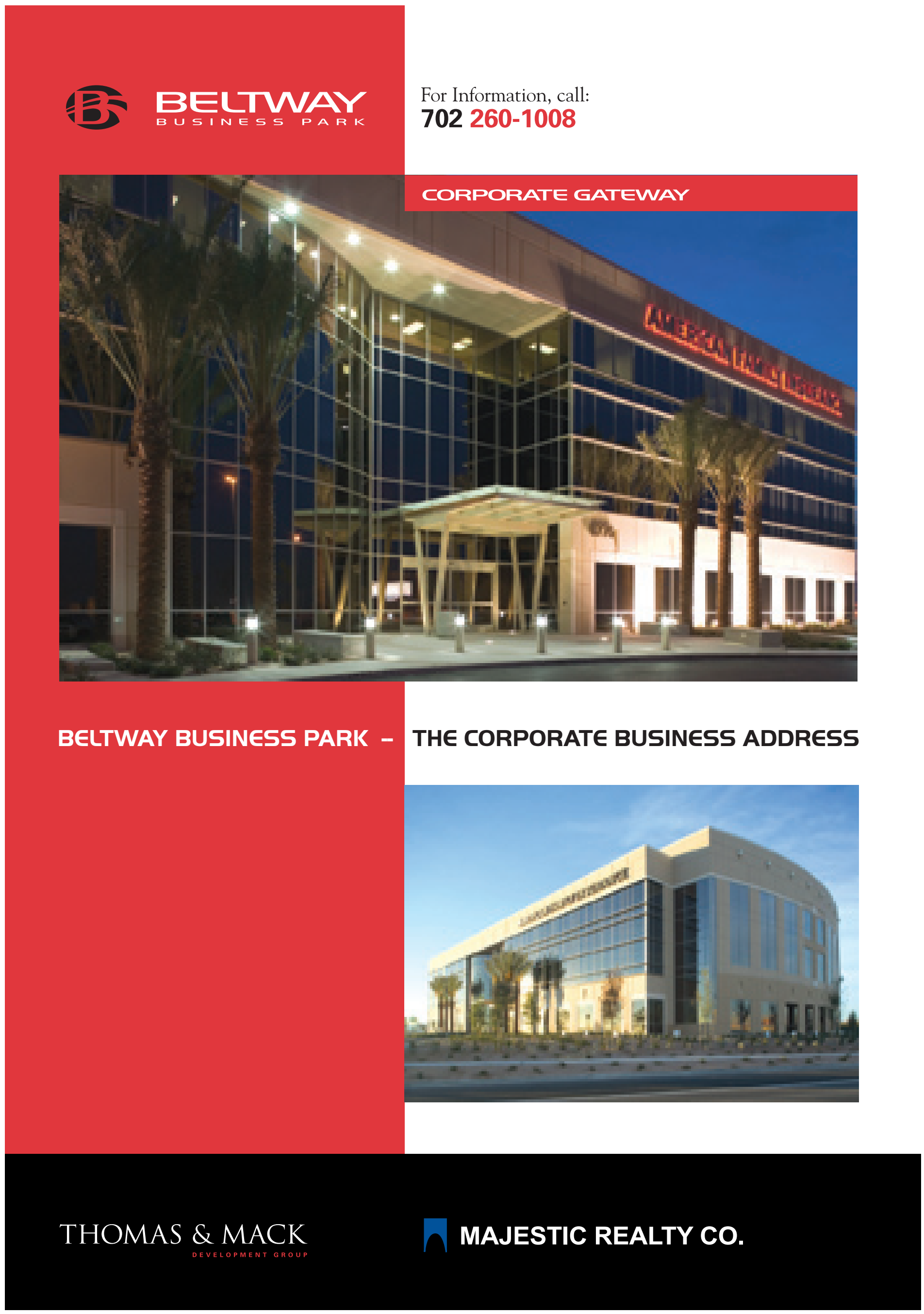
The industrial real estate market completed one of its strongest demand cycles in history as several factors ignited the fire. This unique time for the industrial sector was impacted by phenomenal vacant land price appreciation that drove many developers to focus on for-sale freestanding buildings spurring material investor activity.

Southern Nevada's industrial market performance reflected unprecedented lows in vacancy rates and the amount of product for lease, which was as low as it has ever been. Nationwide, industrial vacancy rates dropped from 10 percent to 9.3 percent, while rental rates increased 2.7 percent. Conversely, Las Vegas witnessed a 25 percent annual jump in average asking rates.

Looking ahead

Overall, the local market's economic condition remains fairly strong, as do its commercial real estate sectors. Remnants of the perfect storm that gave rise to unprecedented development and demand during 2005 continue too linger over the region, and should strongly benefit 2006. Additionally, the volume of investment in the casino-hotel sector bodes well for the overall performance of the region's economy.

Present performance notwithstanding, 2006 appears ripe for transition. Slowing population growth, rising interest rates, higher development costs as well as clear and present shortages in labor and affordable housing are formidable challenges. The economy's ability to adapt to these new realities remains uncertain. cre



Medical office market continues to retain high occupancy rate

By Lisa McQuerrey
Contributing Writer

Despite the high price of land and construction materials, the medical real estate market is a healthy one, according to experts, with a less than 10 percent vacancy rate Valley-wide. Just as in the residential and traditional commercial markets, however, rising prices are impacting the stance physicians take when deciding whether to buy or lease property.

"Construction costs for medical buildings are typically 20-25 percent higher than standard office space, so rental and sales prices are always higher" said Mike Young, president of Huffman Builders West. "But that's because code is very specific for medical development."

Huffman Builders is developing The Centennial Hills Center, a 300,000 square-foot medical and dental development in northwest Las Vegas. The project is expected to be complete in second quarter 2007. The $90 million development will house more than 50 customized offices, 60 percent of which have already been purchased or leased.

Young said about 80 percent of his medical office product is for sale, while 20 percent is for lease. He said from a financial perspective, the latest trend is physicians owning their buildings rather than renting.

"The typical medical office space is 1,000 to 10,000 square-feet," Young explained. "We provide all ancillary services – from shopping loans through interior design – it's turn-key, so it's more cost-effective for physicians to own. You don't typically find a doctor or a dentist who moves every five years. At the end of a lease, medical office build-out costs can get very high. If you lease some place for 20 years, at the end you have no asset."

There are a number of issues that need to be taken into consideration when a physician looks for office space. According to Young, parking ratios for medical office buildings are higher than

Continued on Page 24

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3. **Meadows Hospital**, owned by IASIS Healthcare LLC
4. **Mike O'Callaghan Federal Hospital**, owned by the Federal Government
5. **MountainView Hospital**, owned by HCA Inc.
6. **Summerlin Hospital**, owned by Universal Health Services Inc.
7. **Healthsouth Rehabilitation Hospital of Las Vegas**, owned by Healthsouth
8. **Valley Hospital**, owned by Universal Health Services Inc.
9. **University Medical Center**, owned by Clark County
10. **North Vista Hospital**, owned by IASIS Healthcare LLC
11. **Sunrise Hospital**, owned by HCA Inc.
12. **Desert Springs Hospital**, owned by Universal Health Services Inc.
13. **Nevada Care Institute**, owned by Universal Health Services Inc.
14. **Spring Valley Hospital**, owned by Universal Health Services Inc.
15. **Southern Hills Hospital**, owned by HCA Inc.
16. **St. Rose Dominican Hospitals - San Martin Campus**, owned by Catholic HealthCare West
17. **St. Rose Dominican Hospitals - Siena Campus**, owned by Catholic HealthCare West
18. **St. Rose Dominican Hospitals - Rose De Lima Campus**, owned by Catholic HealthCare West

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standard office space, and often, specialized equipment used in a practice dictates what type of construction is required to meet code.

"Some surgical and oncology centers need additional fire-rated walls that standard commercial real estate does not," Young explained. "Ceilings are higher, hallways are wider and the load factor for a medical building is almost double that of a standard commercial building. The interior architecture, the interior design, the construction – it's like building a custom home."

While Young said he sees a majority of his clients buying buildings outright over leasing space, Bruce Follmer, senior associate with CB Richard Ellis (CBRE), said he sees higher land and construction costs moving more doctors from the buying market to the rental market.

"In the last three years, with office, condo and small office developers building, they were able to offer physicians an opportunity to buy smaller buildings," Follmer said. "For some specialties, it's a great option, particularly if you aren't planning to move for 20 years. It depends on the specialty."

Added Follmer, "The whole office market has been impacted by interest rates. "It (medical office) is a less risky building to own from the investor side. It may take a little longer to lease, but once that happens there's less turnover."

According to Judi Woodyard, president of Commercial Associates, more and more developers are trying to mix uses in order to achieve better economics. She predicts the valley will begin

Continued on Page 26

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The Centennial Hills Center, located in the city's northwest corridor, will have 300,000 square feet of medical and dental office space.

From Page 24

seeing fewer and fewer "all office" developments.

"Many professional and medical practitioners were encouraged to purchase buildings with the thinking that they would occupy a portion of the building and lease out the balance of the space," Woodyard explained. "This is so prevalent that there's an untracked amount of vacant space being marketed by individual owners who have purchased buildings and have relatively little knowledge of office marketing or the office market." Added Woodyard, "In most cases, they're competing directly with other individual owners who have purchased in the same project. There's no commonality or synergy for this multitude of different spaces offered under a wide variety of terms, rates and conditions. It's estimated there is at least 500,000 square-feet of such space on the market."

Follmer noted that for existing medical office space, the price of leasing versus owning is pretty equal, but for new space, buyers pay a hefty premium over leasors. He anticipates seeing increased activity in medical office development over the next year, noting that with approximately 3,500 physicians in Clark County, the community is statistically underserved. "We're targeting out-of-state physicians," Follmer said. "Yet at the same time, we know we need to have office space available to put them in."

There's a growing consensus that the fast-growing northwestern part of the valley is the next spot ripe for medical commercial development. Local commercial real estate experts estimate there is approximately seven million square-feet of medical office space currently on the market with close to three million square-feet proposed for the southeast valley, in the proximity of Spring Valley, Southern Highlands and St. Rose hospitals. cre

> "Construction costs for medical buildings are typically 20-25 percent higher than standard office space, so rental and sales prices are always higher."
>
> **Mike Young**
> President,
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Las Vegas office market to slow, remains healthy

During the past few years, the Southern Nevada office market has grown substantially, and in 2005, the sector posted record-breaking numbers. The amount of new supply and demand of office space was the largest annual increase in the Valley's history and the strongest office market in more than a decade with demand keeping pace with unprecedented construction activity.While the sector will most likely not duplicate last year's extraordinary levels, the outlook does look promising for a healthy office market in 2006.

Supply and demand

In 2006, look for the supply of overall office space to increase as projects currently under construction are completed. At the end of 2005, more than 4.6 million square feet of office space was in the pipeline, up nearly 1 million square feet from the previous year. While much of this space has been pre-leased or pre-sold, as additional space becomes available, vacancies will begin to climb.

> Rental rates in the office market have increased each year for the past several years and will likely continue on the upward climb during 2006.

Whether demand for office space will continue to increase depends on office-using employment activity, but as thousands of people continue to migrate to Southern Nevada each month, and the economic health of the Las Vegas market remains robust and continues to garner attention regionally and nationally, it is reasonable to anticipate professional firms will turn to Las Vegas as a place to relocate or establish offices.

In addition to the continued influx of people, the low unemployment rate also hints at a positive year for the office sector. In December 2005, the unemployment rate in Las Vegas was 3.5 percent, well below the national average of 4.9 percent – according to the U.S. Department of Labor Statistics, which points to healthy employment activity for the next year, keeping supply and demand in the office market in a nice balance.

Mark Musser
The Bentley Group

Office condominiums

The office condominium, or for-sale office space trend, has been a popular one during the past few years throughout the U.S. And while office condos have been utilized for quite a few years among medical professionals such as doctors and orthodontists, during the past several years, small- to medium-size businesses across a range of industries have discovered that invest-

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ing in office space rather than leasing is an attractive and viable option. And Las Vegas has caught the wave. A growing demand by business owners to own their office space has resulted in the development of a significant amount of for-sale office space.

Office condominiums offer business owners several advantages:

- The opportunity to invest in real estate and a chance of appreciation without having to purchase an entire building or build from the ground up.
- Businesses have the option of leasing out unused space until they have grown enough to occupy it in its entirety.
- Because business owners own the space, they are able to customize it to their own needs and the needs of their clients and customers.
- Owners can sell their space when they desire rather than be restricted by the terms of a lease agreement.
- Stable monthly expenses.
- Certain tax advantages.

Contributing to the health of the for-sale office sector is the robust local economy, which has companies anticipating growth and buying space to accommodate these predictions. In fact, on a per employee basis, the market continues to post gains in office space demanded.

Look for this trend to continue to be a popular one in 2006 as the local economy remains strong and companies continue to plan for future expansions. But, keep an eye on rising interest rates which have started to slow the demand of for-sale office space and may keep potential commercial buyers in the rental market.

Figure 2

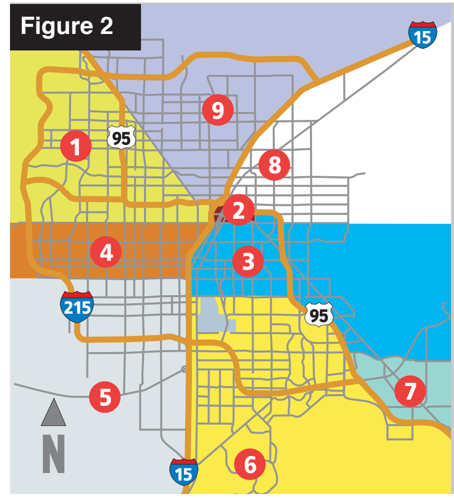


Figure 1

The Bentley Group Office Report — Q4 of 2005

Region (see Figure 2, above)

	1	2	3	4	5	6	7	8	9	Total
Total Office Market										
Number of Existing Properties	201	69	170	254	190	319	68	29	48	1,348
Total Rentable Square Feet	6,189,341	3,141,253	6,568,678	6,085,162	4,197,195	7,626,869	1,426,256	1,299,965	863,670	37,398,389
Vacant Square Feet Current Quarter	598,453	105,745	568,471	383,210	470,552	680,877	162,362	74,673	94,986	3,139,329
Percent Vacant Current Quarter	9.7%	3.4%	8.7%	6.3%	11.2%	8.9%	11.4%	5.7%	11.0%	8.4%
New Inventory (SF) Current Quarter	298,852	0	0	62,160	347,966	306,669	134,058	11,200	30,000	1,190,905
Net Absorption (SF) Current Quarter	235,413	(53,780)	83,8186	7,702	230,745	304,994	159,729	(22,582)	(5,179)	1,000,860
Average Lease Rate (FSG)	$2.27	$1.84	$1.78	$2.13	$2.28	$2.31	$1.96	$1.94	$2.36	$2.14
Under Construction (SF) Current Quarter	409,101	265,000	303,325	178,547	1,421,748	1,333,894	317,929	28,982	433,716	4,692,242
Planned Construction (SF) Current Quarter	671,748	20,000	303,163	86,000	1,030,092	500,822	427,333	120,000	266,306	3,425,464
Class "A" Office Properties										
Number of Existing Properties	20	7	12	6	8	13	2	1	1	70
Total Rentable Square Feet	1,533,609	1,425,373	1,252,434	707,467	364,195	849,054	118,877	220,000	45,376	6,516,385
Vacant Square Feet Current Quarter	184,110	0	14,714	0	162,755	80,299	11,982	0	27,986	481,846
Percent Vacant Current Quarter	12.0%	0.0%	1.2%	0.0%	44.7%	9.5%	10.1%	0.0%	61.7%	7.4%
New Inventory (SF) Current Quarter	126,915	0	0	0	108,075	0	0	0	0	234,990
Net Absorption (SF) Current Quarter	57,530	1,990	9,842	5,824	3,631	19,877	30,592	0	0	129,286
Average Lease Rate (FSG)	$2.47	$0	$2.71	$0	$2.45	$2.66	$2.13	$0	$2.33	$2.49
Under Construction (SF) Current Quarter	52,600	265,000	239,198	0	98,600	0	0	0	54,419	709,817
Planned Construction (SF) Current Quarter	258,028	0	39,963	0	422,053	69,000	77,881	0	0	866,925
Class "B" Office Properties										
Number of Existing Properties	174	39	109	213	163	288	56	19	44	1,105
Total Rentable Square Feet	4,522,601	1,118,282	3,992,051	4,742,830	3,507,923	6,633,103	1,216,039	711,910	806,294	27,251,033
Vacant Square Feet Current Quarter	408,963	80,480	415,818	338,880	286,470	588,445	138,941	50,505	67,000	2,375,502
Percent Vacant Current Quarter	9.0%	7.2%	10.4%	7.1%	8.2%	8.9%	11.4%	7.1%	8.3%	8.7%
New Inventory (SF) Current Quarter	171,937	0	0	62,160	239,891	306,669	134,058	11,200	30,000	955,915
Net Absorption (SF) Current Quarter	177,883	(48,964)	73,153	56,820	240,021	282,722	127,600	(13,174)	(5,179)	890,882
Average Lease Rate (FSG)	$2.19	$1.93	$1.78	$2.15	$2.21	$2.27	$1.97	$1.93	$2.38	$2.11
Under Construction (SF) Current Quarter	356,501	0	64,127	178,547	1,323,148	1,333,894	317,929	28,982	379,297	3,982,425
Planned Construction (SF) Current Quarter	413,720	20,000	263,200	86,000	608,039	431,822	349,452	120,000	266,306	2,558,539
Class "C" Office Properties										
Number of Existing Properties	7	23	49	35	19	18	10	9	3	173
Total Rentable Square Feet	133,131	597,598	1,324,193	634,865	325,077	144,712	91,340	368,055	12,000	3,630,971
Vacant Square Feet Current Quarter	5,380	25,265	137,939	44,330	21,327	12,133	11,439	24,168	0	281,981
Percent Vacant Current Quarter	4.0%	4.2%	10.4%	7.0%	6.6%	8.4%	12.5%	6.6%	0.0%	7.8%
New Inventory (SF) Current Quarter	0	0	0	0	0	0	0	0	0	0
Net Absorption (SF) Current Quarter	0	(6,806)	8	235,058	(12,907)	2,395	1,537	(9,408)	0	(19,308)
Average Lease Rate (FSG)	$1.73	$1.55	$1.67	$1.98	$1.92	$1.83	$1.61	$1.97	$0	$1.76
Under Construction (SF) Current Quarter	0	0	0	0	0	0	0	0	0	0
Planned Construction (SF) Current Quarter	0	0	0	0	0	0	0	0	0	0

Rental rates on the rise

While the demand for office condos drove up the production of for-sale office space, production of for-rent spaces have witnessed a decline. This dip in lease opportunities along with the high cost of developable land – more than $700,000 per acre – is causing an increase in office rental rates. Rental rates in the office market have increased each year for the past several years and will likely continue on the upward climb during 2006. According to research, by the close of 2005, average rents were at $2.14 per square foot. Due to a decrease in for-rent space and continued demand for office space, it is anticipated that that rate will climb to more than $2.25 by mid to late 2006.

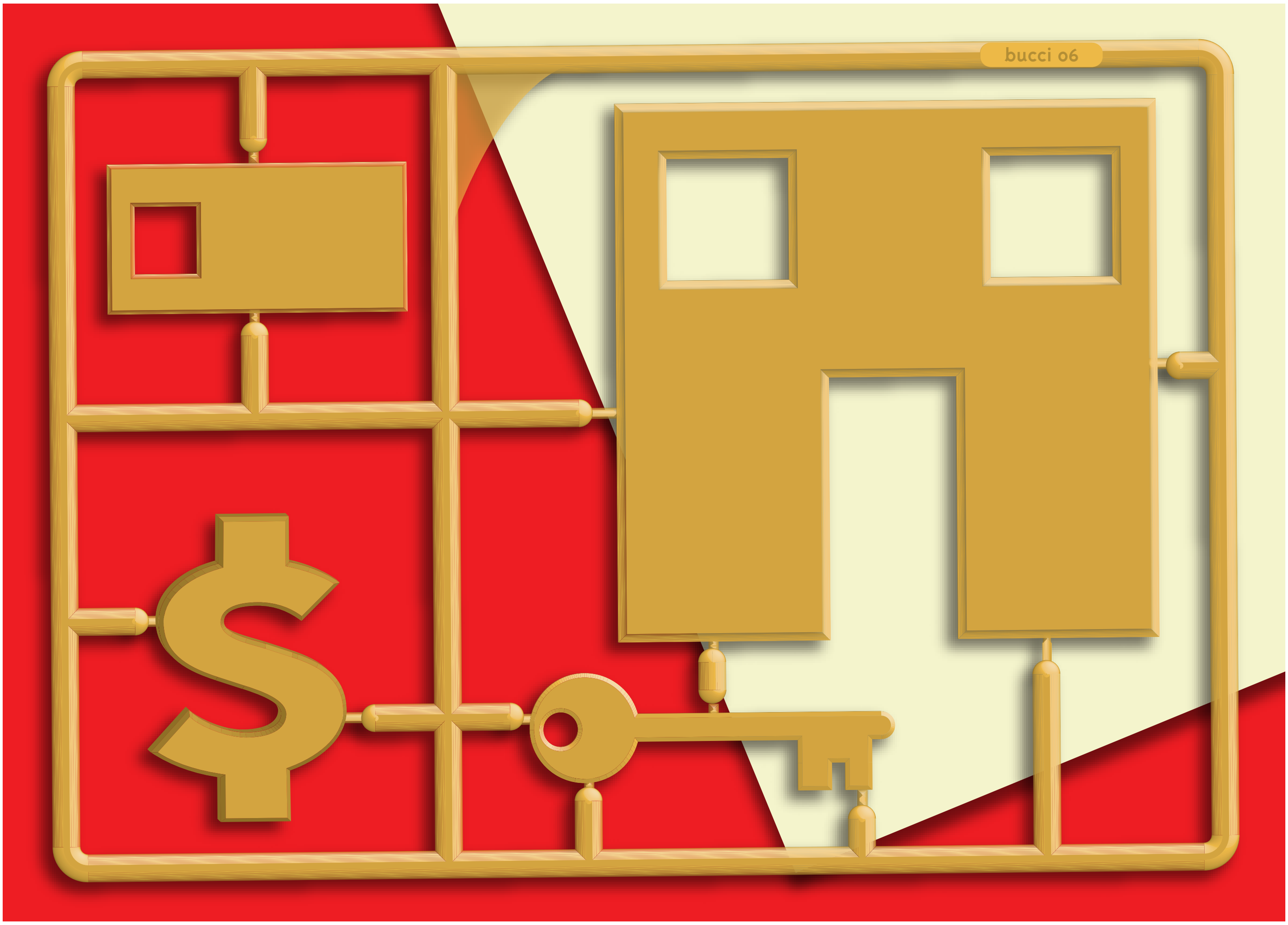
Mixed-Use developments

High land costs will also continue to spur developers to construct mixed-use developments, combining office, retail and residential similar to properties like The District at Green Valley Ranch in Henderson. These high-density developments allow developers to get a greater return on their investment and may, in turn, allow them to offer more affordable housing to the Valley's residents.

The Southwest submarket

While 2005 saw an extraordinary boom in the office market throughout the Valley, the Southwest submarket has the most square feet of office space under construction. At the end of 2005, according to data, the Southwest had more than 1,420,000 square feet under construction and more than one million square feet of construction planned. The Southwest will continue to grow in the office market because of its proximity to the I-15 with high accessibility and visibility from the I-215.

Overall, the outlook for the office sector looks good with continued population growth, low unemployment rates and an attractive market for relocation opportunities, but greater supply, high land costs and rising interest rates will slow the market modestly and not allow the Valley to repeat 2005's record breaking year. cre



Rising costs of plastics impacts Southern Nevada construction

Gary Siroky
CORE Construction

Hurricanes Katrina and Rita caused dramatic problems, not only in the South, but also throughout the United States. However, the lagging economic effects of the Gulf Coast hurricanes have hit the construction industry full force. Among the greatest worries in Southern Nevada's booming commercial real estate sector is a significant hike in building materials.

Prices for building materials have been on the rise for the past three years. However, damage to chemical plants in the Gulf Coast has significantly limited the production of materials made with oil and gas, especially plastic-based products, such as Polyvinyl Chloride, or PVC, pipe.

A jump in construction costs was expected in the wake of the South's natural disasters, and a variety of factors have added to the mix. Rebuilding those areas hit by Katrina and Rita put a pinch on construction materials from lumber to concrete. Additionally, higher crude oil prices, used to make plastic pipes for water lines and wire conduits, have increased production and delivery prices. Increased energy prices also impact the production of building materials.

The result of more costly building materials is higher costs for building. Increases in PVC pipe and other materials are beyond a point where contractors can absorb cost adjustments. As contractors must pay more for these items, so must their commercial customers. These costs have to be passed down the development line.

The higher cost of building retail, office and industrial spaces are expected to ripple through the economy, becoming an added fiscal responsibility for businesses that rent commercial space. Higher rents for businesses, in turn, mean higher costs for consumers paying for goods and services. Rising costs have also changed the financing process, as they make it more challenging to finance construction projects.

The issue, however, is not so much the increasing cost of oil-based construction products as it is a matter of dwindling supply. The majority of U.S. companies that manufacture PVC and plastic resins are based along the Gulf Coast and were forced to shut down during and after the hurricanes, affecting both prices and supply.

The price of PVC pipe, which is widely used in industrial projects and city water projects, has nearly doubled since June 2005. The Associated General Contractors of America predicts prices for PVC and other petroleum-based materials will be 20 to 50 percent higher than costs in 2005.

Just as the residential market has adjusted for rapid appreciation in home prices, the development sector must adjust to these increases in commercial construction. However, many in the industry are concerned that a disruption in production of plastic construction materials could press the supply of PVC even more, and push costs even higher. Dow Chemical has already planned to cut back production of Vinyl Chloride Monomer (VCM), the primary ingredient in PVC resin, by 1.9 million pounds per year.

The good news for the Las Vegas Valley is that the increasing cost of construction materials and their impact on the economy are not expected to have a significant impact on the number of new buildings going up. In fact, regional issues, such as land costs and the demand for qualified construction employees, will most likely have greater impacts on Southern Nevada's construction industry in 2006.

Construction material volatility has become a simple fact of life in which contractors have had to adapt. In some cases, the volatility involves costs. In other cases, it involves product availability.

Although higher PVC and other construction material costs have not curtailed construction activity in the Las Vegas Valley, they have meant longer project lead times. Increasing costs have also changed the way contractors procure materials, bid on projects and enter into construction contracts.

Southern Nevada's construction industry is poised for a great year, but one riddled with concerns. Unfortunately, the estimated 15 percent increase in building material costs thus far may be just the beginning. Many areas of the Gulf Coast are in clean-up mode. The industry can hold out that high PVC resin prices will fall as natural gas and resin facilities are rebuilt. However, oil supplies remain uncertain. Despite the positive outlook for Las Vegas' construction industry in 2006, the cost of construction materials will not likely decline soon. cre

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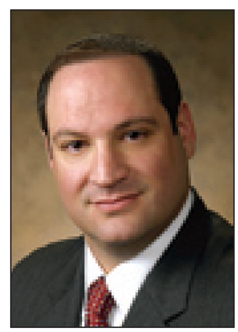
Brokers help clients scale hurdles in the market

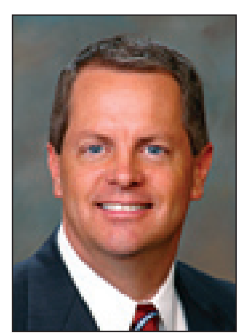
By Alana Roberts
Special Publications writer

The rising cost and shrinking availability of land are two hurtles those seeking commercial property in the Las Vegas Valley are grappling with. Commercial real estate brokers, however, can help clients navigate the area's ever-changing industry.



Christopher LoBello

"It's just been the explosive growth," said Christopher LoBello, regional manager of the Las Vegas office of investment brokerage firm Marcus & Millichap. "It's changed the real estate landscape. It's not the market it was two years ago, let alone five years ago. It's a whole different landscape in regards to pricing. We've experienced a lot of increased prices and decreased capitalization rates."



Ron McMenemy

LoBello said the residential and commercial real estate industries are experiencing parallel trends with reduced land available at a higher cost.

"We've all heard about the increase in home prices," LoBello said. "Obviously this growth has put a strain on available land. Those increases in land prices get passed on to the end user. It's the same in commercial real estate."

Further, he said the growth in residential real estate has impacted the

commercial side of the industry.

"Everything is cyclical," LoBello said. "As they put in the home, those people who live there need some place to shop. Once the rooftops go in then commercial development goes in."

LoBello said his firm is focused on investments in apartments, office and retail buildings. He said the firm's narrow focus allows the firm to offer clients enhanced service in those areas.

"All we do is investment sales," he said. "We don't do management or leasing. We provide a niche to our clients. We specialize in investment sales, so we're able to offer our investors that much more market knowledge."

Ron McMenemy, chief executive officer and owner of NAI Horizon, characterized his firm as a full-service firm that offers one-stop shopping for a variety of services. Those services include brokerage services, asset management, project management and acquisitions.

McMenemy said brokers can help clients free up their time so they can focus on other aspects of their business.

"A lot of owners are very sophisticated out there at buying and leasing," he said. "Quite frankly they're busy people. It's not to their benefit to be overseeing that much detail in the property. There're certain (areas) that are primarily industrial or office. We can identify those areas and we can identify the best investment opportunities for whatever type of client it is."

Both LoBello and McMenemy said the fact that their firms are national in scope is a benefit to their clients.

"We have offices in 340 markets throughout the world," McMenemy said. "Because of that depth we are able to service our clients in more than one market. You've got to be able to service those clients equally."

LoBello said because of the national reach of Marcus & Millichap, the firm is able to "cross pollinate" buyers and sellers from different parts of the country.

"We're the largest investment brokerage company in the nation," he said. "Because of that national market we are able to import and export capital to (different) areas of the country. Importing capital is bringing buyers from other ends of the country. We're able to expose the property to (other) parts of the country and create a competitive bidding (arena). (Also) we have buyers and sellers cross over from product to product."

He said national factors, such as rising interest rates could soften commercial real estate investment activity, but he said any impact in Las Vegas would be dulled.

"We may see a slowing up of the market as interest rates continue to be increased," LoBello said. "We may see investments going toward the stock market. I don't foresee a huge migration out of the real estate market, but we may see a little bit of a softening. (But) a slow up in the real estate market in Las Vegas is still ahead of all the other markets in the country."

McMenemy said although land costs are increasing and available land is disappearing, he said there are more opportunities for investors and developers in the Las Vegas Valley.

"It also opens opportunities for investors and developers to see higher appreciations in properties if they buy it at the (right time)," he said. "Those folks are making a lot of money. The values are skyrocketing. It affords redevelopment. Now instead of looking at land as what it is now, you can look at it as what it could be. Every cycle in real estate is good for one person and bad for another. You've got to have a firm that understands the trends and understands the cycles and are able to advise you based on your risk level." cre

Companies receive boost as market grows

By Alana Roberts
Special Publications writer

A more robust economy has helped create more opportunities for commercial property management firms of all sizes.

"I've seen a huge growth spurt in the last five years,'' said Frank Gatski, president of Equus Management Corp.

He said that growth is due in part to the growth of other industries.

"I think that the way the population has grown here in Las Vegas and continues to grow and with the gaming market's (growth), I think that helps the local (commercial real estate) market, which means more buildings."

He said the industry's growth has become so attractive that outside investors have taken notice.

"I would say the market has changed substantially because of property values," Gatski said. "There's a lot more clients from out of state, a lot of people investing in real estate, more so than years ago. We have a lot more inventory today in commercial property than we ever had. I think there's a lot more clients out there for companies that are doing commercial property management.''

That also means there's more companies that offer commercial property management services in the Las Vegas Valley. Gatski, whose firm is based in Las Vegas, said national firms have taken an interest in the area's real estate market, which he said is a good thing.

"There's been a lot more of the bigger names coming to town in the last five years," he said. "I would say a lot of the national firms have come to Las Vegas, which is a complement to our market."

One of those bigger names is Grubb & Ellis|Las Vegas.

Joseph Kupiec, the firm's managing director, said the Las Vegas market offers opportunities for property management firms that can provide the services whether locally-owned or nationally-based.

"There's more opportunities for all of us,'' he said. "There's been some new entries into commercial property management. We're seeing more people that are deciding to do this on their own, as opposed to a national firm."

He said many smaller firms, such as Equus, are strong competitors.

"You'd be surprised, some of the local companies have portfolios larger than ours, even though we're national companies,'' Kupiec said. "We never really intended to be the largest firm in town, but we wanted to provide best in class (services), whether it's consulting services or management services. We've steadily grown since the first year. I think we've seen everyone's portfolios grow over the last three to five years."

Gatski said clients can benefit from using a third-party property management firm.

"A lot of people try to do it themselves to try to save some money on management fees," he said. "In relation to their overall investment, the management fee is not really that much when you compare it to the other expenses. A property management company can save you money on expenses for the entire operation."

Gatski said his firm's clients can save on maintenance services such as landscaping and street sweeping because the firm is able to negotiate lower costs than the client could on their own. He also said a commercial property management firm can do many day-to-day functions such as collecting rents and ensuring tenants don't violate their leases or building codes, which can keep insurance costs down.

"In most cases a property manager can outweigh their value," Gatski said. "In the long run they're going to improve the bottom line of the property."

Kupiec and Kathy Rose, director of asset services for CB Richard Ellis, agreed.

"A third-party property manager is an agent of the owner," Kupiec said. "They would do all of the activities primarily that the owner would do and really relieve the owner from those obligations."

She said as appreciation and capitalization rates for commercial property have slowed investors are less likely to "flip" or quickly sell their property. She said that's a good thing for property management firms because clients then have the opportunity to work on improving the value of their property.

"I don't think there's going to be less investors coming in," Rose said. "It gives us a chance go in and add more value for the owner." cre

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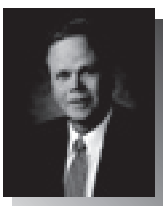

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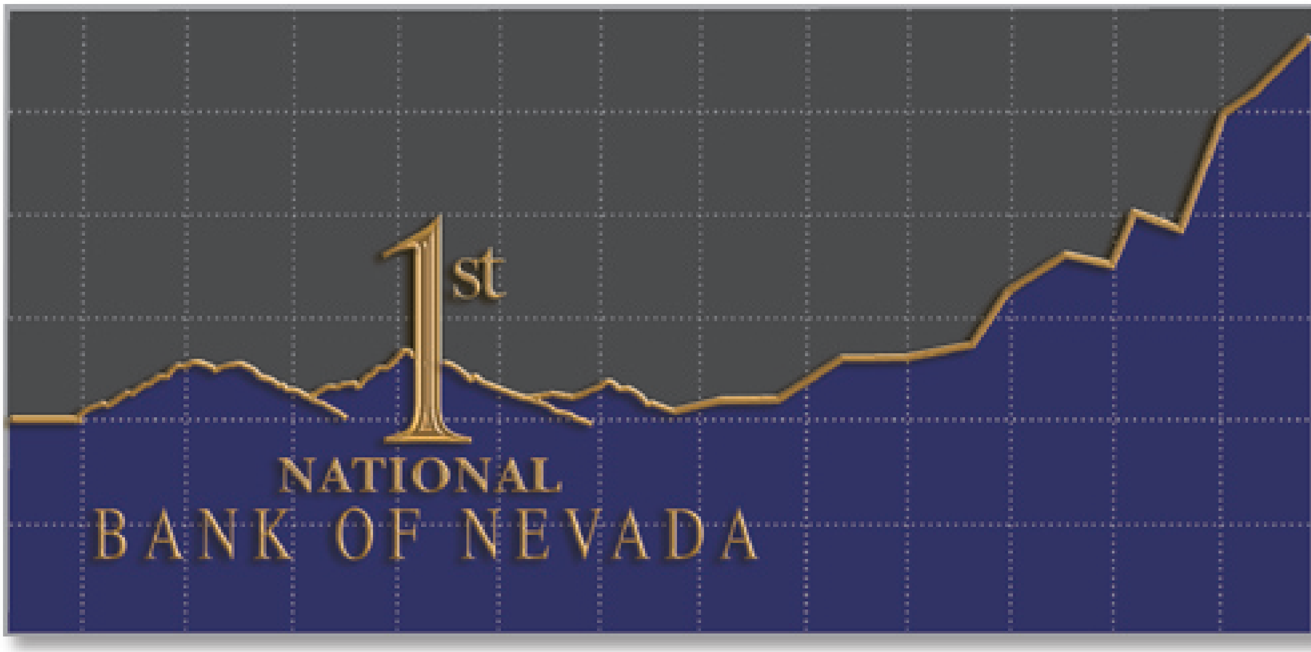

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